

Investment Strategy Statement

1. Introduction and background

This is the Investment Strategy Statement (“ISS”) of the Gwynedd Pension Fund (“the Fund”), which is administered by Gwynedd Council (“the Administering Authority”). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”).

The ISS has been prepared by the Fund’s Pension Committee (“the Committee”) having taken advice from the Fund’s investment adviser, Hymans Robertson LLP. The Committee acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the Committee in June 2024 is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund’s investment strategy 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.

2. 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 benefits on death, before or after retirement, for their dependants, on a defined benefits basis. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund’s assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee’s views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund’s liabilities.

It is intended that the Fund’s investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

The Fund carried out an asset liability modelling exercise in conjunction with the 2022 actuarial valuation. A number of different contribution and investment strategies were modelled and the future evolution of the Fund considered under a wide range of different scenarios. The Committee considered the chances of the Fund being fully funded at the end of the projection

period, and considered the level of downside risk in the various strategies by identifying the low funding levels which might emerge in the event of poor outcomes.

This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used) amongst other considerations that influence investment decision-making.

In addition, the Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund’s level of funding and liability profile
- The level of expected risk
- Outlook for asset returns
- Environmental, Social and Governance (ESG) factors

The Committee also monitors the Fund’s actual allocation on a regular basis to ensure it does not deviate from the target allocation in a way that materially changes the risk and return profile of the portfolio.

The Committee undertook a further review of the investment strategy in November 2023 because the level of funding improved since the 2022 actuarial valuation. This statement reflects the outcome of this review and the long-term asset class returns assumed within this investment strategy review were as follows:

Asset Class	Median expected return 17 years (% p.a.)
UK Equities	8.1
Global Equities	8.6
Emerging Market Equities	9.2
Private Equity	12.0
Infrastructure	8.4
Property	7.0
Private Credit	8.5
Multi-Asset Credit	6.9
Corporate Bonds	5.5
Absolute Return Bonds	5.0
Overall expected return	8.2

*Based on assumptions as at 30 June 2023

3. 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 Committee reviews the nature of Fund investments on a regular basis, with reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. 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.

The Fund's target investment strategy is set out below. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

Table 1: Fund allocation

Asset class	Target allocation %
UK Equities	8.0
Overseas Equities	37.0
Private Equity	5.0
Total Growth	50.0
Property	10.0
Infrastructure	7.5
Private Credit	5.0
Multi-Asset Credit	7.5
Total Income	30.0
Corporate Bonds	7.5
Absolute Return Bonds	12.5
Total Protection	20.0
Total	100.0

Restrictions on investment

The Regulations have removed the previous restrictions that applied under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Committee's approach to setting its investment strategy and assessing the suitability of

different types of investment takes account of the various risks involved. The Committee consider rebalancing the asset portfolio on a quarterly basis to maintain the asset split in line with the agreed asset allocation target, or otherwise take appropriate steps to reach the targets (for example, building up or winding down allocations to less liquid private market funds). Therefore it is not felt necessary to set additional restrictions on investments.

Managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific performance benchmarks with each manager so that, in aggregate, the overall Fund delivers a risk and return profile consistent with the objectives of the Fund. The Fund's active investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. They will make changes to their portfolios as the economic outlook alters, as individual company prospects change and in response to any unexpected market shocks in an attempt to deliver a better return than the market overall. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The managers of passive, pooled investment funds that the Fund invests in hold a mix of investments that seeks to match the performance of the fund's respective benchmark indices.

For the assets invested with the Wales Pension Partnership (WPP), the operator is responsible for the appointment of investment managers for the WPP sub-funds.

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

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth 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 Committee's overarching beliefs is to only to take as much investment risk as is necessary.

The principal risks affecting the Fund are set out below, we also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- 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 the Fund's liabilities.

The Committee measures and manages financial mismatch in two ways.

1. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. The results from the 2022 analysis highlighted that the Fund has a greater than 75% probability of being fully funded in 2039 under the current investment strategy and level of agreed contributions. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark.

2. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

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

Asset risks

- Concentration – The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity – The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Manager underperformance – The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.
- Environmental, Social and Governance (ESG) factors – The risk that ESG-related factors, including climate change, reduce the Fund's ability to generate long-term returns.
- Climate change – The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

The Committee measures and manages asset risks as follows.

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk.

By investing across a range of assets, including liquid quoted equities and bonds, as well as property, the Committee has recognised the need for access to liquidity in the short term. Where the Fund invests in private market funds that are subject to capital calls and distributions which may arise at relatively short notice, the Fund utilises a cashflow management framework. The framework includes routine monitoring of expected cashflows and identifies times where liquidity access may be most acute, and defines the Fund's approach for meeting these needs.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund's currency risk during their risk analysis.

The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager and having a significant proportion of the Scheme's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

Details of the Fund's approach to managing ESG-related risks, including risks associated with climate change, are set out later in this document.

Other provider risk

- Transition risk – The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- 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 rights to Fund assets.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

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

The Fund is a participating scheme in the Wales Pensions Partnership (WPP). The proposed structure and basis on which WPP will operate was set out in the July 2016 submission to Government.

Assets to be invested in WPP

The Fund's intention is to invest its assets through WPP as and when suitable investment solutions become available. An indicative timetable for investing through WPP was set out in the July 2016 submission to Government. The key criteria for assessment of WPP solutions will be as follows:

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

At the time of preparing this statement the Fund has agreed investments in the following assets via WPP.

Asset class	Fund	Target % of Fund assets	Benchmark and performance objective
Equities	Global Growth Fund	10.1	MSCI AC World plus 2% p.a.
Equities	Global Opportunities Fund	10.1	MSCI AC World plus 2% p.a.
Equities	Sustainable Equity Fund	10.1	MSCI AC World plus 2% p.a.
Equities	Emerging Markets Equity Fund	2.5	MSCI EM Index plus 2% p.a.
Private Equity	Private Equity Fund Vintages	5.0	8 % p.a.
Infrastructure	Infrastructure Fund Vintages and Open-ended Funds	7.5	8% p.a.
Private Credit	Private Credit Fund	5.0	8% p.a.
Bonds	Multi-Asset Credit Fund	7.5	SONIA + 4% p.a.
Bonds	Global Credit Fund	7.5	Barclays Global Agg. Credit Index (GBP hedged)

Bonds	Absolute Return Bond Fund	12.5	SONIA + 2 p.a.
Total		77.8	

Although investments with BlackRock are currently retained by the Fund, the procurement process for BlackRock as index-tracking manager on behalf of partner funds (and any subsequent re-tender) was handled by WPP in order to achieve substantial fee savings, a key benefit of a pooled investment approach. This relates to a further 12.2% of target allocations.

