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City of Westminster

Committee Agenda

Title:	**Superannuation Committee**
Meeting Date:	**Monday 14th July 2014**
Time:	**7.00 pm**
Venue:	**Room 4 - 17th Floor, City Hall**
Members:	**Councillors:** Suhail Rahuja (Chairman) Antonia Cox Ian Rowley Patricia McAllister

Members of the public are welcome to attend the meeting and listen to the discussion Part 1 of the Agenda

Admission to the public gallery is by ticket, issued from the ground floor reception at City Hall from 6.30pm. If you have a disability and require any special assistance please contact the Committee Officer (details listed below) in advance of the meeting.

An Induction loop operates to enhance sound for anyone wearing a hearing aid or using a transmitter. If you require any further information, please contact the Committee Officer, Andrew Palmer.

Email: apalmer@westminster.gov.uk Tel: 020 7641 2802
Corporate Website: www.westminster.gov.uk

Note for Members: Members are reminded that Officer contacts are shown at the end of each report and Members are welcome to raise questions in advance of the meeting. With regard to item 2, guidance on declarations of interests is included in the Code of Governance; if Members and Officers have any particular questions they should contact the Head of Legal & Democratic Services in advance of the meeting please.

AGENDA

PART 1 (IN PUBLIC)

1.	**MEMBERSHIP** To note any changes to the membership.	
2.	**DECLARATIONS OF INTEREST** To receive declarations by Members and Officers of the existence and nature of any personal or prejudicial interests in matters on this agenda.	
3.	**MINUTES** To approve the Minutes (open) of the meetings of the Superannuation Committee held on 18 March and 4 June 2014.	**(Pages 1 - 8)**
4.	**PERFORMANCE AND MANAGEMENT OF THE COUNCIL'S PENSION FUND** Report by the Director of Corporate Finance & Investment and Deloitte, the Council's Investment Consultants.	**(Pages 9 - 42)**
5.	**RESPONSE TO THE GOVERNMENT'S CONSULTATION ON THE STRUCTURE OF THE LGPS** Report by the Director of Corporate Finance & Investment	**(Pages 43 - 82)**
6.	**WORKPLAN FOR THE THREE TRI-BOROUGH PENSION FUNDS** Report by the Director of Corporate Finance & Investment	**(Pages 83 - 90)**
7.	**UPDATE ON GOVERNANCE REGULATIONS** Verbal report by the Director of Corporate Finance & Investment	**(Verbal Report)**
8.	**ANY OTHER BUSINESS WHICH THE CHAIRMAN CONSIDERS URGENT**	

9. EXEMPT REPORTS UNDER THE LOCAL GOVERNMENT ACT 1972

RECOMMENDED: That under Section 100 (A) (4) and Part 1 of Schedule 12A to the Local Government Act 1972 (as amended), the public and press be excluded from the meeting for the following item(s) of business because they involve the likely disclosure of exempt information on the grounds shown below and it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information:

Item No	Grounds	Para. of Part 1 of Schedule 12A of the Act
10 - 13	Information relating to financial or business affairs of any particular person (including the authority holding that information).	3

10. MINUTES (Pages 91 - 98)

To approve the confidential Minutes of the meeting of the Superannuation Committee held on 18 March 2014

11. APPOINTMENT OF CUSTODIAN (Pages 99 - 102)

Update from the Director of Corporate Finance & Investment

12. EXTENSION OF DELOITTE CONTRACT (Pages 103 - 106)

Update from the Director of Corporate Finance & Investment

13. UPDATE ON THE APPOINTMENT OF MANAGERS (Pages 107 - 118)

Report of the Director of Corporate Finance & Investment

Peter Large
Head of Legal & Democratic Services
4 July 2014

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FOR PUBLICATION

City of Westminster

Minutes

Meeting:	**Superannuation Committee** **1/2014**
Date of meeting:	**Tuesday 18 March 2014 at 7.00pm**
Attendees:	**Councillors:** **Suhail Rahuja (Chairman)** **Antonia Cox** **Patricia McAllister** **Dr Cyril Nemeth** **Ian Rowley** **Officers:** **Jonathan Hunt (Director of Corporate Finance & Investment)** **Carolyn Beech (Interim Director of Human Resources)** **Nicola Webb (Pension Fund Officer)** **Andrew Palmer (Senior Committee & Governance Officer)** **Also in attendance:** **Alistair Sutherland (Deloitte Investment UK)**
Apologies:	**None.**
Contact:	**Andrew Palmer** **Senior Committee & Governance Officer**
Details:	**Tel: 020 7641 2802** **Fax: 020 7641 2917** **Email: apalmer@westminster.gov.uk**

1. MEMBERSHIP OF THE COMMITTEE

1.1 No apologies for absence were received.

2. DECLARATIONS OF INTEREST

2.1 The Chairman made the following declaration:
'I am employed by Fund Managers who have amongst their clients Hermes. I am not involved in any element of the work which relates to the Westminster Fund and accordingly do not regard this as a prejudicial interest'.

3. MINUTES

3.1 The minutes of the Superannuation Committee meeting held on 19 November 2013, which did not include exempt information, were agreed as a correct record and were signed by the Chairman.

4. PERFORMANCE AND MANAGEMENT OF THE COUNCIL'S PENSION FUND

4.1 Alistair Sutherland (Deloitte Investment UK) submitted a report which provided a summary of the Fund's performance over the three month period to 31 December 2013, and which stated that Westminster's Fund was complying with statutory requirements. The Fund had outperformed its composite benchmark by 0.36% over the fourth quarter of 2013; and had outperformed its composite benchmark by 1.84% over the past 12 months.

4.2 Majedie had continued to outperform the benchmark over the quarter, returning 6.5% against a benchmark of 5.5%. Insight's credit mandate had also performed well. The Committee commented on the continued underperformance of State Street, and noted that Majedie had undergone a further change in structure.

4.3 Jonathan Hunt (Director of Corporate Finance & Investment) confirmed that the Committee would be considering the fixed income element of the Fund at a future meeting. Members also discussed investment in long leases and retail property.

4.4 **RESOLVED:** That the report on the performance and management of Westminster's Pension Fund be noted.

5. EMPLOYEES IN THE WESTMINSTER CITY COUNCIL LOCAL GOVERNMENT PENSION SCHEME

5.1 The Committee received an update from Carolyn Beech (Interim Director of Human Resources) on the actions being taken by Human Resources to engage and communicate with staff about the changes to the Local Government Pension Scheme (LGPS), which would come into effect from April 2014. The report also provided more detail regarding the demographics of the employees who had opted out during auto enrolment, and considered whether the new regulations would provide the conditions for them to rejoin the scheme.

5.2 The Interim Director informed the Committee that a meeting held on 25 February to present the new scheme to staff had been attended by over 100 employees, many of whom did not fully understand the career average. Other publicity material had been made available, with supporting presentations also having been made at schools.

5.3 Members discussed the demographics of the employees who had opted out of the scheme. The Interim Director reported that of the 669 employees who were auto-enrolled into the scheme on 1 July 2013, 275 (41%) had opted out again, primarily due to financial constraints. The Committee noted that these employees would be auto-enrolled again in three years time in line with the new legislation.

5.4 The Committee noted that the City Council would continue with the programme to educate employees of the scheme, and to promote the 50/50 scheme.

5.5 **RESOLVED** that progress in the engagement strategy be noted.

6. FUNDING STRATEGY STATEMENT

6.1 Jonathan Hunt (Director of Corporate Finance & Investment) and Nicola Webb (Tri-Borough Pension Fund Officer) presented the City Council's draft Funding Strategy Statement, which set out the funding objectives of the Pension Fund and the way it planned to meet liabilities. Local Government Pension Scheme (LGPS) Regulations required that the Statement be reviewed every three years, in conjunction with the actuarial valuation. Following the meeting, the draft statement would be submitted to the Admitted Bodies for consultation

6.2 The new Statement sought to be clearer about how different types of employers would be treated in the Fund, together with the process to be followed to ensure that liabilities were funded if they ceased participation. Comments received from the Fund Actuary following consultation had been incorporated in the draft Statement.

6.3 The Committee discussed valuation assumptions and the admission of new employers. Members highlighted the need for risks to be graded, and requested more detail for each Admitted Body on risks, levels of deficit and recovery periods. The Director of Corporate Finance & Investment confirmed that the City Council was currently working with the Fund's Actuaries to produce a proper risk analysis of the Admitted Bodies, and that a further report would be submitted to the Committee.

6.4 Members also discussed pooling among the smaller Admitted Bodies, and noted that seven Admitted Bodies were currently pooled with the City Council.

6.5 **RESOLVED:** that:

1) the draft Funding Strategy Statement set out in the report be approved; and

2) a further report be submitted to the Committee that provides more detail for each Admitted Body on risks, together with levels of deficit and recovery periods.

7. ANY URGENT BUSINESS

7.1 No additional business was reported.

8. EXEMPT REPORTS UNDER THE LOCAL GOVERNMENT ACT 1972

8.1 **RESOLVED:** That under Section 100 (A)(4) and Part 1 of Schedule 12A to the Local Government Act 1972 (as amended), the public and press be excluded from the meeting for the following items of business because they involve the likely disclosure of exempt information on the grounds shown below and it is considered that, in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information:

Item Nos.	Grounds	Para. of Part 1 of Schedule 12A of the Act
9 to 13	Information relating to financial or business affairs of any particular person (including the authority holding that information).	3

9. MINUTES

9.1 The minutes of the Superannuation Committee meeting held on 19 November 2013 which included exempt information were agreed as a correct record and were signed by the Chairman.

10. PENSIONS ADMINISTRATION CONTRACT RE-LET UPDATE

10.1 The Committee received a confidential report which provided an update on the strategy to re-let the Pension Administration Contract, and agreed the next steps for the process.

11. UPDATE ON THE APPOINTMENT OF EQUITY MANAGERS

11.1 The Committee noted a confidential update on progress in the appointment of core and satellite equity managers.

12. PENSION FUND COSTS

12.1 The Committee received a confidential report which provided a summary of the costs that had been incurred by the Pension Fund over the last three years.

13. DRAFT STEWARDSHIP POLICY

13.1 The Committee received a confidential report which presented a draft Stewardship Policy for Pension Fund investments.

14. CLOSE OF MEETING

14.1 The meeting closed at 8.36 pm.

CHAIRMAN: ……………………………….. DATE: ……………………….

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City of Westminster

Minutes

Meeting:	Meeting of Audit and Performance, General Purposes, Environment; Children; Sports and Leisure; Housing, Finance, Corporate Customer Services and the Adults, Health and Public Protection Policy and Scrutiny Committee and the Planning (x4); Superannuation Committee and the Licensing Committees held at Porchester Hall, Porchester Road, Bayswater, London, W2 5DU
Date and Time of meeting:	8.34pm, Wednesday 4 June 2014
Attendees:	All Members of the Council attending the Annual Council meeting.
Apologies:	None
Contact:	Mick Steward
Details:	Tel: 020 7641 3134

This meeting was conducted by the Head of Legal and Democratic Services in accordance with Standing Order 2 (4).

1. MEMBERSHIP OF COMMITTEES

The Committees noted the Membership of the Committee as set out in Appendix B of the report Constitutional Issues on the Annual Council Agenda.

2. CONSTITUTIONAL ISSUES (see report of the Head of Legal Services)

Resolved:

That the recommendations as set out in the report be approved.

3. CLOSE OF MEETING

The meeting ended at 8.35pm.

______________________________	______________________
CHAIRMAN	**DATE**

City of Westminster

Executive Summary and Recommendations

	Superannuation Committee
Date:	14 July 2014
Subject:	Performance of the Council's Pension Fund;

Summary

1. This report presents a summary of the Superannuation Fund's performance to 31 March 2014, together with an estimated valuation position.

Recommendations

1. The Committee note the contents of this paper, and the performance report from Deloitte.

City of Westminster

Superannuation Committee

Date:	**14 July 2014**
Classification:	**Public**
Title of Report:	**Performance of the Council's Pension Fund;**
Report of:	**Director of Corporate Finance & Investments**
Wards involved:	**All**
Policy context:	**Effective control over Council activities**
Financial summary:	There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.
Report Author:	**Jonathan Hunt** *Director of Corporate Finance and Investments*
Contact details	jonathanhunt@westminster.gov.uk 020 7641 1804

1. PERFORMANCE OF THE FUND

1.1. This report provides an update on the investment performance and funding level of the Pension Fund at 31st March 2014. The investment report (attached at Appendix 1) has been prepared by Deloitte, the Fund's investment adviser.

1.2. At Appendix 2 is the funding update provided by the Fund Actuary, Barnett Waddingham. This shows the funding level of the Fund has improved from 74% at the last triennial valuation at 31st March 2013 to 81% at 31st March 2014. It is proposed to include these updates to committee every quarter.

BACKGROUND PAPERS

The background papers listed below are not for public inspection by virtue of Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (as amended) in that it contains exempt information, namely information relating to the financial or business affairs of any particular person (including the authority holding that information).

1. None

If you have any questions about this report, or wish to inspect one of the background papers, please contact Jonathan Hunt on 020 7641 1804 or jonathanhunt@westminster.gov.uk.

Appendix 1

Deloitte Investment Report
Quarter End to 31 March 2014

Appendix 2

Barnett Waddingham
Funding Update Report as at 31 March 2014

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City of Westminster Superannuation Fund

Investment Performance Report to 31 March 2014

Executive Summary

Deloitte Total Reward and Benefits Limited
May 2014

Contents

Appendices

1 Market Background

Three and twelve months to 31 March 2014

The first quarter of 2014 saw negative returns on UK equities, with the FTSE All Share Index returning -0.6%. Smaller companies outperformed larger companies, with the FTSE 100 Index returning -1.3% and the FTSE Small Cap Index returning 1.4% over the quarter. Despite continued improvements in the UK's economic outlook, it was a volatile quarter for UK equities which were influenced by signs of a slowdown in China and the crisis in the Ukraine.

There was a wide range of performance at the sector level, with Utilities offering the highest return (3.4%) and Telecommunications, the worst performing sector (-7.6%).

Over the three months to 31 March 2014, global equity markets outperformed the UK in both local and sterling terms, achieving marginally positive returns of 1.1% and 0.5% respectively. Currency hedging was therefore beneficial to investors over the quarter. Europe (ex UK) was the strongest performing region over the quarter, returning 2.9% in local currency terms and 2.4% in sterling terms. Japan was the lowest performer over the quarter, returning -6.4% in local currency terms and -6.0% in sterling terms.

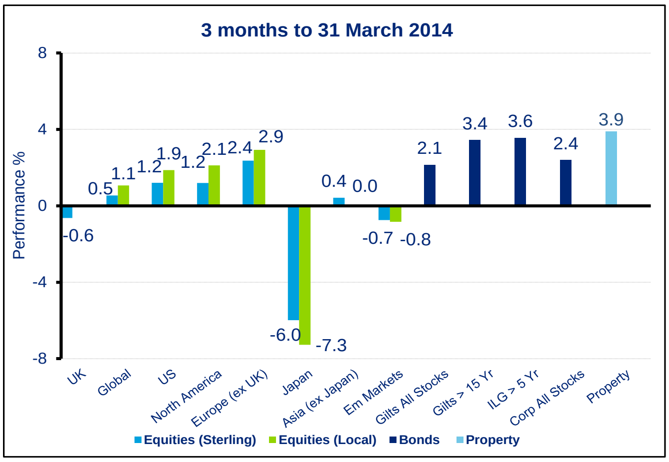
UK nominal gilts performed positively over the 3 months to 31 March 2014 as yields fell, with the All Stocks Gilt Index and Over 15 Year Gilt Index returning 2.1% and 3.4% respectively. Real yields on UK index linked gilts also fell, with the Over 5 Year Index-linked Gilts Index returning 3.6%. Corporate bond returns were positive over the 3 months to 31 March 2014, although with credit spreads broadly unchanged. The iBoxx All Stocks Non Gilt Index returned 2.4% over the period.

