

Pensions and Investment Committee

Meeting Venue
**Committee Room A - County Hall,
Llandrindod Wells, Powys**

Meeting date
Friday, 13 July 2018

Meeting time
10.00 am

For further information please contact
Carol Johnson
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carol.johnson@powys.gov.uk



County Hall
Llandrindod Wells
Powys
LD1 5LG

6 July 2018

The use of Welsh by participants is welcomed. If you wish to use Welsh please inform us by noon, two working days before the meeting

AGENDA

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| 1. | APOLOGIES |
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To receive apologies for absence.

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| 2. | DECLARATIONS OF INTEREST |
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To receive any declarations of interest from Members relating to items to be considered on the Agenda.

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| 3. | MINUTES |
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To authorise the Chair to sign the minutes of the last meeting held on 9 March and 17 May 2018 as correct records.

(Pages 5 - 12)

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| 4. | PENSION BOARD MINUTES |
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The minutes of the Pensions Board held on 10th July will not be available.

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| 5. | GDPR UPDATE REPORT |
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To consider an update report on GDPR.

(Pages 13 - 18)

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| 6. | WPP UPDATE |
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To receive an oral update.

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| 7. | INVESTMENT STRATEGY STATEMENT |
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To consider the Investment Strategy Statement.
(Pages 19 - 34)

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| 8. | EXEMPT ITEM |
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The Monitoring Officer has determined that category 3 of the Access to Information Procedure Rules applies to the following items. His view on the public interest test (having taken account of the provisions of Rule 14.8 of the Council's Access to Information Rules) was that to make this information public would disclose information relating to the financial or business affairs of any particular person (including the authority holding that information). These factors in his view outweigh the public interest in disclosing this information.

Members are asked to consider these factors when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.

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| 9. | HEDGE FUND UPDATE |
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To consider a report by Aon.
(Pages 35 - 52)

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| 10. | HEDGE FUND PRESENTATION |
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To receive a presentation.

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| 11. | PERFORMANCE MANAGEMENT REPORT |
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To consider a report on performance management.
(Pages 53 - 64)

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| 12. | INVESTMENT MANAGEMENT COST MONITORING AND REPORTING SERVICES |
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To consider a report on investment management cost monitoring and reporting services.
(Pages 65 - 216)

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| 13. | CEM PRESENTATION |
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To receive a presentation.

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| Investment Updates |
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| 14. | AON TRAINING - FORWARD LOOKING BUSINESS PLAN |
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To consider the forward looking business plan.
(Pages 217 - 218)

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| 15. | AON - DECISIONS REVIEW |
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To consider a report by Aon.
(Pages 219 - 220)

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| 16. | AON - QUARTER 1 MONITORING REPORT |
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To consider the quarter 1 monitoring report.
(Pages 221 - 254)

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| 17. | AON - MTAA REVIEW |
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To consider a report on the MTAA.
(Pages 255 - 266)

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**MINUTES OF A MEETING OF THE PENSIONS AND INVESTMENT COMMITTEE
HELD AT COMMITTEE ROOM A - COUNTY HALL, LLANDRINDOD WELLS,
POWYS ON FRIDAY, 9 MARCH 2018**

PRESENT

County Councillor P E Lewis (Chair)

County Councillors T J Van-Rees, E A Jones, DW Meredith, JG Morris and
A W Davies

Strategic Director Resources, Pension Fund Manager, Head of Business Services,
Pension Administration Manager

Mr G Moore, Chair of the Powys Pensions Board

Mr M. Weale – co-opted Member

Chris Archer, Sion Cole, Simon Maine and Rachel Pinder Aon Hewitt

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| 1. APOLOGIES |
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There were no apologies.

The Chair welcomed Rachel Pinder, Aon to her first meeting since her return from a 12 month sabbatical and congratulated Chris Hurst on his appointment as Pension Fund Manager to replace Joe Rollin on his retirement.

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| 2. DECLARATIONS OF INTEREST |
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Members of the Committee declared interests as members of the Local Government Pensions Scheme. These are personal interests, not prejudicial interests in accordance with Paragraph 12(b) (iv) of the Members Code of Conduct 2016.

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| 3. MINUTES |
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The Chair was authorised to sign the minutes of the last meeting held on 15th December, 2017 as a correct record.

The Committee agreed to consider the draft Pension Board minutes on the arrival of the Pension Board Chair.

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| 4. TRAINING PLAN [AON HEWITT] |
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Mr G Moore, Chair Pension Board arrived.

The Committee noted that in respect of Asset Allocations a specialist could attend a future meeting to provide training on this issue. In response to a question regarding training opportunities Aon Hewitt advised that the training requirements of each Committee member could be assessed and then a training programme developed.

The Pension Fund Manager advised that a training programme had been agreed for the Pension Board and that the Committee could participate in this programme.

The Chair went back to Item 4 on the Agenda, Pension Board minutes.

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| 5. | PENSIONS BOARD MINUTES |
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The Pension Board Chair introduced the cover report to the minutes of the meeting held on 12 January, 2018. He advised that he would use the cover report to highlight recommendations from the Board and also advise the Committee of assurances received by the Board and other issues discussed, so that the work of the Board becomes more transparent to the Committee.

