County Hall
Cardiff
CF10 4UW
Tel: (029) 2087 2000

Neuadd y Sir
Caerdydd
CF10 4UW
Ffôn: (029) 2087 2000

AGENDA

Committee	PENSIONS COMMITTEE
Date and Time of Meeting	MONDAY, 27 NOVEMBER 2023, 5.00 PM
Venue	REMOTE MEETING
Membership	Councillor Weaver (Chair) Councillors Dilwar Ali, Lay, Reid-Jones and Taylor

1 Apologies for Absence

To receive apologies for absence.

2 Declarations of Interest

To be made at the start of the agenda item in question, in accordance with the Members' Code of Conduct.

3 Minutes *(Pages 3 - 4)*

To approve as a correct record the minutes of the meeting held on 31 July 2023.

4 Annual Report *(Pages 5 - 114)*

To approve the Pension Fund 2022/23 Annual Report.

5 Wales Pension Partnership and Investment Update *(Pages 115 - 198)*

To receive an update on the Wales Pension Partnership and the Fund's Investments.

6 Risk Register *(Pages 199 - 208)*

To consider the Pension Fund's Risk Register.

7 Minutes of the Local Pension Board *(Pages 209 - 214)*

To note the minutes of the Local Pension Board meeting held on 18 April 2023.

8 Exclusion of the Public

Item 9 is confidential and not for publication by virtue of paragraph 14 of Part 4 and paragraph 21 of Part 5 of Schedule 12A of the Local Government Act 1972. The public will be excluded from the meeting for the presentation of this item in accordance with the same legislation.

9 Minutes of the Investment Advisory Panel *(Pages 215 - 218)*

To note the minutes of the Investment Advisory Panel meeting held on 14 March 2023.

10 Urgent Items (if any)

11 Date of next meeting

The next meeting of the Pension Committee is 5 February 2024 at 5pm.

Member Training

A training event for Pension Committee Members will take place at the conclusion of the Pension Committee meeting. Areas to be covered to include :-

- 2022 Tri-annual Valuation
- Private Market Asset classes

D Marles
Interim Monitoring Officer
Date: Tuesday, 21 November 2023
Contact: Andrea Redmond,
02920 72434, a.redmond@cardiff.gov.uk

PENSIONS COMMITTEE

31 JULY 2023

Present: Councillor Weaver(Chairperson)
Councillors Reid-Jones and Taylor

1 : APOLOGIES FOR ABSENCE

Apologies were received from Cllr Dilwar Ali.

2 : DECLARATIONS OF INTEREST

None received.

3 : MINUTES

The minutes of the meeting held on 15 May 2023 were agreed as a correct record.

4 : EXCLUSION OF THE PUBLIC

RESOLVED that Item 5 is confidential and not for publication by virtue of paragraph 14 of Part 4 and paragraph 21 of Part 5 of Schedule 12A of the Local Government Act 1972. The public were excluded from the meeting for the presentation of this item in accordance with the same legislation.

5 : WALES PENSION PARTNERSHIP (WPP) OPERATOR PROCUREMENT - EVALUATION CRITERIA

RESOLVED: to agree the evaluation criteria for the WPP Operator procurement.

6 : URGENT ITEMS (IF ANY)

None received.

7 : DATE OF NEXT MEETING

27 November 2023 at 5pm.

The meeting terminated at 5.17 pm

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CITY OF CARDIFF COUNCIL
CYNGOR DINAS CAERDYDD

PENSIONS COMMITTEE: 27 NOVEMBER 2023

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 4

PENSION FUND ANNUAL REPORT FOR 2022-23

Reason for this Report

1. The Pension Committee Terms of Reference set out the Committee's responsibility for the strategic governance of the Cardiff & Vale of Glamorgan Pension Fund.

2. The Terms of Reference include considering the Fund's financial statements and agreeing the Annual Report; and receiving internal and external audit reports on the same.

Background

3. The Annual Report for 2022-23 has been completed including the review by Audit Wales with the Annual Report appended as Appendix 1 to this report.

Issues

4. The Pension Board at its meeting on 7th November considered an unaudited draft of the Annual Report. This year's report is in the same format as 2021/22 which included sections on the activities undertaken by the Pension Board during 2022/23 and information on Wales Pension Partnership (WPP) activity during the financial year. The appendices include the current versions of the key Pension Fund documents.

5. The Auditor has reviewed the contents of the draft Annual Report and issued an Auditor's Statement upon it, confirming that the Annual Report has been reviewed and that the information it contains is consistent with the information in the Statement of Accounts presented to and approved by Full Council on 26 October 2023. The Auditor's Statement is included as part of the 2022/23 Annual Report

6. The Annual Report must be published in English and Welsh on the Fund's website by the statutory deadline of 1 December.

Legal Implications

7. The Pensions Committee terms of reference include, ' *To discharge the following specific strategic functions with regards to the Fund, taking account of advice from the Corporate Director Resources and the Fund's professional advisers:…*

c) Considering the Fund's financial statements as part of the approval process and agreeing the Fund's Annual Report. Receive internal and external audit reports on the same.

8. The Annual Report is a technical document, the contents of which Legal Services are unable to comment upon. It is understood by Legal Services that these documents are drafted with assistance from external advisors and on the basis of the information contained in the report there are no concerns raised by the Wales Audit Office.

9. The recommendation does not appear to raise any specific legal implications however the general legal advice set out below should be considered.

General Legal Advice

Any decision must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council eg. standing orders and financial regulations; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its tax payers; and (h) be reasonable and proper in all the circumstances and comply with any equalities legislation.

The Council also has to satisfy its public sector duties under the Equality Act 2010 (including specific Welsh public sector duties). Pursuant to these legal duties, Councils must in making decisions have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. The Protected characteristics are: age, gender reassignment, sex, race – including ethnic or national origin, colour or nationality, disability, pregnancy and maternity, marriage and civil partnership, sexual orientation, religion or belief – including lack of belief.

The Well-Being of Future Generations (Wales) Act 2015 ("the Act") places a 'well-being duty' on public bodies aimed at achieving 7 national well-being goals for Wales – a Wales that is prosperous, resilient, healthier, more equal, has cohesive communities, a vibrant culture and thriving Welsh language, and is globally responsible.

In discharging its duties under the Act, the Council has set and published well-being objectives designed to maximise its contribution to achieving the national well-being goals. The well-being objectives are set out in Cardiff's Corporate Plan 2023-26.

The well-being duty also requires the Council to act in accordance with 'sustainable development principle'. This principle requires the Council to act in a way, which seeks to ensure that the needs of the present are met without comprising the ability of future generations to meet their own needs. Put simply, this means that Council decision makers must take account of the impact of their decisions on people living their lives in Wales in the future. In doing so, the Council must:

- Look to the long term
- Focus on prevention by understanding the root causes of problems
- Deliver an integrates approach to achieving the 7 national well-being goals
- Work in collaboration with others to find shared sustainable solutions
- Involve people from all sections of the community in the decisions which affect them

The decision maker must be satisfied that the proposed decision accords with the principles above; and due regard must be given to the Statutory Guidance issued by the

Welsh Ministers, which is accessible using the link below: http://gov.wales/topics/people-and-communities/people/future-generations-act/statutory-guidance/?lang=en

The Council has to be mindful of the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards when making any policy decisions and consider the impact upon the Welsh language, the report and Equality Impact Assessment deals with all these obligations. The Council has to consider the Well-being of Future Guidance (Wales) Act 2015 and how this strategy may improve the social, economic, environmental and cultural well-being of Wales.

Financial Implications

10. There are no direct financial implications arising from this report.

Recommendations

11. That the Committee receives the Auditor's Statement on the Pension Fund Annual Report 2022/23; and approves the Annual Report appended as Appendix 1.

CHRISTOPER LEE
CORPORATE DIRECTOR RESOURCES

The following Appendix is attached:

Appendix 1 – Pension Fund Annual Report for 2022-23

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Cardiff & Vale of Glamorgan
Pension Fund

ANNUAL REPORT AND ACCOUNTS 2022/23

Mae'r ddogfen hon ar gael yn Gymraeg / This document is available in Welsh

CONTENTS

EXECUTIVE SUMMARY

- The total value of the Fund decreased by 2.1% over the year with a valuation of £2.635 billion as at 31 March 2023, compared to the previous year end valuation of £2.693 billion.

- During 2022/23 financial markets saw a continuation of the economic headwinds markets experienced towards the end of 2021/22 with market sentiment impacted by a combination of issues including the increases in global interest rates to combat rising inflation, the slow growth in China following the relaxation of the zero-Covid policy and continued geo-political concerns with a continuation of the war in Ukraine. The Fund experienced a negative return on investments for the year of-2.8%, slightly below the benchmark return of-2.6%.

- The Fund remains in a positive cashflow position with regard to its dealings with members of the Fund with contributions and transfer values received exceeding benefits, refunds and transfer values paid by £15.0 million.

- Total membership of the Fund as at 31.03.2023 includes 17,660 active contributors accounts whilst there are now 12,880 pensioner accounts and 13,689 deferred pensioners.

- The 31 March 2022 triennial valuation of the Fund was completed by the Fund Actuary in March 2023. This valuation saw the funding level ration increase to 98% compared to the previous level of 96%. This increase in funding level was achieved whilst increasing the prudence of some of the assumptions underpinning the valuation including increasing the probability of Funding success to 78%, a short term allowance to cover the current high inflation levels and a reduction in the recovery period to 14 years. The impact of the key macro-economic assumptions is broadly unchanged with higher investment returns offset by higher CPI and pay growth assumptions. The next triannual valuation will be as at 31 March 2025 with this work being completed during 2022/23.

- After the significant movement of this Fund's assets into Wales Pension Partnership (WPP) Funds during 2021/22, 2022/23 saw a period of consolidation and development with no assets transferring during 2022/23. Significant development work was undertaken with the WPP Private Markets sub-funds with allocators appointed for the WPP Private Credit, Infrastructure and Private Equity sub-funds with these sub-funds expected to receive investments from this Fund in 2023/24. Work has also progressed with the setting up of the WPP Sustainable Equity sub-fund which will have a climate focus and was launched in July 2023. As at 31 March 2023 63% of the value of the Fund's was held in WPP Funds. The percentage of assets pooled if the Low Carbon Equity Tracker Fund is included increases to 86%.

- Summary statistics for the Fund are shown in Appendix 1.

NARRATIVE REPORT

Cardiff Council is the Administering Authority for the Cardiff and Vale of Glamorgan Pension Fund (the Fund) which is part of the national Local Government Pension Scheme (LGPS) for England & Wales. The LGPS is the statutory occupational pension scheme for all local government employees (except teachers) and the regulations are determined by the UK Government.

The Council's responsibilities as manager of the Fund are discharged through the Pension Fund Committee which has oversight of the Fund's strategies and policies. Operational management of the Fund has been delegated to the Corporate Director Resources. The Local Pension Board assists the Council to secure compliance with the LGPS regulations and the requirements of the Pensions Regulator and to ensure the effective and efficient administration of the scheme. The Pension Fund Committee also continues to be assisted by the Investment Advisory Panel whose membership includes two independent advisors.

The membership of the Fund as at 31 March 2023 was 44,229 with 17,660 contributing employees, 12,880 pensioners and 13,689 deferred members.

The value of the Pension Fund's Investment assets as at 31 March 2023 was £2,635 million a decrease of 2.1% compared with the 31 March 2022 valuation of £2,693 million. 2022 was a difficult year for Investment markets globally as market sentiment was impacted by the continuation of the war in Ukraine and increases in Central Bank interest rates in response to increases in inflation. Quarter 1 2023 has seen signs of improvement but as evidenced by recent events with global banks, the investment markets remain volatile. As the Fund only had a limited holding in UK Government Gilts and no Liability Driven Investments (LDI) there was no material impact on the Fund from the September 2022 "liquidity crisis" where falling Gilt prices saw some Pension Funds engage in asset sales to maintain liquidity levels in LDI assets.

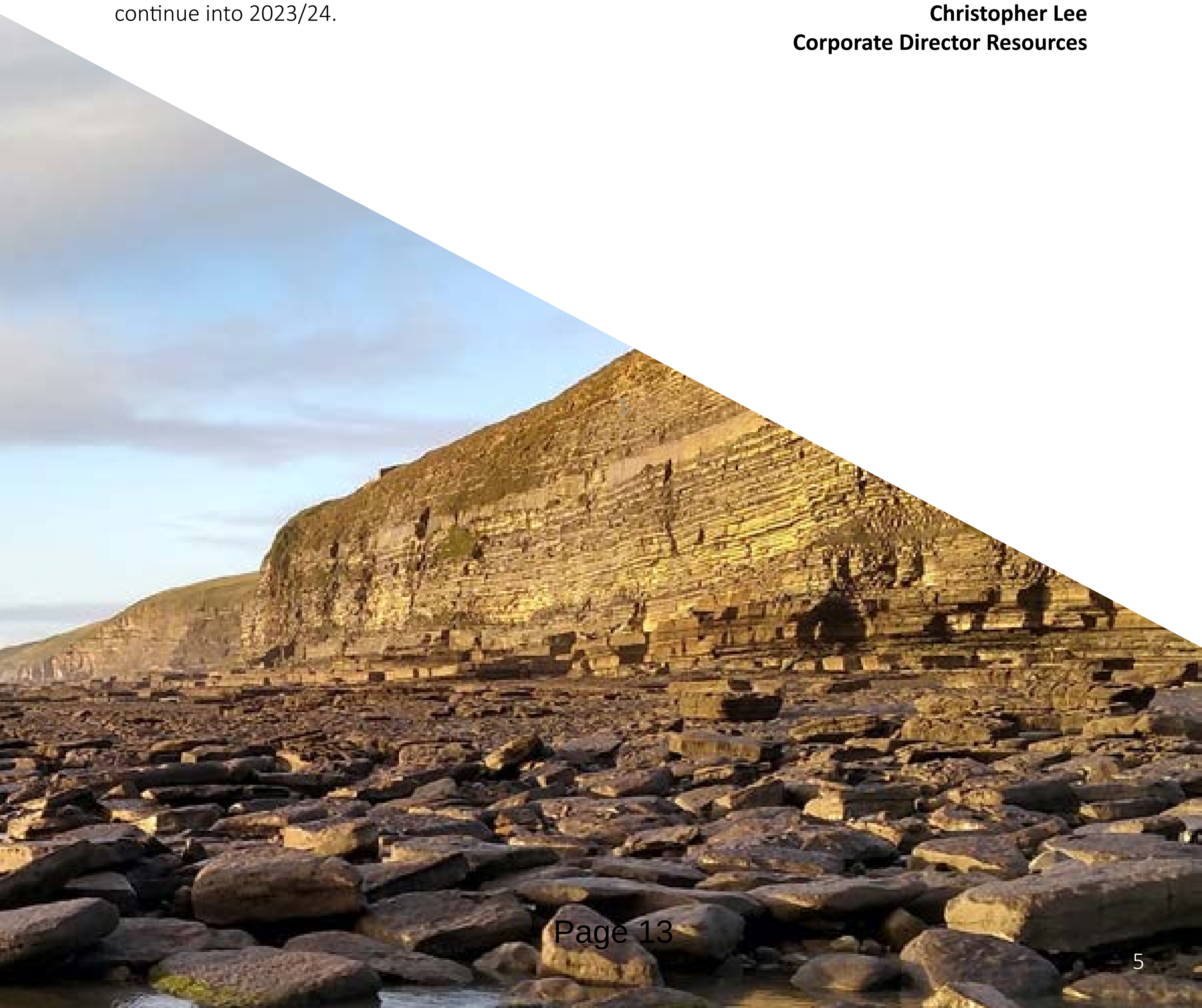
The eight LGPS fund authorities in Wales continued to make progress during the year with the development of the Wales Pension Partnership (WPP). The focus during 2022/23 has been on the establishment of WPP Private Market sub-funds as well as the WPP Sustainable Active Equity sub-funds. Investment Fund Managers for the Private Credit, Infrastructure and Private Equity sub-funds have been announced and these should launch in 2023/24. The Sustainable Equity Fund is due to launch in June 2023.

At 31 March 2023 the value of the Fund's assets held in seven WPP sub-funds was 63% of the Fund's total value which increases to 86% of Fund value being pooled if the jointly procured BlackRock fund is included.

During February 2023 the WPP was informed by the Financial Reporting Council (FRC) that it had been successful in its application to remain a signatory to the UK 2020 Stewardship Code. This success demonstrates the commitment of the Welsh LGPS Funds, including this Fund, to Responsible Investment (RI), which will continue to be developed over future years. This Fund has started the work to consider setting its own "Net Zero" target which will continue into 2023/24.

In 2022/23 Aon the Fund Actuary, completed their tri-annual actuarial valuation of the Fund as at 31 March 2022. The results saw a small increase in the funding level to 98%, compared to 96% for the 2019 valuation but with additional prudence included in the 2022 valuation, including a provision for the high inflation presented by the September 2022 Consumer Price Index (CPI). The average Employers Contribution rate for the Fund as a whole was 19.2%, a decrease of 2.3% compared to the equivalent rate in 2019.

Christopher Lee
Corporate Director Resources



SCHEME MANAGEMENT AND ADVISERS

The Cardiff Council is named in the LGPS Regulations as the Scheme Manager and Administering Authority for the Cardiff & Vale of Glamorgan Pension Fund, the LGPS fund covering the geographical areas of the City of Cardiff and the Vale of Glamorgan.

Pensions Committee

The Pensions Committee was established by the Council on 30 June 2016 to discharge the Council's functions as Administering Authority. The Committee's role is to provide strategic oversight of the Fund including reviewing its statutory policy statements.

Members in the year to 31 March 2023 were:

Cllr. C. Weaver	(Chair)
Cllr. D. Ali	
Cllr. R. Taylor	from May 2022
Cllr. E. Reid-Jones	from May 2022
Cllr. C. Lay	
Cllr. N. Howells	until May 2022
Cllr. G. Thomas	until May 2022

Operational management of the Fund is the responsibility of the Corporate Director Resources under the Council's scheme of delegations.

Investment Advisory Panel

The Committee and the Corporate Director Resources are advised on investment matters by the Investment Advisory Panel.

Members in the year to 31 March 2023 were:

Cllr C. Weaver	(Chair) Cabinet Member for Finance, Modernisation and Performance, Cardiff Council
Cllr N. Howells	Member, Cardiff Council - until May 2022
Cllr. G. Thomas	Member, Cardiff Council - until May 2022
Cllr. R. Taylor	Member, Cardiff Council - from May 2022
Cllr. E. Reid-Jones	Member, Cardiff Council - from May 2022
Mr. S. Bates	Independent Adviser
Ms. C. Burton	Independent Adviser
Mr. C. Lee	Corporate Director Resources, Cardiff Council

Local Pension Board

The Local Pension Board was established on 29 January 2015 in compliance with the Public Service Pensions Act 2013. The role of the Board is to assist the Council to secure compliance with the LGPS Regulations and to ensure the efficient governance of the Scheme.

Members from 1 April 2022 to 31 March 2023 were:

Michael Prior	Independent Chair

Employer Representatives:

David Llewellyn	Director of Finance, Cardiff Metropolitan University
Mark Sims	Deputy Chief and Responsible Finance Officer, Barry Town Council
Laithe Bonni	Operational Manager Employee Services, Vale of Glamorgan Council

Scheme Member Representatives:

Peter King	Unison nominee
Hilary Williams	Unison nominee
Sheelagh Doolan-Pitt *	GMB nominee
Georgia Chedzey **	GMB nominee

** Sheelagh Doolan-Pitt resigned from the Pension Board in July 2022*

*** Georgia Chedzey joined the Pension Board in October 2022*

Investment Managers from 1 April 2022 to 31 March 2023 were :

BlackRock Investment Management	Global Low Carbon Equities (indexed)
	UK Property
WPP Link Fund Solutions	UK Equities (active)
	Global Government Bonds
	Global Credit
	Multi-Asset Credit
	Global Equities (active)
	Emerging Market Equities (active)
Aberdeen Standard	UK Property
Schroders Investment Management	UK Property
UBS	UK Property
CBRE	Global Property
Capital Dynamics	Private Equity
HarbourVest	Private Equity
Pantheon	Private Equity

Professional Advisers

The Fund's professional advisers during the year were:

Actuaries	AON Hewitt Limited
Auditor	Auditor General for Wales
Bankers	NatWest Bank plc
Custodian	Northern Trust
Legal Advisers	Chief Legal Services Officer, Cardiff Council
	Sacker and Partners
Investment Advisers	Mr. S. Bates and Ms. C. Burton
Scheme Administration	Corporate Director Resources, Cardiff Council
Current AVC Provider	Prudential Assurance

FUND ADMINISTRATION

The LGPS is a Defined Benefit Scheme governed by the Superannuation Act 1972 and the various regulations issued by the Ministry for Housing, Communities and Local Government. The Scheme is open to all employees of local authorities except teachers, and the Regulations specify that employees of certain other bodies have the same rights of membership as local authority employees. The Regulations also give administering authorities the power to enter into admission agreements with other bodies which provide public services.

The table below summarises the number of active and ceased employers in the Fund as at 31 March 2023:

	Active	Ceased	Total
Scheduled Body	17	14	31
Admitted Body	24	38	62
Total	**41**	**52**	**93**

A full list of contributing employers is given in Note 22 to the accounts.

Membership of the Fund is summarised in Note 7 to the accounts. In addition to contributors, pensioners and members with deferred benefits, as at 31 March 2023 there were 5,563 undecided leavers i.e. members to whom a refund of contributions, deferred benefit or transfer out may be due.

Fund income arises from investment earnings and contributions by employers and employees. Employee rates are set nationally and depend on a member's pensionable pay. During 2022/23 the contribution bands were:

Band	Pensionable Pay Range	Contribution Rate
1	Up to £15,000	5.5%
2	£15,001 to £23,600	5.8%
3	£23,601 to £38,300	6.5%
4	£38,301 to £48,500	6.8%
5	£48,501 to £67,900	8.5%
6	£67,901 to £96,200	9.9%
7	£96,201 to £113,400	10.5%
8	£113,401 to £170,100	11.4%
9	£170,101 or more	12.5%

The contribution bands for 2023/24 are:

Band	Pensionable Pay Range	Contribution Rate
1	Up to £16,500	5.5%
2	£16,501 to £25,900	5.8%
3	£25,901 to £42,100	6.5%
4	£42,101 to £53,300	6.8%
5	£53,301 to £74,700	8.5%
6	£74,701 to £105,900	9.9%
7	£105,901 to £124,800	10.5%
8	£124,801 to £187,200	11.4%
9	£187,201 or more	12.5%

Employers' rates are calculated by the scheme actuary at each triennial valuation. In addition to contributions calculated as a percentage of pensionable pay, for some employers the actuary has also specified cash amounts to be paid during each financial year.

Pension Increases
Pensions in payment are subject to annual mandatory increases determined by the increase in the Consumer Price Index (CPI) in the twelve months to the previous September. The increases are payable by the Fund and future increases are estimated at each triennial valuation. Any variations are adjusted for in subsequent valuations through the employer's contribution rate of the member's last employer before leaving employment. Increases take effect in the first full week of each financial year. The increase for 2022/23 was 3.1% and the increase for 2023/24 is 10.1%.

CARE benefits accrued by active Fund members since 1 April 2014 are also subject to annual CPI linked adjustments. Accounts brought forward at the start of the financial year were revalued by 3.1% and accounts carried forward into 2023/24 were revalued by 10.1% on 1 April 2023.

Additional Voluntary Contributions (AVCs)
Prudential Assurance continues as the current AVC provider for the Fund. Prudential offer information through their web site https://www.pru.co.uk/rz/localgov/

Administration
The administration of the Fund is carried out by the Pensions Team of Cardiff Council, based in County Hall, Cardiff.

Member records are held on the Altair system provided and hosted by Aquila Heywood. Monthly pensions are paid through the Council's SAP payroll system.

INVESTMENT POLICY AND PERFORMANCE REPORT

Investment Powers

The principal investment powers of the Fund are found in the Local Government Pension Scheme (Management & Investment of Funds) Regulations which were issued in 2016. The Regulations give the power for administering authorities to delegate investment decisions to external managers conditional upon proper consideration of a reasonable and sufficient diversification of managers. Periodic reviews of the appointment of, and investments made by, managers are also obligatory. Proper advice is required in determining suitable types of investment.

Investment Objective

The Fund's overall investment objective is to maximise investment returns and to minimise or at least stabilise future employer contributions over the long term within an acceptable level of risk.

The Fund prudently seeks to fulfil the regulatory requirement to secure the solvency of the Fund over a period of time (i.e. for the value of the Fund's assets to be equal to or greater than its accrued liabilities measured using 'ongoing' actuarial methods and assumptions.) This period together with the funding level is calculated every three years by the actuary following a review of the adequacy of the Fund's assets to meet its liabilities. The Pensions Committee takes the actuarial position and funding level into account when reviewing the Fund's investment strategy.

The 2022 actuarial valuation was completed in March 2023. The Valuation Report is available on the Fund's website here:
Cardiff- 2022 actuarial valuation report FINAL (cardiffandvalepensionfund.org.uk)

The Funding Strategy Statement (FFS) approved in February 2023 by the Pension Committee is included in this report as Appendix 2.
For the 2022 valuation the funding ratio of assets against liabilities was calculated as 98%, an increase on the 2019 ratio of 96%. This was largely due to the growth in Fund assets over the three years, offset by an increase in liabilities due to changes in financial assumptions.
The overall funding deficit was reduced from £95 million to £52 million and employer contributions have been set for the next three years with the aim of recovering deficits within 14 years. The Fund Actuary has advised on suitable employer contribution rates to cover the 3 year period effective from 1 April 2023.

Fund Management

The Investment Advisory Panel aims to meet each manager with an actively managed portfolio annually. It also considers at its quarterly meetings:

- The overall Fund Objective and the level of investment risk
- Overall Fund and individual manager performance
- The Fund's investment management arrangements
- Strategic asset allocation over the major market sectors and geographical areas, including the split between passive and active management

The Pensions Committee reviews and approves the Fund's strategic investment documents and the formal responsibility for operational investment decisions lies with the Corporate Director Resources.

Fund management is structured on a specialist basis, with individual manager's allocated particular sectors or geographical areas (see above for a list of managers and their mandates). Where possible, each manager is given a clear performance target, but generally is also given considerable freedom in how this is achieved. The Fund employs a global custodian to ensure the safekeeping of all publicly traded securities, and to manage the settlement of trades and recovery of taxation. Custody of private equity, property unit trusts and cash is managed in-house as these assets are not publicly traded.

Management fees are the main form of investment expenditure and comprise a combination of ad valorem (varying with the value of funds managed) and performance fees. Custody fees vary with the number of investment transactions made by the fund managers. Fees for the Panel's advisers rise in line with Chief Officers' pay. Revised accounting guidelines from 2015/16 onwards require all management fees to be accounted for as investment expenses regardless of whether they are charged directly or offset against investment returns. Management and Custodian fees for 2022/23 were £5.0m (2021/22 £6.2m).

Investment Strategy Statement

The LGPS (Management and Investment of Funds) Regulations 2009 required all LGPS funds to prepare and publish a Statement of Investment Principles (SIP). The SIP summarised the Fund's investment objectives and the policies it uses to manage investments. Under the revised Regulations issued during 2016/17 the SIP has been replaced by an Investment Strategy Statement (ISS). The Fund's ISS to commence from 2023/24 financial year was approved by the Pensions Committee on 6 February 2023.

The Investment Strategy Statement is included in this report as Appendix 3 and this document is available on the Fund's website via the following link:

https://www.cardiffandvalepensionfund.org.uk/about-the-fund/key-governance-documents/

Fund Benchmark and Strategic Asset Allocation

The Fund has agreed its own Fund Objective which was set to ensure that the Fund's asset allocation policy reflected its own liability characteristics and not the average of a peer group. The Investment Advisory panel regularly review the Fund's overall asset allocation and if appropriate make recommendations to the Pension Committee to amend the asset allocation. The Fund's overall objective strategy is to maximise investment returns and by doing so it is designed to minimise, or at least stabilise, future employer contributions and to avoid large variations in contributions. This current version of the ISS reflects the increasing significance of the pooling of the Fund's investments through the Wales Pension Partnership (WPP) as well as how Environmental, Social and Governance (ESG) considerations are taken into account with the Fund's investment decisions.

The Fund's 2022/23 planned Asset Allocation included a 50% allocation to Equities, previously 60%, which included a 16.7% allocation to a Low Carbon Fund, a 25% allocation to Global Equity, a 4.2% allocation to Emerging Markets plus 4.2% for UK Equity. The meeting of the Pension Committee in June 2022 approved the recommendation of the Investment Advisory Panel that investments should be made into the new WPP Private Markets sub-funds with allocations of 7.5% into each of the WPP Private Credit, open-ended Infrastructure and Private Equity sub-funds. The Private Credit investment is to be funded by reductions in the Fund's holdings in the WPP Global Credit and Multi-Asset Class sub-funds whereas the Infrastructure and Private Equity investments are to be funded by reductions in the Fund's Equity holdings. During 2022/23 no investments were made into these new Private Market sub-funds with investments expected to commence in 2023/24 and continue in subsequent years.

A breakdown of the investment portfolio over the last five years is set out in Appendix 1. Changes in market values reflect both changes in investment policy and the relative performance of different markets.

INVESTMENT PERFORMANCE

During 2022/23 the overall Fund return was-2.8%, 0.2% below the Fund's benchmark return of-2.6%. Market sentiment in 2022/23 continued to be impacted by the economic headwinds that surfaced in 2021/22 including increases in interest rates to tackle rising inflation and continued geo-political concerns.

The performance of the manager portfolios during 2022/23 compared with their benchmarks and targets was as follows:

Manager	Mandate (target against benchmark)	Benchmark Return (%)	Portfolio Target (%)	Portfolio Return (%)
WPP	Global Multi Asset Credit	N/A	6.4	-6.8
WPP	Global Government Bonds	-6.6	-6.6	-4.6
WPP	Global Credit	-6.6	-6.6	-8.2
WPP	UK Equities	2.9	4.9	4.5
WPP	Global Equities – Global Opportunities	-1.4	0.6	0.5
WPP	Global Equities – Global Growth	-1.4	0.6	-0.5
WPP	Emerging Market Equity	-4.9	-2.9	-4.2
BlackRock	Low Carbon (passive)	-4.7	-4.7	-4.1
Private Equity Funds (31)	Global Private Equity	2.9	2.9	3.8
UK Property Funds (4)	UK Property	-14.5	-14.5	-18.5
CBRE	Global Property (10% absolute return)	N/A	10.0	7.3

Although it is useful to compare the performance of managers over the past year, the Investment Advisory Panel's reviews focus on the average performance of active managers over three to five years to ensure that market fluctuations are taken into account.

Longer Term Fund Performance

The Pension Fund's overall return is best measured over the long term. Over the last ten years the Fund's total return has returned an average annualised 6.5% compared with a Retail Price Index (RPI) benchmark of 4.8%. In the table below the 5 Year average also compares Fund performance with RPI with the 3 year and 1 Year comparisons being against the specific fund benchmark. Using 2022/23 as the base year, comparative returns over different periods are as follows:

	Fund % p.a.	Benchmark % p.a.
1 Year (2022-2023)	-2.8	-2.6
3 Year average (2020-2023)	9.4	11.1
5 Year average (2018-2023)	5.1	6.3
10 Year average (2013-2023)	6.5	4.8

LOCAL PENSION BOARD REPORT

The Cardiff and Vale of Glamorgan Pension Fund Local Pension Board (the Board) was set up under the new arrangements for the governance of Local Authority Pension Funds introduced under the Public Service Pensions Act 2013. The first meeting of the Board was held in July 2015. The primary purpose of the Board is to assist Cardiff Council (as the Administering Authority) in the management of the Cardiff and Vale of Glamorgan LGPS Fund (the Fund). The Board is not involved in the day to day running of the Pension Fund but provides oversight and challenge.

The terms of reference for the Board was updated at the meeting of the County Council of the City and County of Cardiff held on 30 March 2023 and a copy of the current terms of reference, showing the changes to the previous version, can be found via the following link:
Appendix 1.pdf (moderngov.co.uk)

Membership

The Board has seven members with an independent Chair plus three Employer representatives and three Member representatives, nominated by Trade Unions. The membership of the Board during 2022/23 is shown in the table below:

Type	Status	Name	Organisation
Chair	Current	Michael Prior	Independent
Employer	Current	Laithe Bonni	Vale of Glamorgan Council
Employer	Current	David Llewelyn	Cardiff Metropolitan University
Employer	Current	Mark Sims	Barry Town Council
Member	Current	Peter King	Union nominated representative
Member	Current	Hilary Williams	Union nominated representative
Member	Resigned – July 2022	Sheelagh Doolan-Pitt	Union nominated representative
Member	New – October 2022	Georgia Chedzey	Union nominated representative

Board Member Attendance 2022-23

The Board met on three occasions during 2022/23 plus an annual informal joint meeting was held with the Pension Committee in July 2022. During 2022/23 the Board re-introduced in-person meetings and has moved to a pattern of every other meeting being held in person with the alternate meeting being held on Teams. Attendance at the 2022/23 meetings was as follows:

	26 April 2022	07 November 2022	24 January 2023
Michael Prior	√	√	√
David Llewelyn	√	√	
Mark Sims	√	√	√
Laithe Bonnie		√	√
Peter King	√	√	√
Hilary Williams	√		√
Sheelagh Doolan-Pitt	√	N/A	N/A
Georgia Chedzey	N/A	√	

Further information on the individual Board Members can be found on the Fund website:
Pensions Committee and Board- Cardiff and Vale Pension Fund

Summary of 2022/23 Activity

The Board is not a decision-making body, its role is to provide advice and comment on the management of the Fund so the Board meetings are typically aligned with those of the Pension Committee. This allows the Board to review and comment on reports and policies before they are presented to the Committee for approval.

During 2022/23 the Board considered and discussed the following :

- The 2022/23 Pension Fund Business Plan
- The 2021/22 Unaudited Pension Annual Report
- Undertook an annual review of the Fund's Policies and Strategies including
  - Communications Policy
  - Complaints and Communications Policy
  - Administration Strategy
- Considered proposed amendments to the Funding Strategy Statement (FSS) and received an update on the 31/03/22 tri-annual valuation.
- Reviewed the Fund's Governance Compliance Statement

In addition to the above reports for each meeting of the Board it also receives the following reports as standing items on the Board meeting agenda:

Administration Report

This provides the Board with an update on work being carried out by the Pensions Section. This report include updates on the Pensions Administration Team's workload and performance including a comparison with previous years as well as updates on staffing and resources. The report includes updates on current and future initiatives such as how the Team is rolling out the Member Self-Service initiative as well as preparing for McCloud and GMP as well as updates on recruitment.

Risk Register

The Pension Fund maintains a Risk Register, using the Cardiff Council format, and the review of the Risk Register is a standing item at the Board meetings. During the year, the Board made various recommendations regarding the Risk Register including recommending higher scores for certain risks e.g. cyber security and the Pension Team resources following the difficulties experienced with recruiting and retaining staff in the Pension Team.

Wales Pension Partnership (WPP) / Investment Update

Whilst the Board focuses on administration and governance issues, investment issues are not ignored and a high-level update on the investment performance of the Fund and the wider Financial Markets is provided at each meeting. Given the increasing significance of the WPP in providing investment products for the Fund the Board is kept updated on plans for new WPP sub-funds, which in 2022/23 focussed on Private Markets and the Sustainable Global Equity sub-fund.

In addition the Chair of the Local Pension Board attends the WPP Chairs Engagement meetings along with the Chairs of the other seven LGPS Pension Boards in Wales. These meetings, which are held twice a year, are an additional initiative to foster stakeholder engagement between the WPP and the eight LGPS Funds in Wales.

Training

Board members are informed of external training opportunities such as LGA and CIPFA Pensions Network events and are encouraged to attend if available in line with the guidance issued by the Pension Regulator. Examples of training events attended by Board members during 2022/23 include:

- CIPFA – LGPS Local Pension Board Members Annual Full Day Event – May 2022
- Aon – CIPFA knowledge and skills competencies framework – June 2022
- CIPFA – LGPS Fundamental 3-day training sessions – November and December 2022
- CIPFA – LGPS update including DLUHC Pooling consultation- November2022
- CIPFA – LGPS Annual Governance Conference – January 2023

Board members are also encouraged to attend the quarterly on-line training events provided by the WPP. These events focus on the investment activities undertaken by the WPP but cover a wide range of issues relevant to Board members which in 2022/23 included an introduction to Sustainable Equity, the role of the Allocator with Private Market Asset classes, an overview of roles and responsibilities with regard to governance and administration within the WPP, the progress of other LGPS Pools and collaboration opportunities.

Wales Pension Partnership (WPP)

The WPP was established in 2017 with the objective to deliver:

- economies of scale
- strong governance and decision making
- reduced costs and excellent value for money, and
- an improved capacity and capability to invest in infrastructure

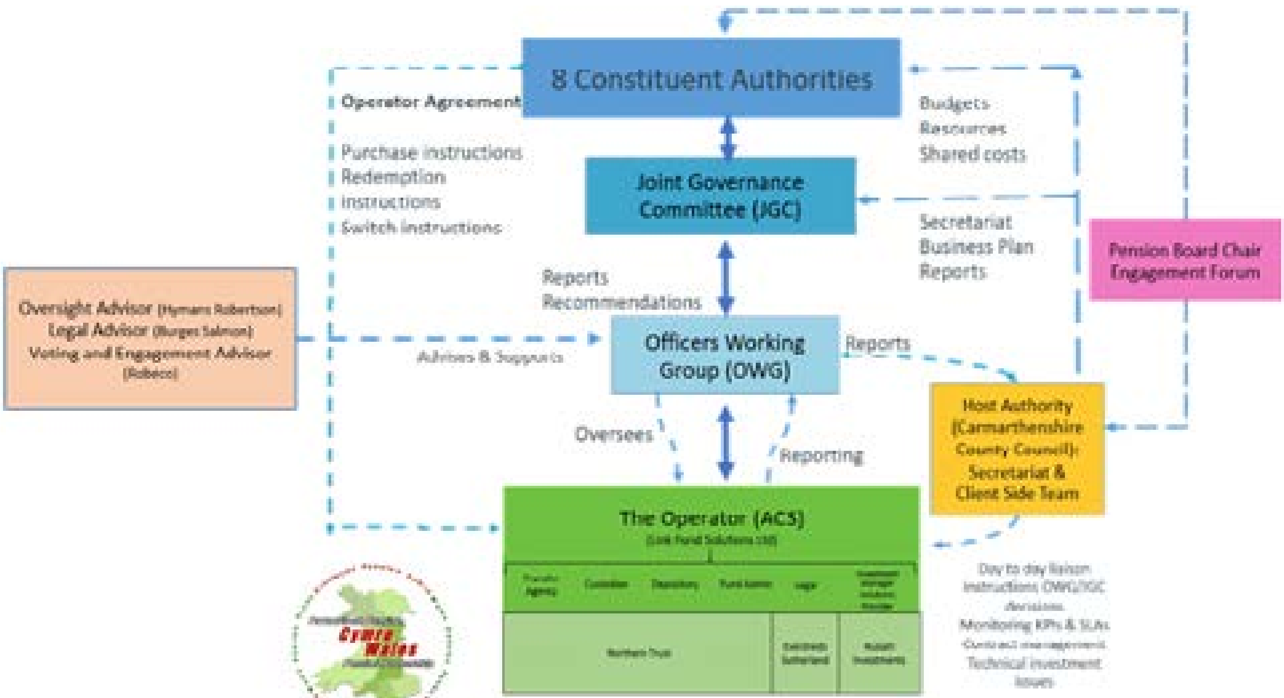
The WPP is one of the eight Local Government Pension pools nationally and is a collaboration of the eight LGPS funds in Wales including Cardiff and the Vale of Glamorgan, Clwyd, Dyfed, Greater Gwent (Torfaen), Gwynedd, Powys, Rhondda Cynon Taff and Swansea. The eight funds have a long, successful history of collaboration including a collaborative tender for a single passive equity provider for the Welsh funds pre-dating the Government's pooling initiative.

Collective investment management offers the potential for investment fee savings, opportunities to broaden investment portfolios, enhanced voting and engagement activity as well as access to shared knowledge and best practice. Whilst the WPP is responsible for providing collaborative investment solutions, each constituent authority remains responsible for setting their own investment strategy.

WPP's operating model is designed to be flexible and deliver value for money. WPP appointed an external fund Operator and makes use of external advisers to bring best of breed expertise to support the running of the Pool. The Operator is Link Fund Solutions and they have partnered with Russell Investments to deliver effective investment management solutions and provide strong net of fee performance for all the Constituent Authorities.

Governance

The WPP details how it deals with all aspects of Governance through its Inter Authority Agreement (IAA) which was approved by all eight Constituent Authorities in March 2017. The IAA defines the standards, roles and responsibilities of the Constituent Authorities, its Members, Committees and Officers and includes a Scheme of Delegation outlining the decision-making process. In line with its belief that good governance should lead to superior outcomes for stakeholders, the WPP has put in place a robust governance structure:



The eight Constituent Authorities of the WPP are:

- Carmarthenshire County Council (Host)
- City and County of Swansea Council
- City of Cardiff Council
- Flintshire County Council
- Cyngor Gwynedd
- Powys County Council
- Rhondda Cynon Taff County Borough Council
- Torfaen County Borough Council

The Constituent Authorities sit at the top of the WPP's governance structure. They retain control of all activity carried out by the WPP and remain responsible for approving the WPP's Business Plan, which outlines the WPP's budget and workplan, as well at its Beliefs and Objectives.

The Joint Governance Committee (JGC) oversees and reports on the WPP and is comprised of one elected member from each of the eight Constituent Authorities and a co-opted (non-voting) scheme member representative.

The Officer Working Group (OWG) provides support and advice to the Joint Governance Committee and is comprised of practitioners and Section 151 officers from all eight Constituent Authorities.

Carmarthenshire County Council is the Host Authority for the WPP and is responsible for providing administrative and secretarial support to the JGC and the OWG, and liaising day to day with the Operator on behalf of all of the Welsh LGPS funds.

Link Fund Solutions (Operator) carries out a broad range of services for the WPP, which includes facilitating investment vehicles & sub-funds, performance reporting, transition implementation and manager monitoring and fee negotiations. There is an Operator Agreement in place which sets out the contractual duties of the Operator and governs the relationship between the Operator and the WPP. The JGC and OWG, with the support of Hymans Robertson, oversee the work that Link Fund Solutions carries out on behalf of the WPP. Link engages with the Constituent Authorities by:

- Direct engagement – attendance at annual committee meetings
- Indirect engagement – with CAs collectively, through the JGC and OWG

In collaboration with Link Fund Solutions, Russell Investments provide investment management solution services to the WPP and they work in consultation with WPP's eight Constituent Authorities to establish investment vehicles.

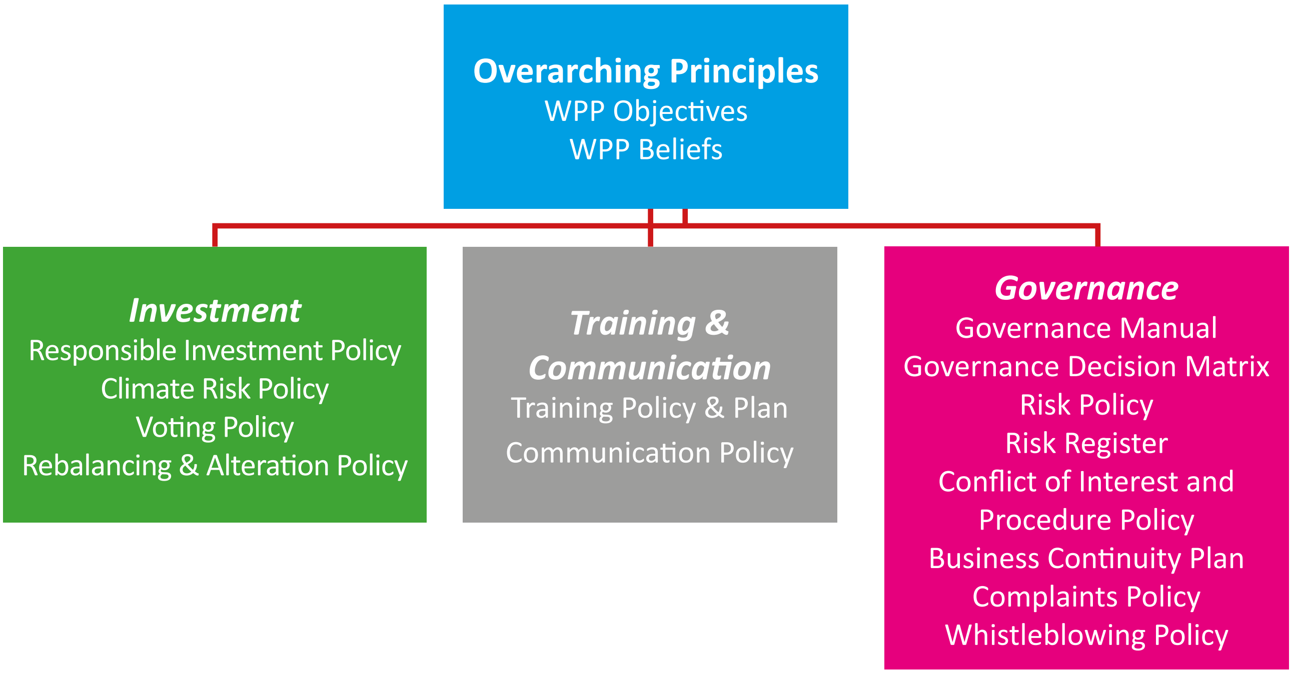
Northern Trust is the Depository for the WPP ACS vehicle and provides numerous services including securities lending, fund administration, compliance monitoring and reporting.

Hymans Robertson are WPP's Oversight Advisor and their role spans oversight and advice on governance arrangements, operator services, strategic investment aspects and project management support.

