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City of Westminster

Committee Agenda

Title:	**Pension Fund Committee**
Meeting Date:	**Tuesday 21st March, 2017**
Time:	**7.00 pm**
Venue:	**Rooms 3 and 4, 17th Floor, Westminster City Hall, 64 Victoria Street, London SW1E 6QP**
Members:	**Councillors:** Suhail Rahuja (Chairman) Peter Cuthbertson 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 6.00pm. 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, Toby Howes, Senior Committee and Governance Officer.

Tel: 020 7641 8470; Email: thowes@westminster.gov.uk
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

To receive notifications of interest by Members and Officers of any personal or prejudicial interest.

3. MINUTES **(Pages 1 - 10)**

To approve the Minutes of the Pension Fund Committee held on 15th November 2016.

4. MINUTES OF PENSION BOARD

To be circulated separately.

5. FORWARD PLAN AND ALLOCATION OF PENSION FUND WORK **(Pages 11 - 18)**

Report of the City Treasurer.

6. FINAL ACTUARIAL VALUATION REPORT AND FUNDING STRATEGY STATEMENT **(Pages 19 - 44)**

Report of the City Treasurer.

7. CHANGES TO INVESTMENT REGULATIONS **(Pages 45 - 82)**

Report of the City Treasurer.

8. PENSION ADMINISTRATION UPDATE **(Pages 83 - 90)**

Report of the Director of People Services.

9.	**ASSET POOLING AND LONDON COLLECTIVE INVESTMENT VEHICLE UPDATE** Report of the City Treasurer.	**(Pages 91 - 96)**
10.	**FEEDBACK FROM ANNUAL FUND MANAGER MONITORING DAY** Report of the City Treasurer.	**(Pages 97 - 104)**
11.	**FUND FINANCIAL MANAGEMENT** Report of the City Treasurer.	**(Pages 105 - 134)**
12.	**QUARTERLY PERFORMANCE REPORT** Report of the City Treasurer.	**(Pages 135 - 166)**
13.	**ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT**	
	PART TWO (IN PRIVATE) Under Section 100 (A)(4) and Part 1 of Schedule 12A to the Local Government Act 1972 (as amended), the public and press are 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.	
14.	**MINUTES** To approve the Confidential Minutes of the Pension Fund Committee held on 15th November 2016.	

Charlie Parker
Chief Executive
14 March 2017

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CITY OF WESTMINSTER

MINUTES

Pension Fund Committee

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Fund Committee** held on **Tuesday 15th November, 2016**, Rooms 3 and 4, 17th Floor, City Hall, 64 Victoria Street, London SW1E 6QP.

Members Present: Councillors Suhail Rahuja (Chairman), Antonia Cox, Patricia McAllister and Ian Rowley.

Officers Present: Steven Mair (City Treasurer), Lee Witham (Director of People Services), Peter Carpenter (Assistant City Treasurer, MSP), Kim Edwards (Senior Pensions and Payroll Adviser), Nikki Parsons (Pension Fund Officer) and Toby Howes (Senior Committee and Governance Officer).

Also Present: Craig Anderson (Service Delivery Director, BT), Jason Bailey (Pension Services Manager, Surrey County Council), Kevin Humpherson (Deloitte), Graeme Muir (Barnett Waddingham), Alistair Sutherland (Deloitte) and Gareth Wood (Head of Finance for the Shared Service Centre, BT).

1 MEMBERSHIP

1.1 There were no changes to the membership.

2 DECLARATIONS OF INTEREST

2.1 Councillor Suhail Rahuja declared that he was employed by fund managers who have amongst their clients Hermes. However, he was not involved in any element of the work which relates to the Westminster Pension Fund and accordingly he did not regard this as a prejudicial interest.

3 MINUTES

3.1 That the Minutes of the meeting held on 20th September 2016 be signed by the Chairman as a correct record of proceedings.

4 PENSION FUND ACTUARIAL VALUATION AND FUNDING STRATEGY STATEMENT

4.1 Graeme Muir (Barnett Waddingham) of the Fund's Actuary, gave a presentation to Members providing an update on progress with the 2016 triennial valuation. He began by stating that the terms of the triennial funding valuation were set out in Local Government Pension Scheme (LGPS) Regulations and the principal objective was to certify the levels of employer contributions to secure the solvency of the fund and the long term cost efficiency of the scheme. The valuation should also have regard to the Fund's Funding Strategy Statement as determined by the administering authority. Whilst undertaking the valuation, Graeme Muir advised that the actuary should have regard to the desirability of maintaining as nearly a constant contribution rate as possible.

4.2 Graeme Muir then referred to the outcome of the previous valuation in 2013, where it had been established that the funding level was 74% and an aggregate of 16.5% deficit contributions of pensionable pay was required to eliminate the deficit over a 25 year period. In addition, 13.3% of pensionable pay was required to meet the cost of new benefits as they were earned from year to year, which put the total rate of pensionable pay at 29.8%. In order to meet the total pensionable pay rate, there had been an increase of £1.5m in deficit contributions each year, and the total deficit contribution would be £9m for 2016/17.

4.3 Graeme Muir then focused on the 2016 valuation and referred to the various challenges it faced, including the impact of needing to adhere to Section 13, which required an independent review undertaken by the Government's Actuary Department of the valuation and contribution rates to ensure that they were appropriate and remedial action taken where problems were identified. Members noted that Funds may still have their own bespoke funding plans, but they needed to have regard to the Section 13 valuation and also to the key performance indicator measures. Graeme Muir advised Members on the 2016 valuation financial assumptions, including using market indices and yield curves using a 20 year point on curves and the model using assumptions assessed over a six month period, spanning the valuation date to give stability, a process known as 'smoothing'. Neutral assumptions that were neither intentionally optimistic nor pessimistic were used and prudence introduced where there was uncertainty. In respect of inflation, an assumption of 3.3% had been used for he smoothed 20 year point, which after the 0.9% consumer price index (CPI) assumption was taken into account, revised the rate at 2.4%. Members noted the assumed discount rate on gilts, bonds, equities and on other assets including property and cash. Graeme Muir advised that a proposed overall discount rate of 5.1% per annum, adjusted to 2.7% when factoring in the CPI discount, was assumed for scheduled bodies within the Fund, including the Council, whilst for admitted bodies the discount rate assumed would be 1.5% after the CPI discount. Demographic assumptions had also been made, including a review of Fund mortality over 2011-2015 which had identified that life expectancies had slightly increased.

4.4 Graeme Muir advised that the initial results of the 2016 valuation indicated that the funding level had increased to 77% compared to 74% from the previous valuation and the total primary rate was 17.9% compared to 13.3% previously. In terms of comparisons with other funds, the Westminster Fund was broadly in the middle according to the standardised funding level assessment undertaken of funds. Graeme Muir advised that the next steps would involve managing contribution increases to reduce the deficit further. He confirmed that the Westminster City Council results had now been completed and Barnett Waddingham was in the process of finalising results of other individual employers in the Fund.

4.5 During discussion, Members enquired whether the Fund would meet the expectations of the Section 13 valuation, including whether the Fund could be considered to be not inconsistent with other funds. It was noted that a smoothed dividend of 7.4% had been assumed for equity returns and it was enquired whether this was sustainable as it appeared quite high. Members pondered whether the assumed increases in life expectancy were overly high. In noting that an increasing number of schools admitted as scheduled bodies were becoming academies, views were sought on the impact this may have on the Fund. Members also asked what steps were being taken to reduce the Fund's deficit and whether there would be further increases in contributions.

4.6 In reply to Members' questions, Graeme Muir stated that he felt confident that the Fund would meet Section 13's expectations, including in respect of consistency, and the smoothing technique endeavoured to make consistent assumptions. He acknowledged that mortality rate increases had slowed down in recent years. The Chairman added that there had been an appreciable increase in life expectancy for males in the last three years.

4.7 In respect of schools becoming academies, Graeme Muir stated that a significant number had made such a change, however the Government provided guarantees in the event of an academy going bust. The Scheme Advisory Board had also commissioned Pricewaterhouse Coopers to analyse funding academy arrangements.

4.8 Steven Mair (City Treasurer) advised that a significant amount of work had been undertaken in respect of reducing the Fund's deficit and proposals would be put forward at the Council meeting on 1st March 2017. Peter Carpenter (Interim Tri-Borough Director of Treasury and Pensions) added that the new Funding Strategy Statement had been drafted, reflecting changes in legislation and the final version would be presented to the Committee at the 21st March 2017 meeting.

4.9 **RESOLVED:**

That the draft Funding Strategy Statement attached in Appendix 2 of the report be approved, pending consultation with the employers.

5 PENSION ADMINISTRATION UPDATE

5.1 Lee Witham (Director of People Services) introduced the first report on this item in respect of the BT Managed Services Improvement Plan. He referred to the main problems impacting on performance of pensions, including the lack of interface detailing staff starters and leavers which meant that these details were having to be manually entered which was a slow process and increased the chance of human error. The lack of interface had led to some pension records being out of date or absent. Members were advised that Surrey County Council and BT had been requested to work collaboratively to resolve this issue.

5.2 Lee Witham informed the Committee that there were also problems in respect of those who had opted out of the Pension Scheme who had supposed to have been auto-enrolled. This had not appeared to have been undertaken and BT had agreed to write to affected employees again that they are due to be auto-enrolled unless they wished to opt out.

5.3 In respect of Annual Benefits Statements, Lee Witham advised that approximately 250 pension scheme members had not yet received their statements. This affected those who were absent in 2015/16 for example because they were on maternity leave or on long term sick leave. An update from BT on when the correct data would be sent to Surrey County Council was awaited.

5.4 Gareth Wood (Head of Finance for the Shared Service Centre, BT) was then invited to address the Committee and he advised that an interface was being developed and a draft had been sent to Surrey County Council who had requested some changes. Gareth Wood stated that the auto-enrolment issue had now been rectified and that the Annual Benefits Statement would be incorporated into the interface and all statements would be sent out by the end of the year.

5.5 Craig Anderson (Service Delivery Director, BT) added that it was acknowledged that there was too much manual inputting presently required, however an IT tool was being developed to address this issue. Staff members were also being re-skilled and offered more support and additional resources were now available for the Pensions Team, with points of failure being identified. Members noted that there had been a particular issue with teachers' pensions.

5.6 During Members' discussions, it was asked to what extent had the issues been resolved to date and how was the interface progressing. Members sought an explanation as to why the problems had persisted for such a length of time and when was it expected that all problems would be resolved. The Committee expressed its surprise that staff did not have the sufficient skills from the outset, especially as some aspects of processing the information appeared relatively straightforward. It was remarked that the training and upskilling should have taken place in 2015 before the new pension administration arrangements went live. Members sought further details in respect of problems concerning teachers' pensions and were there any other aspects of pension administration that could potentially become a problem. A Member commented that she had heard that there also had been problems relating to overtime payments since 2014 and she asked for further details on this.

5.7 In reply to issues raised by Members, Gareth Wood acknowledged that the present situation was not ideal, however in terms of the interface the reports that had been developed had been thoroughly tested and checked for all tri-boroughs. He felt that once the interface was in place, performance would improve appreciably. Gareth Wood stated that a holistic review had been completed over a whole cycle and had strengthened front end controls and upskilled staff and as a result he did not anticipate any new issues arising.

5.8 Craig Anderson stated that BT were seeking to appoint additional staff with the appropriate technical skills, however he stated that such skills were in short supply and existing BT staff were also being upskilled. Staff had been appointed from across the country and the Pensions Team were being trained to acquire Agresso skills.

5.9 Lee Witham emphasised the need for Surrey County Council, BT and the Council to work collaboratively to resolve the issues and it had been impressed upon both Surrey County Council and BT of the need to bring in more resources, including staff, and skills. He advised that he could not give a definitive date as to when all issues would be resolved, however he felt that there was a full understanding of what the problems were and these could be resolved by working collaboratively.

5.10 Kim Edwards (Senior Pensions and Payroll Adviser) advised that there had been a tri-borough meeting with BT in October and a further one would take place in December to work through outstanding issues. She stated that Council officers would also be willing to visit BT to provide support and any training felt appropriate. Kim Edwards advised that a number of teachers' pension returns had been submitted late and this had caused some delays. Steven Mair added that some teachers' annual returns had not included sufficient data and this had caused further delays.

5.11 In respect of overtime payments, Jason Bailey (Pension Services Manager, Surrey County Council) stated that this was a complicated issue and Kim Edwards had offered to assist on this matter. He felt that training and paying sufficient attention to detail would address this issue.

5.12 The Chairman stated that a number of concerns about pension administration had been raised at the Pensions Annual General Meeting on 21st September. He requested that BT representatives attend the next meeting on 21st March 2017 to update Members on progress on this matter and advised that BT would continue to be invited to future meetings until the issues had been fully resolved.

5.13 Lee Witham then introduced a paper that provided an update on Surrey County Council pension administration performance. He informed Members that the Council had been working collaboratively with Surrey County Council in producing a list of key performance indicators (KPIs) that better reflected the overall experience of the Fund's members and he referred to the new KPIs added in the report. Kim Edwards added that the new KPIs also reflected issues that had been raised at Pensions Annual General Meeting, particularly where pension payments had been delayed.

5.14 Jason Bailey stated that there had already been a number of areas being measured by KPIs in the original list, however the updated list was even more comprehensive. In putting together the list of KPIs, he stated that the scale of investment needed to be taken into account.

5.15 During Members discussions, it was queried why the issues highlighted in the BT Managed Services Improvement Plan report had not been included in the KPI list. Members asked whether officers were satisfied that sufficient progress was being made in achieving the KPIs. Further explanation was also sought as to why it was taking so long for the interface to be in place and go live.

5.16 In reply, Jason Bailey advised that the concerns highlighted in the BT Managed Services Improvement Plan report had not yet been included on the KPI list as there was a lack of information by which they could be measured, however once this data was available, they would be added to the KPI list. He felt that real progress was being made in achieving the KPI targets and the interface, which would be in place once all the relevant data had been captured. Members noted that useful feedback had been provided from Christopher Smith (Pension Board and Unison member) on Fund members' experience.

5.17 Steven Mair added that issues beyond just pension administration matters needed to be addressed in respect of BT and this was why it had taken so long to resolve.

5.18 The Chairman emphasised the need for the KPI list to record the real performance and to include the concerns raised in the BT Managed Services Improvement Plan report. He also invited Christopher Smith to attend the next meeting on 21st March 2017 to feedback his comments on the experience of pension scheme members.

6 ASSET POOLING AND LONDON COLLECTIVE INVESTMENT VEHICLE UPDATE

6.1 Peter Carpenter presented the report and stated that it was desirable that the Majedie portfolio be transferred to the London Collective Investment Vehicle (CIV) as quickly as possible. He stated that the processes by which the Majedie assets were to be transferred to the CIV needed to be agreed. He advised that discussions continued in respect of transferring Longview assets to the CIV, however this was not expected to be agreed until the spring of 2017. Arrangements were also being made to extend the Insight Investment contract by 12 months.

6.2 Members commented that the London CIV needed to move more quickly in respect of acquiring property assets as these would be of benefit to the CIV. The Chairman suggested that the mechanisms by which the Majedie assets would be transferred to the London CIV be discussed at the fund manager monitoring meeting on 16 December. Members also requested clarification as to whether a fund could participate in more than one CIV and Steven Mair agreed to look into the matter. The Committee agreed the recommendations in the report.

6.3 **RESOLVED:**

1. That the contents of the report be noted.

2. That it be agreed that the transfer of the Majedie portfolio to the London CIV be undertaken as soon it is possible to do so.

3. That the fee basis for the Majedie UK Equity Fund be agreed.

7 INVESTMENT REGULATIONS AND INVESTMENT STRATEGY STATEMENT

7.1 Peter Carpenter presented the report and informed Members that the Government had issued guidance on the Investment Strategy Statements as would be required under revised investment regulations that were due to come into effect shortly. He advised that the Fund was compliant overall to investment regulations, however, more work was needed in respect of ethical, environmental, social and corporate governance matters. As such matters needed to be taken into account in terms of governance, the Committee would need to review its current approach to this and also to enter into discussions with the London CIV with regard to the Stewardship Code, increased reporting and greater effort made to take into account the views of the Pension Board and Pension Scheme members. The Committee noted that an Investment Strategy Statement needed to be in place by 1 April 2017.

7.2 Members noted that it was required that the Pension Board be consulted in respect of environmental, social and corporate governance matters. With regard to the London CIV appointing fund managers, views were sought as to how the London CIV would exercise oversight over their performance and activities. Members requested that an officer be formally nominated to support the Pension Board.

7.3 In reply, Peter Carpenter stated that there needed to be a thorough consideration of the London CIV's governance arrangements in order to ensure effective monitoring of fund managers and the London CIV would be asked to explain how they would undertake this.

7.3 The Committee agreed to the Chairman's suggestion that Councillor Antonia Cox and Peter Carpenter liaise in respect of finalising the Investment Strategy Statement.

7.4 **RESOLVED:**

That it be noted that a draft Investment Strategy Statement is being prepared in accordance with the revised investment regulations and that it will be presented to the 21st March 2017 meeting.

8 FUND MANAGER MONITORING MEETING UPDATE

8.1 Nikki Parsons (Pension Fund Officer) presented the report and confirmed that the fund manager monitoring meeting would take place on 16th December. She drew Members' attention to the timings for the meeting as set out in the report. It was noted that each fund manager was to give a 30 minutes presentation, followed by 15 minutes for any questions Members may wish to ask them.

8.2 The Chairman requested that the Chief Executive or other appropriate senior representative from the London CIV be invited to attend the fund manager monitoring meeting. Members concurred that the London CIV representative address the Committee at 8.30am, before he presentations from the fund managers commenced.

8.3 **RESOLVED:**

That the contents of the report be noted.

9 FUND FINANCIAL MANAGEMENT

9.1 Nikki Parsons presented the report and advised that there were no additions to the Risk Register and she confirmed that the £4.5 million cashflow transfer from both the Baillie Gifford and Longview mandates had been completed. She informed the Committee that income earned from the Baillie Gifford and Hermes funds were now being taken as quarterly cash distributions. Nikki Parsons also advised that the London CIV fee savings from the Baillie Gifford mandate have been reflected in the cashflow forecast for the next three years.

9.2 **RESOLVED:**

1. That the Risk Register for the Pension Fund be noted.

2. That the cashflow position of the Fund be noted.

10 PERFORMANCE OF THE COUNCIL'S PENSION FUND

10.1 Kevin Humpherson (Deloitte) presented the report and updated members on the performance of the Fund's managers over the last quarter and how these compared to their respective benchmarks. He confirmed that the Fund had outperformed its benchmark by 1.1% net of fees, mainly attributable to the strong performance of the active equity managers, Majedie and Baillie Gifford. Members noted that Standard Life's property portfolio had significantly underperformed relative to the benchmark both in the last quarter and over the last year. Kevin Humpherson confirmed that the Fund was slightly ahead of its benchmark over the last three years.

10.2 Members asked whether low interest rates would end soon due to international developments, particularly in respect of the USA. It was also queried whether Longview's performance had been affected by issues concerning a diabetic drug product.

10.3 In reply, Alistair Sutherland advised that interest rates had started to rise, however they were not much higher than they had been in June. It was anticipated that in future interest rates would rise further, but Alistair Sutherland suggested that this may only be to around 4-5%. In respect of the Longview mandate, their drop in the market share had been more than expected and this had affected performance.

10.4 Alistair Sutherland bought to the Committee's attention Insight Investment's intention to exercise its discretion in changing a portion of their Bonds portfolio to an off benchmark fund. Members concurred that they did not have any concerns about Insight Investment in exercising this discretion. The Chairman also requested that Deloitte review currency strategy and put forward some proposals.

10.5 **RESOLVED:**

That the contents of the covering report and the performance report by Deloitte be noted.

11 PENSION FUND COMMITTEE FORWARD PLAN

12.1 Members noted the Committee's forward plan up to the end of 2017.

12.2 **RESOLVED:**

That the forward plan of work for 2017 be agreed.

12 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

12.1 There was no additional business for the Committee to consider.

13 PENSION FUND INVESTMENT ADVISER CONTRACT

13.1 Members considered a confidential report on the award of the Pension Fund Investment Adviser contract.

The Meeting ended at 9.00 pm.

CHAIRMAN: ______________________ **DATE** ___________________

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**21 March 2017**
Classification:	**Public**
Title:	**Pension Fund Forward Plan and Allocation of Work**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no financial implications arising from this report.**
Report of:	**Steven Mair** ***City Treasurer*** **smair@westminster.gov.uk** **020 7641 2831**

1. Executive Summary

1.1 This report presents the forward plan of work for the Pension Fund Committee over the coming 12 months.

1.2 Representatives from the Pension Board have been invited by the Committee to attend this meeting to discuss and agree the areas of work to be distributed between the two separate bodies. The proposals are summarised in this report.

2. Recommendation

2.1 The Committee agrees the areas of Pension Fund work to be undertaken by the Pension Board

2.2 The Committee agree the forward plan of work for the coming year, to incorporate the reallocation of work areas following discussions with the Pension Board.

3. Background

3.1 The existing Forward Plan identifies the expected agenda items for the Committee over the next 12 months and is attached as Appendix 1.

3.2 The Chair of the Pension Fund Committee invited the Pension Board to attend this meeting, to determine the areas of work which could be carried out by the Pension Board. This will help develop the Forward Plan for both Bodies over the coming year by ensuring that there is adequate coverage of the governance review work required for the Pension Fund and also avoid the duplication of these tasks being carried out by both the Committee and the Board.

3.3 The role of Pension Boards is to assist the Administering Authority in ensuring compliance with the regulatory framework which the fund operates in. It therefore is not in its remit to challenge individual Investment Decisions although they should scrutinise the overall decision making process being used.

3.4 Representatives from the Pension Board will present their proposals on the reallocation of work areas, as agreed at their meeting held on 6th March 2017.

3.5 The Pension Fund Committee meetings cycle and Pension Board meeting cycle dates have been approved. The table below sets out the dates of these meetings.

Pension Fund Committee	Pension Board
Thursday 22nd June 2017	Thursday 6th July 2017
Thursday 12th October 2017	Monday 13th November 2017
Thursday 7th December 2017	Monday 29th January 2018
Thursday 8th March 2018	Early May 2018

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

Nikki Parsons nparsons@westminster.gov.uk or 020 7641 6925

BACKGROUND PAPERS: None

APPENDIX 1
Draft Forward Plan for the Pension Fund Committee – March 2017
APPENDIX 2
Pension Board Terms of Reference

Appendix 1

PENSION FUND COMMITTEE Forward Plan – March 2017

Area of work	**22 Jun 2017**	**12 Oct 2017**	**7 Dec 2017**	**8 Mar 2018**
Standing Items	Pension Board minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan	Pension Board minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan	Pension Board minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan	Pension Board minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan
Governance	Pension Fund Annual Report and Accounts 2016/17 Progress on compliance with TPR Code of Practice Review of Governance Compliance Statement Business Plan	Annual report of Pension Board activities Review of Pension Fund expenses		Investment Strategy Statement Review
Investments	Pooling and CIV update Investment Strategy	Pooling and CIV update Investment Strategy	Pooling and CIV update Investment Strategy	Pooling and CIV update Investment Strategy

Area of work	22 Jun 2017	12 Oct 2017	7 Dec 2017	8 Mar 2018
	Review Annual report to Scheme Advisory Board re pooling arrangements	Review	Review Fund Manager Monitoring Arrangements	Review Feedback from Annual fund manager monitoring day

Terms of Reference – City of Westminster Pension Board
Approved March 2015

The purpose of this document is to set out the terms of reference for the local Pension Board of the City of Westminster Pension Fund.

1. Role of the Local Pension Board

   The role of the local Pension Board is defined by section 5 of the Public Service Pensions Act 2013 and regulation 106 of the Local Government Pension Scheme (LGPS) Governance Regulations 2013. It is to assist the administering authority (the Council) with:

- Securing compliance with the LGPS Governance regulations and any other legislation relating to the governance and administration of the LGPS
- Securing compliance with any requirements imposed by the Pensions Regulator in relation to the scheme and
- Ensuring effective and efficient governance and administration of the scheme-recommendations to the Pensions Committee.

2. 2. Membership

   a. Appointment process

   The Pension Board shall consist of six members and be constituted as follows:

- Three employer representatives comprising one from an admitted or scheduled body and two Councillors nominated by the Council; and
- Three scheme member representatives whether from the Council or an admitted or scheduled body.

The process for selecting non-Council nominated employer members of the Pension Board is set out in a separate document "Selection of Pension Board members".

b. Quorum

The Pension Board shall be quorate when three Pension Board Members are in attendance.

c. Chairman of the Board

The Chairman and Vice Chairman of the Board will be appointed by members of the Board as the first business at their first meeting.

d. Substitute members

Each Scheme Member representative may agree a nominate substitute at the first meeting who would act in the Board member's absence.

Each Employer representative is there on behalf of the employer so may be replaced by the nominating body with another individual representing the same employer.

e. Periods of office

Each Board member shall be appointed for a fixed period of three years, which can be extended for a further three year period subject to re-nomination.

f. Termination

Each Board member should endeavour to attend all Board meetings during the year and is required to attend at least two meetings each year. In the event of consistent non-attendance by any Board member, then the membership of that particular Board member should be reviewed by the other Board members with advice from Officers

Other than by ceasing to be eligible as set out above, a Board member may only be removed from office during a term of appointment by the unanimous agreement of all the other Board members present at the meeting.

A Board member may choose not to continue in their role, and so shall notify the Board accordingly following which the process for a replacement shall start.

3. Board meetings

a. Frequency of meetings

The Board shall as a minimum meet twice a year, and where possible, should aim to do so four weeks before the Pensions Committee meets. Meetings shall take place at a time and place agreed by the Pensions Board on an annual basis.

b. Voting rights

Each Board member will be entitled to vote and where a vote is taken the matter will be decided by a majority of the Board members present and voting but it is expected that the Pension Board will as far as possible reach a consensus. In the event of an equality of votes, the Chairman will have a second and or a casting vote.

c. Notice and circulation of papers

The papers for each Board meeting shall be circulated to all Board members one calendar week in advance of each meeting. The papers shall be published on the Council's website unless they contain material considered to be exempt or confidential, as defined by the Local Government Act 1972 and subsequently agreed as such by the Board.

d. Minutes

Minutes of all non-confidential or non-exempt parts of the Board's meetings shall be recorded and published on the Council's website.

e. Secretariat service

Council officers will provide the Board with the secretariat services required.

4. Role of Advisers

a. Access to Council advisers

The Board may request that one of the Council's advisers attends a Board meeting to provide advice or information to the Board. The request should be submitted to the Chief Executive.

b. Appointment of advisers specifically for the Board

If the Board requires advice outside that already provided to the Council, then the request should be made to the Pensions Committee and Council officers.

5. Budget and Expenses

a. Budget

An annual budget will be agreed by the Board for professional advice, training or other purposes if such matters are required and Officers being authorised to incur expenditure to implement the programme.

b. Expenses

Each Board member may claim, upon production of the relevant receipts, travel expenses directly incurred in the work of the Pension Board.

6. Additional policies relating to the Board operations

a. Code of Conduct

The role of Pension Board members requires the highest standards of conduct and therefore, all Board members are required to abide by the Pension Board Code of Conduct.

b. Conflict of Interests

The Board is required to always act within these terms of reference. Board members should abide by the separately prepared Conflicts Policy and keep the policy under review.

c. Knowledge and understanding

All Board members are required to have sufficient knowledge and understanding of pensions matters to undertake their roles. Board members are expected to comply with the separate policy on knowledge and understanding and maintain appropriate records.

7. Reporting

a. Annual report on activity

The Pension Board should prepare an annual report on its activities and its compliance with these terms of reference and the associated policies. This report should be addressed to full Council each year, in the first six months of the financial year, reporting on the activities of the Pension Board for the previous financial year. Such a report will be submitted to the Pension Committee for noting prior to submission to Council.

b. Reporting recommendations

If the Pension Board determines that it wishes to make recommendations to the Pension Committee, such recommendations should be reported to the next meeting of the Pension Committee. The Pension Committee's response to the recommendation will be reported to the next meeting of the Pension Board.

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Committee Report

City of Westminster

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**21 March 2017**
Classification:	**Public**
Title:	**Final Actuarial Valuation Report**
Wards Affected:	**None**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**This is the final report of the 2016 Actuarial process and sets out the rates that the Council and other Admitted and Scheduled bodies must use over the next three year period for Pension Fund contributions.**
Report of:	**Steven Mair** ***City Treasurer*** **smair@westminster.gov.uk** **020 7641 2904**

1 Executive Summary

1.1 The Fund Actuary, Graeme Muir presented his initial findings and proposals for deficit reduction for the City of Westminster Pension Fund to the meeting on the 15th November. This report is the final report of the process. It sets out the contributions that have been set that in the Actuaries opinion meet the Regulatory requirements and the funding objectives set out in the Fund's Funding Strategy Statement.

