

# INVESTMENT STRATEGY STATEMENT – 2023

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## 1. Introduction

- 1.1 Local Government Pension Scheme (LGPS) funds in England and Wales are required to publish an Investment Strategy Statement (ISS)<sup>1</sup> which must address the following:
- to ensure that asset allocation strategies are sufficiently diversified;
  - to include the authority's assessment of the suitability of asset classes;
  - to include the administering authority's approach to risk, the assessment of risks and how they are to be managed;
  - the authority's approach to the pooling of investments, including the use of collective investment vehicles and shared services;
  - the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments;
  - the administering authority's policy of the exercise of the rights (including voting rights) attaching to investments;
  - set out the maximum percentage of the total value of all investments that it will invest in in particular asset classes;
  - review the ISS periodically and at least every three years.
- 1.2 Further, LGPS funds in England and Wales are required under Guidance from the Department for Levelling Up, Housing and Communities (DLUHC) to pool the investment of assets. The Powys Pension Fund's (Fund's) assets will be pooled with the Wales Pension Partnership, the pooling entity for the eight Welsh LGPS Funds.
- 1.3 This ISS will be reviewed every three years after the investment strategy has been reviewed and is confirmed as fit for purpose. In addition, the ISS will be reviewed following changes to the investment strategy.
- 1.4 A copy of this ISS will be made available on request to any interested party.

<sup>1</sup> Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2016 No.946)

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### **2. Overall Responsibility**

- 2.1 The County Council is the designated statutory body responsible for administering the Fund on behalf of its constituent scheduled and admitted bodies.
- 2.2 Elected Members have a fiduciary duty to the Fund, Scheme members and local council taxpayers in relation to the delivery of the LGPS. Functions may be delegated to Officers but the Members retain overall responsibility for the management of the Fund and its investment strategy and individual decisions about investments. The County Council is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out monitoring and reviews of investment and performance. The County Council's Constitution delegates these functions to the Pensions & Investment Committee.
- 2.3 Under the regulations the Secretary of State has the power to intervene in the investment function of an administering authority if the administering authority does not have regard to the Regulations, guidance or if other concerns are raised. This may include changing the ISS and, in the extreme, the transfer of investment powers to the Secretary of State or another nominated person.
- 2.4 The Investment Regulations permit the appointment of one or more investment managers to manage the Fund on behalf of the administering authority, provided that the investment managers are suitably qualified by their ability and practical experience of financial matters to make investment decisions for them, and to their compliance with other specific requirements of the regulations.
- 2.5 Administering authorities are required to take proper advice to enable them to fulfil their obligations, "Proper advice" is defined in the regulations as "the advice of a person who is reasonably believed to be qualified by their ability and practical experience of financial matters".
- 2.6 The County Council has delegated the decision-making responsibilities to the Pensions and Investment Committee. The Section 151 Officer and external fund advisors offer advisory support. The Committee has co-opted two non-voting members, one staff representative nominated by the Trade Unions and one representative nominated by the Outside Bodies Employers.
- 2.7 There is also a Local Pension Board which provides oversight to ensure the Fund is effectively managed.
- 2.8 Decisions affecting the Fund's investment strategy are taken with appropriate advice from the Fund's advisors. Only persons or organisations with the necessary skills, information and resources take decisions affecting the Fund. The Members of the Pension and Investment Committee will ensure they receive training as and when deemed appropriate, to enable them to evaluate critically any advice they receive.
- 2.9 The County Council has in place arrangements for the provision of specialist advice relating to actuarial matters (including the triennial valuation) and investment matters (including asset allocation and manager appointments).

