

**REPORT OF CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 12**

**STRATEGIC ASSET ALLOCATION 2022/23**

*Appendices 1 & 4 are exempt from publication because they contains information of the kind described in paragraphs 14 ( Information relating to the financial or business affairs of any particular person (including the authority holding that information)) and 21 ( in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information) of parts 4 and 5 of Schedule 12A to the Local Government Act 1972.*

**Reason for this Report**

1. This report has been prepared to update the Committee regarding development of the Pension Fund's Strategic Asset Allocation with in particular a consideration of the new Wales Pension Partnership (WPP) Private Market sub-funds. 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**

2. Over the last three years this Fund has taken the opportunity to transition a significant proportion of its assets into sub-funds launched by the WPP. As at 31 March 2022 this Fund had invested £1,700m in 4 of the WPP Equity sub-funds and 3 of the Fixed Income funds. The value of Investments in WPP sub-funds represented over 63% of the Fund's value as at 31<sup>st</sup> March 2022. In addition a further £616m, or nearly 23% of this Fund's value, is invested in the BlackRock Low Carbon tracker fund. This fund was jointly procured with the other Welsh LGPS funds and is effectively a pooled fund. Over 86% of this Fund's assets by value are therefore in pooled funds as at 31<sup>st</sup> March 2022.
3. The attention of the WPP has turned to the development of sub-funds for Private Market assets. Previous WPP update reports to the Committee would have kept members informed on the progress of the procurement for these asset classes. To summarise the WPP Joint Governance Committee (JGC) have approved the appointment of allocators for both the Private Debt and closed ended Infrastructure sub-funds and the managers for the open-ended Infrastructure sub-funded. With regard to the Private Equity asset class the target here is to conclude the current procurement with a report to JGC in the autumn with recommendations for preferred manager(s). This would leave Property as the final asset class to be considered and work will commence shortly with officers to consider the appropriate procurement route for this sub-fund.

## Issues

4. The Investment Advisory Panel meeting on 8<sup>th</sup> March 2022 received a report reviewing the Fund's Strategic Asset Allocation for 2022/23. A copy of this report is attached as Appendix 1. The report drew attention to the significant changes in 2021/22 with the Fund's transition to the WPP Global Growth, Global Opportunities and Emerging Markets equity sub-funds as well as the additional investment in the BlackRock Low Carbon tracker fund.
5. The procurement of Private Market Allocators for Private Credit and both Close-ended and Open-ended Infrastructure Funds is almost complete. The appointments of the preferred allocators for these funds was approved by the WPP Joint Governance Committee (JGC) at its meeting in March 2022 and these funds are expected to be launched shortly once legal documents are finalised. At present this Fund has no allocation to either of these asset classes. The procurement for allocators for Private Equity is also advancing with the target of the September JGC meeting for the approval of the preferred allocator(s) and the Private Equity fund(s) expected to be launched late in 2022.
6. The Government's original criteria for the pooling of LGPS investments included a requirement to consider investments in infrastructure. The Government has recently published a White Paper on its "levelling up" proposals. Although further detailed guidance is awaited at a high level this is "asking LGPS funds, working with the LGPS asset pools, to publish plans for increasing local investment, including setting an ambition of up to 5% of assets invested in projects which support local areas."
7. Work on the Fund's next tri-annual valuation, as at 31 March 2022, has commenced and the findings from this valuation may result in suggested amendments to the Fund's asset allocation
8. The Investment Panel was asked to consider whether this Fund should invest in these new Private Market asset class Funds when they are launched by the WPP .  
If the Fund is to invest, the extent of that investment and which asset classes should be reduced to fund this new allocation?
  - i. Private credit
  - ii. Infrastructure close ended Funds (similar to the existing Private Equity investments)
  - iii. Infrastructure open ended Funds (similar to the existing Property Investments)
  - iv. A combination of these asset classes
9. The Panel considered that investments in these asset classes would bring the advantage of further strengthening the Fund's asset diversification. The characteristics of these asset classes were most similar to the Fund's Fixed income assets and it was considered that this would likely be the area of the existing asset allocation that would be reduced to finance these new investments. An initial allocation of around 5% of the Fund's value to each of Private Credit and Infrastructure was considered appropriate. The Panel however, recommended that further modelling work to confirm the risk / reward implications for the Fund was undertaken before making these change to the strategic asset allocation.
10. Given their existing knowledge of the Fund asset allocation, officers commissioned Aon to undertake this risk / reward modelling. A copy of their report is attached as confidential Appendix 4. In summary due to the expected volatility in the investment markets in the short to medium term the report is positive with regard to additional Private Market Investments. The report models a number of different scenarios with different mixes of

