Gwynedd Pension Fund
Statement of Investment Principles

1. Background

1.1 This is the Statement of Investment Principles (the "Statement") (SIP) required by the Local Government Pension Scheme *(Management and Investment of Funds) Regulations 2009 (the "2009 Regulations").* The regulations also require the administering authority to state within the statement the extent to which it complies with a series of principles of good governance known as the Myners Principles. The purpose of this document is to satisfy the requirements of these regulations.

1.2 The Statement has been adopted by the Pensions Committee which acts on the delegated authority of Gwynedd Council, the administering authority for the Gwynedd Pension Fund ("the Fund"). The Statement must be revised from time to time by the Administering Authority in accordance with any material change in policy. In preparing this document the Pensions Committee have taken professional advice from the Fund's actuaries and advisers, Hymans Robertson and have obtained and considered written observations from the scheme's Fund Managers.

2. Organisational and Management Arrangements of the Fund

2.1 The Council has delegated the investment management of the scheme to the Pensions Committee who decide on the investment policy most suitable to meet the liabilities of the scheme and the ultimate responsibility for the investment strategy lies with them. Investments and performance are monitored on a regular basis by the Pensions Committee and advice is received from professional advisers.

2.2 The Statement outlines the broad investment principles governing the investment policy of the Fund. The Pensions Committee have delegated the management of the Fund's investments to professional Fund Managers whose activities are constrained by detailed investment management agreements.

2.3 Gwynedd Council is the Administering Authority and is responsible for managing the Fund in accordance with the Regulations.

2.4 The Pensions Committee carries out the role of the Administering Authority. It has full delegated authority to make decisions on Fund matters. In particular it:

- decides the Investment Principles and ensures that investments are sufficiently diversified;
- determines the fund management structure;
- reviews investment performance on a quarterly basis;
- appoints and removes Fund Managers, Custodians and any external advisers;
- prepares the Statement of Investment Principles, monitors compliance with the Statement and reviews its contents from time to time;
- makes decisions in the context of pension administration.

2.5 The Pension Board is a non-decision making body to assist the Administering Authority in securing compliance with scheme regulations, other legislation covering governance and administration and the requirements of the Pensions Regulator. The Board shall also assist the Administering Authority to secure effective and efficient governance and administration of the Scheme. The Pension Board will meet at least twice a year.

2.6 Fund Managers are responsible for:

- the investment of the Fund's assets in compliance with prevailing legislation, the constraints imposed by the Fund's policy documents and the detailed investment management agreements;
- tactical asset allocation around the strategic benchmark and security selection within asset classes;
- preparation of a quarterly report including a review of investment performance and attending meetings of the Pensions Committee as requested;
- preparation of an annual confirmation that their activities comply with this statement;
- voting shares in accordance with their published policy;
- providing details in a timely manner to State Street Global Services, the Fund's performance measurer.

2.7 Custodians are responsible for:

- keeping the assets of the Fund safe, settling trades and dealing with corporate actions;
- their own compliance with prevailing legislation;
- providing the administering authority with monthly valuations of the scheme's assets and details of all transactions during the month;
- providing details in a timely manner to State Street Global Services, the Fund's performance measurer;
- collection of income and tax reclaims.

2.8 The Investment Adviser - is responsible for:

- advising the Pensions Committee on investment strategy and policy.
- assisting the Head of Finance and the Pensions Committee in:
  - the selection and appointment of Fund Managers and custodians;
  - their regular monitoring of the Fund Managers performance;
  - the preparation and review of this document.

2.9 The Actuary is responsible for:

- assisting the Head of Finance and the Pensions Committee in the preparation of this document, and
- providing advice as to the maturity of the scheme and its funding level in order to aid the committee in balancing the short term and long term objectives of the Fund.

2.10 The Head of Finance is responsible for:

- ensuring compliance with this document and bringing breaches thereof to the attention of the Pensions Committee;
- ensuring that this document is regularly reviewed and updated in accordance with the regulations;
- preparing an annual report which will include amongst other issues references to investment results.

3. Description of the Scheme's Liabilities

3.1 The Fund is a defined benefit scheme which has historically, provided benefits related to final salary for members. From 1st April 2014 the scheme was changed by regulation from a final salary to a career average scheme. Each member's pension is specified in terms of a formula based on salary and service and is unaffected by the investment return achieved on the scheme's assets. Full details of scheme benefits are set out in the LGPS regulations.

