



DYFED PENSION FUND

Investment Strategy Statement

Administered by:



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1. Introduction

This is the Investment Strategy Statement (the “Statement”) of Dyfed Pension Fund (the “Fund”) as required by regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the “Regulations”).

The regulations require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

The ISS is an important governance tool for the Fund. The document sets out the current investment strategy of the Fund, provides transparency in relation to how the Fund’s investments are managed, acts as a high-level risk register, and has been designed to be informative for all stakeholders. This document replaces the Fund’s Statement of Investment Principles.

In preparing this Statement, the Fund has consulted with such persons as it considers appropriate, and the document will be updated based on any factors that the Fund considers material to its liabilities, finances or attitude to risk.

This statement will be reviewed at least triennially or more frequently if appropriate.

2. Investment Objectives and Beliefs

The primary objective of the Fund 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, in accordance with LGPS Regulations.

The Funding Strategy and Investment Strategy are intrinsically linked and together aim to deliver stable contribution rates for employers and a reduced reliance on employer contributions over time.

The investment objective is therefore to **maximise returns subject to an acceptable level of risk (including climate and other ESG risks) whilst increasing certainty of cost for employers and minimising the long-term cost** of the scheme. Having a thorough understanding of the risks facing the Fund is crucial and these are covered later in this statement.

The Fund’s investment beliefs which help to inform the investment strategy are as follows:

- Funding, investment strategy and contribution rates are linked.
- The strategic asset allocation is the key factor in determining the risk and return profile of the Fund’s investments.
- Effective governance structures, which promote decisiveness, efficiency and accountability, can add value to the Fund.
- Investing over the long term provides opportunities to improve returns and allows the Fund to take some risks (eg. volatility, illiquidity) which might not otherwise be acceptable.

- Diversification across and within asset classes can help to mitigate against adverse market conditions and assist the Fund to produce a smoother return profile due to returns coming from a range of different sources.
- Managing risk is a multi-dimensional and complex task but the overriding principle is to take the appropriate level of risk, to achieve the Fund's objectives.
- Environmental, Social and Governance are important factors for the sustainability of investment returns and risks over the long term. Climate change (UN SDG 13), in particular, has the potential materially to impact the returns and risk profile of various assets. The committee believes that adjusting its investment allocations and engagement with investee companies can both help to achieve its responsible investment goals.
- Stewardship is an important responsibility and one which can be delegated. Engaging with investee companies is an important part of this and is likely to be more effective than divestment in improving desired outcomes.
- Value for money from investments is important, not just absolute costs. Asset pooling will help reduce costs whilst providing more choice of investments and will therefore be additive to Fund returns.
- Active management can add value to returns over the long term.

3. Investment Strategy

Asset Classes

Translating the Fund's investment and funding objectives into a single suitable investment strategy is challenging. The key objectives often conflict. For example, minimising the long-term cost of the scheme is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Additionally, the employers in the Fund have different underlying characteristics and long-term funding objectives.

It is the Pension Committee's (the "Committee") policy to monitor, in consultation with the actuary, the likely position regarding the solvency ratio in order that the risk of deterioration of the solvency ratio below 100% is minimised. The Committee may consider amending the Investment Strategy should they be advised at some future stage that this would be the only acceptable route to avoid under funding.

The Committee, following a Strategic Asset Allocation (SAA) review, has set a benchmark mix of asset types and ranges within which the investment managers may operate with discretion. This is shown in **Appendix A**. The Committee believes that this mix of assets will fulfil the assumptions within the valuation undertaken as at 31 March 2022, as well as taking account of the liability profile of the Fund. This mix will also help to control the risks outlined below.

A review of the SAA is undertaken every three years following the actuarial valuation and provides the assurance that the investment strategy is aligned to the long-term funding plan. This review utilises both qualitative and quantitative analysis, and covers;

- The required level of return that will mean the Fund can meet its future benefit obligations as they fall due.
- The level of risk that the Fund can tolerate in absolute terms, and in relation to its funding level.
- An analysis of the various risks facing the Fund is established in order that a priority order for mitigation can be determined.
- The desire for diversification across asset class, region, sector, and type of security.

Managers

The Fund has appointed a number of investment managers over the years, all of whom are authorised to undertake investment business.

The 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 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 their respective benchmark indices.

