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AGENDA

Committee	PENSIONS COMMITTEE
Date and Time of Meeting	WEDNESDAY, 15 MARCH 2017, 5.00 PM
Venue	COMMITTEE ROOM 1, COUNTY HALL, CARDIFF
Membership	Councillor Hinchey (Chair) Councillors Elsmore, Evans, Graham Thomas and Woodman

1 **Apologies for Absence**

To receive apologies for absence.

2 **Declarations of Interest**

3 **Minutes** (*Pages 1 - 2*)

To approve as a correct record the minutes of the meeting held on 15 February 2017.

4 **Wales Investment Pool - Update** (*Pages 3 - 4*)

5 **Investment Strategy Statement** (*Pages 5 - 16*)

6 **Date of next meeting**

Davina Fiore

Director Governance & Legal Services

Date: Thursday, 9 March 2017

Contact: Andrea Redmond, 02920 72434, a.redmond@cardiff.gov.uk

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PENSIONS COMMITTEE

15 FEBRUARY 2017

Present: Councillor Hinchey (Chairperson), Councillors Elsmore and Graham Thomas

Also

Present: Christine Salter, Gary Watkins, Gareth Henson and Erin Kidd

18 : APOLOGIES FOR ABSENCE

Apologies for Absence were received from Councillor Jonathan Evans

19 : DECLARATIONS OF INTEREST

No declarations of interest were received.

20 : MINUTES

The minutes of the meeting on the 11 January 2017 were agreed as a correct record.

21 : WALES INVESTMENT POOL - UPDATE

Members received an update on the development of the Wales Investment Pool.

Whilst it had been hoped that the SQ would have been issued by the date of this meeting, it is now very close.

The Officer Working Group has recommended that the contract with the Operator be signed by all eight authorities, if it had been signed by the host authority only appropriate back to back arrangements including indemnities and cost provisions which would have had to have been in the IAA.

The role of the Host Authority in liaising with the Operator will be governed by the Inter Authority Agreement under the oversight of the JGC.

RESOLVED:

- That the Committee note the progress in the development of the Wales Investment Pool.

22 : WALES INVESTMENT POOL - INTER AUTHORITY AGREEMENT

The Report of the Corporate Director, Resources briefly outlined the background to the Inter Authority Agreement (IAA) and the issues.

It was noted that Appendix 1 to this report (Draft IAA) contained information which is exempt from publication pursuant to paragraphs 14 (information relating to financial or business affairs) and 21 (public interest test) of Parts 4 and 5 of Schedule 12A Local Government Act 1972 (as amended).

RESOLVED:

- To note the content and principles of the draft IAA (which may be subject to further amendments) and recommends a report to Full Council seeking approval of the final IAA and the establishment of the Joint Governance Committee.

23 : FUNDING STRATEGY STATEMENT

Members were advised that the Funding Strategy Statement (FSS) has to be reviewed every three years and has been drafted by the Actuaries. The administering authority must also consult with 'such persons as it considers appropriate' for example Lead Officers from the 36 Fund employers; members of the Local Pension Board; Investment Board advisors and Members of this committee.

The draft takes into account the updated guidance published by CIPFA in September of last year, and in particular it reflects the change in emphasis in the 2013 Regulations in which securing the long-term solvency of the Fund is a requirement whilst maintaining a constant contribution rate is desirable. A paragraph has also been added to refer to the Well-being of Future Generations (Wales) Act 2015.

RESOLVED:

- To note the content of the draft FSS.
- To note that the draft FSS is currently being consulted upon
- To delegate approval and publication of the final FSS to the Corporate Director Resources, in consultation with the Chair of the Committee, provided that the advice of the Fund Actuary is sought and taken into account in any approval of the FSS.

24 : DATE OF NEXT MEETING

The next meeting of the Pension Committee is on Wednesday 15 March 2016 at 5.00 pm in CR1.

This document is available in Welsh / Mae'r ddogfen hon ar gael yn Gymraeg.

CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD



PENSIONS COMMITTEE: 15 MARCH 2017

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 4

WALES INVESTMENT POOL

Reason for this Report

1. The Pension Committee Terms of Reference set out the Committee's responsibility for the strategic governance of the Cardiff & Vale of Glamorgan Pension Fund.
2. This report has been prepared to update Committee Members of progress with the development of the Wales Investment Pool to manage on a collaborative basis the investment assets of the eight Local Government Pension Scheme (LGPS) funds in Wales.

Background

3. The Committee received an update on the development of the Wales Investment Pool at its meeting on 15 February. The Committee also considered the draft Inter Authority Agreement (IAA) setting out the powers to be delegated to the Joint Governance Committee for the Pool.

Issues

4. At its Full Council meeting on 23 February, City of Cardiff Council approved the establishment of the Joint Governance Committee (JGC) and delegated the authority to approve and sign the finalised IAA to the Corporate Director Resources, in consultation with the Chair of this Committee and the Monitoring Officer.
5. The other seven LGPS administering authorities have also been asked to approve the establishment of the JGC at their Full Council meetings between 23 February and 15 March.
6. Until the IAA is formally signed by the eight authorities, the Joint Chairs' Group will continue to meet to oversee the project. The next meeting of the Group will be held in Cardiff on 20 March.
7. The notice for the procurement of the Pool Operator was issued on 2 March. Responses to the Selection Questionnaire are required by 14 April and qualifying applicants will be invited to tender for the contracted services. The procurement process will continue during May and June until a recommendation as to the contract award can be made to the Joint Governance Committee.

Legal Implications

8. The recommendation is an update and no decision is sought. The body of the report notes the progress made to date of the Wales Investment Pool and confirms that Cardiff Council approved the establishment of a Joint Committee once the Inter Authority Agreement (the IAA) is finalised. The Joint Committee will consist of representatives from all eight Administering Bodies and therefore will require approval of the proposal from each Council. The body of the report confirms that some Councils have yet to consider the collaboration and approve the Joint Committee proposal. Once considered and if approved, it is anticipated the IAA will be finalised and the Joint committee will be formed. The body of the report also confirms that the procurement exercise for the appointment of a pool Operator is ongoing, this procurement exercise is being carried out by Flintshire Council and external technical and legal advisors have been appointed to advise on the pool's requirements and the procurement process.

Financial Implications

9. No financial implications arise directly from this report.

Recommendations

10. That the Committee note the progress in the development of the Wales Investment Pool.

**CHRISTINE SALTER
CORPORATE DIRECTOR RESOURCES**

CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD



PENSIONS COMMITTEE: 15 MARCH 2017

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 5

INVESTMENT STRATEGY STATEMENT

Reason for this Report

1. The Pension Committee Terms of Reference set out the Committee's responsibility for the strategic governance of the Cardiff & Vale of Glamorgan Pension Fund.
2. The Terms of Reference include the review and approval of the Fund's Investment Strategy Statement (ISS). The proposed ISS for 2017-18 is attached as an appendix to this report.

Background

3. The LGPS (Management and Investment of Funds) Regulations 2016 ('The Investment Regulations') came into force on 1 November 2016. The Investment Regulations require each LGPS administering authority to formulate and publish an investment strategy by 1 April 2017.
4. The Investment Strategy Statement (ISS) replaces the Statement of Investment Principles (SIP) and must comply with guidance issued by the Secretary of State. The SIP and relevant parts of the 2009 Investment Regulations remain in force until the ISS is published.

Issues

5. A draft ISS was presented to the Investment Advisory Panel at its meeting on 24 February 2017. The Fund's independent advisers have recommended amendments which have been incorporated into the attached final version.

Legal Implications

6. Pursuant to The Local Government Pension Scheme (Management & Investment of Funds) Regulations 2016, Regulation 7 the Administering Authority ("Authority") is required, after taking proper advice to formulate an investment strategy which must be in accordance with any guidance issued by the Secretary of State. The ISS must include the following:
 - a. a requirement to invest fund 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 assessed 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 and 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 the rights (including voting rights) attaching to investments.
7. In addition the Authority's investment strategy must 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 and may not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with the Authority and must consult such persons as it considers appropriate as to the proposed contents of its investment strategy which must be published no later than 1st April 2017. The Authority must review and if necessary revise the ISS from time to time, and at least every 3 years, and publish a statement of any revisions. The Authority must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund.
8. The recommendations seek approval and, if approved publication of the ISS. This is a technical document, the content of which Legal Services are unable to comment upon however the body of the report confirms that the Fund Investment Advisory Panel have been consulted and the Funds advisors have made recommendations which have been incorporated into the ISS as attached at Appendix 1.