Burges Salmon are WPP's legal advisors and they provide legal advice in relation to FCA regulated funds, tax and governance arrangements, including assisting with complex procurement processes.

Robeco UK has been appointed as WPP's Voting and Engagement provider and are responsible for implementing the Voting Policy across WPP's portfolio and undertaking engagement activity on behalf of the WPP.

The WPP's beliefs are the foundation for WPP's governance framework and have been used to guide all of the WPP's activities and decision making, including its objectives and policies. The WPP, in consultation with the Constituent Authorities, has developed a set of governing policies. In all instances the WPP's policies and procedures have been developed to either complement or supplement the existing procedures and policies of the Constituent Authorities. The WPP's key policies, registers and plans are listed below and can be found on the WPP website.



Responsible Investment has been a key priority for the WPP since it was established in 2017. Various activities have been undertaken to work towards WPP's ambition of becoming a leader in Responsible Investment. Initially the focus was on formulating a Responsible Investment Policy and since then the WPP has formulated its own Climate Risk Policy and has worked with its Voting and Engagement Provider, Robeco, to agree a Voting Policy. A WPP RI Sub-Group has been established to take ownership of RI related workstreams and actions that are required to achieve the commitments made in the WPP's RI and Climate Risk Policies.

The WPP's Business Plan, Governance Manual and all other policies detailed in the chart above can be found on the WPP website: https://www.walespensionpartnership.org/

Risk

Risk management is a critical element of WPP's commitment to good governance, the WPP has developed a structured, extensive and robust risk strategy which seeks to identify and measure key risks and ensure that suitable controls and governance procedures are in place to manage these risks. The WPP's Risk Policy has been developed in such a way that risks can be anticipated and dealt with in a swift, effective manner to minimise potential loss or harm to the WPP and its stakeholders.

WPP maintains a Risk Register which is reviewed regularly by a dedicated Risk Sub-Group which reports back to the OWG and JGC on a quarterly basis.

Training

The WPP has its own training policy and develops an annual training plan which is designed to supplement existing Constituent Authority training plans. Local level training needs will continue to be addressed by Constituent Authorities while the WPP training plan will offer training that is relevant to the WPP's pooling activities.

Pooling progress to date

The WPP aims to deliver investment solutions that allow the Constituent Authorities to implement their own investment strategies with material cost savings while continuing to deliver investment performance to their stakeholders. The WPP have made significant progress towards delivering on this objective. The launching of WPPs first three active equity sub-funds in 2019/20, five fixed income sub-funds in 2020/21 and the Emerging Markets equity sub-fund in 2021/22, alongside the Constituent Authorities existing passive investments, has meant that that the WPP has pooled 70% of assets.

As at 31 March 2023, WPP has total assets worth £22.5bn, £15.6bn of which sits within the pool, see breakdown below:

Asset Class	Managed by	Launch Date	31 March 2023 £000	%
Global Growth Equity Fund	Link Fund Solutions	February 2019	3,274,153	14.6
Global Opportunities Equity Fund	Russell Investments	February 2019	3,269,124	14.6
UK Opportunities Equity Fund	Russell Investments	September 2019	760,143	3.4
Emerging Markets Equity Fund	Russell Investments	October 2021	354,601	1.6
Global Credit Fund	Russell Investments	July 2020	693,665	3.1
Global Government Bond Fund	Russell Investments	July 2020	481,417	2.1
UK Credit Fund	Link Fund Solutions	July 2020	520,721	2.3
Multi-Asset Credit Fund	Russell Investments	July 2020	655,191	2.9
1.1.1..1. Absolute Return Bond Fund	Russell Investments	September 2020	559,107	2.5
Passive Investments	BlackRock	March 2016	5,074,366	22.6
Investments not yet pooled			6,812,892	30.3
Total Investments across all 8 Pension Funds			**22,455,380**	**100**

Investment assets split between the Cardiff & Vale of Glamorgan Pension Fund and WPP

	31 March 2023 £000	%
Global / UK Opportunities / Emerging Markets Equities	1,094,523	42
Global Credit / Global Government / MAC	569,868	22
Passive Equities	590,795	22
Investments not yet pooled	380,222	14
Total Investment Assets		**100**

The above table summarises Cardiff & the Vale of Glamorgan Pension Fund's investment in the WPP, together with the assets that remain under the direct oversight of the Fund. During the year, none of the Fund's assets transitioned to the WPP portfolios and the table above shows the assets currently managed by the pool as at 31 March 2023.

Pooling costs

Carmarthenshire County Council, as the Host Authority for the Wales Pension Partnership is responsible for providing administrative and secretarial support and liaising day to day with the Operator on behalf of all of the LGPS funds in Wales. The WPP budget is included in the WPP Business Plan and approved annually by all eight Constituent Authorities.

The Host Authority and External Advisor costs (the running costs) are funded equally (unless specific projects have been agreed for individual Funds) by all eight of the Constituent Authorities and recharged on an annual basis. The amount recharged to the Cardiff & the Vale of Glamorgan Pension Fund for the financial year ending 31 March 2023 was £158k, see table below.

In addition to the running costs, there are also transition costs associated with the transition of assets into the pool, these costs can be categorised in terms of direct and indirect costs. Direct costs include the costs of appointing a transition manager to undertake the transition, together with any additional oversight of this process undertaken from a research and reflection perspective. Indirect costs include both explicit and implicit costs, such as commissions, spread and impact and opportunity costs known as Implementation Shortfall. Transition costs are directly attributable to the assets undergoing the transition and are therefore deducted from their net asset value as opposed to a direct charge to the Fund. No transitions to the WPP were undertaken by the Cardiff & Vale of Glamorgan Pension Fund during 2022/23.

Details of the costs incurred by the Cardiff & Vale of Glamorgan Pension Fund in respect of the WPP are detailed below.

2021/22 £000	WPP pooling costs	2021/22 £000
20.3	Host Authority Costs	20.9
114.4	External Advisor Costs	137.1
134.7	**Total**	**158.0**

Ongoing Investment Management Costs)

The table below discloses the investment management costs split between those held by the WPP (including the passive equities) and those held outside of the WPP.

	Asset Pool			Non-Asset Pool			Fund Total
	Direct £000s	Indirect £000s	Total £000s	Direct £000s	Indirect £000s	Total £000s	£000s
Management Fees	117	3,561	3,678	2,697	876	3,573	7,251
Asset pool shared costs	158		158			0	158
Transaction costs	1,124	1,717	2,841			0	2,841
Custody	297		297	24		24	321
Transition Costs	0		0	0		0	0
Other	0		0	64		64	64
Total £000	**1,696**	**5,278**	**6,974**	**2,785**	**876**	**3,661**	**10,635**

Objectives 2023/24
Following the launch of a number of sub-funds to date, progress will continue to be made with significant rationalisation of the existing range of mandates. The operator / allocators will be developing and launching a further series of sub-funds which will collectively reflect the strategic asset allocation needs of the eight constituent funds and facilitate a significant move of the assets to be pooled.

In establishing the WPP pool, the prime focus has been on pooling the most liquid assets, namely equities and fixed income. In July 2021, the Joint Governance Committee appointed bfinance as WPP's Allocator Advisors and they have assisted the WPP with the identification of Private Markets Allocators for the Private Market Asset Classes. The Infrastructure, Private Credit and Private Equity allocators have been appointed and work is underway with Real Estate.

WPP's Infrastructure and Private Credit investment programmes have been launched with the Private Equity investment programme due to launch in 2023/24. No funds have yet transitioned into these programmes.

A transition timetable has been provided below:

Investment Portfolio	Timeline for Launch / Implementation
Sustainable Equities	Launch due mid-2023
Private Debt / Infrastructure	Investments to commence in 2023/24
Private Equity	Investments to commence in 2023/24

During 2022/23, the WPP published its second annual Stewardship Report, remaining a signatory to the 2020 UK Stewardship Code. This year has seen an enhanced approach as a responsible investor with the establishment of an engagement framework to review its engagement themes, enhanced reporting in accordance with the requirements of the UK Stewardship Code, and continued reviews of the existing sub-fund mandates to ensure compatibility with WPP's Responsible Investment and Climate Risk Beliefs. 2023/24 will see further enhancements, with the delivery of a WPP climate report, in preparation for the upcoming Task Force on Climate-related Financial Disclosures (TCFD) reporting requirements. WPP is also working closely with its service providers to further its responsible-investment aims, including evolving its Voting Policy towards a more-encompassing Stewardship Policy, with plans to establish an appropriate Escalation Policy.

There will also be a focus on the review and development of additional WPP policies, as well as the provision of timely and relevant training facilitated by the pool for the benefit of its wider stakeholder groups.

Securities Lending
Securities lending commenced in March 2020. Revenue is split on a 85:15 basis between WPP and Northern Trust with all costs for running the securities lending programme taken from Northern Trust's share of the fee split. A minimum of 5% of the nominal quantity of each individual equity holding is held back and a maximum of 25% of total AUM is on loan at any one time. Total revenue of LF Wales Revenue during 2022/23 was £1,328,759 (gross) / £1,129,506 (net) with £454,055,992 out on loan as at 31 March 2023.

More detailed information can be found in WPP's Annual Return which is published on the WPP website- [Wales Pension Fund | Home (walespensionpartnership.org)](walespensionpartnership.org)

ACTUARIAL STATEMENT

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013 (the 'LGPS Regulations').

The LGPS Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Cardiff and Vale of Glamorgan Pension Fund (the 'Fund') is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2022 by Aon, in accordance with Regulation 62 of the LGPS Regulations.

Actuarial Position

1. The valuation as at 31 March 2022 showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2022 (of £2,698.9M) covering 98% of the liabilities.

2. The valuation also assessed each individual employer's (or group of employers') position separately. Contribution requirements were determined based on the principles in the Fund's Funding Strategy Statement and are set out in Aon's report dated 31 March 2023 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

Total contributions payable by all employers over the three years to 31 March 2026 are estimated to be:

Year from 1 April	% of pensionable pay	Plus total contribution amount (£M)
2023	19.5%	0.932
2024	19.5%	0.962
2025	19.5%	0.994

3. The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches were adopted in relation to the calculation of the primary contribution rate, stepping of contribution changes and individual employers' recovery periods as agreed with the Administering Authority and reflected in the Funding Strategy Statement, reflecting the employers' circumstances.

4. The valuation was carried out using the projected unit actuarial method for most employers, allowing for future increases in pensionable pay. The main financial actuarial assumptions used for assessing the funding target and the contribution rates were as follows:

Discount rate for periods in service	**4.5% p.a.**
Discount rate for periods after leaving service	
Scheduled and subsumption body funding target *	4.5% p.a.
Ongoing orphan funding target	1.3% p.a.
Rate of pay increases	**3.3% p.a.**
**Rate of increase to pension accounts ** **	**2.3% p.a.**
Rate of increases in pensions in payment ** (in excess of Guaranteed Minimum Pension)	**2.3% p.a.**

* *The secure scheduled body discount rate was also used for employers whose liabilities will be subsumed after exit by a scheduled body.*

** *In addition, a 10% uplift has been applied to the past service liabilities on the scheduled body and subsumption funding target to make allowance for short-term inflation above the long-term assumption.*

In addition, the discount rate and rate of increases to pensions for already orphaned liabilities (i.e. where there is no scheme employer responsible for funding those liabilities and the employer has exited the Fund) were assumed to be 1.7% p.a. and 3.4% p.a. respectively.

The assets were valued at market value.

5. The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S3 mortality tables with appropriate scaling factors applied based on an analysis of the Fund's pensioner mortality experience and a Fund membership postcode analysis using Aon's Demographic HorizonsTM longevity model, and included an allowance for future improvements based on the 2021 Continuous Mortality Investigation Projections Model, with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 (for normal health retirements) were:

	Men	Women
Current pensioners aged 65 at the valuation date	22.5	24.6
Future pensioners aged 45 at the valuation date	23.1	25.7

Further details of the assumptions adopted for the valuation, including the other demographic assumptions, are set out in the actuarial valuation report.

6. The valuation results summarised in paragraphs 1 above are based on the financial position and market levels at the valuation date, 31 March 2022. As such the results do not make allowance for changes which have occurred subsequent to the valuation date. The Actuary, in conjunction with the Administering Authority, monitors the funding position on a regular basis.

7. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2023 to 31 March 2026 were signed on 31 March 2023. Other than as agreed or otherwise permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2025 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

8. This Statement has been prepared by the Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2022. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

   This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

   Aon does not accept any responsibility or liability to any party other than our client, Cardiff Council, the Administering Authority of the Fund, in respect of this Statement.

9. The report on the actuarial valuation as at 31 March 2022 is available on the Fund's website at the following address:

https://www.cardiffandvalepensionfund.org.uk/wp-content/uploads/Cardiff-2022-actuarial-valuation-report-FINAL.pdf

Aon Solutions UK Limited
May 2023

AUDITORS STATEMENT

To be inserted when completed by Auditor General

Fund Account

2021/22 £000		Note	2022/23 £000
	Dealings with members, employers and others directly involved in the fund		
	Contributions		
(75,155)	From employers	8	(84,513)
(22,307)	From employees	8	(24,885)
0	Group transfers from other schemes or funds		0
(4,577)	Individual transfers from other schemes or funds		(4,364)
(2,603)	Other income (capitalised payments and interest on deficit funding)		(1,264)
(104,642)			**(115,026)**
	Benefits Payable		
72,694	Pensions	9	76,139
14,745	Lump sums, grants and other payments	9	18,303
	Payments to and on account of leavers		
135	Refunds of contributions		106
0	Group transfers to other schemes or funds		0
5,030	Individual transfers to other schemes or funds		5,416
92,604			**99,964**
(12,038)	**Net (additions)/withdrawals from dealings with members of the Fund**		**(15,062)**
8,295	Management expenses	10	6,586
(3,743)	**Net (additions)/withdrawals including fund management expenses**		**(8,476)**
	Returns on Investment		
(26,156)	Investment income	11	(42,484)
(150,846)	Change in market value of investments	12a	110,553
(177,002)	**Net returns on investments**		**68,069**
(180,745)	**Net (increase)/decrease in the Fund during year**		**59,593**
(2,518,137)	Opening net assets of the scheme		(2,698,882)
(2,698,882)	**Closing net assets of the scheme**		**(2,639,289)**

Net Assets Statement

2021/22 £000		Note	2022/23 £000
2,620,864	Investments at market value	12	2,547,762
72,253	Cash (including derivatives) and investment proceeds due	12	87,646
2,693,117	**Total investments**		**2,635,408**
74	UK & overseas tax		76
5,509	Contributions due from employers and deficit funding		3,369
327	Sundry debtors		809
1,153	Pension strain costs due within one year		1,772
7,063	**Total current assets**		**6,026**
68	Deficit funding (former employers)		0
1,296	Pension strain costs due after one year		491
1,364	**Total non-current assets**		**491**
(69)	Unpaid benefits		(591)
(1,478)	Sundry creditors		(905)
(217)	Provision – death grants	20	(490)
(1,764)	**Total current liabilities**		**(1,986)**
(898)	Provision- death grants	20	(650)
(898)	**Total non-current liabilities**		**(650)**
2,698,882	**Net assets of the scheme**		**2,639,289**

NOTES TO THE ACCOUNTS

1. Description of Fund

The Cardiff and Vale of Glamorgan Pension Fund (the Fund) is part of the LGPS and is administered by Cardiff Council.

General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

It is a contributory defined benefit pension scheme administered by Cardiff Council to provide pensions and other benefits for pensionable employees of Cardiff Council and Vale of Glamorgan Council, except for teachers who have a separate scheme. Employees of a range of other scheduled and admitted bodies within the area are also permitted to join the Fund. The Fund is overseen by the Pension Fund Committee, which is a committee of Cardiff Council.

Membership

Membership of the LGPS is automatic for all employees, who can then choose to remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Cardiff and Vale of Glamorgan Pension Fund include the following:

- Scheduled bodies, which are automatically entitled to be members of the Fund
- Admitted bodies, which participate in the Fund by virtue of an admission agreement made between the Fund and the employer. Admitted bodies include, voluntary, charitable and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the Local Government Pension Scheme Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2023. Employers' contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2022. Currently, employer contribution rates range from 16.3% to 38.9% of pensionable pay with affect from1 April 2023.

Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index. A range of other benefits are also provided including early retirement, disability pensions and death benefits. For more details, please refer to the Cardiff and Vale of Glamorgan Pension Fund website https://www.cardiffandvalepensionfund.org.uk/

2. Basis of Preparation

The Statement of Accounts summarises the funds transactions for the 2022/23 financial year and its financial position at 31 March 2023 The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

The accounts have been prepared on a going concern basis.

3. Significant Accounting Policies

Accounting standards that have been issued but not yet adopted

At the balance sheet date, no accounting standards issued but not yet adopted have been identified.

Income and Expenditure

Calls and distributions from private equity are recognised at the date of issue.

Income earned within some of the pooled investments is retained by the fund manager as part of the capital assets of the fund and reflected in the higher unit price. For all other pooled investments the income is reinvested as a purchase of additional units in the fund.

Investment management expenses are recognised in year and are not included in, or netted off from, the reported return on investment.

The Fund does not account for any benefits payable or receivable in respect of members wishing to transfer from one scheme to another until assets (either cash investments or other form) have been received by the receiving scheme.

All other income and expenditure have been accounted for on an accrual's basis, except the liability to pay pensions and benefits in the future, which has been separately disclosed within the notes to the accounts.

Acquisition costs of Investments

Acquisition costs are included with the original book cost at the time of purchase. At the year end, however, investments on the balance sheet are valued at market value. The difference is recorded in the Accounts as "Change in Market Value of Investments".

Valuation of Investments

Investments are included in the financial statements on a fair value basis as at the reporting date. The values of investments as shown in the net assets statement have been determined in accordance with the requirements of the Code and IFRS 13. Valuation methods employed by the fund are detailed within Note 14c.

Cash and Cash Equivalents

Cash is represented by cash in hand, the net balance on all of the Council's bank accounts. It includes deposits with financial institutions, including investment managers and the custodian, that are repayable on notice of not more than 24 hours without significant penalty. It also includes investments maturing and interest received on the first working day of April.

Foreign Currency Transactions

Where investment valuations are received from fund managers in foreign currencies, they are converted at the Bank of England closing spot rate at the date of valuation.

Taxation

Taxation	Treatment
UK Income Tax	The fund is an exempt approved fund able to recover UK Income Tax.
UK Capital Gains Tax	No Capital Gains Tax is chargeable.
Value Added Tax	Accounts are shown exclusive of VAT. As the Council is the administering Authority, VAT is recoverable on all Fund activities.
Overseas Withholding Tax	Foreign investment income usually suffers withholding tax in the country of origin, some of which may be recoverable. Irrecoverable tax is netted off against income.

4. Critical judgements in applying accounting policies

Unquoted private equity investments

These are inherently based on forward looking estimates and judgements valued by the investment managers using two main sets of valuation guidelines that apply to private equity; the Private Equity Valuation Guidelines (PEVG) in the US and the International Private Equity and Venture Capital Valuation Guidelines (IPEVCG) outside the US.

Pension fund liability

This is calculated in accordance with IAS19 every three years by the actuary, with an annual statement in the intervening years. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary.

5. Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures based on assumptions made taking into account historical experience, current trends and other factors. As balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Item	Uncertainties	Effect if actual results differ from assumptions
Actual present value of promised retirement benefits	Estimations of the liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries increase, changes in mortality rates and expected returns on pension fund assets. The actuary provides the fund with advice regarding the assumptions to be used.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in the pension liability. An increase in assumed earnings inflation or assumed life expectancy would increase the value of the liabilities.

Item	Uncertainties	Effect if actual results differ from assumptions
Private Equity Valuations	Private equity investments are valued at fair value in accordance with international accounting standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £109 million. There is a risk that this investment may be under, or overstated in the accounts. Further information is provided on the sensitivity of these assets within the accounts.
Pooled Property Funds	Valuation techniques are used to determine the carrying amount of pooled property funds.	The total pooled property fund investments in the financial statements are £184 million. Changes in the valuation assumptions used, together with significant changes in rental growth could affect (increase or decrease) the fair value of property-based investments. Further information is provided on the sensitivity of these assets within the accounts.

6. Titles of Ownership

Evidences of ownership for the property unit trusts (excluding Blackrock which is held by The Northern Trust Company) and private equity holdings are held by Cardiff Council. All other evidences of ownership were held at 31 March 2023 by The Northern Trust Company for the benefit of the Council and the WPP. Statements of holdings have been provided by Northern Trust.

7. Membership

Fund membership at 31 March 2023 is as follows:

2021/22		2022/23
44	Contributing employers	40
44	**Total contributing employers**	**40**
16,876	Contributors	17,660
12,515	Pensioners	12,880
13,515	Deferred pensioners	13,689
42,906	**Total membership**	**44,229**

In addition to the above, there are also members who at year end were not yet categorised as to whether they would be deferring their pension, transferring it to another scheme or requesting a refund of their contributions and accordingly are not actively contributing to the Pension Fund. The number of members not yet categorised at 31 March 2023 was 9,215 (7,269 for March 2022).

8. Employing Bodies – Contributions

2022/23	No. of contributors at 31/03/2023	Employers £000	Deficit Funding Received £000	Total Employers £000	Employees £000	Total £000
Administering Body:						
Cardiff Council	10,808	(50,319)	0	(50,319)	(15,326)	(65,645)
Scheduled Bodies:						
Vale of Glamorgan Council	4,290	(17,284)	0	(17,284)	(5,077)	(22,361)
Town and Community Councils	60	(283)	0	(283)	(91)	(374)
Education Bodies	1,704	(8,205)	0	(8,205)	(3,097)	(11,302)
Other Scheduled Bodies **	6	(44)	0	(44)	(15)	(59)
Admitted Bodies:						
Admitted Bodies	792	(5,276)	(3,102)	(8,378)	(1,279)	(9,657)
Total	**17,660**	**(81,411)**	**(3,102)**	**(84,513)**	**(24,885)**	

2021/22	No. of contributors at 31/03/2022	Employers £000	Deficit Funding Received £000	Total Employers £000	Employees £000	Total £000
Administering Body:						
Cardiff Council	10,472	(45,067)	0	(45,067)	(13,617)	(58,684)
Scheduled Bodies:						
Vale of Glamorgan Council	4,052	(15,421)	0	(15,421)	(4,570)	(19,991)
Town and Community Councils	58	(247)	0	(247)	(76)	(323)
Education Bodies	1,476	(7,459)	0	(7,459)	(2,809)	(10,268)
Other Scheduled Bodies **	6	(41)	0	(41)	(14)	(55)
Admitted Bodies:						
Admitted Bodies	812	(4,966)	(1,954)	(6,920)	(1,221)	(8,141)
Total	**16,876**	**(73,201)**	**(1,954)**	**(75,155)**	**(22,307)**	**(97,462)**

Additional deficit funding

There has been no further deficit funding agreed in 2022/23 in addition to that agreed in previous years (no additional deficit funding in 2021/22).

9. Employing Bodies - Benefits Payable

2022/23	Retirement Pensions £000	Lump Sums, Grants and Other Payments		
		Lump Sums on Retirement £000	Death Grants £000	Commutation Payments £000
Administering Body:				
Cardiff Council	48,125	8,608	1,603	530
Scheduled Bodies:				
Vale of Glamorgan Council	15,009	3,781	1,487	145
Town and Community Councils	221	63	0	0
Education Bodies	3,808	913	159	94
Other Scheduled Bodies	2,639	12	0	0
Admitted Bodies:				
Admitted Bodies	6,337	818	89	1
Total	**76,139**	**14,195**	**3,338**	**770**

2021/22	Retirement Pensions £000	Lump Sums, Grants and Other Payments		
		Lump Sums on Retirement £000	Death Grants £000	Commutation Payments £000
Administering Body:				
Cardiff Council	46,093	7,156	1,882	414
Scheduled Bodies:				
Vale of Glamorgan Council	14,149	2,326	348	119
Town and Community Councils	240	0	0	0
Education Bodies	3,522	613	308	23
Other Scheduled Bodies	2,633	128	47	0
Admitted Bodies:				
Admitted Bodies	6,057	1,175	154	52
Total	**72,694**	**11,398**	**2,739**	**608**

10. Management Expenses

2021/22 £000		2022/23 £000
1,730	Administration costs	1,370
73	Audit fees	43
1,803	**Total administration costs**	**1,413**
430	Fixed Interest Securities	0
199	Equities	171
139	WPP UK equity fund *	124
661	WPP government bond fund *	758
529	WPP credit fund *	424
241	WPP multi asset credit fund *	222
124	WPP global growth fund	108
155	WPP global opportunities fund	150
944	WPP emerging markets fund	53
179	Equity pooled fund	1,473
2,354	Pooled property investments	1,172
5,955	Private equity **	4,655
272	**Total management fees**	**321**
6,227	Custody fees	4,976
265	**Total investment management expenses**	**197**
8,295	Oversight and governance costs	6,586
8,189	**Total**	**8,295**

**2022/23 reduction in equities and equities pooled fund due to transfers to WPP in 2021/22*

***2021/22 Private equity includes third party fees totalling £0.739 million which should not have been included in this table but were included within adjustments feeding through Note 12a, the Change in Market Value. The equivalent value correctly excluded for 2022/23 was £0.337 million.*

2021/22 £000	WPP Management Expenses	2022/23 £000
163	Fund manager fees *	833
1,550	Transaction costs	1,124
335	Transition costs	0
231	Custody fees	297
2,279	**Total WPP investment management expenses**	**2,254**
135	Host authority costs	158
135	**Total WPP oversight and governance costs**	**158**
2,414	**Total**	**2,412**

Included in Management Expenses in the first table of this note is the cost of the Fund's involvement in the Wales Pension Partnership (WPP) collective investment pooling arrangement. These are further analysed in the table above. The Oversight and Governance costs are the annual running costs of the pool which are made up of the host authority costs including other external advisor costs. These costs are funded equally by all eight of the local authority pension funds in Wales. Fund Management Fees are payable to Link Fund Solutions (the WPP operator) and include the operator fee and other associated costs. These costs are based on each Fund's percentage share of WPP pooled assets and are deducted from the Net Asset Value (NAV). Underlying manager fees are not included in this table.

11. Investment Income

2021/22 £000		2022/23 £000
0	Private Equity Funds	(224)
(2,428)	Global Equities *	0
(22,148)	Pooled Investments *	(37,153)
(1,177)	Pooled Property Unit Trust Income	(3,027)
(200)	Interest on UK cash	(1,865)
(203)	Securities lending	(215)
(26,156)	**Total**	**(42,484)**

**Movement between categories during 2021/22 due to transition to WPP investments*

12. Investments at Market Value

2021/22 £000		2022/23 £000
216,400	WPP Credit Fund	198,116
115,003	WPP Emerging Markets	110,799
211,609	WPP Global Growth	209,723
530,428	WPP Global Opportunities	531,513
243,194	WPP Government Bond Fund	230,817
150,309	WPP Multi Asset Credit Fund	140,935
232,958	WPP UK Equity Fund	242,488
1,699,901	**Total WPP pooled funds**	**1,664,391**
616,030	Equity pooled	590,795
2,315,931	**Total pooled funds (incl WPP)**	**2,255,186**
201,606	Pooled property investments	183,538
103,327	Private equity	109,038
2,620,864	**Subtotal**	**2,547,762**
2,194	Fund manager's cash	5,115
70,059	Internal/custodian cash	82,531
0	Net investment proceeds due	0
72,253	**Total cash**	**87,646**
2,693,117	**Total investment assets**	**2,635,408**

12a. Reconciliation in movement in investments

2022/23	Value at 31/03/22 £000	Purchase at cost £000	Sale proceeds £000	Change in market value £000	Value at 31/03/23 £000
Pooled funds	2,315,931	37,152	0	(97,897)	2,255,186
Pooled property unit trusts	201,606	2,691	0	(20,759)	183,538
Private equity	103,327	15,038	(13,359)	4,032	109,038
Sub-total	**2,620,864**	**54,881**	**(13,359)**	**(114,624)**	**2,547,762**
Managers' cash	2,194				5,115
Internal/custodian cash	70,059				82,531
Debtors	0				0
Total cash	**72,253**				**87,646**
Sub-total	**2,693,117**			**(114,624)**	**2,635,408**
Net realised movement in cash				4,071	
Total	**2,693,117**			**(110,553)**	**2,635,408**

2021/22	Value at 31/03/21 £000	Purchase at cost £000	Sale proceeds £000	Change in market value £000	Value at 31/03/22 £000
Equities	238,549	2,242	(249,929)	9,138	0
Pooled funds	1,968,796	1,159,234	(892,119)	80,020	2,315,931
Pooled property unit trusts	166,559	904	0	34,143	201,606
Private equity	90,669	8,971	(24,436)	28,122	103,327
Sub-total	**2,464,573**	**1,171,351**	**(1,166,484)**	**151,423**	**2,620,864**
Managers' cash	5,372				2,194
Internal/custodian cash	39,563				70,059
Debtors	567				0
Total cash	**45,502**				**72,253**
Sub-total	**2,510,075**			**151,423**	**2,693,117**
Net realised movement in cash				(577)	
Total	**2,510,075**			**150,846**	**2,693,117**

13. Summary of manager's portfolio values

2021/22		Fund Manager	2022/23	
£000	% of Fund		£000	% of Fund
616,030	22.9	Blackrock Investment Management	590,795	22.4
1,699,901	63.1	Wales Pension Partnership (WPP)	1,664,391	63.2
65,292	2.4	CBRE- Global Property	70,052	2.7
30,711	1.1	Blackrock- BPF- UK Property	25,921	1.0
34,922	1.3	Schroder UK Real Estate	29,270	1.1
39,249	1.5	Standard Life Property	31,429	1.2
31,433	1.2	UBS Triton Property Fund	26,866	1.0
21,908	0.8	Capital Dynamics	20,559	0.8
34,499	1.3	Harbourvest	33,278	1.3
46,920	1.7	Pantheon	55,201	2.1
5,088	0.2	Cash with custodian	5,115	0.2
67,164	2.5	Internally managed (Cash)	82,531	3.0
2,693,117	**100.0**	**Total**	**2,635,408**	**100.00**

13a. Investments exceeding 5% of net assets

The following investments represent more than 5% of the net assets available to pay benefits (in either 2021/22, 2022/23 or both years).

2021/22		Fund Manager	2022/23	
£000	% of net assets		£000	% of net assets
616,030	22.8	BlackRock Low Carbon Tracker Fund	590,795	22.4
216,400	8.0	WPP Credit Fund	198,116	7.5
211,609	7.8	WPP Global Growth	209,723	7.9
530,428	19.7	WPP Global Opportunities	531,513	20.1
243,194	9.0	WPP Government Bond Fund	230,817	8.7
150,309	5.6	WPP Multi Asset Credit Fund	140,935	5.3
232,958	8.6	WPP UK Opportunities	242,488	9.2

14. Financial Instruments

14a. Classification of financial instruments

Value at 31/03/22				Value at 31/03/23		
Fair value through profit and loss	Amortised Cost	Financial liabilities at amortised costs		Fair value through profit and loss	Amortised Cost	Financial liabilities at amortised costs
£000	£000	£000		£000	£000	£000
2,315,931	0	0	Pooled funds	2,255,186	0	0
201,606	0	0	Pooled property trusts	183,538	0	0
103,327	0	0	Private equity	109,038	0	0
0	0	0	Derivatives	0	0	0
0	72,253	0	Cash	0	87,646	0
0	8,427	0	Debtors	0	6,517	0
2,620,864	**80,680**	**0**	**Total financial assets**	**2,547,762**	**94,163**	**0**
0	0	(1,547)	Creditors	0	0	(1,496)
0	**0**	**(1,547)**	**Total financial liabilities**	**0**	**0**	**(1,496)**
2,620,864	**80,680**	**(1,547)**	**Net financial assets**	**2,547,762**	**94,163**	**(1,496)**

14b. Net gains and losses on financial instruments

31/03/22 £000		31/03/23 £000
150,233	Fair value through profit and loss	(110,604)
150,233	**Total financial assets**	**(110,604)**
613	Amortised cost	51
613	**Total financial liabilities**	**51**
150,846	**Net financial assets**	**(110,553)**

14c. Fair Value – Basis of Valuation

Investment	Valuation Method	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Level 1 Quoted prices for similar instruments			
Quoted Bonds (Fixed Interest Securities)	Market value based on current yields	Not required	Not required
Market Quoted Investments	Published bid market price at close of business on the final working day of the accounting period	Not required	Not required
Cash and cash equivalents	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments	Not required	Not required
Level 2 Traded in a market which is not considered to be active, or where valuation techniques are used to determine fair value which use inputs that are based significantly on observable market data.			
Pooled Investments - Quoted Equity	Closing bid price where bid and offer prices are published.	Net Asset Value (NAV) based pricing set on a forward pricing basis	Not required
Level 3 Inputs not based on observable market data			
Private Equity Funds	Valuations provided by the general partners to the private equity funds in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	Earnings before interest, tax, depreciation and amortisation (EBITDA) multiple, revenue multiple, discount for lack of marketability and control premium	Valuations may be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date (although updated to reflect calls/ distributions made during this period), changes to expected cash flows and any differences between unaudited and audited accounts
Pooled Investments - Property Funds	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Valuations may be affected by post balance sheet events, changes to expected cash flows and any differences between unaudited and audited accounts

14d. Fair Value Hierarchy

As detailed above, investments have been classified into three levels according to the quality and reliability of the information used to determine fair values. The following table provides an analysis of the assets and liabilities of the pension fund based on the level at which the fair value is observable.

Value at 31/03/23	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets at fair value	0	2,255,186	292,576	2,547,762
Amortised Cost	94,163	0	0	94,163
Total financial assets	**94,163**	**2,255,186**	**292,576**	**2,641,925**
Financial liabilities at amortised cost	(1,496)	0	0	(1,496)
Total financial liabilities	**(1,496)**	**0**	**0**	**(1,496)**
Net financial assets	**92,667**	**2,255,186**	**292,576**	**2,640,429**

Value at 31/03/22	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets at fair value	0	2,315,931	304,933	2,620,864
Loans and receivables	80,680	0	0	80,680
Total financial assets	**80,680**	**2,315,931**	**304,933**	**2,701,544**
Financial liabilities at amortised cost	(1,547)	0	0	(1,547)
Total financial liabilities	**(1,547)**	**0**	**0**	**(1,547)**
Net financial assets	**79,133**	**2,315,931**	**304,933**	**2,699,997**

Reconciliation of fair value measurements within Level 3

2022/23	Market Value at 31/03/22 £000	Transfers into level 3 £000	Transfers out of level 3 £000	Purchases £000	Sales £000	Unrealised gains/ (losses) £000	Realised gains/ (losses) £000	Market Value at 31/03/23 £000
Private equity	103,327	0	0	15,038	(13,359)	4,032	0	109,038
Pooled property unit trusts	201,606	0	0	2,691	0	(20,759)	0	183,538
Total	**304,933**	**0**	**0**	**17,729**	**(13,359)**	**(16,727)**	**0**	**292,576**

14e. Sensitivity of Assets Valued at Level 3

Having analysed historical data, current market trends, and consulted with independent investment advisors (Pensions and Investments Research Consultants Ltd (PIRC)), the fund has determined that the valuations methods described above for Level 3 investments are likely to be accurate to within the following ranges, and has set out the consequential impact below:

	Assessed valuation range (%)	Value at 31/03/23 £000	Value on increase £000	Value on decrease £000
Private Equity	13.1	109,038	123,322	94,754
Pooled Property Trusts	7.1	183,538	196,569	170,507
Total		**292,576**	**319,891**	**265,261**

15. Nature and extent of risks arising from financial instruments

The Fund maintains positions in a variety of instruments, as dictated by the Investment Strategy Statement (ISS), and is consequently exposed to credit and liquidity risk, as well as market risk including foreign exchange and interest rate risks.

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities and will be unable to pay the promised benefits to members. 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 and credit risk to an acceptable level. In addition, the fund managers monitor its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

The management of risk is a key objective of the Pension Fund. A policy of diversification of its asset classes and investment managers helps the Pension Fund to lower risk arising from financial instruments. Benchmarks for asset allocation and targets against which investment managers are expected to perform are further measures which are put in place in order to manage risk.

Market risk is the risk that the fair value or future cash flows of an institution will fluctuate because of a change in market price.

In order to manage risk, the Fund invests in a diversified pool of assets, split between a number of managers with different performance targets and investment strategies. In order to mitigate risk, the Fund regularly reviews the pension fund investment strategy together with regular monitoring of asset allocation and investment performance.

Interest rate risk is the risk to which the Pension Fund is exposed to fluctuations in interest rates and mainly relates to changes in bonds.

To mitigate the risk and diversify, the Fund holds three fixed income sub funds managed by WPP.

Interest Rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. The analysis below shows the effect of a 100 basis point (1%) movement in interest rates on the net assets available to pay benefits:

Asset Type	Carrying Amount as at 31/03/23	Change to the net assets available to pay benefits	
	£000	+ 100bps £000	- 100bps £000
Cash and cash equivalents	87,646	876	(876)
Total	**87,646**	**876**	**(876)**

Asset Type	Carrying Amount as at 31/03/22	Change to the net assets available to pay benefits	
	£000	+ 100bps £000	- 100bps £000
Cash and cash equivalents	72,253	723	(723)
Total	**72,253**	**723**	**(723)**

Currency risk is the risk to which the Pension Fund is exposed to fluctuations in foreign currency exchange rates. Fund managers will also take account of currency risk in their investment decisions.

Following analysis of historical data and consulted with independent investment advisors Pensions and Investments Research Consultants Ltd (PIRC), the fund's aggregate currency change has been calculated as 7.30%. An 7.30% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/ decrease the net assets available to pay benefits as follows:

Currency exposure – asset type	Asset Value as at 31/03/23	Change to net assets available to pay benefits	
	£000	+ 6.30% £000	+ 6.30% £000
Overseas pooled funds *	2,012,698	126,800	(126,800)
Overseas pooled property	70,052	4,413	(4,413)
Total change in assets available	**2,082,750**	**131,213**	**(131,213)**

Currency exposure – asset type	Asset Value as at 31/03/22	Change to net assets available to pay benefits	
	£000	- 7.30% £000	- 7.30% £000
Overseas pooled funds *	1,473,070	107,534	(107,534)
Overseas pooled property	65,292	4,766	(4,766)
Total change in assets available	**1,538,362**	**112,300**	**(112,300)**

**Changes due to transition to WPP in 2021/22 resulted in reclassification of investments*

Price risk is the risk of losses associated with the movement in prices of the underlying assets. By diversifying investments across asset classes and managers, the Pension Fund aims to reduce the exposure to price risk. Diversification of asset classes seeks to reduce correlation of price movements, whilst employing specialist managers enables the Fund to benefit from investment expertise.

Potential price changes are determined based on the observed historical volatility of asset class returns. The potential volatilities are consistent with movement in the change in value of assets over the last three years, applied to the period end asset mix. The total volatility shown below for total assets incorporates the impact of correlation across currencies, which dampens volatility, therefore the value on increase and value on decrease figures for the currencies will not sum to the total figure.

Asset type	Value at 31/03/23 £000	Percentage change %	Value on increase £000	Value on Decrease £000
UK Equities	242,488	15.00	278,861	206,115
Global Equities	1,332,031	12.70	1,501,199	1,162,863
Emerging Market Equities	110,799	15.30	127,751	93,847
Fixed Interest	569,868	6.20	605,200	534,536
Cash and Cash Equivalents	87,646	1.30	88,785	86,507
Private Equity	109,038	13.10	123,322	94,754
Property	183,538	7.10	196,569	170,507
Total Assets	**2,635,408**		**2,921,687**	**2,349,129**

Asset type	Value at 31/03/22 £000	Percentage change %	Value on increase £000	Value on Decrease £000
UK Equities	232,958	18.30	275,589	190,327
Global Equities	1,358,067	14.90	1,560,419	1,155,715
Emerging Market Equities	115,003	14.90	132,138	97,868
Fixed Interest	609,903	14.90	700,779	519,027
Cash and Cash Equivalents	72,253	1.30	73,192	71,314
Private Equity	103,327	10.80	114,486	92,168
Property	201,606	4.90	211,485	191,727
Total Assets	**2,693,117**		**3,068,088**	**2,318,146**

**2021/22 figures have been restated in line with 2022/23 presentation, providing a more detailed breakdown.*

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The Fund reviews its exposure to credit and counterparty risk through its external investment managers. The Fund is also exposed to credit risk through its securities lending programme run by the Fund's custodian, Northern Trust who manages and monitors the counterparty risk, collateral risk and the overall lending programme.

The Pension Fund's bank account is held with NatWest. Surplus cash is placed with a selection of AAA Money Market institutions. The Fund's internally managed cash holding under its treasury management arrangements is held with the following institutions:

	Fitch Rating	31/03/22 £000	31/03/23 £000
Money market funds			
Aberdeen Standard Liquidity- Sterling Fund	AAA	20,350	28,850
Blackrock ICS Sterling Liquidity Fund	AAA	22,830	26,870
Deutsche Global Liquidity- Sterling Fund	AAA	21,840	26,730
Bank current account			
NatWest	A	2,144	81
Total		**67,164**	**82,531**

The Pension Fund has experienced no defaults from fund managers, brokers or bank accounts over the past ten years, therefore no expected credit loss provision is required.

Liquidity risk represents the possibility that the Fund may not have resources available to meet its financial obligations. The current position of the Fund is that it is cash positive, which reflects the fact that contributions into the Fund exceed benefits being paid out. The Fund's cash is kept in a separate bank account and the cash position is monitored on a daily basis. Surplus funds are deposited in money market funds on a short term basis. At an investment level, the Funds' investments are substantially made up of listed securities which are considered readily realisable.

16. Actuarial Present Value of Promised Retirement Benefits

CIPFA's Code of Practice requires the disclosure of the actuarial present value of promised retirement benefits calculated on an IAS 19 basis, as set out in IAS 26.

Therefore, in addition to the triennial funding valuation, the Fund's actuary undertakes a valuation of the pension fund liabilities on an IAS 19 basis at the same date. The IAS 19 valuation is carried out using updated actuarial assumptions from those used for setting fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The most recent actuarial valuation based on IAS 19 is shown below:

31/03/2019 £m		31/03/2022 £m
3,168,100	Actuarial Present Value of Promised Retirement Benefits	3,893,700
2,177,800	Fair value of net assets	2,698,900

The estimated future Pension Fund liabilities will also be subject to the consideration of the McCloud judgement and GMP equalisation. The impact has been considered by the actuary within the 2022 triennial valuation (see Actuarial Statement on pages 24-26 of this document).

17. Additional Voluntary Contributions (AVC)

Scheme members may elect to make additional voluntary contributions to enhance their pension benefits. Contributions are made directly from scheme members to the AVC provider and are therefore not represented in these accounts in accordance with section 4(2) b of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093). However, as the administering authority, we oversee the following AVC arrangements:

2021/22 £000		2022/23 £000
643	AVC paid in by members during the year	727
6,003	Market Value of separately invested AVC's *	5,082

**2021/22 Market Value of separately invested AVCs included a terminal bonus of £973,000, applied to smooth peaks and troughs in fund performance when returns are paid out.*

18. Contractual Commitments

As of 31 March 2023 the Fund had outstanding private equity commitments of a maximum of £65.536 million (£78.086 million at 31 March 2022) and a new commitment of £10 million for WPP Clean Energy Infrastructure.

19. Securities Lending

At the year end the value of quoted equities on loan was £89.982 million (£94.992 million at 31 March 2022). In 2022/23 the Fund received income of £215,000 from the lending of stock (£203,000 in 2021/22).

20. Provisions and Contingent Liabilities

A number of death grants have been identified where the Fund has been unable to trace the next of kin meaning no payment has been made to date. In all the outstanding cases, there has been difficulty in making contact, meaning that the payments are not likely to be settled within the next financial year. Due to the uncertainty surrounding the timing of these payments and final amounts payable, a provision for £1.140 million has been included in the accounts (£1.115 million in 2021/22), which consists of £490,000 short term (£217,000 in 2021/22), £508,000 long term and £142,000 of estimated interest (£742,000 long term and £156,000 of estimated interest in 2021/22).

The Guaranteed Minimum Pension (GMP) reconciliation is the process used to ensure the scheme records agree with those of the National Insurance Contribution Office (NICO, part of HMRC). This enables a scheme to consider its data as clean and entirely reliable. GMP rectification involves calculating and correcting data (and for pensioners, benefits in payment) for those members where the GMP reconciliation process resulted in a change in the GMP held by the scheme administrator. The GMP reconciliation is currently being progressed and the Fund has appointed Mercer to carry out this exercise, we are therefore unable to provide a reliable estimate of the liability at present.

21. Related Party Transactions

Cardiff Council is the administering authority for Cardiff & Vale of Glamorgan Pension Fund. The Pensions Committee includes members of the Council. At 31 March 2023 there were three members of the Pension Fund Committee that were active members of the Pension Fund. Each member of the Committee is required to declare their interests at each meeting. No other declarations were made during the year.

Examples of related party transactions with the Council are:

- The Council is the largest employer of members of the Pension Fund. All monies owing to and due from the Fund are generally paid in year with the following balances outstanding at year end
    - Intercompany cash balance £776 owed to Cardiff and Vale of Glamorgan Pension Fund included in Note 12 Internal/custodian cash (2021/22 £1.928 million owed to Cardiff Council)
    - Pension strain of £2.231 million included in the Net Asset Statement (2021/22 £2.331 million)
- Cash invested internally by the Council (for working capital purposes) – see Note 13 Summary of manager's portfolio values – Internally managed (Cash) £82.530 million (2021/22 £67.164 million), earning interest of £1.686 million (2021/22 £0.020 million)
- Administration expenses charged to the Fund by the Council are included in Note 10 Management Expenses. During the reporting period, the council incurred costs of £1.053 million (2021/22 £0.950 million) in relation to the administration and management of the fund and was reimbursed by the fund for these expenses.
- Paragraph 3.9.4.4 of the Code of Practice exempts Local Authorities from the key management personnel disclosure requirements of IAS24 on the basis that requirements for officer remuneration and members' allowances are detailed in section 3.4 of the Code. Total remuneration for Chris Lee Corporate Director of Resources can be found in the Cardiff Council Statement of Accounts Remuneration Note.

