Greater Gwent (Torfaen) Pension Fund

Investment Strategy Statement

2024/25

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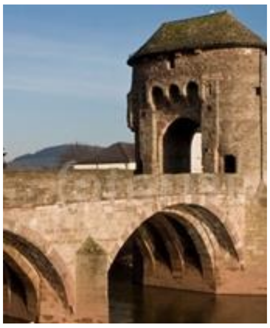
Deputy Chief Executive

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TORFAEN COUNTY BOROUGH — BWRDEISTREF SIROL TORFAEN

www.gwentpensionfund.co.uk

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Investment Strategy Statement 2024/25

Introduction and background

This is the Investment Strategy Statement ('ISS') of the Greater Gwent (Torfaen) Pension Fund ('the Fund'), which is administered by Torfaen County Borough Council, ('the Administering Authority'). The ISS is made in accordance with Regulation 7 of the Local Government Pension Fund (Management and Investment of Funds) Regulations 2016.

The ISS has been prepared having taken advice from the Fund's advisers. The Pension Committee ('the Committee') acts on the delegated authority of the Administering Authority and this ISS was approved by the Committee on 18 March 2024. It is subject to review at least every three years and without delay after any significant change in the Fund's strategic asset allocation. The investment strategy is designed to be long term but, whenever considering any changes, the Committee consults with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement (dated April 2023).

Governance

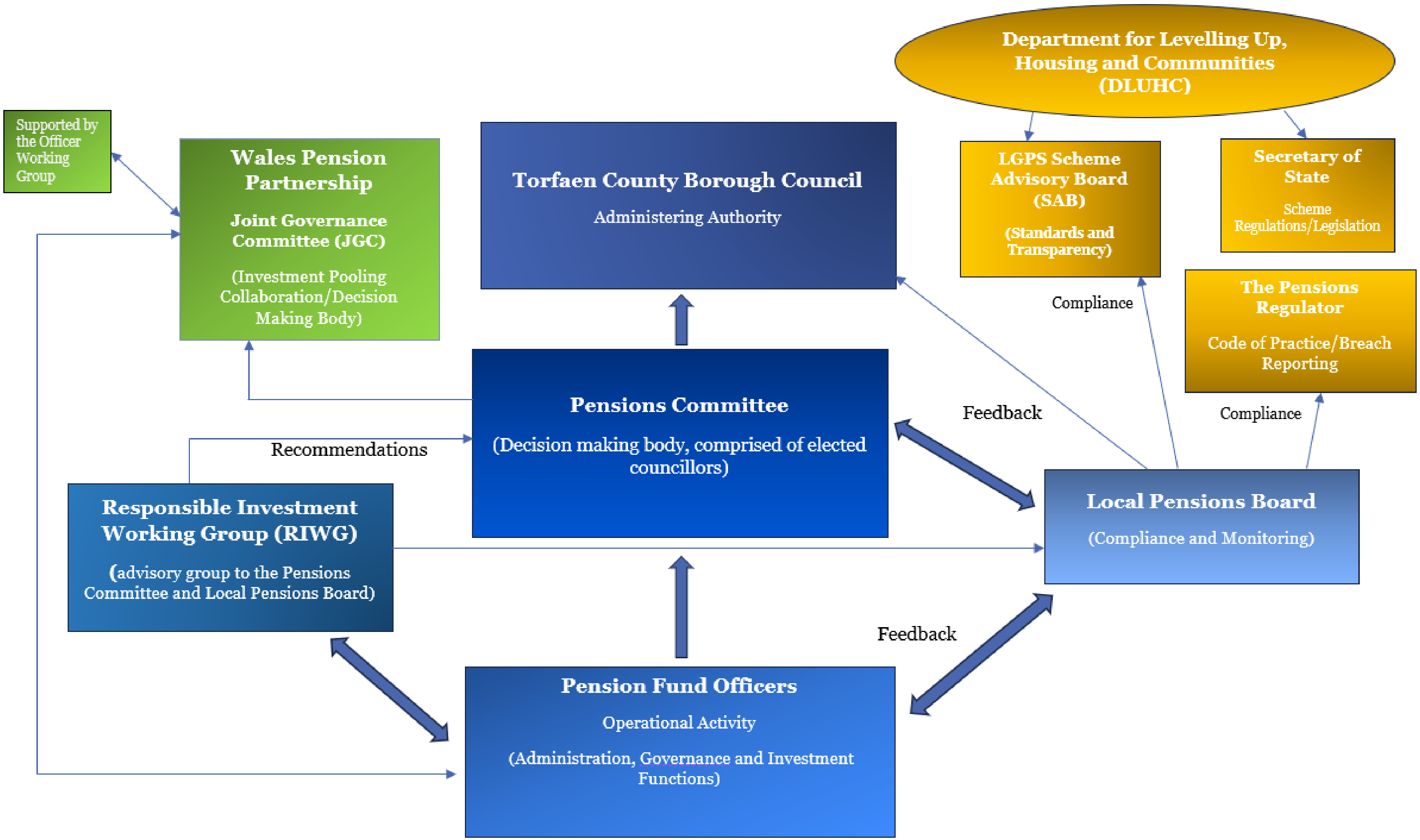
Torfaen County Borough Council, as administering authority of the Greater Gwent (Torfaen) Pension Fund, has delegated responsibility for the management of the Fund to the Pension Committee. The Committee has a number of responsibilities, one of which is to establish an investment policy and consider recommendations by officers as to how to implement the agreed policy.