The Committee noted the report.

| RESOLVED | Reason for decision |
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| <ol style="list-style-type: none"> 1. That the Committee approves the new process for informing them of the outcomes of Board meetings. 2. that the Committee notes the invitation to attend as observers the Board meetings, so that Committee members fully understand and appreciate the role, purpose and achievements of the Board. 3. That the Pensions Manager makes available an on-line database of scheme documents. 4. That some of the procedures associated with the need to record, and if deemed of material significance, report any breaches of the law to the Pensions Regulator, are strengthened as a priority. | <ol style="list-style-type: none"> 1. A structured “executive summary” should increase the Committee’s awareness and help focus on key issues identified by the Board, without needing to study the more detailed Board minutes, and should also assist the transparency agenda. 2. This will help develop the links and understanding between the Committee and the Board. 3. In order to be fully compliant with paragraph 46 of the Pension Regulator’s Code of Practice 14 4. Whilst, since the inception of the Public Service Pensions Act 2013, there have been no breaches of the law by the Powys Pension Fund which have been deemed to be of material significance and therefore reportable to the Pensions Regulator, nevertheless the procedures for monitoring breaches which are merely recordable, but not reportable, leave scope to be more robust in order to secure full compliance with Code of Practice 14. |

The Pension Fund Manager advised that due to his unfortunate accident in October last year, Geoff Petty, was unable to continue as one of the Employer’s Representatives on the Pension Board. Discussions were taking place between the Acting Chief Executive and the Cabinet regarding a replacement.

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| 6. | INVESTMENT STRATEGY STATEMENT [AON HEWITT] |
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The Committee received the Investment Strategy Statement [ISS].

It was questioned whether the ISS should state that Investment Managers should meet MIFID2 requirements and whether the long term Investment objectives should also refer to the solvency of funds. It was agreed that the definition of the term “solvency” needed to be considered. The Pension Fund Manager advised that the ISS would be attached to the annual report which would be published prior to the next meeting.

It was noted that although the County Council had not formally signed up to the UK Stewardship code it aims to abide by the principles of the code where appropriate. The Pension Fund Manager advised that the Regulator states that if a Council does not sign up to the Code, it should explain its reason. He advised that the Council could consider this issues but this could be via the Pooled Fund.

| RESOLVED | Reason for decision |
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| <ol style="list-style-type: none"> 1. That it be delegated to the S151 Officer and Pension Fund Manager, in consultation with the Chair, to agree wording regarding “solvency” to be added to Investment Objectives [paragraph 3] of the ISS. 2. That advice be sought from Aon Hewitt regarding the best way for the Council to sign up to the UK Stewardship code. | <p>In order to enable a revised copy of the ISS to be available for inclusion with the Annual Report, the preparation of which will be completed prior to the next scheduled Committee.</p> |

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| 7. | EXEMPT ITEM - ITEMS 8 TO 11 INCLUSIVE |
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RESOLVED to exclude the public for the following items of business on the grounds that there would be disclosure to them of exempt information under category 3 of The Local Authorities (Access to Information) (Variation) (Wales) Order 2007).

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| 8. | ASSET UPDATE |
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The Committee considered Items 8 and 9 together.

The value of the Fund as at 31 December, 2017 stood at £630.219m, which was an increase of £22.1m over Quarter 4. It was noted that the Fund had strong performance overall. The Committee was advised that increased volatility was expected over the next year and things such as US tariffs would have an impact. Markets over the next few years would see lower returns.

Aon Hewitt in response to a question regarding the County Council contributing to the Pension Fund advised that although the Fund had increased over the last year there was still a need for the Council to contribute to support the Fund. It was considered that the Fund would be closer to being fully funded by 2020.

9. Q4 QUARTERLY MONITORING REPORT

See item 8 above.

10. Q4 MTAA REVIEW

The Committee received the Medium Term Asset Allocation [MTAA] update Quarterly update to 31 December, 2017.

The Fund had outperformed the benchmark by being overweight in equities and underweight in bonds.

11. DECISIONS REVIEW

The Committee noted the report.

The Committee moved into open session.

The following item was taken next.

12. LIST OF SIGNATORIES

The Committee noted that the new Deputy Head of Financial Services, Stephen Caple needed to be added to the list of signatories.

| RESOLVED | Reason for decision |
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| that the new Deputy Head of Financial Services, Stephen Caple be added to the list of signatories. | To facilitate internal Fund processes in the light of the former s.151 Officer's current role of Acting Chief Executive and the long-term absence of a further existing signatory. |

13. TRAINING - THE PENSIONS REGULATOR [PENSION BOARD CHAIR]

Gerard Moore, Chair, Powys Pension Board provided a training session regarding The Pensions Regulator.

14. WALES PENSION PARTNERSHIP - RUSSELL INVESTMENTS

The Chair welcomed representatives of LINK Asset Services and Russell Investments, which had been contracted to manage the Wales Pension Partnership Pooled Funds.

The Committee noted the following:

- the contract between the Pooled Fund and LINK is five years
- LINK will run the Fund and all the risk but it does not undertake the investment management selection or portfolio construction. It has contracted with Russell Investment to do this, again for a five year period.
- Russell Investment will advise the Pool Board on the best managers and once the Board agrees on who to use, LINK will contract with the

investment managers. Russell Investment will monitor the investment managers selected.

- the Pooled Fund's Officer Working Group will receive advice from LINK
- the first area of funds to be developed via the Pool would be Global Equities, which should be launched by the end of August or early September 2018. Hedge Funds would probably be considered next year.

In response to a question regarding savings to be achieved through pooling the Committee was advised that it could see fees cut by 5/6ths.

The Chair and Committee thanked Joe Rollin, Pension Fund Manager for his work and support over the years and wished him all the best on his retirement.

County Councillor P E Lewis (Chair)

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**MINUTES OF A MEETING OF THE PENSIONS AND INVESTMENT COMMITTEE
HELD AT COUNCIL CHAMBER - COUNTY HALL, LLANDRINDOD WELLS, POWYS
ON THURSDAY, 17 MAY 2018**

PRESENT

County Councillor P E Lewis [Chair]

County Councillors E A Jones, JG Morris and D H Williams

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| 1. | ELECTION OF CHAIR |
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Resolved that County Councillor P. Lewis be elected Chair for the ensuing year.

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| 2. | ELECTION OF VICE CHAIR |
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Resolved that County Councillor A. Jones be elected Vice Chair for the ensuing year.

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| 3. | APOLOGIES |
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Apologies were received from County Councillor T. Van-Rees.

