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City of Westminster

Committee Agenda

Title:	**Pension Fund Committee**
Meeting Date:	**Thursday 23rd January, 2020**
Time:	**7.00 pm**
Venue:	**Room 18.02, 18th Floor, City Hall, 64 Victoria Street, London, SW1E 6QP**
Members:	**Councillors:** Antonia Cox (Chairman) Melvyn Caplan Patricia McAllister Eoghain Murphy

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 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 Director of Law in advance of the meeting please.

AGENDA

PART 1 (IN PUBLIC)

9. QUARTERLY PERFORMANCE REPORT **(Pages 49 - 112)**

Report of the Tri-Borough Director of Treasury and Pensions.

10. FUNDING STRATEGY STATEMENT **(Pages 113 - 138)**

Report of the Tri-Borough Director of Treasury and Pensions.

11. INVESTMENT STRATEGY STATEMENT AND INVESTMENT BELIEFS **(Pages 139 - 168)**

Report of the Tri-Borough Director of Treasury and Pensions.

12. RESPONSIBLE INVESTMENT AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES **(Pages 169 - 178)**

Report of the Tri-Borough Director of Treasury and Pensions.

13. ASSET ALLOCATION REVIEW **(Pages 179 - 208)**

Report of the Tri-Borough Director of Treasury and Pensions.

14. ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

15. EXCLUSION OF PRESS AND PUBLIC

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

Item Nos	Grounds	Para. of Part 1 of Schedule 12A of the Act
6, 7 and 16	Information relating to the financial and business affairs of an individual including the authority holding the information and legal advice	3

16. MINUTES

To approve the confidential minutes of the Pension Fund Committee meeting held on 23 October 2019.

Stuart Love
Chief Executive
15 January 2020

CITY OF WESTMINSTER

MINUTES

Pension Fund Committee

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Fund Committee** held on **Wednesday 23rd October, 2019**, Room 18.03, 18th Floor, City Hall, 64 Victoria Street, London, SW1E 6QP.

Members Present: Councillors Antonia Cox (Chairman), Melvyn Caplan, Patricia McAllister and Eoghain Murphy.

Officers Present: Gerald Almeroth (Executive Director – Finance and Resources), Phil Triggs (Tri-Borough Director of Treasury and Pensions), Matthew Hopson (Strategic Investment Manager), Billie Emery (Pension Fund Manager), Mat Dawson (Strategic Finance Manager), Sarah Hay (Senior Payroll and Pensions Officer), Eleanor Dennis (Lead Pensions Specialist, People Services) and Toby Howes (Senior Committee and Governance Officer).

Also Present: Kevin Humpherson (Deloitte).

1 MEMBERSHIP

1.1 There were no changes to the membership.

2 DECLARATIONS OF INTEREST

2.1 There were no declarations of interest.

3 MINUTES

3.1 **RESOLVED:**

That the minutes of the meeting held on 20 June 2019 be signed by the Chairman as a correct record of proceedings.

4 PENSION ADMINISTRATION UPDATE

4.1 Sarah Hay (Senior Pensions and Payroll Adviser) presented the report and advised that the data cleansing accuracy scores had improved from 77% in 2018 to 89.9% in 2019. There was still a batch of work outstanding that the contractor, JLT, needed to complete. Sarah Hay confirmed that the Western

Union existence checking project had been completed on 30 September and there were still 21 pensioners who were yet to respond.

4.2 Members welcomed the improvement in data accuracy and queried whether JLT had been appointed through a procurement process. In respect of the existence checking project, it was queried whether the Department for Work and Pensions (DWP) provided the most recent addresses to the Council to those pensioners working overseas. In acknowledging that there was likely to be more responses from overseas pensioners in November, the Committee remarked that there was some discretion over what evidence the Council would accept.

4.3 In reply to issues raised by Members, Sarah Hay advised in respect of overseas pensioners that the DWP does undertake tracing exercises, however these were not always successful. The Council could consider completing its own tracing exercise, although this would be time consuming. Sarah Hay advised that JLT had been appointed via a Surrey County Council procurement process, however, consideration was now being given to replacing JLT as they were not working through the cases quickly enough.

4.4 The Committee asked for an update on the existence checking project at the next meeting.

5 PENSION DATA QUALITY PLAN

5.1 Eleanor Dennis (Senior Pensions and Payroll Specialist) presented the report and advised that additional resources had been put in place, which had attributed to the higher data quality scores. There were now more regular discussions on data quality, including more communication and a log was also being maintained. Eleanor Dennis added that The Pensions Regulator expected pension schemes to look at the quality of their data on an annual basis and put in place a data improvement plan.

5.2 Members acknowledged the importance of data quality and welcomed the recommendations in the report. It was also noted that The Pensions Regulator took the issue of data quality very seriously and this area needed to be monitored closely. Members asked how the Council's data accuracy compared with other local authorities and would further resources be made available for data accuracy exercises.

5.3 In reply, Sarah Hay advised that the Council's data accuracy was comparable with other councils and Surrey County Council would be approached as to whether they were considering bringing in more resources.

6 ADMISSION AGREEMENT REQUEST AND REQUEST TO HAVE A DEED OF AN AMENDMENT TO A CONTRACT

6.1 The Committee had before them a report recommending the approval of a deed of an amendment and a closed admission agreement. Members asked for details on the contributions involved with regards to the closed admission

agreement. In reply, Sarah Hay advised that Bouygues were subject to a 35.9% employer contribution rate.

6.2 The Committee agreed to the recommendations in the report.

6.3 **RESOLVED:**

1. That a deed of amendment in respect of the Amey admission agreement be approved for the Westminster City Council admission contract to allow two former London Borough of Hammersmith and Fulham employees in respect of into the Westminster City Council Fund for the month of May 2019.

2. That it be agreed that the Fund enter into a closed admission agreement for the one employee that is Transfer of Undertakings (Protection of Employment) Regulations 2006 transferred to Bouygues from the 1st June 2019 with a bond or guarantee.

7 TRAINING NEEDS ASSESSMENT

7.1 Billie Emery (Pension Fund Manager) gave a presentation on this item and advised that the three training areas that had been identified were investing in Environmental, Social and Governance (ESG) and real estate areas and looking at supplier risk management.

7.2 The Committee noted that the London Collective Investment Vehicle (LCIV) was currently undertaking an exercise with regards to ESG investments and requested details of a training session on risk management that was shortly to take place. Members also expressed interest on training with regard to the investments being undertaken by Pantheon, who had recently been appointed as a fund manager.

8 PENSION FUND ANNUAL REPORT

8.1 Members had before them the draft annual report and requested that an updated version be circulated to them.

8.2 **RESOLVED:**

1. That the Pension Fund Annual Report 2018/19 be approved.

2. That the pension fund accounts for 2018/19 be noted.

9 CARBON EXPOSURE REVIEW

9.1 Matthew Hopson (Strategic Investment Manager) introduced the report and advised that the report set out the exposure to carbon assets across the whole Fund.

9.2 Kevin Humpherson (Deloitte) then addressed the Committee and advised that Trucost, a specialist in measuring carbon exposure, had been appointed to

provide this information. He referred to the table in the report that compared exposure in various investment areas to the benchmark and explained how Trucost calculated the carbon exposure.

9.2 The Committee commented that now the investigative work on carbon exposure had been undertaken, consideration needed to be given as to what the next steps should be. It was remarked that The Pensions Regulator would be instructing funds to consider climate change as an investment risk from October 2020 and that this would need to be mentioned in the Investment Strategy. Members noted the complexities involved in calculating carbon exposure and asked what the general approach to carbon exposure should be. A timetable for the Statement of Investment Principles was also sought.

9.3 In reply to issues raised by the Committee, Kevin Humpherson stated that in future more regulation would be brought in concerning investing in areas where there was carbon exposure and that it was recognised that such investments would also lead to a material financial impact. Fund managers would be asked if they were aware of the risks in investing in areas where there was a high carbon exposure risk. Kevin Humpherson added that the strategies of companies such as Shell and BP were evolving and they were investing in alternative energy solutions.

9.4 Phil Triggs (Tri-Borough Director of Treasury and Pensions) advised that there would be an update on investment considerations at the next meeting and the Investment Strategy Statement Review would be considered at the March 2020 meeting.

9.5 **RESOLVED:**

That the report findings be noted.

10 CUSTODY CONTRACT

10.1 The Committee agreed to the recommendation in the report to approve the continuation of the global custodian contract with Northern Trust.

10.2 **RESOLVED:**

That the continuation of the global custodian contract with Northern Trust for an additional two years up to 30 September 2021, with an estimated annual cost of £25k per annum, be approved.

11 DRAFT ACTURIAL VALUATION

11.1 Members had before them the draft report and welcomed the news that the Fund was now 100% funded.

11.2 Phil Triggs added that overall the report was good news for the Fund and advised that other encouraging developments included improved data quality and the strong investment performance. However, the increased assumptions

with regards to inflation, the McCloud case and the Cost Cap were all matters that needed to be monitored. Phil Triggs advised that overall, the employer contribution was expected to decrease.

11.3 Members commented that the assumptions in salary increases had reduced because of the decrease in the number of salary step increases and it was also acknowledged that the number of staff on the payroll had reduced. The importance of keeping employer contributions down was emphasised.

11.3 **RESOLVED:**

That the initial actuarial results be noted.

12 FUND FINANCIAL MANAGEMENT

12.1 Billie Emery presented the report and drew Members' attention to the cashflow spike in June 2020 that was attributable to a £20 million deficit recovery payment.

12.2 Members acknowledged that the Chief investment Officer of the LCIV had vacated his role after only a short period and that the interim Chief investment Officer previously in place had been re-appointed, again on an interim basis.

12.3 **RESOLVED:**

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

2. That the cashflow position, the rolling 12-month forecast and the three-year forecast be noted.

3. That the Forward Plan for 2019/20 be noted.

13 INVESTMENT CONSULTANT AIMS AND OBJECTIVES

13.1 Matthew Hopson presented the report and referred to the key remedies identified by the Competition and Markets Authority for funds to consider the establishment of the aims and objectives for their investment consultants. He suggested that remedy 7, ensuring trustees set strategic objectives and firms to periodically report against them, was most relevant to this Fund.

13.2 The Committee agreed that the strategic objectives of the Fund as set out in the report be published by 1 December 2019.

13.3 **RESOLVED:**

That the report be noted.

14 LONDON COLLECTIVE INVESTMENT VEHICLE MINISTRY FOR HOUSING, COMMUNITIES AND LOCAL GOVERNMENT PROGRESS REPORT

14.1 Members had before them the progress report. The Committee commented that overall it was confident that savings had been achieved as a result of joining the LCIV. Members emphasised the importance of the LCIV in ensuring that it mapped out the investment requirements of each of the 32 London boroughs in the LCIV.

14.2 Members remarked that the running of the LCIV was of some concern and that this needed to be revisited. It was acknowledged that this was complicated further by the fact that the LCIV had 32 members, considerably more than other investment pools. The Committee commented that consideration of the funding levels and asset allocation of all LCIV members needed to be looked at and that a mapping exercise of what members wanted be undertaken, although it was acknowledged that balancing these interests was difficult. However, it was important that a more stable future for the LCIV be secured.

14.2 **RESOLVED:**

That the London CIV pooling progress report be noted.

15 LONDON COLLECTIVE INVESTMENT VEHICLE REMUNERATION REVIEW

15.1 The Chairman advised that the participating London boroughs of the LCIV had requested that the LCIV Board review its remuneration arrangements. It was recommended that the Committee agree the proposed Pensions Recharge and Guarantee of Liability Agreement.

15.2 Phil Triggs (Tri-Borough Director of Treasury and Pensions) added that the LCIV Board was minded to recommend closing the Local Government Pension Scheme to new members, upon receiving the signed guarantees of all 32 LCIV shareholders.

15.3 The Committee agreed the recommendation in the report.

15.4 **RESOLVED:**

That the signing of the LCIV Pensions Recharge and Guarantee of Liability Agreement be approved.

16 QUARTERLY PERFORMANCE REPORT

16.1 The Committee noted that the Fund had delivered a return of 3.1% over the quarter to 30 June, which was 0.3% below the benchmark. Over the year, the Fund had performed 1.7% below the benchmark from the 12 months to 30 June, and this was largely attributable to the underperformance of Majedie.

16.2 **RESOLVED:**

That the performance of the investments, funding position and the fund account and net assets statement be noted.

17 SCHEME ADVISORY BOARD GOOD GOVERNANCE REPORT

17.1 The Committee noted the report.

17.2 **RESOLVED:**

That the contents of the report be noted.

18 REPORT FOR THE PENSIONS REGULATOR

18.1 Phil Triggs presented the report and commented that there were now a number of governance related matters that funds were required to consider.

18.2 The Committee suggested that its' Members attend Pension Board meetings on occasions and noted that The Pensions Regulator had made a recommendation with regard to cyber security which was a matter that should be regularly tested.

18.3 **RESOLVED:**

That the contents of the report be noted.

19 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

19.1 There was no other business.

20 EXCLUSION OF PRESS AND PUBLIC

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

Items 21 and 22.

21 MINUTES

21.1 **RESOLVED:**

That the confidential minutes of the meeting held on 20 June 2019 be signed by the Chairman as a correct record of proceedings.

22 UK EQUITY MANDATE REVIEW

22.1 The Committee considered and agreed the recommendations in the confidential report.

The Meeting ended at 8.50 pm.

CHAIRMAN: _____ **DATE** _____

City of Westminster

Pension Fund Committee

Date:	**23rd January 2020**
Classification:	**General Release**
Title:	**Pension Administration Update**
Report of:	**Sarah Hay, Pensions Officer People Services** **Eleanor Dennis (Interim)**
Wards Involved:	**All**
Policy Context:	**Service Delivery**
Financial Summary:	**Limited**

1. Introduction

1.1. This report provides a summary of the performance of Surrey County Council (SCC) with the Key Performance Indicator (KPI) for the period September 2019 to December 2019. The detailed KPIs are shown in Appendix 1, There have been some improvements in the period outlined in section 2. This report also provides the detail of the current data cleansing projects and the progress that has been made in resolving data queries ahead of the pension fund valuation in section 3. Section 4 outlines the update on the existence exercise following the suspension of 22 pensions in October.

2. Executive Summary

2.1. The Pension Administration KPIs for the period September 2019 to December 2019 are generally positive.

2.2. The data score improvements in the last year demonstrate the impact of the work that has been undertaken in the last 12 months. JLT processing has now ceased and Westminster City Council (WCC) are working with ITM, a data service specialist to understand the true picture of WCC data issues.

2.3. The tracing company Target, have made good progress and identified up to date addresses for WCC members with preserved benefits.

2.4. Further to the existence exercise and following the suspension of pension to 22 overseas based pensioners in October, 5 have been in contact with the pension team and their pension has been reinstated. This means that 17 pensions remain suspended with further action to be agreed.

2.5. Discussions were underway with Surrey for a new 101 agreement. However, discussions were halted to ensure that WCC requirements are met. WCC is now taking the lead in defining this new agreement with Finance and the HR Pensions team collaborating to draft the new agreement to ensure requirements and expectations are captured. Once complete, this will allow discussion with Surrey to recommence. The agreement will need to reflect the service that the Fund requires and in particular to ensure that our data is being continuously monitored and if necessary improved going forward. The hope is that the committee will be provided with details of the draft proposal at the next committee meeting.

3. Surrey County Council (SCC) Performance

3.1 This paper covers the period September 2019 to December 2019. Workloads were reasonable in the period although there was a peak in October following a number of people leaving one of the fund employers. In addition, there were a number of higher earner cases that needed to be looked at as part of the annual allowance exercise.

Overall the performance as reflected in the KPI's was good.

3.2 KPI performance in appendix 1 is summarised below:

3.21 We are pleased to report that during this period no death in service cases were processed late. Out of 31 retirement option forms issued, 28 were within the KPI measure. Otherwise all KPI regarding payment of pension, lump sums and refunds were 100% accurate and on time.

3.22 We are disappointed that in moving to an automation system the notification to members with deferred benefits of possible pension due has been reduced from 2 months to 1 month before due date. We are talking to Orbis about ensuring the timescale is restored going forward.

3.23 1 interfund out was paid late by 10 days in December - the case was missed from workloads. Out of 438 amendments, 1 was processed late during the period. Additionally 2 correspondence responses were processed late in December.

4. Data Cleansing

4.1 The committee were advised in the previous report about the improvement in our funds data quality scores which are set out below.

2019

Common Data Score	89.9%
Conditional (Scheme Specific) Data Score	93.1%

4.2 The data scores we currently have are very good and they reflect the work that the fund has been done lead by the Lead Interim Pension Specialist. We have now received the full data quality report for 2018/19, which will be used in conjunction with the analysis piece that ITM will carrying out for WCC to agree a solution going forward.

4.3 The Status 2 project has been running since March 2019, all approximately 1500 Status 2 cases have been completed by the fund employer providing the relevant payroll leaver information to the Surrey team. As agreed with Committee, previously WCC had elected to ask a third party JLT to process our Status 2 cases due in part to the pension fund valuation and the limited resources to process the data prior to valuation. JLT ceased working on these cases on 15 December 2019 and Surrey have taken responsibility to chase for the remainder outstanding data that JLT had started to process. However the remainder cases will be included in the solution for all status 1 and status 2 cases once the analysis by ITM is complete.

4.4 Westminster have agreed the completion of approximately 1500 Status 2 cases across the City of Westminster (CoW) pension fund to JLT at a cost of up to £19 a case. We are awaiting the invoices for the work that JLT have completed but note that they are proposing to charge us 75% of the full cost for the 24 per started but incomplete cases. Nothing has been agreed with JLT / Orbis for uncompleted cases. In total 469 cases were processed by JLT, of the 606 originally sent to them the remainder were processed by Surrey and 24 remain outstanding.

4.4 We are still in a position where the remaining cases in addition to the 900 that were not sent to JLT need to be processed and we are aware that there are additional backlogs that came to light partly as a result of the data quality reporting that was first done last year and partly where Orbis identified issues to us following questioning lead by Eleanor on behalf of the Fund.

4.5 Orbis have made it clear that they do not have resource to deal with the backlog and have confirmed that this would cost an estimated £40k with a lead time of 2-4 months as they would need to recruit staff. Therefore, the Senior Payroll and Pensions Adviser has decided to explore the possibility of another company, ITM, working on the status 2 backlog. There are 900 plus fund members waiting for their record to be correctly processed currently.

4.6 Initial conversations with ITM have been positive, they appear to have a thought out approach to the proposed project. A reference was sought from Kent County Council who had worked with ITM on a similar project and the feedback provided confirmed their ability to do the work and communicate clearly with all the stakeholders. ITM prefer to run an analysis piece of work before they take on any backlog project. The analysis work at approximately £7K for the status 2 cases plus a negotiated reduced cost £1.5k for analysis of the status 1 cases will allow ITM to price for the processing cases more accurately and give an accurate indication of timescales.

4.7 The analysis work should give us a full view of our main data issues from an independent source from Orbis. Even if we only use ITM for the status 2 work having additional understanding of the status 1 data will be useful to planning our next priorities with regards to improving our data further in 2020

4.8 Consent was granted with the Chair in December 2019, in order to progress the project at pace to engage with ITM for the analysis piece only.

4.9 Progress on the Status 1 errors had been halted as Surrey and WCC worked together to find the best solution to continue this work. Originally there were 2373 data “failures” across the 5 memberships groups; actives, deferred, pensioners, dependants and undecided. Work on this data has meant that by the end of April 2019 the number of data failures had reduced by 36%. The admin team switched focus in May and June 2019 to look at the year-end files from all employers in the Fund which also helped to improve the data scores detailed in 4.1. Additional resource that had been used by Surrey prior to the valuation to help support some of the data cleansing work has now left the service. The interim Pension specialist has agreed with Surrey to use a combination of both experienced administration team and a temporary resource to process and identify information required to update members records and process any necessary leavers. Progress has been slower than expected as the Surrey team are managing the project alongside their BAU.

4.7 An area that WCC had elected to take a lead on outside of Surrey is in relation to address tracing for records that have a recorded address as “Gone Away”. The Senior Pension Specialist (interim) has led on a procurement process to independently appoint a tracing agency to provide address details for 731 deferred members who have not yet claimed their pension. The address tracing will help further in improving our data scores and this exercise will form part of our overall data improvement plan. To date 277 addresses have been verified and updated on Altair and 2 members were found to be deceased.

4.8 The Senior Pension Specialist (Interim) has been the primary driving force pushing Surrey to complete the various data streams as part of our overall data improvement work. Her role will continue to support the Senior Payroll and Pension Officer to outline and implement a data improvement plan that includes the Status 2, Status 1 and backlog work and agreeing solutions and timescales with Surrey.

5. Valuation

5.1 Initial valuation results have been downloaded from the actuarial portal by members of the pension and payroll team and forwarded onto all of the fund employers. In addition, all employers were sent a copy of the funding strategy statement so that they could understand the approach the fund took to the 2019 valuation. Any queries regarding the process and the new indicated employer rates are being collated and feedback to the actuary to respond. Most employers at the date of writing this report have not raised any questions on their proposed rate. After the consultation period ends on the 17th of January the team will be finalising the rates with the employers and then reminding them and their payroll providers to implement from the 1st of April 2020. The team will then be working to ensure that the rates have been correctly applied.

6. Overseas Suspended Pensions

6.1 At the last committee meeting we advised that 22 overseas pensioners were having their pension suspended in October 2019. Since that time five of the members have been in touch and their pension has been reinstated that leaves 17 pensions still suspended in January 2020. The monthly value of the 17 pensions combined is £5816 a month an annual value of £69795. Of the 17 suspensions 6 had completed life certificate exercises in the last few months of 2018 and so the fund had contact with them in the last few years.

6.2 The proposed next step is to send the 17 records still suspended to our tracing partner Target. Target will charge £75 a case but will only charge us for overseas cases if they are successful, the target tracing will include a mortality check. We will also review each of these records in detail to see if additional steps can be taken to identify any current address or contact for the member.

7. 101 Administration Agreement with Surrey / Heywood Software and I Connect

7.1 The committee were advised at the last meeting that discussions are underway with Surrey regarding a new 101 agreement. We have elected to revise our service specification to ensure it is fit in outlining what the fund needs given the changed pensions climate in terms of a stronger onus on schemes to be accountable for the state of their data and its quality. We are conscious of the data issues highlighted in this report and to the committee in the previous two years. The new service specification will include a greater emphasis on data quality and in providing detailed monthly data to the pension team to ensure that once our data is improved it remains that way any issue is highlighted as it arises.

7.2 The committee are advised that our software license for the Heywood Altair system runs out in November 2020. Discussions have started regarding the best option for the fund. Long term Orbis have advised that they want to set up a framework and invite their partners to join if they wish. Our fund will need to

make a decision prior to any framework set up but could join a framework at a later date.

7.3 Finally, I-connect which is Heywood's interface software. This allows the fund to collect contribution data monthly and update directly onto the pension administration software updating member records instantly. Monthly data collection is progress that the pension regulator is keen to see schemes adopt and using this method would be another way to ensure that the funds data quality remains high. We have been advised that Surrey and East Sussex have adopted I-connect and are currently going live. Our aim is to commence work to look at implementing I-connect in 2020 to our fund.

8. Update on Bouygues Admission Agreement

8.1 The committee are advised following the previous meeting where consent for Bouygues was given to become an admitted body in the fund from the 1st of June 2019. An admission agreement has been signed but the bond /guarantee is currently outstanding. Bouygues have been deducting pension contributions for the member involved and some monies have been paid over to the fund however we have advised them of an underpayment and are liaising with them over resolution agreeable to the fund. The WCC manager who is responsible for the Bouygues contract has been made aware of the situation.

9. Summary

9.1 The overall data improvement in the fund in the last 12 has been significant and have helped to provide an efficient fund valuation. Our efforts will continue in the next quarter to further improve the funds data quality by continuing the address tracing project, working with Orbis on status 1 data improvements and engaging with ITM on data analysis ahead of a project to clear the remaining status 2 cases. Long term projects include working on a new SLA with Orbis to ensure that the service we want is delivered going forward. We will also need to recontract our pension software and we will be looking at i-connect as well. We will be engaging with all our fund employers further following the valuation and will be looking to promote member self-service. Finally, we will be ensuring that the situation with Bouygues is resolved.

Westminster County Council - Sep 2019 to Dec 2019 Results on KPI Reporting

Description	Target time/date as per Partnership Agreement	Target	Actual Score for Quarter	Quantity September 2019	Actual Score September 2019	Comments	Quantity October 2019	Actual Score October 2019	Quantity November 2019	Actual Score November 2019	Comments	Quantity December 2019	Actual Score December 2019
Pension Administration													
Death Benefits Notify potential beneficiary of lump sum death grant	5 days	**100%**	%	1	100%	x	1	100%	2	100%	x	1	100%
Write to dependant and provide relevant claim form	5 days	**100%**	%	3	100%	x	4	100%	2	100%	x	4	100%
Set up any dependants benefits and confirm payments due	14 days	**100%**	%	1	100%	x	2	100%	1	100%	x	1	100%
Retirements Retirement options issued to members	5 days	**100%**	%	7	100%		13	77%	8	100%	x	3	100%
New retirement benefits processed for payment following receipt of all necessary documents	5 days	**100%**	%	5	100%	x	9	100%	7	100%	x	7	100%
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run		%	5	100%	x	9	100%	7	100%	x	7	100%
Refunds of Contributions Refund paid following receipt of claim form	14 days	**100%**	%	7	100%	x	23	100%	23	100%	x	28	100%
Deferred Benefits Statements sent to member following receipt of leaver notification	30 days	**100%**	%	33	100%	x	91	100%	55	100%	Includes 20 backlog cases completed by the team	54	100%

Notification to members 2 months before payments due	2 months		%	26	100%	x	21	100%	29	100%	x	34	0%
Lump Sum (on receipt of all necessary documentation)	5 days		%	11	100%	x	18	89%	18	100%	x	11	100%
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run		%	11	100%	x	18	100%	18	100%	x	11	100%
New Joiners New starters processed	30 days	**100%**	%	4	100%	x	18	100%	4	100%	4 set up manually	5	100%
Transfers In Non LGPS transfers-in quotations	30 days	**100%**	%	44	100%	x	23	100%	8	100%	x	3	100%
Non LGPS transfers-in payments processed	30 days	**100%**	%	1	100%	x	14	100%	4	100%	x	10	100%
Transfers Out Non LGPS transfers-out quotations processed	30 days	**100%**	%	4	100%	x	1	100%	5	100%	x	1	100%
Non LGPS transfers out payments processed	30 days	**100%**	%	1	100%	x	9	100%	0	100%	x	0	100%
Interfunds In - Quotations	30 days	**100%**	%	2	100%	x	2	100%	1	100%	x	3	100%
Interfunds In - Actuals	30 days	**100%**	%	5	100%	x	9	100%	5	100%	x	1	100%
Interfunds Out - Quotations	30 days	**100%**	%	7	100%	x	4	100%	9	100%	x	9	89%
Interfunds Out - Actuals	30 days	**100%**	%	3	100%	x	5	100%	10	100%	x	12	100%

Estimates													
1-10 cases	5 Days		%	10	90%	1 case failed by 3 days	6	100%		n/a		1	100%
11-50 cases	Agreed with WCC		%						12	100%	x		
51 cases or over	Agreed with WCC		%										
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		%	124	100%		139	100%	109	100%		66	98%
Buying Additional Pensions													
Members notified of terms of purchasing additional pension	15 days		%	1	100%		1	100%	0	n/a	x	0	N/A
Monthly Pensioner Payroll													
Full reconciliation of payroll and ledger report provided to WCC	Last day of month				100%			100%		100%			100%
Issue of monthly payslips	3 days before pay day				100%			100%		100%			100%
RTI file submitted to HMRC	3 days before pay day				100%			100%		100%			100%
BACS File submitted for payment	3 days before pay day				100%			100%		100%			100%
P35	EOY				31-Mar-19			31-Mar-19		########			31-Mar-19
Annual Exercises			**Date Achieved**										
Annual Benefit Statements Issued to Active members	31 August each year				Annual			Annual		Annual			Annual
Annual Benefit Statements Issued to Deferred members	31 August each year				Annual			Annual		Annual			Annual
P60s Issued to Pensioners Non LGPS transfers-in quotations processed within 20 days	31 May each year				100%	Issued April 2019		100%		100%	Issued April 2019		100%
Apply Pensions Increase to Pensioners	April each year				100%			100%		100%			100%

Pensioners Newsletter	April each year				100%			100%		100%			100%
						Issued April 2019					Issued April 2019		
Correspondence													
Acknowledgement if more than 5 days	2 days												
Response	10 days			0	100%			100%		100%		13	85%
3rd party enquires	10 days												
Helpdesk Enquiries													
Volumes of Enquiries Handled By Helpdesk	Number of Enquiries Handled								748 telephone calls				
					-			-		-			-
Customer Surveys													
Monthly survey to retirees	Percentage Satisfied with Service												

Comments	Trend	People services Comments
x		
x		
x		
3 Failed by an average of 3 days (October)		In October 3 cases were late by an average of 3 days. Numbers processed are higher in October due to large number of leavers at one employer. We are pleased that other than October this KPI remained 100%.
x		
x		
x		
x		

Sent 1 month before, using Robot and working out the schedule for the year to get us back on track of 2 months before		Please note that Orbis are looking at the introduction of new Robot technology to automate some aspects of our pension admin including sending letters to preserved benefit cases where pension is due to be paid. This has slowed down the sending of letters in December to one month before payment is due from our target two. We will work towards moving back to two months.
2 Failed by an average of 4 days (October)		Issue with two cases in October. Again the high number of Retirements in that month impacted this KPI. Overall we are pleased with the results compared to some prior reporting periods.
x		Improvement over prior reporting periods.
5 Set up manually		
x		
X		We are please that this KPI has improved from the prior reporting period.
X		
X		We are please that this KPI has improved from the prior reporting period.
x		All 100%
1 case late by 10 days		The late case in December was simply missed from workloads. Human error casued delay.
X		All 100%

		All 100%
		cases completed in August on time.
		no cases in period.
Non-KPI 1 case late by 7 days		1 amendment proceesed late.
X		
		All 100%
		All 100%
		All 100%
		All 100%
Issued April 2019		April 19 Actions completed.
		April 19 Actions completed.

		April 19 Actions completed.
Issued April 2019		
2 cases late, 1 case late by 5 days and the second case late by 2 days		two cases responded to late over the Christmas period.

City of Westminster

Pension Fund Committee

Date:	**23rd January 2020**
Classification:	**General Release**
Title:	**Request Approval of BT as an Admission Body in the Westminster City Council Pension Fund.**
Report of:	**Sarah Hay Pensions Officer**
Financial Summary:	**Negligible risk**
Report Author and Contact Details:	**Sarah Hay 0207 641 6015**

1. Executive Summary

1.1 This report is requesting that the committee agree to allow three employees of Westminster City Council (WCC) who are being TUPE transferred to BT on 1st of February 2020 to remain in the WCC pension fund.

2. Admission Agreement

2.1 On the 1st of April 2019, Westminster City Council TUPE transferred in all the employees of City West Homes. Three of the employees provided IT end user support to staff. This service at Westminster council was already outsourced to BT.

2.2 During the summer of 2019 management determined that the best way for the council to provide this service going forward was under one contract that was run by the existing provider BT. Management have therefore engaged with BT to transfer these three staff to join the people BT already employ to support this service with effect from the 1st of February 2020.

2.3 We are requesting a closed admission agreement which will allow the three employees membership of the pension fund through employment with BT. The expected duration of the contract is two years at which time IT will be reviewing the service going forward.

2.4 The employers' rate for the three individuals is 34.4%. The Fund will also seek a guarantee by the parent company or a bond to cover the risk of default to the value of £72K as the sum recommended by the actuary.

3. Recommendation

3.1 That the committee agree that the Fund enter into a closed admission agreement with BT that allows the three employees to remain in the WCC pension fund. That the Fund agree a guarantee or bond to cover the risk of any default by BT.

If you have any questions about this report, or wish to inspect one of the background papers, please contact:
Sarah Hay Tel: 0207 641 6015

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**23 January 2020**
Classification:	**General Release**
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:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. Executive Summary

1.1 The risk register is divided into two sections: governance (investment and funding) and pensions administration. The top five risks are highlighted in the report below.

1.2 The cashflow forecast for the next three years has been updated with actuals to 30 September 2019. The bank position continues to be stable.

1.3 The forward plan for 2019/20 for the Pension Fund Committee is attached.

2. Recommendations

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

2.2 The Committee is asked to note the cashflow position, the rolling 12-month forecast and the three-year forecast.

2.3 The Committee is asked to note the attached forward plan for 2019/20.

3. Risk Register Monitoring

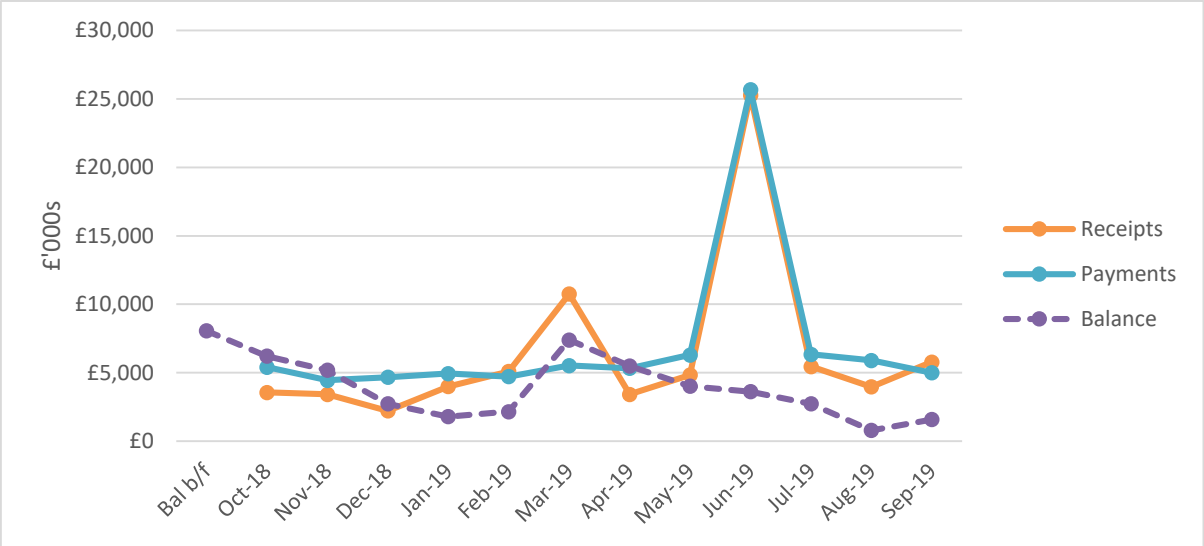
3.1 The risk register is divided into two sections: governance (investment and funding) and pensions administration. The current top five risks to the Pension Fund are highlighted below:

- The London CIV disbands or fails to produce proposals deemed sufficiently ambitious (governance risk).
- Significant volatility and negative sentiment in global investment markets following disruptive geo-political uncertainty caused by the conflict between the US and Iran, as well as the ongoing trade war with China (governance risk).
- Volatility caused by uncertainty with regard to the withdrawal of the UK from the European Union, lack of any trade deal and the economic after effects (governance risk).
- Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints (administration risk).
- 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 (governance risk).

4. Cashflow Monitoring and Forecasted Cashflows

4.1 The balance on the pension fund bank account as at 30 September 2019 was £1.580m. Payments from the bank account will continue to exceed receipts on a monthly basis. During the year, cash withdrawals from Fund Managers are expected to take place to maintain a positive cash balance.

4.2 The table below shows changes in the bank balance from 1 October 2018 to 30 September 2019.



4.3 The peak in receipts during March 2019 and June 2019 include a £10m and £22m deficit recovery receipt, as per the Council's approved budgeted deficit recovery plan. Payments out of the Pension Fund bank account have remained stable over the year, with the exception of June 2019, when a £20m investment was made to the Insight Buy and Maintain portfolio as per the Investment Strategy Consideration paper.

4.4 Officers will continue to keep the cash balance under review and take appropriate action where necessary.

4.5 The following table illustrates the expected rolling cashflow for the 12-month period from 1 April 2019 to 31 March 2020. Actuals have been used for the period to 30 September 2019 with a forecast used for the remainder of the year. Forecasted cashflows are calculated using the previous year's actual monthly cashflows which are then inflated by 2%.