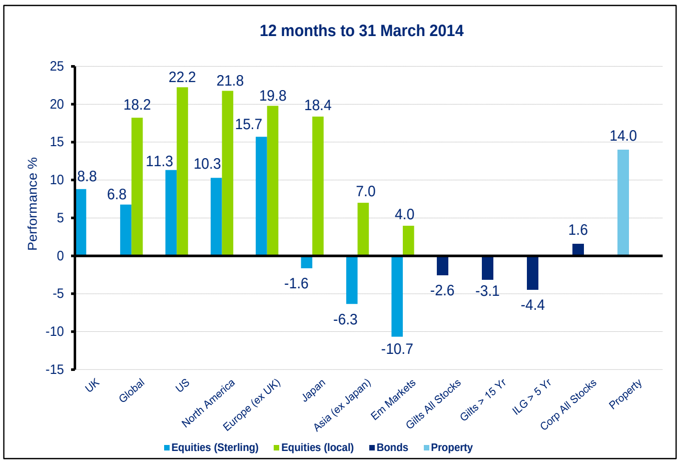
Improvements in the UK's economic outlook meant that equities delivered positive returns over the year to 31 March 2014, with the FTSE All Share Index returning 8.8%. Smaller companies were instrumental to UK equity returns over the year, as illustrated by the FTSE Small Cap Index which returned 20.4%. Over the 12 months to 31 March 2014, the Telecommunications sector was the highest performing sector, returning 18.5%. In contrast, the lowest performing sector was Basic Materials, which returned -4.0%.

Global equity markets outperformed the UK considerably over the year to 31 March 2014 in local currency terms, but underperformed the UK in sterling terms. The FTSE All World Index returned 18.2% in local currency terms, yet only 6.8% for unhedged sterling investors. Currency hedging was beneficial as sterling appreciated against all major currencies, most substantially against the Japanese yen.

Returns on nominal UK gilts were negative over the year to 31 March 2014, as yields increased across all maturities. The rise in yields was most significant at shorter maturities where yields increased by c. 1%. The All Stocks Gilt Index and Over 15 Year Gilt Index returned -2.6% and -3.1% respectively. Real yields on UK index-linked gilts also increased over the period, with the Over 5 Year Index-linked Gilts Index returning -4.4%. Corporate bond markets offered a positive return over the year, with the iBoxx All Stocks Non Gilt Index returning 1.6% after credit spreads narrowed.

The UK property market continues to rise, returning 3.9% over the quarter and 14.0% over the year to 31 March 2014.





2 Total Fund

2.1 Investment Performance to 31 March 2014

Over the quarter, the Fund's passive mandates with LGIM (equities), and SSgA (equities) performed broadly in line with their respective benchmarks whilst Insight (gilts) outperformed by 0.4%. Of the active managers, Majedie (equities) and Insight (Non Gilts) outperformed their respective benchmarks, with both property mandates also delivering returns slightly ahead of their benchmarks.

Over the one year and three years to 31 March 2014 Majedie, Insight and Hermes have outperformed, helping performance at the Total Fund level. Over the three years period to 31 March 2014 the Fund has outperformed its benchmark.

The table below summarises the investment performance to 31 March 2014 by manager.

Manager	Asset Class	Last Quarter (%)			Last Year (%)			Last 3 Years (% p.a.)[1]			Since inception (% p.a.)[1]		
		Fund		B'mark	Fund		B'mark	Fund		B'mark	Fund		B'mark
		Gross	Net[1]		Gross	Net[1]		Gross	Net[1]		Gross	Net[1]	
SSgA	UK Equity*	-1.9	-1.9	-1.9	7.5	7.4	7.4	8.5	8.4	8.4	6.2	6.1	6.0
	Overseas Equity	1.1	1.1	1.0	12.6	12.5	13.1	9.3	9.2	9.5	9.4	9.3	9.6
Majedie	UK Equity	2.1	2.0	-0.6	21.6	21.2	8.8	16.0	15.6	8.8	11.7	11.3	6.2
LGIM	Global Equity	1.0	1.0	1.0	16.9	16.8	16.9	n/a	n/a	n/a	0.9	0.8	0.9
Insight	Non Gilts	2.7	2.7	2.3	2.7	2.5	1.8	7.8	7.6	6.7	5.8	5.6	5.3
	Gilts	1.5	1.5	1.5	-2.0	-2.1	-2.2	3.8	3.7	3.8	5.4	5.3	5.5
Hermes	Property	3.6	3.5	3.4	13.9	13.5	12.2	8.4	8.0	5.8	6.6	6.2	6.2
Standard Life	Property	2.8	2.6	2.7	n/a	n/a	n/a	n/a	n/a	n/a	9.8	9.4	2.8
Total		1.4	0.6	0.6	12.7	12.5	9.7	10.1	9.9	8.5	5.7	5.4	5.2

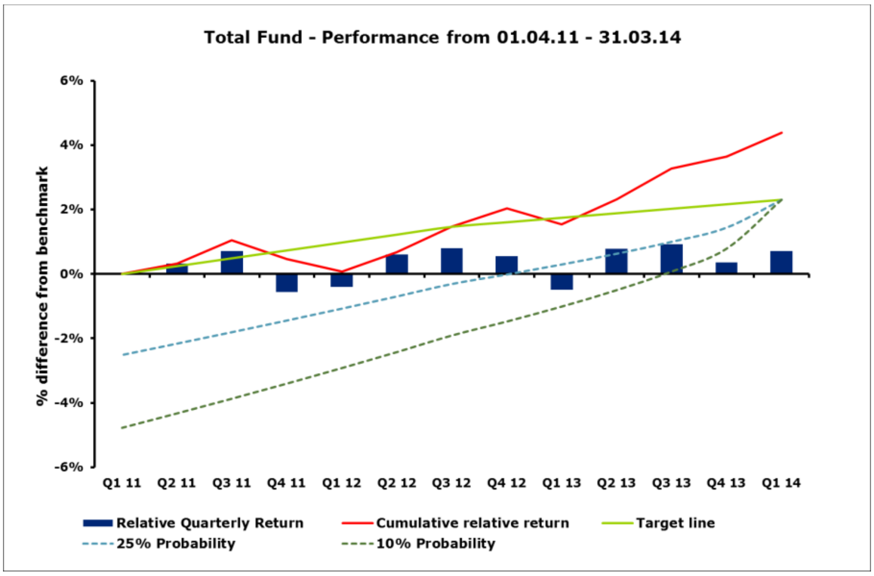
Source: Investment Managers

(1) Estimated by Deloitte when manager data is not available.

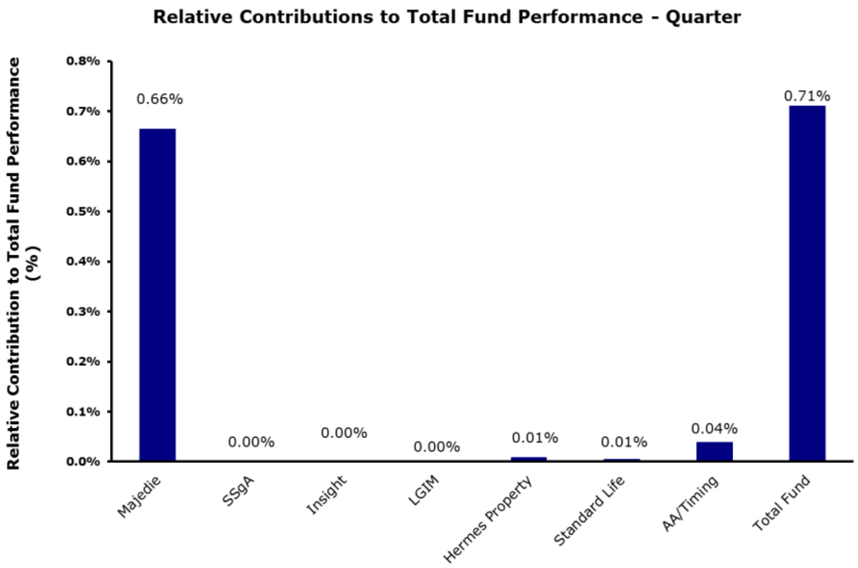
(*) Performance is to 24 March 2014 when assets were disinvested

See appendix 1 for more detail on manager fees and since inception dates

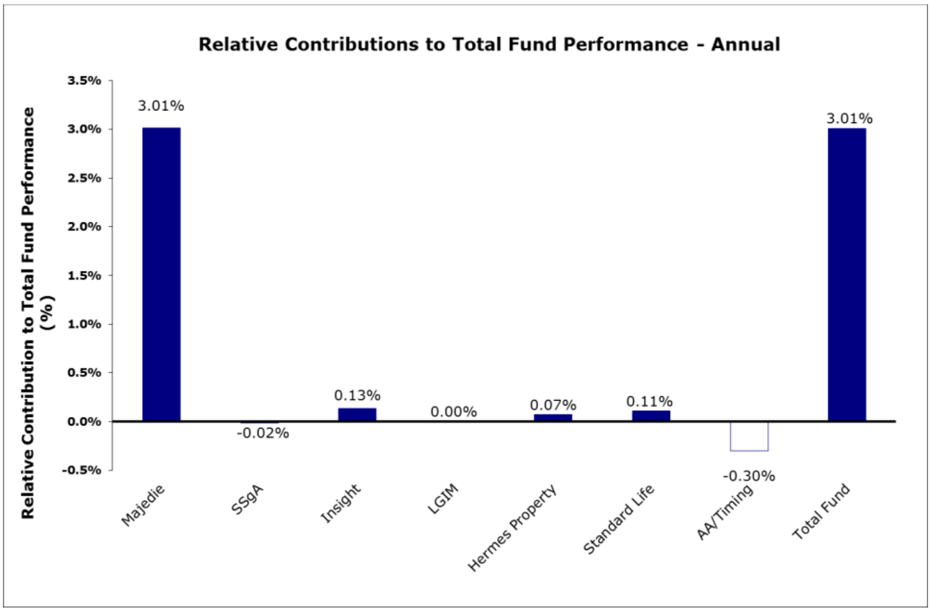
The chart below compares the performance of the Fund relative to the expected variation around the target outperformance over the three years highlighting that over the period the cumulative performance has been positive.



2.2 Attribution of Performance to 31 March 2014



The Fund outperformed its composite benchmark by 0.71% over the first quarter of 2014 largely as a result of strong performance from Majedie.



Over the past 12 months the Fund has outperformed its composite benchmark by 3.01%, with all managers except SSgA and LGIM contributing to the outperformance. The breakdown clearly illustrates that Majedie was the primary driver contributor to the positive performance over the 12 month period.

2.3 Asset Allocation as at 31 March 2014

During June 2013, the decision was taken by the Committee to invest in the Standard Life Long Lease Property Fund, funding the holding in the first instance from any remaining conventional gilt holdings. As a result c.£30.2m was disinvested from Insight Fixed Interest Gilt Fund and the funds were invested with Standard Life on 14 June 2013. During the quarter the decision was made to terminate the Fund's passive Overseas equity mandate with State Street Global Advisors (SSgA), with a view to rationalising the passive exposure with LGIM. In addition, the decision was taken to appoint Baillie Gifford to manage a global equity mandate. As at 31 March 2014 c.£296m was disinvested from SSgA, of which approximately £130m was transferred to Baillie Gifford for investing in the Global Equity Alpha Fund and c. £164m was transferred to LGIM (passive) global equity.

The table below shows the assets held by manager and asset class as at 31 March 2014.

Manager	Asset Class	Actual Asset Allocation					
		31 Dec 2013 (£m)	31 Mar 2014 (£m)	31 Dec 2013 (%)	31 Mar 2014 (%)	Benchmark Allocation (%)	Control Range (%)
Majedie	UK Equity	234.5	239.4	24.6	24.9	16.9	+/-2
SSgA	UK Equity (Passive)	122.2	117.8*	12.8	12.3	16.9	+/-2
	Total UK Equity	**356.7**	**357.2**	**37.4**	**37.2**	**33.8**	
LGIM	Global Equity (Passive)	184.0	185.9	19.3	19.3	20.6	+/-2
SSgA	Overseas Equity (Passive)	176.5	175.7	18.5	18.3	20.6	+/-2
	Total Global Equity	**360.5**	**361.6**	**37.8**	**37.6**	**41.2**	
Insight	Fixed Interest Gilts (Passive)	16.5	16.8	1.7	1.7	0.0	
Insight	Sterling Non-Gilts	138.5	142.3	14.5	14.8	15.0	
	Total Bonds	**155.0**	**159.1**	**16.2**	**16.5**	**20.0**	**+/-4**
Hermes	Property	38.3	39.1	4.0	4.1	5.0	
Standard Life	Property	42.7	43.8	4.5	4.6	5.0	
	Total Property	**81.0**	**82.9**	**8.5**	**8.7**	**10.0**	
	Total	**953.2**	**960.7**	**100.0**	**100.0**	**100.0**	
	Westminster In-House Account	4.4	0.2			-	-
	Total	**957.6**	**960.9**			**-**	**-**

Source: Investment Managers and Custodian (BNY Mellon)

Figures may not sum to total due to rounding

*Asset value as at 24 March 2014 when disinvested

Over the quarter the market value of the assets rose by c. £7.5m.

Rebalancing Framework

As at 31 March 2014, the Fund was overweight UK equities (3.4%) and underweight global equities (-3.6%), bonds (-3.5%) and property (-1.3%) relative to the stated benchmark allocations.

The Fund remains above the control range for the allocation to Majedie.

3 Summary of Manager Ratings

The table below summarises Deloitte's ratings of the managers employed by the Fund and triggers against which managers should be reviewed.

Manager	Mandate	Triggers for Review	Rating
Majedie	UK Equity	Further turnover within the core investment team Re-opening the UK equity products with no clear limits on the value of assets that they would take on	1
LGIM	Global Equity (passive)	Major deviation from benchmark returns Significant loss of assets under management	1
Insight	Sterling Non-Gilts	Departure of any of the senior members of the investment team Steps to broaden their product offering beyond the current UK and European focus without first bringing in the additional expertise	1
Insight	Fixed Interest Gilts (Passive)		n/a
Hermes	Property	Significant growth in the value of assets invested in the fund Changes to the team managing the mandate	2
Standard Life	Property	Growth in the value of the Long Lease Property Fund above £1.5bn Departure of the fund manager	1

* The Provisional rating is applied where we have concerns over changes to an investment manager

Majedie UK Equity

As previously mentioned, in January Majedie took on £130m of assets from Majedie Investment PLC which was invested across of range of strategies. At the same time, Majedie increased the level of ownership by the employees, reducing the shareholding of the parent company (Majedie Investment PLC).

Tom Record joined the team from Baillie Gifford and Majedie announced the appointment of Adrian Brass from Fidelity – together these individuals will form the "core" of the new global equity team, supported by two analysts already with Majedie. The aim is to launch two global equity funds – the Global Equity Fund and the Global Focus Fund, which will be managed by the team of four along similar lines to the approach used for the UK equity products. Brass will also lead manage a US equity fund.

Deloitte view – We continue to rate Majedie positively for their UK equity capabilities and will continue to monitor closely the global equity developments.

LGIM

There were no changes to the passive team over the quarter.

Deloitte view – We continue to rate Legal & General's passive capabilities positively.

Insight

Insight continues to gow the assets under management for both the fixed interest and liability solutions parts of the business. Reflecting this growth, Insight is in the process of adding additional resource to the team.

Insight has completed the systems integration with Pareto (which it acquired in 2013) and is now in the process of looking to build on Pareto's US presence, operating for the time being under the brand Insight Pareto. As part of the expansion into the US, Insight will be adding additional credit analyst resource which will feed into the UK team.

Deloitte view – We continue to rate Insight positively for its bond and LDI capabilities.

Hermes

There have been no changes to the team managing HPUT or the processes applied.

Deloitte view – We continue to rate the team managing HPUT.

Standard Life

As at 31 March 2014, the Long Lease Property Fund's assets under management amounted to c. £1.3bn with a further c. £60m of commitments awaiting drawdown.

There have been no changes to the team which is responsible for the Long Lease Property Fund.

Deloitte view – At the time of their appointment, the Committee asked about the capacity for the strategy and SLI commented that they believed it would be around £1.5bn of assets. With a number of recent appointments, the fund is approaching this level, albeit SLI believes that there is still scope for further growth, particularly given the recent change to the permitted level of pre-funded projects that the fund could hold.

We continue to monitor closely SLI's willingness to take further cash flows into the Long Lease Property Fund and and their deployment of the new monies, recognising that the increasing demand for long lease properties in desirable locations could cause SLI to invest in lower quality assets.

4 SSgA – Global Equity (Passive)

The Committee decided to terminate the Fund's mandates with SSgA. Monies were disinvested from the UK equity mandate on 24 March 2014 and from the Overseas equity mandate on 31 March 2014. SSgA had been appointed to manage two passive equity portfolios, with the objective of delivering performance in line with the stated benchmarks. The manager is remunerated on a fixed fee based on the value of assets.

