Greater Gwent (Torfaen) Pension Fund

Investment Strategy Statement

2020/21

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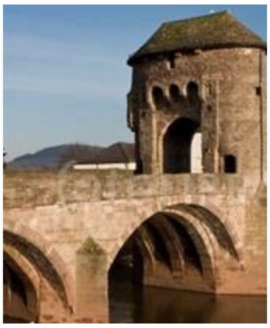


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Investment Strategy Statement 2020/21

Introduction and background

This is the Investment Strategy Statement ('ISS') of the Greater Gwent (Torfaen) Pension Fund ('the Fund'), which is administered by Torfaen County Borough Council, ('the Administering Authority'). The ISS is made in accordance with Regulation 7 of the Local Government Pension Fund (Management and Investment of Funds) Regulations 2016.

The ISS has been prepared having taken advice from the Fund's advisers. The Pensions Committee ('the Committee') acts on the delegated authority of the Administering Authority and this ISS was approved by the Committee on 22 June 2020. It is subject to periodic review at least every three years and without delay after any significant change in the Fund's investment strategy. The investment strategy is designed to be long term but, whenever considering any changes or refinements to strategy, the Committee consults 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 (dated April 2020).

Governance

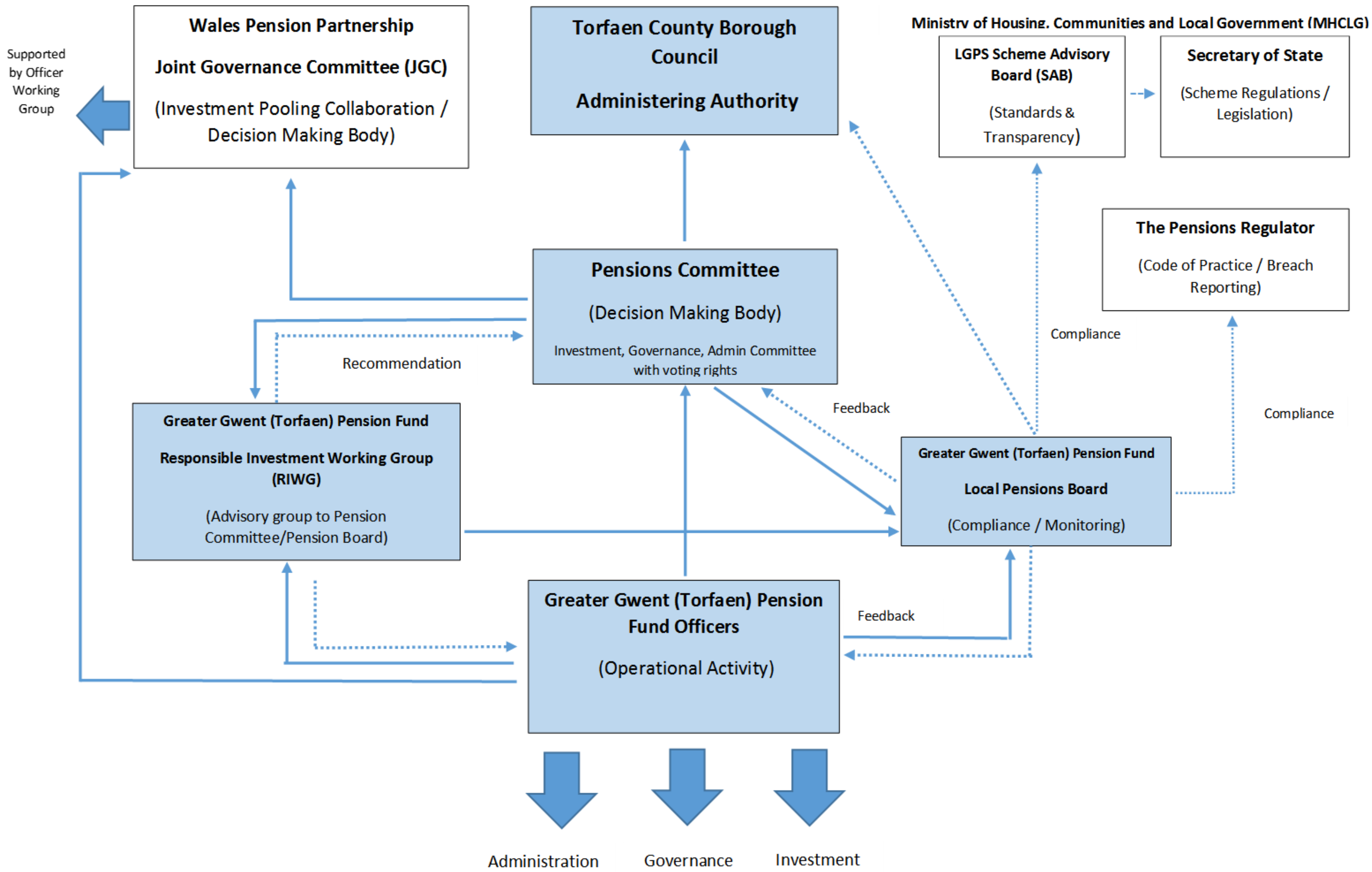
Torfaen County Borough Council, as administering authority of the Greater Gwent (Torfaen) Pension Fund, has delegated responsibility for the management of the Fund to the Pension Committee (Committee). The Committee has a number of responsibilities, one of which is to establish an investment policy and consider recommendations by officers as to how to implement the agreed policy.