22. Contributing Employers

The employers contributing to the Fund in 2022/2023, highlighting changes since 2021/2022 are detailed below:

Administering Body	
Cardiff Council	
Scheduled Bodies	
Councils	**Town and Community Councils**
Vale of Glamorgan Council	Barry Town Council
Education Bodies	Cowbridge Town Council
Cardiff and Vale College	Lisvane Community Council
Cardiff Metropolitan University	Llantwit Major Council
St David's Sixth Form College	Penarth Town Council
Stanwell Comprehensive	Penllyn Community Council
Other Scheduled Bodies	Pentyrch Community Council
Cardiff Bus	Peterston Super Ely Community Council**
	Radyr & Morganstown Community Council
	St Fagans Community Council**
	Wenvoe Community Council
Admitted Bodies	
A and R Cleaning Lansdowne	Glen Cleaning (Barry Comprehensive)
A and R Cleaning Whitchurch	Glen Cleaning (Eastern High)*
A and R Ysgol Y Ddraig	Glen Cleaning (Llandough)*
Adult Learning Wales	Greenwich Leisure Limited (GLL)
Big Fresh Cleaning	Grangetown Primary Cleaning (APP)
Cardiff Business Technology Centre	Legacy Leisure**
Cardiff University	Mirus Wales
Careers Wales (Cardiff And Vale)	National Trust (Dyffryn)*
Children In Wales	New Theatre
Circle IT (Cowbridge Comprehensive)*	One Voice Wales
Circle IT (Eastern High)*	Play Wales
Colegau Cymru- Colleges Wales	Sports Council for Wales
Design Commission For Wales	St Teilo's Cleaning (APP)
Ecommercial*	Wales Council For Voluntary Action
Eisteddfod Genedlaethol Cymru	

** Employers that contributed to the Fund in 2021/22 that did not contribute to the Fund in 2022/23.*
*** Employers that contributed to the Fund in 2022/23 that did not contribute to the Fund in 2021/22.*

23. Events after the Reporting Period

There are no events after the reporting period to report.

24. Date of Authorisation of the Accounts for Issue

This Statement of Accounts was authorised for issue on 26 October 2023 by the Corporate Director Resources. Post balance sheet events have been considered up to this date.

APPENDIX 1

INVESTMENT DATA

20 YEAR INVESTMENT MARKET VALUES

INVESTMENT ASSET ALLOCATION (BY ASSET CLASS)

Year Ended 31 March		2018	2019	2020	2021	2022	2023
UK Equities	**£m**	620.2	641.6	437.1	577.4	233.0	242.5
	%	*30.3*	*29.7*	*21.7*	*23.0*	*8.7*	*9.2*
Overseas Equities	**£m**	633.8	667.5	698.7	1,003.0	1,473.1	1,442.8
	%	30.9	*30.9*	*34.7*	*40.0*	*54.7*	*54.7*
Global Bonds	**£m**	555.6	565.1	586.1	632.9	609.9	569.9
	%	*27.1*	*26.1*	*29.1*	*25.2*	*22.6*	*21.6*
Private Equity	**£m**	79.3	82.2	88.7	90.7	103.3	109.0
	%	3.9	*3.8*	*4.4*	*3.6*	*3.8*	*4.1*
Property	**£m**	134.2	155.9	165.2	166.6	201.6	183.5
	%	*6.5*	*7.2*	*8.2*	*6.6*	*7.5*	*7.0*
Cash	**£m**	26.8	51	38.5	39.6	72.3	87.6
	%	*1.3*	*2.4*	*1.9*	*1.6*	*2.7*	*3.3*
Total Value	**£m**	**2049.9**	**2163.3**	**2014.3**	**2510.2**	**2,693.2**	**2,635.4**
	%	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***

TEN LARGEST HOLDINGS BY MARKET VALUE AS AT 31 MARCH 2023

At 31 March 2023 this Pension Fund no longer held any Directly owned Equities, all its Investments being held in Pooled Funds. The 10 largest Funds are listed in the Table below:

	Country/ Region	Asset Class	Value £m	% of the Fund
POOLED FUNDS				
BlackRock Low Carbon Tracker Indexed	Global	Equity	590.8	22.4
WPP Global Opportunities	Global	Equity	531.5	19.7
WPP UK Opportunities	UK	Equity	242.5	9.2
WPP Global Government Bonds	Global	Fixed Income	230.8	8.8
WPP Global Growth	Global	Equity	209.7	8.0
WPP Global Credit	Global	Fixed Income	198.1	7.5
WPP Multi Asset Credit	Global	Fixed Income	140.9	5.3
WPP Emerging Markets	Global	Equity	110.8	4.2
Cash	n/a	Cash	87.6	3.3
CBRE	Global	Property	70.1	2.7

APPENDIX 2

FUNDING STRATEGY STATEMENT (FSS2022)

Overview

This Statement has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (the Regulations). It describes City and County of Cardiff's strategy, in its capacity as Administering Authority (the Administering Authority), for the funding of the Cardiff and Vale of Glamorgan Pension Fund (the Fund).

As required by Regulation 58(4)(a), the Statement has been reviewed (and where appropriate revised) having regard to guidance published by CIPFA in September 2016. In addition, the Administering Authority has had regard to the supplementary statutory guidance issued by MHCLG (now DLUHC): Guidance on preparing and maintaining policies on review of employer contributions, employer exit payments and deferred debt agreements, and has also considered the Scheme Advisory Board's Guide to Employer Flexibilities.

Consultation

In accordance with Regulation 58(3), all appropriate persons (including Fund employers) have been consulted on the contents of this Statement and their views have been considered in formulating it. However, the Statement describes a single strategy for the Fund as a whole.

The Fund Actuary, Aon Solutions UK Limited, has also been consulted on the content of this Statement.

In addition, the Administering Authority has had regard to the Fund's Investment Strategy Statement (ISS) published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Investment Regulations).

Purpose of this Statement

The purposes of this Funding Strategy Statement are to set out the processes by which the Administering Authority:

- Establishes a clear and transparent funding strategy, specific to the Fund, to meet employer's pension liabilities going forward.
- Aims to meet the regulatory requirement in relation to the desirability of maintaining as nearly constant a primary contribution rate as possible.
- Ensures the regulatory requirement to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met.
- Takes a prudent longer-term view of funding the Fund's liabilities.

noting that whilst the funding strategy applicable to individual employers or categories of employers must be reflected in the Funding Strategy Statement its focus should at all times be on those actions which are in the best long term interests of the Fund.

Well-being of Future Generations (Wales) Act 2015

The Well-being of Future Generations (Wales) Act 2015 requires each public body (including local authorities) in Wales to act "in accordance with the sustainable development principle". This means acting in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs. The obligations under the Act of Cardiff Council, Vale of Glamorgan Council and the other scheme employers to which the Act applies have been recognised in this statement by giving priority to the long-term cost efficiency of the Fund.

Link to investment policy set out in the Investment Strategy Statement

The Investment Strategy Statement (ISS) is a statement of the principles governing the Fund's investment decisions. Among other things, it covers policy on the types of investments to be held, the balance between different types of investments, risk and the expected return on investments.

In keeping with the contents of this Statement, the ISS states that the policy of the Fund is to ensure that all payments made are at minimal cost to employing bodies. The investment objective is to maximise returns and minimise or at least stabilise employer contributions over the long term within an acceptable level of risk.

The Administering Authority has produced this Statement having taken an overall view of the level of risk inherent in the investment policy set out in the ISS and the funding strategy set out in this Statement. The assets that most closely match the cashflows of the Fund are fixed interest and index-linked Government bonds of appropriate term relative to the liabilities. The Fund's asset allocation as set out in the ISS invests a significant proportion of the Fund in assets such as equities which are expected, but not guaranteed, to produce higher returns than Government bonds in the long term. The Administering Authority has agreed with the Fund Actuary that the Funding Target on the ongoing basis will be set after making some allowance for this higher anticipated return. However, the Administering Authority recognises that outperformance is not guaranteed and that, in the absence of any other effects, if the higher expected returns are not achieved, the solvency position of the Fund may deteriorate, particularly where the liabilities are being measured by reference to prevailing gilt yields, as is the case for orphan liabilities

The investment returns required to meet the funding strategy are compatible with the investment policy set out in the ISS.

An Investment Advisory Panel reviews overall Fund risk. Priority is given to strategic asset allocation based on consideration of the full range of investment opportunities, and having regard to the diversification and suitability of investments. Within individual asset classes the Panel has adopted a specialist structure with a mixture of management approaches. Managers have clear targets and maximum accountability for performance.

The Fund's solvency objective is thus embedded in its strategic asset allocation policy and linked directly to the ISS, and the risks of different strategies. The Administering Authority has produced this Statement having taken an overall view of the level of risk inherent in the investment policy set out in the ISS and the funding strategy set out in this Statement.

The funding strategy recognises the investment targets and the inherent volatility arising from the investment strategy, by being based on financial assumptions which are consistent with the expected return on the investments held by the Fund, and by including measures that can be used to smooth out the impact of such volatility.

The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate including, where appropriate, commissioning asset liability modelling or other analysis techniques.

Review of this Statement

The Administering Authority undertook its latest substantive review of this Statement in November 2022.

The Administering Authority plans to formally review this Statement as part of each triennial valuation of the Fund unless circumstances arise which require earlier action.

The Administering Authority will monitor the funding position of the Fund on an approximate basis at regular intervals between actuarial valuations and will discuss with the Fund Actuary whether any significant changes have arisen that require action.

Aims and Purpose of the Fund

The main aims of the Fund in relation to the funding strategy are:

1. To manage employers' liabilities effectively

The Administering Authority seeks to ensure that all employers' liabilities are managed effectively. In a funding context, this is achieved by:

- seeking regular actuarial advice
- ensuring that employers are properly informed and consulted
- through regular monitoring of the funding position and the outlook for employers' contributions, and
- appropriate segregation of employers for funding purposes.

2. To ensure that sufficient resources are available to meet all liabilities as they fall due

The Administering Authority recognises the need to ensure that the Fund has, at all times, sufficient liquid assets to be able to pay pensions, transfer values, costs, charges and other expenses. It is the Administering Authority's policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of disinvesting assets. The Administering Authority monitors the position monthly to ensure that all cash requirements can be met.

3. Enable primary contribution rates to be kept as nearly constant as possible and (subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the Administering Authority and employers alike.

Producing low volatility in employer contribution rates may require investment in assets which 'match' the employer's liabilities. In this context, 'match' means assets which behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Local Government Pension Scheme, such assets would tend to comprise fixed interest and index linked gilt edged investments, where the liabilities are being measured by reference to prevailing gilt yields as is the case for orphan liabilities.

Other classes of assets, such as shares and property, are perceived to offer higher long term rates of return, on average, and consistent with the aim to seek returns from investments within reasonable risk parameters, the Administering Authority invests a substantial proportion of the Fund in such assets. However, these assets are more risky in nature, and that risk can manifest itself in volatile returns over short term periods, and a failure to deliver the anticipated returns in the long term.
This short term volatility in returns can produce volatility in the measured funding position of the Fund at successive actuarial valuations, with knock on effects on employer contribution rates. The impact on employer rates can be mitigated by use of smoothing adjustments at each valuation.

The Administering Authority recognises that there is a balance to be struck between the investment policy adopted, the smoothing mechanisms used at valuations, and the resultant stability of employer contribution rates from one valuation period to the next.

The Administering Authority also recognises that the position would be potentially more volatile for Admission Bodies with short term contracts where utilisation of smoothing mechanisms is less appropriate.

4. To seek returns from investments within reasonable risk parameters

The Administering Authority recognises the desirability of seeking investment returns within reasonable risk parameters through investment in unmatched investments. Investment returns higher than those available on Government stocks are sought through investment in other asset classes such as equities and property. The Administering Authority ensures that risk parameters are reasonable by:

- restricting investment to the levels permitted by the Investment Regulations
- limiting default risk by restricting investment to asset classes generally recognised as appropriate for UK pension funds
- analysing the volatility and absolute return risks represented by those asset classes in collaboration with the Investment Adviser and Fund Managers, and ensuring that they remain consistent with the risk and return profiles anticipated in the funding strategy
- limiting concentration risk by developing a diversified investment strategy, and
- monitoring the mis-matching risk: that the investments do not move in line with the Fund's liabilities.

Purpose of the Fund

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Responsibilities of the key parties

The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the individual employers and the Fund Actuary.

Their key responsibilities are as follows:

Administering Authority

The Administering Authority's key responsibilities are:

1. *To operate a pension fund.*

2. *To collect investment income and other amounts due to the Fund as set out in the Regulations including employer and employee contributions and, as far as the Administering Authority is able to, ensure these contributions are paid by the due date.*

Individual employers must pay contributions in accordance with Regulations 67 to 71. The Administering Authority will ensure that all employers are aware of these requirements and also the requirements of the Pensions Act 1995.

The Administering Authority will monitor the receipt of contributions to ensure they are received in accordance with agreed arrangements. The Administering Authority also has an absolute discretion on the timing of payments relating to bulk transfers or early retirements. Where employers are not adhering to any arrangements this will be brought to their attention. Outstanding contributions or other monies not received by due date may be charged interest in accordance with the Regulations at Base Rate + 1%.

The Administering Authority will ensure, where appropriate, that action is taken to recover assets from Admission Bodies whose Admission Agreement has ceased (and from other employers whose participation in the Fund has ceased) by

- requesting that the Fund Actuary calculates any deficiency or surplus at the date of exit from the Fund
- notifying the body that it must meet any deficiency at exit and determine any exit credit to be paid to the exiting employer. The Administering Authority's policy is set out later in this Statement.

3. *Invest surplus monies in accordance with the Regulations.*
   The Administering Authority will comply with the Investment Regulations.

4. *Pay from the Fund the relevant entitlements as set out by the Regulations.*

5. *Ensure that cash is available to meet liabilities as and when they fall due.*
   The Administering Authority discharges this duty in the manner set out in the Aims of the Fund above.

6. *Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default.*

7. *Manage the valuation process in consultation with the Fund Actuary*
   The Administering Authority ensures it communicates effectively with the Fund Actuary to:

- agree timescales for the provision of information and of valuation results

- ensure provision of data of suitable accuracy
- ensure that the Fund Actuary is clear about the content of the Funding Strategy Statement
- ensure that participating employers receive appropriate communication throughout the process
- ensure that reports are made available as required by relevant Guidance and Regulations

8. *Prepare and maintain an ISS and a Funding Strategy Statement after due consultation with interested parties.*
   The Administering Authority will ensure that both documents are prepared and maintained in the required manner.

9. *Monitor all aspects of the Fund's performance and funding, and amend these two documents if required.*
   The Administering Authority monitors investment performance and the funding position of the Fund quarterly. The ISS will be formally reviewed annually, and the Funding Strategy Statement every three years, as part of the valuation cycle, unless circumstances dictate earlier amendment.

10. *Effectively manage any potential conflicts of interest arising from its dual role as both Administering Authority and as a Scheme Employer.*

11. *Enable the local pension board to review the valuation process as set out in their terms of reference.*

12. *Ensure consistent use of policies relating to revising employer contributions between formal actuarial valuations, entering into deferred debt agreements and spreading exit payments and ensure the process of applying those policies is clear and transparent to all fund employers.*

Individual Employers
The individual employers will:

- Deduct contributions from employees' pay
- Pay all ongoing members' and employer's contributions (both percentage of pay and monetary shortfall recovery contributions which are due) as determined by the Fund Actuary, promptly by the 19th day of the month
- Develop a policy on certain discretions and exercise discretions within the regulatory framework, ensuring that the Administering Authority has copies of current policies covering those discretions
- Pay for additional membership or pension, augmentation, early release of benefits or other one off strain costs in accordance with agreed arrangements
- Notify the Administering Authority promptly of all changes to membership, or other changes which affect future funding
- Note and if desired respond to any consultation regarding the Funding Strategy Statement, the ISS, or other policies
- Pay any exit payments on ceasing participation in the Fund

The Fund Actuary
The Fund Actuary will prepare advice and calculations and provide advice on:

- Funding strategy and the preparation of the Funding Strategy Statement and will prepare actuarial valuations, including the setting of employers' contribution rates at a level to ensure fund solvency and long-term cost efficiency and issue of a Rates and Adjustments Certificate, after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement.
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement

costs, compensatory added years cost, etc.

- Assist the Administering Authority in assessing whether employer contributions need to be revised between valuation as permitted or required by the Regulations, in particular in relation to any review of contributions between triennial valuations under Regulation 64A
- Provide advice and valuations on the exiting of employers from the Fund.
- Provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- Provide reviews in relation to any decision by the Administering Authority to put in place a deferred debt agreement under Regulation 64(7B) or spread an exit payment under Regulation 64B
- Ensure that the Administering Authority is aware of any professional guidance or other professional requirements that may be of relevance to his or her role in advising the Fund.

Such advice will take account of the funding position and Funding Strategy Statement, as well as other relevant matters when instructed to do so.

Funding Strategy

Risk based approach

The Fund utilises a risk based approach to funding strategy.

A risk based approach entails carrying out the actuarial valuation on the basis of the assessed likelihood of meeting the funding objectives. In practice, three key decisions are required for the risk based approach:

- what the Solvency Target should be (the funding objective- where the Administering Authority wants the Fund to get to),
- the Trajectory Period (how quickly the Administering Authority wants the Fund wants to get there), and
- the Probability of Funding Success (how likely the Administering Authority wants it to be now that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

These three choices, supported by complex risk modelling carried out by the Fund Actuary, define the discount rate (investment return assumption) to be adopted and, , by extension, the appropriate employer contributions payable. Together they measure the riskiness of the funding strategy.

Further details of these three terms are set out in Appendix 1.

Application to different types of body

Some comments on the principles used to derive the Solvency and Funding Targets for different bodies in the Fund are set out below.

- **Scheduled Bodies and certain other bodies of sound covenant**
  The Administering Authority will adopt a general approach in this regard of assuming indefinite investment in a broad range of assets of higher risk than low risk assets for Scheduled Bodies and certain other bodies which are long term in nature.
- **Admission Bodies and certain other bodies whose participation is limited**
  For Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit the Administering Authority will have specific regard to the potential for participation to cease (or to have no contributing members), the potential timing of such exit, and any likely change in notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date of exit (i.e. whether the liabilities will become 'orphaned' or whether a guarantor exists to subsume the notional assets and liabilities).

Recovery Periods

Where a valuation reveals that the Fund is in surplus or deficiency against the Funding Target, employers' contributions will be adjusted to target restoration of full funding over a period of years.

The Recovery Period applicable for each employer is set by the Fund Actuary in consultation with the Administering Authority and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, the Administering Authority is prepared to agree to Recovery Periods longer than the average future working lifetime of the membership of that employer. The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long Recovery Periods and has agreed with the Fund Actuary a limit of 20 years for employers which are assessed by the Administering Authority as being a long term secure employer.

The Administering Authority's policy is to agree Recovery Periods to recover any deficit with each employer which are typically shorter where possible within this framework. For employers whose participation in the Fund is for a fixed period it is unlikely that the Administering Authority and Fund Actuary would agree to a Recovery Period longer than the remaining term of participation.

For any employers that have entered into a deferred debt agreement, the recovery period will generally be set equal to the remaining period of the deferred debt agreement.

Removal of surplus
Consistent with a desire to keep employer contribution rates as nearly constant as possible, the removal of surplus shall not generally apply to any employer at a funding level of between 100% and 110%. Those employers will generally be required to pay the primary rate (i.e. the future service rate) in full, without any adjustment for a surplus.

In respect of any employer with a funding level above 110%, the removal of surplus shall generally only apply to any surplus above the 110% funding level.

The period over which any surplus is removed will generally be set in line with the Recovery Periods section above.

Stepping
Consistent with a desire to keep employer contribution rates as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or reached by a series of steps over future years (this could be an increase or decrease in employer contribution rates). The Administering Authority will discuss with the Fund Actuary the risks inherent in such an approach, and will examine the financial impact and risks associated with each employer. The Administering Authority's policy is that in the normal course of events no more than three equal annual steps (i.e. the valuation period) will be permitted. Further steps may be permitted in extreme cases, but the total number of steps is unlikely to exceed six steps.

Grouping or Pooling
In some circumstances it may be desirable to group or pool employers within the Fund together for funding purposes (i.e. to calculate employer contribution rates). Reasons might include:

- reduction of volatility of contribution rates for small employers, facilitating situations where employers have a common source of funding or accommodating employers who wish to share the risks related to their participation in the Fund, or
- small outsourcings which have been undertaken on a pass-through approach where it makes sense for the service provider / contractor to be given either the same contribution rate as the outsourcing body or the fixed contribution rate agreed contractually, or
- employers have been grouped for practical or commercial reasons.

The Administering Authority recognises that grouping of employers can give rise to cross subsidies from one employer to another over time. The Administering Authority's policy is to consider the position carefully at each valuation and to notify each employer that is grouped that this is the case, and which other employers it is grouped with. If the employer objects, it will be set its own contribution rate. For employers with more than 50 contributing members, the Administering Authority would look for evidence of homogeneity between employers before considering grouping. For employers whose participation is for a fixed period (e.g. certain admission bodies) grouping is unlikely to be permitted.

Employers may be grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared.

Where employers are grouped together entirely for funding purposes, this will only occur with the consent of the employers involved.

All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum and dependants' pension benefits on death in service and for benefits payable in ill health retirement – in other words, the cost of such benefits is shared across all the employers in the Fund. Such benefits can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low cost approach to spreading the risk.

There are two main groups of small employers in the Fund pooled together for funding and contribution purposes.

1. The Town and Community Councils Group. Currently all the employers within the group pay the same percentage of pay contribution rate.

2. The Colleges Group. Currently the employers participating within the group pay a common primary (future service) contribution rate and a deficit contribution amount equal to a proportion of the group's total monetary deficit contributions. If the Colleges Group is assessed to have a surplus the employers participating within the group will pay the same percentage of pay contribution rate, allowing for the removal of any surplus as appropriate.

- In addition, there are a number of service providers or other employers pooled with either Cardiff Council or Vale of Glamorgan Council for contractual or commercial reasons.

Full details of the groups / pools, the participants at the date of writing this Statement and the way they operate is set out in Appendix 3.

Inter-valuation funding calculations
In order to monitor developments, the Administering Authority may from time to time request informal valuations or other calculations. Generally, in such cases the calculations will be based on an approximate roll forward of asset and liability values, and liabilities calculated by reference to assumptions consistent with the most recent preceding valuation. Specifically, it is unlikely that the liabilities would be calculated using individual membership data, and nor would the assumptions be subject to review as occurs at formal triennial valuations.

Notional Sub-Funds for individual employers
In order to establish contribution rates for individual employers or groups of employers it is convenient to notionally subdivide the Fund as a whole between the employers, as if each employer had its own notional sub-fund within the Fund.

This subdivision is for funding purposes only. It is purely notional in nature and does not imply any formal subdivision of assets, nor ownership of any particular assets or groups of assets by any individual employer or group.

Details of how the sub-funds are rolled forward are set out in Appendix 2.

Fund maturity

To protect the Fund, and individual employers, from the risk of increasing maturity and declining payrolls producing unacceptably volatile contribution adjustments as a percentage of pay the Administering Authority will normally require monetary contributions from employers in respect of any disclosed funding deficiency.

In certain circumstances, for secure employers considered by the Administering Authority as being long term in nature, contribution adjustments to correct for any disclosed deficiency may be set as a percentage of payroll but may have regard for assumed projected payroll provided by the employer. Such an approach carries an implicit assumption that the employer's payroll will increase at an assumed rate. If payroll fails to grow at this rate, or declines, insufficient corrective action will have been taken. To protect the Fund against this risk, the Administering Authority will monitor payrolls and where evidence is revealed of payrolls not increasing at the anticipated rate, the Administering Authority will consider requiring monetary contributions rather than percentages of payroll.

Where an employer is assessed to be in surplus and contributions are to be set below the cost of future accrual this will be implemented via a reduction in the percentage of pensionable pay rate rather than via a negative monetary amount (subject to a minimum overall contribution rate of zero).

Special Circumstances related to certain employers

Interim reviews

As part of each actuarial valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. The Administering Authority also monitors the position and may amend contributions between valuations as permitted by Regulations 64(4) and 64A. Further details of the Administering Authority's policy in relation to reviewing contributions is set out in Appendix 4.

Guarantors

Some employers may participate in the Fund by virtue of the existence of a Guarantor. The Administering Authority maintains a list of employers and their associated Guarantors. The Administering Authority, unless notified otherwise, sees the duty of a Guarantor to include the following:

- If an employer exits the Fund and defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide finance to the Fund such that the Fund receives the amount certified by the Fund Actuary as due, including any interest payable thereon.
- If the Guarantor is an employer in the Fund and is judged to be of suitable covenant by the Administering Authority, the Guarantor may defray some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.
- During the period of participation of the employer a Guarantor can at any time agree to the future subsumption of any residual liabilities of an employer. The effect of that action would be to reduce the Funding and Solvency Targets for the employer, which would probably lead to reduced contribution requirements.

Bonds and other securitization
Schedule 2 Part 3 Para. 6 of the Regulations creates a requirement for a new admission body to carry out to the satisfaction of the Administering Authority (and the Scheme Employer in the case of a body admitted under Schedule 2 Part 3 Para. 1(d)(i) of the Regulations) an assessment taking account of actuarial advice of the level of risk on premature termination by reason of insolvency, winding up or liquidation.

Where the level of risk identified by the assessment is such as to require it the admission body shall enter into an indemnity or bond with an appropriate party. Where it is not desirable for an admission body to enter into an indemnity or bond, the body is required to secure a guarantee in a form satisfactory to the Administering Authority from an organisation who either funds, owns or controls the functions of the admission body.

The Administering Authority's approach in this area is as follows:

- In the case of admission bodies admitted under Schedule 2 Part 3 Para. 1(d) of the Regulations and other admission bodies with a Guarantor, and so long as the Administering Authority judges the relevant Scheme Employer or Guarantor to be of sufficiently sound covenant, any bond exists purely to protect the relevant Scheme Employer on default of the admission body. As such, it is entirely the responsibility of the relevant Scheme Employer or Guarantor to arrange any risk assessments and decide the level of required bond. The Administering Authority will supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer, but this should not be construed as advice to the relevant Scheme Employer on this matter.

- In the case of admission bodies admitted under Schedule 2 Part 3 Para 1(e) of the Regulations, or under Para 1(d) where the Administering Authority does not judge the relevant Scheme Employer to be of sufficiently strong covenant, and other Admission Bodies with no Guarantor or where the Administering Authority does not judge the Guarantor to be of sufficiently strong covenant, the Administering Authority must be involved in the assessment of the required level of bond to protect the Fund. The admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. The Administering Authority will supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer form a view on what level of bond would be satisfactory. The Administering Authority will also on request supply this to the Admission Body or Guarantor. This should not be construed as advice to the Scheme Employer, Guarantor or Admission Body.

- The Administering Authority notes that levels of required bond cover can fluctuate and will review, or recommends the Scheme Employer reviews, the required cover at least once a year.

Subsumed liabilities
Where an employer is exiting the Fund, it is possible that another employer in the Fund agrees to provide a source of future funding in respect of any emerging deficiencies in respect of those liabilities.

In such circumstances the liabilities are known as subsumed liabilities (in that responsibility for them is subsumed by the accepting employer). For such liabilities the Administering Authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer. Generally this will mean assuming continued investment in more risky investments than Government bonds.

Orphan liabilities
Where an employer is exiting the Fund, unless any residual liabilities are to become subsumed liabilities, the Administering Authority will act on the basis that it will have no further access for funding from that employer once any exit valuation, carried out in accordance with Regulation 64, has been completed and any sums due have been paid. Residual liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.

The Administering Authority will seek to minimise the risk to other employers in the Fund that any deficiency arises on the orphan liabilities such that this creates a cost for those other employers to make good the deficiency. To give effect to this, the Administering Authority will seek funding from the outgoing employer sufficient to enable it to match the liabilities with low risk investments, generally Government bonds.

To the extent that the Administering Authority decides not to match these liabilities with Government bonds of appropriate term then any excess or deficient returns will be added to or deducted from the investment return to be attributed to the employer's notional assets.

Exit of an employer from the Fund
Where an employer exits the Fund, an exit valuation will be carried out in accordance with Regulation 64. That valuation will take account of any activity as a consequence of any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund.

In particular, the exit valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers. For orphan liabilities the Funding Target in the exit valuation will anticipate investment in low risk investments such as Government bonds.

For subsumed liabilities the exit valuation will anticipate continued investment in assets similar to those held in respect of the subsuming employer's liabilities.

Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, the departing employer will be expected to make good the funding position revealed in the exit valuation. In other words, the fact that liabilities may become subsumed liabilities does not remove the possibility of an exit payment being required.

The Administering Authority's policy is that in the normal course of events any deficiency that exists at exit of an admission body will be payable immediately as a single payment. In certain cases, the Administering Authority may be prepared to agree payment over a period of time as permitted under Regulation 64B. The Administering Authority's policy in relation to spreading of exit debt is set out in Appendix 5. For employers that exit the Fund on or after 1 April 2019 the Administering Authority will include an approximate allowance in the exiting employer's liabilities for potential additional liabilities arising from the McCloud judgement and cost management process and for the potential costs of GMP equalisation / indexation. In determining this allowance, the Administering Authority will have regard to any relevant guidance prepared by the Scheme Advisory Board and the advice of the Fund Actuary. It will be kept under regular review as further information on the McCloud judgement / Cost Management process and GMP equalisation / indexation becomes available.

Exit Credits
Where an exit valuation discloses that there is a surplus in the Fund in respect of the exiting employer, and an exit credit is due to be paid to the exiting employer, the Administering Authority will, unless otherwise agreed with the employer, pay the exit credit to the

employer within 6 months of the exit date. Where the employer has not provided all the necessary information required by the Administering Authority to enable the Fund Actuary to calculate the final liabilities on exit within 2 months of the exit date, the employer will be deemed to have agreed that the 6 month period should run from the date all the necessary data has been provided.

In determining the amount of any exit credit payable the Administering Authority will take the following factors into consideration:

(a) the extent to which there is an excess of assets in the Fund relating to that employer over the liabilities (i.e. a surplus);
(b) the proportion of the surplus which has arisen because of the value of the employer's contributions;
(c) any representations made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8) (a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations; and
(d) any other relevant factors, which include any legal, actuarial or other costs incurred by the Administering Authority in relation to the exit, the circumstances in which any subsumption commitment was granted, and any risk sharing arrangements in place. It should be noted that this is not an exhaustive list.

In particular the Administering Authority will not generally pay an exit credit larger than the total of the exiting employer's contributions paid into the Fund, less any costs incurred by the Administering Authority in relation to the exit.

Identification of risks and counter measures

Approach
The Administering Authority seeks to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering Authority will monitor the risks to the Fund, and will take appropriate action to limit the impact of these wherever possible. The main risks to the Fund are:

Investment risk
This covers items such as the performance of financial markets and the Fund's investment managers, asset reallocation in volatile markets, leading to the risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:

- assets not delivering the required return (for whatever reason, including manager underperformance)
- systemic risk with the possibility of interlinked and simultaneous financial market volatility
- insufficient funds to meet liabilities as they fall due
- inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon
- counterparty failure

The specific risks associated with assets and asset classes are:
- equities – industry, country, size and stock risks
- fixed income - yield curve, credit risks, duration risks and market risks
- alternative assets – liquidity risks, property risk, alpha risk
- money market – credit risk and liquidity risk
- currency risk
- macroeconomic risks

The Administering Authority reviews each investment manager's performance quarterly and annually considers the asset allocation of the Fund by carrying out an annual review meeting with its Investment Advisors, Fund Managers and Fund Actuary. The Administering Authority also annually reviews the effect of market movements on the Fund's overall funding position.

Climate Risk
The systemic risks posed by climate change and the policies implemented to tackle them will fundamentally change economic, political and social systems and the global financial system. They will impact every asset class, sector, industry and market in varying ways and at different times, creating both risks and opportunities for investors. The Administering Authority keeps the effect of climate change on future investment returns under review and will commission advice from the Fund Actuary on the potential effect on funding as required.

At the 2022 valuation the Fund Actuary will undertake scenario analysis to assess the resilience of the funding strategy to climate change risk over an agreed period.

Employer risk
These risks arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities where employers are unable to meet their obligations to the Fund.

The Administering Authority will put in place a Funding Strategy Statement which contains sufficient detail on how funding risks are managed in respect of the main categories of employer (e.g. scheduled and admission bodies) and other pension fund stakeholders.

The Administering Authority monitors employer payments and expects employers to engage with the Fund where their circumstances have changed, noting that contributions can be reviewed between formal valuations if the conditions in Regulations 64A and the terms of the Administering Authority's policy as set out in Appendix 4 are met.

The Administering Authority will maintain a knowledge base on employers, their basis of participation and their legal status (e.g., charities, companies limited by guarantee, group/subsidiary arrangements) and will use this information to inform the Funding Strategy Statement.

Liability risk
The main risks include interest rates, pay and price inflation, life expectancy, changing retirement patterns and other demographic risks. The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation or, if appropriate, more frequently, and reports on developments. The Administering Authority will agree with the Fund Actuary any changes necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.

If significant liability changes become apparent between valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation and consider whether any bonds in place for Admission Bodies require review.

Where it appears likely to the Administering Authority that for an employer the amount of the liabilities arising or likely to arise has changed significantly since the last valuation, the Administering Authority may consider revising an employer's contributions as permitted by Regulation 64A in line with the Administering Authority's policy as set out in Appendix 4.

Regulatory risk
The risks relate to changes to general and LGPS specific regulations, national pension requirements or HM Revenue and Customs' rules.

The Administering Authority will keep abreast of all proposed changes. If any change potentially affects the costs of the Fund, the Administering Authority will ask the Fund Actuary to assess the possible impact on costs of the change. Where significant, the Administering Authority will notify Employers of the possible impact and the timing of any change.

There are a number of uncertainties associated with the benefit structure at the current time including:

- The timing and detail of any regulations in relation to the remedy to compensate members for illegal age discrimination following the outcome of the McCloud/ Sargeant cases.
- The outcome of the cost management process as at 31 March 2020.
- The Goodwin case in which an Employment Tribunal ruled (in relation to the Teachers' Pension Scheme) that the less favourable provisions for survivor's benefits of a female member in an opposite sex marriage compared to a female in a same sex marriage or civil partnership amounts to direct discrimination on grounds of sexual orientation. Following a written ministerial statement by the chief secretary to the Treasury on 20 July 2020 it is expected that changes will be made to the LGPS Regulations to reflect the ruling, but no changes have yet been proposed.

In determining how these uncertainties should be allowed for in employer contributions the Administering Authority will have regard to guidance issued by the SAB, taking account of the Fund Actuary's advice.

For the purposes of the 2022 valuation, an approximate employer specific allowance will be made in respect of the McCloud remedy based upon a high-level analysis of the employer's fund membership. Members' benefits will be valued as required by relevant legislation as in force as at 31 March 2022, except for the following assumptions:

- It will be assumed that the current underpin (which only applies to those members within 10 years of their Normal Pension Age at 31 March 2012) will be revised and apply to all members who were active in the scheme on or before 31 March 2012 and who join the 2014 Scheme without a disqualifying service gap.
- The period of protection will apply from 1 April 2014 to 31 March 2022 but will cease when a member leaves active service or reaches their final salary scheme normal retirement age (whichever is sooner).
- Where a member remains in active service beyond 31 March 2022, the comparison of their benefits will be based on their final salary when they leave the LGPS or when they reach their final salary scheme normal retirement age (whichever is sooner).
- Underpin protection will apply to qualifying members who leave active membership of the LGPS with an immediate or deferred entitlement to a pension.
- The underpin will consider when members take their benefits, so they can be assured they are getting the higher benefit.

For new employers commencing participation in the Fund after 1 April 2022, the Administering Authority will generally adopt a consistent approach to that adopted for the 2022 valuation of the Fund.

In addition, a consultation document was issued by MHCLG (now DLUHC) entitled "Local Government Pension Scheme: Changes to the

Local Valuation Cycle and the Management of Employer Risk" dated May 2019. This included a proposal to change the LGPS local fund valuations to quadrennial cycles. The Administering Authority will have regard to any changes in the Regulations as a result of this consultation and consider any actions required at future actuarial valuations, taking account of the Fund Actuary's advice.

Liquidity and maturity risk

The LGPS is going through a series of changes, each of which will impact upon the maturity profile of the LGPS and have potential cash flow implications. The increased emphasis on outsourcing and other alternative models for service delivery may result in the following:

- active members leaving the LGPS
- transfer of responsibility between different public sector bodies
- scheme changes which might lead to increased opt-outs
- spending cuts and their implications

All of these may result in workforce reductions that would reduce membership, reduce contributions and prematurely increase retirements in ways that may not been taken into account in previous forecasts.

The Administering Authority's policy is to require regular communication between itself and employers and to ensure reviews of maturity at overall Fund and employer level where material issues are identified.

Governance risk

This covers the risk of unexpected structural changes in Fund membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff), and the related risk of the Administering Authority not being made aware of such changes in a timely manner.

The policy is to require regular communication between the Administering Authority and employers and to ensure regular reviews of such items as bond arrangements, financial standing of non-tax raising employers and funding levels.

Christopher Lee
Corporate Director Resources

November 2022

Appendix 1: Method and assumptions used in calculating the funding target

Solvency Target

The Administering Authority's primary aim is the long-term solvency of the Fund. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term using appropriate actuarial assumptions.

The Fund is deemed to be solvent when the assets held are equal to or greater than the value of the Fund's liabilities assessed using appropriate actuarial methods and assumptions. The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, in order to continue to target a funding level of 100%.

For Scheduled Bodies, and certain other bodies where a Scheme Employer of sound covenant has agreed to subsume its assets and liabilities following the exit of the employer from the Fund, the Solvency Target is set at a level advised by the Fund Actuary as a prudent long-term funding objective for the Fund to achieve at the end of the Trajectory Period, based on continued investment in a mix of growth and matching assets intended to deliver a return above the rate of increases to pensions and pension accounts (CPI).

For certain Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit from the Fund the Solvency Target will be set by considering the valuation basis which would be adopted should the employer leave the Fund. For most such bodies, the Solvency Target will be set commensurate with assumed investment in an appropriate portfolio of UK Government bonds after the employer has exited the Fund.

For any employers that have entered into a deferred debt agreement it is expected that the Solvency Target will be set by considering the valuation basis which would be adopted once the deferred debt agreement ends. For most such bodies, to minimise the risk to other employers in the Fund, the notional assets related to these liabilities may be assumed to be invested in low risk investments, such as UK Government bonds.

Probability of Funding Success

The Administering Authority deems funding success to have been achieved if the Fund, at the end of the Trajectory Period, has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on asset-liability modelling carried out by the Fund Actuary.

The Administering Authority will not permit contributions to be set following a valuation that have an unacceptably low chance of achieving the Solvency Target at the end of the relevant Trajectory Period.

Funding Target

The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions and the valuation data. The valuation calculations, including future service contributions and any adjustment for surplus or deficiency, set the level of contributions payable and dictate the chance of achieving the Solvency Target at the end of the Trajectory Period (defined below).

Consistent with the aim of enabling the primary rate of employers' contributions to be kept as nearly constant as possible:

- Contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the future service contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period.

- For employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire.

Full Funding and Solvency
The Fund is deemed to be fully funded when the assets held are equal to 100% of the Funding Target. When assets held are greater than this amount the Fund is deemed to be in surplus, and when assets held are less than this amount the Fund is deemed to be in deficiency.

The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target.

Trajectory Periods
The Trajectory Period in relation to an employer is the period between the valuation date and the date on which solvency is targeted to be achieved.

Appendix 2: Notional Sub-Funds for individual employers

Roll-forward of sub-funds
The notional sub-fund allocated to each employer will be rolled forward allowing for all cashflows associated with that employer's membership, including contribution income, benefit outgo, transfers in and out and investment income allocated as set out below. In general no allowance is made for the timing of contributions and cashflows for each year are assumed to be made half way through the year with investment returns assumed to be uniformly earned over that year.

Further adjustments are made for:

- A notional deduction to meet the expenses paid from the Fund in line with the assumption used at the previous valuation.
- Allowance for any known material internal transfers in the Fund (cashflows will not exist for these transfers). The Fund Actuary will assume an estimated cashflow equal to the value of the cash equivalent transfer value based on appropriate factors set by the Government Actuary's Department.
- Allowance for lump sum death in service and other benefits shared across all employers in the Fund (see earlier)
- An overall adjustment to ensure the notional assets attributed to each employer is equal to the total assets of the Fund which will take into account any gains or losses related to the orphan liabilities.

In some cases information available will not allow for such cashflow calculations. In such a circumstance:

- Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is of low materiality, estimated cashflows will be used
- Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is material, the Fund Actuary will instead use an analysis of gains and losses to roll forward the notional sub-fund. Analysis of gains and losses methods are less precise than use of cashflows and involve calculation of gains and losses relative to the surplus or deficiency exhibited at the

previous valuation. Having established an expected surplus or deficiency at this valuation, comparison of this with the liabilities evaluated at this valuation leads to an implied notional asset holding.

- Analysis of gains and losses methods will also be used where the results of the cashflow approach appears to give unreliable results perhaps because of unknown internal transfers.

Attribution of investment income
Where the Administering Authority has agreed with an employer that it will have a tailored asset portfolio notionally allocated to it, the assets notionally allocated to that employer will be credited with a rate of return appropriate to the agreed notional asset portfolio.
Where the employer has not been allocated a tailored notional portfolio of assets, the assets notionally allocated to that employer will be credited with the rate of return earned by the Fund assets as a whole, adjusted for any return credited to those employers for whom a tailored notional asset portfolio exists.

Appendix 3: Groups / Pooling

Town and Community Councils Group
The active participants of the Group, at the date of writing this Statement, are:

- Cowbridge Town Council
- Llantwit Major Town Council
- Penarth Town Council
- Barry Town Council
- Radyr & Morganstown Community Council
- Lisvane Community Council
- Wenvoe Community Council
- Penllyn Community Council
- Pentyrch Community Council
- St Fagans Community Council

In addition, there are liabilities related to the following bodies which currently have no active members. These liabilities remain part of the liabilities of the group:

- Barry Memorial Hall
- Dinas Powys Community Council
- Sully Community Council

Currently the active participants of the group pay the same percentage of pay contribution rate which includes a contribution towards the deficiency or surplus of the group.

If a Town or Community Council has no contributing members it will become an exiting employer under Regulation 64(1) unless a suspension notice has been issued (a suspension notice can be issued for a period of up to three years if there is a reasonable likelihood an active member will join the Fund within the suspension period (Regulations 64(2A) to 64(2C)).

Given the liabilities are generally small the Administering Authority will not expect an exiting employer to make an exit payment or receive any exit credit unless the exiting employer has a material impact on other employers in the Group. The assets and liabilities relating to the exiting employer will remain part of the Group.

Similarly, there will not be an expectation that an employer with a suspension notice will make any contributions during the suspension period unless it has a material impact on other employers in the Group.

Colleges Group
The active participants, at the date of writing this Statement, are:

- St David Catholic College
- Cardiff and Vale College (including former liabilities relating to Coleg Glan Hafren and Barry College)
- Cardiff Metropolitan University (including former liabilities relating to University of Wales Institute, Cardiff)

The contribution rate is a common primary (future service) contribution rate and a contribution to the group's deficiency expressed as a monetary amount (generally calculated in proportion to the employer's payroll at the valuation date but another approach could be used in the future if the Administering Authority felt it was appropriate). If the Colleges Group is assessed to have a surplus the employers participating within the group will pay the same percentage of pay contribution rate, allowing for the removal of any surplus as appropriate.

If a College or University has no contributing members it will become an exiting employer under Regulation 64(1) unless a suspension notice has been issued (a suspension notice can be issued for a period of up to three years if there is a reasonable likelihood an active member will join the Fund within the suspension period (Regulations 64(2A) to 64(2C)).

An exit valuation will be calculated for an exiting employer based on its share of the group's assets (as determined by the Administering Authority based on advice provided by the Fund Actuary).

Cardiff Council Pooling Group

The Cardiff Council Group, at the date of writing this Statement, contains liabilities in respect of:

- Current and former employees of Cardiff Council
- Former employees of:
    - Cardiff Corporation
    - Cardiff City Council and
    - South Glamorgan County Council (72.37% only)
- Employers who have been pooled with Cardiff Council as a result of, or subsumed following cessation of, outsourcing of services or restructuring exercises:
- Cardiff City Transport Services Ltd (Cardiff Bus)
- Race Equality First
- Cardiff & Co
- App Cleaning Limited (St Teilo's School)
- Greenwich Leisure Limited (GLL)
- A&R Cleaning (Lansdowne School)
- Grangetown Prim Cleaning (App)
- Circle IT (Eastern High School)
- Glen Cleaning (Eastern High School)
- A&R Cleaning (Gabalfa Primary School)
- A&R Cleaning (Greenway Primary School)
- A&R Cleaning (Trowbridge Primary School)
- A&R Cleaning (Whitchurch Primary School)
- Cardiff Institute for the Blind
- Cardiff Gypsy & Traveller Project
- Supacleen Ltd
- New Theatre Cardiff Limited

Vale of Glamorgan Council Pooling Group

The Vale of Glamorgan Council Group, at the date of writing this Statement, contains liabilities in respect of:

- Current and former employees of Vale of Glamorgan Council
- Former employees of South Glamorgan County Council (27.63% only)
- Employers who have been pooled with Vale of Glamorgan Council as a result of, or subsumed following cessation of, outsourcing of services or restructuring exercises:
    - St Cyres School
    - National Trust
    - Glen Cleaning Barry Comp
    - Glen Cleaning (Llandough Primary)
    - Circle IT (Cowbridge)
    - Glen Cleaning (Gladstone Primary School)
    - A&R Cleaning (High Street School Barry)

Appendix 4: Policy on reviewing employer contributions between triennial actuarial valuations

The Regulations require a triennial actuarial valuation of the Fund. As part of each actuarial valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. The Administering Authority also monitors the position and may amend contributions between valuations as permitted by Regulations 64(4) and 64A.

