

Kent County Council Superannuation Fund Investment Strategy Statement 2019



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Investment Strategy Statement 2019

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 these 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.

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

Investment Strategy

6. 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.
7. In order to achieve this objective the investment strategy seeks to:
 - Maximise returns for a given level of risk;
 - Ensure liquidity requirements are met at all times;
 - Achieve and maintain a 100% funding level;
 - Maintain stable employer contribution rates.

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8. The Fund has had a customised asset allocation for a number of years and has regularly reviewed this in light of valuation results, changes in liabilities and investment cycles.
9. In 2018 the Superannuation Fund Committee approved a revised asset allocation for the Pension Fund based on a review of its investments strategy that it carried out with the assistance of its investment advisor, Mercer. The Fund's investments are allocated across a range of asset classes with the largest allocation being to equities which also accounts for the majority of the investment risk taken by the Fund.
10. The Fund's current strategic asset allocation is shown in the table below:

Table 1: Asset allocation

Asset class	Allocation %
UK Equities	23.5
Overseas Equities	32.0
Fixed Income	15.0
Property	13.0
Private Equity	4.0
Infrastructure	3.5
Absolute Return	8.0
Cash	1.0
Total	100.0

11. The Fund has an 84% allocation to growth assets (equities, property, absolute return and infrastructure) in order to meet the long-term funding assumptions set out in the 2016 actuarial valuation and a 16% allocation to defensive assets (bonds and cash) to help manage overall levels of funding volatility.
12. Over the long term, equities are expected to outperform other liquid asset classes, particularly bonds. Allocations to asset classes other than equities and bonds allow the Fund to gain exposure to other forms of risk premium and can reduce the overall volatility of portfolios. These assets are expected to generate returns broadly similar to equities over the long term and so allocations to these can maintain the expected return and assist in the management of volatility.

Investment management arrangements

13. All investment management activities are carried out externally and there is no internal management other than of cash flow. 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.
14. The current manager structure and the rationale for this is set out in the table overleaf:

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Table 2: Investment Manager Structure

Asset Class/Manager	Performance target	Style
UK Equities		
Schroders	Customised UK equity + 1.5%	High concentration
Woodford	FTSE All Share	Unconstrained
UBS	FTSE All Share	Tracking
Global Equities		
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
UBS	FTSE World Ex UK	Tracking
UBS	FTSE Emerging Markets	Tracking
Fixed Income		
Schroders	3 months Sterling Libor + 4%	Total return
Goldman Sachs	+3.5-6%	Target return long term hold
Property		
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 property fund
Absolute Return		
Pyrford	RPI + 5%	Low risk equities/fixed income/cash
Ruffer	RPI	Low risk equities/fixed income/cash
Alternatives		
Private Equity - YFM	GBP 7 Day LIBID	Small value direct UK
Private Equity - HarbourVest	GBP 7 Day LBID	Global fund of funds
Infrastructure - Partners Group	GBP 7 Day LBID	Global fund of funds

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Risk Measurement and Management

15. At four of the Committee's five planned meetings during the year it reviews the actual investment allocation relative to the agreed asset allocation benchmark as well as individual manager performance and related risks. The Committee has to make its assessment in the context of how it will achieve the required investment return of 5.4% per annum assumed by the Fund actuary.
16. The Committee engages Mercer to assist it with its review and receives reports from Officers based on their discussions with investment managers and examination of relevant information.
17. The Fund maintains a full Risk Register which is reported annually to the Committee. This covers the full range of risks faced not just investment risks.
18. The principal investment risks faced are:

Table 3: Investment Risks

Risk	Mitigation
Equity allocation risk	The Fund holds equities in order to achieve higher investment returns however in line with its review of the Fund's asset allocation it is now reducing its exposure to traditional equities to reduce the impact of a material fall in equity markets. The Fund invests in managers with a variety of investment styles.
Asset class concentration risk	The Fund is reducing its allocation to UK equities to reduce concentration risk. It is also seeking to diversify its bond allocation.
Active manager risk	The Committee believes that good active managers will add value to the Fund and it aims to establish long term relationships with managers. Managers of the larger mandates annually attend Committee meetings and others have regular meetings with officers.
Inflation risk	Current inflation remains low. The fund invests in equities and property and is increasing its investment in infrastructure to achieve inflation protection.

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Risk	Mitigation
Exchange rate risk	The Fund is a long-term investor and can withstand short term currency fluctuations. The Fund monitors its overseas investments' currency exposure but has not made arrangements to hedge this risk.
Alternative asset classes risk	The Fund is increasing its investments in non-property alternative investments following its review of the strategic asset allocation in 2018. It is monitoring the illiquidity risk arising.
Liquidity risk	The Fund actively manages its cash flows over the short and longer term to ensure liquidity.
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. Counterparty risk is mitigated through a robust selection and legal contracting process. Custody risk is reducing as the Fund moves its investments into pooled funds.
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 risk	The Fund has agreed a stock lending policy for its segregated mandates as well as for its investments in the ACCESS pool. This is a limited programme of stock lending and risk is mitigated by lending to approved counterparties against non-cash collateral mainly comprising of Sovereigns, Treasury Bonds and Treasury Notes.
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 MHCLG requirements in relation to that.

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Risk	Mitigation
Investment advice risk	The Fund has engaged Mercer as its investment consultant. The Committee regularly considers the effectiveness of the advice given.
Unmatched liability risk	The Fund is diversifying its investment in fixed income strategies which should more closely match the characteristics of the Fund's liabilities.

Asset Pooling

19. 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 £44bn who came together to meet the Government criteria for pooling set out in November 2015. The ACCESS funds emphasise retaining as much decision making as possible locally in the exercise of their fiduciary responsibility.
20. In 2018 Link Fund Solutions contracted with the 11 ACCESS authorities to provide a pooled operator service. Link is responsible for operating an Authorised Contractual Scheme (ACS) along with the creation of investment sub-funds to meet the needs of the ACCESS funds.
21. The Kent Fund has made a commitment to pool its investments other than its direct property holdings but will rigorously apply the value for money test before moving assets into the pool.
22. During 2018-19 the Kent Pension Fund invested in 3 sub-funds managed by Baillie Gifford, Schroder and M&G. As at 31 March 2019 the total pooled was £2.6bn, being 42% of the total assets of the Fund. Further sub funds are being launched for equity and fixed income asset classes. The ACCESS pool is also making progress in establishing the appropriate structures for pooling alternative asset classes.
23. In February 2018 the Kent Fund also invested in pooled life funds managed by UBS. As at 31 March 2019 the value of this investment was £654m, 11% of the Fund's investments.

Corporate Governance

24. The Committee has a fiduciary responsibility to scheme members and employers to maximise the investment returns it can achieve for a given level of risk. It therefore does not seek to impose ethically based screens which restrict investment managers from investing in certain companies.
25. 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

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Meetings. Engagement with companies is taken very seriously and this is regularly discussed with investment managers. The investment managers report to the Committee quarterly on corporate governance issues including voting.

Advice

26. The Committee takes advice and information from:

- The Council's Section 151 Officer and their staff;
- Barnett Waddingham, the Fund's actuary;
- Mercer, the Fund's investment consultant;
- Investment managers;
- Discussions with other LGPS funds;
- Attendance at seminars and conferences, and
- Financial press and media.

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