The Committee has a fiduciary duty to safeguard the interests of the Fund's beneficiaries by ensuring the investments maximise returns within an appropriate level of risk. Beneficiaries are the members of the Fund who are currently in receipt of benefits (pensioners), or those who will be entitled to benefits at a future date (active members or deferred members) as well as scheme employers participating in the Fund.

Any decisions affecting the Fund's Investment Strategy are taken with appropriate advice from the Fund's advisors. Officers and advisors need to ensure that they possess the necessary skills and knowledge in which to propose recommendations to the Committee. The members of the Committee will receive training as appropriate, to enable them to critically evaluate any advice they receive.

The Fund also has a Local Pension Board whose role is to assist in the good governance of the scheme by ensuring compliance with statutory and regulatory duty. The Local Pension Board are also required to receive training to enable them in their role. However, unlike the Committee, the Local Pension Board do not have any decision-making powers.

The Section 151 Officer of Torfaen County Borough Council has responsibilities under Section 151 of the Local Government Act 1972 and provides financial advice to the Committee, including financial management, details of compliance with internal regulations and controls, as well as budgeting and accounting.


Department for Levelling Up, Housing and Communities (DLUHC)
Supported by the Officer Working Group
Wales Pension Partnership
Joint Governance Committee (JGC)
(Investment Pooling Collaboration/Decision Making Body)
Torfaen County Borough Council
Administering Authority
LGPS Scheme Advisory Board (SAB)
(Standards and Transparency)
Secretary of State
Scheme Regulations/Legislation
The Pensions Regulator
Code of Practice/Breach Reporting
Compliance
Compliance
Pensions Committee
(Decision making body, comprised of elected councillors)
Feedback
Recommendations
Responsible Investment Working Group (RIWG)
(advisory group to the Pensions Committee and Local Pensions Board)
Local Pensions Board
(Compliance and Monitoring)
Feedback
Pension Fund Officers
Operational Activity
(Administration, Governance and Investment Functions)

Fund Objectives and Beliefs

The suitability of particular investments and types of investments

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or on death, on a defined benefits basis. This funding position will be reviewed at each triennial actuarial valuation. Pension and lump sum benefits will be met by employer contributions in accordance with the funding strategy, as well as employee contributions and investment returns.

The funding strategy and investment strategy are therefore inextricably linked. Following the 2022 triennial valuation exercise the Fund has prepared an updated Funding Strategy Statement which can be viewed here: funding-strategy-statement-april-2023.pdf (gwentpensionfund.co.uk)
One of the primary objectives of the Pension Committee is to ensure that all accrued benefits are fully covered by the value of the Fund's assets. The level of contributions agreed between the Fund and the employer should be sustainable and able to meet the cost of future benefits accruing over the long-term.

The Pension Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is advised by the scheme actuary as the long-term investment return required to ensure that the Fund's assets continue to keep pace with future accrual (i.e., the discount rate). This benchmark is also consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term investment return whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

Within its general consideration of strategic approach, the Fund's Investment Objectives can be summarised as: -

- to enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies;
- to manage employers' liabilities effectively;
- to ensure that sufficient resources are available to meet all liabilities as they fall due;
- to maximise the returns from investments within reasonable risk parameters;
- to ensure that all statutory payments made from the Pension Fund are at minimal cost to local tax payers;
- to ensure the Fund has a credible funding plan in place over the longer term which strives for a sustainable funding level in excess of 100%;
- to aim for consistent above median investment returns over rolling 3-year periods; and
- to ensure that the Fund maintains sufficient levels of liquidity to meet the demands of its pension liabilities and private market investment commitments.