The Administering Authority will consider reviewing employer contributions between formal valuations in the following circumstances:

- it appears likely to the Administering Authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;
- it appears likely to the Administering Authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme;
- it appears likely to the Administering Authority the Scheme employer will become an exiting employer; or
- the Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

For the avoidance of doubt, the Administering Authority will not consider a review of contributions under Regulation 64A purely on the grounds of a change in market conditions affecting the value of assets and/or liabilities. In determining whether or not a review should take place under Regulation 64A, the Administering Authority will consider the following factors (noting that this is not an exhaustive list):

- the circumstances leading to the change in liabilities arising or likely to arise, for example due to the restructuring of an employer, a significant outsourcing or transfer of staff, the loss of a significant contract, closure to new entrants, material redundancies, significant pay awards, or other significant changes to the membership due to ill-health retirements or voluntary withdrawals;
- the materiality of any change in the employer's membership or liabilities, taking account of the Fund Actuary's view of how this might affect its funding position, primary or secondary contribution rate;
- whether, having taken advice from the Fund Actuary, the Administering Authority believes a change in funding target or deficit recovery period would be justified, e.g. on provision or removal of any security, subsumption commitment, bond, guarantee, risk-sharing arrangement, or other form of indemnity in relation to the employer's liabilities in the Fund;
- the materiality of any change in the employer's financial strength or longer-term financial outlook, based on information supplied by the employer and supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser to the Fund;
- the general level of engagement from the employer and its adherence to its legal obligations as set out in the Pension Administration Strategy and elsewhere, including the nature and frequency of any breaches such as failure to pay contributions on time.

For an employer where contributions may be reviewed under Regulation 64(4), the following circumstances may trigger a review, which may be informal as well as a full interim valuation (this is not intended to be a comprehensive list):

- a review has been requested by the relevant guarantor or subsuming employer, or for transferee and Schedule 2 Part 3 (1)(d) admission bodies, the relevant scheme employer;
- a material change in circumstances, such as the date of exit becoming known, the employer closing the scheme to new entrants, material membership movements or material financial information coming to light.

For an employer whose participation is expected to cease within the next 3 years, the Administering Authority will monitor developments and may request an interim valuation at any time.

Notwithstanding the above guidelines, the Administering Authority reserves the right to request an interim valuation of any employer at any time if Regulation 64(4) or 64A applies which may lead to a revised contribution schedule for the employer.

Where contributions are being reviewed for an employer with links to another employer in the Fund, particularly where this is a formal organisational or contractual link, e.g. a formal guarantee, subsumption commitment or risk sharing arrangement is in place, the Administering Authority will consider the potential risk and impact of the contribution review on those other employer(s), taking advice from the Fund actuary as required.

Where, following representations from the employer, the Administering Authority is considering not increasing the employer's contributions following a review, despite there being good reason to do so from a funding and actuarial perspective, e.g. if it would precipitate the failure of the employer or otherwise seriously impair the employer's ability to deliver its organisational objectives or it is expected that the employer's financial position will improve significantly in the near-term, the Administering Authority will consult with any related employers with a view to seeking their agreement to this approach.

In many cases information will be required from the employer, e.g. in relation to its financial position and business plans which could be the catalyst for informing the employer that a review is being proposed. It is expected that in most cases the employer will be aware of the proposed review of their contributions since this will be triggered by an employer's action and employers should be aware of the need to engage with the Fund in relation to any activity which could materially affect their liabilities or ability to meet those liabilities.

In any event, in all cases the Administering Authority will advise the employer that a review is being carried out and share the results of the review and any risk or covenant assessment as appropriate. It should be noted that the fact of a review being carried out does not automatically mean that contributions will be amended (up or down) since that will depend upon the materiality of the changes and other factors such as the outcome of discussions with the employer and any related employer in the Fund and the proximity to the next formal valuation.

The Administering Authority will consult with the employer on the timing of any contribution changes and there will be a minimum of 4 weeks' notice given of any contribution increases. In determining whether, and when, any contribution changes are to take effect the Administering Authority will also consider the timing of contribution changes following the next formal valuation. As a result, contribution reviews are unlikely to be carried out during the 12 month period from the valuation date although if there were any material changes to the expected amount of liabilities arising or the ability of the employer to meet those liabilities during that period, this should be taken into account when finalising the Rates and Adjustments Certificate as part of the valuation.

Where the request for a review comes from the employer, before submitting their request, the employer should consider the regulatory requirements and the Fund's policy as set out above and satisfy themselves that there has been a relevant change in the expected amount of liabilities or their ability to meet those liabilities. The employer should contact the Administering Authority and complete the necessary information requirements for submission to the Administering Authority in support of their application.

The Administering Authority will consider the employer's request and may ask for further information or supporting documentation/ evidence as required. If the Administering Authority, having taken actuarial advice as required, is of the opinion that a review is justified, it will advise the employer and provide an indicative cost. In addition, employers should adhere to the notifiable events framework as set out in the Pension Administration Strategy. Employers should be aware that all advisory fees, including actuarial, legal and any other costs incurred by the Fund associated with a contribution review request, whether or not this results in contributions being amended, will be recharged to the employer.

Appendix 5: Policy on spreading of exit payments and deferred debt agreements

Spreading of exit payments

The starting position of the Administering Authority is that an exiting employer will be required to meet any exit liability owed as a single lump sum payment. However, the Administering Authority may allow phased exit payments as permitted under Regulation 64B.

It is envisaged that spreading of exit payments will only be considered at the request of an employer. The Administering Authority will then engage with the employer to consider its application and determine whether spreading the exit payment is appropriate and the terms which should apply.

In determining whether to permit an exit payment to be spread, the Administering Authority will consider factors including, but not limited to:

- the ability of the employer to make a single capital payment;
- whether any security is in place, including a charge over assets, bond, guarantee or other indemnity;
- whether the overall recovery to the Fund is likely to be higher if spreading the exit payment is permitted.

In determining the employer's ability to make a single payment the Administering Authority will seek actuarial, covenant or legal advice as required. Where the Administering Authority considers that the employer is financially able to make a single capital payment it will not normally be appropriate for the exit payment to be spread.

The employer will be required to provide details of its financial position, business plans and financial forecasts and such other information as required by the Administering Authority in order for it to make a decision on whether or not to permit the exit payment to be spread. This information must be provided within 2 months of request.

In determining the appropriate length of time for an exit payment to be spread, the Administering Authority will consider the affordability of the instalments using different spreading periods for the employer. The default spreading period will be up to 3 years but longer periods may be considered where the Administering Authority is satisfied that this doesn't pose undue risk to the Fund in relation to the employer's ability to continue to make payments over the period.

Whilst the Administering Authority's preference would be for an employer to request spreading of any exit payment in advance of the exit date, it is acknowledged that this may not be possible until after the employer has exited the Fund. Where there is a guarantor or subsuming employer, the guarantor/subsuming employer will also be consulted and any agreement to spread the exit deficit may be conditional on the guarantee continuing in force during the spreading period.

The amount of the instalments due under an exit deficit spreading agreement will generally be calculated as level annual amounts allowing for interest over the spreading period in line with the discount rate used to calculate the exit liabilities. Alternatively, monthly payments may be required, or the Administering Authority may require a higher initial payment with lower annual payments thereafter to reduce the risk to the Fund. Alternative payment arrangements may be made in exceptional circumstances as long as the Administering Authority is satisfied that they don't materially increase the risk to the Fund.

Where it has been agreed to spread an exit payment the Administering Authority will advise the employer in writing of the arrangement, including the spreading period, the annual payments due, any other costs payable including actuarial and legal costs and the responsibilities of the employer during the spreading period. Where a request to spread an exit payment has been denied the Administering Authority will advise the employer in writing and provide a brief explanation of the rationale for the decision.

The Administering Authority will take actuarial, covenant, legal and other advice as considered necessary. In addition, employers will be expected to engage with the Administering Authority during the spreading period and adhere to the notifiable events framework as set out in the Pension Administration Strategy. If the Administering Authority has reason to believe the employer's circumstances have changed such that a review of the spreading period (and hence the payment amounts) is appropriate, it will consult with the employer and a revised payment schedule may be implemented. Whilst this review may also consider the frequency of payments, it should be noted that it is not envisaged that any review will consider changes to the original exit amount nor interest rate applicable. An employer will be able to discharge its obligations under the spreading arrangement by paying off all future instalments at its discretion. The Administering Authority will seek actuarial advice in relation to whether there should be a discount for early payment given interest will have been added in line with the discount rate used for the exit valuation.

Deferred debt agreements (DDAs)
Under Regulation 64(7A) of the Regulations, an administering authority may enter into a written agreement with an exiting employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the secondary rate.

The Administering Authority's policy in relation to the spreading of exit payments under Regulation 64(7A) is set out below.

In determining whether or not to enter into a DDA with an employer the Administering Authority will take into account the following factors, including but not limited to:

- The materiality of the employer and any exit deficit in terms of the Fund as a whole;
- The risk to the Fund of entering into a DDA,

in terms of the likelihood of the employer failing before the DDA has ended, based on information supplied by the employer and generally supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser;
- The rationale for the employer requesting a DDA, particularly if the Administering Authority believes it would be able to make an immediate payment to cover the exit deficit;
- Whether an up-front payment will be made towards the deficit, and/or any security is, or can be put, in place, including a charge over assets, bond, guarantee or other indemnity, to reduce the risk to other employers.

Where it is expected that the employer's covenant may materially weaken over time the Administering Authority is very unlikely to consider entering into a DDA with that employer. Further, where an employer can demonstrably meet the exit payment in a single instalment, the Administering Authority would be unlikely to enter into a DDA unless it was clear that this wouldn't increase risk to the Fund, e.g. if the employer was fully taxpayer-backed and sufficient assurance was in place that all contributions due, including any residual deficit at the end of the DDA, would be met in full.

It is envisaged that DDAs will only be entered into at the request of an employer. The Administering Authority will engage/consult with the employer to consider the application and determine whether or not a DDA is appropriate and the terms which should apply. As part of its application for a DDA, the Administering Authority will require information from the employer to enable the Administering Authority to take a view on the employer's strength of covenant. Information will also be required on an ongoing basis to enable the employer's financial strength/covenant to be monitored. It is expected that DDAs will be monitored on an annual basis unless circumstances dictate otherwise. Monitoring may be more frequent as the end of the period of the DDA approaches.

The matters which the Administering Authority will reflect in the DDA include:

- An undertaking by the employer to meet all requirements on Scheme employers, including payment of the secondary rate of contributions, but excluding the requirement to pay the primary rate of contributions;
- A provision for the DDA to remain in force for a specified period, which may be varied by agreement of the Administering Authority and the deferred employer;
- A provision that the DDA will terminate on the first date on which one of the following events occurs-
  - o the deferred employer enrols new active members;
    the period specified, or as varied, elapses;
  - o the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
  - o the Administering Authority serves a notice on the deferred employer that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months; or
  - o the Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover the exit payment that would have been due if the employer had become an exiting employer on the calculation date.
- The responsibilities of the deferred employer;
- The circumstances triggering a cessation of the arrangement leading to an exit payment (or credit) becoming payable, in addition to those set out in Regulation 64 (7E) and above.

The Administering Authority will monitor the funding position and risk/covenant associated with deferred employers on a regular basis. This will be at least triennially and most likely annually, but the frequency will depend on factors such as the size of the employer and any deficit and the materiality of movements in market conditions or the employer's membership. 33

The circumstances in which the Administering Authority may consider seeking to agree a variation to the length of the agreement under regulation 64(7D) include:

- Where the exit deficit has reduced (increased) such that it is reasonable to reduce (extend) the length of the recovery period and associated period of the DDA assuming that, in the case of the latter, this does not materially increase the risk to the other employers/Fund;
- Where the deferred employer's business plans, staffing levels, finances or projected finances have changed significantly, but, in the case of a deterioration, the Administering Authority, having taken legal, actuarial, covenant or other advice as appropriate, does not consider that there is sufficient evidence that deferred employer's ability to meet the contributions payable under the DDA has weakened materially, or is likely to weaken materially in the next 12 months; and
- Where the level of security available to the Fund has changed in relation to the DDA, as determined by the Administering Authority, taking legal, actuarial or other advice as appropriate.

At each triennial valuation, or more frequently as required, the Administering Authority will carry out an analysis of the financial risk or covenant of the deferred employer, considering actuarial, covenant, legal and other advice as necessary. Where supported by the analysis and considered necessary to protect the interests of all employers, the Administering Authority will serve notice on the deferred employer that the DDA will terminate on the grounds that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially, or is likely to weaken materially in the next 12 months, as set out under regulation 64(7E)(d).

Employers should be aware that all advisory fees incurred by the Fund associated with consideration of a DDA for an exiting employer, whether or not this results in a DDA being entered into, will be recharged to the employer. This will include actuarial, legal, covenant and other advice and the costs of monitoring the arrangement as well as the initial set up. All fees must be paid up front and cannot be added to any secondary contributions payable under the DDA.

It is expected that employers will make a request to consider a DDA before they would otherwise have exited the Fund under Regulation 64(1) and that a DDA should be entered into within 3 months of that date. The employer should continue to make secondary contributions at the prevailing rate whilst the DDA is being considered unless the Administering Authority, having taken actuarial and other advice as appropriate, determines that increased contributions should be payable. In exceptional circumstances, e.g. where there has been a justifiable delay due to circumstances outside of the employer's control, and at the sole discretion of the Administering Authority, a DDA may be entered into more than 3 months after the exit date.

Deferred employers will be expected to engage with the Administering Authority during the period of the DDA and adhere to the notifiable events framework as set out in the Pension Administration Strategy as well as providing financial and other information on a regular basis. This will be necessary to support the effective monitoring of the arrangement and will be a requirement of the DDA.

APPENDIX 3

INVESTMENT STRATEGY STATEMENT JANUARY 2023

Introduction
Cardiff Council ('the Council') is the administering authority for the Cardiff & Vale of Glamorgan Pension Fund ('the Fund')

The Local Government Pension Scheme (Management & Investment of Funds) Regulations 2016 ("the Investment Regulations") require administering authorities to formulate and publish an investment strategy.

The Investment Strategy Statement (ISS) required by Regulation 7 of the Regulations must include:
(a) A requirement to invest money in a wide variety of investments;
(b) The authority's assessment of the suitability of particular investments and types of investments;
(c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
(d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
(e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
(f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The ISS must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.

The ISS must comply with guidance issued from time to time by the Secretary of State, currently the guidance issued in July 2017.

The Terms of Reference of Cardiff Council's Pensions Committee ('the Committee') include determining the authority's investment strategy. This statement sets out the strategy for the 2023-24 and subsequent two financial years and has been prepared in consultation with the Fund's Investment Advisory Panel ('the Panel'). This timescale will align with the Fund's tri-annual valuations and the Funding Strategy Statement (FSS). The ISS will be supplemented by the Fund's Strategic Asset Allocation which will be approved by the Pension Committee on an annual basis.

A) Investment of money in a wide variety of investments
A properly diversified portfolio of assets should include a range of asset classes to help reduce overall portfolio risk. If a single investment class is not performing well, performance should be balanced by other investments which are doing better at that time. A diversified portfolio also helps reduce volatility.

The Committee aims to meet the requirement for a diversified portfolio by reviewing its Strategic Asset Allocation on an annual basis. The Asset Allocation is approved by the Committee on the advice of the Panel. The Panel considers a wide range of investment opportunities before making its recommendations.

Current asset classes included in the allocation are:
- Conventional & Index Linked Fixed Interest – Global
- Equities – Global, UK & Emerging Markets
- Private Equity (via pooled funds of funds)
- Property funds – UK & Global
- Private Markets – Private Credit and Infrastructure (Investments expected to be made early in 2023)

The following investment related activities are also permitted:
- Derivatives and other financial instruments within pre-agreed limits for the purpose of efficient portfolio management or for specific purposes such as currency hedging
- Underwriting, provided the underlying stock is suitable on investment grounds and complies with existing investment criteria

The Asset Allocation targets and variance limits currently in force together with the portfolio benchmarks and targets are summarised in Appendix A.

Investment Limits

The Investment Regulations in force between 2009 and 2016 set statutory limits for different types of investments. The 2016 Investment Regulations removed these limits but the Fund will continue to operate within the limits in column 2 of Schedule 1 to the 2009 Regulations in respect of any assets not yet transitioned to the Wales Pensions Partnership.

B) Suitability of particular investments and types of investments

The investment policy of the Fund is intended to ensure that all statutory payments made from the Fund are at minimal cost to employing bodies.

The overall investment objective is to maximise investment returns and to minimise or at least stabilise future employer contributions over the long term within an acceptable level of risk. Investment returns are defined as the overall rates of return (capital growth and income combined). It is also recognised that investments are intended to preserve and enhance the Fund's value.

The statutory requirement is to move towards 100% funding of the Fund's accrued liabilities over a period of time. This period together with the funding level is calculated every three years and agreed with the Actuary following a review that assesses the adequacy of the Fund's assets to meet its liabilities. The Panel takes the actuarial position and funding level into account in formulating its advice. The Panel will regularly review the overall asset allocation and consider appropriate opportunities for a further asset-liability study as was the case with the upcoming WPP Private Credit and Infrastructure investments.

C) Risk

A detailed schedule of the main risks to the Fund is set out in the Funding Strategy Statement. Risks arising from investments are monitored by the Investment Advisory Panel. The Fund recognises the risks arising from holding a higher proportion of equities and other return seeking assets than would be held under a liability-driven strategy but considers that these risks are mitigated by the strong covenant of the Fund's principal employers and the stable maturity profile of its membership.

Investment Risk is the risk that the Fund's managers fail to achieve the rate of investment return assumed in setting their mandates. The primary control over investment risk is the diversification of assets across markets and asset classes. Correlations amongst these will vary over time, but the underlying risk of exposure to a specific capital market is mitigated to some extent by a diversifying strategy such as that followed by the Fund.

The individual specialist fund managers manage the risk of variation from benchmarks consistent with the targets they have been given. Relative risk levels for active managers are reported quarterly and discussed annually by the Panel. The Panel recognises that tracking error itself can be a volatile measure of the risks being taken by a manager and that ex post statistics may vary considerably from ex ante estimates. As such, its predictive value needs to be treated with care. The tracking error is therefore used as a guide when considering overall manager performance.

Liquidity Risk is the risk that the Fund cannot meet its immediate liabilities because it has insufficient assets. The Fund monitors its liquidity position carefully to ensure that it is not a seller of long term assets to make benefit payments. At least 80% of the Fund's assets are held in publicly listed equities and bonds which can be readily realised. Investments in property and private equity are long term investments which the Fund is less likely to be able to realise in a short period.
Operational risks arise through the implementation of the Fund's investment strategy. These risks are set out below:

- Transition risk – the Fund may incur

unexpected costs in relation to the transition of assets between managers and/or asset classes. When carrying out significant transitions, the fund takes professional advice and considers the use of specialist transition managers in order to mitigate this risk when it is cost effective to do so.

- Custody risk – the Fund must ensure that it retains the economic rights to all Fund assets, when held in custody or being traded. It does this through the use of a global custodian (Northern Trust) for custody of assets, the use of formal contractual arrangements for all investments and by maintaining independent investment accounting records.
- Credit default risk – a counterparty related to a Fund investment could fail to meet its obligations. The Fund's investment managers are required under their asset management contracts to manage counterparty risk on behalf of the Fund.

D) Pooling of Investments

The Cardiff & Vale of Glamorgan Pension Fund is one of the eight LGPS funds participating in the Wales Pension Partnership (WPP). The proposed structure and basis on which the WPP operates was set out in the July 2016 submission to the Department for Communities and Local Government.

Assets to be invested in the WPP

The Committee's intention is to invest the Fund's assets through the WPP as and when suitable pooled investment solutions become available. By 30 September 2022 this Fund had invested in the following WPP Active Equity and fixed Income Funds :-

Asset Class	Fund	Date of Investment
UK Equity	UK Opportunities Fund	February 2019
Fixed Income	Global Government Bonds	August 2020
Fixed Income	Global Credit	August 2020
Fixed Income	Multi Asset Credit	August 2020
Global Equity	Global Opportunities Fund	July 2021
Global Equity	Global Growth Fund	July 2021
Emerging Market Equity	Emerging Market Equity Fund	October 2021

The Fund's allocation to passive Equities have been invested through pooled funds managed by BlackRock following a collaborative procurement carried out in 2016 with the other LGPS funds in Wales. As at 30 September 2022 the Fund's passive equity holding is solely invested in the BlackRock Low Carbon Tracker Fund.

As at 30 September 2022 over 84% of the Fund's value is now invested in WPP or collaboratively procured funds.

The Pension Committee has also approved investment of up to 7.5% of Fund value into each of the WPP Private Credit and Open-ended Infrastructure Funds. These investments are expected to commence early into 2023.

A WPP Private Equity Fund is targeted to be launched during 2023. It is anticipated that the Fund's existing private equity investments will not be transitioned into the Pool but will be replaced by the WPP Fund as they mature over the next 10-15 years. Work on developing a WPP Property Fund will continue in 2023. At this stage no decision has been made on whether the Fund will transition its Property assets to any WPP Property Fund but this will be considered during the lifecycle of this Statement.

Structure and governance of the Wales Pension Partnership

The WPP has appointed Link Fund Solutions to establish and operate a collective investment vehicle for the sole use of the LGPS funds in Wales. Link have established an Authorised Contractual Scheme (ACS) on behalf of the WPP and have developed a range of sub-funds in which the assets of the eight participating pension funds have been invested. Link are supported by Russell Investments who advise on sub-fund design and manager selection. Northern Trust have been appointed as the ACS Custodian.

A Joint Governance Committee (JGC) was established which comprises one elected member from each constituent administering authority and is supported by an Officer Working Group. Carmarthenshire Council acts as Host Authority to provide administrative and secretarial support to the WPP.

The Terms of Reference of the JGC and the roles of the Officer Working Group and Host Authority have been set out in a legally binding Inter Authority Agreement approved and executed by the eight administering authorities. The responsibilities of the JGC include:

- Monitoring the performance of the Pool Operator
- Making decisions on asset class sub-funds to be made available by the Operator to implement the individual investment strategies of the eight funds
- Providing accountability to the participating funds on the management of the WPP
- Having responsibility for reporting on the WPP to the UK Government and other stakeholders
- Having oversight of the Officer Working Group

The eight administering authorities retain control over setting their individual Fund's investment strategy and asset allocation.

E) How Environmental, Social and Governance (ESG) considerations are taken into account

The Committee seeks to identify investment opportunities which do not conflict with its fiduciary duties to seek an optimum return, whilst wishing at the same time to take account of Environmental, Social and Governance (ESG) concerns and issues. It recognises the concerns of the Fund Employers and other stakeholders regarding these ESG issues, which to date have focused in particular on climate change. As it has done over the previous three years, the Fund will continue to develop its investment strategy in response to those ESG concerns which are expected to see an increased focus on the "S" and "G" considerations for example an engagement theme for Robeco (the WPP Voting & Engagement Advisor) for 2023 is Forced Labour and Modern Slavery. Subject to being consistent with its fiduciary duties and regular assessments by the Panel of the impact of investment decisions, the Committee will consider enhancing its Responsible Investment activities. This will respond to the future opportunities that are presented to the Fund, in particular through the WPP, which could include :

- Investing in the Sustainable Active Equity Fund which is expected to be launched by the WPP towards the end of Q1 2023.
- Considering whether the Fund should set its own "Net Zero" target and if it does the timeframe in which it will meet this target.?
- The majority of the Fund's assets are now pooled in WPP Funds and as the WPP is currently a signatory to the UK Stewardship code are there any benefits from the Fund also becoming a signatory to the Stewardship code that would justify the additional costs involved in this process ?
- Continued engagement with investment managers and companies through WPP and LAPFF with the ultimate sanction of disinvestment from companies representing a continuing ESG risk who do not respond positively to engagement.
- Positive investment in companies developing clean technology for example through the WPP Infrastructure Funds to be launched early in 2023.

The Committee will expect the investment managers appointed via the WPP to adopt the relevant stewardship principles (either the UN Principles for Responsible Investing or the UK Stewardship Code) and to report on their compliance.

The Fund is a member of the Local Authorities Pension Fund Forum (LAPFF) to enable it to act collectively with other LGPS funds on corporate governance issues.

Consultation on Taskforce for Climate Related Financial Disclosures (TCFD) proposals for LGPS Funds closed in November 2022. Regulations are expected to come into effect from April 2023 with the first Fund Annual Report to include these disclosures, for 2023/24, being published by 1 December 2024.

F) The exercise of rights (including voting rights) attaching to investments

The long term investment interests of LGPS funds are enhanced by the highest standards of corporate governance and corporate responsibility amongst the companies in which they invest. Poor governance can negatively impact shareholder value.

The Fund will participate in the development of voting and engagement policies for the WPP, through Robeco the WPP's Engagement and Voting advisor, which promote high standards of corporate governance, including transparency and accountability by companies for the ESG impacts of their business activities.

APPENDIX 4

COMMUNICATIONS POLICY STATEMENT

Introduction

The Cardiff and Vale of Glamorgan Pension Fund strives to provide a high quality and consistent service to our customers in the most efficient and effective way possible, in this ever-changing pension environment.

This Policy Document has been prepared and published, by Cardiff Council as Administering Authority of the Cardiff and Vale of Glamorgan Pension Fund. This Policy document has been written in compliance with regulation 61 of the Local Government Pension Regulations 2013 (the LGPS Regulations).

The Objectives of the Fund's Communication Strategy are to enhance transparency and accountability with scheme by :

- improving awareness and appreciation of the benefits provided by the pension scheme
- encouraging take up of the scheme amongst new and existing employees
- answering all LGPS member pension entitlement questions promptly
- developing the partnership between the Pension Fund's administration team and the employing bodies
- liaising with a range of other groups who have an interest in the scheme

Within the pension fund there are five groups of members with whom the Fund needs to communicate with:

1. Scheme Members
2. Prospective Scheme Members
3. Scheme Employers
4. Representatives of Members
5. Other Bodies

This Policy document sets out how we plan to communication with all five groups.

The Cardiff and Vale Pension Fund aims to use the most appropriate channel of communication for the audience receiving the information. In some circumstances this may mean using more than one channel.

SCHEME MEMBERS

Scheme members include:

- ➢ Active members- currently contributing into the Fund
- ➢ Deferred members- benefits in scheme but not contributing
- ➢ Pensioners- receiving a pension

Fund Website

The Fund has developed an extensive website which sets out Scheme rules and regulations in a simple and easy to read format. Information updates and news items are quickly added to notify members of any Scheme changes. Electronic copies of the Fund's leaflets, forms, booklets, policy documents and reports are also readily available. The Fund's Annual Report and Accounts are available, plus all key governance documents.

Annual Report and Accounts

An electronic copy of the Fund's Annual Report and Accounts is available to all Scheme members on the website. Hard copies are also available on request.

Newsletter

The Fund will issue a newsletter to active Scheme members of the Fund on an ad hoc basis, which will cover current pension topics within the Local Government Pension Scheme and wider pensions industry.

We send an annual newsletter to all pensioners every April, giving them details of their annual pension increase, the payment dates for the new financial year, plus any other relevant pension information.

Annual Benefits Statement

Annual Benefits Statements are sent to all Active members' home addresses showing them the current value of their pension as at 31 March. Plus, a projection figure to Normal Pension Age (NPA) and current value of death benefit.

We also send Annual Benefit Statements to our deferred members' which gives them the current value of their pension at every April (the date the pension was last increased in line with the appropriate cost of living index).

Supplementary notes are provide with both Annual benefits Statements and Notes for Guidance are published on our website for additional support.

Scheme Literature

Cardiff and Vale of Glamorgan Pension Fund produce an extensive range of Scheme literature, which are available to all Employers and Scheme Members in both English and Welsh. All literature is updated regularly, to keep up to date with regulation changes and available on the Pension Fund's website.

Pension Increase Statements
Annual Pension Increase statements are sent to all pensioners informing them of the percentage rate their pension will increase, and also the new pension payment for the new financial year.

Retirement Figures
Deferred members contact us 6 weeks before their retirement date and retirement figures are sent to their home address.

Statutory Notifications
In Compliance with Scheme Regulations, members are notified when any change occurs to their pension record which will affect their pension benefits.

Correspondence
The Fund uses both surface mail and email to receive and send correspondence. Response will be sent in the individuals preferred language of choice.

Payment Advice/P60
All Pensioners are issued with payment advice pay slips every April (together with their Pension Increase newsletter). Payslips are only sent throughout the year if their net pension changes by £10 or more.

P60 notifications are sent out annually (usually in April or May) and provide members with a breakdown of the payments they have received over the last complete financial year.

PROSPECTIVE SCHEME MEMBERS

Scheme Leaflet
All prospective Scheme members are provided with a Scheme brochure, which explains the benefits of joining the LGPS. This brochure is sent by the Human Resources Team when their employment contract is sent to new employees.

Pension Website
The Fund's website has a dedicated section for non-members, where it highlights the benefits of the Scheme and the importance of planning for retirement. Giving all non-members the information, they need to make an informed decision.

SCHEME EMPLOYERS

The Fund communicates with its participating employers in several ways to help them meet their responsibilities as Scheme Employers.

Annual Employer Forum
We hold an Employer Forum meeting every year for all Scheme Employers, where Fund Managers discuss:

- Detailed investment update
- Financial and administrative reports
- Any relevant procedural/legislative changes
- Triennial valuation
- Guest speakers who will be able to upskill our Employers

The Communications and Training Officer will make periodic visits to the Employers address to discuss issues as and when they arise.

All Employers need to supply pay and contribution data to the pension scheme, within deadlines and in the format specified by the Pensions Team.

All employers within the Scheme, and their Human Resources functions, play a key role in informing the pension team of the new starters, leavers, retirements etc. Employers are also responsible for providing information on the pension scheme to their employees.

Annual Report and Accounts
The audited accounts of the Cardiff and Vale of Glamorgan Pension Fund are prepared as at 31

March each year. A copy of the Fund's Annual Report, which includes the accounts, is posted on the Fund website.

Pension Administration Strategy
The Administration Strategy defines the responsibilities of both the Fund and all Scheme employers in the administration of the Scheme.

The Strategy sets out the level of performance expected from the Cardiff and Vale Pension Fund and all employers, as well as the consequence of not meeting statutory deadline.

Website
The Fund website has a dedicated employer area to provide employers with the guidance needed to effectively discharge their administrative responsibilities and will include updates and forms which can be downloaded.

Updates
Regulatory and administrative updates are frequently issued to all employers by email.

Training
Bespoke training sessions can be delivered on request by the dedicated Communication & Training Officer to resolve any administrative issues identified by the employer.

Pension Board
The Fund's Local Pension Board was established on 1st April 2015. The Board includes three Employer member representatives who participate in the Board's role of assisting the Scheme Manager as well as an independent Chair and three Scheme Member representatives. Each Board member has received appropriate induction and training and will be kept up to date with national and local developments in the LGPS. The names and contact details of the Employer member representatives are available on the Cardiff and Vale Pension Fund website.

MEMBER REPRESENTATIVES

Trade Unions
Trade Unions in South Wales are valuable ambassadors for the Pension Scheme. They deliver details of the Local Government Pension Scheme's to their members by local representative. They also assist in negotiation under TUPE transfers to ensure, whenever possible, continued access to the Local Government Pension Scheme.

A Trade Union Forum is held annually. Representatives of the local trade union branches receive presentations on the Fund's Annual Report, the performance of its investments and other current issues.

Pension Board
The Fund's Local Pension Board was established on 1st April 2015. In addition to the three Employer member representatives outlined above and an independent Chair, the Board also includes three scheme member representatives who participate in the Board's role of assisting the Scheme Manager. Each Board member has received appropriate induction and training and will be kept up to date with national and local developments in the LGPS. The names and contact details of the scheme member representatives are available on the Cardiff and Vale Pension Fund website.

OTHER BODIES

The Pensions Administration Team are also actively involved with other various groups who have an interest in the LGPS.

Department for Levelling Up, Housing and Communities
This Government Department are responsible for amending the Scheme regulations following consultation with all local authorities, and some employers. The Fund takes part in these exercises as and when necessary.

We also have involvement with the Local Government Association (LGA) and National Association of Pension Funds (NAPF). The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF).

All Wales Pensions Officer's Group
Pension Officers from all the Welsh administering authorities meet regularly to discuss and share information. This ensures uniform interpretation of the LGPS and other prevailing regulations.

Wales Pension Partnership (WPP)
Since the proposals for a Wales Investment Pool were approved by the Minister for Local Government in November 2016 this Fund has worked closely with the other Welsh Local government Pension Funds to develop specific partnership investment arrangements. A number of sub-funds have been launched since the inception of the WPP and work continues in developing other shared investment opportunities, particularly for alternative investments. The development of the WPP has allowed the Funds to develop consistent communications across areas such as Responsible Investment and Voting and Engagement policies.

Seminars
Fund Officers regularly participate at seminars and conferences held by LGPS related bodies.

GENERAL INFORMATION

Data Protection
To protect any personal information held on computer, the Cardiff and Vale of Glamorgan Pension Fund, is registered under the Data Protection Act 2018. This allows members to check that their details held are accurate. The Fund's Privacy Notices are published on the Pension Fund website.

National Fraud Initiative
The Authority are under a duty to protect the public funds it administers and may use information for the prevention and detection of fraud.

General
Whilst this Policy Statement outlines the communication approaches adopted by the Cardiff and Vale of Glamorgan Pension Fund there are roles and responsibilities which fall on Scheme members, perspective scheme members and participating Scheme employers in ensuring that information necessary to maintain an accurate membership base is provided in a timely manner.

Policy Review
This statement will be revised if these are any material changes in Cardiff and Vale of Glamorgan Pension Fund's Communication Policy but will be reviewed on an annual basis.

How to get in contact with us
If you have a question or would like some more information about The Cardiff and Vale of Glamorgan Pension Fund please contact us.

By email: pensions@cardiff.gov.uk

By phone: 029 2087 2334
open Monday to Thursday
from 8.30am to 5pm,
and Friday 8.30am to 4.30pm

By Post: Pensions Team
Room 345
County Hall
Atlantic Wharf
Cardiff
CF10 4UW

APPENDIX 5

GOVERNANCE COMPLIANCE STATEMENT

This Statement has been prepared and published by the City of Cardiff Council as Administering Authority of the Cardiff & Vale of Glamorgan Pension Fund, in compliance with regulation 55 of the Local Government Pension Scheme Regulations 2013 (as amended) (the "LGPS Regulations").

Delegation of Functions

City of Cardiff Council has established a Pensions Committee to discharge its functions under the LGPS Regulations and has delegated operational management of the Pension Fund to the Corporate Director Resources. The relevant sections in the Council's Constitution are:

Terms of Reference for Committees:

Pensions Committee

To discharge the functions of the authority as Administering Authority of the Cardiff & Vale of Glamorgan Pension Fund ('the Fund') as described in the Local Government Pension Scheme (LGPS) Regulations made under the Superannuation Act 1972 (sections 7,12 or 24) and Section 18(3A) of the Local Government and Housing Act 1989; and

To discharge the following specific strategic functions with regards to the Fund, taking account of advice from the Corporate Director Resources and the Fund's professional advisers:-

a) Determining the Fund's aims and objectives, strategies, statutory compliance statements, policies and procedures for the overall management of the Fund, including in relation to the following areas:
    i) Governance – approving the Governance Policy and Compliance Statement for the Fund;
    ii) Funding Strategy – approving the Fund's Funding Strategy Statement including ongoing monitoring and management of the liabilities, giving due consideration to the results and impact of the triennial actuarial valuation and interim reports;
    iii) Investment strategy- approving the Fund's investment strategy, Statement of Investment Principles and Myners Compliance Statement including setting investment targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite;
    iv) Communications Strategy – approving the Fund's Communication Strategy;
    v) Discretions – determining how the various administering authority discretions are operated for the Fund; and
    vi) Internal Dispute Resolution Procedure – determining how the Scheme Member disputes are administered.

b) Monitoring the implementation of these policies and strategies as outlined in a) above on an ongoing basis.

c) Considering the Fund's financial statements as part of the approval process and agreeing the Fund's Annual Report. Receive internal and external audit reports on the same.

d) Receiving ongoing reports from the Corporate Director Resources in relation to the delegated operational functions.

e) To provide independent assurance to members of the Fund of the adequacy of the risk management and associated control environment, responsible for the Fund's financial and non-financial performance.

f) To adhere to the principles set out in the Pensions Regulator Code of Practice and undertake its duties in compliance with the obligations imposed on it.

g) To receive regular training to enable Committee Members to make effective decisions and be fully aware of their statutory and fiduciary responsibilities and their stewardship role.

h) Consider any pension compliance matters raised by the Fund's Local Pension Board.

i) All Members of the Committee will be required to undertake relevant training to enable them to properly discharge their duties.

Local Pension Board

The terms of reference of the Local Pension Board have now been added to the Council's Constitution and are as follows :-

To assist Cardiff Council as Scheme Manager and Administering Authority to:

(i) secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the scheme;

(ii) secure compliance with any requirements imposed by the Pensions Regulator in relation to the LGPS; and

(iii) ensure the effective and efficient governance and administration of the scheme (pursuant to sections 5(1) and (2) of the Public Services Pensions Act 2013 and regulation 106(1) of the LGPS Regulations

Specific Delegations to Statutory Officers:

FS28

In accordance with any policy or strategy decided by the Pensions Committee to approve decisions relating to the operational management of the pension fund and the administration of pension benefits.

The administration of the Pension Fund is carried out by the Pensions Section based in County Hall. All significant decisions e.g. the exercise of discretions granted to the administering authority under the LGPS regulations, are made and recorded in accordance with the Council's scheme for delegated decision making. As part of the Resources Directorate, the Section is subject to the Council's policies, procedures and internal controls.

The Pension Committee and Corporate Director Resources are advised on investment matters by an Investment Advisory Panel. The role of the panel is detailed in the Fund's Investment Strategy Statement (ISS).

The panel comprises:

- Corporate Director Resources
- Three elected members of City of Cardiff Council
- One elected member of Vale of Glamorgan Council (observer status)
- Two independent advisers

The panel normally meets four times a year to review the performance of the Fund's investments and to advise on investment strategy. The panel also considers other aspects of the administration of the LGPS which may have implications for investments e.g. the triennial actuarial valuation. The panel receives presentations from each active investment manager annually and also interviews shortlisted managers when new mandates are awarded.

An Employers' Forum is held annually to which all contributing employers of the Fund are invited.

The Forum considers the Fund's Annual Report and Accounts and receives presentations on matters such as changes in regulations and actuarial valuations.

A Trade Union Forum is also held annually and considers similar issues with trade union representatives of the main employers.

Compliance with Statutory Guidance

Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/ Partial	Reason for non-Compliance (if applicable)
Principle A – Structure			
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	The Committee's Terms of Reference and Officer Delegations are clearly set out in the Council's Constitution	Yes	
That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	The two main employers are represented on the Investment Advisory Panel (the Panel). Other employers are represented on the Local Pension Board and attend the annual Employers' Forum Scheme members are not represented on the Committee or Panel but are represented on the Local Pension Board and attend the Trade Union Forum. The Joint Governance Committee (JGC) of the Wales Pension Partnership (WPP) now includes a non-voting Scheme Member	Partial	Pension Board (Secondary Committee) has representatives from Employers and Scheme Members but not pensioner or deferred members
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Yes Minutes from meetings of both the Panel and the Local Pension Board are agenda items for the Pension Committee.	Yes	
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	No – the Committee is a committee of the administering authority.		

Principle B – Representation			
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. *These include :-* *i) employing authorities (including non-scheme employers, eg, admitted bodies);* *ii) scheme members (including deferred and pensioner scheme members);* *iii) independent professional observers; and* *iv) expert advisors (on an ad-hoc basis).*	The Committee is a committee of the administering authority. The two unitary authorities employ over 85% of active members and are represented on the Panel. Other employers are not currently represented Scheme members are not currently represented Two independent advisors attend every Panel meeting	Partial	Pension Board (Secondary Committee) has representatives from Employers and Scheme Members but not pensioner or deferred members
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	All Committee and Panel members have the same access to papers and training opportunities.	Yes	
Principle C - Selection and Role of Lay Members			
That Committee, Board or Panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	The functions of the Committee are set out in the Council's Constitution. The role of the Investment Advisory Panel is clearly set out in the SIP and other key documents	Yes	

Principle D – Voting			
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees	Voting Rights for this Fund are largely exercised through the WPP, in line with the other Welsh LGPS Funds. The WPP has appointed Robeco as its voting and engagement advisor and WPP receives updates on voting and engagement activity from Robeco. The WPP undertakes regular reviews of it's voting policy.	Partial	As a consequence of concentration of investments in WPP Funds voting is not exercised via the Fund.
Principle E - Training/Facility Time/Expenses			
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Committee and Panel members are advised of training opportunities.	Yes	
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	Yes	
Principle F - Meetings (frequency/quorum)			
That an administering authority's main committee or committees meet at least quarterly.	The Committee meets at least quarterly.	Yes	
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	The Investment Advisory Panel and Pension Board meets quarterly in advance of Pension Committee dates. One of the Board meetings is a joint meeting with the Committee	Yes	
That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Employers' Forum, incl. Trade Unions, is held annually	Yes	

Principle G - Access			
That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Papers are circulated to all Committee, Board and Panel members in advance of meetings. The target is to circulate papers for all three meetings 3 working days in advance of the meeting.	Yes	
Principle H - Scope			
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangement	The Committee's role is to consider all strategic issues. The Investment Advisory Panel considers all issues relevant to investment matters whilst the Board has a focus on pension administration issues. Wider issues are also discussed at the Employers' Forum.	Yes	
Principle I - Publicity			
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	All governance documents for the Pension Committee are published on the Council's website. The Fund website includes a number of key governance documents including the Annual Report and the Administration Strategy.	Yes	

Local Pension Board
Further information on the Local Pension Board, including the Board's Terms of Reference have been published on the Fund's website:
Pensions Committee and Board- Cardiff and Vale Pension Fund

Wales Pension Partnership (WPP)
Details of the governance arrangements for the WPP can be found on the WPP website:
Wales Pension Fund | Governance (walespensionpartnership.org)

CHRISTOPHER LEE
CORPORATE DIRECTOR RESOURCES
February 2023

GLOSSARY

Knowledge of basic accountancy terminology is assumed. However, there are certain specialist terms related to local government finance, which are described below:

Accruals Basis
The accruals principle is that income is recorded when it is earned rather than when it is received, and expenses are recorded when goods or services are received rather than when the payment is made.

Active / Passive Management
Active management is the traditional form of investment management involving a series of individual investment decisions that seek to maximise returns by exploiting price inefficiencies i.e. 'beat the market'.

Passive management is a low cost alternative where managers normally hold stocks in line with a published index, such as the FTSE All-Share, not seeking to outperform but to keep pace with the index being tracked.

Actuary
An independent consultant who advises on the long-term viability of the Fund. Every three years the Fund actuaries review the assets and liabilities of the Fund and report to the Council on the financial position and recommended employer contribution rates. This is known as the actuarial valuation.

Actuarial Gains and Losses
For a defined benefit pensions scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation, or the actuarial assumptions have changed.

Active Member
Current employee who is contributing to a pension scheme.

Admitted Body
An organisation, whose staff can become members of the Fund by virtue of an admission agreement made between the Council and the organisation. It enables contractors who take on the Council's services with employees transferring, to offer those staff continued membership of the Fund.

Asset Allocation
Apportionment of investment funds among categories of assets, such as Bonds, Equities, Cash, Property, Derivatives, and Private Equity. Asset allocation affects both risk and return.

Benchmark
A measure against which the investment policy or performance of an investment manager can be compared.

Bonds
Investments, mainly in government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange in the meantime.

Cash and Cash Equivalents
Sums of money available for immediate use and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

Chartered Institute of Public Finance & Accountancy (CIPFA)
CIPFA is the leading professional accountancy body which determines accounting standards and reporting standards to be followed by Local Government.

Contingent Liabilities or Assets
These are amounts potentially due to or from individuals or organisations which may arise in the future but which at this time cannot be determined accurately, and for which provision has not been made in the Council's accounts.

Creditors
Amounts owed by the Council for work done, goods received or services rendered, for which payment has not been made at the date of the balance sheet.

Custodian
Bank or other financial institution that keeps custody of stock certificates and other assets of a client, collects dividends and tax refunds due, and settles any purchases and sales.

Debtors
These are sums of money due to the Council that have not been received at the date of the Balance Sheet.

Deferred Member
A member who has stopped paying into the scheme but is not yet retired.

Defined Benefit Scheme (Pensions)
This is a pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

Defined Contribution Scheme (Pensions)
A Defined Contribution Scheme is a pension or other retirement benefit scheme into which an employer pays regular contributions as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Derivative
A derivative instrument is a contract whose value is based on the performance of an underlying financial asset, index, or other investment.

Emerging Markets
Relatively new and immature stock markets for equities or bonds. Settlement and liquidity can be less reliable than in the more established 'developed' markets, and they tend to be more volatile.

Employer Contribution Rates
The percentage of the salary of employees that employers pay as a contribution towards the employees' pension.

Equities
Ordinary shares in UK and overseas companies traded on a recognised stock exchange. Shareholders have an interest in the profits of the company and may normally vote at shareholders' meetings.

Fair Value
Fair Value is the price that would be received to sell and asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial Assets
Financial assets are cash, equity instruments within another entity (e.g. shares) or a contractual right to receive cash or another asset from another entity (e.g. debtors) or exchange financial assets or financial liabilities under potentially favourable conditions (e.g. derivatives).

Financial Instruments
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term 'financial instrument' covers both financial assets and financial liabilities and includes both the most straightforward financial assets and liabilities such as trade receivables and trade payables and the most complex ones such as derivatives and embedded derivatives.