Current Account Cashflows Actuals and Forecast for period April 2019- March 2020:

	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	*Oct-19*	*Nov-19*	*Dec-19*	*Jan-20*	*Feb-20*	*Mar-20*	***Forecasted Rolling Total***
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***	
	Actual	**Actual**	**Actual**	**Actual**	**Actual**	**Actual**	***F'cast***	***F'cast***	***F'cast***	***F'cast***	***F'cast***	***F'cast***	
Balance b/f	**7,397**	**5,486**	**4,021**	**3,620**	**2,727**	**791**	***1,580***	***228***	***134***	***829***	***384***	***1,253***	***£000s***
Contributions	2,881	4,021	3,157	3,509	3,698	3,500	*3,402*	*3,591*	*3,692*	*3,792*	*3,624*	*3,772*	*42,639*
Misc. Receipts[1]	539	780	113	1,766	268	282	*665*	*333*	*61*	*711*	*1,977*	*490*	*7,986*
Pensions	(3,323)	(3,347)	(3,386)	(3,397)	(3,398)	(3,388)	*(3,265)*	*(3,240)*	*(3,298)*	*(3,288)*	*(3,268)*	*(3,287)*	*(39,886)*
HMRC Tax Payments	(590)	(566)	(569)	(588)	(607)	(563)	*(565)*	*(565)*	*(565)*	*(583)*	*(605)*	*(565)*	*(6,930)*
Misc. Payments[2]	(1,243)	(1,599)	(1,673)	(2,329)	(1,850)	(982)	*(1,505)*	*(535)*	*(817)*	*(999)*	*(812)*	*(1,167)*	*(15,510)*
Expenses	(175)	(785)	(52)	(30)	(47)	(61)	*(85)*	*(678)*	*(378)*	*(78)*	*(47)*	*(511)*	*(2,927)*
Net cash in/(out) in month	**(1,911)**	**(1,495)**	**(22,410)**	**(1,069)**	**(1,938)**	**(1,212)**	***(1,352)***	***(1,094)***	***(1,305)***	***(445)***	***869***	***(1,268)***	***(34,630)***
Withdrawal/deposit with Fund Managers	0	0	(20,000)	0	0	2,000	*0*	*1,000*	*2,000*	*0*	*0*	*1,000*	*(14,000)*
Special Contributions*	0	31	22,008	177	2	0	*0*	*0*	*0*	*0*	*0*	*0*	*22,218*
Balance c/f	**5,486**	**4,021**	**3,620**	**2,727**	**791**	**1,580**	***228***	***134***	***829***	***384***	***1,253***	***985***	

[1] Includes Transfers in, Overpayments, Bank Interest, VAT reclaim, Recharges
[2] Includes Transfers out, Lump Sums, Death Grants, Refunds
*Deficit recovery contributions

4.6 Actual cashflows against the forecast for the quarter ending 30 September 2019 is shown below. There may be monthly variances between the actual and forecasted amounts due to timing differences, e.g., transfer values in and out, payment of lump sums, retirement benefits and death grants.

Cashflows Actuals Compared to Forecast for July to September 2019:

	Jul-19			Aug-19			Sep-19		
	£000	£000	£000	£000	£000	£000	£000	£000	£000
	F'cast	Actual	Var	F'cast	Actual	Var	F'cast	Actual	Var
Balance b/f	**3,804**	**3,620**	**2,304**	**6,264**	**2,727**	**3,536**	**5,272**	**791**	**4,481**
Contributions	3,410	3,509	(99)	3,663	3,698	(34)	3,321	3,500	(179)
Misc. Receipts[1]	129	1,766	(1,637)	942	268	675	182	282	(101)
Pensions	(3,195)	(3,397)	202	(3,236)	(3,398)	162	(3,232)	(3,388)	156
HMRC Tax Payments	(614)	(588)	(26)	(556)	(607)	52	(564)	(563)	(1)
Misc. Payments[2]	(722)	(2,329)	1,607	(1,684)	(1,850)	166	(1,057)	(982)	(76)
Expenses	(168)	(30)	(138)	(121)	(47)	(74)	(139)	(61)	(78)
Net cash in/(out) in month	**(1,160)**	**(1,069)**	**(90)**	**(991)**	**(1,938)**	**946**	**(1,490)**	**(1,212)**	**(278)**
Withdrawal/deposit with Fund Managers	0	0	0	0	0	0	0	2,000	(2,000)
Special Contributions*	0	177	(177)	0	2	(2)	0	0	0
Balance c/f	**6,264**	**2,727**	**3,536**	**5,272**	**791**	**4,481**	**3,783**	**1,580**	**2,203**

[1] Includes Transfers in, Overpayments, Bank Interest, VAT reclaim, Recharges
[2] Includes Transfers out, Lump Sums, Death Grants, Refunds
*Deficit recovery contributions

Variances during the quarter to 30 September 2019:

- Miscellaneous payments greater than anticipated in July due to large volumes of transfer values out and lump sum payments.
- Miscellaneous receipts greater than expected in July due to large transfer values in and conversely lower than anticipated in August due to a lower volume of transfer values in.
- A £2m withdrawal from fund manager took place during September 2019 to maintain a positive cash balance.

4.7 The three-year cashflow forecast for 2019/20 to 2021/22 is shown below. Forecasted cashflows are calculated using the previous year's cashflows which are then inflated by 2%. Please note this will not match the rolling cashflow.

Three Year Cashflow Forecast for 2019/20 - 2021/22:

	2019/20	2020/21	2021/22
	£000	£000	£000
	F'cast	F'cast	F'cast
Balance b/f	**7,397**	**3,188**	**6,774**
Contributions	43,330	44,196	45,080
Misc. Receipts[1]	7,686	7,840	7,997
Pensions	(38,964)	(39,744)	(40,538)
HMRC Tax	(6,964)	(7,103)	(7,245)
Misc. Payments[2]	(12,870)	(13,128)	(13,390)
Expenses	(2,427)	(2,476)	(2,525)
Net cash in/(out) in year	**(10,209)**	**(10,414)**	**(10,622)**
Withdrawal/(deposit) with Fund Managers	(16,000)	0	(100,000)
Special Contributions*	22,000	14,000	110,000
Balance c/f	**3,188**	**6,774**	**6,152**

[1] Includes Transfers in, Overpayments, Bank Interest, VAT reclaim, Recharges
[2] Includes Transfers out, Lump Sums, Death Grants, Refunds
*Deficit recovery contributions

4.8 The deficit recovery receipt expected during 2020/21 comprises of a £14m lump sum and £8m within contributions spread evenly across the year. A final deficit recovery lump sum of £110m is expected to be received during April 2021.

5. Forward Plan

5.1 The rolling forward plan for the Pension Fund Committee is attached for 2019/20.

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

Billie Emery pensionfund@westminster.gov.uk or 0207 641 7062

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 – Tri-Borough Risk Management Scoring Matrix
Appendix 2 – Pension Fund Risk Register Review at January 2020
Appendix 3 – Pension Fund Committee Forward Plan: 2019/20

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Appendix 1 - Tri Borough Pension Fund Risk Management Scoring Matrix		
Scoring (Impact)		
Impact Description	Category	Description
1 Very Low	Cost/Budgetary Impact	£0 to £25,000
	Impact on life	Temporary disability or slight injury or illness less than 4 weeks (internal) or affecting 0-10 people (external)
	Environment	Minor short term damage to local area of work.
	Reputation	Decrease in perception of service internally only – no local media attention
	Service Delivery	Failure to meet individual operational target – Integrity of data is corrupt no significant effect
2 Low	Cost/Budgetary Impact	£25,001 to £100,000
	Impact on life	Temporary disability or slight injury or illness greater than 4 weeks recovery (internal) or greater than 10 people (external)
	Environment	Damage contained to immediate area of operation, road, area of park single building, short term harm to the immediate ecology or community
	Reputation	Localised decrease in perception within service area – limited local media attention, short term recovery
	Service Delivery	Failure to meet a series of operational targets – adverse local appraisals – Integrity of data is corrupt, negligible effect on indicator
3 Medium	Cost/Budgetary Impact	£100,001 to £400,000
	Impact on life	Permanent disability or injury or illness
	Environment	Damage contained to Ward or area inside the borough with medium term effect to immediate ecology or community
	Reputation	Decrease in perception of public standing at Local Level – media attention highlights failure and is front page news, short to medium term recovery
	Service Delivery	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
4 High	Cost/Budgetary Impact	£400,001 to £800,000
	Impact on life	Individual Fatality
	Environment	Borough wide damage with medium or long term effect to local ecology or community
	Reputation	Decrease in perception of public standing at Regional level – regional media coverage, medium term recovery
	Service Delivery	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
5 Very High	Cost/Budgetary Impact	£800,001 and over
	Impact on life	Mass Fatalities
	Environment	Major harm with long term effect to regional ecology or community
	Reputation	Decrease in perception of public standing nationally and at Central Government – national media coverage, long term recovery
	Service Delivery	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

Scoring (Likelihood)	
Descriptor	Likelihood Guide
1. Improbable, extremely unlikely.	Virtually impossible to occur 0 to 5% chance of occurrence.
2. Remote possibility	Very unlikely to occur 6 to 20% chance of occurrence
3. Occasional	Likely to occur 21 to 50% chance of occurrence
4. Probable	More likely to occur than not 51% to 80% chance of occurrence
5. Likely	Almost certain to occur 81% to 100% chance of occurrence

Control		Details required
Terminate	Stop what is being done.	A clear description of the specific actions to be taken to control the risk or opportunity
Treat	Reduce the likelihood of the risk occurring.	
Take	Circumstances that offer positive opportunities	
Transfer	Pass to another service best placed to deal with mitigations but ownership of the risk still lies with the original service.	The name of the service that the risk is being transferred to and the reasons for the transfer.
Tolerate	Do nothing because the cost outweighs the benefits and/or an element of the risk is outside our control.	A clear description of the specific reasons for tolerating the risk.

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Pension Fund Risk Register - Investment Risk													
Risk Group	Risk Ref.	Movement	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score	Reviewed
				Fund	Employers	Reputation	Total						
Governance	1		That the London Collective Investment Vehicle (LCIV) disbands or the partnership fails to produce proposals/solutions deemed sufficiently ambitious	5	4	3	12	3	**36**	TOLERATE - 1) Partners for the pool have similar expertise and like-mindedness of the officers and members involved with the fund, ensuring compliance with the pooling requirements. Ensure that ongoing fund and pool proposals are comprehensive and meet government objectives. Member presence on Shareholder Committee and officer groups. 2) Following the commencement of his role as CIO during September 2019 Mark Thompson announced his resignation from the position citing that he could not commit to the demands of the role. In the interim Kevin Corrigan has joined the LCIV team as CIO, he has over twenty-five years' experience in the financial services industry and was formerly CIO at Sandaire. In addition to this, Kevin Cullen (Client Relations Director) has announced his decision to retire next year. He will be helping the London CIV with succession arrangements between now and his intended retirement date of the end March 2020. Larissa Benbow, Head of Fixed Income, has also announced her resignation for the end of February.	3	**36**	08/01/2020
Investment	2		Significant volatility and negative sentiment in global investment markets following disruptive geo-political uncertainty caused by the conflict between the US and Iran, as well as the ongoing trade war with China.	5	4	1	10	4	**40**	TREAT- 1) Continued dialogue with investment managers re management of political risk in global developed markets. 2) Investment strategy involving portfolio diversification and risk control. 3) Investment strategy review will follow post actuarial 2019 valuation.	3	**30**	08/01/2020
Investment	3		Volatility caused by uncertainty with regard to the withdrawal of the UK from the European Union, lack of any trade deal struck by 31 October 2019 and the economic after effects.	4	4	1	9	3	**27**	1) Officers to consult and engage with advisors and investment managers. 2) Future possibility of looking at move from UK to Global benchmarks on UK Equities and UK Property. 3) Possibility of hedging currency and equity index movements. 4) The UK is currently still part of the EU, however a deal has now been agreed in Parliament with the UK expected to exit the EU on 31 January 2020.	3	**27**	08/01/2020
Funding	4		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.	5	4	2	11	3	**33**	TREAT: 1) Cashflow forecast maintained and monitored. 2) Cashflow position reported to committee quarterly. 3) Cashflow requirement is a factor in current investment strategy review.	2	**22**	08/01/2020
Funding	5		Scheme members live longer than expected leading to higher than expected liabilities.	5	5	1	11	2	**22**	TOLERATE: The scheme's liability is reviewed at each triennial valuation and the actuary's assumptions are challenged as required. The actuary's most recent longevity analysis has shown that the rate of increase in life expectancy is slowing down.	2	**22**	08/01/2020

Funding	6		Price inflation is significantly more than anticipated in the actuarial assumptions: an increase in CPI inflation by 0.1% over the assumed rate will increase the liability valuation by upwards of 1.7%.	5	3	2	10	3	**30**	TREAT- 1) Actuarial valuation results show an increase in the CPI assumption of 0.2% from the 2016 valuation. 2) The fund holds investment in index-linked bonds (RPI protection which is higher than CPI and other real assets to mitigate CPI risk. Moreover, equities will also provide a degree of inflation protection.	2	**20**	08/01/2020
Funding	7		Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	4	4	2	10	2	**20**	1) 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) No evidence in 2018/19 of members transferring out to DC schemes.	2	**20**	08/01/2020
Funding	8		Employee pay increases are significantly more than anticipated for employers within the Fund.	4	4	2	10	2	**20**	TOLERATE - 1) Actuarial valuation assumptions show a decrease in salary increases by 0.3% from 2016. 2) Fund employers should monitor own experience. 3) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) should be long term assumptions. Any employer specific assumptions above the actuary's long term assumption would lead to further review. 4) Employers to made aware of generic impact that salary increases can have upon the final salary linked elements of LGPS benefits (accrued benefits before 1 April 2014).	2	**20**	08/01/2020
Funding	9		Changes to LGPS Scheme moving from Defined Benefit to Defined Contribution	5	3	2	10	2	**20**	TOLERATE - 1) Political power required to effect the change.	2	**20**	08/01/2020
Investment	10		Investment managers fail to achieve benchmark/ outperformance targets over the longer term: a shortfall of 0.1% on the investment target will result in an annual impact of £1.5m.	5	3	1	9	3	**27**	TREAT- 1) The Investment Management Agreements (IMAs) clearly state WCC's expectations in terms of investment performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Pension Fund Committee should be positioned to move quickly if it is felt that targets will not be achieved. 4) Portfolio rebalancing is considered on a regular basis by the Pension Fund Committee. 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk compared with less diversified structures.	2	**18**	08/01/2020
Operational	11		Insufficient attention paid to environmental, social and governance (ESG) issues, leading to reputational damage. The Council declared a climate emergency in September 2019, how this will effect the Pension Fund going forward is currently unknown.	3	2	4	9	3	**27**	1) Review ISS in relation to published best practice (e.g. Stewardship Code) 2) Ensure fund managers are encouraged to engage and to follow the requirements of the published ISS. 3) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which raises awareness of ESG issues and facilitates engagement with fund managers and corporate company directors. 4) Following a carbon review of the Pension Fund investments, the Fund may consider investing in low carbon assets. 5) An ESG and RI Policy has been drafted for the Pension Fund pending a review of the ISS, these are yet to be approved by Committee.	2	**18**	08/01/2020

Governance	12		Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within laid down timescales.	3	2	1	6	3	**18**	1) Officers consult and engage with MHCLG, LGPS Scheme Advisory Board, advisors, consultants, peers, various seminars and conferences. 2) Officers engage in early planning for implementation against agreed deadlines. 3) Uncertainty surrounding new MHCLG pooling guidance.	3	**18**	08/01/2020
Investment	13		Increased risk to global economic stability. Outlook deteriorates in advanced economies because of heightened uncertainty and setbacks to growth and confidence, with declines in oil and commodity prices. Leading to tightened financial conditions, reduced risk appetite and raised credit risks. Geo-political risk as a result of events and political uncertainty.	4	3	1	8	3	**24**	TREAT- 1) Increased vigilance and continued dialogue with managers as to events on and over the horizon. 2) Continued investment strategy involving portfolio diversification and risk control. 3) Investment strategy review will follow post actuarial 2019 valuation.	2	**16**	08/01/2020
Governance	14		London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	3	3	2	8	3	**24**	1) Pension Fund Committee Chair is a member of the shareholder 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) Following the commencement of his role as CIO during September 2019 Mark Thompson announced his resignation from the position citing that he could not commit to the demands of the role. In the interim Kevin Corrigan has joined the LCIV team as CIO, he has over twenty-five years' experience in the financial services industry. In addition to this, Kevin Cullen (Client Relations Director) has announced his decision to retire next year. Officers will continue to monitor the ongoing staffing issues at the LCIV.	2	**16**	08/01/2020
Funding	15		Impact of economic and political decisions on the Pension Fund's employer workforce.	5	2	1	8	2	**16**	1) Barnet Waddingham uses prudent assumptions on future of employees within workforce. Employer responsibility to flag up potential for major bulk transfers outside of the Westminster Fund. The potential for a significant reduction in the workforce as a result of the public sector financial pressures may have a future impact on the Fund. 2) Need to make prudent assumptions about diminishing workforce when carrying out the triennial actuarial valuation.	2	**16**	08/01/2020
Funding	16		Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	4	2	1	7	2	**14**	TOLERATE: 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	**14**	08/01/2020

Funding	17		Impact of increases to employer contributions following the actuarial valuation	5	5	3	13	2	**26**	TREAT- 1) Officers to consult and engage with employer organisations in conjunction with the actuary. 2) Actuary will assist where appropriate with stabilisation and phasing in processes.	1	**13**	08/01/2020
Governance	18		Failure to take difficult decisions inhibits effective Fund management	5	3	4	12	2	**24**	TREAT-1) Officers ensure that governance process encourages decision making on objective empirical evidence rather than emotion. Officers ensure that the basis of decision making is grounded in the Investment Strategy Statement (ISS), Funding Strategy Statement (/FSS), Governance policy statement and Committee Terms of Reference and that appropriate advice from experts is sought.	1	**12**	08/01/2020
Governance	19		Changes to LGPS Regulations	3	2	1	6	3	**18**	TREAT - 1) Fundamental change to LGPS Regulations implemented from 1 April 2014 (change from final salary to CARE scheme). 2) Future impacts on employer contributions and cash flows will considered during the 2016 actuarial valuation process. 3) Fund will respond to consultation processes. 4) Impact of LGPS (Management of Funds) Regulations 2016 to be monitored. Impact of Regulations 8 (compulsory pooling) to be monitored.	2	**12**	08/01/2020
Funding	20		Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy.	5	3	3	11	2	**22**	TREAT- 1) Active investment strategy and asset allocation monitoring from Pension Fund Committee, officers and consultants. 2) Investment strategy review is currently underway with an approved switch from equities to fixed income. 3) Setting of Fund specific benchmark relevant to the current position of fund liabilities. 4) Fund manager targets set and based on market benchmarks or absolute return measures. Overall investment benchmark and out-performance target is fund specific.	1	**11**	08/01/2020
Financial	21		Financial loss of cash investments from fraudulent activity.	3	3	5	11	2	**22**	TREAT - 1) Policies and procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised. Strong governance arrangements and internal control are in place in respect of the Pension Fund. Internal Audit assist in the implementation of strong internal controls. Fund Managers have to provide annual SSAE16 and ISAE3402 or similar documentation (statement of internal controls).	1	**11**	08/01/2020
Operational	22		Failure to hold personal data securely in breach of General Data Protection Regulation (GDPR) legislation.	3	3	5	11	2	**22**	TREAT - 1) Data encryption technology is in place which allow the secure transmission of data to external service providers. 2)WCC IT data security policy adhered to. 3) Implementation of GDPR.	1	**11**	08/01/2020
Governance	23		Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	5	2	4	11	2	**22**	TREAT: 1) Officers maintain knowledge of legal framework for routine decisions. 2) Eversheds retained for consultation on non-routine matters.	1	**11**	08/01/2020

Funding	24		Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	5	3	3	11	2	**22**	TREAT: 1) Transferee admission bodies required to have bonds or guarantees in place at time of signing the admission agreement. Regular monitoring of employers and follow up of expiring bonds.	1	**11**	08/01/2020
Regulation	25		A change in government may result in new wealth sharing policies which could negatively impact the value of the pension fund assets.	5	5	1	11	2	**22**	TREAT: 1) 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.	1	**11**	08/01/2020
Governance	26		Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding	2	2	1	5	4	**20**	TREAT - 1) Succession planning process in place. 2) Ongoing training of Pension Fund Committee members. 3) Pension Fund Committee new member induction programme. 4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework under designated officer.	2	**10**	08/01/2020
Governance	27		Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	5	3	2	10	2	**20**	TREAT: 1) At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. Committee and officers scrutinise and challenge advice provided.	1	**10**	08/01/2020
Operational	28		Financial failure of third party supplier results in service impairment and financial loss	5	4	1	10	2	**20**	TREAT - 1) Performance of third parties (other than fund managers) regularly monitored. 2) Regular meetings and conversations with global custodian (Northern Trust) take place. 3) Actuarial and investment consultancies are provided by two different providers.	1	**10**	08/01/2020
Investment	29		Failure of global custodian or counterparty.	5	3	2	10	2	**20**	TREAT: 1) At time of appointment, ensure assets are separately registered and segregated by owner. 2) Review of internal control reports on an annual basis. 3) Credit rating kept under review.	1	**10**	08/01/2020
Operational	30		Financial failure of a fund manager leads to value reduction, increased costs and impairment.	4	3	3	10	2	**20**	TREAT - 1) Fund is reliant upon current adequate contract management activity. 2) Fund is reliant upon alternative suppliers at similar price being found promptly. 3) Fund is reliant on LGIM as transition manager. 4) Fund has the services of the London Collective Investment Vehicle (LCIV).	1	**10**	08/01/2020
Investment	31		Global investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers.	5	3	2	10	2	**20**	TREAT- 1) Proportion of total asset allocation made up of equities, bonds, property funds, infrastructure and fixed income, limiting exposure to one asset category. 2) The investment strategy is continuously monitored and periodically reviewed to ensure optimal risk asset allocation. 3) Actuarial valuation and strategy review take place every three years post the actuarial valuation. 4) IAS19 data is received annually and provides an early warning of any potential problems. 5) The actuarial assumption regarding asset outperformance is regarded as achievable over the long term when compared with historical data.	1	**10**	08/01/2020

Governance	32		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.	4	3	3	10	2	**20**	TREAT: 1) Person specifications are used at recruitment to appoint officers with relevant skills and experience. 2) Training plans are in place for all officers as part of the performance appraisal arrangements. 3) Shared service nature of the pensions team provides resilience and sharing of knowledge. 4) Officers maintain their CPD by attending training events and conferences.	1	**10**	08/01/2020
Governance	33		Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests.	3	3	4	10	2	**20**	TREAT - 1) Publication of all documents on external website. 2) Managers expected to comply with ISS and investment manager agreements. 3) Local Pension Board is an independent scrutiny and assistance function. 4) Annual audit reviews.	1	**10**	08/01/2020
Operational	34		Inaccurate information in public domain leads to damage to reputation and loss of confidence.	1	1	3	5	3	**15**	Treat: 1) Ensure that all requests for information (Freedom of Information, member and public questions at Council, etc) are managed appropriately and that Part 2 Exempt items remain so. 2) Maintain constructive relationships with employer bodies to ensure that news is well managed. 3) Stage AGM every year.	2	**10**	08/01/2020
Funding	35		Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	5	3	1	9	2	**18**	TREAT: 1) 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. 2) Cashflow position monitored monthly.	1	**9**	08/01/2020
Governance	36		Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	4	3	2	9	2	**18**	TREAT: 1) External professional advice is sought where required. Knowledge and skills policy in place (subject to Committee Approval).	1	**9**	08/01/2020
Governance	37		Failure to comply with recommendations from the Local Pension Board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator	1	3	5	9	2	**18**	TREAT - 1) Ensure that a cooperative, effective and transparent dialogue exists between the Pension Fund Committee and Local Pension Board.	1	**9**	08/01/2020
Regulation	38		Loss of flexibility to engage with Fund Managers and loss of elective professional status with any or all of the existing Fund managers and counterparties resulting in reclassification. (The Fund is a retail client to counterparties unless opted up).	3	2	2	7	2	**14**	TREAT: 1) More reliance on investment advisor to keep Officers and Committee updated. Officers are considering other financial institution outside of the current mandates to 'opt up' with. 2) Maintaining up to date information about the fund on relevant platforms. 3) Fund can opt up with prospective clients. 4) Keep quantitative and qualitative requirements under review to ensure that they continue to meet the requirements. There is a training programme and log in place to ensure knowledge and understanding is kept up to date. 5) Existing and new Officer appointments subject to requirements for professional qualifications and CPD.	1	**7**	08/01/2020

Operational	39		Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non compliant process.	2	2	3	7	2	**14**	TREAT - 1) Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process.	1	**7**	08/01/2020
Funding	40		The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	4	2	1	7	2	**14**	TREAT: 1) Review at each triennial valuation and challenge actuary as required. Growth assets and inflation linked assets in the portfolio should rise as inflation rises.	1	**7**	08/01/2020

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Appendix 3

PENSION FUND COMMITTEE **Forward Plan – 2019/20**

Area of work	Jan 2020	Mar 2020	Jun 2020	Oct 2020
Standing Items	Pension Fund Committee minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan	Pension Fund Committee minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan	Pension Fund Committee minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan	Pension Fund Committee minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan
Governance	Succession Planning – Training Update Draft Responsible Investment and ESG Policies	Investment Strategy Statement Review Briefing on Triennial Valuation	Pension Fund Annual Report and Accounts 2019/20 Review of Governance Compliance Statement Business Plan Pension Fund Costs 2019/20	Training Plan London CIV governance update
Investments	MiFID II annual review Draft Investment Strategy Review Asset Allocation Review Investment Beliefs	Pooling and CIV update Investment Strategy Review	Pooling and CIV update Annual report to Scheme Advisory Board re pooling arrangements	Pooling and CIV update

Area of work	Jan 2020	Mar 2020	Jun 2020	Oct 2020
	Funding Strategy Statement			
Administration	Hampshire Project. First Months Issues for Pension Administration. Pension Administration Strategy (PAS) – update Initial Audits			

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**23 January 2020**
Classification:	**General Release**
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:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. Executive Summary

1.1 This report presents the performance of the Pension Fund's investments to 30 September 2019, together with an update of the funding position post actuarial valuation.

1.2 The Fund underperformed the benchmark net of fees by 0.6% over the quarter to 30 September 2019 and the estimated funding level following the triennial actuarial valuation has risen to 100% from the 80% level in 2016.

1.3 Also attached is the Legal & General Investment Management (LGIM) transition post-trade report, as per the £284m global equity restructuring from the Majedie equity mandate into the LGIM FTSE global passive fund.

2. Recommendation

2.1 The Pension Fund Committee is asked to note the performance of the investments and funding position.

3. Background

3.1 This report presents a summary of the Pension Fund's performance to 30 September 2019 and estimated funding level following the actuarial valuation. The investment performance report (Appendix 1) has been prepared by Deloitte, the Fund's investment adviser.

3.1 The investment performance report shows that over the quarter to 30 September 2019, the market value of the assets increased by £22m to £1,498m. The Fund marginally underperformed the benchmark net of fees by 0.6% over the quarter. All mandates provided a positive return during the quarter, although Majedie, Baillie Gifford, CQS, Hermes and Aberdeen Standard underperformed their benchmarks net of fees. Insight, Pantheon and Longview outperformed their benchmarks net of fees by 1.4%, 1.0% and 0.5% respectively over the three-month period.

3.2 Over the year the Fund underperformed its benchmark net of fees by 2.1%, largely as a result of negative performance within the Majedie portfolio and underperformance within the Standard Aberdeen mandate. It should be noted that the Standard Aberdeen Long Lease Property Fund is benchmarked against FTSE Gilts All Stocks +2.0% and over the year provided a positive contribution of 5.0% net of fees. Over the longer three-year period to 30 September 2019, the Fund outperformed the benchmark net of fees by 0.3%, with Aberdeen Standard and Baillie Gifford being the major contributors. Majedie underperformed their benchmarks net of fees by 2.7% during this period.

3.3 The advisors continue to rate the fund managers favourably, with the exception of Longview and Majedie. In Longview's case, the retirement of the Chief Executive in December 2018 is still a major concern. In addition, the advisors have also removed the Majedie UK Equity strategy from their rated manager list, following poor performance and changes to key management personnel.

3.4 Advisors have also expressed ongoing concern about resignations and vacancies at senior management level within the London Collective Investment Vehicle (LCIV). At the end of the quarter, following the commencement of his role as CIO during September 2019, Mark Thompson has announced his resignation from the position, citing that he could not commit to the overwhelming demands of the role. In the interim, Mike Pratten who was previously appointed as temporary CIO will return to the LCIV on a part time basis. It should also be be noted that the London CIV placed asset manager CQS on watch during the quarter, Deloitte however continue to rate the manager favourably.

3.5 During the quarter Majedie announced the appointment of John King, who has previously worked at AXA, as the Lead Manager for the Majedie UK Smaller Companies. LGIM launched a number of new funds during the third quarter including regional index funds which track a range of ESG focused alternative indices. At company level, LGIM continued the CEO handover as Michelle Scrimgeour replaced Mark Zinkula as CEO of LGIM (UK) who retired from the business in August. Michelle has over 30 years' experience at asset management firms, including the CEO position at Columbia Threadneedle and the Chief Risk Officer role at M&G Investments. Additionally, within the Index Team there were three new starters including the appointment of Anupe Dhanday as Portfolio Manager.

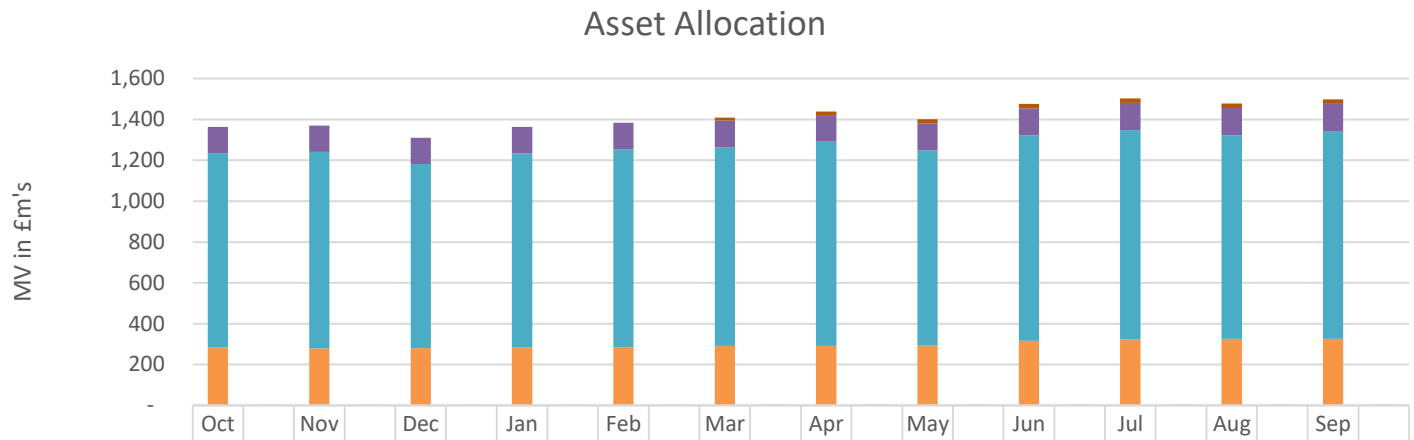
3.6 Over the quarter, Chris Matthew, Fund Director at Hermes, decided not to return to his full-time role at the company following a period of ill health within his family and left the business on 31 October 2019. Hermes announced that it would conduct a search to find a new Fund Director, in consultation with the HPUT Appointments Committee and HPUT Investors. In the interim, Chris Darroch, Executive Director at Hermes, will act as Fund Director until an appointment has been made. During the quarter, Russell Black was appointed as the permanent Fund Manager, having worked within the property team for over 15 years.

3.7 During October 2019, Martin Gilbert announced his intention to step down from his current positions and retire from his roles on the boards within Standard Aberdeen at the next AGM in May 2020. Martin started with Aberdeen Asset Management over 30 years ago and currently holds the positions of Chairman at Aberdeen Standard Investments and Vice Chairman of the Standard Life Aberdeen group.

3.8 Following the 2019 triennial actuarial valuation, the estimated funding level for the City of Westminster Pension Fund has risen to 100% (80% in 2016). This can be attributed to excellent investment returns during this period with global equities performing particularly well. The funding level for Westminster City Council as an employer has risen by 16% to 86% in 2019 from 70% in 2016, this is in part due to the Council's deficit recovery payments made to the Pension Fund during this period.

4. Asset Allocation and Summary of Changes

4.1 The chart below shows the changes in asset allocation of the Fund from 1 October 2018 to 30 September 2019. Asset allocations may vary due to changes in market value.



	Oct		Nov		Dec		Jan		Feb		Mar		Apr		May		Jun		Jul		Aug		Sep	
Infrastructure	-	0%	-	0%	-	0%	-	0%	-	0%	14	1%	17	1%	21	2%	21	1%	22	1%	22	1%	22	1%
Property	128	9%	129	9%	130	10%	130	10%	130	9%	131	9%	131	9%	132	9%	132	9%	132	9%	133	9%	133	9%
Equities	952	70%	961	70%	901	69%	950	70%	969	70%	973	69%	999	69%	955	68%	1,0	68%	1,0	68%	998	67%	1,0	68%
Fixed Income	283	21%	280	20%	280	21%	285	21%	286	21%	291	21%	292	20%	294	21%	317	21%	322	21%	326	22%	326	22%

Fixed Income Equities Property Infrastructure

*Fixed Income includes bonds and Multi Asset Credit

4.2 The Westminster Pension Fund target asset allocation is 65% of assets within equities, 20% in fixed income, 5% within infrastructure and 10% within property.

4.3 In December 2018, following a manager selection process, the Pension Fund Committee selected Pantheon Asset Management as the Fund's Infrastructure Manager. The remainder of the portfolio held with Longview will be sold and £70m transitioned in to the Pantheon Global Infrastructure Fund III. The first drawdown took place on 20 March 2019, with £14m in cash held within the global custodian transferred to Pantheon.

4.4 On 16 April 2019 a further Pantheon drawdown took place, with £2.2m transitioned from the Longview equity fund in to the Pantheon Global Infrastructure fund. During May 2019, an additional £3.4m was transferred from the Longview portfolio to Pantheon following another capital call notice.

4.5 During June 2019 £22m in deficit recovery receipts was received, £20m of this was invested within the Insight Buy and Maintain bond fund.

4.6 On 24 July 2019 a negative capital call totalling £4.1m took place within the Pantheon Global Infrastructure Fund, this was as a result of an equalisation following new partners entering the strategy. Following this capital calls of £0.9m and £1m took place on 20 August 2019 and 18 September 2019, using the cash received from the capital equalisation.

4.7 The value of pension fund investments transferred to the LCIV as at 30 September 2019 was £699m. This represents 47% of Westminster's investment assets. A further £342m continues to benefit from reduced management fees, Legal and General having reduced their fees to match those available through the LCIV.

5. LGIM Global Equity Transition

5.1 Following the decision to terminate Majedie as an asset manager, LGIM were appointed as the transition manager to restructure £284m in global equity from the Majedie equity mandate into the LGIM global passive fund. The legacy assets were transferred into the transition account on 20 November 2019 and trading into the LGIM global passive mandate was completed on 13 December 2019.

5.2 The total implementation shortfall cost was -£0.811m or 28.6bps which is within the estimated one standard deviation range of -9.2bps to -84.1bps. Additionally, direct cash investment into the LGIM pooled fund on 11 December incurred spread costs of £0.01m.

5.3 Intra-day hedging prior to the Implementation Shortfall ('IS') benchmark realised a gain of £0.91m. Currency overlay maintained in the transition account realised a gain of £2.90m.

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

Billie Emery pensionfund@westminster.gov.uk or 0207 641 7062

Background Papers: None

Appendices:

Appendix 1: Deloitte Investment Report, Quarter Ending 30 September 2019
Appendix 2: LGIM Post Trade Report

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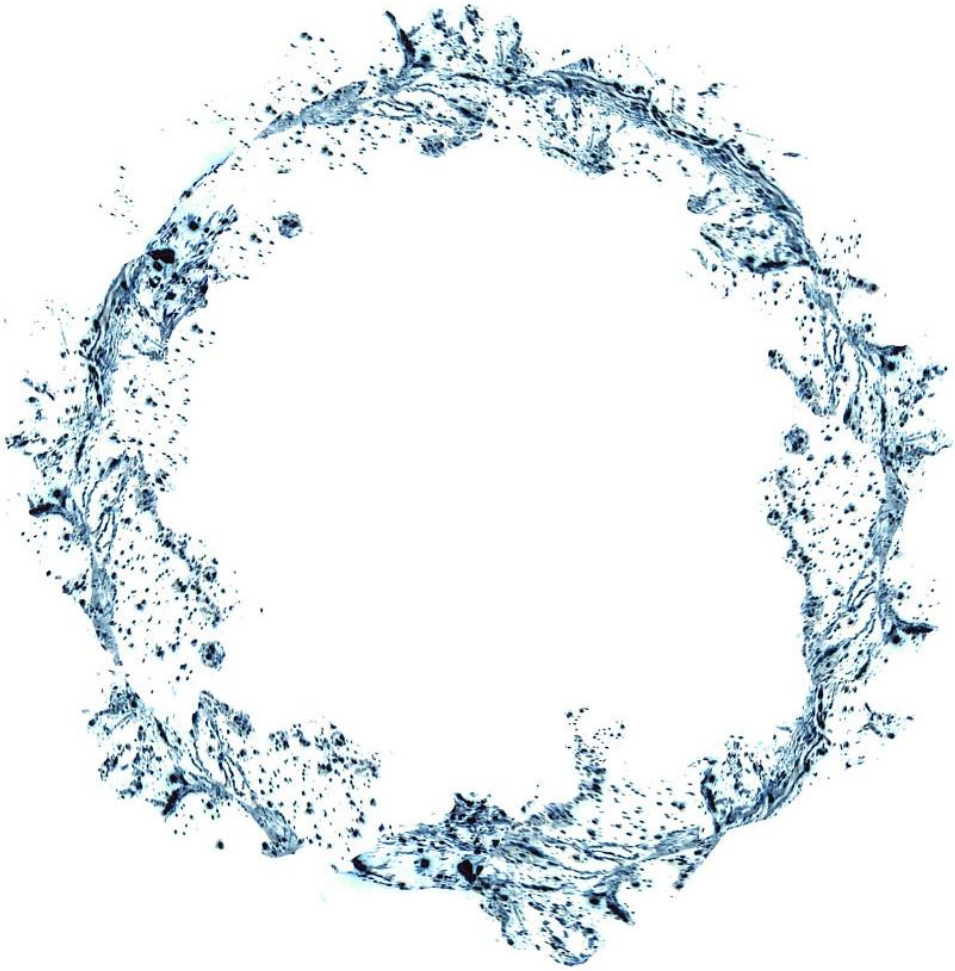
Deloitte.



