



RESPONSIBLE INVESTMENT
AND STEWARDSHIP
HIGHLIGHTS 2022/2023

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WELCOME

Welcome to Wiltshire Pension Fund's **Responsible Investment and Stewardship Highlights of 2022/23**.

Last year's **Highlights Report** explained several different aspects of this broad area. This year's report builds on this to share examples of **the work we do in action**.

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!



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.

RESPONSIBLE INVESTMENT ACTIVITIES 2022/23:

Here are some examples of our achievements and areas of work during 2022/23:



We invested
£60m
into our affordable housing
portfolio during the year



We committed to investing
7% (£210m) OF THE FUND
in renewable infrastructure
and climate solutions



We worked with our
investment managers to set
**DECARBONISATION
TARGETS**



We published our
**2022 RESPONSIBLE
INVESTMENT
POLICY**



We collaborated with our
partner funds to set an
**AMBITIOUS NEW
CLIMATE POLICY**
for Brunel, our investment
pooling company



We revamped our
CLIMATE WEB PAGE
and published a 1-minute video
to explain our approach in a
simple and engaging
way



We were invited to be part of the
Pensions Management Institute's
Purposeful Pensions multi-part
documentary project, and were
featured in a
SHORT FILM
which showcases two investments from
our portfolio to demonstrate how we
can earn strong risk-adjusted returns
from investing in assets which
also provide positive impacts
for both people and
the planet



We have continued to
receive recognition for
OUR APPROACH
[Read more on page 14](#)



We developed an
ENGAGEMENT POLICY
and have shared several
themes online –
[Read more on page 15](#)



We have analysed all our
**INVESTMENT
PORTFOLIOS**
to see how well aligned
they are with net zero
[Read more here](#)

OUR PROGRESS ON CLIMATE

One of the most important ESG factors to consider is **climate risk**.
When it comes to climate risk, the Fund's goal is as follows:

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

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** ”

In March 2021, in the Fund's best financial interests, we made a decision to set a **net zero by 2050** goal for the investment portfolios.

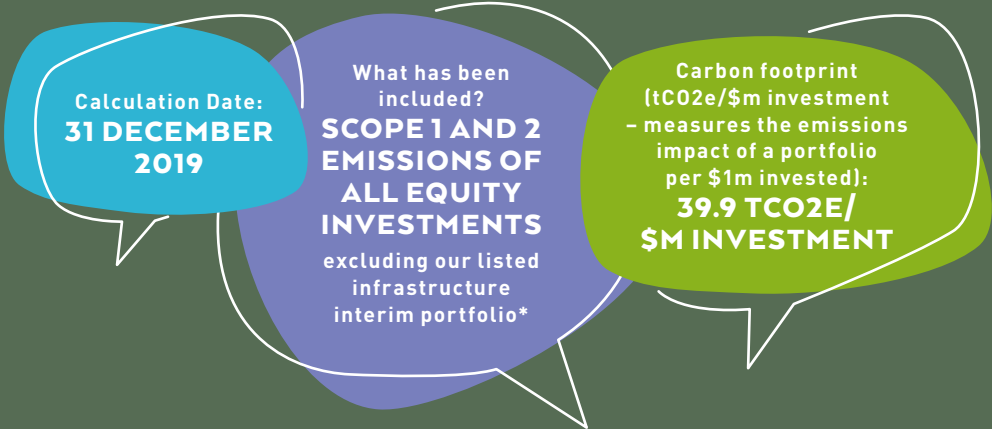
All of our climate risk work is based on **scenario modelling**, which enables us to put numbers around the risk, and make decisions based on what is the **best financial outcome** for the Fund.

We measure our **decarbonisation progress** against a baseline of our carbon footprint as at 31 December 2019.

“ **If the Fund is invested in companies which aren't prepared to adapt to the challenging landscape of the future, these companies will likely fail and the Fund will lose money** ”

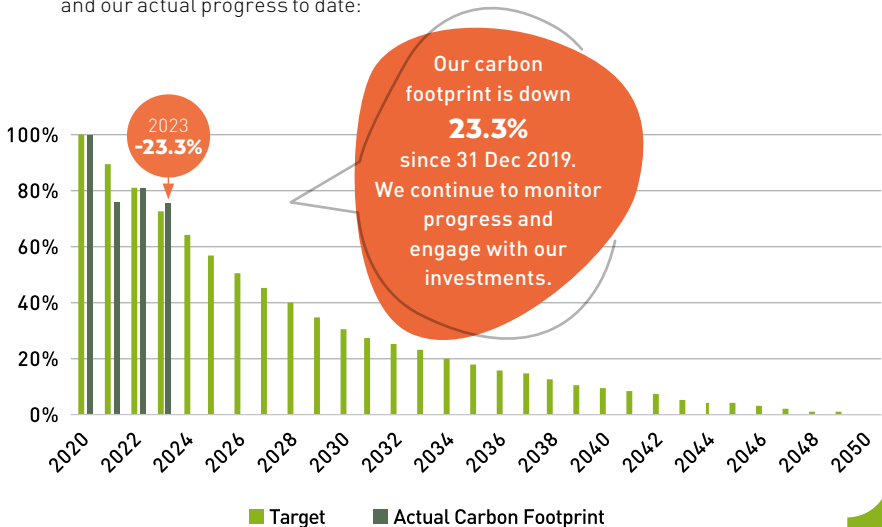
Chris Moore, Investment and Accounting Team Lead at WPF, speaking in the Fund's [film about purposeful pensions](#)

