

**REPORT OF CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 4**

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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> March 2023 the Fund had the following investments in seven WPP products, with the aggregate value of £1,664 million:-
- I. UK Opportunities Equity Fund - £242 million
  - II. Global Government Bond Fund - £231 million
  - III. Global Credit Fund - £198 million
  - IV. Multi Asset Credit Fund - £141 million
  - V. Global Opportunities Equity Fund - £532 million
  - VI. Global Growth Equity Fund- £210 million
  - VII. Emerging Markets Equity Fund- £111 million

The equivalent valuation as at 28<sup>th</sup> February 2023 was £1,663 million representing approximately 63% of this Fund's total valuation of £2,642 million at that date. The 28<sup>th</sup> February 2023 valuation of the BlackRock Low Carbon Fund was £596 million which if added to the WPP sub-funds would amount to 86% of the total Fund value being pooled at this date.

- 7) The launch date for WPP Sustainable Active Equity Sub-fund has been set for end of June 2023, which has slipped from the original March 2023 target. On-boarding to the WPP Private Credit sub-fund has now been completed and is continuing with the Open-ended Infrastructure sub-fund which is expected to be completed shortly. In addition along with six of the other Welsh LGPS Funds this Fund has also completed its subscription to the Capital Dynamics Welsh Wind Farm project. The total investment here for the Fund is relatively modest, £10m with £2.2m paid to date, but nevertheless indicates a commitment to invest in projects in renewable energy and in Wales. Once the activity with these sub-funds is complete WPP attention will turn to the launch of the WPP Private Equity sub-fund where Schrodgers have been appointed as the Allocator for this sub-fund.
- 8) The WPP held two pre-procurement Market Engagements days in Cardiff during March. The first was for the Operator procurement which was attended by 4 organisations :
- a) Waystone
  - b) Link
  - c) Fundrock Partners
  - d) Carne

The second engagement day was for the new WPP Property sub-fund where a number of the Constituent Authorities existing Property Managers presented on their thoughts as to what this Property sub-fund could look like. This covered issues such as the extent of Global coverage, direct versus pooled investments, the role of impact investing and the potential to transition existing investments to any WPP Property fund.

- 9) Following its successful application last year the WPP heard in late February 2023 that it was successful with its re-application to remain a signatory to the Financial Reporting Council (FRC) Stewardship Code.
- 10) There have been developments with regard to the potential sale of Link Fund Solutions with a press release confirming the conditional sale of Link FS to the Waystone Group subject to contract and final Board approvals. Appropriate regulatory approvals and consents will then be required with the completion of this process expecting to take up to six months.

- 11) A meeting of the WPP JGC took place on 29<sup>th</sup> March 2023 and the host authority have provided a summary of the items discussed at that meeting which is attached as Appendix 1 to this report. The WPP Training Plan for 2023/24 is also attached, as Appendix 2, with these virtual training events being open to Pension Committee (and Local Pension Board) members with invitations to be forwarded when times and dates are confirmed.
- 12) One of the items approved at the March JGC was the WPP Business Plan 2023-2026. and this Business Plan now needs to be approved individually by the eight constituent authorities of the WPP. A copy of the WPP Business Plan 2023-2026 is attached as Appendix 3. The areas covered by the business plan include :-
- i. Introduction to the Wales Pension Partnership
  - ii. Governance
  - iii. Risk Management
  - iv. Objectives
  - v. Beliefs
  - vi. Policies
  - vii. Work plan
  - viii. Training Plan
  - ix. Budget
  - x. Investment & Performance
  - xi. Contact Details
- 13) The provisional valuation of the Fund as at 28 February 2023 is £2,642 million which compares with £2.627 million as at February 2022. 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	Feb-23	Feb-22	% change
	£million	£million	%
Equities			
UK	250	236	6.12%
Global	1,337	1,294	3.32%
Emerging Market	110	114	-3.29%
Total Equities	1,698	1,644	3.26%
Fixed Income	561	620	-9.50%

Private Equity	114	100	14.29%
Property	184	196	-5.99%
Cash	85	67	26.63%
<b>Total</b>	<b>2,642</b>	<b>2,627</b>	<b>0.57%</b>

- 14) At the end of March Aon issued their final Actuarial valuation as at 31 March 2022 report with the highlights from the valuation including :-
- i. Small increase in Funding level to 98%, 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.
  - v. The Total Contribution rate for the Fund as a whole was 19.2%, a decrease of 2.3% compared to the equivalent rate in 2019.

## 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. The report also recommends that the Committee approves the WPP Business Plan 2023-26. 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 ( Barges Salmon) . As such the specialist external advice obtained in relation to this matter should be considered. In addition, the general legal advice set out below should also 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 2023-26.

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.
- ii. That the Committee approves the WPP Business Plan 2023-26

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

**Appendices**

Appendix 1 : WPP JGC 29 March 2023 Summary

Appendix 2 : WPP Training Plan 2023/24

Appendix 3 : WPP Business Plan 2023/26