3.2 All active members of the scheme are required to make pension contributions which are based upon a fixed percentage of their pensionable pay as defined in the LGPS regulations.

3.3 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, as calculated in the triennial Valuation) 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 increases.

3.4 Employers contribution rates are determined triennially based on the advice of the scheme's actuary, and are subject to inter-valuation monitoring. The Pensions Committee will be advised by the actuary of any significant changes to the Fund during the inter-valuation period.

4. Fund Objectives

4.1 The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund (See Appendix A). The strategic benchmark is reflected in the investment structure adopted by the Committee; this comprises a mix of segregated and pooled, and active and passive, manager mandates. The Fund 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.

4.2 The Committee monitors investment strategy relative to the agreed asset allocation benchmark. It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

5. Investment Policy and Objectives

5.1 The Investment Policy is to appoint expert Fund Managers with clear performance benchmarks and to place the maximum accountability for performance against that benchmark on the Fund Manager. Individual managers' current activity and transactions are reported quarterly to the Pensions Committee. While their performance is monitored quarterly and reviewed annually, performance will be assessed on a rolling three year basis.

5.2 Types of investment to be held

5.2.1 The Fund Managers have to ensure that investments are made in accordance with the LGPS (Management and Investment of Funds) Regulations 2009 (as amended). These Regulations allow a degree of flexibility within investment limits for pension schemes whilst maintaining fundamental principles of prudence and diversification.

5.2.2 The prevailing legislation allows the Fund to invest in quoted and unquoted securities of UK and overseas markets, including equities, private equity, infrastructure, fixed interest and index linked bonds, cash, property and commodities, either directly or through pooled funds.

5.2.3 The Fund may also make use of derivatives either directly or in pooled funds investing in these products, for the purpose of efficient portfolio management or to hedge specific risks.

5.2.4 The Pensions Committee considers all of these classes of investment to be suitable in the circumstances of the Fund.

5.2.5 **LGPS (Management and Investment of Funds) Regulations Schedule 1 Limits on Investments**

At the meeting on 10 November 2015, the Pensions Committee agreed to the following amendments to the limits on investments:

- An increase under any single insurance contract where the collective investment schemes constituted by the companies are managed by one body, from 25% to 35% (the upper limit specified in Schedule 1 of the 2009 Regulations). Before taking this decision, the Committee took proper advice from its investment adviser, Hymans Robertson LLP, in relation to the impact of the increase on overall risk within the Fund and how the Committee monitors and manages that risk. The decision was taken because the 35% limit allows the Fund to have all of its passively managed assets with Blackrock rather than having to use two passive managers. Having the assets with one manager allows any rebalancing or asset transfers to be carried out in a more cost-effective manner.

- An increase in the limit for all contributions to any single partnership to 5% and an increase in the total of all contributions to partnerships to 15% (the upper limits specified in Schedule 1 of the 2009 Regulations). Before taking this decision, the Committee took proper advice from its investment adviser, Hymans Robertson LLP, in relation to the impact of the increase on overall risk within the Fund and how the Committee monitors and manages that risk. The decision was taken because the increased limits on partnership investments allow the fund to improve diversification of its growth assets. Currently these limits relate to the target allocations to private equity (5%) and infrastructure (2.5%). However, partnership structures are also used for accessing other types of investment which may also be attractive to the Fund in future such as private forms of debt or global property. These types of investment allow the Fund, as a long term investor, to benefit from the illiquidity premium.

5.3 **Balance between different kinds of investments**

5.3.1 An agreement is in place for each Fund Manager which sets out the relevant benchmark, performance target, and where appropriate asset allocation ranges and any restrictions, as determined by the Committee.

5.3.2 The Committee has agreed a benchmark which provides an efficient balance between risk and return, in the light of the liability profile and funding level of the Fund.

5.4 **Risk**

5.4.1 The Fund needs to manage (rather than avoid) risk on the investment markets in order to achieve rewards in the form of financial returns on assets. However, the Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. The principal risks (threats) affecting the Fund are:

5.4.2 **Funding risks:**

- Financial mismatch - The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities; or that unexpected inflation increases the pension benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- Changing demographics - The risk that longevity improves and other demographic factors change increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or Fund Managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Fund liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, it has set a strategic asset allocation benchmark for the Fund. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee regularly reviews mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at each triennial valuation.

The Committee seeks to mitigate systemic risk through a diversified portfolio, but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

5.4.3 **Asset risks:**

- Concentration - The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Manager underperformance - The failure by the Fund Managers to achieve the rate of investment return assumed in setting their mandates.