City of Westminster Pension Fund

Investment Performance Report to 30 September 2019

Deloitte Total Reward and Benefits Limited
January 2020

Contents

1 Market Background

Three and twelve months to 30 September 2019

After a strong first half of 2019, global equity markets delivered a small positive return in the third quarter as the Fed (which cut rates twice) and other central banks eased monetary policy against a backdrop of slowing global growth and the ongoing US-China trade dispute. Gains were shared across most developed markets, but emerging markets, which are particularly sensitive to the ongoing global trade tensions, suffered losses as a result.

UK equities made modest gains over the quarter to 30 September 2019, with the FTSE All Share Index returning 1.3%. It was confirmed that the UK economy had contracted by 0.2% over the second quarter, whilst subsequent data suggested a continued slowdown in economic activity over the third quarter. Brexit uncertainty remained high as Boris Johnson took over as Prime Minister on a pledge to leave the EU with or without a deal on 31 October. However, the lack of progress in negotiations with the EU, the UK Parliament's opposition to 'no deal', and the bill it passed to request an extension to avoid such an outcome, raised expectations that Brexit may be delayed beyond October.

The FTSE 100 Index gained 1.0% while the FTSE 250 gained 3.3%, as the FTSE 100 was weighed down by its large concentration to economically sensitive sectors such as Financials (-1.8%) and Oil & Gas (-6.6%), which suffered as investors rotated more towards defensive growth sectors such as Health Care (11.6%) and Utilities (5.1%) in response to the slowdown in global growth. Telecommunications was the best performing sector returning 13.1%, while Technology was the poorest performing sector falling 15.7% in the third quarter, having made large gains in the previous quarter.

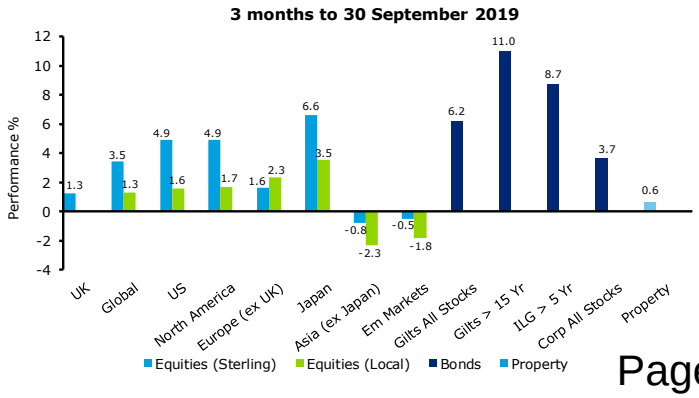
Global markets as a whole performed broadly in line with UK equities in local currency terms (1.3%) but outperformed in sterling terms (3.5%) following further sterling depreciation in an uncertain political environment. Most developed markets made positive returns in local currency terms, with Japan the best performer, returning 3.5%. However, the other Asia-Pacific (ex-Japan) markets (-2.3%) and Emerging Markets (-1.8%) suffered losses in local terms, suffering most from the trade tensions which rumbled on through the quarter.

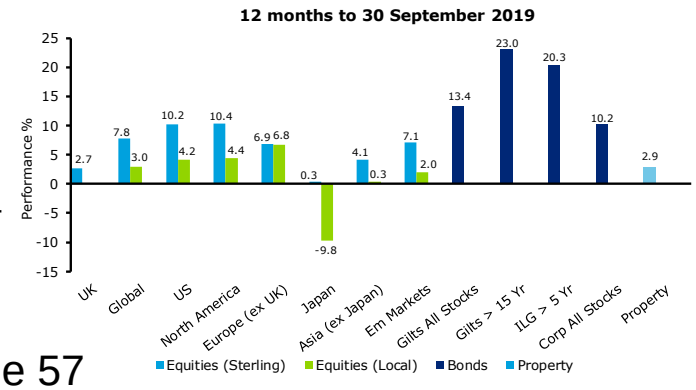
Government bond yields fell sharply over the quarter due to global growth concerns and the prospect of further rate cuts. In the UK, nominal gilt yields fell significantly across the curve, dropping c. 40-50 bps at mid to long durations, as investors downgraded their future growth expectations and fears of a 'no deal' Brexit fuelled a 'flight to quality'. The All Stocks Gilts Index delivered a positive return of 6.2% over the quarter with the Over 15 Year Index returning 11.0%. Real yields also fell sharply with the Over 5 Year Index-Linked Gilts Index delivering a return of 8.7% over the same period. Credit spreads widened over the quarter which led to underperformance of equivalent gilts. The iBoxx All Stocks Non Gilt Index returned 3.7%.

Over the 12 months to 30 September 2019, the FTSE All Share Index delivered a positive return of 2.7% as the gains made through 2019 more than offset the sharp sell-off at the end of 2018. There was a wide dispersion in returns at the sector level with Health Care the best performer, returning 16.7%, whilst Oil & Gas was the poorest performing sector falling by 11.2%. Global markets performed broadly in line with UK equities in local currency terms (3.0%) but significantly outperformed in sterling terms (7.8%) due to the depreciation of sterling over the year.

UK nominal gilts achieved strong returns over the 12 months to 30 September 2019 as nominal gilt yields fell sharply across the curve. The All Stocks Gilts Index returned 13.4% and the Over 15 Year Gilts Index returned 23.0% over the year. UK index-linked gilts delivered positive returns as real yields also fell across the curve with the Over 5 Year Index-Linked Gilts Index returning 20.3%. The iBoxx All Stocks Non Gilt Index returned 10.2% lagging gilts as credit spreads widened slightly over the year.

The MSCI UK All Property Index returned 0.6% over the 3 months to 30 September 2019 and 2.9% over the 12 months to 30 September 2019. The property market has continued to cool in light of heightened Brexit uncertainty and a slowing UK economy.





2 Total Fund

2.1 Investment Performance to 30 September 2019

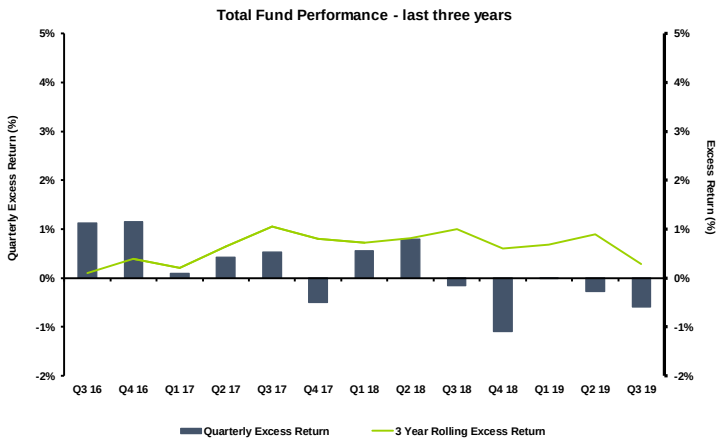
The following table summarises the performance of the Fund's managers.

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]	
LCIV[3]	UK Equity	1.2	1.0	1.3	-2.4	-3.0	2.7	4.7	4.1	6.8	10.8	10.2	9.4
LGIM	Global Equity	1.4	1.4	1.4	1.9	1.8	1.8	10.2	10.1	10.1	10.9	10.9	10.9
LCIV[3]	Global Equity	0.8	0.7	3.3	6.9	6.6	7.3	14.5	14.3	11.7	15.0	14.6	12.5
Longview	Global Equity	4.4	4.3	3.8	7.3	6.6	7.8	13.0	12.3	12.2	14.3	13.7	12.7
Insight[2]	Buy and Maintain	3.9	3.8	2.4	10.7	10.6	7.4	n/a	n/a	n/a	6.7	6.6	5.5
LCIV[3]	Multi Asset Credit	0.8	0.6	1.2	n/a	n/a	n/a	n/a	n/a	n/a	3.7	3.1	4.6
Hermes	Property	0.5	0.4	0.6	3.0	2.6	3.0	8.1	7.7	7.4	9.3	8.9	8.1
Aberdeen Standard	Property	1.2	1.0	6.6	5.5	5.0	15.4	8.3	7.8	5.2	8.5	8.0	7.4
Pantheon	Global Infrastructure	3.2	3.2	2.2	n/a	n/a	n/a	n/a	n/a	n/a	7.6	7.6	5.7
Total		**1.7**	**1.6**	**2.2**	**3.3**	**3.0**	**5.1**	**8.6**	**8.2**	**7.9**	**n/a**	**n/a**	**n/a**

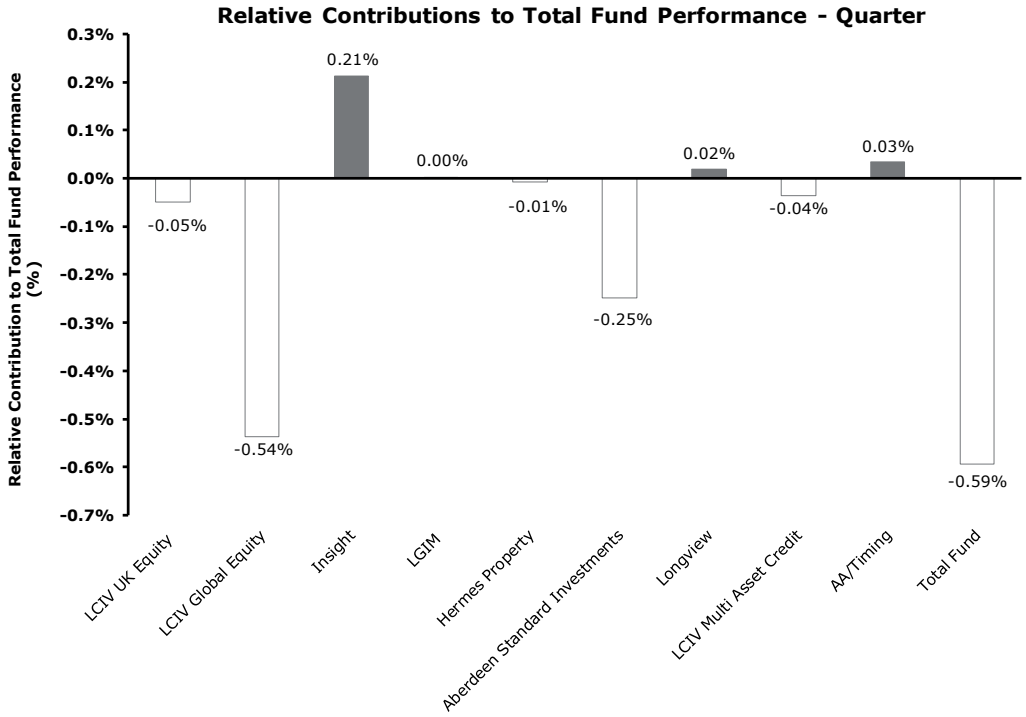
Source: Northern Trust
[1]Estimated by Deloitte when manager data is not available. See appendix 1 for more detail on manager fees and since inception dates
[2]Insight Buy and Maintain Fund was incepted on 9 April 2018. Since inception returns and benchmark returns reflect a combination of Insight Buy & Maintain Fund returns and benchmark returns from date of inception to 30 June 2019, and Insight IM (Core) Fund returns and benchmark returns from inception date 30 September 2011 until inception of the Buy and Maintain Fund
[3]Quarter and year performance figures estimated using London CIV quarterly reports. Longer term performance has been provided by Northern Trust. LCIV UK Equity Fund is managed by Majedie and was incepted on 18 May 2017. LCIV Global Equity Fund is managed by Baillie Gifford and was incepted on 11 April 2016. LCIV Multi Asset Credit Fund is managed by CQS and was incepted on 31 October 2018.

Over the quarter to 30 September 2019, the Fund returned 1.6% on a net of fees basis, underperforming its benchmark by 0.6%. Each mandate provided positive absolute returns over the third quarter of 2019, however Aberdeen Standard Investments and Baillie Gifford underperformed their respective benchmark. The Fund has underperformed its benchmark by 2.1% over the year to 30 September 2019 on a net of fees basis, whilst over the longer three-year period the Fund has outperformed its benchmark by 0.3% p.a. on a net of fees basis.

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.

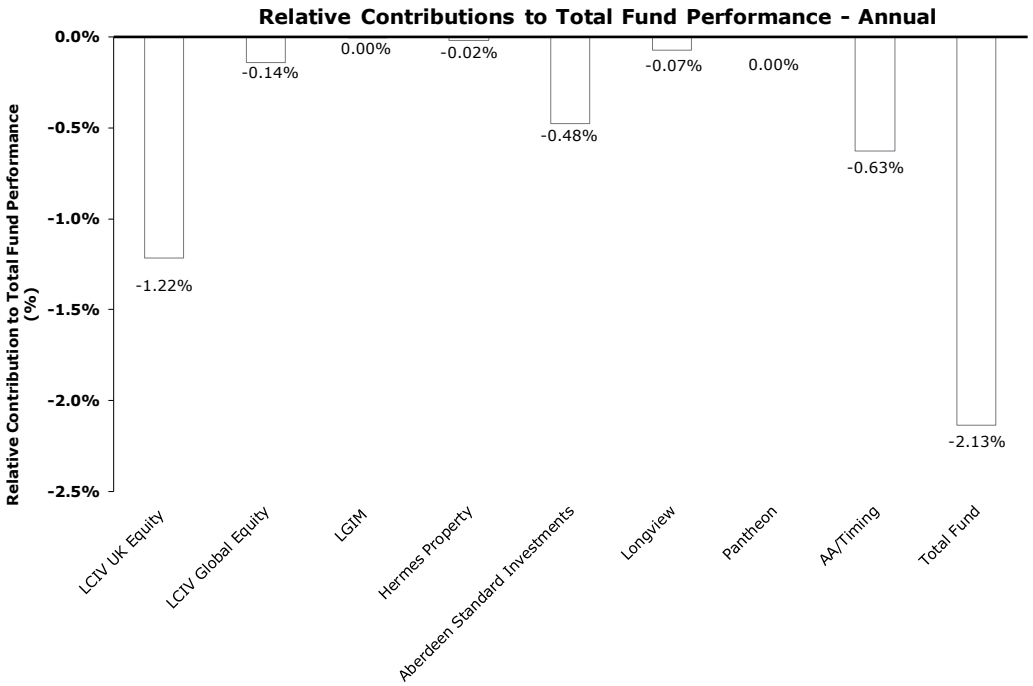


2.2 Attribution of Performance to 30 September 2019



Over the quarter to 30 September 2019, the Fund underperformed its composite benchmark by 0.6% on a net of fees basis. This was largely as a result of underperformance by the LCIV Global Equity Fund relative to its MSCI AC World Index benchmark, alongside underperformance by the Aberdeen Standard Investments Long Lease Property Fund relative to its gilts-based benchmark.

Over the year to 30 September 2019, the Fund underperformed its benchmark by 2.1% on a net of fees basis. The largest detractor to performance was the LCIV UK Equity Fund, which underperformed its benchmark by 5.7% over the year on a net of fees basis. The negative contribution from the "AA/Timing" bar reflects the impact of holding investments in Longview over the first two quarters of 2019, with the benchmark allocation not allowing for any allocation to Longview whilst the global equity fund underperformed its benchmark over this period. Aberdeen Standard Investments also underperformed its gilts-based benchmark over the year.



2.3 Asset Allocation as at 30 September 2019

The table below shows the assets held by manager and asset class as at 30 September 2019.

Manager	Asset Class	End Jun 2019 (£m)	End Sep 2019 (£m)	End Jun 2019 (%)	End Sep 2019 (%)	Benchmark Allocation (%)
LCIV	UK Equity	296.5	297.4	20.1	19.9	22.5
LGIM	Global Equity (Passive)	336.8	341.6	22.8	22.8	22.5
LCIV	Global Equity	305.9	308.0	20.7	20.6	20.0
Longview	Global Equity	66.7	69.6	4.5	4.6	0.0
	Total Equity	**1,005.9**	**1,016.6**	**68.1**	**67.9**	**65.0**
Insight	Buy and Maintain	223.8	232.4	15.2	15.5	13.5
LCIV	Multi Asset Credit	93.2	93.8	6.3	6.3	6.5
	Total Bonds	**317.0**	**326.2**	**21.5**	**21.8**	**20.0**
Hermes	Property	66.5	66.9	4.5	4.5	5.0
Aberdeen Standard	Property	65.6	66.4	4.4	4.4	5.0
	Total Property	**132.1**	**133.3**	**8.9**	**8.9**	**10.0**
Pantheon	Global Infrastructure	20.9	21.5	1.4	1.4	5.0
	Total Infrastructure Equity	**20.9**	**21.5**	**1.4**	**1.4**	**5.0**
Total		**1,476.0**	**1,497.7**	**100**	**100**	**100**

Source: Northern Trust
Figures may not sum due to rounding

Over the quarter to 30 September 2019, the market value of the Fund's assets increased by c. £21.7m as a result of positive absolute performance across the portfolio.

At quarter end, the Fund was overweight equities and bonds by 2.9% and 1.8% respectively relative to the strategic benchmark. The Fund's overweight equity exposure is expected to reduce as Pantheon continues to draw down capital, funded from the remaining Longview allocation. The Fund was underweight 1.1% to property as at 30 September 2019.

During the quarter, Pantheon issued two capital call requests, alongside one distribution on 24 July 2019. This totaled a net outflow of $3.0m from the infrastructure fund primarily due to a large distribution over the quarter as a result of the equalisation of new limited partners into the fund. Capital calls over the quarter were funded from the bank account held with Northern Trust. As at 18 September 2019, the date of the second capital call of Q3 2019, the total unfunded commitment to Pantheon was c. $68.6m.

Following quarter end, the decision was taken to disinvest from the LCIV UK Equity Fund. The allocation is to be transferred to the Legal & General World Equity Index Fund – GBP Currency Hedged in the interim, pending a longer term solution, which is to be discussed at the next Committee meeting on 23 January 2020 as part of the wider strategy review.

2.4 Yield analysis as at 30 September 2019

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

Manager	Asset Class	Yield as at 30 September 2019
LCIV	UK Equity	4.10%**
LGIM	Global Equity (Passive)	0.24%
LCIV	Global Equity	0.60%**
Longview	Global Equity	2.33%
Insight	Buy and Maintain	2.17%
LCIV	Multi Asset Credit	5.69%**
Hermes Property	Property	3.20%
Aberdeen Standard Investments	Long Lease Property	4.10%
	Total	**2.12%**

**Yield and benchmark yield (2.8%) as at 31 December 2018. Benchmark yield represents the income that would be distributed.*
***LCIV funds' yields are provided by the underlying managers (Majedie, Baillie Gifford and CQS).*

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	LCIV 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	2
LGIM	Global Equity (Passive)	Major deviation from benchmark returns Significant loss of assets under management	1
Baillie Gifford	LCIV 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	2
Insight	Buy and Maintain	Departure of any of the senior members of the investment team	1
CQS	LCIV Multi Asset Credit	Significant changes to the investment team responsible for the fund	1
Hermes	Property	Significant growth in the value of assets invested in the fund Changes to the team managing the mandate	1
Aberdeen Standard Investments	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
Pantheon	Global Infrastructure	Significant changes to the investment team responsible for the fund	1

3.1 London CIV

Business
As at 30 September 2019, the London CIV had assets under management of £8,823m within the 14 sub-funds, an increase of £30m over the quarter. The total assets under oversight, including passive investments held outside the CIV platform, increased by £0.4bn over the quarter to £19.5bn.

Following quarter end, Ares Management Limited communicated to the London CIV that the plans to launch a Liquid Loans and a Private Debt product were to be withdrawn. This decision was made due to the lack of commitments to the products and the length of time taken to implement the strategies.

Given the demand for the strategies currently, the London CIV will look to open discussions with the London Boroughs on their current requirements and see if there is sufficient demand for similar asset classes.

Personnel
At the end of the quarter, the London CIV announced that Mark Thompson had resigned from his role as Chief Investment Officer. Mark was appointed during the second quarter of 2019 and had started the role in September. The decision by Mark was made after he concluded that he believed he was not ready to return to a full time and demanding role.

The London CIV has stated that they understand the decision taken by Mark and are currently in the process of identifying an interim and permanent replacement for the role of Chief Investment Officer. The London CIV are

also looking into the prospect of recruiting an additional person to lead on ESG work in advance of this appointment.

Additionally, on 9 January 2020, the London CIV announced Larissa Benbow will be leaving the firm with effect from 28 February. Larissa holds the role of Head of Fixed Income after joining the London CIV in June 2017. Larissa had previously planned to take extended leave, as such, with the recruitment of interim resources during 2019, Larissa's responsibilities will be picked up as follows:

- Azim Meghji, formerly Head of Credit at Santander Asset Management who joined the team in December 2019, will take responsibility for the relationships with fixed income managers. Azim will be supported by Pru Odedra;
- Rob Hall will assume responsibility for Infrastructure and Property with support from Pru Odedra;
- Mariya Gurylyova, with additional support from Andrea Wildsmith, a consultant who joined the team in 2019, will undertake London CIV's systems work; and
- Kevin Corrigan will assume responsibility for consultant relations.

LCIV Multi Asset Credit Fund
LCIV informed London Local Authorities ("LLA's") in July 2019 that CQS, the manager of the LCIV MAC Fund, had been placed "on watch". This followed LCIV concerns regarding CQS' strategy and high staff turnover, as well as recent underperformance.

In December 2019, LCIV met with CQS to advise that they are exploring options with other multi asset credit managers in the market. LCIV have commenced an external search with some initial managers which they plan to continue. LCIV are currently exploring the opportunity for another manager to hold a minority stake in the LCIV MAC Fund with the potential for the new manager to hold a larger stake in future. If or how any additional manager(s) will be used in relation to the LCIV MAC Fund will be determined by both the engagement and the outcome of the searches being undertaken by the LCIV, with a further update expected to be provided to investors in Q1 2020.

Deloitte view – It is crucial that steps are taken to rebuild the senior management team and an appropriate strategy agreed for taking the pool forward, getting "buy-in" from the shareholders. The departure of Larissa Benbow is significant given her role and involvement in the setup of numerous sub funds.

We will be meeting the LCIV to discuss Larissa's departure as well as their views on CQS and development of the MAC sub fund. Any change to the structure or manager(s) of the sub fund would require a thorough review from the Committee.

3.2 Majedie

Business
As at 30 September 2019, Majedie had total assets under management of £10.8bn, a further decrease of £0.8bn over the quarter.

Personnel
During the quarter, it was announced that Majedie were in the process of hiring John King from AXA. John will join as the Lead Manager on the Majedie UK Smaller Companies section of the UK Equity Fund.

Deloitte view – We have recently removed Majedie's UK Equity strategy from our rated manager list following a run of poor performance and changes in key personnel, as per the Majedie UK Equity Fund Review paper. As such, going forward, we will not be recommending the Majedie UK Equity strategy to clients.

3.3 LGIM

Business
As at 30 June 2019, Legal & General Investment Management ("LGIM") had total assets under management ("AuM") of £1,135bn, an increase of £30bn since 31 December 2018.

During the third quarter, LGIM launched a number of new funds in both the fixed income and equity index sustainable investing space. Within fixed income, LGIM launched a short dated corporate bond index fund alongside an ESG focused emerging market government bond index fund. Within sustainable investment, LGIM continued to add to the new equity "Future World" fund range. The new funds launched included regional index funds which track a range of ESG focused alternative indices.

Personnel
As mentioned in the previous quarter, LGIM (UK) CEO Michelle Scrimgeour was appointed in July 2019 to replace outgoing Mark Zinkula who retired from the business in August. Michelle joined from Columbia Threadneedle where she held the role of CEO with responsibility for the EMEA (Europe, Middle East and Africa) region. Michelle has over 30 years' experience at asset management firms and before Threadneedle she was Chief Risk Officer at M&G Investments.

At the Index Team level, there were three new joiners during the third quarter of 2019. Anupe Dhanday joined as a Portfolio Manager, Aude Martin as an Investment Specialist and Fhambren olde Scheper as an Equity Fund Manager.

Deloitte View - We continue to rate Legal & General positively for its passive and LDI capabilities. While there has been a degree of senior staff turnover recently, we do not have any concerns at this stage, but we will continue to monitor future turnover and updates of LGIM's succession plan.

3.4 Baillie Gifford

Business
As at 30 September 2019, Baillie Gifford held c. £206.1bn of total assets under management, a decrease of c. £1.0bn over the quarter.

Personnel
There have been no significant team or personnel changes over the quarter to 30 September 2019.

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

3.5 Longview

Business
As at 30 September 2019, Longview held assets under management of c. £23.5bn with flat levels of net flows over the quarter.

Personnel
There have been no significant team or personnel changes over the quarter to 30 September 2019.

Deloitte view – We have recently removed Longview's Global Equity strategy from our rated manager list following the departure of the co-founder and CIO Ramzi Rishani. As such, going forward, we will not be recommending the Longview Global Equity strategy to clients.

3.6 Insight

Business
Insight held assets under management of c. £714bn as at 30 September 2019, an increase of c. £50bn over the quarter. The Insight Buy and Maintain Fund's assets under management increased by c. £0.2bn to c. £2.5bn over the third quarter of 2019.

Personnel
Insight made no changes to their Buy and Maintain fund team over the quarter.

Deloitte view – We rate Insight positively for its Fixed Income capabilities but continue to monitor how growth is being managed across the business.

3.7 CQS – Multi Asset Credit

Business
As at 30 September 2019, CQS held assets under management of c. $17.9bn, an increase of c. $0.2bn over the quarter. The Credit Multi Asset Fund managed c. $7.0bn on behalf of its clients as at the end of the third quarter of 2019.

Personnel
There were no specific team/personnel changes to the Credit Multi Asset Fund team over the third quarter of 2019.

Deloitte View - We plan to hold a meeting with CQS during the first quarter of 2020 to discuss the LCIV's reasons for placing the manager "on watch" and to consider CQS' views with regards to LCIV exploring the opportunity for another manager to hold a minority stake in the LCIV MAC Fund.

3.8 Hermes

Business
As at 30 September 2019, Hermes held total assets under management of c. £35.8bn, a decrease of c. £0.2bn over the quarter. Within the HPUT, total assets under management decreased by c. £0.1bn to c. £1.5bn over the quarter.

Personnel
Following quarter end, Hermes provided an update on Chris Matthew, Fund Director of the Hermes Property Unit Trust. Following a period of leave due to ill health within his family, Chris has decided not to return to full-time employment with Hermes and left the firm on 31 October 2019.

Chris had been Fund Director of the HPUT for over 15 years and additionally worked as an Executive Director for the wider Hermes group, providing a significant contribution to the success and growth of the business.

Hermes announced that it would conduct a search to find a new Fund Director, in consultation with the HPUT Appointments Committee and HPUT Investors. Russell Black, who was previously appointed as Interim Fund Manager during the second quarter of 2019, has been appointed as Fund Manager. Additionally, Ian Cody was permanently appointed as Asset Manager for HPUT following a successful period as interim manager.

Chris Darroch, Executive Director at Hermes, will act as Interim Fund Director until a new Fund Director has been appointed. Chris joined Hermes in December 2009, he is a senior member of Hermes' real estate team and is the Fund Director for BT Pension Scheme's UK real estate investment portfolio. Chris will continue to report to Chris Taylor, head of Private Markets, during his time in the role.

Deloitte view – We are monitoring the personnel changes, including the appointment of a new Fund Manager.

3.9 Aberdeen Standard Investments – Long Lease Property

Business
At the end of the third quarter of 2019, the ASI Long Lease Property Fund held assets under management of £2.5bn. The Fund queue of investor commitments was c. £260m as at 30 September 2019, an increase of c. £44m over the quarter.

Personnel
In October, Aberdeen Standard Investments announced that Martin Gilbert would be stepping down from his current position and retire from his roles on the boards of Standard Life Aberdeen plc., Standard Life Investments Limited and Aberdeen Asset Management PLC at the next AGM in May 2020. Martin had started with Aberdeen Asset Management over 30 years ago and currently holds the positions of Chairman at Aberdeen Standard Investments and Vice Chairman of the Standard Life Aberdeen group. Martin will continue to focus on the strengthening of current client relationships and establishing new ones, and continue to work closely with ASI's leadership team to ensure that his responsibilities are smoothly passed over and that service remains the same.

Deloitte View – We continue to rate Aberdeen Standard Investments positively for its long lease property capabilities.

3.10 Pantheon

Business
As at 30 June 2019, Pantheon's total assets under management stood at $47bn. The Global Infrastructure III Fund held $2.2bn in assets committed following the fund's final close in March 2019.

As at 1 November 2019, the Global Infrastructure III Fund has completed 20 deals, with $1,105m in closed or committed deals. This represents a 46% commitment level.

Personnel
There were no specific team/personnel changes to the Global Infrastructure III Fund team over the quarter.

Deloitte View - We continue to rate Pantheon positively for its global infrastructure capabilities.

4 London CIV

4.1 Investment Performance to 30 September 2019

At the end of the third quarter of 2019, the assets under management within the 14 sub-funds of the London CIV was £8,823m. The total assets under oversight (which includes passive investment held outside of the CIV platform) increased by c. £0.4bn to c. £19.5bn over the quarter. The table below provides an overview of the sub-funds currently available on the London CIV platform.

Sub-fund	Asset Class	Manager	Total AuM as at 30 June 2018 (£m)	Total AuM as at 30 Sep 2019 (£m)	Number of LCIV clients	Inception Date
LCIV UK Equity	UK Equity	Majedie	417	415	2	18/05/17
LCIV Global Equity Alpha	Global Equity	Allianz Global Investors	128	-	1	02/12/15
LCIV Global Alpha Growth	Global Equity	Baillie Gifford	2,689	2,705	13	11/04/16
LCIV Global Equity	Global Equity	Newton	639	660	3	22/05/17
LCIV Global Equity	Global Equity	Longview Partners	809	847	5	17/07/17
LCIV Equity Income	Global Equity	Epoch Investment Partners	250	262	2	08/11/17
LCIV Emerging Market Equity	Global Equity	Henderson Global Investors	402	352	6	11/01/18
LCIV Sustainable Equity Fund	Global Equity	RBC Global Asset Management (UK)	303	434	3	18/04/18
LCIV Global Total Return	Diversified growth fund	Pyrford	320	323	5	17/06/16
LCIV Diversified Growth	Diversified growth fund	Baillie Gifford	672	685	8	15/02/16
LCIV Absolute Return	Diversified growth fund	Ruffer	869	868	10	21/06/16
LCIV Real Return	Diversified growth fund	Newton	184	152	2	16/12/16
LCIV MAC	Fixed Income	CQS	842	846	12	31/05/18
LCIV Global Bond	Fixed Income	PIMCO	269	274	3	30/11/18
Total			**8,793**	**8,823**		

Source: London CIV
Figures may not sum due to rounding

The Sustainable Equity Fund managed by RBC added one new London borough during the quarter. No new sub-funds were launched over the quarter.

5 LCIV – UK Equity

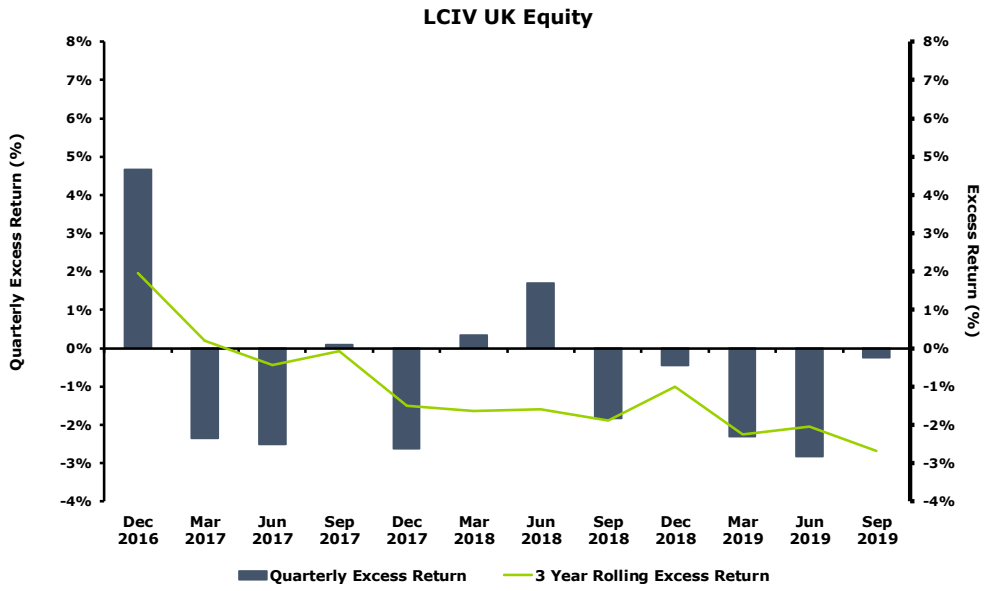
Majedie was appointed to manage an active UK equity mandate from 31 May 2006, held as a sub-fund under the London CIV platform from 18 May 2017. The manager's remuneration is a combination of a fixed fee based on the value of assets and a performance related fee which is payable when the excess return 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.

5.1 Active UK Equity – Investment Performance to 30 September 2019

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Majedie - Gross of fees	1.2	-2.4	4.7	10.8
Net of fees[1]	1.0	-3.0	4.1	10.2
FTSE All Share + 2% p.a.	1.3	2.7	6.8	9.4
Relative (on a net basis)	-0.3	-5.7	-2.7	0.8

Source: Northern Trust
Inception date taken as 31 May 2006
[1]Estimated by Deloitte. See appendix 1 for more detail on manager fees

Over the quarter to 30 September 2019, Majedie delivered an absolute return of 1.0% net of fees, underperforming its FTSE All Share benchmark by 0.3%. Majedie has performed negatively over the one-year period, returning -3.0% net of fees underperforming the benchmark by 5.7%. Over the long three-year period the Fund has underperformed its benchmark by 2.7% p.a.



Over the quarter to 30 September 2019, Majedie delivered an absolute return of 1.0% net of fees, underperforming its FTSE All Share benchmark by 0.3%. Majedie has performed negatively over the one-year period, returning -3.0% net of fees underperforming the benchmark by 5.6%. Over the long three-year period the Fund has underperformed its benchmark by 2.4% p.a.

The underperformance seen over the quarter was largely attributed to stock specifics, with Pearson being one of the largest detractors following poor print sales in US. Over the last few months, Majedie has continued to reduce its exposure to cyclicality in its small cap stocks, notably through the sale of small cap mining stocks.

Additionally, the Fund has a larger exposure to sterling than its comparable benchmark, with a domestic focus being taken by Majedie.

While the portfolio is aiming to be more growth oriented, it is currently weighted towards 'value' stocks.

5.2 Performance Analysis

The top 10 holdings in the UK Equity strategy account for c. 42.6% of the Fund and are detailed below.

Top 10 holdings as at 30 September 2019	Proportion of Majedie Fund
BP	7.2%
Royal Dutch Shell	6.5%
Majedie UK Smaller Companies Sub-Fund	5.8%
Tesco	5.3%
GlaxoSmithKline	5.2%
Pearson	2.9%
Morrison Supermarkets	2.5%
Electrocomponents	2.5%
Barrick Gold	2.4%
Associated British Foods	2.3%
Total	**42.6%**

Source: London CIV
Figures may not sum due to rounding

The tables below show the top 5 and bottom 5 contributors to performance over the quarter to 30 September 2019.

Top 5 contributors as at 30 September 2019	Contribution (bps)
GlaxoSmithKline	+0.59
Vodafone Group	+0.41
Firstgroup	+0.36
Tesco	+0.35
Barrick Gold	+0.30

Top 5 detractors as at 30 September 2019	Contribution (bps)
Royal Dutch Shell	-0.43
BP	-0.36
Pearson	-0.30
Centrica	-0.28
Anglo American	-0.22

6 LGIM – Global Equity (Passive)

Legal and General Investment Manager ("LGIM") was appointed to manage a global equity portfolio with the objective of replicating the performance of the FTSE All World Index benchmark. The manager is remunerated on a tiered fixed fee based on the value of assets.