**County Councillor P E Lewis
Chair**

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CYNGOR SIR POWYS COUNTY COUNCIL**Pensions and Investment Committee
13th July 2018****REPORT BY: Deputy Chief Executive****SUBJECT: General Data Protection Regulations (GDPR) Post
Implementation Update**

REPORT FOR: Information

1 Introduction

- 1.1 The General Data Protection Regulations 2017 come into force on 25th May 2018. These regulations apply to all EU member states and this paper is for information to demonstrate that the Powys Pension Fund is compliant with the requirements of these regulations.

This paper provides an update to Committee following the implementation of GDPR in May 2018, based on the original report provided to Committee on 29th September 2017.

2 Background

- 2.1 Pension schemes necessarily hold and process a large amount of personal data in relation to scheme members. As a matter of good governance it is important that scheme members' data is safeguarded. There is already a legal obligation on the County Council as an LGPS administering authority to keep member data secure, but these regulations will have a significant impact on the obligations of the County Council and the potential financial penalties that can result from failure. The maximum potential fine for breaching these regulations is €20 million.

3 General Requirements

- 3.1 The Pension Fund is required to demonstrate its compliance with these regulations. It should be able to show in a meaningful way that both the overall governance structure for data protection compliance and the individual policies and procedures relating to data processing are compliant.

4 Specific Requirements and Actions To Ensure Compliance

- 4.1 Maintain Records of Data Processing

It will be a mandatory requirement for organisations employing more than 250 people, or who process sensitive personal data, to maintain records of all personal data processing activities. The records may have to be presented to the Information Commissioner's Office (ICO) on demand.

Update:

- Activity records are kept in detailed Audit trails in the Fund's Pensions Administration and Document Management systems.

4.2 Review Data Security Measures and Assess Adequacy

These regulations retain the current obligation to have appropriate technical and organisational data security measures in place, but in addition requires that certain specific measures (such as encryption) should be used "where appropriate". There is also a requirement that processes incorporate "privacy by design and default", ie compliance needs to be integrated into all data processing and should be the default position on all privacy matters.

Action:

- Develop a compliance plan to ensure appropriate technical and organisational data security measures are in place both within the Pension Fund and with third party providers (eg. Pensions admin system software supplier)
- Review existing applications and processes that involve the use of personal data and ensure that they are secure
- Implement a policy to ensure that personal data is only stored for the minimum period necessary
- Consider whether data encryption should be used, especially for sensitive personal data such as that relating to health matters

Update:

- Scheme member data is hosted externally on a secure server, with a backup in a separate location. Data transfer between the hosting environment and the Administration system is secure.
- The roll out of a secure electronic data exchange facility (i-Connect) has commenced with scheme employers. Data exchange is handled in a secure and encrypted way.
- Retention period of 15 years introduced.

4.3 Update Service Provider Contracts

The regulations require new content to be inserted into service and data sharing agreements that govern the use of personal data. The regulations also impose direct liability on such service providers for data protection compliance.

Update:

- Existing Service contracts have been updated as required to ensure compliance.

4.4 Review and Update Privacy Notices and Consider Whether Member Consent is Required

The regulations require additional content to be included in all privacy notices regarding how personal data will be used by data controllers. Data controllers must tell anyone whose personal data they collect what information is held, how it is used, who it may be shared with and what safeguards are in place. The regulations also make it more difficult to obtain valid consent for the use of personal data – consents must be fully informed, specific, unambiguous and freely given by way of a statement or clear affirmative action by the member. In addition, data controllers are required to retain proof of consent.

Update:

- Full and Short form privacy notices produced and scheme members notified.
- Consent required by member in order to use online self-service facility at the point of logging in for the first time.
- New joiner information updated to include reference to use of personal data
- New Memorandum of Understanding issued to Scheme Employers.

4.5 Establish a Breach Management Process

The regulations requires data breaches involving any risks to individuals to be reported to the ICO without delay. And in any case within 72 hours of the data controller becoming aware of the breach. Affected individuals must also be notified directly if the breach is a high risk to their rights or freedoms.

Update:

- Data breach response plan introduced that ensures any breach is addressed and assessed and that any ICO report or member notification can be dealt with in a timely fashion.

4.6 Appoint a Data Protection Officer (DPO)

The European data protection authorities recommend that a DPO is appointed. The DPO is expected to be appropriately qualified; to report directly to senior management; and, will be the contact person for questions related to the processing of personal data.

Update:

- It is confirmed that the role for the Pension Fund can be met by the County Council's appointed general DPO.

4.7 Ensure that Processes are in Place to Cater for the New Individual Rights

These regulations introduce new rights for individuals, including the new right of data portability, the right to restrict processing, the right to object to processing, the right to object to direct marketing and the right to have personal data deleted.

Update:

- Where an individual data subject has a question or complaint regarding how their rights under GDPR are upheld, they are encouraged to make contact in writing (email) to the Fund's Data Protection Officer in the first instance.
- Data subjects who consider that data is inaccurate or out of date are encouraged to use the online "My Powys Pension" facility to check the data held by the Fund and to attempt to rectify it themselves. Where that is not possible, they may also request, in writing, that the information be corrected or erased. They will receive a written response indicating whether or not the Fund agrees and if so, the action to be taken. In the event that the Fund disagrees (eg. the data is held for a legal purpose), the data subject may request their objection be recorded with the relevant record.

4.8 Carry Out Data Protection Impact Assessments (DPIA)

DPIAs must be carried out in relation to "high risk" processing. This is where there is a high risk to rights and freedoms, for example, extensive profiling of individuals using automated processing or large scale processing of sensitive personal data (eg. national information).

Update:

- DPIA form created to be used where appropriate to assess whether any use of personal data by the Pension Fund would be classified as "high risk".

5 Recommendation

- 5.1 Committee is asked to note the contents of this report for information.

