THE CARDIFF & VALE OF GLAMORGAN PENSION FUND

INVESTMENT STRATEGY STATEMENT

JANUARY 2023

Introduction

Cardiff Council ('the Council') is the administering authority for the Cardiff & Vale of Glamorgan Pension Fund ('the Fund')

The Local Government Pension Scheme (Management & Investment of Funds) Regulations 2016 ("the Investment Regulations") require administering authorities to formulate and publish an investment strategy.

The Investment Strategy Statement (ISS) required by Regulation 7 of the Regulations must include:

(a) A requirement to invest money in a wide variety of investments;

(b) The authority's assessment of the suitability of particular investments and types of investments;

(c) The authority's approach to risk, including the ways in which risks are to be measured and managed;

(d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;

(e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

(f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The ISS must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.

The ISS must comply with guidance issued from time to time by the Secretary of State, currently the guidance issued in July 2017.

The Terms of Reference of Cardiff Council's Pensions Committee ('the Committee') include determining the authority's investment strategy. This statement sets out the strategy for the 2023-24 and subsequent two financial years and has been prepared in consultation with the Fund's Investment Advisory Panel ('the Panel'). This timescale will align with the Fund's tri-annual valuations and the Funding Strategy Statement (FSS). The ISS will be supplemented by the Fund's Strategic Asset Allocation which will be approved by the Pension Committee on an annual basis.

A Investment of money in a wide variety of investments

A properly diversified portfolio of assets should include a range of asset classes to help reduce overall portfolio risk. If a single investment class is not performing well, performance should be balanced by other investments which are doing better at that time. A diversified portfolio also helps reduce volatility.

The Committee aims to meet the requirement for a diversified portfolio by reviewing its Strategic Asset Allocation on an annual basis. The Asset Allocation is approved by the Committee on the advice of the Panel. The Panel considers a wide range of investment opportunities before making its recommendations.

Current asset classes included in the allocation are:

- Conventional & Index Linked Fixed Interest – Global
- Equities – Global, UK & Emerging Markets
- Private Equity (via pooled funds of funds)
- Property funds – UK & Global
- Private Markets – Private Credit and Infrastructure (Investments expected to be made early in 2023)

The following investment related activities are also permitted:

- Derivatives and other financial instruments within pre-agreed limits for the purpose of efficient portfolio management or for specific purposes such as currency hedging
- Underwriting, provided the underlying stock is suitable on investment grounds and complies with existing investment criteria

The Asset Allocation targets and variance limits currently in force together with the portfolio benchmarks and targets are summarised in Appendix A.

Investment Limits

The Investment Regulations in force between 2009 and 2016 set statutory limits for different types of investments. The 2016 Investment Regulations removed these limits but the Fund will continue to operate within the limits in column 2 of Schedule 1 to the 2009 Regulations in respect of any assets not yet transitioned to the Wales Pensions Partnership.

B Suitability of particular investments and types of investments

The investment policy of the Fund is intended to ensure that all statutory payments made from the Fund are at minimal cost to employing bodies.

The overall investment objective is to maximise investment returns and to minimise or at least stabilise future employer contributions over the long term within an acceptable level of risk. Investment returns are defined as the overall rates of return (capital growth and income combined). It is also recognised that investments are intended to preserve and enhance the Fund’s value.

The statutory requirement is to move towards 100% funding of the Fund’s accrued liabilities over a period of time. This period together with the funding level is calculated every three years and agreed with the Actuary following a review that assesses the adequacy of the Fund's assets to meet its liabilities. The Panel takes the actuarial position and funding level into account in formulating its advice. The Panel will regularly review the overall asset allocation and consider appropriate opportunities for a further asset-liability study as was the case with the upcoming WPP Private Credit and Infrastructure investments. .

C Risk

A detailed schedule of the main risks to the Fund is set out in the Funding Strategy Statement. Risks arising from investments are monitored by the Investment Advisory Panel. The Fund recognises the risks arising from holding a higher proportion of equities and other return seeking assets than would be held under a liability-driven strategy but considers that these risks are mitigated by the strong covenant of the Fund's principal employers and the stable maturity profile of its membership.

Investment Risk is the risk that the Fund's managers fail to achieve the rate of investment return assumed in setting their mandates. The primary control over investment risk is the diversification of assets across markets and asset classes. Correlations amongst these will vary over time, but the underlying risk of exposure to a specific capital market is mitigated to some extent by a diversifying strategy such as that followed by the Fund.

The individual specialist fund managers manage the risk of variation from benchmarks consistent with the targets they have been given. Relative risk levels for active managers are reported quarterly and discussed annually by the Panel. The Panel recognises that tracking error itself can be a volatile measure of the risks being taken by a manager and that ex post statistics may vary considerably from ex ante estimates. As such, its predictive value needs to be treated with care. The tracking error is therefore used as a guide when considering overall manager performance.

Liquidity Risk is the risk that the Fund cannot meet its immediate liabilities because it has insufficient assets. The Fund monitors its liquidity position carefully to ensure that it is not a seller of long term assets to make benefit payments. At least 80% of the Fund's assets are held in publicly listed equities and bonds which can be readily realised. Investments in property and private equity are long term investments which the Fund is less likely to be able to realise in a short period.

Operational risks arise through the implementation of the Fund's investment strategy. These risks are set out below:

- Transition risk – the Fund may incur unexpected costs in relation to the transition of assets between managers and/or asset classes. When carrying out significant transitions, the fund takes professional advice and considers the use of specialist transition managers in order to mitigate this risk when it is cost effective to do so.

- Custody risk – the Fund must ensure that it retains the economic rights to all Fund assets, when held in custody or being traded. It does this through the use of a global custodian (Northern Trust) for custody of assets, the use of formal contractual arrangements for all investments and by maintaining independent investment accounting records.