2 Recommendation

2.1 That the Committee note and agree the final Actuarial Report for 2016 which summarised the process that have taken place and the final contribution rates for Future and Past service contributions for Westminster City Council and all Admitted and Scheduled bodies.

3 Reasons for Decision

3.1 The purpose of the triennial Actuarial Valuation is to review the financial position of the Fund and to set appropriate contribution rates for each employer in the Fund for the period from 1 April 2017 to 31 March 2020. Contributions are set to cover any shortfall between the assumed cost of providing benefits built up by members at the valuation date and the assets held by the Fund and to also cover the cost of benefits that active members will build up in the future.

4 Proposals and Issues

ACTUARIAL VALUATION

4.1. As members will be aware from previous actuarial valuation reports presented to the Committee, the LGPS regulations require all LGPS funds to undertake an actuarial valuation every three years for the purpose of setting employer contribution rates and monitoring the solvency of the funds. All funds in England and Wales are required to carry out a valuation as at 31st March 2016.

4.2. The Fund Actuary, Graeme Muir of Barnett Waddingham, attended the September and November cycles of meetings, setting out the background to the valuation, the basis of the assumptions and indicative results.

4.3. At the November meeting, there was a discussion with the Committee on the assumptions that were being applied and the presentation of the initial results showing for the whole Fund the assets, liabilities, deficit, future service rate and proposed annual deficit recovery lump sum contribution based on a proposed deficit year recovery period.

4.4. Since that meeting, contribution rates have now been set for the Council, and all Admitted and Scheduled bodies. These rates have been communicated. Admitted and Scheduled bodies have been given the option of consultation with the Actuary if there are issues with the new rates.

NEXT STEPS

4.5 The Actuarial Valuation Report as at 31 March 2016 sets out the contributions to be made by the Council, and all Admitted and Scheduled bodies for the 2017/18, 2018/19 and 2019/20 financial years to cover any shortfall between the assumed cost of providing benefits built up by members at the valuation date and the assets held by the Fund and to also cover the cost of benefits that active members will build up in the future. The next Triennial valuation will be in 2019

5 Consultation

5.1 Section 4.4 sets out the Consultation process that has been undertaken in the process. In addition, the Actuary is attending the Westminster Pension Board on the 6th March to take the Board through the process.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author: **Pete Carpenter pcarpenter@westminster.gov.uk or 020 7641 2832**

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 Barnett Waddingham – Actuarial Valuation as at 31st March 2016

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City of Westminster Pension Fund

Actuarial valuation as at 31 March 2016

Valuation report

7 March 2017

Introduction

In accordance with Regulation 62 of the Local Government Pension Scheme (LGPS) Regulations 2013 (as amended), we have been asked by the Westminster City Council to prepare an actuarial valuation of the City of Westminster Pension Fund (the Fund) as at 31 March 2016 as part of their role as the Administering Authority to the Fund.

The purpose of the valuation is to review the financial position of the Fund and to set appropriate contribution rates for each employer in the Fund for the period from 1 April 2017 to 31 March 2020. Contributions are set to cover any shortfall between the assumed cost of providing benefits built up by members at the valuation date and the assets held by the Fund and to also cover the cost of benefits that active members will build up in the future.

This report is provided further to earlier advice dated 15 November 2016 which sets out the background to the valuation and explains the proposed underlying methods and assumptions derivation.

This report summarises the results of the valuation and is addressed to the Administering Authority of the Fund. It is not intended to assist any user other than the Administering Authority in making decisions or for any other purpose and neither we nor Barnett Waddingham LLP accept liability to third parties in relation to this advice.

This advice is subject to and complies with Technical Actuarial Standards (TASs) issued by the Financial Reporting Council (namely, the Pensions TAS and generic TASs relating to reporting, data and modelling).

We would be pleased to discuss any aspect of this report in more detail.

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1 Summary of results

A summary of the results of the valuation is as follows:

Funding position

Using the agreed assumptions, the Fund had assets sufficient to cover 80% of the accrued liabilities as at 31 March 2016.

This has increased since 2013.

Changes since 2013

Regulations have changed with the introduction of the Section 13 report. Key focus is to secure **solvency** of the pension fund and **long-term cost efficiency.**

Method and assumptions

The resulting method and assumptions are set out in Appendix 2 and we believe these are appropriate for the 31 March 2016 valuation.

Employer contributions

Individual employer contributions are set out in Appendix 3 in the Rates and Adjustment certificate to cover the period from 1 April 2017 to 31 March 2020.

The next actuarial valuation should be carried out with an effective date of 31 March 2019 and the contributions payable by the participating employers will be reviewed as part of that valuation.

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2 Background to valuation approach

The purpose of the 2016 actuarial valuation is to set appropriate contribution rates for each employer in the Fund for the period from 1 April 2017 to 31 March 2020. This is required under regulation 62 of the LGPS Regulations. The Regulations for actuarial valuations have changed since the 2013 valuation and so has the context surrounding the valuation. Regulation 62 specifies four requirements that the actuary "must have regard to" and are detailed below:

- "the desirability of maintaining as nearly constant a primary rate as possible";
- "the current version of the administering authority's funding strategy statement";
- "the requirement to secure the solvency of the pension fund"; and
- "the long-term cost efficiency of the Scheme (i.e. the LGPS for England and Wales as a whole), so far as relating to the pension fund".

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We have considered these changes when providing our advice and choosing the method and assumptions used and a number of reports and discussions have taken place with the Administering Authority before agreeing the final assumptions to calculate the results and set contribution rates. In particular:

- The initial results report dated 15 November 2016 which provides information and results on a whole fund basis as well as more detailed background to the method and derivation of the assumptions.
- The Funding Strategy Statement which will confirm the approach in setting employer contributions.

Note that not all these documents may be in the public domain.

The final assumptions have been agreed with the Administering Authority. We suggest that the Fund's Funding Strategy Statement is reviewed to ensure that it is consistent with this approach as well as complying with the updated version of CIPFA's Funding Strategy Statement guidance.

Membership data

A summary of the membership data used for the valuation is set out in Appendix 1.

The membership data has been checked for reasonableness and we have compared the membership data with information in the Fund accounts. Any missing or inconsistent data has been estimated where necessary. While this should not be seen as a full audit of the data, we are happy that the data is sufficiently accurate for the purposes of the valuation.

Benefits

Full details of the benefits being valued are as set out in the Regulations as amended and summarised on the LGPS website and the Fund's membership booklet. We have made no allowance for discretionary benefits.

Assets

Assets have been valued at a six month smoothed market value straddling the valuation date.

We have been provided with the audited Fund accounts for the years ending 31 March 2014, 31 March 2015 and 31 March 2016.

The market asset valuation as at 31 March 2016 was £1,066,343,000.

The Fund's long-term investment strategy has been taken into consideration in the derivation of the assumptions used. The investment strategy is set out in an Investment Strategy Statement available on the Fund's website.

3 Results

Previous valuation

The previous valuation was carried out as at 31 March 2013 by Barnett Waddingham LLP. The results are summarised in the valuation report dated 28 March 2014 and show a funding level of 74% corresponding to a deficit of £297,260,000.

The average employer contribution was calculated to be 13.3% of Pensionable Pay in order to cover the cost of future benefits being built up by active members.

In practice, each employer paid their own contribution rate which will have been a combination of contributions to cover the cost of future benefits (which will not necessarily have been the same as the average given above) and contributions towards past service deficit.

Shortfall between assets and liabilities

Using the assumptions summarised in Appendix 2, the results of the valuation are set out in the tables below which show:

- The past service funding position which means how well funded the Fund was at the valuation date; and
- The primary rate for the whole Fund which is the weighted average (by payroll) of the individual employers' primary rates.

The primary and secondary rate of the individual employer contributions payable are set out in the Rates and Adjustment certificate in Appendix 3. These are either based on the employer's own membership and experience or they are the employer's share of the contributions payable within a pool of employers.

In Appendix 3 we also disclose the sum of the secondary rates for the whole Fund for each of the three years beginning with 1 April 2017. The secondary rate is an adjustment to the primary rate each employer is required to pay.

Active members pay contributions to the Fund as a condition of membership in line with the rates required under the Regulations.

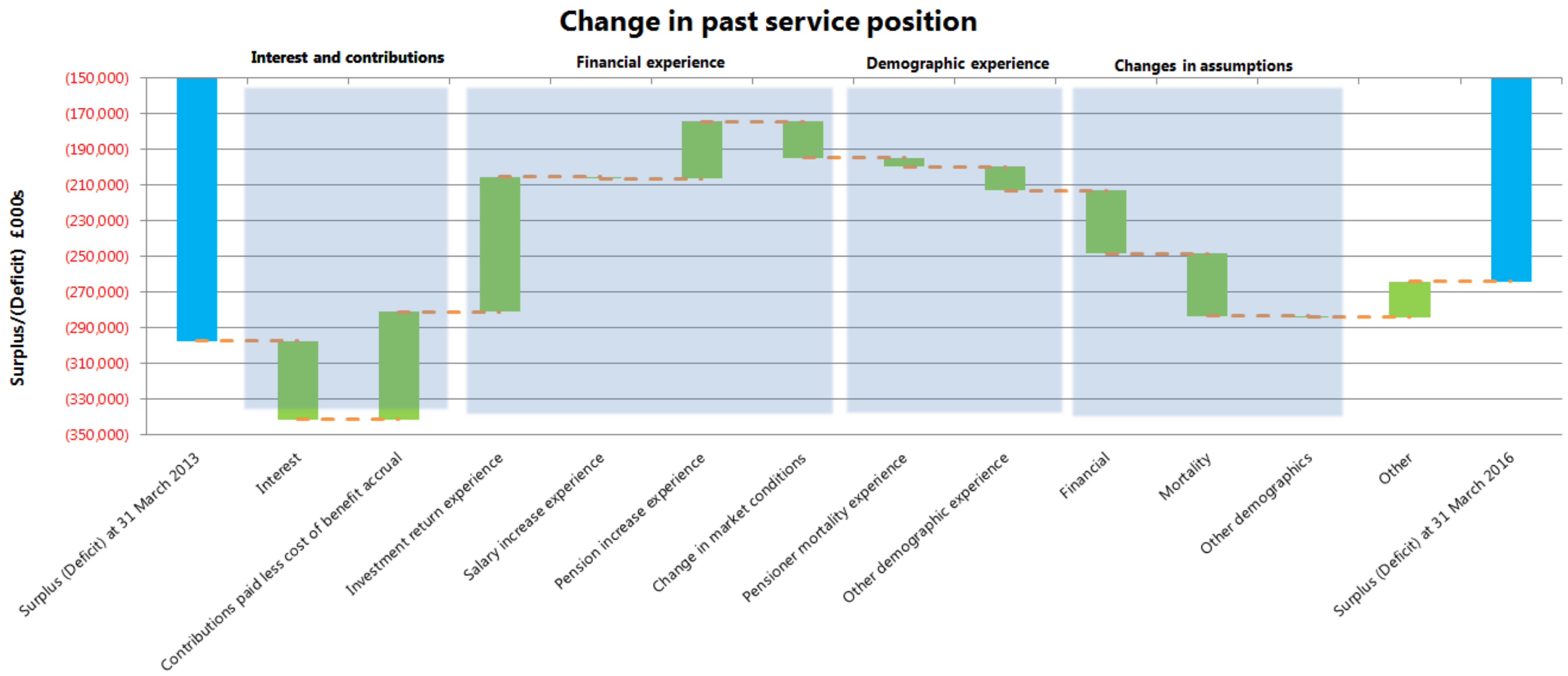
Past service funding position		31 March 2016 £000
Smoothed asset value		1,056,747
Past service liabilities		
	Actives	314,655
	Deferred pensioners	361,588
	Pensioners	644,554
	Total	1,320,797
Surplus (Deficit)		(264,050)
Funding level		80%

Primary rate	% of payroll
Total future service rate	24.3%
less employee contribution rate	(7.4%)
Total primary rate	**16.9%**

There was a deficit of £264,050,000 in the Fund at the valuation date, and the Fund's assets were sufficient to cover 80% of its liabilities.

Reconciliation to previous valuation

The key factors that have influenced the funding level of the Fund over the intervaluation period are as follows:



The funding level as a percentage has increased due to good investment returns and payment of employer deficit contributions although this has been partly offset by changes to the financial and demographic assumptions used.

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The table below sets out the change in future service contribution rate over the intervaluation period.

Change in future service contribution rate	
	% of payroll
Average employer rate at 31 March 2013	**13.3%**
Change in market conditions	1.5%
Change in assumptions	
Financial	1.6%
Mortality	0.5%
Other demographics	0.2%
Legislative changes	(0.2%)
Average employer rate at 31 March 2016	**16.9%**

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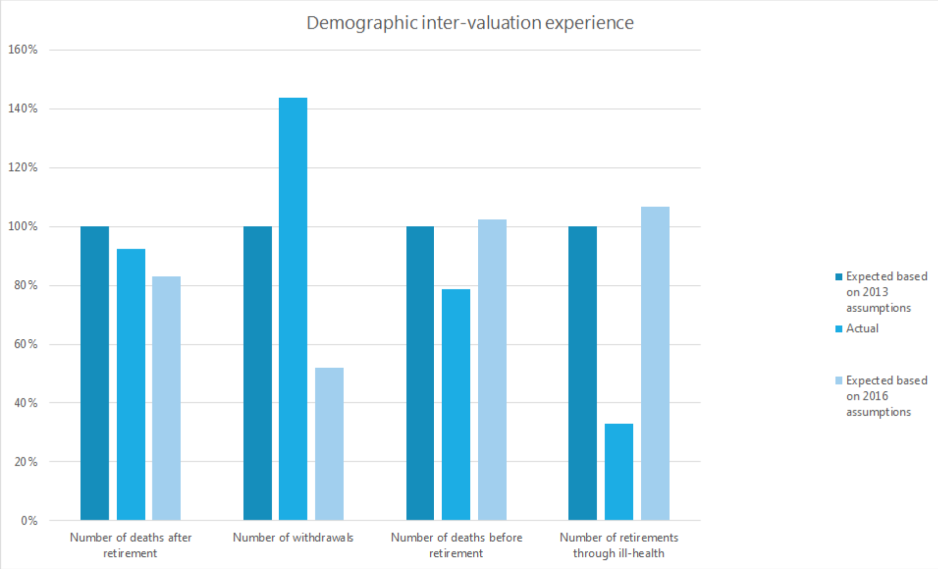
Comparing experience with assumptions

A comparison of the actual demographic experience of members of the Fund over the intervaluation period, with that assumed by the assumptions adopted at the last valuation in 2013 is shown in the graph below. The graph also shows how the assumptions adopted for this valuation would have compared with those adopted at 2013.



Valuations on other bases

The liability value as set out in the previous section is known as the Fund's "funding target" and should be consistent with the Administering Authority's Funding Strategy Statement. However, as part of the valuation, we have also considered an estimate of the liabilities represented with all margins for prudence removed (the "neutral estimate").

Neutral estimate

The neutral basis is set with the main purpose of providing the Administering Authority an idea of the level of prudence contained within the funding basis. The neutral estimate should represent our best estimate of the funding position, in other words, we believe that it is equally likely that the Fund will beat or miss the funding target based on the neutral assumptions derived.

For the assumptions used for the funding basis, it is appropriate to include a margin for prudence to protect against the risk of not meeting the funding target and to essentially build a cushion for future adverse experience.

The neutral estimate does not contain any margins for prudence.

The funding basis includes an allowance for prudence in the discount rate assumption only. The discount rate on the neutral basis is therefore 6.2% p.a. All other assumptions are consistent with the ongoing funding basis.

The funding level on the neutral basis was 102%.

Projected future results

The progression of the funding level over time is influenced by a large number of factors, including the experience of the Fund's membership, the investment return achieved and the contributions paid.

We estimate that three years after the valuation date (i.e. at the next valuation) the funding position on a funding basis will be 84%. This allows for contributions to be paid as described in Appendix 3 and assumes that investment returns and other experience over the next three years is in line with the assumptions used for the assumptions as set out in Appendix 2. Any additional contributions made by employers over and above those certified would produce a higher projected funding level.

4 Sensitivity analysis

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Sensitivities to the liabilities

The results set out in this report are based on a particular set of assumptions. The actual cost of providing the benefits will depend on the actual experience, which could be significantly better or worse than assumed. The sensitivity of the results to some of the key assumptions is set out in the table below.

Sensitivity analysis - Past service funding position		Discount rate		CPI inflation		Long term salaries		Short term salaries		Mortality improvement rate	
	Final basis	-0.1%	+0.1%	-0.1%	+0.1%	-0.1%	+0.1%	1% for four years	No short term allowance	-0.25%	+0.25%
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Smoothed asset value	1,056,747	1,056,747	1,056,747	1,056,747	1,056,747	1,056,747	1,056,747	1,056,747	1,056,747	1,056,747	1,056,747
Past service liabilities											
Actives	314,655	321,526	307,990	309,978	319,453	313,296	316,030	303,050	327,633	311,173	318,167
Deferred pensioners	361,588	368,939	354,448	354,292	369,105	361,588	361,588	361,588	361,588	357,950	365,258
Pensioners	644,554	651,515	637,705	638,366	651,044	644,554	644,554	644,554	644,554	638,981	649,795
Total	1,320,797	1,341,979	1,300,144	1,302,635	1,339,602	1,319,438	1,322,172	1,309,192	1,333,775	1,308,104	1,333,220
Surplus (Deficit)	(264,050)	(285,233)	(243,397)	(245,888)	(282,855)	(262,691)	(265,425)	(252,445)	(277,028)	(251,357)	(276,473)
Funding level	80%	79%	81%	81%	79%	80%	80%	81%	79%	81%	79%

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Sensitivities to the primary rate

The calculated primary rate required to fund benefits as they are earned from year to year will also be affected by the particular set of assumptions chosen. The sensitivity of the primary rate to changes in some key assumptions is shown below.

Sensitivity analysis - Primary rate		Discount rate		CPI inflation		Long term salaries		Short term salaries		Mortality improvement rate	
	Final basis	-0.1%	+0.1%	-0.1%	+0.1%	-0.1%	+0.1%	1% for four years	No short term allowance	-0.25%	+0.25%
	% of payroll	% of payroll	% of payroll	% of payroll	% of payroll	% of payroll	% of payroll	% of payroll	% of payroll	% of payroll	% of payroll
Total future service rate	24.3%	24.9%	23.7%	23.7%	24.9%	24.3%	24.3%	24.0%	24.7%	24.0%	24.6%
less Employee contribution rate	(7.4%)	(7.4%)	(7.4%)	(7.4%)	(7.4%)	(7.4%)	(7.4%)	(7.4%)	(7.4%)	(7.4%)	(7.4%)
Total primary rate	**16.9%**	**17.5%**	**16.3%**	**16.3%**	**17.5%**	**16.9%**	**16.9%**	**16.6%**	**17.3%**	**16.6%**	**17.2%**

5 Final comments

Funding Strategy Statement

The assumptions used for the valuation must be documented in a revised Funding Strategy Statement to be agreed between the Fund Actuary and the Administering Authority. We are able to help the Fund to prepare the Funding Strategy Statement using the latest guidance issued by CIPFA.

Risks

There are many factors that affect the Fund's funding position and could lead to the Fund's funding objectives not being met within the timescales expected. Some of the key risks that could have a material impact on the Fund are:

- Employer covenant risk
- Investment risk
- Inflation risk
- Mortality risk
- Member options risk
- Legislative risk.

Sensitivity to some of these risks were set out in section 4. Please note that this is not an exhaustive list. Further information on these risks and more can be found in our initial results report and will be set out in greater detail in the Funding Strategy Statement.

Rates and Adjustments Certificate

The contributions payable in respect of benefit accrual, expenses and any deficit contributions under each employer's recovery period have been set out in Appendix 3 in the Rates and Adjustments Certificate in accordance with Regulation 62 of the Regulations. In this certificate no allowance will be made for additional costs arising which need to be met by additional contributions by the employer such as non-ill health early retirements.

The contributions as set out in Appendix 3 in the Rates and Adjustments Certificate are set so that each employer's assets (including future contributions) are projected to be sufficient to cover the benefit payments for their members, on the assumptions set out in this report. Where there is currently a deficit for an individual employer, this is targeted in line with the Fund's Funding Strategy Statement and all employers are projected to be fully funded by no later than 31 March 2038.

This document has been agreed between the Administering Authority and the Fund Actuary. Contributions have been set that in our opinion meet the Regulatory requirements and the funding objectives set out in the Fund's Funding Strategy Statement.

The next formal valuation is due to be carried out as at 31 March 2019 however we would recommend that the financial position of the Fund is monitored regularly during the period leading up to the next formal valuation. We would be happy to give more detail about the ways that this can be achieved.

Graeme Muir FFA
Barnett Waddingham LLP

Appendix 1 Summary of membership data

A summary of the membership data used in the valuation is as follows. The membership data from the previous valuation is also shown for comparison.

Actives	Number		Pensionable pay				Average age	
			Total £000		Average £			
	2016	2013	2016	2013	2016	2013	2016	2013
Males	1,451	1,197	51,131	45,981	35,239	38,413	45.1	45.2
Females	2,842	2,116	66,485	56,910	23,394	26,895	45.0	44.8
Total	4,293	3,313	117,616	102,891	27,397	31,056	45.0	45.0

Deferred pensioners (including "undecideds")	Number		Annual pensions current				Average age	
			Total £000		Average £			
	2016	2013	2016	2013	2016	2013	2016	2013
Males	2,645	2,450	7,554	7,472	2,856	3,050	47.7	47.4
Females	4,955	4,388	11,597	10,267	2,340	2,340	47.0	46.0
Total	7,600	6,838	19,151	17,739	2,520	2,594	47.2	46.5

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Pensioners	Number		Annual pensions current				Average age	
			Total £000		Average £			
	2016	2013	2016	2013	2016	2013	2016	2013
Males	2,265	2,162	23,214	21,910	10,249	10,134	71.7	71.0
Females	2,386	2,186	14,153	12,589	5,932	5,759	71.4	70.6
Dependants	928	937	3,534	3,403	3,808	3,632	73.4	72.1
Total	5,579	5,285	40,901	37,902	7,331	7,172	71.8	71.0

- The numbers relate to the number of records and so will include members in receipt of, or potentially in receipt of, more than one benefit.
- Annual pensions are funded items only and include pension increases up to and including the 2016 pension increase order.
- Pensionable Pay is actual earnings.

In the table below we have set out the number of members who are assumed to reach retirement age over the period from 1 April 2017 to 31 March 2020 as required under the Rates and Adjustments Certificate.

Members may retire for a number of reasons including reaching normal retirement age, retiring through ill health or redundancy. The figures in the table below are based on the assumptions made in our calculations as set out in Appendix 2. The new pension amounts included in the table are the pension amounts, as at the current valuation date, that are assumed to come into payment and also allow for our assumption regarding commutation.

Projected new benefits		
Year to	Number of members	Retirement benefits £000's
31 March 2017	250	5,117
31 March 2018	408	7,651
31 March 2019	298	6,237
31 March 2020	335	6,538

Appendix 2 **Actuarial assumptions**

A summary of the assumptions adopted in the valuation is set out below:

Financial assumptions		**31 March 2016 % p.a.**	**31 March 2013 % p.a.**
Discount rate (Scheduled Bodies)		5.1%	5.9%
Discount rate (Admitted Bodies)			
In service		4.5%	4.9%
Having left service		3.0%	3.5%
Pay increases	Long-term	3.9%	4.5%
	Short-term	2.4% p.a. for period from 1 April 2016 to 31 March 2020	1% for period from 1 April 2013 to 31 March 2016
Retail Price Inflation (RPI)		3.3%	3.5%
Consumer Price Inflation (CPI)		2.4%	2.7%
Pension increases		2.4%	2.7%

Demographic assumptions	31 March 2016	31 March 2013
Pre-retirement mortality - base table	Set with reference to GAD tables with a multiplier of 120% for males and 85% for females	GAD tables
Post-retirement mortality (member) - base table	S2PA tables with a multiplier of 80% for males and 85% for females	S1PA tables with a multiplier of 110% for males and 100% for females
Post-retirement mortality (dependant) - base table	100% of the S2DFA tables for female dependants and 95% of the S2PMA tables for male dependants	S1PA tables with a multiplier of 100% for female dependants and 110% for male dependants
Allowance for improvements in life expectancy	2015 CMI Model with a long-term rate of improvement of 1.5% p.a.	2012 CMI Model with a long-term rate of improvement of 1.5% p.a.
Promotional salary scale	Set with reference to GAD tables	GAD tables
Allowance for early retirements (ill health)	Set with reference to GAD tables	GAD tables
Allowance for withdrawals	Set with reference to GAD tables	GAD tables
Allowance for cash commutation	Members will commute pension at retirement to provide a lump sum of 50% of the additional maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension	Members will commute pension at retirement to provide a lump sum of 50% of the additional maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension
Allowance for 50:50 membership	It is assumed that opted-in active members will continue to pay 50% of contributions for 50% of benefits under the new scheme	5% of active members will opt to pay 50% of contributions for 50% of benefits under the new scheme
Partner age difference	Males are three years older than their spouse and females are three years younger than their spouse	Males are three years older than their spouse and females are three years younger than their spouse
Proportion married	There is an 75%/70% chance that male/female members will, at retirement or earlier death, have a dependant who is eligible for death benefits	There is an 80%/70% chance that male/female members will, at retirement or earlier death, have a dependant who is eligible for death benefits
Retirement age	For each tranche of benefit, the "tranche retirement age" is the earliest age a member could retire with unreduced benefits. Each member is assumed to retire at the weighted average of these for all tranches of benefit.	For each tranche of benefit, the "tranche retirement age" is the earliest age a member could retire with unreduced benefits. Each member is assumed to retire at the weighted average of these for all tranches of benefit.

Demographic assumptions – sample rates

The following tables set out some sample rates of the demographic assumptions used in the calculations. These are the same as those used by the Government Actuary's Department when LGPS reforms were designed and based on analysis of incidence of death retirement and withdrawal for Local Authority Funds saved here: http://www.lgpsregs.org/index.php/dclg-publications/dclg-other

Allowance for ill health early retirements (GAD table b6.1)

A small proportion of members are assumed to retire early due to ill health. In the table below we set out an extract of some sample rates from the decrement table used:

Age	Leaving p.a. (M)	Leaving p.a. (F)
25	0.01%	0.00%
30	0.01%	0.01%
35	0.02%	0.02%
40	0.05%	0.03%
45	0.10%	0.07%
50	0.20%	0.15%
55	0.41%	0.33%
60	0.84%	0.71%
65	1.72%	1.53%

The proportion of ill health early retirements falling into each tier category has been assumed to be as follows for both males and females:

Tier 1	Tier 2	Tier 3
75%	15%	10%

Death before retirement for all members (GAD table b8)

A small number of members are assumed to die before reaching retirement age. In the table below we set out an extract of some sample unweighted rates from the decrement table used:

Age	Males	Females
25	0.03%	0.01%
30	0.04%	0.02%
35	0.05%	0.02%
40	0.06%	0.03%
45	0.09%	0.05%
50	0.13%	0.08%
55	0.21%	0.13%
60	0.32%	0.20%
65	0.51%	0.30%

Please note that, as decribed above, we have applied a rating of 120% for males and 85% for females to this table.

Allowance for withdrawals (GAD table b7)

This assumption is regarding active members who leave service to move to deferred member status or take a transfer out but do not yet retire. Active members are assumed to leave service at the following sample rates:

Age	Leaving p.a. (M)	Leaving p.a. (F)
25	8.10%	9.08%
30	6.38%	7.20%
35	5.02%	5.71%
40	3.95%	4.53%
45	3.11%	3.59%
50	2.44%	2.85%
55	1.92%	2.26%
60	1.51%	1.79%
65	1.19%	1.42%

Promotional salary scale (using GAD table b9)

In addition to the assumption made about annual salary increases, we have also included an allowance for a promotional salary scale which applies at each age and some sample rates are set out in the table below:

Age	Males	Females
25	1.0368	1.0165
30	1.1177	1.0526
35	1.1741	1.0820
40	1.2137	1.1033
45	1.2472	1.1040
50	1.2715	1.1043
55	1.2716	1.1044
60	1.2717	1.1045

Appendix 3 **Rates and Adjustments Certificate**

Regulatory background

In accordance with Regulation 62 of the Local Government Pension Scheme Regulations we have made an assessment of the contributions that should be paid into the Fund by participating employers for the period 1 April 2017 to 31 March 2020.

The method and assumptions used to calculate the contributions set out in the Rates and Adjustments certificate are detailed in the Funding Strategy Statement and our report on the actuarial valuation dated March 2017.