6.1 Passive Global Equity – Investment Performance to 30 September 2019

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
LGIM - Gross of fees	1.4	1.9	10.2	10.9
Net of fees[1]	1.4	1.8	10.1	10.9
FTSE World (GBP Hedged) Index	1.4	1.8	10.1	10.9
Relative (net of fees)	0.0	0.0	0.0	0.0

Source: Northern Trust
[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.

Over the quarter to 30 September 2019, the fund performed in-line with its benchmark. The fund successfully tracked its benchmark over both the one-year and three-year period to 30 September 2019.

7 LCIV – Global Equity

Baillie Gifford was appointed to manage an active Global Equity mandate from 18 March 2014, held as a sub-fund under the London CIV platform from 11 April 2016. 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.

7.1 Global Equity – Investment performance to 30 September 2019

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Baillie Gifford – Gross of fees	0.8	6.9	14.5	15.0
Net of fees[1]	0.7	6.6	14.3	14.6
MSCI AC World Index	3.3	7.3	11.7	12.5
Relative (net of fees)	-2.6	-0.7	2.6	2.1

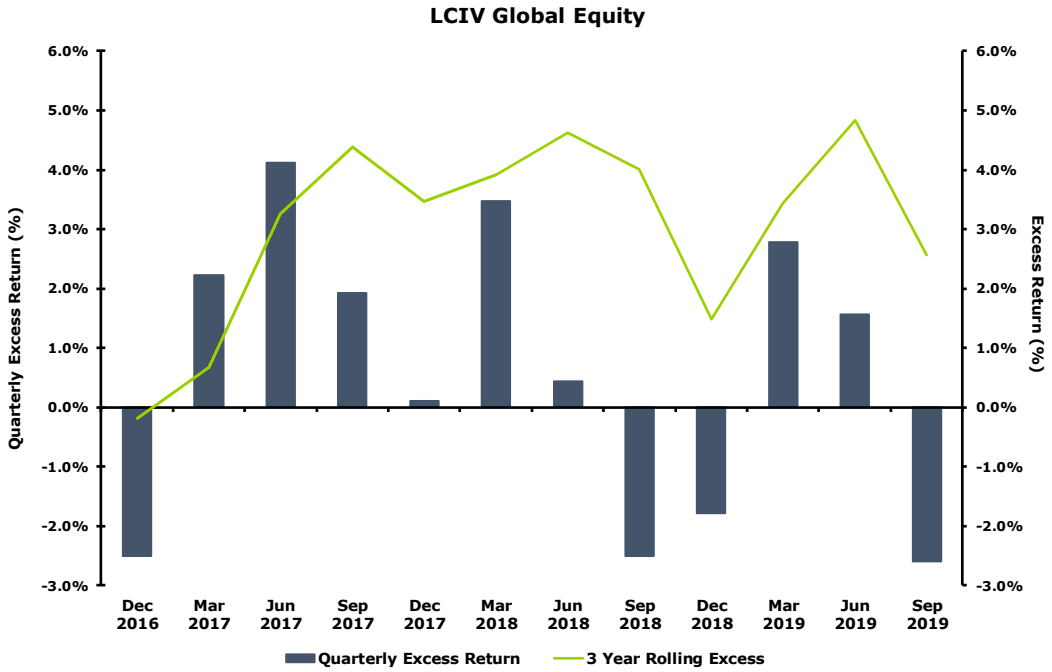
Source: Northern Trust
[1]Estimated by Deloitte. See appendix 1 for more detail on manager fees
Inception date taken as 18 March 2014

The LCIV Global Alpha Fund, managed by Baillie Gifford, underperformed its MSCI AC World Index benchmark by 2.6% on a net of fees basis over the quarter to 30 September 2019, delivering 0.7% in absolute terms on a net of fees basis. Over the 12-month period to 30 September 2019, the fund returned 6.6% net of fees, underperforming its benchmark by 0.7%.

The Global Alpha Fund's growth positioning bias proved detrimental over the quarter, with trade war and growth fears negatively impacting returns in this sector.

Baillie Gifford recently identified opportunities in a new wave of consumer facing, technology enabled businesses. Such companies rely on continuous investment to improve the product, drawing in more customers who in turn provide more data and enable further investment. As such, margin levels did not reach the required levels over the quarter and these holdings, albeit small allocations, dampened performance somewhat.

The graph below shows the net quarterly returns and the rolling three-year excess returns relative to the benchmark. The fund's current three-year excess return is ahead of the target (+2% p.a.), having outperformed the benchmark by 2.6% p.a. over the three year period to 30 September 2019.



7.2 Performance Analysis

The top 10 holdings in the portfolio account for c. 25.3% of the fund and are detailed below.

Top 10 holdings as at 30 September 2019	Proportion of Baillie Gifford Fund
Amazon	3.2%
Prudential	3.1%
Alibaba	2.9%
Moody's	2.5%
Mastercard	2.5%
Naspers	2.4%
AIA	2.2%
Anthem	2.2%
VISA	2.2%
Alphabet	2.1%
Total	**25.3%**

Source: London CIV
Figures may not sum due to rounding

The tables below show the top 5 and bottom 5 contributors to performance over the quarter to 30 September 2019.

Top 5 contributors as at 30 September 2019	Contribution (%)
Advantest	+0.54
Alphabet	+0.30
Martin Marietta Materials	+0.30
Olympus	+0.27
Taiwan Semiconductor Manufactor	+0.25

Prudential and AIA were two of the largest detractors to performance over the quarter. These two holdings in particular were negatively impacted by the increased US-China trade war tensions, with negative contributions amplified by the fund's large allocation to these stocks.

Top 5 detractors as at 30 September 2019	Contribution (%)
Prudential	-0.46
Anthem	-0.30
Zillow	-0.28
EOG Resources	-0.23
AIA	-0.22

8 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.

8.1 Active Global Equity – Investment Performance to 30 September 2019

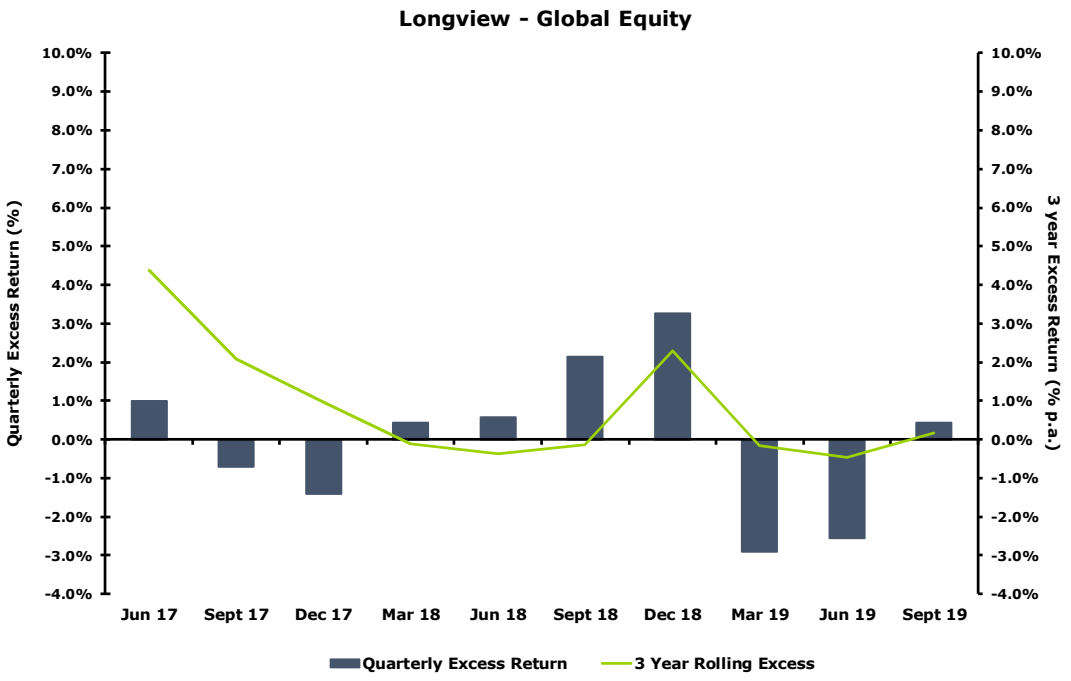
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Longview - Gross of fees	4.4	7.3	13.0	14.3
Net of fees[1]	4.3	6.6	12.3	13.7
MSCI World Index	3.8	7.8	12.2	12.7
Relative (on a net basis)	0.5	-1.2	0.1	1.0

Source: Northern Trust
[1]Estimated by Deloitte. See appendix 1 for more detail on manager fees
Inception date 15 January 2015

Over the third quarter of 2019, Longview returned 4.3% on a net of fees basis, outperforming its benchmark by 0.5%. Longview underperformed its MSCI-based benchmark over the year to 30 September 2019 by 1.2% on a net of fees basis, whilst over the longer three year period the fund has marginally outperformed the benchmark by 0.1% p.a. on a net of fees basis.

Longview's holdings in the Consumer Staples, Industrials and Financials sectors primarily drove outperformance over the third quarter of 2019, with the latter two sectors rebounding successfully following poor returns over the second quarter.

The fund targets an outperformance of 3% p.a. over a three-year period. The chart below shows the quarter and rolling three year returns.



8.2 Performance Analysis

The tables below represent the top 5 and bottom 5 contributors to performance over the third quarter of 2019.

Top 5 contributors as at 30 September 2019	Contribution
Compass	+0.40
WW Grainger	+0.38
Sanofi	+0.36
Medtronic	+0.32
Fidelity National Info Services	+0.30

WW Grainger, after being one of Longview's worst performing stocks over the second quarter of 2019, recovered to provide the second largest positive contribution to the fund over the quarter to 30 September 2019, with the suggestion that the stock was oversold in the previous quarter.

The largest detraction to performance, on an individual stock level, came from HCA Healthcare. This comes as a result of political poll predictions in the US, with potential outcomes negatively impacting the US Healthcare sector with "Medicare for all" appearing to increase in likelihood.

Top 5 detractors as at 30 September 2019	Contribution
HCA Healthcare	-0.55
Continental	-0.41
Henry Schein	-0.41
UnitedHealth	-0.38
Whitbread	-0.26

9 Insight – Buy and Maintain

Insight was appointed to manage a buy and maintain credit portfolio. The fund aims to invest in predominantly investment grade credit which the manager believes can be held to maturity. The manager's fee is based on the value of assets.

9.1 Buy and Maintain Fund - Investment Performance to 30 September 2019

	Last Quarter (%)	Last Year (%)	Since Inception (% p.a.)
Insight Non Gilts - Gross of fees	3.9	10.7	6.7
Net of fees[1]	3.8	10.6	6.6
iBoxx £ Non-Gilt 1-15 Yrs Index	2.4	7.4	5.5
Relative (on a net basis)	1.4	3.2	1.1

Source: Northern Trust
[1]Estimated by Deloitte. See appendix 1 for more detail on manager fees
Inception date taken as 12 April 2018

The Insight Buy and Maintain Fund outperformed its temporary iBoxx non-gilt benchmark by 1.4% on a net of fees basis over the third quarter of 2019. Over the year to 30 September 2019, the Buy and Maintain Fund has outperformed its benchmark by 3.2%, returning 10.6% on a net of fees basis over the period.

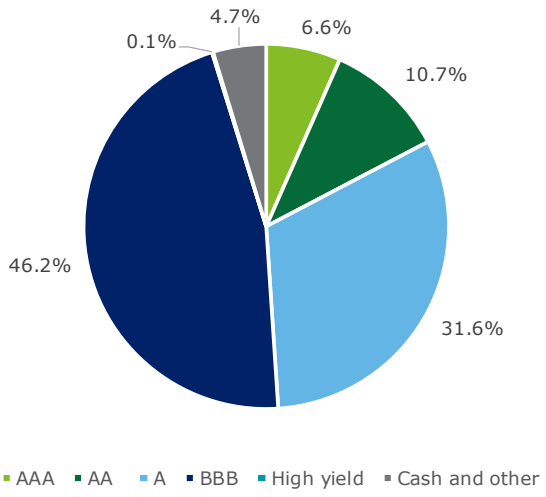
9.2 Performance Analysis

The table below summarises the Buy and Maintain portfolio's key characteristics as at 30 September 2019.

	30 June 2019	30 September 2019
Yield (%)	2.4	2.2
No. of issuers	204	168
Modified duration (years)	8.3	8.3
Spread duration (years)	8.1	8.2
Government spread (bps)	149	160
Swaps spread (bps)	141	151
Largest issuer (%)	1.2	1.2
10 largest issuers (%)	10.9	10.7

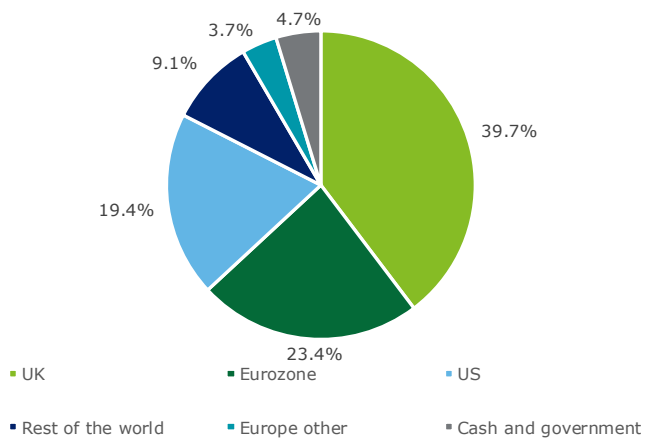
Source: Insight

The graph below shows the split of the Buy and Maintain portfolio by credit rating.

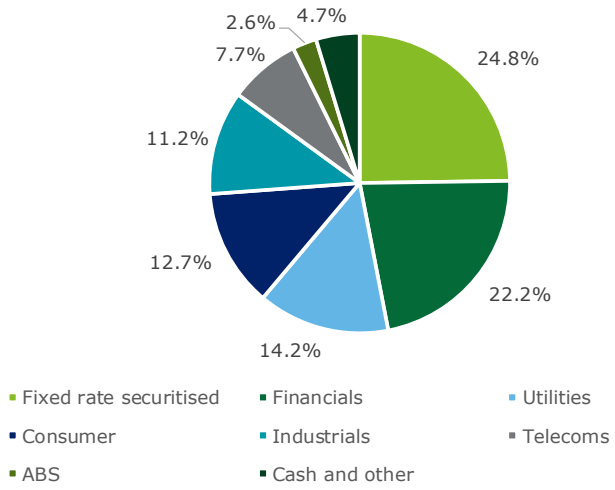


As at 30 September 2019, the fund's investment grade holdings made up c. 95.1% of the portfolio, with the fund predominantly invested in BBB and A rated bonds.

The graph below shows the split of the Buy and Maintain portfolio by country as at 30 September 2019.



The graph below shows the split of the Buy and Maintain portfolio by sector as at 30 September 2019.



The table below shows the top 10 issuers by market value as at 30 September 2019.

Issuer name	Rating*	Holding (%)
Prudential Plc	BBB	1.2
Centre Parcs	BBB	1.1
BNP Paribas	A	1.1
Channel Link	BBB	1.0
Electricite De France	A	1.0
Total Capital	AA	1.0
Aa Bond Co	BBB	1.0
Rac Bond Co	BBB	1.0
Land Securities Cm	AA	1.0
Tesco	BBB	1.0

**Ratings provided by Insight*

10 LCIV – Multi Asset Credit

CQS was appointed to manage a multi asset credit mandate, under the London CIV platform, in October 2018 with the aim of outperforming the 3 month Sterling LIBOR benchmark by 4% p.a. An annual fee covers the manager's and the London CIV platform management fees.

10.1 Multi Asset Credit – Investment Performance to 30 September 2019

	Last Quarter (%)	Since Inception (% p.a.)
CQS – MAC – Gross of fees	0.8	3.7
Net of fees[1]	0.6	3.1
3 Month Libor + 4%	1.2	4.6
Relative (on a net basis)	-0.6	-1.5

Source: CQS
[1]Estimated by Deloitte. See appendix 1 for more detail on manager fees
Inception date taken as 30 October 2018

Over the quarter to 30 September 2019, the LCIV Credit Multi Asset Fund, managed by CQS, underperformed its benchmark by 0.6% on a net of fees basis.

Despite the fund decreasing its nominal exposure to loans to below 50% for the first time, the fund's loans allocation contributed the greatest to performance over the third quarter of 2019, following strong returns in the European market.

10.2 Portfolio Analysis

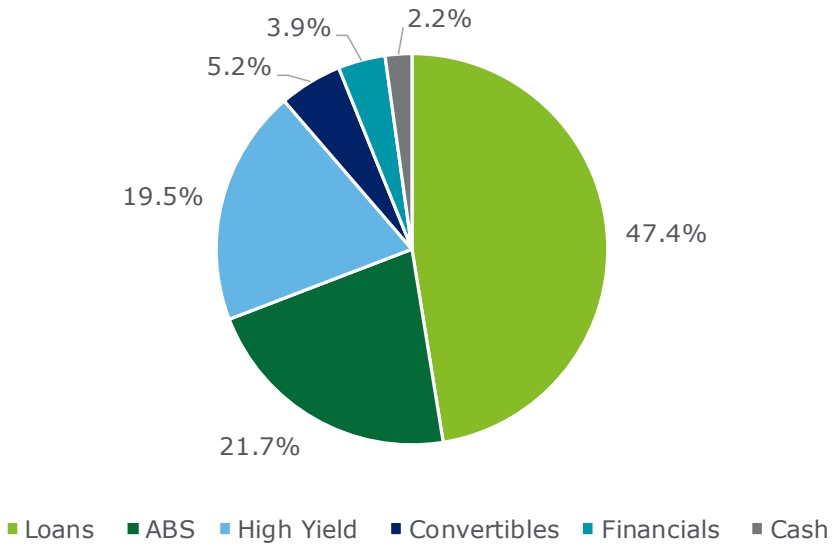
The table below summarises the Multi Asset Credit portfolio's key characteristics as at 30 September 2019.

	30 June 2019	30 Sep 2019
Weighted Average Bond Rating	B+	B+
Long Bond Equivalent Exposure with Public Rating (%)	85.7	84.9
Investment with Public Rating (%)	84.4	82.9
Yield to Maturity (%)	5.5	5.7
Spread Duration	4.2	4.1
Interest Rate Duration	1.7	1.7

Source: CQS

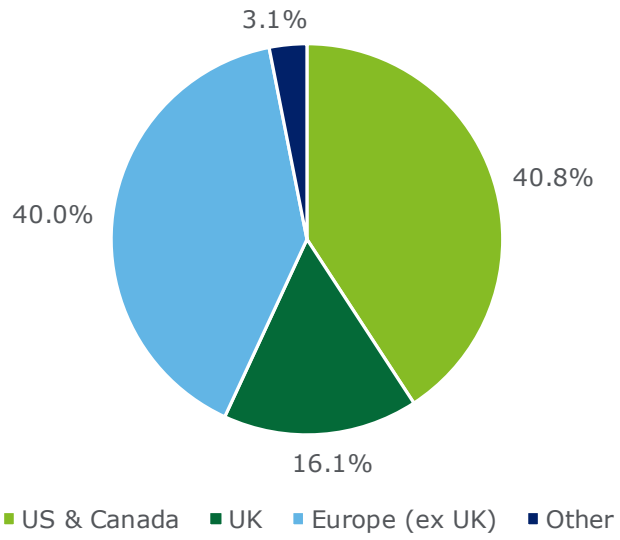
10.3 Asset Allocation

The asset allocation split of the Credit Multi Asset Fund as at 30 September 2019 is shown below.



10.4 Country Allocation

The graph below shows the regional split of the CQS Credit Multi Asset Fund as at 30 September 2019.



11 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.

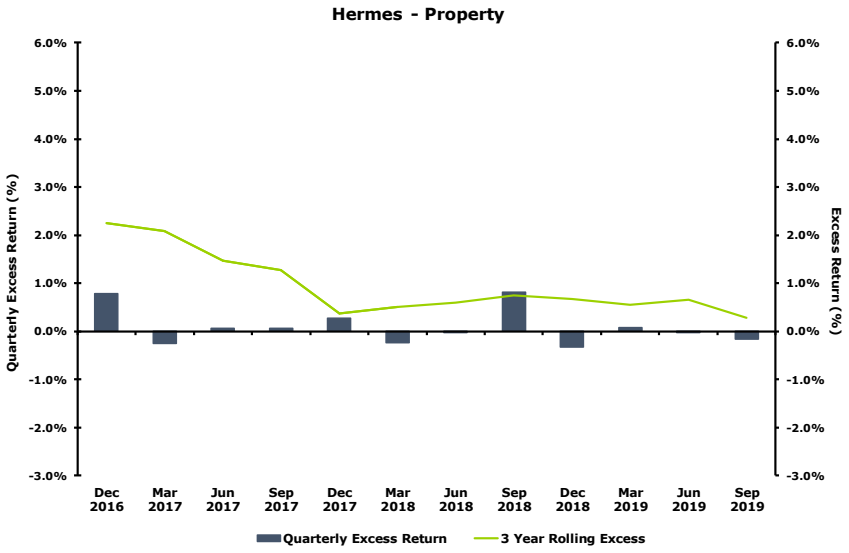
11.1 Property – Investment Performance to 30 September 2019

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Hermes - Gross of fees	0.5	3.0	8.1	9.3
Net of fees[1]	0.4	2.6	7.7	8.9
Benchmark	0.6	3.0	7.4	8.1
Relative (on a net basis)	-0.2	-0.4	0.3	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

Over the quarter to 30 September 2019, Hermes delivered a return of 0.4% on a net of fees basis, underperforming its IPD-based benchmark by 0.2%. Over the one year period, the strategy underperformed its benchmark by 0.4% on a net of fees basis, whilst over the longer three-year period to 30 September 2019 Hermes outperformed its benchmark by 0.3% p.a.

The Trust's industrial sector assets continued to provide the largest contribution to performance, with west end offices also contributing positively to performance over the quarter to 30 September 2019. Retail warehouses, unit shops and shopping centers were the largest detractors to performance over the third quarter of 2019, with poor investor sentiment and weak occupier demand in the retail sector continuing to have an effect on valuations.



11.2 Activity

In July 2019, HPUT sold the Elliot House Office in Manchester for £10.4m, reflecting a net initial yield of 5.5%. The offices and restaurants were fully let and, combined with low growth potential, placed the asset in a good position to sell. Additionally, the oversupply of A3 space locally had added additional risk to the asset.

Also in July, Hermes sold its Elstree Distribution Park asset in Borehamwood for £29.9m. This reflects a net initial yield of 3.5% and a premium of c. 5% above the most recent valuation. Strong demand for industrials in Greater London has given Hermes the opportunity to capture premium prices on assets. The distribution park had encountered issues in the past when marketing the units due to the asset being built to a less than ideal specification.

Lettings were also completed on six assets over the third quarter of 2019:

- 27 Soho Square, London: During the third quarter of 2019, the Manager successfully completed the letting of the remaining vacant floor in the building to Muse Developments for a 10 year lease term at c. £411,000 p.a. (£85 psf) after tenant's incentives. The building is now fully let and this will generate total rental income to the Trust of circa £2m per annum after tenant's incentives.

- Boundary House, London: In August 2019, the Manager completed the letting of the second floor to Hi Bob (UK) Ltd for a 5 year period at c. £327,700 (£71 psf) p.a. after tenant's incentives. In September 2019, the Manager completed the letting of the fourth floor to Twenty 1 Group Holdings Ltd for a 5 year period at c. £265,400 (£65.50 psf) p.a. after tenant's incentives.

- Round Foundry & Marshall Mill, Leeds: Over the third quarter of 2019, the Manager completed various lettings in the estate to new tenants: Pro Audio Solutions and Limehouse Ltd for a 5 year term and Digital Velocity Ltd for a 3 year term. The new lettings will contribute to the Trust rental income for c. £140,000 p.a. after incentives.

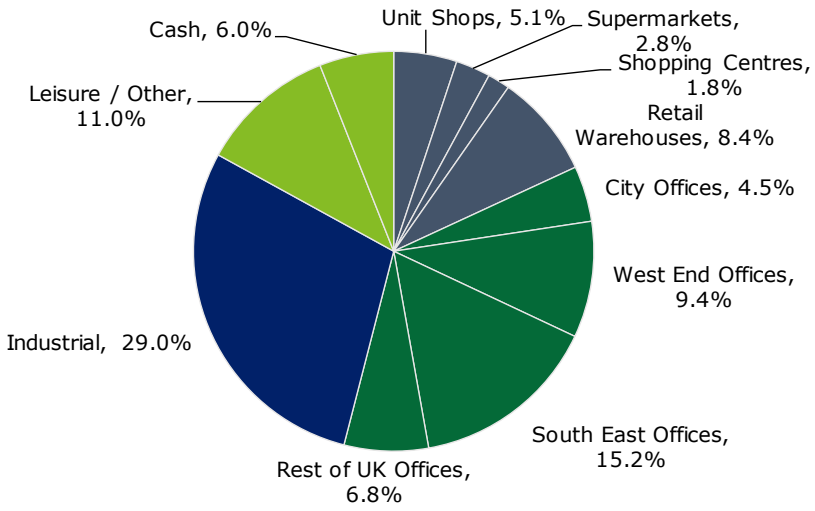
- Wellington Gate, Tunbridge Wells: During the quarter, the Manager completed the letting of the vacant unit on the first floor to EPG Communication Holdings Ltd for a 10-year lease (with break at year 5) for c. £107,000 p.a. after incentives.

- One City Place, Chester: During the quarter, lettings of 2 vacant units were completed to the existing tenant, Sykes Cottages Ltd, who already occupies the first and second floors in the building. The lease term consists of an 8.5 year period, accounting for a total rental income per annum of c. £105,700 after incentives. In October 2019 Sykes Cottages Ltd also secured the fourth floor unit following the administration of Real Buzz Group for an 8 year term at c. £121,000 p.a. after incentives.

- Abbey View Retail Park, St Albans: In August 2019, the Manager completed the letting of the vacant 6,900 sq. ft. unit to Pure Gym for a 15 year term at c. £210,000 p.a. after tenant incentives. The estate remains fully let.

11.3 Portfolio Summary as at 30 September 2019

The Hermes Property Unit Trust invests across retail, offices, industrials and other sectors, with the split as at 30 September 2019 shown below.



The table below shows the top 10 directly held assets in the fund as at 30 September 2019, representing c. 34.1% of the fund.

Asset	Sub-sector	Value (£m)
Maybird Shopping Park, Stratford-upon-Avon	Retail Warehouses	81.5
8/10 Great George Street, London SW1	Offices	64.7
Broken Wharf House, London	Leisure/Other	56.4
Polar Park, Bath Road, Heathrow	Industrials	54.9
Horndon Industrial Park, West Horndon CM13	Industrials	50.8
27 Soho Square, London W1	Offices	47.7
Sainsbury's, Beaconsfield	Supermarkets	42.9
Round Foundry & Marshalls Mill, Leeds	Offices	40.5
Camden Works, London	Offices	38.7
Hythe House, Hammersmith	Offices	36.7
Total		**514.7**

Source: Hermes

12 Aberdeen Standard Investments – Long Lease Property

Aberdeen Standard Investments was appointed to manage a long lease property mandate with the aim of outperforming the FT British Government All Stocks Index benchmark by 2.0% p.a. The manager has an annual management fee.

12.1 Long Lease Property – Investment Performance to 30 September 2019

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Aberdeen Standard - Gross of fees	1.2	5.5	8.3	8.5
Net of fees[1]	1.0	5.0	7.8	8.0
Benchmark	6.6	15.4	5.2	7.4
Relative (on a net basis)	-5.6	-10.4	2.6	0.6

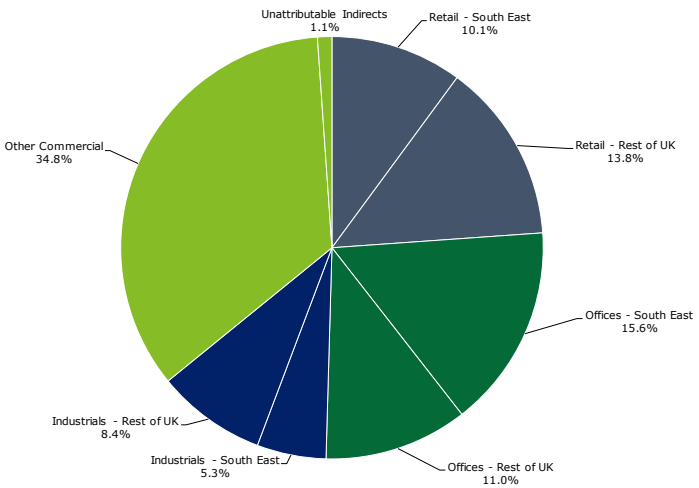
Source: Aberdeen Standard Investments
[1]Estimated by Deloitte. See appendix 1 for more detail on manager fees
Since inception: 14 June 2013

Over the quarter to 30 September 2019, the ASI Long Lease Property Fund delivered 1.0% net of fees, underperforming its FT British Government All Stocks Index benchmark by 5.6%.

During the quarter, the Fund saw capital growth compared to wider real estate market. The Fund continues to outperform the wider real estate market as a whole, with the MSCI Monthly Real Estate Index reporting a return of 0.6% for the quarter. The Fund's performance continues to be benefiting from the stronger tenant credit quality within the portfolio, long inflation-linked leases and lack of any high street, shopping centre or retail warehouse exposure.

12.2 Portfolio Holdings

The sector allocation in the Long Lease Property Fund as at 30 September 2019 is shown in the graph below.



Over the quarter to 30 September 2019, the Fund's allocation to the office sector decreased by 0.5% to 26.6%. The allocation to the retail decreased by 0.1% over the quarter to 23.9%, whilst the allocation to other commercial increased by 0.3% to 34.8% over the quarter.

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

Tenant	% Net Income
Tesco	8.1
Whitbread	6.0
Marston's	4.8
Sainsbury's	4.6
Asda	4.2
Salford University	3.9
QVC	3.8
Save the Children	3.7
Lloyds Bank	3.7
Park Holidays UK Limited	3.5
Total	**46.3 ***

*Total may not equal sum of values due to rounding

As at 30 September 2019, the top 10 tenants contributed 46.3% of the total net income of the Fund. Of which 16.9% of the net income came from the supermarket sector, with Tesco, Sainsbury's and Asda continuing to make up a significant proportion of the Fund at quarter end.

The unexpired lease term decreased from 25.9 years as at 30 June 2019 to 25.7 years as at 30 September 2019. The proportion of income with fixed, CPI or RPI rental increases marginally increased to 90.8% over the quarter.

12.3 Sales and Purchases

Over the quarter, contracts were exchanged to fund a pre-let development of a 300-bedroom hotel in Glasgow. The transaction was completed off-market with a developer contractor that the Fund had worked with previously in the development of the Fund's Premier Inn hotel in Aldgate. The pre-let has been agreed with Dalata Hotel Group Plc, with a 35-year term and five-yearly RPI linked reviews. The total consideration is around £40m, with a resulting net initial yield of 4.4%.

13 Pantheon – Global Infrastructure Fund III

Pantheon was appointed to manage a global infrastructure mandate with the aim of outperforming the 3 month Sterling LIBOR benchmark by 8% p.a. The manager has an annual management fee and performance fee.

13.1 Global Infrastructure - Investment Performance to 30 September 2019

Capital Calls and Distributions
Westminster committed $91.5m to Pantheon in February 2019.

- Over the quarter, Pantheon issued two capital calls and one distribution:
  - $5.3m for distribution on 24 July 2019, representing c. 5.8% of Westminster's total commitment, as a result of the equalisation of new limited partners into the fund.
  - A net $0.9m for payment by 20 August 2019, representing c. 1.0% of Westminster's total commitment. This was comprised of a $1.1m capital call and a $0.1m distribution, these figures do not sum due to rounding.
  - $1.4m for payment by 18 September 2019, representing c. 1.5% of Westminster's total commitment.
- Following quarter end, Pantheon issued one capital call:
  - A net capital call of $1.8m for payment by 15 November 2019, representing c. 2.0% of Westminster's total commitment. This was comprised of a $2.3m capital call and a $0.5m distribution.

The remaining unfunded commitment at the end of November was c. $68.6m, with the Fund's total contribution at c. $22.9m and the Fund's $91.5m commitment c. 25% drawn.

Pantheon expects to draw a further c. 31% and c. 27% of clients' committed funds across 2020 and 2021 respectively which would take the commitment drawn to c. 83% as at the end of 2021.

Activity
Following quarter end, the Pantheon Global Infrastructure III Fund ("PGIF III") added two new investments to its portfolio:

- Project McLaren – a $70m secondary investment in a Diversified Infrastructure project; and
- Project Nitrogen – a $68m secondary investment in a Telecommunications project within Europe.

In addition, PGIF III closed one deal over the quarter - Project Sullivan, a $120m secondary investment in a global diversified infrastructure portfolio. A $67m deal reported in the second quarter of 2019, renamed Project Zayo, is currently in the process of legal closing.

Pipeline
Pantheon currently has an investment pipeline of infrastructure opportunities, with potential near-term deals representing c. $3.8bn of potential investments across secondary deals and co-investments. This pipeline represents opportunities shared between all Pantheon products with a demand for infrastructure. There is no guarantee that each of these opportunities will be completed.

Pantheon has successfully completed on, or are in the legal diligence stage of three projects:

- Project 1: Global secondary investment in energy infrastructure. Deal size c. €140m.
- Project 2: European co-investment project in telecommunications. Deal size c. €140m.
- Project 3: Australian co-investment project in traditional infrastructure. Deal size c. $70m.

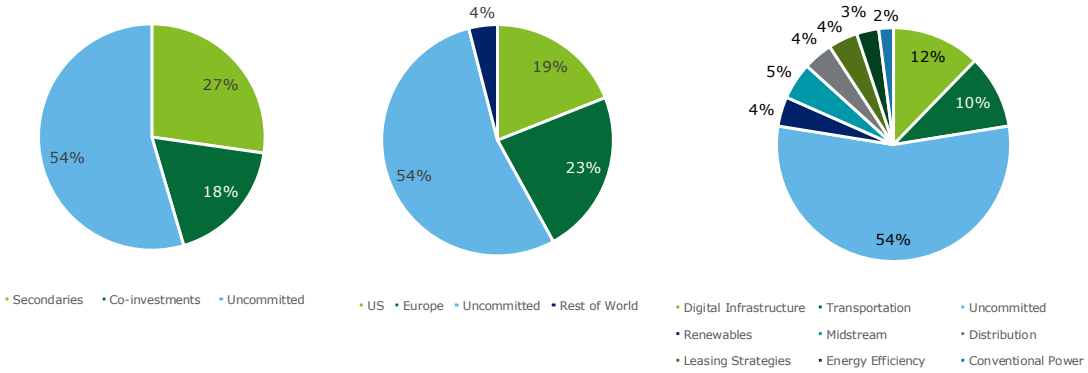
In addition, Pantheon is at the final diligence stages, prior to legalities, of completing on the following two projects:

- Project 4: European co-investment project in utilities. Deal size c. £70m.
- Project 5: North American co-investment project in traditional infrastructure. Deal size c. $75m.

The remaining investment pipeline is made up of 25 opportunities at the preliminary due diligence stage across renewable energy, telecommunications, transport, traditional infrastructure, midstream infrastructure and diversified infrastructure projects.

13.2 Asset Allocation

The charts below show the current diversification by strategy, geography and sector in PGIF III as at 30 September 2019.



The target geographic diversification is 30-50% North America, 40-60% Europe and 3-15% Asia and others. The PGIF III also aims to be 15-20% energy infrastructure (midstream), 20-30% energy infrastructure (power/utility), 20-30% transportation, 10-20% PPP/social infrastructure and 10-20% other.

13.3 Investments Held

The table below shows a list of the investments held by PGIF III as at 31 October 2019.