4.1 Passive UK equity – Investment Performance to 31 March 2014

	Last Quarter (%)	Last Year (%)	Last 3 Years (%)	Since Inception (% p.a.)[1]
SSgA – Gross of fees	-1.9	7.5	8.5	6.2
Net of fees[1]	*-1.9*	*7.4*	*8.4*	*6.1*
FTSE All-Share Index	-1.9	7.4	8.4	6.0
Relative	0.0	0.1	0.1	0.1

Source: SSgA

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 31 May 2008 (prior to that the mandate was an active equity mandate). The portfolio aims to track the benchmark within tracking error tolerance range of +/-0.25% p.a. over two years out of three.

The SSgA UK equity fund has performed broadly in line with its benchmark over the various time periods

4.2 Passive Overseas equity – Investment Performance to 31 March 2014

	Last Quarter[1](%)	Last Year (%)	Since Inception (% p.a.)
SSgA – Gross of fees	1.1	12.6	9.4
Net of fees[1]	*1.1*	*12.5*	*9.3*
FTSE World ex UK	1.0	13.1	9.6
Relative	0.1	-0.5	-0.2

Source: SSgA

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 10 March 2011; Portfolio and benchmark are 50% currency hedged from 9 March 2011. Tracking error tolerance range of +/-0.5%p.a.

The SSgA International equity fund underperformed its benchmark by 0.5% over the last year. This report will not include SSgA next quarter.

5 LGIM – Global Equity (Passive)

LGIM was appointed to manage a passively managed global equity portfolio from the 31 October 2012, with the objective of delivering performance in line with the stated benchmarks. The manager is remunerated on a fixed fee based on the value of assets.

5.1 Passive Global Equity – Investment Performance to 31 March 2014

	Last Quarter (%)	Last Year (%)	Since inception (%)[1]
LGIM – Gross of fees	1.0	16.9	0.9
Net of fees[1]	1.0	*16.8*	*0.8*
FTSE World GBP Hedged	1.0	16.9	0.9
Relative	0.0	0.0	0.0

Source: LGIM

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 1 November 2012 (prior to that the mandate was an active equity mandate). The portfolio aims to track the benchmark .

The investment objective of the fund is to track the performance of the FTSE AW-World Index (less withholding tax if applicable) - GBP Hedged (with the exception of advanced emerging markets) to within +/-0.5% p.a. for two years out of three.

The LGIM fund has performed in line with the benchmark over the quarter, one year and since the inception of the mandate.

6 Majedie – UK Equity

Majedie was appointed to manage an actively managed segregated UK equity portfolio. The manager's remuneration is a combination of a fixed fee, based on the value of assets of approximately 0.35% p.a., and a performance related fee of 20% of the outperformance which is payable when the excess return of the portfolio over a rolling 3 year period is more than 1% p.a.

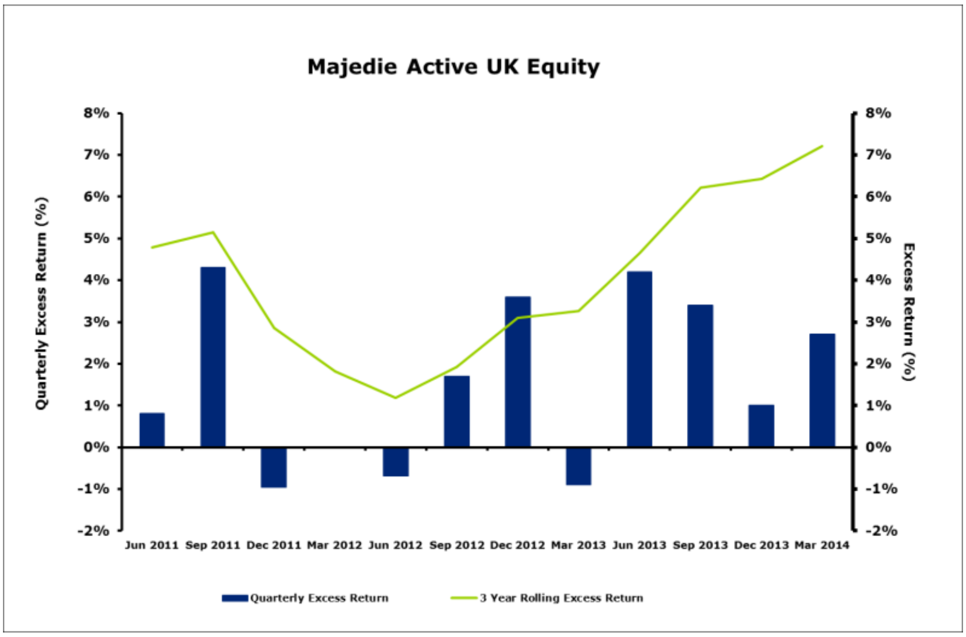
6.1 Investment Performance to 31 March 2014

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Majedie – Gross of base fees	2.1	21.6	16.0	11.7
Net of base fees[1]	*2.0*	*21.2*	*15.6*	*11.3*
FTSE All-Share Index	-0.6	8.8	8.8	6.2
Target	0.0	11.2	11.2	8.6

Source: Majedie

See appendix 1 for more detail on manager fees

Target estimated by Deloitte. Inception date taken as 31 May 2006.



Majedie outperformed its benchmark over the quarter by 2.7%. Over the longer timeframes of one year, three years and since inception the manager has outperformed its target by 10.4%, 4.8% and 3.1% p.a. respectively.

The overweight position in Orange, Telecom Italia, Intesa Sanpaolo and First Group contributed to performance over the quarter along with the portfolio's exposure to the banking sector. Conversely the overweight holding in WM Morrison and VodaFone detracted from performance.

7 Insight – Bonds

Insight was appointed to manage two bond portfolios – an actively managed corporate bond (non –Gilt) portfolio and a passively managed gilt portfolio. The manager's fee is based on the value of assets, with the fees for the actively managed portfolio equivalent to 0.24% pa and 0.1% pa for the passive portfolio.

7.1 Insight – Active Non Gilts

7.1.1 Investment Performance to 31 March 2014

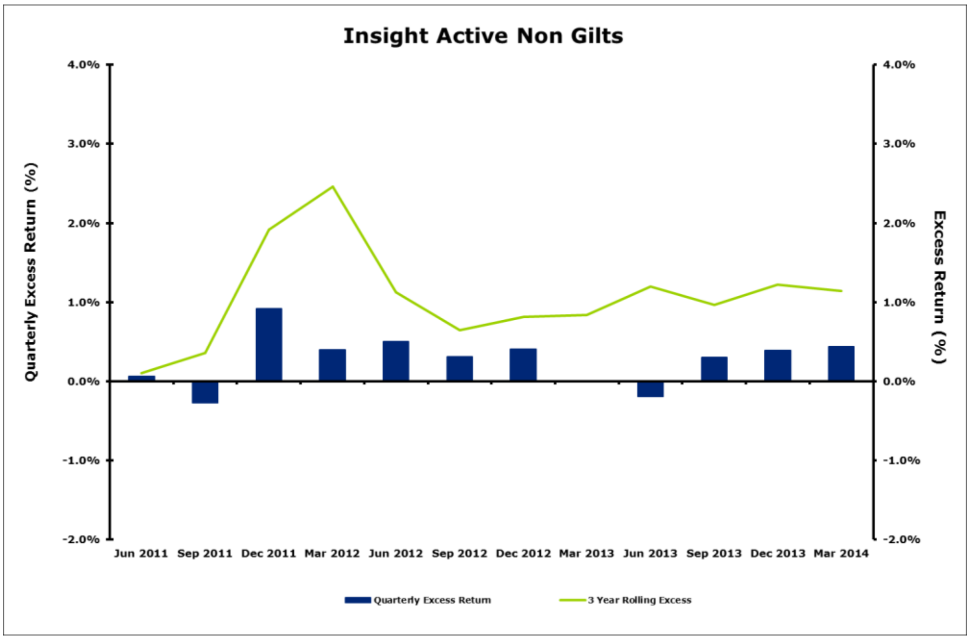
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)[1]
Insight (Non-Gilts) – Gross of fees	2.7	2.7	7.8	5.8
Net of fees[1]	*2.7*	*2.5*	*7.6*	*5.6*
iBoxx £ Non-Gilt 1-15 Yrs Index	2.3	1.8	6.7	5.3
Target[1]	2.5	2.7	7.6	6.2

Source: Insight

(1) Estimated by Deloitte

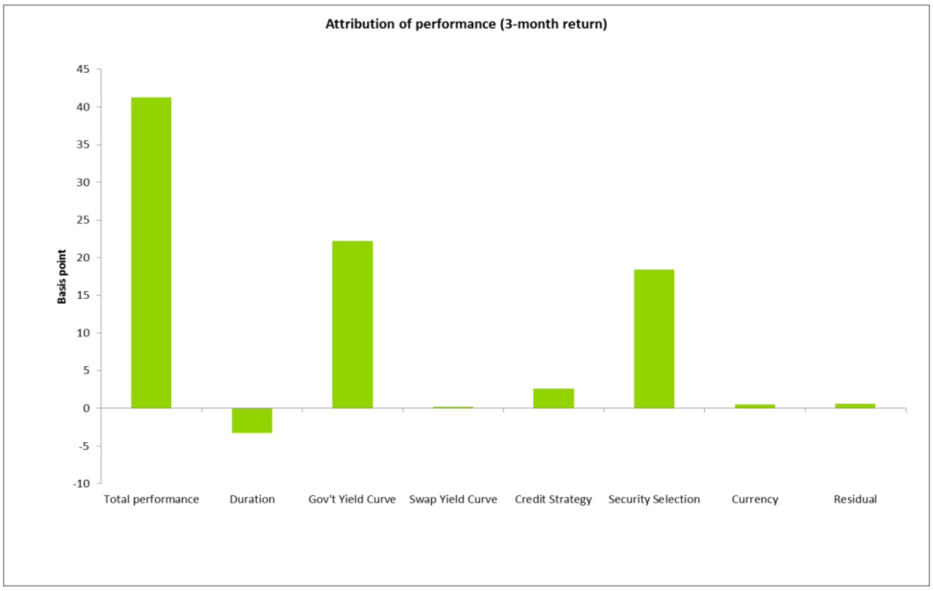
See appendix 1 for more detail on manager fees

Inception date taken as 1 September 2006.



Over the quarter the portfolio outperformed the benchmark by 0.4%. Over the one year and three years Insight has outperformed the benchmark by 0.9% and 1.1% p.a. respectively.

7.1.2 Attribution of Performance



Source: Insight

Security selection, government yield curve and credit strategy positioning continue to remain the main positive contributors to performance over the quarter, with a large portion of the security selection added value coming through Insight taking advantage of the new issuance market.

7.2 Insight – Government Bonds

7.2.1 Investment Performance to 31 March 2014

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Insight (Passive Bonds) – Gross	1.5	-2.0	3.8	5.4
Net of fees[1]	*1.5*	*-2.1*	*3.7*	*5.3*
FTSE A Gilts up to 15 Yrs Index	1.5	-2.2	3.8	5.5
Relative	0.0	0.2	0.0	-0.1

Source: Insight

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 31 May 2008.

The gilt portfolio has performed in line with its benchmark over the quarter and outperformed its benchmark by 0.2% over the one year. The three year periods to 31 March 2014 performed in line with the benchmark.

7.3 Duration of portfolios

	31 Dcember 2013		31 March 2014	
	Fund (Years)	Benchmark (Years)	Fund (Years)	Benchmark (Years)
Non-Government Bonds (Active)	5.5	5.2	5.7	5.6
Government Bonds (Passive)	4.4	4.7	4.5	4.8

Source: Insight

8 Hermes – Property

Hermes was appointed to manage a core UK property portfolio, where the fees are based on the value of assets invested in the fund, equivalent to 0.4% of the portfolio.

8.1 Portfolio Monitoring Summary

	Last Quarter (%)	**Last Year (%)**	**Since Inception (% p.a.)[1]**
Hermes – Gross of fees	3.6	13.9	6.6
Net of fees[1]	3.5	13.5	6.2
Benchmark	3.4	12.2	6.2
Target	3.6	13.1	8.9

Source: Hermes

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Hermes outperformed its benchmark by 0.2% over the quarter.

The main contributors to the outperformance over the quarter were holdings in West London offices and UK offices.

At the quarter end the market value of the holdings increased to £902.6m from £881.6m, with a distribution yield of 4.8%.

8.2 Sales and Purchases

There were no sales over the quarter.

In February the fund acquired the freehold interest in Boundary House for £11.25 million, reflecting a capital value of £350 per sq.ft. As background, the fund acquired the short leasehold interest in October 2010 and in February 2014 the unexpired term had reduced to approximately 15 years. The purchase of the freehold gives the fund full control over the asset, enabling capital investment to maximise income and capital returns. The office building is situated on the northern side of Smithfield Market in what is viewed to be a core location near Farringdon where office rents are rising as a result of strong demand from tenants.

9 Standard Life – Long Lease Property

Standard Life Investments ("SLI") was appointed to manage a UK property portfolio investing in core assets where the focus is on properties with long leases let to high quality tenants. The fees are based on the value of assets invested in the fund, equivalent to 0.5% of the portfolio.

9.1 Portfolio Monitoring Summary

	Last Quarter (%)	Since Inception (%)[1]
Standard Life – Gross of fees	2.8	9.8
Net of fees[1]	*2.6*	*9.4*
Benchmark	2.7	2.8
Target	2.9	3.8

Source: Standard Life

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Since inception: 14 June 2013

The SLI Long Lease Property Fund returned 2.8% over the first quarter, narrowly outperforming the benchmark of the FTSE Gilt All Stocks Index + 2% by 0.1%.

9.2 Portfolio activity

- Following the quarter end, SLI completed the purchase of an office building in Newcastle for £10.3m, equivalent to a net initial yield of 6.7%. The property is being let to North Tyneside Council for 18.5 years with annual fixed increases of 2.6% p.a. Despite the slightly shorter lease length than normal, SLI was attracted by the property's government backed income and believes there may be potential to extend the lease in the future. SLI funded the purchase from the sale proceeds of the office building in Glasgow reported last quarter.
- During the quarter, the student accommodation development in Edinburgh was completed and was successfully let to Napier University. The lease is for 22 years with annual RPI-linked rent reviews subject to a floor of 1.5% and a cap of 3.5% p.a.
- As reported last quarter, SLI has completed the leases on the former TJ Hughes store in Sheffield to Poundland, Sports Direct and British Heart Foundation. The upper floors of the property currently remain vacant which means the Fund has a void rate of 0.5%. SLI is aiming to sell the asset during the second half of 2014. SLI has confirmed that the only other vacant asset in the portfolio, located in Bury, is currently under offer to a gym operator.

Appendix 1: Fund and Manager Benchmarks

The tables in this Appendix detail the benchmarks and outperformance targets, for the Total Fund and each individual manager.

Total Fund

Inception: 1 June 2006. Current benchmark allocation effective from 7 June 2011.

Manager	Asset Class	Allocation	Benchmark	Outperformance Target	Inception Date	Fees (p.a.)	Tracking Error p.a.
SSgA	UK Equity	16.9%	FTSE All-Share Index	Passive	31/05/08	5 bps base fees	+/- 0.25%
	Overseas Equity	20.6%	FTSE World GBP hedged)	Passive	10/03/11	10 bps base fee	+/- 0.25%
Majedie	UK Equity	16.9%	FTSE All-Share Index	+2.0% p.a. (net of fess)	31/05/06	c.35bps base fees +20% performance fee on 1% outperforma nce over 3 year rolling	2.0%-6.0%
LGIM	Global Equity	20.6%	FTSE World GBP Hedged	Passive	01/11/12	13bps base fees	+/- 0.5%
Insight	Fixed Interest Gilts	-	FTSE GILTS up to 15 Yrs Index	Passive	31/05/06	10bps base fees	
	Non-Gilts	15.0%	iBoxx £ Non-Gilt 1-15 Yrs Index	+ 0.90% p.a. (gross fees)	31/05/06	c.24bps base fee	0.0 – 3.0%
Hermes	Property	5.0%	IPD UK PPFI Balanced PUT Index	+0.5% p.a. (net of fess)	26/10/10	40bps base fee	-
Standard Life	Property	5.0%	FTSE Gilts All Stocks Index +2%	+0.5% p.a. (net of fess)	14/06/13	50bps base fee	
	Total	**100.0%**					

Rebalancing Policy

Using the SIC's quarterly meeting schedule to review any rebalancing activity:

If the cash outflows are to be funded:

- Cash outflow requirements are met by disinvesting from the asset class most overweight relative to its Central Benchmark Allocation ("CBA") position.