The Fund's baseline position for decarbonisation is calculated as follows:



**Note that emissions for our listed infrastructure interim portfolio are monitored, and the Fund actively engages with the manager to understand the position of the underlying companies, but the long-term nature of target setting supports the rationale for excluding this portfolio from the baseline*

We have set a **target pathway to decarbonisation**, however we acknowledge that progress will not be a smooth journey. The following graph shows our targets, and our actual progress to date:





A VISIT TO CHRISTCHURCH SOLAR FARM

On a sunny morning, we travelled south, crossing the county border into Dorset to visit the **Christchurch Solar Farm**. Wiltshire Pension Fund is invested in this site as part of its allocation to secured income, a portfolio designed to provide lower risk inflation-linked returns, perfect for funding the payment of pensions.

The site itself covers **87 acres of fields, using 80,000 panels to generate 18MW of electricity, enough to power 6,500 homes**. The cool and sunny weather on the day of our visit was perfect for harvesting photons and generating renewable power, the cooler weather helping the solar panels to operate more efficiently.

Being in a rural location the impact on **local biodiversity** is a key consideration and planning requirement. To fulfil this, the site has native planting in suitable locations so as not to disrupt power generation whilst providing benefit to local wildlife. Across the site sheep are used to keep the grass short, allowing the land to have a dual use and providing operational cost savings from not having to mow the grass.

Electricity produced at this site goes towards powering the stores of a major UK high street retailer, all arranged through a **purchasing power agreement (PPA)**. The PPA ensures a **guaranteed price** for the power produced rising by an agreed annual measure of inflation, this helps to make the investment **secure and low risk**, something the pension fund is looking for. For the energy purchaser the contract provides certainty for future energy prices something that is certainly welcome at this time of rising energy costs.

This site is generating a **return of 6-7% per annum** for Wiltshire Pension Fund, of which around **70% is inflation-linked**, providing good protection against rising inflation.



This site showcases the best of what Wiltshire Pension Fund's investments have to offer – a **long-term sustainable return, alongside clear positive impacts for the planet.**

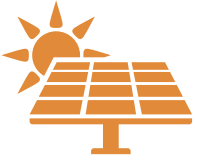
It's investments like these that will help us to both contribute to and benefit from the transition to net zero.



18MW
CAPACITY



POWERS
6,500
HOMES



80,000
PANELS OVER
87 ACRES



6-7%
RETURN



Our visit to Christchurch solar farm was featured in the Pensions Management Institute's multi-part documentary project, Purposeful Pensions!
[Click here to watch the film](#)

AFFORDABLE HOUSING

HOW ARE WE MAKING A DIFFERENCE?

This year, we published our first report into the social impacts generated by our affordable housing portfolio.

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).

Read our full
Affordable Housing
Impact Report
[HERE](#)

WHAT IS AFFORDABLE HOUSING AND HOW DO WE INVEST?

There is no one universal definition for affordable housing, and it can vary for different types of housing, but in broad terms it refers to housing where the rent or cost is at least 20% lower than market rate.

We access this asset class through a portfolio of three investment managers. We commit money to these managers (currently £120m), along with other investors, which the managers then invest in housing developments all across the UK.



“ We’re getting more people into more affordable and more energy efficient homes ”

Ben Fruhman, Affordable Housing Fund Transaction Manager at CBRE, speaking in the Fund’s [film about purposeful pensions](#).

FINANCIAL RETURNS

The return target for this portfolio is 2–4% in excess of CPI over 3–5 years. Our objective for this portfolio is to earn secure, inflation-linked, sterling returns, which are provided mostly from rental income (and a small element of capital appreciation). This portfolio is only 1 year old and is still being built up, so it is too early to consider financial performance at the current time.

SOCIAL IMPACT MEASURES

We need to make sure that our managers are investing in line with their strategies, and the best way to do this is to monitor the positive impacts they are generating, in addition to the financial returns.

