Investment strategy statement

Introduction and background

This is the Investment Strategy Statement (the "Statement") of the Kent County Council Superannuation Fund, which is administered by Kent County Council (the "Scheme Manager") as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the "2016 Regulations") in accordance with the guidance issued by Secretary of State.

Kent County Council has delegated to the Superannuation Fund Committee (the Committee) all the powers and duties of the Council in relation to its functions as an Administering Authority. The Committee 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.

Regulation 7(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires that the Statement 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.

As set out in the regulations the Statement is subject to review every three years and from time to time on any material change in investment policy or other matters as required by law.

Investment strategy

Fund Objective

The Fund's primary objective is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. This primary objective is set out in more detail in the Fund's Funding Strategy Statement (FSS).

The funding objective for the Fund is to ensure that over the long term it will have sufficient assets when taken in conjunction with future contributions, to meet pension liabilities as they fall due. At the present time the Fund's aim is to achieve at least a return in line with that set by the actuary for the 3-year valuation period, presently 5.8% p.a. based on the 2019 valuation results.

In order to achieve the funding 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 100% funding level
- maintain stable employer contribution rates.

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.

In 2018, the Committee approved a revised asset allocation for the Fund based on a review of its investment 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.

The Fund’s current strategic asset allocation is shown in the table below.

Asset class	Allocation percentage
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

The Fund has an 84% allocation to growth assets (equities, property, absolute return, private equity and infrastructure) in order to meet the long-term funding assumptions set out in the 2019 actuarial valuation (PDF, 2.0 MB) and a 16% allocation to defensive assets (bonds and cash) to help manage overall levels of funding volatility.

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.

The Committee monitors its investment strategy relative to the agreed allocation benchmark. In addition to ongoing monitoring, the Investment Strategy is reviewed at least every three years, in line with the valuation period.

Asset rebalancing policy

The Committee reviews the strategy at each quarterly meeting and has agreed a rebalancing policy focused on the high-level asset classes of Equity, Fixed Income, Alternatives and Cash. The review is based on the latest published month end position with reference to set tolerance ranges as per the following table, and any rebalancing is only made between the Fund's liquid assets. A decision on rebalancing is taken as a standing item at the Committee meeting.

	Benchmark allocation	**Agreed ranges**
Asset Class	**%**	**%**
Equity	55.5	48 - 63
Fixed Income	15	10 - 20
Alternatives	28	18.5 - 38.5
Cash	1	0 - 5
Total	**100**	

Decisions of where to either invest or disinvest cash within these high-level categories is at the discretion of the Committee and should balance consideration of the following: relative market weights, liquidity and transaction costs, medium term market views, manager ratings and the confidence of the Committee in the manager's ability to meet performance targets.

Unless there is good reason otherwise, rebalancing is undertaken to bring the over or underweight asset class back to approximately the mid-point between its target allocation and the current position to reduce transaction costs and regret risk.

Equity downside protection

As part of its investment strategy the Committee agreed to implement an equity downside protection programme on its global equity portfolio in December 2020. The Committee has also agreed to implement protection on the UK equity portfolio pending the FTSE100 index reaching an agreed trigger level.

The current strategy covers the period to the end of the next actuarial valuation cycle in 2023.

Use of external investment consultants

The Committee engages Mercer to assist it with the implementation of its Investment Strategy. It receives a quarterly manager monitoring report setting out Mercer's latest manager ratings and news updates, as well as in-depth manager reviews as requested.

Investment management arrangements

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 experts in managing specific investment strategies which should help the Fund deliver over different investment cycles. Advice is sought when appointing investment managers.

Managers are required to attend a Committee meeting periodically to provide an update on the mandates they manage for the Fund as well as to explain how they implement the Fund's Responsible Investment policy.