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- 2.10 The County Council has appointed independent specialists to provide actuarial and investment advice and is prepared to pay sufficient fees to attract a broad range of both kinds of providers when tendering.
- 2.11 The County Council will use suitable means to assess the advice received from its advisors in terms of its contribution to the decision making process.
- 2.12 Appropriate performance data will be included in the annual report and statement of accounts for the Fund and in the annual members' newsletter.
- 2.13 Investment Committee
- 2.13.1 Powys County Council delegates responsibility for the administering authority role to the Pensions & Investment Committee (The Committee). This includes investing the Fund's assets. The Committee is supported by the Fund Administrator and investment advisors.
- 2.13.2 The Committee is responsible in respect of investment matters:
- a. To determine the overall strategy relating to the investment of the Fund's assets and to meeting the Fund's liabilities.
  - b. To keep under review the performance of the Fund and the Fund's managers.
  - c. To approve the appointment of advisors and fund managers (unless the assets are invested in pooled arrangements in which case the latter may be delegated).
  - d. To publicise the stewardship role to all Scheduled and Admitted Bodies of the Powys Pension Fund and to all contributors and beneficiaries in accordance with the Fund's Communication Strategy.
  - e. The Pensions and Investment Committee regularly monitors the investment performance of the Fund in both absolute terms and against the specific benchmarks set. A review of overall or asset class specific benchmarks will be undertaken if the Pensions and Investment Committee considers it appropriate.
- 2.14 Investment Managers
- 2.14.1 Each investment manager, or subsequent manager of the Fund's investments, will be responsible for:
- a. Discretionary management of their portfolio, in accordance with the terms of their management agreement, having regard to the need for diversification of investments so far as appropriate and the suitability of investments.
  - b. Providing the Committee with quarterly statements of the assets together with a quarterly report on their actions and future intentions, and any changes to the processes applied to their portfolio.
  - c. Providing the designated provider with the information necessary to calculate performance statistics.

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- d. Investment manager(s) are permitted to use authorised financial instruments in appropriate circumstances following prior discussion and approval. Approval will not be withheld without clear justification.
- e. The investment manager(s) are required to produce a quarterly investment report and to attend Pension and Investment Committee meetings as appropriate.
- f. The County Council requires the investment manager(s) to provide details of the commission payments they receive on asset transactions (including soft commissions if applicable) and how they assess their overall trading efficiency. By discussing these matters with the investment manager(s), the County Council seeks to gain a full understanding of the transaction-related costs that the Fund incurs, and to understand the options open to the County Council in relation to those costs.

2.14.2 In line with the guidance from the government, the Fund has pooled investment funds into the Wales Pension Partnership (WPP). The Fund will continue to expand the number of WPP funds that it invests into where appropriate.

### 2.15 Investment Consultant

2.15.1 The Investment Consultant will be responsible for providing prompt, consistent and competent advice and support through one or two named representatives, in respect of investment matters when so requested by the Committee. Advice and support is likely to be sought in regard of:

- a. Review of the Investment Strategy Statement.
- b. Presentation and interpretation of investment performance measurement results.
- c. The potential impact of:
  - any changes in the investment managers' organisations that could affect the interests of the Fund;
  - any changes in the investment environment that could present either opportunities or problems for the Fund.
- d. Investment manager selection, retention and termination (until such time as the investment pool takes over such responsibilities);
- e. Benchmark adjustments;
- f. The appropriate content of investment management and other related Agreements;
- g. Appropriate investment structures for the Fund in the light of the Fund's liability profile. This will involve working with the Fund's Actuary and, in time, discussion with the investment pool.
- h. Ad-hoc project work as required.
- g. The independent investment advisor who attends each Pensions and Investment Committee meeting is required to produce a separate report on investment performance quarterly.

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### 2.16 Pensions Board

2.16.1 The role of the board is to assist the Powys County Council pension fund in complying with all the legislative requirements making sure the scheme is being effectively and efficiently governed and managed.

2.16.2 The board members work with the Council in its role as an administering authority and with the pension fund's officers to ensure that your pension scheme is being run properly.

2.16.3 To comply with requirements imposed by regulations including those which are enforced by the Pensions Regulator, the members of the local pension board are required to maintain their knowledge and understanding of the LGPS and pensions in general, so receive appropriate training.

### **3. Investment Objectives**

3.1 The long term investment objectives of the Fund are to:

- maximise investment returns over the long term within an acceptable level of risk;
- ensure that sufficient assets are readily available to meet liabilities as they fall due;
- aim for long-term stability in the employers' contribution rates;
- achieve and maintain funding levels at, or close to, 100% of the Fund's liabilities.