The Committee manages asset risks as follows. It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Committees' expected parameters. By investing across a range of assets, including quoted equities and bonds, the Committee has recognised the need for some access to liquidity in the short term. In appointing several Fund Managers, the Committee has considered the risk of underperformance by any single Fund Manager.

5.4.4 **Other provider risk**

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee takes professional advice and considers the appointment of specialist transition managers.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund.

5.5 Expected return on investments

5.5.1 Over the long term, the strategic benchmark is expected to produce a return in excess of the investment return implied in the actuarial valuation. Investment returns are defined as the overall rates of return (capital growth and income combined).

5.5.2 The majority of the Fund's assets are managed on an active basis and are expected to outperform their respective benchmarks over the long term. In this way, the investment performance achieved by the Fund is expected to exceed the rate of return assumed by the actuary in funding the liabilities on an ongoing basis.

5.6 **Realisation of investments**

5.6.1 The majority of stocks held by the Fund Managers are quoted on major stock markets and may be realised quickly if required. Property investments, which are relatively illiquid, currently make up around 10% of the Fund's assets. Private equity and infrastructure investments, which are relatively illiquid, currently make up around 5% of the Fund's assets and are due to increase to 7.5% over the short term.

6. Social, Environmental and Ethical Considerations

6.1 With regard to socially responsible investment, the Committee is mindful of legal principles which are based on decisions in the courts and which apply to all pension schemes. In particular the administering authorities are not entitled to subordinate the interests of members to social, environmental and ethical demands. The financial performance of the Fund consistent with proper diversification and prudence is paramount.

6.2 The Committee has demonstrated its commitment to the Stewardship Code which was published by the Financial Reporting Council in 2010. The Code aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. The Code sets out good practice on engagement with investee companies.

6.3 The Fund is a member the of the Local Authority Pension Fund Forum (LAPFF) which exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. The LAPFF brings together a number of local authority pension funds providing an opportunity for discussion of investment issues and shareholder action. The influence gained by such funds acting together as shareholders on issues of common concern has considerable potential in relation to companies where they invest. Such influence can be used to address social, environmental and ethical issues within investee companies.

6.4 The Committee expects that the boards of companies in which the Fund invests should pay due regard to social, environmental and ethical matters and thereby further long-term financial interests of the shareholders. The Committee looks to the directors of a company to manage that company's affairs taking proper account of the shareholder's long-term interests.

7. Exercise of Voting Rights

7.1 The Committee has delegated the exercise of voting rights to the Fund Managers on the basis that voting power will be exercised by it with the objective of preserving and enhancing long term shareholder value. Accordingly, the managers have produced written guidelines of their processes and practice in this regard. The managers are encouraged to vote in line with its guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

8. Stock Lending

8.1 Stock lending will be permitted subject to specific approval. The policy on stock lending reflects the nature of the mandates awarded to Fund Managers by the Committee, which include both pooled and segregated mandates.

9. Compliance

9.1 Fund Managers and custodians will provide the Committee, with annual confirmation that their activities, have in respect of that part of the Fund over which they have control, complied with the investment restrictions set out in this document (to the extent amendments thereto are notified to the Manager) and more particularly set out in their investment management agreement.

9.2 The Committee will be responsible for assessing the risks assumed by the scheme at a global level, i.e. assuming that the portfolios of the individual managers were amalgamated and for monitoring the scheme's performance both at global level and manager by manager.

9.3 The Committee are responsible for monitoring the qualitative performance of the managers and custodians employed to ensure that they remain suitable Fund Managers/custodians for the scheme. These qualitative aspects include, inter alia, changes in ownership, changes in personnel, poor administrations etc.

9.4 The Committee will consider the scheme's compliance with this statement of investment principles on a regular basis, and the statement will be reviewed at least in full every three years (in conjunction with the other parties to the statement) and a revised statement prepared and published.

10. Compliance with Investment Principles.

10.1 In response to the Treasury Report "Updating the Myners Principles: A Response to Consultation (October 2008), LGPS administering authorities are required to prepare, publish and maintain statements of compliance against a set of six principles contained in the CIPFA document titled "Investment Decision Making and Disclosure in the Local Government Pension Scheme".

10.2 Appendix B notes the extent to which the Gwynedd Fund complies with these six principles and if they do not comply, the reasons why.