Project Name	Geography	Sector	Type	Deal Size ($m)	Commitment Date
Roger	Europe	Energy Infrastructure	Secondary	28	12/2017
Prime	North America	Transportation	Co-investment	12	01/2018
Rioja	Europe	Energy Infrastructure	Co-investment	32	05/2018
Chase	Europe	Transportation	Co-investment	23	06/2018
Ribera	Europe	Energy Infrastructure	Co-investment	33	07/2018
Infinity	North America	Energy Infrastructure	Co-investment	31	08/2018
Lancaster	Europe	Light Rail	Co-investment	41	09/2018
Inti	Europe	Energy Infrastructure	Secondary	23	12/2018
Megabyte	North America	Telecom	Secondary	54	12/2018
Starlight	Europe	Telecom	Co-investment	34	12/2018
Fairway	Global	Energy Infrastructure	Secondary	58	12/2019
Persea	Europe	Energy Infrastructure	Co-investment	33	04/2019
Springbank	North America	Transportation	Secondary	60	05/2019
Cadence	North America	Energy Infrastructure	Co-investment	66	05/2019
Gemini	Europe	Transportation	Secondary	62	07/2019
Kookaburra	Europe	Diversified Infrastructure	Secondary	57	07/2019
Sullivan	Global	Diversified Infrastructure	Secondary	120	07/2019
Zayo	North America	Telecommunications	Co-investment	67	In closing
Mclaren	Global	Diversified Infrastructure	Secondary	70	In closing
Nitrogen	Europe	Telecommunications	Secondary	68	In closing

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.)
Majedie	UK Equity	22.5	FTSE All-Share Index	+2.0 p.a. (net of fees)	31/05/06	**60bps base fees**
LGIM	Global Equity	22.5	FTSE World GBP Hedged	Passive	01/11/12	**13bps base fees**
Baillie Gifford	Global Equity	20.0	MSCI AC World Index	+2.0 p.a. (net of fees)	18/03/14	**36bps base fee**
Longview	Global Equity	0.0	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	Buy and Maintain	13.5	Insight Custom Benchmark	n/a	12/04/18	**9.5bps base fees**
CQS	Multi Asset Credit	6.5	3 Month Libor	+ 4% p.a. (net of fees)	30/10/18	**53bps base fees**
Hermes	Property	5.0	IPD UK PPFI Balanced PUT Index	+0.5 p.a. (net of fees)	26/10/10	**40bps base fee**
Aberdeen Standard Investments	Property	5.0	FTSE Gilts All Stocks Index +2% p.a.	+0.5 p.a. (net of fees)	14/06/13	**50bps on first £25m, 40bps on next £25m, 30bps thereafter**
Pantheon	Global Infrastructure	5.0	3 month Libor	+ 8% p.a. (net of fees)	15/04/19	**85bps base fee with a 10% performance fee over 8% return hurdle, 100% catch-up**
	Total	**100.0**				

Appendix 2 – Manager Ratings

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

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

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

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

Appendix 3 – Risk warnings & 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.

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

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Appendix 4 – MiFID II Cost Summary

On 3 January 2018, the Markets in Financial Instruments Directive II ("MiFID II") was introduced. A key component of this legislation is for fund managers to disclose all costs incurred, with the view to increasing transparency. MiFID II Costs and Charges disclosures are performed annually and will be provided during the first quarterly report of each year. A summary over the year to 31 March 2019 can be found below:

CLIENT NAME: Westminster City Council Pension Fund

Reporting Period: 1st April 2018- 31st March 2019

Value of Scheme as at 31st March 2019: £1,408,903,289.12

Aggregation of all Costs and Charges incurred during the reporting period:

Cost Category	Amount (£)	% of investment
Investment services and/or ancillary services	113,045	0.01
Third Party payments received by the Investment Firm	-	-
Investment product costs	4,758,000	0.36
Total costs and charges	**4,871,045**	**0.37**

Totals may not sum due to rounding.

Cumulative effect of costs and charges on return

The illustration below uses Reduction in Yield (RIY) methodology to show impact of the total costs you have incurred on the return of your investment. The amounts shown are the cumulative costs of investment services and products.

	Amount (£)	Percentage (%)
Cumulative effect of costs and charges on return	5,172,370	0.39

Annual performance figures sourced from Northern Trust. LCIV UK Equity Fund and LCIV Global Equity Fund performance figures estimated using London CIV quarterly reports.

Description of the illustration.

The following is an example of the cumulative effect of costs over time:

An investment portfolio with a beginning value of £1,331m, gaining an annual return of 10%, and subject to a fee of 0.4% per annum (calculated and paid monthly), would grow to £3,331m after 10 years.

In comparison, an investment portfolio with a beginning value of £1,331m, gaining an annual return of 10% but not subject to any fees would grow to £3,453m after 10 years.

The annualised returns over a 10-year period would be 10.0% (gross of fees) and 9.6% (net of fees).

Therefore the cumulative impact of costs (fees) on investment return (reduction in yield) would be 0.40% per annum.

Deloitte.

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London Borough of Westminster Superannuation Fund

Transition post-trade report - January 2020

Legal & General
INVESTMENT MANAGEMENT

Table of contents

Contacts - Your team

James Sparshott	**Client Director**	☏ +44 (0)20 3124 3135	James.Sparshott@lgim.com
Richard Lubbock	**Client Manager**	☏ +44 (0)20 3124 3186	Richard.Lubbock@lgim.com

LGIM assigns both a dedicated project manager and transition manager to each event. This approach ensures that a project manager is always on hand to guide clients through the transition, from set-up to account closing, whilst allowing a transition manager to focus solely on the planning and execution of your bespoke trading strategy. The contact details of your transition team are detailed below.

Transition Management

Chad Grine	**Head of Transition Management**	☏ +44 (0)20 3124 4316	Chad.Grine@lgim.com
Katrina McMillan	**Head of ISM Co-ordination**	☏ +44 (0)20 3124 3021	Katrina.McMillan@lgim.com
Alec Farley	**Senior Transition Manager**	☏ +44 (0)20 3124 4307	Alec.Farley@lgim.com
Yvonne Yeboah	**Assistant Transition Manager**	☏ +44 (0)20 3124 3028	Yvonne.Yeboah@lgim.com
Dustin Skriker	**Senior ISM Co-ordination Manager**	☏ +44 (0)20 3124 3012	Dustin.Skriker@lgim.com
Daniela Nicola	**ISM Co-ordination Manager**	☏ +44 (0)20 3124 3027	Daniela.Nicola@lgim.com

Executive summary

Overview:

- Legal & General Investment Management ("LGIM") was appointed to implement a £283.5m global equity restructuring on behalf of the London Borough of Westminster Superannuation Fund ("the Client").
- The objective of the transition was to liquidate the Client's Majedie Equity mandate into a Legal & General FTSE Global Equity Index fund. The activity was to be completed at the earliest opportunity in an efficient manner to minimise costs and risks as far as practicable.
- The legacy assets were transferred into the transition account on 20 November 2019. The benchmark point for the transition activity was close of business 3 December 2019.
- Trading commenced on 4 December 2019 and was completed on 13 December 2019.
- Equity index futures were used to maintain and manage the desired regional allocation exposure. These positions were mostly adjusted and unwound as the physical trading was effected. A small proportion of the fund was held in futures until net cash raised was invested directly into the target pooled fund.
- Target currency overlay was established using FX forwards and maintained until the target funding point on 11 December 2019.
- Trading progressed in accordance with the pre-trade transition plan. Strong liquidity was found through institutional crossing in the legacy sales and all trading was completed ahead of schedule by 13 December 2019.
- The resultant stock portfolio was successfully delivered, and cash invested, on 11 December 2019. Any residual cash from the illiquid sales was invested on 18 December 2019. To the best of our knowledge there are no outstanding items in the transition account.

Transition Costs:

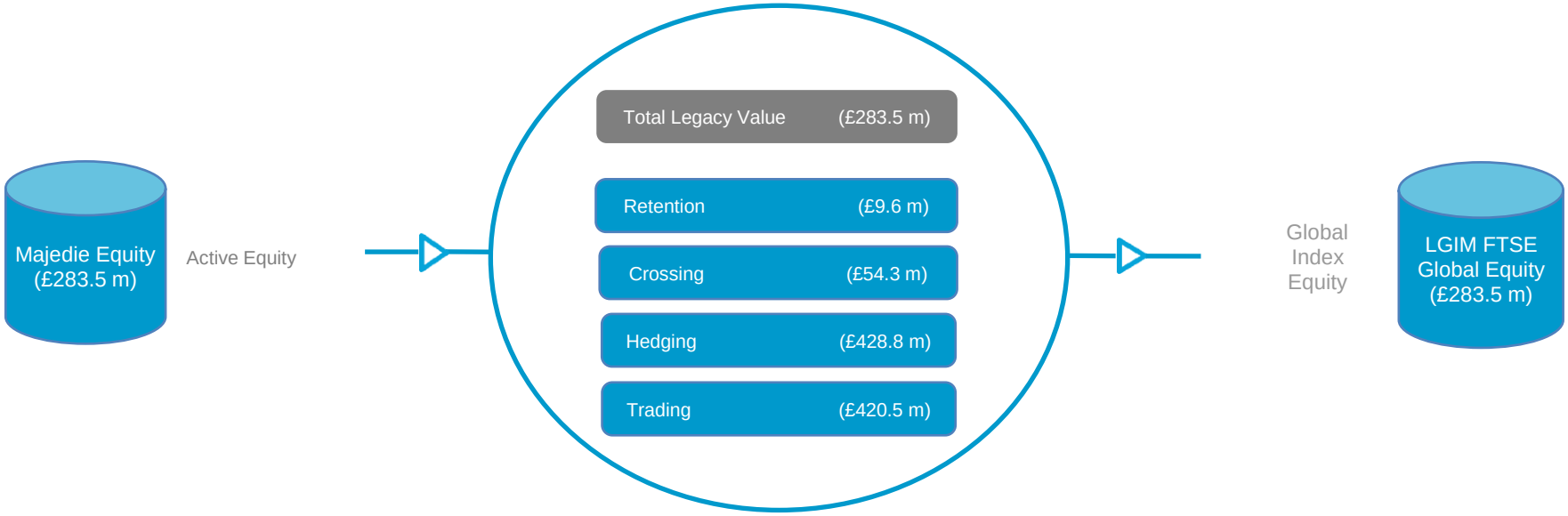
- The realised costs are -£0.811m which is within the forecast cost range and lower than median estimate. This is primarily through cost and time savings relating to crossing. Further details are provided on page 7.
- Direct pooled fund investment on 11 December incurred spread costs of £0.01m.
- Intra-day hedging prior to the Implementation Shortfall ('IS') benchmark realised a gain of £0.91m. Currency overlay maintained in the transition account realised a gain of £2.90m. These are not measured within IS and so are not reflected in the table to the right.

	Actual (£m)	Actual (bps)	Predict (bps)	Diff (bps)
Explicit costs				
Commission	(0.070)	(2.5)	(1.9)	(0.6)
Taxes	(0.066)	(2.3)	(3.1)	0.8
Spread	(0.109)	(3.8)	(7.3)	3.5
Trade impact	(0.547)	(19.3)	(31.3)	12.0
Futures commission	(0.013)	(0.5)	(0.5)	0.0
Currency costs	(0.009)	(0.3)	(0.4)	0.1
LGIM fees	(0.065)	(2.3)	(2.2)	(0.1)
Total transaction costs:	**(0.880)**	**(31.0)**	**(46.7)**	**15.7**
Physical opportunity cost	0.303	10.7	+/- 37.5	
Futures opportunity cost	(0.234)	(8.3)		
Total opportunity costs:	**0.069**	**2.4**		
Total implementation shortfall:	**(0.811)**	**(28.6)**	**(9.2) to**	**(84.1)**

Note [1] - Actual bps against legacy value of £283.5m

Transition structure

The transition involves one legacy manager and one target manager. The legacy value of the assets transitioned was £283.5m.



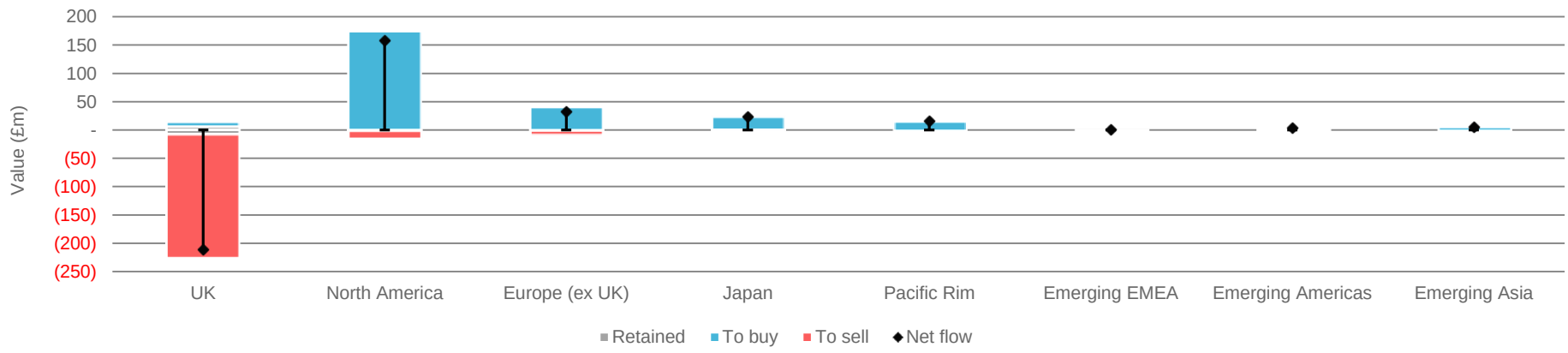
Asset class summary

The table below shows the regional breakdown of the transition at the benchmark point.

The transition involved a significant sale of UK assets while the largest proportion of proceeds were invested into North America.

Asset class	Legacy (£m)	Target (£m)	Retained (£m)	To sell (£m)	To buy (£m)	Net Flow (£m)
Equities	**251.143**	**283.119**	**9.632**	**241.511**	**273.487**	**31.976**
UK	225.309	14.784	7.182	218.127	7.603	(210.524)
North America	16.153	174.396	1.489	14.664	172.908	158.244
Europe (ex UK)	9.377	41.895	0.851	8.525	41.044	32.518
Japan	0.305	24.437	0.110	0.195	24.327	24.132
Pacific Rim	-	15.830	-	-	15.830	15.830
Emerging EMEA	-	1.895	-	-	1.895	1.895
Emerging Americas	-	3.775	-	-	3.775	3.775
Emerging Asia	-	6.106	-	-	6.106	6.106
Cash	**32.392**	**0.416**	**-**	**-**	**-**	**(31.976)**
Total [1]	**283.535**	**283.535**	**9.632**	**241.511**	**273.487**	**-**

Note [1] - Values are based on benchmark (COB 3 Dec) prices and do not represent actual values traded



Implementation shortfall

The table shows the costs for the transition activity. The total implementation shortfall cost was -£0.811m or 28.6bps which is within the estimated one standard deviation range of -9.2bps to -84.1bps.

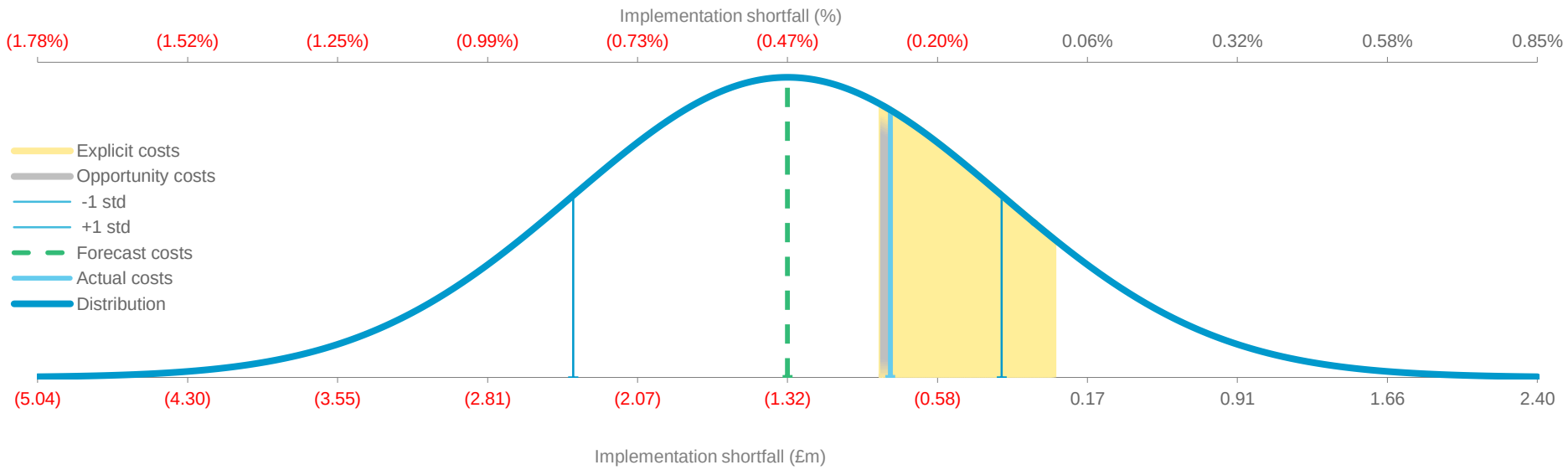
The implementation shortfall ('IS') benchmark point was the close of 3 December 2019. The IS measurement period covers trading from 4 December 2019 to 13 December 2019. Purchases were completed on 5 December 2019 for the target portfolios.

Additionally, direct cash investment into the LGIM pooled fund on 11 December incurred spread costs of £0.01m.

Intra-day hedging prior to the IS benchmark realised a gain of £0.91m. Currency overlay was maintained in the transition account from the benchmark point. This realised a gain of £2.90m. Neither of these is measurable for IS and so are not shown in the table to the right.

	Actual (£m)	Actual (bps)	Predict (bps)	Diff (bps)
Explicit costs				
Commission	(0.070)	(2.5)	(1.9)	(0.6)
Taxes	(0.066)	(2.3)	(3.1)	0.8
Spread	(0.109)	(3.8)	(7.3)	3.5
Trade impact	(0.547)	(19.3)	(31.3)	12.0
Futures commission	(0.013)	(0.5)	(0.5)	0.0
Currency costs	(0.009)	(0.3)	(0.4)	0.1
LGIM fees	(0.065)	(2.3)	(2.2)	(0.1)
Total transaction costs:	**(0.880)**	**(31.0)**	**(46.7)**	**15.7**
Physical opportunity cost	0.303	10.7	+/- 37.5	
Futures opportunity cost	(0.234)	(8.3)		
Total opportunity costs:	**0.069**	**2.4**		
Total implementation shortfall:	**(0.811)**	**(28.6)**	**(9.2) to (84.1)**	

Note [1] - Actual bps against legacy value of £283.5m



Trading overview

Progress

Trading progressed ahead of expectations, largely due to uncovering institutional crossing liquidity. Approximately 97% of the legacy sales were completed at the end of the first trading week and 100% of the target portfolio was purchased by 5 December. Delivery into the target fund was made on 11 December 2019, ahead of the UK election. The remaining legacy sales were completed by the end of the second trading week. Residual proceeds were delivered to the target fund on 18 December 2019.

Due to the concentrated nature of the legacy portfolio and the diversified target portfolio, only £9.6m or 3.4% of the legacy holdings could be retained. Total gross trading turnover in the transition account amounted to approximately £474.7m. Approximately 11% of trades were crossed with other institutions at mid price. Outright trading around the globe was generally conducted on an agency basis, but a large proportion of US trading was completed in the EFP market. This, and crossing were the key cost savings and are described in more detail below.

Trading method	Actual (£m)	Actual (%)
Agency	265.770	56.0%
EFP	154.703	32.6%
External cross	54.258	11.4%
Total	**474.731**	**100.0%**

Implementation shortfall cost savings

Using LGIM's broad network of liquidity sources, our traders were able to uncover better liquidity for legacy sales than indicated by our pre trade estimates. We crossed significant blocks of stock with institutional buyers at prevailing mid market prices, thereby reducing spread and impact costs. This not only reduced cost significantly, but the faster than expected execution rate of sales, reduced risk and removed the previously anticipated need for a run off portfolio of illiquid stock. Accordingly, overall trading was completed cost effectively by 13 December.

For the target purchases, LGIM was able to take advantage of cost effective trading via the exchange for physical ("EFP") market. This involved combining slices of physical stock from the US index target with the S&P500 futures hedge unwinds, and it was possible to trade at lower cost than our estimates for pure agency execution.

Phased strategy for UK election risk

The implementation strategy was structured to mitigate risk to execution of possible large moves in stock or exchange rates, caused by the forthcoming UK general election. This involved a two phased approach, selling legacy physical stocks while firstly buying a large slice of the target stocks, plus secondly buying a small proportion of the target in a proxy basket of index futures. This ensured the expected slow pace of some legacy sales would not impact an effective first target funding point on 11 December for the majority of the portfolio.

Due to the faster than expected completion rate described above, just ~1% of legacy sales remained at the first funding point. Therefore on 11 December, phase one and phase two target fundings took place and all hedging was shut down at that point, before the UK election result impacted markets on 13 December.

The IS cost in this report reflects the slightly smaller physical purchases, however it may be noted that the cash raised was invested in the target pooled fund strategy which incurred a dealing spread. This is detailed on the next page.

Trading overview (continued)

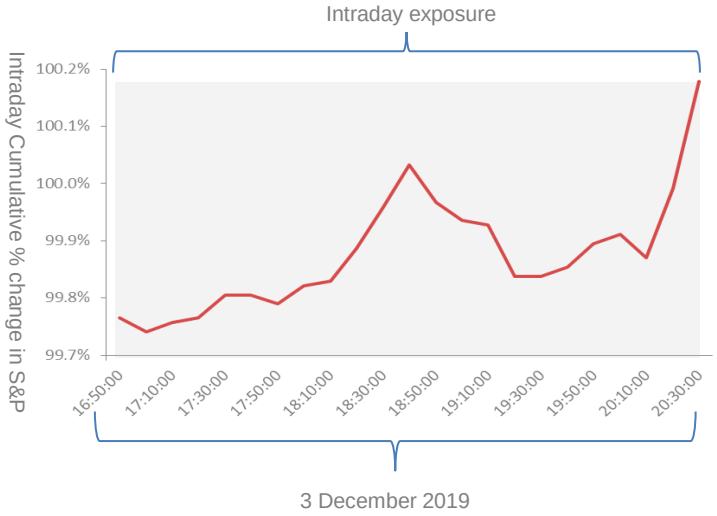
Non IS costs:

Intraday hedging

In order to maintain the Client's market exposure, as futures hedges were executed, some contracts were traded ahead of their respective benchmark points:

- Shortly after the UK open on 3 December, 137 FTSE100 contracts (~£9.8m) were sold to prevent leveraging of the portfolio while Asian futures were being bought at the respective Asian closes.
- At the European close on 3 December 2019, as the remaining FTSE100 and Eurostoxx hedging futures were sold, all US hedging futures (1222 contracts, ~£145m) were also purchased, thereby ensuring the portfolio remained invested in the market between European and US market closes.

The UK market fell over the London day and the S&P 500 rose over the US afternoon. The early UK futures hedge gained £0.13m ahead of the benchmark point, plus the US S&P gained £0.78m ahead of the US benchmark point for the US hedge. The total gain to the fund was approximately £0.91m, which is not captured in the implementation shortfall measure.



Currency overlay

Due to the quicker than expected completion, LGIM was able to invest all but a small proportion of the assets into the target pooled funds at the 11 December dealing date. The currency overlay in the transition account could therefore be completely closed at that point. As Sterling strengthened over this period, the fund realised a currency gain of £2.90m which was subsequently invested into the target pooled fund units on the following dealing date, 18 December.

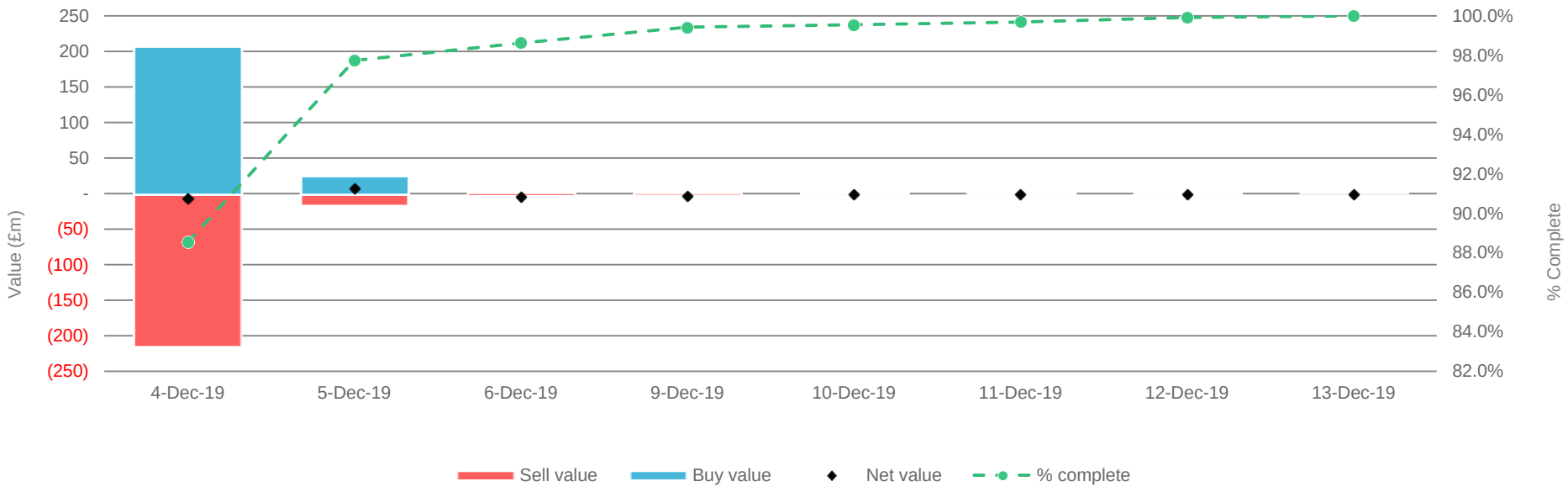
Pooled fund cash investment

The main investment into the target pooled fund was made partially in stock and partially in cash due to the part-synthetic phased target purchase. The cash component therefore saved on reduced physical stock purchase costs, but the corresponding investment of cash incurred a pooled fund spread charge. On the 11 December dealing date however, 84% of the cash investment was able to be crossed with complementary LGIM pooled fund cashflows, thereby reducing the effective spread cost considerably. The total spread charge was therefore £0.01m.

Daily trade activity

The table below shows the physical trading activity by day. Trading was executed in line with market volume and using a variety of execution venues. Trading via dark liquidity pools enabled the Client to benefit from swift execution at mid market prices. Trading was 89% complete on the first day. Physical assets were transferred to the target fund on the 11 December 2019 dealing date. Remaining sales outstanding at that point were subsequently completed by 13 December 2019 and the additional cash was transferred to the target fund on the 18 December 2019 dealing date.

Date	Sell value (£m)	Buy value (£m)	Net value (£m)	Realised P&L (£m)	% Complete
04-Dec-19	213.915	206.385	(7.530)	(0.621)	88.53%
05-Dec-19	17.882	25.805	7.922	(0.694)	97.74%
06-Dec-19	4.225	-	(4.225)	(0.705)	98.63%
09-Dec-19	3.776	-	(3.776)	(0.772)	99.42%
10-Dec-19	0.605	-	(0.605)	(0.768)	99.55%
11-Dec-19	0.666	-	(0.666)	(0.768)	99.69%
12-Dec-19	1.053	-	(1.053)	(0.754)	99.91%
13-Dec-19	0.418	-	(0.418)	(0.746)	100.00%



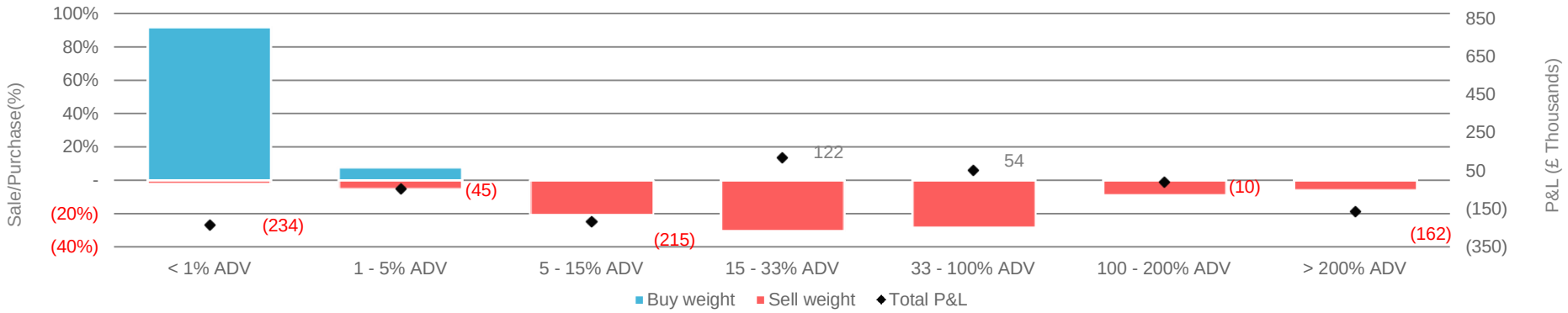
Equity liquidity

The table below shows the costs broken down between buys and sales apportioned according to a stock's liquidity.

	Sells				Buys				Total	
Liquidity Band	**Count**	**Weight (%)**	**Value (£m)**	**P&L (£m)**	**Count**	**Weight (%)**	**Value (£m)**	**P&L (£m)**	**Weight (%)**	**P&L (£m)**
Equities	**78**	**100.00%**	**(242.541)**	**(0.202)**	**1,374**	**100.00%**	**232.190**	**(0.288)**	**100.00%**	**(0.490)**
< 1% ADV	6	2.11%	(5.126)	(0.003)	1,246	91.46%	212.367	(0.232)	45.81%	(0.234)
1 - 5% ADV	13	5.15%	(12.480)	0.010	124	8.42%	19.556	(0.055)	6.75%	(0.045)
5 - 15% ADV	17	20.52%	(49.767)	(0.215)	1	0.03%	0.081	0.000	10.50%	(0.215)
15 - 33% ADV	13	29.94%	(72.612)	0.124	3	0.08%	0.186	(0.001)	15.33%	0.122
33 - 100% ADV	18	27.85%	(67.540)	0.054	-	0.00%	-	-	14.23%	0.054
100 - 200% ADV	5	8.60%	(20.865)	(0.010)	-	0.00%	-	-	4.40%	(0.010)
> 200% ADV	6	5.83%	(14.151)	(0.162)	-	0.00%	-	-	2.98%	(0.162)
Futures Costs [2]										**(0.248)**
Currency P&L										**(0.009)**
Total [1]	**78**	**100.00%**	**(242.541)**	**(0.202)**	**1,374**	**100.00%**	**232.190**	**(0.288)**	**100.00%**	**(0.746)**

Note [1] - Total figure excludes LGIM Fees

Note [2] - Futures costs includes futures commissions



Sector trade breakdown

The table below shows the profit and loss by sector.

	Sell value (£m)	Count	Buy value (£m)	Count	Net value (£m)	P&L (£m)
Equities	**242.541**	**78**	**232.190**	**1,374**	**(10.351)**	**(0.490)**
Consumer discretionary	18.233	12	24.503	173	6.270	0.113
Consumer staples	32.895	7	20.376	116	(12.519)	(0.132)
Communication Services	28.888	9	19.167	89	(9.721)	(0.481)
Energy	36.122	4	9.959	63	(26.163)	0.083
Financials	27.338	11	35.554	223	8.216	0.168
Health care	19.138	5	25.562	104	6.423	(0.208)
Industrials	35.986	14	24.905	193	(11.081)	(0.032)
Information technology	11.242	3	42.376	158	31.134	(0.037)
Materials	24.288	10	11.287	108	(13.000)	0.020
Real estate	3.882	2	7.657	74	3.775	0.022
Utilities	4.529	1	10.842	73	6.314	(0.005)
Futures costs [2]						**(0.248)**
Currency P&L						**(0.009)**
Total [1]	**242.541**	**78**	**232.190**	**1,374**	**(10.351)**	**(0.746)**

Note [1] - Total figure excludes LGIM fees

Note [2] - Futures costs includes futures commissions

Currency trade exposure

The table below shows the profit and loss by currency. Restricted currencies are highlighted in red.

Currency	Sell value (£m)	Buy value (£m)	Net value (£m)	P&L (£m)
UK	**213.068**	**6.572**	**(206.496)**	**(0.044)**
British Pound	213.068	6.572	(206.496)	(0.044)
Developed Europe	**14.464**	**34.956**	**20.492**	**(0.460)**
Euro	13.450	27.798	14.347	(0.408)
Danish Kroner	0.392	2.284	1.892	(0.015)
Swiss Franc	0.621	3.501	2.880	(0.018)
Norwegian Krone	-	0.319	0.319	(0.004)
Swedish Krona	-	1.054	1.054	(0.016)
North America	**14.800**	**147.917**	**133.117**	**(0.169)**
US Dollar	14.800	140.873	126.073	(0.154)
Canadian Dollar	-	7.044	7.044	(0.015)
Japan	**0.209**	**20.000**	**19.791**	**0.098**
Japanese Yen	0.209	20.000	19.791	0.098
Developed Asia	**-**	**12.950**	**12.950**	**0.108**
Australian Dollar	-	6.326	6.326	0.076
Hong Kong Dollar	-	2.942	2.942	0.015
New Zealand Dollar	-	0.351	0.351	0.001
Korean (South) Won	-	2.308	2.308	0.012
Singapore Dollar	-	1.024	1.024	0.004
Emerging EMEA	**-**	**1.580**	**1.580**	**(0.012)**
Polish Zloty	-	0.162	0.162	(0.002)
South African Rand	-	1.418	1.418	(0.010)

Currency trade exposure (continued)

Currency	Sell value (£m)	Buy value (£m)	Net value (£m)	P&L (£m)
Emerging Americas	**-**	**3.139**	**3.139**	**(0.023)**
Mexican Peso	-	0.713	0.713	(0.005)
Brazilian Real	-	2.425	2.425	(0.019)
Emerging Asia	**-**	**5.076**	**5.076**	**0.014**
Malaysian Ringgit	-	0.692	0.692	0.001
Thailand Baht	-	0.862	0.862	0.004
Taiwan New Dollar	-	3.522	3.522	0.009
Futures costs [2]				**(0.248)**
Currency P&L				**(0.009)**
Total (1)	**242.541**	**232.190**	**(10.351)**	**(0.746)**

Note [1] - Total figure excludes LGIM fees

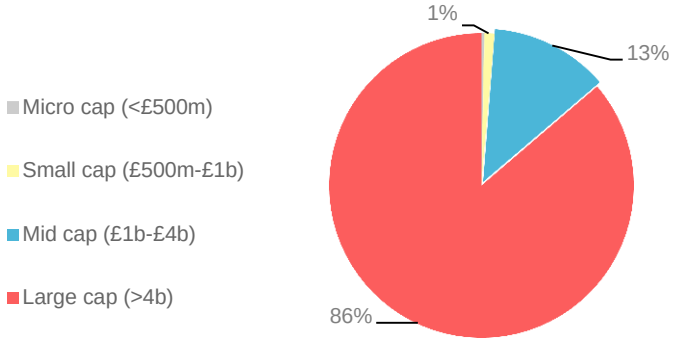
Note [2] - Futures costs includes futures commissions

Market capitalisation

	Sells				Buys				Total	
Liquidity Band	Count	Weight (%)	Value (£m)	P&L (£m)	Count	Weight (%)	Value (£m)	P&L (£m)	Weight (%)	P&L (£m)
Equities	78	100.00%	(242.541)	(0.202)	1,374	100.00%	232.190	(0.288)	100.00%	(0.490)
Micro cap (<£500m)	2	0.50%	(1.219)	(0.023)	3	0.04%	0.100	0.000	0.28%	(0.022)
Small cap (£500m-£1b)	8	1.88%	(4.558)	0.031	-	0.00%	-	-	0.96%	0.031
Mid cap (£1b-£4b)	21	20.32%	(49.280)	(0.076)	188	4.31%	10.017	0.018	12.49%	(0.058)
Large cap (>4b)	47	77.30%	(187.485)	(0.135)	1,183	95.64%	222.073	(0.306)	86.27%	(0.440)
Futures costs[2]										(0.248)
Currency P&L										(0.009)
Total[1]	**78**	**100.00%**	**(242.541)**	**(0.202)**	**1,374**	**100.00%**	**232.190**	**(0.288)**	**100.00%**	**(0.746)**

Note [1] - Total figure excludes LGIM Fees

Note [2] - Futures costs includes futures commissions



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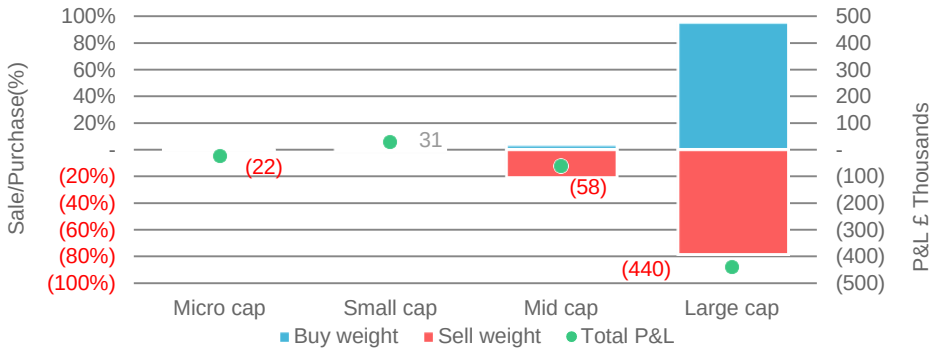
Top sells			
Name	Weight (%)	Market cap (£bn)	P&L (bps)
BP PLC	7.61%	94	27
ROYAL DUTCH SHELL PLC-B SHS	6.76%	171	35
TESCO PLC	5.80%	24	2
GLAXOSMITHKLINE PLC	5.63%	87	(55)
ELECTROCOMPONENTS PLC	3.12%	3	(13)
ASSOCIATED BRITISH FOODS PLC	3.10%	19	36
PEARSON PLC	2.98%	5	(63)
BARRICK GOLD CORP	2.79%	24	(10)
WM MORRISON SUPERMARKETS	2.76%	5	(112)
BAE SYSTEMS PLC	2.63%	18	43

Top buys			
Name	Weight (%)	Market cap (£bn)	P&L (bps)
APPLE INC	2.68%	916	(44)
MICROSOFT CORP	2.58%	887	(19)
AMAZON.COM INC	1.67%	667	26
FACEBOOK INC-CLASS A	1.08%	443	2
JPMORGAN CHASE & CO	0.95%	325	(97)
ALPHABET INC-CL C	0.90%	714	(96)
ALPHABET INC-CL A	0.89%	714	(92)
JOHNSON & JOHNSON	0.83%	285	(80)
ORSTED A/S	0.78%	31	(85)
VISA INC-CLASS A SHARES	0.72%	275	35



Largest contributors to profit and loss

Due to the concentrated nature of the sell side, the largest single line gains and the largest single line losses are all sales. Overall these were balanced however; the tables below show that nine of the top ten IS losses were neutralised by the top ten gains. This has helped to keep overall trading costs low.

