

# CARDIFF & VALE OF GLAMORGAN PENSION FUND



## INVESTMENT ADVISORY PANEL:

14 JUNE 2022

## REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 4

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### STRATEGIC ASSET ALLOCATION 2022/23

#### 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. This report includes a consideration of the new Wales Pension Partnership (WPP) Private Market sub-funds
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. 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.
4. The attention of the WPP has turned to the development of sub-funds for Private Market assets and 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-fund. 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

5. 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.
6. Following the approval of the preferred allocators the Private Credit and both Close-ended and Open-ended Infrastructure sub-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.
7. As outlined in the previous Panel report there are a number of factors that could influence the 2022/23, and future years, Strategic Asset Allocations. These include :-
  - The Government's "levelling up" proposals which includes setting an ambition of up to 5% of LGPS assets to be invested in projects which support local areas.
  - Findings from the Fund's next tri-annual valuation, as at 31 March 2022, may result in suggested amendments to the Fund's asset allocation
8. 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.
9. 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 Appendix 2. In summary due to the expected volatility in the investment markets in the short to medium term the Aon 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
10. **The Panel is asked to consider whether it is comfortable with the Private Market asset allocations recommended by Aon and their proposed sources of funding ?**
11. 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 recommended 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 which will require further evaluate in choosing the best option for this Fund which would also include the option of taking no action and accepting potential market volatility.

12. **The Panel is asked to consider whether it has a preferred option to preserve investment value in the transition to the new Private Market asset allocations**
13. A summary of the Fund's proposed strategic asset allocation for 2022/23 incorporating the above Private Market recommendations is provided in Appendix 3.

### **Recommendations**

14. That the panel considers the proposed additional Private Market investments and confirms its recommended strategic asset allocation for 2022-23, including any proposal to preserve investment value, to be presented to the next meeting of the Pensions Committee.

### **CHRISTOPHER LEE CORPORATE DIRECTOR RESOURCES**

- Appendix 1 Strategic Asset Allocation report to 8 March 2022 meeting of the Investment Advisory Panel.
- Appendix 2 Aon Asset Allocation Modelling report
- Appendix 3 Strategic Asset Allocation 2022/23