

ITEM 6 – Appendix 1

CARDIFF & VALE OF GLAMORGAN PENSION FUND



INVESTMENT ADVISORY PANEL MEETING:

1 DECEMBER 2020

REVIEW OF STRATEGIC ASSET ALLOCATION

REPORT OF THE CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 5

Reason for this Report

1. The panel reviews the Fund's strategic asset allocation periodically to ensure that the asset mix will continue to achieve the Fund's investment objectives.
2. 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 panel.

Background

3. The panel received a report on its strategic asset allocation at its meeting in March 2019 and a further report on the Funds Investment Strategy Statement for 2020/21 at its meeting in December 2019. These reports reflected a number of developments with the Fund's strategic asset allocation which were due to occur towards the end of 2019/20 or during 2020/21.

Issues

4. The turbulence in the financial markets caused by coronavirus resulted in some delays in moving to the revised allocations as identified for the specific asset sub-classes as outlined in this report.

Equities

5. The Panel at its meeting in September 2020 reconsidered the Fund's proposed investment in the Wales Pension Partnership's Global Equity Funds. The Panel confirmed that an initial allocation of 30% of Fund value for Global Equities was still appropriate which was to be funded from the termination of the regional mandates for European, Japanese and Asia-Pacific Equities, and a reduction in the allocation to UK and US Equities. Initially the fund proposed to invest in the Global Growth fund but after further consideration, including of governance and management arrangements, the investment approach was amended to a split investment into the two WPP Global Equity funds weighted 70:30 in favour of the Global Opportunities Fund. This would allow a more balanced, diversified investment approach and this recommendation was approved by the Pensions Committee on 23 November 2020.
6. February 2020 saw the commencement of the Fund's investment into the Blackrock Low Carbon Tracker Fund following the Fund strategy to the management of climate change risk with the investment of 10% of the Fund value (c£235m). The September 2020 Panel meeting received a presentation from BlackRock on proposals for the evolution of this Fund to include screens to exclude companies engaged in specific fossil fuel related carbon intensive activity. The November meeting of the Pension Committee confirmed it was supportive of BlackRock proposals. A proposed amendment to the Strategic Asset Allocation for 2020/21 is to enhance the asset value in the Low Carbon Tracker fund with a further investment of c£224 million by transferring the balance of the Fund's current holding in passive UK equity.
7. 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 first half of 2021/22. The current weighting to this asset class is 5% and the EM portfolio will continue to be managed by Aberdeen Standard for the Fund. When full details of the WPP EM Sub-fund are available these will be presented to the Panel for further consideration.

Fixed Income

8. The Pension Committee in January 2019 accepted a Panel recommendation to invest in three of (the five) WPP fixed income sub-funds. The original timescale for the transfer was delayed by Covid with the transfer being completed in August 2020.
9. The allocations (expressed as % of Fund assets) are:

Sub Fund	%
Global Government	11.0
Global Credit	9.5

Multi-Asset Credit	7.0
Total	27.5

Property

10. Work has commenced within WPP on the development of pooling products for illiquid assets but this work is at an early stage with no sub-funds currently operational. The Fund's current property holdings are close to the target allocation of 7.5%. It is recommended that this allocation remains unchanged whilst the WPP review is on-going and that the details of the review are brought back to the Panel for further consideration when these are available.

Private Equity

11. The panel has previously agreed to continue the Fund's strategy of making new commitments on a regular basis to the private equity funds-of-funds offered by its three long standing partners, in order to maintain the actual allocation close to the target allocation. As at the present time no WPP Private Equity sub-fund is available so it is recommended that no amendments are made to the allocation to this asset class but that the Panel consider future Private Equity investments in more detail when more detail is available on the WPP approach to this asset class.

Infrastructure

12. The DCLG's criteria for pooling of investments included a requirement to consider investments in infrastructure. It is recommended that any decision regarding investment by this Fund in Infrastructure assets is deferred until further work in developing the WPP products and inter-pooling arrangements has been carried out. At that stage the Panel can consider what weighting the fund would wish to allocate to Infrastructure Assets and how this asset class would be funded.

Summary of proposed changes and options for implementation

13. The proposed strategic allocation, reflecting the above proposed amendments including the updated WPP Global Equity investment, is attached as Appendix 1. The changes are summarised in the table below based on the Fund's September 2020 valuation.

Asset Class	Change % Fund Value	Change £m
Equities		
UK Passive	-10%	-224
UK Active	-3%	-69
US Passive	-6%	-127
Global Passive Low Carbon	+10%	+224
Regional Active	-18%	-399
Global Active WPP Sub-funds	+26%	+595

Recommendations

14. That the panel considers the proposed strategic asset allocation for 2021-22 and confirms its recommendation to be presented to the Pensions Committee at its next meeting in January 2021.

CHRISTOPHER LEE
CORPORATE DIRECTOR RESOURCES

Appendix 1

Proposed Strategic Asset Allocation 2021-22