- Once the asset class overweight has been eliminated, assets would be disinvested proportionately from the asset classes according to the CBA.

If cash inflows are to be invested:

- Cash inflows are invested in the asset class most underweight relative to its CBA position.

- Once the asset class underweight has been eliminated, assets would be disinvested proportionately from the asset classes according to the CBA.

If the allocations exceed the upper (or lower) tolerance limit this triggers a rebalancing review with a view to:

- Rebalance exposure back to the mid-point of the CBA and upper (or lower) tolerance limit.

- Use the proceeds to rebalance the corresponding underweight asset class/investment manager.

Appendix 2: Manager Ratings

Based on our manager research process, we assign ratings to the investment managers for specific products or services. The ratings are based on a combination of quantitative and qualitative factors, where the inputs for the qualitative factors come from a series of focused meetings with the investment managers. The ratings reflect our expectations of the future performance of the particular product or service, based on an assessment of:

- The manager's business management;
- The sources of ideas that go to form the portfolio ("alpha generation");
- The process for including the ideas into the portfolio ("alpha harnessing"); and
- How the performance is delivered to the clients.

On the basis of the research and analysis, managers are rated from 1 (most positive) to 4 (most negative), where managers rated 1 are considered most likely to deliver outperformance, net of fees, on a reasonably consistent basis. Managers rated 1 will typically form the basis of any manager selection short-lists.

Where there are developments with an investment manager that cause an element of uncertainty we will make the rating provisional for a short period of time, while we carry out further assessment of the situation.

Appendix 3: Risk Warnings

- Past performance is not necessarily a guide to the future.
- The value of investments may fall as well as rise and you may not get back the amount invested.
- Income from investments may fluctuate in value.
- Where charges are deducted from capital, the capital may be eroded or future growth constrained.
- Investors should be aware that changing investment strategy will incur some costs.
- Any recommendation in this report should not be viewed as a guarantee regarding the future performance of the products or strategy.

Our advice will be specific to your current circumstances and intentions and therefore will not be suitable for use at any other time, in different circumstances or to achieve other aims or for the use of others. Accordingly, you should only use the advice for the intended purpose.

Our advice must not be copied or recited to any other person than you and no other person is entitled to rely on our advice for any purpose. We do not owe or accept any responsibility, liability or duty towards any person other than you.

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Barnett Waddingham

City of Westminster Pension Fund

Funding Update Report

as at 31 March 2014

Graeme D Muir FFA
Barnett Waddingham LLP

16 June 2014

Contents

1. Introduction

1.1. We have carried out a monitoring assessment of the City of Westminster Pension Fund as at 31 March 2014. The purpose of this assessment is to provide an update on the funding position.

1.2. We assess the funding position on a smoothed basis which is an estimate of the average position over a 6 month period spanning the reporting date. As the smoothing adjustment reflects average market conditions spanning a 6 month period straddling the reporting date, the smoothed figures are projected numbers and likely to change up until 3 months after the reporting date. The smoothed results are indicative of the underlying trend.

1.3. In addition, we assess the funding position on an "unsmoothed" basis where assets are taken at market value and discount rates are taken as the spot rates at the reporting date.

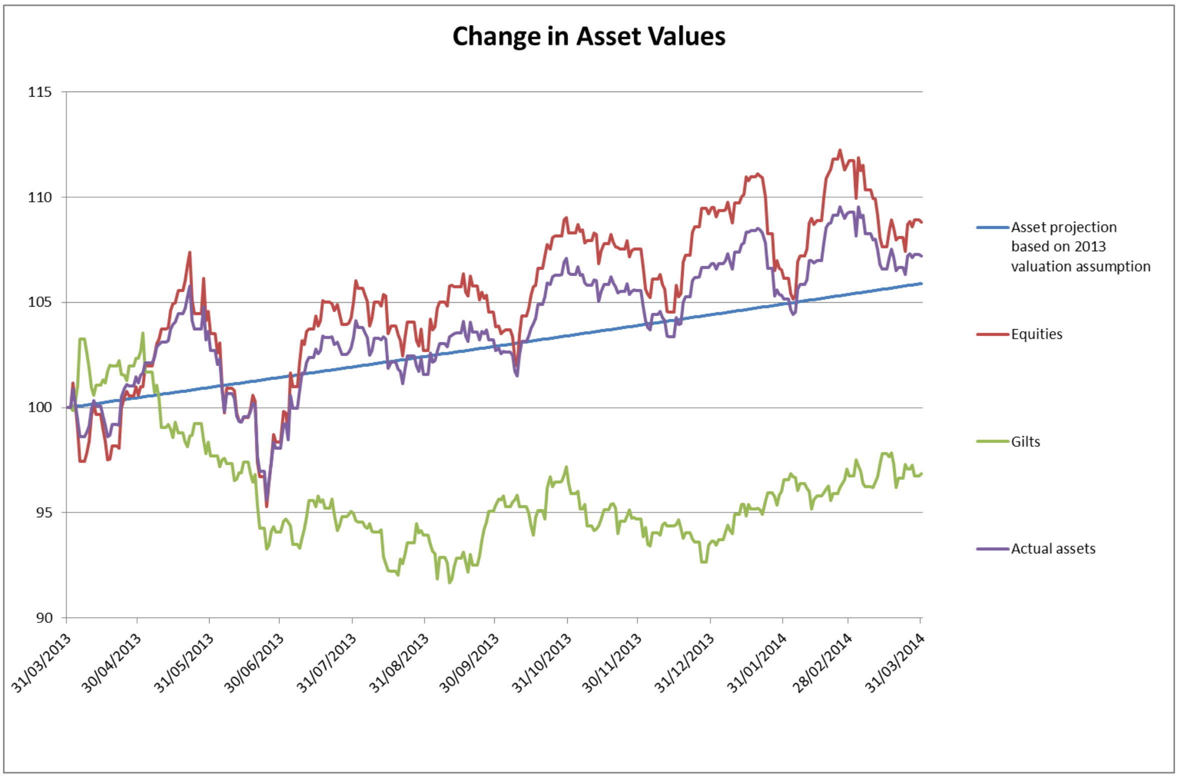
2. Assets

2.1. The estimated (unsmoothed) asset allocation of the City of Westminster Pension Fund as at 31 March 2014 is as follows:

Assets (Market Value)	31 March 2014		31 March 2013	
	£000's	%	£000's	%
Equities	712,005	71.6%	643,179	73.6%
Bonds	112,663	11.3%	111,092	12.7%
Property	82,509	8.3%	35,787	4.1%
Gilts	15,679	1.6%	49,821	5.7%
Cash	71,564	7.2%	34,303	3.9%
Total Assets	**994,420**	**100%**	**874,182**	**100%**

2.2. The investment return achieved by the Fund's assets in market value terms for the year to 31 March 2014 is estimated to be 7.2%.

2.3. The following chart shows the changes in equity and bond markets since the previous actuarial valuation and compares with the estimated actual fund returns and the expected fund returns assumed at the previous valuation:



2.4. As we can see asset value as at 31 March 2014 in market value terms is more than where it was projected to be at the previous valuation.

3. Changes in Market Conditions – Market Yields and Discount Rates

3.1. The actual investment returns earned by the Fund will affect the value of the Fund's assets. The value of the Fund's liabilities however is dependent on the assumptions used to value the future benefits payable. The following tables show how these assumptions have changed since the last triennial valuation:

Assumptions (Smoothed)	31 March 2014		31 March 2013	
	Nominal	Real	Nominal	Real
	%p.a.		%p.a.	
Pension Increases	2.78%	-	2.74%	-
Salary Increases	4.58%	1.80%	4.54%	1.80%
Discount Rate				
Scheduled Bodies	6.00%	3.22%	5.90%	3.16%
Admission Bodies (in service)	5.08%	2.30%	4.90%	2.16%
Admission Bodies (left service)	3.80%	1.01%	3.50%	0.76%

Assumptions (Unsmoothed)	31 March 2014		31 March 2013	
	Nominal	Real	Nominal	Real
	%p.a.		%p.a.	
Pension Increases	2.83%	-	2.80%	-
Salary Increases	4.63%	1.80%	4.60%	1.80%
Discount Rate				
Scheduled Bodies	6.09%	3.26%	5.91%	3.11%
Admission Bodies (in service)	5.14%	2.32%	4.86%	2.06%
Admission Bodies (left service)	3.82%	0.99%	3.40%	0.59%

3.2. The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate – the higher the real discount rate the lower the value of liabilities. As we see the real discount rates are higher than at the 2013 valuation, reducing the value of liabilities used for funding purposes.

4. Summary of Results

4.1. The results of our assessment indicate that:

- The current projection of the smoothed funding level as at 31 March 2014 is 81% and the average required employer contribution would be 24.5% of payroll assuming the deficit is to be paid by 2038.
- The current projection of the unsmoothed funding level as at 31 March 2014 is 81% and the average required employer contribution would be 24.4% of payroll assuming a deficit is to be paid by 2038.
- This compares with the reported (smoothed) funding level of 74% and average required employer contribution of 29.8% of payroll at the 2013 funding valuation.

4.2. Based on the Scheduled Body discount rate of 6.0% per annum, the investment return required to restore the funding level to 100% by 2038, without the employers paying deficit contributions, would be 6.9% per annum.

4.3. The funding position for each month since the formal valuation is shown in Appendix 1. It should be borne in mind that the nature of the calculations is approximate and so the results are only indicative of the underlying position.

4.4. We would be pleased to answer any questions arising from this report.

Graeme D Muir FFA
Partner

Appendix 1 Financial position since previous valuation

Below we show the financial position on both a smoothed and an unsmoothed basis for each month since the previous full valuation. As the smoothing adjustment reflects average market conditions spanning a 6 month period straddling the reporting date, the smoothed figures for the previous 3 months are projected numbers and likely to change up until 3 months after the reporting date.

Smoothed Valuation Date	Assets £000's	Liabilities £000's	Surplus/ Deficit £000's	Funding Level %	Ongoing Cost (% of Payroll)	Past Service Ctbn	Total Ctbn (% of payroll)	Main Discount Rate	Return Required to Restore Funding Level (pa)
March 2013	866,938	1,164,198	(297,260)	74%	13.3%	16.5%	29.8%	5.9%	7.1%
April 2013	878,910	1,165,568	(286,658)	75%	13.8%	13.1%	26.9%	5.9%	7.1%
May 2013	888,642	1,169,568	(280,926)	76%	13.7%	12.9%	26.6%	5.9%	7.1%
June 2013	895,688	1,170,718	(275,030)	77%	13.5%	12.7%	26.2%	6.0%	7.1%
July 2013	904,339	1,173,403	(269,063)	77%	13.4%	12.5%	25.9%	6.0%	7.0%
August 2013	909,690	1,175,518	(265,828)	77%	13.3%	12.4%	25.7%	6.0%	7.1%
September 2013	918,777	1,183,051	(264,274)	78%	13.3%	12.3%	25.6%	6.0%	7.1%
October 2013	929,362	1,191,805	(262,443)	78%	13.4%	12.3%	25.7%	6.0%	7.0%
November 2013	938,213	1,201,055	(262,842)	78%	13.4%	12.3%	25.7%	6.0%	7.0%
December 2013	946,872	1,211,047	(264,176)	78%	13.4%	12.4%	25.8%	6.0%	7.0%
January 2014	954,910	1,219,354	(264,444)	78%	13.4%	12.5%	25.9%	6.0%	7.0%
February 2014	962,596	1,228,040	(265,444)	78%	13.4%	12.6%	26.0%	6.0%	7.0%
March 2014	1,002,745	1,233,946	(231,201)	81%	13.3%	11.2%	24.5%	6.0%	6.9%
April 2014									
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Unsmoothed Valuation Date	Assets £000's	Liabilities £000's	Surplus/ Deficit £000's	Funding Level %	Ongoing Cost (% of Payroll)	Past Service Ctbn	Total Ctbn (% of payroll)	Main Discount Rate	Return Required to Restore Funding Level (pa)
March 2013	874,182	1,175,148	(300,966)	74%	13.6%	13.4%	27.0%	5.9%	7.1%
April 2013	886,487	1,186,870	(300,384)	75%	13.8%	13.5%	27.3%	5.8%	7.0%
May 2013	901,919	1,182,756	(280,837)	76%	13.5%	12.8%	26.3%	5.9%	7.0%
June 2013	862,959	1,138,024	(275,065)	76%	13.5%	12.9%	26.4%	6.1%	7.2%
July 2013	911,592	1,173,707	(262,116)	78%	13.5%	12.1%	25.6%	5.9%	6.9%
August 2013	897,984	1,162,093	(264,109)	77%	13.3%	12.4%	25.7%	6.1%	7.2%
September 2013	910,261	1,176,348	(266,087)	77%	13.3%	12.5%	25.8%	6.0%	7.0%
October 2013	944,904	1,208,939	(264,035)	78%	13.2%	12.3%	25.5%	5.9%	6.9%
November 2013	939,772	1,206,750	(266,978)	78%	13.4%	12.5%	25.9%	6.1%	7.1%
December 2013	953,407	1,212,836	(259,429)	79%	13.4%	12.2%	25.6%	6.0%	7.0%
January 2014	940,435	1,213,328	(272,893)	78%	13.4%	12.9%	26.3%	6.0%	7.0%
February 2014	979,617	1,231,045	(251,428)	80%	13.4%	11.9%	25.3%	5.9%	6.9%
March 2014	994,420	1,226,711	(232,291)	81%	13.2%	11.2%	24.4%	6.1%	7.0%
April 2014									
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January 2016									
February 2016									
March 2016									

Agenda Item 5

City of Westminster

Executive Summary and Recommendations

	Superannuation Committee
Date:	14 July 2014
Subject:	**Local Government Pension Scheme Consultations**

Summary

1. Following last summer's call for evidence regarding the future of the structure of the Local Government Pension Scheme (LGPS), the Department for Communities and Local Government has published a further LGPS consultation focused on Collective Investment Vehicles and the balance of active and passive management. A combined response has been sent by the three funds in the Tri-Borough as the closing date was 11 July 2014.

2. A further consultation from the Department of Communities and Local Government on the subject of LGPS governance is expected shortly.

Recommendations

1. The Committee note the contents of this paper.

City of Westminster

Superannuation Committee

Date:	**14 July 2014**
Classification:	**Public**
Title of Report:	**Local Government Pension Scheme Consultations**
Report of:	**Director of Corporate Finance & Investments**
Wards involved:	**All**
Policy context:	**Effective control over Council activities**
Financial summary:	There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.
Report Author:	**Jonathan Hunt** *Director of Corporate Finance and Investments*
Contact details	jonathanhunt@westminster.gov.uk 020 7641 1804

1. PERFORMANCE OF THE FUND

1.1. In June 2013, the Department for Communities and Local Government (DCLG) and the Local Government Association (LGA) asked for views and evidence on how and why the current structure of the Local Government Pension Scheme (LGPS), with 89 funds in England and Wales, might be made to work better through change.

1.2. In total DCLG received 133 responses to this call for evidence, many, including the tri-borough response, highlighting the importance of local accountability and the fact efficiencies could be made without the need to change the underlying structure of the LGPS. Asset allocation and the management of deficits are key issues, which directly impact on council tax and so local management of these matters is vital to ensure accountability and maintain local democracy.

1.3. To further assist with the consideration of options, DCLG commissioned a report from Hymans Robertson into the potential cost savings and practical implications of a number of options. This has informed a new consultation issued by DCLG in May 2014.

1.4. While this debate has been on-going at the national level, London Councils has been developing a Collective Investment Vehicle to enable London borough funds to invest collectively and get the benefits of economies of scale without losing local decision making about asset allocation. This is now at an advanced stage and the Cabinet has agreed to the Council being a shareholder in the vehicle being set up to facilitate this. The first investments are expected to be placed during 2015.

1.5. Alongside the consultation on cost savings and efficiencies, a further consultation on governance in the LGPS is expected shortly. This will outline the draft regulations to implement the governance requirements of Public Services Pensions Act 2013. A verbal update will be provided at the meeting of the Committee on this issue.

