



Wiltshire
Pension Fund

RESPONSIBLE
INVESTMENT AND
STEWARDSHIP
HIGHLIGHTS
2021/2022

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WELCOME

Welcome to Wiltshire Pension Fund's **Responsible Investment and Stewardship Highlights of 2021/22**.

This report aims to share a bit about our **activities and outcomes** in this important area, and bring it to life with some **examples** of the types of thing we do, and why.

We also publish a much more detailed and comprehensive Stewardship report on our activities in this area, which is available on the website. This shorter report is designed to share some highlights, to make the information more accessible to a wider audience.

We hope you enjoy the report!

We currently
manage over
£3bn
of assets

WHAT IS RESPONSIBLE INVESTMENT?

Responsible investment is the strategy to incorporate ESG (environmental, social and governance) factors into investment decisions.

WHAT IS STEWARDSHIP?

It is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society (as defined by the Stewardship Code 2020).

WHAT IS WILTSHIRE PENSION FUND TRYING TO DO?

ESG factors, including Climate Change, are important factors for the sustainability of investment returns over the long term. We need to **protect the Fund's assets**, so that we have enough money to **pay pension benefits** as they fall due, and to help keep our employers' contribution rates as **stable and affordable** as possible. That's why we consider these factors – we are always trying to earn **strong risk-adjusted returns**, and ESG factors play an important role in helping us to do that.

ESG =
Environmental,
Social and
Governance

WHO IS WILTSHIRE PENSION FUND, AS AN INVESTOR?

We are very **long-term** investors, with a **large and diversified** mix of assets. That's why we need to think about long-term issues when we are managing our investments – we will be here for a long time.

Our vision is set to focus the team on delivering **outcomes** for the employers and members of the pension fund. The vision is supported by 16 outcomes-focussed strategic vision goals. The goals broadly map to outcomes for employers, members, investments, and governance, however, across the team staff are encouraged to think about how their work maps to different goals.



Our vision is to deliver an outstanding service to our scheme employers and members

 <p>1 Stable and affordable contributions</p>	 <p>2 Straight-forward administration</p>	 <p>3 Clear service measures and responsibilities</p>	 <p>4 Employers are advocates for the scheme</p>
 <p>5 Correct pension, paid timely</p>	 <p>6 Accurate, up-to-date records</p>	 <p>7 Service administered effectively and cost-efficiently</p>	 <p>8 Members understand their benefits</p>
 <p>9 Safeguard the assets</p>	 <p>10 Strong, risk-adjusted returns</p>	 <p>11 Responsible ownership and stewardship</p>	 <p>12 Positive impact</p>
 <p>13 Robust processes, controls and risk management</p>	 <p>14 Widely adopted self-service solutions</p>	 <p>15 Transparency and information sharing</p>	 <p>16 Compliance and best practice</p>

OUR CULTURE

In order to help us achieve our strategic goals, and deliver our vision, we need to adopt certain outlooks and ways of working. We aim to demonstrate the following values, and embed them firmly in our culture:

The infographic consists of seven colored boxes, each representing a core value. Each box contains an icon, a title, and a brief description. The values are: 1. Working Together as One Fund (blue box, icon of a medal with '1'), 2. High Performing Teams (green box, icon of three people), 3. Data Driven Decisions (purple box, icon of server racks), 4. Efficiency Through Technology (grey box, icon of three cubes), 5. Long Term Thinking (dark blue box, icon of a target), 6. Clear Communications (dark grey box, icon of a speech bubble), and 7. Smarter Working (yellow-green box, icon of two gears).

- WORKING TOGETHER AS ONE FUND**
We work together as One Fund, demonstrating the values of transparency, accountability, ownership, critical thinking, respect and agility
- HIGH PERFORMING TEAMS**
We aspire to be role models and leaders, through our commitment to develop knowledge and training
- DATA DRIVEN DECISIONS**
We use data to inform and evidence our decision making, and to measure our progress and successes
- EFFICIENCY THROUGH TECHNOLOGY**
We collaborate, and challenge our systems and processes, to create innovative solutions and drive continuous improvement
- LONG TERM THINKING**
We always act with the long term in mind, whether we are setting our investment strategy, planning improvements, or working towards our net zero by 2050 goal
- CLEAR COMMUNICATIONS**
We communicate with all our stakeholders in a clear, concise, relevant and effective way
- SMARTER WORKING**
We maintain focus on our core objectives, and work in a proactive and disciplined way, to promote simplicity and efficiency in everything we do

As part of a review of the Business Plan in March 2021, the Committee and Pension Fund team adopted the vision, goals, and values as set out above. The value “**Long Term Thinking**” runs through everything we do. As a long-term investor, we are able to participate in stewardship activities which can add value to the Fund’s investments over the long term.

