

AGENDA

Meeting: Investment Sub-Committee
Place: The Lacock Room - County Hall, Trowbridge BA14 8JN
Date: Wednesday 1 March 2017
Time: 10.30 am

Please direct any enquiries on this Agenda to Libby Beale, of Democratic Services, County Hall, Bythesea Road, Trowbridge, direct line 01225 718214 or email elizabeth.beale@wiltshire.gov.uk

Press enquiries to Communications on direct lines (01225) 713114/713115.

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Chairman's Briefing	Date	Time	Place
	1 March 2017	10am	Lacock Room

Membership:

Cllr Tony Deane	Cllr Gordon King
Cllr Charles Howard	Cllr Steve Weisinger

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PART 1

Items to be considered when the meeting is open to the public

1 **Membership** 10:30am

To note any changes to the membership of the Sub-Committee.

2 **Attendance of non-members of the Committee**

To note the attendance of any non-members of the Committee.

3 **Apologies**

To receive any apologies for absence or substitutions for the meeting.

4 **Minutes** (*Pages 7 - 10*)

To consider the Part 1 (public) minutes of the meeting held on 24 November 2016.

5 **Declarations of Interest**

To receive any declarations of disclosable interests or dispensations granted by the Standards Committee.

6 **Chairman's Announcements**

To receive any announcements through the Chairman.

7 **Public Participation and Councillors Questions**

The Council welcomes contributions from members of the public.

Statements

If you would like to make a statement at this meeting on any item on this agenda, please register to do so at least 10 minutes prior to the meeting. Up to 3 speakers are permitted to speak for up to 3 minutes each on any agenda item. Please contact the officer named above for any further clarification.

Questions

To receive any questions from members of the public or members of the Council received in accordance with the constitution. Those wishing to ask questions are required to give notice of any such questions in writing to the officer named above (acting on behalf of the Corporate Director), **no later than 5pm on Wednesday 22 February** in order to be guaranteed a written response. Any question received between the above deadline, and **no later than 5pm on Friday 24 February**, may only receive a verbal response at the meeting.

Please contact the officer named on the first page of this agenda for further advice. Questions may be asked without notice if the Chairman decides that the matter is urgent.

Details of any questions received will be circulated to Committee members prior to the meeting and made available at the meeting and on the Council's website.

8 **Investment Strategy Statement** *(Pages 11 - 46)* **10:35am**

A report presents the draft Investment Strategy Statement for review and for the Committee to approve the document for consultation.

9 **Investment Themes and Opportunities 2017** **10:55am**

A report from Mercers will be provided to the Sub-Committee presenting the latest developments and thoughts on investments for the Sub Committee to consider.

10 **Date of next meeting**

It is proposed that the next meeting of the Investment Sub Committee be held on 5 July 2017.

11 **Urgent items**

Any other items of business which, in the opinion of the Chairman, should be considered as a matter of urgency. Urgent items of a confidential nature may be considered under Part II of this agenda.

12 **Exclusion of the public**

To consider passing the following resolution:

To agree that in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Item Numbers 13 – 19 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraphs 3 of Part I of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

PART 2

Items during consideration of which it is recommended that the public should be excluded because of the likelihood that exempt information would be disclosed.

- 13 **Minutes** *(Pages 47 - 52)*
To consider the Part 2 (confidential minutes) of the meeting held on 24 November 2017.
- 14 **Update on the Government's proposals on pooling of investments and Brunel Pension Partnership** 11:00am
A verbal update will be provided by the Head of Pensions on the latest developments with the Government's proposal to consult on the pooling of investments.
- 15 **Investment Quarterly Progress Report** *(Pages 53 - 102)* 11:05am
Three confidential reports, including one from Mercer are circulated updating the Committee on the performance of the Fund's investments as to the end of December 2017.
- 16 **Introduction to Liability Driven Investing and Structure Equity** 11:20am
(Pages 103 - 142)
A confidential report introduces two investment themes and examines how they could potentially be utilised by the Wiltshire Pension Fund.
- 17 **L&G Liability Driven Investing** 11:40am
A presentation will be provided at the meeting expanding on the topic covered during the Investment Training day on 19th January 2017 for members to consider.
- 18 **Schroders- Equity Protection** 12:20pm
A presentation will be provided at the meeting expanding on the topic covered during the Investment Training day on 19th January 2017 for members to consider.

Close 1pm

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INVESTMENT SUB-COMMITTEE

PART 1 MINUTES OF THE INVESTMENT SUB-COMMITTEE MEETING HELD ON 24 NOVEMBER 2016 AT KENNET ROOM, COUNTY HALL.

Present:

Cllr Tony Deane, Jim Edney, Cllr Charles Howard and Cllr Gordon King

18 Membership

There were no changes to the membership of the Sub Committee.

19 Attendance of non-members of the Committee

There were no non-members of the Committee present.

20 Apologies

Apologies for absence were received from Cllr Steve Weisinger.

21 Minutes

Resolved:

To confirm the Part 1 minutes of the meeting held on 15 September 2016.

22 Declarations of Interest

There were no declarations of interest.

23 Chairman's Announcements

There were no Chairman's Announcements.

24 Public Participation and Councillors Questions

There were no members of the public present.

25 **Date of next meeting**

The next meeting was to be held on 1 March 2017.

26 **Urgent items**

There were no urgent items.

27 **Exclusion of the public**

Resolved:

To agree that in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Minute Numbers 27-33 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraphs 3 of Part I of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

28 **Minutes**

Resolved:

To confirm the Part 2 minutes, subject to an amendment to Item 15, paragraph 3.

29 **Update on the Government's proposals on pooling of investments and the Investment Regulations**

It was noted that members had received a briefing paper on the pooling of investment assets and no further update was provided at the meeting other than to state the Full Business Case would be considered at the next meeting of the Wiltshire Pension Fund Committee on 15 December 2016.

30 **Investment Quarterly Progress Report**

Catherine Dix, Strategic Pensions Manager, provided a report updating on the performance of the Fund's investments as to end of September 2016.

Resolved:

To note the attached investment reports and the update provided by officers and advisers at the meeting.

31 CBRE- Review of 2015-16 & Plans for the Future

Representatives from CBRE presented on the performance of their mandate to date.

Resolved:

To note the presentation and annual report from CBRE.

32 Partners Group- Review of 2015-16 & Plans for the Future

Representatives from Partners presented on the performance of their mandate to date.

Resolved:

To note the presentation and annual report from Partners.

33 Legal and General - Review of 2015-16 & Plans for the Future

Representatives from Legal and General presented on the performance of their mandate to date.

Resolved:

To note the presentation and annual report from Legal and General.

(Duration of meeting: 10.30 am - 1.40 pm)

The Officer who has produced these minutes is Libby Beale, of Democratic Services,
direct line 01225 718214, e-mail elizabeth.beale@wiltshire.gov.uk

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WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND INVESTMENT SUB COMMITTEE
1 March 2017

Investment Strategy Statement

Purpose of the Report

1. This report presents the draft Investment Strategy Statement (ISS) for consideration and review. The ISS is a new document required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Following this meeting the ISS will be consulted on with the Fund's stakeholders prior to approval by the Pension Fund Committee on 23 March 2017.

Background

2. In November 2015 the Department for Communities and Local Government (DCLG) issued a consultation proposing revoking and replacing the LGPS (Management and Investment of Funds) Regulations 2009. Within this consultation, proposals were made removing the requirement to prepare a Statement of Investment Principles and replacing with an Investment Strategy Statement.
3. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force on 1 November 2016 with the requirement for administering authorities to publish the new Investment Strategy Statement by 1 April 2017.