Members of the Committee have a fiduciary duty to safeguard the interests of the Pension Fund beneficiaries by ensuring that the Fund investments maximise returns within an appropriate level of risk. Beneficiaries are the members of the Fund who are currently in receipt of benefits (pensioners), or those who will be entitled to benefits at a future date (active members or deferred members) as well as the various employer organisations within the Fund.

Any decisions affecting the Fund's Investment Strategy are taken with appropriate advice from the Fund's various advisors. Officers and advisors need to ensure that they possess the necessary skills and knowledge in which to propose recommendations to the Committee. The members of the Committee will ensure they receive training as appropriate, to enable them to critically evaluate any advice they receive.

The Fund also has a statutory Local Pension Board whose role is to assist in the good governance of the scheme by ensuring compliance with statutory and regulatory duty. The Local Pension Board are also required to receive training to enable them in their role. However, unlike the Committee, the Local Pension Board do not have any decision-making powers.

The Assistant Chief Executive for Resources of Torfaen County Borough Council has responsibilities under Section 151 of the Local Government Act 1972 and provides financial advice to the Committee, including financial management, details of compliance with internal regulations and controls, as well as budgeting and accounting.



Fund Officers, Section 151 Officer and Specialist Advisory Support

Workload, Compliance, Risk Management, Performance, Regulation, Fund Administration, Investment Management, Accounting and Finance

Fund Objectives

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 dependents, on a defined benefits basis. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required. Pension and lump sum benefits will be met by employer contributions, in accordance with the funding strategy, as well as employee contributions and investment returns.

The funding strategy and investment strategy are therefore inextricably linked. Following the 2019 triennial valuation exercise the Fund has prepared an updated Funding Strategy Statement which can be viewed here:
https://gwentpensionfund.co.uk/greater-gwent-torfaen-pension-fund/about-us/forms-and-publications/

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.

Within its general consideration of strategic approach, the Fund's Investment Objectives can be summarised as:-

- to enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodes
- to manage employers' liabilities effectively
- to ensure that sufficient resources are available to meet all liabilities as they fall due
- to maximise the returns from investments within reasonable risk parameters
- to ensure that all statutory payments made from the Pension Fund are at minimal cost to local tax payers
- to ensure the Fund has a credible funding plan in place with the aim over the longer term of achieving full funding of all liabilities as they fall due. (i.e. 100% funding)
- to aim for consistent above median investment returns over rolling 3 year periods

The Fund has adopted a number of investment beliefs over a prolonged period which have been considered extensively when agreeing revisions to the strategic allocation of the Fund.

- The long-term nature of the LGPS allows for a long-term approach to investing.
- The triennial assessment of the Fund's assets and liabilities allows for a significant review of the asset structure to ensure it remains fit for purpose in being able to meet its obligations.
- Diversification across a variety of asset classes can reduce volatility. However, over diversification can result in high cost and relatively low added value.
- Market inefficiency can result in added value returns. It is therefore appropriate for the Fund to pursue active investment management as well as passive.
- Investment management fees should be minimised where possible. However, the Fund is mindful that strong investment performance remains paramount and so investment opportunities will be considered on a case by case basis, rather than a blanket fee saving approach.
- Responsible investment can enhance long-term investment performance and so the Fund's investment managers should integrate it into their decision-making process.

Asset Allocation

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 and fixed interest and index linked bonds, cash, property 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.

As previously noted the Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. In undertaking such a review, the Committee seeks and considers proper advice from persons whom the Committee reasonably consider to be qualified by their ability in and practical experience of financial matters. 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 investment strategy was reviewed and revised accordingly in September 2019, following early indication of the improved funding position as a result of the triennial valuation exercise. The updated target investment strategy is set out below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes and at which point re-alignment to strategy needs to be considered. To accord with the regulations, the authority's investment strategy will 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(e).

Table 1 – Fund Strategic Asset Allocation (SAA)

Asset Class	Pre 2019 Strategic Asset Allocation	Post 2019 Strategic Asset Allocation(+/- 10% of allocation)	Agreed Allocation Range
UK Equities		14%	
Global Equities(of which 22% is passively managed)		34%	
Asian Equities ex. Japan		6%	
Emerging Market Equities		2%	
Total Equities	**70%**	**56% (+/-5.6%)**	
Global Bonds (GILTS)		5%	3-5%
Global Credit		5%	5-7%
Total Fixed Interest	**16%**	**10% (+/-1.0%)**	
Multi-Asset Funds		5%	
Private Credit		8%	8-10%
Infrastructure		10%	8-10%
Property		10%	8-10%
Cash		1%	
Total Alternatives	**14%**	**34% (+/-3.4%)**	
Total	**100%**	**100%**	

A fundamental review of the strategic asset allocation was undertaken during 2019, in accordance with the triennial valuation, to provide assurance that the investment strategy remained aligned to the long-term funding plan. This review utilised both qualitative and quantitative analysis, and considered:

- The required level of return that will mean the Fund can meet its future benefit obligations as they fall due
- The level of risk that the Fund can tolerate in absolute terms, and in relation to its funding level and associated deficit
- The desire for diversification across asset class, region, sector and type of security
- The level of ongoing cash flow and liquidity required by the Fund to meet its short-term obligations

The review concluded that, despite a period of strong and sustained performance, there was a need to further diversify the portfolio with the following considerations agreed at asset class level.