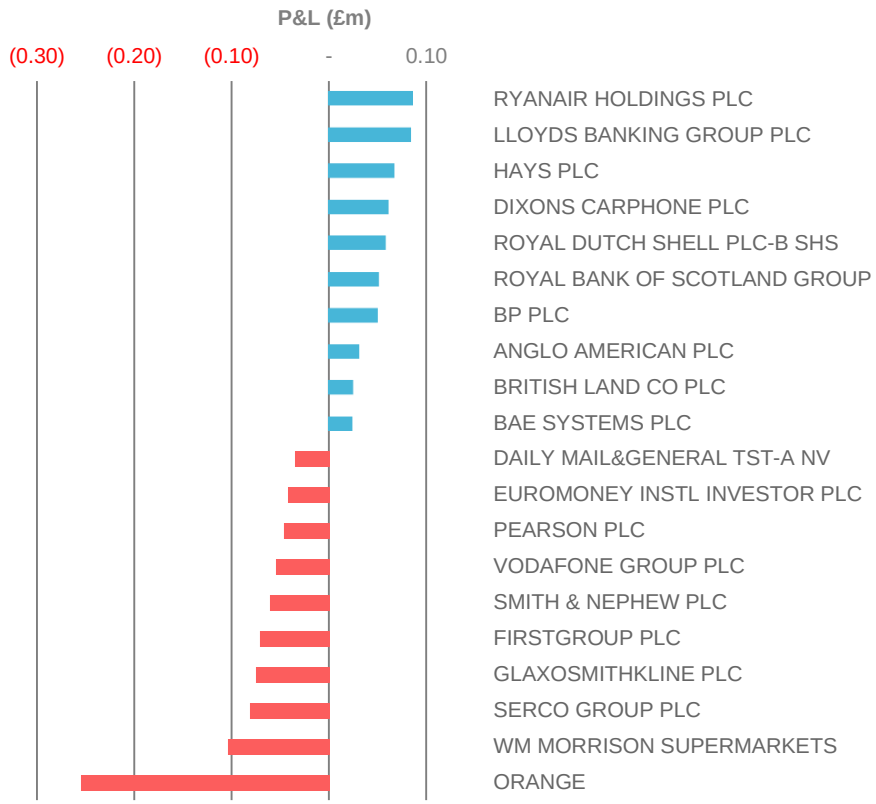
The one standout contributor was the sale of Orange, which realised an IS cost of -£255k (-462bps). The share price, already falling since November month end, was negatively impacted by an overnight release of their 'essentials2025' strategic growth plans, coupled with news of their large disposal of cell towers to Cellnex. Orange stock rapidly traded down, around 4.5% at the market open on 4 December. The negative sentiment persisted and while trading was completed on the first day, the Orange share price continued to weaken throughout December and was trading another 4% lower at the year end.

Largest P&L gain

Instrument	Name	CCY	P&L (£m)	Value (£m)
BYTBY10	RYANAIR HOLDINGS PLC	EUR	0.085	(6.061)
0870612	LLOYDS BANKING GROUP PLC	GBP	0.084	(5.279)
0416102	HAYS PLC	GBP	0.067	(5.076)
B4Y7R14	DIXONS CARPHONE PLC	GBP	0.060	(2.272)
B03MM40	ROYAL DUTCH SHELL PLC-B SHS	GBP	0.058	(16.400)
B7T7721	ROYAL BANK OF SCOTLAND GROUP	GBP	0.051	(4.677)
0798059	BP PLC	GBP	0.050	(18.458)
B1XZS82	ANGLO AMERICAN PLC	GBP	0.032	(3.794)
0136701	BRITISH LAND CO PLC	GBP	0.025	(1.999)
0263494	BAE SYSTEMS PLC	GBP	0.025	(6.372)

Largest P&L loss

Instrument	Name	CCY	P&L (£m)	Value (£m)
5176177	ORANGE	EUR	(0.255)	(5.509)
0604316	WM MORRISON SUPERMARKETS	GBP	(0.104)	(6.692)
0797379	SERCO GROUP PLC	GBP	(0.081)	(4.756)
0925288	GLAXOSMITHKLINE PLC	GBP	(0.075)	(13.658)
0345217	FIRSTGROUP PLC	GBP	(0.071)	(2.922)
0922320	SMITH & NEPHEW PLC	GBP	(0.060)	(3.629)
BH4HKS3	VODAFONE GROUP PLC	GBP	(0.054)	(4.415)
0677608	PEARSON PLC	GBP	(0.046)	(7.237)
0688666	EUROMONEY INSTL INVESTOR PLC	GBP	(0.042)	(2.406)
BJQZC27	DAILY MAIL&GENERAL TST-A NV	GBP	(0.034)	(3.141)



Glossary

Active manager	An investment manager who seeks to outperform their respective benchmark
Active risk	A type of risk that a fund or managed portfolio creates as it attempts to beat the returns of the benchmark against which it is compared.
ADR	American Depository Receipt - a certificate issued by a US bank representing a specified number of shares in a foreign stock traded on a US exchange.
Agency trade	Where the broker acts as an agent on behalf of the Manager, and agrees to trade a specified security with other clients. Commissions and associated brokerage costs of the trade are agreed in advance. This is different from where the broker acts as Principle (See Principal Trade)
Asset class	The way assets are broadly grouped together for ease of reference – e.g. equities, bonds and cash. A group of securities that exhibit similar characteristics
Average daily volume	The average amount of an individual stock traded in a day
Basis point	A term used to describe one hundredth of one percent (0.01%)
Benchmark	A fund Manager's performance is assessed by comparing it to a suitable Benchmark
Best execution	The responsibility of brokers to provide the most advantageous, or best price, order execution for customers
Bid / offer spread	The difference between the bid price and the offer price of a security. The bid price is usually lower to reflect the price at which an investor can sell a security, where as a security is purchased at the higher offer price.
Buffer	The allocated difference between a legacy portfolio's assets and a target portfolio's asset to allow for implicit and explicit costs
Commission	A fee paid to brokers upon executing a trade. The payment is in return for the broker providing liquidity .
Coupon payment date	The date on which a bond interest payment is made or scheduled to be made
Credit rating	A published ranking, based on analysis by a credit agency, of an issuer's financial history, specifically as it relates to the issuer's ability to meet debt obligations.
Credit spread	A measure of the yield above the benchmark security (typically a Treasury security)
Currency overlay	The buying or selling of currency forward positions to maintain a portfolio's currency exposure against a desired strategic benchmark .
Daily dealing (LGIM world)	Daily rebalancing for PMC funds to match movements in the benchmark and cash flows in and out of the funds
Daily dealing with charges (LGIM world)	Daily rebalancing for PMC funds to match movements in the benchmark and cash flows in and out of the funds less fees deducted
Effective duration (option-adjusted duration)	The duration measure used for bonds with embedded optionality. It is the sensitivity of the price to a parallel shift in the Treasury curve, where the price reflects any exercise of options. Alternatively, effective duration is calculated as the sum of key rate durations
Exchange for physical (EFP)	An transaction where one party buys a basket of physical assets and sells futures contacts and or the opposite sells the physicals and buys futures
Exchange traded funds (ETFs)	A security that tracks an index, commodity or basket of assets like an index fund, but trades like a stock on an exchange
Explicit costs	Fixed costs, that are easily measured as a result of market trading (e.g. commissions and taxes)

Glossary

Ex-dividend date	The first date following declaration of a dividend oo wwhich the buyer of a stock is not entitled to receive the next dividend
Futures hedge / overlay	The buying or selling of futures to move a portfolio's exposure as close to the required benchmark as possible
Broker crossing	Trading with a broker to cross at mid-market prices, or against an agreed benchmark (e.g. VWAP)
GDR	Global Depository Receipt - A bank certificate issued in more than one country for shares in a foreign company. The shares are held by a foreign branch of an international bank
Gap risk / Intraday exposure	The risk caused by out of market exposure where you are raising cash in one market and spending it in another and the two markets are not open at the same time. This risk can also be shown as overexposure to the market, whereby the money is spent before it is raised.
Illiquid securities	Securities where the required number of shares to trade is high relative to the average number of shares traded daily
Implementation shortfall	A measure of transition cost. It compares the actual performance of the assets over the period of the transition against the performance of the target portfolio if the transition had been implemented instantaneously with zero cost. Performance measurement starts from the close of the business day prior to trading.
Implicit costs	Costs that are indirectly incurred in trading. These costs include market impact and bid-offer spread.
Internal crossing	Crossing that takes place within LGIM flow. This type of trade will be facilitated via a broker and executed at the mid-market price (e.g. with no spread or market impact)
In-kind / retention	The overlap of securities between the legacy assets and the assets in the target portfolio.
In-specie transfers	The movement of physical stocks between accounts.
Key rate duration	The price sensitivity of a bond to a change in yield at a single tenor, holding all other tenors constant
Legacy asset list	The portfolio(s) of securities and cash provided by the old fund managers at the beginning of a transition
LDI	Liability driven investments. An investment strategy determined by the sum of current and future liabilities
Liquidity	A measure of the ability to buy/sell an asset without causing a significant movement in the price and minimum loss of value
Marginal contribution to risk	Is the measure of how much an individual stock is contributing to the tracking error
Market impact	It is a measurement of the price movement of the asset as a result of the transaction. The adverse movement of a security away from the mid-market price due to the introduction of new supply or demand into the market.
Minimum increment	The only possible increment to the tradable quantity of a bond (e.g. the bond quantity has to be a multiple of this figure)
Minimum piece	The smallest tradable quantity for a bond. (e.g. the bond does not trade in smaller quantities)
Odd lot	Only applicable to equities, where the number of shares is not in the normal market tradable lot size, unlike bonds these can be traded but there can be a small
Opportunity costs / gain	This is the timing cost of a transition. It is the cost of being invested in one risk profile when desiring another risk profile. It results from the tracking error between legacy and target portfolios
Participation level	The proportion of a stocks Average Daily Volume,that a trade is, the higher the participation level the higher the impact in the market.

Glossary

Residual securities	Typically an illiquid security that is not required by the target portfolio and an extended amount of time is required to liquidate the position
Restricted currency	Currencies that typically have Government controls in place. They are not freely traded and require agents in the country to execute, these trades are typically performed by the Custodian
Risk premium	The additional cost required by a broker to transact an Exchange for Principal trade
Share exchanges	A service to convert securities within a fund into units in that fund or convert units in a fund into the underlying securities held in that fund
Standard deviation	Standard deviation is a measure of dispersion a set of data from the mean. In the case of TE it measures the historical volatility of a stock or portfolio of stocks from it's mean
Stock specific / idiosyncratic risk	Company or industry specific risk that is inherent with each investment, sometimes known as specific risk, diversifiable risk or residual risk
Systematic risk	The risk inherent to the entire market or market segment, sometimes known as the diversifiable risk or market risk
Take-off	The assets off loaded by a manager
Take-on	The assets acquired by a manager
Target portfolios	The desired portfolio required for the client
Taxes	The fees associated with trading securities in different markets (e.g. SEC fees for US securities and stamp duty for other markets)
Tracking error / risk	A measure of the divergence between the price behaviour of one portfolio of securities and another. Tracking errors are quoted as a standard deviation percentage difference
Transaction costs	A measure of costs incurred during trading including explicit costs (taxes and commissions), half bid / ask spread and market impact
Unit trading	Buying and selling units of an open ended fund. The unit price will move in line with the overall value of the fund, which in turn, moves in line with the underlying asset prices
Volume weighted average price (VWAP)	A measure of the average price for a security over a defined time period. Calculated by taking the average price for each trade, weighted by the number of shares traded at that price
Weekly dealing (LGIM world)	Weekly rebalancing of funds to match movements in the benchmark and cash flows in and out of the funds
Wish list	A manager's requested target portfolio(s)
Yield to call	The yield on a bond if it were bought and held to its call date
Yield to maturity	The internal rate of return earned by an investor who buys the bond today at the market price, assuming that the bond will be held until maturity and that all coupon that the bond will be held until maturity and that all coupon and principal payments will be made on schedule. This is also know as the redemption yield

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**23 January 2020**
Classification:	**General Release**
Title:	**Draft Funding Strategy Statement**
Wards Affected:	**None**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no immediate financial implications arising from this report, although the outcome of the valuation has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.**
Report of:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1 Executive Summary

1.1 Following the 2019 triennial valuation, the Fund Actuary (Barnett Waddingham) have produced a draft Funding Strategy Statement (FSS). The purpose of the FSS is to establish a clear and transparent strategy on how to meet pension liabilities going forward.

2 Recommendation

2.1 That the Committee approve the draft Funding Strategy Statement (FSS), pending consultation with the employers, and delegate authority to the Director of Treasury and Pensions in consultation with the Chairman to publish the final FSS.

3 Reasons for Decision

3.1 The Fund is required to regularly review the FSS and to have regard to CIPFA 2016 guidance, Preparing and Maintaining a funding strategy statement in the Local Government Pension Scheme (LGPS).

4 Proposals and Issues

4.1 Regulation 58 of the LGPS Regulations 2013 sets out the requirement for every LGPS fund to maintain a Funding Strategy Statement. The regulation requires the Fund to have regard to the guidance published by CIPFA and to consult with parties it considers appropriate when updating it. The current version of the statement was approved by the Pension Fund Committee in March 2017. Attached at Appendix 1 is a draft Funding Strategy Statement for 2020, which reflect the results of the 2019 actuarial valuation.

4.2 The financial assumptions adopted for the 2019 valuation show a decrease in the discount rate applied and an increase in the inflation rate compared to 2016. It should also be noted that long-term salary increases have decreased from 2016, along with a slow-down in the long-term longevity rate of improvement. The actuarial assumptions applied during the 2019 valuation result in the funding level increasing from 80% in 2016 to 100% as at 31 March 2019.

4.3 The FSS incorporates the funding approach of the admitted and scheduled bodies including admissions, new academies, bulk transfers and cessations. The strategy also takes in to consideration the impact which the McCloud judgement may have on the pension liabilities, although still uncertain this is anticipated to be less than reducing the discount rate assumption by 0.05%.

4.4 The major risks to the funding strategy are financial, although there are other external factors including maturity risks, demographic risks, employer risks, regulatory risks and governance risks. Whilst the FSS attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that these risks may impact on the ability of the strategy to meet the funding objectives.

4.5 The next stage in the process of the actuarial valuation is consultation with the employers in the Fund on the results, proposed employer contribution rates and the draft FSS. A final version of the actuarial valuation report and the FSS will be presented to the Committee for approval at the next meeting on 19 March 2020.

5 Consultation

5.1 Consultation with the employers in the Fund will take place in the coming weeks on the results, proposed employer contribution rates and the draft FSS.

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

Billie Emery bemery@westminster.gov.uk

BACKGROUND PAPERS: None

APPENDICES:
Appendix 1 Draft Funding Strategy Statement

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City of Westminster Pension Fund Funding Strategy Statement

Contents

Introduction

This is the Funding Strategy Statement for the City of Westminster Pension Fund (the Fund). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 as amended (the Regulations) and describes Westminster City Council's strategy, in its capacity as administering authority, for the funding of the City of Westminster Pension Fund.

The Fund's employers and the Fund Actuary, Barnett Waddingham LLP, have been consulted on the contents of this statement.

This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS) and has been prepared with regard to the guidance (*Preparing and Maintaining a funding strategy statement in the LGPS 2016 edition)* issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Purpose of the Funding Strategy Statement

The purpose of this Funding Strategy Statement (FSS) is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as required by Regulation 62(6) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and
- Take a prudent longer-term view of funding those liabilities.

Aims and purpose of the Fund

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 (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike; and
- Seek returns on investment within reasonable risk parameters.

The purpose of the Fund is to:

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

Funding objectives

Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations are set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme so far as relating to the pension Fund. The review also looks at compliance and consistency of the actuarial valuations.

Key parties

The key parties involved in the funding process and their responsibilities are set out below.

The administering authority

The administering authority for the Fund is Westminster City Council. The main responsibilities of the administering authority are to:

- Operate the Fund in accordance with the LGPS Regulations;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets in accordance with the Fund's Investment Strategy Statement;
- Pay the benefits due to Scheme members as stipulated in the 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 FSS and also the ISS after consultation with other interested parties;
- Monitor all aspects of the Fund's performance;
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme employer; and
- Enable the Local Pension Board to review the valuation process as they see fit.

Scheme employers

In addition to the administering authority, a number of other Scheme employers participate in the Fund.

The responsibilities of each employer that participates in the Fund, including the administering authority, are to:

- Collect employee contributions 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 any new Scheme members and any other membership changes promptly;
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- Pay any exit payments due on ceasing participation in the Fund.

Scheme members

Active Scheme members are required to make contributions into the Fund as set by the Ministry of Housing, Communities and Local Government (MHCLG).

Fund Actuary

The Fund Actuary for the 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 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 from the Fund;
- Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect 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 which may be of relevance to their role in advising the Fund; and
- Advise on other actuarial matters affecting the financial position of the Fund.

Funding strategy

The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

The most recent valuation of the Fund was as at 31 March 2019.

The individual employer contribution rates are set out in the Rates and Adjustments Certificate which forms part of the Fund's 2019 valuation report.

The actuarial valuation involves a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. A summary of the methods and assumptions adopted is set out in the sections below.

Funding method

The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution rates to meet that target over an agreed period.

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund.

For all employers, the method adopted is to consider separately the benefits accrued before the valuation date (past service) and benefits expected to be accrued after the valuation date (future service). These are evaluated as follows:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay and pensions. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
- The future service funding rate (also referred to as the primary rate as defined in Regulation 62(5) of the Regulations) is the level of contributions required from the individual employers which, in combination with employee contributions is expected to cover the cost of benefits accruing in future.

The adjustment required to the primary rate to calculate an employer's total contribution rate is referred to as the secondary rate, as defined in Regulation 62(7). Further details of how the secondary rate is calculated for employers is given below in the Deficit recovery/surplus amortisation periods section.

The approach to the primary rate will depend on specific employer circumstances and in particular may depend on whether an employer is an "open" employer – one which allows new recruits access to the Fund, or a "closed" employer – one which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the total contribution rate.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in assessing the future service cost, the primary rate represents the cost of one year's benefit accrual only.

For closed employers, the actuarial funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.

The approach by employer may vary to reflect an employer's specific circumstance, however, in general the closed employers in the Fund are admission bodies who have joined the Fund as part of an outsourcing contract and therefore the Attained Age Method is used in setting their contributions. All other employers (for example the Council, higher education bodies and academies) are generally open employers and therefore the Projected Unit Method is used. The administering authority holds details of the open or closed status of each employer.

Valuation assumptions and funding model

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

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

- The demographic (or statistical) assumptions which are essentially estimates of the likelihood or timing 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

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20 year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20 year point on the curve is used as this is consistent with the average duration of an LGPS Fund.

Future pension increases

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. A deduction of 1.0% p.a. is therefore made from the RPI assumption to derive the CPI assumption.

Future pay increases

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 increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2019 was CPI plus 1.0% p.a. which includes allowance for promotional increases.

Future investment returns/discount rate

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.

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

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 Fund's long-term 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.

It may be appropriate for an alternative discount rate approach to be taken to reflect an individual employer's situation. This may be, for example, to reflect an employer targeting a cessation event or to reflect the administering authority's views on the level of risk that an employer poses to the Fund. The Fund Actuary will incorporate any such adjustments after consultation with the administering authority.

A summary of the financial assumptions adopted for the 2019 valuation is set out in the table below:

Financial assumptions as at 31 March 2019	
RPI inflation	3.6% p.a.
CPI inflation	2.6% p.a.
Pension/deferred pension increases and CARE revaluation	In line with CPI inflation
Pay increases	CPI inflation + 1.0% p.a.
Discount rate – Scheduled bodies Discount rate – Admitted bodies	4.8% p.a. 3.3% p.a.

Admitted bodies

A more prudent discount rate is adopted for admitted bodies in the Fund, resulting in a higher level of contributions being required from these bodies. This is in recognition of the fact that such employers may typically be expected to participate in the Fund for a limited period of time and so the aim is to increase the likelihood of sufficient assets being available to fund their employees' past service benefits by the time they cease participation in the Fund. In this way, the risk of deficits arising after the termination date and thus needing to be met by other employers in the Fund is reduced. Some admitted bodies may also be deemed to have a weaker covenant than other employers and so a higher contribution requirement reflects the increased risk that these employers present to the Fund.

Asset valuation

For the purpose 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. This is referred to as the smoothed asset value and is calculated in a consistent way to the valuation of the liabilities.

The Fund's assets are allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received and benefits paid).

Demographic assumptions

The demographic assumptions incorporated into the valuation are based on Fund-specific experience and national statistics, adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of the assumptions adopted are included in the Fund's 2019 valuation report.

McCloud/Sargeant judgements

The McCloud/Sargeant judgements were in relation to two employment tribunal cases which were brought against the government in relation to possible age and gender discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. These judgements were not directly in relation to the LGPS, however, do have implications for the LGPS.

In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounted to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

Further details of this can be found below in the Regulatory risks section.

At the time of drafting this FSS, it is still unclear how this will affect current and future LGPS benefits. As part of the Fund's 2019 valuation, in order to mitigate the risk of member benefits being uplifted and becoming more expensive, the potential impact of McCloud was covered by the prudence allowance in the discount rate assumption. As the remedy is still to be agreed the cost cannot be calculated with certainty, however, the Fund Actuary expects it is likely to be less than, the impact of reducing the discount rate assumption by 0.05%.

Guaranteed Minimum Pension (GMP) indexation and equalisation

As part of the restructuring of the state pension provision, the government needs to consider how public service pension payments should be increased in future for members who accrued a Guaranteed Minimum Pension (GMP) from their public service pension scheme and expect to reach State Pension Age (SPA) post-December 2018. In addition, a resulting potential inequality in the payment of public service pensions between men and women needs to be addressed. Information on the current method of indexation and equalisation of public service pension schemes can be found here.

On 22 January 2018, the government published the outcome to its *Indexation and equalisation of GMP in public service pension schemes* consultation, concluding that the requirement for public service pension schemes to fully protect the GMP element of individuals' public service pension would be extended to those individuals reaching SPA before 6 April 2021. HMT published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and the Ministerial Direction can be found here.

The 2019 valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, it is assumed that the Fund will be required to pay the entire inflationary increase.

Deficit recovery/surplus amortisation periods

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. This theory applies down to an individual employer level; each employer in the Fund has their own share of deficit or surplus attributable to their section of the Fund.

Where the valuation for an employer discloses a deficit then the level of required employer contributions includes an adjustment to fund the deficit over a maximum period of 19 years. The adjustment will usually be set as a fixed monetary amount.

Where the valuation for an employer discloses a surplus then the level of required employer contribution may include an adjustment to amortise a proportion of the surplus.

The deficit recovery period or amortisation period that is adopted, and the proportion of any deficit/surplus that is recovered/amortised, 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 (including any security in place) and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

Pooling of individual employers

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. Pooling of individual employers may be considered in exceptional circumstances if deemed appropriate by the administering authority and Fund Actuary.

New employers joining the Fund

When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

Admission bodies

New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

Funding at start of contract

Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

Contribution rate

The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

Security

To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the administering authority.

New academies

When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

Funding at start

On conversion to academy status, the new academy will be allocated assets based on the active cover of the relevant local authority at the conversion date. The active cover approach is based on the funding level of the local authority's active liabilities, after fully funding the local authority's deferred and pensioner liabilities.

Contribution rate

The total contribution rate for new academies will be chosen to meet both the costs of benefits accruing to the existing active members in the future, and to try to restore the funding level to 100% over the Fund's maximum deficit recovery period.

Cessation valuations

When a Scheme employer exits the Fund and becomes an exiting employer, as required under the Regulations, the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund Actuary is also required to determine the exit payment due from the exiting employer to the Fund or the exit credit payable from the Fund to the exiting employer.

Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless it is agreed by the administering authority and the other parties involved that an alternative approach is permissible. For example:

- It may be agreed with the administering authority that the exit payment can be spread over some agreed period;
- the assets and liabilities relating to the employer may transfer within the Fund to another participating employer; or
- the employer's exit may be deferred subject to agreement with the administering authority, for example if it intends to offer Scheme membership to a new employee within the following three years.

Similarly, any surplus in the Fund in respect of the exiting employer may be treated differently to a payment of an exit credit, subject to the agreement between the relevant parties and any legal documentation.

In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing approaches depending on the employer and the specific details surrounding the employer's cessation scenario.

For example, if there is no guarantor in the Fund willing to accept responsibility for the residual liabilities of the exiting employer, then those liabilities are likely to be assessed on a "minimum risk" basis leading to a higher exit payment being required from (or lower exit credit being paid to) the employer, in order to extinguish their liabilities to the Fund and to reduce the risk of these liabilities needing to be met by other participating employers in future.

If it is agreed that another employer in the Fund will accept responsibility for the residual liabilities, then the assumptions adopted will be consistent with the current ongoing funding position, but additional prudence will be included in order to take potential uncertainties and risk into account e.g. due to market changes, additional liabilities arising from regulatory or legislative change and political/economic uncertainties. The additional level of prudence will be set by considering the distribution of funding levels under a large number of economic scenarios, with the aim being to gain a reasonable level of confidence that the Fund will be able to meet its benefit obligations to the relevant members in future.

Regulatory factors

At the date of drafting this FSS, the government is currently consulting on potential changes to the Regulations, some which may affect the regulations surrounding an employer's exit from the Fund. This is set out in the *Local government pension scheme: changes to the local valuation cycle and the management of employer risk* consultation document.

Further details of this can be found in the Regulatory risks section below.

Bulk transfers

Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).

A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

Links with the Investment Strategy Statement (ISS)

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 long-term investment strategy as set out in the ISS.

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

Risks and counter measures

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.

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

Financial risks

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.

The valuation results are most sensitive to the real discount rate (i.e. the difference between the discount rate assumption and the price inflation assumption). Broadly speaking an increase/decrease of 0.1% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by around 2%, and decrease/increase the required employer contribution by around 0.7% of payroll p.a.

However, the Investment and 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.

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

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

Demographic risks

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 in the long-term rate of mortality improvement of 0.25% p.a. will increase the liabilities by around 1%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review. For the past two funding valuations, the Fund has commissioned a bespoke longevity analysis by Barnett Waddingham's specialist longevity team in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

The liabilities of the Fund can also increase by more than has been planned as a result of the additional financial costs of early retirements and ill-health retirements. 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.

The administering authority is currently implementing an ill-health self-insurance pool within the Fund whereby a portion of all employers' contributions into the Fund are allocated to a segregated ill-health section of the Fund. When an ill-health retirement occurs, a funding strain (i.e. the difference between the value of the benefits payable to the ill-health member and the value that was assumed as part of the actuarial valuation) is generated in the employer's section of the Fund. As part of the self-insurance policy, assets equal to the funding strain are

transferred from the segregated ill-health assets section of the Fund to the employer's section of the Fund to cover the funding strain.

Maturity risk

The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meets its benefit payments. The Fund may carry out cash flow modelling to assess if, when and in what circumstances the Fund will become cash flow negative and options to address this.

The government has published a consultation (*Local government pension scheme: changes to the local valuation cycle and management of employer risk*) which may affect the Fund's exposure to maturity risk. More information on this can be found in the Regulatory risks section below.

Regulatory risks

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 the government.

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.

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.

There are a number of general risks to the Fund and the LGPS, including:

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.
- The potential effects of GMP equalisation between males and females, if implemented, are not yet known.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.
- The State Pension Age is due to be reviewed by the government in the next few years.

At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgements, the cost cap mechanism and the timing of future funding valuations consultation. These are discussed in the sections below.

McCloud/Sargeant judgements and cost cap

The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employees against unexpected

changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the Scheme Advisory Board (SAB) in place and HMT allowed SAB to put together a package of proposed benefit changes in order for the LGPS to no longer breach the HMT cost cap. These benefit changes were due to be consulted on with all stakeholders and implemented from 1 April 2019.

However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

At the time of drafting this FSS, it is not yet known what the effect on the current and future LGPS benefits will be.

Consultation: Local government pension scheme: changes to the local valuation cycle and management of employer risk

On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

- amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and
- proposals for changes to the employers required to offer LGPS membership.

The consultation is currently ongoing: the consultation was closed to responses on 31 July 2019 and an outcome is now awaited. This FSS will be revisited once the outcome is known and reviewed where appropriate.

Timing of future actuarial valuations

LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. This results of the national Scheme valuation are used to test the cost control cap mechanism and HMT believed that all public sector scheme should have the cost cap test happen at the same time with the next quadrennial valuation in 2020 and then 2024.

Managing employer exits from the Fund

The consultation covers:

- Proposals for flexibility on exit payments. This includes:
  - Formally introducing into the Regulations the ability for the administering authority to allow an exiting employer to spread the required exit payment over a fixed period.
  - Allowing employers with no active employers to defer payment of an exit payment in return for an ongoing commitment to meeting their existing liabilities (deferred employer status).
- Proposals for further policy changes to exit credits. The proposed change would require the exiting employer's exposure to risk to be taken into account in calculating any exit credit due (for example a pass through employer who is not responsible for any pensions risk would likely not be due an exit credit if the amendments are made to the Regulations).

Changes to employers required to offer LGPS membership

At the time of drafting this FSS, under the current Regulations further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. This could impact on the level of maturity and the cashflow profile for these employers. As described earlier this may increase the risk of contribution income being insufficient to meet benefit outgo, if not in the short term then in the long term as the payroll in respect of these types of employers decreases with fewer active members participating in the Fund.

This also brings an increased risk to the Fund in relation to these employers becoming exiting employers in the Fund. Should they decide not to admit new members to the Fund, the active membership attributable to the employers will gradually reduce to zero, triggering an exit under the Regulations and a potential significant exit payment. This has the associated risk of the employer not being able to meet the exit payment and thus the exit payment falling to the other employers in the Fund.

There are very few employers of this type currently participating in the Fund and so the risks are considered relatively low at present.

Employer risks

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.

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. In particular, the Fund regularly commissions an employer risk review from the Fund Actuary to help identify the employers in the Fund that might be considered as high risk. In the case of admitted bodies, the Fund has a policy of requiring some form of security from the employer, in the form of a guarantee or a bond, in case of employer default where the risk falls to the Fund. Where the risk of default falls on the liabilities of an original letting authority, the Fund provides advice to the letting authority to enable them to make a decision on whether a guarantee, some other form of security or a bond should be required.

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.

Governance risks

Accurate data is necessary to ensure that members ultimately receive their correct benefits. The administering authority is responsible for keeping data up to date and results of the actuarial valuation depend on accurate data. If incorrect data is valued then there is a risk that the contributions paid are not adequate to cover the cost of the benefits accrued.

Monitoring and review

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.

The most recent valuation was carried out as at 31 March 2019, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2020 to 31 March 2023.

The timing of the next funding valuation is due to be confirmed as part of the government's *Local government pension scheme: changes to the local valuation cycle and management of employer risk* consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next funding valuation will be due as at 31 March 2022 but the period for which contributions will be certified remains unconfirmed.

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

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**23 January 2020**
Classification:	**General Release**
Title:	**Draft Investment Strategy Statement and Investment Beliefs**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no financial implications arising from this report.**
Report of:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. EXECUTIVE SUMMARY

1.1 As per the Local Government Pension Scheme (LPGS) Management and Investment of Funds Regulations 2016 the Fund is required to publish an Investment Strategy Statement (ISS). Attached is a draft ISS for 2020, which sets out the Council's policy on investment, risk management, pooling and ethical, social and corporate governance issues for both its own investments and those being managed through the London CIV.

1.2 The Funds investment consultant, Deloitte, has also drafted a questionnaire with the aim of establishing a set of investments beliefs for the Fund which will be adopted and from a core part of the investment strategy going forward.

2. RECOMMENDATIONS

2.1 The Committee is invited:

a. To comment on the Investment Strategy Statement (ISS) and delegate authority to the Director of Treasury and Pensions in consultation with the Chairman to publish the final ISS.

b. To consider and comment on the investment beliefs within the questionnaire as prepared by the investment advisor, this will assist in developing a set of core beliefs to be adopted by the Fund.

3. PROPOSALS AND ISSUES

Overview of the Investment Regulations – Investment Strategy Statement

3.1 The ISS sets out the requirements of the LGPS legislation and the Investment Committee's terms of reference. The ISS has been prepared in accordance with the Ministry of Housing, Communities and Local Government (MHCLG) guidance on Preparing and Maintaining an Investment Strategy Statement. The six main objectives of the legislation are then detailed in relation to Westminster City Council's Pension Fund policies and strategies. These are:

3.2 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;

3.3 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;

3.4 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;

3.5 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;

3.6 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 – this sets out how the fund meets these obligations and also how potential investments with the London CIV will comply with these obligations;

3.7 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.

3.8 The ISS also deals in turn with the Funds compliance with the CIPFA Pensions Panel Principles for investment decision making in the LGPS (appendix A, ISS). These six principles cover a range of factors as follows:

- Effective decision-making
- Clear objectives
- Risk and Liabilities
- Performance Assessment
- Responsible Ownership
- Transparency and Reporting

3.9 The Funds compliance with the Stewardship Code (2020) guidance is set out within appendix B of the ISS. 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 London CIVs stewardship statement can be found within appendix C of the ISS.

3.10 The Funds Responsible Investment policy can be found within appendix D of the ISS. The purpose of this policy document is to lay out the fund's approach to how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

3.11 The strategic asset allocation of the Fund can be found within Appendix E of the ISS (as per the recommended asset allocation following Deloitte's investment strategy review), this sets out the target allocation to a variety of assets as well as the review ranges. Once the review range of an asset is triggered a rebalancing exercise is undertaken to ensure the Fund stays within its target allocation limits. It is recommended that the Committee approves these asset review ranges.

Statement of Core Beliefs

3.12 The objective of the statement of investment beliefs is to set out the Fund's key investment beliefs. These beliefs will form the foundation of discussions, and assist decisions, regarding the structure of the Fund, strategic asset allocation and the selection of investment managers.

3.13 When considering the Committee's investment beliefs, it is useful to consider the six objectives within the LGPS (Management and Investment of Funds) regulations, as listed in section 3.1-3.7 of this report. A clear set of investment beliefs can help achieve good governance by providing a framework for all investment decisions.

3.14 There are a number of investment beliefs listed with the questionnaire drafted by the investment advisor, the Committee are invited to consider their views these statements as well as offering any of their own.

4 IMPLICATIONS FOR THE PENSION FUND COMMITTEE

4.1 The ISS presented, sets out the requirements of the MHCLG legislation in regards to the City of Westminster 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.

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

Billie Emery bemery@westminster.gov.uk

BACKGROUND PAPERS:

None.

APPENDICES:

Appendix 1 – Investment Strategy Statement

Appendix 2 – Investment Beliefs Questionnaire

City of Westminster Pension Fund Investment Strategy Statement 2020/21

1. Introduction

1.1 This is the Investment Strategy Statement (ISS) adopted by the City of Westminster Pension Fund ("the Fund"), which is administered by Westminster City Council ("the Administering Authority").

Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the Fund is required to publish this ISS. 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) A requirement to invest fund money in a wide range of instruments;
b) The authority's assessment of the suitability of particular investments and types of investment;
c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
d) The authority's approach to pooling investments, including the use of collective investment vehicles;
e) 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; and
f) The authority's policy on the exercise of rights (including voting rights) attaching to 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 and guarantors of other scheme employers, 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 Executive Director of Finance and Resources 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.

2.3 This approach to diversification has seen the fund dividing its assets into four broad categories global equities, Fixed Income, Property and Alternatives. The size of the assets invested in each category will vary depending on investment conditions, the strategic asset allocation can be found within appendix E. However, it is important to note that each category is itself diversified. A consequence of this approach is that the Fund's assets are invested in a wide range of instruments.

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 seeks to ensure that their investment decisions, including those involving diversification, are the best long-term interest of Fund beneficiaries and seeks appropriate advice from investment advisors.

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.

3.4 The policy on asset allocation is compatible with achieving the locally determined solvency target.

3.5 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.

3.6 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 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 liabilities, 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 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.

4.11 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.

4.12 The Fund targets a long-term return 4.8% as aligned with the latest triennial valuation from the Actuary. The investment strategy is considered to have a low degree of volatility.

4.13 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. In addition to this the risk registers are updated on a quarterly basis, appendix F.