The strategic goal 11, “**Responsible Ownership and Stewardship**”, is particularly relevant to stewardship activities. The goal focusses on ensuring that our responsible investment and stewardship activities are in line with best practice (which also contributes to strategic goal 16, “**Compliance and Best Practice**”), and that these activities are a central part of delivering an outstanding service to our scheme employers and members.

For these different groups this may mean different things:

- **Employers** will be best served by the delivery of long-term positive investment returns, which will help keep their contribution rates affordable (strategic goal 1, “**Stable and Affordable Contributions**”, is targeting this outcome), and stewardship activities can help preserve capital and enhance value.
- **Members** may be concerned about how the funds held to pay their pensions are invested, and goal 15, “**Transparency and Information Sharing**” contributes to this outcome. Stewardship has a role to play here in the information that is shared with members – for example, the Fund publishes its engagement and voting records online.

OUR RESPONSIBLE INVESTMENT ACTIVITIES

To help us understand the broader framework, in 2021/22 we developed a Responsible Investment Plan, which we will update annually. As part of this plan, we set out a **roadmap of actions** for the year. Our plan for 2021/22 is below – we are pleased to say that **we have completed** all actions set out in the roadmap:

Q2
2021

INVESTMENTS AND STRATEGY

- Decision on allocating to sustainable equities

REPORTING AND DISCLOSURE

- Task Force on Climate-related Financial Disclosures (TCFD) reporting

TRAINING AND ENGAGEMENT

- Training on impact investing and affordable housing

Q3
2021

INVESTMENTS AND STRATEGY

- Proposals for protection assets
- Develop and publish Responsible Investment Policy, including climate statement and action plan

REPORTING AND DISCLOSURE

- Develop plan for Stewardship Code reporting

Q4
2021

INVESTMENTS AND STRATEGY

- Begin work to implement proposals for protection assets
- Begin reviewing potential work on other asset classes with respect to climate change and sustainability

REPORTING AND DISCLOSURE

- Sign up to wider initiatives

TRAINING AND ENGAGEMENT

- Hold membership webinars and develop the information shared on the Fund's website

Q1
2022

INVESTMENTS AND STRATEGY

- Update Investment Strategy Statement

REPORTING AND DISCLOSURE

- Develop plans for reporting the year's progress in the Annual Report

CLIMATE RISK

One of the most important ESG factors to consider is **climate risk**.

One of the Fund's investment beliefs is as follows:

“ **In order to protect the Fund's investments into the future, the Fund supports a global warming scenario of well below 2°C, and states an ambition to achieve net-zero carbon emissions across all investment portfolios by 2050** ”

OUR GOAL

To protect the investments from climate change risk, and safeguard the financial future of the Fund

In March 2021, the Committee made a decision to set a **net zero by 2050** goal for the investment portfolios. A lot of the work we did in 2021/22 took this forward, setting some more detailed targets:



We commit to a whole Fund carbon reduction target of **50% by 2030**



We commit to a listed equities carbon reduction target of **43% by 2025** and **69% by 2030**



We commit to allocating **30% of the Fund to sustainable/low carbon green assets by 2025** and **35% by 2030** (as measured by the long-term strategic asset allocation).



We will expand specific net zero target setting and monitoring of metrics for other asset classes over 2022, starting with property and infrastructure.

All of our climate risk work is based on **scenario modelling**, which enables us to put numbers around the risk, and make decisions based on what is the **best financial outcome** for the Fund.

We will carry on our work in this area – some actions we will take in 2022/23 are as follow:

- **Monitor progress** against our decarbonisation targets
- Review and set detailed targets for more asset classes, starting with **infrastructure and property**
- Implement our **renewable infrastructure** portfolio
- **Work with our partner funds** as part of the Brunel pool (our investment pooling company) to complete a **climate stock take**

CURRENT “GREEN” ASSETS

22% of our long-term allocation

THE CARBON FOOTPRINT OF OUR LISTED EQUITIES: 16% lower

than the benchmark index as at 31 Dec 2020

CLIMATE CASE STUDIES

PARIS-ALIGNED PASSIVE PORTFOLIO

We **collaborated** with the Brunel pool and the other member funds to create a new **Paris-aligned benchmark**, which is **forward-looking**, and delivers a lot more than simply focussing on a company's emissions today. We invested **£600m** in a portfolio tracking this benchmark, which will help to achieve our net zero by 2050 goal, and helps the Fund to **protect the investments** from risks of exposure to stranded assets, whilst also taking advantage of **transition opportunities** via the companies which will be more heavily weighted in this portfolio.



Wiltshire Pension Fund Investment team attend market open launch event of Paris-aligned benchmarks at the London Stock exchange, 2 November 2021.