2. PROPOSAL AND ISSUES

2.1. In May 2014 DCLG published a consultation: Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies. This sought the views of LGPS funds and interested parties on two key issues – the use of collective investment vehicles and the value of active management. The consultation paper asserts that savings of £660m could be achieved nationally if all investments were made in collective investment vehicles and that all listed assets were invested on a passive basis. A copy of the consultation paper is attached at Appendix 1.

2.2. The consultation highlights Hymans Robertson's work which showed that at a national level, active management of listed assets net of fees performed no better than passive management. As a result, the consultation proposed a number of options from enforcing passive management across the board to a "comply or explain" option where Funds would be required to justify their use of active management. The Westminster fund has both passive investments and active investments and the current active investments have performed well.

2.3. The draft Tri-Borough response is attached at Appendix 2. Due to the timing of the closing date (11 July 2014), together with the distribution requirements of Committee papers, an oral update will be provided at the meeting of any material changes.

2.4. As discussed in above, the development of a collective investment vehicle by London Councils is already at an advanced stage and each of the three Councils in Tri-Borough will be one of the shareholders. A diagram of the proposed London CIV and its related structures is attached at Appendix 3.

BACKGROUND PAPERS

The background papers listed below are not for public inspection by virtue of Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (as amended) in that it contains exempt information, namely information relating to the financial or business affairs of any particular person (including the authority holding that information).

1. None

If you have any questions about this report, or wish to inspect one of the background papers, please contact Jonathan Hunt on 020 7641 1804 or jonathanhunt@westminster.gov.uk.

Appendix 1

Department of Communities and Local Government – Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies

Appendix 2

Draft tri-borough response to consultation

Appendix 3

Structure diagrams for the proposed London Councils' CIV

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Department for Communities and Local Government

Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies

Consultation

May 2014
Department for Communities and Local Government

This document/publication is also available on our website at www.gov.uk/dclg

If you have any enquiries regarding this document/publication, email contactus@communities.gov.uk or write to us at:

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Contents

1. The consultation process and how to respond

Scope of the consultation

Topic of this consultation:	The structure of the Local Government Pension Scheme and opportunities to reduce administration and investment management costs.
Scope of this consultation:	The consultation sets out the evidence for proposals for reforms to the Local Government Pension Scheme and opportunities to deliver savings of £660 million a year for local taxpayers. The Government seeks respondents' views on the proposals set out in section four, and asks respondents to consider how if adopted, these reforms might be implemented most effectively.
Geographical scope:	This consultation applies to England and Wales.
Impact Assessment:	It is not possible to provide an impact assessment at this stage as the detailed mechanism needed to implement the proposed reforms is still being developed.

Basic Information

To:	The consultation is aimed at all parties with an interest in the Local Government Pension Scheme and in particular those listed on the Government's website: https://www.gov.uk/government/publications/local-government-pension-scheme-regulations-information-on-who-should-be-consulted
Body/bodies responsible for the consultation:	Secretary of State, Department for Communities and Local Government. The consultation will be administered by the Workforce, Pay and Pensions division.
Duration:	The consultation will last for 10 weeks, opening on 1 May and closing on 11 July 2014.
Enquiries:	Enquires should be sent to Victoria Edwards. Please email LGPSReform@communities.gsi.gov.uk or call 0303 444 4057.
How to respond:	Responses to this consultation should be submitted to LGPSReform@communities.gsi.gov.uk by **11 July 2014**. Electronic responses are preferred. However, you can also write to: Victoria Edwards

	Department for Communities and Local Government Zone 5/F5, Eland House Bressenden Place London, SW1E 5DU Please state whether you are responding as an individual or representing the views of an organisation. If responding on behalf of an organisation, please give a summary of the people and organisations it represents and where relevant, who else you have consulted in reaching your conclusions.
After the consultation:	The responses to the consultation will be analysed and a Government response published. Should any legislative changes be needed, a further consultation will follow.
Agreement with the Consultation Principles:	This consultation has been drafted in accordance with the Consultation Principles.

Background

Getting to this stage:	This consultation has been developed drawing on three sources of evidence: • A call for evidence on the future structure of the Local Government Pension Scheme, which ran from 21 June to 27 September 2013. 133 responses were received and analysed, helping to inform this consultation. • An analysis of the responses to the call for evidence provided by the Shadow Scheme Advisory Board. • Supplementary cost-benefits analysis of proposals for reform commissioned from Hymans Robertson using the Contestable Policy Fund. The commission did not extend to making recommendations. The Shadow Board's analysis, the Hymans Robertson report and the Government's response to the call for evidence are all available on the Government's website: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies.
Previous engagement:	As outlined above, this consultation follows a call for evidence that gave anyone with an interest in the Scheme the opportunity to inform the Government's thinking on potential structural reform. The call for evidence was run in conjunction with the Local Government Association and the responses were shared with the Shadow Scheme Advisory Board, which provided the Minister for Local Government with their recommendations and analysis of the responses. The call for evidence also drew on a round table event that took place on 16 May 2013 with representatives of administering

	authorities, employers, trade unions, the actuarial profession and academia. This event discussed the potential for increased co-operation within the Scheme, including the possibility of structural change to the existing 89 funds.

Additional copies

1.1 This consultation paper is available on the Government's website at: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies

Confidentiality and data protection

1.2 Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

1.3 If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act 2000, there is a statutory code of practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, in itself, be regarded as binding on the Department.

1.4 The Department will process your personal data in accordance with the Data Protection Act 1998 and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. Individual responses will not be acknowledged unless specifically requested.

Help with queries

1.5 Questions about the policy issues raised in the document can be sent to LGPSReform@communities.gsi.gov.uk.

1.6 A copy of the Consultation Principles is at www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance. Are you satisfied that this consultation has followed these principles? If not or you have any other observations about how we can improve the process please email: consultationcoordinator@communities.gsi.gov.uk

1.7 Alternatively, you can write to:

DCLG Consultation Co-ordinator,
Zone 8/J6, Eland House,
Bressenden Place
London SW1E 5DU.

2. Introduction and background

Introduction

2.1 The Government believes that there is scope for significant savings, of £660 million per year, to be achieved through reform of the Local Government Pension Scheme. To that end, from 21 June to 27 September 2013, the Government ran a call for evidence on structural reform of the Local Government Pension Scheme. The paper asked respondents to consider what might be done to improve fund performance and drive efficiencies across the Scheme.

2.2 This consultation represents the next step in reform of the Scheme, building on the responses to the call for evidence and further cost benefit analysis of potential options for reform. It sets out the Government's preferred approach to reform and seeks views on the proposals.

Background

2.3 With assets of £178 billion in 2012-13, the Local Government Pension Scheme is one of the largest funded pension schemes in Europe. Several thousand employers participate in the Scheme, which has a total of 4.68 million active, deferred and pensioner members.[1] The Department for Communities and Local Government is responsible for the regulatory framework governing the Scheme in England and Wales.

2.4 The Scheme is managed through 89 funds which broadly correspond to the county councils following the 1974 local government reorganisation as well as each of the 33 London Boroughs. In most cases, the fund administering authorities are upper tier local authorities such as a county or unitary council, but there are also some administering authorities established specifically to manage their fund, for example the Environment Agency Pension Fund and the London Pension Fund Authority. The fund authorities have individual governance and working arrangements. Each fund has its own funding level, cash-flow and balance of active, deferred and pensioner members, which it takes into account when adopting its investment strategy, which is normally agreed by the councillors on the fund authority's pensions committee.

2.5 Employer contributions to the Scheme, the majority of which are funded by taxpayers, were more than £6 billion in 2012-13. The costs of managing and administering the scheme were estimated as being £536 million in 2012-13.[2] However, the actual costs are likely to be rather higher; the investment costs alone have recently been estimated as in excess of £790 million.[3] While investment returns and the costs of providing

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[1] Scheme asset value and membership figures taken from Department for Communities and Local Government statistical data set - Local government pension scheme funds summary data: 2012 to 2013 https://www.gov.uk/government/statistical-data-sets/local-government-pension-scheme-funds-summary-data-2012-to-2013

[2] Local government pension scheme funds summary data: 2012 to 2013

[3] Department for Communities and Local Government: Local Government Pension Scheme structure analysis, Hymans Robertson p.11. https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies

benefits are the most significant drivers of the overall financial position of funds, management costs also have an impact on funding levels and thus the pension contributions made by employers and scheme members.

2.6 Under the Public Service Pensions Act 2013, there will be a requirement for a national scheme advisory board, as well as a local board for each of the 89 funds. The regulations that will establish national and local governance arrangements have not yet been made and the Department will be consulting on these issues shortly. In the meantime, scheme employers and the trade unions have established a Shadow Board, which has been considering a number of issues connected with the Scheme, including its efficient management and administration. In addition, the Minister for Local Government has asked the Shadow Board to consider how the transparency of the funds might be improved.

Getting to this stage

2.7 In 2010, the Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission. The purpose of the Commission was to review public service pensions and to make recommendations on how they might be made more sustainable and affordable in the long term, while being fair to both taxpayers and public sector workers.

2.8 Lord Hutton's final report was published on 10 March 2011 and formed the basis for major reforms to all public service pension schemes. The new Local Government Pension Scheme which came into effect on 1 April 2014 is the first scheme to be introduced that follows Lord Hutton's principles for reform as enacted in the Public Service Pensions Act 2013.

2.9 Lord Hutton highlighted the collaborative approach being taken by funds within the Local Government Pension Scheme and recommended that the benefits of co-operative working between local government pension funds and opportunities to achieve efficiencies in administration more generally should be investigated further.[4]

Recommendation 23: Central and local government should closely monitor the benefits associated with the current co-operative projects within the Local Government Pension Scheme, with a view to encouraging the extension of this approach, if appropriate, across all local authorities. Government should also examine closely the potential for the unfunded public service schemes to realise greater efficiencies in the administration of pensions by sharing contracts and combining support services, including considering outsourcing.

2.10 More generally, Lord Hutton went on to comment about the need for change and improved scheme data. At paragraph 6.1 he said:[5]

[4] Independent Public Service Pensions Commission: Final Report p.17
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/207720/hutton_final_100311.pdf
[5] Independent Public Service Pensions Commission: Final Report p.122

In its interim report, the Commission noted the debate around public service pensions is hampered by a lack of consensus on key facts and figures and a lack of readily available and relevant data. There are also inconsistent standards of governance across schemes. Consequently it is difficult for scheme members, taxpayers and commentators to be confident that schemes are being effectively and efficiently run. It also makes it more difficult to compare between and within schemes and to identify and apply best practice for managing and improving schemes.

2.11 The Department therefore co-hosted a round-table event to consider these issues with the Local Government Association in May 2013. There were 25 attendees from administering authorities, employers, trade unions, the actuarial profession and academia. The discussion centred on the possible aims of reform, the potential benefits of structural change and the work required to provide robust evidence to analyse the emerging options and establish a starting point and target.

2.12 The objectives for reform identified at the round-table fed into a call for evidence on the future structure of the Scheme, which ran from 21 June to 27 September 2013. This asked respondents to set out the data required to enable a reliable comparison of fund performance and to consider how the administration, management and structure of the Scheme might be reformed to address the objectives identified at the round-table event. These objectives included reduced fund deficits and improved investment returns, as well as reduced investment fees and administration costs, greater flexibility of investment, especially in infrastructure and more use of better in-house investment management.

2.13 133 responses were received to the call for evidence and these submissions have been analysed to inform this consultation. A separate response to the call for evidence has been published and is available at: https://www.gov.uk/government/consultations/call-for-evidence-on-the-future-structure-of-the-local-government-pension-scheme. The Shadow Scheme Advisory Board has also reviewed the responses to the call for evidence and submitted recommendations to the Minister for Local Government. Its findings have been considered in the development of this consultation and are available via a link on its webpage or from the Shadow Board's website: http://www.lgpsboard.org/index.php/structure-reform/board-analysis-menu.

2.14 To support the call for evidence, the Minister for Local Government and the Minister for the Cabinet Office commissioned additional analysis using the Contestable Policy Fund. The Fund gives Ministers direct access to external policy advice through a centrally managed match fund, allowing Ministers to draw directly on the thinking, evidence and insight of external experts. Following a competitive tender process, Hymans Robertson were selected to establish the aggregate performance of the Scheme by asset class and to provide a detailed cost-benefit analysis of three potential options for reform:

- Establishing one common investment vehicle for all funds;
- Creating five to ten common investment vehicles for fund assets
- Merging the existing structure into five to ten funds.

2.15 The analysis set out the costs and benefits of each option; the time required to realise savings; the practical and legal barriers to implementation and how they might be addressed. Hymans Robertson's findings have been reflected in this consultation, alongside the call for evidence responses and analysis by the Shadow Scheme Advisory Board. A copy of the Hymans Robertson report, which did not extend to making recommendations, is available on the Government's website: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies

3. The case for change

Summary of the proposals

3.1 Having considered the responses to the call for evidence, as well as the Shadow Board's recommendations and the Hymans Robertson report, the Government believes that the following steps are needed to help ensure that the Scheme remains affordable in the long term for both employers and members. The proposals aim to balance the opportunities from aggregation and scale whilst maintaining local accountability.

3.2 The package of proposals set out in this document include:

- Establishing common investment vehicles to provide funds with a mechanism to access economies of scale, helping them to invest more efficiently in listed and alternative assets and to reduce investment costs.
- Significantly reducing investment fees and other costs of investment by using passive management for listed assets, since the aggregate fund performance has been shown to replicate the market.
- Keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to help identify the true cost of investment and drive further efficiencies in the Scheme.
- A proposal not to pursue fund mergers at this time.

3.3 Hymans Robertson's analysis, which was based on detailed, standardised data, demonstrated that the significant savings could be achieved by the Scheme if all of the funds adopt the following proposals in full. The Government is interested in exploring these proposals further with a view to maximising value for money for taxpayers, Scheme employers and fund authorities.

Proposal	**Estimated Annual saving**
Moving to passive fund management of all listed assets, accessed through a common investment vehicle.	£420 million
Ending the use of "fund of funds" arrangements in favour of a common investment vehicle for alternative assets	£240 million

3.4 The saving of £420 million associated with moving to passive management of listed assets is comprised of two elements:

- Reduction in investment fees: £230 million
- Reduction in transaction costs: £190 million

The performance that is reported by the Local Government Pension Scheme funds is net of these transaction costs.

3.5 The savings associated with passive fund management can be achieved quickly, within one to two years. The annual savings arising from using common investment vehicles for alternative assets would build gradually, with the full annual savings reached over 10 years, as existing contracts came to an end.

3.6 This package of proposals provides a clear opportunity to substantially reduce the investment costs of the Scheme. They are most effective when adopted by all 89 funds and the Government proposes to implement them together. Indeed, the passive management of listed assets could be most easily facilitated through a common investment vehicle.

3.7 In addition, the cost of investment has been estimated to be considerably higher than previously reported. Recognising the need for more reliable and comparable performance and cost data, the Government will continue to work with the Shadow Scheme Advisory Board to improve the transparency of fund data as set out in paragraph 5.3.

3.8 The remainder of this section sets out the objectives and rationale for reform and the evidence underpinning the approach taken. A more detailed explanation of the proposals for reform is provided in section four.

The objective of reform

3.9 The cost of the Local Government Pension Scheme has risen considerably since the 1990s, with the increased costs falling predominantly on Scheme employers and local taxpayers. In England alone, the cost to Scheme employers has almost quadrupled from £1.5 billion in 1997-98 to £5.7 billion in 2012-13. Indeed, when the Welsh funds are also considered, the total cost to employers is around £6.2 billion a year.[6] The Government has already taken action to reduce the cost of the Scheme and make it more sustainable and affordable to employers and taxpayers in the long term. For example, the new 2014 Scheme with a revised benefit structure came into effect on 1 April, helping to reduce and rebalance the cost between members and employers. However, it is clear from examining the aggregate data on the Scheme which has come to light as part of this review, that there is more that can be done to improve the sustainability of the funds.

3.10 At present, the funds report that administration and investment management costs are £536 million per year, of which £409 million is attributed to investment. Indeed, the reported cost of investment in cash terms has continued to rise in recent years: from £340 million in 2010-11; to £381 million in 2011-12; and £409 million in 2012-13.[7] In fact, using more detailed and standardised data CEM Benchmarking Incorporated, as sub-contractors to Hymans Robertson, identified that the fees for investment management of the Scheme could be much higher than reported, at in excess of £790 million. Some of the fees for investment management are not fully transparent to the funds and are therefore difficult to quantify. In practice, the actual cost of investment to the funds is likely to be even higher than £790 million, as their analysis did not include other costs in their calculation such as transaction costs and performance related fees on alternative assets.