The Pension Committee regards the strategic asset allocation as the decision that has most influence over the likelihood of achieving its investment objectives. To support these objectives, the Pension Committee has adopted investment beliefs over a number of years which are central to any revisions to the strategic asset allocation of the Fund. The Fund's investment beliefs can be summarised as follows:

- **Long-term focus** – the long-term nature of the LGPS allows for a long-term approach to investing. As such, the Funds allocation consists of both liquid and illiquid assets.
- **Diversification** – the Fund invests across a broad range of asset classes, geographies, sectors, and management styles to ensure that its investments are sufficiently diversified which helps to mitigate the risk of financial loss over the long-term.
- **Responsible Investment** – taking Environmental, Social and Governance (ESG) factors into consideration within the Funds investment approach can help to enhance long-term returns, so investment managers should integrate responsible investment into their decision-making process.
- **Sustainability** – recognising that climate change, as well as other ESG factors, present both opportunities and risks that require explicit consideration by long-term investors. The Pension

Committee will ensure that its investment strategy, investment management actions, governance and reporting procedures take account of this.
- **Social Impact** – active pursuit of opportunities that will provide economic, environmental, and societal benefits to society that are both intentional and additional, whilst also generating sufficient financial returns.
- **Active Management** - market inefficiencies can result in added value returns. It is therefore appropriate for the Fund to pursue active investment management as well as passive.
- **Collaboration** – working in conjunction with the Wales Pension Partnership (WPP), the Local Authorities Pension Fund Forum (LAPFF) as well as other likeminded investors will help to bring about investment opportunities that may have otherwise been unavailable.
- **Value for Money** – continuing to invest via the WPP wherever possible will receive the benefit of cost efficiencies and increased scale, better collaboration and adherence with regulations and guidelines.

Strategic Asset Allocation Benchmark

The Pension Committee aims to balance risk and return by investing across a range of asset classes which are intended to achieve the Fund's objectives, to manage risk and to match the long-term investment horizon of the LGPS. The objective is to generate a return at least equal to the investment return assumption assumed by the scheme actuary (i.e., the discount rate) at each actuarial valuation. The assumed investment return is used by the scheme actuary to 'discount' the Fund's liabilities to a present value. The actuarial valuation in 2022 determined an investment return of4.3% over the next 20 years, slightly greater than that of the of the assumed return of 4.0% at the 2019 actuarial valuation, albeit with a marginally higher likelihood of achieving the stated return based on their models.

The Fund's Strategic Asset Allocation (SAA) Benchmark is therefore formulated in consultation with the scheme actuary and revised at each actuarial valuation accordingly. The benchmark includes a variety of asset classes in order to diversify the Fund's source of returns and takes into account the required level of return within appropriate risk parameters. The benchmark takes into account future expected returns, volatility measures on a historical basis and the level of correlation across each asset class.

The Fund's SAA is formally reviewed at least every three years' following an actuarial valuation or more frequently as required and is informed and revised following advice from the Fund's Independent Advisors. The Fund's SAA table below shows the strategic allocations agreed following the 2023 investment strategy review, together with an interim range and indication of changes since the 2019 review:

Asset Class	SAA 2023	Interim range to achieve SAA[1]	Variance to SAA agreed in 2019
Equities	**57%**	**57-64%**	**+1%**
UK Equities	10%		
Global Equities (Active & Passive)	37%		
Overseas & Emerging Markets Equities	10%		
Fixed Income & Private Credit	**17%**	**15-17%**	**-3%**
Listed Fixed Income	6%		
Private Credit	11%		
Multi-Asset	**5%**	**3-7%**	**0%**
Real Assets	**20%**	**14-20%**	**2%**
Infrastructure	12%		
Real Estate	8%		
Cash	**1%**	**1-5%**	**0%**
	100%		

1 interim range intended to offer flexibility to achieving the long-term SAA over the proceeding three-year period.

Investment of money in a wide variety of investments

Asset classes
The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property, and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Pension Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. In undertaking such a review, the Committee seeks and considers proper advice from persons whom the Committee reasonably consider to be qualified by their ability in and practical experience of financial matters. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

Equities

Equity exposure comprises ownership of listed companies and as an asset class has been a source of impressive financial returns, particularly over the past 20 years. In recent years, the Fund's large allocation to equities and strong performance relative to other asset classes has supported a significant improvement in the overall funding level. The Pension Committee believes it is important that the Fund maintains a sizeable equity allocation to ensure it is positioned to capitalise on the potential for higher returns and to optimise its funding position going forward.

Fixed Income & Credit (listed and unlisted)

Typically, Fixed Income is considered a lower risk asset class that provides income (where required), lower volatility and defensive characteristics to the portfolio. Private Credit also offers many of these characteristics but where wider spreads offer an illiquidity premium that is better suited to building high compound returns than allocations to listed investment grade or high yield bonds.

Multi-Asset

Multi-Asset strategies have exposure to a range of asset classes within a single aggregated portfolio. These strategies tend to be very dynamic in nature, allowing the appointed Investment Manager to tactically reallocate on a short-term basis to reflect changes in market conditions.