investments in the new Private market asset cases and with different reductions in existing asset classes to fund these new investments. The optimum mix in terms of enhancing the expected return to be earned by the Fund and minimising the volatility risk is summarised below :-

- 7.5% allocation to WPP Private Credit sub-fund
- 7.5% allocation to WPP Open-ended Infrastructure sub-fund
- 7.5% reduction in Equity
- 7.5% reduction in Fixed Income,
- 2.5% allocation to WPP Private Equity sub-fund
- 2.5% reduction in Equity

11. The Investment Advisory Panel further considered the Strategic Asset Allocation, including the Aon report, at its meeting on 14 June 2022. A copy of the June Panel report is attached as Appendix 2. The Panel were comfortable with the recommendations arising from the Aon report subject to Aon outlining their rationale for the reduction in Equity as part of the funding of the new investments.
12. As a consequence of the relatively long lead-in time expected for investments to be made in these Private Market asset classes and the current investment market volatility, Aon have also suggested that this Fund's adopts a policy to preserve investment value and minimise volatility until the Investments in the new Private Market funds are completed. A number of options are suggested by Aon but at this stage given the uncertainty over both the timing and the quantum of drawdowns for the new investments no hedging options will be entered into at this stage. When further details on the drawdowns for the new Private Markets investments are available the Investment Panel and officers will re-evaluate the options available for this Fund.
13. A summary of the Fund's proposed strategic asset allocation for 2022/23 is provided in Appendix 3.

## **Legal Implications**

14. Various legislation and government guidance impose obligations on administering authorities in relation to the administration of the LGPS, including in relation to requirements to prepare and maintain prescribed strategy statements. The recommendations refer to proposals in respect of the fund's Asset Allocation and seeks approval of the 2022/23 Strategic Asset Allocation document. These are specialist areas, which are outside the expertise of the in house Legal Service to comment upon. The Committee should ensure that it has full and proper advice on such matters before proceeding to make a decision. It is understood by Legal Services that the service area has taken assistance and advice from appropriate external advisors before presenting the recommendations for approval .

### **15. 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 : <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>

## **Financial Implications**

16. All costs arising from the management of the Pension Fund’s investments are charged to the Fund.

## **Recommendations**

17. That the Committee:
  - (1) Notes the work undertaken by Aon in modelling expected changes to the Fund’s risk and return profile from amending the fund’s Asset Allocation and the recommendations from the review of report which are :-
    - i. An investment of up to 7.5% in the WPP Private Credit sub-fund

- ii. An investment of up to 7.5% in the WPP Open-ended Infrastructure sub-fund
- iii. A potential investment of up to 2.5% in the WPP Private Equity sub-fund

(2) Approves the 2022/23 Strategic Asset Allocation

**CHRISTOPHER LEE  
CORPORATE DIRECTOR RESOURCES**

***Appendix 2 is exempt from publication because it contains information of the kind described in paragraphs 14 ( Information relating to the financial or business affairs of any particular person (including the authority holding that information)) and 21 ( in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information) of parts 4 and 5 of Schedule 12A to the Local Government Act 1972.***

Appendix 1 Strategic Asset Allocation report to 8 March 2022 meeting of the Investment Advisory Panel.

Appendix 2 Strategic Asset Allocation report to 14 June 2022 meeting of the Investment Advisory Panel.

Appendix 3 Strategic Asset Allocation 2022/23

Appendix 4 Confidential report from Aon