3.11 Coupled with the responses to the call for evidence, Hymans Robertson’s analysis has provided a system review, shedding light on the aggregate performance of the Scheme by asset class, as well as the transactions and processes that underpin the

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6 Local government pension scheme funds summary data: 2012 to 2013
7 Local government pension scheme funds summary data: 2012 to 2013

costs of investment. The work carried out by CEM Benchmarking Incorporated found that while funds were paying investment fees comparable with a peer group of funds of much larger size with similar mandates, there remained considerable scope for savings through a more efficient approach to investment.

3.12 The priorities of reducing fund deficits and improving investment returns set out in the call for evidence are underpinned by one overarching objective: that the Scheme remains sustainable and affordable for employers, taxpayers and members in the long term. Having considered this new aggregate view of the funds, the evidence indicates that there are opportunities to reduce costs without damaging overall Scheme performance. The Government therefore believes that it is right to consider opportunities to reduce costs and deliver value for money for employers and taxpayers, in pursuit of the overarching objective of a more sustainable and affordable Scheme.

Reducing fund costs or tackling deficits?

3.13 Although the call for evidence was developed around the primary objectives of reducing fund deficits and improving investment returns, very few responses set out ideas for managing deficits in a different way. The Shadow Scheme Advisory Board argued that more thinking could be done to consider how deficits might be addressed in the longer term. Its sixth recommendation stated[8]:

> The Board will support the Government by (a) developing a shortlist of feasible options for managing deficits and (b) conducting further research on the costs and benefits of the key options for reform.

3.14 The Government agrees that opportunities to improve funding levels should continue to be explored and looks forward to considering the Shadow Board's proposals for alternative ways of managing deficits. **Respondents to this consultation are also invited to submit any feasible proposals for the reduction of fund deficits.**

3.15 While very few submissions effectively tackled deficit reduction, both public and private sector respondents recognised that the Scheme may benefit from addressing the secondary aim of reducing investment costs, partly by managing investments more efficiently. Taking action to reduce the cost of running the Scheme will help to meet this objective by increasing the funding available for investment. In the longer term, this should help to improve the funding level of the Scheme and reduce the pressure on employer contribution rates. This consultation therefore focuses on the cost savings to be found through collaboration and more efficient investment.

Achieving scale to reduce fund costs

3.16 There is already a growing consensus across the Local Government Pension Scheme that there are opportunities to deliver further efficiencies and savings for local taxpayers through collaboration. When the call for evidence was launched, funds in

[8] Call for Evidence on the Future Structure of the Local Government Pension Scheme: The Local Government Pension Scheme Shadow Scheme Advisory Board analysis and recommendations, p.4 http://www.lgpsboard.org/images/CFE/20140115SSABreportFINAL

Wales, Scotland and London had already begun to research the benefits of scale and explore the relative merits of mergers and common investment vehicles. Similarly, shared administration arrangements had been established in a number of areas including across Kensington and Chelsea, Hammersmith and Fulham, and Westminster; as well as in Northamptonshire and Cambridgeshire.

3.17 Several responses to the call for evidence cited earlier reports or academic research into the benefits of fund size, drawing heavily on the exploratory work of Scotland, Wales and London, as well as the international experience of countries including Australia and Canada.[9] On balance, these reports found that there was no clear link between investment returns and fund size. However, they did show that there were significant benefits to scale, such as lower investment and administration costs, easier access to alternative asset classes like private equity and hedge funds, and improved governance. This view was also reached by the Shadow Board in its analysis of the call for evidence responses, which argued that:[10]

> The evidence appears to show indirect benefits of larger fund sizes, although any direct link between fund size and investment return in the Local Government Pension Scheme is inconclusive.

3.18 Although managed as 89 funds, with an asset value of £178 billion the Local Government Pension Scheme clearly has the potential to achieve the benefits of scale realised by larger funds. Whilst many of the funds have gone some way to achieving this by using procurement frameworks or establishing joint-working arrangements, there is more that can be done. This consultation will set out how using common investment vehicles and passive management for listed assets can in the long term lead to savings of over £660 million a year for the Scheme.

Achieving efficiencies and safeguarding local accountability

3.19 The call for evidence asked interested parties to suggest options for reform that would best meet the primary and secondary objectives set out in paragraph 2.12 above. A range of tools and approaches to achieving greater economies of scale were suggested, with fund mergers, common investment vehicles, and existing collaborations such as procurement frameworks all discussed extensively.

3.20 Two themes were discussed consistently when respondents sought to evaluate the merits of the main proposals for reform:

- The potential cost and time required for implementation;
- The importance of local accountability.

Costs and benefits of the proposals

3.21 Around half of the responses discussed the cost effectiveness of merging funds and how this might be implemented. Many argued that while savings could be achieved as a result of economies of scale, more analysis was needed to ensure that the benefits

[9] A list of the most commonly referenced papers can be found on the Shadow Scheme Advisory Board's web-pages: http://www.lgpsboard.org/index.php/structure-reform/responses-public-view
[10] The Local Government Pension Scheme Shadow Scheme Advisory Board analysis and recommendations, p.3

of mergers outweighed the cost and time required to implement them successfully.

3.22 Analysis was undertaken by Hymans Robertson who evaluated the costs and benefits of three options for reform over 10 years. They found that although significant savings could be realised over the period by amalgamating into five funds, merger could take around 18 months longer to implement than common investment vehicles; the delay in the emergence of savings leading to a significant reduction in the net present value of savings over 10 years. The report also showed that the savings achieved by pooling assets into two common investment vehicles would be slightly higher than if 10 were used.[11]

Possible model for reform	Net present value of savings over 10 years (£ billions)
Assets pooled into two common investment vehicles	£2.8
Assets pooled in 10 common investment vehicles	£2.6
Fund assets and liabilities merged into five funds	£1.9

3.23 The calculations shown exclude the impact of the reduced transaction costs, which Hymans Robertson showed would also help to deliver additional savings of £1.9 billion for the Scheme over 10 years.

3.24 A number of fund authorities also submitted evidence of the benefits to their fund of procurement frameworks such as the National LGPS Frameworks. A procurement framework provides authorities with a short list of organisations who can bid for contracts, reducing the time and cost of running a more substantial process.

> National LGPS Frameworks' response to the call for evidence cited one fund who had used their actuarial framework to secure services at a procurement cost of £4,000 instead of the estimated £30,000-£40,000 required for a full procurement process. If this same rate of savings applies to Global Custodian procurements, with costs again reduced by 90 per cent, the Framework believes savings of £90,000 per fund can be found.

3.25 Although there are clear benefits to using frameworks, the scale of savings achievable does not match those possible through more substantial reform such as common investment vehicles. However, the Government believes that there is still a role for procurement frameworks to play in delivering savings for the Scheme and is keen to see this opportunity taken up by more of the funds.

Local accountability

3.26 Most call for evidence responses stressed the importance of local accountability and the direct link to elected councillors, which would be lost if funds were merged. At present the authority's Councillors, usually through the pensions committee, are asked to agree the fund's investment strategy. The authority then publishes an annual report which details the costs and investment performance of the fund, enabling the public to assess how effective the investment strategy has been. Some respondents argued that this allows local taxpayers to hold the fund and local councillors to account. As one fund authority stated:

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[11] Local Government Pension Scheme structure analysis; Hymans Robertson p.6.

"There is a clear, democratic link to local voters and businesses through elected members sitting on pensions committees…

The regulatory requirements to produce an annual report and accounts and policy statements…ensure that key information on the management of funds is held in the public domain. This approach ensures local and national accountability.

The Pensions Committee believes that a forced merger of funds could only weaken accountability and the democratic link."

3.27 However, a smaller number of respondents queried the benefit of this link, emphasising the importance of Myners Principle 1 – that administering authorities should ensure that investment decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make effective decisions and monitor their implementation.[12] Although Councillors on the committee receive training, there is a risk that they have neither a background in finance nor the time to invest in developing the knowledge required to a sufficient depth. In addition, some suggested that the frequent turnover of Pensions Committee members as a result of the electoral cycle made it difficult to ensure a long term view of the investment strategy.

3.28 The ability to set a tailored investment strategy and determine the asset allocation locally was seen as vital amongst respondents from both the public and private sectors. This is perceived as an important tool for managing each fund's unique funding position and cash-flow requirements. Several respondents also emphasised the importance of local accountability as a means to ensuring the representation of Scheme members and employers. As one Scheme employer set out in their response to the call for evidence:

The existing arrangements in English County Council and London Funds promote and facilitate a clear link between the relevant individual Fund and employing bodies… As the public sector continues to fragment the number of scheduled/ admitted bodies will increase making all the more important a genuinely "local", as presently exists, link between employers and Funds.

3.29 Under a fund merger, asset allocation would need to take place at the new, larger fund authority level. However, common investment vehicles offer greater flexibility and can be established with the asset allocation made either centrally within the vehicle, or by the local fund authority.

3.30 Around 15 responses to the call for evidence stressed that common investment vehicles could achieve the benefits of scale attributed to fund mergers, without the associated disruption, implementation time, cost or loss of local accountability. As one fund outlined when talking of pooling assets in common investment funds:

[12] Pensions Regulator – adaptation of Myners principles for the Local Government Pension Scheme http://www.thepensionsregulator.gov.uk/docs/igg-myners-principles-update.pdf

This approach might realise significant scale benefits more speedily and with less disruption, while still retaining local accountability and decision making on key matters such as deficit recovery plans and asset allocation.

3.31 Having considered the responses to the call for evidence and Hymans Robertson's analysis, the Government has decided not to consult on fund mergers at this time. However, there remains a strong case for achieving economies of scale through the use of common investment vehicles.

4. Proposals for reform

Proposal 1: Common investment vehicles

The case for change

4.1 Using common or collective investment vehicles to aggregate the Scheme's investments and moving to passive investment of listed assets has the potential to deliver significant savings of over £660 million per year, through reduced investment and other costs for all asset classes in the Scheme. These savings were set out by Hymans Robertson, whose report showed that it was likely that the economies of scale from aggregation would be best accessed through common investment vehicles.

4.2 Further savings arise from the efficient structure offered by a common investment vehicle. Within any common investment vehicle or pooled fund, money will flow in and out as investors purchase and redeem units in the fund. If those buying and selling units within a pool can be matched, fund managers will not need to sell assets to meet redemption requests and as such the volume of transactions can be minimised, improving cost efficiency.

4.3 Common investment vehicles may also deliver savings by reducing the use of "fund of funds" to access alternative assets, such as hedge funds, private equity, property and infrastructure. Fund of funds are used to achieve the scale required for individual funds to make investments they may not be able to access directly. However, this introduces an additional layer of fees, increasing the total cost of investment. Setting up a common investment vehicle would help funds achieve the scale required to invest, without the high costs associated with a "fund of funds".

4.4 Hymans Robertson found that investment fees for alternative assets were particularly high compared to other asset classes, accounting for less than 10 per cent of the Scheme's assets, but for at least 40 per cent of fees.[13] The firm's analysis showed that savings of up to £240 million per year could be achieved by ending the use of "fund of funds" across the Scheme, provided that the existing contracts were permitted to run their full course in order to avoid potentially significant termination costs. Consequently, although some savings would begin to accrue straight away, this annual total would be reached over 10 years.[14]

4.5 The wider benefits of common investment vehicles include improved transparency. As the funds would be subject to the same investment costs and asset managers, the effect of asset allocation and local decision making would become more transparent, revealed in part by the variation in investment returns. This should provide the Department, fund authorities and taxpayers with an opportunity to compare the effectiveness of a fund's asset allocation. In addition, the vehicle could provide a platform for the operation of national framework agreements, helping to minimise the cost of procurement and other administrative costs of investment such as actuarial and custodial services.

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[13] Local Government Pension Scheme structure analysis; Hymans Robertson p.11
[14] Local Government Pension Scheme structure analysis; Hymans Robertson p.7

4.6 A common investment vehicle for alternative assets could also help to improve governance by providing an independent assessment of alternative investment strategies, particularly for local infrastructure investment. A pooled vehicle could make it easier for funds to invest in infrastructure when appropriate opportunities arise, by providing a cost effective way to realise the scale needed.

4.7 As discussed in paragraph 3.28, local determination of a fund's asset allocation was seen as a vital consideration amongst respondents to the call for evidence. A common investment vehicle could be designed to allow asset allocation to remain at local fund authority level, consistent with ensuring that decisions are taken in line with existing local accountabilities.

Proposal for reform

4.8 The Government believes that there are clear advantages to funds in pooling their assets in common investment vehicles for all asset classes, but that all asset allocation decisions should remain with the fund authorities.

4.9 Hymans Robertson's analysis demonstrated that there were slightly higher returns over ten years if the funds were organised through one common investment vehicle for listed assets and a second for alternatives, rather than a greater number. This evidence suggests that savings will be maximised by the creation of two vehicles: a single common investment vehicle for listed assets organised by asset class (for example, UK equity, European equity, UK bonds and so on), and a second vehicle for alternative assets.

4.10 Concentrating the Scheme into two common investment vehicles may increase its exposure to risk. Several public and private sector responses to the call for evidence also stressed that capacity constraints may begin to apply if a fund became too large. As one fund authority stated in their response to the call for evidence:

> Furthermore there may be issues about capacity – the best fund managers may be closed to new business, and even if indeed the capacity exists, they may be reluctant to have too much business from a single client (as that creates business risks).

4.11 However, the Government believes that the exposure to risk should be mitigated if the asset allocation remains as diversified as it is at present. The Hymans Robertson report noted that the issue of capacity constraint would not apply to the common investment vehicle for listed assets if it were invested in passive funds.

Q1. Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? Please explain and evidence your view.

Q2. Do you agree with the proposal to keep decisions about asset allocation with the local fund authorities?

Q3. How many common investment vehicles should be established and which asset classes do you think should be separately represented in each of the listed asset and alternative asset common investment vehicles?

Further considerations

A. Changes to the investment regulations

4.12 The current investment regulations place restrictions on the amount of a fund that can be invested in certain types of vehicle, for example limited partnerships in aggregate are subject to a limit of 30 per cent. In addition, while some types of common investment vehicle are listed within the regulations, others are not. Squire Sanders, as subcontractor to Hymans Robertson, indicated that secondary legislation could be used to reform the investment regulations, removing the anomalies created between different types of vehicle and any ambiguity about the funds' ability to invest substantially in common investment vehicles.

4.13 The Government recognises that the investment regulations are in need of review. The Department will consult separately on reforms to these regulations, including any changes required to facilitate investment in common investment vehicles. **However, any initial thoughts would be welcome in response to this consultation.**

B. The type of common investment vehicle

4.14 The term collective or common investment vehicle can be used very broadly and take different forms. At this time, the Government would like to seek views on the specific type of common investment vehicle to be used, but anticipates that the following principles might underpin the design:

- Pooling of assets, possibly on a unitised or share basis;
- Safeguards for individual funds, for example through Financial Conduct Authority authorisation;
- Governance arrangements considered as part of wider governance reforms arising from 2013 Public Service Pensions Act;
- Strategic asset allocation remains with individual funds; and
- An option for other funded public service pension schemes to participate in the common investment vehicles if they wish.

4.15 There are a number of types of common investment vehicle available that might fulfil some or all of these principles. One such model currently under review is the tax transparent Authorised Contractual Scheme.[15] However, careful consideration of the governance arrangements for any common investment vehicle would be needed before any more detailed proposals are developed.

Q4. What type of common investment vehicle do you believe would offer the most beneficial structure? What governance arrangements should be established?

Proposal 2: Passive fund management of listed assets

4.16 There are two main types of investment approach, which can be used individually or in combination.

- Passive management typically invests assets to mirror a market in order to deliver a

[15] More information can be found on the Financial Conduct Authority's website: http://www.fca.org.uk/firms/firm-types/collective-investment-schemes/authorised-contractual-schemes

return comparable with the overall performance of the market being tracked.

- An actively managed fund employs a professional fund manager or investment research team to make discretionary investment decisions on its behalf.

4.17 The Local Government Pension Scheme makes use of both of these approaches, although active management is used more extensively than passive. By applying their expertise, it is hoped that active managers will deliver a level of return in excess of the market's performance, although this comes at a much higher cost than passive management. A few funds gave examples of how they had benefited from active management in their response to the call for evidence.