The primary rate of contribution as defined by Regulation 62(5) for each employer for the period 1 April 2017 to 31 March 2020 is set out in the table overleaf. The primary rate is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2017. In addition each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the following minimum total contributions as set out below. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Primary and secondary rate summary

The primary rate for the whole Fund is the weighted average (by payroll) of the individual employers' primary rates, and is 16.9% of payroll.

The sum of the employers' secondary rates (as a percentage of projected payroll and as an equivalent monetary amount) in each of the three years in the period 1 April 2017 to 31 March 2020 is set out in the table below.

Total secondary contributions		
Year to	Monetary amounts (£000s)	% of total Fund pay
31 March 2018	20,524	17.0%
31 March 2019	24,594	20.0%
31 March 2020	28,696	22.7%

General notes

Employers may pay further amounts at any time and future periodic contributions, or the timing of contributions, may be adjusted on a basis approved by us as the Fund Actuary. The administering authority, with advice from us as the Fund Actuary may allow some or all of these contributions to be treated as a prepayment and offset against future certified contributions.

The certified contributions include an allowance for expenses and the expected cost of lump sum death benefits but exclude early retirement strain and augmentation costs which are payable by participating employers in addition.

The monetary amounts are payable in 12 monthly instalments throughout the relevant year unless agreed by the Administering Authority and an individual employer.

Barnett Waddingham
a true partnership approach

Employer code	Employer name	Primary rate (% pay)	Secondary rate (% pay plus monetary adjustment)			Total contributions (% pay plus monetary adjustment)			Specific notes
			2017/18	2018/19	2019/20	2017/18	2018/19	2019/20	
00W01	Westminster City Council	15.7%	plus £20,500,000	plus £24,500,000	plus £28,500,000	15.7% plus £20,500,000	15.7% plus £24,500,000	15.7% plus £28,500,000	
00W21	City West Homes Ltd	14.6%	+1.4% plus £29,400	+1.4%	+1.4%	16.0% plus £29,400	16.0%	16.0%	
00W56	Paddington Academy	16.8%	-3.3%	-1.7%	-	13.5%	15.1%	16.8%	
00W5B	Westminster Academy	15.7%	-2.2%	-1.1%	-	13.5%	14.6%	15.7%	
00W54	King Solomon Academy	10.1%	-	-	-	10.1%	10.1%	10.1%	
00W57	Pimlico Academy	14.1%	-3.2%	-1.6%	-	10.9%	12.5%	14.1%	
00W7C	Housing Communities Agency (HCA)	28.2%	-3.2%	-3.2%	-3.2%	25.0%	25.0%	25.0%	
00W84	Day Care Service (Housing 21)	38.8%	-8.8%	-4.4%	-	30.0%	34.4%	38.8%	
00W50	ARK Atwood Primary Academy	14.9%	-4.4% plus £8,000	-2.2% plus £8,300	plus £8,600	10.5% plus £8,000	12.7% plus £8,300	14.9% plus £8,600	
00W5A	St Marylebone School	15.2%	-	-	-	15.2%	15.2%	15.2%	
00W58	Quintin Kynaston Community Academy	13.6%	+3.4%	+3.4%	+3.4%	17.0%	17.0%	17.0%	

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Employer code	Employer name	Primary rate (% pay)	Secondary rate (% pay plus monetary adjustment)			Total contributions (% pay plus monetary adjustment)			Specific notes
			2017/18	2018/19	2019/20	2017/18	2018/19	2019/20	
00W59	St Georges Academy	18.8%	+0.2%	+0.2%	+0.2%	19.0%	19.0%	19.0%	
00W55	Millbank Academy	15.8%	plus £32,800	plus £34,100	plus £35,400	15.8% plus £32,800	15.8% plus £34,100	15.8% plus £35,400	
00W53	Greycoat Academy	18.9%	plus £40,300	plus £41,900	plus £43,500	18.9% plus £40,300	18.9% plus £41,900	18.9% plus £43,500	
00W5C	Westminster City Academy	15.3%	+1.7% plus £15,100	+1.7% plus £15,600	+1.7% plus £16,300	17.0% plus £15,100	17.0% plus £15,600	17.0% plus £16,300	
00W7B	Housing Ombudsman Service	24.9%	-3.4% plus £84,000	-3.4% plus £110,000	-3.4% plus £134,000	21.5% plus £84,000	21.5% plus £110,000	21.5% plus £134,000	
00W83	Creative Education Trust	16.0%	-2.0%	-1.0%	-	14.0%	15.0%	16.0%	
00W5E	Marylebone Boys' School	18.3%	-3.1%	-1.6%	-	15.2%	16.7%	18.3%	
00W5F	The Minerva Academy	12.6%	-	-	-	12.6%	12.6%	12.6%	
00W81	Amey {WPF}	33.4%	-2.7%	-1.4%	-	30.7%	32.0%	33.4%	
00W7F	Sanctuary Housing Association	32.2%	-	-	-	32.2%	32.2%	32.2%	
00W51	Churchill Gardens Academy	18.4%	+0.6%	+0.6%	+0.6%	19.0%	19.0%	19.0%	

Employer code	Employer name	Primary rate (% pay)	Secondary rate (% pay plus monetary adjustment)			Total contributions (% pay plus monetary adjustment)			Specific notes
			2017/18	2018/19	2019/20	2017/18	2018/19	2019/20	
00W52	Gateway Academy	18.6%	plus £29,600	plus £30,700	plus £31,900	18.6% plus £29,600	18.6% plus £30,700	18.6% plus £31,900	
00W5D	Wilberforce Academy	18.4%	plus £27,300	plus £28,400	plus £29,500	18.4% plus £27,300	18.4% plus £28,400	18.4% plus £29,500	
00W7G	JPL Catering	25.5%	+3.5%	+3.5%	+3.5%	29.0%	29.0%	29.0%	
00W5J	St Marylebone CE Bridge School	16.3%	plus £900	plus £900	plus £1,000	16.3% plus £900	16.3% plus £900	16.3% plus £1,000	
00W5G	Harris 6th Form College (Acad)	14.5%	-1.7%	-0.9%	-	12.8%	13.6%	14.5%	
00W7E	HATS	31.0%	-	-	-	31.0%	31.0%	31.0%	
n/a	Pimlico Free School	13.0%	-	-	-	13.0%	13.0%	13.0%	
00W5H	Beachcroft Academy	13.0%	plus £5,400	plus £5,600	plus £5,800	13.0% plus £5,400	13.0% plus £5,600	13.0% plus £5,800	

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**21 March 2017**
Classification:	**Public**
Title:	**Changes to Investment Regulations to be Implemented on the 1st April 2017**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no financial implications arising from this report.**
Report of:	**Steven Mair** ***City Treasurer*** **smair@westminster.gov.uk** **020 7641 2904**

1. EXECUTIVE SUMMARY

1.1 The Committee was updated at the November 2016 meeting of guidance that the Government has issued on the preparation of Investment Strategy Statements (ISS) and Funding Strategy Statements (FSS) to replace existing Funding Statements. These Statements must be approved for use as at the 1st April 2017. The draft FSS was approved at the Committee meeting on the 15th November.

1.2 The investment environment under the new regulations will be one of increased freedom but with more onerous justification of investment policy together with greater requirements to consult with interested parties and to report on the application of policy. There will also be greater Government powers of intervention, mainly but not exclusively, aimed at pooling.

1.3 The Committee will not have to alter its current investment strategy. It may well have to consider the extent of diversification and the adequacy of risk management, which was already anticipated post the actuarial review.

1.4 The new ISS sets out the Council's policy on ethical, social and corporate governance issues for both its own investments and also those being managed through the London CIV.

2. RECOMMENDATIONS

2.1 The Committee is invited:

a. To approve the new Investment Strategy Statement (ISS) required by changes of Legislation to be implemented as at the 1st April.

b. To approve the Funding Strategy Statement required by changes of Legislation to be implemented as at the 1st April and which was approved in draft at November Committee meeting.

3. PROPOSALS AND ISSUES

3.1 The Government issued revised investment regulations in September 2016, to have effect from 1st November 2016. The centre piece of the regulations was the replacement of the Statement of Investment Principles (SIP) with a requirement to prepare and operate in accordance with an ISS. Guidance has recently been issued on the preparation of an ISS. Each scheme is required to have an ISS by 1st April 2017 and a draft will be presented to the 21st March 2017 meeting of the Committee.

Overview of the Investment Regulations – Investment Strategy Statement

3.2 The ISS sets out the requirements of the legislation and the Investment Committee's terms of reference. The six main objectives of the legislation are then detailed in relation to Westminster City Council's Pension Fund policies and strategies. These are:

3.3 Objective 7.2 (a): A requirement to invest fund money in a wide range of instruments – This sets out how the investment strategy deals with diversification and return to meet the long term objectives of the fund;

3.4 Objective 7.2(b): The authority's assessment of the suitability of particular investments and types of investment – this sets out how the Investment Committee assesses the suitability of Investments and measures their suitability;

3.5 Objective 7.2(c): The authority's approach to risk, including ways in which risks are to be measured and managed – this sets out how the Investment Committee assesses the different types of risk in order to establish what is acceptable to ensure that the fund meets its obligations;

3.6 Objective 7.2(d): The authority's approach to pooling investments, including the use of collective investment vehicles – this sets out the Investment Committee's approach to pooling and also what the London Collective Investment Vehicle (CIV) can offer in terms of Investment opportunities;

3.7 Objective 7.2(e): How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments – this sets out how the fund meets these obligations and also how potential investments with the London CIV will comply with these obligations;

3.8 Objective 7.2(f): The exercise of rights (including voting rights) attaching to investments - this sets out how the fund meets these obligations and also how potential investments with the London CIV will be dealt with.

Overview of the Investment Regulations – Funding Strategy Statement

3.9 A Draft Funding Strategy Statement was presented to the Committee on the 15th November. This which reflects the revised CIPFA guidance. The main changes are:

- There is much greater emphasis on achieving and maintaining solvency than before;
- There is more on achieving returns within reasonable risk parameters;
- Maintaining the stability of contribution rates becomes an aspiration which is subordinate to meeting the solvency issues and achieving long term cost efficiency

3.10 At the meeting on the 15th November it was highlighted that the statement might require further modification once the results of the 2016 valuation are known. Following the final Actuarial Report, there is just one section of the report, 7.2, which has been updated. This relates to the monitoring arrangements for assessing the financial health of Employers. In addition, Section 12 has been corrected to refer to the new ISS and not the old SIP.

4 IMPLICATIONS FOR THE PENSION FUND COMMITTEE

4.1 The new investment regulations and guidance provide greater freedom to set strategy. The greater degree of explanation required in setting the investment strategy should be seen as best practice, although with an unwelcome degree of Government oversight

4.2 The ISS presented, sets out the requirements of the legislation in regards to the Westminster City Council's Pension Fund. It includes elements of the London CIV's ISS which will apply, to those items the Fund has invested through the London CIV.

4.3 The FSS as presented to the Committee in draft in November needs no further amendments and can also be implemented as at the 1st April.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

Pete Carpenter pcarpenter@westminster.gov.uk or 020 7641 2832

BACKGROUND PAPERS:

ISS and FSS Committee Papers – November 2016

APPENDICES:

Appendix 1 – Investment Strategy Statement

Appendix 2 – Funding Strategy Statement

City of Westminster Pension Fund Investment Strategy Statement 2017/18

1. Introduction

1.1 This is the first Investment Strategy Statement (ISS) adopted by the City of Westminster Pension Fund ("the Fund").

Under The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the Fund is required to publish this ISS. It replaces the Statement of Investment Principles which was previously required under Schedule 1 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The Regulations require administering authorities to outline how they meet each of 6 objectives aimed at improving the investment and governance of the Fund.

1.2 This Statement addresses each of the objectives included in the 2016 Regulations:

- A requirement to invest fund money in a wide range of instruments
- The authority's assessment of the suitability of particular investments and types of investment
- The authority's approach to risk, including the ways in which risks are to be measured and managed
- The authority's approach to pooling investments, including the use of collective investment vehicles
- The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

We deal with each of these in turn below.

1.3 The Pension Fund Committee (the "Committee") of the City of Westminster Pension Fund oversees the management of the Fund's assets. Although not trustees, the Members of the Committee owe a fiduciary duty similar to that of trustees to the council-tax payers, who would ultimately have to meet any shortfall in the assets of the Fund, as well as to the contributors and beneficiaries of the Fund.

1.4 The relevant terms of reference for the Committee within the Council's Constitution are:

The Pension Fund Committee's responsibilities are set out in their terms of reference and are to have responsibility for all aspects of the investment and other management activity of the Council's Pension Fund, including, but not limited to, the following matters:

- To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the Investment Consultant.
- To monitor performance of the Superannuation Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable;

- To determine the Fund management arrangements, including the appointment and termination of the appointment of the Fund Managers, Actuary, Custodians and Fund Advisers.
- To agree the Statement of Investment Principles, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and the Governance Compliance Statement and to ensure compliance with these.
- To approve the final accounts and balance sheet of the Superannuation Fund and to approve the Annual Report..
- To receive actuarial valuations of the Superannuation Fund regarding the level of employers' contributions necessary to balance the Superannuation Fund.
- To oversee and approve any changes to the administration arrangements, material contracts and policies and procedures of the Council for the payment of pensions, compensation payments and allowances to beneficiaries.
- To make and review an admission policy relating to admission agreements generally with any admission body.
- To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
- To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
- To receive and consider the Auditor's report on the governance of the Pension Fund.
- To determine the compensation policy on termination of employment and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
- To determine policy on the award of additional membership of the pension fund and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
- To determine policy on the award of additional pension and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub- Committee).
- To determine policy on retirement before the age of 60 and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub- Committee).
- To determine a policy on flexible retirement and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
- To determine questions and disputes pursuant to the Internal Disputes Resolution Procedures.
- To determine any other investment or pension policies that may be required from time to time so as to comply with Government regulations and to make any decisions in accordance with those policies other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the

Appointments Sub-Committee).

The Committee has responsibility for:

- Determining an overall investment strategy and strategic asset allocation, with regard to diversification and the suitability of asset classes
- Appointing the investment managers, an independent custodian, the actuary, the investment advisor(s) and any other external consultants considered necessary
- Reviewing on a regular basis the investment managers' performance against benchmarks, portfolio risk and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls
- Monitoring compliance with the ISS & Funding Strategy Statement (FSS) and reviewing its contents
- Reviewing policy on social, environmental and ethical considerations, and on the exercise of voting rights

The City Treasurer and the appointed consultants and actuaries support the Committee. The day-to-day management of the Fund's assets is delegated to investment managers.

1.5 This ISS will be reviewed at least once a year, or more frequently as required - in particular following valuations, future asset/liability studies and performance reviews, which may indicate a need to change investment policy, or significant changes to the FSS.

1.6 Under the previous Regulations the Statement of Investment Principles required to state how it complies with the revised six investment principles as outlined within the CIPFA Pensions Panel Principles. Although not formally required under the 2016 Regulations this information is given in Appendix A. In addition, Appendix B includes a disclosure of the Fund's policy on how the Committee discharge their stewardship responsibilities.

2. Objective 7.2 (a): A requirement to invest fund money in a wide range of instruments

2.1 Funding and investment risk is discussed in more detail later in this ISS. However, at this stage it is important to state that the Committee is aware of the risks it runs within the Fund and the consequences of these risks.

2.2 In order to control risk the Committee recognises that the Fund should have an investment strategy that has:

- Exposure to a diverse range of sources of return, such as market, manager skill and through the use of less liquid holdings.
- Diversity in the asset classes used
- Diversity in the approaches to the management of the underlying assets.

A consequence of this approach is that the Fund's assets are invested in a wide range of instruments.

2.3 This approach to diversification has seen the Fund dividing its assets across 4 broad categories; UK equities, Global equities, Fixed Income and Property. The size of assets invested in each category will vary depending on investment conditions. However, it is important to note that each category is itself diversified.

2.4 The main risk the Committee are concerned with is to ensure the long-term ability of the fund to meet pension, and other benefit obligations, as they fall due is met. As a result the Committee place a high degree of importance on ensuring the expected return on the assets is sufficient to do so, and does not have to rely on a level of risk which the Committee considers excessive.

The Fund currently has a negative cash flow position. The Committee is mindful that this position may change in future and keeps the liquidity within the Fund monitored.

At all times the Committee takes the view that their investment decisions, including those involving diversification, in the best long term interest of Fund beneficiaries.

2.5 To mitigate these risks the Committee regularly reviews both the performance and expected returns from the Fund's investments to measure whether it has met and is likely to meet in future its return objective. In addition to keeping their investment strategy and policy under regular review the Committee will keep this ISS under review to ensure that it reflects the approaches being taken.

3. Objective 7.2(b): The authority's assessment of the suitability of particular investments and types of investment

3.1 When assessing the suitability of investments the Committee takes into account a number of factors:

- Prospective return
- Risk
- Concentration
- Risk management qualities the asset has, when the portfolio as a whole is considered
- Geographic and currency exposures
- Whether the management of the asset meets the Fund's ESG criteria.

3.2 Suitability is a critical test for whether or not a particular investment should be made.

3.3 Each of the Fund's investments has an individual performance benchmark which their reported performance is measured against.

3.3 The Committee monitors the suitability of the Fund's assets on a quarterly basis. To that end they monitor the investment returns and the volatility of the individual investments together with the Fund level returns and risk. This latter point being to ensure the risks caused by interactions between investments within the portfolio is properly understood. Where comparative statistics are available the Committee will also compare the Fund asset performance with those of similar funds.

3.4 The Committee relies on external advice in relation to the collation of the statistics for review.

4. Objective 7.2(c): The authority's approach to risk, including ways in which risks are to be measured and managed

4.1 The Committee recognises that there are a number of risks involved in the investment of the assets of the Fund amongst which are the following:

4.2 Geopolitical and currency risks:

- are measured by the value of assets (the concentration risk), in any one market leading to the risk of an adverse influence on investment values arising from political intervention; and
- are managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

4.3 Manager risk:

- is measured by the expected deviation of the prospective risk and return as set out in the manager(s) investment objectives, relative to the investment policy; and
- is managed by monitoring the actual deviation of returns relative to the objective and factors inherent in the manager(s) investment process.

4.4 Solvency and mismatching risk:

- are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies; and
- are managed by assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

4.5 Liquidity risk:

- is measured by the level of cash flow required over a specified period; and
- managed by assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment cash policy

4.6 Custodial risk:

- is measured by assessing the creditworthiness of the global custodian and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.

4.7 Employer contributions are based upon financial and demographic assumptions determined by the actuary. The main risks to the Fund are highlighted within sections 12 to 15 of the Funding Strategy Statement (FSS). The risks to the Fund are controlled in the following ways:

- The adoption and monitoring of asset allocation benchmarks, ranges and performance targets constrain the investment managers from deviating significantly from the intended approach while permitting the flexibility for managers to enhance returns
- The appointment of more than one manager with different mandates and approaches provides for the diversification of manager risk

4.8 The investment management agreements constrain the manager's actions in areas of particular risk and set out the respective responsibilities of both the manager and the Fund.

4.9 The Committee are aware investment risk is only one aspect of the risks facing the Fund. The other key risk they are aware of is the ability of the Fund to meet the future contributions, support the investment risk (i.e. the level of volatility of investment returns) and underwrite actuarial risk, namely the volatility in the actuarial funding position and the impact this has on contributions.

4.10 The Committee are of the view that the diversification of the Fund assets is sufficiently broad to ensure the investment risk is low and will continue to be low. When putting in place the investment strategy the Committee carefully considered both the individual asset risk characteristics and those of the combined portfolio to ensure the risks were appropriate.

Estimating the likely volatility of future investment returns is difficult as it relies on both estimates of individual asset class returns and also the correlation between them. These can be based on historic asset class information for some of the listed asset classes the Fund uses. However, for other private market and less liquid assets it is much more difficult.

The Committee is also mindful that correlations change over time and at times of stress can be significantly different from they are in more benign market conditions.

To help manage risk the Committee uses an external investment adviser to monitor the risk. In addition when carrying out their investment strategy review the Committee also had different investment advisers asses the level of risk involved.

4.11 The Fund targets a long-term return 5.1% as aligned with the latest triennial valuation from the Actuary. The investment strategy is considered to have a low degree of volatility.

4.12 When reviewing the investment strategy on a quarterly basis the Committee considers advice from their advisers and the need to take additional steps to protect the value of the assets that may arise or capitalise on opportunities if they are deemed suitable.

4.13 At each review of the Investment Strategy Statement the assumptions on risk and return and their impact on asset allocation will be reviewed.

5 Objective 7.2(d): The authority's approach to pooling investments, including the use of collective investment vehicles.

5.1 The Fund recognises the Government's requirement for LGPS funds to pool their investments and is committed to pursuing a pooling solution that ensures maximum cost effectiveness for the Fund, both in terms of return and management cost.

5.2 The Fund has joined the London Collective Investment Vehicle (CIV) as part of the Government's pooling agenda. The London CIV has been operational for some time and is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid asset classes to follow.

5.3 The Fund has already transitioned assets into the London CIV with a value of £178m and will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

5.4 The Fund will transition liquid assets into the London CIV when there are suitable investment strategies that meet the asset allocation and investment strategy available on the London CIV platform.

5.5 The Fund is monitoring developments and the opening of investment strategy fund openings on the London CIV platform with a view to transitioning liquid assets across to the London CIV as soon as there are suitable sub-funds to meet the Fund's investment strategy requirements.

5.6 The Fund holds 22.3% £280m of its assets in life funds and intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being. The Fund agrees for the London CIV to monitor the passive funds as part of the broader pool.

5.7 The Fund holds £110m or 8.8% of the Fund held in illiquid assets and these will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision to disinvest.

City of Westminster Total Fund	Available on the CIV	Transferred
UKEquities Majedie	May-17 (£301m)	
Global Equities Baillie Gifford LGIM Longview Partners	Yes Jun-17 (£140m)	£178m
Fixed Income Insight IM (Core) Insight IM (Gilts)		
Real Estate Hermes Property Standard Life Property		
Cash In-House Cash		

5.8 The Committee are aware that certain of the assets held within the Fund have limited liquidity and moving them would come at a cost. Whilst it is the expectation to make use of the London CIV for the management of the majority of the Fund assets in the longer term, the Committee recognises that transitioning from the current structure to the London CIV will be a protracted exercise spread over a number of years to ensure unnecessary costs are not incurred.

5.9 At each review of the investment strategy, which will happen at least every three years, the investment of the above assets will be actively considered by the City of Westminster Pension Fund, and in particular whether a collective investment option is appropriate.

5.10 More information on the London CIV and its operation is included in Appendix D of this statement.

6 Objective 7.2(e): How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

6.1 A review of the Fund's approach to Socially Responsible Investments (SRI) was completed in March 2015 and is contained in the existing SIP. The Fund adopted an SRI Policy which outlines its approach to the management of Environmental, Social and Governance (ESG) issues within its investment portfolio. The existing SRI Policy now needs reviewing as the last update was undertaken 2 years ago, although as funds are moved across to the London CIV, the Council will need to understand and apply its principles.

The Present ESG Policy

6.2 The Fund recognises that the neglect of corporate governance and corporate social responsibility may lead to poor or reduced shareholder returns. The Committee has considered how the Fund may best implement a corporate social responsibility policy, given the current resources available to the Fund. Accordingly, the Committee has delegated social, environmental and ethical policy to the investment managers, but also approved a Governance Strategy. The Committee believes this is the most efficient approach whilst ensuring the implementation of policy by each manager is consistent with current best practice and there is appropriate disclosure and reporting of actions taken. To that extent, the Committee maintains a policy of non-interference with the day-to-day decision making of the investment managers.

The London Collective Investment Vehicle (CIV) ESG Policy (Wording)

6.3 The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills.

6.4 The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed

6.5 The Fund expects its external investment managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making

6.6 Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes

6.7 The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

6.8 The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

6.9 The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with

7 Objective 7.2(f): The exercise of rights (including voting rights) attaching to investments

The Present Policy

7.1. The Committee has delegated the Fund’s voting rights to the investment managers, who are required, where practical, to make considered use of voting in the interests of the Fund. The Committee expects the investment managers to vote in the best interests of the Fund

The London Collective Investment Vehicle (CIV) ESG Policy (Wording)

7.2 The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund’s conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies’ activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

7.3 The Fund has delegated responsibility for voting rights to the Fund's external investment managers and expects them to vote in accordance with the Fund's voting policy as set out in Sections 6.2 and 7.1.

7.4 The Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Pension Fund website: (we do not do this at the moment)

7.5 The Fund has reviewed the London CIV Statement of Compliance with the Stewardship Code and has agreed to adopt this Statement.

7.6 In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

7.7 The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests*(Please insert as appropriate)*

In addition the Fund:

7.8 Is a member of the Pension and Lifetime Savings Association (PLSA) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners

7.9 Joins wider lobbying activities where appropriate opportunities arise.

8 Feedback on this statement

Any feedback on this investment Strategy Statement is welcomed. If you have any comments or wish to discuss any issues then please contact:

Peter Carpenter – Interim Tri-Borough Director of Pensions and Treasury
pcarpenter@westminster.gov.uk
020 7641 2832

Investment Strategy Statement: Appendix A

Compliance with CIPFA Pensions Panel Principles for investment decision making in the local government pension scheme in United Kingdom

Decision Making

Regulation 12(3) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires an administering authority to report on its compliance with the six Myners' Principles, in accordance with guidance given by the Secretary of State. The guidance for the Local Government Pension Scheme is set out in the CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012',

The Fund aims to comply with all of the Myners' Principles, recognising it is in all parties' interests if the Fund operates to standards of investment decision-making and governance identified as best practice. It is also recognised as important to demonstrate how the Fund meets such principles and best practice.

The Secretary of State has previously highlighted the principle contained in Roberts v. Hapwood whose administering bodies exercise their duties and powers under regulations governing the investment and management of Funds:

"A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons the body stands somewhat in the position of trustees or managers of others".

The Myners' Principles are seen as supporting this approach. The principles, together with the Fund's position on compliance, are set out below:

Principle 1 - Effective decision-making

Administrating authorities should ensure that:

- **Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and**
- **Those persons or organizations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.**

Full Compliance

The Council has delegated the management and administration of the Fund to the Committee, which meets at least quarterly. The responsibilities of the Committee are described in paragraph 1.4 of the ISS.

The Committee is made up of elected members of the Council who each have voting rights.

The Committee obtains and considers advice from and is supported by the City Treasurer, Tri-Borough Director of Treasury & Pensions, and as necessary from the Fund's appointed actuary, investment managers and advisors.

The Committee has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the scheme's regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

Business plans are presented to the Committee annually.

Several of the Committee members have extensive experience of dealing with Investment matters and training is made available to new Committee members.

Principle 2 - Clear objectives

An overall investment objective(s) should be set for the Fund that takes account of the pension liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

Full Compliance

The aims and objectives of the Fund are set out within the FSS and within the ISS. The main fund objective is to meet the cost of pension liabilities and to enable employer contribution rates to be kept as nearly constant as possible at reasonable cost to the taxpayers and admitted bodies.

The investment strategy has been set with the objective of controlling the risk that the assets will not be sufficient to meet the liabilities of the Fund while achieving a good return on investment (see paragraphs 4 and 5 above). The approach taken reflects the Fund's liabilities and was decided upon without reference to any other funds. The Fund's performance is measured against the investment objective on a quarterly basis.

The Fund's strategy is regularly reviewed.

Principle 3 – Risk and liabilities

In setting and reviewing their investment strategy, administrating authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Full Compliance

The Committee has, in conjunction with its advisers, agreed an investment strategy that is related to the Fund's liabilities. An actuarial valuation of the Fund takes place every three years, with the most recent triennial valuation taking place in 2016. The investment strategy is designed to give diversification and specialisation and achieve optimum return against acceptable risk.

The asset allocation of the Fund is set to maximise the potential to close the funding deficit over future years. The current allocation is outlined in paragraph 4.3 of the SIP.

Principle 4 – Performance Assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members

Full Compliance

The IAC has appointed investment managers with clear index strategic benchmarks (see paragraph 4.2 above) within an overall Investment objective which place maximum accountability for performance against that benchmark on the manager.

The managers are monitored at quarterly intervals against their agreed benchmarks, and independent detailed monitoring of the Fund's performance is carried out by Deloittes, the Fund's advisor and by Northern Trust, the Fund's custodian who provide the performance figures. Moreover portfolio risk is measured on quarterly basis and the risk/return implications of different strategic options are fully evaluated.

The advisor is assessed on the appropriateness of asset allocation recommendations and the quality of advice given.

The actuary is assessed on the quality and consistency of the actuarial advice received. Both the advisor and the actuary have fixed term contracts which when expired are tendered for under the OJEU procedures.