3.2 Risk is mainly concerned with the possibility of a deficiency in the Fund or a substantial increase, or volatility, in future employer contribution rates.

3.3 Whilst stability of the employers' rate has a high priority, absolute cost to the employer is also important. This implies that:

- the cost of administering the Fund will be constrained by the adoption of best management practice;
- employers will adopt appropriate policies in those areas where they have discretion and where costs of their actions fall on the Fund;
- the Fund will, as far as is practicable, and through the Fund's Actuary, avoid cross subsidisation between the Fund's individual employers;
- the Fund's overall investment policy will be aimed at superior investment returns relative to the growth of liabilities. This implies that the Fund will take a controlled active risk relative to its liability profile.

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### 4. The Balance Between Different Types of Investments

- 4.1 The County Council seeks to achieve its investment objectives through investing in a suitable mixture of real and monetary assets. A mixture across the asset classes should provide the level of returns required by the Fund to meet its liabilities at an acceptable level of risk and at an acceptable level of cost.
- 4.2 This strategy was determined with the aid of our Investment Advisors in order to ensure the balance between expected return and risk is appropriate and the expected return is sufficient. In addition the split between potential asset classes has been set to ensure there isn't excessive exposure to any particular asset class or specific risk such as equities or credit risk.
- 4.3 To ensure that asset allocation is sufficiently diversified the Fund's investment strategy has been set using modelling techniques that cover all mainstream asset classes including those most likely to be available through the pooling arrangements available to the Wales Pension Partnership.
- 4.4 The current aspirational benchmark is as follows:

<b>Asset Class</b>	<b>%</b>	<b>Maximum %</b>	<b>Benchmark</b>
<b>Bonds/Credit</b>	<b>30</b>	<b>45</b>	
Corporate Bonds	4		Bloomberg Barclays Global Aggregate Credit Index (GBP Hedged)
Index-Linked Gilts	8		FTSE UK Index-Linked over 5 years
Gilts	3		FTSE UK Gilts All Stock
Absolute Return Bonds	6		3 Month GBP SONIA + 2% p.a.
Multi Asset Credit	9		3 Month GBP SONIA + 4% p.a.
<b>Equities*</b>	<b>37</b>	<b>48</b>	50% MSCI All Countries World (NDR) 50% MSCI All Countries World (NDR) (GBP Hedged)
<b>Property</b>	<b>10</b>	<b>15</b>	AREF-MSCI All Bal Property Index
<b>Hedge Funds</b>	<b>8</b>	<b>15</b>	HFRI FoF Conservative Index (GBP Hedged)
<b>Infrastructure (Open-ended)</b>	<b>3.4</b>	<b>10</b>	9% p.a. net internal rate of return
<b>Private Markets</b>	<b>11.6</b>	<b>20</b>	
Private Equity	5		12% p.a. net internal rate of return
Infrastructure (Closed-end)	3.3		10% p.a. net internal rate of return
Private Debt	3.3		8% p.a. net internal rate of return
<b>Total</b>	<b>100</b>		

\*50% of currency risk from overseas equities is hedged back to Sterling. An equity protection strategy has been implemented. More information can be found in section 5.6.

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- 4.5 The actual asset allocation will be periodically reviewed with a view to maintaining the overall asset allocation in line with the table above. It is recognised that the actual allocation may therefore drift outside of the control ranges above between periodic reviews and rebalancing.
- 4.6 In reaching its decisions on asset allocation the County Council will:
- take proper advice from specialist, independent advisors and give consideration to the desirability of receiving advice based on an asset / liability study.
  - consider the volatility of returns which it is prepared to accept.
  - determine the split between risk reducing (matching assets) and return seeking assets before it gives consideration to any other asset class.
  - have due regard to the diversification and suitability of investments.

