

# KENT COUNTY COUNCIL SUPERANNUATION FUND

## INVESTMENT STRATEGY STATEMENT

### Introduction

1. Regulation 7(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires administering authorities to formulate and to publish a statement of their investment strategy, in accordance with guidance issued from time to time by the Secretary of State
2. Kent County Council is responsible for administering the Kent County Council Superannuation Fund under the Local Government Pension Scheme (LGPS) Regulations. The Council has a duty to ensure that scheme funds not immediately required to pay pension benefits are suitably invested and to take proper advice in the execution of this function. It has delegated responsibilities to the Superannuation Fund Committee.
3. The Committee has prepared the Investment Strategy Statement (ISS) in accordance with the Guidance on Preparing and Maintaining an Investment Strategy Statement.
4. In September 2016 the Department for Communities and Local Government (DCLG) published Guidance on Preparing and Maintaining an Investment Strategy Statement (ISS). This replaces the previous requirement for a Statement of Investment Principles and the ISS must be published by 1 April 2017.
5. The ISS required by Regulation 7 must include:
  - A requirement to invest money in a wide range of investments;
  - The authority's assessment of the suitability of particular investments and types of investments;
  - The authority's approach to risk, including the ways in which risks are to be measured and managed;
  - The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
  - 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
  - The authority's policy on the exercise of rights (including voting rights) attaching to investments.

6. As set out in the Regulations the ISS will be reviewed at least every three years.

### **Investment Strategy**

7. The Kent Fund's primary objective is to ensure that over the long term it will have sufficient assets to meet pension liabilities as they fall due.
8. In order to achieve this objective the investment strategy seeks to:
- Maximize returns for a given level of risk;
  - Ensure liquidity requirements are met at all times;
  - Aims to achieve and maintain a 100% funding level;
  - Maintains stable employer contribution rates.
9. The Fund has had a customised benchmark since 1998 and has regularly reviewed the benchmark in light of valuation results, changes in liabilities and investment cycles. Analysis undertaken by the Fund's investment consultant has not convinced the Committee that achievement of any of these objectives will be enhanced by major diversification away from the traditional asset classes for Local Government Pension Scheme (LGPS) funds and so the asset allocation is predominantly equities, fixed income and property. The Fund's current asset allocation is shown in the table below:

Table 1: Asset Allocation

<b>Asset Class</b>	<b>Allocation %</b>
UK Equities	32
Overseas Equities	32
Fixed Income	15
Property	13
Private Equity and Infrastructure	2
Absolute Return	5
Cash	1
<b>Total</b>	<b>100</b>

The asset allocation will be reviewed later in 2017.

10. Although the Fund's funding level improved to 89% as at 31 March 2016 it is still short of 100% funding and the asset allocation reflects a strong bias towards "growth" assets, primarily equities, reflecting the need for higher returns than fixed income assets would traditionally return over the long term.

11. The Fund's view is that returns on all asset classes have been significantly impacted by the long period of very low or even negative interest rates. The existence of cheap money over such a long period has been strongly supportive of returns for most asset classes and the Committee believes that there is scope for this continuing in the medium term in-particular in relation to equities and property. The Fund will look in the medium term to maintain or add to these asset classes before considering de-risking strategies as the Fund achieves 100% funding.
12. The Fund looks to achieve diversification by asset class through investing in property, private equity, infrastructure and absolute return funds. The Fund seeks to invest in UK property through a variety of routes; primarily in directly held commercial property, in pooled commercial and UK residential property funds.
13. All investment management activities are carried out externally and there is no internal management other than of cash flow.
14. The Fund has a policy of appointing specialist managers who are expert in managing specific investment strategies which should help the Fund deliver over different investment cycles. The Fund currently has quite a low comparative allocation to passive equities reflecting an underlying concern that passive management mimics inefficiencies in the tracked indices.
15. The current manager structure and the rationale for this is set out in the table below:

Table 2: Investment Manager Structure

<b>Asset Class/Manager</b>	<b>Performance Target</b>	<b>Style</b>
<b>UK Equities</b>		
Schroders	Customised UK equity + 1.5%	High concentration
Woodford	FTSE All Share	Unconstrained
StateStreet	FTSE All Share	Tracking
<b>Global Equities</b>		
Baillie Gifford	Customised regional equity + 1.5%	Fixed weight regional equity
Sarasin	MSCI AC World + 2.5%	Thematic
M&G	MSCI AC World + 3%	Dividend growth
Schroders	MSCI AC World + 3-4%	Quantitative value

Impax	MSCI AC World + 2%	Environmental themed
StateStreet	FTSE World ex UK	Tracking
<b>Fixed Income</b>		
Schroders	3 months sterling Libor + 4%	Absolute return
Goldman Sachs	+3 1/2-6%	Target return long term hold
<b>Property</b>		
DTZ	IPD Customised Pension Fund Index	Direct UK property
Fidelity	IPD UK PF All Balanced Property Fund Index	Pooled UK property fund open ended
Kames	IPD UK PF All Balanced Property Fund Index	Pooled UK property fund close ended
M&G	IPD UK PF All Balanced Property Fund Index	UK residential fund property
<b>Absolute Return</b>		
Pryford	RPI + 5%	Low risk equities/fixed income /cash
<b>Alternatives</b>		
Private Equity-YFM	LIBID	Small value direct UK
Private Equity-Harbourvest	LBID	Global fund of funds
Infrastructure-Partners Group	LBID	Global fund of funds