Financial Liabilities
Financial assets are contractual obligations to deliver cash or another financial asset (e.g. creditors) or exchange financial assets or financial liabilities under potentially unfavourable conditions (e.g. derivatives).

Fixed Interest Securities/Bonds
Investments, especially in government stocks, with a guaranteed rate of interest. Conventional bonds have fixed rates, whilst Index Linked vary with inflation. They represent loans repayable at a stated future date, and which can be traded on a stock exchange in the meantime.

Fund Manager
A fund that handles investments on behalf of the pension fund according to an agreed investment mandate.

Fund of Funds
A pooled fund that invests in other pooled funds. They are able to move money between the best funds in the industry, and thereby aim to lower stakeholder risk with greater diversification than is offered by a single fund.

Funding Strategy Statement (FSS)
The FSS is a document that addresses the issue of the primary responsibility of the Fund to ensure the fund has sufficient assets to ensure it liabilities to pay pension benefits can be made. It will aim to ensure the solvency and long term cost efficiency of the Fund by taking a prudent longer-term view of how it funds its liabilities to pay future benefits. The Administering Authority will prepare, maintain and publish the FSS after acting on professional advice provided by the Fund Actuary.

Impairment
A reduction in the value of assets below its value brought forward in the Balance Sheet. Examples of factors which may cause such a reduction in value include general price decreases, a significant decline in an asset's market value.

Index
A calculation of the average price of shares, bonds, or other assets in a specified market to provide an indication of the average performance and general trends in the market.

Investment Strategy Statement (ISS)
The Investment Strategy Statement which each LGPS fund is required to prepare and keep under review.

Liabilities
These are amounts due to individuals or organisations which will have to be paid at some

time in the future. Current liabilities are usually payable within one year of the Balance Sheet date.

Local Government Pension Scheme (LGPS)
The Local Government Pension Scheme, governed by regulations issued by the Department for Communities and Local Government.

Materiality
Information is material if omitting it or misstating it could influence the decisions that users make on the basis of financial information about a specific reporting authority.

Pension Fund
A fund built up from deductions from employees' pay, contributions from employers and investment income from which pension benefits are paid.

Pensioner
A scheme member who received a pension from the Fund.

Pooled Funds
Pooled investment vehicles issue units to a range of investors. Unit's prices move in response to changes in the value of the underlying portfolio, and investors do not own directly the assets in the fund. The main types are: unit trusts, open-ended investment companies (OEICs), insurance linked vehicles and investment trusts.

Portfolio
A collective term for all the investments held in a fund, market or sector. A segregated portfolio is a portfolio of investments of a specific type held directly in the name of the investor e.g. Global Bonds, or a specific market e.g. UK Equities, Far East Equities.

Prior Period Adjustments
These are material adjustments which are applicable to an earlier period arising from changes in accounting policies or for the correction of fundamental errors.

Private Equity
Investments made by specialist managers in all types of unlisted companies rather than through publicly tradable shares.

Provisions
Amounts set aside in respect of liabilities or losses which are likely or certain to be incurred, but in relation to which the exact amount and date of settlement may be uncertain.

Related Parties
Related parties are Central Government, other local authorities, precepting and levying bodies, subsidiary and associated companies, Elected Members, all senior officers from Director and above. For individuals identified as related parties, the following are also presumed to be related parties:

- members of the close family, or the same household; and
- partnerships, companies, trusts or other entities in which the individual, or member of their close family or the same household, has a controlling interest.

Return
The total gain from holding an investment, including both income and any increase or decrease in market value. Returns over periods longer than a year are usually expressed as an average annual return.

Scheme Employers
Local authorities and bodies specified in the LGPS Regulations, whose employees are entitled automatically to be members of the Fund, and Admission Bodies including voluntary, charitable and similar bodies, carrying out work of a public nature, whose staff can become members of the Fund by virtue of an admission agreement with the Council.

Scheduled Body

An organisation that has the right to become a member the Local Government Pension Scheme under the scheme regulations. Such an organisation does not need to be admitted, as its right to membership is automatic.

Unit Trust

A collective investment fund that is priced, bought and sold in units that represent a mixture of the securities underlying the fund.

Unrealised Gains / Losses

The increase or decrease in the market value of investments held by the fund since the date of their purchase. Note: values throughout these accounts are presented rounded to whole numbers. Totals in supporting tables and notes may not appear to cast, cross-cast, or exactly match to the core statements or other tables due to rounding differences.

FURTHER INFORMATION

Information about the Fund is available on the Fund's website:
https://www.cardiffandvalepensionfund.org.uk/

Further information regarding the scheme can also be found on the LGPS website (https://lgpsmember.org/). Any significant changes to the scheme are communicated to members by newsletter.

A statement of each individual's benefits is currently provided automatically on retirement. Annual benefit statements are sent to all active and deferred Fund members based on the benefits accrued to 31 March each year.

Copies of this report are sent to all employers and recognised Trade Unions, and are available to all interested parties on request. Copies of the rules currently governing local government pension funds may also be inspected on request.

Further information on the Pension Fund or any pension matters may be obtained from:
Pensions Team
Room 345
County Hall
Atlantic Wharf
Cardiff
CF10 4UW

Telephone: **029 2087 2311**
E-mail: enquiries should be sent to: **Pensions@cardiff.gov.uk**

Email enquiries should be directed as follows:

Scheme Management and Investment Pensions		
Marc Falconer	Pensions Manager	M.Falconer@cardiff.gov.uk
Scheme Management and Investment Pensions		
Karen O'Donoghue-Harris	Principal Pensions Officer	KODonoghue-Harris@cardiff.gov.uk
Ligia Barros	Senior Pensions Officer	Ligia.Barros@cardiff.gov.uk
Amanda Delgado	Senior Pensions Officer	ADelgado@cardiff.gov.uk
Jayne Newton	Communications & Training Officer	Jayne.Newton@cardiff.gov.uk
Hywel Tutton	Senior Technical Officer	Hywel.Tutton@cardiff.gov.uk
Fund Accounting		
Sian Payne	Accountant	SiPayne@Cardiff.gov.uk

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CARDIFF COUNCIL
CYNGOR CAERDYDD

PENSIONS COMMITTEE : 27 NOVEMBER 2023

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 5

WALES PENSION PARTNERSHIP AND INVESTMENT UPDATE

Reason for this Report

1) The Pension Committee Terms of Reference set out the Committee's responsibility for the strategic governance of the Cardiff & Vale of Glamorgan Pension Fund.

2) This report has been prepared to update the Committee on progress towards the establishment of pooled investment arrangements for the eight LGPS funds in Wales under the oversight of the Wales Pensions Partnership. In addition brief updates on the current investments of the Fund and the Actuarial valuation as at 31 March 2022 will be provided.

Background

3) The Committee and Board has received regular updates on the development of the Wales Pension Partnership by the eight LGPS administering authorities in Wales. The proposals for a Wales Investment Pool were approved by the Minister for Local Government in November 2016.

4) A Joint Governance Committee (JGC) has been established by the eight administering authorities to provide oversight of the Pool. The JGC is supported by the Officer Working Group (OWG) comprising the Treasurers (Section 151 Officers) and Investment Officers of the eight funds. Link Fund Solutions have been appointed as the Pool Operator and Russell Investments will provide consultative services including advice on fund design and manager selection. Carmarthenshire Council have been approved as the Host Authority, providing administrative support to the WPP. Hymans Robertson were appointed, in January 2020, as Oversight Advisors to support the WPP in managing its relationship with Link and Russell Investments as well as providing advice on governance and strategic investment strategy. Robeco have been appointed Engagement and Voting Advisors and will assist the WPP in areas such as corporate governance and exercising the Partnerships voting rights in line with the Partnerships ambition to become a leader in Responsible Investment.

5) Three Equity Sub Funds had been launched prior to 2020/21 financial year, a UK Equity Fund and two Global Equity Funds, Global Growth and Global Opportunities. During 2020/21 five Fixed Income sub-funds were launched by the WPP with this Fund investing in 3 of the WPP Fixed Income sub-funds in August 2020. The Emerging Markets Equity sub-fund was launched in October 2021 followed by the Sustainable Equity sub-fund in July 2023.

Issues

6) As at 30th September 2023 the Fund had the following investments in eight WPP products, with the aggregate value of £1,678 million:-

I. UK Opportunities Equity Fund - £247 million
II. Global Government Bond Fund - £222 million
III. Global Credit Fund - £193 million
IV. Multi Asset Credit Fund - £144 million
V. Global Opportunities Equity Fund - £466 million
VI. Global Growth Equity Fund- £174 million
VII. Emerging Markets Equity Fund- £108 million
VIII. Sustainable Equity Fund - £123 million

These investments represent approximately 63% of this Fund's total valuation of £2,663 million at that date. The 30 September 2023 valuation of the BlackRock Low Carbon Fund was £624 million which if added to the WPP sub-funds would amount to 86% of the total Fund value at this date.

7) The WPP Sustainable Equity sub-fund was launched in the summer and was handed over for Russell Investments to manage from mid-July 2023. This is currently the only WPP sub-fund that all 8 Constituent Authorities have joined. This Fund made an investment of £125m in this sub-fund which was financed by drawdowns from the two existing WPP Global Equity Funds – Global Opportunities and Global Growth.

This sub-fund has been developed to align with the WPP's sustainability goals including Net Zero and has a clear climate focus. It includes a number of exclusions as follows :-

- Thermal Coal
- Oil Sands, Shale Energy, Arctic Oil and Gas.
- Palm Oil
- Gambling
- Controversial Weapons
- Adult Entertainment
- Tobacco

8) As a reminder, this sub-fund operates with the same benchmark and a plus 2% excess target return as the other WPP Global Equity sub-funds but with higher volatility expected. It operates with a diversified exposure to this asset class with five specialist sustainable managers. The investment managers, their investment style and their current weightings are :-

- Sparinvest : Ethical Value, 31%
- Wellington : Quality, 25%
- Neuberger Berman : High Growth, 17%
- Mirova : Growth at Reasonable Price (GARP), 17%
- Artemis : Smaller / Mid Cap High Growth, 9%

9) On-boarding arrangements for the Private Credit and (open ended) Infrastructure sub-funds have now been completed and the first commitments to the Private Credit sub-fund have been paid over in October 2023. There have been no capital calls for the Infrastructure sub-fund to date. The on-boarding to the WPP Private Equity sub-fund,

where Schroders are the Allocator, was completed in October 2023 with the first capital calls being paid in November 2023.

10) Officers have continued with work developing the specification for WPP Property sub-fund. The target for launching the procurement is the end of November 2023 with the specification having three sleeves:
   a. Core UK
   b. Impact UK
   c. International

The current timeline is for the JGC to confirm the preferred bidder(s) for this asset class at its July 2024 meeting.

11) The Operator procurement is also proceeding with the procurement documents released in mid-October and a closing date of 20 November. The end of January will see a Bidder's interview day which will be followed by an officer preferred bidder recommendation to the March 2024 JGC meeting. The new Operator contract will commence in December 2024.

12) The Waystone Group completed their purchase of Link Fund Solutions on 9 October 2023 and are now undertaking the operator role for the WPP. There has been a full transfer of Link staff with a WPP relationship to Waystone so it has very much been "business as usual" since the transfer.

13) In July 2023 the Department of Levelling-Up, Housing and Communities (DLUHC) issued a consultation on the future of LGPS Pooling. A full copy of the consultation is attached as Appendix 1, with Appendix 2 providing a summary of the consultation proposals and questions. The consultation focused on a number of key themes over different time horizons which included :-
   a. The transfer of all listed assets to Pools by March 2025
   b. Should there be a preferred model of pooling?
   c. Enhanced reporting including a Value for Money (VFM) rationale for assets not pooled
   d. The ability for Fund's to invest in another pool's investment vehicle(s) encouraging collaboration and specialisation
   e. Funds to set out their plans for up to 5% of their assets to be invested in UK levelling up projects.
   f. An ambition that funds invest 10% of assets in private equity
   g. A longer-term objective for a smaller number of pools with an asset base of at least £50b.

14) This Fund assisted the WPP in drafting its response to the consultation and a copy of the WPP response is attached as Appendix 3 to this report.

15) The WPP has submit its application to remain a signatory to the UK Stewardship Code at the end of October 2023, following its successful applications in 2021 and 2022.

16) Robeco, the WPP Voting and Engagement Advisor, have continued to produce summary reports of their voting and engagement activity and their public report for Q3 2023 is attached as Appendix 4.

17) A meeting of the WPP JGC took place on 20th September 2023 and the host authority have provided a summary of the items discussed at that meeting which is attached as Appendix 5 to this report..

18) The provisional valuation of the Fund as at 30 September 2023 is £2,663 million which compares with £2,676 million as at June 2023 and £2,599 million as at 30 September 2022. The table below presents the position for the Fund's Asset classes for September 2023 and 2022 and the percentage change over the year. It is important however to reinforce that the Funds investment performance remains focussed on long-term market returns.

ASSET CLASS	Sep-22	Sep-23	% change
	£million	£million	%
Equities			
UK	207	247	19.7%
Global	1,266	1387	9.6%
Emerging Market	105	108	3.0%
Total Equities	1,578	1742	10.5%
Fixed Income	541	560	3.5%
Private Equity	108	105	-3.0%
Property	212	182	-14.1%
Cash	77	74	-3.5%
Total	**2,515**	**2,663**	5.9%

Legal Implications

19) This report has been prepared to update the Committee on recent developments related to the WPP Investment Pool and the current valuation of the fund.

The subject matter of the report (pension investment) is outside of the expertise of the in-house legal team to advise on. It is understood that to aid its consideration of matters the WPP have appointed a number of key advisors and service providers, including external legal advisors (Burges Salmon) .

As such the specialist external advice obtained in relation to this matter should be considered. In addition, the general legal advice set out below should also be considered.

<u>General Legal Advice</u>

Any decision must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council eg. standing orders and financial regulations; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its tax payers; and (h) be reasonable and proper in all the circumstances and comply with any equalities legislation.

The Council also has to satisfy its public sector duties under the Equality Act 2010 (including specific Welsh public sector duties). Pursuant to these legal duties, Councils must in making decisions have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. The Protected characteristics are: age, gender reassignment, sex, race – including ethnic or national origin, colour or nationality, disability, pregnancy and maternity, marriage and civil partnership, sexual orientation, religion or belief – including lack of belief.

The Well-Being of Future Generations (Wales) Act 2015 ("the Act") places a 'well-being duty' on public bodies aimed at achieving 7 national well-being goals for Wales – a Wales that is prosperous, resilient, healthier, more equal, has cohesive communities, a vibrant culture and thriving Welsh language, and is globally responsible.

In discharging its duties under the Act, the Council has set and published well-being objectives designed to maximise its contribution to achieving the national well-being goals. The well-being objectives are set out in Cardiff's Corporate Plan 2023-26.

The well-being duty also requires the Council to act in accordance with 'sustainable development principle'. This principle requires the Council to act in a way, which seeks to ensure that the needs of the present are met without comprising the ability of future generations to meet their own needs. Put simply, this means that Council decision makers must take account of the impact of their decisions on people living their lives in Wales in the future. In doing so, the Council must:

- Look to the long term
- Focus on prevention by understanding the root causes of problems
- Deliver an integrates approach to achieving the 7 national well-being goals
- Work in collaboration with others to find shared sustainable solutions
- Involve people from all sections of the community in the decisions which affect them

The decision maker must be satisfied that the proposed decision accords with the principles above; and due regard must be given to the Statutory Guidance issued by the Welsh Ministers, which is accessible using the link below: http://gov.wales/topics/people-and-communities/people/future-generations-act/statutory-guidance/?lang=en

The Council has to be mindful of the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards when making any policy decisions and consider the impact upon the Welsh language, the report and Equality Impact Assessment deals with all these obligations. The Council has to consider the Well-being of Future Guidance (Wales) Act 2015 and how this strategy may improve the social, economic, environmental and cultural well-being of Wales.

Financial Implications

20) The costs of the WPP are apportioned between the constituent authorities in accordance with the Inter Authority Agreement. All costs allocated to Cardiff will be charged to the Pension Fund

Recommendations

21) That the Committee notes the recent developments related to the WPP Investment Pool.and the Fund's Investment holdings

CHRISTOPHER LEE
CORPORATE DIRECTOR RESOURCES

Appendices
Appendix 1 : DLUHC Pooling Consultation
Appendix 2 : List of consultation proposals and questions
Appendix 3 : WPP Consultation response
Appendix 4 : Robeco Voting and Engagement Q3 2023 Report
Appendix 5 : WPP JGC 20 September 2023 Summary

Department for Levelling Up, Housing & Communities

Open consultation

Local Government Pension Scheme (England and Wales): Next steps on investments

Published 11 July 2023

Applies to England and Wales

Contents

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This publication is available at https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments/local-government-pension-scheme-england-and-wales-next-steps-on-investments

Scope of the consultation

Topic of this consultation:

This consultation seeks views on proposals relating to the investments of the Local Government Pension Scheme (LGPS). It covers the areas of asset pooling, levelling up, opportunities in private equity, investment consultancy services and the definition of investments.

Scope of this consultation:

DLUHC is consulting on proposals for new requirements on LGPS administering authorities.

Geographical scope:

This consultation applies to England and Wales.

Impact assessment:

The proposed interventions affect the investment of assets by local government pension scheme administering authorities. These authorities are all public sector organisations, so no impact assessment is required.

Basic Information

Body/bodies responsible for the consultation:

Department for Levelling Up, Housing and Communities (DLUHC)

Duration:

This consultation will last for 12 weeks from 11 July 2023 to 2 October 2023.

Enquiries:

For any enquiries about the consultation please contact: LGPensions@levellingup.gov.uk

How to respond:

Please respond by completing an online survey (https://consult.levellingup.gov.uk/local-government-finance/local-government-pension-scheme-england-and-wales/).

Alternatively, please email your response to the consultation to LGPensions@levellingup.gov.uk.

Alternatively, please send postal responses to:

> LGF Pensions Team
> Department for Levelling Up, Housing and Communities
> 2nd Floor
> Fry Building
> 2 Marsham Street
> London
> SW1P 4DF

When you reply, it would be very useful if you could make it clear which questions you are responding to. Additionally, please confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include:

- your name
- your position (if applicable)
- the name of organisation (if applicable)
- an email address

Chapter 1: Introduction

1. The Local Government Pension Scheme England and Wales (LGPS) is one of the world's largest funded pension schemes and a key player in global markets, investing around £364 billion (excluding Environment Agency funds) worldwide. Its scale enables it to have a significant impact through its investments and gives it the potential to lead the market in innovation and transparency. While long term stable returns in order to pay pensions for its members are the primary purpose of the investments, the government believes that there is scope to deliver substantial benefits to the UK as a whole at the same time. Good management of the LGPS is important for the financial stability of local councils, and ultimately is in the interests of local taxpayers.

2. The government also recognises that pension funds are under substantial pressure on a number of fronts. There is growing scrutiny of institutional investors on environmental issues and in the light of geo-political risks such as Russia's aggressive and illegal invasion of Ukraine. In addition, recent volatility in gilt and bond markets has underlined the need for the highest standards in managing financial risk. The LGPS as a public sector scheme is rightly subject to particularly high expectations and must keep pace with the best in managing these demands.

3. This consultation seeks views on proposals in 5 areas:

- First, the government sets out proposals to accelerate and expand pooling, with administering authorities confirming how they are investing their funds and why.

While pooling has delivered substantial benefits so far, we believe that the pace of transition should accelerate to deliver further benefits which include improved net returns, more effective governance, increased savings and access to more asset classes. We propose a deadline for asset transition by March 2025, noting we will consider action if progress is not seen, including making use of existing powers to direct funds. Going forward, we want to see a transition towards fewer pools to maximise benefits of scale.

- Second, the government proposes to require funds to have a plan to invest up to 5% of assets to support levelling up in the UK, as announced in the Levelling Up White Paper (LUWP) (https://www.gov.uk/government/publications/levelling-up-the-united-kingdom). This consultation sets out in more detail how the Government proposes to implement this requirement and seeks views on its plans.
- Third, the government is proposing an ambition to increase investment into high growth companies via unlisted equity, including venture capital and growth equity. The government believes there are real opportunities in this area for institutional investors with a long-term outlook, such as the LGPS.
- Fourth, the government is seeking views about proposed amendments to the LGPS's regulations to implement requirements on pension funds that use investment consultants. These amendments are needed to implement the requirements of an order made by the Competition and Markets Authority (CMA) in respect of the LGPS.
- Finally, the government is proposing to make a technical change to the definition of investments within LGPS regulations.

4. The following chapters set out the government's proposals in more detail and provide the rationale for its proposals. Chapter 2 addresses the proposals regarding LGPS pooling, Chapter 3 outlines the plans for implementing the LUWP commitment, and Chapter 4 sets out a proposal to encourage the LGPS to contribute growth equity to the development of the UK. Chapter 5 explains the government's proposals in relation to the use of external investment consultants by LGPS funds and Chapter 6 sets out its proposal to update the definition of investments. Finally, Chapter 7 sets out our initial assessment of potential equalities impacts and invites views.

5. To assist those wishing to respond to the consultation, Annex A lists the proposals and Annex B lists the consultation questions.

Chapter 2: Asset pooling in the LGPS

6. The reform of investment management in the Local Government Pension Scheme (LGPS) for England and Wales began in 2015 with the publication of criteria and guidance on pooling of LGPS assets, following extensive consultation with the sector. The aims were to deliver the benefits of scale, improved governance and decision making, reduced costs and excellent value for money, and capacity and capability to invest in infrastructure to help drive growth. LGPS administering authorities responded by coming together in groups of their own choosing to form 8 asset pools.

7. Those 8 pools are now operational, in most cases for over 4 years. Their scale makes them significant players at European and global level. Set up and running costs of around £400 million to 2022 have been fully covered by savings. Net savings of over £380 million have already been delivered, with annual savings of £180 million, and total net savings are forecast to be over £1 billion by 2025 (based on data provided by pools and administering authorities). Significant expertise and capacity have been developed in private markets and infrastructure investment, giving funds access to the higher returns in these markets. In particular, UK and global infrastructure investment has grown from below £1 billion to around £27 billion (based on data collected by the pools).

8. While pooling has delivered substantial benefits so far, progress has varied across the scheme. Accelerating consolidation of assets in the LGPS is crucial for ensuring the scheme is delivering value for money in the interests of scheme members, employers and local taxpayers. Stronger pools can also ensure the LGPS punches its weight on responsible investment, management of climate risks, investment in levelling up, and investment in unlisted equities in support of UK growth. To meet these challenging ambitions, the LGPS pools and their partner funds will need to strengthen their existing partnerships and work together to deliver outstanding net performance, risk management and transparency. This will enable the LGPS to provide long term finance for pensions for millions of low paid workers, and deliver for the UK through investment in the UK, while retaining local control and accountability. Government proposals, set out below, cover increased scale, governance and decision making, as well as transparency and accountability.

Delivering increased scale

Background

9. Across the scheme as at March 2022 £145 billion or 39% of assets have been transferred to the pools with the percentage varying by pool from under 30% (LGPS Central) to over 80% (LPP). A further £114 billion, or 31%, is under pool management and £34bn or 9% is covered by plans to transition into the pools. We make a distinction throughout this document between pooled assets and assets which are under pool management. Pooled assets are owned by the pool in their capacity as asset manager while assets under pool management are assets where the pool has some management or oversight arrangement without ownership.

10. The current scale of the individual pools (based on AUM pooled and assets under pool management) is in the range £16 billion to £60 billion. This covers a variety of arrangements including passively managed assets held by external managers under insurance contracts, and the pool's oversight and monitoring of these may be limited. However, excluding assets under pool management, the pools range in size from £2 billion to £30 billion. The pools therefore remain significantly below the scale which they could achieve with all assets transferred from their partner funds, rather than remaining under pool management.

11. A further substantial increase in effective scale is a key priority to enable delivery of the benefits of pooling. Increased scale would allow the pools to deliver further savings and efficiencies, including through negotiating lower fees from external investment managers and service providers, and developing internal capacity for investment management. Increased scale would also enable the pools to invest in larger projects which would help the LGPS to take advantage of attractive opportunities in alternative assets.

12. The government therefore wishes to see the existing pools build scale as quickly as possible by accelerating the pace of transition of liquid assets from the funds into the pools, building on and expanding on successes so far. The approach to date has been to encourage funds through guidance to transition their assets into the pools, and substantial progress has been made over the last 4 to 7 years. However, progress is not consistent across the scheme and some pools have secured a much higher proportion of assets of their partner funds than others. We consider that the time is right for action to accelerate the delivery of savings and other benefits of pooling, and our proposals are set out in paragraphs 17 to 21.

Driving greater scale through fewer pools

13. In due course all assets including less liquid assets should be fully transferred to the pools. We recognise that this may need to take place over a longer period to minimise the costs including the costs of breaking existing arrangements. This would include passively managed insurance contracts which may be under some form of pool management. There may be some exceptions such as some types of local property investments. Once this was complete, 5 of the 8 pools would be around £50 billion or higher at current values and the remaining 3 pools would occupy the £25 billion - £40 billion range.

14. Completing the transition of assets would be a major step forward. However, we do not believe that this alone will deliver the full benefits of pooling in the long term. Our view is that the benefits of scale are present in the £50-75 billion range and may improve as far as £100 billion. As such, we should in future look towards a smaller number of pools in the region of or in excess of £50 billion in directly invested assets through merger. The benefits of scale were a key finding of 2021 research (https://www.brunelpensionpartnership.org/wp-content/uploads/2021/09/LGPS-in-the-UK-Learnings-from-International-Peers.pdf) (PDF, 5.7 MB) based on interviews with large international comparators. Respondents confirmed that scale had improved bargaining power with asset managers, enabled access to a wider set of opportunities such as private markets, and had allowed them to build internal capacity.

15. As well as making better use of expertise in managing external managers, there is potential to grow in-house investment management within the pools to reduce or replace the use of external private sector investment managers. This should offer substantial reductions in cost. A small number of larger funds have existing in house capacity and expertise in some areas of investment, and we would like to see this expertise fully shared within their pools. In due course there

should be scope for all pools to access in house capacity and expertise in specific areas of investment within other pools.

16. In the short to medium term, we believe there are benefits which could be secured through joint working without incurring the costs of merger. Some joint vehicles such as the London Fund (London CIV and LPP) and GLIL (LPP and Northern) already exist. We would like to see the pools move towards greater collaboration where this makes sense, and to consider specialisation, building on existing strengths in particular areas of investment, in order to deliver further benefits of scale and limit unnecessary duplication. Areas where specialisation or collaboration may be particularly attractive include infrastructure and other alternative investments including private equity, private debt and venture capital, as well as investments in levelling up projects and social investments.

Question 1: Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?

A timetable for transition

17. Current statutory guidance relating to regulations on the management and investment of LGPS assets currently requires each fund to set out the proportion of its assets which it intends to pool in its Investment Strategy Statement (ISS). Funds are also required to provide in their ISS a summary of the assets which they do not intend to pool, with a rationale including value for money, and to review this at least every 3 years, including consideration of continuing value for money. This should be greatly assisted by the development of the LGPS Code of Transparency (https://lgpsboard.org/index.php/the-code) by the Scheme Advisory Board. This has enabled funds to access transparent cost data from 150 asset managers as of November 2022. However, current guidance sets no timetable for change and provides funds with limited assistance in considering rationale and value for money.

18. The government now seeks views on the setting a deadline for funds to transition all listed assets, as a minimum, to their pool within a reasonable timeframe. We consider a reasonable timeframe for liquid assets to be by 31 March 2025, which is the end of the current local fund valuation period. Transition of all assets should be considered in this timeframe, especially as pooling of illiquid investments may offer the greatest opportunities for reducing savings combined with higher returns.

19. If this is taken forward, funds would need to work with their pool to ensure that they have fully considered all the opportunities available through the pool for their assets. A detailed rationale for each asset remaining outside the pool including value for money considerations would need to be provided in the ISS in line with existing guidance if the asset is not intended to be pooled by 2025.

20. The government seeks views on setting out the transition timetable in statutory guidance on ISS, and requiring funds to review and revise their ISS in line with this expectation. Where funds have concluded that the asset should not be transitioned, the government will expect a rationale to explain why this is the case. We also propose to provide fuller guidance on the existing requirements for ISS in relation to pooling, including guidance on rationale, value for money and review for assets which it is not intended to pool.

21. For further proposals on annual reporting of progress against the plan set out in the ISS see paragraph 41.

> **Question 2:** Do you agree with the proposal to set a deadline in guidance requiring administering authorities to transition listed assets to their LGPS pool by March 2025?

Governance and decision making

Background

22. Administering authorities are responsible for setting the investment strategy of their funds, having taken proper advice. This includes setting the asset allocation to achieve a diversified portfolio of investments which overall is suitable to meet liabilities, as well as describing the approach to pooling and responsible investment, in line with statutory guidance.

23. Once the investment strategy has been chosen, the expectation set (https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance) when the funds were invited to form pools in 2016 was that as a minimum, the selection of external fund managers and the implementation of the investment strategy would take place at the pool level, in order to streamline decision making, reduce the number of external managers and deliver reduced fees.

24. In practice, funds have adopted a range of approaches. A small number of funds have transferred most of their assets to the pool and delegated strategy decisions below a very broad asset allocation as well as all implementation decisions to their pool, including for assets remaining outside the pool. Some funds have delegated manager selection and other implementation decisions to the pool for their pooled assets only, as well as agreeing broad mandates for some pool vehicles. The pool partnerships which have a higher degree of delegation, closer alignment of strategy and larger proportion of assets pooled have the conditions in place to deliver significantly higher savings compared to pools less advanced in their pooling journey.

25. Some funds have transferred some assets to the pool but only where the pool provides their preferred external manager or mix of assets within a pool vehicle. In these circumstances pools may respond by creating different products for each

partner fund or for small groups of funds, leading to a high number of pool sub-funds or vehicles, which limits the savings which can be achieved.

26. A very small number of funds have joined a pool but pooled no or very few assets. They may have benefited from a wider reduction in fees in the market, in part driven by pooling, but have chosen not to take up the other potential opportunities to date.

27. More effective and consistent governance and decision making is therefore the second key priority for the future of LGPS pooling. Research (https://www.brunelpensionpartnership.org/wp-content/uploads/2021/09/LGPS-in-the-UK-Learnings-from-International-Peers.pdf) (PDF, 5.7 MB) suggests that asset pools internationally are more effective with modern governance structures which enable delegation with accountability and allow decisions to be taken quickly on behalf of partner funds. This will include in particular effective delegation of strategy implementation to the pools by administering authorities.

28. It is the government 's view that the experience of the last 4 years has demonstrated that funds participating in a strong partnership with their pool and with other partner funds, in which they delegate effectively to their pool and align their strategies where possible, are likely to see the most gains, as these approaches allow the pool to deliver the benefits of scale. Others have moved more slowly but in order to maximise the benefits the full participation of all is essential. We want to see all funds moving in this direction in order to deliver the benefits of pooling for all.

Improving governance

29. Setting the investment strategy and asset allocation is a central responsibility for administering authorities, which gives them the most significant degree of influence on returns. It is generally accepted that the strategy accounts for most of the difference in net returns between portfolios, with implementation decisions such as manager selection having a relatively small impact. We do not propose any change to the responsibility of funds for setting investment strategies.

30. We therefore propose revised guidance on pooling to confirm and strengthen the existing guidance on delegation of manager selection and strategy implementation. It would also provide revised guidance on governance, including member representation, transition of assets and new investments outside the pool. We also propose to include guidance on investments in levelling up. This is discussed in Chapter 3.

31. Government recognises that each model has its own benefits. In order to move forward more quickly with the benefits of pooling, we regard the following aspects as being key to progress.

- Pools should operate as a single entity which acts on behalf of and in the sole interests of the partner funds. For this reason, we do not see inter-pool competition as a desirable progression. This does not preclude the potential for inter-pool collaboration, which is encouraged by government.

- Pools should be actively advising funds regarding investment decisions, including investment strategies.
- Pools should be equipped to implement an investment strategy as instructed by their partner fund. An investment strategy should be interpreted to mean a broad instruction regarding asset classes and level of risk. It should not include an excessive number of classes, or choice of specific assets.
- Pools should expect funds to invest via their existing sub-funds where possible. This avoids an unfavourable scenario whereby an excessive number of similar sub-funds undermine the purposes and benefits of pooling.
- Pool governance structures should be equipped to take quick decisions as opportunities present themselves, within the delegated remit of the fund.

Question 3: Should government revise guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics described above?

32. Pensions expertise is an important criterion for decision making, and there are some factors which may make it harder to acquire that expertise under current structures. Firstly, pensions committees generally have high levels of turnover. Second, members of such committees are not required to complete training and may have no specific expertise in pensions. The outcome of these factors is that expertise may be lower than an equivalent panel of trustees for a private sector scheme, with higher reliance on advisors. Some targeted requirements, specifically on training, would help administering authorities to manage these issues.

33. We propose that each administering authority sets a training policy for committee members. We propose that the administering authority should report regularly on the training undertaken by committee members and whether this is in line with their training policy.

Question 4: Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?

Transparency and accountability

Background

34. Current reporting relevant to the assets of the LGPS comprises the following:

- **Official statistics -** The annual LGPS statistics collected on the SF3 form by the Department and published in September contain only the overall asset value for the scheme and each fund, with no data on asset classes or other information.
- **Annual reports.** Annual reports are required by CIPFA guidance (https://www.cipfa.org/policy-and-guidance/publications/p/preparing-the-annual-report-

guidance-for-local-government-pension-scheme-funds-2019-edition) to include the value and percentage of pooled and non-pooled assets, the costs and performance of pooled and non- pooled assets, the progress of transition during the reporting year and the plans for transition of non-pooled assets. Annual reports are required to be published by 1 December for the preceding financial year. Funds are also required by guidance on ISS to report annually to the SAB on the progress of asset transition to the pool against implementation plans (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/627030/Guidance_on_preparing_and_maintaining_an_investment_strategy_statement.pdf) (PDF, 150 KB). Pool annual reports provide some additional information but vary considerably in level of detail.

- **Scheme Advisory Board (SAB) annual report.** The SAB produces a report which summarises data from published fund annual reports on governance, funding, membership, financial position, investments and stewardship. It does not currently include data on the progress of asset transition or other data or commentary on pooling. With respect to investments, the Scheme Annual Report reports the proportion of the scheme which is invested in pooled investment vehicles, public markets, bonds, direct property, derivatives, cash and other asset classes. This is based on data in the Net Asset Statement in the annual accounts of administering authorities. Authorities do not report their asset breakdown in a consistent way, and a degree of judgement is exercised by the SAB in interpreting their reports. The commentary on investment performance is based on data provided by PIRC which covers around two thirds of funds. The Annual Report is published in the spring following the end of the financial year to which it relates.

35. In addition, the government recently consulted (https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks) on new requirements for funds to report on climate-related risks to their assets. We will publish the government’s response in due course.

36. The current reporting regime provides a substantial quantity of data but does not provide transparency on progress of pooling by fund, by pool or across the scheme. It also does not provide an overall view of asset allocation across the scheme.

37. It is the long-standing view of government, whatever the subject, that transparency should be welcomed. The government seeks views on increasing transparency of asset allocation, pooling, return and savings.

Annual Reports and LGPS statistics

38. We therefore propose to require a single standard set of data on investments across annual reports and LGPS statistics. This would consist of:

- data on the broad asset classes into which LGPS investments fall in a consistent way, for example equities, bonds, private equity, private debt, property. We would work with the SAB to define the asset classes to be chosen and seek the agreement of the Central-Local Information Partnership (Finance) in the normal way for the necessary changes to the data collected from funds for LGPS official statistics. In designing this table, we will take account of requirements for defined contribution schemes and the reporting requirements which apply to private defined benefit schemes via the scheme return (https://www.thepensionsregulator.gov.uk/en/trustees/submit-reports-payments-and-requests-to-us/scheme-return/db-and-mixed-benefit-scheme-return) (an annual return required by The Pensions Regulator).

- for each asset class, data on the assets which are pooled, under pool management and not pooled and that the definitions are clarified. This will include the allocation to infrastructure and levelling up.
- net savings achieved as a result of investing via the pool.

39. We also propose to define the categories as set out in paragraph 9. Pooled assets would mean that the assets are directly owned and managed by the pool. Assets under pool management would cover assets which are managed or overseen but not owned by the pool. Neither category would include any assets which are held by collective investment vehicles other than those managed by the 8 LGPS pools.

40. We propose that the requirements to report on asset allocation and pooling data would be set out in revised guidance on pooling and in revised guidance on annual reports which is under consideration by the SAB.

41. We also propose to introduce a requirement to include commentary in the annual report on the progress of asset transfer against implementation plans and the approach to pooling set out in the ISS, in order to ensure funds are transparent and accountable on the progress of asset transition.

42. We also view it as desirable that each fund report the returns achieved by assets invested in each asset class against an appropriate benchmark, in a way that is consistent across funds, and easily comparable between pooled and non-pooled assets. We welcome views on how such a regime may work in practice.

43. We believe that these measures would ensure that data and commentary on the progress of pooling and on asset allocation is available earlier, is consistent across the scheme and between LGPS statistics and annual reports. We recognise there may be increased costs arising from a change to the asset classes reported, but these can be met from the fund, and costs should be reduced by having a single standard set of data. We consider some additional costs can be justified to ensure better public accountability.

Question 5: Do you agree with the proposals regarding reporting? Should there be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how should this requirement operate?

Scheme Annual Report

44. The SAB produces a Scheme Annual Report which aggregates information from fund annual reports. The purpose of the Annual Report is to provide a single source of information for members, employers and other stakeholders. Continual improvement of this report is a key priority of the SAB and is supported by the government. We intend the proposals in this consultation to assist the SAB in this goal.

45. We believe that the single standard set of data discussed above will make it easier to provide a clear overview of the scheme's asset allocation and of the progress of pooling. We have agreed with the SAB that they will incorporate this change into the Scheme Annual Report in future years by including a table which divides assets by category (equity, bonds, property etc) as well as by pooled status (pooled, not-pooled or under pool management).

Question 6: Do you agree with the proposals for the Scheme Annual Report?

Directions by the Secretary of State

46. Under Regulation 8 the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the "2016 regulations" (https://www.legislation.gov.uk/uksi/2016/946/regulation/8/made)) the Secretary of State has power, after consultation, to make directions to a fund where that fund is in breach of statutory guidance. Directions can cover the fund's investment strategy statement, its assets, the running of the fund's investment function, or any other instruction in relation to its investment function.

47. No such directions have been issued by the Secretary of State under Regulation 8.

48. Government will expect administering authorities to act in accordance with statutory guidance once issued. Where funds do not comply with guidance, government will consider whether a direction is appropriate. Examples of activities which could result in this include: withdrawing pool membership, failing to transition assets in line with the timetable or failing to provide adequate justification for non-pooled assets.

49. The Secretary of State also has power under section 3(2)(a) and Schedule 3 of the Public Service Pensions Act 2013 to make regulations on the administration, management and winding-up of LGPS pension funds, subject to consultation and the consent of HM Treasury.

Summary of proposals

50. The proposals are:

- To revise ISS guidance to include requirements to transfer listed assets to the pool by 31 March 2025, and to set out in the ISS:

- assets which are pooled, under pool management and not pooled, and
- to provide a rationale, value for money and date for review for assets which are under pool management or not pooled
- To revise pooling guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics described above including on delegation of manager selection, strategy implementation, advice, governance, transition of assets, new investments outside the pool and reporting.
- To implement a requirement in guidance for administering authorities to have a training policy for pensions committee members and to report against the policy
- To revise guidance on annual reports to require greater clarity on progress of pooling including a summary asset allocation (including investment in infrastructure and levelling up), a comparison between actual and strategic asset allocation, a report of the net savings from pooling, and to report the returns achieved by each asset class against an appropriate benchmark
- For the Scheme Advisory Board to expand their Scheme Annual Report to provide a report on the progress on pooling and on asset allocation across the LGPS.
- To make changes to LGPS official statistics to provide greater transparency on asset allocation and the proportion of assets which have been pooled.

51. Should this be taken forward, we intend to monitor progress over the current valuation period (to 31 March 2025), based on fund annual reports, LGPS statistics, the Scheme Annual Report and other evidence. This monitoring will include progress on transition, governance and reporting and how effective these are in delivering improvements in efficiency, cost and performance.

52. Whilst reserving our ultimate position, the government's strong preference is to see progress continue on a voluntary basis within a strengthened framework. This will maintain local management and accountability in the LGPS, while delivering significant savings and better risk management, and avoiding waste and duplication. But we will consider action to ensure progress if necessary, including making use of existing powers to direct funds.

Chapter 3: LGPS investments and levelling up

Background

53. In the Levelling Up White Paper (LUWP) (https://www.gov.uk/government/publications/levelling-up-the-united-kingdom) the government set out its mission to tackle the uneven distribution of opportunity in the United Kingdom (UK). The aim is to level up the UK by spreading opportunity more equally across the country and bring left behind communities up to the level of more prosperous areas. To do so will mean that the whole country succeeds by

growing the economy and realising the potential of places and people across the UK.

54. One of the key ambitions in the levelling up programme is to boost productivity, grow the economy, and raise living standards across the UK. One way in which this mission can be achieved is by ensuring that some of the funds managed by institutional investors flow into projects that help deliver levelling up while also offering attractive returns.

55. The Local Government Pension Scheme (LGPS) with assets of £364 billion, projected to increase to £500 billion by 2030, is a major institutional investor. The government wishes to encourage the LGPS to continue to meet its core fiduciary duty of funding pensions for members while also supporting levelling up by investing in infrastructure, housing, regeneration, and small and medium enterprise (SME) finance across the whole UK, not only in the local area of an authority. Overall, £27 billion of LGPS funds had already been invested in infrastructure in the UK and overseas by March 2022.

56. The government has set an ambition in the LUWP for LGPS funds to invest up to 5% of their assets under management (AUM) in projects which support local areas. To implement this ambition, the Government is asking LGPS funds to work with LGPS asset pools to publish plans for increasing their local investment.

Defining investment in levelling up

57. In developing their plans, LGPS funds will need to consider what types of investments will contribute to levelling up. This section therefore sets out a proposed approach to assessing whether an investment supports levelling up, drawing on the LUWP and its discussion of different forms of capital and levelling up missions. The definition is intended to help LGPS funds and pools in considering how they could invest a share of their AUM in a way that promotes growth, supports levelling up, and meets their fiduciary duty to ensure members' pensions.

58. The ambition of the levelling up agenda is to reduce geographical disparities. While some areas of the UK already benefit from all the conditions for growth, the government is keen to improve productivity, boost economic growth, encourage innovation, create good jobs, and enhance educational attainment in those parts of the UK that have so far had an unequal share of the country's economic success. In pursuing this ambition, the government believes that a boost to productivity, pay, jobs, and living standards can be achieved through targeted interventions that extend opportunities more equally across the UK.

59. Current causes of the UK's spatial disparities include changes in the global economy and their uneven impact on the country's regions, but the key drivers lie in the 6 forms of capital identified in the LUWP (human, intangible, financial, physical, social and institutional). While each capital is important in its own right, it is their interaction that creates a virtuous cycle that encourages economic growth and the associated societal benefits.

60. To address the imbalances in how the 6 capitals are distributed across the UK, the government has identified 12 medium-term levelling up missions (living standards, research and development, transport, digital connectivity, education, skills, health, well-being, pride in place, housing, crime and local leadership). Institutional investors such as pension funds can contribute to the levelling up missions while also benefitting from such investments. Global investors, including pension funds from Canada and Australia, are already active investors in such projects, but UK institutional investors are under-represented.

61. The government believes that the LGPS should secure the benefits of such investment and can play a key role in building a pipeline of investable UK opportunities without costly deal by deal auctions. With assets of around £364 billion the LGPS has large investable assets, investment expertise in the pools, and local networks. It is well placed to identify investment opportunities and ensure these meet the risk/return profiles demanded by LGPS funds.

62. To help LGPS funds make their plans, the government proposes that an investment would meet the levelling up requirement if

- it makes a measurable contribution to one of the levelling up missions set out in the LUWP; and
- it supports any local area within the United Kingdom.

63. We consider the following existing LGPS investments as examples of investments which would fall within the proposed definition:

- Nottinghamshire Pension Fund invested £1.5 million (https://www.impactinvest.org.uk/case-study/direct-investment-nottinghamshire-community-energy/) in Nottinghamshire Community Energy in 2016 to help construct and manage a solar farm to produce clean energy. The profits help support projects in Nottinghamshire to address climate change mitigation, wildlife conservation, and reducing fuel poverty while delivering a good return on investment.
- Durham County Council Pension fund has committed £18 million (https://www.foresightgroup.eu/private-equity?tab=6) to enable the launch of a new private equity investment fund that supports SMEs across the North East. The fund's purpose is to support economic growth and create high-quality local jobs in the region, while targeting an appropriate rate of return for its investors.
- Greater Manchester Pension Fund has a £50 million (https://www.insidermedia.com/news/north-east/foresight-launches-new-fund-for-smes) Invest 4 Growth portfolio which makes investments that provide a commercial return and have beneficial economic, social, or environmental impacts.The fund also uses its £401 million Impact Portfolio to invest regionally in supported living accommodation, renewable energy, and loans to SMEs.
- South Yorkshire Pension invests around £80 million (https://bdaily.co.uk/articles/2022/12/09/80m-investment-from-south-yorkshire-pensions-authority-boosts-local-economy) in local development projects and aims to generate commercial return whilst delivering a positive local impact.

64. Funds should ensure that any levelling up investment plan they produce is consistent with their existing overall investment strategy statement and funding strategy statement. We intend to develop guidance working with the Scheme Advisory Board on levelling up investments which meet the requirement announced in the Levelling Up White Paper.

Question 7: Do you agree with the proposed definition of levelling up investments?