The current manager structure and the rationale for this is set out in the table below:

Asset Class/Manager	**Performance target**	**Style**
UK Equities		
Schroders	Customised UK equity + 1.5%	High concentration
Link	FTSE All Share	Unconstrained (This fund is now winding down)
Insight	FTSE All Share	Synthetic passive equity
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
Insight synthetic equity	MSCI World	Synthetic passive equity
Insight Equity Options	Blended index returns	Equity options structure
Fixed Income		
Schroders	3 months Sterling Libor + 4%	Total return

Goldman Sachs	+3.5-6%	Target return long term hold
CQS	Libor+4%	
M&G	Libor+4%	
Insight	SONIA + 2%	Asset Backed Securities
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
Aegon (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
Cash		
Insight	SONIA	Money market fund

Risk measurement and management

The Fund is open to new members and has a large member base. It is relatively well funded (98% at its last triennial valuation in 2019). The last strategic investment allocation review in 2018 took into account the actuary's required rate of return and the relative return and risk characteristics of the different asset classes to determine the asset allocation required to achieve the return within the parameters of acceptable risk. The Fund assesses risk both qualitatively and quantitatively, with the starting point being the triennial strategy review. Risks are considered, understood and then prioritised accordingly.

The Fund maintains a full risk register which is reported to every meeting of the Committee. This covers the full range of risks faced and not just investment risks. The Committee takes advice from its investment advisors on investment risks.

The principal investment risks faced are:

Risk	Mitigation
Equity allocation risk	The largest risk the Fund is exposed to is its equity holding. Equity risk arises should equity market conditions deteriorate significantly, this will have a negative impact on the funding level. The Fund holds equities in order to generate investment returns so that the Fund remains affordable for stakeholders. 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. In order to manage equity risk the Fund invests in managers with a variety of investment styles and has implemented an equity protection programme to limit the impact of falls in global equity markets.
Asset class concentration risk	Asset class concentration risk is a risk that any impact of adverse economic conditions affecting a particular asset class poses an outsized risk to the Fund's funding level and that the risk is not mitigated by investments in other asset classes. 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	Active manager risk is the risk that a manager underperforms their benchmark. The Committee believes that good active managers will add value to the Fund, and it aims to establish long term relationships with managers. The risk is small relative to asset class risk; nevertheless, the Fund addresses the risk through diversification of its exposure to active managers and careful monitoring of their progress. Managers of the larger mandates annually attend committee meetings and others have regular meetings with officers.
Inflation risk	Inflation risk is the risk that a rise in inflation erodes the value of the investment returns required by the Fund to meet its pension liabilities. The Fund invests in asset classes that seek to provide returns in excess of inflation. Additionally, equities, property and infrastructure investments aim to achieve an indirect linkage to inflation.
Exchange rate risk	The Fund invests in overseas assets. Exchange rate risk is the risk that the value of the Fund's reporting currency GBP falls in comparison to other currencies (and affects the Fund's ability to realise the stated value of its global investments). The Fund is a long-term investor and can withstand short term currency fluctuations. The Fund monitors its overseas investment currency exposure but has not made arrangements to hedge this risk.
Alternative asset classes risk	The Fund has invested in a range of alternative assets. These assets bring with them diversification and reduce the reliance on equities. The risks that these assets bring at the individual level are not insignificant, but the Committee believes that over the long term the alternatives will provide returns for the risks being run. The Fund is increasing its investments in non-property alternative investments following its review of the strategic asset allocation in 2018 and it is monitoring the illiquidity risk arising from alternative asset classes.
Liquidity risk	Liquidity risk is the risk that the Fund will not have sufficient cash to meet its pension and investment liabilities in time and becomes a forced seller of assets at an inopportune time. The Fund actively manages its cash flows over the short and longer term to ensure liquidity.
Custody risk	Custody risk is the risk that the investments might not be held and transacted securely and efficiently for the benefit for the Fund. 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. Direct custody risk is reducing as the Fund moves its investments into pooled funds. Indirect custody risk is mitigated by careful selection of funds.
Transition risk	Transition risk is the risk that there is expense and opportunity cost incurred in moving assets between investment managers. 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	Stock lending risk is the risk that assets lent are not recovered in full or partially. 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 the risk that the Fund will be in breach of a regulatory requirement. 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.
Investment advice risk	Investment advice risk is the risk that the Fund receives inappropriate or poor-quality investment advice. The Fund has engaged Mercer as its investment consultant. In-line with the CMA Order 2019, the Committee has set strategic objectives for Mercer and regularly considers the effectiveness of the advice given against these objectives.
Unmatched liability risk	Unmatched liability risk is the risk that the growth of the Fund's assets is less than the growth of the Fund's pension liabilities (and therefore the Fund does not have sufficient assets to meet its long-term liabilities). The Fund is diversifying its investment in fixed income strategies which should more closely match the characteristics of the Fund's liabilities.