The Committee monitors the investment decisions it has taken, including the effectiveness of these decisions. In addition the Committee receives quarterly reports as to how the Fund has performed against their investment objective.

Principle 5 – Responsible Ownership

Administering authorities should:

- **Adopt, or ensure their investment managers adopt, the Institutional Shareholders Committee Statement of Principles on the responsibilities of shareholders and agents.**
- **Include a statement of their policy on responsible ownership in the statement of investment principles.**
- **Report periodically to scheme members on the discharge of such responsibilities.**

Full Compliance

The Fund is committed to making full use of its shareholder rights. The approach used is outlined in paragraph 8 of the ISS and in the Fund's SRI Policy. Authority has been delegated to the investment managers to exercise voting rights on behalf of the

Fund. The investment managers are required to report how they have voted in their quarterly reports.

The Fund believes in using its influence as a shareholder to promote corporate social responsibility and high standards of corporate governance in the companies in which it invests – the Fund's approach to this is outlined in paragraph 7 of the ISS and in the Fund's SRI Policy.

Principle 6 – Transparency and reporting

Administering authorities should:

- **Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives.**
- **Provide regular communications to scheme members in the form they consider most appropriate.**

Full Compliance

Links to the Governance Compliance Statement, the ISS, the FSS, and the Communications Statement are all included in the Pensions Fund Annual Report which is published and is accessible to stakeholders of the Fund on the Council's web site, and a website developed specifically for the Fund.

All Committee meetings are open to members of the public and agendas and minutes are published on the Council's website and internal intranet.

Investment Strategy Statement: Appendix B

Compliance with the Stewardship Code

The **Stewardship Code** is a set of principles or guidelines released in 2010 and updated in 2012 by the Financial Reporting Council directed at institutional investors who hold voting rights in United Kingdom companies. Its principal aim is to make shareholders, who manage other people's money, be active and engage in corporate governance in the interests of their beneficiaries.

The Code applies to pension funds and adopts the same "comply or explain" approach used in the UK Corporate Governance Code. This means that it does not require compliance with principles but if fund managers and institutional investors do not comply with any of the principles set out, they must explain why they have not done so.

The seven principles, together with the council's position on compliance, are set out below:

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Stewardship responsibilities are outlined in section 1.4 of the ISS, which outlines the terms of reference of the Committee.

Investment Managers, authorised under the regulations, are appointed to manage virtually all the assets of the Fund. The Committee actively monitor the Fund Managers through quarterly performance analysis, annual and periodic meetings with the Fund Managers and through direct monitoring by the Fund's investment advisor, which includes monitoring and reporting on:

- Fund manager performance
- Investment Process compliance and changes
- Changes in personnel (joiners and leavers)
- Significant portfolio developments
- Breaches of the IMA
- Business wins and losses; and
- Corporate and other issues.

Voting is delegated to Fund Managers through the Investment Management Agreement (IMA).

The fund will ensure that all its equity, fixed income and diversified managers sign up to theFRC Stewardship Code including: Majedie, Baillie Gifford, LGIM, Longview Partners, Insight, Hermes and Standard Life.

2. Have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The Committee encourages its fund managers to have effective policies addressing potential conflicts of interest.

Committee members are also required to make declarations of interest prior to all Committee meetings.

3. Monitor their investee companies.

Day-to-day responsibility for managing the Fund's investments are delegated to the relevant fund managers, who are expected to monitor companies, intervene where necessary, and report back regularly on activity undertaken.

The Fund's expectations with regards to voting and engagement activities are outlined in its SRI Policy.

Fund Manager Internal Control reports are monitored, with breaches reported back to the Committee.

4. Establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

Day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. The Fund's expectations with regards to voting and engagement activities are outlined in its SRI Policy.

The Fund Managers are expected to have their own SRI/ESG policy and to disclose their guidelines for such activities in their own statement of adherence to the Stewardship Code.

5. Willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximize the influence that it can have on individual companies.

6. Have a clear policy on voting and disclosure of voting activity.

The Fund currently votes on all decisions and this is reported via Northern Trust. The Fund's approach to voting is clearly outlined in the ISS and SRI Policy,

7. Report periodically on their stewardship and voting activities.

A section on voting is included in each quarterly Business Plan Update, with a yearly review of the policy.

The Fund's annual report includes information about the Fund's voting and engagement work

Investment Strategy Statement: Appendix C – Risk Register

Ref	Risk	Mitigating Actions	Residual risk score: Likelihood	Residual risk score: Impact	Risk Rating	Officer responsible	Next Next Review Date
1	**STRATEGIC: INVESTMENT** That the combination of assets in the investment portfolio fails to fund the liabilities in the long term.	• Investment strategy in place and reviewed periodically. • Performance is measured against a liability based benchmark. • Fund performance is reviewed quarterly.	2	3	Low 6	City Treasurer	March 2016
2	**STRATEGIC: INVESTMENT** Fund managers fail to achieve the returns agreed in their management agreements.	• Independent monitoring of fund manager performance by custodian against targets. • Investment adviser retained to keep watching brief. • Fund manager performance is reviewed quarterly.	3	3	Low 9	City Treasurer	March 2016
3	**STRATEGIC: INVESTMENT** Failure of custodian or counterparty.	• At time of appointment, ensure assets are separately registered and segregated by owner. • Review of internal control reports on an annual basis. • Credit rating kept under review.	2	3	Low 6	City Treasurer	March 2016
4	**STRATEGIC: FUNDING** The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	• Review at each triennial valuation and challenge actuary as required. • Growth assets and inflation linked assets in the portfolio should rise as inflation rises.	4	3	Medium 12	City Treasurer	March 2016
5	**STRATEGIC: FUNDING** There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments.	• Cashflow forecast maintained and monitored. • Cashflow position reported to sub-committee quarterly. • Cashflow requirement is a factor in current investment strategy review.	2	1	Very Low 2	City Treasurer	March 2016
6	**STRATEGIC: FUNDING** Scheme members live longer than expected leading to higher than expected liabilities.	• Review at each triennial valuation and challenge actuary as required.	4	2	Low 8	City Treasurer	March 2016
7	**STRATEGIC: FUNDING** Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	• Review maturity of scheme at each triennial valuation. • Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. • Cashflow position monitored monthly.	2	3	Low 6	City Treasurer	March 2016
8	**STRATEGIC: REGULATION** Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	• Maintain links with central government and national bodies to keep abreast of national issues. • Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	3	4	Medium 12	City Treasurer and Acting Director of HR	March 2016
9	**STRATEGIC: REGULATION** **I**ntroduction of European Directive MiFID II results is a restriction of Fund's investment options and an increase in costs	• Officers are engaging with Fund Managers to understand the position better • Knowledge and Skills Policy in place for Officers and Members of the Committee • Maintain links with central government and national bodies to keep abreast of national issues.	2	2	Very Low 4	City Treasurer	March 2016
10	**OPERATIONAL: GOVERNANCE** Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	• Officers maintain knowledge of legal framework for routine decisions. • Eversheds retained for consultation on non-routine matters.	2	2	Very Low 4	City Treasurer	March 2016

11	**OPERATIONAL: GOVERNANCE** Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	• External professional advice is sought where required • Knowledge and skills policy in place (subject to Committee Approval)	3	3	Low 9	City Treasurer	March 2016
12	**OPERATIONAL: GOVERNANCE** Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	• Person specifications are used at recruitment to appoint officers with relevant skills and experience. • Training plans are in place for all officers as part of the performance appraisal arrangements. • Shared service nature of the pensions team provides resilience and sharing of knowledge.	3	3	Low 9	City Treasurer and Acting Director of HR	March 2016
13	**OPERATIONAL: GOVERNANCE** Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	• At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. • Committee and officers scrutinise and challenge advice provided.	2	2	Very Low 4	City Treasurer	March 2016
14	**OPERATIONAL: GOVERNANCE** London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	• Pension Fund Committee Chair is a member of the Joint member Committee responsible for the oversight of the CIV and can monitor and challenge the level of resources through that forum. • Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work of the London CIV.	3	2	Low	City Treasurer	March 2016
15	**OPERATIONAL: FUNDING** Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	• Transferee admission bodies required to have bonds in place at time of signing the admission agreement. • Regular monitoring of employers and follow up of expiring bonds.	3	2	Low 6	City Treasurer and Acting Director of HR	March 2016
16	**OPERATIONAL: FUNDING** Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	• Review "budgets" at each triennial valuation and challenge actuary as required. • Charge capital cost of ill health retirements to admitted bodies at the time of occurring. • Occupational health services provided by the Council and other large employers to address potential ill health issues early.	3	2	Low 6	City Treasurer and Acting Director of HR	March 2016
17	**OPERATIONAL: FUNDING** Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	• Monitor numbers and values of transfers out being processed. • If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values.	2	3	Low 6	City Treasurer and Acting Director of HR	March 2016
18	**OPERATIONAL: ADMINISTRATION** Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	• Third parties regulated by the FCA and separation of duties and independent reconciliation procedures in place. • Review of third party internal control reports. • Regular reconciliations of pension payments undertaken by Pensions Finance Team. • Periodic internal audits of Pensions Finance and HR teams.	4	2	Low 8	City Treasurer and Acting Director of HR	March 2016
19	**OPERATIONAL: ADMINISTRATION** Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place.	• Contract monitoring in place with all providers. • Procurement team send alerts whenever credit scoring for any provider changes for follow up action.	3	1	Very Low 3	City Treasurer and Acting Director of HR	March 2016

20	**OPERATIONAL: ADMINISTRATION** Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible.	• Contract in place with BT to provide service enabling smooth processing of supplier payments • Process in place for Surrey CC to generate lump sum payments to members as they are due. • Officers undertaking additional testing and reconciliation work to verify accounting transactions	2	2	Very Low 4	City Treasurer	March 2016
21	**OPERATIONAL: ADMINISTRATION** Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	• In the event of a pension payroll failure we would consider submitting the previous months BACS file to pay pensioners a second time if a file could not be recovered by the pension administrators and our software suppliers.	1	5	Very Low 5	Acting Director of HR	March 2016

22	**OPERATIONAL: ADMINISTRATION** Failure to pay pension benefits accurately leading to under or over payments.	• There are occasional circumstances where under or over payments are identified. Where under payments occur arrears are paid as soon as possible usually in the next monthly pension payment. Where an overpayment occurs, the member is contacted and the pension corrected in the next month. Repayment is requested and sometimes we collect this over a number of months.	2	3	Low 6	Acting Director of HR	March 2016
23	**OPERATIONAL: ADMINISTRATION** Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	• Pension administration records are stored on the surrey servers they have a disaster recovery system in place and records should be restored within 24 hours of any issue, files are backed up daily.	1	5	Very Low 5	Acting Director of HR	March 2016

24	**OPERATIONAL: ADMINISTRATION** Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	• Surrey CC administers pensions for Surrey, East Sussex and is taking on our Triborough partners. They have a number of very experienced administrators two of whom tuped to them from LPFA with our contract. Where issues arise the Pensions Liaison Officer reviews directly with the Pensions Manager at Surrey. More detailed performance reports are being developed.	2	3	Low 6	Acting Director of HR	March 2016
25	**Operational: Administration** BT unable to provide monthly or end of year interface files in a format suitable for Surrey CC to update service records and undertake day to day operations. Inaccuracies in service records held on the pensions administration system may impact on the triennial funding valuation at March 2016 and notifications to starters and leavers.	• Issue has been escalated by the Chief Executive for high level resolution with BT • Test files are currently with SCC • Actuary undertakes data cleansing on the service records and is confident this will mitigate the inaccuracies in service records	4	3	Medium 12	Acting Director of HR	March 2016

Information on London CIV

Stewardship Statement is attached – Other London CIV details are included in ISS main Statement

LONDON CIV
DRAFT UK STEWARDSHIP CODE STATEMENT

The London Collective Investment Vehicle (CIV) was formed as a voluntary collaborative venture by the London Local Authorities in 2014 to invest the assets of London Local Government Pension Scheme (LGPS). The London CIV and its London Local Authority investors recognise the importance of being long term stewards of capital and in so doing supports the UK Stewardship Code, which it recognises as best practice.

The London LGPS CIV Limited ("London CIV") is fully authorised by the FCA as an Alternative Investment Fund Manager (AIFM) with permission to operate a UK based Authorised Contractual Scheme fund (ACS Fund). The London CIV in the management of its investments has appointed a number of external investment managers. We therefore see our role as setting the tone for the effective delivery of stewardship managers on our behalf and on behalf of our investing Funds. We are clear that we retain responsibility for this being done properly and fully in the interests of our own shareholders.

This Statement sets out how the London CIV implements the seven principles of the Code.

Principle 1
Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The London CIV on behalf of its London Local Authority Shareholders recognises its position as an investor on their behalf with ultimate responsibility to members and beneficiaries and recognises that effective stewardship can help protect and enhance the long-term value of its investments to the ultimate benefit of all stakeholders in the LGPS.

As we do not invest directly in companies, we hold our fund managers accountable for the delivery of stewardship on our behalf in terms of day-to-day implementation of its stewardship activity. We require the appointed fund management teams to be responsible for holding to account the management and boards of companies in which they invest. The London CIV believes that this approach is compatible with its stewardship responsibilities as it is the most effective and efficient manner in which it can promote and carry out stewardship activities in respect of its investments, and ensure the widest reach of these activities given the CIV's investment arrangements.

A key related area where stewardship is integrated into the wider process is in the selection and monitoring of external investment managers. When considering the appointment of external investment managers the consideration of Environmental Social and Governance (ESG) integration and stewardship activity of each investment manager is part of the selection process.

The London CIV expects its equity investment managers to adhere to the principles within the UK Stewardship Code. This position is communicated to the Fund's investment managers and forms the basis of the approach to monitoring the investment managers as outlined in this document. Whilst the Stewardship Code is primarily directed at UK equity investments, the CIV encourages its investment managers to apply the principles of the Code to overseas equity holdings where possible.

The primary mechanisms for the application of effective stewardship for the CIV are exercise of voting rights and engagement with investee companies. The CIV expects its external equity investment managers that invest directly in companies, to pursue both these mechanisms. We receive quarterly reporting from managers which includes their stewardship and voting activities where appropriate. We seek consistently to ensure that these stewardship activities are carried out actively and effectively in the furtherance of good long-term investment returns.

We expect all of the CIV's equity managers to be signatories to the Code and have publicly disclosed their policy via their Statements on how they will discharge their stewardship responsibilities. We expect managers that invest in companies directly to discharge their responsibilities by:

- having extensive dialogue with the company's management throughout the year on a range of topics such as governance, financial performance and strategy; and
- voting, either directly or via the services of voting agencies.

Principle 2
Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.

Day-to-day implementation of the Fund's stewardship activity has been delegated to external investment managers. The CIV expects its investment managers to document their approach to stewardship, which should include how they manage any conflicts of interest that arise to ensure that the interests of the CIV's Investors are prioritised. The CIV will review annually the conflicts of interest policy of its managers and how any conflicts have been managed during the year.

The London CIV has policies in place to manage conflicts of interest that may arise for the Board and its officers when making decisions on its behalf. The Conflicts of Interest policy is reviewed by the CIV board on a regular basis. A Conflicts of Interest Register is maintained.

Shareholders of the CIV attending the Pensions Sectoral Joint Committee are required to declare any conflicts of interest at the start of any meeting.

Principle 3
Institutional investors should monitor their investee companies.

We recognise that active and ongoing monitoring of companies is the foundation of good stewardship, reminding companies in which we invest that they have obligations to their shareholders to deliver returns over the appropriate long-term investment timeframe and, consistent with this, to manage any related environmental and social risks responsibly.

The CIV requires its external investment managers to monitor investee companies. Issues to be monitored are likely to vary, however typically these might include a company's corporate strategy, financial performance, risk (including those from environmental and social factors), capital structure, leadership team and corporate governance. The CIV encourages its investment managers to satisfy themselves that investee companies adhere to the spirit of the UK Corporate Governance Code.

The CIV reviews investment managers in this area as part of their regular meetings. For equity investment managers this includes consideration of:

- who has overall responsibility for ESG risk analysis and integration;
- resources and experience of the team;
- at what stages of the process ESG risks are considered;
- exposures to environmental, social or governance risk within the portfolio; and
- the investment manager's willingness to become an insider and, if so, whether the manager has a policy setting out the mechanisms through which this is done.

Principle 4
Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

The CIV recognises that constructive engagement with company management can help protect and enhance shareholder value. Typically, the CIV expects its investment managers to intervene with investee companies when they view that there are material risks or issues that are not currently being adequately addressed.

The CIV reviews investment managers in this area as part of their regular meeting. For equity investment managers that invest directly in Companies, this includes consideration of:

- whether voting activity has led to any changes in company practice;
- whether the investment manager's policy specifies when and how they will escalate engagement activities;
- overall engagement statistics (volume and areas of focus);
- example of most intensive engagement activity discussed as part of the manager's annual review meeting; and
- the estimated performance impact of engagement on the strategy in question.

Given the range of fund managers and Fund investments, the CIV carries out its monitoring at the manager level to identify:

- trends to ensure progress is being made in stewardship activities;
- specific managers where progress or the rate of progress is not adequate; and
- appropriate specific actions necessary.

Principle 5
Institutional investors should be willing to act collectively with other investors where appropriate.

As day-to-day management of the Fund's assets has been delegated to external investment managers, the CIV expects its investment managers to get involved in collective engagement where this is an efficient means to protect and enhance long-term shareholder value.

In addition the London CIV will work collectively with other investors including other LGPS Asset pools and the Local Authority Pension Fund Forum (LAPFF) to enhance the impact of their engagement activities.

Principle 6
Institutional investors should have a clear policy on voting and disclosure of voting activity.

The CIV has delegated its voting rights to the Fund's investment managers and requires them to vote, except where it is impractical to do so. The CIV also monitors the voting alerts of the LAPFF and where these are issued, requires the investment managers to take account of these alerts as far as practical to do so. Where the investment manager does not vote in line with the LAPFF voting alerts, the CIV will require detailed justification for non compliance.

The CIV reviews and monitors the voting policies and activities of its investment managers, this includes consideration of:

- the manager's voting policy and, what areas are covered;
- the level of voting activity
- whether the investment manager typically informs companies of their rationale when voting against or abstaining (and whether this is typically in advance of the vote or not);
- if securities lending takes place within a pooled fund for the strategy, whether the stock is recalled for all key votes for all stocks held in the portfolio; and
- whether a third party proxy voting service provider is used and, if so, how.

Principle 7
Institutional investors should report periodically on their stewardship and voting activities.

The London CIV encourages transparency from its investment managers and expects its managers to report publicly on their voting in an appropriate manner. In addition the London CIV receives reviews and monitors quarterly the voting and stewardship engagement activities of its investment managers.
The CIV reports quarterly to its investors and will include information on voting and engagement activities from investment managers where appropriate including updates as required on updated stewardship and voting policies of managers. The CIV also requires its managers to provide it with annual assurances on internal controls and compliance through recognised framework such as the AAF01/06 or equivalent.

This statement will be reviewed regularly and updated as necessary.
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APPENDIX 2

CITY OF WESTMINSTER PENSION FUND
FUNDING STRATEGY STATEMENT 2016

1. Purpose of the Funding Strategy Statement

1.1 The purpose of this Funding Strategy Statement is to explain the funding objectives of the Fund and in particular:

- How the costs of the benefits provided under the Local Government Pension Scheme (the "Scheme") are met though the Fund in a prudent way;
- The objectives in setting employer contribution rates and the desirability of maintaining stability in the primary contribution rate; and
- Ensuring that the regulatory requirements to set contributions that will maintain the solvency and long term cost-efficiency of the Fund are met.

2. Aims and Purpose of the Fund

2.1 The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible; and
- Seek returns on investment within reasonable risk parameters.

2.2 The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits provided under the Regulations;
- Meet the costs associated in administering the Fund; and
- Receive contributions, transfer values and investment income.

3. Responsibilities of Key Parties

3.1 The key parties involved in the funding process and their responsibilities are as follows:

The Administering Authority

3.2 The Administering Authority for the Pension Fund is the Westminster City Council. The main responsibilities of the Administering Authority are to:

- Operate a pension fund;
- Collect employee and employer contributions investment income and other amounts due to the Fund, as stipulated in the LGPS Regulations;
- Invest the Fund's assets in accordance with the LGPS regulations;
- Pay the benefits due to Scheme members; as stipulated by the LGPS regulations;

- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this Funding Strategy Statement (FSS), the Statement of Investment Principles (SIP) and Investment Strategy Statement (ISS) after consultation with other interested parties; and
- Monitor all aspects of the Fund's performance and funding, amending the FSS and ISS accordingly;
- Manage any potential conflicts of interest arising from the Borough's dual role as scheme employer and fund administrator
- Enable the Pension Board to review the valuation process as set out in their terms of reference.

Individual Employers

3.3 In addition to the administering authority, a number of scheduled and admitted bodies participate in the Fund.
The responsibilities of each individual employer that participates in the Fund, including the administering authority, are to:

- Deduct contributions from employees' salaries correctly and pay these, together with their own employer contributions as certified by the Fund Actuary, to the administering authority within the statutory timescales;
- Notify the administering authority of all changes in Scheme membership and any other membership changes promptly;
- Exercise any discretions permitted under the Regulations; and
- Meet the costs of any augmentations or other additional costs, such as early retirement strain, in accordance with agreed policies and procedures.

Fund Actuary

3.4 The Fund Actuary for the City of Westminster Pension Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the LGPS regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc.
- Provide advice and valuations on the exiting of employers in the Fund
- Advise the administering authority on bonds and other forms of security against the financial effect on the Fund of employer default.

- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the regulations.
- Ensure that the administering authority is aware of any professional guidance or other professional requirements that may be of relevance to the administrator's role in advising the fund; and
- Advise on other actuarial matters affecting the financial position of the Fund.

4. Solvency Issues and Target Funding Levels

4.1 Given the statutory position of the LGPS administering authorities and the tax-backed nature of employing authorities who make up the core of the scheme and the statutory basis of the scheme, the LGPS remains outside the solvency arrangements established for private sector occupational pension schemes.

4.2 LGPS regulations require each administering authority to secure fund solvency and long-term cost efficiency by means of employer contribution rates established by mandatory valuation exercises.

4.3 Maintaining as nearly a constant a primary employer contribution rate is a desirable outcome, but not a regulatory requirement. It is for LGPS administering authorities to seek to achieve a balance between the objectives in a prudent manner.

4.4 Solvency is defined as meaning that the rate of employer contributions should be set at such a level as to ensure that the scheme's liabilities can be met as they arise. This does not mean that the Fund should be 100% funded at all times, but that the rate of employer contributions should be set to target a funding level for the whole fund of 100% over an appropriate time period and using an appropriate set of actuarial assumptions.

4.5 Employers should collectively have the financial capacity to increase employer contributions and/or the Fund should be able to realise contingent assets if future circumstances require, in order to continue to target a funding level of 100%. If these conditions are met, it is anticipated that the Fund will be able to pay scheme benefits as they fall due.

4.6 The rate of employer contributions shall be deemed to be set at an appropriate level to ensure long-term cost efficiency if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to the rate for any surplus or deficit in the Fund. The Government Actuary's Department (GAD) will assess whether this condition is met.

5. Primary rate of the employers' contribution

5.1 The primary rate for each employer is that employer's future service contribution rate which is the contribution rate required to meet the cost of the future accrual of benefits, expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any specific employer circumstances.

5.2 The primary rate for the whole Fund is the weighted average, by payroll, of the individual employers' primary rates.

5.3 The secondary rate of the employer's contribution is an adjustment to the primary rate to arrive at the rate each employer is required to pay. It may be expressed either as a percentage adjustment to the primary rate and/or as a cash adjustment for each of the three years of the inter-valuation period. This will be set out in the rates and adjustments certificate. For any employer, the rate they are actually required to pay is the sum of the primary and secondary rates.

5.4 The actuary should disclose the secondary rates for the whole scheme in each of the three inter-valuation years. These should be calculated as a weighted average based on the whole scheme payroll. The purpose of this is to facilitate a single net rate of contributions expected to be received over each of the three years that can be readily compared with other rates and reconciled with actual receipts.

6 Solvency Issues and Non Local Authority Employers

6.1 The number and type of non local government bodies operating within the LGPS has grown considerably since 2004, when Funding Strategy Statements were first introduced. There are now many more private sector contractors, companies spun off from local authorities and academies which have employees who continue to qualify for membership by dint of transferred rights under the TUPE regulations. Employees in academies qualify for the scheme because of academies' scheduled body status. Key issues are:

- The need to set appropriate employer contribution levels and deficit recovery periods for these employers which do not have tax-raising powers and therefore have weaker covenants than local authorities;
- The underlying investment strategy of the assets backing the liabilities of these employers;
- The financial standing of those employers (or their parent companies or guarantors) and their ability to meet the cost of current membership, fund any deficit and ability to ensure against default.
- The long and short term effects of high contribution rates on non local authority employers in terms of their financial viability.

6.2 In the interests of transparency, the FSS should clearly set out the risk assessment methodology to assess the long term financial health of employers and how this will be monitored.

- Having the correct Risk Assessments made when new Admitted and Scheduled bodies join the fund and security via a bond or equivalent guarantee is requested;

- Admitted and Scheduled bodies being consulted on Triennial revaluation rates; and
- Pension contributions being monitored “in year” to ensure Admitted and Scheduled bodies are making the required payments

7. Valuation Assumptions and Funding Model

7.1 In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

7.2 The assumptions adopted at the valuation can therefore be considered as:

- The statistical assumptions which are essentially estimates of the likelihood of benefits and contributions being paid, and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current or present value.

Future Price Inflation

7.3 The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities. This is derived by considering the average difference in yields over the appropriate period from conventional and index linked gilts during the six months straddling the valuation date to provide an estimate of future price inflation as measured by the Retail Price Index (or “RPI”).

Future Pay Inflation

7.4 As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay inflation. Historically, there has been a close link between price and pay inflation with pay increases exceeding price inflation in the longer term. However, in recent years, this model has broken down due to pay freezes in the public sector and continuing restraint to restrict salary growth across many sectors.

Future Pension Increases

7.5 Pension increases are linked to changes in the level of the Consumer Price Index (or “CPI”). Inflation as measured by the CPI has historically been less then RPI due mainly to different calculation methods. An adjustment is therefore made to the RPI assumption to derive the CPI assumption.

Future Investment Returns/Discount Rate

7.6 To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

7.7 The discount rate that is adopted will depend on the funding target adopted for each employer.

7.8 For open employers, the discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the "ongoing" discount rate.

7.9 For closed employers, an adjustment may be made to the discount rate in relation to the remaining liabilities, once all active members are assumed to have retired if at that time (the projected "termination date"), the employer either wishes to leave the Fund, or the terms of their admission require it.

7.10 The Fund Actuary will incorporate such an adjustment after consultation with the Administering Authority.

7.11 The adjustment to the discount rate for closed employers is to set a higher funding target at the projected termination date, so that there are sufficient assets to fund the remaining liabilities on a "minimum risk" rather than on an ongoing basis. The aim is to minimise the risk of deficits arising after the termination date.

Asset Valuation

7.12 For the purposes of the valuation, the asset value used is the market value of the accumulated Fund at the valuation date adjusted to reflect average market conditions during the six months straddling the valuation date.

Statistical Assumptions

7.13 The statistical assumptions incorporated into the valuation, such as future mortality rates, are based on national statistics. These are adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

8. Deficit Recovery/Surplus Amortisation Periods

8.1 Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. Accordingly the Fund will normally either be in surplus or in deficit.

8.2 Where the actuarial valuation discloses a significant surplus or deficit then the levels of required employers' contributions will include an adjustment to either amortise the surplus or fund the deficit over a period of years.

8.3 The period that is adopted for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer and any limited period of participation in the Fund; and
- The implications in terms of stability of future levels of employers' contribution.

9. Pooling of Individual Employers

9.1 The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

9.2 However, certain groups of individual employers can be pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

9.3 The main purpose of pooling is to produce more stable employer contribution levels in the longer term whilst, recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

10. Cessation Valuations

10.1 On the cessation of an employer's participation in the Scheme, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer.

10.2 In assessing the deficit on termination, the Fund Actuary may adopt a discount rate based on gilt yields and adopt different assumptions to those used at the previous valuation in order to protect the other employers in the Fund from having to fund any future deficits which may arise from the liabilities that will remain in the Fund.

11. Links with the Investment Strategy Statement (ISS)

11.1 The main link between the Funding Strategy Statement (FSS) and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the underlying investment strategy as set out in the ISS.

11.2 As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the underlying investment strategy. This ensures consistency between the funding strategy and investment strategy.