The social benefit from investing in these types of homes is completely integral to the investment case.



4,952
HOMES
OF WHICH
WPF'S
SHARE IS 11%



**INVESTED IN
AREAS
27%
MORE EXPENSIVE
THAN THE
NATIONAL
AVERAGE**



**67%
NEW BUILDS**



**98%
OF THE
PORTFOLIO
IS
"AFFORDABLE"**



**67%
OF HOMES
ARE EPC C
OR ABOVE**

These metrics show that our investment is being directed towards the creation of new affordable housing stock, and is targeted towards areas where affordability is most challenging for local residents.

A small number of homes in the portfolio do not meet the definition of "affordable". This is because they are part of a mixed development, which also contains open market rate homes. This delivers the alternative positive impact of promoting social cohesion, an important part of the philosophy of one of our managers.

The homes in our portfolio are more energy efficient (as measured by the Energy Performance Certificate) than homes people might otherwise buy or rent. This reduces energy bills for residents and makes the homes more attractive to buyers, which in turn generates better returns for the Fund.

This portfolio demonstrates that we can earn **strong risk adjusted returns, whilst also delivering positive impacts for both people and the planet**. We will continue to monitor and report on our progress in this area.

INVESTING IN OUR OWN BACKYARD

We recently visited one of the sites in our portfolio, a development which also happens to be in our own backyard, in Salisbury. We were able to view the construction taking place, and visit a recently completed house. The home we visited had been sold, but was yet to be occupied, and we were pleased to find it was incredibly warm and cosy. We learned that the **EPC (Energy Performance Certificate) of the homes in this development is a B rating**, which is significantly better than those generally found in the private rental sector. Privately rented homes are currently only required to have an E rating, although there are plans to raise this to a C rating in a few years' time.

The site at Fugglestone is a large development, which is adding **185 new affordable homes** to Salisbury. This is an area where access to homes and affordability is a challenge to local residents. The average house price to earnings ratio in the local area was reported to be 9.57 in 2022 by the Office for National Statistics, above the national average, and there are thousands of families on the local authority waiting list. We met the site manager for the whole development, who told us that a recently available flat had received hundreds of applicants.

The site is a mixture of affordable rented properties, shared ownership units, and open-market homes, all in a mix of sizes from 1-4 bed properties. This mix delivers a **real positive impact by promoting social cohesion, as well as broadening the market of potential occupants for the homes**. The Fund's investment in this development is returning around 6% on an annualised basis, primarily driven by rental income, with inflation-linked uplifts. A lot of the positive impacts we were seeing helped to boost this – for example, **energy efficient homes are more attractive to buyers, and this can help get homes sold quicker**.

This investment clearly demonstrates that we can earn a competitive return through investing in assets which deliver a positive impact, and that those positive impacts themselves form part of the investment case. Our affordable housing portfolio is invested across the UK, and having the opportunity to learn more from visiting a local site was a valuable experience.

Our visit to Fugglestone was featured in the Pensions Management Institute's multi-part documentary project, Purposeful Pensions! [Click here to watch the film](#)





**LOCAL
INVESTMENT**



**185
NEW
AFFORDABLE
HOMES**



**ENERGY
PERFORMANCE
CERTIFICATE B**



**6%
RETURN**

HOW DO WE ENGAGE WITH OUR INVESTMENTS?

We see significant value in engagement activities, as these activities can both mitigate risks and enhance the value of holdings. The Fund believes that the best approach is to focus engagement activities on priority ESG issues, since research has shown that this can generate the largest positive contribution to returns, and is also a practical approach considering resource limitations.

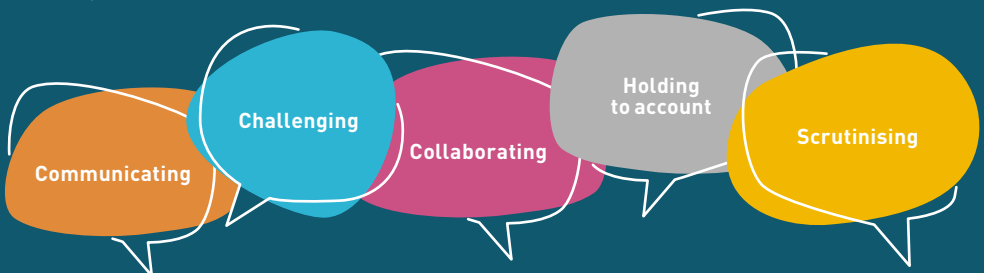
The following investment belief directly addresses engagement activities:

“ 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 ”

This year, we developed a policy around the how, why, what of engagement.