### **5. Approach to risk, the assessment of risks and how they are managed**

- 5.1 The Committee recognises that risk is inherent in any investment activity and it seeks to manage the level of risk that it takes in an appropriate manner.
- 5.2 The main risk arising from the investment strategy will be a fall in the value of the investments relative to the value of the liabilities, potentially leading to higher contributions being required from the County Council and other employers within the Fund.
- 5.3 Other risks include but are not limited to risks such as not having enough liquidity to meet cash requirements and third parties defaulting on contracts.
- 5.4 The operational risk to the Fund is minimised by:
- the use of a regulated, external, third party, professional custodian for custody of assets.
  - having formal contractual arrangements with investment managers.
  - having access to the internal audit service of Powys County Council.
  - the activities of the investment manager(s) being governed by detailed Investment Management Agreements. Investment managers are expected to have regards to these principles and legislative requirements, in particular the LGPS (Management and Investment of Funds) Regulations 2016 (SI 2016 No.946).
  - having formal agreements in place with admitted bodies.
- 5.5 The investment risks to the Fund are managed by:
- diversification of types of investment.
  - diversification of investment manager(s).

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- the setting of a Fund-specific benchmark informed by asset-liability modelling of liabilities.
- the appointment of independent professional advisors.
- the appointed expert investment manager(s) being given clear performance benchmarks and maximum accountability for performance against those benchmarks over appropriate time-scales.
- investment manager(s) being required to implement appropriate risk management measures and to operate in such a manner that will ensure the likelihood of not achieving the performance target is kept within defined acceptable limits.
- the implementation of temporary protection strategies where appropriate.

5.6 The Fund has a 37% target allocation to equities, which poses a significant risk to the investment returns. An equity protection strategy was put in place in 2019 to manage market risks. The objective of the equity protection strategy is to protect the value of part of the Fund's equities in order to reduce the overall risk while still retaining some of the upside available from equity markets. The protection is reviewed on an annual basis and continued if the Committee think it remains suitable.

### **6. The expected return on investments**

6.1 The investment strategy has been set to target a real return of 3.7% p.a. and a nominal return of 5.9% pa over the long term with a volatility of 10.3% pa. This is based on assumptions at 30 June 2021 and will be subject to change depending on changes in market conditions.

6.2 The investment manager(s) have been given specific performance targets measured against the index return in the relevant asset class. The County Council recognises that these targets will not be met in all periods under consideration, but expects that they will be met in the vast majority of periods under consideration.



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6.3 The performance targets for the investment manager(s) are shown in the table:

Investment Manager	Mandate	Benchmark	Objective
Link (WPP)	Actively Managed Global Equity	MSCI AC World (NDR)	To achieve long-term capital appreciation and outperform the benchmark by 2% p.a. gross of fees
BlackRock (WPP)	Passively Managed Global Equity	MSCI World ESG Focus Low Carbon Screened	To track the benchmark
BlackRock (WPP)	Passively Managed Global Equity	MSCI World Select Multiple Factor ESG Low Carbon Target	To track the benchmark
Russell Investments (WPP)	Active Emerging Market Equity	MSCI Emerging Market Index	To outperform the benchmark by 1.5% p.a. on a rolling 3 year basis
Hermes Fund Managers	UK Property	MSCI Other Balanced Funds Index	To outperform the benchmark by 0.5% p.a. on a rolling 3 year basis
Schroders	UK Property	MSCI UK All Balanced Funds Index	To outperform the benchmark by 0.5% p.a. on a rolling 3 year basis
Russell Investments (WPP)	Multi Asset Credit	3 month GBP SONIA	To outperform the benchmark by 4% p.a. over any 5 year period
Russell Investments (WPP)	Absolute Return Bonds	3 month GBP SONIA	To outperform the benchmark by 2% p.a. over any 5 year period
Russell Investments (WPP)	Global Credit	Bloomberg Barclays Global Aggregate Credit Index (GBP Hedged)	To outperform the benchmark net of fees over any 5 year period
BlackRock (WPP)	Gilts	FTSE UK Gilts All Stock	To track the benchmark
BlackRock (WPP)	Index-Linked Gilts	FTSE UK Index-Linked over 5 years	To track the benchmark
Insight Asset Management	Index-Linked Gilts	N/A	Collateral for equity protection strategy
HarbourVest Partners	Private Equity (Global)	MSCI World	No stated objective, just to produce returns which place HarbourVest in the top quartile in the industry
Aon Investments Limited	Hedge Fund	HFRI FoF Conservative Index (GBP Hedged)	To achieve long-term total returns (net of fees) in excess of SONIA.
(WPP)	Infrastructure	TBC on launch	TBC on launch
Russell Investments (WPP)	Private Credit	N/A	To deliver an 8-11% annualized Internal Rate of Return net of fees, GBP-hedged

6.4 The investment manager(s) benchmarks are based on market indices. The indices used were considered in consultation with the investment advisor and the investment manager(s) and carefully chosen with regard to their strategic suitability. The limits

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on the levels of divergence from these indices set out in the investment mandates were chosen with regard to the investment manager(s) overall performance objectives.