Equities
A top down reduction in equity exposure of 14%. Within this reduction, a tactical focus on increasing global equities whilst reducing UK exposure was both recommended and agreed. In addition, consideration was given to the ongoing benefits of an active management focus whereby members agreed to retain an approximate 75%/25% split of active over passive investment.

Fixed Interest
A top down reduction in fixed interest exposure of 6%. When considering fixed interest, discussions focused on an appetite for global exposure as both the qualitative and quantitative analysis suggested a significantly reduced outlook for high grade sovereign and corporate bonds.

Alternatives
A significant increase in exposure to a broad range of alternative investment opportunities of 20%. The detailed review concluded that an increased exposure to alternatives could offer the Fund added value in the form of growth, income and capital protection which would meet its needs in both the long and short-term. The flexibility of these investments was extended to allow for a range in allocation to three broad asset classes following discussions at asset pool level, where it is envisaged that a substantially enhanced offering could be made available to Constituent Authorities via the Wales Pension Partnership as opposed to what could have been achieved at individual Fund level.

Return Expectations
The 2019 triennial valuation process allowed the Fund to consider how effective the long-term investment strategy remained in accordance with the funding strategy. One of the key measures underpinning this process is the long-term assumed investment return of the Fund and, following a consultation period with the Fund Actuary, a prudent return expectation of 4% per annum annualised was agreed.

In order to achieve its long-term investment objective of fully funding liabilities as they fall due, the Fund recognised the need of its investments to consistently achieve in excess of the 4% annual return expectation. This was extensively considered throughout the process of developing the strategic asset allocation and, despite a reduction in equity exposure, it is the expectation of the Fund that it can continue to achieve returns in excess of 4% per annum through its blend of assets within the portfolio. By focusing on a bias to active investment management, the Fund has agreed investment targets with a number of its investment managers above benchmark, and these proposals have been modelled in order to stress test their ability to deliver in the long-term.

As a result of a wider and regular review of the investment strategy of the Fund, together with its funding strategy more broadly, the Fund will continue to monitor future expectations of its investments in order to maximise returns in accordance with its risk appetite and investment parameters.

Restrictions on investment
The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 have removed the previous restrictions that applied to the 2009 Regulations. The Fund may therefore consider the specific increased flexibility of the new Regulations within future strategic refinements and any required investment restrictions will be negotiated with fund managers or the Wales Pension Partnership, subject to the Fund receiving appropriate investment and/or legal advice.

Risk Measurement and Management

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 the risks being taken. One of the Committee's overarching beliefs is to only take as much investment risk as is necessary to achieve required returns.

The Fund's approach to risk is informed by the Pensions Committee, the Local Pension Board, its advisors and officers of the Fund. The principal risks affecting the Fund are set out within its Risk Register which is regularly updated to provide an accurate assessment of risk to which the Fund is exposed across all its operations together with measures in place to mitigate these risks. This register is considered and agreed by Committee on a quarterly basis and is a publicly available document.

The key risks that the Fund is exposed to are broadly recognised across the following areas:

1. Fund and Governance Risk (FG)
2. Finance and Investment Risk (FI)
3. Administration (A)

These risks are identified, measured, monitored and managed on an active basis with senior Fund officers being responsible for the oversight of the process. The key funding, investment and governance risks are summarised in the table below:

Risk Identified	**Risk Detail**	**Risk Mitigation Measures**
Inappropriate long-term investment strategy	The risk that the Fund fails to meet funding objectives in the long-term to fund pension liabilities	• Regular investment performance monitoring • At least a triennial review of the Fund's funding strategy
Failure to deliver investment returns in line with actuarial expectations	The risk that the Fund's funding level could deteriorate in the short-term, increasing the pressure on employer contribution rates to fund pension liabilities	• The Fund ensures it continues to invest in a broad and diverse mix of assets across a range of global markets • The Fund challenges the actuarial assumptions recommended to the Fund to ensure it remains prudent in the long-term
Investment pooling with the Wales Pension Partnership (WPP) fails to deliver long-term investment returns	The WPP fails to deliver long-term investment returns above and beyond what the Fund could have been expected to return had pooling not occurred	• Substantial governance arrangements have been established and implemented • The WPP and Constituent Authorities take appropriate professional advice on all investment considerations • Performance monitoring arrangements in place to monitor all portfolios
Inadequate consideration of Environmental, Social and Governance (ESG) risks within the Fund's investments	Failure to incorporate ESG into investment processes as well as broader responsible investment considerations could result in public pressure, political criticism as well as the risk of substantial financial losses as a result of holding stranded assets in the	• The Fund's Responsible Investment Working Group (RIWG) meets quarterly and considers a broad range of ESG issues and makes recommendations to Pension Committee accordingly • The Fund has established and developed its own Responsible Investment (RI) and Climate Change policies in response to emerging challenges. The revised Strategic Asset Allocation has ESG focus