Real Assets (previously categorised as Private Market Alternatives):

Infrastructure

It is believed that infrastructure as an asset class will deliver higher returns over the long-term than listed credit while maintaining similar levels of duration exposure. The Fund seeks to build a blend of exposure between Fund-specific investments and the long-term options available via the WPP Platform. This combined approach is expected to help the Fund deliver on its Impact Investment strategy, as well as other RI and Climate Risk objectives such as supporting the transition to Net Zero and investing locally.

Real Estate

Real Estate exposure acts as a key portfolio diversifier due it's lack of correlation with equities and provides a source of income generation. The Fund's actual allocation to Real Estate is expected to increase significantly over the next few years as opportunities come forward from the WPP following the conclusion of its procurement exercise. Future Real Estate exposure is expected to consist of three investment 'sleeves': UK listed property funds, global property, and UK Impact focused investments.

Cash

Cash management comprises of cash held in the Fund's cash accounts (i.e., bank and money market funds) and cash held in the custodian's cash accounts. Cash is primarily used by the Fund to fulfil its core functions, including pension payments to its beneficiaries and to meet capital call drawdowns in relation to the investment commitments made.

Return Expectations

The SAA benchmark has been formulated in conjunction with the Fund's advisors (actuarial and investment) and undergoes a formal review at least every three years in line with the actuarial valuation exercise. The benchmark return is based on the actuarial rate used to 'discount' the Fund's liabilities to a present-day value. As of the 31st March 2022, the assumed discount rate for the Fund was 4.3% per annum over the next 20 years, slightly higher than the assumed return of 4% in 2019, albeit with a marginally higher likelihood of success of achieving the stated return.

The Fund's SAA review is underpinned by the abovementioned discount rate and the Pension Committee seeks to achieve this using a blend of asset classes that manage risk/return expectations over the long-term.

Restrictions on investment

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 have removed the previous restrictions that applied to the 2009 Regulations. The Fund may therefore consider the specific increased flexibility of the new Regulations within future strategic refinements and any required investment restrictions will be negotiated with fund managers or the Wales Pension Partnership, subject to the Fund receiving appropriate investment and/or legal advice.

Risk Measurement, Management and Reporting

The approach to risk, including the ways in which risks are to be measured and managed

The Pension Committee is aware that the Fund has a need to take an appropriate level of risk (e.g. investing in a blend of growth and protection assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Pension Committee's overarching beliefs is to only take as much investment risk as is necessary to achieve the required returns and to ensure that it takes proper advice in reaching such decisions.

The Fund's approach to risk is informed by the Pension Committee, the Local Pension Board, its advisors, and officers of the Fund. The Pension Committee maintains a Risk Management policy which sets out its approach to Fund wide risk management which can be accessed here: risk-management-policy-2023.pdf (gwentpensionfund.co.uk)

In addition, risks affecting the Fund are set out within its Risk Register which is under constant review and provides an assessment of risk together with measures in place to mitigate these risks. The risks are organised into a two-tiered structure as previously agreed with the Pension Committee. The two tiers broadly separate strategic and operational risks which are defined within the Fund's Risk Management policy. The strategic Risk register is presented to the Local Pensions Board and Pension Committee at least quarterly, with a full review of all risks (strategic and operational) at least annually. The most recent version of the Risk Register can be found within Pension Committee and Local Pension Board agenda's Browse meetings - Pensions Committee | Torfaen County Borough Council

The Fund is exposed to external market driven fluctuations in asset prices which affect the liabilities as well as value of assets held to pay pension benefits. The following sets out the investment risks that have been identified, measured, monitored, and managed on an active basis with senior Fund officers being responsible for the oversight of the process.

Risk Identified	Risk Detail
Investment Performance	
Inappropriate long-term investment strategy	The risk that the Fund fails to meet funding objectives in the long-term to fund pension liabilities
Pension Fund assets fail to deliver returns in line with the actuarial discount rate which underpins the valuation of liabilities over the long-term	Increased employer contribution rates.
Market Volatility	
Macro-economic and geo-political influences impacting the market value of the Pension Fund's investments	Security of the Fund's assets and Impact on the value of its investments.
LGPS Pooling	
Investment pooling with the Wales Pension Partnership (WPP) fails to deliver long-term investment returns	The WPP fails to deliver long-term investment returns above and beyond what the Fund could have been expected to return had pooling not occurred
Financial losses experienced during the process of transitioning Fund assets into the Wales Pension Partnership (WPP)	Poorly executed transitions of pension assets could result in high trading costs or loss of Net Asset Value in the short-term.
Responsible Investment	
Inadequate consideration of Environmental, Social and Governance (ESG) risks within the Fund's investments	Failure to incorporate ESG into investment processes as well as broader responsible investment considerations could result in public pressure, political criticism as well as the risk of substantial financial losses as a result of holding stranded assets in the various portfolios
Liquidity	
Insufficient cashflow to meet liabilities as they fall due	A negative cash flow would require the use of investment income to cover the payment of pension benefits rather than being in a position to reinvest cash now. It could also result in the need to sell investments to realise cash, potentially in a declining market, resulting in selling assets at a loss to fund cash commitments.
Professional Advice and Compliance	
Actuarial or investment advice is not sought or is not heeded or proves to be insufficient in some way	Reputational damage to the Fund if decisions are being taken with a lack of experience or understanding of the matter arising.
Failure to comply with the Myners' Investment Principles	Inefficient management of the Fund by the Administering Authority, failing to adhere to its core investment-related responsibilities and incurring additional costs as a consequence
The use of "Third Party" external services within Fund operations. This primarily relates to areas such as Actuarial Advice, Transitions, Custody, and stock lending.	Security of the Funds' assets is at risk. Inappropriate advice is provided by third parties.