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|---|--------------|-----------------------------------|---------------------|
| Recommendation: | | Reason for Recommendation: | |
| <ul style="list-style-type: none"> To note the contents of the report. | | Statutory obligation | |
| Person(s) To Action Decision: | | | |
| Date By When Decision To Be Actioned: | | | |
| Relevant Policy (ies): | N/A | | |
| Within Policy: | N/A | Within Budget: | N/A |
| Contact Officer Name: | Tel: | Fax: | Email: |
| Chris Hurst | 01597 827640 | 01597 826290 | churst@powys.gov.uk |

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| Relevant Portfolio Member(s): | Councillor Aled Davies |
| Relevant Local Member(s): | N/A |

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1. Introduction

- 1.1 Local Government Pension Scheme (LGPS) funds in England and Wales are required to publish an Investment Strategy Statement (ISS)¹ which must address the following:
- to ensure that asset allocation strategies are sufficiently diversified;
 - to include the authority's assessment of the suitability of asset classes;
 - to include the administering authority's approach to risk, the assessment of risks and how they are to be managed;
 - the authority's approach to the pooling of investments, including the use of collective investment vehicles and shared services;
 - the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments;
 - the administering authority's policy of the exercise of the rights (including voting rights) attaching to investments;
 - set out the maximum percentage of the total value of all investments that it will invest in in particular asset classes;
 - review the ISS periodically and at least every three years.
- 1.2 Further, LGPS funds in England and Wales are required under Guidance from the Secretary of State for the Ministry of Housing, Communities and Local Government (MHCLG) to progress plans to pool the investment of assets, which will result in changes in the way that the Powys Pension Fund's (Fund's) assets will be managed moving forward.
- 1.3 Therefore, this ISS will be reviewed every three years after the investment strategy has been reviewed and is confirmed as fit for purpose. In addition the ISS will be reviewed following changes to the investment strategy.
- 1.4 A copy of this ISS will be made available on request to any interested party.

¹ Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2016 No.946)

INVESTMENT STRATEGY STATEMENT – March 2018

2. Overall Responsibility

- 2.1 The County Council is the designated statutory body responsible for administering the Fund on behalf of its constituent scheduled and admitted bodies.
- 2.2 Elected Members have a fiduciary duty to the Fund, Scheme members and local council taxpayers in relation to the delivery of the LGPS. Functions may be delegated to Officers but the Members retain overall responsibility for the management of the Fund and its investment strategy and individual decisions about investments. The County Council is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out monitoring and reviews of investment and performance. The County Council's Constitution delegates these functions to the Pensions & Investment Committee.
- 2.3 Under the regulations the Secretary of State has the power to intervene in the investment function of an administering authority if the administering authority does not have regard to the Regulations, guidance or if other concerns are raised. This may include changing the ISS and, in the extreme, the transfer of investment powers to the Secretary of State or another nominated person.
- 2.4 The Investment Regulations permit the appointment of one or more investment managers to manage the Fund on behalf of the administering authority, provided that the investment managers are suitably qualified by their ability and practical experience of financial matters to make investment decisions for them, and to their compliance with other specific requirements of the regulations.
- 2.5 Administering authorities are required to take proper advice to enable them to fulfil their obligations, "Proper advice" is defined in the regulations as "the advice of a person who is reasonably believed to be qualified by his ability and practical experience of financial matters".
- 2.6 The County Council has delegated the decision-making responsibilities to the Pensions and Investment Committee. The Section 151 Officer and external fund advisors offer advisory support. The Committee has co-opted two non-voting members, one staff representative nominated by the Trade Unions and one representative nominated by the Outside Bodies Employers.
- 2.7 There is also a Local Pension Board which provides oversight to ensure the Fund is effectively managed.
- 2.8 Decisions affecting the Fund's investment strategy are taken with appropriate advice from the Fund's advisors. Only persons or organisations with the necessary skills, information and resources take decisions affecting the Fund. The Members of the Pension and Investment Committee will ensure they receive training as and when deemed appropriate, to enable them to evaluate critically any advice they receive.
- 2.9 The County Council has in place arrangements for the provision of specialist advice relating to actuarial matters (including the triennial valuation) and investment matters (including asset allocation and manager appointments).

INVESTMENT STRATEGY STATEMENT – March 2018

- 2.10 The County Council has appointed independent specialists to provide actuarial and investment advice and is prepared to pay sufficient fees to attract a broad range of both kinds of providers when tendering.
- 2.11 The County Council will use suitable means to assess the advice received from its advisors in terms of its contribution to the decision making process.
- 2.12 Appropriate performance data will be included in the annual report and statement of accounts for the Fund and in the annual members' newsletter.
- 2.13 Investment Committee
- 2.13.1 Powys County Council delegates responsibility for the administering authority role to the Pensions & Investment Committee (The Committee). This includes investing the Fund's assets. The Committee is supported by the Fund Administrator and investment advisors.
- 2.13.2 The Committee is responsible in respect of investment matters:
- a. To determine the overall strategy relating to the investment of the Fund's assets and to meeting the Fund's liabilities.
 - b. To keep under review the performance of the Fund and the Fund's managers.
 - c. To approve the appointment of advisors and fund managers (unless the assets are invested in pooled arrangements in which case the latter may be delegated).
 - d. To publicise the stewardship role to all Scheduled and Admitted Bodies of the Powys Pension Fund and to all contributors and beneficiaries in accordance with the Fund's Communication Strategy.
 - e. The Pensions and Investment Committee regularly monitors the investment performance of the Fund in both absolute terms and against the specific benchmarks set. A review of overall or asset class specific benchmarks will be undertaken if the Pensions and Investment Committee considers it appropriate.
- 2.14 Investment Managers
- 2.14.1 Each investment manager, or subsequent manager of the Fund's investments, will be responsible for:
- a. Discretionary management of their portfolio, in accordance with the terms of their management agreement, having regard to the need for diversification of investments so far as appropriate and the suitability of investments.
 - b. Providing the Committee with quarterly statements of the assets together with a quarterly report on their actions and future intentions, and any changes to the processes applied to their portfolio.
 - c. Providing the designated provider with the information necessary to calculate performance statistics.