Main Consideration for Committee

4. Attached is the draft ISS for this Committee's review and consideration. This document has been written by Mercers in conjunction with officers.
5. This is the first document in this format and replaces the Statement of Investment Principles previously approved annually.
6. The new investment regulations specifically states that the following areas must be included within the ISS:-
 - A requirement to invest money in a wide variety of investments;
 - The authority's assessment of the suitability of particular investments and types of investment;
 - The authority's approach to risk, including the ways risk are to measured and managed;
 - The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
 - The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
 - The authority's policy on the exercise of rights (including voting rights) attaching to investments.

7. The ISS must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.
8. One of the main aims of the new investment regulations is to transfer decisions and their considerations more fully to the Fund within a new prudential framework. The Fund is therefore now responsible for setting its policies on areas such as asset allocation, risk and diversification.
9. In relaxing the regulatory framework for scheme investments, the Fund is expected to make investment decisions with a prudential framework with less central prescription. It is important therefore that the regulations include a safeguard to ensure the less prescriptive approach is used appropriately in the best long term interests of the scheme beneficiaries and taxpayers.
10. In line with the regulations the Fund must consult such persons as it considers appropriate as to the proposed contents of its investment strategy. The statement must then be published by 1 April 2017 and then kept under review and revised from time to time, in particularly when there is a material change in risk, and at least every three years.
11. Following review by this Committee, the draft Investment Strategy Statement will be circulated to all Committee and Local Pension Board Members for a consultation period of 2 weeks. A link to the document will also be put on the Fund's website so scheme members can view the statement and a copy sent to all of the Fund's employer organisations during the consultation period. A final version will then be submitted to the Pension Fund Committee on 23 March 2017 for approval and publication.

Financial Considerations

12. The Financial considerations are considered within the attached draft ISS.

Risk Assessment

13. This paper proposes a new Investment Strategy Statement as required by The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The Investment Strategy Statement attempts to mitigate the risks outlined in PEN007 *Significant rises in employers contributions due to poor investment returns* in the Fund's Risk Register.

Safeguarding Considerations/Public Health Implications/Equalities Impact

14. There are no known implications at this time.

Reasons for Proposals

15. To comply with the requirements of the new investment regulations.

Environmental Impact of the Proposals

16. There are no known implications at this time.

Proposal

17. The Committee is asked to approve the draft 2017 Investment Strategy Statement for consultation and subsequent submission to the Pension Fund Committee on 23 March 2017.

MICHAEL HUDSON
Treasurer to the Wiltshire Pension Fund

Report Author: Catherine Dix, Strategic Pension Manager

Unpublished documents relied upon in the production of this report: None

Wiltshire Pension Fund

Investment Strategy Statement (Draft)



1 March 2017

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WILTSHIRE PENSION FUND (“the Fund”)

1. Introduction and Background

Outline of Local Government Pension Scheme

The Local Government Pension Scheme (LGPS) is available to all local authority employees and the staff of certain other public and associated bodies, apart from police and fire officers and teachers, who have their own specific schemes.

The LGPS is a funded defined benefit scheme. It is based on statutory provisions, issued by the central government department - Communities and Local Government. The rate of contributions paid by Scheme members and the calculation of benefits paid to them are contained in the statutory provisions. Employer bodies also contribute to the cost of the Scheme.

Role of the Administering Authority

The LGPS is administered by individual “administering authorities”, these being prescribed in statute. Wiltshire Council is the administering authority for the County area of Wiltshire, including Swindon. It has delegated this function to the Wiltshire Pension Fund Committee (the Committee).

Administering authorities are responsible for the administration of a Pension Fund established on behalf of all employer bodies in their Scheme. The Funds are not separate legal entities from administering authorities and therefore are not covered by trust law. Nevertheless, the role of the administering authority is very similar to that of a trustee and members of the Committee therefore act in a quasi trustee role.

Statutory Background

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State. Links to the new regulations and guidance on preparing the ISS can be found at the links below:

http://www.legislation.gov.uk/ukxi/2016/946/pdfs/ukxi_20160946_en.pdf

<https://www.gov.uk/government/publications/local-government-pension-scheme-guidance-on-preparing-and-maintaining-an-investment-strategy-statement>

This ISS has been designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, based on its current policies and provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been kept as short in order to be read in as user-friendly manner as is possible. This document replaces the Fund's Statement of Investment Principles.

This statement will be reviewed by the Wiltshire Pensions Committee at least triennially or more frequently should any significant change occur. The Wiltshire Pension Fund is currently involved in the Brunel Pension Partnership (BPP) for investment pooling which is due to commence implementation in April 2018. Therefore, it's anticipated the ISS will be reviewed at this point to ensure its operational policies are aligned.

2. Investment of Money in a wide variety of investments

Objectives of the Pension Fund

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death before or after retirement for their dependants, in accordance with LGPS Regulations, whilst at the same time seeking to minimise the contributions that need to be paid in to the Fund by employer bodies.

The level of employer contribution is assessed every three years through an actuarial valuation of the Fund. This valuation establishes the solvency position of the Fund, that is, the extent to which the assets of the Fund are sufficient to meet the Fund's pension liabilities accrued to date. The objective is that the Fund should be at least 100% funded on an ongoing basis, taking account of any additional contributions paid by employer bodies to cover any past service deficit.

Funding Strategy Statement

The Funding Strategy Statement (FSS) and Investment Strategy Statement are intrinsically linked and together aim to deliver stable contribution rates for employers and a reduced reliance on employer contributions over time. The FSS can be viewed on the link below:

<http://www.wiltshirepensionfund.org.uk/fund-information/fund-investments.htm>

All Local Government Pension Scheme (LGPS) funds have to produce, consult on and publish a document called a "Funding Strategy Statement" (FSS). The purpose of the FSS is:

- a) To establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;

- b) to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- c) to take a prudent longer-term view of funding those liabilities.

However, there will be conflicting objectives which need to be balanced and reconciled. For example, for most employers objective a) implies low contribution rates, because they would see pension liabilities being “best met” by gaining as much help as possible from the investment strategy over the long term, which would lead you towards an equity-biased investment strategy. By contrast, objectives b) and c) imply stability and prudence of employer contribution rates, which would lead you towards a bond biased investment strategy.

Therefore, the best that can be achieved is a sensible balance between these different objectives.

Investment Powers

These are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, which outline the wide investment powers allowing committees to invest in line with its ISS, with certain restrictions as long as proper advice has been obtained.

The Secretary of State also now has the power to direct should an authority fail to act in accordance with the guidance issued under these regulations.

Responsibility for Decisions

The Committee is responsible for overall investment policy and for the implementation of appropriate investment management arrangements. In carrying out this role, the Committee receives advice from independent external advisors (Mercers) and from the Head of Pension / Treasurer to the Pension Fund. It appoints external investment managers to implement investment policy, who are therefore responsible for day to day investment decisions.

The Committee believes these arrangements strike the right balance between their own overall responsibilities in acting in a quasi trustee role and having decisions taken with the most appropriate level of expertise available.

Types of Investments held

The Committee has freedom to operate within the Regulations and its policy outlined below. Its expectation, however, is that the majority of assets are invested in major stock markets, where the underlying investments can be easily traded if required.

The Fund therefore invests in quoted UK and overseas securities (equities, government and corporate fixed interest and index linked bonds), pooled funds managed by properly authorised organisations (property, equities, infrastructure, currency and long-short equity hedge funds) and sterling and overseas cash deposits. The Fund also hedges its overseas currency exposure to equities. It may also invest in futures and options, as well as limited investment in direct property.

Balance between the Various Types of Investments

An explanation of the relative amount to be invested in each type of investment is provided in below on the strategic benchmark adopted by the Committee. However, that does not mean that these percentages need to be rigidly maintained and ranges are shown to outline the maximum and minimum investments.

Expected Returns on Investments

The Committee recognises that the past is not a reliable guide to the future in respect of predicted returns on investment. In addition, it recognises that the range of expected returns is greater for some asset classes than others and that the prospect of higher returns is usually accompanied by higher levels of risk.

