

**REPORT OF CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 9**

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**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 brief updates on the current investments of the Fund and the Actuarial valuation as at 31 March 2022 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 31<sup>st</sup> December 2022 the Fund had the following investments in seven WPP products, with the aggregate value of £1,606 million:-
- i. UK Opportunities Equity Fund - £229 million
  - ii. Global Government Bond Fund - £225 million
  - iii. Global Credit Fund - £194 million
  - iv. Multi Asset Credit Fund - £137 million
  - v. Global Opportunities Equity Fund - £514 million
  - vi. Global Growth Equity Fund- £199 million
  - vii. Emerging Markets Equity Fund- £108 million

The value of the Funds' assets held in WPP products now represents 63% of the total fund valuation of £2,608 million as at 30<sup>th</sup> November 2022. If the Blackrock Low Carbon Tracker Fund holding is included, then the proportion increases to 86% of the Fund value.

- 7) The December 2022 meeting of the WPP JGC approved the Preferred Bidder following the conclusion of the procurement to appoint a Private Equity Allocator. Following the conclusion of the 10 day standstill period a subsequent WPP press release confirmed Schroders as the successful bidder. Work is underway to complete the legal requirements and it is hoped that the WPP Private Equity sub-fund can be launched in March 2023.
- 8) Russell have now identified the multi-manager line up for the WPP Sustainable Active Equity Sub-fund, with the Fund including five specialist sustainable equity managers, which provides the Wales LGPS Funds with a diversified exposure to this asset class. A target of the end of April 2023 has been set for the launch of this sub-fund.
- 9) Following its successful application last year the WPP has submitted its 2022 Stewardship Code application to the Financial Reporting Council (FRC) but to date there is no news on the outcome of this application.
- 10) The WPP continues its dialogue with Link over the implications of the potential sale of Link Fund Solutions. This issue is not resolved but as a reminder 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.
- 11) Robeco, the WPP Voting and Engagement Advisor, are regular presenters at the WPP JGC but always in the closed session of these JGC meeting. Robeco have produced summary reports of their voting and engagement activity for Q4 2022, the contents of which may be of interest to Pension Committee Members. These reports are attached as Appendix 1 (Voting report) and Appendix 2 (Engagement / Active Ownership report).
- 12) The provisional valuation of the Fund as at 30 November 2022 is £2,608 million which compares with £2,707 million as at November 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 focussed on long-term market returns.

ASSET CLASS	Nov-21	Nov-22	% change
	£million	£million	%
Equities			
UK	237.7	232.3	-2.3%
Global	1,365.3	1,331.3	-2.5%
Emerging Market	120.9	110.4	-8.6%
Total Equities	1,723.8	1,674.1	-2.9%
Fixed Income	639.4	559.4	-12.5%
Private Equity	97.9	107.4	9.7%
Property	185.6	188.2	1.4%
Cash	60.1	78.9	31.4%
<b>Total</b>	<b>2,706.8</b>	<b>2,608.0</b>	<b>-3.7%</b>

- 13) The WPP continues its dialogue with Link over the implications of the potential sale of Link Fund Solutions. This issue is not resolved but as a reminder 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
- 14) The Fund's annual Employer's Forum was held on 12 December 2022 which included a presentation from Aon on the Actuarial valuation as at 31 March 2022. The highlights from the presentation include :-
- i. Small increase in Funding level to 97%, compared to 96% for the 2019 valuation but additional prudence included in the 2022 valuation.
    - i. Probability of Funding Success increased to 78%, 75% in 2019.
    - ii. Short term inflation allowance of 10% included.
    - iii. Reduction in the Recovery period to 14 years.
  - ii. For Employers in surplus a buffer of at least 110% retained given the uncertain economic outlook.
  - iii. Some allowance for post-valuation experience of increased Gilt Yields included in the Ongoing Orphan Employer calculations.

- iv. The key macro-economic assumptions impact is largely unchanged with a higher Discount Rate (Investment Returns) offset by higher CPI and Pay Growth assumptions.

Immediately prior to the Forum, individual Employer specific contribution rate results to cover the financial years 2023/24 to 2025/26 were released. Aon will finalise their 31 March 2022 valuation report during February and issue it by the statutory deadline of 31 March 2023.

## Legal Implications

- 15) This report has been prepared to update the Committee on recent developments related to the WPP Investment Pool and the current valuation of the fund. As such the report does not raise any direct legal implications however the general legal advice set out below should be considered

### 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**

- 17) That the Committee notes the recent developments related to the WPP Investment Pool and the current Fund March 2022 tri-annual Valuation

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

### **Appendices**

**Appendix 1 Robeco Proxy Voting Report Q4 2022**

**Appendix 1 Robeco Active Ownership Report Q4 2022**