Financial Implications

9. No financial implications arise directly from this report.

Recommendations

10. That the Committee approve the ISS for 2017-18 as attached at Appendix 1
11. That the Committee approve the publication of the ISS on the Council's website.

CHRISTINE SALTER
CORPORATE DIRECTOR RESOURCES

Appendix 1 Investment Strategy Statement for 2017-18

**THE CARDIFF & VALE OF GLAMORGAN
PENSION FUND**

INVESTMENT STRATEGY STATEMENT

MARCH 2017

Introduction

City of 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 September 2016.

The Terms of Reference of City of Cardiff Council's Pensions Committee ('the Committee') include determining the authority's investment strategy. This statement sets out the strategy for the 2017-18 financial year and has been prepared in consultation with the Fund's Investment Advisory Panel ('the Panel')

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 - UK & Overseas
- Equities - UK & Overseas (USA, Europe, Far East, Emerging Markets)
- Private Equity (via pooled funds of funds)
- Property funds – UK & Global

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
- Stock lending

The Asset Allocation targets and variance limits agreed for 2017-18 are summarised below.

Asset class	Target Allocation %	Variance Limits %
UK Equities	34.0	+/- 5
Overseas Equities	35.0	+/- 5
Bonds & Cash	18.5	+/- 5
Property	7.5	+/- 5
Private Equity	5.0	+/- 2.5
Total	100.0	

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 Investment Pool.

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 Fund sets its own customised benchmark to ensure that the Fund's asset allocation policy reflects its own characteristics and not the average of a peer group. The benchmark is set in line with a long term Fund Objective of a 75/25 Equities/Bonds asset allocation split. The split was set in 2004, following an asset/liability study, with the aim of minimising, or at least stabilising, future employer contributions and to avoid large variations. The Panel will regularly review the overall asset allocation and consider appropriate opportunities for a further asset-liability study.

Expected Return on Investments

The investment method is to appoint expert specialist fund managers with clear targets and maximum accountability for performance. The current targets for each mandate are as follows:

Portfolio	Portfolio Benchmark Index	Portfolio Target
Cash	L Authority 7 day	Index
Global Bonds	20% FTSE UK Gilts 30% iBoxx £ Corporate Bonds 20% Citigroup World Govt Bond (£ hedged) 20% £ LIBOR 3 months 10% JPM Emerging Markets Bonds (£ hedged)	Composite Index +1% p.a. over rolling 3 yr. periods
UK Equities (Active)	FTSE All Share	Index + 2%, over rolling 3 year periods

UK (Passive) Equities	FTSE All Share	Index +/- 0.25-0.3% p.a.
USA (Passive) Equities	FTSE USA	Index +/- 0.25% p.a.
Europe (Active) Equities	FTSE Europe ex UK	Index + 2%, over rolling 3 year periods
Japan (Active) Equities	TOPIX	Index + 3%, over rolling 3 yr. periods
Asia Pacific Equities (Active)	FT AW Asia ex-Japan	Index + 3% over rolling 3 yr. periods
Emerging Market Equities (Active)	MSCI Emerging Markets	Index + 3% p.a. over rolling 4 yr. periods
UK Property	Various (balanced PUT indices)	Various
Global Property	N/A	Absolute Return of 10% p.a.
Private Equity	N/A	None set *

* Though no formal target has been set, the rationale for private equity is that it should outperform quoted equities over an equivalent period.

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.

While currency risk is inherent in a diversified strategy, it is addressed to a degree through the use of a specialist manager to hedge exposures where currencies in which the fund is invested appear to have reached extreme valuations.

