CARDIFF AND VALE OF GLAMORGAN PENSION FUND

CORE INVESTMENT BELIEFS

This statement describes the investment philosophy of Cardiff Council as the administering authority for the Pension Fund. These investment beliefs are the basis for decisions on setting investment strategy, formulating investment agreements, and many other key investment decisions. The document is a useful record for future elected members and officers on how the investment strategy has developed. This document also complements the Statement of Investment Principles and will be of value to scheme members, employers and investment managers who wish to understand the Fund's approach to investing.

Long-term approach

- The Fund benefits from the financial stability of its sponsoring employers and from the long-term nature of its liabilities. An investment approach focussed on delivering returns over periods in excess of 20 years can therefore be adopted.

- Over longer periods equities have outperformed bonds and should form the core of the investment strategy. Participation in long-term economic growth is a component of equity returns and this should be considered in the Fund's asset allocation. However, the Fund's investments are intended to preserve and enhance the Fund's value, and no asset class can consistently generate high returns.

- Long-term investment requires a fundamental, research oriented approach to assessing businesses. Investment strategies which focus on value rather than growth are likely to outperform in most periods, although they can under perform for several years.

Diversification and risk

- The Fund aims to maximise returns within an acceptable level of risk. Short-term volatility in returns is therefore acceptable provided the expected return compensates for this risk.

- Diversification of assets is an important method of managing volatility. However there is likely to be an optimum level beyond which the addition of new asset classes adds little to the risk versus return position.

Management strategies

- The best long-term managers of assets are specialists in their field who are focussed on investing rather than short-term trading. A combination of managers, with different skills and investment styles, can often benefit the Fund. In-house management of assets is appropriate when sufficient advice, research and resource is available.

- It is difficult to consistently time movements in markets. Any short-term tactical positions must not impact the long-term asset allocation.

Active and passive approaches

- Active management can add value over the long-term, and is most suited to less efficient markets. Active management is therefore more appropriate in developing markets which are less well researched and analysed.

- Passive management of equities and some other asset classes provides low cost access to markets. In efficient markets, most or all of the Fund's equity exposure should be passive as on average active managers don't outperform the market. However, bond mandates should usually be managed actively as components of the index may carry specific risks (e.g. illiquidity, default).

- Active management requires clearly expressed objectives, a disciplined approach and sufficient resources. The Fund should therefore carry out a detailed assessment of each manager prior to appointment. Market indices should generally be used to set risk and performance targets rather than to define stock selection.

- Active managers should be assessed annually on whether they are following the original investment process they were appointed to deliver. This assessment should also consider whether they are likely to deliver future outperformance. Performance should be assessed over rolling three to five year periods, or longer.

- Active management is more expensive than passive approaches and so the manager's fee levels and performance net of fees need to be considered. Performance fees are a suitable option provided they do not promote excessive risk-taking.

*This statement applies principles from the 'Guidance Note for Long-Term Investing' issued by the Marathon Club. The Marathon Club is an informal group of pension fund trustees, actuaries and advisers whose aim is to encourage long-term investing.