## **Risk Measurement and Management**

16. A full Risk Register is maintained and is reported annually to the Committee. This covers the full range of risks faced not just investment risks.
14. By definition all investment activities are inherently risky; the Committee in arriving at its asset allocation and investment manager structure has to assess these risks in the context of how it will achieve the required investment return of 5.4% per annum assumed by the Fund actuary.
15. Investment risk is considered formally at four of the Committee's five planned meetings during the year. The Committee considers asset class performance, looks at the overall asset allocation and then more specifically considers the risks at investment manager level. These discussions are informed by reports from Officers based upon their discussions with investment managers and their

examination of other relevant information. This approach is particularly helpful in taking opportunistic tactical asset allocation decisions.

16. The principal investment risks faced are:

**Table 3: Investment Risks**

<b>Risk</b>	<b>Mitigation</b>
Equity allocation	The Fund holds equities in order to achieve higher investment returns and considers that the extra level of return over the long term compensates for the additional risk. The Fund invests in managers with a variety of investment styles and there are managers who will tend to outperform in falling equity markets.
Active manager risk	The Committee believes that good active managers will add value to the Fund. It aims to establish long term relationships with managers which helps to deal with short term variations in investment performance.
Liquidity risk	The Fund actively manages its cash flows over the short and longer term to ensure liquidity.
Regulatory risk	Regulatory risk is predominantly transferred to the externally appointed investment managers who have to meet regulatory requirements. The Fund only manages cash internally and complies with CIPFA and DCLG requirements in relation to that.
Exchange rate risk	The Fund is a long term investor and can tolerate short term currency fluctuations. At Fund level there is no currency hedging as the Committee view it as a zero sum game.
Alternative asset classes	The Fund has made quite limited investments in non property alternative investments . The Committee believes that it can achieve diversification and similar investment returns through investing in more mainstream asset classes which can be more liquid and more readily valued.
Custody risk	The Fund must maintain its beneficial ownership of Fund assets when held in custody or trading and it does this through its global custodian.

Transition risk	The risk of incurring additional costs in relation to the transitioning of assets between external managers is managed through the use of professional advisers and experienced in house staff.
Stock lending	The Fund's current custodians, Northern Trust, undertake a limited programme of stock lending to approved UK counterparties against non-cash collateral mainly comprising of Sovereigns, Treasury Bonds and Treasury Notes.
Investment advice	The Fund has a long standing relationship with Hymans Robertson as its investment consultant. The Committee regularly considers the effectiveness of the advice given.

## **Asset Pooling**

17. The Fund is part of the ACCESS (A Collaboration of Central, Eastern and Southern Shires) pool. This is a group of like-minded funds valued at £32bn who came together to meet the Government criteria for pooling set out in November 2015. The Kent Fund would prefer to work on joint collaborative procurements with neighbouring funds and avoid the large and unnecessary cost overhead that pooling in the prescribed way which Government wants it done. The ACCESS funds emphasize retaining as much decision making as possible locally in the exercise of their fiduciary responsibility.
18. ACCESS committed in its July 2015 submission to Government to setting a Collective Investment Vehicle and ACCESS is commencing a procurement process for renting an Authorised Contractual Scheme (ACS). The operator will be Financial Conduct Authority regulated. The ACCESS pool will not be managing investments internally.
19. Independent benchmarking undertaken in 2016 showed that the Kent Fund had the lowest investment management costs within the ACCESS pool and globally the costs were in the lowest quartile. Regulation 7 (2) (d) states that "administering authorities must provide a summary of assets to be held outside the pool and how this demonstrates value for money". The Fund takes this a rationale for not putting assets into the pool if it increases costs.
20. The current focus of ACCESS is establishing a Joint Committee and the CIV. The Kent Fund will rigorously apply the value for money test before moving assets in to the pool from April 2018 onwards.

21. Good progress is being made on a collaborative procurement for a passive manager. This will mean that well in advance of April 2018 around £10bn of ACCESS assets will be pooled.
22. Direct property will continue to be held outside the pool as allowed in the Regulations.

## **Corporate Governance**

23. The Committee firmly believes that it has a fiduciary responsibility to scheme members and employers to maximize the investment returns it can achieve for a given level of risk. It therefore holds that it is not the role of the Committee to impose ethically based screens which restrict investment managers from investing in certain companies.
24. The Committee is also committed to promoting good corporate governance in the firms which it invests in. It is expected that investment managers will have their own policies on voting on shareholder issues and on environmental, social and governance issues. The Committee expects the investment managers who hold shares on its behalf to fully comply with the Financial Reporting Council's (FRC) UK Stewardship Code and to fully participate in voting at company Annual General Meetings. Engagement with companies is taken very seriously and this is regularly discussed with investment managers. The investment managers report quarterly on corporate governance issues including voting.

## **Advice**

25. The Committee takes advice and information from:
  - The Council's Section 151 Officer and his staff;
  - Barnett Waddingham the Fund's actuary;
  - Hymans Robertson the Fund's investment consultant;
  - Investment managers;
  - Discussions with other LGPS funds;
  - Attendance at seminars and conferences; and
  - Financial press and media.