12. Risks and Countermeasures

12.1 Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

12.2 The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

13. Financial Risks

13.1 The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

13.2 The valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.5% per annum in the real discount rate will decrease/increase the liabilities by ten%, and decrease/increase the required employer contribution by around 2.5% of payroll.

13.3 However, the Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

13.4 The Committee may also seek advice from the Fund Actuary on valuation related matters.

13.5 In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

14. Demographic Risks

14.1 Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will reduce the funding level by between 0.5 to 1%.

14.2 The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review.

14.3 The liabilities of the Fund can also increase by more than has been planned as a result of early retirements.

14.4 However, the Administering Authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

15. Regulatory Risks

15.1 The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by central government.

15.2 The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

15.3 However, the Administering Authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

16. Governance

16.1 Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; and
- An employer ceasing to exist without having fully funded their pension liabilities.

16.2 However, the Administering Authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required.

16.3 In addition, the Administering Authority keeps in close touch with all individual employers participating in the Fund to ensure that, as Administering Authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

17. Monitoring and Review

17.1 This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

17.2 The Administering Authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

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Pension Fund Committee

Date:	**21st March 2017**
Classification:	**General Release**
Title:	**Pension Administration Update**
Report of:	**Lee Witham, Director of People Services**
Wards Involved:	**All**
Policy Context:	**Service Delivery**
Financial Summary:	**Limited**

1. Executive Summary

1.1 Following on from the report submitted at the previous Committee meeting on November 15th 2016, this report gives an update on the performance of the pension administrators Surrey County Council (SCC). The primary purpose of this paper is to provide the Committee with an update on the Key Performance Indicators (KPIs) showing Surrey County Council's (SCC's) performance for the period December 2016 to January 2017. The detailed KPIs are shown in Appendix 1.

1.2 This paper also provides a progress update with regards BT MSP, internal audit, pension administration strategy (PAS) and discretionary policies.

2. Current Position

2.1 The Pension Fund Committee was advised last June that there had been some concerns over the performance of SCC in provision of administrative services to Westminster City Council (WCC) fund members.

2.2 At the November Committee meeting it was highlighted that a new set of KPI measures had been agreed to monitor the performance of SCC and to more accurately reflect the pension member experience. The additional details requested from SCC were drawn from the section 101 agreement between WCC and SCC and agreed in discussion with procurement.

2.3 Following a meeting between WCC and SCC we agreed that these reports would be provided on a quarterly basis in future. The reason for moving to a quarterly report was so that SCC would have the necessary time to provide WCC with the more detailed and meaningful statistics that were requested to more accurately measure performance.

2.4 The new KPIs became live on 1st December and are attached in Appendix 1. These are for 2 months to try and bring us into line to present full quarterly reports to Pension Committee.

2.5 WCC see this as a living document and it will be constantly reviewed to ensure that it provides the data required by WCC and Pension Committee to hold SCC to account in delivering an improved service. It was also agreed that people services would have regular quarterly meetings with SCC to discuss performance against the KPIs.

2.6 People services met with representatives from SCC's pension team on 13th February 2017 to discuss the new KPI structure and review ongoing performance concerns highlighted within the KPIs. People services addressed with SCC the need to improve KPI performance levels in the following areas:

2.6.1 **Retirement options issued to members** - this area shows a score below what is required. Jason Bailey, pensions manager at SCC recognises the under-performance in this area and has promised increased resources from late February to address this issue.

2.6.2 **Deferred benefits and payment of lump sum** - deferred benefits is also below what is required (89% and 71% in December and January respectively), however a contributing factor to this is BT's continuing inability to provide the starters and leavers reports that SCC require to be able to fulfil this KPI on time. The starters and leavers reports are key elements of the BT pensions recovery plan. Lump sums for deferred members are only showing as being completed on time in 50% of cases, again Jason Bailey recognises this and new resources were added in late February to address this concern.

2.6.3 **Transfers out of non-LGPS schemes** - the KPIs currently only show non-LGPS transfers and this will be amended from the next quarter to show LGPS transfers too. This report shows a drop in the performance for non-LGPS transfer out quotations, however payments are at 100%

2.6.4 **Pension/redundancy estimates** - individual cases fell below the required performance indicator and SCC have agreed to address this.

2.6.5 **Responding to members' correspondence** - this is another area that is red, and from discussions between WCC and SCC this is an area that will also benefit from the extra resources allocated in February.

2.7 SCC have acknowledged the need for a tighter control of case management in order to improve the KPIs. They have reorganised the pension administration team with two new team managers overseeing the running of our service. We will expect to see an improvement in our KPIs moving forward and SCC have committed to this aim.

3. BT MSP Update

3.1 BT have been asked to attend Committee to present an update, however they are yet to confirm their attendance at the time of writing this report. Therefore the update in this paper does not contain the input from BT that was specifically requested.

3.2 At the last Committee meeting BT committed to Councillors that they were implementing a recovery plan to address the key issues affecting the pension administration, these areas were (from November report):

3.2.1 No system report or interface is currently available detailing starters and leavers and other material changes for pension purposes.

3.2.2 Leavers - we are aware that the manual reporting of leavers is not happening in every case and certainly not within the expected timescales.

3.2.3 Starters & Changes - SCC has yet to receive any interface files of joiners data from BT in the current financial year.

3.2.4 Auto enrolment – despite BT confirming that they had re-enrolled individuals who opted out of the LGPS it appears that this did not happen.

3.2.5 Annual Benefits Statements (ABS) – there are approximately 250 individuals who at the time of the last Committee had not received their ABS this year

3.3 There remains a concern over BT's ability to fully resource and deliver the improvement plan. This continues to have a large impact on the internal retained resources in people services that need to do considerable amounts of extra work as a result. While some progress has been made it is clear that BT's recovery plan is behind schedule.

3.3.1 The systems interface that was due to go live at the end of February and be provided to SCC for action in March has not been provided. We await an update from BT on a revised delivery date and assurances this will be delivered.

3.3.2 There are still concerns over starters, leavers and changes. BT is currently only completing starter or leaver forms when asked by people services on an individual basis. Historic reports were due to be delivered by 10th March and monthly reports to be initiated at the same time. We await BT's update on this. In the meantime People Services is having to individually escalate relevant cases through the system, in particular for leavers.

3.3.3 Auto Enrolment - this matter has now been resolved. All eligible members who were not auto enrolled in July were written to and advised of the error and were subsequently opted into the pension scheme in November with guidance on how their membership could be backdated to WCC's auto enrolment date. 194 employees were entitled to be auto enrolled, of which 67 opted out again immediately.

3.3.4 Annual Benefit Statements - a revised file was provided by BT on 10th February which addresses the missing 250 ABSs and promised to correct errors on the original file provided to SCC. However SCC has identified a number of further issues with the file and these matters are now with BT to review. Consequently while some progress has been made this matter is still outstanding. Discussions regarding this file are due to continue during the week commencing 13th March and a verbal update will be given at the Committee meeting.

4 Internal Audit Update

4.1 Kim Edwards, senior HR advisor, met with Homyar Fanibanda from internal audit on 28th February to get an update on the pension administration audit. Homyar advised that he is still finalising his report and he is still waiting on SCC to provide information which remains outstanding. These outstanding items have been escalated accordingly. This audit is looking at the entire administration of the pension scheme, including people services, BT and SCC's roles in the process as well as the timelines and actual calculations of entitlements from the scheme.

5 Risk Register

5.1 Finance will be presenting the risk register to Committee. Within the report, the Operational Administration Reference 25 which has previously shown as an amber risk should now be considered to be a red risk. The reason for this escalation is the continuing failure by BT to provide an accurate data file to SCC in regards to member's pensions. This matter has been escalated for resolution at the highest level with BT. A revised file was provided by BT to SSC on 10th February, and although this file is considerably better than originally supplied by BT, it still contains inaccuracies. Discussions regarding this file are due to continue during the week commencing 13th March and a verbal update will be given at this Committee meeting.

6 Pension Administration Strategy (PAS) and Discretionary Policies

6.1 A draft Pension Administration Strategy is being produced and is due to be implemented in the next financial year. However it is essential that the BT contract is performing at the specified level with regards their pension administration performance and that we have confidence that all payments and records made since April 2015 are up to date before we implement. The work to review discretionary policies has unfortunately been delayed due to the impact on internal retained resources who are having to do extra work as a result of the outstanding BT pensions recovery plan.

6.2 Since our go live date with BT on 1st April 2015 there have been a number of issues with regards BT's ability to provide correct and timely pension data to SCC. This has had an impact on people services in that we need to be heavily involved in detailed administration matters in order to ensure individual cases are dealt with and the overall service is improved. Prioritisation of workload has by necessity focused on day to day operational matters and the management of individual cases. There are a number of tasks and projects that have been re-prioritised and delayed in order to focus on the pensions improvement plan and to ensure individual issues are mitigated and resolved.

7. Summary

7.1 Despite the ongoing challenges people services will continue to work with both BT and Surrey County Council to improve the pension service to members going forward and will keep the Committee informed of progress.

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MONTHLY RESULTS FOR DECEMBER AND JANUARY BASED ON NEW KPI REPORTING

Description	Target time/date as per Partnership Agreement	No of Cases December	Actual Score Dec	No of Cases January	Actual Score Jan	Comments
PENSION ADMINISTRATION						
DEATH BENEFITS Notify potential beneficiary of lump sum death grant	5 days	NA	100%	NA	100%	
Write to dependant and provide relevant claim form	5 days	1	100%	1	100%	
Set up any dependants benefits and confirm payments due	14 days	5	60%	2	50%	3 cases late in total but paid on next available payroll run
RETIREMENTS Retirement options issued to members	5 days	2	50%	10	80%	3 late cases but we have increased resourcing in this area from February 2017 to avoid any future delays
New retirement benefits processed for payment following receipt of all necessary documents	5 days	7	72%	3	100%	2 cases late in Dec
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run	7	100%	3	100%	
REFUNDS OF CONTRIBUTIONS Refund paid following receipt of claim form	14 days	4	100%	9	100%	
DEFERRED BENEFITS Statements sent to member following receipt of leaver notification	30 days	9	89%	7	71%	Volumes expected to increase once leaver forms received from BT and from other scheme employers
DEFERRED PAYMENTS						
Notification to members 3 months before payments due	3 months	8	Average 2 weeks in advance	11	Average 2 weeks in advance	Work process amended from February 2017
Lump Sum (on receipt of all necessary documentation)	5 days	8	50%	10	50%	We have increased resourcing in this retirement area from February 2017 to avoid any future delays
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run	8	100%	10	100%	
NEW JOINERS New starters processed	30 days	20	100%	1	100%	Awaiting interface from BT so numbers only show records created manually
TRANSFERS IN Non LGPS transfers-in quotations	30 days	2	100%	16	100%	All Quotations issued within statutory timescales. Agreement at meeting between SCC and WCC in Feb 2017 that future reports will identify LGPS transfers as additional measure.
Non LGPS transfers-in payments processed	30 days	NA		NA		
TRANSFERS OUT Non LGPS transfers-out quotations processed	30 days	7	86%	20	70%	
Non LGPS transfers out payments processed	30 days	2	100%	4	100%	
ESTIMATES						
1-10 cases	5 Days	9	89%	5	60%	2 cases late in January
11-50 cases	Agreed with WCC	NA	NA	NA	NA	
51 cases or over	Agreed with WCC	80 plus	100%	See Dec entry	See Dec entry	Large exercise carried out on behalf of WCC in Dec and Jan
MATERIAL CHANGES						
Any changes to data which materially affect actual or potential benefits to be processed within 30 days of receiving all necessary data	30 days	44	100%	221	100%	Includes Change of Bank account, address, expression of wish. Large number of bulk bank changes in January.
BUYING ADDITIONAL PENSIONS						
Members notified of terms of purchasing additional pension	15 days	0	100%	1	100%	
Monthly Pensioner Payroll						
Full reconciliation of payroll and ledger report provided to WCC	Last day of month		100%		100%	
Issue of monthly payslips	3 days before pay day		100%		100%	
RTI file submitted to HMRC	3 days before pay day		100%		100%	
BACS File submitted for payment	3 days before pay day		100%		100%	
P35	EOY		Annual		Annual	
Annual Exercises						
ANNUAL BENEFIT STATEMENTS Issued to Active members	31 August each year		Annual		Annual	
ANNUAL BENEFIT STATEMENTS Issued to Deferred members	31 August each year		Annual		Annual	
P60s Issued to Pensioners Non LGPS transfers-in quotations processed within 20 days	31 May each year		Annual		Annual	
Apply Pensions Increase to Pensioners	April each year		Annual		Annual	
Pensioners Newsletter	April each year		Annual		Annual	
CUSTOMER SERVICE						
CORRESPONDENCE						
Acknowledgement if more than 5 days	2 days					e-mail enquiries acknowledged within 24 hours. Information on other enquiries not currently available
Response	10 days	18	89%	28	75%	
3rd party enquires	10 days	Nil		Nil		
Helpdesk Enquiries						
Volumes of Enquiries Handled By Helpdesk	Number of Enquiries Handled	432	79% FPF	561	83%FPF	FPF means enquiries resolved as 'First Point Fix' by Helpdesk team that did not require referral to Operations team
Customer Surveys						
Monthly survey to retirees	Percentage Satisfied with Service		Quarterly		Quarterly	Due at End of March

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Committee Report

City of Westminster

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**21 March 2017**
Classification:	**Public**
Title:	**Asset Pooling and London Collective Investment Vehicle Update**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	The Pension Fund plans to transfer the Majedie and Longview Investment Manager mandates to the London Collective Investment Vehicle (CIV) in 2017 realising significant fee savings. A view also needs taking on the Fixed Income Mandate
Report of:	**Steven Mair** ***City Treasurer*** **smair@westminster.gov.uk** **020 7641 2904**

1. EXECUTIVE SUMMARY

1.1 At the previous meeting of this Committee on the 15th November, the Committee agreed the transfer of the Majedie Investment manager Mandate to the London CIV. This will happen on Thursday 18th May 2017.

1.2 Since that time, another of the Council's Investment Manager Mandates, Longview, has also become available on the London CIV platform. This report updates the Committee on progress with that transfer.

1.3 The Fund's Fixed Income Mandate with Insight expires at the end of 2017. This Report sets out the present CIV position in terms of Fixed Income Mandates and route for the Pension Fund to move this Mandate forward.

1.4 The Report also sets out the present timetable of Investment Products going live on the London CIV platform.

2. RECOMMENDATIONS

2.1 That the Committee note the process being undertaken to transfer the Majedie mandate to the London CIV.

2.2 That the Committee agree to transfer the Longview mandate to the London CIV in principle, in order for the more detailed work to be undertaken.

2.3 That the Committee form a view on the best approach to its fixed Income mandate from the alternatives suggested.

2.4 That the Committee note the CIV pipeline for new Investment Vehicles.

3. Transfer of Assets to London CIV

Majedie

3.1 At its meeting on the 15th November, the Committee agreed to the transfer of the Majedie Mandate to the London CIV on a Flat Management Fee basis.

3.2 Since that time, the appropriate fund launch paperwork required by the London CIV has been completed and returned.

3.3 The London CIV has confirmed that the Majedie UK Equity fund will launch on Thursday, May 18th. As the City of Westminster Pension Fund are already investors of LCIV there is no need for further tax documentation. The CIV will have Eversheds provide the tax transaction review on the Fund's behalf.

3.4 At the appropriate time the London CIV will need the Pension Fund to complete one simple subscription form. The Fund will also need to inform their Custodians Northern Trust of the transition date.

3.5 The London CIV are developing a secure client portal which will contain all of the fund documents and this is to be launched by the end of April.

Longview

3.6 Discussions between the London CIV and Longview have been on-going. It is expected now that this Mandate will be available on the CIV in June 2017.

3.7 Final details are still being worked on by the London CIV, but to aid the process, the Pension Fund have forwarded its current IMA with

Longview. The London CIV want to check all the participating borough's IMA to ensure that there are no major differences to the one they are drafting with the legal advisers.

3.8 The Pension Fund are expecting more detailed documentation from the London CIV imminently but require the approval of the Committee formally to move the process forward. As soon as detail becomes available, it will be communicated to Members of the Committee.

4. Future Developments

The Insight Fixed Income Contract

4.1 The Insight Investment contract has been approved to be extended until the end of 2017 following a discussion at previous Committee Meetings in September and November 2016.

4.2 It is intended to transfer the Fixed Income Mandate to the London CIV as soon as a Fixed Income Mandate becomes available. However, it is unlikely that a Fixed Income Mandate will become available on the London CIV until the spring of 2018, which is after the present WCC Insight Mandate expires.

4.3 The London CIV did hold a seminar on Fixed Income and Cashflow considerations for London Local Authorities in on the 19th January. In addition, it has distributed questionnaires to members to establish common requirements. However significant work is still required to take a mandate in this area forward.

4.4 As such, The Committee need to assess how they bridge the expected gap between the existing mandate ceasing and a mandate becoming available on the London CIV. Any way forward will be undertaken in close liaison with the London CIV to insure costs are minimised.

4.5 Prospective Fixed Income alternatives will be presented to the Committee in a session to be organised in the next 6 weeks in order to inform the direction the Tender process needs to follow.

The future CIV Pipeline

4.6 The table in Appendix A sets out the present position in regards to Fund Managers presently available through the London CIV and those who will become available over the upcoming year.

4.7 The table in Appendix A also includes those WCC Funds which have already been transferred into the CIV or are about to be transferred to the CIV

5. Conclusion

5.1 Westminster will continue to transition Pension Fund assets to the London CIV where the Fund has a pre-existing relationship with the investment manager and where the transfer of such assets is financially advantageous, as per the delegation approved by the Committee at the March 2016 meeting.

5.2 A preferred route for the replacement of the Fixed Income mandate is required to move the process forward.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

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BACKGROUND PAPERS:

CIV Paper at November 2016 Pension Committee

APPENDICES:

Appendix 1 – CIV Investment Pipeline

Appendix A - London CIV Investment Managers Pipe-line

Fund	Type	Available from	WCC Transfer
Allianz Global Investors GMBH	Global Equity Alpha Fund	2 December 2015	
Baillie Gifford & Co	Diversified Growth Fund	15 February 2016	Has Transferred
Baillie Gifford & Co	Global Alpha Growth Fund	11 April 2016	
Pyrford International Limited	Global Total Return Fund	17 June 2016	

Ruffer LLP	Absolute Return Fund	21 June 2016	
Newton Investment Management	Real Return Fund	16 December 2016	
Newton	Global Equity	May 2017	
Majedie	UK Equity	May 2017	UK portion of Fund will transfer in May.
Longview	Global Equity	June 2017	UK portion of Fund will transfer in June.
Transitional Management Framework (National Frameworks – LCIV Founder Member)		Summer 2017	
Proposed Global Equity Sub-Funds: • Income • Emerging Markets • Sustainable Equities • Value	Global Equity	September 2017	
Additional Global Equity Funds • 4 Sub-Funds TBC – depending on Investor Demand	Global Equity	Winter 2017/2018	
Fixed Income / Cashflow Delivery Funds • 2x sub-funds – currently under consideration	Fixed Income / Cashflow Multi- asset income	Winter/Spring 2017/2018	

Note, Legal and General Global Equities Fund is taking advantage of the London CIV's renegotiation of rates although it cannot yet transfer

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**21 March 2017**
Classification:	**Public**
Title:	**Feedback from Annual Fund Manager Monitoring Day**
Wards Affected:	**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 of:	**Steven Mair** ***City Treasurer*** **smair@westminster.gov.uk** **020 7641 2904**

1. Executive Summary

1.1 The first annual fund manager monitoring day took place on 16th December 2016, with 7 fund managers attending to brief the Committee on their performance and outlook for the future.

2. Recommendation

2.1 That the report is noted

3. Background

3.1 At the Committee's meeting on 20 September 2016 it was agreed that members would meet with the fund managers managing the Fund's investments on an annual basis. It was agreed that this would take place during one day, where each active manager would have 30 minutes to give a refresher of their mandate and updates on their people, processes and performance.

3.2 The monitoring day took place on 16th December 2016 at Deloitte offices and the following managers attended:

8.30am	London CIV – Asset Pool Operator
9.30am	Baillie Gifford/London CIV – Pooled Global Equities
10.30am	Majedie – Pooled UK Equities
11.30am	Longview – Pooled Global Equities
1.15pm	Insight – Segregated Bonds
2.15pm	Hermes – Pooled Property
3.15pm	Standard Life – Pooled Long Lease Property

3.3 Attached at Appendix 1 are the notes of the meetings which summarises the key points that were discussed. No fund manager specific issues were identified. The managers were vigorously challenged by the Committee members on the level of fees being proposed for joining the London CIV. The main issue arising was a strategic matter relating to the negative outlook for equity markets and likely future returns, expressed by several of the managers. This will input into the investment strategy review to commence once the actuarial valuation results are known.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

Nikki Parsons nparsons@westminster.gov.uk or 020 7641 6925

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 – Notes of meeting with fund managers 16th December 2016

APPENDIX 1

City of Westminster Pension Fund
Fund Manager monitoring meetings – 16th December 2016

Attendees:
Committee Members
Cllr Rahuja
Cllr Rowley
Cllr Cox

Officers
Pete Carpenter
Nikki Parsons

Advisers
Alistair Sutherland, Deloitte
Kevin Humpherson, Deloitte

1 London CIV – represented by Jill Davys and Julian Pendock

People & Business

- Westminster Pension Fund has one fund manager, Baillie Gifford, which transitioned to the London CIV in April 2016
- A complex search for equity managers is underway which has involved meetings with 57 fund managers. Sub-funds for income, emerging markets and sustainable equities may be available in the summer of 2017 with £1bn committed to these three areas
- Infrastructure is an area where the London CIV believe they can build value and a number of Boroughs are pushing for this
- The Investment Advisory Committee are looking into Fixed Income options, which will be of particular interest to Westminster
- Additional Internal resourcing is required to deliver the work planned and the Committee are happy to help support this

Process

- The London CIV will continue to facilitate direct meetings between funds and the Boroughs although the relationship is with the CIV

Performance

- Performance for Baillie Gifford sub-fund is provided in the next section
- Fee savings have already been achieved via the London CIV for the passive equities mandate managed by Legal and General. Discussions are on-going with other equity fund managers

2 Baillie Gifford – represented by Tom Wright and Fiona McCloud
(Facilitated by Jill Davys, London CIV)

People & Business

- No changes to report

Process

- Will continue with their underlying philosophy

Performance

- Turnover is 13% which indicates holding periods of 7 years. This is significantly different from the Active Share Comparator
- Performance is 15.1% against 14.3% benchmark so are not achieving the 2-3% target currently.
- Since inception 10 years ago, they have delivered 2.5%
- The Committee challenged Baillie Gifford on the fee structure offered on the London CIV platform and the lack of savings for Westminster

Outlook

- Baillie Gifford has a research agenda which has generated around 50 ideas across emerging quality growth, technology platforms and energy & industrials markets. This should drive the future returns of the portfolio
- Politics across the world is a huge short term theme.

3 Majedie – represented by James de Uphaugh and James Mowat

People & business

- All employees have a stake in the business.
- Still aiming to keep a small firm (£283m is a large mandate for them)

Process

- Have a distinctive investment process with strong returns.

Performance

- Since 2006 returned 10.4% per annum against 4.4% benchmark
- For 12 of the 14 years, have been well above the benchmark.

Outlook

- Inflation appears to be returning so the portfolio will have to change. Baillie Gifford has already taken steps to take account of this.
- Staples will be at risk if inflation rises
- There is a move towards passive, particularly in the USA
- Banks are still coming through as negative in the portfolio but this is starting to turnaround
- In the medium term, oil prices look to be on an upward trend

4 Longview – represented by Jessica Cameron and Stephen Burgess

People & business

- Longview has £16.5bn of sterling assets. Are now raising new assets and trying to slightly diversify their client base
- Northill own 55% of the stake since 2014
- Nigel Masding, research analyst, was asked to leave Longview earlier in the year
- There is no fund manager – they are all generalists

Process

- Global portfolio on 30-35 stocks selected bottom-up.
- Are index agnostic although they make sure there is diversification
- Three key criterion – quality, fundamentals and valuation. If any of these fail, the stocks are sold
- No energy or commodities stocks held as they are too unpredictable

Performance

- Brexit has affected the portfolio with lower interest rates and forecasts of growth.
- Were overweight in terms of sterling based equities

Outlook

- The top two detractors supply car components but in the medium and long term they will rise again
- Strongly noted by the Committee that Longview are very late in discussions for joining the London CIV

5 Insight – represented by Gary Wilkinson and April Larusse

People & business

- No changes

Process

- Have a five arrow process for fixed income to get additional value

Performance

- Non-gilts have returned around 23bps after fees
- High yield market has performed well
- Companies are more leveraged and using the bond market, but because interest rates are low it is not a massive problem
- ECB and other central banks with QE has given significantly more strength to Corporate Bonds so bonds are scarce
- Asset backed Securities are still showing insufficient supply for the demand

Outlook

- View is that interest rates will not be changed over the next year and the lever will be a fiscal stimulus like tax cuts
- Sterling bond market is getting smaller which is getting a bigger problem
- Main way of adding value is through security selection

6 Hermes – represented by Gareth Davies and Chris Matthew

People & business

- The total assets under management is £28bn.
- Were almost fully invested at the end of September 2016
- Potential interest from new investors

Process

- Have £1.3bn of directly owned stock and 89 assets with no debt.
- Their philosophy is that it is better to own and have control
- No upper target but only looking at 90-100 assets

Performance

- Are performing ahead of balanced fund indicator
- Overweight in the City and the West End
- Have not lost any rental transactions because of Brexit and no redemptions
- Property is a return of around 3% over 10 year gilts

Outlook

- Uncertainty would mean would not buy office property in the City but overall things are not over-valued
- Always better to buy the right property, even if it is in the wrong sector
- Hermes were encouraged by the Committee to go and talk to the London CIV

7 Standard Life – represented by Euan Baird and Richard Marshall

People & business

- Number of units has not changed but value has increased by £10m
- All holdings are UK based
- Fund is only available to institutional investors

Process

- Have a flexible approach
- Have reduced weighting from 32% to 22% on supermarkets over the last 2 years

Performance

- Expected yearly returns is in the 8% range
- Currently have a lot of university based accommodation
- Most leases being signed up are for shorter terms

Outlook

- Things are slowing but still huge uncertainties so cautious through to 2018
- Long term yield gap is 200bps – it is 630bps currently
- The distribution sector is growing

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**21 March 2017**
Classification:	**Public**
Title:	**Fund Financial Management**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no immediate financial implications arising from this report.**
Report of:	**Steven Mair** ***City Treasurer*** **smair@westminster.gov.uk** **020 7641 2904**

1. Executive Summary

1.1 This report presents a variety of information that will assist the Pension Fund Committee in monitoring key areas to ensure effective control of the Fund's operations and help inform strategic decisions.

2. Recommendations

2.1 The Committee is asked to approve the updated risk register for the Pension Fund.

2.2 The Committee is asked to note the cashflow position of the Fund.

3. Risk Register Monitoring

3.1 The risk register for the Pension Fund was established and first approved by the Committee in May 2015. The risk register uses the scoring matrix from the Tri-Borough risk management guidance which is set out in Appendix 1.

3.2 At the Committee meeting in June 2016, it was reported that the risk register scoring matrix which is used to evaluate the residual risk was very subjective and would benefit from greater definition. It was agreed that a more quantitative approach should be explored which would be more appropriate and specific to the Pension Fund.

3.3 Officers from the Tri-Borough Pensions Team met in October 2016 to review and develop the current scoring process, which would then be applied consistently across the three Pension Funds' risk registers.

3.4 It is proposed that the impact scores for each risk be broken down further and rated against the impact on cost/budget or the impact on members of the scheme as outlined below:

Impact Description	Impact on Cost/Budget	Impact on Members
1 Very Low	Up to £50k	Up to 10 members
2 Low	From £50k to £200k	11 to 100 members
3 Medium	From £200k to £1m	101 to 500 members
4 High	From £1m to £50m	501 to 5000 members
5 Very High	Above £50m	Above 5000 members

3.5 The scoring has been updated by officers to reflect the changes above and the proposed risk register is attached as Appendix 2 and the front summary sheet outlines the changes which have been made

3.6 The Committee are invited to review the new scoring process and approve the updated risk register.

4. Cashflow Monitoring

4.1 The cashflow forecast has been updated to reflect the actual position held at the end of December 2016. This is included at Appendix 3.

4.2 In September 2016, arrangements were put in place to redeem £4.5 million from both the Baillie Gifford mandate (managed by the London CIV) and the Longview mandate as previously approved by the Pension Fund Committee. Half of these funds were transferred into the bank account at the time, to service the immediate cashflow requirement. The remainder was held in a money market fund earning interest at Northern Trust until it was required in December 2016.