INVESTMENT STRATEGY STATEMENT – March 2018

- d. Investment manager(s) are permitted to use authorised financial instruments in appropriate circumstances following prior discussion and approval. Approval will not be withheld without clear justification.
- e. The investment manager(s) are required to produce a quarterly investment report and to attend Pension and Investment Committee meetings as appropriate.
- f. The County Council requires the investment manager(s) to provide details of the commission payments they receive on asset transactions (including soft commissions if applicable) and how they assess their overall trading efficiency. By discussing these matters with the investment manager(s), the County Council seeks to gain a full understanding of the transaction-related costs that the Fund incurs, and to understand the options open to the County Council in relation to those costs.

2.15 Investment Consultant

2.15.1 The Investment Consultant will be responsible for providing prompt, consistent and competent advice and support through one or two named representatives, in respect of investment matters when so requested by the Committee. Advice and support is likely to be sought in regard of:

- a. Review of the Investment Strategy Statement.
- b. Presentation and interpretation of investment performance measurement results.
- c. The Potential impact of:
 - any changes in the investment managers' organisations that could affect the interests of the Fund;
 - any changes in the investment environment that could present either opportunities or problems for the Fund.
- d. Investment manager selection, retention and termination (until such time as the investment pool takes over such responsibilities);
- e. Benchmark adjustments;
- f. The appropriate content of investment management and other related Agreements;
- g. Appropriate investment structures for the Fund in the light of the Fund's liability profile. This will involve working with the Fund's Actuary and, in time, discussion with the investment pool.
- h. Ad-hoc project work as required.
- g. The independent investment advisor who attends each Pensions and Investment Committee meeting is required to produce a separate report on investment performance quarterly.

2.16 Pensions Board

2.16.1 The role of the board is to assist the Powys County Council pension fund in complying with all the legislative requirements making sure the scheme is being effectively and efficiently governed and managed.

2.16.2 The board members work with the Council in its role as an administering authority and with the pension fund's officers to ensure that your pension scheme is being run properly.

2.16.3 To comply with requirements imposed by regulations including those which are enforced by the Pensions Regulator, the members of the local pension board are required to maintain their knowledge and understanding of the LGPS and pensions in general, so receive appropriate training.

3. Investment Objectives

3.1 The long term investment objectives of the Fund are to:

- maximise investment returns over the long term within an acceptable level of risk;
- ensure that sufficient assets are readily available to meet liabilities as they fall due;
- aim for long-term stability in the employers' contribution rates;
- achieve and maintain funding levels at, or close to, 100% of the Fund's liabilities.

3.2 Risk is mainly concerned with the possibility of a deficiency in the Fund or a substantial increase, or volatility, in future employer contribution rates.

3.3 Whilst stability of the employers' rate has a high priority, absolute cost to the employer is also important. This implies that:

- the cost of administering the Fund will be constrained by the adoption of best management practice;
- employers will adopt appropriate policies in those areas where they have discretion and where costs of their actions fall on the Fund;
- the Fund will, as far as is practicable, and through the Fund's Actuary, avoid cross subsidisation between the Fund's individual employers;
- the Fund's overall investment policy will be aimed at superior investment returns relative to the growth of liabilities. This implies that the Fund will take a controlled active risk relative to its liability profile.

INVESTMENT STRATEGY STATEMENT – March 2018

4. The Balance Between Different Types of Investments

- 4.1 The County Council seeks to achieve its investment objectives through investing in a suitable mixture of real and monetary assets. A mixture across the asset classes should provide the level of returns required by the Fund to meet its liabilities at an acceptable level of risk and at an acceptable level of cost.
- 4.2 The current strategic asset allocation is 70% return seeking and 30% risk reducing (matching assets). This strategy was determined with the aid of our Investment Advisors in order to ensure the balance between expected return and risk is appropriate and the expected return is sufficient. In addition the split between potential asset classes has been set to ensure there isn't excessive exposure to any particular asset class or specific risk such as equities or credit risk.
- 4.3 To ensure that asset allocation is sufficiently diversified the Fund's investment strategy has been set using modelling techniques that cover all mainstream asset classes including those most likely to be available through the pooling arrangements available to the Wales Pension Partnership. In addition
- 4.4 The current strategic benchmark is as follows:

| Asset Class | % | Maximum % | Benchmark Index |
|-----------------------|------------|------------------|---|
| Equities* | 47 | 55 | |
| Active | 19 | | MSCI All Countries World (NDR) |
| Passive | 28 | | FTSE Developed World |
| Bonds | 30 | 35 | |
| Corporate Bonds | 6 | | iBoxx Sterling Non-Gilts All Maturities |
| Index-Linked Gilts | 15 | | FTSE UK Index-Linked over 5 years |
| Gilts | 3 | | FTSE UK Gilts All Stock |
| Absolute Return Bonds | 6 | | 3 Month GBP LIBOR |
| Property | 10 | 15 | IPD Index |
| Private Equity | 5 | 10 | MSCI AC World ex UK |
| Hedge Funds | 8 | 15 | 3 Month LIBOR |
| Total | 100 | | |

*50% of currency risk from overseas equities is hedged back to Sterling

- 4.5 There is also an agreement to invest 10% of assets allocated to equities in infrastructure when suitable opportunities for investment are available.
- 4.6 In reaching its decisions on asset allocation the County Council will:
- take proper advice from specialist, independent advisors and give consideration to the desirability of receiving advice based on an asset / liability study.
 - consider the volatility of returns which it is prepared to accept.
 - determine the split between matching and returning seeking assets before it gives consideration to any other asset class.
 - have due regard to the diversification and suitability of investments.