Asset pooling

The Fund is part of the ACCESS (A Collaboration of Central, Eastern and Southern Shires) pool which was established in 2015 and assets under pooled governance totalled £20.4bn as at 31 March 2021. The ACCESS funds emphasise retaining as much decision making as possible locally in the exercise of their fiduciary responsibility.

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.
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. There are various challenges and complications in pooling directly held properties, including transition (re-registration) costs, lack of liquidity, and determining fair transfer values that make it unviable to pool direct

property. The government has recognised these issues and exempted direct property from the pooling requirement.

As at 31 March 2021 the total value of the Kent Fund's investments in the ACCESS pool was £3.7 bn, being 49% of the total assets of the Fund. Further sub-funds are being launched for equity and fixed income asset classes and the Fund will continue to look for opportunities to pool their remaining liquid assets. The Fund will also participate in the pooling of alternative assets (other than direct property) through the structures being developed in the ACCESS pool.

.

Environmental, Social and Governance Considerations

Fiduciary duty

The fundamental responsibility of the Fund is to ensure that it has adequate monies available to pay pensions as they fall due. This objective must be achieved in a cost-effective way for members, employers and the taxpayer. Moreover, in reaching decisions, the Fund must comply with its fiduciary responsibilities.

Responsible Investment (RI)Policy

The Fund recognises it is consistent with its fiduciary duty to manage Environmental, Social and Governance (ESG) issues including climate risk, that may be financially material and expects those responsible for managing its investments to comply with the Fund's policy.

The Fund is committed to being a responsible investor and a good long-term steward of the assets in which it invests. The current policy at appendix 1 sets out the Fund's approach to RI and details the actions the Fund and its external providers take on its behalf, to protect the Fund and its assets from ESG and reputational risk.

The Fund's assets are managed by third-party investment managers responsible for the day-to-day investment decisions, including undertaking voting and engagement activities on behalf of the Fund. The Committee considers ESG integration and active ownership when selecting and monitoring investment managers.

Investment managers are expected to engage with companies to monitor and develop their management of ESG issues in order to enhance the value of the Fund's investments. The Fund would engage directly with a company in which it is directly invested, in exceptional circumstances.

The Fund also expects feedback from the investment managers on the activities they undertake and regularly reviews this feedback through meetings and reporting. The Fund's investment advisors also provide quarterly updates to the Committee on the investment managers' ESG ratings.

The Fund is committed to improving its approach to, and the processes associated with, the implementation of its responsible investment policy and to ensure that these changes are consistent with the Fund's fiduciary duty to its members and local taxpayers.

The Committee has established an RI working group that will consider and progress the further development of the Fund's RI policy and its implementation taking account of recent ESG initiatives and will work with investment managers to enhance their reporting on ESG issues including regular updates on their engagement with companies on governance matters, and their voting activity.

Exercise of voting rights

Assets outside the ACCESS Pool
The Fund has instructed its investment managers to vote in accordance with their in-house policies and practices.

Assets in the ACCESS pool
The ACCESS pool has agreed voting guidelines that it expects each of the underlying investment managers managing sub funds on its behalf to comply with or, when this is not the case, to provide an explanation.

The Fund supports the UK Stewardship Code and expects the investment managers who hold shares on its behalf to fully comply with the UK Stewardship Code 2020 and to fully participate in voting at company annual general meetings. It expects its investment managers to carry out all voting decisions on behalf of the Fund and to provide feedback information on voting decisions on a quarterly basis.

The majority of the Fund's investment managers are signatories to the UK Stewardship Code.

Stock lending

The Fund has agreed a programme of stock lending with the custodians of its segregated investments. With regard to the Fund's pooled investments stock lending is undertaken at the discretion of the pooled fund manager. The Fund also participates in the ACCESS stock lending programme for investments under ACCESS Pool governance.

Advice

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 Local Government Pension Scheme (LGPS) funds
- Attendance at seminars and conferences, and
- Financial press and media.

Policy amended August 2021

APPENDIX 1

KENT COUNTY COUNCIL SUPERANNUATION FUND RESPONSIBLE INVESTMENT POLICY

The Kent County Council Superannuation Fund (the Fund) is committed to being a Responsible Investor and a good long-term steward of the assets in which it invests.

The Fund recognises it is consistent with its fiduciary duty to manage **Environmental, Social and Corporate Governance (ESG)** issues that may be financially material.