Risk Control

The Committee regards the major control of risk to be required at the strategic asset allocation level and this has been taken into account in setting its overall investment strategy. This is explored later in the document, but the key themes for the Fund include equity risk, inflation and interest protection.

The Committee is less attracted to tight regional benchmarks that encourage managers to stay close to the benchmark for their own risk control reason, so the Fund's investments are increasingly moving towards unconstrained approaches, typically benchmarking against World Indices or Inflation plus targets.

The Committee does not impose specific portfolio risk limits on its equity managers, as it believes the outperformance target set for each manager provides sufficient guidance as to the level of risk that each manager should be taking.

All risks are continually monitored and a high level asset allocation review is undertaken annual to check the appropriateness of the Fund's current strategy.

Investment Beliefs and Objectives

The investment objective is therefore to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers, and minimising the long term cost of the Fund. Having a thorough understanding of the risks facing the Fund is crucial and these are covered later in this statement.

The Fund has formed the following investment beliefs which help to inform the investment strategy derived from the decision making process.

- Funding, investment strategy and contribution rates are linked.
- The strategic asset allocation is the key factor in determining the risk and return profile of the Fund's investments.
- Investing over the long term provides opportunities to improve returns.
- Diversification across asset classes can help to mitigate against adverse market conditions and assist the Fund to produce a smoother return profile due to returns coming from a range of different sources.
- Managing risk is a multi-dimensional and complex task but the overriding principle is to avoid taking more risk than is necessary to achieve the Fund's objectives.
- Environmental, Social and Governance are important factors for the sustainability of investment returns over the long term.
- Value for money from investments is important, not just absolute costs. Asset pooling is expected to help reduce costs over the long-term, whilst providing more choice of investments, and therefore be additive to Fund returns.
- High conviction active management can add value to returns, albeit with higher short-term volatility.

Securities Lending

The Council participates in a securities lending programme managed by its global custodian.

Other Matters

The Council will also underwrite, or sub-underwrite, new issues where the investment managers are prepared to hold the relevant shares.

3. Investment strategy and the process for ensuring suitability of investments

Funding Policy

The objectives of the Wiltshire funding policy are expressed in its FSS. The Fund has a very strong employer covenant, being funded substantially by tax-raising local authorities. Therefore, the Committee can adopt a long-term view, without concern about the ability of its sponsors to meet their liabilities.

Given the on-going restructuring of public bodies the Fund is now maturing increasingly faster. Positive cashflow are declining (investment income is available if the Fund does go Cashflow negative) and this position is being closely monitored. However, at this time it is not felt necessary to change the investment strategy of the Fund.

As the Fund has a deficit of assets against liabilities (82% funded at the 2016 Triennial Valuation), the Committee wishes to achieve the maximum assistance from investments in reducing this shortfall. This would suggest a higher risk strategy in an attempt to generate returns, but this is moderated by the realisation that such a strategy can also lose significant amounts of money in the short-medium term.

It is ultimately the local tax-payer who feels the result of unstable employer rates, either through the Council Tax or through service levels. Therefore, another very important consideration is the need for relative stability of investment returns, given that employee rates are fixed by statute and the tools available in the actuarial valuation process for smoothing of returns are limited. This can be achieved by investments that are inherently more stable, such as bonds. However, it is also aided by diversification (so that the ups and downs on particular investments do not arise together), and by seeking returns from both markets (“beta”) and investment managers (“alpha”) whose returns are skill based and relatively independent of the market.

Consequently, the Committee has set an overall investment goal that reflects these four factors.

Investment Goal

The Wiltshire Pension Fund’s investment objective is to achieve a relatively stable “real” return above the rate of inflation over the long term, in such a way as to minimise and stabilise the level of contributions required to be paid into the Fund by employer bodies in respect of both past and future service liabilities.

Investment Strategy

The Wiltshire Fund Pension Committee has put in place a strategy to achieve this goal through use of the following elements:

- A relatively large allocation to equity investment to achieve higher returns;
- Allocations to more diversified and less correlated asset classes such as bonds, property, infrastructure, and absolute return products to achieve to achieve stabilisation; and

The Fund’s current asset strategy, along with an overview of the role each asset plays is set out in the table below:

Asset class	Allocation %	Minimum Range %	Maximum Ranges %	Role (s) within the strategy
Equity	55.0	42	64	Long term growth in excess of inflation expected; generate investment income i.e. dividends.
Index-Linked Gilts	5.0	4	6	Provide protection from changes in real yields both in terms of capital value and income
Growth Fixed Income	10.5	8.5	12.5	Diversified source of income and provides a degree of protection from changes in interest rates. Some credit above gilts expected
Diversified Growth / Multi – Asset	10.0	8	12	Diversification and dynamic asset allocation
Property	13.0	11	15	Diversification; generate investment income; provide some inflation-sensitive exposure; illiquidity premium
Infrastructure	5.0	4	6	Provides the Fund with access to a diversified (but long term, illiquid) return source and a stream of inflation related income
Private Loans	1.5	1	2	Offer a wide range of long-term investment opportunities; return diversification; as well as returns from expected illiquidity premium

The maximum allocations outlined in the table above may be amended with the approval of the Pension Fund Committee for specific transition events when terminating or changing investment managers.

Current Investment Management Mandates

The implementation of the strategic asset allocation is shown in the current manager mandates below:

MANAGER/MANDATE ALLOCATION	Asset Allocation
Baillie Gifford Global Equities	15.0%

Legal & General	
Passive UK Equities	12.5%
Passive Global Equities *	0.0%
Passive Fundamental Equities	12.5%
Passive Index-Linked Bonds (UK)	5.0%
Barings	
Absolute Return Fund	10.0%
Loomis Sayles	
Multi Asset Credit	4.2%
Absolute Return Bonds	6.3%
Investec	
Emerging Market Multi Asset Mandate	10.0%
CBRE Global Multi Manager	
Property Fund of Funds (UK & Europe)	13.0%
Partners Group	
Infrastructure	5.0%
M&G Investment Management	
UK Companies Financing Fund	1.5%
Opportunistic Investment *	5.0%
TOTAL	100.0%

* “Opportunistic” allocation held within L&G global equities until invested

Timeframe for Investment Managers’ Targets

Three year targets are generally preferred when monitoring investment managers because of the need to see clear evidence of added value as soon as possible. The Committee recognises, however, that three year periods may not be appropriate for particular managers’ styles, or for specific asset classes. Five year rolling periods, rather than three year periods, are therefore adopted where appropriate.

Review and Policy

The Pensions Committee is responsible for the Fund’s strategic asset allocation which is determined via a triennial strategy review as part of the valuation process. The review is both qualitative and quantitative and is undertaken by the Pension Committee in conjunction with the actuary, officers and independent advisers. The review considers:

- The required level of return that will ensure that the Fund can meet its future benefit obligations as they fall due.
- The level of risk that the Fund can tolerate in absolute terms, and in relation to its funding level and deficit.
- An analysis of the order of magnitude of the various risks facing the Fund is established in order that a priority order for mitigation can be determined.

- The desire for diversification across asset class, region, sector, and type of security.

The Committee takes the view that the Fund should only take as much risk as is necessary to recover the deficit and maintain contribution rates at an affordable, sustainable level. A risk management policy that uses funding level triggers to reduce risk when it is deemed affordable to do so has been implemented and will be further refined as part of the 2017 investment strategy review.

The Investment Sub-Committee now formally monitors the investment performance of the managers against their individual performance targets and meets them on an annual basis, reporting back to the main pension committee. All Members of the Committee receive quarterly performance and asset allocation figures based on reports provided by the Council's global custodian, BNY Mellon.