4. Risk measurement and management

The Fund assesses risks both qualitatively and quantitatively, with the starting point being the investment strategy review which is undertaken every three years. The Fund's approach to risk is informed by the Committee, its professional advisors and officers of the Fund.

The key risks that the Fund is exposed to can be grouped under the following headings: asset; funding; operational and governance. These risks are identified, measured, monitored and managed on an active basis with the responsibility for oversight from the Treasury & Pension Investments Manager.

These risks are summarised as follows:

Asset Risks

- Concentration – The risk that significant allocation to any single asset class (or manager) and its underperformance relative to expectation would result in difficulties in achieving funding objectives. Concentration may be mitigated by holding different strategies within an asset class.
- Illiquidity – The risk that the Fund cannot meet its liabilities because it has insufficient liquid assets.

- Manager underperformance – The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

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

Funding Risks

- Financial mismatch - The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities (largely driven by changes in long term interest rates and inflation) and the risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- Changing demographics – The risk that longevity improves and other demographic factors change increasing the cost of Fund benefits.
- Systemic risk – The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial “contagion”, resulting in an increase in the cost of meeting Fund liabilities.
- Legislation/regulatory - changes in legislation or regulations governing the treatment of pension fund liabilities can have a material impact on funding ratio.

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

The asset allocation is rebalanced on a regular basis to ensure that it does not stray outside the ranges for any sustained period (subject to the normal funding lead times for certain private markets asset allocations).

The Committee keeps under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

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

Operational risk

- Transition risk – The risk of incurring unexpected costs in relation to the transition of assets among managers. The Committee takes professional advice in relation to the monitoring and oversight of any transitions.

- Custody risk – The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default – The possibility of default of a counterparty in meeting its obligations.
- Stock lending – The possibility of default and loss of economic and voting rights of Fund assets.
- Physical climate change risk – the risk that the operations of the Fund or its sponsor entities may be impacted by flood, fire or temperature events.

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

Governance Risk

Good governance is an essential part of the Fund’s investment strategy and the Fund therefore identifies poor governance as a potential risk that can have a detrimental effect on the funding level and the deficit/surplus. The Fund ensures that its decision making process is robust and transparent and this is documented in the Governance Compliance Statement which is published on the Fund’s website.

Environmental, Social and Governance Risks

The Fund’s investment strategy includes its own approach on Responsible Investment (RI). The Fund has developed an RI Policy which is published on the Fund’s website. Non-compliance would expose the Fund to financial and reputational risk. The Fund believes that effective management of financially material RI risks should support the Fund’s requirement to protect returns over the long-term. The Fund will seek to further integrate RI factors into the investment process across all relevant asset classes.

5. Approach to asset pooling

The Fund joined the Wales Pension Partnership (WPP) in 2016 with the understanding that the pooled investments will benefit from lower investment costs, greater investment capability and access to a more diverse range of asset classes. The implementation of the Fund’s investment strategy by an FCA regulated provider leads to improved governance, transparency and reporting giving the Fund assurance that its investment strategy is being implemented effectively.

The key criteria for the assessment of WPP’s solutions is:

- That the WPP enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund
- That there is a clear financial benefit to the Fund in investing in the solution offered by the WPP, should a change of provider be necessary.

To date WPP has launched the following sub-funds and private market investments which the Fund is invested in:

Global Equities – Global Growth Fund.

Global Equities – Sustainable Active Equity Fund.

Fixed Income – Global Credit Fund.

Infrastructure – GCM WPP Global Infrastructure LP.

Infrastructure – Capital Dynamics CEI (WPP) LP.

Private Credit – Russell Investments WPP Global Private Credit LP.

Pooled Investments

Fund	Asset Class	Range (%)
Global Equities	Equity	30 – 40
Global Credit Fund	Fixed Income	7.5 - 12.5
Infrastructure	Private Markets	0 – 5
Private Credit	Private Markets	0 – 5
Total Pooled Investments		Circa 50%

Assets Under Pooled Management

Fund	Asset Class	Range (%)
BlackRock Passive (jointly procured)	Equity	25 - 35
		Circa 30%

Assets Not Yet Pooled

Fund	Asset Class	Range (%)
BlackRock Active (strong long-term performance)	Equity	0 - 5
BlackRock UK SAIF (procured prior to pooling)	Alternatives	0 - 5
Real Estate (opportunity currently not available through WPP)	Real Estate	10 - 15
Total Assets Not Yet Pooled		Circa 20%

The Fund intends to invest the majority of its remaining assets into the WPP once opportunities arise but will maintain some cash balances at the Fund. Investment strategy will be retained by the Fund with advice from all relevant professional advisors.