11. Additional Voluntary Contributions (AVCs)

11.1 The Committee gives members the opportunity to invest in a range of vehicles at the members' discretion.

Appendix A: Strategic Asset Allocation

The Fund has a bespoke benchmark against which its performance is measured. Each Investment Manager has an individual benchmark for measuring performance against its own targets. The Fund's benchmark allocation is as follows:

	Total %
UK Equities	**19.5**
Overseas Equities	**48.0**
North America	22.5
Europe ex-UK	10.0
Japan	5.0
Pacific Basin	4.5
Emerging Markets	6.0
Private Equity	**5.0**
Total Equities	**72.5**
Global Bonds	15.0
Total Bonds	**15.0**
Property	**10.0**
Infrastructure	**2.5**
Total	**100.0**

Appendix B: Compliance with Myners Principles

Principle 1: Effective Decision Making

Administering authorities should ensure that:

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

The Gwynedd Fund complies with this principle. Responsibility for the Pensions Committee structure and composition lies with Gwynedd Council and is reviewed on a periodic basis as structural issues arise.

All members of the Pensions Committee are required to attend a three day Trustee Training Fundamentals course, after which they receive an “LGPS Fundamentals” training certificate. Ideally new members are required to complete the course prior to sitting on the Pensions Committee for the first time. The Pensions Committee has adopted the recommendations of the CIPFA Knowledge and Skills Framework. Training assessments are undertaken and training is planned to ensure that members have the knowledge and skills to carry out their responsibilities. The Pension Board members are also included in this process.

Members of the Pensions Committee are not paid - they receive the same allowances as other local authority members. No specific allowances are given in relation to their Pensions duties.

Principle 2: Clear Objectives

An overall investment objective(s) should be set out for the Fund that takes account of the scheme’s liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and Fund Managers.

The Gwynedd Fund complies with this principle.

The investment objective is to ensure there are sufficient resources to pay pensions liabilities now and in the future whilst ensuring that the employers’ contributions are affordable.

The triennial actuarial valuation to set employers contributions includes assessments of how the risks facing the fund can be mitigated. A flexible approach to employer contributions is taken to according to the position of each individual employer.

The fund’s investment advisors assist the fund in setting the investment objective for the fund and managers are appointed with specific mandates and targets to help achieve the overall target.

Principle 3: Risk and Liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

The Gwynedd Fund complies to a large degree with this principle.

The investment strategy is reviewed at least every three years following the actuarial valuation.

A long term view is taken for the tax raising bodies in order to stabilize contribution levels.

The fund is currently undertaking a more detailed assessment of the covenants for other participating employers.

Principle 4: Performance Assessment

Arrangements should be in place for the formal measurement of performance of the investments, Fund Managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

There is partial compliance with this principle. There are processes to measure the performance of the investments and Fund Managers. However, no formal process exists to assess the advisors performance. The Committee has had no cause to consider that the advice received in relation to choosing benchmarks and Fund Managers was not up to the performance level required.

No formal process exists to assess the Committee's own performance. The Pension Board has a role in reviewing decisions made by the Pensions Committee and a more formal assessment of the effectiveness of the Committee's decisions will be developed.

Principle 5: Responsible Ownership

Administering authorities should:

- **adopt, or ensure their Fund Managers adopt, the Institutional Shareholders' Committee Statement of Principles (ISC SIP) on the responsibilities of shareholders and agents;**
- **include a statement of their policy on responsible ownership in the statement of investment principles; and**
- **report periodically to scheme members on the discharge of such responsibilities.**

The Gwynedd Fund partially complies with this principle.

Some of our Fund Managers have adopted the ISC SIP, others are reviewing it and some haven't adopted it. Our private equity manager does not believe that the ISC SIP applies to them. To the best of their knowledge it only applies to institutional investors located in the UK.

The Statement of Investment Principles includes the policy on responsible ownership and the Pension Fund is a member of the Local Authority Pension Fund Forum (LAPFF) in order to have a greater impact on investee companies.

A report on such activities will be included in the Annual Report each year.

Principle 6: Transparency and Reporting

Administering authorities 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;**
- **provide regular communication to scheme members in the form they consider most appropriate.**

The Gwynedd Fund complies with this principle.

The Pension Fund holds employer meetings and the Annual General Meeting where information on management of investments, governance and risks are included. The investment performance is published in the Annual Report which is distributed to all stakeholders. The Pension Fund website also has relevant information for any interested parties.

Administration - Meirion