Fiduciary duty and investing in levelling up

65. This new requirement would not alter the established fiduciary duty of LGPS funds to make investment decisions in order to pay pensions. Investments that support levelling up may form part of a well-diversified portfolio with a range of risk/return characteristics. As current investment activity across the LGPS underscores, such investments may create attractive risk adjusted returns for pension funds and help deliver economic growth and societal benefits.

66. Under existing environment, social, and governance (ESG) criteria, set out in Guidance on Preparing and Maintaining an Investment Strategy Statement (https://www.gov.uk/government/publications/local-government-pension-scheme-guidance-on-preparing-and-maintaining-an-investment-strategy-statement), funds may also take non-financial considerations into account when making investments, provided that they have good reasons to think the scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund.

Enabling investment to support levelling up

67. Under these proposals, administering authorities would be expected to evaluate possible levelling up investments and assess their suitability for their fund's investment strategy. There is scope for projects of different scales, risk/return profiles, and geographical concentrations to be considered.

68. Private markets are a principal way through which investments that support levelling up can be made. These markets are particularly important in infrastructure, clean energy and regeneration investing and they are therefore likely to play a role in delivering funds' levelling up investments. This route to investment, however, presents challenges, especially for smaller LGPS funds. The minimum investment may be quite high, and at higher cost than public market investments. Specialist expertise is needed to assess risk and return profiles and source and negotiate opportunities.

69. The LGPS asset pools can offer a route to investing in levelling up through private markets. They can put together an investment of sufficient size with the participation of their partner funds. Those which are wholly owned companies can also provide investment at lower cost as they are established on a not for profit basis and have developed the expertise and capacity to invest in private markets

through intermediaries and in some cases are able to invest directly or to co-invest, which reduces costs.

70. There may also be concerns about local investments. Perceived or potential conflicts of interests may arise between the fund and the administering authority in its wider role as the local authority, if funds invest in inappropriately high-risk projects in the area in which they are located. The LGPS asset pools can assist by ensuring that decisions to invest in a local area can be taken at pool level to avoid any perceived or potential conflict of interest and take advantage of the pool's expertise.

71. Some LGPS asset pools have already created investment vehicles to enable funds to invest in levelling up projects more easily:

- GLIL was established in 2015 by the Greater Manchester Pension Fund and the London Pensions Fund Authority with £500 million in capital commitments. It was expanded in 2016 with the admission of 3 further LGPS funds. GLIL invests in core infrastructure assets predominantly in the UK and focuses on investment opportunities that are backed by physical assets, offer a reliable cash flow, and are isolated from business cycles. It currently has £3.6 billion of committed capital and has deployed £2.1 billion across 13 assets that include offshore windfarms, electric train fleets, and solar farms.
- The London Fund is a collaboration between the Local Pensions Partnership Investments (LPPI) and the London Collective Investment Vehicle (LCIV). The Fund's aim is to invest in the capital, with a focus on developing housing and infrastructure. In making investment decisions, the London Fund is seeking positive contributions to social and environmental issues too. For the fund's partners the London Fund also represents an opportunity to access a greater range of investment opportunities than if they acted alone.
- Brunel Pension Partnership has designed and implemented a portfolio for one of its partner funds, Cornwall Pension Fund, to facilitate local investment in affordable housing and renewable energy in Cornwall. Cornwall Pension Fund made an initial investment of £115 million despite being one of the smaller LGPS funds.

72. The government wishes to see specialist expertise in local investments within pools and their private sector partners continue to evolve, to ensure that funds and the UK as a whole can benefit from investment in levelling up. The scale of the LGPS and a new requirement for the LGPS to set a plan to invest in levelling up should provide an important spur to this development.

73. The government looks to the pools to develop further such solutions in collaboration with their partner funds. This approach will maximise the opportunities to capitalise on administering authorities' local knowledge and asset pools' scale and private market access. Pools may choose to leverage their local networks to work with local partners to develop opportunities and avoid the deal by deal auctions which can add cost to infrastructure investment. In due course they may also develop the capacity and knowledge to invest in smaller scale local

projects which may be too small for private sector intermediaries, and help tackle the capital gap for smaller projects.

74. However, some pools do not currently have internal asset management capacity, or the range of investment vehicles required to meet the needs of their partner funds. To increase the range of options available to funds to deliver investment in levelling up, it may be helpful for funds to invest through their own pool in investment vehicles provided by other pools. The government therefore proposes to set out in guidance that LGPS funds may invest through their pool in another pool's investment vehicle.

Question 8: Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?

Implementing the requirement to publish plans for increasing local investment

75. The government proposes to amend regulations to require funds to publish a plan on how they will invest up to 5% of their assets under management (AUM) in projects that support levelling up across the UK. The plan may form part of the investment strategy statement. It should take account of the fund's investment and funding strategy statements and be reviewed at least every 3 years in line with the local valuation cycle.

76. It is proposed that the plan should include:

- The fund's current level of investment in levelling up investments
- A plan to increase levelling up investments to deliver an allocation of up to 5% of AUM including the timeline to delivery
- The fund's approach to working with their pool to reach their chosen allocation.

77. Many funds will already have some investments which contribute to levelling up, and in some cases this may exceed 5%. Some funds may wish to increase their investment above 5%. It will be for funds to decide the appropriate level of investment and types of investment.

Question 9: Do you agree with the proposed requirements for the levelling up plan to be published by funds?

78. The government also proposes to require funds to report annually on their progress against their plan in their annual report. This requirement is proposed to provide transparency and accountability on the progress and investments made by funds. The section of the annual report on levelling up would be expected to include:

- The percentage of AUM invested in levelling up projects compared to the fund's plan for that year, the percentage in the previous year, and the ambition set by the fund

- The amount and type of levelling up investments that have been made through the fund's LGPS pool, and outside the pool.
- A narrative account explaining the changes in AUM allocated and the progress against the fund's plan, and the rationale for investing through the pool or outside the pool.

79. The government intends to include guidance on the new requirement and on reporting progress in revised guidance on investment strategy statements and on pooling.

Question 10: Do you agree with the proposed reporting requirements on levelling up investments?

Divestment

80. Many administering authorities are under pressure to divest assets from certain countries or geographical regions, even though the UK government has no sanctions in place against those countries or regions. The government strongly believes that local authority pension funds do not, and should not, have their own foreign policies. The government intends to implement the manifesto commitment to prevent public bodies pursuing boycotts, divestments and sanctions campaigns (BDS) against foreign countries or territories, unless in line with the UK's official foreign policy, through the Foreign Affairs (Economic Activity of Public Bodies) Bill, introduced in June .

Chapter 4: Investment opportunities in private equity

Background

81. The government is launching a package of measures to reform the pensions landscape as part of the government's capital markets strategy, making more capital available to support UK companies and seeking to boost the retirement incomes of UK pension savers. These measures sit alongside legislative and regulatory changes that strengthen the UK's position as a destination for listings, and cement the UK's standing as a global trading hub, attracting world leading companies including tech firms to incorporate, list and grow here. This initiative seeks to support the high-growth, innovative technology companies that often struggle to obtain the scale-up capital they need to reach their potential. British Business Bank (BBB) research suggests that the UK's venture capital financing gap relative to the US is over £5 billion per annum, despite UK funds making similar returns to their US counterparts.

82. The LGPS is largely well funded and has a very long-term time horizon, unlike most private sector defined benefit funds, which are typically closed and much more mature. Investing a higher percentage of LGPS capital into high-growth companies via private equity (particularly venture capital and growth equity), could generate improved returns to pay pensions. This includes but is not limited to innovative UK companies operating in fintech, life sciences, biotech, and green technology sectors.

83. The Scheme Annual Report for 2021-22 indicates the LGPS has a strong investment allocation into private equity of 4.3%, recognising the exact figure will vary across funds and will cover late-stage private equity in addition to venture capital and growth equity. Private reports indicate this is the highest performing asset class across the LGPS.

Ambition of 10% investment allocation in private equity

84. The government wishes to see LGPS funds and pools doubling their current allocation into private equity, with a total ambition of 10% investment allocation, as part of a diversified but ambitious portfolio. This ambition will help drive business investment throughout the country, in a way that allows everyone in the UK to benefit from the growth of our economy, by boosting LGPS investment returns, incentivising companies to grow and list in the UK, and grasping productive opportunities of the future.

85. Each fund will be different and will need to make its own investment decisions based on potential risk and reward appetite. As with any other asset class, it is important for administering authorities to exercise judgement on their exposure to private equity, as with any other asset class, and any investment in these asset classes should be part of a diverse and balanced portfolio.

86. We propose that LGPS funds should complete this consideration of private equity opportunities, including growth equity and venture capital, as part of the regular review of their investment strategy statement, and that the new requirement would be set out in revised guidance on investment strategy statements.

87. As with investments in levelling up, we expect that funds will work with their pool in considering such investments to ensure that they make use of the scale, capacity and expertise of the pool and take advantage of the full range of opportunities in size and type. We welcome views on further opportunities for government to remove any barriers to investment in UK growth equity and venture capital by the LGPS.

Question 11: Do you agree that funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio? Are there barriers to investment in growth equity and venture capital for the LGPS which could be removed?

British Business Bank

88. The British Business Bank (BBB) is a government-owned economic development bank that makes finance markets for smaller businesses work more effectively, allowing those businesses to prosper, grow and build UK economic activity.

89. One of the BBB's strategic objectives is to back UK innovation by improving the way that equity finance markets work to support the UK's most promising businesses. The BBB has a range of programmes to deliver this objective, including British Patient Capital (https://www.britishpatientcapital.co.uk/) (the BBB's commercial subsidiary with resources of £2.5 billion, which has delivered an internal rate of return of 32.9% since inception and Enterprise Capital Funds programme, which supports earlier stage businesses.

90. In delivering these programmes, the BBB has become the largest domestic investor in UK venture capital with deep expertise to support due diligence and the ability to invest at scale. This could be of benefit to the LGPS in finding attractive opportunities in this space. We support the LGPS, in particular the pools, to explore opportunities to collaborate and capitalise on the Bank's expertise and capabilities in venture capital and growth equity, and will bring forward any changes to secondary legislation which currently inhibit this.

Question 12: Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise on the Bank's expertise?

Chapter 5: Improving the provision of investment consultancy services to the LGPS

Background

91. In 2017 the Financial Conduct Authority (FCA) published its final Asset Management Market Study Report (https://www.fca.org.uk/publication/correspondence/provision-view-uil-mir-investment-consultancy-services.pdf) (PDF, 317 KB). At the same time, the FCA made a reference to the Competition and Markets Authority (CMA) for a market investigation into the supply and acquisition of investment consultancy services and fiduciary management services to and by institutional investors and employers in the UK.

92. The CMA focussed its investigation on pension funds as the core clients for investment consultancy and fiduciary management services, and published its final report (https://assets.publishing.service.gov.uk/media/5c0fee5740f0b60c8d6019a6/ICMI_Final_Re

port.pdf) (PDF, 3.1 MB) in December 2018.This found that for both investment consultancy and fiduciary management services there was a low level of engagement by trustees, a lack of clear and comparable information to assess value for money, and an incumbency advantage for investment consultants in steering clients to their own fiduciary management services.

93. Based on its findings, the CMA made The Investment Consultancy and Fiduciary Management Market Investigation Order 2019 (the Order) (https://assets.publishing.service.gov.uk/media/5cfdfa86e5274a090f9eef8e/Order_investment_consultants.pdf) (PDF, 230 KB) in June 2019 to tackle the adverse effects on competition identified. The Order applies to all registrable pension schemes including the LGPS and came into force on 10 December 2019.

94. The Order was intended as an interim measure to make changes quickly while statutory authorities take steps to implement the remedies in the relevant legislation. DWP has implemented the Order's requirements for private pension scheme trustees through The Occupational Pension Schemes (Governance and Registration) (Amendment) Regulations 2022 (https://www.legislation.gov.uk/uksi/2022/825/note/made).

95. However, LGPS administering authorities fall within the exemption in the Order at Article 3.6 that exempts any pension scheme trustees that are contracting authorities for the purposes of the Public Contracts Regulations 2015. These regulations cover local authorities including administering authorities, which means that administering authorities are exempt from the requirement of the Order to put fiduciary management services out to competitive tender.

96. Further, LGPS pool companies owned by LGPS funds are exempt from the Order under Article 1.7(b) which excludes in house or wholly owned investment consultancy providers and fiduciary management service providers. The exclusion under Article 1.7 of the Order applies to the Order as a whole (see para 15 of the Explanatory Note to the Order). This also puts LGPS pool companies outside the scope of the Order regarding any investment consultancy services they provide.

97. As a result, the only requirement in the Order which requires implementation in the LGPS is the requirement to set strategic objectives for investment consultancy they receive outside the LGPS pool companies. The Order prohibits funds from receiving any investment consultancy services unless they have set strategic objectives for their investment consultancy provider (Art 12). These strategic objectives should also closely relate to the fund's investment strategy and be reviewed at least every 3 years or whenever the investment strategy changes significantly. Further, there is an expectation of regular performance reporting by the investment consultancy provider that measures performance against these strategic objectives (see paragraph 91 of the Explanatory Note to the Order).

Implementing the CMA Order for the LGPS

98. As the responsible authority for the Local Government Pension Scheme, the Department for Levelling Up Housing and Communities (DLUHC) proposes to

amend LGPS regulations and statutory guidance to implement the Order's requirements for the provision of investment consultancy services for the LGPS.

99. Setting strategic objectives for investment consultants is in line with wider ambitions to improve governance and transparency in the LGPS and should encourage administering authorities to better monitor performance and improve the quality and value for money of such services over time.

100. We therefore propose that:

- Where the administering authority uses investment consultancy services in relation to its Investment Strategy Statement or for other matters, it must set strategic objectives for the investment consultancy provider, unless the provider is exempt (such as the LGPS pools);
- Administering authorities must not enter investment consultancy services contracts or continue to receive such services from any provider unless the authority has set strategic objectives for that provider
- Administering authorities must review strategic objectives at least every 3 years or every time the ISS changes substantially
- Strategic objectives must have regard to guidance on setting objectives for providers of investment consultancy services issued by the Pension Regulator in November 2019.

101. Investment consultancy services would include services where the provider advises the administering authority in relation to one or more of the following:

- investments that may be made or retained by or on behalf of the administering authority
- any matters in respect of which the administering authority is required by law to seek advice in relation to the preparation or revision of the investment strategy statement
- strategic asset allocation
- manager selection

102. In line with the definition of investment consultancy services in Article 2.1 of the Order, advice would mean advice on the merits of the administering authority taking or not taking a specific course of action and includes any recommendation or guidance to that effect. It is not intended that the term would cover the high-level commentary provided by actuaries in or in respect of triennial valuation reports and with regard to the link between investment approach and the administering authority's funding objectives.

103. The government proposes to implement these requirements by amending The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 2016 Regulations) (https://www.legislation.gov.uk/uksi/2016/946/contents/made) and associated guidance (https://www.gov.uk/government/publications/local-government-pension-scheme-guidance-on-preparing-and-maintaining-an-investment-strategy-statement).

Question 13: Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?

Chapter 6: Updating the LGPS definition of investments

104. In making the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (S.I. 2016/946 (https://www.legislation.gov.uk/uksi/2016/946/contents/made)) (the 2016 Regulations), the Government intended to ensure that the definition of investments which were or could be made by LGPS administering authorities included passive insurance contracts, private equity and derivatives.

105. After laying the 2016 Regulations, the Joint Committee on Statutory Instruments (JCSI) identified an issue relating to the drafting of regulation 3(1)(b) and regulation (4) of the 2016 Regulations. Regulation 3(1)(b) was intended to include contributions in an unquoted securities investment partnership within the definition of investment but reads as follows:

> Reg 3(1)(b) a contribution to a limited partnership in an unquoted securities investment

106. Regulation 3(4) defines unquoted securities investment partnerships as a partnership for investing in securities which are normally not quoted on a recognised stock exchange when the partnership buys them.

107. The Department undertook to amend regulation 3(1)(b) of the 2016 Regulations to align it with regulation 3(4) at the earliest available opportunity. We therefore propose to add the word ‘partnership’ to regulation 3(1)b as follows:

> Reg 3(1)(b) a contribution to a limited partnership in an unquoted securities investment partnership

108. The proposed amendment to regulation 3(1)b would ensure consistency with the language used in regulation 4, where unquoted securities investment partnerships are defined. The proposed amendment should also eliminate any ambiguity in regard to regulation 3(1)b.

Question 14: Do you agree with the proposed amendment to the definition of investments?

Chapter 7: Public sector equality duty

109. The Department's policies, guidance and procedures aim to ensure that the equalities impact of any decisions, new policies or policy changes upon groups with protected characteristics is properly considered, and that in formulating them the Department has had due regard to its obligations under the Public Sector Equality Duty at s.149(1) of the Equality Act 2010.

110. We have made an initial assessment and we believe our proposals on reforms to pooling, investment in levelling up, investment in venture capital, requirements on the use of investment consultants and changes to the definition of investment in chapters 2 to 6 do not affect any particular groups with protected characteristics adversely, as there will be no change to member contributions or benefits as a result. There may be an indirect benefit to protected groups who live in deprived areas which benefit from levelling up investments.

Question 15: Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.

Annex A: List of consultation proposals

Pooling

To revise ISS guidance to include requirements to transfer listed assets to the pool by 31 March 2025, and to set out in the ISS:

- assets which are pooled, under pool management and not pooled, and
- to provide a rationale, value for money and date for review for assets which are under pool management or not pooled

To revise pooling guidance so as to set out fully how funds and pools should interact and promote a model of pooling which includes the characteristics described above including on delegation of manager selection, strategy implementation, advice, governance, transition of assets, new investments outside the pool and reporting.

To implement a requirement in guidance for administering authorities to have an investment-related training policy for pensions committee members and to report against the policy

To revise guidance on annual reports to require greater clarity on progress of pooling including a summary asset allocation (including investment in infrastructure and levelling up), a comparison between actual and strategic asset allocation, and a report of the net savings from pooling., and to report the returns achieved by each asset class against an appropriate benchmark

For the Scheme Advisory Board to expand their Scheme Annual Report to provide a report on the progress on pooling and on asset allocation across the LGPS.

To make changes to LGPS official statistics to provide greater transparency on asset allocation and the proportion of assets which have been pooled.

Investment in levelling up

To amend regulations to require funds to set a plan to invest up to 5% of assets in levelling up the UK, and to report annually on progress against the plan.

Investment in private equity

To revise ISS guidance to require funds to consider such investments to meet the government's ambition of a 10% allocation to private equity in the LGPS.

Investment consultancy services

To amend regulations to set requirements funds with respect to investment consultants in line with the CMA order.

Definition of investment

To amend investment regulations to correct an inconsistency in the definition of investment.

Annex B List of consultation questions

Chapter 2: Asset pooling in the LGPS

Question 1: Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?

Question 2: Do you agree with the proposal to set a deadline in guidance requiring administering authorities to transition listed assets to their LGPS pool by March 2025?

Question 3: Should government revise guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics described above?

Question 4: Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?

Question 5: Do you agree with the proposals regarding reporting? Should there be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how should this requirement operate?

Question 6: Do you agree with the proposals for the Scheme Annual Report?

Chapter 3: LGPS investments and levelling up

Question 7: Do you agree with the proposed definition of levelling up investments?

Question 8: Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?

Question 9: Do you agree with the proposed requirements for the levelling up plan to be published by funds?

Question 10: Do you agree with the proposed reporting requirements on levelling up investments?

Chapter 4: Investment opportunities in private equity

Question 11: Do you agree that funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio? Are there barriers to investment in growth equity and venture capital for the LGPS which could be removed?

Question 12: Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise on the Bank's expertise?

Chapter 5: Improving the provision of investment consultancy services to the LGPS

Question 13: Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?

Chapter 6: Updating the LGPS definition of investments

Question 14: Do you have any comments on the proposed amendment to the definition of investments?

Chapter 7: Public sector equality duty

Question 15: Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.

About this consultation

This consultation document and consultation process have been planned to adhere to the consultation principles (https://www.gov.uk/government/publications/consultation-principles-guidance) issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Environmental Information Regulations 2004 and UK data protection legislation. In certain circumstances this may therefore include personal data when required by law.

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the information access regimes and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Department for Levelling Up, Housing and Communities will at all times process your personal data in accordance with UK data protection legislation and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included below.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the complaints procedure (https://www.gov.uk/government/organisations/department-for-levelling-up-housing-and-communities/about/complaints-procedure).

Personal data

The following is to explain your rights and give you the information you are entitled to under UK data protection legislation.

Note that this section only refers to personal data (your name, contact details and any other information that relates to you or another identified or identifiable individual personally) not the content otherwise of your response to the consultation.

1. The identity of the data controller and contact details of our Data Protection Officer

The Department for Levelling Up, Housing and Communities (DLUHC) is the data controller. The Data Protection Officer can be contacted at dataprotection@levellingup.gov.uk or by writing to the following address:

> Data Protection Officer
> Department for Levelling Up, Housing and Communities
> Fry Building
> 2 Marsham Street
> London
> SW1P 4DF

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

We will collect your IP address if you complete a consultation online. We may use this to ensure that each person only completes a survey once. We will not use this data for any other purpose.

Sensitive types of personal data

Please do not share special category (https://ico.org.uk/for-organisations/guide-to-data-protection/guide-to-the-general-data-protection-regulation-gdpr/lawful-basis-for-processing/special-category-data/#scd1) personal data or criminal offence data if we have not asked for this unless absolutely necessary for the purposes of your consultation response. By 'special category personal data', we mean information about a living individual's:

- race
- ethnic origin
- political opinions
- religious or philosophical beliefs
- trade union membership
- genetics
- biometrics
- health (including disability-related information)
- sex life; or
- sexual orientation.

By 'criminal offence data', we mean information relating to a living individual's criminal convictions or offences or related security measures.

3. Our legal basis for processing your personal data

The collection of your personal data is lawful under article 6(1)(e) of the UK General Data Protection Regulation as it is necessary for the performance by DLUHC of a task in the public interest/in the exercise of official authority vested in the data controller. Section 8(d) of the Data Protection Act 2018 states that this will include processing of personal data that is necessary for the exercise of a function of the Crown, a Minister of the Crown or a government department i.e. in this case a consultation.

Where necessary for the purposes of this consultation, our lawful basis for the processing of any special category personal data or ‘criminal offence’ data (terms explained under ‘Sensitive Types of Data’) which you submit in response to this consultation is as follows. The relevant lawful basis for the processing of special category personal data is Article 9(2)(g) UK GDPR (‘substantial public interest’), and Schedule 1 paragraph 6 of the Data Protection Act 2018 (‘statutory etc and government purposes’). The relevant lawful basis in relation to personal data relating to criminal convictions and offences data is likewise provided by Schedule 1 paragraph 6 of the Data Protection Act 2018.

4. With whom we will be sharing your personal data

DLUHC may appoint a ‘data processor’, acting on behalf of the Department and under our instruction, to help analyse the responses to this consultation. Where we do we will ensure that the processing of your personal data remains in strict accordance with the requirements of the data protection legislation.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for 2 years from the closure of the consultation, unless we identify that its continued retention is unnecessary before that point.

6. Your rights, e.g. access, rectification, restriction, objection

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:

a. to see what data we have about you

b. to ask us to stop using your data, but keep it on record

c. to ask to have your data corrected if it is incorrect or incomplete

d. to object to our use of your personal data in certain circumstances

e. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/ (https://ico.org.uk/), or telephone 0303 123 1113.

Please contact us at the following address if you wish to exercise the rights listed above, except the right to lodge a complaint with the ICO: dataprotection@levellingup.gov.uk or

> Knowledge and Information Access Team
> Department for Levelling Up, Housing and Communities
> Fry Building
> 2 Marsham Street
> London
> SW1P 4DF

7. Your personal data will not be sent overseas.

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system.

We use a third-party system, Citizen Space, to collect consultation responses. In the first instance your personal data will be stored on their secure UK-based server. Your personal data will be transferred to our secure government IT system as soon as possible, and it will be stored there for 2 years before it is deleted.

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Of the consultation proposals Open consultation

Local Government Pension Scheme (England and Wales): Next steps on investments

Published 11 July 2023, closes 2 October 2023

List of consultation proposals

Pooling

To revise ISS guidance to include requirements to transfer listed assets to the pool by 31 March 2025, and to set out in the ISS:

- assets which are pooled, under pool management and not pooled, and
- to provide a rationale, value for money and date for review for assets which are under pool management or not pooled

To revise pooling guidance so as to set out fully how funds and pools should interact and promote a model of pooling which includes the characteristics described above including on delegation of manager selection, strategy implementation, advice, governance, transition of assets, new investments outside the pool and reporting.

To implement a requirement in guidance for administering authorities to have a training policy for pensions committee members and to report against the policy

To revise guidance on annual reports to require greater clarity on progress of pooling including a summary asset allocation (including investment in infrastructure and levelling up), a comparison between actual and strategic asset allocation, and a report of the net savings from pooling. We also seek views on whether there should be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how this requirement should operate

For the Scheme Advisory Board to expand their Scheme Annual Report to provide a report on the progress on pooling and on asset allocation across the LGPS.

To make changes to LGPS official statistics to provide greater transparency on asset allocation and the proportion of assets which have been pooled.

Investment in levelling up

To amend regulations to require funds to set a plan to invest up to 5% of assets in levelling up the UK, and to report annually on progress against the plan.

Investment in private equity

To revise ISS guidance to require funds to consider such investments to meet the government’s ambition of a 10% allocation to private equity in the LGPS.

Investment consultancy services

To amend regulations to set requirements funds with respect to investment consultants in line with the CMA order.

Definition of investment

To amend investment regulations to correct an inconsistency in the definition of investment.

QUESTIONS

Chapter 2: Asset pooling in the LGPS

Question 1: Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?

Question 2: Do you agree with the proposal to set a deadline in guidance requiring administering authorities to transition listed assets to their LGPS pool by March 2025?

Question 3: Should government revise guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics described above?

Question 4: Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?

Question 5: Do you agree with the proposals regarding reporting? Should there be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how should this requirement operate?

Question 6: Do you agree with the proposals for the Scheme Annual Report?

Chapter 3: LGPS investments and levelling up

Question 7: Do you agree with the proposed definition of levelling up investments?

Question 8: Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?

Question 9: Do you agree with the proposed requirements for the levelling up plan to be published by funds?

Question 10: Do you agree with the proposed reporting requirements on levelling up investments?

Chapter 4: Investment opportunities in private equity

Question 11: Do you agree that funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio? Are there barriers to investment in growth equity and venture capital for the LGPS which could be removed?

Question 12: Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise on the Bank's expertise?

Chapter 5: Improving the provision of investment consultancy services to the LGPS

Question 13: Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?

Chapter 6: Updating the LGPS definition of investments

Question 14: Do you agree with the proposed amendment to the definition of investments?

Chapter 7: Public sector equality duty

Question 15: Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.

The Wales Pension Partnership (WPP) welcomes the opportunity to respond to this consultation on the supplementary issues and draft regulations in relation to the "Local Government Pension Scheme (LGPS): Next steps on investments".

The WPP was established in 2017. It is a collaboration of the eight LGPS funds (Constituent Authorities (CAs)) covering the whole of Wales and is one of eight national Local Government Pension pools.

It was set up to deliver investment solutions that allow the CAs to implement their own investment strategies with material cost savings, while continuing to deliver strong investment performance to their stakeholders. There is also a strong desire to explore the ability of finding investment opportunities that could support the development and advancement of Wales, economically and socially, whilst meeting the CAs' fiduciary duties.

Being a Welsh pool for the Welsh LGPS funds and investing in and supporting Wales is therefore an important aspect of WPP's identity. Whilst we are always open to collaborating with other pools, where it is expected to benefit our constituent authorities, we wish to maintain our identity as a Welsh pool and ability to continue to support Wales.

Question 1: Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?

The WPP would note that there are already a range of alternative approaches to pooling being undertaken, which have all demonstrated benefits across governance, excellent value for money, outstanding performance and ability to access a range of asset classes.

Pooling in its current form continues to present opportunities for LGPS Funds to use their collective scale to develop innovative and effective investment solutions. This is reflected in the work plans for all the pools, regardless of their operating model. We believe that further opportunities will be developed under the current structure and that the current consultation will provide some momentum and focus for LGPS funds to achieve this.

One opportunity comes from the potential for specialists in particular asset classes and allowing other pools to benefit from this through accessing these capabilities, as noted in the consultation. When considering the aims of the consultation around levelling up and private equity investments, access to specialists in these areas may help in the development of investible opportunities, provider greater access and prevent LGPS funds potentially bidding against each other for the same investments.

The main challenges to pooling have been in relation to illiquid and non-listed assets. The pools, including the WPP, have all been working to develop solutions to these asset classes but some barriers continue to exist that has slowed progress. A prime example would be in Real Estate, where careful consideration is required around transition costs and tax implications for transitioning assets or constructing pool solutions. As the WPP works to launch a Real Estate solution, these issues have posed a significant challenge to making a solution financially viable for our CAs. Any assistance government could provide in helping overcome these barriers would be much appreciated.

A further barrier is in relation to the development and structuring of investible opportunities that have the right balance of risk and reward. The initial consultation on pooling was focussed on providing better access to infrastructure investments. While LGPS allocations to infrastructure have increased in recent years this is an example of an asset class where further opportunities could exist. In particular, in light of the focus of the current consultation on levelling up and private equity, support from government in helping to develop and create investible opportunities would increase the potential for greater pooling, aligned to the aims of both the funds and the aims of government.

Question 2: Do you agree with the proposal to set a deadline in guidance requiring administering authorities to transition listed assets to their LGPS pool by March 2025?

We are uncomfortable with the proposal to set a deadline in guidance requiring authorities to transition listed assets to their LGPS pools by March 2025. Effectively, we believe that this would result in a 12-18 month transition timeline once any new guidance comes into force. This would not be practical for the WPP for a number of reasons, including cost to the CAs and the practicality of setting up new sub funds in such a short timescale. We believe that better guidance would be for Administering Authorities to transition suitable assets as soon as practically possible. Strong progress has already been made to date in transitioning listed assets into the WPP's ACS and we offer a wide range of fund solutions within liquid assets to meet our CAs') needs. We are therefore in a strong position to assist our CAs to transition suitable assets into the pool at the right time, to continue to achieve the targeted benefits of pooling.

As of 31 March 2023, the WPP has pooled c.70% of its overall assets, breakdown as follows:

- Equities – 34%
- Fixed Income – 13%
- Passive – 23%

The CAs of the WPP have collectively procured BlackRock as the provider of passively managed solutions. These therefore remain outside of the ACS, but the WPP does maintain some oversight of this arrangement. The fee savings achieved through this collective procurement exercise are significant, and there is no reason to believe that moving these holdings within the ACS of the WPP will achieve further savings. In fact, it will increase costs to CAs, in terms of transaction costs and they will also incur the costs of the ACS operator on these assets. We therefore do not believe that it would be correct to mandate the movement of these assets inside the ACS. However, the passive manager is under regular review to ensure it offers the most suitable and cost-effective solution for the CAs.

Guidance is also required regarding solutions required by only a single CA that are not currently offered by the WPP. For example, some CAs may hold investments necessary for implementation of their current strategy that are not used by or available to others and it may take longer for these to transition. If so, the timeline for setting up new investment solutions can take c. 2 years, meaning the 31 March 2025 deadline will not be achievable.

Question 3: Should government revise guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics described above?

No. Existing guidance is sufficiently prescriptive and it would be inappropriate to prescribe a particular model for pooling.

Within the process of the current 8 LGPS pools being set up, a range of approaches and operating models have been developed. There are two main categories of approach:

LGPS owned pool company – where a pool is structured as an FCA regulated entity which is owned by the underlying administering authorities. The pools under this approach will have responsibility for the design and set up of all the investment solutions offered to their member funds and may or may not have in house investment management capabilities but will be responsible for selection and monitoring of any third party managers.

LGPS governed pool with rented operator – where a pool is formed of a joint committee representing the underlying administering authorities. The committee has responsibility for the selection and monitoring of a rented operator who sets up a series of investment solutions which the member funds invest through. The selection and monitoring of third party managers is the responsibility of the operator with the pool authorities providing oversight and direction on the requirements of the investment solutions needed for each fund to implement their investment strategies.

Within the consultation, the government appeared to set out a clear preference for a certain for the "LGPS owned pool" approach, set out above. The WPP falls within the "LGPS governed pool with rented operator" approach.

We do not agree with the government promoting a single model of pooling. We firstly believe that the range of approaches to pooling that have been developed has led to significant innovation, which a single model would stifle. We also believe that there is not yet enough of a track record built up to clearly point to one model being more successful than others.

WPP's approach (third party operator and Investment Managers appointed by the operator) has significant benefits including the ability to review and replace the operator and for the operator to replace underperforming investment managers (without the conflicts that may arise if investment management is part of an owned pool company).

WPP's approach has resulted in great success in achieving cost savings and a wide range of benefits for our CAs.

The fee savings achieved by the WPP have been significant. This has included those achieved through the joint procurement of a passive management provider. However, across our range of active funds, fees have also been reduced for our CAs. This has been achieved both through the pooling of assets gaining greater buying power with third party service providers and investment managers, and through the use of an investment manager with scale and expertise in building pooled multi-manager funds, as are commonly used across the pools. This has meant that the primary Investment Manager and Investment Advisor appointed by the Operator, Russell Investments, has a large asset base, in addition to the assets it manages on behalf of the WPP, that it uses to negotiate significant fee reductions from the underlying investment managers that they appoint. Total fees saved to end March 2023 are £32.7m, net of costs.

The WPP has also set up a wide range of investment funds for our CAs, across a significant number of asset classes. Our liquid investment funds are a range of blended manager sub funds. a number of funds that invest in ways that already support the government's levelling up agenda, such as Private Equity and Infrastructure sub funds with explicit UK target allocations. The WPP is now considering Real Estate options. The range of investment funds set up by WPP have also seen some very strong performance with around half of the ACS sub funds outperforming their benchmark over the periods since inception to March 2023, some considerably so. Given the well documented difficulties in generating sustained outperformance in active management, this represents a significant success for the WPP.

The process of developing new investment solutions that the WPP has adopted has also seen material successes through input and compromise from our CAs on what they require from the sub funds. We have found that being part of the design and formation has then led to significant buy-in from our CAs through their investment into these funds.

We have achieved this collaborative approach through a strong governance structure which includes the Joint Governance Committee and other governance committees (such as the Officer Working Group and Responsible Investment sub-group) that have representation from all CAs. These groups feed directly into the fund design process with our investment Manager, over a number of design stages, removing any issues of misinterpretation of CA requirements by the pool.

We believe that our approach provides the WPP and its CAs with greater ability to hold our service providers to account. For example, if our service providers underperform, e.g. the operator appointed investment manager producing consistent underperformance, the operator is better able to retender that contract and make a change, than if it were inhouse staff making those investment decisions. Similarly, the operator appointed Investment Manager is able to replace under-performing sub-managers in the multi-manager sub-funds it manages.

We do not agree with the suggestion in Paragraph 31 of the consultation that pools should have a greater role in advising funds regarding investment decisions including investment strategies. This would result in conflicts of interest for pools between pool solutions and the most appropriate solution for each fund. Each administering authority should take independent advice on investment strategy that is appropriate to its particular liabilities taking account of factors including its cashflow requirements, pace of funding and agreed risk appetite.

We also do not agree with funds aligning their investment strategies. We strongly believe that all funds should develop their investment strategy based on their own specific circumstances and requirements and any pressure to align to others in a way that moves funds away from their optimal investment strategy can lead to material financial risks.

Finally, we also believe that greater evidence is required regarding the optimal scale of a pool being £50bn-£75bn in assets under management. We do not believe the report offered within the consultation document provides this. The costs of merging pools to achieve this scale is likely to be significant and should only be undertaken with strong evidence that the benefits will justify these costs. Wider factors also need to be considered, such as the impact of a pool having a larger number of funds to provide solutions for.

We also raise the challenge having a larger asset size would present to investing in smaller opportunities. For a larger pool, it will be more difficult to justify spending time on the due diligence for small scale investments, as they will represent a smaller share of the pool's assets under management. Not only will this reduce a pool's investment opportunity set, but many investments that will meet the government's Levelling Up agenda likely to be relatively small. This means larger scale pools may also pose a threat to the LGPS's ability to contribute towards Levelling Up.

Question 4: Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?

We support a requirement to develop formal training policies and increase the level of training provided to pension committees. However, we do note that many administering authorities already have training policies and extensive training programmes in place, but increased focus on this area across the LGPS is likely to beneficial. We also encourage further clarity on the purpose of any training, the level of knowledge that is to be achieved from this and what form this training will take.

The WPP already provides a wide range of training to its stakeholders within the CAs which often forms a part of their formal training plans. The WPP has its own training plan which includes quarterly training sessions to Officers and Joint Governance Committee members, these training sessions are also often extended to individual pension committee and pension board members and are very well attended. The WPP also has an induction training programme I place for new Joint Governance Committee members. We work closely with the CAs to understand their requirements, in terms of what training topics should be covered and the medium in which they should be delivered, ensuring maximum engagement levels. This can be adapted and increased to our CAs' needs when required, so support them in meeting any potential new requirement.

Question 5: Do you agree with the proposals regarding reporting? Should there be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how should this requirement operate?

The WPP believes in and supports the concept of transparency within the LGPS and aim to incorporate this into all of our activities. Increasing the detail of reporting will certainly provide a more transparent picture of LGPS investments. There should be a consistent approach to reporting across all pools.

However, this has the potential to create significantly more work for pensions officers within funds, who are already stretched in their workload.

Pools can and should assist their funds as far as they can in the production of this reporting, however this will again lead to increased workload for pools, and likely incur costs.

We therefore firmly encourage the inclusion of LGPS funds and pools in the designing of any reporting requirements. This way, feedback can be provided on the likely workload impacts of the various levels and methods of reporting considered.

Question 6: Do you agree with the proposals for the Scheme Annual Report?

The WPP is supportive of increasing the level of reporting and transparency within the Scheme Annual Report. However, we reiterate the importance of ensuring this does not incur materially increased workloads and costs on funds and pools. Consistent reporting across all pools will make the production of Scheme Annual reports easier. Funds and pools should be invited to provide input to the designing of any reporting requirements.

Question 7: Do you agree with the proposed definition of levelling up investments?

We are supportive of most of the proposed definition. In particular, we agree that investments across a range of asset classes, and throughout the UK, which have a meaningful impact on the levelling up missions should count towards the proposed target, including any local and impact investment. It provides funds with greater flexibility to find suitable investments that meet their pension committees' fiduciary duties, as the consultation confirms remains a requirement.

However, we do challenge the targeting of the specific 12 levelling up missions noted in the consultation and set out in the Levelling Up whitepaper. These are the current government's missions and may change over time, especially as governments change. Any changing of these missions would create significant uncertainty and severely hamper a fund's ability to invest for the long-term. This would likely harm investment returns and the impact funds can have on levelling up. A set of more universal and long-standing objectives, such as the United Nations Sustainable Development Goals, may be more suitable when applied to the LGPS.

The WPP have made a significant investment in a project to develop wind farms across Wales which supports the levelling up agenda. We also continue to appraise any opportunities that arise.

We are supportive of the focus on newly originated assets, as this typically allows funds and their managers to better structure the transactions, secure better returns and deliver social and economic impact. We note, however, that new origination has always been the preference of many managers and would urge the government to consider whether there are actions it could take to facilitate the supply of new opportunities. We believe that actions such as streamlining planning rules, transferring risks that are hard for the private sector to finance and investing in education and skills could really help.

Question 8: Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?

We see a key benefit of this being that if another pool has a suitable solution in an area that the WPP does not, being able to invest in that other pool's solution means the WPP will not need to spend time and effort on developing its own solution.

However, the process of our CAs needing to invest in another pool's solution through the WPP could lead to structural challenges in the following ways:

- Potentially unnecessary additional layers of fees which is counter to the aims of cost savings and efficiency gains,

- Capacity constraints on products focussed on non-listed or illiquid markets,

- Misalignment of investment solutions with objectives where solutions were designed and created with a planned investor base at outset,

- Misalignment of funds' investment strategies where there is an increased level of separation of implementation decisions with funds.

However, we understand the WPP's role would reduce the risk of CAs picking or choosing elements of different investment solutions across the pools which they would like to access and creating unwanted competition between pools.

We would also like to understand the due diligence requirements that would fall upon the WPP in setting up a solution to invest through other pools. For example, we would anticipate that WPP will need to undertake due diligence on the other pool's solution to ensure this is suitable and that WPP would be held legally accountable if an issue in that solution arose.

Finally, the ability of to invest in other pools' solutions may lead to an unintended consequence of slowing innovation within the pools. There may become a tendency to wait for other pools to launch solutions, rather than pools developing their own. This would reduce the very positive aspect seen in pooling so far of pools crating different and innovative solutions to problems and being able to learn from one another's experiences.

Question 9: Do you agree with the proposed requirements for the levelling up plan to be published by funds?

As stated earlier, we believe in and support the concept of transparency within the LGPS and aim to incorporate this into all of our activities.

Whilst the WPP is not an LGPS fund, we again encourage the inclusion of LGPS funds within the designing of any requirements regarding the setting and publishing of a plan to ensure it does not lead to a notable increase in pensions officers' workloads.

Question 10: Do you agree with the proposed reporting requirements on levelling up investments?

In addition to our answer to question 9, we also encourage the inclusion of LGPS funds within the designing of any reporting requirements to ensure it does not lead to a notable increase in pensions officers' workloads.

Question 11: Do you agree that funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio? Are there barriers to investment in growth equity and venture capital for the LGPS which could be removed?

No, we do not believe that any mandated targets should be set by Government. Each administering authority has a fiduciary responsibility for paying pensions and therefore should have freedom to decide what investment strategy (including asset class mix) required to meet its particular liabilities taking account of its specific cashflow requirements, liabilities, funding levels and risk appetite. We believe that the setting of a Fund's investment strategy and strategic asset allocation should remain within that Fund's control and be based entirely on its own position and requirements.

We also seek clarity on the types of investments that would fall within this consultation's definition of "private equity".

At the WPP, we are implementing solutions for our CAs to invest in across a wide range of private markets asset classes, including private equity. As part of this, we aim to ensure that some of these investments are directed towards investment opportunities that support our local economy, which aligns to the government's Levelling Up ambitions in a way that is aligned to our CAs fiduciary duties.

The challenges we foresee to investing specifically in venture and growth capital are the level of risk posed by these asset classes and the scale of opportunities, given the size of investment proposed.

On risk, whilst over the long-term these asset classes have historically had some periods of very strong performance, they can be extremely volatile and can incur significant losses. A large allocation may therefore not be suitable for LGPS funds and their aims of paying pensions whilst keeping employer contribution rates stable and affordable. Some form of risk sharing with the government may help in this regard.

On scale, venture and growth capital investments tend to be relatively small in size, given these are typically investing in smaller companies. It is therefore likely to be challenging to invest such a large value of assets into these areas whilst ensuring funds and pools are only investing in the best opportunities and not bidding prices up, leading to lower future returns. Here, pools and funds must be allowed to invest across the full spectrum of types of funds and regions, and investments made over a long period.

We also require further clarification on whether the potential requirement of 10% of assets is to be invested within the UK or not. Whilst the wording of the consultation does not state this, the discussion is largely in regard to boosting the UK economy.

Question 12: Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise on the Bank's expertise?

The WPP is supportive of the amendment to legislation that may currently inhibit the ability of pools to work with third parties with expertise in areas of interest to the LGPS, including the British Business Bank. Any increase in investment options to specialist knowledge and experience is expected to lead to better investment outcomes and a greater ability to meet any potential minimum investment requirements.

However, it will become incumbent on pools, and funds where they may investment directly, to perform adequate due diligence on investments with the British Business Bank, as they would do with any investment. As the British Business Bank does not operate as a traditional private equity investment management firm does, this may be a difficult and time-consuming process.

It is also worth noting that funds and pools already have access to a wide range of experts in private equity investing within the private sector investment management industry. Pools and funds will need to remain adequately diversified across a wide range of managers, funds, regions, and vintage years to help manage the relatively large risks of this asset class. This is particularly important if the preference is for venture and growth capital, which are traditionally very high-risk investments. This means that it may be unlikely to lead to a significant increase in assets flowing to the British Business Bank.

Question 13: Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?

We are supportive of the proposed implementation of the Order through amendments to the 2016 Regulations and guidance.

Question 14: Do you have any comments on the proposed amendment to the definition of investments?

We do not have any comments regarding the proposed amendment.

Question 15: Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.

We do not foresee any particular groups benefiting or being disadvantaged by these proposals.