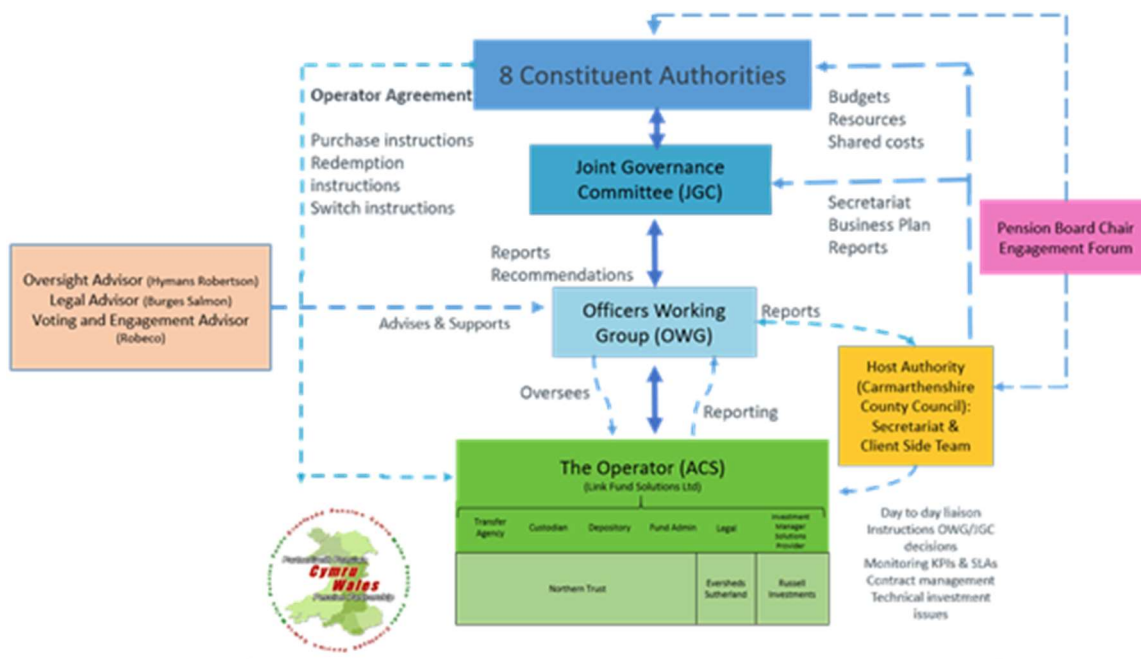
At the time of preparing this statement the Fund retains the following investments outside of WPP. The Fund has elected to invest new money in Private Equity and Infrastructure funds through WPP and will consider participating in pooling arrangements should a suitable solution be made available by WPP.

Asset class	Manager	% of Fund assets ¹	Benchmark and performance objectives	Reason for not investing via WPP
Private Equity	Partners	5.8	MSCI ACWI + 3% p.a.	Existing contractual commitments in closed end funds which have a finite life.
Property	UBS, Lothbury, BlackRock, Threadneedle	7.4	UK All Balanced Property Fund Index	Selling and re-investing property assets would incur material costs.
Infrastructure	Partners	2.4	8% p.a.	Existing contractual commitments in closed end funds which have a finite life.

¹Allocations as at 31 December 2023

Structure and governance of WPP

WPP has appointed a third-party operator, authorised by the FCA to provide a series of investment sub-funds in which the assets of the participating funds will be invested.



A Joint Governance Committee (JGC) has been established to oversee the operator. The Committee comprises elected members – one from each of the eight participating funds. This arrangement will provide accountability for the operator back to individual administering authorities. The Joint Governance Committee (JGC) has been set up formally as a Joint Committee between the participating administering authorities. Each fund has one elected member on the Committee. It operates on the basis of ‘One Fund, One Vote’, though the intention is that any decisions are reached by consensus wherever possible.

The Committee is responsible for ensuring where practical that there are an appropriate range of sub-funds available to allow administering authorities to implement their own desired asset allocation. The JGC will be in regular discussions with the operator as to the specific sub-funds which should be set up within WPP, both at the outset and on an ongoing basis.

Officers from each administering authority attend JGC meetings (in a non-voting capacity). The officers advise the JGC on the establishment and monitoring of the various sub-funds as well as liaise directly with the operator on any day-to-day investment matters.

In the first instance, it is anticipated that the fund representatives on the JGC will report back to their respective individual funds’ Pensions committees who will be responsible for satisfying themselves as to the effectiveness of the pooling arrangements overall and the operation of the JGC. However, the local Pensions Boards may also seek reassurance on aspects of the management of the funds’ investments.

External scrutiny and formal due diligence of the operator and depository will be carried out by the FCA in their role as regulator. In addition, Hymans Robertson have been appointed by the JGC to provide assistance with oversight of the arrangements.

The operator is responsible for selecting and contracting with investment managers for each of the sub-funds as well as appointing other service providers such as depository asset servicer,

and an external valuer as necessary. Under the proposed structure, the depository will hold legal title to the assets of WPP. The operator will be responsible for managing and operating WPP, including entering into the legal contracts with the investment managers.