### **7. The realisation of investments**

- 7.1 General investment principles require that issues of liquidity and marketability be considered in making any investment decision. The Fund is currently paying out more than it receives in contributions meaning the assets need to cover any shortfall. Where possible assets are held in income producing investments. This helps increase cash available to meet outgoings. Also the majority of assets are invested in funds with good liquidity which can be used to meet any outstanding cashflow requirements.
- 7.2 The vast majority of the Fund's assets are readily marketable. However some investments, such as property, hedge funds, and private equity, are less easy to realise in a timely manner. This relative illiquidity is not considered to have any significant adverse consequences for the fund, and may generate an investment return 'illiquidity premium'.
- 7.3 The County Council would inform the investment manager(s) of any projected need to withdraw funds in order to enable the investment manager(s) to plan an orderly realisation of assets if this proves necessary.

### **8. Pooling**

- 8.1 The County Council will aim for all assets to be managed under pooled arrangements through the Wales Pensions Partnership investment pool.
- 8.2 Investment opportunities outside the pooling arrangements will be considered if they are not already or likely to be available through the Wales Pension Partnership investment pool, and there are suitable resources to invest in and monitor the investment. These can include contracts related to financial futures or insurance. Appropriate advice will be sought on alternative asset classes when setting the strategy and as opportunities arise.
- 8.2 Suitable asset classes include those available through the pooling arrangements as well as any asset class where the Pensions and Investment Committee have resource to understand and monitor the investment. This may include illiquid investments and other asset classes that offer improved risk and return expectations.

### **9. Socially Responsible Investment**

- 9.1 The County Council has delegated responsibility for the selection, retention and realisation of investments to the investment manager(s).
- 9.2 Where appropriate the County Council monitors the manager's policy on social, environmental or ethical considerations in the selection, retention and realisation of

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investments. It does this through the reporting provided by the investment consultant and Wales Pensions Partnership investment pool operator.

- 9.3 The County Council expects that the investment manager(s) in the exercise of their delegated duties will take the extent to which social, environmental or ethical issues may have a financial impact on the portfolio into account.
- 9.4 The County Council monitors the impact investments have on carbon emissions. Steps to lower this will be considered based on the asset class and alternatives to the current investments.
- 9.5 Investment decisions are taken based on financial and commercial considerations so as to yield the best return by way of income and capital appreciation. If it is shown that particular types of social, environmental and ethical investment can produce at least comparable returns, then the Fund will invest in such companies as part of the normal investment process.
- 9.6 The Fund will invest in low carbon and renewable energy technology where suitable opportunities arise, in order to encourage a move toward a lower carbon economy. The Fund will increase exposure via infrastructure funds, equity investments and alternative investments. The Fund will continue to encourage companies to consider climate change and environmental risk in their business strategies.

### **10. Corporate Governance**

- 10.1 The County Council supports the principle of good corporate governance. It has reviewed and accepted the corporate governance policies of its investment manager(s) who exercise its voting rights. Votes are cast by proxy. Each investment manager is required to report its actions on a quarterly basis. Only direct investments in traded equity shares carry such voting rights.
- 10.2 The voting policy of the Fund is viewed as a fundamental contribution towards socially responsible investment. The Fund is committed to ensuring that the companies in which it has a shareholding adopt sound principles of corporate responsibility, particularly in relation to environmental and employment standards. The Fund will utilise its shareholding wherever possible, through the voting policy and engagement, to exert influence on those companies falling short of acceptable standards.
- 10.3 The County Council is aware of the UK Stewardship code and understands that administering authorities are encouraged to become signatories to the Code.
- 10.4 Whilst not having formally signed up to the Code, the Fund aims to abide by the principles and recognises the importance of the investments being managed in accordance within these principles. The Fund, therefore, ensures that where appropriate its investment managers are themselves signed up to the code and thus manage the investments in accordance with the twelve principles of the code.
- 10.5 The Fund does already act on some of the principles of the UK Stewardship Code at a Fund level, one being via its membership of the Local Authority Pension Fund

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Forum (LAPFF), a collection organisation of LGPS who engage fund managers and investee companies to promote responsible investor/ownership practices.