ROBECO
The Investment Engineers

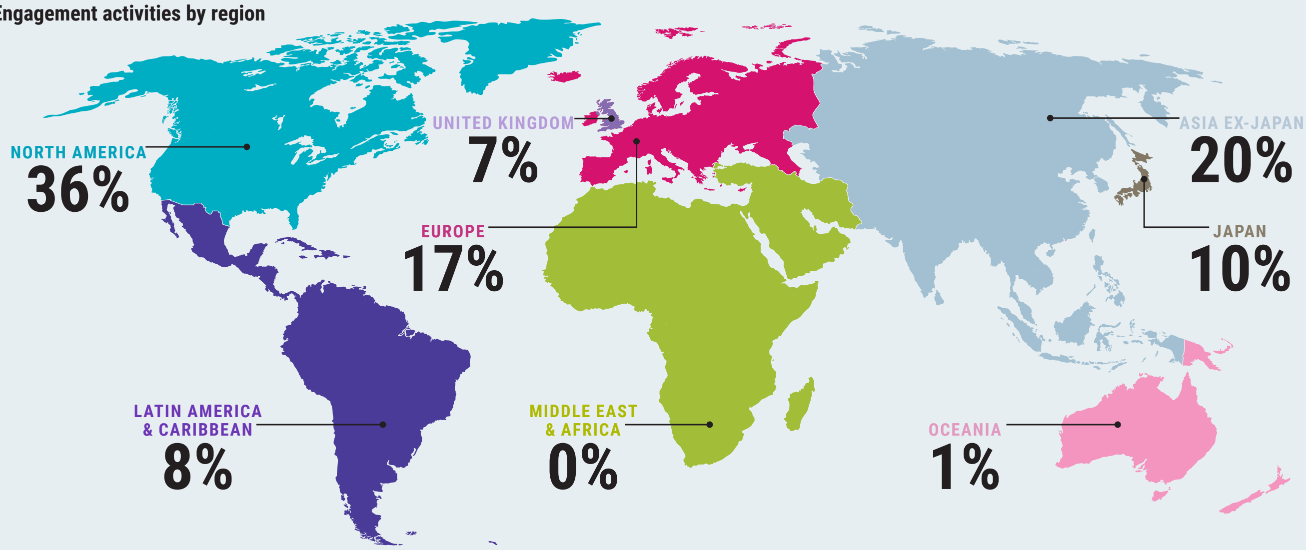
ROBECO I 01.07.2023-30.09.2023

Active ownership report

Sustainable Investing Expertise by ROBECOSAM

Q3|23 figures engagement

Engagement activities by region



Number of engagement cases by topic*

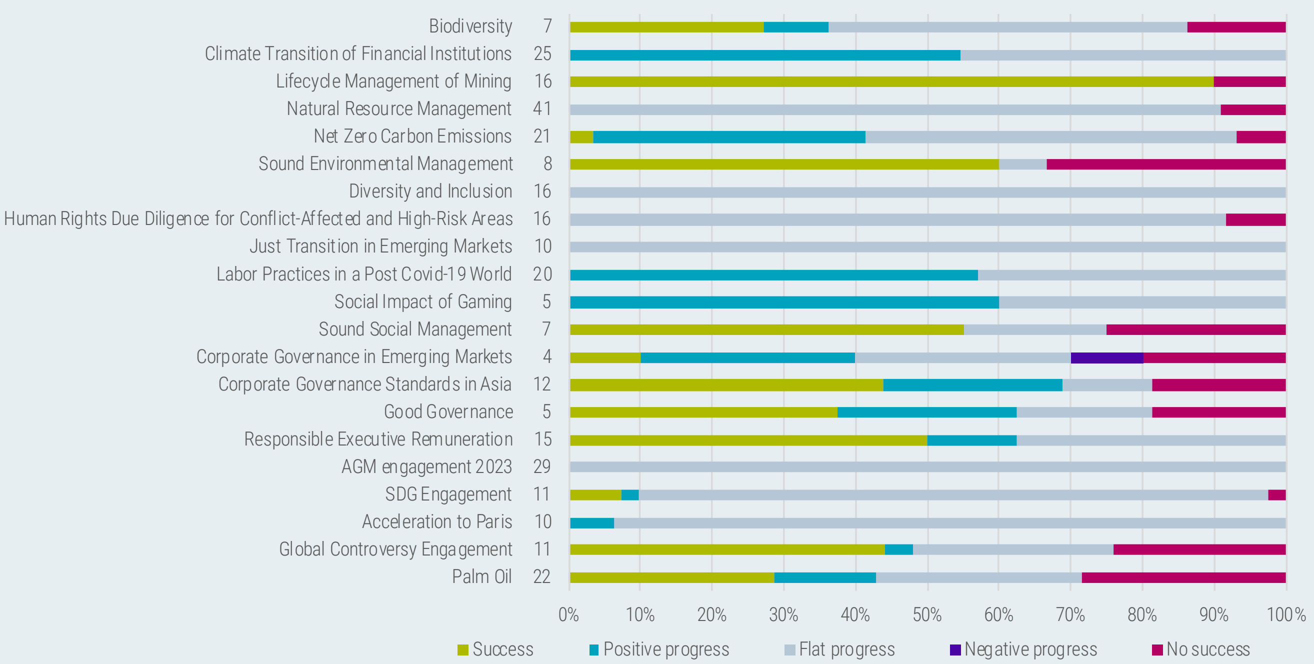
	Q1	Q2	Q3	Q4
Environment	48	61	41	
Social	17	27	12	
Corporate Governance	20	19	12	
Voting Related	9	2	2	
SDGs	24	25	26	
Global Controversy	20	19	8	
Total	**138**	**153**	**101**	

Number of engagement activities per contact type

	Q1	Q2	Q3	Q4	YTD
Meeting	4	9	6		19
Conference call	93	96	53		242
Written correspondence	129	79	68		276
Shareholder resolution	0	0	1		1
Analysis	16	49	18		83
Other	1	6	0		7
Total	**243**	**239**	**146**		**628**

Progress per theme

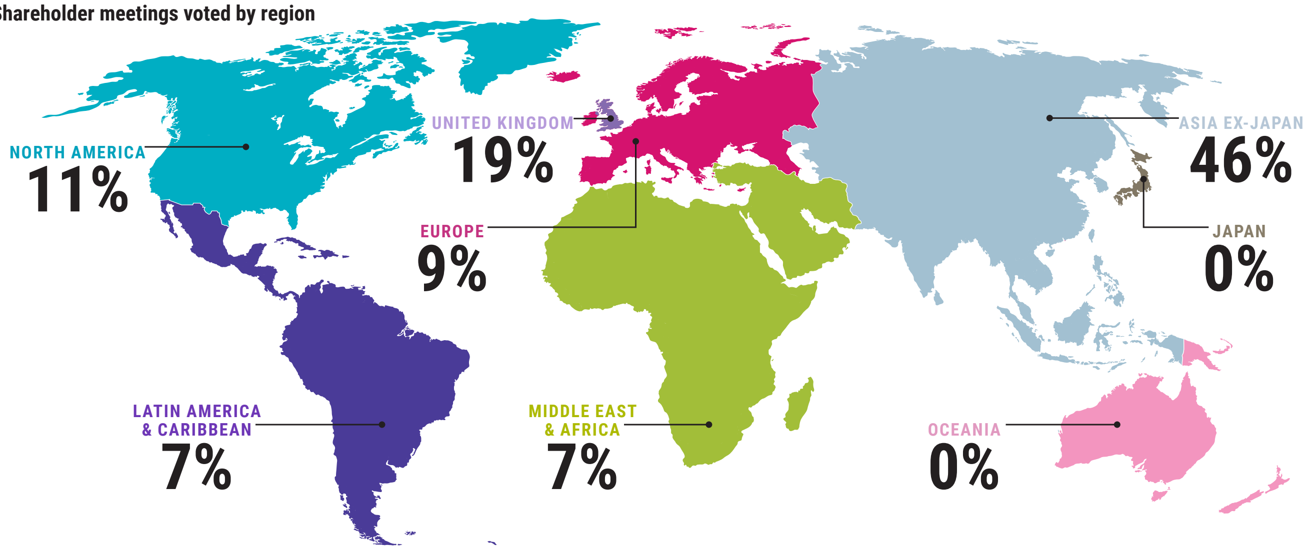
Themes and number of companies under engagement



* For more information on Robeco's approach to engagement please refer to the appendix at the end of the report.

Q3|23 figures voting

Shareholder meetings voted by region



Voting overview

	Q1	Q2	Q3	Q4	YTD
Total number of meetings voted	171	793	146		1,110
Total number of agenda items voted	1,868	11,460	1,430		14,758
% Meetings with at least one vote against management	64%	71%	45%		66%

Votes cast per proposal category

Contents

Introduction

Combatting climate change and safeguarding our planet's wealth requires actors across the globe to pull on the same rope, from investors and corporates to civil society and governments. This quarter's report focuses on the breadth of engagements undertaken to move companies and broader society in the right direction.

First of all, climate action requires a holistic approach. While limiting environmental impacts is key, this should not come at the cost of workers, local communities or other vulnerable stakeholders. Socially adverse impacts of corporates' climate actions, such as jobs lost due to the downscaling of polluting activities, must be avoided. In an interview with our engagement specialist Ghislaine Nadaud, we delve into what companies can do to undergo a socially 'just' transition. Our new engagement theme 'Just Transition in Emerging Markets' will engage companies across various sectors, starting off with mining and energy industries, on defining just transition ambitions and strategies. Topics will include assessing and managing their social transition risks, engaging stakeholders to find sustainable solutions, and creating best practices that can serve as examples for peers.

Another angle to engagement is showcased in our 'Corporate Governance in Emerging Markets' theme, as it tackles not only companies but also the corporate governance standards and standard setters. Reflecting on the last three years of the engagement, we see a growing number of policy makers across South Korea, Hong Kong and Japan take action to strengthen disclosure requirements for corporates in particular. For instance, in 2023, we contributed to a letter sent by the Asian Corporate Governance Association to the Hong Kong Stock Exchange, supporting and adding to their consultation paper on its strengthened climate-related disclosure requirements for listed companies, requiring companies to demonstrate an adequate climate understanding and transition plan.

To complete the circle, we shed some light on our collaborative sovereign engagement work. Initiated in 2020 with the focus on ending deforestation in Brazil, our ongoing dialogues with sovereign entities have since extended to Indonesia and Australia. In April this year, we had the chance to meet various ministries, governmental bodies, companies and financial institutions in-person in Brazil to discuss deforestation action under the new Lula administration. Through the discussions, we liaised between stakeholders, investigated mutually beneficial solutions such as creating national-level traceability systems, and explored how investors can help to unleash more financing into the country's environmental transition. While not forgetting the sensitivities linked to this type of engagement, the article outlines the added value of engagement between sovereigns and investors, which we hope to see grow.

The three engagement themes presented during this year's third quarterly report bring together the importance of a harmonious corporate, policy and sovereign engagement approach. Seeing a growing momentum throughout our dialogues, we look forward to continuing our engagements and to exploring how our own and our clients' voices can continue to shape a greener future.

Carola van Lamoen
Head of Sustainable Investing

JUST TRANSITION IN EMERGING MARKETS

AdJUSTing the climate transition

Ghislaine Nadaud – Engagement specialist

Efforts of companies transitioning from fossil-based and resource-depleting economies to more sustainable practices are ever-growing. In this process, they should not only account for the transition of their own operations, but also the impacts that these transitions will have on their key stakeholders. A Just Transition is crucial for achieving a sustainable and climate-resilient future.

Everyone has a role to play in achieving a Just Transition: governments, corporates and even investors. In this interview, engagement specialist Ghislaine Nadaud shares how our new engagement theme helps companies tackle this challenge.

What is a Just Transition and why is it important?

The transition to a low-carbon economy is expected to affect nearly 1.5 billion workers globally. The UN Framework Convention on Climate Change identified 1.47 billion jobs in sectors critical to climate stability: agriculture (1 billion); manufacturing (200 million); buildings (110 million); transport (88 million); and energy (30 million).

A Just Transition emphasizes the need for a fair and inclusive approach to the decarbonization process. Beyond workers, it considers the impacts on all affected stakeholders including communities; suppliers and consumers along the value chain; and broader citizens.

We align our approach with the International Labour Organization's definition:

> " *A Just Transition means greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities, and leaving no one behind. It is a process towards an environmentally sustainable economy, which 'needs to be well managed and contribute to the goals of decent work for all, social inclusion and the eradication of poverty.*

Guidelines for a just transition towards environmentally sustainable economies and societies for all (2015)

Companies are approaching the net-zero transition in various ways: transitioning out of polluting industries and into the renewable energy sector; automating production practices; and downsizing or diversifying the scope of operations. What is common across all these companies is that people and communities have supported them until today. Understanding the social impacts of the net-zero transition is crucial for investors to more fully understand climate change's financial risks.

What are the unique challenges for a Just Transition in emerging markets?

While the Just Transition is a global challenge, it is especially relevant for emerging markets. Emerging markets account for over 95% of the increase in global emissions and are projected to account for 90% of global population growth. Given their strong dependence on high-emitting sectors like coal mining and agriculture, they face a significant risk of unsustainable, inequitable development.

Transition-related job losses, exacerbated by weak social protection policies, will affect billions of people. However, there are also huge opportunities for emerging markets. A Just Transition can reshape their economic landscape, create jobs, advance the Sustainable Development Goals (SDGs) and elevate their global standing by showcasing a proactive response to climate change and social equity. By capitalizing on these opportunities, emerging economies and companies place themselves on a sustainable growth trajectory, benefiting their people and the planet.

Why is a Just Transition relevant for investors?

Decarbonizing the economy requires an extensive transformation of various sectors, regions, and communities. By reallocating capital towards companies with net-zero strategies, investors actively drive the transition to a low-carbon future. Beyond the transformative social and environmental benefits, a just – rather than merely net-zero – transition has distinct investment opportunities. It enables investors to impact systemic risks, identify investment prospects, recognize vital factors contributing to long-term value, fulfill fiduciary responsibilities, and align with economic, social, and ecological development objectives.

Investors can effectively address Just Transition issues through five main avenues: their investment strategies, corporate engagement, capital allocation, advocating for supportive policies, and forming partnerships. This program focuses on corporate engagement with our investee companies, acknowledging that all five areas are interlinked and imperative to the Just Transition.

What is Robeco's Just Transition engagement approach?

The growing global dialogue on the Just Transition has prompted the establishment of various frameworks and initiatives from diverse stakeholders who seek to facilitate a global Just Transition. These include the International Labour Organization's Just Transition Guidelines, the UN Guiding Principles for Business and Human Rights, Climate Action 100+ initiative, and the World Benchmark Alliance's Just Transition Methodology. These frameworks and benchmarks offer a foundation for asset managers to set clear objectives when engaging with investee companies on the Just Transition, ensuring credibility while avoiding greenwashing. The frameworks were imperative for us in developing the five engagement objectives that will structure our Just Transition dialogues.

The first engagement objective covers a company's Just Transition ambitions and governance. The second objective addresses stakeholder engagement, ensuring that companies identify potentially affected stakeholders and commit to ongoing social dialogues with them. The third objective focuses on the need for a Just Transition Plan, including a defined strategy towards Just Transition-related risks and opportunities. The fourth objective concerns risk identification, assessment and management, with a focus on social risks and impacts. Finally, the fifth objective addresses the company's transparency and disclosures in relation to its Just Transition progress.

How did Robeco select its companies under engagement?

We conducted extensive research to understand the industries represented in our portfolio and their progress in integrating Just Transition principles. We aimed to identify the industries with the most potential for engagement and positive impact, considering key factors including emission intensity, industry size in the Asia-Pacific (APAC) region and South Africa; and Just Transition-related initiatives in these countries.

After careful analysis, we determined that the mining and energy industries were the most suitable for our engagement process. Subsequently, we embarked on a thorough selection process, screening our database to identify companies operating within the targeted sectors in the APAC region and South Africa. We applied a rigorous evaluation of these companies based on their alignment with the relevant SDGs (SDGs 7 on Affordable & Clean Energy, 8 on Decent Work & Economic Growth, and 13 on Climate Action) and our proprietary climate scores.

Subsequently, we consulted some of our clients and the relevant investment teams to gain insights into their investment approach and perspectives on attractive companies. We shortlisted several companies to further assess their suitability for engagement, accounting for their net-zero decarbonization strategies, initiatives to protect the rights of workers and local communities, and training programs to upskill or reskill their workforce. As a result of this process, we selected six companies for engagement under the Just Transition theme.

Although the Just Transition is relevant for the global economy and therefore all sectors, our engagement activities are initially focused on the energy and mining sectors due to their stronger decarbonization progress and social relevance for emerging markets.

Going forward, our engagement will expand to other key sectors, including agriculture, construction, transportation, and finance.

Where to from here?

Just Transition-related challenges and opportunities will inevitably vary across regions. To overcome these challenges and capitalize on the opportunities described above, a comprehensive, 'tailor-made' approach is essential. This includes strategic investments in sustainable solutions, tailored policies that balance economic growth, social equity and environmental sustainability, as well as collaborations with governments, corporates and civil society.

Companies have a pivotal role in ensuring a Just Transition by embracing sustainable practices, driving local innovation, creating green jobs, advocating for supportive policies and engaging in transparent reporting. Investors should guide this by assessing and addressing Just Transition concerns in their investment decisions.

> *“What is common across all these companies is that people and communities have supported them until today [hence] understanding the social impacts of the net-zero transition is crucial.*
>
> Ghislaine Nadaud

CORPORATE GOVERNANCE IN EMERGING MARKETS

Improving disclosure and capital allocation in Asia

Ronnie Lim – Engagement specialist

Our engagement in emerging markets focuses on companies and is bottom-up in nature. We have five broad engagement objectives and have seen the most positive progress so far on the objective of improving disclosures for the capital markets.

Our main sub-objective related to disclosure is asking companies to provide or improve their narrative or 'non-financial' reporting on material issues. Although Chinese and Hong Kong-listed companies do provide such narrative reports annually (such as a chairman's statement or an ESG report), we consider much of the content to be boilerplate. We have explained the benefits to companies of providing meaningful reporting and disclosing targets to improve their accountability for results.

Another engagement objective is to improve how companies allocate capital by doing it more transparently and effectively. In the less successful cases, we found companies did not demonstrate a basic understanding of value creation, were unwilling to consider implementing a consistent dividend policy, or did not wish to disclose any financial strategy. These laggards tried to justify their approach on the grounds of retaining competitiveness.

In more constructive cases, companies have not only improved their shareholder returns steadily, but have also understood the importance of communicating a robust financial strategy to the capital markets. Those companies are usually rewarded with higher ratings by external analysts, and with higher valuations by the markets.

We are active members of the Asian Corporate Governance Association (ACGA) and work together for the implementation of effective corporate governance practices throughout the continent. We are particularly active with ACGA in Japan, Hong Kong and South Korea.

In July 2023, the ACGA submitted a letter to the Hong Kong Stock Exchange (HKEX) on its consultation paper on the Enhancement of Climate-related Disclosures under the existing environmental, social and governance framework. The exchange has mandated all listed companies to make climate-related disclosures in their ESG reports, marking an upgrade from the existing 'comply or explain' regime. The ACGA response was supportive of this leadership by HKEX, while also providing specific comments on the importance for investors of receiving meaningful narrative on how boards are addressing climate matters.

In markets like South Korea, companies typically only provide the minimum reporting required by regulations, for example in releasing their financial statements and filing a perfunctory corporate governance report. In 2022, the Korea Exchange (KRX) and the Financial Services Commission (FSC) introduced revisions to the guidelines on mandatory corporate governance disclosure for listed companies.

The mandatory filing has expanded to firms listed on the Korea Composite Stock Price Index (KOSPI) with total assets of KRW 1 trillion (EUR 700 million) or more, and the total number of companies that will be subject to the mandatory filing of

> "*(Companies that understand the importance of communicating a robust financial strategy to the capital markets) are usually rewarded with higher ratings by external analysts, and with higher valuations by the markets.*
>
> Ronnie Lim

CASE STUDY

WOOGJIN COWAY

Woonjin Coway is a South Korean appliance rental business. Following the acquisition of a 20% stake in Coway by Netmarble, we began engagement asking for an explanation of the criteria used to make the acquisition.

We explained the benefits of disclosing a business strategy which addresses material risks and opportunities and which is supported by a financial strategy. We also recommended that the company improve its narrative reporting.

Coway's reporting has improved but remains poor when compared to peers. The company's performance has suffered from instability of its management strategy, and a decline in the dividend payout, which altogether led us to close the engagement as unsuccessful.

SAMSUNG ELECTRONICS

Samsung Electronics is a South Korean electronics conglomerate. We have been engaging with Samsung since 2017 on issues including improving disclosure of its non-financial strategy, capital expenditure, and board composition. We combined singular as well as collaborative engagement with other investors.

Since the beginning of the engagement, Samsung has increased the diversity and number of independent directors on its board. All key investment decisions are now reviewed by the entire board, with board sub-committees composed entirely of independent directors. Samsung furthermore started to publish its strategy for each of its businesses and has strengthened its environmental reporting.

corporate governance disclosure is expected to increase substantially. Notably, companies will need to explain to their shareholders any details and reasons for board decisions on internal transactions with affiliated firms and self-dealings involving the management and controlling shareholders. We hope that this will discourage the number of opaque inter-group transactions in South Korea, and that this will benefit minority shareholders.

In conclusion, we can report some positive progress on improving meaningful disclosures for investors in some emerging market companies, and even visible leadership in the case of climate-related disclosures in Hong Kong. The progress on efficient capital allocation remains mixed, but we will continue with this important objective.

SOVEREIGN ENGAGEMENT

A fresh wind in the Amazon

Claire Ahlborn – Engagement specialist

To solve today's environmental crisis, "our world needs climate action on all fronts: everything, everywhere, all at once", UN Secretary General António Guterres said in March. Overcoming today's climate and biodiversity crisis is possible, but it requires urgent action from every sector and every country. Yet, investors have historically focused on only one part of the pie – corporates – overlooking their fiduciary duty when it comes to engaging with governments and policy makers.

Engagement summary

While in Brazil this year, we met with 5 governmental bodies, the Brazilian Central Bank, and 4 companies.

Over the last years, countries around the world have repeatedly come together to pledge collective action on topics ranging from poverty and health to climate to biodiversity, but progress is often too slow. For the first time in decades, progress that was being made in meeting the United Nations' Sustainable Development Goals (SDGs), has reversed, with one-third of the 17 SDGs now showing negative progress.

And while 194 sovereign states have pledged to support the Paris Agreement, efforts are still not high enough, according to the Intergovernmental Panel on Climate Change's latest warning issued earlier this year.

A similar story holds true when it comes to biodiversity. While almost 200 countries have agreed to implement the new Kunming-Montreal Global Biodiversity Framework formulated at the end of 2022, including the '30 by 30 target' to protect 30% of the planet's biodiversity by 2030, clear National Biodiversity Strategies and Action Plans (NBSAPs) have yet to be set.

Search for aligned solutions

So, while national ambitions are there, actions must be accelerated. Investors in sovereign debt hold an important role here, as they can encourage and support sovereign issuers to safeguard and invest in the environmental services that their economies and their citizens' livelihoods depend on. Furthermore, partnering with investors may give governments a better understanding of the sustainability-related needs arising from financial markets and how to leverage these to increase access to capital.

Investors need to tread carefully though. An elected government represents the needs of its people, its key responsibility being the country's long term well-being. While this should not discount the materiality of our current environmental crisis, engagements must be in line with a government's key stakeholder needs, and solutions must be appropriate and beneficial to the people they are representing.

Applying sovereign engagement

To explore how sovereign engagement can be applied, we zoom into our engagement with Brazil with aims to support the government on ending deforestation in the Amazon. The engagement was initiated in 2020 as part of the Investor Policy Dialogue on Deforestation (IPDD) collaborative investor platform, and represented the launch of our sovereign engagement efforts. Sovereign engagement has since been extended to Indonesia and Australia, including dialogues with a range of stakeholders; from (sub-)national authorities to civil society actors. The engagements focus on key nature-related SDGs which are of particular materiality for investors, and where we believe each country would benefit from the international financial sector's support. Talks regarding meeting SDG 15 (Life on land), focusing on ending deforestation, are being conducted with Brazil and Indonesia, while the talks with Australia focus on SDG 13 (Climate action).

Brazil

Home to 60% of the Amazon basin, the world's largest rainforest and land carbon sink, Brazil plays a key role in combating climate change. Traditionally however, safeguarding the value of the rainforest, has stood in contrast to the developmental benefits of expanding Brazil's agricultural sector, which is estimated to represent up to 29% of the country's GDP. While recent studies have shown that expanding agricultural production is possible without further geographic expansion, especially in the cattle sector which is seen as one of the key drivers of deforestation, the lack of incentives and financial streams being directed towards greater efficiency in agriculture is oftentimes hindering the sector's transition.

As such, in 2022, Brazil had the world's highest cover loss rate of tropical trees. Deforestation had surged by 75% compared to the average of the previous decade under former president Jair Bolsonaro's regime (2019-2022) and is only now starting to decrease as new President Lula's administration is working towards eliminating deforestation by 2030.

So far

The engagement takes place at many different levels; consulting, connecting and representing the views of local civil society organizations, governmental agencies and even corporates, who can become important allies in the country's environmental transition.

> *“ Investors may give governments a better understanding of the sustainability-related needs arising from financial markets and how to leverage these to increase access to capital.*
>
> Claire Ahlborn

Interestingly, it was the Brazilian business sector which led the initial transition, as companies jointly developed a strategy to fight deforestation. Pressures to act were only met by the government end of 2021, when the country signed the Glasgow Leaders Declaration on Forests and Land Use at COP26, pledging to halt and reverse forest loss and land degradation by 2030. Yet, progress remained stagnant until the new administration came into force in 2023.

In April 2023, Robeco and other IPDD members travelled to Brazil to discuss deforestation actions under the new government. We met with among other representatives of the Ministry of the Environment, Planning and Indigenous People, as well as with governmental sub-organizations such as IBAMA, the environmental enforcement agency, to understand whether political promises were being upheld.

Tracing down the issue

The dialogue focuses on finding systematic and socially beneficial solutions to the deforestation challenge. One such solution discussed during our visit related to increasing the transparency and traceability of cattle supply chain data, empowering companies in their fight against deforestation.

While having to ensure data privacy and the safeguarding of local competition, solutions such as establishing an accessible and reliable national cattle traceability and deforestation monitoring systems, as already in place in the State of Pará through Selo Verde, would increase efficiency and accountability in the private sector.

Furthermore, such a system would ensure compliance with current requirements set forth by the EU Deforestation Directive, which requests farm-level traceability of soy and cattle-related imports into the European Union. Lastly, a centralized traceability system could help the country fight broader criminal activities and tax avoidance, which are often linked to illegal deforestation.

Creating opportunities

From an incentivization angle, our recent trip to Brazil included numerous discussions focused on unlocking new channels to finance the country's green transition. We engaged with the Brazilian Central Bank and the Bank of Brazil to explore how to strengthen local sustainable credit markets, pushing the development of clearer taxonomies and verification systems. The discussions reflect both the growing local and international demand for green investment vehicles into the real economy, as showcased for instance by the National Treasury of Brazil's ambition to issue the country's first sovereign bonds linked to the ecological transition plan of the country.

Opposing views

The new elected administration seems to be standing behind its 2022 campaign promises, fostering cross-ministerial collaboration, and increasing budgets for environmental protection and enforcement by among others reviving the Amazon Fund.

However, the anti-environmental lobby remains strong in the Brazilian Congress and parts of the agribusiness sector, leaving budgeting and progress plans open to question. Yet, opposition also creates an opportunity for engagement as it reflects a need for dialogue and the importance of finding mutually beneficial solutions.

A new wind

Overall, with President Lula's environmental promises and a first fall of 34% in deforestation rates having been witnessed during the first half of 2023, a fresh wind seems to be blowing through the Brazilian rainforest.

Proxy Voting

Antonis Mantsokis – Active ownership specialist
Manuel Sobral – Active ownership analyst

The 2023 proxy voting season has been pivotal for shareholders across Japan, who have started to use their shareholder rights to push for more responsible business practices. Meanwhile, on a global level, we have seen growing focus on financial institutions, which have seen a significantly higher number of shareholder proposals requesting additional action and disclosures on their climate impacts than in previous years.

JAPAN'S PROXY VOTING SEASON: EMBRACING ESG, DIVERSITY AND SHAREHOLDER ACTIVISM

This year's proxy voting season in Japan has emerged as a pivotal time for shareholders to influence corporate governance and advocate for change. Several notable trends have emerged, highlighting a shifting landscape that prioritizes environmental, social, and governance (ESG) factors, pushes for greater diversity and inclusion, and demands stronger shareholder rights and accountability.

In line with global trends, shareholders are placing increased emphasis on ESG considerations in many Japanese companies. They call for greater transparency and accountability, particularly on matters related to climate change, diversity and sustainability. For example, at the recent shareholder meeting of a Japanese "mega-bank", shareholders voted on resolutions requesting the company to issue and disclose a transition plan to align its lending and investment with the Paris Agreement.

In addition, Japanese companies' shareholders are asserting their rights and demanding stronger participation in the decision-making process. A record number of shareholder proposals were submitted to companies, urging improvements in governance and calling for higher returns. These proposals encompass a range of initiatives, including calls for share buybacks, and increased dividends.

Robeco assesses these shareholder proposals on a case by case basis, and we are generally supportive of proposals that aim to increase transparency on material ESG issues and enhance long-term shareholder value creation. Nevertheless, when reviewing the merits of these shareholder proposals, we identified numerous instances where the text of the resolution was overly prescriptive, and therefore decided not to support them.

Moreover, there has been a growing emphasis in Japan on greater gender diversity in corporate boards. Shareholders are increasingly advocating for concrete targets to be integrated into listing rules and the Corporate Governance Code, signaling their commitment to promoting diverse and inclusive leadership.

The Asian Corporate Governance Association (ACGA), of which Robeco is a member, has recommended changes to the Corporate Governance Code over the following years to encourage both prime and non-prime market-listed companies to enhance the role of women on boards and in management. Prime Minister Fumio Kishida's endorsement of a target to fill at least 30% of executive officer positions with women by 2030 for all prime market companies has set an ambitious goal. The prime minister's remarks have raised the bar and highlighted the importance of female leaders for the long-term sustainability of the Japanese economy.

To conclude, this proxy voting season in Japan has witnessed a significant shift in shareholder priorities, with ESG considerations, diversity, shareholder rights, governance reforms and long-term value creation at the forefront. Shareholders continue to leverage their voting power to drive positive change, promote transparency, and hold companies accountable. These trends are reshaping the Japanese corporate landscape as shareholders actively contribute to the evolution of corporate governance practices and pave the way for a more sustainable and inclusive future.

THE ROLE OF FINANCIAL INSTITUTIONS IN ADDRESSING CLIMATE CHANGE

There is growing awareness among policymakers, investors and in wider society that financial institutions need to reduce funding of activities that generate significant levels of greenhouse gas emissions. At the same time, they need to increase the financing of low-carbon solutions to facilitate the transition towards net zero emissions by 2050. This is echoed by the Paris Agreement, which explicitly recognizes the need to "make finance flows compatible with a pathway toward low greenhouse gas emissions and climate-resilient development". Moreover, the 2023 Intergovernmental Panel on Climate Change (IIPCC) report highlights the urgency of near-term climate action and the need for improved access to financial resources. It stated that "if climate goals are to be achieved, both adaptation and mitigation financing would need to increase many-fold". Finance has become a critical enabler for climate action, and financial institutions need to incorporate climate change risks into their decision making.

In response to these trends, investors have been placing increasing focus on the prominent role that financial institutions can play within the net zero transition. This has been evidenced through numerous collaborative initiatives, and also during this year's proxy season, as investors showed strong support for shareholder proposals requesting reports on transition planning at the annual general meetings (AGMs) of banks.

During the 2023 proxy season, financial institutions were met with a significantly high number of shareholder proposals requesting additional action and disclosures on their climate impacts. Investors increasingly demand financial institutions to show how they are supporting the transition to net zero, and one of the most frequent requests made by shareholders has been the introduction of an annual management proposal outlining the company's climate strategy – the 'Say on Climate'.

The introduction of this allows shareholders to hold companies accountable for their transition plans, and helps them incentivize companies to develop and deliver clear action plans for financing the climate transition. In the same vein, shareholders have also been asking companies to adopt a time-bound phase-out policy for lending and underwriting of new fossil fuel exploration and development. This aims to further support capital reallocation towards more sustainable solutions in line with the goals of the Paris Agreement.

Lastly, another popular request made by

shareholders concerns the adoption of science-based greenhouse gas emissions reduction targets, with the aim of pushing financial institutions to plan for and develop a clear path towards halving their financed emissions by 2030 and reaching net zero by 2050.

In line with growing shareholder expectations, several investor initiatives, such as the Institutional Investors Group on Climate Change (IIGCC) Banks Working Group, have gained prominence over the last few years. The working group was formed in April 2021 following the publication of a set of investor expectations for the banking sector, covering topics such as alignment with the goals of the Paris Agreement, governance of climate risk, and disclosures.

Ever since then, the IIGCC has worked with the Transition Pathway Initiative Global Climate Transition Centre (TPI Centre) to further develop and refine investor expectations for banks. Most recently, this collaboration has resulted in the publication of a Net Zero Standard for Banks, which will enable investors to clearly assess and engage with banks on their net zero transition plans.

Based on the expectations of the IIGCC, Robeco has also developed a climate change assessment framework for the financial sector. Using this framework, we assess banks on several indicators of how well they are managing the net zero transition, including their net zero commitment, disclosure of short, medium and long-term emissions reduction targets, their decarbonization strategy and climate governance, among other things. The outcomes of this assessment are not only used in our engagement activities, but also in our voting approach at the AGMs of the financial institutions under scope.

A negative assessment informs a vote against management on an appropriate agenda item. Through this integrated approach, our aim is to promote sustainable business practices in the financial sector, and to encourage management to create long-term value, by avoiding climate-related risks and seeking out the opportunities of low carbon, sustainable development.

Companies under engagement in 2023

ENVIRONMENT

Biodiversity
Arcadis NV
Archer-Daniels-Midland Co
Axfood AB
Barry Callebaut AG
Bridgestone Corp
Bunge Ltd
Cie Generale des Etablissements Michelin SCA
Cranswick PLC
Hershey Co/The
JBS SA
Kimberly-Clark Corp
Leroy Seafood Group ASA
Marfrig Global Foods SA
Mondelez International Inc
Ryohin Keikaku Co Ltd
Sappi Ltd
Signify NV
Suzano SA
Top Glove Corp Bhd
Unilever PLC
VF Corp

Climate Transition of Financial Institutions
Australia & New Zealand Banking Group Ltd
Bank of America Corp
Barclays PLC
BNP Paribas SA
Citigroup Inc
DBS Group Holdings Ltd
HSBC Holdings PLC
ICICI Bank Ltd
ING Groep NV
JPMorgan Chase & Co
Sumitomo Mitsui Financial Group Inc

Lifecycle Management of Mining
Barrick Gold Corp
Gerdau SA

Natural Resource Management
Ambev SA
Callon Petroleum Co
CF Industries Holdings Inc
Continental Resources Inc/OK
Diageo PLC
OCI NV
PepsiCo Inc
Sappi Ltd
Severn Trent PLC
Tronox Holdings PLC
United Utilities Group PLC

Net Zero Carbon Emissions
Anglo American Capital PLC
ArcelorMittal SA
Berkshire Hathaway
BHP Group Ltd
BlueScope Steel Ltd
BP
CEZ AS
Chevron
China National Building Material Co Ltd
CRH PLC
Ecopetrol SA
Enel SpA
Exxon Mobil Corp
HeidelbergCement AG
Hyundai Motor Co
JFE Holdings Inc
LyondellBasell Industries NV
Marathon Petroleum Corp
Petroleo Brasileiro
Phillips 66
PTT Exploration & Production PCL
Rio Tinto PLC
Saudi Arabian Oil Co
Shell PLC
Valero Energy Corp
Vistra Energy Corp
WEC Energy Group Inc

Sound Environmental Management
Alexandria Real Estate Equities Inc
Guangdong Investment Ltd
Hangzhou First Applied Material Co Ltd
LONGi Green Energy Technology Co Ltd

SOCIAL

Diversity and Inclusion
Eli Lilly & Co
Netflix Inc
Oracle Corp
Taiwan Semiconductor Manufacturing Co Ltd
Thermo Fisher Scientific, Inc.

Human Rights Due Diligence for Conflict-Affected and High-Risk Areas
Bharat Electronics Ltd
Booking Holdings Inc
Cemex SAB de CV
Fast Retailing Co Ltd
HeidelbergCement AG
Hon Hai Precision Industry Co Ltd
Industria de Diseno Textil SA
PTT Exploration & Production PCL
Sinotruk Hong Kong Ltd
SolarEdge Technologies Inc
Volkswagen AG
Wacker Chemie AG

Just Transition in Emerging Markets
Ganfeng Lithium Group Co Ltd
Impala Platinum Holdings Ltd
Pertamina Persero PT
Reliance Industries Ltd

Labor Practices in a Post Covid-19 World
Accor SA
Delivery Hero SE
InterContinental Hotels Group PLC
Marriott International Inc
Meituan
Uber Technologies Inc
Walmart Inc

Social Impact of Gaming
Activision Blizzard Inc
NCSoft Corp
NetEase Inc
Take-Two Interactive Software Inc
Tencent Holdings Ltd

Sound Social Management
Baidu Inc
Post Holdings Inc
Tencent Holdings Ltd
Tesco PLC
Weibo Corp

GOVERNANCE

Corporate Governance in Emerging Markets
CCR SA
Cosan SA
Coway Co Ltd
CPFL Energia SA
ENN Energy Holdings Ltd
Haier Smart Home Co Ltd
Hyundai Motor Co
Midea Group Co Ltd
Samsung Electronics Co Ltd

Corporate Governance Standards in Asia
Inpex Corp
Panasonic Holdings Corp
Resonac Holdings Corp
Rohm Co Ltd

Shin-Etsu Chemical Co Ltd
SK Hynix Inc

Good Governance

Adyen NV
Arcadis NV
DSM-Firmenich AG
Heineken Holding NV
Koninklijke Ahold Delhaize NV
Signify NV
Unilever PLC

Responsible Executive Remuneration

Aspen Technology Inc
Booking Holdings Inc
Henkel AG & Co KGaA
NIKE Inc
Schneider Electric SE
Tesco PLC
WALT DISNEY CO/THE
Wolters Kluwer NV

VOTING RELATED ENGAGEMENT

AGM engagement 2023

Airbus SE
BAWAG Group AG
BFF Bank SpA
Boeing Co/The
CBRE Services Inc
Cheniere Energy Inc
Deutsche Bank AG
Hana Financial Group Inc
Johnson & Johnson
Monex Group Inc
Morgan Stanley
NextEra Energy Inc
Ovintiv Inc
Plug Power Inc
Prosus NV
Prysmian SpA
Semen Indonesia Persero Tbk PT
Sendas Distribuidora S/A
Sociedad Quimica y Minera de Chile SA
Wells Fargo & Co
Xylem Inc/NY

SDGS

SDG Engagement

Adobe Inc
Alphabet Inc
Amazon.com Inc
Amgen Inc
Apple Inc
AutoZone Inc
Banco BTG Pactual SA
Bank of Montreal
Capital One Financial Corp
CBRE Services Inc
CCR SA
Deutsche Boerse AG
eBay Inc
Elanco Animal Health Inc
Electronic Arts Inc
Elevance Health Inc
F5 Inc
Grupo Bimbo SAB de CV
Hitachi Ltd
Jeronimo Martins SGPS SA
L'Oreal SA
LyondellBasell Industries NV
Meta Platforms Inc
Mr Price Group Ltd
Nasdaq Inc
Neste Oyj
Novartis AG
OTP Bank Nyrt
Rio Tinto PLC
Salesforce Inc
Salmar ASA
Samsung Electronics Co Ltd
Sandvik AB
Sony Group Corp
STMicroelectronics NV
TotalEnergies SE
Trane Technologies PLC
Union Pacific Corp
United Parcel Service Inc
Volvo AB

GLOBAL CONTROVERSY ENGAGEMENT

Acceleration to Paris

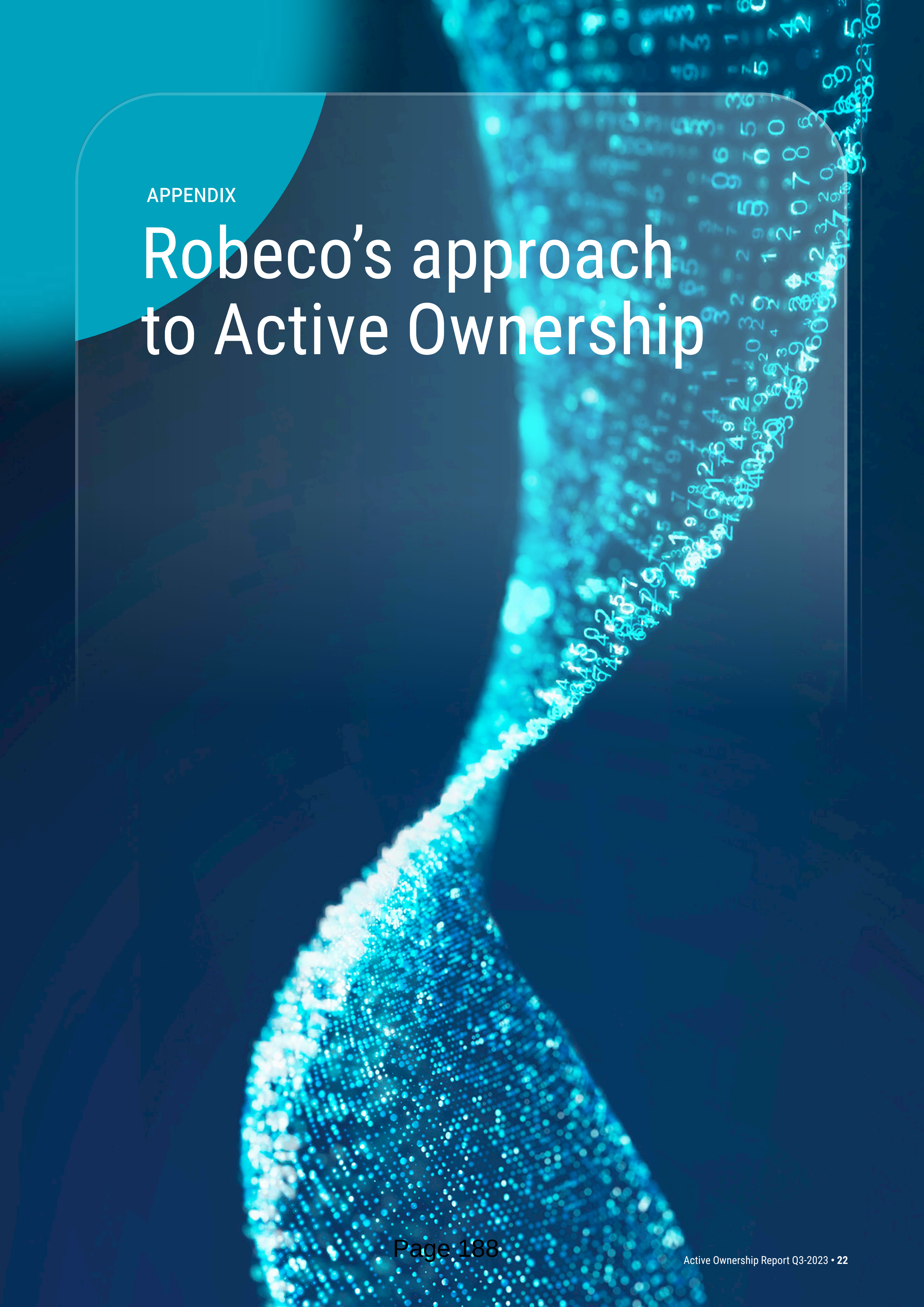
African Rainbow Minerals Ltd
Alleghany Corp
Anhui Conch Cement Co Ltd
Caterpillar Inc
Formosa Plastics Corp
ITOCHU Corp
Marubeni Corp
Mitsubishi Corp
Mitsui & Co Ltd
Nippon Steel Corp
Posco International Corp
SAIC Motor Corp Ltd
Sumitomo Corp
Toyota Industries Corp
WH Group Ltd

Global Controversy Engagement

During the quarter, 12 companies were under engagement based on potential breaches of the UN Global Compact and/or the OECD Guidelines for Multinational Enterprises.

Palm Oil

MP Evans Group PLC
REA Holdings PLC
Wilmar International Ltd



APPENDIX

Robeco's approach to Active Ownership

ROBECO'S ENGAGEMENT POLICY

Robeco actively uses its ownership rights to engage with companies on behalf of our clients in a constructive manner. We believe improvements in sustainable corporate behavior can result in an improved risk return profile of our investments. Robeco engages with companies worldwide, in both our equity and credit portfolios. Robeco carries out three different types of corporate engagement with the companies in which we invest;

Value engagement

a proactive engagement approach focusing on long-term environmental, social or corporate governance issues that are financially material or are causing adverse sustainability impacts. Engagements typically last for three years, after which progress against initially set objectives are evaluated, with unsuccessful closures being communicated to clients and investment teams but no divestment decision to follow.

Voting Related AGM engagement: Voting at the Annual General Meetings (AGM) of shareholders offers shareholders the opportunity to provide direct feedback to a company - either in advance or after a company's AGM. These dialogues are not recurring long-term engagements, but unique opportunities to amplify the impact of our voting decisions. Corporate governance as well as other sustainability topics that may arise during a shareholder meeting are covered under this section, if they are not covered in other parts of the engagement program.

SDG engagement

a proactive engagement approach focusing on driving clear and measurables improvements in a company's contribution to one or multiple of the Sustainable Development Goals. The engagement, lasting for three to five years, has its starting point within Robeco's SDG framework, identifying companies with the potential to meet key societal needs and works with timebound milestones to fulfil this potential.

Enhanced engagement

a reactive engagement approach, focusing on companies that severely and structurally breach minimum behavioral norms in areas such as human rights, labor, environment, biodiversity and business ethics, as defined by the UN Global Compact Principles or the OECD Guidelines for Multinational Enterprises. If after two to three years, the enhanced engagement does not lead to the desired change, exclusion from the investment universe may be a potential option. Clients may use their own discretion on whether to exclude a company from their investment universe. In all three types of engagement, Robeco aims to improve a company's behavior on environmental, social and/or corporate governance (ESG) related issues with the aim of improving the long-term performance of the company and ultimately the quality of investments for our clients.

More information can be found on our website.

Robeco adopts a holistic approach to integrating sustainability. We view sustainability as a long-term driver of change in markets, countries and companies which impacts future performance. Based on this belief, sustainability is considered as one of the value drivers in our investment process, like the way we look at other drivers such as company financials or market momentum.

More information can be found on our website.

THE UN GLOBAL COMPACT

One of the principal codes of conduct in Robeco's engagement process is the United Nations Global Compact. The UN Global Compact supports companies and other social players worldwide in stimulating corporate social responsibility. The Global Compact became effective in 2000 and is the most endorsed code of conduct in this field. The Global Compact requires companies to embrace, support and adopt several core values within their own sphere of influence in the field of human rights, labor standards, the environment and anti-corruption measures. Ten universal principles have been identified to deal with the challenges of globalization.

Human rights

1. Companies should support and respect the protection of human rights as established at an international level
2. They should ensure that they are not complicit in human-rights abuses.