	various portfolios	embedded in its approach • All future investment opportunities will have an integral ESG assessment that will need to satisfy the Funds Responsible Investment policy framework in order for recommendations to progress to implementation stage
Pay and price inflation significantly more than anticipated	Increased employer contribution rates and deficit recovery payments	• The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases • Inter-valuation monitoring, as above, gives early warning • The Fund invests in inflation linked bonds • Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees
Liquidity Risk	The risk of having insufficient cash flow resource to meet liabilities as they fall due	• Regular cash flow monitoring undertaken by the County Council's treasury management function • A Fund allocation of 1% to be invested in cash and money market instruments in order to meet day to day expenditure • A suitable level of liquid investments that, in the event of cash flow difficulties, could be sold to continue to meet liabilities as they fall due
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	• The Fund strategic asset allocation benchmark invests in a diverse range of asset classes • A regular review of the investment strategy ensures that exposure to asset classes does not substantially exceed the target allocation • The strategic asset allocation of the Fund is considered by the Fund Actuary during the triennial valuation exercise to ensure the assumed investment return across a broad range of asset remains both prudent and achievable when setting the discount rate and testing the wider funding objectives of the Fund
Pensioners living longer and, changing retirement patterns, thus increasing the value of liabilities on the Fund	Increased employer contribution rates in the short-term impacts on the ability of the Fund to achieve fully funded pension liabilities in the long-term	• Set mortality assumptions with some allowance for future increases in life expectancy • The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation • The Fund also sets life expectancy assumptions using ClubVita, which is a specialised longevity company and provides life expectancy assumptions based on the profile of the Fund's own membership

A reduction in membership numbers within the Fund as a result of a large number of retirements or changes in employer arrangements, closing the scheme to new entrants	Reduction in contributions and impact on scheme sustainability leading to the risk of achieving fully funded liabilities in the future	• The Administering Authority has a close relationship with employers in the Fund and communicates required standards on a regular basis (e.g. the submission of annual data to the Fund) • The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations where changes in employer structure causes adverse impacts on funding • Deficit contributions may be expressed as monetary amounts rather than as a percentage to avoid the impact of a reducing payroll on the value of contributions paid to the Fund
Maturing Fund – i.e. proportion of actively contributing employee's declines relative to retired employees.	Increased pressure on cash flow if pension benefit payments exceed contribution and investment income	• Continue to monitor at each valuation • Inter-valuation monitoring of active membership at Employer and Fund level • Deficit contributions may be expressed as monetary amounts rather than as a percentage to avoid the impact of a reducing payroll on the value of contributions paid to the Fund • Regular monitoring of cash flow position and allocation to in-house cash
Financial losses experienced during the process of transitioning Fund assets into the Wales Pension Partnership (WPP) pool	Poorly executed transitions of pension assets could result in high trading costs or loss of Net Asset Value in the short-term	• Reconciliation of assets transferred to the pool is undertaken by the investments team following each transition • A detailed report from the appointed transition experts commissioned by the WPP will be produced following each transition to provide added assurance to constituent Funds and their elected members • A review of the process is undertaken post transition to understand where improvements could be made to future transitions
Lack of relevant expertise, knowledge, skills and resources at officer and member level in relation to administering the LGPS	Insufficient knowledge, experience, skills or resource to ensure statutory responsibilities are met Failure to provide an acceptable level of service to stakeholders	• Established governance structure operating within the Council's constitutional process • A scheme of delegation to allow senior officer decision-making if required • Scrutiny, compliance and monitoring of Fund activity carried out quarterly by the Local Pension Board • The Fund subscribes to CIPFA knowledge and skills framework and promotes training opportunities for all of its members and officers • The appointment and use of appropriately qualified external advisors • Subject to both internal and external audit testing of Fund operations on at least an annual basis