SUSTAINABLE EQUITIES

One of the key findings from our climate scenario modelling work was that the Fund could see a **material financial benefit** from setting an allocation to sustainable equities. The modelling work looked at the risks to our investments from climate change, but also **identified opportunities** for the Fund, and this was one of them. We have now allocated half of the Fund's active equity exposure to a sustainable equities portfolio managed by Brunel, our pooling company, a value of around **£300m**.

The managers in this portfolio focus on **positive inclusion**. Some of the managers have a broad sustainability strategy. Another manager is thematic, operating a global climate and environment strategy, which focuses on things like resource efficiency, environmental protection and alternative energy, targeting companies who still have a lot to gain from transitioning to a more sustainable model. The managers also generate value through the way they work with the companies they invest in, with a **strong focus on engagement** activities. This portfolio's goal is to earn **superior risk-adjusted returns** for the Pension Fund.

RENEWABLE INFRASTRUCTURE

During 2021, we undertook a review of our protection assets allocation, to ensure that the Fund was delivering this part of the strategy in the most effective way. This allocation is aiming to deliver **lower-risk, mainly sterling, income-based returns, with a link to inflation**. This helps provide some protection as the Fund's liabilities are strongly affected by inflation, as that is how future pension payments will be increased.

Following a review with the Fund's investment consultants and advisers, we identified that **renewable infrastructure** would be an area where we should seek to make a specific allocation. This also fitted in with the climate scenario modelling work which we commissioned during 2020 – the results of this indicated that there was an **opportunity for the Fund to benefit financially** by allocating to renewable infrastructure (compared to general infrastructure).

We have now made a **strategic allocation of 5%** of the Fund to renewable infrastructure, and will be implementing this during 2022/23.

IMPACT INVESTING

WHAT IS IMPACT INVESTING?

Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return (as defined by the Global Impact Investing Network).

WHY IS THIS RELEVANT FOR WILTSHIRE PENSION FUND?

It's important to note that any impact investment made by Wiltshire Pension Fund will not sacrifice any financial return – positive impact is in addition to this, not at the expense of it.

Looking at the impact of our investments can be very helpful in identifying **new investment opportunities**, and helps to identify ways that we can **reduce our exposure to risks**.

ONE OF THE FUND'S INVESTMENT BELIEFS IS AS FOLLOWS:

Investing with a positive social and environmental impact is an increasingly important issue for investors, and can be achieved alongside competitive market returns. Investing with impact can also help incorporate risk and return drivers which would otherwise not be considered. The Fund wishes to invest in a way that minimises negative impacts on society and the environment and, where possible, makes a positive contribution.

An example of trying to avoid negative impact is demonstrated by our support for a **Just Transition**. A “just transition” means not transitioning to a low carbon economy at any cost, but doing so whilst also ensuring that this is done in a **socially responsible** way. The Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science have put together a comprehensive guide as to what this means for investors, and what action can be taken. The Fund has signed a statement of support and uses the guide to help embed this goal within the Fund's policies and help hold our asset managers to account.

5%
of the fund

IMPACT CASE STUDY

AFFORDABLE HOUSING

During the year we carried out a review of our protection assets, as described on page 9. As part of this review, we decided to make a strategic allocation of **5%** of the Fund to **impact affordable housing**.

Investing in affordable housing is a really good match for our return requirements – the rental increases are **linked to inflation**, and tenants sign leases for long periods of time (for example, in supported living, or shared ownership models). There is a **real need** for this kind of housing – demand massively outstrips supply, and over recent years many areas across the UK have become unaffordable, with the ratio of house prices to median incomes increasing to levels where most people cannot afford home ownership.

For this portfolio, the **positive social impacts** are completely integral to the investment case. We will be measuring the financial performance of this portfolio, and a set of impact measures as well. There may also be opportunities for local (Wiltshire-based) investments.



The Fugglestone development in Salisbury, which is held in the Fund's impact affordable housing portfolio

POSITIVE
SOCIAL
IMPACT

INFLATION-LINKED
returns

OPPORTUNITY
for local investment

ENGAGEMENT WITH OUR SCHEME EMPLOYERS AND MEMBERS



15

Transparency and information sharing

As part of our Responsible Investment Policy, we have plans in place to ensure that we are communicating with our employers and members. This helps work towards our strategic goal 15 “Transparency and Information Sharing”.

We care what our employers and members think, and have surveyed both groups. As a result, when we reviewed our Responsible Investment Policy in September 2021, we adopted the following investment belief:

We seek to invest in a way that, where possible, aligns the interests of the Fund with those of the contributing employers and the Fund membership.

We listened to our employers and have set up an **EMPLOYER STRATEGIC FOCUS GROUP**

Last year we published a **CLIMATE FACTSHEET** to let our members know how we are dealing with this risk –

OVER 7000 members read it

86%

of our members answered yes or maybe to the question “is it important to you for the Fund to invest in sustainable and/or low carbon assets?”