4.14 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 Funds approach to pooling arrangements meet the criteria set out in the Local government pension scheme: investment reform criteria and guidance.

5.3 The Fund joined the London Collective Investment Vehicle (CIV) as part of the Government's pooling agenda. The London CIV was launched in December 2015 by the 32 local authorities within London and has circa £18bn of assets under management, including £8bn under direct management, with 14 funds launched as of 2019/20.

5.4 The Fund has transitioned assets into the London CIV with a value of £414m or 27% as at the 31 December 2019. Going forward the Fund 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.

5.5 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 appropriate sub-funds to meet the Fund's investment strategy requirements.

5.6 The Fund holds 43% or £661m 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 £379m or 25% of the Fund within investment assets including property, bonds and infrastructure, and these will remain outside of the London CIV pool. A further £72m or 5% held with a global equity manager is due to be transitioned in to global infrastructure as the fund draws down. 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.

5.8 The table below details the investment funds held by the Pension Fund and indicates whether this mandate is available on the LCIV platform and how much had been transferred as at 31 December 2019.

City of Westminster Fund	Available on the CIV	Transferred to CIV
Listed Equities		
Passive Equities: LGIM	Yes	£645m
Global: Baillie Gifford	Yes	£322m
Global: Longview	Yes	
Cash		
In-house	No	
Fixed Income		
Multi Asset Credit: CQS	Yes	£94m
Global Bonds: Insight	No	
Infrastructure		
Infrastructure: Pantheon	No	
Property		
Property: Hermes	No	
Property: Aberdeen Standard	No	

5.9 The Committee are aware that certain 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.

5.10 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.

5.11 The London CIV is an FCA authorised company established by the London Local Authorities (LLAs) to provide a collaborative vehicle for pooling LGPS pension fund assets. London CIV shareholders approved a new Corporate Governance and Controls framework at the July 2018 Annual General Meeting (AGM). This framework details the governance arrangements for approving the London CIV's annual budget, business plan and objectives, governance structures and appointments, shareholder agreement and transparency of information and reporting. It was agreed to review the framework after one year of operation which provides an opportunity to assess how it can be improved further, in particular to improve its effectiveness in achieving collaboration and an effective working relation between London CIV and its 32 shareholders collectively.

5.12 The London CIV Company Board comprises of an independent Chairman, 7 non-executive Directors (NEDs), including 2 nominated by the LLAs, 3 executive Directors and the LCIV Treasurer. The Board has a duty to act in the best interests of the shareholders and has collective responsibility for:

- Strategy and Oversight
- Budget &forward plan
- Reviews performance
- Major contracts and significant decisions including in relation to funds
- Financial reporting & controls
- Compliance, risk and internal controls
- Key policies
- Governance

5.13 The London CIV has four Committees, responsible for investment oversight, audit and risk, remuneration and nominations and day to day operations of the company. These comprise of executive and non-executive members.

The role of the Investment Oversight Committee is to:

- determine, maintain and monitor the Company's investment strategy, investment performance and performance risks of the portfolios in accordance with the Company strategy and business plan.

The responsibilities of the Compliance, Audit & Risk Committee include:

- oversee compliance obligations;
- risk management framework; and
- integrity of financial statements and reporting

The responsibilities of the Remuneration & Nomination Committee include:

- remuneration policy;
- remuneration of key staff; and
- nominations and succession planning of key staff and Board members.

The Executive Directors acting collectively as the Executive Committee have a number of specific delegated responsibilities for the day-to-day operations of the company, supported by the wider executive leadership team. The role of the Executive Committee in summary is to:

- execute board-approved strategic objectives and business plan in line with risk appetite and financial limits;
- identify, discuss, and formulate effective solutions to address issues and opportunities facing the Company;
- ensure the day-to-day operations meet relevant legal requirements and compliance obligations of the Company; and
- ensure the Board & Board Committee members receive timely, accurate and transparent management information & reporting to fulfil their duties & responsibilities.

5.14 The London CIV Shareholder Committee is responsible for scrutinising the actions of the Board, reporting and transparency, consultation on the strategy and business plan, matters reserved to shareholders, responsible investment and emerging issues. The Committee meets on a quarterly basis and comprises of 12 members including Councillors and Treasurers from the LLAs.

5.15 The London CIV hosts an AGM on a semi-annual basis, to which all 32 members are invited. This allows members the opportunity to exercise shareholder power, approve the annual budget and hold the Board to account.

5.16 External independent oversight and assurance of the pool company is provided the FCA, depositary, external auditors and the MHCLG.

5.17 More information on the London CIV and its operation is included in Appendix C 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 carbon exposure was undertaken by TruCost during September 2019, whereby the Fund's equity and property portfolio carbon footprints were mapped. Following this, a responsible investment (RI) policy and ESG policy was drafted for the Fund to be adopted by the Committee for 2020/21. The RI Policy outlines the approach to the management of Environmental, Social and Governance (ESG) issues within the investment portfolio and can be fund within appendix D.

The Present ESG Policy

Introduction

6.2 The City of Westminster (WCC) Pension Fund (the Pension Fund) is committed to being a responsible investor and a long-term steward of the assets in which it invests. The Fund has a fiduciary duty to act in the best interests

of its beneficiaries and this extends to making a positive contribution to the long-term sustainability of the global environment.

6.3 The Pension Fund recognises that the neglect of corporate social responsibility and poor attention paid to environmental, social and governance (ESG) issues may lead to poor or reduced shareholder returns. This presents a significant responsibility for the Pension Fund Committee (the Committee). The ESG approach has become integral to the Fund's overall investment strategy.

6.4 The Fund maintains a policy of non-interference with the day-to-day decision making of the investment managers. The Committee believes that this is the most efficient approach whilst ensuring the implementation of policy by each manager is consistent with current best practice and the appropriate disclosure and reporting of actions.

6.5 There are a wide range of ESG issues, with none greater currently than climate change and carbon reduction. The Pension Fund recognises climate change as the biggest threat to global sustainability alongside its administering authority employer, Westminster City Council, which has committed itself to achieving carbon neutrality by 2030.

6.6 Members of the Pension Fund place their trust in the Pension Fund Committee who hold a fiduciary duty to act in the members' best interests and ensure that their pension benefits are fully honoured in retirement. That is why, as well as targeting investment returns that match the pension liabilities, the Committee is committed to managing the investment risks: the risks that pose a substantial threat to LGPS members' long-term future.

6.7 The Pension Fund's revised investment strategy should be governed by the following investment principles, which are set out below

6.8 Investment Principles

- The Pension Fund as a long-term investor, is committed to **investing to build a better future** through the integration of ESG issues at all stages of the investment decision-making process.

- Through active ownership, the Pension Fund **engages with the investment community** to help ensure a sustainable future for all its stakeholders. This includes demanding best practice amongst its investment managers and challenging their investment outcomes where appropriate.

- The Pension Fund recognises that significant value can be achieved through **collaboration with other stakeholders**. The Pension Fund will work closely with its LGPS pool company (the London CIV), other LGPS funds and member groups such as the Local Authority Pension Fund Forum (LAPFF) to ensure corporate interests are aligned with the Pension Fund's values.

- The Pension Fund wants to **make members proud** of the governance process and the way in which in the Fund is invested on their behalf. It is important for the Pension Fund to be completely transparent and accountable to members and stakeholders.

6.9 Policy Implementation: investing to build a better future

The Pension Fund will continue to assess investment opportunities that have a positive impact on society as whole. These include but are not limited to, investments in fixed income (green bonds), property, low carbon assets, renewables and social impact opportunities. The Fund currently has a 5% allocation to global infrastructure, where the asset manager has the freedom to invest within renewables if a suitable venture presents itself.

The Pension Fund views engagement with companies as an essential activity and encourages companies to take position action towards reversing climate change. The Westminster Pension Fund is a responsible owner of companies and cannot exert that positive influence if it has completely divested from carbon intensive producing companies. The Pension Fund will continue to encourage positive change whilst officers will continue to engage

with the investment managers on an ongoing basis to monitor overall investment performance, including carbon and other ESG considerations.

6.10 Policy Implementation: engaging with investment community

Institutional investors have the power to influence and change behaviour globally. The WCC Pension Fund believes that there is significant value in being able to actively engage with the companies we invest in and be part of the transition to a global, low carbon economy.

The Fund expects managers to integrate ESG factors into investment analysis and decision making. Monitoring these effectively can assist with resolving issues at early stages through effective engagement with companies and board members. The Fund expects asset managers where possible to engage and collaborate with other institutional investors, as permitted by relevant legal codes to ensure the greatest impact.

The measurement of ESG performance is still developing and benefitting from significant improvements. There are several performance benchmarks and disclosure frameworks that exist to measure the different aspects of available ESG data which include carbon emissions and a variety of social impact scores.

- The Pension Fund carries out a carbon footprint exercise on its separate portfolios annually via a specialist firm. The outcome of this measurement exercise will be instrumental in ensuring that the fund is able to meet its decarbonisation goals through effective asset allocation.

- The Pension Fund will continue to work closely with its investment managers to measure the carbon impact of its investments. This will involve developing internal metrics and agreed targets which will be reviewed on a regular basis.

Increasingly, there is growing interest in the investment community to develop investment strategies that focus on sustainable investments. As well as the wider investment community, the Pension Fund will support and contribute to the work carried out by the London CIV in the development of sustainable investments.

6.11 Policy Implementation: collaboration with other stakeholders

The introduction of pooling across the Local Government Pension Scheme (LGPS) will impact how the Pension Fund's responsible investment policy is implemented. The WCC fund is committed to playing a key role as part of the LGPS London CIV pool, with circa 70% of assets pooled.

As asset owners, the Pension Fund, in line with its investment strategy, is responsible for deciding how its assets are invested through its strategic asset allocation. In addition to engaging with the investment community, the Pension Fund will continue to work closely with other UK and London LGPS funds to find common solutions for ESG issues.

As more funds are onboarded into the London CIV, the Pension Fund expects to further increase its investment in the pool. This is expected to create economies of scale and increased synergies for the Pension Fund through a significant reduction in management fees and greater influence when engaging with external stakeholders. The London CIV will manage the Pension Fund's investments in line with the Fund's strategic objectives and those of the other London LGPS Funds.

The Pension Fund actively contributes to the engagement efforts of pressure groups, such as the Local Authority Pension Fund Forum (LAPFF) and requires investment managers to vote in accordance with the LAPPF's governance policies. In exceptional cases, investment managers will be required to explain their reason for not doing so, preferably in advance of the AGM. This will be monitored on a regular basis.

6.12 Policy Implementation: making our members proud

WCC's LGPS members have spent at least part of their careers helping to deliver key services to their community. It is important for them to understand how their Pension Fund is managed and the contribution its investments

make in securing a sustainable future. Members are encouraged to take an active interest in the governance processes of their Pension Fund and their views are represented within the work of the Local Pension Board.

The Pension Fund will aim to provide members with a variety of information which allows them to easily understand the types of investments within the portfolio.

The Pension Fund reports on its overall performance annually through an annual report which is readily accessible to members on the fund's website.

Data within the annual report will include investment performance, an assessment of the key performance indicators (KPIs) of the Fund's administrative function and the Fund's assessment of its many risks.

The Pension Fund hosts an annual general meeting (AGM), following the end of the financial year, which all members and key stakeholders are invited to attend. This includes updates on the administration service, investment performance from our investment advisor, as well as a market update from an asset manager and a presentation from our actuary.

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. 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.

7.2 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.

7.3 In addition the Fund:

- Is a member of the Pension and Lifetime Savings Association (PLSA) and Local Authority Pension Fund Forum (LAPFF) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners; and
- Joins wider lobbying activities where appropriate opportunities arise.

7.4 Ongoing voting and engagement is covered with the Funds Responsible Investment Policy (Appendix D).

7.5 The Committee expects any directly appointed asset managers and the pool company (London CIV) to comply with the Stewardship Code (2020) and this is monitored on an annual basis. See appendix B and C for further details on the Funds approach to stewardship.

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:

Tri-Borough Treasury and Pensions Team
PensionFund@westminster.gov.uk

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. Hopwood 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 asset allocation is outlined in appendix E.

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 Deloitte, 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.

In order to comply with the CMA investment consultancy and Fiduciary Management Market Investigation Order 2019, The Fund's investment advisors are measured annually against an agreed set of criteria which was agreed by Committee at the 23 October 2019 meeting.

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 Responsible Investment (RI) Policy (Appendix D). 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 RI Policy (Appendix D).

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 2020 by the Financial Reporting Council (FRC) 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 Committee has not formally adopted the latest version of the Stewardship code, however expects any directly appointed fund managers and the pool company (London CIV) to comply and this is monitored on an annual basis.

Investment Strategy Statement: Appendix C

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

Responsible Investment Policy: Appendix D

Introduction

1.1. Responsible Investment is defined by the United Nation's 'Principles for Responsible Investment' document as an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and to generate sustainable, long term returns. The Pension Fund's approach to responsible investment is aligned with the Fund's investment beliefs and recognises ESG factors as central themes in measuring the sustainability and impact of its investments.

1.2. Failure to appropriately manage ESG factors is considered to be a key risk for the Pension Fund as this can have an adverse impact on the Fund's overall investment performance, which ultimately affects the scheme members, employers and local council tax payers.

1.3. The United Nations has established 17 Sustainable Development Goals (SDGs) as a blueprint to achieving a better and more sustainable future for all. These goals aim to address the challenges of tackling climate change, supporting industry, innovation and infrastructure, and investing in companies that are focused on playing a key role in building that sustainable future.

1.4. The Pension Fund acknowledges that these goals form a vital part of acting as a responsible investor alongside its administering authority employer, Westminster City Council, with the Council having recently committed itself to achieving carbon neutrality by the year 2030.

1.5. The Pension Fund maintains a policy of engagement with all its stakeholders, including those operating in the investment industry. It is broadly recognised that, in the foreseeable future, the global economy will transition from its reliance on fossil fuels to the widespread adoption of renewable energy as its main source. The impact of this transition on the sustainability of investment returns will be continually assessed by officers, advisors and investment managers.

1.6. The Pension Fund Committee is committed to playing an active role in the transition to a sustainable economic and societal environment. To that extent, the Pension Fund will continue to seek investments that match its pensions liability profile, whilst having a positive impact on overall society. Greater impact can be achieved through active ownership and lobbying for global companies to change and utilise their resources sustainably.

1.7. Notwithstanding these noble objectives, it is important to note that the Pension Fund Committee has a vital, fiduciary duty to act in the best interests of the LGPS beneficiaries to ensure that their pension benefits are honoured in retirement.

Policy Implementation: Selection Process

1.8. The Pension Fund Committee delegates the individual investment selection decisions to its investment managers. To that extent, the Pension Fund maintains a policy of non-interference with the day-to-day decision-making processes of the investment managers. However, as part of its investment manager appointment process, the Pension Fund Committee assesses the investment managers' abilities to integrate ESG factors into their investment selection processes.

1.9. This includes, but is not limited to:

a. evidence of the existence of a Responsible Investment policy;
b. evidence of ESG integration in the investment process;
c. evidence of sign-up to the relevant responsible investment frameworks such as the United Nations Principles for Responsible Investment (PRI);
d. evidence of compliance with the Stewardship Code as published by the Financial Reporting Council (FRC);
e. a track record of actively engaging with global companies and stakeholders to influence best practice;
f. an ability to appropriately disclose, measure and report on the overall impact of ESG decisions made.

1.10. As part of its investment selection process, the Pension Fund Committee will obtain proper advice from the Fund's internal and external advisors with the requisite knowledge and skills. Our investment advisor will assess ESG considerations as part of its due diligence process and assess investment managers against the following criteria:

a. for active managers, the advisor will assess how ESG issues are integrated into investment selection, divestment and retention decisions;
b. for passive managers, the investment advisor places less focus on ESG issues in the investment selection process, and considers ESG issues in its responsible investment policy and if the manager engages with global companies and stakeholders where appropriate;
c. consideration of whether managers are making most effective use of voting rights and if votes are exercised in a manner consistent with ESG considerations specified by the manager;
d. how significantly managers value ESG issues and whether any specialist teams and resources are dedicated to this area; and
e. how ESG risk assessment is integrated into the portfolio investment selection process and the value and effectiveness of these assessments.

1.11. Investment managers are expected to follow best practice and use their influence as major institutional investors and long-term stewards of capital to promote best practice in the companies/projects in which they invest. Investable companies will be expected to comply with all applicable laws and regulations in their respective markets as a minimum.

Policy Implementation: Ongoing Engagement and Voting

1.12. Whilst it is still quite difficult to quantify the impact of the less tangible non-financial factors on the economic performance of an organisation, this is an area that continues to see significant improvement in the measurement of benchmarking and organisational progress. Several benchmarks and disclosure frameworks exist to measure the different aspects of available ESG data which include carbon

emissions, diversity on company boards and social impact. It is apparent that poor scoring on these ESG factors can have an adverse impact on an organisation's financial performance. It is therefore important for the appointed investment managers to effectively assess the impact such factors may have on the underlying investment performance.

1.13. The Pension Fund views active engagement as an essential activity in ensuring long-term value and encourages investment managers to consider assessing a range of factors, such as the company's historical financial performance, governance structures, risk management approach, the degree to which strategic objectives have been met and environmental, governance and social issues.

1.14. Pension Fund officers will continue to engage with the investment managers on an ongoing basis to monitor overall investment performance, including ESG considerations. This can be implemented in several forms which include, but are not limited to:

a. Regular meetings with investment managers to assess investment performance and the progress made towards achieving ESG targets;
b. reviewing reports issued by investment managers and challenging performance where appropriate;
c. working with investment managers to establish appropriate ESG reporting and disclosures in line with the Pension Fund's objectives;
d. contributing to various working groups that seek to positively influence the reporting of industry standards on ESG metrics;
e. actively contributing to the efforts of engagement groups such as the Local Authority Pension Fund Forum (LAPFF), of which the fund is a member (currently 83 LGPS member funds).

1.15. The Pension Fund holds units in pooled equity funds, where our asset managers will have the opportunity to vote at company meetings on our behalf. Engagement with companies can have a direct impact on voting choices and fund manager voting and engagement reports are reviewed on a regular basis.

1.16. The Fund will continue to collaborate with the London CIV on maintaining a shared voting policy for the equity managers on the LCIV platform and actively seek to align these policies with manager insights. Lobbying with other LCIV clients will give the Pension Fund greater control and impact over our voting choices and a centralised process will ensure our voting remains consistent and has the greatest impact.

1.17. The Pension Fund's officers will work closely with the LCIV pool, through which the Pension Fund will increasingly invest, in developing and monitoring its internal frameworks and policies on all ESG issues which could present a material financial risk to the long-term performance of the fund. This will include the LCIV's ESG frameworks and policies for investment analysis, decision making and responsible investment.

1.18. In preparing and reviewing its Investment Strategy Statement, the Pension Fund will consult with interested stakeholders including, but not limited to:

a. Pension Fund employers;
b. Local Pension Board;
c. advisors/consultants to the fund;
d. investment managers.

Policy Implementation: Training

1.19. The Pension Fund Committee and the Fund's officers will receive regular training on ESG issues and responsible investment. A review of training requirements and needs will be carried out at least once

on annual basis. Training is intended to cover the latest updates in legislation and regulations, as well as best practice with regards to ESG integration into the pension fund's investment process.

Strategic Asset Allocation: Appendix E

The below table sets out the Fund's strategic asset allocation along with review range which would trigger a rebalancing exercise.

Strategic Asset Allocation	Target (%)	Review Range
Listed Equities	**55.0%**	**+/-3.0%**
Passive Equities	18.3%	
Global - Active	36.7%	
Cash	**0.0%**	**+/-0.0%**
Cash	0.0%	
Fixed Income	**25.0%**	**+/-2.5%**
Global Bonds	13.5%	
Multi Asset Credit	6.5%	
Direct Lending	5.0%	
Alternatives	**10.0%**	**+/-1.0%**
Infrastructure	5.0%	
Renewable Infrastructure	5.0%	
Property	**10.0%**	**+/-1.0%**
Commercial Property	5.0%	
Residential Property	5.0%	
Total	**100.0%**	

Investment Strategy Statement: Appendix F – Investment & Administration Risk Register

To be included in final version, please see FFM report for latest risk registers.

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City of Westminster Pension Fund

Investment Beliefs

January 2020

Investment Beliefs

This pack has been prepared for the City of Westminster Pension Fund Committee ("the Committee"). The purpose of this paper is to help establish the investment beliefs of the Committee, ahead of the meeting on Thursday 23 January 2020. As part of the consideration of the suitability of the investment strategy, we have included a number of possible investment beliefs and we invite the Committee to consider their views on these statements, as well as offering any of their own.

When considering the Committee's beliefs, it is useful to consider the following six objectives in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. This is incorporated into the Investment Strategy Statement for the City of Westminster Pension Fund and states that the authority's investment strategy must include:

1. A requirement to invest fund money in a wide range of investments
2. The authority's assessment of the suitability of particular investments and types of investment
3. The authority's approach to risk, including the ways in which risks are to be measured and managed
4. The authority's approach to pooling investments, including use of collective investment vehicles
5. 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
6. The authority's policy on the exercise of rights (including voting rights) attaching to investments

Investment Beliefs

We have included a number of possible **investment beliefs** and we invite the Committee to consider their views on these statements, as well as offering any of their own.

Investment belief	Strongly agree	Agree	Don't know	Disagree	Strongly disagree
Fund Governance					
1. Clearly articulating investment goals and objectives improves accountability and helps with monitoring the Fund.					
2. Investment strategy should be determined by reference to liabilities, objectives, sponsor covenant and risk tolerances.					
3. The costs of investing need to be managed effectively, but the Committee would be prepared to pay for management and services if the costs incurred are likely to be justified by the benefits.					
4. The Committee should be innovative and demonstrate thought leadership within its agreed terms of reference.					
Risk & Return					
5. Asset allocation is the key factor in determining the overall risk and return of the Fund.					
6. Benchmarks should be used to measure performance and not drive or dictate behaviour.					
7. Markets are dynamic and opportunities will arise from time to time, allowing profits to be taken and unexpected gains realised.					
8. Investment risks are multi-faceted and will change over time.					

Investment Beliefs

Investment belief	Strongly agree	Agree	Don't know	Disagree	Strongly disagree
Investment Strategy					
9. It is important to take a long term perspective when considering the Fund's investment strategy.					
10. Investors should be rewarded for giving up liquidity.					
11. Active management can deliver superior risk adjusted returns over time on a net of fees basis.					
12. It is important to invest in a way that generates sufficient income to meet cashflow requirements.					
Environmental, social and governance (ESG)					
13. Good environmental, social and governance practices in companies leads to better performance in the longer term.					
14. I would only adopt ESG where I believed it made a positive financial difference.					
15. Tilting the Fund's exposure away from companies/sectors more "at risk" to climate change would reduce risk and still provide the required expected return.					
16. Environmental considerations should form a part of the decision making process of the Fund's investment managers.					

Investment Beliefs

Investment belief	Strongly agree	Agree	Don't know	Disagree	Strongly disagree
Environmental, social and governance (ESG), continued					
17. Our members would want the Fund's investment managers to consider the social impact of their investment policy.					
18. I would be willing to change investment manager if they were failing to adequately consider ESG factors.					
19. ESG should only be considered as a matter of compliance with legislation.					
20. Investment managers can add value by engaging with the companies in which they invest.					

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**23 January 2020**
Classification:	**General Release**
Title:	**Pension Fund's Proposed Responsible Investment Policy and Update to the Environmental, Social and Governance (ESG) Policy**
Wards Affected:	**None**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no immediate financial implications arising from this report.**
Report of:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1 Executive Summary

1.1 This paper provides the Pensions Fund Committee with the following:

- A newly proposed initial draft of the Pension Fund's Responsible Investment Policy.
- A suggested update of the Pension Fund's Environmental, Social and Governance (ESG) Policy. This suggested section is currently included (necessary by Regulation) as a separate section within the Pension Fund's Investment Strategy Statement.

2 Recommendation

1.2 The Committee is requested to note and comment on the report with a view to enabling officers to formalise and finalise the ESG related policies and statements.

3 Reasons for Decision

3.1 The update to the ESG Policy is to be included as part of the update to the Investment Strategy Statement, a full redraft of which has been brought to the Committee.

3.2 The Responsible Investment Statement will be a stand-alone policy document which aims to make clear the Pension Fund's investment values and will be subject to regular ongoing review.

4 Background

4.1 The updated ESG policy can be found within appendix 1 as well as section 6 of the draft Investment Strategy Statement (ISS). The policy takes in to consideration the Fund's approach to ESG factors, including investment principles and policy implementation.

4.2 With regard to responsible investment, it is proposed that the Committee approve its own Responsible Investment policy document, set out in appendix 2. The purpose of this policy document is to lay out the fund's approach to how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

4.3 These policies have been prepared with reference to the Local Government Scheme Advisory Board (SAB) guidance, Responsible Investment in the Local Government Pension Scheme.

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

Billie Emery bemery@westminster.gov.uk

BACKGROUND PAPERS: None

APPENDICES:
Appendix 1 Environmental, Social and Governance Policy
Appendix 2 Responsible Investment Policy

CITY OF WESTMINSTER PENSION FUND ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) POLICY WITHIN THE INVESTMENT STRATEGY STATEMENT

1. Introduction

1.1. The City of Westminster (WCC) Pension Fund (the Pension Fund) is committed to being a responsible investor and a long-term steward of the assets in which it invests. The Fund has a fiduciary duty to act in the best interests of its beneficiaries and this extends to making a positive contribution to the long-term sustainability of the global environment.

1.2. The Pension Fund recognises that the neglect of corporate social responsibility and poor attention paid to environmental, social and governance (ESG) issues may lead to poor or reduced shareholder returns. This presents a significant responsibility for the Pension Fund Committee (the Committee). The ESG approach has become integral to the Fund's overall investment strategy.

1.3. The Fund maintains a policy of non-interference with the day-to-day decision making of the investment managers. The Committee believes that this is the most efficient approach whilst ensuring the implementation of policy by each manager is consistent with current best practice and the appropriate disclosure and reporting of actions.

1.4. There are a wide range of ESG issues, with none greater currently than climate change and carbon reduction. The Pension Fund recognises climate change as the biggest threat to global sustainability alongside its administering authority employer, Westminster City Council, which has committed itself to achieving carbon neutrality by 2030.

1.5. Members of the Pension Fund place their trust in the Pension Fund Committee who hold a fiduciary duty to act in the members' best interests and ensure that their pension benefits are fully honoured in retirement. That is why, as well as targeting investment returns that match the pension liabilities, the Committee is committed to managing the investment risks: the risks that pose a substantial threat to LGPS members' long-term future.

1.6. The Pension Fund's revised investment strategy should be governed by the following investment principles, which are set out below:

Suggested Investment Principles

- The Pension Fund as a long-term investor, is committed to **investing to build a better future** through the integration of ESG issues at all stages of the investment decision-making process.

- Through active ownership, the Pension Fund **engages with the investment community** to help ensure a sustainable future for all its stakeholders. This includes demanding best practice amongst its

investment managers and challenging investment outcomes where appropriate.

- The Pension Fund recognises that significant value can be achieved through **collaboration with other stakeholders**. The Pension Fund will work closely with its LGPS pool company (the London CIV), other LGPS funds and member groups such as the Local Authority Pension Fund Forum (LAPFF) to ensure corporate interests are aligned with the Pension Fund's values.

- The Pension Fund wants to **make members proud** of its governance process and the way in which in the Fund is invested on their behalf. It is important for the Pension Fund to be completely transparent and accountable to its members and stakeholders.

Policy Implementation: investing to build a better future

1.7. The Pension Fund will continue to assess investment opportunities that have a positive impact on society as whole. These include but are not limited to, investments in fixed income (green bonds), property, low carbon assets, renewables and social impact opportunities. The Fund currently has a 5% allocation to global infrastructure, where the asset manager has the freedom to invest within renewables if a suitable venture presents itself.

1.8. The Pension Fund views engagement with companies as an essential activity and encourages companies to take position action towards reversing climate change. The Westminster Pension Fund is a responsible owner of companies and cannot exert that positive influence if it has completely divested from carbon intensive producing companies. The Pension Fund will continue to encourage positive change whilst officers will continue to engage with the investment managers on an ongoing basis to monitor overall investment performance, including carbon and other ESG considerations.

Policy Implementation: engaging with investment community

1.9. Institutional investors have the power to influence and change behaviour globally. The WCC Pension Fund believes that there is significant value in being able to actively engage with the companies we invest in and be part of the transition to a global, low carbon economy.

1.10. The Fund expects managers to integrate ESG factors into investment analysis and decision making. Monitoring these effectively can assist with resolving issues at early stages through effective engagement with companies and board members. The Fund expects asset managers where possible to engage and collaborate with other institutional investors, as permitted by relevant legal codes to ensure the greatest impact.

1.11. The measurement of ESG performance is still developing and benefitting from significant improvements. There are several performance benchmarks and

disclosure frameworks that exist to measure the different aspects of available ESG data which include carbon emissions and a variety of social impact scores.

- The Pension Fund carries out a carbon footprint exercise on its separate portfolios annually via a specialist measurement consultant. The outcome of this measurement exercise will be instrumental in ensuring that the fund is able to meet its decarbonisation goals through effective asset allocation.

- The Pension Fund will continue to work closely with its investment managers to measure the carbon impact of its investments. This will involve developing internal metrics and agreed targets which will be reviewed on a regular basis.

1.12. Increasingly, there is growing interest in the investment community to develop investment strategies that focus on sustainable investments. As well as the wider investment community, the Pension Fund will support and contribute to the work carried out by the London CIV in the development of sustainable investments.

Policy Implementation: collaboration with other stakeholders

1.13. The introduction of pooling across the Local Government Pension Scheme (LGPS) will impact how the Pension Fund's responsible investment policy is implemented. The WCC fund is committed to playing a key role as part of the LGPS London CIV pool, with circa 70% of assets pooled.

1.14. As asset owners, the Pension Fund, in line with its investment strategy, is responsible for deciding how its assets are invested through its strategic asset allocation. In addition to engaging with the investment community, the Pension Fund will continue to work closely with other UK and London LGPS funds to find common solutions for ESG issues.

1.15. As more funds are onboarded into the London CIV, the Pension Fund expects to further increase its investment in the pool. This is expected to create economies of scale and increased synergies for the Pension Fund through a significant reduction in management fees and greater influence when engaging with external stakeholders. The London CIV will manage the Pension Fund's investments in line with the Fund's strategic objectives and those of the other London LGPS Funds.

1.16. The Pension Fund actively contributes to the engagement efforts of pressure groups, such as the Local Authority Pension Fund Forum (LAPFF) and requires investment managers to vote in accordance with the LAPPF's governance policies. In exceptional cases, investment managers will be required to explain their reason for not doing so, preferably in advance of the AGM. This will be monitored on a regular basis.

Policy Implementation: making our members proud

1.17. WCC's LGPS members have spent at least part of their careers helping to deliver key services to their community. It is important for them to understand how their Pension Fund is managed and the contribution its investments make in securing a sustainable future. Members are encouraged to take an active interest in the governance processes of their Pension Fund and their views are represented within the work of the Local Pension Board.

1.18. The Pension Fund will aim to provide members with a variety of information which allows them to easily understand the types of investments within the portfolio.

1.19. The Pension Fund reports on its overall performance annually through an annual report which is readily accessible to members on the fund's website.

1.20. Data within the annual report will include investment performance, an assessment of the key performance indicators (KPIs) of the Fund's administrative function and the Fund's assessment of its many risks.

1.21. The Pension Fund hosts an annual general meeting (AGM), following the end of the financial year, which all members and key stakeholders are invited to attend. This includes updates on the administration service, investment performance from our investment advisor, as well as a market update from an asset manager and a presentation from our actuary.

Responsible Investment Policy

1.1. Responsible Investment is defined by the United Nation's 'Principles for Responsible Investment' document as an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and to generate sustainable, long term returns. The Pension Fund's approach to responsible investment is aligned with the Fund's investment beliefs and recognises ESG factors as central themes in measuring the sustainability and impact of its investments.

1.2. Failure to appropriately manage ESG factors is considered to be a key risk for the Pension Fund as this can have an adverse impact on the Fund's overall investment performance, which ultimately affects the scheme members, employers and local council tax payers.

1.3. The United Nations has established 17 Sustainable Development Goals (SDGs) as a blueprint to achieving a better and more sustainable future for all. These goals aim to address the challenges of tackling climate change, supporting industry, innovation and infrastructure, and investing in companies that are focused on playing a key role in building that sustainable future.

1.4. The Pension Fund acknowledges that these goals form a vital part of acting as a responsible investor alongside its administering authority employer, Westminster City Council, with the Council having recently committed itself to achieving carbon neutrality by the year 2030.

1.5. The Pension Fund maintains a policy of engagement with all its stakeholders, including those operating in the investment industry. It is broadly recognised that, in the foreseeable future, the global economy will transition from its reliance on fossil fuels to the widespread adoption of renewable energy as its main source. The impact of this transition on the sustainability of investment returns will be continually assessed by officers, advisors and investment managers.

1.6. The Pension Fund Committee is committed to playing an active role in the transition to a sustainable economic and societal environment. To that extent, the Pension Fund will continue to seek investments that match its pensions liability profile, whilst having a positive impact on overall society. Greater impact can be achieved through active ownership and lobbying for global companies to change and utilise their resources sustainably.

1.7. Notwithstanding these noble objectives, it is important to note that the Pension Fund Committee has a vital, fiduciary duty to act in the best interests of the LGPS beneficiaries to ensure that their pension benefits are honoured in retirement.

Policy Implementation: Selection Process

1.8. The Pension Fund Committee delegates the individual investment selection decisions to its investment managers. To that extent, the Pension Fund

maintains a policy of non-interference with the day-to-day decision-making processes of the investment managers. However, as part of its investment manager appointment process, the Pension Fund Committee assesses the investment managers' abilities to integrate ESG factors into their investment selection processes.

1.9. This includes, but is not limited to:

a. evidence of the existence of a Responsible Investment policy;
b. evidence of ESG integration in the investment process;
c. evidence of sign-up to the relevant responsible investment frameworks such as the United Nations Principles for Responsible Investment (PRI);
d. evidence of compliance with the Stewardship Code as published by the Financial Reporting Council (FRC);
e. a track record of actively engaging with global companies and stakeholders to influence best practice;
f. an ability to appropriately disclose, measure and report on the overall impact of ESG decisions made.

1.10. As part of its investment selection process, the Pension Fund Committee will obtain proper advice from the Fund's internal and external advisors with the requisite knowledge and skills. Our investment advisor will assess ESG considerations as part of its due diligence process and assess investment managers against the following criteria:

a. for active managers, the advisor will assess how ESG issues are integrated into investment selection, divestment and retention decisions;
b. for passive managers, the investment advisor places less focus on ESG issues in the investment selection process, and considers ESG issues in its responsible investment policy and if the manager engages with global companies and stakeholders where appropriate;
c. consideration of whether managers are making most effective use of voting rights and if votes are exercised in a manner consistent with ESG considerations specified by the manager;
d. how significantly managers value ESG issues and whether any specialist teams and resources are dedicated to this area; and
e. how ESG risk assessment is integrated into the portfolio investment selection process and the value and effectiveness of these assessments.

1.11. Investment managers are expected to follow best practice and use their influence as major institutional investors and long-term stewards of capital to promote best practice in the companies/projects in which they invest. Investable companies will be expected to comply with all applicable laws and regulations in their respective markets as a minimum.

Policy Implementation: Ongoing Engagement and Voting

1.12. Whilst it is still quite difficult to quantify the impact of the less tangible non-financial factors on the economic performance of an organisation, this is an area that continues to see significant improvement in the measurement of benchmarking and organisational progress. Several benchmarks and disclosure frameworks exist to measure the different aspects of available ESG data which include carbon emissions, diversity on company boards and social impact. It is apparent that poor scoring on these ESG factors can have an adverse impact on an organisation's financial performance. It is therefore important for the appointed investment managers to effectively assess the impact such factors may have on the underlying investment performance.

1.13. The Pension Fund views active engagement as an essential activity in ensuring long-term value and encourages investment managers to consider assessing a range of factors, such as the company's historical financial performance, governance structures, risk management approach, the degree to which strategic objectives have been met and environmental, governance and social issues.

1.14. Pension Fund officers will continue to engage with the investment managers on an ongoing basis to monitor overall investment performance, including ESG considerations. This can be implemented in several forms which include, but are not limited to:

a. Regular meetings with investment managers to assess investment performance and the progress made towards achieving ESG targets;
b. reviewing reports issued by investment managers and challenging performance where appropriate;
c. working with investment managers to establish appropriate ESG reporting and disclosures in line with the Pension Fund's objectives;
d. contributing to various working groups that seek to positively influence the reporting of industry standards on ESG metrics;
e. actively contributing to the efforts of engagement groups such as the Local Authority Pension Fund Forum (LAPFF), of which the fund is a member (currently 83 LGPS member funds).

1.15. The Pension Fund holds units in pooled equity funds, where our asset managers will have the opportunity to vote at company meetings on our behalf. Engagement with companies can have a direct impact on voting choices and fund manager voting and engagement reports are reviewed on a regular basis.