Failure to comply with LGPS and other statutory regulations in terms of policy and reform	Incorrect benefit payments being made Failure to comply with governance standards or HMRC tax requirements. Poor customer feedback leading to a loss in confidence of the service provided. Increased risk of IDPR and Ombudsman appeals and TPR fines, all of which would have a reputational impact on the Fund	• External training received by the LGA and other providers • In-house training provided for all staff • Fund officers remain abreast of emerging sector developments through attendance at conferences, networking, circulars and bulletins
Insufficient resource to input effectively input into the development of the Wales Pension Partnership (WPP)	The management of the Pension Fund is adversely affected due to key officers concentrating on the pooling proposal, resulting in under-performance and failure to meet statutory obligations The pooling arrangement is not fit for purpose, resulting in increased risk exposure and criticism of Central Government in their pursuit for well established, functional asset pools	• The Wales Pension Partnership (WPP) is now well established with external advisors appointed to oversee and manage the infrastructure and intellectual capital required to ensure this partnership is a success • A robust governance framework has been established and is fully operational • Representation of the Pension Fund at WPP level is shared amongst the Head of Pensions/Investment Manager, the Deputy Chief Executive of Resources and the Chair of Pension Committee as a JGC member
The use of "Third Party" external services within Fund operations. Also referred to as "Other Provider Risk" within Funding Strategy Statements	Fund assets at risk through: a) Poor external investment management experience b) Security of Assets c) Inappropriate advice	This risk relates to areas such as Transitions, Custody and stock lending. The Fund measures and manages these Other Provider risks through: • A process of regular scrutiny and engagement • Audit of the operations the provider conducts for the Fund, or the delegation of such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds) • Retaining the power to replace a provider should serious concerns exist
Failure to adhere to the requirement of the LGPS regulations and comply with the Myners' Investment Principles	Risk of inefficient management of the Fund by the Administering Authority	• Compliance is regularly considered and subject to annual review in the Investment Strategy Statement (ISS) and Governance and Compliance Statement

A more comprehensive breakdown of the risks to which the Fund is exposed, and the approach to managing these risks, is set out within the Fund's publically available Risk Register.

Asset Pooling

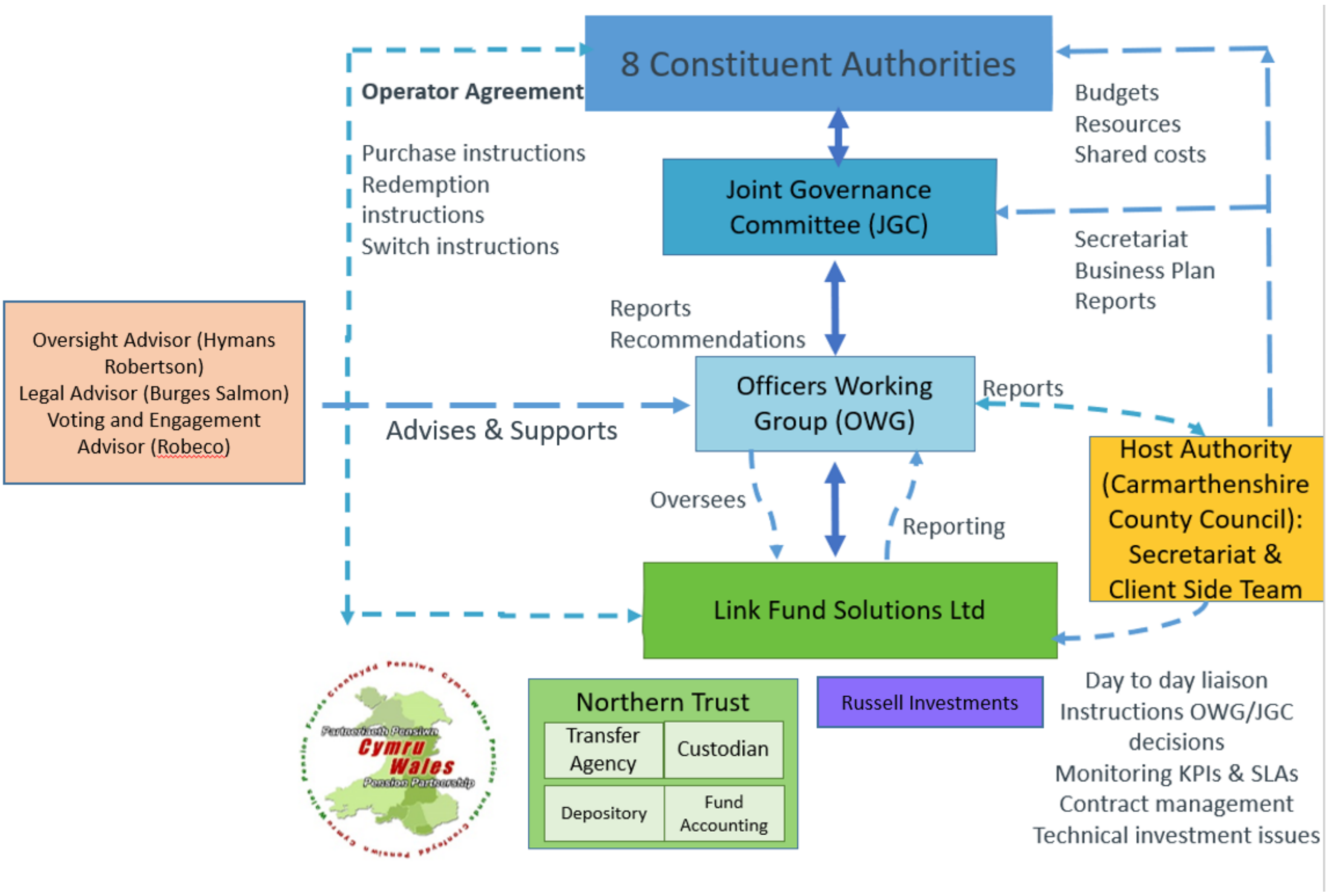
The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a participating scheme in the All Wales investment pool formally referred to as the Wales Pension Partnership (WPP). The existing governance structure and basis by which it operates was set out in the July 2016 submission to government, and has since been extensively considered and developed. The final arrangements are set out in an Inter Authority Agreement approved by both the Pensions Committee and Administering Authority's full Council in March 2017.

