

WALES PENSION PARTNERSHIP

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.

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 Fund was launched in October 2021

Issues

- 6) As at 31 March 2022, the Cardiff and Vale of Glamorgan Pension Fund (the Fund) had invested in seven of the WPP sub-fund's and the value of its holdings in these sub-funds totaled £1,700 million with holdings in the individual Funds as follows :-
- i. UK Opportunities Equity Fund - £233.0 million.
 - ii. Multi Asset Credit Fund - £150.3 million
 - iii. Global Government Bond Fund - £243.2 million
 - iv. Global Credit Fund - £216.4 million
 - v. Global Opportunities Equity Fund - £530.4 million
 - vi. Global Growth Equity Fund - £211.6 million
 - vii. Emerging Markets Equity Fund - £115.0 million
- 7) The value of the Funds' assets held in WPP products now represents 63% of the total fund valuation of £2,690 million. If the Blackrock Low Carbon Tracker Fund holding is included, then the proportion increases to 86% of the Fund value.
- 8) The FCA have now approved the prospectus changes required to introduce a "Decarbonisation overlay" to the UK Equity fund and Link are expecting this overlay to be operational from 1st June 2022. The overlay will operate in a similar manner to the overlay that operates with the Global Opportunity and Emerging Markets sub-funds. The introduction of the overlay is expected to result in a 25% reduction in the Carbon intensity of this fund compared to its benchmark.
- 9) The WPP has continued to make progress in providing pooled options for non-listed Private Market asset classes. The March 2022 meeting of the WPP JGC confirmed the outcome of phase 1 of the Private Markets procurement process with the appointment of Allocators to a Private Credit Fund, a close-ended Infrastructure Fund and an open-ended Infrastructure Funds. With the open-ended fund to ensure its geographical diversification three managers have been selected. The procurement for Private Equity Allocators is continuing to make progress with a current target of reporting the outcome of the process to the September 2022 JGC meeting.
- 10) The March 2022 JGC meeting also considered a report on the JGC Scheme Member Representative. Following the request to individual Pension Board Chairs in December 2021 4 expressions of interest were received for the role of scheme member representative and deputy. All 4 nominations were interviewed in February 2022 by JCG sub-group interview panel. The panel recommended that Osian Richards from Gwynedd Pension Fund was appointed as the scheme member representative with Ian Guy from Swansea Pension Fund as the deputy. Both appointments have a tenure of two years.
- 11) WPP discussions with Russell Investments on a Sustainable Equity Fund have continued with more details being provided on the operation of the potential fund including a list of proposed investment managers. In common with the other Russell managed funds a diversified product would be offered to 5 investment managers offering a complimentary investment style being proposed. It is proposed that this Fund would have the same Global Equity benchmark as the Global opportunities and Global Growth sub-funds and would aim to deliver returns commensurate with these global equity funds but would have a strong focus on sustainability ESG outcomes. As a result of the restricted stock selection available to the sustainable equity investment managers a higher tracking error could result in a more volatile fund compared to the current WPP global equity funds. As this proposed sub-fund develops further reports will be taken to future Investment Advisory Panel meetings and then onto Pension Committee.

- 12) Over the last few months the Russian invasion of Ukraine has dominated the news. Following the invasion the statement below was quickly released by the WPP. It has also been included on the website of this Pension Fund.

We are deeply saddened by the situation in Ukraine and our thoughts are with the Ukrainian people.

Our total exposure to Russian Investments is minimal at less than 1%. Even so, in light of the terrible events we have witnessed and the economic sanctions imposed internationally, as a collective we have decided to divest from these holdings as soon as is practically possible.

Given the circumstances we do not believe that engagement with these companies presents a viable option.

Cllr Clive Lloyd

For and behalf of the Wales Pension Partnership and the LGPS in Wales

- 13) With regard to the detail of the fund's Russian investments BlackRock have confirmed that there are no holdings in the Low Carbon tracker Fund. With the Global Growth Equity Fund Baillie Gifford updated that as at 28 February 0.13% of the portfolio was held in Russian stocks and they would sell out from these holdings, which trade on the London Stock Exchange. Russell Investments have confirmed there were investments in 4 sub-funds, with this fund investing in all 4 of these, as detailed in the table below.

FUND	Dec 2021 valuation £m	Russian Exposure %	Russian Exposure £m
EM	121.1	0.38	0.460
Global Opportunities	537.7	0.07	0.376
Global Credit	231.4	0.41	0.949
MAC	156.2	0.45	0.703
total			2.488

- 14) The WPP Business Plan 2022-2025 was approved at the March 2022 meeting of the JGC and now needs to be approved individually by the eight constituent authorities of the WPP. A report on the WPP Business Plan was also taken to the April 2022 meeting of the Local Pension Board. A copy of the WPP Business Plan 2022-2025 is attached as Appendix 1. The areas covered by the business plan include :-

- Governance
- Risk Management
- Objectives
- Beliefs
- Policies
- Work plan
- Training Plan
- Budget

- Investment & Performance

Legal Implications

- 15) The Wales Pension Partnership (WPP) was established in 2017. The WPP is a collaboration of the eight LGPS funds (Constituent Authorities) covering the whole of Wales and is one of eight national Local Government Pension pools. This report has been prepared to update the Committee on recent developments related to the WPP Investment Pool. The report also recommends that the Committee approves the WPP Business Plan 2022-25. 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) .
- 16) In making any decision regard should be had to the following general legal advice.
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 2022-25.

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 Generations (Wales) Act 2015 and how this strategy may improve the social, economic, environmental and cultural well-being of Wales.

Financial Implications

- 17) 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

- i. That the Committee notes the recent developments related to the WPP Investment Pool.
- ii. That the Committee approves the WPP Business Plan 2022-25

CHRISTOPHER LEE
CORPORATE DIRECTOR RESOURCES

Appendices:

Appendix 1 WPP Business Plan 2022-25