4.3 In March 2017, additional employer contributions are to be made from the Council to cover early retirement and ill-health strain costs and the unfunded pension costs. The cashflow forecast for the remainder of this financial year projects that there is no further requirement to disinvest funds.

4.4 The following three year forecast from 2017/18 has been updated to reflect the increased contributions levels following the outcome of the triennial valuation process.

4.5 The level of expenses forecasted over the next three years has significantly reduced because fund manager fees will no longer be paid by invoice for those managers which transition onto the London CIV platform. Instead, these fees will be deducted at source and reflected in the unit price. This will reduce the requirement for holding cash.

4.6 The level of income distributions forecasted for the next three years has also increased significantly, as the Pension Fund will opt to receive cash distributions from mandates as they are transferred onto the London CIV. This will reduce the level of disinvestment required from fund managers over the year in order to cover the negative cashflow position.

4.7 Officers will continue to monitor the cash balance on a regular basis and will update the Committee as required.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

Nikki Parsons nparsons@westminster.gov.uk or 020 7641 6925

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 – Tri-Borough Risk Management Scoring Matrix
Appendix 2 – Pension Fund Risk Register Review, March 2017
Appendix 3 – Cash Flow Monitoring, March 2017

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Appendix 1 - Tri Borough Risk Management Scoring Matri

Scoring (Impact)

Impact Description	Category
1 Very Low	Cost/Budgetary Impact
	Impact on life
	Environment
	Reputation
	Service Delivery
2 Low	Cost/Budgetary Impact
	Impact on life
	Environment
	Reputation
	Service Delivery
3 Medium	Cost/Budgetary Impact
	Impact on life
	Environment
	Reputation
	Service Delivery
4 High	Cost/Budgetary Impact
	Impact on life
	Environment
	Reputation
	Service Delivery
5 Very High	Cost/Budgetary Impact
	Impact on life
	Environment
	Reputation
	Service Delivery

Scoring (Likelihood)

Descriptor	
1. Improbable, extremely unlikely	
2. Remote possibility	
3. Occasional	
4. Probable	
5. Likely	

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Description
£0 to £25,000
Temporary disability or slight injury or illness less than 4 weeks (internal) or affecting 0-10 people (external)
Minor short term damage to local area of work.
Decrease in perception of service internally only – no local media attention
Failure to meet individual operational target – Integrity of data is corrupt no significant effect
£25,001 to £100,000
Temporary disability or slight injury or illness greater than 4 weeks recovery (internal) or greater than 10 people (external)
Damage contained to immediate area of operation, road, area of park single building, short term harm to the immediate ecology or community
Localised decrease in perception within service area – limited local media attention, short term recovery
Failure to meet a series of operational targets – adverse local appraisals – Integrity of data is corrupt, negligible effect on indicator
£100,001 to £400,000
Permanent disability or injury or illness
Damage contained to Ward or area inside the borough with medium term effect to immediate ecology or community
Decrease in perception of public standing at Local Level – media attention highlights failure and is front page news, short to medium term recovery
Failure to meet a critical target – impact on an individual performance indicator – adverse internal audit report prompting timed improvement/action plan - Integrity of data is corrupt, data falsely inflates or reduces outturn of indicator
£400,001 to £800,000
Individual Fatality
Borough wide damage with medium or long term effect to local ecology or community
Decrease in perception of public standing at Regional level – regional media coverage, medium term recovery
Failure to meet a series of critical targets – impact on a number of performance indicators – adverse external audit report prompting immediate action - Integrity of data is corrupt, data falsely inflates or reduces outturn on a range of indicators
£800,001 and over
Mass Fatalities
Major harm with long term effect to regional ecology or community
Decrease in perception of public standing nationally and at Central Government – national media coverage, long term recovery
Failure to meet a majority of local and national performance indicators – possibility of intervention/special measures – Integrity of data is corrupt over a long period, data falsely inflates or reduces outturn on a range of indicators

Likelihood Guide
Virtually impossible to occur 0 to 5% chance of occurrence.
Very unlikely to occur 6 to 20% chance of occurrence
Likely to occur 21 to 50% chance of occurrence
More likely to occur than not 51% to 80% chance of occurrence
Almost certain to occur 81% to 100% chance of occurrence

Appendix 2: Pension Fund Risk Register, March 2017

<u>Changes to the risk register since previous quarter</u>

Type	**Ref**	**Risk**	**Rationale**
Risk rating low to medium	2	Fund Managers fail to achieve returns	New scoring process increases impact score from 3 to 4
Likelihood score 4 to 3	4	Inflation and interest rates inaccurate	Triennial valuation process recently finalised
Risk rating very low to low Likelihood score 2 to 1	5	Insufficient cash to meet pension payments	New scoring categorisation for 1-10 is classified as low Increase in contributions and cash income and reduction in invoice payments has improved cashflow position
Risk rating low to medium Likelihood score 4 to 3	6	Scheme members live longer than expected	New scoring process increases impact score from 2 to 4 Triennial valuation process recently finalised
Risk rating medium to low	8	Pension legislation/regulation changes	New scoring process decreases impact score from 4 to 3
Risk rating very low to medium Likelihood score 2 to 3	9	Introduction of MiFID II	New scoring process increases impact score from 2 to 5 Third consultation closed. Implementation due to take effect 3/1/18
Risk rating very low to low	10	Failure to comply with legislation	New scoring categorisation for 1-10 is classified as low
Risk rating very low to low	13	Inadequate/inappropriate actuarial advice	New scoring categorisation for 1-10 is classified as low
Likelihood score 3 to 2	14	London CIV inadequate resources	More resources agreed by Boroughs
Risk rating low to medium	15	Failure of admitted/scheduled body	New scoring process increases impact score from 2 to 4
Likelihood score 3 to 2	16	Ill health costs exceed budget	Triennial valuation process recently finalised
Risk rating low to medium	18	Loss of funds through fraud/misappropriation	New scoring process increases impact score from 2 to 4
Risk rating very low to low Likelihood score 3 to 2	19	Failure of Fund Manager/service provider	New scoring categorisation for 1-10 is classified as low London CIV Governance arrangements in place

Risk rating very low to low	20	Failure of financial system	New scoring categorisation for 1-10 is classified as low
Risk rating very low to low	21	Failure of pension payroll system	New scoring categorisation for 1-10 is classified as low
Risk rating very low to low	23	Failure of pension administration system	New scoring categorisation for 1-10 is classified as low
Likelihood score 2 to 3	24	Administrators insufficient staff	Surrey CC onboarded more pension funds in October
Risk rating medium to high	25	BT unable to provide interface files	New scoring process increases impact score from 3 to 5

Pension Fund risk register, March 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
1	**STRATEGIC: INVESTMENT** That the combination of assets in the investment portfolio fails to fund the liabilities in the long term.	• Investment strategy in place and reviewed periodically. • Performance is measured against a liability based benchmark. • Fund performance is reviewed quarterly.	2	5		Low 10	City Treasurer	June 2017
2	**STRATEGIC: INVESTMENT** Fund managers fail to achieve the returns agreed in their management agreements.	• Independent monitoring of fund manager performance by custodian against targets. • Investment adviser retained to keep watching brief. • Fund manager performance is reviewed quarterly.	3	4		Medium 12	City Treasurer	June 2017
3	**STRATEGIC: INVESTMENT** Failure of custodian or counterparty.	• At time of appointment, ensure assets are separately registered and segregated by owner. • Review of internal control reports on an annual basis. • Credit rating kept under review.	2	5		Low 10	City Treasurer	June 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
4	**STRATEGIC: FUNDING** The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	• Review at each triennial valuation and challenge actuary as required. • Growth assets and inflation linked assets in the portfolio should rise as inflation rises.	3	4		Medium 12	City Treasurer	June 2017
5	**STRATEGIC: FUNDING** There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments.	• Cashflow forecast maintained and monitored. • Cashflow position reported to sub-committee quarterly. • Cashflow requirement is a factor in current investment strategy review.	1	4		Low 4	City Treasurer	June 2017
6	**STRATEGIC: FUNDING** Scheme members live longer than expected leading to higher than expected liabilities.	• Review at each triennial valuation and challenge actuary as required.	3	4		Medium 12	City Treasurer	June 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
7	**STRATEGIC: FUNDING** Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	• Review maturity of scheme at each triennial valuation. • Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. • Cashflow position monitored monthly.	2		4	Low 8	City Treasurer	June 2017
8	**STRATEGIC: REGULATION** Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	• Maintain links with central government and national bodies to keep abreast of national issues. • Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	3	3		Low 9	City Treasurer and Director of People Services	June 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
9	**STRATEGIC: REGULATION** Introduction of European Directive MiFID II results is a restriction of Fund's investment options and an increase in costs	• Officers are engaging with Fund Managers to understand the position better • Knowledge and Skills Policy in place for Officers and Members of the Committee • Maintain links with central government and national bodies to keep abreast of national issues.	3	5		Medium 15	City Treasurer	June 2017
10	**OPERATIONAL: GOVERNANCE** Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	• Officers maintain knowledge of legal framework for routine decisions. • Eversheds retained for consultation on non-routine matters.	2	4		Low 8	City Treasurer	June 2017
11	**OPERATIONAL: GOVERNANCE** Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	• External professional advice is sought where required • Knowledge and skills policy in place (subject to Committee Approval)	3	3		Low 9	City Treasurer	June 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
12	**OPERATIONAL: GOVERNANCE** Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	• Person specifications are used at recruitment to appoint officers with relevant skills and experience. • Training plans are in place for all officers as part of the performance appraisal arrangements. • Shared service nature of the pensions team provides resilience and sharing of knowledge.	3	3		Low 9	City Treasurer and Director of People Services	June 2017
13	**OPERATIONAL: GOVERNANCE** Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	• At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. • Committee and officers scrutinise and challenge advice provided.	2	4		Low 8	City Treasurer	June 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
14	**OPERATIONAL: GOVERNANCE** London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	• Pension Fund Committee Chair is a member of the Joint member Committee responsible for the oversight of the CIV and can monitor and challenge the level of resources through that forum. • Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work of the London CIV.	2	4		Low 8	City Treasurer	June 2017
15	**OPERATIONAL: FUNDING** Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	• Transferee admission bodies required to have bonds in place at time of signing the admission agreement. • Regular monitoring of employers and follow up of expiring bonds.	3	4		Medium 12	City Treasurer and Director of People Services	June 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
16	**OPERATIONAL: FUNDING** Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	• Review "budgets" at each triennial valuation and challenge actuary as required. • Charge capital cost of ill health retirements to admitted bodies at the time of occurring. • Occupational health services provided by the Council and other large employers to address potential ill health issues early.	2	2		Low 4	City Treasurer and Director of People Services	June 2017
17	**OPERATIONAL: FUNDING** Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	• Monitor numbers and values of transfers out being processed. • If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values.	2	1		Low 2	City Treasurer and Director of People Services	June 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
18	**OPERATIONAL: ADMINISTRATION** Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	• Third parties regulated by the FCA and separation of duties and independent reconciliation procedures in place. • Review of third party internal control reports. • Regular reconciliations of pension payments undertaken by Pensions Finance Team. • Periodic internal audits of Pensions Finance and HR teams.	4	4		High 16	City Treasurer and Director of People Services	June 2017
19	**OPERATIONAL: ADMINISTRATION** Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place.	• Contract monitoring in place with all providers. • Procurement team send alerts whenever credit scoring for any provider changes for follow up action.	2	5		Low 10	City Treasurer and Director of People Services	June 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
20	**OPERATIONAL: ADMINISTRATION** Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible.	• Contract in place with BT to provide service enabling smooth processing of supplier payments • Process in place for Surrey CC to generate lump sum payments to members as they are due. • Officers undertaking additional testing and reconciliation work to verify accounting transactions	2		5	Low 10	City Treasurer	June 2017
21	**OPERATIONAL: ADMINISTRATION** Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	• In the event of a pension payroll failure we would consider submitting the previous months BACS file to pay pensioners a second time if a file could not be recovered by the pension administrators and our software suppliers.	1		5	Low 5	Director of People Services	June 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
22	**OPERATIONAL: ADMINISTRATION** Failure to pay pension benefits accurately leading to under or over payments.	• There are occasional circumstances where under or over payments are identified. Where under payments occur arrears are paid as soon as possible usually in the next monthly pension payment. Where an overpayment occurs, the member is contacted and the pension corrected in the next month. Repayment is requested and sometimes we collect this over a number of months.	2		3	Low 6	Director of People Services	June 2017
23	**OPERATIONAL: ADMINISTRATION** Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	• Pension administration records are stored on the surrey servers they have a disaster recovery system in place and records should be restored within 24 hours of any issue, files are backed up daily.	1		5	Low 5	Director of People Services	June 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
24	**OPERATIONAL: ADMINISTRATION** Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	• Surrey CC administers pensions for Surrey, East Sussex and is taking on our Triborough partners. They have a number of very experienced administrators two of whom tuped to them from LPFA with our contract. Where issues arise the Pensions Liaison Officer reviews directly with the Pensions Manager at Surrey. More detailed performance reports are being developed.	3		3	Low 9	Director of People Services	June 2017
25	**Operational: Administration** BT unable to provide monthly or end of year interface files in a format suitable for Surrey CC to update service records and undertake day to day operations. Inaccuracies in service records held on the pensions administration system may impact on the triennial funding valuation at March 2016 and notifications to starters and leavers.	• Issue has been escalated by the Chief Executive for high level resolution with BT • Test files are currently with SCC • Actuary undertakes data cleansing on the service records and is confident this will mitigate the inaccuracies in service records	4		5	High 20	Director of People Services	June 2017

Appendix 3: CASHFLOW MONITORING

Cashflow Forecasts 2016-17 and the following 3 financial years

	2016/17			2017/18
	£000	£000	£000	£000
	F'cast	Outturn	Var	F'cast
Balance b/f	**8,658**	**8,658**	**0**	**4,528**
Contributions	36,000	36,492	(492)	42,600
Misc. Receipts[1]	1,200	4,612	(3,412)	2,500
Pensions	(36,000)	(35,690)	(310)	(36,000)
HMRC Tax	(6,480)	(6,490)	10	(7,000)
Misc. Payments[2]	(11,400)	(11,242)	(158)	(13,000)
Expenses	(5,260)	(2,414)	(2,846)	(2,000)
Net cash in/(out) in month	**(21,940)**	**(14,732)**	**(7,208)**	**(12,900)**
Withdrawals from Fund Managers	18,000	9,542	8,458	0
Income Distribution	0	1,060	(1,060)	13,000
Balance c/f	**4,718**	**4,528**	**190**	**4,628**

Notes

[1] Includes Transfers in, Overpayments, Bank Interest, VAT reclaim, Recharges

[2] Includes Transfers out, Lump Sums, Death Grants, Refunds

Cashflow actuals and forecast for period April 2016 to March 2017

	Apr-16			
	£000	£000	£000	£000
	F'cast	Actual	Var	F'cast
Balance b/f	**8,658**	**8,658**	**0**	**7,238**
Contributions	3,000	2,973	27	3,000
Misc. Receipts[1]	100	21	79	100
Pensions	(3,000)	(2,940)	(60)	(3,000)
HMRC Tax	(540)	(537)	(3)	(540)
Misc. Payments[2]	(950)	(1,536)	586	(950)
Expenses	(30)	(21)	(9)	(500)
Net cash in/(out) in month	**(1,420)**	**(2,040)**	**620**	**(1,890)**
Withdrawals from Fund Managers	0	0	0	0
Income Distributions				
Balance c/f	**7,238**	**6,618**	**620**	**5,348**

Notes

[1] Includes Transfers in, Overpayments, Bank Interest, VAT reclaim, Recharges

[2] Includes Transfers out, Lump Sums, Death Grants, Refunds

2018/19	2019/20
£000	£000
F'cast	F'cast
4,628	**4,378**
42,700	42,800
2,800	3,100
(36,500)	(37,000)
(7,500)	(8,000)
(15,000)	(17,000)
(2,250)	(2,500)
(15,750)	**(18,600)**
2,000	4,000
13,500	14,000
4,378	**3,778**

May-16		Jun-16			Jul-16			
£000	£000	£000	£000	£000	£000	£000	£000	*£000*
Actual	Var	F'cast	Actual	Var	F'cast	Actual	Var	*F'cast*
6,618	**620**	**5,348**	**5,107**	**241**	**3,928**	**1,967**	**1,961**	***5,333***
2,738	262	3,000	1,259	1,741	3,000	4,785	(1,785)	*3,000*
609	(509)	100	142	(42)	100	2,651	(2,551)	*100*
(2,970)	(30)	(3,000)	(2,956)	(44)	(3,000)	(2,944)	(56)	*(3,000)*
(546)	6	(540)	(541)	1	(540)	(535)	(5)	*(540)*
(830)	(120)	(950)	(729)	(221)	(950)	(509)	(441)	*(950)*
(512)	12	(30)	(315)	285	(30)	(82)	52	*(500)*
(1,511)	**(379)**	**(1,420)**	**(3,140)**	**1,720**	**(1,420)**	**3,366**	**(4,786)**	***(1,890)***
0	0	0	0	0	9,000	0	9,000	*0*
5,107	**241**	**3,928**	**1,967**	**1,961**	**11,508**	**5,333**	**6,175**	**3,443**

Aug-16		Sep-16			Oct-16			
£000	**£000**	***£000***	**£000**	**£000**	***£000***	**£000**	**£000**	***£000***
Actual	**Var**	***F'cast***	**Actual**	**Var**	***F'cast***	**Actual**	**Var**	***F'cast***
5,333	***0***	***3,443***	***3,222***	***221***	***6,915***	***6,915***	***0***	***5,495***
3,001	*(1)*	*3,000*	*2,972*	*28*	*3,000*	*2,802*	*198*	*3,000*
2	*98*	*100*	*183*	*(83)*	*100*	*294*	*(194)*	*100*
(2,970)	*(30)*	*(3,000)*	*(2,940)*	*(60)*	*(3,000)*	*(2,998)*	*(2)*	*(3,000)*
(530)	*(10)*	*(540)*	*(541)*	*1*	*(540)*	*(530)*	*(10)*	*(540)*
(975)	*25*	*(950)*	*(481)*	*(469)*	*(950)*	*(1,418)*	*468*	*(950)*
(639)	*139*	*(400)*	*0*	*(400)*	*(30)*	*(63)*	*33*	*(330)*
(2,111)	***221***	***(1,790)***	***(807)***	***(983)***	***(1,420)***	***(1,913)***	***493***	***(1,720)***
0	*0*	*9,000*	*4,500*	*4,500*	*0*	*0*	*0*	*0*
3,222	**221**	**10,653**	**6,915**	**3,738**	**5,495**	**5,002**	**493**	**3,775**

Nov-16		***Dec-16***			***Jan-17***	***Feb-17***	***Mar-17***	***Outturn 16/17***
£000	**£000**	***£000***	**£000**	**£000**	***£000***	***£000***	***£000***	***£000***
Actual	**Var**	***F'cast***	**Actual**	**Var**	***F'cast***	***F'cast***	***F'cast***	***F'cast***
5,002	***493***	***3,775***	***2,898***	***877***	***7,988***	***6,568***	***4,848***	***8,658***
2,724	*276*	*3,000*	*3,138*	*(138)*	*3,000*	*3,000*	*4,100*	*36,492*
147	*(47)*	*100*	*263*	*(163)*	*100*	*100*	*100*	*4,612*
(2,985)	*(15)*	*(3,000)*	*(2,987)*	*(13)*	*(3,000)*	*(3,000)*	*(3,000)*	*(35,690)*
(576)	*36*	*(540)*	*(534)*	*(6)*	*(540)*	*(540)*	*(540)*	*(6,490)*
(1,379)	*429*	*(950)*	*(535)*	*(415)*	*(950)*	*(950)*	*(950)*	*(11,242)*
(35)	*(295)*	*(30)*	*(357)*	*327*	*(30)*	*(330)*	*(30)*	*(2,414)*
(2,104)	***384***	***(1,420)***	***(1,012)***	***(408)***	***(1,420)***	***(1,720)***	***(320)***	***(14,732)***
0	*0*	*4,500*	*5,042*	*(542)*	*0*	*0*	*0*	*9,542*
		1,500	*1,060*	*440*				*1,060*
2,898	**877**	**8,355**	**7,988**	**367**	**6,568**	**4,848**	**4,528**	**4,528**

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Committee Report

City of Westminster

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**21 March 2017**
Classification:	**Public**
Title:	**Performance of the Council's Pension Fund**
Wards Affected:	**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 of:	**Steven Mair** ***City Treasurer*** **smair@westminster.gov.uk** **020 7641 2904**

1. Executive Summary

1.1 This report presents a summary of the Pension Fund's performance to 31 December 2016.

2. Recommendation

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

3. Background

Performance of the Fund

3.1 This report presents a summary of the Pension Fund's performance to 31 December 2016. The investment report (Appendix 1) has been prepared by Deloitte, the Fund's investment adviser, who will be attending the meeting to present the key points and answer questions.

3.2 The Investment Performance Report shows that over the quarter to 31 December 2016, the market value of the assets increased by £51.1

million with positive absolute returns from the Fund's managers excluding the Insight mandates.

3.3 There is no funding level update this quarter as the final actuarial valuation results are reported elsewhere on this agenda.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

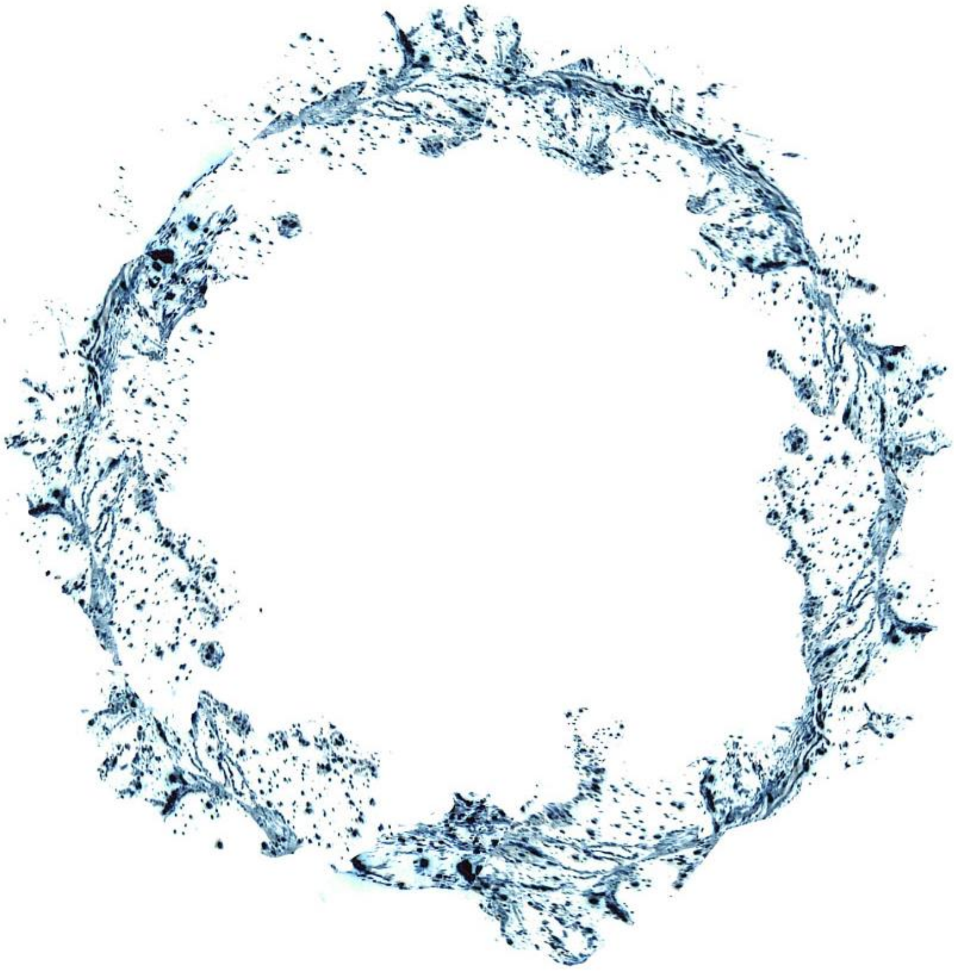
Nikki Parsons nparsons@westminster.gov.uk or 020 7641 6925

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 - Deloitte Investment Report, Quarter Ending 31 December 2016

Deloitte.



City of Westminster Pension Fund

Investment Performance Report to 31 December 2016

Deloitte Total Reward and Benefits Limited
February 2017

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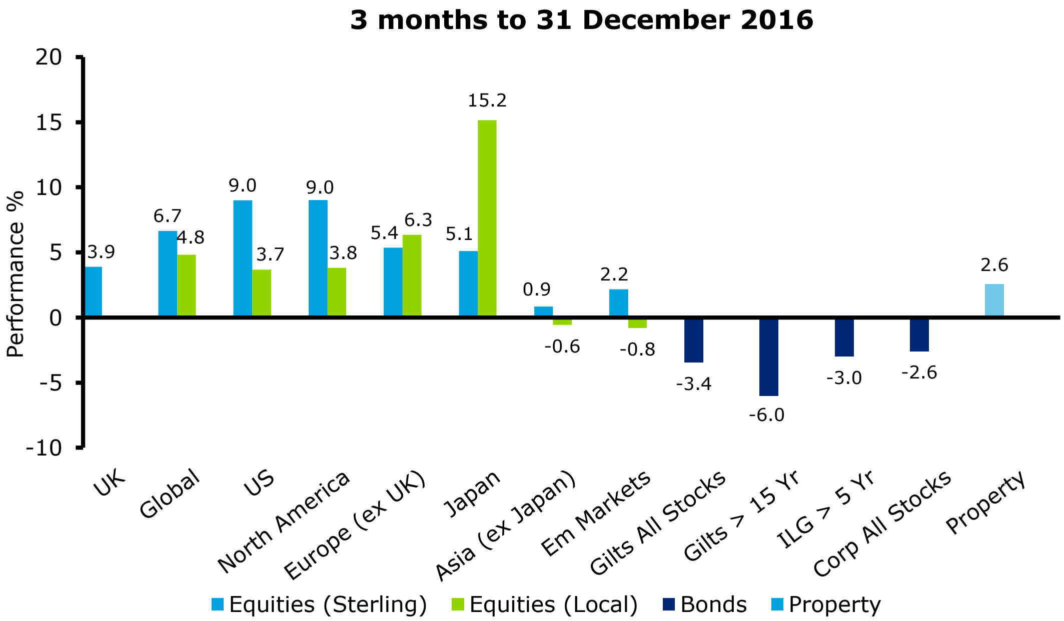
1 Market Background

Three months to 31 December 2016



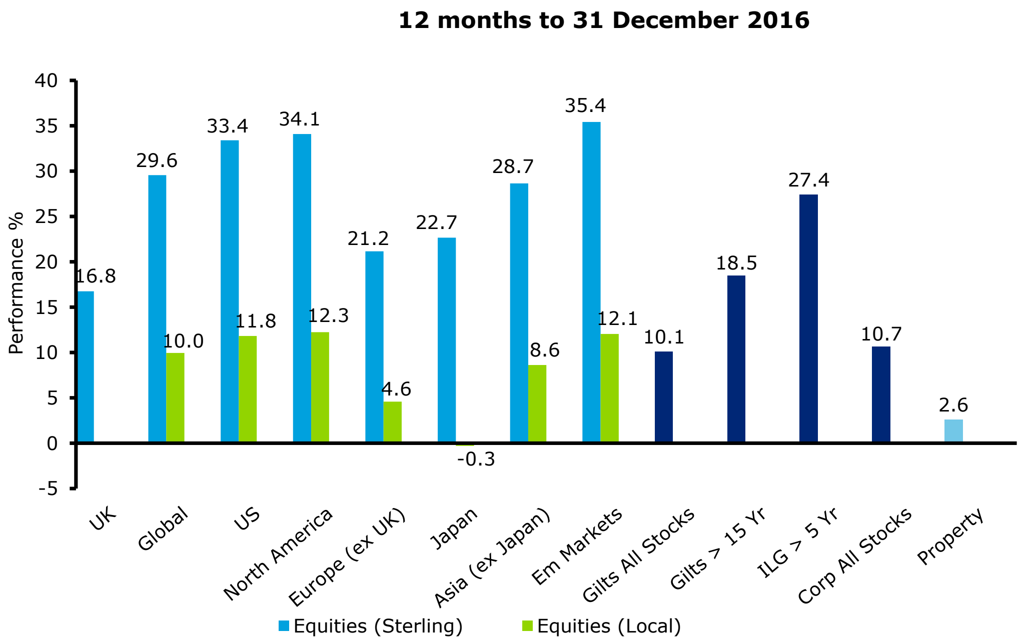
The UK equity market rose over the fourth quarter of 2016, with the FTSE All Share Index delivering a return of 3.9%. The continued depreciation of sterling and surprisingly robust economic data contributed to another quarter of strong performance for the UK equity market, mirroring the wider growth in global equity markets following President Trump's unexpected victory in the US election.