Labor standards

3. Companies should uphold the freedom of association and recognize the right to collective bargaining
4. Companies should abolish all forms of compulsory labor
5. Companies should abolish child labor
6. Companies should eliminate discrimination in employment.

Environment

7. Companies should adopt a prudent approach to environmental challenges
8. Companies should undertake initiatives to promote greater environmental responsibility
9. Companies should encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

10. Companies should work against all forms of corruption, including extortion and bribery.

More information can be found at: https://www.unglobalcompact.org/

OECD GUIDELINES FOR MULTINATIONAL ENTERPRISES

The OECD Guidelines for Multinational Enterprises are recommendations addressed by governments to multinational enterprises operating in or from adhering countries, and are another important framework used in Robeco's engagement process. They provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognized standards.

The Guidelines' recommendations express the shared values of the governments of countries from which a large share of international direct investment originates and which are home to many of the largest multinational enterprises. The Guidelines aim to promote positive contributions by enterprises to economic, environmental and social progress worldwide.

More information can be found at: http://mneguidelines.oecd.org/

INTERNATIONAL CODES OF CONDUCT

Robeco has chosen to use broadly accepted external codes of conduct in order to assess the ESG responsibilities of the entities in which we invest. Robeco adheres to several independent and broadly accepted codes of conduct, statements and best practices and is a signatory to several of these codes. Next to the UN Global Compact, the most important codes, principles, and best practices for engagement followed by Robeco are:

- International Corporate Governance Network (ICGN) statement on
- Global Governance Principles
- United Nations Global Compact
- United Nations Sustainable Development Goals
- United Nations Guiding Principles on Business and Human Rights

- OECD Guidelines for Multinational Enterprises
- Responsible Business Conduct for Institutional Investors (OECD)

In addition to our own adherence to these codes, we also expect companies to follow these codes, principles, and best practices. In addition to our own adherence to these codes, we also expect companies to follow these codes, principles, and best practices.

ROBECO'S VOTING POLICY

Robeco encourages good governance and sustainable corporate practices, which contribute to long-term shareholder value creation. Proxy voting is part of Robeco's Active Ownership approach. Robeco has adopted written procedures reasonably designed to ensure that we vote proxies in the best interest of our clients. The Robeco policy on corporate governance relies on the internationally accepted set of principles of the International Corporate Governance Network (ICGN). By making active use of our voting rights, Robeco can, on behalf of our clients, encourage the companies concerned to increase the quality of the management of these companies and to improve their sustainability profile. We expect this to be beneficial in the long term for the development of shareholder value.

COLLABORATION

Where necessary, Robeco coordinates its engagement activities with other investors. Examples of this includes Eumedion; a platform for institutional investors in the field of corporate governance and the Carbon Disclosure Project, a partnership in the field of transparency on CO_2 emissions from companies, and the ICCR. Another important initiative to which Robeco is a signatory is the United Nations Principles for Responsible Investment. Within this context, institutional investors commit themselves to promoting responsible investment, both internally and externally.

ROBECO'S ACTIVE OWNERSHIP TEAM

Robeco's voting and engagement activities are carried out by a dedicated Active Ownership Team. This team was established as a centralized competence center in 2005. The team is based in Rotterdam, the Netherlands, and Hong Kong. As Robeco operates across markets on a global basis, the team is multi-national and multi-lingual. This diversity provides an understanding of the financial, legal and cultural environment in which the companies we engage with operate. The Active Ownership team is part of Robeco's Sustainable Investing Center of Expertise headed by Carola van Lamoen. The SI Center of Expertise combines our knowledge and experience on sustainability within the investment domain and drives SI leadership by delivering SI expertise and insights to our clients, our investment teams, the company and the broader market. Furthermore, the Active Ownership team gains input from investment professionals based in local offices of the Robeco around the world. Together with our global client base we are able leverage this network to achieve the maximum possible impact from our Active Ownership activities.

ROBECO

Robeco Institutional Asset Management B.V. (Robeco) is a pure play international asset manager founded in 1929. It currently has offices in 15 countries worldwide and is headquartered in Rotterdam, the Netherlands. Through its integration of fundamental, sustainability and quantitative research, Robeco is able to offer institutional and private investors a selection of active investment strategies, covering a range of asset classes.

Sustainability investing is integral to Robeco's overall strategy. We are convinced that integrating environmental, social and governance (ESG) factors results in better-informed investment decisions. Further we believe that our engagement with investee companies on financially material sustainability issues will have a positive impact on our investment results and on society.

More information can be found on our website.

Important information

Robeco Institutional Asset Management B.V. has a license as manager of Undertakings for Collective Investment in Transferable Securities (UCITS) and Alternative Investment Funds (AIFs) ("Fund(s)") from the Netherlands Authority for the Financial Markets in Amsterdam. This marketing document is intended solely for professional investors, defined as investors qualifying as professional clients, who have requested to be treated as professional clients or are authorized to receive such information under any applicable laws. Robeco Institutional Asset Management B.V. and/or its related, affiliated and subsidiary companies, ("Robeco"), will not be liable for any damages arising out of the use of this document. Users of this information who provide investment services in the European Union have their own responsibility to assess whether they are allowed to receive the information in accordance with MiFID II regulations. To the extent this information qualifies as a reasonable and appropriate minor non-monetary benefit under MiFID II, users that provide investment services in the European Union are responsible for complying with applicable recordkeeping and disclosure requirements. The content of this document is based upon sources of information believed to be reliable and comes without warranties of any kind. Without further explanation this document cannot be considered complete. Any opinions, estimates or forecasts may be changed at any time without prior warning. If in doubt, please seek independent advice. This document is intended to provide the professional investor with general information about Robeco's specific capabilities but has not been prepared by Robeco as investment research and does not constitute an investment recommendation or advice to buy or sell certain securities or investment products or to adopt any investment strategy or legal, accounting or tax advice. All rights relating to the information in this document are and will remain the property of Robeco. This material may not be copied or shared with the public. No part of this document may be reproduced or published in any form or by any means without Robeco's prior written permission. Investment involves risks. Before investing, please note the initial capital is not guaranteed. Investors should ensure they fully understand the risk associated with any Robeco product or service offered in their country of domicile. Investors should also consider their own investment objective and risk tolerance level. Historical returns are provided for illustrative purposes only. The price of units may go down as well as up and past performance is no guarantee of future results. If the currency in which the past performance is displayed differs from the currency of the country in which you reside, then you should be aware that due to exchange rate fluctuations the performance shown may increase or decrease if converted into your local currency. The performance data do not take account of the commissions and costs incurred when trading securities in client portfolios or for the issue and redemption of units. Unless otherwise stated, performances are i) net of fees based on transaction prices and ii) with dividends reinvested. Please refer to the prospectus of the Funds for further details. Performance is quoted net of investment management fees. The ongoing charges mentioned in this document are the ones stated in the Fund's latest annual report at closing date of the last calendar year. This document is not directed to or intended for distribution to or for use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, document, availability or use would be contrary to law or regulation or which would subject any Fund or Robeco Institutional Asset Management B.V. to any registration or licensing requirement within such jurisdiction. Any decision to subscribe for interests in a Fund offered in a particular jurisdiction must be made solely on the basis of information contained in the prospectus, which information may be different from the information contained in this document. Prospective applicants for shares should inform themselves as to legal requirements which may also apply and any applicable exchange control regulations and taxes in the countries of their respective citizenship, residence or domicile. The Fund information, if any, contained in this document is qualified in its entirety by reference to the prospectus, and this document should, at all times, be read in conjunction with the prospectus. Detailed information on the Fund and associated risks is contained in the prospectus. The prospectus and the Key Information Document (PRIIP) for the Robeco Funds can all be obtained free of charge from Robeco's websites.

Additional information for US investors
Robeco is considered "participating affiliate" and some of their employees are "associated persons" of Robeco Institutional Asset Management US Inc. ("RIAM US") as per relevant SEC no-action guidance. Employees identified as associated persons of RIAM US perform activities directly or indirectly related to the investment advisory services provided by RIAM US. In those situations these individuals are deemed to be acting on behalf of RIAM US, a US SEC registered investment adviser. SEC regulations are applicable only to clients, prospects and investors of RIAM US. RIAM US is a wholly owned subsidiary of ORIX Corporation Europe N.V. and offers investment advisory services to institutional clients in the US.

Additional information for US Offshore investors – Reg S
The Robeco Capital Growth Funds have not been registered under the United States Investment Company Act of 1940, as amended, nor the United States Securities Act of 1933, as amended. None of the shares may be offered or sold, directly or indirectly in the United States or to any US Person. A US Person is defined as (a) any individual who is a citizen or resident of the United States for federal income tax purposes; (b) a corporation, partnership or other entity created or organized under the laws of or existing in the United States; (c) an estate or trust the income of which is subject to United States federal income tax regardless of whether such income is effectively connected with a United States trade or business. In the United States, this material may be distributed only to a person who is a "distributor", or who is not a "US person", as defined by Regulation S under the U.S. Securities Act of 1933 (as amended).

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The Prospectus relates to a private collective investment scheme which is not subject to any form of domestic regulations by the Autoriti Monetari Brunei Darussalam ("Authority"). The Prospectus is intended for distribution only to specific classes of investors as specified in section 20 of the Securities Market Order, 2013, and must not, therefore, be delivered to, or relied on by, a retail client. The Authority is not responsible for reviewing or verifying any prospectus or other documents in connection with this collective investment scheme. The Authority has not approved the Prospectus or any other associated documents nor taken any steps to verify the information set out in the Prospectus and has no responsibility for it. The units to which the Prospectus relates may be illiquid or subject to restrictions on their resale. Prospective purchasers of the units offered should conduct their own due diligence on the units.

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Generally, no offer or sale of the Shares is permitted in Malaysia unless where a Recognition Exemption or the Prospectus Exemption applies: NO ACTION HAS BEEN, OR WILL BE, TAKEN TO COMPLY WITH MALAYSIAN LAWS FOR MAKING AVAILABLE, OFFERING FOR SUBSCRIPTION OR PURCHASE, OR ISSUING ANY INVITATION TO SUBSCRIBE FOR OR PURCHASE OR SALE OF THE SHARES IN MALAYSIA OR TO PERSONS IN MALAYSIA AS THE SHARES ARE NOT INTENDED BY THE ISSUER TO BE MADE AVAILABLE, OR MADE THE SUBJECT OF ANY OFFER OR INVITATION TO SUBSCRIBE OR PURCHASE, IN MALAYSIA. NEITHER THIS DOCUMENT NOR ANY DOCUMENT OR OTHER MATERIAL IN CONNECTION WITH THE SHARES SHOULD BE DISTRIBUTED, CAUSED TO BE DISTRIBUTED OR CIRCULATED IN MALAYSIA. NO PERSON SHOULD MAKE AVAILABLE OR MAKE ANY INVITATION OR OFFER OR INVITATION TO SELL OR PURCHASE THE SHARES IN MALAYSIA UNLESS SUCH PERSON TAKES THE NECESSARY ACTION TO COMPLY WITH MALAYSIAN LAWS.

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The funds have not been and will not be registered with the National Registry of Securities or maintained by the Mexican National Banking and Securities Commission and, as a result, may not be offered or sold publicly in Mexico. Robeco and any underwriter or purchaser may offer and sell the funds in Mexico on a private placement basis to Institutional and Accredited Investors, pursuant to Article 8 of the Mexican Securities Market Law.

Additional information for investors with residence or seat in Peru
The Superintendencia del Mercado de Valores (SMV) does not exercise any supervision over this Fund and therefore the management of it. The information the Fund provides to its investors and the other services it provides to them are the sole responsibility of the Administrator. This Prospectus is not for public distribution.

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Additional information relating to RobecoSAM-branded funds/services
Robeco Switzerland Ltd, postal address Josefstrasse 218, 8005 Zurich, Switzerland has a license as asset manager of collective assets from the Swiss Financial Market Supervisory Authority FINMA. The RobecoSAM brand is a registered trademark of Robeco Holding B.V. The brand RobecoSAM is used to market services and products which entail Robeco's expertise on Sustainable Investing (SI). The brand RobecoSAM is not to be considered as a separate legal entity.

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Additional information for investors with residence or seat in the United Arab Emirates
Some Funds referred to in this marketing material have been registered with the UAE Securities and Commodities Authority ("the Authority"). Details of all Registered Funds can be found on the Authority's website. The Authority assumes no liability for the accuracy of the information set out in this material/document, nor for the failure of any persons engaged in the investment Fund in performing their duties and responsibilities.

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The sale of the Fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627. The Fund must not be offered or sold to the public in Uruguay, except under circumstances which do not constitute a public offering or distribution under Uruguayan laws and regulations. The Fund is not and will not be registered with the Financial Services Superintendency of the Central Bank of Uruguay. The Fund corresponds to investment funds that are not investment funds regulated by Uruguayan law 16,774 dated 27 September 1996, as amended.

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ROBECO
The Investment Engineers

Wales Pension Partnership (WPP) - JGC Update

JGC meeting date: Wednesday 20 September 2023

Location: Hybrid meeting, hosted by RCT

Chair: Cllr Ted Palmer, Clwyd

Vice Chair: Cllr Elwyn Williams, Dyfed

Agenda item	Detail
Host Authority update	Anthony Parnell of the Host Authority provided an update in relation to work that has been completed since the last JGC meeting and WPP's next steps / priorities. There has been no change to the operator procurement timetable and the ITT is still on target to be issued mid-October 2023. The WPP is in the process of drafting a response to the LGPS Investments consultation and the response will be submitted ahead of the 2 October 2023 deadline. Anthony also presented the 2023/24 Business Plan update as at 30 June 2023 (attached).
Risk Register Q3 2023 Review	The OWG is responsible for maintaining the WPP Risk Register and reporting back any changes or developments to the JGC on a quarterly basis. The OWG has a dedicated Risk Sub-Group to take ownership of the Risk Register and the quarterly review of the document. During Q3 2023, a review has taken place of the Training & Resources and Communication Risks. Hymans presented the changes which were approved by the JGC. The Risk Register has been uploaded on the WPP website.
New policy: Breaches & Errors Policy	A new Breaches and Errors Policy has been developed for the WPP which sets out WPPs policy and procedures on identifying, managing and where

	necessary reporting breaches of the law in accordance with section 70 of the Pensions Act 2004. The new policy was approved and has been uploaded on the WPP website. There were no policy reviews this quarter.
Operator Update	Link presented their quarterly update report as at 30 June 2023 (attached). This provides an update on WPP’s sub funds and corporate and engagement activity. The sale of Link Fund Solutions to Waystone Management UK Ltd is due to complete on 9 October 2023.
Performance Reports as at 30 June 2023	Russell Investments presented a Q2 2023 performance summary paper (attached) summarising the performance of each individual ACS sub fund for the quarter ending 30 June 2023.
Exempt Items – the following items were discussed during the non-public part of the meeting.	
Securities Lending Report as at 30 June 2023	Stock Lending commenced in March 2020 and Northern Trust presented the Securities Lending Report for Q2 2023 (quarter ending 30 June 2023).
Robeco Engagement Report – Q2 2023	In March 2020, Robeco was appointed as WPP’s Voting & Engagement Provider to undertake Voting and Engagement functions on behalf of the WPP. Robeco commenced their engagement service in April 2020, and they have provided an engagement report for Quarter 2 2023. The engagement theme chosen for this quarter was Global Controversy Engagement.
Responsible Investment and Climate Risk reports	Each quarter, Hymans Robertson produce quarterly Responsible Investment & Climate Risk Reports for WPP’s sub funds. For Quarter 2 2023 (quarter ending 30 June 2023), the ARB and MAC reports were produced. Hymans presented the reports to the JGC members.

Sustainable Equity Sub fund transition review	WPP has launched a Sustainable Active Equity Fund to be managed by Russell Investments. The fund has a portfolio value of £1.2bn, with all eight Welsh Funds participating. Citi was appointed as the transition manager. Hymans partnered with Byhiras, an independent provider of transition analytics, have carried out a review of the Citi implementation and validation of the costs incurred. The transition implementation effectively managed a number of key risks, namely, project management, currency, sector and out of market risk, and successfully moved assets into the Sustainable Equity sub-fund on behalf of all eight Constituent Authorities Hymans presented the report to the JGC members.

Webcast link for the 20 September 2023 JGC meeting below:

Agenda for Wales Pension Partnership Joint Governance Committee on Wednesday, 20th September, 2023, 10.00 am

WPP's website address - Wales Pension Fund | Home (walespensionpartnership.org)

Next meeting:

- Wednesday 13 December 2023 – Virtual meeting

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CARDIFF COUNCIL
CYNGOR CAERDYDD

PENSIONS COMMITTEE: 27 NOVEMBER 2023

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM : 5

PENSION FUND RISK REGISTER

Reason for this Report

1. To review the current Risk Register for the Pension Fund.

Background

2. A Risk Register for the Pension Fund is maintained as part of the Corporate Risk Management process. The Register covers all aspects of management of the Fund including Investments, Funding, Governance and Administration.

Issues

3. The Risk Register is regularly reviewed by Fund officers and is also presented to the Local Pension Board for their review. The Risk Register was considered by the Pension Board at its meeting on 7 November 2023. A number of minor updates were proposed to the Register presented to the Board at that meeting and these are listed below :-
   - P1 : updated to change focus onto monitoring following the completion of the March 2022 triennial Valuation
   - P2 : updated to include launch of the WPP Sustainable Private Equity sub-fund and completion of on-boarding to the three WPP Private Market sub-funds.
   - P3 : also includes launch of the WPP Sustainable Private Equity sub-fund.
   - P4 : drafting added to confirm completion of sale of Link FS to Waystone Group.
   - P15 : update for revised deadline for Mercer to complete GMP rectification data.
   - P16 : Updated for 2022/23 Annual Benefits Statement process.
   - P19 : Updated with McCloud Regulations now in force from 1 October 2023
   - P20 : Proposed Improvement Actions now re-drafted to update on the current activity and to remove some of the historical background information.

- P21 : reference to launch of Sustainable Active Equity Fund in July 2023 and engagement of Hymans Robertson to lead on commencing the further work required for the Fund to set a Net Zero target.

4. Following a discussion of the Risk Register at the 7 November meeting no further changes were proposed for the Risk Register. The current Risk Register including the above amendments is attached as Appendix 1 with the standard Risk Matrix used for the Council's Corporate Risk Register attached as Appendix 2.

Legal Implications

5. The Pensions Committee terms of reference include, ' *To discharge the following specific strategic functions with regards to the Fund, taking account of advice from the Corporate Director Resources and the Fund's professional advisers:…*
e) To provide independent assurance to members of the Fund of the adequacy of the risk management and associated control environment, responsible for the Fund's financial and non-financial performance.' To this end, whilst Legal Services have not considered the appendices to this report it is understood that this report, in effect, requests that the Committee considers the contents of the attached Risk Register for the Pension Fund, which is maintained as part of the Corporate Risk Management process

The general legal advice set out below should also be considered.

General Legal Advice

Any decision must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council e.g. standing orders and financial regulations; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its tax payers; and (h) be reasonable and proper in all the circumstances and comply with any equalities legislation.

The Council also has to satisfy its public sector duties under the Equality Act 2010 (including specific Welsh public sector duties). Pursuant to these legal duties, Councils must in making decisions have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. The Protected characteristics are: age, gender reassignment, sex, race – including ethnic or national origin, colour or nationality, disability, pregnancy and maternity, marriage and civil partnership, sexual orientation, religion or belief – including lack of belief.

The Well-Being of Future Generations (Wales) Act 2015 ("the Act") places a 'well-being duty' on public bodies aimed at achieving 7 national well-being goals for Wales – a Wales that is prosperous, resilient, healthier, more equal, has cohesive communities, a vibrant culture and thriving Welsh language, and is globally responsible.

In discharging its duties under the Act, the Council has set and published well-being objectives designed to maximise its contribution to achieving the national well-being goals. The well-being objectives are set out in Cardiff's Corporate Plan 2023-26

The well-being duty also requires the Council to act in accordance with 'sustainable development principle'. This principle requires the Council to act in a way, which seeks to ensure that the needs of the present are met without comprising the ability of future generations to meet their own needs. Put simply, this means that Council decision makers must take account of the impact of their decisions on people living their lives in Wales in the future. In doing so, the Council must:

- Look to the long term
- Focus on prevention by understanding the root causes of problems
- Deliver an integrates approach to achieving the 7 national well-being goals
- Work in collaboration with others to find shared sustainable solutions
- Involve people from all sections of the community in the decisions which affect them

The decision maker must be satisfied that the proposed decision accords with the principles above; and due regard must be given to the Statutory Guidance issued by the Welsh Ministers, which is accessible using the link below: http://gov.wales/topics/people-and-communities/people/future-generations-act/statutory-guidance/?lang=en

The Council has to be mindful of the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards when making any policy decisions and consider the impact upon the Welsh language, the report and Equality Impact Assessment deals with all these obligations. The Council has to consider the Well-being of Future Guidance (Wales) Act 2015 and how this strategy may improve the social, economic, environmental and cultural well-being of Wales.

Financial Implications

6. There are no financial implications arising directly from this report.

Recommendations

7. That the Committee notes the contents of the Risk Register.

CHRISTOPHER LEE
CORPORATE DIRECTOR RESOURCES

Appendices:
Appendix 1 Risk Register October 2023
Appendix 2 Risk Matrix

Ref	Risk Description (Consider Risk Cause & Risk Consequences)	Inherent Risk: Likelihood	Inherent Risk: Consequence	Inherent Risk: Priority	Current Controls	Residual Risk: Likelihood	Residual Risk: Consequence	Residual Risk: Priority	Proposed Improvement Actions	Risk Reduction Target Date	Owner	Status
Pensions												
P1	That the Pension Fund's investment strategy is not managed with reference to the long-term growth in the Fund's liabilities	B	1	**High - Red**	Triennial actuarial valuations provide periodic indications of the growth in assets against liabilities. Employer contributions are set in response to this. An asset-liability study may be commissioned if there is evidence of a clear shift in the balance between assets and liabilities.	C	2	**Medium - Red / Amber**	Continuing engagement with Fund actuaries to understand impact of financial and demographic factors on the Fund's liabilities. Aon have completed the 2022 tri-annual valuation which saw a small improvement in the Funding level but with more prudent assumptions including a higher proportion of funding sucess, a reduction in the recovery period as well as including a provision to cover the 10% CPI inflation at September 2022 Focus will now move to monitoring and working towards the 2025 valuation	31-Mar-24	Marc Falconer	
					The Investment Panel considers whether any changes are required to strategic asset allocation. The investment strategy is summarised in the Investment Strategy Statement					Ongoing		
					The liabilities of admitted bodies are monitored to ensure that large deficits do not accrue, which would be unaffordable should the employer leave the Fund					Ongoing		
P2	Inadequate medium term performance from selecting inappropriate fund managers or asset allocation	B	2	**High - Red**	Although the Fund remains responsible for setting its own investment strategy it is increasingly using Wales Pension Partnership (WPP) products to deliver its strategy as all listed fund assets have now transitioned to WPP. For the WPP both Link and Russell have been appointed through open tender and management agreements for the specific funds include clear performance targets. The procurement of Private Market Allocator(s) is now well advanced. Manager performance is reviewed by both this funds Investment Advisory Panel and the WPP OWG and JGC. Consolidation of WPP Funds have now been incorporated into the regular Investment Panel review cycle with both Russell and Link FS presenting to the Panel on a number of occasions during 2021 and 2022.	C	2	**Medium - Red / Amber**	Maintain relationships with managers both directly appointed by the Fund and WPP Funds. going forward periods of transition activity into the WPP pool will be limited to Private Market Assets. Continue to review any impacts of Brexit especially any that will have a long term impact on the investment performance of the Fund. Monitor any impacts on the Fund following the Russian invasion of Ukraine in Feb 2022 and the subsequent decision to dis-invest in Russian stocks Minimal impact on Fund following Autumn fall in UK Govt. Gilt prices. In parrellel with the 2022 Valuation the Fund's Investment Strategy Statement (ISS) has been updated to reflect the increasing significance of ESG issues and the diversification of the Fund's assets into Private Market Asset classes. WPP Private Credit, Infrastructure & Private Equity on-boarding now completed. WPP Sustainable Equity Fund launched July 2023	Ongoing	Marc Falconer	
					The Investment Panel advise target ranges for strategic asset allocations.							
					Although the Fund's main objective is long-term growth, the diversification provided by adopting a range of asset classes and fund managers should help to mitigate the impact of poor performance from any particular account or sub-manager.							
P3	Additional risks and costs to the Fund from poorly structured investment arrangements including with WPP sub-funds	B	3	**Medium - Red / Amber**	The Fund attempts to ensure best value in the following ways: • Regular Reports to the Investment Panel on asset valuation and manager performance. • Use of specialist services considered to reduce costs where appropriate (e.g. for transitions and currency transfers). • Custodian arrangements are reviewed or re-tendered when appropriate.	C	3	**Medium - Amber / Green**	All listed Assets now invested in WPP sub-funds bringing the benefits of diversification with a multi-manager approach across the board compared to the Fund's legacy assets single manager approach. Monitoring and review processes for assets managed by WPP now incorporated into the regular Investment Panel meetings as well as being standard items on the agenda for the quarterly WPP JGC and OWG meetings. Fund Investments to be further diversified by forthcoming investments into the new WPP Private Credit, (open-ended) Infrastructure and Private Equity sub-funds. The WPP Sustainable Active Global Equity Fund was lauched in July 2023 with a different Investment Manager line up to the two existing WPP Global	Ongoing	Marc Falconer	

P4	Collapse of an Investment Manager involving our portfolio	C	1	**Medium - Red / Amber**	• All listed Assets are now managed by WPP so the Fund, will consider the due diligence activity undertaken by Link and Russell on behalf of WPP. • All Listed assets are managed through the Fund's custodian to ensure they remain segregated from the manager. • The risk that a manager cannot provide a service during windup will be mitigated by the appointment of a Transition Manager to transfer assets efficiently to a new manager.	C	2	**Medium - Red / Amber**	The Pool Operator is regulated by FCA and the Pool Custodian will ensure segregation of assets. Consideration to be given for the custodian role to be extended to cover Property and Private Equity assets The diversification benefits of the multi-manager approach adopted by WPP Funds has been highlighted in P3 e.g WPP EM Fund has 6 sub-managers operating under Russell whereas the legacy fund was a single manager. Implications of change of ownership of Link Group and Woodford related investigation of Link by FCA to be kept under review Sale of Link Fund Solutions to Waystone Group was completed in October 2023, to date it has been a case of BAU with no change in the key staff delivering the Operator service to the WPP	Ongoing	Marc Falconer	
P5	MIFID II leads to restrictions on the investment products available to the Fund	B	2	**High - Red**	Collaboration with investment managers, the Pool Operator, other LGPS funds and the LGA to ensure that the Fund is classified as a Professional Investor by all its managers and the Pool. Training was the subject of report to Pension Committee in Feb 2023 with a renewed attentionfollowing confirmation of the new Pension Committee Members following the May 2022 elections. Quarterly training provided by WPP is now well integrated into training resouces available.	C	3	**Medium - Amber / Green**	Training focus will be across the board with consideration on provision of training to Officers, Committee and board members as appropriate. Appropriate Training Records to be maintained Officers have returned to in-person conferences Enhanced Focus on In-house Training for Pension Committee (and Board) members during 2023.	Ongoing	Marc Falconer	
P7	Pension Fund Annual Accounts and Report are not produced in compliance with statutory requirements, in line with accounting standards or in line with audit timetable.	B	2	**High - Red**	The Fund's Custodian provides assurance on the accuracy of investment records (except for property and private equity). Records of benefits paid, contributions received and other expenses are held on SAP. The Group Accountant liaises with external audit and manages the closure process.	C	4	**Low - Green**	Regular meetings during the financial year between Accountancy and Pensions staff to ensure any issues are identified and resolved before year end.	Ongoing	Marc Falconer	
P8	Failure to adhere to LGPS Regulations	B	2	**High - Red**	• Investment regulations are considered when setting the ISS • Senior Technical Officer undertakes Altair system checks to ensure compliance with LGPS regulations • Team leaders/supervisors, ensure legislative accuracy of calculations • Network Groups (Altair/Communications/All wales Pensions Officer Group) • Comms & Training Officer – responsible for the update of website and online guides. Inform employers of any changes in regulations.	C	2	**Medium - Red / Amber**	Engagement with Local Pension Board to develop reporting processes	Ongoing	Marc Falconer / Karen O'Donoghue-Harris	
P9	Failure to communicate with stakeholders	B	3	**Medium - Red / Amber**	• Contact list for employers updated regularly • Annual Employers' Forum held in person (Dec 2022) • Trade Union Forum incorporated into Employers Forum • Annual report and accounts • Member newsletters • Dedicated Communication and Training Officer post established • Look to use all available communication channels • Completed roll-out of member self service facilities for Active Members for Employers using Iconnect.	C	4	**Low - Green**	Maintain and update Fund website Roll-out of MSS to Deferred Members to be considered when resources are in place. Engagement with employers through site visits and promotion of Employers' Forum. Seek regular approval of the Pension Administration Strategy and Communication Policy	Ongoing	Marc Falconer / Karen O'Donoghue-Harris	
P10	Withdrawal/default of an employer	B	2	**High - Red**	• Outstanding liabilities will be assessed and recovered from any successor bodies or spread amongst remaining employers. • Actuarial valuation aims to balance recovery period with risk of withdrawal • Applications for admission to the Fund are considered carefully and guarantees put in place if required	B	3	**Medium - Red / Amber**	Improve engagement with admitted bodies where withdrawal is a possibility. Refuse new applications for admission except where there is an obligation to protect rights of employees transferred under TUPE Nov 21 FSS includes drafting to permit the use of Deferred Debt arrangements and other Employer Flexibilities where exit from Pension Fund is being considered. Dec 22 update to FSS include arrangements for Employers with large Pension surpluses (Reduced secondary contributions where Employers Funding level is over 110%) now approved by Pension Committee)	Ongoing	Marc Falconer	

P11	Timeliness and accuracy of pension payments including risks arising from maintaining two separate data recording systems	B	2	High - Red	• Monthly Pensions are paid by the Council's Pay Centre • Payroll deadline procedures in place • Authorisation of benefits following calculations • Additional checks by Payroll • Review of all payroll amendments • Ensure all new monthly pension starter listings match amounts on Altair • Run monthly SPA reports • When someone hits SPA, update Altair and Payroll with GMP details	C	3	Medium - Amber / Green	• Review configuration of systems • Recommend purchasing Altair Payroll to replace SAP • After a recent Internal Penion Fund Audit, it was recommended that Altair Payroll replacce SAP. However this will be a medium term objective as it can't be addressed in the short term due to ongoing resourcing issues and other ongoing priorities.	Ongoing	Karen O'Donoghue-Harris	
P12	Pensions continue to be paid to deceased pensioners	B	2	High - Red	• Monthly ATMOS reviews and Tell Us Once data exchanges match pensioner details with national deaths register • Pensioners incorporated into National Fraud Initiative • Annual life certificates required from pensioners living overseas Tell Us Once database is being updated monthly via the LGPS NI database. • Further targeted checks with credit reference agencies as appropriate	D	4	Low - Green	Keep current controls under review and adapt or change as required.	Ongoing	Karen O'Donoghue-Harris	
P13	Membership data is not recorded accurately	A	2	High - Red	• Senior Officers liaise closely with employers to ensure timely and accurate submission of data • I-Connect ensures that data from employers is identified by a direct transfer from payroll on a monthly basis • Data accuracy checks undertaken by the pension section • Data validation checks also undertaken by the Fund Actuary at the triennial valuation.	B	3	Medium - Red / Amber	Discussion in place with the two remaining employers to go live on i-connect	Ongoing	Karen O'Donoghue-Harris	
P14	Breach of GDPR legislation	A	1	High - Red	Information issued to Fund members and published on website; Pensions staff trained on handling personal data; Memo of Understanding issued to Fund employers; contracts with service providers Updated MoU has been sent to Employers	B	3	Medium - Red / Amber	Monitoring and supervision of staff, regular communications to Fund employers	Ongoing	Karen O'Donoghue-Harris	
P15	Failure to complete GMP Reconciliation resulting in inaccurate payments to pensioners	A	2	High - Red	• Regular update meetings with JLT • Prompt resolution of cases referred back to Fund • Fund decision made on stalemate cases • Agreed Action Plan in place • Critical task and timelines agreed • Target end date	B	3	Medium - Red / Amber	- closely monitor the key tasks that need to be completed - As any GMP adjustments are implemented, ensure there is a reconciliation between Altair and SAP. - Mercer have provided a draft Project Plan and as a combined group, taking into account the actions that are required it has been decided to complete the actual rectification calculations following the April 2022 Pensions Increase (because there is not sufficient time between now and March 2022 to complete all the tasks without introducing a higher risk. Officers contacted Mercer following the concerns raised over the delay in completing this exercise and Mercer have agreed that activity is to commence after Pension Increases in April with a target completion date of October 23 In April 2023 Mercer changed the Benefit Specification for the way data was to be provided. This caused further delays as the Fund were unable to capture the required data. We comissioned Heywood (our software provider) to liaise with Mercer and draw up a report to capture all the data required. Fund data was sent to Mercer on 12 June 23 and final rectification data is due back 29 February 2024. This will be followed by a communication process to those members whose benefits have been affected.	31-Jul-24	Karen O'Donoghue-Harris	

P16	Failure to deliver Annual Benefit Statements by statutory deadline of 31 August	A	2	**High - Red**	Member Self-Service will allow Active Members to update records and improve compliance.	C	3	**Medium - Amber / Green**	• For 22/23 Statements MSS to be used to enhance the service provided to Scheme members. • MSS to be used for Active Members to upload statements ensuring higher compliance levels. Whilst a copy of all statements were uploaded to MSS, 6,366 members out of 17095 received an online copy only. • These numbers will increase next year and only those members who have opted out of ecomms will receive a paper copy, resulting in significant savings on postage and printing	Ongoing	Karen O'Donoghue-Harris	
P17	Cyber security	A	1	**High - Red**	Access to all systems is password protected, additional password protection for access to Altair all Staff have completed mandatory modules on cyber security ICT have undertaken an independent review of the Fund's cyber security and reported findings to Pension Board & Committee	B	2	**High - Red**	continue to follow advice from ICT and update procedures as required Staff continue to complete relevant new e-learning modules as well as considering relevant information from external organisations such as TPR.	Ongoing	Karen O'Donoghue-Harris	
P18	Exit Payment Cap	C	3	**Medium - Amber / Green**	• Warning still kept on costs estimates for Employers that these are provided under existing regulations and could be subject to change	C	4	**Low - Green**	If new regulations are tabled consideration will be given at that time to appropriate controls	Ongoing	Karen O'Donoghue-Harris	
P19	McCloud - huge administrative burden, failure to have correct resources to deal with the additional work	B	2	**High - Red**	• Employers warned at Employer forum that they will be required to supply missing data • A0N commissioned to run reports to identify affected members • LGA templates used to upload missing data • Templates issued to all employers • Deadline set for return of data	B	3	**Medium - Red / Amber**	• Use third party to assist with project management with external advice provision now included in Business Plan. • New staffing structure approval and recruitment process underway • Good progress with uploading data, all small employers completed now working on Cardiff Council with 75% of data verified and uploaded . . Regs came into force on 01 Oct. 23 with retirements and deaths on or after 01 Oct 23 being prioritised , in accordance with guidance from DLUHC.	Ongoing	Karen O'Donoghue-Harris	
P20	Resource Implications - Pension Section has insufficient resources to respond to the multiple workload pressures facing the section e.g. McCloud, Exit Cap, Dashboards, etc. and recruitment and retention of staff	B	2	**High - Red**	• Scenario planning to be incorporated into 21/22 Business Plan to consider mix of additional resources required in particular what activities would require additional internal resources and what activities would be undertaken by external parties. • Use of external resources to provide additional short term capacity	B	2	**High - Red**	•Approval of a new structure agreed by Pension Committee over two years ago. •During this period, there have been several unsuccessful attempts to recruit, leading to a high vacancy rate. •Continual monitoring of Pension section workload and updates to resource planning including business plan and budgets. •Senior Management are actively considering other options that may help with recruitment and retention of staff. • Engaged with Aon for a target piece of work to review structure and resource level. Detailed discussions to take place early November with a proposal issued for consideration.	Ongoing	Karen O'Donoghue-Harris	
P21	The Fund fails to adequately account for climate change, climate risk and ESG factors with Financial loss to assets held and potential for "stranded assets".	B	2	**High - Red**	Publication of a Responsible Investment policy and Climate Risk Policy both for the Fund and the WPP Transfer of funds to BlackRock Low Carbon Tracker Fund	B	3	**Medium - Red / Amber**	- continued evolution of WPP sub-funds that allows climate risk and other ESG factors to be managed e.g. proposals to introduce a de-carbonistion overlay to UK Opportunities Fund were implemented from June 2022. - WPP Sustainable equity sub-fund was launched in July 2023 - Continued engagement and challegne to Investment Managers, especially via WPP (Robeco), on how they manage climate and ESG risks - reporting of suitable climate change and ESG metrics, still waiting for TCFD regulations from DLUHC (as at October 23) - continued training focus including with the WPP Voting and Engagement provider - WPP re-application for the FRC Stewardship code to be submitted at end of Oct 23 following successful applications in 2021 & 2022. - Following the approval of the Pension Committee Hyman Robertson have been appointed to lead the work to assist the Fund with setting its net zero target with the first workshop held on 30 Oct and Workshop 2 scheduled for 5 Dec 2023.	Ongoing	Marc Falconer	

Risk Matrix and Definitions

High Priority	Red - Significant management action, control, evaluation or improvements req
Medium Priority	Red / Amber - Seek cost effective management action, control, evaluation or i
Medium Priority	Amber / Green - Seek cost effective control improvements if possible and/or m
Low Priority	Green - Seek control improvements if possible and/or monitor and review

IMPACT

LIKELIHOOD		1	2	3	4
	A	A1	A2	A3	A4
	B	B1	B2	B3	B4
	C	C1	C2	C3	C4
	D	D1	D2	D3	D4
	E	E1	E2	E3	E4

LIKELIHOOD
A Very Likely
B Likely
C Possible
D Unlikely
E Very Unlikely

IMPACT
1 Major
2 significant
3 Moderate
4 Minor

mprovements with continued proactive monitoring.

Cardiff & Vale of Glamorgan
Pension Fund
Cronfa Bensiwn
Caerdydd a Bro Morgannwg

CARDIFF
CAERDYDD

CARDIFF & VALE OF GLAMORGAN PENSION FUND
LOCAL PENSION BOARD
18 APRIL 2023
COMMITTEE ROOM 1, COUNTY HALL, CARDIFF

Present: Mr Michael Prior (Independent Chair)

Employers Representatives:
Laithe Bonni (Vale of Glamorgan)
David Llewellyn (Cardiff Met)

Scheme Member Representatives:
Ms H Williams (Unison Nominee)
Mr Peter King (Unison Nominee)
Ms Georgia Chedzey (GMB Nominee)

In Attendance: Chris Lee, Corporate Director Resources
Marc Falconer, Pensions Manager
Gary Watkins, OM Revenues.
Jayne Newton, Communications and Training Officer
Karen O'Donoghue-Harris, Principal Pensions Officer
Andrea Redmond, Democratic Services Officer

DRAFT

1: Apologies and Declarations of Interest

Apologies had been received from Mark Sims (Barry Town Council). There were no declarations of interest.

2: Minutes of previous meeting and Matters arising

The minutes of the meeting held on 24 January 2023 were agreed as a correct record, subject to the inclusion of 'Teams Meeting' on the agenda and the correction on a typographical error on page 2.

Matters arising:

A board member asked if there had been any difference in the number of enquiries around 50/50 since the cost of loving crisis had hit. Officers explained that the LGA had conducted a survey on this, and the outcome was that there was no difference, this survey will be repeated every 6 months. Officers further added that the Governments change to the Lifetime Allowance may have an impact going forward.

3: Administration Update

This report was to update the Board concerning work being carried out by the Pensions Section.

The report was outlined in detail by Officers after which the Chairperson invited questions and comments from Board Members.

Officers advised that of the imminent change in office location due to the footprint of County Hall being reduced.

LPB Members discussed staff coming into the office for 1-2 days per week and asked if staff needed to request if they wanted to come in more often. Officers advised that they do accommodate peoples requests however most people still prefer to work from home. There is no formal hybrid working agreement in place yet, this will be linked to the Core Office Accommodation Strategy which is due to go to Cabinet in the summer. This will also include the categorisation of staff.

LPB Members discussed staff working full time from home and considered this may help with recruitment challenges. Officers agreed and stated that they also have staff working full time from home, some are even in different countries.

The Chairperson asked which approach works best in terms of addressing the backlog of work. Officers advised that from experience, working from home has proved to be more productive.

Members discussed alternative recruitment and officers explained that other local authorities are facing the same recruitment challenges. Two English authorities have used the alternative approach to recruitment with success too.

The Chairperson asked about the size of the team currently, officers advised that there were 17 permanent staff and a further 6 were being appointed. Over the next 6 months officers will look at how best to clear the backlog of work and hit key targets.

The Chairperson referred to the statistics chart and asked if it would be helpful to prioritise into key areas. Officers advised that they are already in order.

HW asked if the comment on the member self-serve website directing members to the Pension Team had been taken down. Officers advised that they understood it had been.

Referring to GMP reconciliation, PK asked if there was a risk of getting cost consequences from the pension regulator. Officers advised that they were not aware of any risk/consequence or even deadline, which was frustrating as they had wanted to complete it in one financial year. Other local authorities were in the same position.

The Chairperson asked if fund members know this is happening and if there is any impact on them. Officers stated they would not know.

HW asked if interest had to be paid on underpayments. Officers advised that yes, there was a delay cost to us, but this has been allowed for by the actuaries.

Referring to the delay in gathering data for the Pension Dashboard, the Chairperson asked if officers would prefer to delay the presentations on this. Officers said they would.

Discussing the Terms of Reference, LPB Board Members were encouraged to speak to GW before the July meeting, in relation to renewing for a third term, clarifying Members Terms and including remote meetings in the Terms of Reference.

RESOLVED: To note the work being undertaken by the Pensions Administration Section and the progress in the areas covered by the report.

4. **Wales Pension Partnership (WPP) Update**

This report was to update the Board concerning recent Wales Pension Partnership (WPP) and investment matters for the Cardiff & Vale of Glamorgan Pension Fund (Fund).

The report was outlined in detail by Officers after which the Chairperson invited questions and comments from Board Members.

LPB Members considered it to be very positive to have achieved 88% of investments being pooled since by 2016.

In relation to the FRC, Board Members asked if it is mentioned on the website that the fund is part of the stewardship code, as this could be a positive statement to show. Officers advised there is a link to WPP, where this is a specific page on this.

LPB Members discussed this further as they had experienced greater interest and awareness in disinvestment in carbon. Carbon neutral etc, over the last 10 years. Officers explained about the work already underway on setting targets and dates for carbon neutral and that the Board will be interested to see this work prior to it going to Pensions Committee. Officers further advised that some funds have already committed to a date, but it was important to have a detailed roadmap in place and they are looking to commission external help with this to ensure the date set is realistic. They are keen to make rapid progress and a report will be brought back to the Board.

ACTION - The Chairperson considered this could be item to be considered at the joint meeting with the Pensions Committee.

RESOLVED: To note the developments with the WPP and the Fund's Investments

5. Review of the Risk Register

This report was for the Board to review the current Risk Register for the Pension Fund before it is submitted to the Pension Committee.

The report was outlined in detail by Officers after which the Chairperson invited questions and comments from Board Members.

LPB Members were advised that the changes to the Risk Register since the last meeting, were highlighted in paragraph 5 of the report for ease of reference.

The Chairperson noted that there were still two employers not on iConnect, namely GLL and Cardiff Met, and asked for the reasons behind this. LPB Members were advised that in the case of Cardiff Met, the issues were around a new Payroll Manager, Systems and Consultants, however it was hoped that the move to iConnect would be finalised in this financial year. DL offered to help expedite things if needed.

The Chairperson referred to a review of Link fund solutions and considered that if a change in provider happens in the next 18 months, this should be reflected in the Risk Register. Officers stated that the top priority is that assets are safe, they have been assured by the WPP, that the Link takeover would have a minimum impact on the fund. A further report will be presented to the Board when there is an update.

RESOLVED: to note the Risk register.

6. Draft Pension Fund Business Plan 2023/24

This report was to present to the Board the Fund's draft Business Plan for 2023/24 for their review prior to the updated Business Plan being presented to the Pension Committee for approval.

The report was outlined in detail by Officers after which the Chairperson invited questions and comments from Board Members.

The Chairperson suggested a change in wording from 'Deferred Pensioners' to 'Deferred Members'.

The Chairperson asked in relation to expenses and proportion of expenses, if there was a line for the Invest Managers fee. Officers advised that there is and that other fees are included in the Governance section, when the draft is finalised ready for submitting to Pensions Committee, it will be circulated to LPB Members.

ACTION – circulate final version of the Business Plan 23/24 to LPB Members.

The Chairperson asked if there is a record of all the training attended by Board Members. Officers advised there was and that this could possible be added to the website.

RESOLVED: That the draft Business Plan for 2023/24, amended as per suggestions above, is submitted to the Pension Committee for approval.

7. Any Other Business

The Pension Regulator Survey – this has been circulated to LPB Members. A summary of the survey detail will be provided by the regulator later in the summer and this will then be shared with LPB Members.

LPB Members were asked to give advance thought for items they may want to consider at the joint meeting with the Pensions Committee. Some ideas suggested in the first instance were training, the carbon agenda, a review of the business plan and checking to see if the single funding code applies. LPB Members suggested that the papers for the meeting are open and not confidential and that the meeting is held in person.

Date of next meeting
Joint meeting with the Pension Committee on 3 July 2023 at 4pm. (In Person - Venue TBC)

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By virtue of paragraph(s) 14, 21 of Part(s) 4 and 5 of Schedule 12A of the Local Government Act 1972.

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