A more comprehensive breakdown of the risks to which the Fund is exposed, and the measures in place to manage these risks, is set out within the Fund's publicly available Risk Register.

Asset Pooling – Wales Pension Partnership

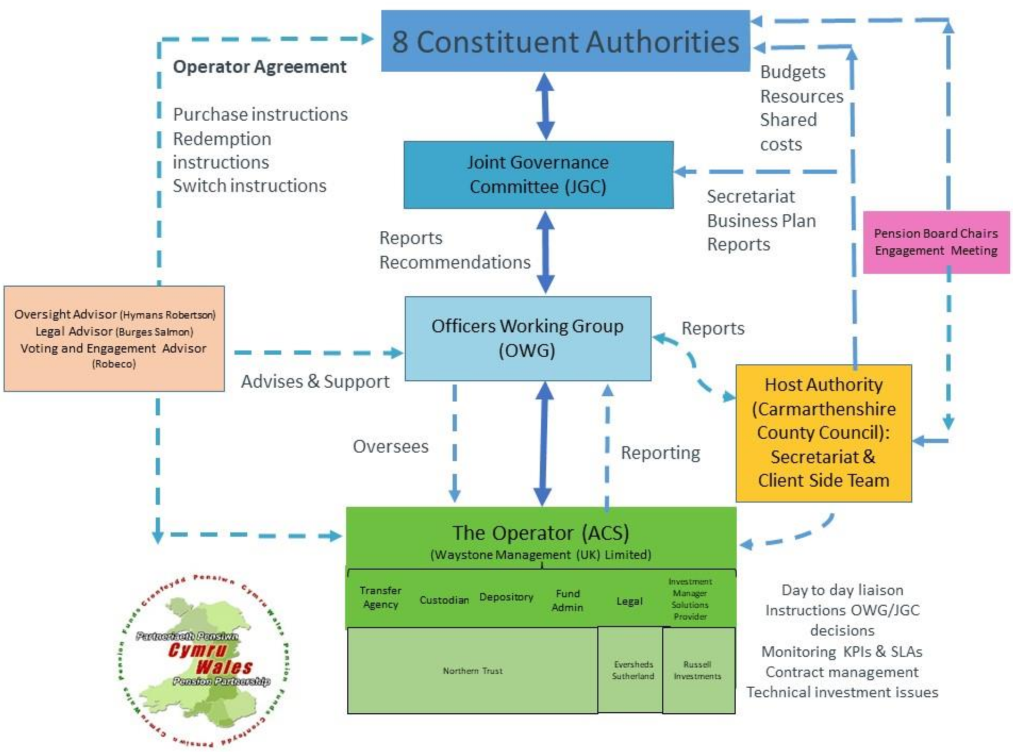
The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a participating scheme in the Wales Pension Partnership (WPP). The governance structure and basis by which the WPP operates was set out in the July 2016 submission to government and has since been continually reviewed and developed. The final arrangements are set out in an Inter Authority Agreement most recently approved by both the Pension Committee and Administering Authority's full Council in September 2021.

The WPP pool consists of all eight LGPS funds in Wales including Dyfed (Host Authority), City & County of Swansea, Cardiff & Vale of Glamorgan, Greater Gwent (Torfaen), Rhondda Cynon Taff, Powys, Clwyd, and Gwynedd. The WPP was established in accordance with Government requirements for pooling and management of LGPS investment assets. Collective investment management offers the potential for savings in investment fees, opportunities to broaden investment portfolios through the increased variety of investment offerings, enhanced voting, and engagement activity as well as access to shared knowledge and best practice. Whilst the WPP is responsible for providing collaborative investment solutions, each constituent authority remains responsible for setting their own investment strategy.