A quarterly check is made on how the overall strategic benchmark of the Fund is performing, relative to other funds, and in relation to the financial assumptions contained in the previous actuarial valuation.

The Committee also undertakes a high level asset allocation review once a year.

Fee Structures

The Committee generally expects to have an ad-valorem fee scale applied in respect of the investment management services it receives. This is generally accepted practice and is easily understood. A performance related fee basis is sometimes set, however, if it is believed to be in the overall financial interests of the Fund.

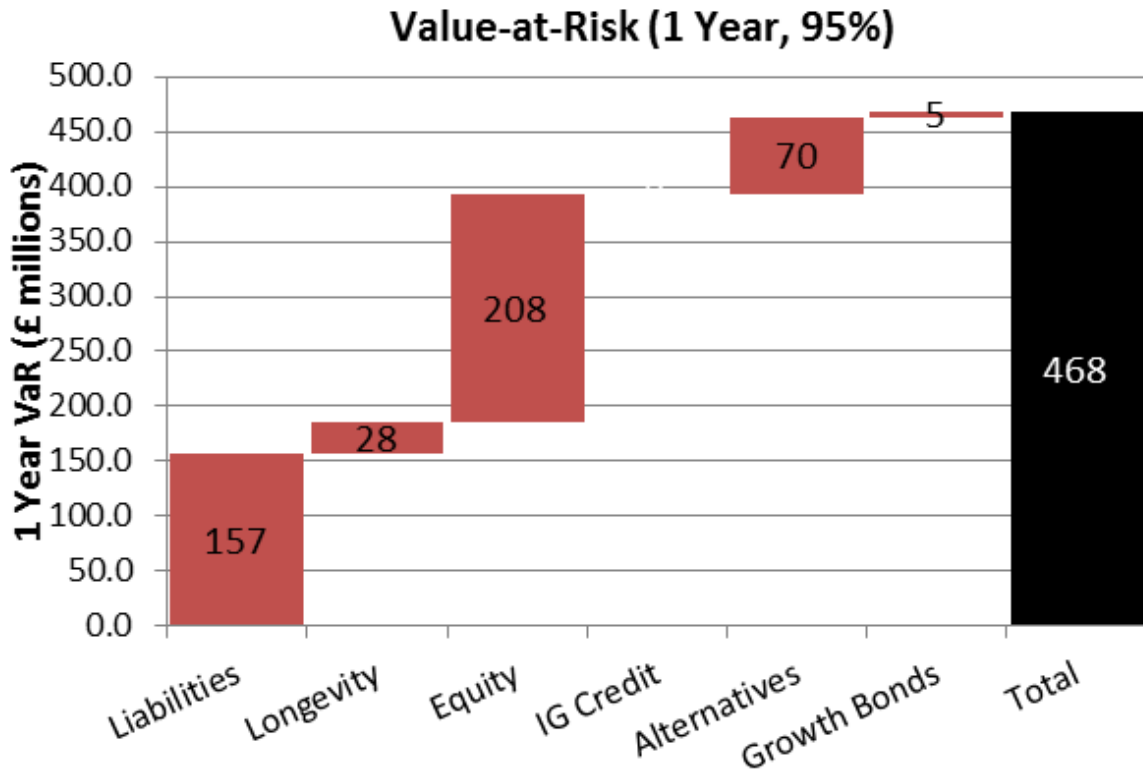
4. Approach to risk and how its measured & managed

Risk measurement and management

Risks are assessed both qualitatively and quantitatively as part of regular investment strategy reviews, and prioritised accordingly being a key element in setting its strategy. Sufficient risk is needed to achieve long term returns expectations but mitigated as appropriate to allow as far as possible constant employer contribution rates. This approach to risk is reviewed at least annually.

(a) Investment Risks

The Committee uses Risk Attribution Analysis to determine the order of magnitude of the main investment risks the Fund is facing. The chart below shows the VaR (Value at Risk, essentially the downside that would occur in a 1-in-20 event) facing the Fund, split into major risk categories.



As an additional illustration of risk, the table below shows how a range of events could impact the Fund:

Event	Event movement	Impact on Deficit
Fall in equity markets	30% fall in equities	£320m
Rise in Inflation	1% increase in inflation	£398m
Fall in interest rates	1% fall in interest rates	£398m
Active manager underperformance	3% underperformance from all active managers	£38m

As shown in both the Value-at-Risk attribution chart and the table above, by far the two largest risks that the Fund is running are in relation to equities, and unhedged liabilities. Whilst not immaterial, the risk associated with the use of active management is far smaller.

Commentary on the major investment risks the Fund is running is as follows:

Liability related risks – One of the largest risks the Fund is running is in relation to its liabilities and the sensitivity of these to changes to long-term interest rates and inflation expectations. The Fund mitigates these risks to a degree through its holdings in index

linked gilts, other bonds and other sources of secured cashflow. The Committee is looking further at these risks as part of the current strategy review.

Equities – The other largest risk that the Fund is running is in relation to its equity holdings. Should equity market conditions deteriorate significantly this will have a large negative impact on the Fund’s assets. The Fund holds equities in order to provide the necessary long-term expected returns to help ensure that the Fund remains affordable. The Committee believes that the extra returns that are expected to be generated by equities compensate for the level of risk equities bring to the Fund. However, the Committee is also looking at further ways of mitigating equity risk as part of the current strategy review.

Active manager risk – Investment managers are appointed to manage the Fund’s assets on its behalf. This risk is small relative to other risks; however the Fund still addresses this risk. Extensive due diligence is undertaken before managers are selected, with a number of different managers chosen to mitigate against concentration risk. The investment managers are also monitored regularly by the Committee and by the Fund’s Investment Consultant.

Liquidity risk – the Committee recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long term investment horizon, the Committee believes that a degree of liquidity risk is acceptable, given the potential return. The majority of the Fund’s assets are realisable at short notice.

Exchange rate risk – this risk arises from investing in unhedged overseas (non GBP denominated) assets. The Fund has a currency hedging policy in place to hedge c.50% of the overseas equity exposure. For other asset classes, currency hedging is reviewed on a case-by-case basis.

The Fund’s portfolio is well diversified across asset classes, geography and asset managers. As different asset classes have varying correlations with other asset classes, the Fund can manage the level of risk run to the extent desired.

(b) Cashflow management risks

The Fund is becoming more mature and although it is cashflow positive after taking investment income, managing cashflow will become an increasingly important consideration in setting the investment strategy. Specifically should this position ever reverse, mitigating actions would be taken to manage the cashflow shortfall such as investing in assets that produce cashflows that could be used to meet these payments.

The table below sets out the cashflow position of the Fund over the last five fiscal years and is continually monitored.

	2011/12	2012/13	2013/14	2014/15	2015/16
Contributions (£'000s)	93,432	81,634	82,030	87,314	91,940
Benefits (£'000s)	-65,687	-68,351	-76,669	-74,067	-76,841
Investment Income (£'000s)	31,095	24,774	18,377	21,443	11,764
Net Position (£'000s)	58,840	38,057	5,379	34,690	26,863

Source: Fund Annual Accounts.

(c) Demographic risks

The Fund is subject to a range of demographic risks, but with particular reference to investment strategy, the Committee is aware of the potential for the Fund to mature over time as pensioner liabilities increase. A mature pension fund is likely to take less investment risk over time and this is considered at each strategy review. The more mature a pension fund, the more likely it is that disinvestments would need to be made to pay benefits. The Fund is not in that situation at present as income from contributions and investments are greater than benefit payments. However, this situation is monitored regularly and formally as part of the actuarial valuation and strategy review.

(d) Governance risks

The Pension Fund Committee believes that there is a benefit to the Fund to be gained from good governance in the form of either (or both) of an increased return and/or decreased risk. Poor governance can lead to opportunities and risks to be missed, and have a detrimental effect on the funding level and deficit. The current delegations and use of an investment sub-committee assist in managing this risk. There will also be additional governance risk from Wiltshire's participation in the BPP and the ways this can be mitigated and managed is being developed as part of the Brunel project in developing the shareholders and service agreements.

