

STRATEGIC ASSET ALLOCATION

Reason for this Report

1. This report has been prepared to update the Committee regarding development of the Pension Fund's Strategic Asset Allocation including a proposed additional investment into the Blackrock Low Carbon Tracker fund with a corresponding reduction in the Funds passive UK Equity holding. The Pensions Committee has a strategic role in the management of the Fund and its remit includes the approval of the asset allocation on the advice of the Investment Advisory Panel.

Background

1. Over the last two years the Committee has considered the Pension Fund's investments in companies engaged in fossil fuel extraction which included the approval of a Climate Change Investment Policy to manage the Fund's exposure to climate change risks.
2. At its meeting on 11 July 2019, the Committee approved amendments to the Fund's Strategic Asset Allocation, including the allocation of c10% of the Fund to a Low Carbon Tracker Fund. This investment of over £200 million into the Blackrock Low Carbon Tracker Fund was completed in February 2020. .
3. The Pension Committee meeting on 23 November 2020 approved proposals from BlackRock for the evolution of this Fund to introduce screens that would exclude companies engaged in a number of fossil fuel related carbon intensive activity. The same meeting also approved the transfer of the Fund's current Regional Equity mandates to the Wales Pension Partnership (WPP) Global Equity sub-funds. The value of this transfer is expected to be c£600 million with 70% to go the WPP Global opportunities Fund and 30% to the Global Growth Fund.

Issues

4. The Investment Advisory Panel meeting on 1 December 2020 received a report reviewing the Fund's Strategic Asset Allocation. A copy of this report is attached as Appendix 1. The Panel approved a proposal to increase the holding in the BlackRock Low Carbon tracker fund by transferring the balance of the Fund's current holding in passive UK equity. This

asset class is also managed for the Fund by BlackRock and had a valuation at 31 December 2020 of just over £250 million.

5. The process to transfer the Fund's Regional Equity holdings into the WPP' Global Equity sub-funds has commenced and this transfer is expected to be completed early in 2021/22 financial year. This transfer was included in the strategic asset allocation for 2020/21 and no change is proposed for 2021/22. Following the Committee approval, at the 23 November 2020, to invest in the WPP Global Growth Fund, Baillie Gifford, who are one of the three sub-managers within this Fund, have announced that they will be moving to a Paris Aligned position for their portfolio within this Fund. There are no significant impacts on risk or performance from the move to a Paris Aligned position for this portfolio.
6. On behalf of the WPP, Link Financial Services are continuing to progress proposals for an Emerging Markets (EM) Active Equities sub fund which is currently expected to be operational in the autumn of 2021. At this stage no changes are proposed for the strategic asset allocation weighting for EM equity.
7. No change to the strategic asset allocation is proposed for either Property or Private Equity for 2021/22. The development of WPP Private Market products, which would include Private Debt and Infrastructure as well as Property and Private Equity, are at an early stage with no WPP products expected to be available in the near future.
8. The transfer of the Fund's Fixed Income assets to WPP products was completed in August 2020 and no change is proposed for this asset class for 2021/22.
9. A summary of the Fund's proposed strategic asset allocation for 2021/22 is provided in Appendix 2.

Legal Implications

10. The first recommendation refers to Strategic Asset Allocation this is a technical document, the contents of which Legal Services are unable to comment upon. It is understood by Legal Services that this is drafted and prepared with assistance from appropriate external advisors and is recommended for approval by the Pensions Advisory Panel. This recommendation does not appear to raise any specific legal implications however the general legal advice set out below should be considered
11. The Second and third recommendations relates to the transfer and movement of funds. . These are outside Legal Services expertise to advice upon and Committee should ensure that it has full and proper advice on such matters before proceeding to make a decision. The decision maker will need to be satisfied that the proposed investment accords with the Fund's approved investment strategy and any relevant guidance issued. It is understood that relevant professional advice has been undertaken in relation to the appropriateness of the investment and the decision maker should have regard to the same
12. **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 2019-22: <https://www.cardiff.gov.uk/ENG/Your-Council/Strategies-plans-and-policies/Corporate-Plan/Pages/Corporate-Plan.aspx>

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

13. All costs arising from the management of the Pension Fund's investments are charged to the Fund.

Recommendations

14. That the Committee:
 - (1) Approves the 2021/22 Strategic Asset Allocation
 - (2) Approves the transfer of the Fund's current passive UK Equity holding to the Low Carbon Tracker Fund.
 - (3) Notes and approves moving to the Baillie Gifford Paris Aligned position for their portfolio within the WPP Global Growth Fund.

CHRISTOPHER LEE CORPORATE DIRECTOR RESOURCES

Appendix 1 Strategic Asset Allocation report to 1 December 2020 meeting of the Investment Advisory Panel.

Appendix 2 Strategic Asset Allocation 2021/22