Large UK companies marginally outperformed smaller companies over the final quarter of 2016, with both delivering strong returns. The FTSE 100 Index returned 4.3%, while the FTSE Small Cap Index delivered a return of 4.0%, with both indices ending the final quarter of 2016 close to record highs. There was a wide spread of returns at the sector level. The top performing sector was Oil & Gas (16.2%), buoyed by the increase in oil price following OPEC's announcement that it would cut production in 2017, while the cyclical Basic Materials sector had a second consecutive strong quarter (14.0%). The poorest performing sector was Technology (-9.0%) while Telecommunications and Utilities (-7.9% and -7.4% respectively) also struggled.

Global equity markets outperformed the UK in both sterling (6.7%) and local currency terms (4.8%) over the fourth quarter. Returns across the different regions were mixed. In local currency terms, Japan led the way with a return of 15.2% over the period. However Emerging Markets and Asia Pacific (excluding Japan) were the poorest performing regions returning -0.8% and -0.6% respectively in local currency terms, potentially as a result of President Trump's protectionist rhetoric and promise to walk away from the TPP trade agreement.

Following the significant fall in nominal gilt yields after the EU referendum, yields rebounded during the fourth quarter, ending the period around 40 to 50 basis points higher, due to a combination of rising inflation expectations and the sharp rise in US Treasury yields towards the end of the year, as the Fed raised interest rates. Real yields increased over the fourth quarter, albeit not to the same extent as nominal yields, therefore resulting in a further rise in inflation expectations. UK nominal gilts delivered negative returns over the final quarter of 2016, with the All Stocks Gilts Index returning -3.4%. The All Stocks Index-linked Gilts returned -2.7% over the same period. Credit spreads increased slightly over the fourth quarter, but remain below historic average levels. The iBoxx All Stocks Non Gilt Index returned -2.6% for the final quarter of 2016.

Twelve months to 31 December 2016



Over the 12 months to 31 December 2016, the FTSE All Share Index delivered a positive return of 16.8%. Whilst returns have been very strong, buoyed by sterling depreciation, performance was also volatile, in part due to the political uncertainty created by the UK's EU referendum and the US Presidential Election and performance varied significantly across sectors. The cyclical Basic Materials sector was the highest performing sector (84.2%), while Oil & Gas stocks returned 50.1% on the back of the oil price rebounding in 2016. In contrast, Telecommunications was the poorest performing sector over 2016 (-15.5%). Global equity markets underperformed the UK in local currency terms (10.0%) but outperformed the UK in sterling terms (29.6%) due to the depreciation of sterling in 2016, with currency hedging therefore detracting from performance.

UK nominal gilts delivered strong returns in 2016, with the All Stocks Gilts Index returning 10.1% and the Over 15 Year Gilts Index returning 18.5% as gilt yields fell significantly across all maturities. Real yields also fell significantly over the year, with the Over 5 Year Index Linked Gilts Index returning 27.4%. The narrowing of credit spreads over the year, coupled with the fall in gilt yields, resulted in strong corporate bond returns, with the iBoxx All Stocks Non Gilt Index returning 10.7%.

The IPD UK Monthly Property Index returned 2.6% for both the 3 months and the year to 31 December 2016, as the UK property market bounced back from the negative performance since the EU referendum with investors attracted to the yield premium available versus low yielding gilts.

2 Total Fund

2.1 Investment Performance to 31 December 2016

The following table summarises the performance of the Fund's managers.

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]	
Majedie	UK Equity	8.6	8.6	3.9	23.4	23.1	16.8	8.4	8.0	6.1	10.8	10.5	6.4
LGIM	Global Equity	4.7	4.7	4.7	10.2	10.0	10.2	7.0	6.9	7.0	11.6	11.5	11.6
Baillie Gifford	Global Equity	4.0	3.9	6.4	25.2	24.8	28.5	n/a	n/a	n/a	14.7	14.3	15.2
Longview	Global Equity	6.4	6.2	7.1	29.7	29.1	28.2	n/a	n/a	n/a	18.6	18.0	16.3
Insight Gilts	Gilts	-1.4	-1.4	-1.4	4.8	4.7	5.0	4.3	4.2	4.4	5.0	4.9	5.1
Insight Non Gilts	Non Gilts	-1.3	-1.4	-1.4	8.3	8.0	7.8	6.5	6.3	6.1	5.9	5.7	5.4
Hermes	Property	3.1	3.0	2.2	6.8	6.4	3.7	13.8	13.4	11.2	9.6	9.2	8.4
Standard Life	Property	2.3	2.2	-3.0	6.1	5.6	12.3	8.2	7.7	10.2	9.1	8.6	8.7
Total		**4.5**	**4.4**	**3.3**	**17.0**	**16.7**	**15.4**	**9.5**	**9.1**	**8.8**	**7.2**	**6.9**	**6.8**

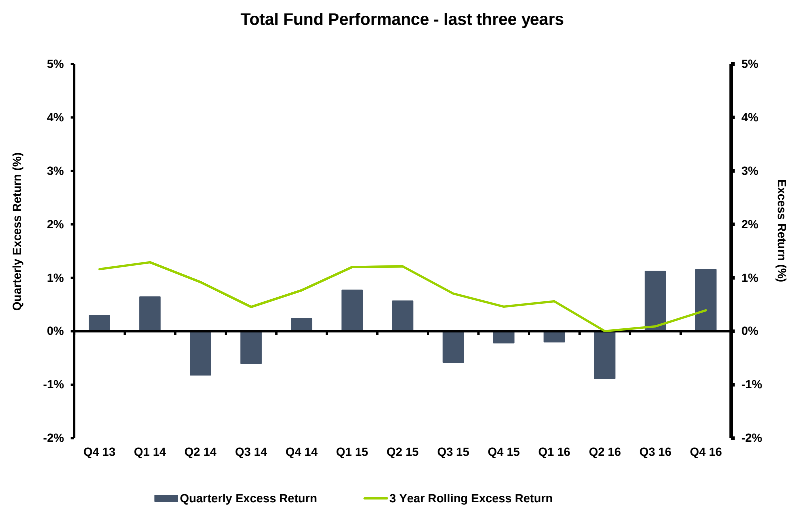
Source: Investment Managers

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

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

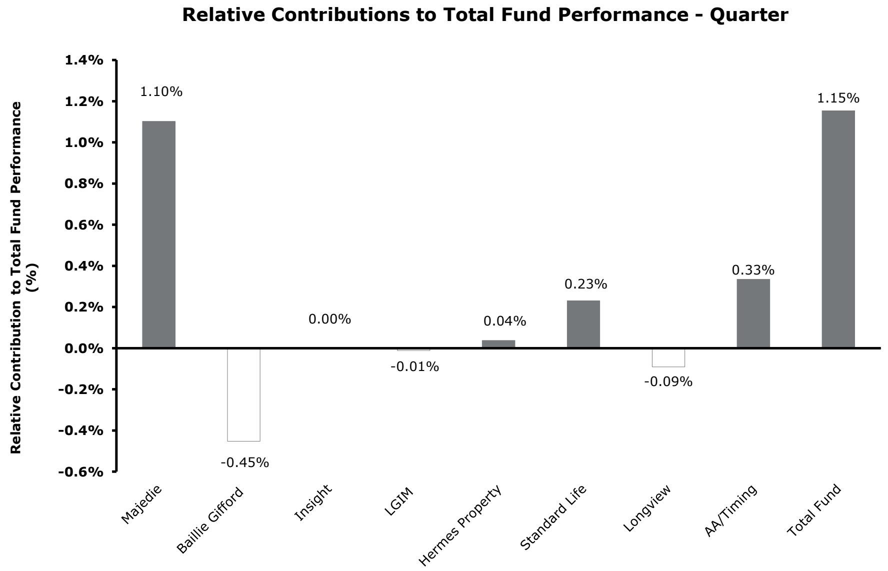
Over the quarter the Fund outperformed its benchmark by 1.1% net of fees, mostly due to the outperformance of Majedie and Standard Life.

The chart below shows the relative performance of the Fund over the quarter and last three years, highlighting that the rolling three-year performance is ahead of the benchmark. Please note that performance is shown net of fees versus the benchmark.



The Fund outperformed its composite benchmark by 1.15% on a net of fees basis over the fourth quarter of 2016, led by strong outperformance from Majedie and Standard Life.

2.2 Attribution of Performance to 31 December 2016



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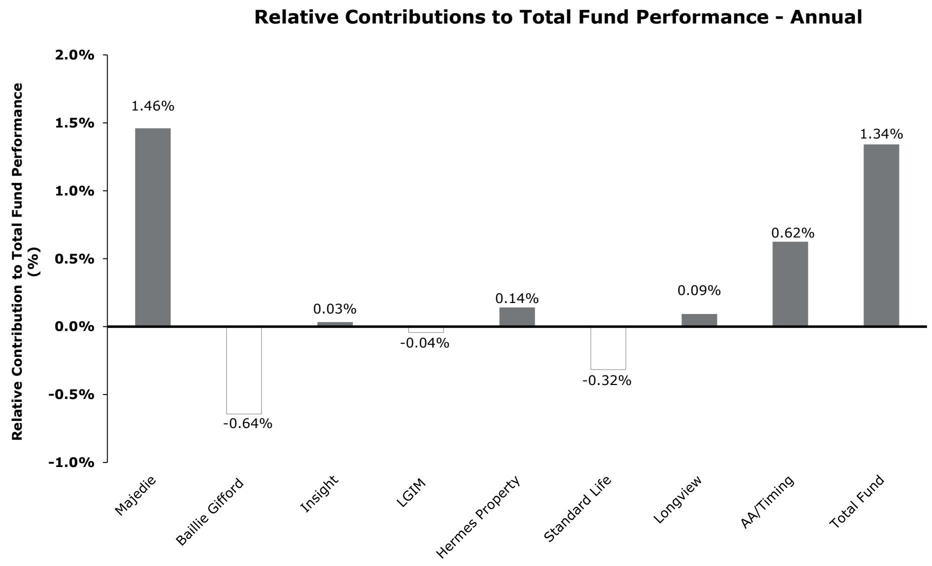
Outperformance by Majedie and Standard Life, with a further boost from being overweight equities helped to counteract the impact of the underperformance from Baillie Gifford and Longview.

Majedie's longer term performance also contributed to the Fund's outperformance over the year along with positive contributions from Hermes and Longview, offsetting the underperformance from Baillie Gifford.



2.3 Asset Allocation as at 31 December 2016

The table below shows the assets held by manager and asset class as at 31 December 2016.

Manager	Asset Class	End Sep 2016 (£m)	End Dec 2016 (£m)	End Sep 2016 (%)	End Dec 2016 (%)	Benchmark Allocation* (%)
Majedie	UK Equity	274.6	298.4	23.7	24.6	22.5
LGIM	Global Equity (Passive)	255.8	267.7	22.0	22.1	22.5
Baillie Gifford	Global Equity	209.2	217.0	18.0	17.9	25.0
Longview	Global Equity	125.5	133.3	10.8	11.0	
	Total Equity	**865.1**	**916.4**	**74.5**	**75.6**	**70.0**
Insight	Fixed Interest Gilts (Passive)	19.0	18.7	1.6	1.5	20.0
Insight	Sterling Non-Gilts	169.7	167.5	14.6	13.8	
	Total Bonds	**188.7**	**186.2**	**16.3**	**15.4**	**20.0**
Hermes	Property	55.0	56.2	4.7	4.6	5.0
Standard Life	Property	52.2	53.3	4.5	4.4	5.0
To be determined	Property / Infrastructure	0.0	0.0	0.0	0.0	
	Total Property	**107.2**	**109.5**	**9.2**	**9.0**	**10.0**
	Total	**1,161.0**	**1,212.1**	**100**	**100**	**100**

Source: Investment Managers Figures may not sum due to rounding

* The benchmark allocation has been set to 70% equity, 20% bonds and 10% property to better align the benchmark performance calculation with the allocation and performance of the Fund. The Fund's long term strategic benchmark allocation includes a 5% allocation to Property / Infrastructure, which will be funded from the equity portfolio.

Over the quarter the market value of the assets increased by c. £51.1m, with positive absolute returns from the Fund's managers excluding the Insight mandates.

As at 31 December 2016, the Fund was overweight equities by c. 5.6% when compared with the amended benchmark allocation and underweight bonds and property by c. 4.6% and c. 1.0% respectively.

2.4 Yield analysis as at 31 December 2016

The table below shows the yield as reported by the managers on each of the Fund's investments.

Manager	Asset Class	Yield as at 31 December 2016
Majedie	UK Equity	2.82%
Baillie Gifford	Global Equity	1.28%
Insight Fixed Interest Gilts	Fixed Interest Gilts (Passive)	2.80%
Insight Sterling Non-Gilts	Sterling Non-Gilts	2.25%
LGIM	Global Equity (Passive)	0.22%*
Hermes Property	Property	3.81%
Standard Life Long Lease	Property	4.40%
Longview	Global Equity	2.19%
	Total	**1.94%**

*Benchmark yield 2.48%

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
Baillie Gifford	Global Equity	Loss of key personnel Change in investment approach Lack of control in growth of assets under management	1
Longview	Global Equity	Loss of key personnel Change in investment approach Lack of control in growth of assets under management	1
LGIM	Global Equity (Passive)	Major deviation from benchmark returns Significant loss of assets under management	1
Insight	Sterling Non-Gilts Fixed Interest Gilts (Passive)	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
Hermes	Property	Significant growth in the value of assets invested in the fund Changes to the team managing the mandate	1
Standard Life	Property	Richard Marshall leaving the business or ceasing to be actively involved in the Fund without having gone through an appropriate hand-over A build up within the Fund of holdings with remaining lease lengths around 10 years	1

3.1 Majedie UK Equity

Business

Majedie continues to recycle capacity as many of its existing clients continue to de-risk out of equities. Over the quarter, Majedie won a new £125m mandate for the UK Focus Fund. This was a UK corporate DB Pension Scheme and a new client to Majedie. This client also invested £125m in Majedie's Global Focus Fund. In addition, a charity endowment has decided to invest an initial £24m, also across both of these funds.

Total AUM for Majedie as at 31 December 2016 was £13.6bn, an increase of £0.3bn from last quarter.

Personnel

James Mowat joined Majedie as Client Director in December 2016 as Simon Hazlitt's replacement. James joined having spent 14 years at Baillie Gifford where he was a member of the Global Alpha client service team since its inception in 2005.

***Deloitte view* –** We continue to rate Majedie positively for its UK Equity capabilities.

3.2 Baillie Gifford

Business

Total assets under management as at 31 December 2016 was c. £145bn, down from c. £148bn as at 30 September 2016. Baillie Gifford has suffered net capital outflows in 2016 for the second consecutive year due to the shift from active to passive management and the de-risking of pension schemes reducing their equity exposure.

Personnel
There were no significant changes to the portfolio management staff over the quarter. Three new partners will be appointed in May 2017, whilst one will retire in the same month thereby increasing the total number of partners at the firm to 43:

- Incoming: Eleanor McKee – clients department director, for MAG and DG clients, joined in 1998;
- Incoming: Donald Farquharson – investment manager in Japanese equity team, 28 years' experience;
- Incoming: John Carnegie – director in clients department as a global alpha specialist, joined in 2006;
- Retiring: Elaine Morrison - retiring after 28 years from the clients' department Asian business sector.

Deloitte view – We continue to rate Baillie Gifford positively for its global equity capabilities.

3.3 LGIM

Business
As at 30 June 2016, Legal & General Investment Management ("Legal & General") had total assets under management of c. £842bn, of which, £342bn was in passive solutions.

Personnel
Over the quarter, there were a number of senior personnel moves. These all represent internal hires who maintain the same LGIM philosophies.

- Aaron Meder will become CEO of LGIM America, leaving his current role as LGIM Head of Investment in London in early 2017;
- Anton Eser, currently Co-Head of LGIM's Global Fixed Income, will replace Aaron as LGIM Head of Investment in London;

Colin Reedie, currently Head of Euro Credit, will in-turn replace Anton as Co-Head of Global Fixed Income.
Deloitte View – We do not see these team structural changes having a negative impact on the business or funds, given the portfolio management teams for index equity and index fixed income remain intact, however we will continue to closely monitor any further developments. We continue to rate Legal & General positively for its passive capabilities.

3.4 Longview

Business
Assets under management at the end of December 2016 were c. £17.0bn.

Longview have now agreed a fee rate with the London CIV.

Personnel
As discussed last quarter, Nigel Masding officially left Longview in December 2016.

Kate Campbell joined during the quarter as Financial Director based in Guernsey. Prior to joining Longview, Kate spent 6 years working for the Government of Ras Al Khaimah (United Arab Emirates). She is a Chartered Certified Accountant and has recently completed an MBA at Cass Business School.

Deloitte view – We continue to rate Longview for its global equity capabilities.

3.5 Insight

Business
Insight continued to see an inflow of assets over the quarter, with assets under management growing beyond £520bn. Insight have won 17 new clients with assets totalling £2.0bn over the six months to 31 December 2016, and lost none. 21 existing clients have extended their LDI mandates over the same period, resulting in an extra £8.4bn of assets under management.

Of the total 257 LDI clients Insight have, 24 invest in bespoke QIAFs, 91 have segregated accounts and 142 invest in multi-client pooled funds, with the Enhanced Selection funds experiencing the most significant growth
Deloitte view – We continue to rate Insight positively for its Fixed Income capabilities.

3.6 Hermes

Business

Total assets under management increased by £2.6bn over the quarter, to £28.6bn for the business as a whole as at 31 December 2016, due to a combination of new client wins and performance. Over the quarter, assets under management within the HPUT remained relatively stable, ending the period at c. £1.4bn. The interest from prospective unit holders continues to be strong and the Trust Managers continue to hold subscriptions for new investment.

Personnel

There were no changes to the team over the quarter.

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

3.7 Standard Life

Business

The Fund's assets under management increased slightly due to positive performance however remains at c. £1.7bn. There were no significant inflows or outflows over the quarter.

Personnel

There were no personnel changes over the fourth quarter of 2016.

Deloitte View – We remain positive on long lease property given the long-term, inflation-linked nature of the contractual cashflows which arise from this type of investment.

4 Baillie Gifford – Global Equity

Baillie Gifford was appointed to manage an active Global Equity mandate from 18 March 2014. The manager is remunerated on an asset based fee, reflecting the total value of assets invested in the strategy across the Tri-borough. The target is to outperform the benchmark of 2% p.a.

4.1 Global equity – Investment performance to 31 December 2016

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Baillie Gifford – Gross of fees	4.0	25.2		14.7
Net of fees	3.9	24.8		14.3
MSCI AC World Index	6.4	28.5		15.2
Relative (net of fees)	-2.5	-3.7		-0.9

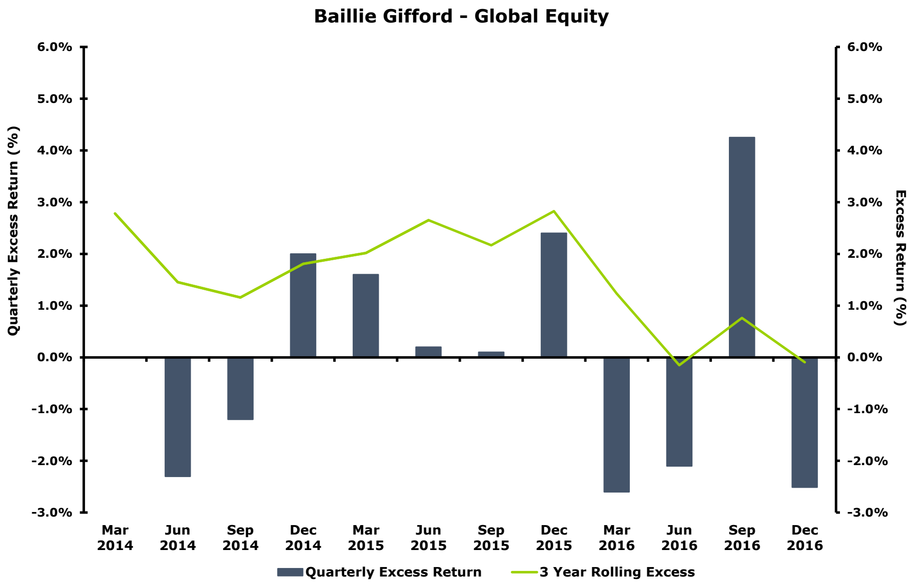
Source: Baillie Gifford, via London CIV and estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 18 March 2014

The Baillie Gifford Global Equity Alpha Fund has underperformed its benchmark by 2.5% net of fees over the quarter and by 3.7% over the year to 31 December 2016. Since inception, it is 0.9% net of fees behind the benchmark.

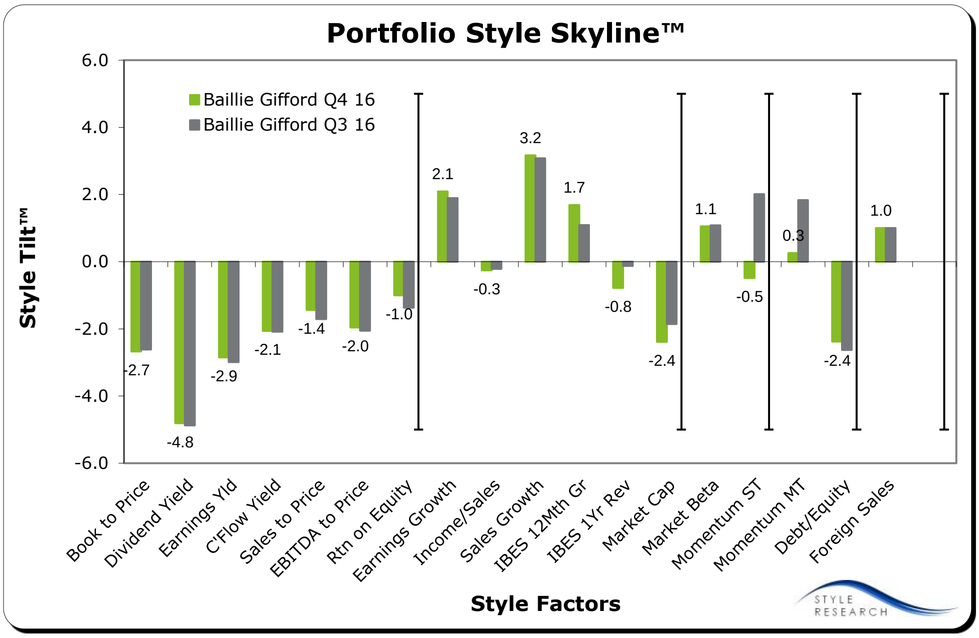
The graph below shows the net quarterly returns and the rolling three year excess returns relative to the benchmark. Note that Westminster only invested in this strategy from 18th March 2014 and previous periods are shown for information only. The Fund's current three year excess return is behind the target (+2% p.a.) having underperformed the benchmark by 0.1% p.a.



The portfolio's underweight positions in energy and consumer staples detracted from performance as both sectors performed well over the fourth quarter. Oil and Gas stocks in particular were buoyed by the increase in oil price following OPEC's announcement that it would cut production in 2017. The portfolio's overweight position in financials was a contributor to performance

4.2 Style Analysis

We have analysed the Style of Baillie Gifford's Global Alpha portfolio as at 31 December 2016, the results of which can be seen in the below graph. When considering the analysis it should be borne in mind that any figures in excess of +/- 1 are considered to be meaningful.



As can be seen, the portfolio continues to show a marked negative bias to value related factors and a positive bias to growth factors which is consistent with the manager's stated investment approach. This is a similar position to last quarter.

The top 10 holdings in the portfolio account for c. 28.7% of the Fund and are detailed below.

Top 10 holdings as at 31 December 2016	Proportion of Baillie Gifford Fund
Amazon	4.2%
Prudential	3.6%
Royal Caribbean Cruises	3.2%
Naspers	2.9%
Taiwan Semiconductor Manufacturing	2.8%
SAP	2.6%
First Republic Bank	2.5%
Alphabet	2.4%
CRH plc	2.3%
TD Ameritrade	2.2%
Total	**28.7%**

Note: The numbers in this table may not sum due to rounding

Baillie Gifford	30 September 2016	31 December 2016
Total Number of holdings	98	97
Active risk	4.1%	4.0%
Coverage	7.0%	6.7%

As at 31 December 2016, the number of holdings within the portfolio decreased by 1. The overlap with the FTSE All World index decreased slightly and the active risk figure dropped slightly also.

5 LGIM – Global Equity (Passive)

LGIM was appointed to manage a passive global equity mandate from the 31 October 2012. The manager is remunerated on a fixed fee based on the value of assets. The target is to deliver performance in line with the stated benchmarks.

5.1 Passive Global Equity – Investment Performance to 31 December 2016

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
LGIM - Gross of fees	4.7	10.2	7.0	11.6
Net of fees[1]	4.7	10.0	6.9	11.5
FTSE World (GBP Hedged) Index	4.7	10.2	7.0	11.6
Relative (net of fees)	0.0	-0.2	-0.1	-0.1

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, and slightly underperformed the benchmark over the longer time periods and since the inception of the mandate. The fund is however meeting its performance target.

6 Majedie – UK Equity

Majedie was appointed to manage an active UK equity mandate. The manager's remuneration is a combination of a fixed fee based on the value of assets and a performance related fee which is payable when the excess return of the portfolio over a rolling 3 year period is more than 1% p.a. The target is to outperform the benchmark by 2% p.a.

6.1 Active UK Equity – Investment Performance to 31 December 2016

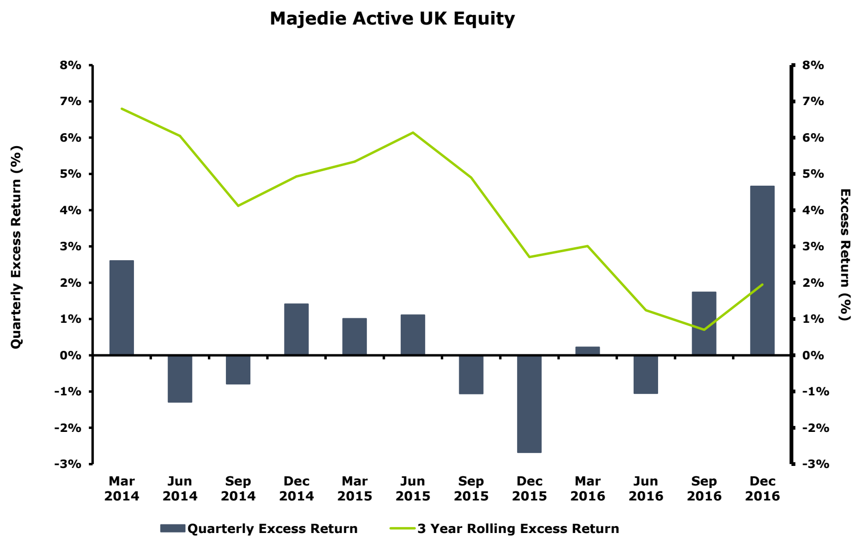
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Majedie - Gross of fees	8.6	23.4	8.4	10.8
Net of fees[1]	8.6	23.1	8.0	10.5
MSCI AC World Index	3.9	16.8	6.1	6.4
Relative (on a net basis)	4.7	6.3	1.9	4.1

Source: Majedie

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 31 May 2006



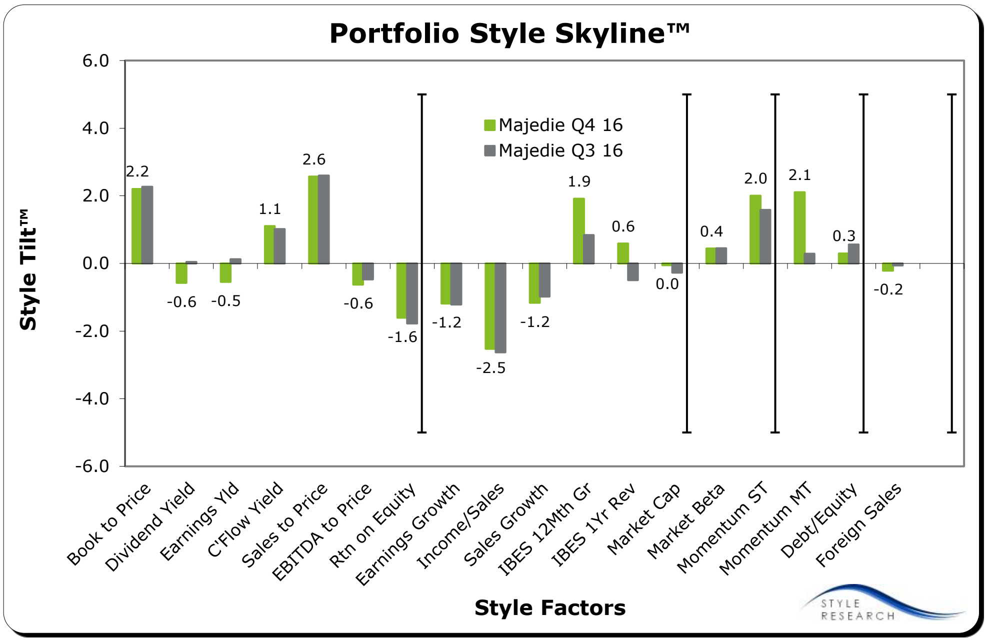
Majedie outperformed its benchmark over the quarter and year by 4.7% and 6.3% respectively on a net of fees basis. Over the longer timeframes of three years and since inception, the manager has outperformed its benchmark on a net basis by 1.9% p.a. and 4.1% p.a. respectively.