Structure and governance arrangements of the WPP

The WPP has appointed a third-party operator authorised by the FCA (Waystone Management (UK) Limited formerly Link Fund Solutions) to provide a series of investment sub-funds in which the assets of the participating funds are invested.

Outside of the operator arrangement WPP has launched a number of Private Market investments, including Infrastructure, Private Credit and Private Equity.

A Joint Governance Committee (JGC) has been formally established to make decisions and oversee all activities of the WPP. The JGC comprises of the eight Chairs

of the committees of the participating funds. This arrangement provides accountability for the operator back to individual administering authorities.

It operates on the basis of 'One Fund, One Vote', though the intention is that any decisions are reached by consensus wherever possible.

The JGC is in regular discussions with the operator as to the specific sub-funds which should be set up within the WPP, both at the outset and on an ongoing basis.

Officers from each constituent authority attend JGC meetings (in a non-voting capacity). The officers advise the JGC via the Officer Working Group (OWG) on the establishment and monitoring of the various sub-funds and private market investments as well as liaison directly with the operator on any day-to-day investment matters. The members of the JGC report back to their respective individual funds' pension committees who are responsible for satisfying themselves as to the effectiveness of the pooling arrangements overall and the operation of the JGC.

The Pension Board seeks reassurance on aspects of the management of the Fund's investments and external scrutiny. Formal due diligence of the operator and depository is carried out by the FCA in their role as regulator.

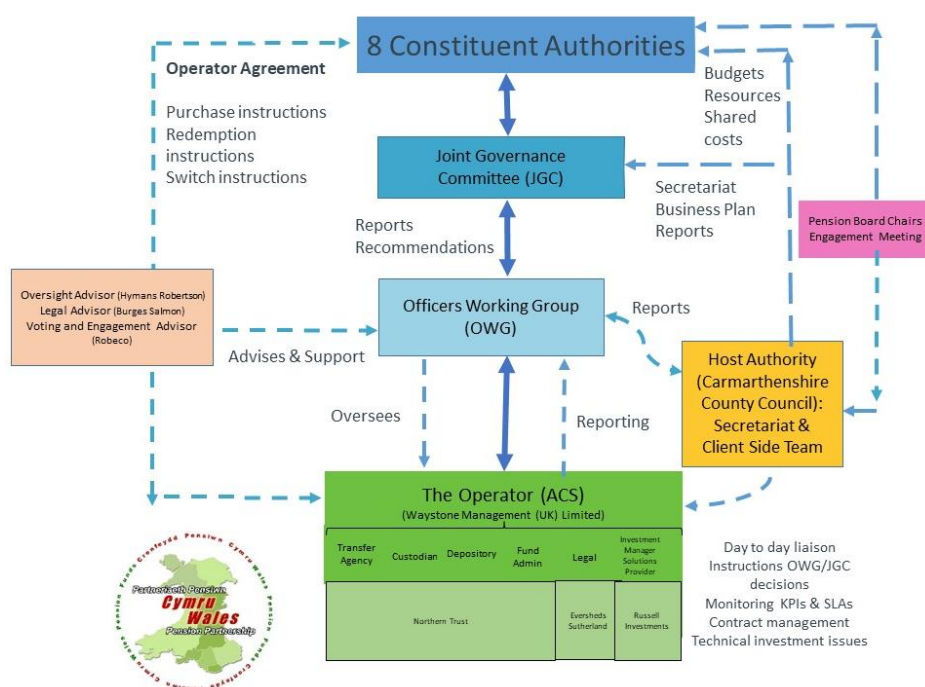
The operator is responsible (alongside Russell Investments – the Investment Management Solutions provider) for selecting and contracting with investment managers for each of the sub-funds as well as appointing other service providers such as depository asset services as necessary. Listed bonds and equities are invested through the UK based Authorised Contractual Scheme (ACS) in order to benefit from the tax transparent nature of the vehicle. It may be that alternative vehicles are more appropriate for some other asset classes. As well as considering the options with the operator, WPP also takes external advice on the final proposed approach from a tax efficiency and legal compliance basis.