The individual specialist fund managers manage the risk of variation from benchmarks consistent with the targets they have been given. Current risk measures/targets for the segregated active mandates, based on the industry standard risk methodology, are as follows:

Portfolio	Tracking Error
UK active equities	3 - 6%
Japan equities	Target 4%
Asia Pacific equities	3 - 6%
Emerging Market equities	Target 8%
Global Bonds	0 - 3%

Relative risk levels for active managers are reported quarterly and discussed annually by the Panel. For pooled vehicles (including passive investments) the manager reports the risk of the pooled vehicle as a whole. 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 highly liquid. The Equity and Global Bond managers are required to hold only assets readily realisable at the time of purchase. Any material investment with an in-house or pooled fund, which is not readily tradable, would require specific approval.

Private equity is not normally easily realisable. Higher investment returns relative to conventional equities are expected, reflecting the greater risk inherent in this fact.

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.
- Stock-lending risk – the possibility of default and loss of economic rights to Fund assets. Stock lending is managed by the Fund's custodian and appropriate counterparty and collateral controls are in place.

D Pooling of Investments

The Cardiff & Vale of Glamorgan Pension Fund is one of the eight funds participating in the Wales Investment Pool ("the Pool"). The proposed structure and basis on which the Pool will operate was set out in the July 2016 submission to the Department for Communities and Local Government. The proposals were approved by the Minister for Local Government in November 2016.

Assets to be invested in the Pool

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

- That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund
- That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool

At the time of preparing this statement, the Fund has already invested the following assets through a collaborative procurement carried out in 2016 with the other seven funds in Wales:

Asset class	Manager	% of Fund assets (allocation target)	Benchmark	Performance Objective
Passive UK Equities	BlackRock	19.0	FTSE All-Share	Benchmark
Passive US Equities	BlackRock	10.0	FTSE All-World USA	Benchmark

It is anticipated that the Fund's existing private equity investments will not be transitioned into the Pool but will be replaced by suitable pooled or collaborative investments as they mature over the next 10-15 years. It is intended that all other asset classes will be transitioned to the Pool as soon as practicable.

Structure and governance of the Wales Investment Pool

The Pool will appoint a third-party Operator authorised by the FCA to provide a range of investment sub-funds in which the assets of the eight participating funds will be invested.

A Joint Governance Committee (JGC) will be established to oversee the Operator. The JGC will comprise one elected member from each constituent administering authority and will be supported by an Officer Working Group. One of the eight funds will act as Host Authority to provide administrative and secretarial support to the Pool.

The Terms of Reference of the JGC and the roles of the Officer Working Group and Host Authority will be set out in a legally binding Inter Authority Agreement to be approved and signed by the eight administering authorities. The responsibilities of the JGC will 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 Pool

- Having responsibility for reporting on the Pool to the UK Government and other stakeholders
- Having oversight of the Officer Working Group

The eight administering authorities will continue to retain control over setting their investment strategy and asset allocation.

E How social, environmental or corporate governance considerations are taken into account

The Fund 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 social, environmental and ethical concerns and issues. The Fund also directly supports the development of clean technology through its private equity portfolio.

Annual reports will be provided on managers' corporate governance policies and practices, and annual presentations from equity managers will include a reference to their corporate governance actions where appropriate (e.g. segregated mandates). All of the Fund's assets are held through fund managers that have adopted the UN Principles for Responsible Investing, or the equivalent UK Stewardship Code, and future equity tenders will refer to these criteria.

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

Where relevant, IMAs will incorporate the Institutional Shareholders Committee (ISC) principles on the responsibilities of institutional shareholders and agents to ensure managers have an explicit strategy elucidating the circumstances in which they will intervene in a company, the approach to be used, and how to measure the effectiveness of this strategy.

Currently, the passive funds and the UK active managers all use the ISC principles, including actively engaging with investee companies. The overseas managers engage via normal contacts between companies and analysts or discussions on specific concerns.

Regarding voting, all passive and active funds vote where practicable according to principles provided to the Corporate Director Resources, reporting periodically on action taken. In the case of segregated mandates, however, care will be taken to ensure that, where applicable, the Fund's policies are not overridden, negated or diluted by the general policy of a manager. In any case the Fund retains the ultimate right to override the managers' decisions at any time, and to vote according to its own wishes.

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.

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