The WPP operates via a Joint Governance Committee (JGC) which comprises of the elected Chair of each LGPS fund and who form the decision-making body of the partnership, together with a co-opted non-voting Scheme Member Representative. The JGC is in turn supported by the Officer Working Group (OWG) which includes senior officer representation of each LGPS fund. Further, a number of emerging sub-groups of officers have been created to support the day-to-day objectives of the WPP. In addition, the WPP utilises external advisor support to manage its operations which includes Waystone Management (UK) Ltd (formerly Link Fund Solutions) as the FCA authorised operator who operate a collective investment vehicle for the sole use of the partnership. Moreover, Russell Investments provides the necessary investment management and advisory services, Northern Trust as the pool Custodian and Depositary and Robeco as the WPP's Voting and Engagement provider.

Structure and governance arrangements of the WPP:



The WPP, through consultation with all eight Constituent Authorities, has formulated a list of primary objectives which can be summarised as follows:

- To provide pooling arrangements which allow individual funds to implement their own investment strategies (where practical);
- To achieve material cost savings for participating funds while improving or maintaining investment performance after fees;
- To put in place robust governance arrangements to oversee the WPP's activities;
- To work closely with other LGPS pools in order to explore the benefits that all stakeholders in Wales might obtain from wider pooling solutions or potential direct investments;
- To deliver an investment framework that achieves the best outcomes for its Constituent Authorities as key stakeholders; and
- To embed the delivery of long-term, sustainable investment outcomes into decision making, through capital allocation, the ongoing scrutiny of asset managers, and the exercise of the rights and responsibilities that arise as asset owners.

In accordance with the recommendations set out by the Department of Housing and Levelling Up Communities (DHLUC) and more recently as set out in the LGPS Pooling consultation ("Local Government Pension Scheme (England and Wales): Next steps on investments"), the long-term objective of LGPS pooling is to transition all of its assets into the respective pool (i.e., WPP), in a timely and cost-effective manner, where the pool will continue to invest these assets on behalf of individual LGPS funds.

Assets to be invested in the WPP

The WPP launched its first sub-fund in 2018 and currently has 14 sub-funds available to underlying LGPS funds for investment across both listed and unlisted asset classes. Whilst a significant amount of progress has been made, the timeline for transition of the majority of remaining assets into the WPP is still expected to take many years to achieve. At the time of preparing this policy, the Fund had c.74% of its total assets under the management of the WPP, either via dedicated sub-funds launched or through the All-Wales framework which is a collectively procured pooling arrangement of passive equities that pre-dated the WPP.

Responsible Investment

How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

An approach to investment that broadly aims to incorporate environmental, social and governance (ESG) considerations into investment decision making. When addressed effectively, ESG considerations can contribute to long-term sustainable investment returns whilst also addressing investment risk and the long-term impact on society, the environment, and the performance of companies in general.

The Committee consider the Fund's approach to Responsible Investment (RI) in two key areas:

- **Sustainable investment / ESG factors** – considering the financial impact of environmental, social, and corporate governance (ESG) factors on its investments, both existing and potential.

- **Stewardship and governance** – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process, or via appropriate delegation of these functions to investment managers.

Sustainable Investment / ESG factors

The Pension Committee believes that it is part of its fiduciary duty to incorporate RI into its investment and decision-making process. In order to do this effectively the Committee recognises the importance of engaging with ESG issues, including climate change, and managing risks associated with them.

The Pension Committee maintains a policy that sets out the Fund's approach to RI, acknowledging its responsibilities as an asset owner, investment beliefs, principles, and long-term objectives. This is consistent with the Local Government Pension Scheme Management and Investment of Funds Regulations (2016). The Fund strives to invest responsibly, as opposed to ethically. An ethical investor will generally exclude certain investments from the outset, or following stakeholder pressure, as this decision may be considered more important than financial considerations. A responsible investor will invest across a range of listed companies but will use the power of ownership to influence companies to improve their ESG performance to manage risk and generate long-term returns.

In 2017, the Committee agreed to formulate a separate working group, the Responsible Investor Working Group (RIWG), to actively consider the impact of ESG matters and reflect on how they may impact the Fund's investment and RI objectives. The role of the RIWG is to support the development and implementation of the Fund's RI and Climate Change policies and to propose recommendations to the Pension Committee accordingly. The RIWG continues to be a useful sounding board that considers the views of the Pension Committee and Local Pensions Board in relation to various aspects of responsible investment.

Impact Investment

The Pension Committee broadly supports the aspirations and objectives of the UK Government's levelling up agenda and acknowledges its importance in helping to achieve the goal of increased equality of opportunity within the UK through investment in local projects offering an appropriate risk-reward proposition.

The Pension Committee intends to support the objectives of the levelling up agenda so far as they remain consistent with its fiduciary duty and broader investment objectives and beliefs. It will strive to achieve this through the pursuit of investment opportunities with the potential to deliver positive impact outcomes, defined as investments made with the intention to generate positive, measurable, social, and environmental impact alongside a financial return.