The WPP pool consists of all eight LGPS funds in Wales including Dyfed (Host Authority), Swansea, Cardiff, Torfaen, Rhondda Cynon Taff, Powys, Clwyd and Gwynedd. Collective investment management offers the potential for savings in investment fees, opportunities to broaden investment portfolios through the increased variety of investment offerings, enhanced voting and engagement activity as well as access to shared knowledge and best practice. Whilst the WPP is responsible for providing collaborative investment solutions, each constituent authority remains responsible for setting their own investment strategy.

The WPP operates via a joint governance committee represented by all eight constituent authorities who have collectively appointed Link Asset Services as the FCA authorised operator. Link operate a collective investment vehicle for the sole use of the partnership. In addition, Link have appointed Russell Investments to provide the necessary investment management and advisory services and Northern Trust as the pool Custodian.

Structure and governance arrangements of the WPP:



The agreed objectives of the Wales Pension Partnership (WPP) are:

- To provide pooling arrangements which continues to allow funds to implement their own investment strategy
- To achieve material cost savings across a range of asset classes for all funds whilst improving investment performance net of fees
- To impose adequate and robust governance arrangements to oversee the activity of the WPP

The long-term objective of the Greater Gwent (Torfaen) Pension Fund is to transition all of its assets into the WPP, in a timely and cost effective manner, where they will continue to invest these assets on our behalf.

Assets to be invested in the pool

The Fund has continued to work with the WPP by investing its assets through the pool as and when suitable investment solutions become available. The WPP has been in operation since January 2018 when it appointed Link as its operator.

The below table summarises transition activity to date, together with a broad timetable of future investment solutions to be offered by the pool. Prior to the formal pooling arrangements being implemented, the Fund had already invested assets via the Wales investment pool. This was achieved, in advance of the investment pool being formally established, by way of a joint tender process carried out collectively across all the constituent Welsh Councils in early 2016, when BlackRock was successful as the appointed manager for all passive investment assets across the Welsh Funds. This amounts to about 22% of the total assets of the Fund. To date, in addition, the Fund has transitioned approximately 25% of its overall assets into the pool with a further 10-15% expected to follow during 2020/21.

Investment Portfolio	**Amount Invested / To be Invested**	**Comments**
Tranche 1 - UK Equities (Active)	£420m	Fully Invested in WPP
Tranche 2 - Global Equities (Active)	£343m	Fully Invested in WPP
Tranche 3 – Fixed Income (Active)	c. £300m	Transition planned Q3 2020
Tranche 4 – Emerging Markets (Active)	TBC	Transition planned Q4 2020
Tranche 5 – Private Market Alternatives	TBC	Transition planned 2020-2022
Subsequent Tranches	TBC	Asset class and timing to be determined

Responsible Investment and ESG

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

Responsible investment is an approach to investment that broadly aims to incorporate environmental, social and governance (ESG) considerations into investment decision making. When addressed effectively, ESG considerations can contribute to long-term sustainable investment returns whilst also addressing investment risk and the long-term impact on society, the environment and the performance of companies in general.

The Committee consider the Fund's approach to ESG in two key areas:

- **Sustainable investment / ESG factors** – considering the financial impact of environmental, social and corporate governance (ESG) factors on its investments, both existing and potential.

- **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, or via appropriate delegation of these functions to investment managers.

Sustainable Investment / ESG factors

The Committee takes ESG matters very seriously and periodically conducts a review of its policies in this area. The Fund's policy on how ESG factors should be taken into account in the selection, retention and realisation of investments was originally developed under the Fund's previous governance arrangements by its Investment Panel when members considered that they should, in all circumstances, act in the best financial interests of the Beneficiaries. This over-arching policy remains, however, where this primary consideration is not prejudiced, Investment Managers are required to take account of Social, Environmental or Ethical factors to the extent that they consider it appropriate. They may thus take account of all factors they deem relevant in their considered best interests of the investments they are managing for the Fund.

A review of the Fund's ESG Policy has also taken place within the Fund's current governance arrangements, via the Pensions Committee. As a result of this the Committee decided that a separate working group, the Responsible Investment Working Group (RIWG), should be re-established to specifically consider the Fund's approach to Responsible Investment and ESG matters within its investment decision making process. The Group was established to research these issues, consider any options for change and report any proposals back to the Pensions Committee for consideration. The Group has met regularly over recent years and has reported back to both the Pensions Board and the Pensions Committee on a number of occasions reporting progress and making recommendations. The following are extracts from these:-

- The Group were generally impressed by the comprehensive approach taken with regard to ESG issues by the Fund's investment managers and the level of resource and detail devoted to this area. However, in addition to the approach taken by investment managers, the RIWG felt that Fund specific Responsible Investment and Climate Change policies were justified and required. As such, during 2019/20 the Fund published its own policies which will be subject to annual review.
- The Group recommended that the Fund should continue membership of the Local Authority Pension Fund Forum as the Group considered it to be of particular value and benefit in achieving a collective level of ESG monitoring and engagement that the Fund could not achieve in isolation.
- That despite not being a direct signatory to UNPRI or the UK Stewardship Code, the Group remains keen for the Fund to take the necessary steps in order to achieve signatory status following the revised UK Stewardship Code issued in January 2020.

