

**REPORT OF CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 5**

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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 sub-fund was launched in October 2021 followed by the Sustainable Equity sub-fund in July 2023.

## Issues

6) As at 30<sup>th</sup> September 2023 the Fund had the following investments in eight WPP products, with the aggregate value of £1,678 million:-

- I. UK Opportunities Equity Fund - £247 million
- II. Global Government Bond Fund - £222 million
- III. Global Credit Fund - £193 million
- IV. Multi Asset Credit Fund - £144 million
- V. Global Opportunities Equity Fund - £466 million
- VI. Global Growth Equity Fund- £174 million
- VII. Emerging Markets Equity Fund- £108 million
- VIII. Sustainable Equity Fund - £123 million

These investments represent approximately 63% of this Fund's total valuation of £2,663 million at that date. The 30 September 2023 valuation of the BlackRock Low Carbon Fund was £624 million which if added to the WPP sub-funds would amount to 86% of the total Fund value at this date.

7) The WPP Sustainable Equity sub-fund was launched in the summer and was handed over for Russell Investments to manage from mid-July 2023. This is currently the only WPP sub-fund that all 8 Constituent Authorities have joined. This Fund made an investment of £125m in this sub-fund which was financed by drawdowns from the two existing WPP Global Equity Funds – Global Opportunities and Global Growth.

This sub-fund has been developed to align with the WPP's sustainability goals including Net Zero and has a clear climate focus. It includes a number of exclusions as follows :-

- Thermal Coal
- Oil Sands, Shale Energy, Arctic Oil and Gas.
- Palm Oil
- Gambling
- Controversial Weapons
- Adult Entertainment
- Tobacco

8) As a reminder, this sub-fund operates with the same benchmark and a plus 2% excess target return as the other WPP Global Equity sub-funds but with higher volatility expected. It operates with a diversified exposure to this asset class with five specialist sustainable managers. The investment managers, their investment style and their current weightings are :-

- Sparinvest : Ethical Value, 31%
- Wellington : Quality, 25%
- Neuberger Berman : High Growth, 17%
- Mirova : Growth at Reasonable Price (GARP), 17%
- Artemis : Smaller / Mid Cap High Growth, 9%

9) On-boarding arrangements for the Private Credit and (open ended) Infrastructure sub-funds have now been completed and the first commitments to the Private Credit sub-fund have been paid over in October 2023. There have been no capital calls for the Infrastructure sub-fund to date. The on-boarding to the WPP Private Equity sub-fund,

where Schroders are the Allocator, was completed in October 2023 with the first capital calls being paid in November 2023.

- 10) Officers have continued with work developing the specification for WPP Property sub-fund. The target for launching the procurement is the end of November 2023 with the specification having three sleeves:
  - a. Core UK
  - b. Impact UK
  - c. International

The current timeline is for the JGC to confirm the preferred bidder(s) for this asset class at its July 2024 meeting.

- 11) The Operator procurement is also proceeding with the procurement documents released in mid-October and a closing date of 20 November. The end of January will see a Bidder's interview day which will be followed by an officer preferred bidder recommendation to the March 2024 JGC meeting. The new Operator contract will commence in December 2024.
- 12) The Waystone Group completed their purchase of Link Fund Solutions on 9 October 2023 and are now undertaking the operator role for the WPP. There has been a full transfer of Link staff with a WPP relationship to Waystone so it has very much been "business as usual" since the transfer.
- 13) In July 2023 the Department of Levelling-Up, Housing and Communities (DLUHC) issued a consultation on the future of LGPS Pooling. A full copy of the consultation is attached as Appendix 1, with Appendix 2 providing a summary of the consultation proposals and questions. The consultation focused on a number of key themes over different time horizons which included :-
  - a. The transfer of all listed assets to Pools by March 2025
  - b. Should there be a preferred model of pooling?
  - c. Enhanced reporting including a Value for Money (VFM) rationale for assets not pooled
  - d. The ability for Fund's to invest in another pool's investment vehicle(s) encouraging collaboration and specialisation
  - e. Funds to set out their plans for up to 5% of their assets to be invested in UK levelling up projects.
  - f. An ambition that funds invest 10% of assets in private equity
  - g. A longer-term objective for a smaller number of pools with an asset base of at least £50b.
- 14) This Fund assisted the WPP in drafting its response to the consultation and a copy of the WPP response is attached as Appendix 3 to this report.
- 15) The WPP has submit its application to remain a signatory to the UK Stewardship Code at the end of October 2023, following its successful applications in 2021 and 2022.
- 16) Robeco, the WPP Voting and Engagement Advisor, have continued to produce summary reports of their voting and engagement activity and their public report for Q3 2023 is attached as Appendix 4.
- 17) A meeting of the WPP JGC took place on 20<sup>th</sup> September 2023 and the host authority have provided a summary of the items discussed at that meeting which is attached as Appendix 5 to this report..

- 18) The provisional valuation of the Fund as at 30 September 2023 is £2,663 million which compares with £2,676 million as at June 2023 and £2,599 million as at 30 September 2022. The table below presents the position for the Fund's Asset classes for September 2023 and 2022 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	Sep-22	Sep-23	% change
	£million	£million	%
Equities			
UK	207	247	19.7%
Global	1,266	1387	9.6%
Emerging Market	105	108	3.0%
Total Equities	1,578	1742	10.5%
Fixed Income	541	560	3.5%
Private Equity	108	105	-3.0%
Property	212	182	-14.1%
Cash	77	74	-3.5%
<b>Total</b>	<b>2,515</b>	<b>2,663</b>	<b>5.9%</b>

## Legal Implications

- 19) 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 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) .

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

- 20) 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**

- 21) That the Committee notes the recent developments related to the WPP Investment Pool and the Fund's Investment holdings

## **CHRISTOPHER LEE CORPORATE DIRECTOR RESOURCES**

### **Appendices**

Appendix 1 : DLUHC Pooling Consultation

Appendix 2 : List of consultation proposals and questions

Appendix 3 : WPP Consultation response

Appendix 4 : Robeco Voting and Engagement Q3 2023 Report

Appendix 5 : WPP JGC 20 September 2023 Summary