(e) Financial ESG risks

The Committee believes that ESG risks should be taken into account on an ongoing basis and are an integral part of the Fund's strategy and objective of being a long term investor.

The Committee believes that engagement is crucial in relation to strong corporate governance, which in turn is expected to help enhance returns. Details of the Fund's policies can be found later in this statement.

One area of focus for the 2017 strategy review is the risks caused by Climate Change and the associated issue of stranded assets. The strategy review will look at the carbon footprint of the Fund's equity portfolio and consider reduction options, as well as

conducting a temperature rise scenario analysis that may have implications for the Fund's future asset allocation.

Contingency Plans

The investment risk is mitigated by regular monitoring of investment managers performance and review of the Fund's strategy on a quarterly basis. These, along with the other risks are monitored quarterly as part of the Fund's Risk Register and on-going funding level analysis undertaken by the actuary.

The Fund has also implemented a "Flight-path" policy that continually monitors its funding position and looks to de-risk by changing its allocation of growth and matching assets as the funding position improves.

The Fund is also exploring other "tools" for risk mitigation that could be implemented in the future to manage its main exposures including Liability Driven Investments and Equity Protection products.

As outlined in the FSS, the Fund is also committed to providing three different investment strategies in the future to assist employers in managing and mitigate their exposure to investment risk where this is most appropriate for their specific liabilities.

5. Approach to Pooling Investments, use of collective investment vehicles & shared services

The Wiltshire Pension Fund is working with nine other administering authorities to pool investment assets through the Brunel Pension Partnership Ltd. (BPP Ltd) that will meet the criteria set out in the November 2015 investment reforms.

This is currently work in progress with the intention of meeting the Government's requirement for the pool to become operational and for the first assets to transition to the pool from April 2018.

Once BPP Ltd. is established the Wiltshire Pension Fund, through the Pension Committee, will retain the responsibility for setting the detailed Strategic Asset Allocation for the Fund and allocating investment assets to the portfolios provided by BPP Ltd.

The BPP Ltd will be a new company which will be wholly owned by the Administering Authorities. The company will seek authorisation from the Financial Conduct Authority (FCA) to act as the operator of an unregulated Collective Investment Scheme. It will be responsible for implementing the detailed Strategic Asset Allocations of the participating funds by investing Funds assets within defined outcome focused investment portfolios. In particular it will research and select the Manager Operated Funds needed to meet the requirements of the detailed Strategic Asset Allocations. These Manager Operated Funds will be operated by professional

external investment managers. Wiltshire Pension Fund will be a client of BPP Ltd and as a client will have the right to expect certain standards and quality of service. A detailed service agreement is being drafted which will set out the duties and responsibilities of BPP Ltd, and the rights of Wiltshire Pension Fund as a client. It includes a duty of care of BPP to act in its clients' interests.

An Oversight Board will be established. This will be comprised of representatives from each of the Administering Authorities. It will be set up by them according to an agreed constitution and terms of reference. Acting for the Administering Authorities, it will have ultimate responsibility for ensuring that BPP Ltd delivers the services required to achieve investment pooling. It will therefore have a monitoring and oversight function. Subject to its terms of reference it will be able to consider relevant matters on behalf of the Administering Authorities, but will not have delegated powers to take decisions requiring shareholder approval. These will be remitted back to each Administering Authority individually.

The Oversight Board will be supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Administering Authorities but will also draw on Administering Authorities finance and legal officers from time to time. It will have a primary role in reviewing the implementation of pooling by BPP Ltd, and provide a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It will be responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function.

The proposed arrangements for asset pooling for the Brunel pool have been formulated to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and Government guidance. Regular reports have been made to Government on progress towards the pooling of investment assets, and the Minister for Local Government has confirmed that the pool should proceed as set out in the proposals made.

Wiltshire Council will look to approve the full business case for the Brunel Pension Partnership on 21 March 2017. It is anticipated that investment assets will be transitioned across from the Wiltshire Pension Fund's existing investment managers to the portfolios managed by BPP Ltd between April 2018 and March 2020 in accordance with a timetable that will be agreed with BPP Ltd. Until such time as transitions take place, the Wiltshire Pension Fund will continue to maintain the relationship with its current investment managers and oversee their investment performance, working in partnership with BPP Ltd. where appropriate.

Following the completion of the transition plan outlined above, it is currently envisaged that all of the Wiltshire Pension Fund's assets will be invested through BPP Ltd. However, the Fund has certain commitments to long term illiquid investment funds which will take longer to transition across to the new portfolios to be set up by BPP Ltd. These assets will be managed in partnership with BPP Ltd until such time as they are liquidated, and capital is returned.

6. Social, environmental and corporate governance policy

Approach to Environmental, Social and Governance (ESG)

ESG are important factors for the sustainability of investment returns over the long term. The Fund seeks to use its position as a shareholder to actively encourage good corporate governance practice in those companies in which it invests. It does this by contracting to Pensions & Investment Research Consultants Limited (PIRC) who provides a global proxy service for the Fund using PIRC Shareholder Voting Guidelines that are approved by the Fund.

It is also a member of the Local Authorities Pension Fund Forum (LAPFF), to enable it to act with other local authorities (72 with assets in excess of £175bn) on corporate governance issues. LAPFF's mission is to protect the long-term investment interests of beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies. Details of their activities can be found on the following link:

<http://www.lapfforum.org/about-us>

The Fund expects its investment managers to take account of social, environmental and ethical considerations in the selection, retention and realisation of investments as an integral part of the normal investment research and analysis process. This is insofar as these matters are regarded as impacting on the current and future valuations of individual investments. The Fund believes that taking account of such considerations forms part of the investment managers' normal fiduciary duty.

As such, the Fund has a commitment to ensuring that companies in which it invests adopt a responsible attitude toward the environment, and adopt high ethical standards. Generally, such companies are expected to behave in a socially responsible manner by taking account of the interests of all stakeholders.

The Fund seeks to achieve this objective by raising issues with companies in which it invests, to raise standards in a way that is consistent with long term shareholder either through its membership of LAPFF or individually.

Non-Financial ESG Considerations

The pursuit of a financial return is the predominant concern for the Wiltshire Pension Fund to address the funding deficit and minimise the on-going cost of pension provision to its 170+ employer organisations. The Fund is aware it may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think stakeholders would support the decision.

The Fund's Pensions Committee has two employer representatives and two employer observers, while the Local Pension Board has three employer body and three member representatives who both represent and can engage with beneficiaries and stakeholders to ensure the Fund is aware and can respond effectively to all stakeholders concerns.

The Fund also aims to communicate using its website, newsletters, Annual Report and proposed Annual General Meeting to engage directly with all stakeholders.

Social Investment

Social investment includes a wide spectrum of investment opportunities. The Fund is consistent in the application of risk and returns requirements when evaluating all investment opportunities, including those that to address societal challenges. The Fund would invest in opportunities that address societal challenges but generate competitive financial returns.

Seeking such opportunities is generally delegated to our external fund managers, but would not limit the Fund to look at more local projects that may address societal challenges but generate competitive financial returns on an acceptable risk / reward profile.

Sanctions

The Fund does not exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

Brunel Pension Partnership Policy

The Brunel Pension Partnership [Investment Principles](#) clearly articulate our commitment, and that of each Fund in the Partnership and its operator (Brunel Company), to be responsible investors and as such recognise that social, environment and corporate governance considerations are part of the processes in the selection, non-selection, retention and realisation of assets. One of the principal benefits, outlined in the BPP business case, achieved through scale and resources arising from pooling is the improved implementation of responsible investment and stewardship.