The appointed operator will provide and operate a range of investment vehicles to allow collective investment by the participating funds. The operator will be responsible for selecting and contracting with investment managers for the management of the underlying assets. They will also be responsible for administration in relation to the vehicles in terms of unit pricing, valuation, handling cash flows in and out of the various sub-funds, trade processing and reporting on performance. They will be responsible for due diligence from an audit, legal and tax perspective for the respective sub-funds and also for electing a depository to WPP.

WPP will also procure independent external legal and tax advice as necessary to support them in their relationship with the operator.

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

It is recognised that ESG factors, including climate change, can influence long-term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to responsible investment in two key areas:

1. Sustainable investment / ESG factors – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
2. 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.

The Committee takes ESG matters very seriously and regularly reviews its policies in this area and its investment managers' approach to ESG. The Committee has also developed a set of Responsible Investment beliefs which are set out below and also in the Fund's Responsible Investment Policy.

The Committee recognises that climate change presents a particular systemic risk to the financial stability of the global economy and has the potential to impact on the Fund's investments and, as such, represents a long-term financial risk to the Fund and its holdings.

To date, the Fund's approach to social investments has largely been to delegate this to their underlying investment managers as part of their overall ESG duties.

At the present time the Committee does not prioritise non-financial factors when selecting, retaining, or realising its investments.

The Committee have agreed the following set of investment beliefs in relation to Responsible Investment :-

- In accordance with the committee's fiduciary duty, financial considerations should carry more weight than non-financial considerations when making investment decisions, even though ESG matters can materially affect risk and returns. Therefore, ESG factors should be embedded in the investment process and in the decision-making processes of managers appointed by the Fund and by WPP.

- The Fund’s Committee will seek to invest in sustainable assets, including investing within the Wales area when non-financial investments can derive from this, on condition that they satisfy the requirements of the fiduciary duty.
- The Committee accepts that it has a duty to be a responsible investor. It is expected that consulting with companies, rather than avoiding investing, will be more effective in changing corporate behaviour and reducing risk. Wherever possible, collaborative action (such as that taken via Local Authority Pension Fund Forum (LAPFF) membership and commissioned from Robeco alongside WPP partners) provides the most successful route to influence outputs.
- As a long-term investor, the Fund is vulnerable to systemic risks such as climate change and the expectation of a transfer to a low carbon economy. Financial outcomes can be improved through managing how open to such risks the Fund is.
- Shareholder comprehension and outcomes can be improved through providing transparency at each step of the value-adding chain.
- Training and education are likely to form a key element in developing the Fund and its Committee position on ESG-related matters.

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

Voting rights

The Committee considers the Fund’s approach to stewardship also as a key area by acting as a responsible and active investor, by commissioning considered voting on the Fund’s behalf as shareholders, and by indirectly engaging with investee company management as part of the investment process.

The Committee has delegated the exercise of voting rights to the investment manager(s) 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. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The voting decisions made by all its investment managers are monitored on a regular basis.

In addition, Robeco are appointed to assist WPP in exercising its voting rights in line with the interest of its stakeholders and engaging with investee companies to enhance the long-term value of the Constituent Authorities’ investments within WPP.

Engagement

The Committee endorses the principles embedded in the UK Stewardship Code. The Committee expects both WPP and any directly appointed asset managers to be signatories to the UK Stewardship Code 2020. In addition, the Fund believes in collective engagement and is a member of the LAPFF, through which it collectively exercises a voice across a range of corporate governance issues. 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.

The Committee supports engagement activity that seeks to:

- Achieve greater disclosure of information on the ESG-related risks that could affect the value of an investment;
- Achieve transparency of an investment's associated greenhouse gas emissions and any climate-related risks, and how such companies are preparing for the transition to a low carbon economy;
- Encourage its asset managers to actively participate in collaborative engagements with other investors where this is deemed to be in the best interests of the Fund and where this promotes a well-functioning financial system.

Further details are set out in the Fund's Responsible Investment Policy.

Investments made via WPP are subject to its Responsible Investment Policy, which is developed in consultation with the eight Welsh Local Government Pension Scheme funds, including the Gwynedd Pension Fund.