- 10.6 In addition to the potential to become a signatory in its own right, the Fund will also expect both the Wales Pension Partnership and any directly appointed fund managers, to comply with the UK Stewardship Code.
- 10.7 The principles of the UK Stewardship code are included in Appendix A for information.
- 10.8 The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a special interest group of the Local Government Association, which comprises over 70 local authority pension funds. The Forum exists to promote the investment interests of local authority pension funds, and in particular to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest. The Forum issues research and guidance relating to climate change and employment standards and promotes best investment practice for the Local Government Pension Scheme nationally. The Forum regularly engages directly with large companies in this regard and has been effective in improving companies understanding of the requirements of investors. Representatives of the LAPFF have attended the Annual General Meetings of companies where shareholder resolutions have been brought, and these have been well received by the companies involved.

### **11. Monitoring and Implementing of Investment Policy**

- 11.1 The Committee will meet on a quarterly basis with the Investment Advisors to review and discuss the operation of each investment manager'(s) portfolio, including past and future policy decisions. The performance of the investment manager(s) will be monitored by the Committee on a quarterly basis at the Investment Committee meetings.
- 11.2 The Committee, in conjunction with the Investment Consultant, will review the allocation of assets between the passive and specialist portfolios, property and other asset classes.
- 11.3 The appointments of the investment manager(s) will be subject to review at the meeting held to consider the performance results from the designated provider. The review will be based on the monitoring of the Investment manager(s) processes as well as their performance.
- 11.4 The investment manager(s) appointments, whilst subject to annual monitoring, would generally be reviewed over rolling 3 year periods, in line with their performance benchmarks.
- 11.5 If an investment manager(s) performance prompts concerns then the Committee may ask the manager(s) to come to a meeting for a special review meeting.
- 11.6 The Committee will assess, on an ongoing basis, the impact that investment through the Wales Pension Partnership has on monitoring and implementing of investment policy.

## Appendix A

### Principles for Institutional Investment Decision Making

#### Compliance with CIPFA Principles for Investment Decision Making in LGPS

##### Principle 1 – Effective Decision Making

*Administering authorities should ensure that:*

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

Powys County Council is the Administering Authority with overall responsibility for Powys Pension Fund (PPF), which it delegates to its Pensions & Investment Committee and the Section 151 Officer. This Committee consists of 6 voting members; 1 non-voting member representing Pension Fund employers (elected by those Pension Fund employers); and, 1 non-voting member representing pension scheme members (nominated by the recognised trade unions).

The governance arrangements of the County Council (including the Constitution, Financial Regulations and Contract Standing Orders) apply to the management of the Pension Fund. In addition the, the administering authority is assisted by the Powys Pensions Board which was established under the Public Service Pensions Act 2013.

Members of the Pensions & Investment Committee are required to undertake training and demonstrate competency in accordance with the Knowledge & Skills Framework Policy. The Committee receives what it considers to be proper advice from Fund officers and, in addition, has appointed an external consultant to provide advice on its investment strategy.

The Investment Advisor and Actuary have contracts which are regularly reviewed. The Investment Advisor was tendered in 2021, actuarial services are scheduled for 2024.

##### Principle 2 – Clear Objectives

*Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisors and investment managers.*

The Fund's objectives are set out in the Investment Strategy Statement (ISS) and Funding Strategy Statement (FSS). Both documents are available on the Fund's website. The aims of the Fund in relation to the FSS are set out in 2.2 of that document. To view the Fund's Investment objectives view 3 Investment Objective in the ISS.

The approach to risk, the assessment of risks and how they are managed are stated in section 5 of the ISS.