Every portfolio, in every asset class, under the Brunel Pension Partnership, explicitly includes responsible investment and which includes an assessment of how social, environment and corporate governance considerations may present financial risks to the delivery of the portfolio objectives. These considerations will therefore be taken into account in the selection, non-selection, retention and realisation of assets. The approach undertaken will vary in order to be the most effective in mitigating risks and enhancing investor value in relation to each portfolio and its objectives. For more information is on the [BPP website](#).

7. Policy for the exercise of rights (including voting rights) attaching to investments

Voting Policy

The fund believes that voting is integral part of the responsible investment and stewardship process. The Fund manages its ownership responsibilities through its partnership with PIRC. PIRC are a third party voting agency that exercise all the Fund's voting rights in line with the PIRC guidelines that have been approved by the Pension Committee.

PIRC's voting guidelines are based on their expertise and track record of monitoring and developing corporate governance best practice spanning environmental, social and governance factors. They link their underlying Shareholder Voting Guidelines to the UK Corporate Code, published by the Financial Reporting Council in 2010 and subsequent revisions. PIRC's approach to best practise in corporate governance also in some areas goes beyond the existing legal and regulatory requirements.

PIRC reports quarterly on its voting activity and these reports are available to Committee Members through the website. The annual voting activity will also be included in the 2016/17 Annual Report. PIRC also present annually to the Pension Committee which assists Members to play a more active role in the Fund's voting activities.

The Fund undertakes its engagement activities through its active membership of the Local Authority Pension Fund Forum which targets specific areas of concern across the holdings of its LGPS membership.

The Fund also expects its asset managers to report on their engagement activities on a regular basis and summarises these in its quarterly updates.

Stewardship Code

The introduction of the Stewardship Code in July 2010 by the Financial Reporting Council strongly encouraged best practice in respect of investor engagement. The expectation is that institutional investors should publish a statement in respect of their adherence to the code. Compliance with the Code is currently on a voluntary basis. The Fund published its statement of compliance with the code during 2011 and this is reviewed annually. All of our global equities managers currently comply fully with the code. The Fund is rated as Tier 1 compliant by the Financial Reporting Council. The Fund's compliance statement can be found at the end of this document in Appendix A.

Stewardship in Investment Pooling

As part of the Brunel Pension Partnership (BPP) we are actively exploring opportunities to enhance our stewardship activities. More information is on the [BPP website](#).

One of the principal benefits, outlined in the BPP full business case, achieved through scale and resources arising from pooling are the improved implementation of responsible investment and stewardship. Once established and fully operation the Brunel company will deliver best practice standards in responsible investment and stewardship as outline in the [BPP Investment Principles](#).

Principles of Investment Governance

The Government introduced a code in October 2001 based on the results of HM Treasury's review of institutional investment in the UK, carried out by Paul Myners. This code set out ten principles that were intended to improve the investment management of pension funds. These were updated in October 2008 and previously LGPS administering authorities were required to prepare, publish and maintain statements of compliance against a set of six principles within the Statement of Investment Principles. Although not specifically required by the Regulations the Fund sees these Principles as a relevant governance tool and will continue to report on compliance.

The Fund is compliant with five out of the six principles, while there is an area that still requires development within principle 4. To be fully compliant the implementation of a formal assessment of its advisers to ensure the cost, quality and consistency of the advice is monitored is required. A detailed breakdown of the Principles of Investment Governance and the Fund's adherence to these can be found in Appendix B.

Advice Taken

In creating this statement, the Fund has taken advice from its Investment Consultant. Also, in relation to each of the constituent parts, such as the asset allocation and risk mitigation, the Fund has taken advice from its Investment Consultant, Mercer, and the Scheme Actuary, Hymans Robertson. In providing investment advice, Mercer is regulated by the Financial Conduct Authority.

Appendix A

Wiltshire Pension Fund, Statement of Compliance with Stewardship Code 2016

WILTSHIRE PENSION FUND

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

Wiltshire Pension Fund takes its responsibilities as a shareholder seriously. Our stewardship responsibilities extend over all assets of the Fund. All of our global equities managers currently comply fully with the code.

The Fund has published policy documents which identify how we meet our Stewardship responsibilities and these include, but are not limited to, our Statement of Investment Principles, our Voting Policy and our Governance Compliance Statement. These documents cover the following areas:

- Monitoring of manager decisions
- The exercise of voting rights
- Risk measurement and management
- ESG consideration in the Tender selection, retention and realisation of investments.
- Statement of compliance with the Myners Principles
- Stock lending

In practice the Fund's policy is to apply the Code both through its arrangements with asset managers and through membership of the Local Authority Pension Fund Forum (LAPFF). In addition, the Fund expects its Asset Managers to take account of social, environmental and ethical considerations when making investment decisions. The objective of LAPFF is to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Formed in 1990, the forum brings together a diverse range of local authority pension funds with combined assets of over £175 billion.

The Fund seeks to use its position as a shareholder to actively encourage good corporate governance practice in those companies in which it invests. It does this in Partnership with Pensions & Investment Research Consultants Limited (PIRC).

We have amended our Statement of Investment Principles in recognition of the revised Stewardship Code which came into effect in October 2012. Furthermore, The Wiltshire Pension Fund published its compliance with the Code during 2011 and this is reviewed annually.

All new investment management agreements will now include the requirement for managers to observe the FRC's UK Corporate Governance Code and UK Stewardship code. Due diligence is carried out whenever a new manager is appointed. Reliance is also placed in Financial Conduct Authority's registration.

All relevant managers have published a Statement of Commitment to the code (see appendix 1 which lists the links to these statements) and all appropriate managers, (or in the case of one

manager, their parent company), are signatories to the UN PRI, as evidenced on the UN PRI website.

Principle 2 – Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

Wiltshire Pension Fund encourages all its asset managers to have effective policies in place to address potential conflicts of interest. The need to avoid conflicts of interest is also highlighted in our asset manager mandates and contracts with external parties.

All equity managers are instructed to vote in line with PIRC recommendations. Should a conflict arise the asset manager would notify the Fund and the ultimate decision would be made by officers in consultation with the Chairman of the Pension Committee.

In respect of conflicts of interests within the Fund, Committee members are required to make declarations of interest at the start of all Committee and Investment sub-group meetings. A public register of interests is maintained for all Councillors and could be subject to audit inspection at any time. Members are responsible for updating their register as and when their interests change. This is overseen by the Monitoring Officer. If a member declares that they have an interest at the start of a meeting, then the context would determine the action that would be taken i.e. if they declare that they have an interest that is either personal or financial to an item on the agenda, then they would more than likely be asked to leave the room for that item and would be excluded from any voting activities. It is also worth noting that all members, including members of the Wiltshire Pension Fund Committee, are covered by a code of conduct and this can be viewed on the Council's website at the following link

<http://cms.wiltshire.gov.uk/documents/s120932/Part%2012%20-%20Code%20of%20Conduct.pdf>

Wiltshire Pension Fund is administered by Wiltshire Council. All non-teaching employees of Wiltshire Council (which includes members of staff employed by Wiltshire Pension Fund) are governed by the Council's Code of Conduct which is published on the Council's website. The Code of Conduct includes a section on conflicts of interest and the expectations placed upon Council employees (the requirement to handle public funds in a responsible and lawful manner for example). Any member of staff found to be in breach of the policy may be the subject of disciplinary action and could be subject to dismissal. This includes staff who administers the investment side of the Fund. The Council also has a whistleblowing policy to enable staff to raise any concerns that they may have.

All of the Fund's managers have confirmed that they have conflict of interest policies in place and these are subject to regular review. All managers have confirmed that they have a conflict of interests board/ separate Committee to monitor and investigate conflicts of interest.

