2017
AUTUMN

KEVA

INVESTMENT BELIEFS

Investment beliefs

Keva Investment Beliefs describe the general principles on which our investment strategy and organisation of investment operations are based. As the responsible protector of the local and county government pension system, these beliefs serve our objectives in achieving the mission, vision and values set out in Keva's strategy.

OBJECTIVE AND RISK APPETITE

The objective of the fund is to generate real investment returns required to meet our long-term pension liabilities under the Act on Keva. This requires us to take on investment risk. Taking on investment risk might at times result in investment losses over short and medium-term horizons.

INVESTMENT HORIZON

The long-term nature of our pension liabilities and their predictable cash flows enable an investment strategy aiming for long-term investment results. A long-horizon investment strategy will generate better returns than a short-horizon investment strategy since the former allows, for example;

- an ability to stay in risky asset classes when short-term investors are forced to sell
- an ability to use market pricing patiently and counter-cyclically
- an ability to invest in illiquid assets and investment vehicles
- access to asset managers and partners which are not available to short-term investors.

Investment returns are driven by long-term economic growth, which must be sustainable since pensions are, by nature, long-term liabilities. Integrating the dimensions of responsible investment (ESG) into the choice of investments creates long-term added value through better returns and lower risk.

ALLOCATION

Allocation to various systematic return drivers is the key decision determining investment returns.

Asset class expected returns and risks vary over time, are partly predictable, and typically revert towards a long-term mean.

DIVERSIFICATION AND RISK MANAGEMENT

Diversification across return drivers improves the risk to return ratio. Investment risk is best managed at the total portfolio level rather than as a collection of individual underlying sub-portfolios.

Investment risk is managed holistically by emphasising qualitative values. Quantitative measurement is considered as being a tool that supports the overall risk management process.

MARKET EFFICIENCY AND VALUE ADDED

The extent to which markets are efficient varies across markets and over time, which allows strategies to be based on value added. Value added when uncorrelated with market returns improves the characteristics of the investment portfolio as a whole. Capturing value added requires an appropriately resourced and disciplined process.

RESOURCING

We seek to insource investment management in markets where we deem it is efficient given in-house expertise. We complement insourced investment management with like-minded partners who, as much as possible, share our investment beliefs. Our work with external asset managers is based on long-term relationships, trust and transparency.

COSTS

Managing fees and costs is a key part of the value creation process. We assess investment performance net of all costs.