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5. Approach to risk, the assessment of risks and how they are managed

- 5.1 The Committee recognises that risk is inherent in any investment activity and it seeks to manage the level of risk that it takes in an appropriate manner.
- 5.2 The main risk arising from the investment strategy will be a fall in the value of the investments relative to the value of the liabilities, potentially leading to higher contributions being required from the County Council and other employers within the Fund.
- 5.3 Other risks include but are not limited to risks such as not having enough liquidity to meet cash requirements and third parties defaulting on contracts.
- 5.4 The operational risk to the Fund is minimised by:
- the use of a regulated, external, third party, professional custodian for custody of assets.
 - having formal contractual arrangements with investment managers.
 - having access to the internal audit service of Powys County Council.
 - the activities of the investment manager(s) being governed by detailed Investment Management Agreements. Investment managers are expected to have regards to these principles and legislative requirements, in particular the LGPS (Management and Investment of Funds) Regulations 2016 (SI 2016 No.946).
 - having formal agreements in place with admitted bodies.
- 5.5 The investment risks to the Fund are managed by:
- diversification of types of investment.
 - diversification of investment manager(s).
 - the setting of a Fund-specific benchmark informed by asset-liability modelling of liabilities.
 - the appointment of independent professional advisors.
 - the appointed expert investment manager(s) being given clear performance benchmarks and maximum accountability for performance against those benchmarks over appropriate time-scales.
 - investment manager(s) being required to implement appropriate risk management measures and to operate in such a manner that will ensure the likelihood of not achieving the performance target is kept within defined acceptable limits.
- 5.6 In order to reduce the risk of assets increasing beyond agreed ranges there is also a Medium Term Asset Allocation (MTAA) project. This project utilises all of the Fund's assets excluding Private Equity. The MTAA service has the target of increasing the return achieved by these assets by 0.5% p.a. by deliberately allocating assets away from the strategic allocation to take advantage of market over/under valuations during the medium term. This service has run from 2009. The Pensions & Investment

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Committee has recently decided to extend the project period, with regular reviews as they see fit. The MTAA service has an artificial benchmark of 49.5% equity / 32% bond / 18.5% alternatives. It operates within tolerance bands so the difference between the actual allocation and the strategic allocation will not deviate beyond these set limits. For further information on the MTAA project, please see Appendix B.

6. The expected return on investments

- 6.1 The wider strategy has been set to target 5.8% pa over the long term with a volatility of 10.8% pa. This is based on assumptions at 30 September 2016 and will be subject to change depending on changes in market conditions.
- 6.2 The investment manager(s) have been given specific performance targets measured against the index return in the relevant asset class. The County Council recognises that these targets will not be met in all periods under consideration, but expects that they will be met in the vast majority of periods under consideration.
- 6.3 The performance targets for the investment manager(s) are shown in the table below:

| Investment Manager | Mandate | Benchmark | Objective |
|--------------------------|-----------------------|---|--|
| Carnegie | Global Equity | MSCI AC World (NDR) | To outperform the benchmark by 3-5% p.a. (gross of fees) over a typical market cycle |
| Hosking | Global Equity | MSCI AC World (NDR) | To outperform the benchmark by 3-5% p.a. (gross of fees) over a typical market cycle |
| MFS | Global Equity | MSCI AC World (NDR) | To outperform the benchmark by 2% p.a. (gross of fees) over a typical market cycle |
| BlackRock | Balanced | Composite benchmark | To track the benchmark |
| Aviva Investors | UK Property | IPD/PPFI All Balanced Funds Medium Index | To outperform the benchmark by 1% p.a. over rolling 3 year periods. |
| Hermes Fund Managers | UK Property | IPD Other Balanced Funds Index | To outperform the benchmark by 0.5% p.a. on a rolling three year basis |
| Schroders | UK Property | IPD UK All Balanced Funds Index | To outperform the benchmark by 0.5% p.a. on a rolling three year basis |
| CB Richard Ellis | European Property | UK Retails Price Index (The IPD UK Pooled Property Index will also be used for comparison purposes) | Provide investors with a return of 8-10% p.a., net of fees and expenses. |
| Insight Asset Management | UK Corporate Bonds | iBoxx Sterling Non-Gilt All Maturities Index | To outperform the benchmark by 0.75% p.a., net of fees |
| Insight Asset Management | Absolute Return Bonds | 3 month GBP LIBOR | To outperform the benchmark by 2% gross of fees |

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| | | | |
|--------------------------|---------------------------|-------------------|--|
| Standard Life Investment | Private Equity (European) | MSCI World | To outperform the benchmark by 5% pa over a rolling three year period. |
| HarbourVest Partners | Private Equity (US) | MSCI World | No stated objective, just to produce returns which place HarbourVest in the top quartile in the industry |
| Goldman Sachs | Hedge Fund of Funds | 3 month USD LIBOR | To outperform the benchmark by 4 – 9% p.a. net of fees |
| GAM | Hedge Fund of Funds | 3 month GBP LIBOR | To achieve an absolute return of 8-13% p.a. over the long term. |

6.4 The investment manager(s) benchmarks are based on market indices. The indices used were considered in consultation with the investment advisor and the investment manager(s) and carefully chosen with regard to their strategic suitability. The limits on the levels of divergence from these indices set out in the investment mandates were chosen with regard to the investment manager(s) overall performance objectives.

7. The realisation of investments

7.1 General investment principles require that issues of liquidity and marketability be considered in making any investment decision. The Fund is currently paying out more than it receives in contributions meaning the assets need to cover any shortfall. Where possible assets are held in income producing investments. This helps increase cash available to meet outgoings. Also the majority of assets are invested in funds with good liquidity which can be used to meet any outstanding cashflow requirements.

7.2 The vast majority of the Fund's assets are readily marketable. However some investments, such as property and private equity, are less easy to realise in a timely manner. This relative illiquidity is not considered to have any significant adverse consequences for the fund, and may generate an investment return 'illiquidity premium'.