Under the structure the depository holds legal title to the assets of the WPP. The operator is responsible for managing and operating the investments of the WPP, including entering into the legal contracts with the investment managers.

The operator provides and operates a range of investment vehicles to allow collective investment by the participating funds. It is also responsible for the administration of the vehicles in terms of unit pricing, valuation, handling cash flows in and out of the various sub-funds, trade processing, reporting on performance and due diligence from an audit, legal and tax perspective for the respective sub-funds and for electing a depository to the WPP.

Hymans Robertson is the oversight advisor for WPP, Burges Salmon is the legal advisor and Robeco is the Voting & Engagement provider.

The structure and governance arrangements of the WPP are shown below:



6. Responsible Investment and the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments

The Fund is a long-term investor aiming to deliver a sustainable pension fund for all stakeholders.

Carmarthenshire County Council as the administering authority of the Fund has a fiduciary duty to act in the best, long-term, interests of the Fund’s employers and scheme members.

Responsible Investment (RI) is a fundamental part of the Fund’s overarching investment strategy as set out in this Investment Strategy Statement. That is, to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers and minimising the long-term cost of the scheme. The Fund believes that consideration of Environmental, Social and Corporate Governance (“ESG”) factors are fundamental to this, particularly where they are likely to impact on the overarching investment objective.

The Fund’s approach aims to ensure that consideration of ESG factors is embedded in the investment process, utilising the various tools available to manage ESG risks and to harness opportunities presented by ESG factors.

The Fund’s core principles of responsible investment are:

1. We will apply **long-term thinking** to deliver **long-term sustainable returns** from **well-governed assets**.
2. We will use an **evidence-based** long term investment appraisal to **inform decision-making** in the implementation of RI principles.
3. we will consider the **costs** of RI decisions consistent with our fiduciary duties.

To date, the Fund's approach to social investments has largely been to delegate this to its underlying investment managers, and WPP (including its Voting & Engagement provider, Robeco) in particular as part of their overall ESG duties. The Fund's managers regularly report on this matter.

The Committee recognises that the Fund is not able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

Climate Change

The Fund recognises the importance in addressing the financial risks associated with climate change through its investment strategy, and believes that:

- Climate change presents a systemic risk to the overall stability of every economy and country, with the potential to impact on the members, employees, and all of the holdings in the Fund's investment portfolio.
- Considering the impacts of climate change is not only the legal or fiduciary duty of the Fund but is also consistent with the long-term nature of the Fund. The Fund's investments need to be sustainable to be in the best interests of all key stakeholders. To this end, the Fund is committed to transition its investments towards net zero GHG emissions over the medium term. The Fund will regularly report on progress, including establishing intermediate targets.
- Engagement is the best approach to enabling the change required to address the Climate Emergency. However selective risk-based divestment is appropriate to facilitate the move to a low carbon economy.
- As well as creating risk, it also presents opportunities to make selective investments that achieve the required returns, whilst at the same time make a positive social and environmental impact, such as environmental infrastructure and clean energy and energy efficiency products and services.

The Fund also takes account of WPP's Responsible Investment and Climate Risk policies.

7. The exercise of rights (including voting rights) attaching to investments

Voting rights

The Committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard.

Stewardship

The WPP is a signatory to the UK Stewardship Code. The UK Stewardship Code sets a high bar for stewardship, a standard which the WPP has met through its approach to RI.

The Fund believes in collective engagement and is a member of the Local Authority Pension Fund Forum (LAPFF), through which it collectively exercises a voice across a range of corporate governance issues.

8. Myners Principles

Although not specifically referenced in the Regulations, the Fund continues to assess its own compliance with the Myners Principles of Good Investment Governance. A statement that sets out an assessment of compliance is presented at **Appendix B**.

9. Advice taken

In creating this statement, the Fund has taken advice from its Officers, its Independent Investment Advisor and its Actuary.