OVER HALF our employers said it was important to them that the Fund’s investment strategy reflected the wider goals of the employing organisations

WORKING WITH OTHERS

One of the Fund's investment beliefs is as follows:

Stewardship and engagement are generally more effective tools than divestment in encouraging changes that will help safeguard the Fund's investments. The Fund values the benefits of working with other investors to strengthen these activities and achieve better outcomes.

We collaborate in lots of different ways – the number one way being with our partner funds as part of the **Brunel pool**. Brunel is our pooling company, and was set up in line with Government requirements, with a goal to use economies of scale to save on investment manager fees. We are also members of a number of **wider initiatives**, which you can read more about on our website:

<https://www.wiltshirepensionfund.org.uk/partners>

CASE STUDY

USING OUR INITIATIVES

The Fund publicly supports the Transition Pathway Initiative (TPI), a global asset-owner led initiative, which assesses companies' preparedness for the transition to a low carbon economy. The TPI tool assesses companies to measure what strategies the management have put in place, as well as what the companies' actual carbon reduction trajectories look like. These scores help investors assess risks.

The Investment team have used the tool to investigate and analyse holdings held within the Fund's listed market equity portfolio. For example, the tool provided an assessment of an a company with high emissions, compared to its own sector and against other sectors. This information allowed the team to question the investment manager's rationale for investing in this company, and gain reassurance and understanding of the investment case despite the relatively high GHG emissions.



**Transition
Pathway
Initiative**

VOTING AND ENGAGEMENT ACTIVITIES

We believe that exercising our **voting rights** on our shareholdings is an integral part of the responsible investment and stewardship process. **Brunel** have appointed **Federated Hermes EOS** as their voting and engagement partner. We are also members of the **Local Authority Pension Fund Forum** (LAPFF), which carries out engagement activities on behalf of the local authority pension funds, and **Climate Action 100+**, which undertakes engagement work with targeted companies.

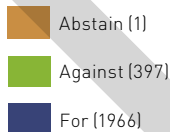
We publish our voting and engagement records online, for full transparency:

<https://www.wiltshirepensionfund.org.uk/Stewardship>

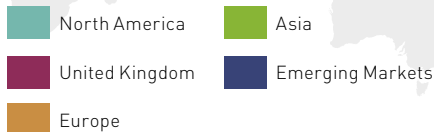
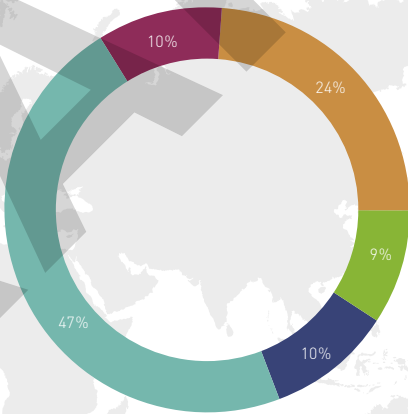
Voting and engagement is a large-scale activity.

During 2021, Federated Hermes EOS voted on **2,364 resolutions** at **167 meetings** on our behalf.

RESOLUTIONS



MEETING VOTING BY GEOGRAPHY



In general, we would want to be **supportive of management**, as demonstrated by this pattern of voting. We also only abstained on a single vote (which was cancelled due to a technicality), so we have upheld our goal to **exercise our voting rights** whenever possible.

ENGAGEMENT CASE STUDY

Company: Fujifilm
**Engagement partner/
provider:** EOS
Engagement method:
Ongoing meetings
Subject/issue: **Artificial
Intelligence (AI) and
data governance**
Date: Q2 2021



Fujifilm; healthcare, materials and imaging business fields

ACTIVITY: EOS first discussed the importance of the responsible use of artificial intelligence (AI) and data governance in December 2019. EOS highlighted its particular relevance to the company's imaging and healthcare businesses including medical systems, highlighting regulatory frameworks and shared investor expectations on data governance.

OUTCOME: Fujifilm had completed extensive work on this and understanding risks; EOS encouraged documentation and to publish a policy which addressed risks such as bias, lack of fairness and discrimination and the importance of monitoring the use of AI. The policy also discusses how the company handles personal information and how it will ensure transparency and accountability, as well as committing to providing training to relevant staff. When EOS met Fujifilm again in Q2 2021 the company expressed thanks for EOS's suggestions.

WOULD YOU LIKE TO FIND OUT MORE?

Please follow the links below to learn about what we do in more detail:

The full-length [Stewardship Policy and Outcomes Report 2022](#)

[Our investment webpages](#)

[Climate factsheet](#)  57KB

[Responsible Investment Policy and Plan](#)

[Our Annual Report and Accounts](#)

[Reporting in line with the Task-force on Climate Related Financial Disclosures \(TCFD\)](#)

[Our engagement and voting records](#)

[The results of our member survey](#)  237KB

[The results of our employer survey](#)  285KB