- The Group have supported officers undertaking Carbon analysis of its portfolios through the use of a third party data analytics company. As such, the Fund has re-appointed Urgentem (previously Engaged Tracking) to carry out these services from March 2020.
- The Group continue to source appropriate investment opportunities that support responsible and sustainable investment and help the Fund in its direction of travel to reduce its carbon emissions in line with Government targets as set from time to time.

The Pensions Committee welcomed the conclusions and approved the Group's initial recommendations in full for adoption by the Fund in the consideration of ESG matters within its investment process. The Committee further agreed that the RIWG should continue its work in the consideration of ESG matters and Responsible Investment more broadly within the Fund's investment process and within the context of the Funds wider governance processes.

Stewardship and Governance

Voting and Engagement
Again in accordance with the overarching policy above, the Committee has historically delegated company engagement and the exercise of voting rights to its investment manager(s). This was on the basis that positive engagement and voting power will have been exercised by them with the objective of preserving and enhancing long term shareholder value and thus that they will vote within the best long term interests of the investments they manage for the Fund. However, in light of ongoing developments with regards to the Wales Pension Partnership, a dedicated voting and engagement provider has been appointed from 1 April 2020 and will deliver a bespoke solution to the WPP and its eight constituent authorities. It is envisaged that a WPP voting policy will be developed in conjunction with the eight constituent authorities and shared with Fund managers for their implementation. In addition, an engagement framework will be established which sets out clear steps by which the Fund, via its appointed investment managers, will engage with companies within their portfolios on our behalf.

The Stewardship Code

Following the revised publication of the UK Stewardship Code in January 2020, the Fund has begun to take steps in understanding the specific requirements with the ambition of achieving signatory status. In summary, the following has been progressed to date:

1. Obtained full support from the RIWG as well as the Pension Committee in order to seek signatory status
2. Considered each of the 12 principles with a focus on context, outcome and activity required to demonstrate them in accordance with day to day activity
3. Developed an action plan of required activities in order to ensure that the Fund can 'apply' or 'explain' activity in respect of each principle
4. Considered the reporting requirements and wider compliance obligations in order to satisfy the requirements of the Financial Reporting Council (FRC)

As well as ensuring that the Fund's underlying investments are being managed in accordance with Code principles, the Fund does already act on a number of the principles at a Fund level. One such principle that the Fund firmly advocates is a belief in collective engagement via its membership of the Local Authority Pension Fund Forum (LAPFF), through which it collectively exercises a voice across a range of corporate governance issues.

In addition to the requirement to become a signatory in its own right, the Committee will also expect both the Wales Pension Partnership and any directly appointed fund managers to comply with the Stewardship Code and this will be monitored and kept under review.

Responsible Investment and the Wales Pension Partnership (WPP)

The Wales Pension Partnership (WPP) recognises the need to ensure responsible investment (RI) practices are embedded in all investments. During 2019/20, the WPP has made sufficient progress in respect of RI and ESG and this includes:

1. Establishing long-term investment beliefs of the WPP and to demonstrate leadership on RI practice on behalf of the eight constituent authorities.
2. WPP recognises that the development of beliefs represents best practice for asset owners. In consultation with its constituent authorities, the WPP has established the following beliefs which serve to underpin its decision-making and governance processes:

    a. The RI behaviours we want to see demonstrated by all our stakeholders must be led by the WPP.
    b. Integration of ESG factors, including climate change, into investment processes is a prerequisite for any strategy given the potential for financial loss.
    c. WPP is most effective as an investor engaging for change from within, particularly in collaboration with other like-minded investors, as opposed to a campaigner lobbying for change from outside.
    d. Our impact on corporate behaviours will be greatest when we speak with one voice.
    e. Effective oversight of RI practices requires clear disclosure and measurement of comprehensive data.

3. The WPP recognises that these beliefs represent a starting point for the guidance of its approach to RI. Although the WPP does not expect to regularly change these beliefs, it will test the ongoing appropriateness of them on a periodic basis in light of changing best practice and developing knowledge.

Climate Change

Climate change presents a systemic risk that has the potential to affect economies, financial returns and demographics. The risks arising from climate change may arise from ESG or other factors and are generally categorised as follows:

1. Physical risks, such as damage to property from flooding or low precipitation giving rise to crop failure;
2. Transition risks, being the financial risks arising from changes in policy and technology to adjust to a lower carbon economy; and
3. Liability risks, being the potential costs arising from parties who have suffered loss or damage due to climate change seeking compensation from those they hold responsible.