Appendix A – Strategic Asset Allocation

	Benchmark (%)	Range (%)
Equities	60.0	50.0 – 70.0
Real Estate	15.0	10.0 – 20.0
Fixed Income	10.0	5.0 – 15.0
Infrastructure	5.0	3.5 – 6.5
Alternatives	5.0	3.5 – 6.5
Private Credit	5.0	3.5 – 6.5
Total	100.0	

Appendix B - Myners 6 Principles - Compliance Checklist

1.	Effective Decision-Making	
	Define who takes investment decisions	Included in ISS/Governance Policy
	Consider whether members have sufficient skills	Training - LGC members seminar, LAPFF and PLSA conferences, investment manager and WPP training days, Employer Organisation training days. Training plan in place.
	Determine whether appropriate training is being provided	Training - LGC members seminar, LAPFF and PLSA conferences, investment manager and WPP training days, Employer Organisation training days. Training plan in place.
	Assess whether in-house staffing support is sufficient	Suitably qualified and trained staff. Training plan in place.
	Establish an investment committee with suitable terms of reference	Pension Committee established with terms of reference agreed
	Draw up a business plan	A business plan is published annually. An Actuarial Valuation Report, Investment Strategy Review, Funding Strategy Statement and Investment Strategy Statement are updated and produced every three years.
	Priority is given to strategic asset allocation decisions	Strategic Asset Allocation review undertaken to determine asset allocation after full discussions.
	All asset classes permitted within the regulations have been considered	All major asset classes have been considered and managers appointed accordingly. Other alternative asset classes continue to be considered.
	Asset allocation is compatible with liabilities and diversification requirement	Asset / liability study undertaken to determine asset allocation after full discussions.
	Separate contracts in place for actuarial services and investment advice	Separate contracts currently in place
	Terms of reference specified	Clear specifications issued
	Specify role of S151 officer in relation to advisers	Section 151 officer role clear in constitution
	Tender procedures followed without cost constraint factor	Tendering for third party service providers will follow local procurement rules
	Overall Principle 1	Fully compliant
2.	Clear Objectives	
	Set overall investment objective specific only to the fund's liabilities	Customised benchmark following Strategic Asset Allocation review.
	Determine parameters for employer contributions	Clear objectives outlined in ISS
	Specify attitude to risk and limits	Clearly outlined in ISS
	Identify performance expectations and timing of evaluation	Clearly outlined in ISS

	Peer group benchmark in use for comparison purposes only	In Place
	Written mandate included in management contract containing elements specified	Contract has been updated, ISS is clear on these issues
	Constraints on the types of investment are in line with regulations	In Place
	Reasons stated if soft commissions permitted	None used
	Overall Principle 2	Fully compliant
3.	Risk & Liabilities	
	In setting and reviewing the investment strategy account should be taken of the form and structure of liabilities	Full asset liability study is undertaken following the triennial valuation and prior to setting and reviewing the investment strategy
	The implications for the local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk should also be taken into account	Included in asset Strategic Asset Allocation review
	Overall Principle 3	Fully compliant

4.	Performance Assessment	
	Consider whether index benchmarks selected are appropriate	Consideration given, and performance measured against both benchmark and market indices
	Limits on divergence from index are relevant	Fully considered and in ISS
	Active or passive management considered	Fully considered and in ISS
	Targets and risk controls reflect performance expectations	Fully considered and in ISS
	Formal structure for regular monitoring in operation	Fund returns regularly reported by independent organisation
	Arrangements in place to assess procedures and decisions of members	Audit and valuation reports. Best Value regime.
	Similar arrangements established for advisers and managers	Regular monitoring/review undertaken by Committee and officers of managers and advisers.
	Overall Principle 4	Fully compliant

5.	Responsible Ownership	
	Incorporate US Principles on activism into mandates	Custodian reports on corporate actions taken.
	Engage external voting agencies if appropriate	Wales Pension Partnership have appointed a voting & engagement provider.
	Review manager strategies	Own policy is in operation.
	Establish means to measure effectiveness	Regular reporting in place
	Overall Principle 5	Fully compliant
6.	Transparency and Reporting	
	ISS updated as specified	In place and included in the Annual Report
	Consultation undertaken on amendments	In place and consultation each year.
	Changes notified to stakeholders	In place and included in the Annual Report
	Publish changes to ISS and its availability	In place and included in the Annual Report
	Identify monitoring information to report	In place, included in ISS and reports presented at prescribed intervals
	Inform scheme members of key monitoring data & compliance with principles	In place and included in ISS
	Overall Principle 6	Fully compliant