Principle 3 – Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing our equity holdings is delegated to our appointed asset managers, and the Fund expects them to monitor companies, intervene where necessary, and

report back regularly on engagement activities. Reports from our asset managers detailing engagement activities are available for the Pensions Committee on a quarterly basis. The Fund understands that regardless of this delegation, we retain overall responsibility for the Stewardship and responsible investment of the Fund assets.

The Fund engages with its asset managers on a regular basis using a variety of means including phone, email, in person and using formal written correspondence. The Fund uses its engagement with managers to monitor performance, evaluate risk, and to become aware of any ESG issues and opportunities.

Wiltshire Pension Fund monitors its asset managers very closely. We receive quarterly performance reports from each manager and information in the reports is discussed with managers at our meetings with them and also reported to and reviewed by Committee every quarter. The Fund also employs the services of an investment consultant. The investment consultant assists the Fund in the monitoring of its managers and produces a Quarterly Performance Update for Committee which provides an overview of manager performance and raises any corporate, social or governance issues for consideration by the Committee. Each of the managers meets with Committee once a year, and also with officers of the Fund once a year. Additional meetings with managers may also be arranged on an ad-hoc basis according to need. Manager performance is also reported annually in the Fund Annual Report which is published on the Fund website and made widely available to stakeholders.

The Fund receives Internal Control Reports from managers and our custodian every year and these are reviewed by officers of the Fund annually.

The Fund expects its managers to take account of social, environmental and ethical considerations in the selection, retention and realisation of investments and believes that this forms part of the manager's fiduciary duty to protect long term shareholder value. As such, the Fund has a commitment to ensuring that companies that it invests in adopt a responsible attitude toward the environment, and adopt high ethical standards and behave in a socially responsible manner by taking into account the interests of all stakeholders. The Fund seeks to achieve this objective by raising issues with companies in which it invests, to raise standards in a way that is consistent with long term shareholder value. Again, the Fund primarily uses its membership of LAPFF to affect this policy.

Wiltshire Pension Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which has enabled us to develop our approach to shareholder engagement and responsible investment. Collective engagement through LAPFF enables us to maximise our influence. Officers of the Fund regularly attend LAPFF business meetings, which include presentations from expert speakers and detailed updates on engagement and policy work.

Wiltshire Pension Fund manages its ownership responsibilities in partnership with PIRC. The Fund receives quarterly reports from PIRC and these are published and made available to members in a secure area on the Wiltshire Pension Fund website. Furthermore our membership of PIRC enables us to benefit from their voting alerts service which highlights companies with material corporate governance failings. Full details of the alerts can be viewed on the LAPFF website in the members' area.

As an asset owner, Wiltshire Pension Fund owns a proportion of the assets we invest in and thus we seek to use our influence as an asset owner to encourage the companies we invest in to act in a responsible manner.

Principle 4 – Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

As highlighted above, responsibility for day to day interaction with companies is delegated to the fund managers, including the escalation of engagement. Their guidelines for such activities are anticipated to be disclosed in their own statement of adherence to the Stewardship Code (see appendix 1 below) and may include the following activities:

1. Additional Meetings with management
2. Intervening jointly with other institutions – e.g. Fund managers have shown support for LAPFF alerts by publishing their voting intention online prior to AGM's
3. Promotion of UNPRI principles
4. Writing a letter to the board or meeting the board
5. Submitting resolutions at general meetings and actively attending to vote
6. Divestment of shares

Occasionally, the Fund may choose to escalate activity directly, principally through engagement activity by the Local Authority Pension Fund Forum. When this happens the Chairman of the Pension Committee, in communication with the Vice Chairman, Treasurer to the Pension Fund and Head of Pensions will decide whether to participate in the proposed activity. Any concerns with the managers are added for discussion in the Investment Committee agenda and where there are specific concerns, the relevant managers will be invited to Investment Subcommittee to discuss concerns. As mentioned above, the Fund employs the services of an investment consultant, who, along with officers of the Fund, closely monitors the performance of the Fund Asset Managers. They help the Fund to monitor performance of the Fund and flag up any issues that it feels require consideration. The Investment Consultant will attend Committee meetings and assist the Committee in the questioning of the managers and in the discussions that follow, helping the Committee by providing any guidance they need to help them to make the right decisions for the Funds interests. Further details are contained within the SIP which is available on the Wiltshire Pension Fund website and can be found on the following link

<http://www.wiltshirepensionfund.org.uk/statement-of-investment-principles-2015.pdf>.

Principle 5 – Institutional investors should be willing to act collectively with other investors where appropriate.

Wiltshire Pension Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The Fund acts collectively with other Funds and organisations through a variety of means. This includes (but is not limited to) networking with other Funds, through participation in the Brunel Pension Partnership project (pooling of LGPS investment activities) and through our membership of the Local Authority Pension Fund Forum, LAPFF, which engages with companies over environmental, social and governance issues on behalf of its members.

The Fund also works closely with its asset managers, engaging with them on a regular basis and with other organisations such as LAPFF and PLSA. All of our managers work closely with other organisations as part of their collaborative engagements, advocacy and research activities, details of which are given in their quarterly and annual reports which are reported to Committee.

Each year, various officers and members of the Pension Committee attend LAPFF business meetings which include presentations from expert speakers and detailed updates on engagement and policy work. The Fund uses its membership of LAPFF to work collaboratively with other organisations, to engage in the companies in which it invests, the idea being that the Fund will wield more influence by collaboratively engaging with other investors.

The Fund collaborates and works closely with other Funds on various projects such as the National Pooling Initiative. Representatives from the Fund regularly attend various pension forums and conferences in order to stay abreast with the latest developments affecting LGPS pensions and investment markets and to use it as an opportunity to network and collaborate with other Funds and organisations connected to the LGPS and in doing so, benefit from the opportunities this presents.

The Fund's contact in relation to Stewardship activities is Rozalyn Vernon, Pension Fund Accountant.

Principle 6 – Institutional investors should have a clear policy on voting and disclosure of voting activities.

Wiltshire Pension Fund manages its ownership responsibilities in partnership with PIRC. The Wiltshire Pension Fund committee have reviewed and agreed to adopt PIRC's shareholder voting guidelines. These voting guidelines are regularly updated and publicly available on their website. PIRC provide a proxy voting service across the holdings of all our global equity managers. PIRC's voting guidelines, which have been approved by the Fund, are based on their expertise and track record of monitoring and developing corporate governance best practice spanning environmental, social and governance factors. They link their underlying Shareholder Voting Guidelines to the UK Corporate Code, published by the Financial Reporting Council in 2010 and subsequent revisions. PIRC's approach to best practice in corporate governance also in some areas goes beyond the existing legal and regulatory requirements. The Fund receives proxy research and voting recommendations for each company AGM and EGM holding the Fund has that can be voted. PIRC reports quarterly on its voting activity and these reports are available to Committee members through the website. PIRC are also available to present to the Committee which assists Members to play a more active role in the Fund's voting activities.

As outlined in the paragraph above, Wiltshire Pension Fund manages its ownership responsibilities through PIRC and Investment Managers do not have any voting discretion. There are on occasion times when managers put forward proposals. These will be considered by the Fund with the ultimate decision being made in consultation with the Chairman of the Pension Committee.

Principle 7 – Institutional investors should report periodically on their stewardship and voting activities.

Wiltshire Pension Fund annually reviews and updates its Statement of Investment Principles, which sets out the Fund's approach to responsible investing.

Wiltshire Pension Fund uses the Local Authority Pension Fund Forum (LAPFF) to undertake engagement activity. The activity undertaken by LAPFF is regularly made available to Committee.

Voting activity is reported to members of Committee via reports received from PIRC who provide a proxy voting service to the Fund and are made available on a secure area of the WPF website that members can access. Members and officers of the Fund receive voting alerts from PIRC and full details are available on the LAPFF website in the members' area.