The Fund has most recently agreed its policy on climate change via Pensions Committee in September 2019 with a clear objective to reduce its carbon emissions in line with Government targets (as set from time to time) in a controlled and objective manner.

Authors:
Graeme Russell, Head of Pensions **Alexander Bull, Investments Manager**

(For and on behalf of The Greater Gwent (Torfaen) Pension Fund Committee)

Appendix 1 – Compliance with the Myners Principles of Good Governance

1. Effective Decision Making

Appointment of a Pensions Committee whose terms of reference are to discharge the functions and duties of the Council as the Administering Authority.

The Administering Authority is also supported by the Local Pension Board whose role is to assist with ensuring Fund activity is compliant with legislation and the regulations, as well as ensure good governance is incorporated into processes.

Members of both the Pensions Committee and Local Pension Board follow a training programme as agreed between officers and members.

The Fund appoints external advisors and promotes the development of internal in-house officers to oversee the day to day running of the Fund.

2. Clear Objectives

The Fund Investment Strategy Statement sets out the Greater Gwent (Torfaen) Pension Fund objectives in relation to the split between Equities, Fixed Interest, Diversified Growth and Multi-Asset Funds, Property and Private Market Alternatives.

In light of the 2019 triennial valuation, the Fund has recently undergone a detailed review of its funding position which in turn has evolved the Strategic Asset Allocation (see Asset Allocation section above). The Committee are aware of the Fund's current deficit despite significant improvements during the last three years. The updated Investment Strategy is designed to continue to improve the Fund solvency and funding ability whilst keeping employer contributions as stable as possible.

3. Risk & Liabilities

During the Strategic Asset Allocation review, the Committee considered this mix of assets being proposed by Officers and Independent Advisors, in light of the overall level of risk that they are prepared to accept, particularly in the context of investment volatility.

In addition, the Committee consider Fund wide risks on a quarterly basis, including all risks in relation to Funding and Investment, and will hold officers account to ensure that these risks are mitigated as far as possible.

4. Performance Assessment

The Pension Committee receive quarterly updates as to the performance of all Fund investments, including an independent assessment of Investment Manager Performance as carried out by the Independent Advisors.

5. Responsible Investment

The Pension Committee have reviewed, and approved, a responsible investment (RI) policy in respect of the Greater Gwent (Torfaen) Pension Fund with effect from September 2019. The RI policy stipulates the responsibilities of the Fund, together with investment beliefs and policy objectives for future investment activity.

In addition, the Fund facilitates a Responsible Investment Working Group (RIWG) which comprises of members of both the Pension Committee and Board, including the chairmen of each. Although not a decision making body, the RIWG undertakes detailed analysis of investment challenges and considers the RI policy objectives when making recommendations to Pension Committee.

6. Transparency & Reporting

The Fund promotes the provision of transparent and clear reporting across its range of services. The Fund maintains a host of key policy documents that are reviewed regularly and involve input from our stakeholder groups, the Local Pension Board as well as Pension Committee. The Fund regularly reviews and maintains a risk register document which is reported to each quarterly Board and Committee meeting. In addition, investment performance of the Fund's investment managers is also reported and considered quarterly.

The Fund also supports the transparency agenda promoted by the Scheme Advisory Board (SAB) in reporting underlying investment manager fees and these are publically disclosed in the annual report of the Fund.

Appendix 2 - Financial Management

The Committee has appointed a number of external investment managers, all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business, to manage the Fund's investments. At present there are six investment managers appointed via individual Investment Management Agreements and the Inter Authority Agreement in relation to the WPP.

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. 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.

As the Fund continues to progress its transition into the WPP, in accordance with Government expectations, there will be less direct investment manager appointments to monitor. As a result, further scrutiny of the WPP and its appointed managers will continue to take place, including via the governance framework in place for appointing new investment managers to manage WPP assets.

The below summarises how the Fund's existing assets are managed, as at 31st March 2020:

Investment Manager	Investment Mandate	Benchmark	% of Total Fund
Wales Pension Partnership	UK Equities	FTSE All-Share	11.6
Wales Pension Partnership	Global Equities	MSCI ACWI	12.6
Blackrock	European Equities	FTSE All-World ex. UK	14.0
Blackrock	Low Carbon Tracker Fund	MSCI Low Carbon	21.7
Invesco	Asia ex. Japan Equities	MSCI AC Asia Pacific ex. Japan	6.2
Fidelity	Emerging Equities	MSCI Emerging Markets	2.7
Blackrock	Corporate Bond Fixed Interest	IBoxx Sterling Non-GILT	9.4
Blackrock	Government GILT Fixed Interest	FTSE All-Stocks UK GILT	9.9
Aberdeen Standard Investments	Global Absolute Return Strategy (GARS)	ICE LIBOR GBP 6 Month	2.4
Fidelity	Multi Asset Income	ICE LIBOR GBP 6 Month	3.7
Invesco	Global Targeted Returns	UK LIBOR 3 Month +5%	2.5
M&G	UK Companies Financing Fund		0.0
TCBC	Property	Composite	2.7
TCBC	Cash		0.6