> For example, the active manager of one fund had outperformed their performance benchmark by 3.2 per cent since 2007 and by 5.7 per cent in the last three years.

4.18 However, Hymans Robertson cite evidence from defined benefit pensions funds in the United States which shows that for equities, returns are explained predominantly by market movements and asset allocation policy, with active management playing no role[16].

The case for change

4.19 There are some risks associated with paying for active management, since not all active managers will be able to achieve returns higher than the market rate. Hymans Robertson was therefore asked to examine the performance of the Scheme in aggregate to see whether the funds' overall performance was benefiting from active management.

4.20 Hymans Robertson considered the performance before fees of equities and bonds in aggregate across the Scheme over the 10 years to March 2013. This new analysis, evaluating the funds' investment as one Scheme, showed that there was no clear evidence that the Scheme as a whole had outperformed the market in the long term. They concluded that listed assets such as bonds and equities could have been managed passively without affecting the Scheme's overall performance.

Equity market [17]	**UK**	**North America**	**Europe excluding UK**	**Japan**	**Developed Pacific excluding Japan**	**Emerging Markets**
FTSE Index	10.7	9.5	11.4	7.4	16.4	18.2
Aggregate Local Government Pension Scheme	10.8	8.4	11.6	7.5	17.3	17.1
Excess active return gross of fees	0.1	-1.1	0.2	0.1	0.9	-1.1

[16] Local Government Pension Scheme structure analysis; Hymans Robertson, p.19. Data based on 'Rehabilitating the Role of Active Management for Pension Funds' by Michel Aglietta, Marie Briere, Sandra Rigot and Ombretta Signori.
[17] Local Government Pension Scheme structure analysis, Hymans Robertson, table 9 p.20. Sources: State Street Investment Analytics (The WM Company), CEM Benchmarking Inc. *This is Hymans Robertson's estimate of the extra cost which reflects the low fees that the Local Government Pension Scheme in aggregate pay for active management of UK equities. The global cost premium is estimated by CEM as 0.56%

Extra cost (per annum) of active	0.34*	0.27	0.20	n/a	0.49	0.53

4.21 This analysis of investment return is specific to the performance of the Local Government Pension Scheme in aggregate.

4.22 In their report, Hymans Robertson quantified the fees savings achievable from moving to passive management of listed assets as £230 million per annum, assuming that all funds participated.[18]

4.23 In addition to the savings arising from lower fees, a move to passive management will also reduce the level of asset turnover. This occurs as investment managers buy and sell assets within an asset class. Both passive and active managers buy and sell assets, but turnover is generally much higher, and therefore more costly, under active management. Hymans Robertson estimated that if all of the Scheme's UK and overseas equities had been managed passively in the financial year 2012-13, turnover costs would have been around £190 million lower.[19]

4.24 Hymans Robertson also conducted a detailed analysis of the transition methodology and costs to move to passive management of all listed assets. They identified that the cost of transition could be around £215 million.[20] These transition costs are approximately equal to the savings achieved from reduced turnover costs in just one year.

4.25 Their analysis of transition also concluded that any market disruption will be limited as there is no proposed change to asset allocation. Hymans Robertson suggested that a single coordinated but phased transition would minimise market impact.

Proposals for reform

4.26 The Hymans Robertson report concluded that if the Scheme acts collectively and moves all listed assets into passive management, investment fees and turnover costs could be reduced by up to £420 million per year. This represents a significant saving for the funds, employers and local taxpayers which would begin to accrue within two years of moving to passive management of listed assets.

4.27 Having considered this analysis, the Government believes that funds should make greater use of passive management for all listed assets such as bonds and equities. Alternative assets such as property, infrastructure or private equity would continue to be managed actively through a separate common investment vehicle.

Further consideration

A. Take up of passive management

4.28 A number of the responses to the call for evidence emphasised that a small movement in investment performance has the potential to have a more significant impact on the Scheme's finances than the savings achievable from investment management fees. It is therefore important that full consideration is given to the

[18] Local Government Pension Scheme structure analysis; Hymans Robertson p.7
[19] Local Government Pension Scheme structure analysis; Hymans Robertson p.7
[20] Local Government Pension Scheme structure analysis; Hymans Robertson p.17

impact of a move to passive management on overall Scheme performance.

4.29 The Government acknowledges that, as set out in paragraph 4.17, there are funds who feel they have benefited from active management. However, Hymans Robertson's analysis of the savings associated with moving to passive management of listed assets is underpinned by a full consideration of investment performance by asset class across the Local Government Pension Scheme. This analysis shows that a move to passive management would not have damaged returns across the Scheme as, in aggregate, the funds' investment performance has replicated the market in much the same way as passive investment.

4.30 The Government therefore wishes to explore how to secure value for money for taxpayers, Scheme members and employers through effective use of passive management, while not adversely affecting investment returns. There is a range of options open to Government and the funds to achieve this:

- Funds could be required to move all listed assets into passive management, in order to maximise the savings achieved by the Scheme.
- Alternatively, funds could be required to invest a specified percentage of their listed assets passively; or to progressively increase their passive investments.
- Fund authorities could be required to manage listed assets passively on a "comply or explain" basis.
- Funds could simply be expected to consider the benefits of passively managed listed assets, in the light of the evidence set out in this paper and the Hymans Robertson report

Q5. In light of the evidence on the relative costs and benefits of active and passive management, including Hymans Robertson's evidence on aggregate performance, which of the options set out above offers best value for taxpayers, Scheme members and employers?

5. Additional considerations

Data transparency

5.1 Although all of the funds publish annual reports setting out their costs and investment returns, a theme common to the majority of responses to the call for evidence was the need for greater transparency and more comparable data. As one fund outlined in its response to the call for evidence:

> There is currently insufficient information available to permit a robust comparison of different Local Government Pension Scheme funds. This includes data on investment performance, investment management costs, pension administration costs, and actuarial information. All of this data should already be available within each Local Government Pension Scheme fund but there needs to be a central repository to collate and analyse the information and ensure that it is comparable.

5.2 Moving to a common investment vehicle will help to facilitate this transparency, as the investment fees derived from a common vehicle will be more comparable. It will also help to highlight the effect of asset allocation and fund decision making. Since the funds would be investing through the same vehicles, the effect of asset allocation will be more easily seen from the resulting variation in investment returns. The common investment vehicles would also allow greater clarity over variations between asset allocations and actuarial discount rates.

5.3 However, it is clear that further improvements are needed to ensure published Scheme data is comparable between funds. The Minister for Local Government has asked the Shadow Board to look at data transparency in more detail and it has already made progress in this area, bringing together all of the funds' annual reports on its website. The Government is keen to support the Shadow Board in this work and looks forward to working with it to ensure more comparable data is available in the future.

Procurement frameworks

5.4 As set out in paragraph 3.24, there are clear advantages and savings to making use of the National LGPS Frameworks. The frameworks provide funds with the opportunity to reduce the cost and time associated with procurement. By developing a short list of approved candidates, the frameworks can help funds reduce the time taken to procure a service from six to nine months to a matter of weeks, as well as offering standardised terms and conditions. In addition to offering savings to the funds, the small fee paid by funds to access the framework helps to ensure that the model is self-financing in the long term.

5.5 At present, frameworks have been established by the National LGPS Framework for investment consultancy, global custody and benefit and actuarial services. The Government believes that funds can deliver further savings, using these frameworks to procure a range of services including actuarial and investment advice. Funds should give serious consideration to making greater use of these frameworks. In addition, common investment vehicles could be used as a platform from which to operate such frameworks.

Administration

5.6 The question of how to improve the cost effectiveness of administration was posed in the call for evidence as a secondary objective for structural reform. Around 12 submissions suggested that larger funds were able to achieve lower administration costs. Some fund authorities and pensions administrators set out the benefits they had seen from aggregating administration services, arguing that significant savings could be achieve from reduced staff and accommodation costs, greater automation, member and employer self service and I.T cost reductions. For example, as a shared service for fund authorities set out in their response:

Local Government Shared Services ("LGSS") Pensions Service is a collaborative venture between two Scheme funds established in October 2010, which has already saved £500k per annum in pensions administration.

5.7 However, while these savings are valuable to the Scheme, they are small in comparison to the cost reductions associated with greater passive management of listed assets and the use of common investment vehicles. In addition, as some respondents stressed, the administration of the Scheme is already facing a period of significant change with the introduction of the 2014 Scheme from 1 April 2014.

5.8 Having considered these factors, the Government has decided not to consult on administration reform at this time. However, the call for evidence has highlighted the scope for potential administrative efficiencies as well as the associated risks. At this stage, the Government proposes to allow the administration arrangements for the 2014 Scheme to mature before considering reform any further.

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Outline Tri-Borough Consultation Response

The pension funds of London Borough of Hammersmith and Fulham, the Royal Borough of Kensington and Chelsea, along with the Westminster City Council Pension Fund began working together to reduce the costs of managing pension fund and council investments in February 2012. Hence, we welcome the opportunity to respond to the Minister's second Call for Evidence on the future management of the LGPS.

The Tri-Borough fund's responses to the questions raised in the consultation are set out below:

1. **Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? Please explain and evidence your view.**

The Tri-Borough grouping firmly believes that common investment vehicles (CIVs) would allow groups of funds to achieve economies of scale and deliver significant savings. Some managers have already aggregated fees where two authorities have the same mandate and there is every reason to expect that by coming together with other funds, further savings could be achieved.

Tri-Borough officers have been involved extensively in setting up the London CIV which is expected to be operational in early 2015.

2. **Do you agree with the proposal to keep decisions about asset allocation with the local fund authorities?**

Yes. This is an important means of maintaining local accountability and in managing deficits.

3. **How many common investment vehicles should be established and which asset classes do you think should be separately represented in each of the listed asset and alternative asset common investment vehicles?**

When considering how many vehicles should be established, it is important to recognise that in investment there are diseconomies of scale as well as economies. Bigger is not necessarily better and it would be sensible to have an element of competition to enable performance to be compared.

We believe that some investment strategies have a natural ceiling to the amount of assets that can be actively managed before diminishing returns start to apply. Hence, many of the best managers close strategies when they have reached a capacity limit.

4. What type of common investment vehicle do you believe would offer the most beneficial structure? What governance arrangements should be established?

A CIV needs to have the following characteristics:

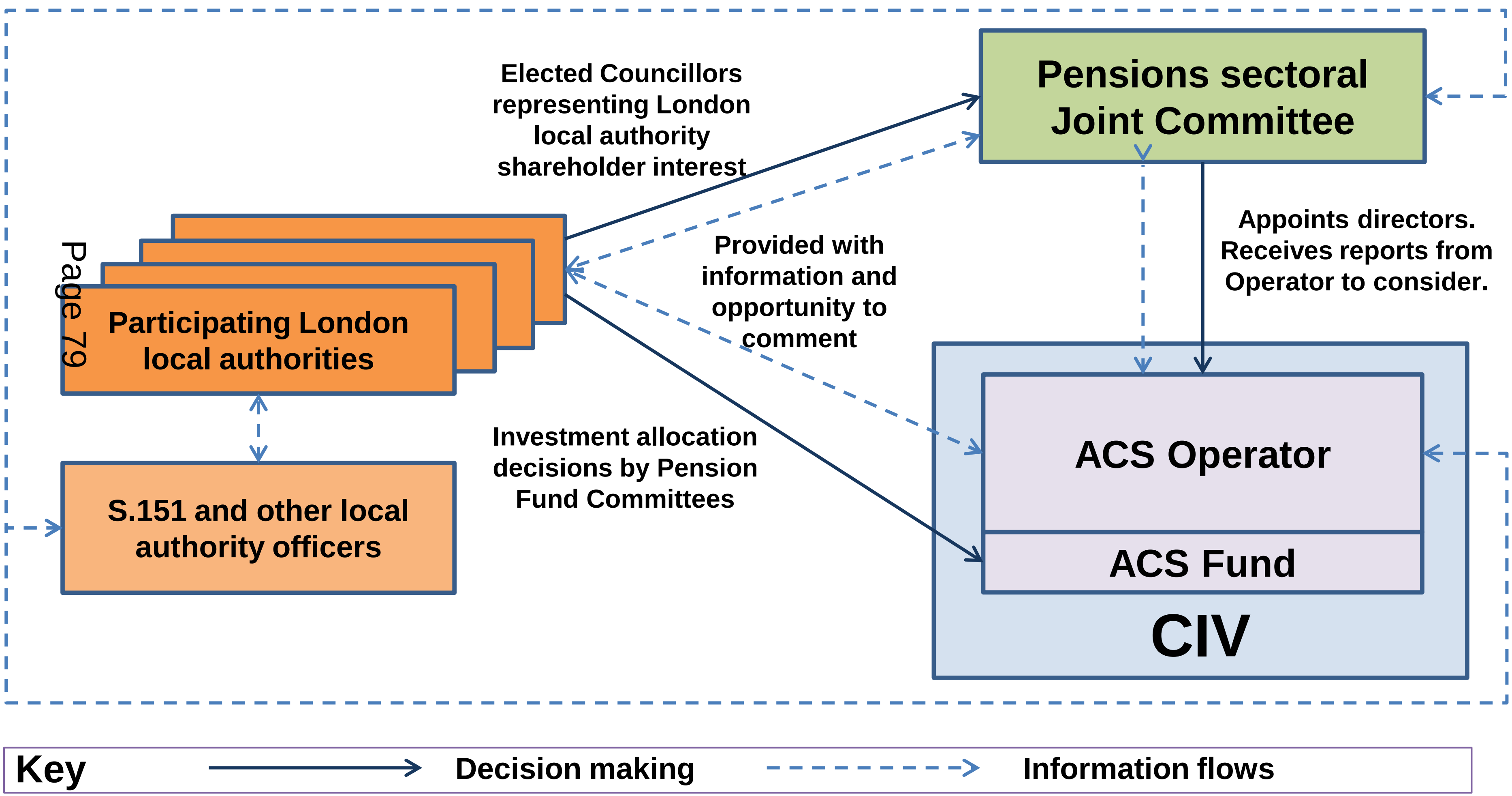
- Appropriate for professional institutional investors to pool assets;
- Capable of supporting a range of separately managed ring-fenced sub funds;
- A flexible regulated investment fund vehicle adapted to any type of investment strategy;
- Efficiently run and cost-effective;
- Appropriately regulated;
- Have assets held by an appropriate custodian/depositary;
- Tax efficient with regard to any capital gains or income tax at fund level;
- Give appropriate access to Dual Tax Treaties to minimise Withholding Tax;
- Suitable for a wide range of investment strategies including conventional and alternative assets.

5. In light of the evidence on the relative costs and benefits of active and passive management, including Hymans Robertson's evidence on aggregate performance, which of the options set out above offers best value for taxpayers, scheme members and employers?

We believe that long-term active asset management can play a key role in reducing deficits and contribution levels and making the LGPS affordable for generations to come. We do not think it will be possible to eliminate fund deficits through passive management alone.