The Fund's managers provide reports on an annual and quarterly basis, detailing their performance against benchmark along with details of collaborative engagements, advocacy and research activities. These are reported to Committee and made available to members on a secure area of the WPF website.

We ask that all our managers provide us with a copy of their latest regulatory control report each year and these are reviewed by officers of the Fund annually and subject to periodic audit. These reports form part of the Fund's controls against the loss of Fund assets through misappropriation or fraud.

All of the Fund's managers are independently verified by an external auditor, details of which are found in their ISAE 3402 made available by request or publically on their websites. Where there are exceptions the Fund would seek clarification from managers and reports its findings to the Committee.

**Wiltshire Pension Fund
 September 2016**

Appendix 1

Manager Stewardship Code Statements

Manager	Link
Baillie Gifford	https://www.bailliegifford.com/about-us/literature-library/corporate-governance/global-corporate-governance-principles-and-guidelines/ (see page 8)
Barings	http://www.barings.com/ucm/groups/public/documents/policiesprocedures/170433.pdf
CBRE	Document is held directly with Wiltshire Pension Fund and is available on request
M&G	http://www.mandg.com/en/corporate/about-mg/responsible-investment/the-uk-stewardship-code/
Investec	http://www.investecassetmanagement.com/united-kingdom/professional-investor/document/pdf/Investec-UK-Stewardship-Compliance-Statement.pdf
Legal & General	http://www.lgim.com/uk/en/capabilities/corporate-governance/policies/

Loomis	http://www.loomissaylesinvestmentslimited.co.uk/uk/internet.nsf/content?readform&ctype=landing&channel=about&id=5-4
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N.B. Signatories from time to time will update their policies. In the instance that the above links are no longer active the most recently submitted statements can be located on the FRC website:

<https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Stewardship-Code/UK-Stewardship-Code-statements.aspx>

Appendix B

Principles of Investment Governance – Assessment of Compliance Compliance with Investment Principles for Defined Benefit Schemes

1. Effective decision-making

- **Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and**
- **Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.**

The Wiltshire Pension Fund is fully compliant with this principle. The Governance Compliance Statement outlines the organisation and operation of the Committee and shows compliance with the nine governance principles as set out in CLG's *Local Government Pension Scheme Governance Compliance Statements Statutory Guidance*.

The Fund also has a Business Plan outlining the purpose, scope, goals and business objectives along with an action plan and key target dates. The latest Business Plan was updated and approved by the Pension Fund Committee in July 2016. This outlines the major milestones for the three years between 2015-2017. This enables the Committee to plan, anticipate and to resource key actions over this period which inform the Pension Fund's annual budget. The budget and Business Plan processes involve a continuous reappraisal of the adequacy of the Committee's resources.

A necessary element to ensure full compliance is the ability to demonstrate that both Committee Members and officers have sufficient expertise and knowledge to carry out their roles and duties.

The Committee has a clear commitment to training. All Committee Members are given induction training and are supplied with a Members' handbook outlining their responsibilities, how the Fund is governed and its operations. A self-assessment audit was undertaken of Members during July 2014, these identified areas for further development. As a result a Members training plan was also adopted by the Committee in March 2015 which covers the period 2015-2017 to ensure Members have knowledge of background issues to enable them to make informed decisions.

Training is delivered through the use of officers, external speakers, and tailored training events. Members are also encouraged to attend external seminars and conferences. All Members have full access to all training opportunities and are allowed to claim reasonable expenses.

The Committee has adopted the CIPFA Knowledge and Skills Framework (KSF). This specifically focuses on the roles of the Chairman, Vice Chairman, Members of the

Committee, Treasurer to the Pension Fund, Head of Pensions, Strategic Pension Manager, Pension Fund Accountant and Investment officers.

Although the KSF is currently a voluntary code amended regulations are expected to require the Annual Report to include a statement of the actions undertaken and progress made in addressing any skills gap.

2. Clear objectives

- **An overall investment objective should be set out for the Fund that takes account of the scheme's liabilities, the potential impact on the local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and the scheme employers, and these should be clearly communicated to advisors and investment managers.**

The Wiltshire Pension Fund is fully compliant with this principle. The Triennial Valuation 2016 report, Funding Statement Strategy, and Investment Strategy Statement explain in detail the objectives of the Fund.

3. Risk and Liabilities

- **In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.**
- **These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.**

The Wiltshire Pension Fund is fully compliant with the principle. The Funding Statement Strategy, Admissions Policy, and Cessation Policy all consider these issues.

A framework exists to monitor the risks for all areas of the Pension Fund including administration, operations, investments, accounting and governance. The register is based on the Council's standard "4x4" approach. The cause and impact of each risk are highlighted and assessed based on its impact and likelihood. This is measured against the target risk. The current risk controls to mitigate these risks are also highlighted. The Committee receive this specific Pension Fund Risk Register on a quarterly basis with an update of any changes since the last report for comment and approval.

The Committee also receive reports in relation to internal controls from both internal and external auditors. The Fund also participates in the Club Vita longevity project which provides specific longevity analysis.

4. Performance Assessment

- **Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.**

- **Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.**

The Wiltshire Pension Fund is fully compliant with this principle with reference to measuring performance of investments and investment managers. However the Fund is partially compliant in respect of measuring the performance of advisors and the Committee's effectiveness.

The Fund currently undertakes an assessment of its advisors on a more qualitative basis and market tests them when contracts are due for renewal. A more formal arrangement for assessments could be developed for advisors to measure cost, quality and consistency of advice received.

The Committee believes that its effectiveness can ultimately be measured by the level of success achieved in minimising and stabilising the level of contributions paid into the Fund by employing bodies to ensure its solvency. Work remains on-going to achieve this aim while the Governance Compliance Statement in conjunction with the continued adoption of CIPFA's Knowledge and Skills framework standards will ensure the continued effectiveness of the Committee.

An Administration Strategy was revised by this Committee in December 2015, this outlines the administrative service standards expected from by both the Wiltshire Pension Fund and employers. This ensures the efficient administration of the scheme and updates are provided to Committee on its progress.

5. Responsible Ownership

Administering authorities should:

- **Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents**
- **Include a statement of their policy on responsible ownership in the statement of investment principles (investment strategy statement)**
- **Report periodically to scheme members on the discharge of such Responsibilities.**

The Wiltshire Pension Fund is fully compliant with this principle. The Fund manages its ownership responsibilities through its partnership with PIRC. PIRC's voting guidelines are based on their expertise and track record of monitoring and developing corporate governance best practice spanning environmental, social and governance factors. They link their underlying Shareholder Voting Guidelines to the UK Corporate Code, published by the Financial Reporting Council in 2010 and subsequent revisions. PIRC's approach to best practise in corporate governance also in some areas goes beyond the existing legal and regulatory requirements.

PIRC reports quarterly on its voting activity and these reports are available to Committee Members through the website. PIRC also present annually to the Committee which assists Members to play a more active role in the Fund's voting activities.

The Fund undertakes its engagement activities through its membership of the Local Authority Pension Fund Forum in conjunction with expectations of its asset managers to report on their engagement activities on a regular basis. The Fund has also produced a compliance statement in respect of the Stewardship Code.

6. Transparency and reporting

Administering authorities should:

- **Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives**
- **Provide regular communication to scheme members in the form they consider most appropriate.**

The Wiltshire Pension Fund is fully compliant with this principle. It produces the following documents which are approved by the Committee and communicated to the appropriate stakeholders to fulfil requirement on transparency:

- Governance Compliance Statement
- Pension Fund Annual Report
- Funding Strategy Statement
- Communications Policy
- Statement of Investment Principles
- Reports under the Stewardship Code

These are all available on the Fund's website, so any stakeholder or other interested party has access to this information.

The Communications Policy outlines the different channels and frequency of communications while also identifying the different stakeholders.

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