Our portfolios are implemented through investment managers and our pooling company, Brunel. We do not have a direct relationship with the underlying companies held within those portfolios. Therefore, our engagement activities involve working with the managers themselves – examples could involve collaborating with the managers to develop net zero targets, improving disclosures around climate-related metrics, challenging the managers on their responses to topical issues etc.

Read our engagement policy in full on pages 15–16 of our [Responsible Investment Policy 2022](#)



ENGAGEMENT CASE STUDIES

We share engagement case studies which we think will be of interest to our stakeholders via our website. These are published as news stories, and collected together on our [engagement page](#).

SPOTLIGHT ON EDUCATION

One of the themes which we have set as a priority for engagement is **education**, as defined by the United Nations Sustainable Development Goal 4 “**Quality Education - to ensure inclusive and equitable quality education and promote lifelong learning opportunities for all**”.



The investment team engaged with the Fund’s asset managers to understand how the current portfolios were contributing to providing quality education, either through specific companies or through engagement activity.

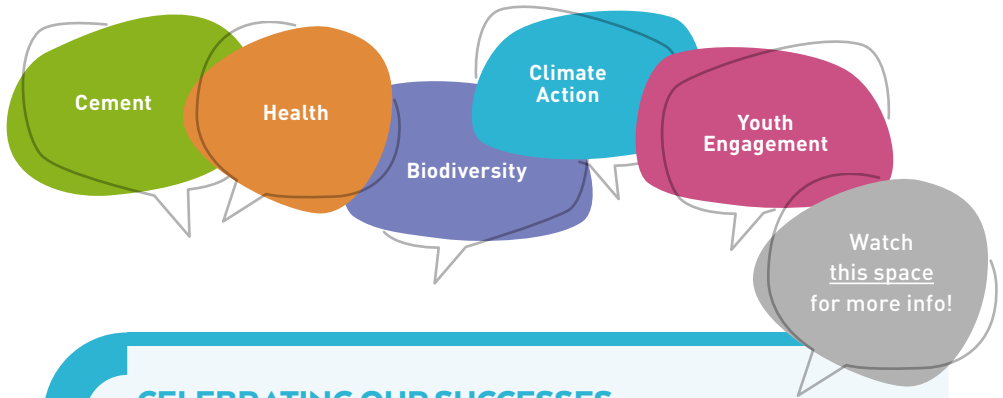
We investigated whether any companies held were directly providing educational services, but we were also keen to consider the topic more broadly and investigate how companies were sustainably adjusting to the transition of a low carbon economy, and what this meant for ensuring that workforces were adequately re-trained.

One key example investment we identified was as follows:

Hon Hai Precision (WPF holding of £3.7m as at Jun-22, within the emerging market multi-asset portfolio managed by Ninety One)

A major employer of unskilled labour with a training programme in basic employment skills. Hon Hai invested NT\$ 151m in Foxconn University and provided 73.08 million hours of training, resulting in 77.2 hours of training for each Hon Hai employee, and facilitated graduations of 1,010 employees with undergraduate degrees and above. Hon Hai’s education drive aims to ensure that employees continue to improve and expand their skill base. Labour underpins nearly all business operations, so improvements in labour skillset at a firm that continues to expand its revenue streams from being a legacy Apple assembly manufacturer, to now a sustainability lead Electric Vehicle manufacturer, means that these educational activities will also help guide transition to a low carbon economy.

FUTURE ENGAGEMENT THEMES



CELEBRATING OUR SUCCESSES

During 2022, we were delighted to be shortlisted for **“Best Climate Change Strategy”** at the LAFP Investment Awards 2022.

We were up against some tough competition and did not take home the trophy on the night, but we were honoured to have our approach recognised at these industry leading awards.



Members of the WPF investment team at the LAFP Investment Awards 2022



WILTSHIRE PENSION FUND ON CAMERA

In late 2022, we were invited to participate in the PMI (Pensions Management Institute) project – Purposeful Pensions, made in partnership with Zinc Media.

We were proud to explain our approach to responsible investment, and the film showcases two investments in our portfolio, a solar farm and an affordable housing development, both of which you can read about in this highlights report. We hope that the film is informative for others in the pensions industry, and will help inspire people to want to work for Wiltshire Pension Fund in the future.

“ The new multi-part documentary series investigates how investing your money with purpose can help businesses grow, support the world in becoming more sustainable, and help to deliver a more comfortable and meaningful income in retirement ”

Purposeful pensions website





Watch the full film
and others from
the project
[here](#)

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](#)

[Our climate webpages](#)

[Climate factsheet - our climate strategy and action plan](#) 

[Responsible Investment Policy and Plan](#)

[Our Annual Report and Accounts](#)

[Our engagement page – policy and case studies](#)

[Our voting records](#)

[News pages – where we share investment and other news stories](#)

[Our Purposeful Pensions film](#)

