Investment Strategy Statement (Published March 2018)

Introduction and background

This is the Investment Strategy Statement ("ISS") of the City and County of Swansea Pension Fund ("the Fund"), which is administered by City and County Swansea Council, ("the Administering Authority"). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations").

The ISS has been prepared by the Fund's Pension Committee ("the Committee") having taken advice from the Fund's investment adviser, Hymans Robertson LLP. The Committee, which comprises of members of the Administering Authority and Neath Port Talbot Council, acts on the delegated authority of the Administering Authority.

The ISS, which was last approved by the Committee on in 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. This March 2018 version reflects the strategic changes that were agreed over 2017 and the first quarter of 2018. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement ("FSS").

The suitability of particular investments and types of investments

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, on a defined benefits basis. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

It is intended that the Fund's investment strategy will be reviewed at least every three years either alongside or following actuarial valuations of the Fund.

The Fund's investment strategy was last reviewed during 2017 and 2018. This analysis included both a quantitative (using asset liability modelling) and qualitative analysis. This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferreds and active members), together with the level of surplus or deficit (relative to the funding basis used). Details of the assumptions used in the quantitative analysis was considered prior to the Committee agreeing any strategic changes.

The Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation and is considering a formal rebalancing framework alongside potential changes to the Fund's longer term strategic asset allocation.

Investment Beliefs

The Committee has agreed a set of investment beliefs (shown in the appendix of this paper)). These beliefs aim to help articulate how the Committee's investment objectives are translated into their investment strategy.

Investment of money in a wide variety of investments

Asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest, index linked bonds, cash, property, infrastructure, hedge funds and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Fund's target investment strategy is set out below. It is anticipated that the maximum amount in each region will be the upper limit based on the ranges set out below. However, there may be times when these limits are breached e.g. at times of market stress, or if Fund is implementing strategic changes and it is deemed more efficient to delay any rebalancing for a period of time. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

Table 1: Current Fund allocation

Asset class	Target allocation %
UK equities	34% +/- 5%
Overseas equities	34% +/- 5%
Private Equity	3% +/- 5%
Hedge Funds	5% +/- 5%
Property	5% +/- 5%
Infrastructure	2% +/- 5%
Global Fixed Interest	15% +/- 5%
Cash	2% +/- 5%
Total	100%

In 2017 the long term expected return of this portfolio was 4.7% p.a. with an expected 1-year volatility of 9.4% p.a. Further details on the Fund's risks, including the approach to mitigating risks, is provided in the following section.

Managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks (details of these benchmarks are provided in the Appendix of this paper). Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

The approach to risk, including the ways in which risks are to be measured and managed

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate these risks. One of the Committee's overarching beliefs is to only to take as much investment risk as is necessary.

The principal risks affecting the Fund are set out below, we also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

Funding risks

Asset values may not increase at the same rate as liabilities with an adverse impact on the funding position. A FSS is prepared every three years as part of the triennial valuation. The Fund's investment strategy and performance relative to the growth in the liabilities is monitored on an ongoing basis.

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

The Committee measures and manages financial mismatch in two ways:

1. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on the likelihood of achieving the Fund's longer term funding objectives and with regard to the level of downside risk. This analysis will be revisited as part of the 2019 valuation process.
2. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading. Changes in demographics are considered as part of the Fund's triennial Actuarial valuation.

Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.

- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).

- Environmental, social and governance ("ESG") – The risk that ESG related factors reduce the Fund's ability to generate the long-term returns.

- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measure and manage asset risks as follows.

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets the Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund's currency risk during their risk analysis. Details of the Fund's approach to managing ESG risks is set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager and having a material proportion of the Fund's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.

- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.

- Credit default - The possibility of default of a counterparty in meeting its obligations.

- Stock-lending – The possibility of default and loss of economic rights to Fund assets.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a participating scheme in the All Wales Pool. The proposed structure and basis on which the All Wales Pool will operate was set out in the July 2016 submission to Government.

The Fund's intention is to invest its assets through the All Wales Pool as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government. They key criteria for assessment of Pool solutions will be as follows:

1. That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.
2. That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

At the time of preparing this statement the Fund has no assets via the Wales Pension Partnership Pool.

The Chairman (or his identified nominee) shall be the Fund's representative for the Wales Pool which has responsibility for holding the "Pool Operator" to account. The Committee retains responsibility for setting its own investment strategy, policy and allocation.

How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to responsible investment in two key areas:

- **Sustainable investment / ESG factors** – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
- **Stewardship and governance** – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

The Committee takes ESG matters very seriously. The Fund has developed an environmental, social and governance policy which sets out the Fund's position in a number of areas. The Fund has also carried out ESG training, ESG beliefs (as part of the main belief statement) and carbon monitoring of its listed equity exposure.

At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. The Fund does not currently hold any assets which it deems to be social investments. To date, the Fund's approach to social investments has largely been to delegate this to their underlying investment managers as part of their overall ESG duties.

At the time of production of the ISS, the Fund has not issued a separate Statement of Compliance with the UK Stewardship Code, but fully endorses the principles embedded in the seven Principles of the Code. In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly. The Fund also encourages its managers to sign up to the Principles of Responsible Investment "PRI".

The Fund, through its participation in the All Wales Pool, will work closely with other LGPS Funds to enhance the level of engagement both with external managers and the underlying companies in which invests. The Committee is also supportive of collaboration to achieve better engagement, as evidenced by the Fund's membership to LAPFF, a collective organisation of LGPS who engage fund managers and investee companies and promote responsible investor/ownership practices.

The exercise of rights (including voting rights) attaching to investments

The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Committee monitors the voting decisions made by all its investment managers on a regular basis.

March 2018

Appendix 1: Statement of Investment Beliefs

To be completed post Committee discussion on Investment beliefs paper

Appendix 2: Fund benchmarks

Asset class	Target allocation %	Benchmarks
UK equities	34% +/- 5%	FTSE all share
Overseas equities	34% +/- 5%	MSCI World ex UK MSCI Frontier markets
Private Equity	3% +/- 5%	FTSE All Share
Hedge Funds	5% +/- 5%	LIBOR
Property	5% +/- 5%	IPD UK Pooled Property fund
Infrastructure	2% +/- 5%	*To be finalised*
Global Fixed Interest	15% +/- 5%	LIBOR
Cash	2% +/- 5%	7 day LIBID
Total	**100%**	