7.3 The County Council would inform the investment manager(s) of any projected need to withdraw funds in order to enable the investment manager(s) to plan an orderly realisation of assets if this proves necessary.

8. Pooling

8.1 The County Council will aim for all assets to be managed under pooled arrangements through the Wales Pensions Partnership investment pool.

8.2 Investment opportunities outside the pooling arrangements will be considered if they are not already or likely to be available through the Wales Pension Partnership investment pool, and there are suitable resources to invest in and monitor the investment. These can include contracts related to financial futures or insurance.

INVESTMENT STRATEGY STATEMENT – March 2018

Appropriate advice will be sought on alternative asset classes when setting the strategy and as opportunities arise.

- 8.2 Suitable asset classes include those available through the pooling arrangements as well as any asset class where the Pensions and Investment Committee have resource to understand and monitor the investment. This may include illiquid investments and other asset classes that offer improved risk and return expectations.

9. Socially Responsible Investment

- 9.1 The County Council has delegated responsibility for the selection, retention and realisation of investments to the investment manager(s).
- 9.2 The County Council's policy is to invest part of the Fund's assets on a passive basis. The County Council does not consider it appropriate for a passive investment manager to take account of social, environmental or ethical considerations in the selection, retention and realisation of investments.
- 9.3 The County Council's policy in respect of the actively managed portion of the Fund's assets is that the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments is left to the discretion of the active investment managers. However the County Council expects that the active investment manager(s) in the exercise of their delegated duties will take the extent to which social, environmental or ethical issues may have a financial impact on the portfolio into account.

10. The exercise of the rights attaching to investments

- 10.1 The County Council supports the principle of good corporate governance. It has reviewed and accepted the corporate governance policies of its Investment manager(s) who exercise its voting rights. Votes are cast by proxy. Investment manager(s) provide reports when any voting rights are exercised. Only direct investments in traded equity shares carry such voting rights.

11. Corporate Governance

- 11.1 The County Council supports the principle of good corporate governance. It has reviewed and accepted the corporate governance policies of its investment manager(s) who exercise its voting rights. Votes are cast by proxy. Each investment manager is required to report its actions on a quarterly basis.
- 11.2 The County Council is aware of the UK Stewardship code and understands that, within the 2016 Investment regulations, there is a requirement that administering authorities should formally become signatories to the Code.
- 11.3 Whilst not having formally signed up to the Code, the Fund aims to abide by the principles and recognises the importance of the investments being managed in accordance within these principles. The Fund, therefore, ensures that where appropriate its investment managers are themselves signed up to the code and thus manage the investments in accordance with the seven code principles.

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- 11.4 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 Local Authority Pension Fund Forum (LAPFF), a collection organisation of LGPS who engage fund managers and investee companies to promote responsible investor/ownership practices.
- 11.5 In addition to the requirement to become a signatory in its own right, the Fund will also expect both the Wales Pool and any directly appointed fund managers, to comply with the UK Stewardship Code.
- 11.6 The principles of the UK Stewardship code are included in Appendix A for information.
- 11.7 In addition to the above the Fund is a member of the Local Authority Pension Fund Forum which helps ensure governance is in line with current best practice.

12. Stock Lending

- 12.1 The Fund only currently invests in pooled vehicles so cannot undertake any stock lending. The stock lending policy on pooled funds is determined by the individual investment managers. Any income not retained by the fund manager and / or the lending agent is incorporated in the net asset values of each pooled fund.

13. Monitoring and Implementing of Investment Policy

- 13.1 The Committee will meet on a quarterly basis with the Investment Advisors to review and discuss the operation of each investment manager'(s) portfolio, including past and future policy decisions. The performance of the investment manager(s) will be monitored by the Committee on a quarterly basis at the Investment Committee meetings.
- 13.2 The Committee, in conjunction with the Investment Consultant, will review the allocation of assets between the passive and specialist portfolios, property and other asset classes.
- 13.3 The appointments of the investment manager(s) will be subject to review at the meeting held to consider the performance results from the designated provider. The review will be based on the monitoring of the Investment manager(s) processes as well as their performance.
- 13.4 The investment manager(s) appointments, whilst subject to annual monitoring, would generally be reviewed over rolling 3 year periods, in line with their performance benchmarks.
- 13.5 If an investment manager(s) performance prompts concerns then the Committee may ask the manager(s) to come to a meeting for a special review meeting.
- 13.6 The Committee will assess, on an ongoing basis, the impact that investment through the Wales Pension Partnership has on monitoring and implementing of investment policy.

Appendix A

Principles for Institutional Investment Decision Making

Compliance with CIPFA Principles for Investment Decision Making in LGPS

Principle 1 – Effective Decision Making

Administering authorities should ensure that:

- *Decisions are taken by persons or organizations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation, and*
- *Those persons or organizations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.*

Powys County Council is the Administering Authority with overall responsibility for Powys Pension Fund (PPF), which it delegates to its Pensions & Investment Committee and the Section 151 Officer. This Committee consists of 6 voting members; 1 non-voting member representing Pension Fund employers (elected by those Pension Fund employers); and, 1 non-voting member representing pension scheme members (nominated by the recognised trade unions).

The governance arrangements of the County Council (including the Constitution, Financial Regulations and Contract Standing Orders) apply to the management of the Pension Fund. In addition the, the administering authority is assisted by the Powys Pensions Board which was established under the Public Service Pensions Act 2013.

Members of the Pensions & Investment Committee are required to undertake training and demonstrate competency in accordance with the Knowledge & Skills Framework Policy. The Committee receives what it considers to be proper advice from Fund officers and, in addition, has appointed an external consultant to provide advice on its investment strategy.

The Investment Advisor and Actuary have contracts which are regularly reviewed. The Investment Advisor was tendered in 2016/17, actuarial services are scheduled for 2020/21.

Principle 2 – Clear Objectives

Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisors and investment managers.

