

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 6

WALES PENSION PARTNERSHIP AND INVESTMENT UPDATE

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. In addition a brief update on the current investments of the Fund will be provided.

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 30 September 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 £1,549 million with holdings in the individual Funds as follows :-
 - i. UK Opportunities Equity Fund - £206.6 million.
 - ii. Multi Asset Credit Fund - £131.1 million
 - iii. Global Government Bond Fund - £221.2 million
 - iv. Global Credit Fund - £188.5 million
 - v. Global Opportunities Equity Fund - £503.9 million
 - vi. Global Growth Equity Fund - £192.2 million
 - vii. Emerging Markets Equity Fund - £105.2 million
- 7) The value of the Funds' assets held in WPP products now represents 62% of the total fund valuation of £2,515 million. If the Blackrock Low Carbon Tracker Fund holding is included, then the proportion increases to 84% of the Fund value.
- 8) The July 2022 meeting of the WPP JGC approved the establishment of the WPP Sustainable Active Equity Sub-fund. In common with the other Russell Investment WPP sub-funds this has a multi-manager structure, with five specialist sustainable equity managers, which provides the WPP's constituent authorities with a diversified exposure to this asset class. The Sustainable Active Equity Sub-fund will operate with the same Global Equity benchmark, MSCI All Country World Index (ACWI) as the two existing WPP Global Equity sub-funds and will also target excess return of 2% relative to the benchmark. As a result of the restricted stock selection available to the sustainable equity investment managers the sub-fund would operate with an expected tracking error of 3-5%. The sub-fund will operate with the following exclusions, but further exclusions could potentially be added in the future: -
 - i. Thermal Coal
 - ii. Arctic Oil & Gas, Oil Sands & Shale Energy
 - iii. Controversial Weapons
 - iv. Tobacco
 - v. Gambling
 - vi. Adult Entertainment
 - vii. Palm Oil
 - viii. In addition, UNGC violators – if no evidence of positive change following engagement
- 9) The JGC meeting scheduled for 21 September 2022 was cancelled following the death of Queen Elizabeth II and the period of national mourning that followed. This meeting was due to consider the outcome of the procurement to appoint a WPP Private Equity sub-fund manager. This matter will now be considered at the JGC meeting due to take place on 5 December 2022.
- 10) Following its successful application in 2021 the WPP has submitted its second annual Stewardship Code in October 2022.
- 11) The provisional valuation of the Fund as at 30 September 2022 is £2.575 million which compares with £2.669 million as at September 2021. The table below presents the position for the Fund's Asset classes for these two dates and the percentage change over the year. It is important however to reinforce that the Funds investment performance remains focused on long-term market returns.

ASSET CLASS	Sep-21	Sep-22	% Change
	£million	£million	%
Equities			
UK	243.7	206.6	-15.2%
Global	1,322.1	1,265.7	-4.3%
Emerging Market	127.1	105.2	-17.2%
Total Equities	1,692.9	1,577.5	-6.8%
Fixed Income	642.2	540.8	-15.8%
Private Equity	100.7	107.9	7.2%
Property	179.5	211.7	18.0%
Cash	54.0	77.1	42.9%
Total	2,669.2	2,515.0	-5.8%

- 12) An additional Investment related issue to be aware of concerns the on-going investigation by the Financial Conduct Authority (FCA) into Link Funding Solutions role with the Woodford Equity Fund and the potential takeover of the parent company for the Link Group. Neither of these issues are resolved but the risk to the Fund is not considered significant as the Fund investment are held with the Custodian and not Link. The risk to the Fund, and wider WPP, would be from the administrative resources required to undertake the procurement of a new operator and that this may be undertaken in a market that is not fully competitive
- 13) Aon, the Fund Actuary, are continuing to make progress on the 2022 tri-annual valuation with most of the Fund employers expected to be notified of their revised contribution rates in time for the Employers Forum to be held in City Hall on Monday 12 December. The Forum will also be used as the opportunity to launch the consultation with Employers on the revised Funding Strategy Statement (FSS). Following the consultation the revised FSS will be brought back to Pension Committee for approval.

Legal Implications (to be confirmed these are the implications in the report taken to Pension Committee in June 2022)

- 14) 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) .

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

Financial Implications

- 16) 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 and the current Fund Valuation
- ii. That the Committee notes the consultation process that will be undertaken for updating the Funding Strategy Statement.

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