1.16. The Fund will continue to collaborate with the London CIV on maintaining a shared voting policy for the equity managers on the LCIV platform and actively seek to align these policies with manager insights. Lobbying with other LCIV clients will give the Pension Fund greater control and impact over our voting choices and a centralised process will ensure our voting remains consistent and has the greatest impact.

1.17. The Pension Fund's officers will work closely with the LCIV pool, through which the Pension Fund will increasingly invest, in developing and monitoring its internal frameworks and policies on all ESG issues which could present a material financial risk to the long-term performance of the fund. This will include the LCIV's ESG frameworks and policies for investment analysis, decision making and responsible investment.

1.18. In preparing and reviewing its Investment Strategy Statement, the Pension Fund will consult with interested stakeholders including, but not limited to:

a. Pension Fund employers;
b. Local Pension Board;
c. advisors/consultants to the fund;
d. investment managers.

Policy Implementation: Training

1.19. The Pension Fund Committee and the Fund's officers will receive regular training on ESG issues and responsible investment. A review of training requirements and needs will be carried out at least once on annual basis. Training is intended to cover the latest updates in legislation and regulations, as well as best practice with regards to ESG integration into the pension fund's investment process.

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**23 January 2020**
Classification:	**General Release**
Title:	**Strategic Investment Strategy Review**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no direct financial implications arising from this report.**
Report of:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. EXECUTIVE SUMMARY

1.1 This report details the review undertaken by the Fund's investment advisor, Deloitte, of the current investment strategy, highlighting their observations and recommendations to consider when devising the new investment strategy.

2. RECOMMENDATIONS

2.1 The Committee is recommended to:

a) Reduce the equity allocation by 10% to 55%, with 5% invested within fixed income and 5% in an illiquid alternative asset class.
b) Review the current equity portfolio and agree adding a new active equity mandate to complement the existing portfolio.
c) Select renewable infrastructure as a new illiquid alternative asset class.
d) Consider whether to place the additional 5% in fixed income across the existing portfolios or to allocate to a new mandate e.g. direct lending.
e) Consider Whether residential property would offer greater diversification than the existing long lease and core mandates.

3. PROPOSALS AND ISSUES

Current Investment Strategy

3.1 The Funds current strategic asset allocation, as at 30 November 2019, had 65% allocated to equities, 20% to fixed income, 10% in property and 5% to infrastructure. Whilst the 65% allocation to equities has contributed positively to the Fund this allocation has also increased the Fund volatility.

3.2 Based on the Funds current strategic asset allocation the best estimate median expected return is 5.4% p.a., with a volatility of 13.2% p.a. Deloitte also estimate, by using their worst-case scenario modelling, the 1 year 95% value at risk to be £418m.

3.3 The overall funding level of the Fund has improved by 20% to 100% funded in 2019 compared to 2016, with the Council's funding level increasing by 16% during this period to 86%. The Council plans to pay off it's deficit of circa £130m by 2021/22, with around £100m available to invest in the Fund's investment portfolio.

Issues to consider

3.4 The following issues have been highlighted for consideration when preparing the new investment strategy:

- Reliance on equity markets: Almost two thirds of the Fund's allocation is to equities, given the change in funding level the Committee should consider whether the structure and allocation to equities is still appropriate.
- Diversification: The Fund has little risk reduction from diversification, there is scope for further diversification, particularly with the use of more illiquid assets.
- Forward funding arrangement: Deficit recovery receipts of circa £130m are expected in the next two years.
- Annual cashflow deficit: It is estimated that going forward the Fund will operate an annual cashflow deficit of circa £10m, this does not take in to account the funds received from the forward funding agreement.
- Liquidity: The Fund holds circa £20m in cash with the custodian, Northern Trust.
- Generating income: Currently income from asset managers is re-distributed back into each fund, it would be relatively easy to switch on the distributing share class with no added cost.

Strategy Proposals

3.5 The investment advisor has set out three alternative strategy proposals going forward, with the aim of reducing equity allocation risk and increasing diversification:

- **Strategy 1:** Reduce equity allocation to 60% with the additional 5% going to fixed income, this has the benefit of reducing volatility to 12.8%, however expected return also reduces by 0.2%.

- **Strategy 2:** Reduce the allocation to equities by 10% and make a 5% allocation to fixed income and 5% to a new illiquid alternative. This would bring the volatility down to 12.6% with the expected return reducing by 0.2%.

- **Strategy 3:** Reduce equity allocation by 15% and increase the allocation to fixed income by 5%, infrastructure by 5% and 5% to a new illiquid alternative. This would reduce the volatility to 12.3%, however the expected return would fall by 0.3%.

Proposed Strategy and Implementation

3.6 As per the investment advisor review, the recommended way forward would be to implement strategy 2 and decrease the equity allocation by 10% moving in to fixed income and illiquid alternatives. This would result in a decrease of 0.2% in expected return, however volatility would decrease by 0.6% and value at risk would reduce by £30m.

3.7 The current equity allocation comprises of 70% within the LGIM global passive fund and 30% within Baillie Gifford Alpha Growth mandate. In order to improve diversity within this asset class it is suggested that a third global equity manager is selected to complement the other two managers. When selecting a new equity manager, the Committee should consider the options available on the London CIV platform and may also want to consider funds with an ESG specific approach.

3.8 To further increase Fund diversity, it is recommended that the additional 5% investment within fixed income is made to a new strategy where the Fund can benefit from an alternative source of return and illiquidity premium. An allocation to direct lending would be expected to deliver attractive returns and would aid in the Fund's ability to meet future cash flows.

3.9 Additionally, there is potential within the real estate asset allocation, other than the core and long lease property mandates, which may be more attractive in the current market. Given that the core and long lease mandates are starting to look increasingly similar, moving in to residential property or affordable housing could offer another form of diversification.

3.10 The recommended 5% allocation to an illiquid alternative could provide an opportunity for the Fund to invest within renewable infrastructure. With the UK government pledge to targeting net zero greenhouse gas emissions by 2050, a significant amount of investment is required within the renewable's infrastructure space. There are a number of specialist managers targeting renewable developments specifically, given the large

commitments flowing into core infrastructure assets these speciality managers can gain a competitive advantage. It should be noted that investors should be willing to accept the development risk that comes with this asset class, which can offer higher returns but with a greater risk of default.

4 RECOMMENDATIONS AND NEXT STEPS

4.1 The Committee should discuss and agree the most appropriate strategic asset allocation for the Fund going forward. The following proposals, as recommended by the investment advisor, should be taken in to consideration:

a) Reducing the equity allocation by 10% to 55%, with 5% invested within fixed income and 5% in an illiquid alternative asset class.
b) Review the current equity portfolio and consider adding a new active equity mandate to complement the existing portfolio.
c) Selecting renewable infrastructure as a new illiquid alternative asset class.
d) Whether to place the additional 5% in fixed income across the existing portfolios or to allocate to a new mandate e.g. direct lending.
e) Consider whether residential property would offer greater diversification than the existing long lease and core mandates.

4.2 Upon agreement of the above recommendations a timeline for implementation setting out a plan for 2020 in order of preference will be established.

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

Billie Emery bemery@westminster.gov.uk

BACKGROUND PAPERS:

None

APPENDICES:

Appendix 1 – Investment Strategy Review

Deloitte.

City of Westminster Pension Fund

Investment Strategy Review

January 2020

Contents

Investment Strategy Review

Introduction

Investment Strategy Review

This report has been prepared for the City of Westminster Pension Fund Committee ("the Committee"). The Purpose of which is to provide a review of the City of Westminster Pension Fund's (the "Fund") current investment strategy, highlighting our observations that we believe the Committee should consider when deciding on a new investment strategy and detailing our recommendations given our findings.

In this report we provide an update on how the Funds asset portfolio has evolved since 2016, the results of the 2019 Actuarial Valuation and the current investment strategy. A review of the current investment strategy is given through our observations of issues that the Committee should consider and we provide our recommendation given these observations. Finally, a set of next steps the Committee could take is provided.

Recap of the Fund

Recap of the Fund

2016 asset allocation

Asset allocation 30 June 2016

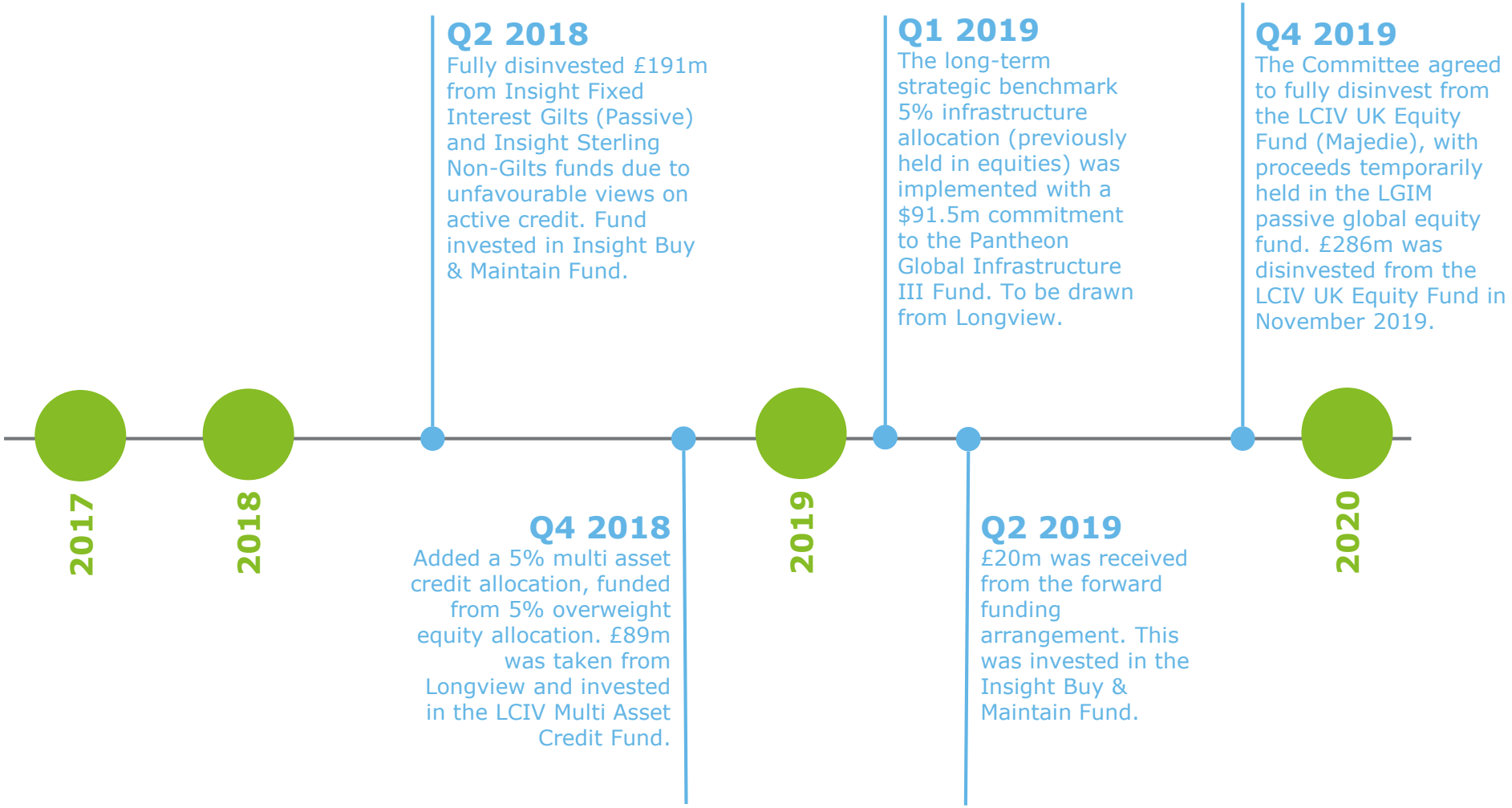
Manager	Asset Class	End Jun 2016 (£m)	End Jun 2016 (%)	Benchmark Allocation (%)
Majedie	UK Equity	250.6	22.8	22.5
LGIM	Global Equity (Passive)	243.2	22.1	22.5
Baillie Gifford	Global Equity	191.3	17.4	25.0
Longview	Global Equity	121.9	11.1	
	Total Equity	**807.0**	**73.4**	**70.0**
Insight	Fixed Interest Gilts (Passive)	18.8	1.7	20.0
Insight	Sterling Non-Gilts	163.2	14.8	
	Total Bonds	**182.0**	**16.6**	**20.0**
Hermes	Property	55.5	5.3	5.0
Standard Life	Property	51.8	4.7	5.0
	Total Property	**107.3**	**10.0**	**10.0**
Cash	In-House Cash	0.3	0.0	-
	Total	**1,096.3**	**100**	**100**

Benchmark allocation set to 70% equity, 20% bonds and 10% property, however the long term benchmark allocation includes a 5% allocation to infrastructure, to be funded from the equity portfolio.

Recap of the Fund

Changes to portfolio since 2016 valuation

Changes since 2016 actuarial valuation



Recap of the Fund

2019 asset allocation

Asset allocation 30 November 2019

Manager	Asset Class	End Nov 2019 (£m)	End Nov 2019 (%)	Benchmark Allocation (%)
LCIV	UK Equity (Majedie, active)	9.0	0.6	22.5
LGIM	Global Equity (Passive)	646.9	42.4	22.5
LCIV	Global Equity (Baillie Gifford, active)	317.4	20.8	20.0
Longview	Global Equity (active)	71.4	4.7	0.0
	Total Equity	**1,044.7**	**68.5**	**65.0**
Insight	Buy and Maintain Credit	231.5	15.2	13.5
LCIV	Multi Asset Credit	93.8	6.2	6.5
	Total Fixed Income	**325.3**	**21.3**	**20.0**
Hermes	Core Property	67.1	4.4	5.0
Aberdeen Standard	Long Lease Property	67.1	4.4	5.0
	Total Property	**134.2**	**8.8**	**10.0**
Pantheon	Global Infrastructure	20.1	1.3	5.0
	Total Infrastructure Equity	**20.1**	**1.3**	**5.0**
Cash	In-House Cash	1.1	0.1	-
Total		**1,525.5**	**100**	**100**

Current investment strategy

Current investment strategy

2019 actuarial valuation

Current strategy

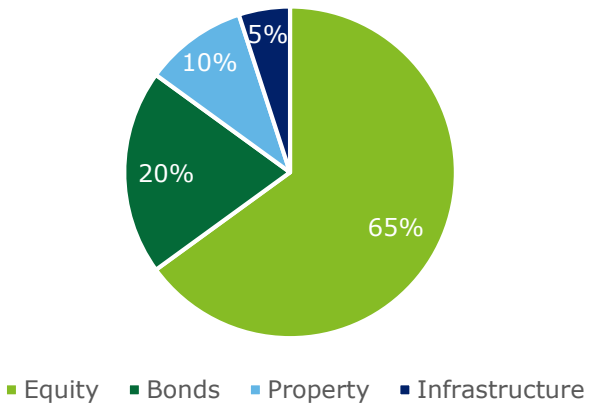
Based on the current strategic benchmark, the Fund's median best estimate expected return is 5.4% p.a., with a volatility of 13.2%. Whilst the 65% strategic allocation to equities contributes positively to the Fund's expected return, this allocation also has the impact of increasing Fund volatility.

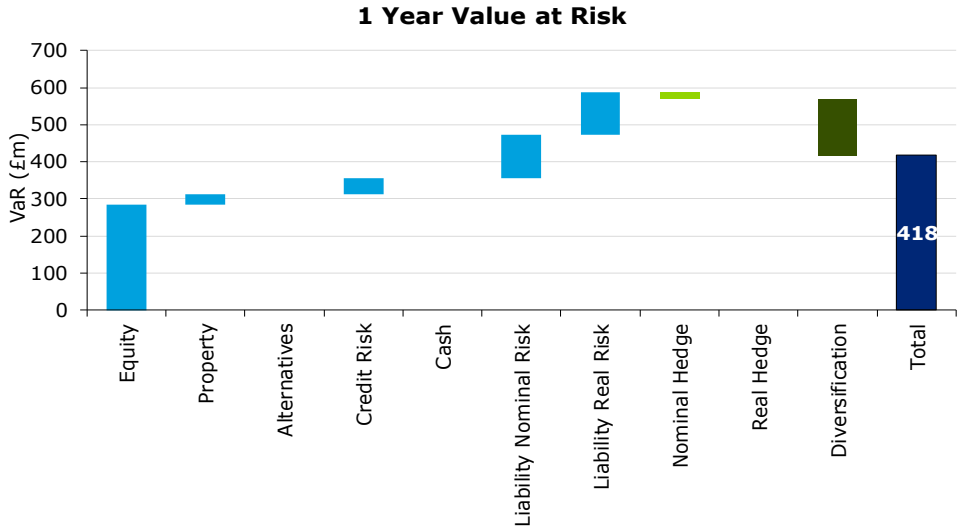
1 Year 95% Value at Risk ("VaR") is a representation of how the deficit/surplus could change given a 1 in 20 year worst case scenario. This analysis is useful as it allows us to quantify the risk within the portfolio and determine as to whether or not the Fund could withstand such an event.

Based on our stochastic model, we estimate the Fund to have a VaR of £418m.

Key metrics	
Expected return	5.4% p.a.
Volatility	13.2%
1 year 95% Value at Risk	£417.7m

Current benchmark allocation





Current investment strategy

2019 actuarial valuation

Funding level

As at 31 March 2019, the Council's funding level stands at 86% - increasing from 70% as at 31 March 2016. The Council plans to pay off its past deficit of c. £152m (as at 31 March 2019) in 2021/22.

The funding position of the whole Fund, including the Council, was 99% as at 31 March 2019. This represents an increase in funding level of 19% since 31 March 2016 where the funding position stood at 80%.

Funding position as at 31 March 2019	
Westminster City Council	86%
Total Fund	99%

Source: Copy of SLT Pensions Survey

Forward funding arrangement

The Fund received a £20m payment in Q2 2019 through a forward funding arrangement, which was invested in the Insight Buy & Maintain Fund. Through the same forward funding arrangement, it is expected that a further £100-110m will be received in April 2021. Approximately £10m of this figure will be used to pay pension payments, with the remaining c. £100m available to invest in the Fund's investment portfolio.

Current investment strategy

Issues to consider

Reliance on equity markets

The Fund's current strategic benchmark includes a 65% allocation to equities, however there is currently 68.5% of the Fund invested in equities. The Fund's infrastructure mandate with Pantheon is still in drawdown, with c. £50m still to be drawn. This is to be funded from equities, in particularly Longview, which had £71m as at 30 November 2019. We estimate that once Pantheon is fully drawn, the equity allocation will be c. 65%.

With almost two-thirds of the Fund's allocation to equity, there is a significantly large reliance on equity markets to deliver the Fund's return. Furthermore, the equity portfolio has changed with one active and one passive mandate.

Given the change in funding level over the past three years, the Committee should consider whether the overall equity allocation and structure of the equity portfolio is still appropriate.

Diversification

As shown on the earlier VaR chart, the Fund has little risk reduction from diversification.

While the fund has allocations to credit, property and infrastructure, there is scope to add further diversification, particularly with the use of more illiquid asset classes.

Approximately 84% of the Fund's assets are daily liquid, with a further c. 15% in monthly liquid funds. Only 5% of the benchmark allocation is in a long term illiquid strategy and therefore benefitting from the illiquidity premium available to pensions schemes with a long term time horizon.

Current investment strategy

Cashflow considerations

Forward funding arrangement

As mentioned earlier in this paper, £20m was received in Q2 2019 and invested in the Insight Buy & Maintain Fund. A further £100-110m is expected to be received in April 2021.

Annual cashflow deficit

Based on estimations of the Fund's outgoing cashflows and projected contributions and receipts, the Fund is expected to be in an annual cashflow deficit of **£10-11m** in future years. This does not take into account funds received from the forward funding arrangement.

Next year, the Fund is expected to receive a £14m deficit recovery contribution. Approximately £10m of the £100-£110m forward funding arrangement to be paid in April 2021 is currently earmarked to be used to cover the expected annual cashflow deficit. Based on this, the Fund should have no requirement to take income from the investment portfolio for the next two years. However beyond this period, the Fund may need regular income distributions from its investments.

Currently, the Fund receives income from both Hermes and Pantheon. Hermes distributes a variable quarterly amount based on rents collected, whilst Pantheon distributes variable amounts at various timings dependent on the underlying investments. Based on Hermes' current running yield of 3.2% and Pantheon's expected yield of 5.0%, we estimate that the Fund currently receives an income of **c. £3.1m per annum**. If the Fund was invested in line with the strategic benchmark (i.e. the Pantheon mandate fully drawn) we estimate the Fund would receive an income of **c. £6.3m** each year.

Liquidity

The Fund holds c. £20m in cash within a Northern Trust account. This account is used to hold liquidity to cover transfer values and other miscellaneous payments.

Current investment strategy

Cashflow considerations

Generating income

The table below shows the potential income that could be received from each fund within the remainder of the portfolio, not including Hermes and Pantheon. Whilst income for the majority of the Fund's portfolio is currently re-distributed back into each fund, each strategy has a distributing shareclass or equivalent which can be "switched on" relatively easily with no added cost.

Fund	Estimated yield p.a.	Income p.a. if invested as strategic benchmark	Timing	How to switch on
LCIV Global Alpha	c. 1.0% (based on dividends)	£3.1m	Quarterly (end March, June, September and December)	Subscription form
GIM Global Equity	c. 2.5% (via NIS facility)	£17.2m	Monthly	Signed instruction
Insight Buy & Maintain	c. 2.2%	£4.5m	Quarterly (up to 20 days after end February, May, August and November)	Subscription form
LCIV MAC	c. 0.5% (based on income, net of expenses)	£0.5m	Once per annum in February	Subscription form
ASI Long Lease Property	c. 4.1%	£3.1m	Quarterly (end January, April, July, November)	Side letter
Total		**c. £28.4m**		

Strategy proposal

Strategy proposal

Possible solutions

Strategic allocation

We modelled three alternative strategies alongside the current strategic benchmark, with a theme focussing on reducing the equity risk and increasing portfolio diversification. The three strategies' asset allocations are provided in the table below, alongside expected return, volatility and Value at Risk figures of each strategy:

	Current	Strategy 1	Strategy 2	Strategy 3
Equity	65%	60%	55%	50%
Fixed income	20%	25%	25%	25%
Property	10%	10%	10%	10%
Infrastructure	5%	5%	5%	10%
Illiquid Alternative	-	-	5%	5%
Expected return	5.4%	5.2%	5.2%	5.1%
Volatility	13.2%	12.8%	12.6%	12.3%
Value at Risk	£417.7m	£403.6m	£392.7m	£382.0m

As the table shows, all three alternative strategies have slightly lower best estimate returns. We feel a slight reduction in the expected return is appropriate given the current funding position. Importantly, each strategy has significantly lower volatility as a result of reducing the equity allocation and increasing diversification, in particular making use of illiquid alternatives.

Strategy proposal

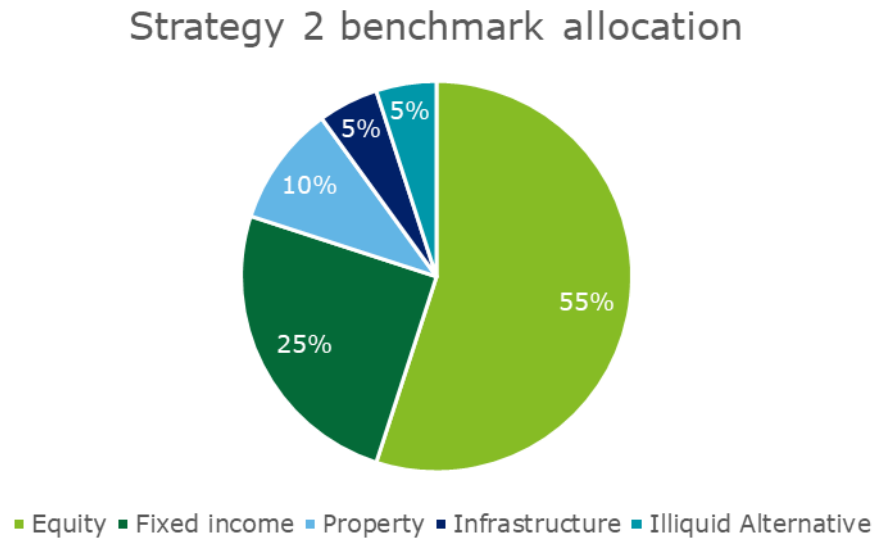
Strategy 2

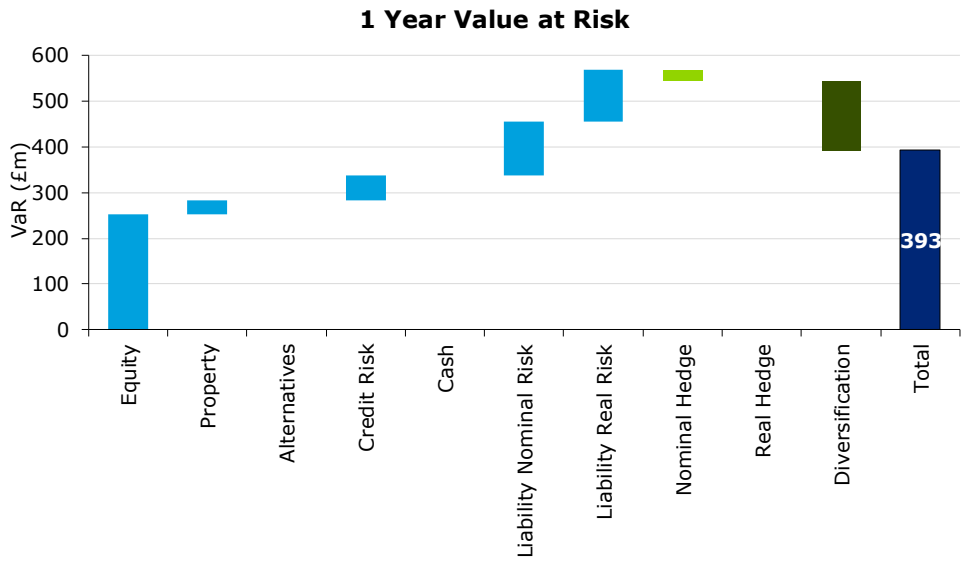
To implement Strategy 2, the Fund would be required to:

Decrease the equity allocation by 10%	Make a 5% allocation to a new fixed income strategy / rebalance the existing portfolio	Make a 5% allocation to a new illiquid alternative

This would result in:

A 0.2% decrease in expected return	A 0.6% decrease in expected volatility	A c. £30m decrease in equity portfolio Value at Risk



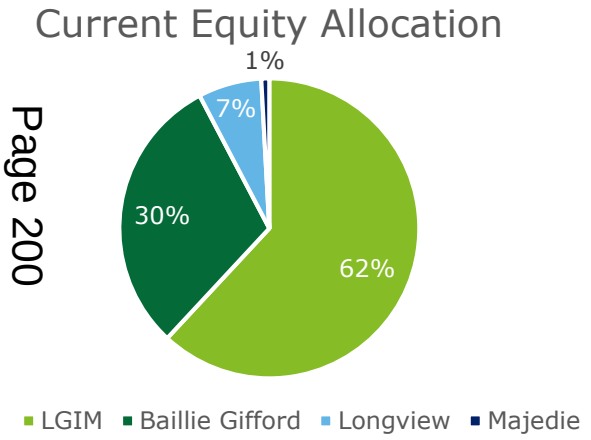


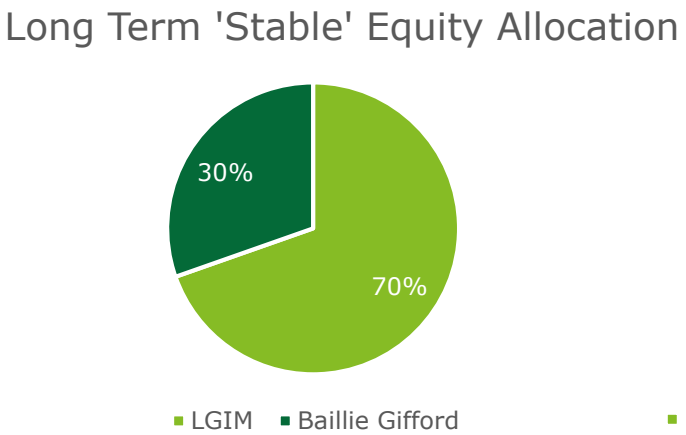
Strategy proposal

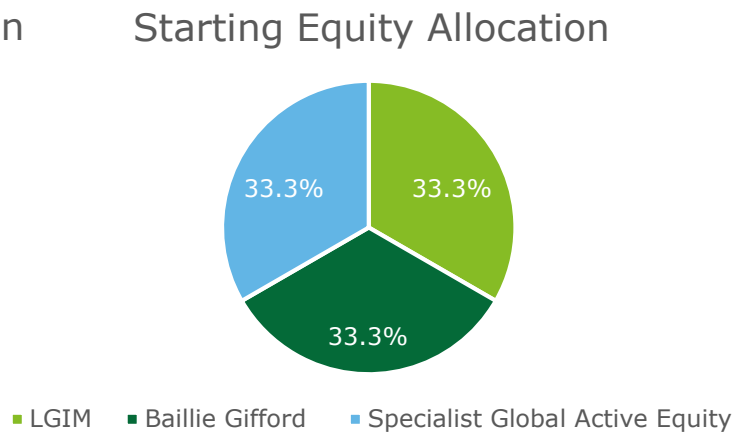
Equity portfolio

We have recommended that the Committee consider reducing the Fund's equity allocation to 55%. This would result in a 10% reduction. While the current allocation is 68.5%, as stated earlier, the long term 'stable' allocation is 65% after taking account the funds to be transferred to Pantheon once fully drawn down. Therefore we are recommending a 10% reduction to the equity allocation.

The current equity allocation as well as the current long term 'stable' equity allocation is shown in the charts below.







In order to improve diversification and provide less correlated returns, we suggest that a third specialist global active equity manager is selected to sit alongside both the LCIV and LGIM global equity strategies. This new strategy should exercise a different, complementary style to the LCIV Global Alpha Fund, with the LGIM fund's passive approach providing further diversification.

Analysis must be carried out to better understand the most appropriate equity portfolio, as this will largely depend on the preferred type of strategy to be added, however as a starting point, the Committee may want to consider whether a standard one-third in each mandate is most appropriate, shown above.

Lastly, when selecting a new manager, the Committee should consider options available on the London CIV platform. The Committee may also want to consider funds with a specific ESG theme, in-keeping with the Fund's responsible investment philosophy.

Strategy proposal

Fixed Income portfolio

The Insight Buy & Maintain Fund and LCIV Multi Asset Credit Fund mandates make up the fixed income allocation, representing 13.5% and 6.5% of the strategic benchmark respectively. Both funds invest in assets that have a low correlation with mainstream equities, with the Insight Buy & Maintain Fund seeking to generate returns by investing primarily in a portfolio of debt securities and the LCIV Multi Asset Credit Fund, managed by CQS, investing across a broad spectrum of bond and debt related investments.

We have recommended increasing the Fund's fixed income allocation by 5% to 25%. This could be achieved by investing across the Fund's current fixed income portfolio, however in keeping with aim to increase diversification, we recommend that a 5% allocation is made to a new fixed income strategy where the Fund can benefit from an alternative source of return and illiquidity premium.

Direct Lending

Direct lending has seen a lot of interest in recent years. New players have entered the market and some existing managers have raised more capital and larger funds.

Credit risk is dependent on the position in the capital structure. We have a strong preference for Senior secured debt to provide investors with greater protection in a default event. However, we are increasingly seeing instances where asset quality is being weakened to preserve return levels. Reduced covenants on loans, higher leverage levels and a willingness to move down the credit spectrum are all tools being used by managers. Investor demand for this asset class has also resulted in 'mega-funds' being raised, which can have an impact on how strategies are managed and the sub-market from which deals are sourced.

In addition to providing additional diversification to the strategic benchmark, a direct lending allocation would be expected to deliver attractive yields and returns. This would aid the Fund's ability to meet expected future cashflows, as eluded to earlier in this paper.

Strategy proposal

Property portfolio

The 10% benchmark property allocation, consisting of a 5% allocation to the Hermes Property Unit Trust Fund and a 5% allocation to the Aberdeen Standard Investments Long Lease Property Fund, provides returns to the Fund through rental income and future resale of property whilst providing a hedge against inflationary environments.

UK and long lease property market view

In the face of economic uncertainty and Brexit, returns in the property sector have so far remained robust and yields have been falling, driven by investor demand. Overseas investors continue to be attracted to central London trophy assets and there has been significant demand for long lease assets in particular from institutional investors and pension schemes. While the market as a whole has been rising, this has been largely driven by the industrial sector, with demand for logistical assets increasing. The growth of online retail has been at the heart of this trend which has contributed to the decline of the UK high street.

The headwinds affecting the UK market are strengthening. Brexit related uncertainty remains and there are signs that global growth is slowing and economic conditions are becoming more challenging. Should the UK leave the EU on less favourable terms, regions and sectors reliant on cross-border operations, or particularly sensitive to the fortunes of the UK economy, will no doubt struggle.

Property has often been used as a diversifier away from equities and bonds, due in part to its less liquid nature. Long lease property has the added advantage of providing a secure income stream, often inflation-linked, at real yields which are greater than those available from traditional fixed income assets.

Property markets are not without their challenges. Performance has been strong but there is increased evidence that future returns are unlikely to mirror the significant gains made over the last few years. This shouldn't necessarily bother current pension scheme investors with long term investment horizons.

Other opportunities

There are alternatives opportunities within real estate that may be more attractive than core and long lease property in the current market. Residential property, for example, could offer some additional diversification to the portfolio as core and long lease mandates are beginning to look increasingly similar. We have provided detail on residential, social/affordable housing and real estate debt in the training session presented to the Committee on 23rd January 2020, and have provided a comparison between UK, Europe and global strategies.

Strategy proposal

Illiquid alternatives

Renewable infrastructure

With Governments around the world having pledged to tackle climate change, development in renewable power sources is in high demand and requiring investment. Whilst core infrastructure funds have been investing in renewable assets over many years, and are doing so increasingly, there are a number of specialist managers and funds that are targeting renewable developments specifically.

In the UK alone, BloombergNEF estimates that £188bn of investment is required in renewable infrastructure. With the UK now targeting net zero greenhouse emissions by 2050 (the first G7 nation to legislate for this objective), the Committee on Climate Change targets indicate that the investment required may be as high as £660bn. Regardless of the number, there is obvious demand for renewable infrastructure and private investors will play a key role in funding projects. At the same time, the cost of leading renewable technologies has decreased significantly since 2010 (for example, the cost of solar technology has fallen 8[illegible]%).

Historically the bulk of returns in this sector have been driven by feed-in-tariffs, where contractual cashflows are secured by the government. However, such arrangements are almost non-existent in the current market. While it would be unlikely for any government (certainly in the UK) to remove any current standing tariff arrangements, this still creates a degree of risk. This places greater emphasis on the fundamental assessment and asset management of renewable assets.

Key to return profile will be the willingness to accept development risk. Those funds willing to invest a greater proportion of commitments in development opportunities will ultimately offer higher returns but greater default risk as well.

Large volumes of commitments are flowing into core infrastructure assets, particularly the larger funds. As a result, we prefer strategies at the small and mid-market end of the market, or where managers' specialties can gain a competitive advantage. In this regard, targeting specialist renewables funds with more understanding of the sector and greater expertise in asset origination may be preferable.

Conclusion

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Conclusion

Recommendations and next steps

Investment strategy

The Committee should discuss and agree the most appropriate strategic allocation for the Fund going forward. We have recommended a strategy which we believe is suitable for Fund given the funding position and current investment markets. Specifically we have suggested:

1. Reducing the equity allocation by 10% to 55%, with 5% being invested in the fixed income portfolio and 5% invested in an illiquid alternative asset class.

2. Consider Renewable Infrastructure as a new illiquid alternative. This may require training on the asset class ahead of assessing suitable strategies.

3. Consider whether the 5% increase to fixed income should be to a new mandate (such as Direct Lending) or to rebalance the existing portfolio.

4. Following the real estate training session, review the appropriateness of the current property portfolio and agree next steps and consider whether a residential property allocation may offer more diversification than the current long lease mandate.

5. Review the equity portfolio and in particular, give consideration to adding a new mandate that would compliment the Baillie Gifford fund.

Conclusion

Example portfolio

Manager	Asset Class	Benchmark Allocation (%)
LGIM	Global Equity (Passive)	18.3
LCIV	Global Equity (Baillie Gifford, active)	18.3
	Global Equity (active)	18.3
	Total Equity	**55.0**
Insight	Buy and Maintain Credit	13.5 (16.7)
CIV	Multi Asset Credit	6.5 (8.3)
	Direct Lending	5.0
	Total Fixed Income	**25.0**
Hermes	Property	5.0
Aberdeen Standard	Property	5.0
	Total Property	**10.0**
Pantheon	Global Infrastructure	5.0
	Renewable Infrastructure	5.0
	Total Infrastructure Equity	**10.0**
Cash	In-House Cash	**-**
Total		**100**

Risk Warnings

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

Deloitte.