The Fund's objectives are set out in the Investment Strategy Statement (ISS) and Funding Strategy Statement (FSS). Both documents are available on the Fund's website. The aims of the Fund in relation to the FSS are set out in 2.2 of that document. To view the Fund's Investment objectives view 3 Investment Objective in the ISS.

The approach to risk, the assessment of risks and how they are managed are stated in section 5 of the ISS.

The Fund, in accordance with regulatory requirements, has an objective of keeping the employers' contribution rate as level as possible while maintaining its solvency.

INVESTMENT STRATEGY STATEMENT – March 2018

The investment manager(s) have been given specific performance targets measured. These are displayed in section 6 of the ISS.

The Fund monitors each of the participating LGPS employers and admitted bodies.

Principle 3 – Risk and Liabilities

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members.) Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme. Responsibility for the Fund's risk management strategy rests with the Pensions & Investment Committee.

The Triennial Valuation exercise looks in detail at each participating employer's liability and is used to inform the setting of employers' contribution rates, as well as informing the investment strategy and objectives of the Fund.

The strength of the covenant of participating employers is also considered as part of the exercise establishing contribution rates.

A risk register is monitored monthly and maintained. Pensions and Investment Committee review the Risk Register every 12 months.

Regular internal audit on the adequacy and effectiveness of risk management and internal control is undertaken and outcomes reported to the Pensions & Investment Committee and Pension Board.

The Annual Report and Accounts of the Powys Pension Fund are subject to a separate external audit and an independent audit opinion is given.

Within the FSS, point 6 Key Risks and Controls, summarises the risks and controls under the following headings, investment, solvency, liability, regulatory, employer.

Principle 4 – Performance Assessment

Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisors. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Advisors provide buy – qualified – sell – quarterly ratings on current managers to the Committee.

INVESTMENT STRATEGY STATEMENT – March 2018

Investment Managers are measured against their targets shown in the ISS. The Fund's advisors report formally on a quarterly basis to the Pensions and Investment Committee their ratings of the incumbent managers. Significant developments between meetings are also communicated by the advisors.

Investment Managers are invited to attend the Pensions and Investment Committee at behest of the Committee.

The Fund maintains a Governance Statement which is available from the Fund's website.

Pensions & Investment Committee attendance and training is monitored and reviewed on a quarterly basis.

Advisors are selected competitively, based on performance, price and other factors.

All active and deferred scheme members receive the 'Your Pension' publication along with their Annual Benefit Statements which includes information on the Fund's activity and a summary of the accounts; all retired members receive an annual newsletter with information on Fund developments and a summary of the accounts.

The Fund produces a detailed annual report covering all aspects of its performance which is published on the website.

Principle 5 – Responsible Ownership

Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles. Trustees should report periodically to members on the discharge of such responsibilities.

The Fund's Socially Responsible Investment intention is laid out in section 9 of the ISS. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which considers responsible investment on a collaborative basis.

Principle 6 – Transparency and Reporting

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. Trustees should provide regular communication to members in the form they consider most appropriate.

Details of the Fund's Communications Policy and all other key reports – ISS, Annual Report, FSS and Governance Policy Statement are all published on the Fund's website. A newsletter is also published periodically. There is employer and employee representation on the Committee ensuring transparency.

The Fund actively manages risks. Pensions & Investment Committee reviews the risk register on a regular basis.

INVESTMENT STRATEGY STATEMENT – March 2018

Pensions & Investment Committee meetings are open to the public. Agendas, papers and minutes are available on Powys County Councils website.

| <u>Principle</u> | <u>Compliance</u> |
|----------------------------|---|
| Effective Decision Making | The Fund considers that its practices are compliant with the CIPFA principles |
| Clear objectives | The Fund considers that its practices are compliant with the CIPFA principles |
| Risk and Liabilities | The Fund considers that its practices are compliant with the CIPFA principles |
| Performance Assessment | The Fund considers that its practices are compliant with the CIPFA principles |
| Responsible Ownership | The Fund considers that its practices are compliant with the CIPFA principles |
| Transparency and Reporting | The Fund considers that its practices are compliant with the CIPFA principles |

Principles of the UK Stewardship Code

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.
2. Have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.
3. Monitor their investee companies.
4. Establish clear guidelines on when and how they will escalate their stewardship activities.
5. Be willing to act collectively with other investors where appropriate.
6. Have a clear policy on voting and disclosure of voting activity.
7. Report periodically on their stewardship and voting activities.

Appendix B

Background to Medium Term Asset Allocation

Philosophy

The Committee recognises that it is possible to take advantage of excessive over/under valuations of markets in order to target additional returns. The Committee in conjunction with the Investment Consultant seeks to identify opportunities to allocate investments away from the strategic benchmark that are designed to add additional return relative to the benchmark return over the medium term (around 1 to 3 years).

Process

A thorough fundamental analysis of economics and financial markets is carried out to identify and incorporate general investor expectations into views of the different markets. In particular, attention is paid to establishing consensus views and profit is taken from positions which differ from the consensus. A range of appropriate timing indicators are utilised in order to achieve the best entry and exit levels to and from asset classes.

In terms of the practical application, once an opportunity has been identified the Fund's Investment Consultant will notify the Pensions & Investment Committee. The Committee decides whether to pursue the opportunity and if so will work with the Investment Consultant to complete any necessary asset transitions. The Investment Consultant liaises with the investment manager(s) and follows each transaction as it happens to make sure each trade goes through smoothly.

Risk management

Considerable lengths are taken to assess what correlations are likely to be in the future so as to ensure asset allocation views are truly diversified. The style of the MTAA project is to have a limited number of meaningful positions rather than either a small number of large positions or a large number of small positions. The overall objective is to achieve an additional return of 0.5% p.a. of assets involved in the MTAA project. The Investment Consultant will provide regular reporting to the Pensions & Investment Committee.

By virtue of paragraph(s) 14 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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