The Fund has established a bespoke Impact Investment policy that sets out how the Fund will approach investment in the 'levelling up missions.' The policy is a statement of intent from the Pension Committee and aims to provide a framework for the Fund to pursue impact investment opportunities and to outline the various parameters that will be factored into this process.

The Fund will be flexible in its approach to impact investment, recognising that some investments may contain a mix of assets, of which only part will represent "impact". In such cases, Fund officers and advisors will adopt a look-through approach to ensure that the underlying assets within an investment fund or portfolio can be genuinely categorised as purporting to deliver impact, rather than characterise the whole allocation as capable of delivering positive impact, and where this isn't the case making sure that this is reflected in future reporting.

Further information about the Fund's approach to Impact Investing and additional details about the Impact Investment Policy can be found here: [impact-investment-policy-january-2024.pdf (gwentpensionfund.co.uk)]

Climate Change

The Committee believes that climate change presents a systemic risk that has the potential to affect economies, financial returns, and demographics. The risks arising from climate change may be characterised as follows:

1. **Physical risks**, such as damage to property from severe weather or lower precipitation giving rise to crop failure;
2. **Transition risks**, being the financial risks arising from changes in policy and technology to adjust to a lower carbon economy; and
3. **Liability risks**, being the potential costs arising from parties who have suffered.

The Pension Committee has a preference to engage with its full range of providers to ensure that it undertakes all necessary steps to remaining a good steward of capital. A common mechanism for monitoring climate related risks is under development alongside the WPP and will continue to evolve over time.

The Fund will actively encourage all of its investment managers and service providers to disclose in line with the requirements of the Taskforce for Climate Related Financial Disclosure (TCFD) and will strive to comply with its own requirements once TCFD reporting requirements are applied to the LGPS.

Whilst climate change is generally considered as a risk to the Fund's investment strategy and the responsibilities that the Pension Committee has to its stakeholders, it is also increasingly considered an opportunity as more and more credible investment propositions in climate solutions are coming available and are attractive from an investment standpoint. Alongside its obligation to manage climate change risk, the Committee will actively encourage investment in long-term solutions as a mitigation measure.

Stewardship and Governance

Voting and Engagement

The Pension Committee believes that engaging with companies is preferable to a policy of blanket disinvestment. This is because engagement, particularly in collaboration with other asset owners, can lead to positive change in corporate behaviour and strategy. The Penson Committee considers divestment to be less "responsible" in the sense that if all the responsible investors (those who typically engage with companies) divest their shares then there will be no owners challenging corporations on their strategies, and so the prospect of positive change is undermined as a result. Where active engagement fails and there is no prospect of positive change in behaviour by a particular company, divestment remains an option that would be explored.

The Pension Committee recognises the benefits of engagement on a range of thematic issues and, via the WPP, has worked with Robeco as Voting & Engagement (V&E) provider to undertake this engagement activity.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and both officers and members receive LAPFF alerts when there is a campaign to vote in a certain way. The Fund has instructed the V&E provider, via the WPP, to consider all such LAPFF alerts and, where considered appropriate, to vote in line with such an alert.

Stock Lending

The Pension Committee has historically delegated stock lending responsibility to its appointed investment managers. The Pension Committee believes that stock lending can be an effective way to generate additional revenue in accordance with its investment strategy. However, the Pension Committee also recognises that stock lending should not be used to the detriment of being a responsible investor. Stock lending, if not managed diligently, may inhibit the full application of a voting policy as votes may not be cast on stock on loan and so there is a balance to be achieved as a result.

WPP has agreed that stock lending will be permitted within WPP's actively managed pooled funds, subject to consultation with Constituent Authorities in respect of each underlying sub-fund at the point of set up. WPP will lend a maximum of 95% of the holding in any single stock, ensuring WPP can express its views and make a policy stance on any topic it deems worthy through its right to vote. In addition, no more than 25% of total assets under management at any one time will be considered lendable.

The Stewardship Code

The WPP is a signatory to the UK Stewardship Code following two successful applications in 2021 and 2022 and has a pending application for 2023. As one of the eight LGPS funds within the WPP, the Fund has helped shape the formation of each stewardship report and shares the same beliefs from a stewardship perspective.

The most recent iteration of the WPP's Stewardship Report can be found on the WPP's website wpp-stewardship-report-2022_final.pdf (walespensionpartnership.org)

Whilst not having formally signed up to the Code, the Fund strives to abide by the principles and recognises the importance of the investments being managed in accordance with these principles. The Pension Committee ensures that, where appropriate, its investment managers are themselves signed up to the code and thus manage the investments in accordance with the twelve principles of the code. Moreover, the Fund does already act on some of the principles of the UK Stewardship Code at a Fund level, one being via its membership of the LAPFF, a collection organisation of LGPS who engage fund managers and investee companies to promote responsible investor/ownership practices.