Over the quarter, banks were the biggest positive contributor to performance while Majedie's holdings in mining sectored also contributed. A stronger China, which consumes half of the world's commodities, and better capital discipline have led to companies like Anglo American performing well. The portfolio is also overweight in the oil sector, which has seen massive restructuring to reduce costs. Companies such as Royal Dutch Shell and BP are now much more streamlined and focussed on returns.

The greatest underperformance in the fund came from Glencore and Prudential.

6.2 Style analysis

We have analysed the Style of Majedie as at 31 December 2016. When considering the analysis it should be borne in mind that any figures in excess of +/- 1 are considered to be meaningful.



The portfolio continues to show a modest positive bias to value factors and a modest negative bias to growth factors. Given the approach where the portfolio is managed by 4 different individuals, we would not be surprised to see this change over time with the style skyline depending on where Majedie finds appropriate opportunities.

The top 10 holdings in the Majedie fund account for c. 46.1% of the fund and are detailed below.

Top 10 holdings as at 31 December 2016	Proportion of Majedie Fund
Royal Dutch Shell	8.4%
BP	7.6%
HSBC	7.0%
Barclays	4.0%
Tesco	3.9%
Anglo American	3.5%
BT Group	3.1%
Vodafone	3.1%
BHP Billiton	2.9%
WM Morrison	2.6%
Total	**46.1%**

Majedie	30 September 2016	31 December 2016
Total Number of holdings	154	151
Active risk	3.6%	3.8%
Coverage	37.4%	36.8%

As at 31 December 2016, Majedie held 151 stocks in total, with an overlap with the FTSE All Share index of 36.8%. This coverage is significantly higher than both Baillie Gifford and Longview, reflecting to an extent the multi manager approach. Majedie's active risk, as at 31 December 2016, increased slightly to 3.8%.

7 Longview – Global Equity

Longview was appointed on 15 January 2015 to manage an active global equity mandate. The manager's remuneration is based on the value of assets invested across the Tri-borough. The expectation is that the fund will outperform the benchmark by 3% p.a.

7.1 Active Global Equity – Investment Performance to 31 December 2016

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Longview - Gross of fees	6.4	29.7	n/a	18.6
Net of fees[1]	6.2	29.1	n/a	18.0
MSCI World Index	7.1	28.2	n/a	16.3
Relative (on a net basis)	-0.9	0.9	n/a	1.7

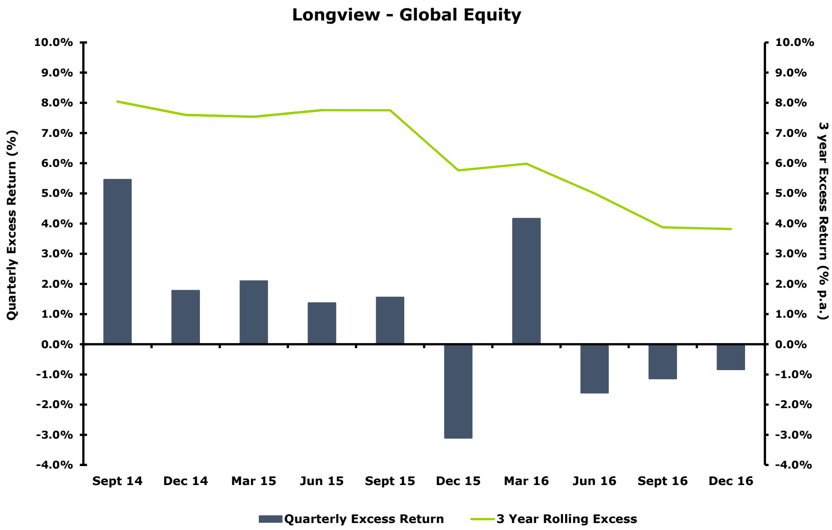
Source: Longview

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date 15 January 2015

Longview underperformed the benchmark by 0.9% on a net of fees basis over the fourth quarter of 2016. Over the year and since inception, the fund is ahead of the benchmark net of fees by 0.9% and 1.7% p.a. This is behind the target outperformance of 3% p.a.



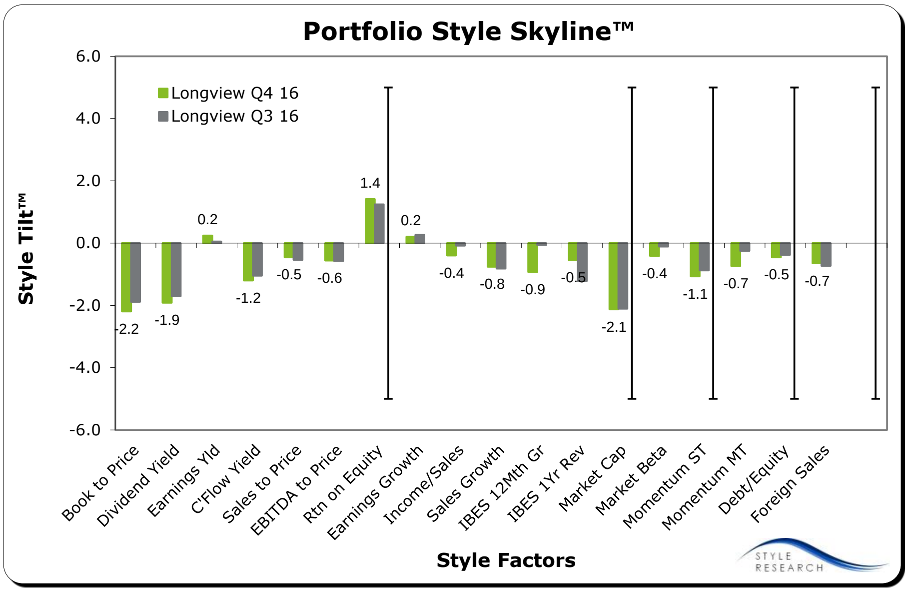
Time Warner was the top contributor over the fourth quarter as the market reacted positively to the telecommunications giant AT&T bidding to buy company. Time Warner has subsequently been sold as Longview don't currently have an official view on AT&T.

Wells Fargo, Bank of New York Mellon, BB&T and Lloyds all delivered strong returns as the banking sector performed strongly over the quarter, credited to Trump's victory in the election.

A detractor to performance was Zimmer Biomet Holdings. The merger between Zimmer and Biomet was believed to create synergies but its revenue in Q3 was below expectation following the sales team mistakenly selling the wrong product with no back-up inventory. The share price fell drastically but has started to recover in Q4.

7.2 Style analysis

The Style "skyline" for Longview's global equity portfolio as at 31 December 2016 is shown below graph. When considering the analysis it should be borne in mind that any figures in excess of +/- 1 are considered to be meaningful.



The portfolio shows a modest negative bias to value factors and growth factors.

The top 10 holdings in the Longview fund account for c. 35.3% of the fund and are detailed below.

Top 10 holdings as at 31 December 2016	Proportion of Longview Fund
AON	4.5%
Bank of Ney York Mellon	3.8%
Fidelity National Info Services	3.5%
UnitedHealth	3.5%
Parker Hannifin	3.5%
SAP	3.4%
Emerson Electric	3.4%
Progressive	3.3%
WW Grainger	3.2%
Oracle	3.2%
Total	**35.3%**

Longview	30 September 2016	31 December 2016
Total Number of holdings	35	37
Active risk	4.6%	4.8%
Coverage	4.3%	4.4%

As at 31 December 2016, Longview held 37 stocks in total, with an overlap with the FTSE All World index of only 4.4%. This coverage is low due to the high conviction investing that Longview undertakes, which also leads to an active risk of 4.8% as at 31 December 2016.

8 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. The target of the Non-Gilt portfolio is to outperform the benchmark by 0.9% p.a.

8.1 Insight – Active Non Gilts

8.1.1 Investment Performance to 31 December 2016

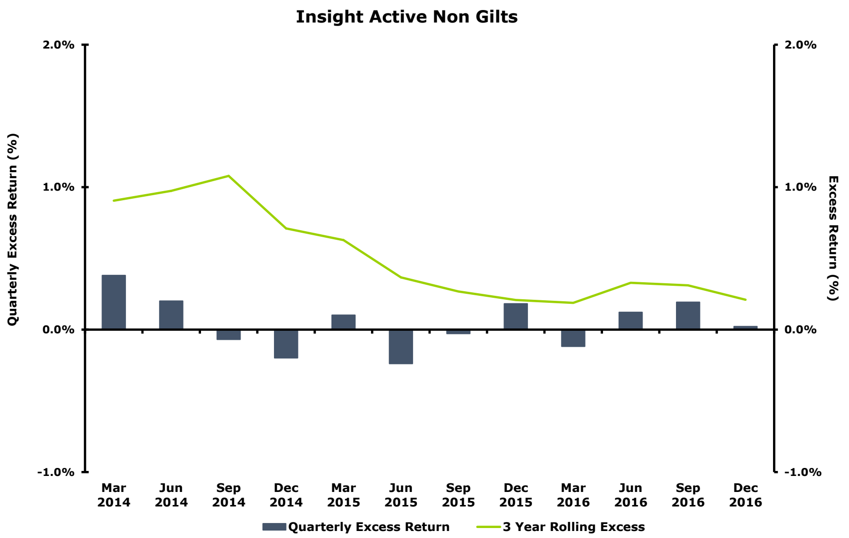
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Insight Non Gilts - Gross of fees	-1.3	8.3	6.5	5.9
Net of fees[1]	-1.4	8.0	6.3	5.7
iBoxx £ Non-Gilt 1-15 Yrs Index	-1.4	7.8	6.1	5.4
Relative (on a net basis)	0.0	0.2	0.2	0.3

Source: Insight

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 31 May 2006.



Over the quarter the portfolio performed in line with the benchmark. Over the year to 31 December 2016, the Fund has outperformed the benchmark by 0.2%. The Fund has outperformed the benchmark by 0.2% p.a. over the 3 years to 31 December 2016 and by 0.3% p.a. since inception. Performance therefore remains below the target of 0.9% p.a. outperformance.

8.1.2 Attribution of Performance

This information was not available at the time of drafting this report.

8.2 Insight – Government Bonds

8.2.1 Investment Performance to 31 December 2016

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Insight Gilts - Gross of fees	-1.4	4.8	4.3	5.0
Net of fees[1]	-1.4	4.7	4.2	4.9
FTSE A Gilts up to 15 Yrs Index	-1.4	5.0	4.4	5.1
Relative (on a net basis)	0.0	-0.3	-0.2	-0.2

Source: Insight

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 30 June 2008.

The gilt portfolio has matched its benchmark over the quarter and underperformed by -0.3% on a net basis over the year to 31 December 2016. Over both three years and since inception, the fund has underperformed the benchmark by 0.2% p.a.

8.3 Duration of portfolios

	30 September 2016		31 December 2016	
	Fund (Years)	Benchmark (Years)	Fund (Years)	Benchmark (Years)
Non-Government Bonds (Active)	5.8	5.5	5.7	5.4
Government Bonds (Passive)	4.7	5.0	4.7*	5.0*

Source: Insight

*Data as at 30 September 2016: Insight could not provide data as at 31 December 2016 at time of writing this report.

9 Hermes – Property

Hermes was appointed to manage a core UK property portfolio. The manager is remunerated on a fixed fee based on the value of assets. The target is to outperform the benchmark by 0.5% p.a.

9.1 Property – Investment Performance to 31 December 2016

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Hermes - Gross of fees	3.1	6.8	13.8	9.6
Net of fees[1]	3.0	6.4	13.4	9.2
Benchmark	2.2	3.7	11.2	8.4
Relative (on a net basis)	0.8	2.7	2.2	0.8

Source: Hermes

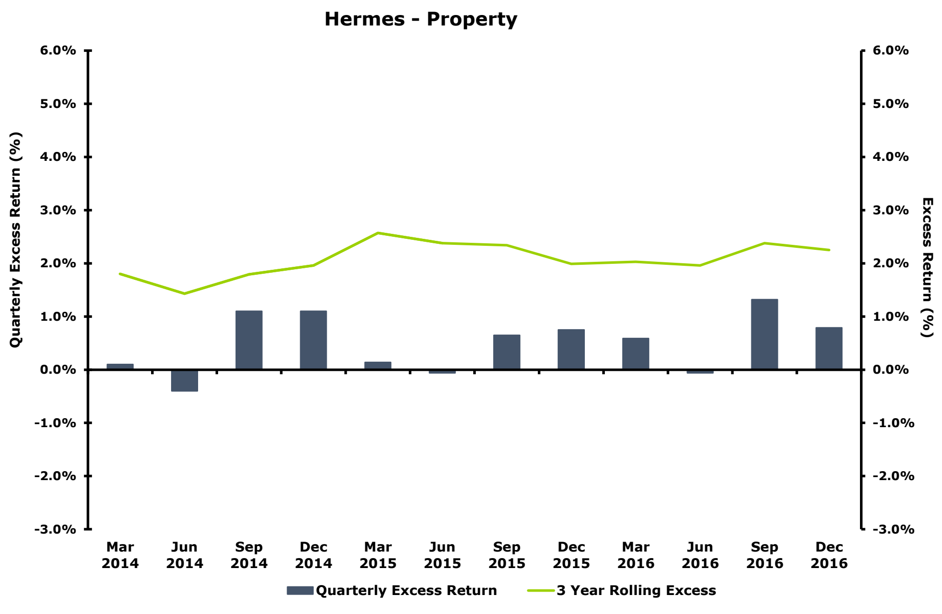
(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date is taken as 26 October 2010

Hermes outperformed its benchmark by 0.8% over the quarter and 2.7% over the year to 31 December 2016. Over the longer term, the fund has outperformed the benchmark by 2.2% p.a. over three years and by 0.8% p.a. since the inception of the mandate, remaining ahead of the target outperformance of 0.5% p.a.

Key contributors to performance over the quarter were West End Offices and "Other" (comprising of pubs, hotels etc.). The West End Offices performed well following favourable rent reviews on the Great George Street property. The main detractors of performance over the quarter were the Trust's holdings in Retail Warehouses and City Offices, both sectors having a fairly muted quarter.



9.2 Sales and Purchases

The team completed two sales over the quarter:

- Eastgate House in London was sold for c. £21m, representing a premium of c. 10% to the valuation at the end of November. The disposal reduced the portfolio's exposure to Central London, as well as to assets on short unexpired leases. Eastgate had been purchased in 2011 for just over £10m, and has performed well for HPUT over the holding period.
- A selection of pubs in Esher, Beaconsfield, Winchester and Lymington were sold for a total price of c. £9.7m, representing a premium of c. 20% above the end of September valuation. These holdings were part of the Enterprise Inn Portfolios purchased in 2011.

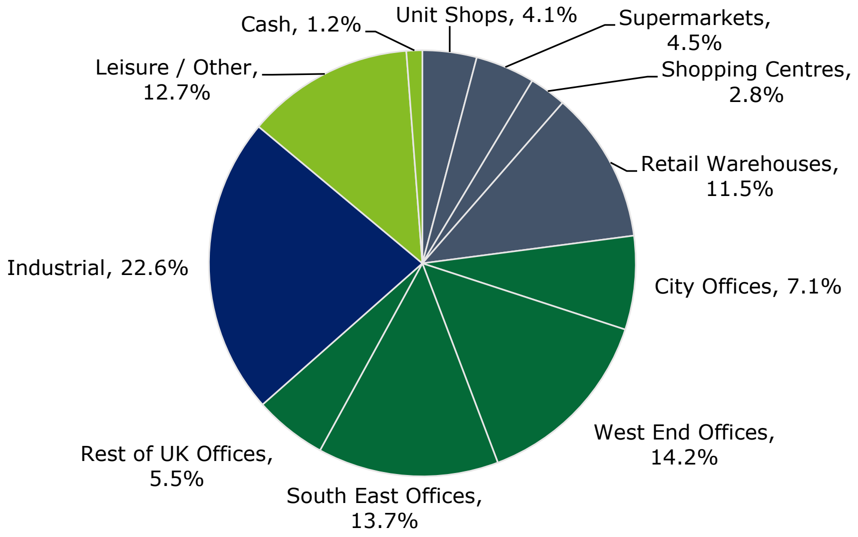
There were no acquisitions completed over the quarter.

Asset management is ongoing at the following properties:

- Great George Street in Bristol benefitted from four floors being leased to Bristol University on a 15 year lease. Bristol University join JLL and JM Finn as occupiers in the newly developed building.
- Great George Street in London saw favourable rent reviews this quarter, with an additional c. £0.3m p.a. due in rent from this property.

9.3 Portfolio Summary as at 31 December 2016

The Hermes Property Unit Trust invests across retail, offices, industrials and other sectors, with the split as at 31 December 2016 shown below.



The table below shows the top 10 directly held assets in the Fund as at 31 December 2016, representing c.35.5% of the Fund.

Asset	Sub-sector	Value (£m)
Maybird Shopping Park, Stratford-upon-Avon	Retail Warehouses	110.0
8/10 Great George Street, London SW1	Offices	62.0
27 Soho Square, London W1	Offices	43.8
Sainsbury's, Maxwell Road, Beaconsfield	Supermarkets	41.2
Polar Park, Bath Road, Heathrow	Industrial	39.9
Hythe House, Hammersmith	Offices	38.5
2 Cavendish Square, London W1	Offices	38.3
Christopher Place, St Albans	Shopping Centre	37.4
Camden Works, Oval Road, London NW1	Offices	37.1
Boundary House, 91/93 Charterhouse St, London EC1	Offices	34.5
Total		**482.7**

10 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 manager is remunerated on a fixed fee based on the value of assets. The target is to outperform the FT British Government All Stocks Index benchmark +2.0% p.a. by 0.5% p.a.

10.1 Long Lease Property – Investment Performance to 31 December 2016

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Standard Life - Gross of fees	2.3	6.1	8.2	9.1
Net of fees[1]	2.2	5.6	7.7	8.6
Benchmark	-3.0	12.3	10.2	8.7
Relative (on a net basis)	5.2	-6.7	-2.5	-0.1

Source: Standard Life

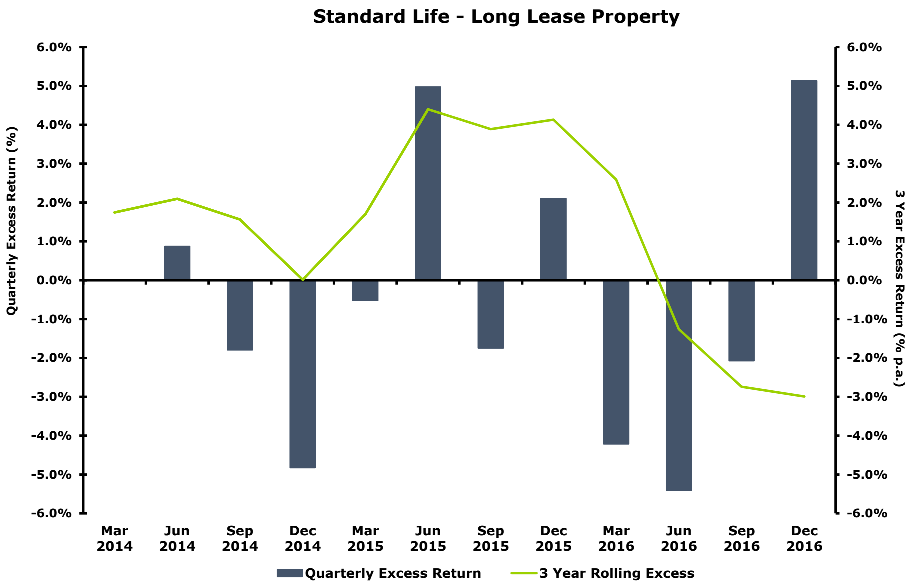
(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

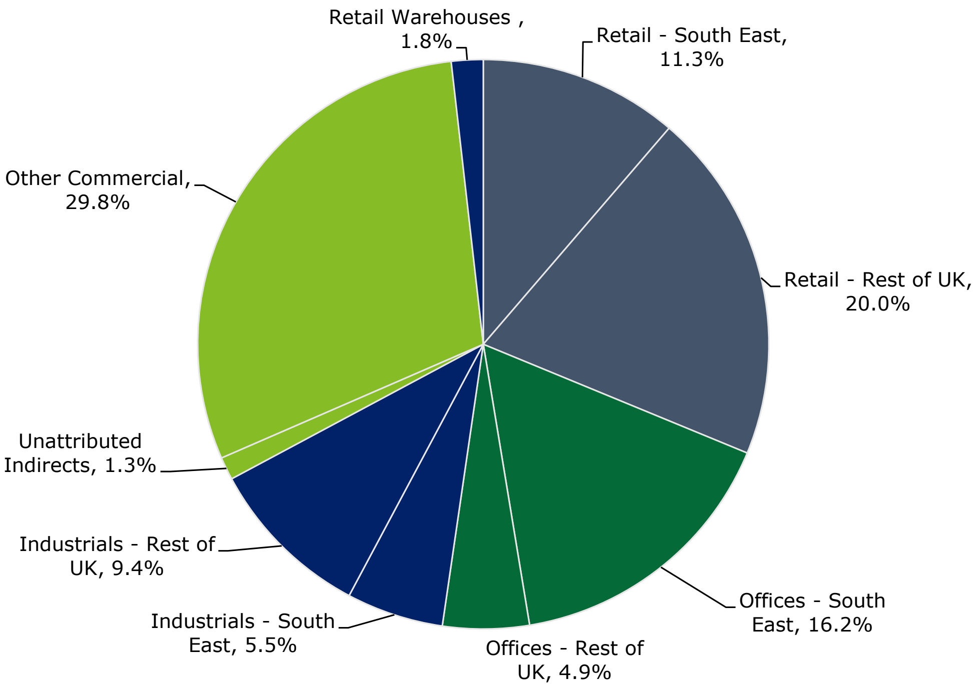
Since inception: 14 June 2013

The SLI Long Lease Property Fund returned 2.2% net of fees over the fourth quarter of 2016, outperforming the benchmark of the FTSE Gilt All Stocks Index + 2% by 5.2% net of fees. Over the year the fund remains behind the benchmark by 6.7% on a net basis. The relative performance is more down to the volatility of the gilt market rather than representing anything particularly notable about the Long Lease Property Fund. In absolute terms the fund is performing in line with expectations, returning 7.7% p.a. and 8.6% p.a. over the three years and since inception, to 31 December 2016.

Net performance of the Long Lease Fund is shown below.



The sector allocation in the Long Lease Property Fund as at 31 December 2016 is shown in the graph below.



The Fund remains underweight the office sector (21.1% compared to 31.1%) and remains underweight in the industrial sector (14.9% compared to 21.7%) at the end of the fourth quarter of 2016. The Fund is also overweight the retail sector (33.1% compared to 26.9%).

The Fund continues to be significantly overweight the "Other" sector (29.8% compared to 9.0%) as a result of its holdings in a range of car parks, student accommodation, hotels, medical centres and law courts, as well as its indirect holding in the Standard Life Investments Commercial Ground Rent Fund.

The table below shows details of the top ten tenants in the Fund measured by percentage of net rental income:

Tenant	Total Rent £m p.a.	% Net Income
Tesco	7.89	10.4
Whitbread	5.06	6.7
Sainsbury's	4.91	6.5
Marston's	4.56	6.0
Asda	4.42	5.8
Salford University	3.69	4.9
Save The Children	3.65	4.8
Poundland	3.60	4.7
Glasgow City Council	3.10	4.1
Travis Perkins Group	2.99	3.9
Total	**43.87**	**57.7***

*Total may not equal sum of values due to rounding

The top 10 tenants contribute 57.7% of the total net income into the Fund. Supermarkets continue to dominate with Tesco, Sainsbury's and Asda contributing 22.7% to the Fund's total net rental income as at 31 December 2016.

The Fund's average unexpired lease term increased slightly over the quarter from 25.6 years to 25.7 years.

10.2 Sales and Purchases

During the quarter the Fund made three sales to align with their strategy of disposing of shorter lease assets which are expected to underperform.

- A student accommodation asset let to Solent University in Southampton was sold for £11.9m reflecting a yield of 5.6%.
- A Mercedes Benz dealership in Birmingham was sold for £12.85m reflecting a yield of 5.1%. This asset was sold to the existing tenant at a sale price 22% above the most recent valuation.
- The Fund also sold a Volkswagen showroom in Exeter for £3m due to a concern about future performance with the shortening of the lease term and the prospect of the tenant relocating to a new facility.

The proceeds from these sales were used to purchase a portfolio of five Marston's pubs and two budget hotels for £22m, reflecting a yield of 4.2%. The 40 year lease has annual RPI-linked rent reviews with a cap and collar of 4% and 1% respectively.

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 25 March 2015.

Manager	Asset Class	Long Term Strategic Benchmark Allocation	Benchmark	Outperformance Target	Inception Date	Fees (p.a.)	Tracking Error p.a.
Majedie	UK Equity	20.0	FTSE All-Share Index	+2.0 p.a. (net of fess)	31/05/06	c.35bps base fees +20 performance fee on 1 outperformance over 3 year rolling	2.0-6.0
LGIM	Global Equity	20.0	FTSE World GBP Hedged	Passive	01/11/12	13bps base fees	+/- 0.5
Baillie Gifford	Global Equity	25.0	MSCI AC World Index	+2.0 p.a. (net of fess)	18/03/14	36bps base fee	
Longview	Global Equity		MSCI World (GBP) Index	To outperform the benchmark over a market cycle	15/01/15	75bps base fees minus a rebate dependent on fund size	
Insight	Fixed Interest Gilts	-	FTSE GILTS up to 15 Yrs Index	Passive	31/05/06	10bps base fees	
	Non-Gilts	20.0	iBoxx £ Non-Gilt 1-15 Yrs Index	+ 0.90 p.a. (gross fees)	31/05/06	c.24bps base fee	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% p.a.	+0.5 p.a. (net of fess)	14/06/13	50bps base fee	
To be determined	Property / Infrastructure	5.0					
	Total	100.0					

For the purposes of our performance calculations we have assumed the 5% awaiting allocation to property / infrastructure is split evenly between Majedie and LGIM.

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 – Style analysis

The Style Skylines are designed to answer the question "How significantly different is the portfolio from the benchmark?" in respect of Style factors which are important and relevant in equity markets.

In each Style Skyline, the first six bars from the left are Value factors (shown as blue bars in the output). The next six bars are the Growth factors (green bars) and include four current/historic measures as well as two forward-looking Growth factors (incorporating IBES consensus earnings estimates and earnings revisions). The remaining bars on the right cover Size, Beta, Momentum, Gearing/Leverage and Foreign Sales.

As a general rule of thumb, for any individual Style tilt (Standard or Adjusted):

- Style tilts less than -0.5 or more than +0.5 indicate a tilt is observable.
- Style tilts less than -1 or more than +1 are statistically significant.
- Style tilts less than -2 or more than +2 are statistically very significant.

There is a further interpretation when we compare across similar factors such as the Value factors (blue bars in the Style Skyline) or the Growth factors (green bars). If most of the Value factors are positive and, say, between 0.4 to 0.6 this suggests that there is a significant Value tilt even though no individual tilt is very significant i.e. multiple tilts in a similar direction within Value or within Growth can reinforce our interpretation of a Style orientation.

It is possible that more extreme tilts can be produced when portfolios and benchmarks are themselves narrowly defined against the market e.g. it is not unusual for Small Cap portfolios to show tilts of 3, 4 or even much larger in magnitude against a Small Cap benchmark. In these cases the significance of the tilts should not be overemphasized.

There is little purity of definition, but in general the various Value and Growth tilt possibilities can be initially interpreted as follows:

Value Factors	Growth Factors	Interpretation
Positive	Negative	Traditional Value
Positive	Positive	Growth at the Right Price
Negative	Positive	Traditional Growth
Negative	Negative	Popular Recovery Situations

Appendix 4 – Risk warnings & Disclosures

- 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.

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