- Credit default risk – a counterparty related to a Fund investment could fail to meet its obligations. The Fund's investment managers are required under their asset management contracts to manage counterparty risk on behalf of the Fund.

D Pooling of Investments

The Cardiff & Vale of Glamorgan Pension Fund is one of the eight LGPS funds participating in the Wales Pension Partnership (WPP). The proposed structure and basis on which the WPP operates was set out in the July 2016 submission to the Department for Communities and Local Government.

Assets to be invested in the WPP

The Committee's intention is to invest the Fund's assets through the WPP as and when suitable pooled investment solutions become available. By 30 September 2022 this Fund had invested in the following WPP Active Equity and fixed Income Funds :-

Asset Class	Fund	Date of Investment
UK Equity	UK Opportunities Fund	February 2019
Fixed Income	Global Government Bonds	August 2020
Fixed Income	Global Credit	August 2020
Fixed Income	Multi Asset Credit	August 2020
Global Equity	Global Opportunities Fund	July 2021
Global Equity	Global Growth Fund	July 2021
Emerging Market Equity	Emerging Market Equity Fund	October 2021

The Fund's allocation to passive Equities have been invested through pooled funds managed by BlackRock following a collaborative procurement carried out in 2016 with the other LGPS funds in Wales. As at 30 September 2022 the Fund's passive equity holding is solely invested in the BlackRock Low Carbon Tracker Fund.

As at 30 September 2022 over 84% of the Fund's value is now invested in WPP or collaboratively procured funds.

The Pension Committee has also approved investment of up to 7.5% of Fund value into each of the WPP Private Credit and Open-ended Infrastructure Funds. These investments are expected to commence early into 2023.

A WPP Private Equity Fund is targeted to be launched during 2023. It is anticipated that the Fund's existing private equity investments will not be transitioned into the Pool but will be replaced by the WPP Fund as they mature over the next 10-15 years. Work on developing a WPP Property Fund will continue in 2023. At this stage no decision has been made on whether the Fund will transition its Property assets to any WPP Property Fund but this will be considered during the lifecycle of this Statement.

Structure and governance of the Wales Pension Partnership

The WPP has appointed Link Fund Solutions to establish and operate a collective investment vehicle for the sole use of the LGPS funds in Wales. Link have established an Authorised Contractual Scheme (ACS) on behalf of the WPP and have developed a range of sub-funds in which the assets of the eight participating pension funds have been invested. Link are supported by Russell Investments who advise on sub-fund design and manager selection. Northern Trust have been appointed as the ACS Custodian.

A Joint Governance Committee (JGC) was established which comprises one elected member from each constituent administering authority and is supported by an Officer Working Group. Carmarthenshire Council acts as Host Authority to provide administrative and secretarial support to the WPP.

The Terms of Reference of the JGC and the roles of the Officer Working Group and Host Authority have been set out in a legally binding Inter Authority Agreement approved and executed by the eight administering authorities. The responsibilities of the JGC include:

- Monitoring the performance of the Pool Operator
- Making decisions on asset class sub-funds to be made available by the Operator to implement the individual investment strategies of the eight funds
- Providing accountability to the participating funds on the management of the WPP
- Having responsibility for reporting on the WPP to the UK Government and other stakeholders
- Having oversight of the Officer Working Group

The eight administering authorities retain control over setting their individual Fund's investment strategy and asset allocation.

E How Environmental, Social and Governance (ESG) considerations are taken into account

The Committee seeks to identify investment opportunities which do not conflict with its fiduciary duties to seek an optimum return, whilst wishing at the same time to take account of Environmental, Social and Governance (ESG) concerns and issues. It recognises the concerns of the Fund Employers and other stakeholders regarding these ESG issues, in particular climate change, and as it has done over the previous three years, will continue to develop its investment strategy in response to those concerns. Subject to being consistent with its fiduciary duties and regular assessments by the Panel of the impact of investment decisions, the Committee will consider enhancing its Responsible Investment activities. This will respond to the future opportunities that are presented to the Fund, in particular through the WPP, which could include :

- Investing in the Sustainable Active Equity Fund which is expected to be launched by the WPP towards the end of Q1 2023.
- Considering whether the Fund should set its own “Net Zero” target and if it does the timeframe in which it will meet this target.?
- The majority of the Fund’s assets are now pooled in WPP Funds and as the WPP is currently a signatory to the UK Stewardship code it is felt that this adequately covers us at this moment in time.
- Continued engagement with investment managers and companies through WPP and LAPFF with the ultimate sanction of disinvestment from companies representing a continuing ESG risk who do not respond positively to engagement.
- Positive investment in companies developing clean technology for example through the WPP Infrastructure Funds to be launched early in 2023.

The Committee will expect the investment managers appointed via the WPP to adopt the relevant stewardship principles (either the UN Principles for Responsible Investing or the UK Stewardship Code) and to report on their compliance.

The Fund is a member of the Local Authorities Pension Fund Forum (LAPFF) to enable it to act collectively with other LGPS funds on corporate governance issues.

Consultation on Taskforce for Climate Related Financial Disclosures (TCFD) proposals for LGPS Funds closed in November 2022. Regulations are expected to come into effect from April 2023 with the first Fund Annual Report to include these disclosures, for 2023/24, being published by 1 December 2024.

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

The long term investment interests of LGPS funds are enhanced by the highest standards of corporate governance and corporate responsibility amongst the companies in which they invest. Poor governance can negatively impact shareholder value.

The Fund will participate in the development of voting and engagement policies for the WPP, through Robeco the WPP’s Engagement and Voting advisor, which promote high standards of corporate governance, including transparency and accountability by companies for the ESG impacts of their business activities.