The Fund, in accordance with regulatory requirements, has an objective of keeping the employers' contribution rate as level as possible while maintaining its solvency.

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The investment manager(s) have been given specific performance targets measured. These are displayed in section 6 of the ISS.

The Fund monitors each of the participating LGPS employers and admitted bodies.

### **Principle 3 – Risk and Liabilities**

*In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.*

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members.) Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme. Responsibility for the Fund's risk management strategy rests with the Pensions & Investment Committee.

The Triennial Valuation exercise looks in detail at each participating employer's liability and is used to inform the setting of employers' contribution rates, as well as informing the investment strategy and objectives of the Fund.

The strength of the covenant of participating employers is also considered as part of the exercise establishing contribution rates.

A risk register is monitored monthly and maintained. Pensions and Investment Committee review the Risk Register every 12 months.

Regular internal audit on the adequacy and effectiveness of risk management and internal control is undertaken and outcomes reported to the Pensions & Investment Committee and Pension Board.

The Annual Report and Accounts of the Powys Pension Fund are subject to a separate external audit and an independent audit opinion is given.

Within the FSS, point 6 Key Risks and Controls, summarises the risks and controls under the following headings, investment, solvency, liability, regulatory, employer.

### **Principle 4 – Performance Assessment**

*Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisors. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.*

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Advisors provide buy – qualified – sell – quarterly ratings on current managers to the Committee.

Investment Managers are measured against their targets shown in the ISS. The Fund's advisors report formally on a quarterly basis to the Pensions and Investment Committee their ratings of the incumbent managers. Significant developments between meetings are also communicated by the advisors.

Investment Managers are invited to attend the Pensions and Investment Committee at behest of the Committee.

The Fund maintains a Governance Statement which is available from the Fund's website.

Pensions & Investment Committee attendance and training is monitored and reviewed on a quarterly basis.

Advisors are selected competitively, based on performance, price and other factors.

All active and deferred scheme members receive the 'Your Pension' publication along with their Annual Benefit Statements which includes information on the Fund's activity and a summary of the accounts; all retired members receive an annual newsletter with information on Fund developments and a summary of the accounts.

The Fund produces a detailed annual report covering all aspects of its performance which is published on the website.

### **Principle 5 – Responsible Ownership**

*Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles. Trustees should report periodically to members on the discharge of such responsibilities.*

The Fund's Socially Responsible Investment intention is laid out in section 9 of the ISS. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which considers responsible investment on a collaborative basis.

### **Principle 6 – Transparency and Reporting**

*Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. Trustees should provide regular communication to members in the form they consider most appropriate.*

Details of the Fund's Communications Policy and all other key reports – ISS, Annual Report, FSS and Governance Policy Statement are all published on the Fund's website. A newsletter is also published periodically. There is employer and employee representation on the Committee ensuring transparency.

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The Fund actively manages risks. Pensions & Investment Committee reviews the risk register on a regular basis.

Pensions & Investment Committee meetings are open to the public. Agendas, papers and minutes are available on Powys County Councils website.

<u>Principle</u>	<u>Compliance</u>
Effective Decision Making	The Fund considers that its practices are compliant with the CIPFA principles
Clear objectives	The Fund considers that its practices are compliant with the CIPFA principles
Risk and Liabilities	The Fund considers that its practices are compliant with the CIPFA principles
Performance Assessment	The Fund considers that its practices are compliant with the CIPFA principles
Responsible Ownership	The Fund considers that its practices are compliant with the CIPFA principles
Transparency and Reporting	The Fund considers that its practices are compliant with the CIPFA principles

### Principles of the UK Stewardship Code

1. Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
2. Signatories' governance, resources and incentives support stewardship.
3. Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.
4. Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.
5. Signatories review their policies, assure their processes and assess the effectiveness of their activities.
6. Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.
7. Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.
8. Signatories monitor and hold to account managers and/or service providers.
9. Signatories engage with issuers to maintain or enhance the value of assets.
10. Signatories, where necessary, participate in collaborative engagement to influence issuers.
11. Signatories, where necessary, escalate stewardship activities to influence issuers.
12. Signatories actively exercise their rights and responsibilities.