Responsible Investment and the Wales Pension Partnership (WPP)

The WPP's long-term ambition is to demonstrate leadership on RI practices in managing assets for and on behalf of the Constituent Authorities. Wales Pension Partnership. WPP recognises that the development of beliefs represents best practice for asset owners. In consultation with all eight LGPS funds in Wales, the WPP share the following RI beliefs, which serve to underpin its decision-making and governance processes:

- The RI behaviours we want to see demonstrated by all our stakeholders must be led by WPP;
- The integration of ESG factors, including climate change, into investment processes is a prerequisite for any strategy, given the potential for financial loss;

- WPP is most effective as an investor engaging for change from within, particularly in collaboration with other like-minded investors, as opposed to a campaigner lobbying for change from outside;
- WPP's impact on corporate behaviours will be greatest when we speak with one voice; and
- The effective oversight of RI practices requires clear disclosure and measurement of comprehensive data.

Further information around how the WPP integrates RI into its decision-making process can be found within its Responsible Investment policy: ri-policy-2022.pdf (walespensionpartnership.org)

Compliance with this statement

The Pension Committee will monitor compliance with this statement. In particular, the Committee will ensure its investment decisions are exercised with a view to giving effect to the principles contained in the statement, so far as is reasonably practicable.

Author:
Alexander Bull, Head of Pensions

(For and on behalf of The Greater Gwent (Torfaen) Pension Fund Committee)

Appendix 1 – Compliance with the Myners Principles of Good Governance

1. Effective Decision Making

Appointment of a Pension Committee whose terms of reference are to discharge the functions and duties of the Council as the Administering Authority.

The Administering Authority is also supported by the Local Pension Board whose role is to assist with ensuring Fund activity is compliant with legislation and the regulations, as well as ensure good governance is incorporated into processes.

Members of both the Pension Committee and Local Pension Board follow a training programme as agreed between officers and members.

The Fund appoints external advisors and promotes the development of internal in-house officers to oversee the day to day running of the Fund.

2. Clear Objectives

The Fund Investment Strategy Statement sets out the Greater Gwent (Torfaen) Pension Fund objectives in relation to the split between Equities, Fixed Income and Private Credit, Real Assets, Multi-Asset funds and cash.

In light of the 2022 triennial valuation, the Fund has recently undergone a detailed review of its funding position which in turn has slightly evolved the Strategic Asset Allocation (see Asset Allocation section above). The Committee are aware of the Fund's current marginal deficit despite significant improvements over the past several years. The updated Investment Strategy is designed to continue to improve the Fund solvency and funding ability whilst keeping employer contributions as stable as possible.

3. Risk & Liabilities

During the Strategic Asset Allocation review, the Committee considered this mix of assets being proposed by Officers and Independent Advisors, in light of the overall level of risk that they are prepared to accept, particularly in the context of investment volatility.

In addition, the Committee consider Fund wide risks on a quarterly basis, including all risks in relation to Funding and Investment, and will hold officers account to ensure that these risks are mitigated as far as possible.

4. Performance Assessment

The Pension Committee receive quarterly updates as to the performance of all Fund investments, including an independent assessment of Investment Manager Performance as carried out by the Independent Advisors.

5. Responsible Investment

The Pension Committee maintain an RI policy. The RI policy stipulates the responsibilities of the Fund, together with investment beliefs and policy objectives for future investment activity.

In addition, the Fund facilitates a RIWG which comprises members of both the Pension Committee and Local Pension Board, including the Chair of each. Although not a decision-making body, the RIWG undertakes detailed analysis of investment challenges and considers the RI policy objectives when making recommendations to Pension Committee.

6. Transparency & Reporting

The Fund promotes the provision of transparent and clear reporting across its range of services. The Fund maintains a host of key policy documents that are reviewed regularly and involve input from our stakeholder groups, the Local Pension Board as well as Pension Committee. The Fund regularly reviews and maintains a risk register document which is reported to each quarterly Board and Committee meeting. In addition, investment performance of the Fund's investment managers is also reported and considered quarterly.

The Fund also supports the Cost Transparency Initiative (CTI) promoted by the Scheme Advisory Board (SAB).

Appendix 2 - Financial Management

The Fund's investments are not managed in-house. Prior to investment pooling, the Pension Committee appointed its own external investment managers, all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business, to manage the Fund's investments. Since the formation of the WPP in 2017, the decision to appoint certain investment managers has been delegated to the LGPS pool.

The Pension Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The appointed investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

The Fund's pooling progress with the WPP means there are less direct investment manager appointments to monitor. As a result, further scrutiny of the WPP and its appointed managers continues to take place, including via the governance framework in place for appointing new investment managers to manage WPP assets.

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