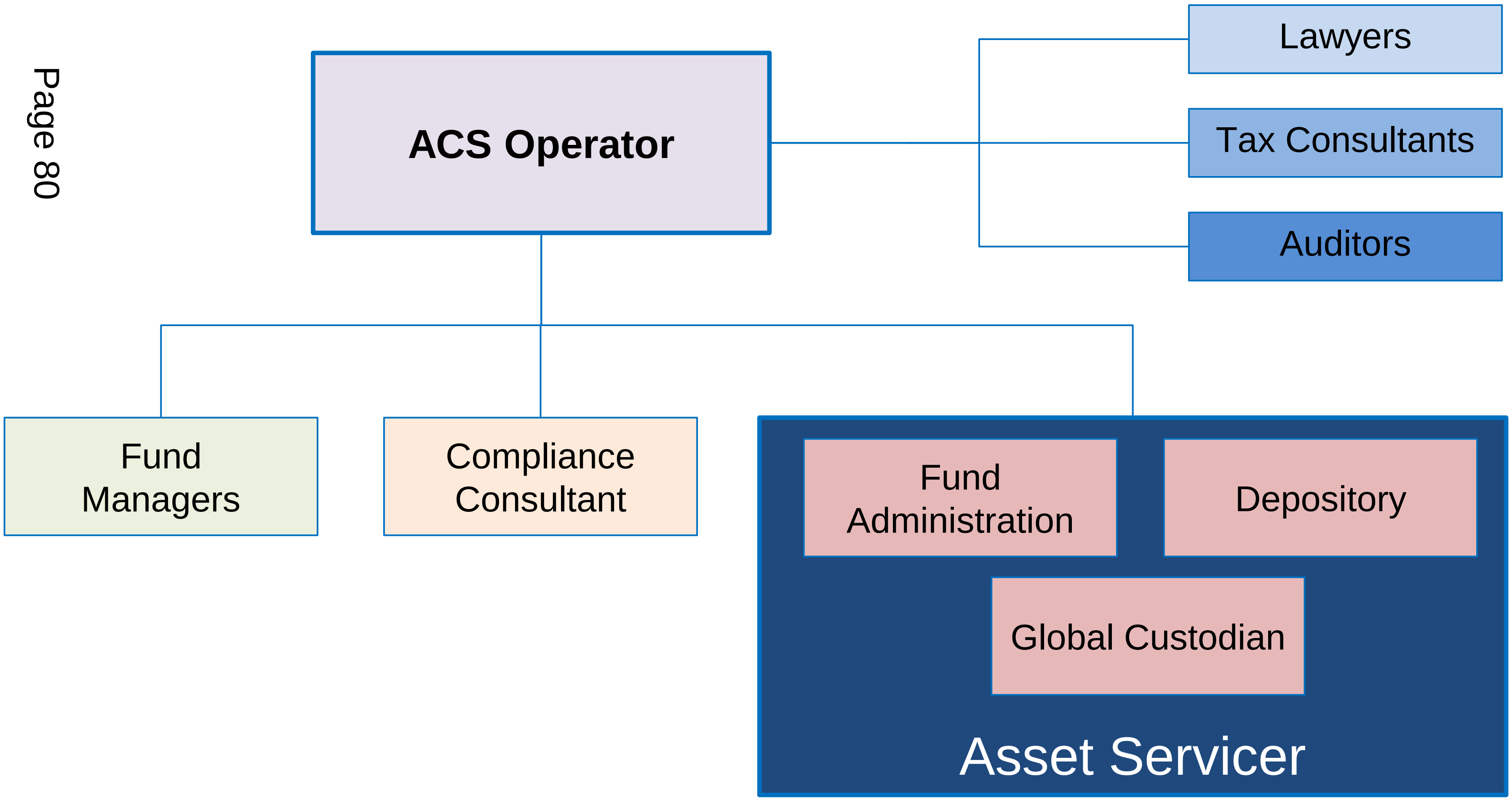
Managers and advisers as well as the officers are currently putting together evidence in support of the views set out here.

Governance

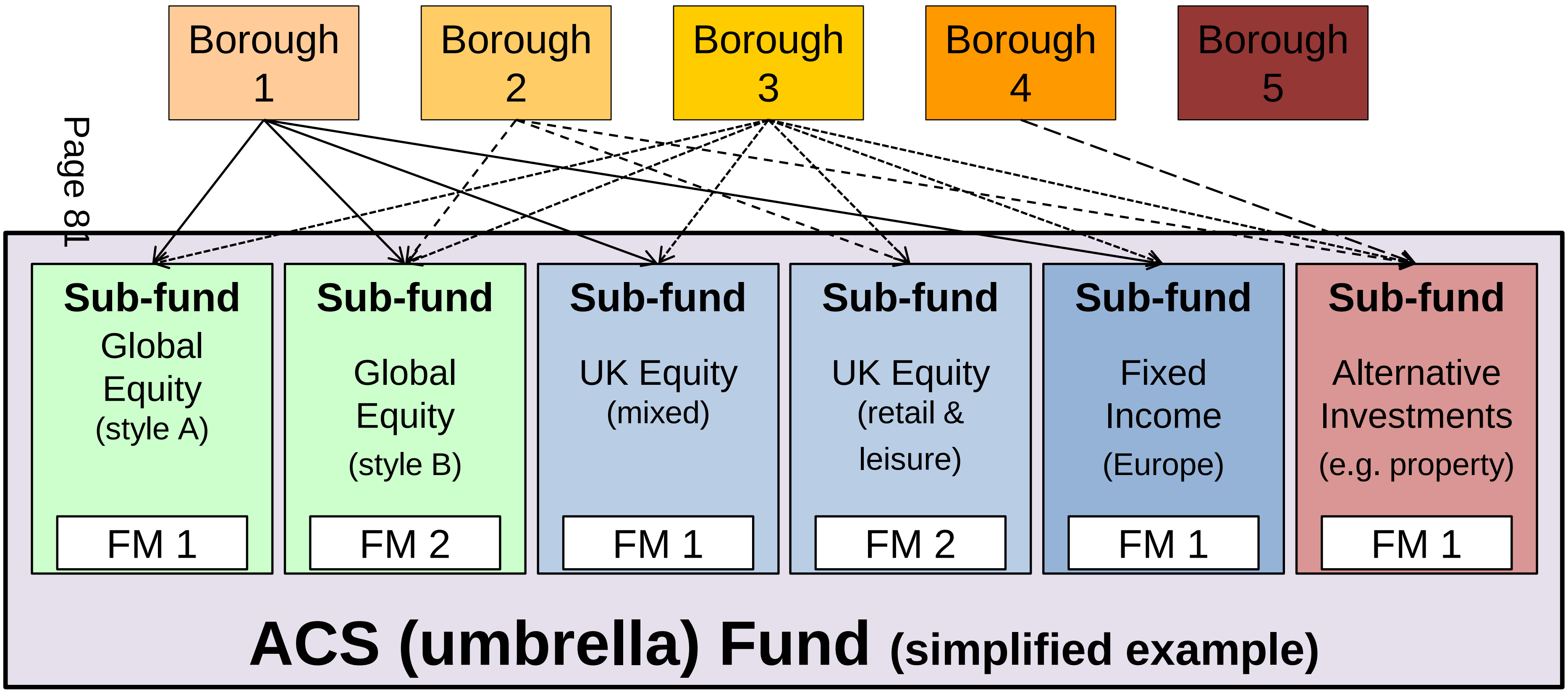


Pensions sectoral Joint Committee
Elected Councillors representing London local authority shareholder interest
Participating London local authorities
Provided with information and opportunity to comment
Appoints directors. Receives reports from Operator to consider.
S.151 and other local authority officers
Investment allocation decisions by Pension Fund Committees
ACS Operator
ACS Fund
CIV
Key
Decision making
Information flows

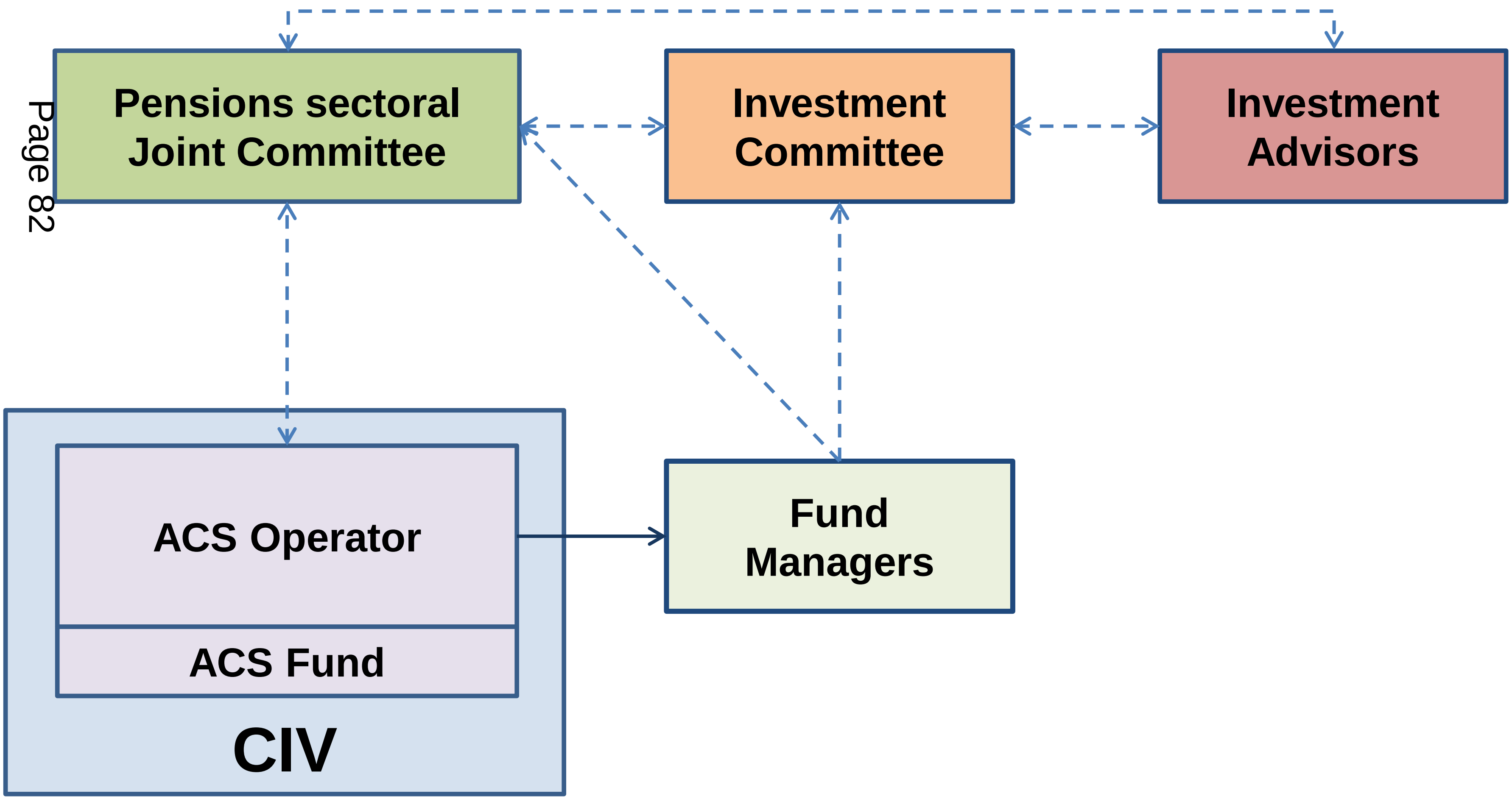
Operator structure



Fund structure



Fund decision making



City of Westminster

Executive Summary and Recommendations

	Superannuation Committee
Date:	14 July 2014
Subject:	Pension Fund Work Plan

Summary

1. This report presents a summary of the work that the three Pension Committees across the Tri-Borough will be considering during the year, as well as a comparison of some key metrics.

Recommendations

1. The Committee note the contents of this paper.

City of Westminster

Superannuation Committee

Date:	**14 July 2014**
Classification:	**Public**
Title of Report:	**Pension Fund Work Plan**
Report of:	**Director of Corporate Finance & Investments**
Wards involved:	**All**
Policy context:	**Effective control over Council activities**
Financial summary:	There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.
Report Author:	**Jonathan Hunt** *Director of Corporate Finance and Investments*
Contact details	jonathanhunt@westminster.gov.uk 020 7641 1804

1. PERFORMANCE OF THE FUND

1.1. The Tri-borough Pension Fund business plan for the year 2014/15 is attached as Appendix 1. This sets out the Pension Fund business expected by Officers to be required in the three tri-borough funds over the coming year highlighting both the tasks which are common to the three Funds and those which are specific to each Fund.

1.2. The document also provides an overview of the three funds' assets, funding levels and membership at 31 March 2014 and a summary of the investment management and other external contracts.

BACKGROUND PAPERS

The background papers listed below are not for public inspection by virtue of Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (as amended) in that it contains exempt information, namely information relating to the financial or business affairs of any particular person (including the authority holding that information).

1. None

If you have any questions about this report, or wish to inspect one of the background papers, please contact Jonathan Hunt on 020 7641 1804 or jonathanhunt@westminster.gov.uk.

Appendix 1

Tri-Borough Pension Fund Work Plan

Tri-borough Pension Funds Business Plan 2014-15

This plan sets out the planned activities for the year 2014-15 for the Pension Funds of London Borough of Hammersmith and Fulham, Royal Borough of Kensington and Chelsea and City of Westminster.

1. Summary of the Funds

	Value of assets (31 Mar 2014)	Funding Level at last valuation (31 Mar 2014)	Total membership (31 Mar 2014)
Hammersmith and Fulham	£762.8m	86%	14,211
Kensington and Chelsea	£695.7m	100%	9,747
Westminster	£965.6m	81%	14,794

2. Tri-borough wide planned activities for 2014-15

Ref	Activity	Description	Target date
T1	LGPS Consultation response	DCLG published a consultation about the structure of the LGPS in May 2014, in particular concerning common investment vehicles and active versus passive management of investments	Response due 11th July 2014
T2	Implementation of governance regulations	Following on from the Public Sector Pensions Act 2013, draft regulations concerning LGPS governance are expected in June 2014 with final regulations to follow in September for implementation by 31 March 2015	31st March 2015
T3	Admission bodies policy development	Developing a clear policy in this area will assist with the management of potential risks from admission bodies	30th September 2014
T4	Input to London Common Investment Vehicle	London Councils are leading the development of a Common Investment Vehicle for London boroughs. Further input is likely to be required leading up to first investments in February 2015	Throughout 2014/15
T5	Review of quarterly reporting	In tandem with the governance regulations, a review of the quarterly reports provided to each committee will be carried out.	31st March 2015

3. Hammersmith and Fulham planned activities for 2014-15

In addition to the above activities across tri-borough funds, the following specific activities are planned for 2014-15.

Ref	Activity	Description	Target date
HF1	Custodian tender	A bi-borough tender process for custodian services has been underway with Westminster, with a recommendation to be made to committee in June/July 2014. Implementation of the contract to follow.	June 2014 decision October 2014 implementation
HF2	Actuarial contract	The contract comes to an end in July 2014. An option to extend to Kensington and Chelsea's end date of 31st August 2015 is to be made in June 2014.	June 2014 decision
HF3	Investment Strategy Review	Following the valuation in 2013, a review of investment strategy is timely to ensure the strategy continues to be fit for purpose.	Throughout 2014-15

4. Kensington and Chelsea planned activities for 2014-15

In addition to the above activities across tri-borough funds, the following specific activities are planned for 2014-15.

Ref	Activity	Description	Target date
KC1	De-risking strategy consideration	Following the valuation in 2013, a review of strategy to reflect the improving funding level is timely.	Autumn 2014
KC2	Bi- borough reporting arrangements with Baillie Gifford	Following Westminster's decision to appoint Baillie Gifford on the same mandate as RBKC's it will make sense for them to report to both Committees at the same time.	Autumn 2014

5. Westminster planned activities for 2014-15

In addition to the above activities across tri-borough funds, the following specific activities are planned for 2014-15.

Ref	Activity	Description	Target date
W1	Custodian tender	A bi-borough tender process for custodian services has been underway with Hammersmith and Fulham, with a recommendation to be made to committee in June/July 2014. Implementation of the contract to follow.	June 2014 decision October 2014 implementation
W2	Review of fixed income mandate	The contract with the current fixed income manager is coming to an end, so it is timely to review the mandate.	Autumn
W3	Satellite equity manager	Following an earlier review of the Fund's equity strategy, this is the final part of the implementation.	Autumn

6. Budget and Resources

This section summarises the resources available to the three Funds to undertake the planned activities.

a) Officers and Advisers

The tri-borough funds are supported by an officer team and various other advisers detailed in the table below:

	Hammersmith and Fulham	**Kensington and Chelsea**	**Westminster**
Officers	Jonathan Hunt: Tri-borough Director of Treasury & Pensions Pension Fund Officers: Alex Robertson, Nicola Webb and Nikki Parsons		
Investment adviser	Alistair Sutherland: Deloitte	Andrew Elliott: Hymans Robertson	Alistair Sutherland: Deloitte
Actuary	Graeme Muir: Barnett Waddingham		
Legal advisers	Eversheds LLP		
Custodian	Northern Trust *		BNY Mellon *
Fund Managers:			
Equities		Baillie Gifford	
	Majedie		Majedie
	MFS	Longview	
		Legal & General	
Absolute Return	Barings		
	Ruffer	Pyrford	
Fixed Income	Legal & General		Insight
	Goldman Sachs		
Private Equity	Invesco	Adams Street	
	Unigestion		
Property		CBRE	Hermes
		Kames	Standard Life

*Under procurement process at present.

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Agenda Item 12

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