This policy sets out the Fund's approach to **Responsible Investment (RI)** and details the actions the Fund and its external providers take on its behalf, to protect the Fund and its assets from ESG and reputational risk.

Kent County Council Superannuation Fund's Responsible Investment (RI) Beliefs

- As a long-term investor, seeking to deliver long-term sustainable returns, taking a sustainable investment view is more likely to create and preserve long-term investment capital.

- The identification and management of ESG risks that may be financially material is consistent with our fiduciary duty.

- The Fund seeks to integrate ESG issues at all stages of its investment decision making process, from setting the investment strategy to monitoring its investment managers.

- Active ownership helps the realisation of long-term shareholder value. The Fund has a duty to exercise its stewardship and active ownership responsibilities (voting and engagement) effectively by using its influence as a long-term investor to encourage responsible investment behaviour.

- The Fund recognises that taking a collaborative approach with other investors can help to achieve wider and more effective outcomes. This is evidenced by participation in the various initiatives outlined in this document

- The Fund seeks to identify sustainable investment opportunities where aligned with its broader investment objectives.

- It is important that the Fund be transparent and accountable to members and stakeholders with respect to its RI activities.

Implementation

The Fund seeks to integrate RI across its investment decision-making process and adopts a flexible approach to managing its investment strategy and asset allocation in order to ensure it is robust from a risk and return perspective.

In setting and implementing its investment strategy, the Fund takes advice from professional investment advisors.

The Fund's assets are managed by third-party investment managers responsible for the day-to-day investment decisions, including undertaking voting and engagement activities on behalf of the Fund. The Committee considers ESG integration and active ownership when selecting and monitoring investment managers.

The Fund expects its investment managers to engage with companies to monitor and develop their management of ESG issues in order to enhance the value of the Fund's investments. The Fund also expects feedback from the investment managers on the activities they undertake and regularly reviews this feedback through meetings and reporting.

The Fund would engage directly with a company in which it is directly invested, in exceptional circumstances.

The Fund supports and has signed up to the **Principles of Responsible Investment (PRI)** and expects its external investment advisors and investment managers, to be signatories, and demonstrate commitment, to the PRI.

The Fund expects the investment managers who hold shares on its behalf to fully comply with the **UK Stewardship Code 2020** **(the Code)** and to fully participate in voting at company annual general meetings. It expects its investment managers to carry out all voting decisions on behalf of the Fund and to provide feedback information on voting decisions on a quarterly basis.

As a member of **The Institutional Investors Group on Climate Change (IIGCC)** the Fund will monitor developments on climate change and use the research undertaken to monitor and challenge our investment managers.

Our Commitment

We acknowledge that the Fund's approach to RI will need to continually evolve, both due to the changing landscape with respect to ESG issues, as well as broader industry developments. We are committed to making ongoing improvements to the Fund's approach and the processes that underpin the delivery of this policy to ensure it remains relevant.

Glossary

ESG – Environmental, social and corporate governance issues

RI - Responsible Investment – This refers to the incorporation of environmental, social and corporate governance considerations into investment processes, as these are absent in much traditional financial analysis. RI was very focused on company level analysis, but climate change and sustainability challenges increasingly require a more strategic, forward looking, portfolio view. There are 4 levers that an investor can use in its responsible investment approach: integration, stewardship, thematic investment and exclusions.

PRI – The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary General. The principles are as follows:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the principles.
6. We will each report on our activities and progress towards implementing the Principles.

Stewardship and Active Ownership – The principle that shareholders should not be passive in their role as providers of capital and should take an active approach to using the voting rights attached to their shares and engaging with the companies they invest in (where appropriate) to encourage best practise and maximise shareholder value. For pooled fund clients, good stewardship and active ownership can be demonstrated through the review and ongoing monitoring of the pooled fund managers' activities in the areas of voting and engagement and the managers demonstrating the potential value of their actions.

UK Stewardship Code – Introduced for institutional investors in 2010, the UK Stewardship Code aims to incentivise investors to seek increased accountability from company boards and encourage them to seek on-going dialogue with their investors. The Stewardship Code has seven Principles, and it is a mandatory requirement of the Financial Conduct Authority (FCA) that UK authorised asset managers disclose their compliance with the Code or explain otherwise through a public 'Statement of Commitment'.

IIGCC – The institutional Investors Group on Climate Change (IIGCC) is the European membership body for investor collaboration on climate change.