Public Document Pack

City of Westminster

# Committee Agenda

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| Title: | **Pension Fund Committee** |
| Meeting Date: | **Thursday 11th March, 2021** |
| Time: | **5.30 pm** |
| Venue: | **Rooms 18.01 & 18.03, 18th Floor, 64 Victoria Street, London, SW1E 6QP** |
| Members: | **Councillors:**<br><br>Eoghain Murphy (Chairman)<br>Barbara Arzymanow<br>Angela Harvey<br>Patricia McAllister |

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

**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)

## 11. ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

**Stuart Love**
**Chief Executive**
**3 March 2021**

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City of Westminster

# Pension Fund Committee

| | |
|---|---|
| **Date:** | **11th March 2021** |
| **Classification:** | **General Release** |
| **Title:** | **Pension Administration Update** |
| **Report of:** | **Sarah Hay, Pensions Officer People Services** |
| **Wards Involved:** | **All** |
| **Policy Context:** | **Service Delivery** |
| **Financial Summary:** | **Negligible** |

## 1. Introduction

1.1. This report provides a summary of the performance of Surrey County Council (SCC) with the Key Performance Indicators (KPIs) for the period October 2020 to January 2021. The detailed KPIs are shown in Appendix 1. There is an update on the Western Union existence exercise in section 3, which we have closed early. In section 4 we update the Committee on our two main data projects, the ongoing address tracing work and the now closed down status 2 actions with ITM. Finally in section 5, an update on the exit cap which has been revoked, McCloud and confirmation that the Government is now consulting on increasing the minimum retirement age to 57.

## 2. KPI Performance

2.1 The scope of the KPIs in this report have been agreed between WCC and SCC based on the section 101 agreement, however they will continue to be reviewed on feedback from all parties, including board and committee members.

2.2 This paper covers the period of October 2020 to January 2021.

2.3 KPI performance in appendix 1 is summarised below. Overall the KPI data is good but there are a few cases where timescales have been exceeded.

2.4 There are two main concerns with the first regarding the late payment of lump sums due. Although the majority of cases were processed within our current 5 day KPI, ten cases were processed late although only just outside of the KPI. The second relates to the late processing of pension forms where 5 cases were late and in one case there was an unacceptable 45 day delay outside of the KPI which Surrey have been asked to explain to the Strategic Pension Officer.

## 3. Western Union Existence Checking

3.1 On the 5th January 2021, we held a meeting with Western Union and we agreed that we would close down this year's existence project early. This was due to the increasing number of COVID19 cases across the world and aware that many of our members live in countries where lockdowns and restrictions have been put in place.

3.2 We initially started the project back in September 2020 with 257 pensioners in scope. When we closed down the project on the 8th of January 2021, we had received confirmation that 78 people had actually completed an existence check with Western Union and collected their £10. A further 126 people had returned a witnessed life certificate to us and we had 53 pensioners who had not completed either option. We wrote out on the 12th of January to the 53 people to advise them that we were closing the project early due to safety concerns and that we would not be suspending any pensions this year.

3.3 Despite the fact that we had to terminate the project early this year, running the project has at least allowed us to continue the engagement that we started in 2019 with our pension members that live abroad. We will consider options going forward depending on what happens around the world in the next 12 months.

## 4. Data Work

4.1 The committee have previously been advised that we identified back in 2019 that there were 3000 gone away address records located on our administration system. Our former consultant agreed a contract with a tracing company called Target. We broke the 3000 records down into manageable batches to send for tracing based on the priority of the groups. Now that our consultant has left, the project continues under the management of Tracey Fuller in the pension and payroll team.

4.2 The first group was the 753 deferred records for members aged over 55, (and 17 pensioners) these phases of the date tracing projects are now complete with Target able to find over 86% of deferred cases.

4.3 In addition, we have also sent Target 317 cases of frozen refunds. These are records that Surrey have started to process however these members have left the Fund some time ago and have not received a refund that they were due. We need these members traced for their current address for Surrey County Council to be able to process these refunds to members. Target were able to

locate 230 addresses including 2 confirmed as unfortunately deceased. These addresses have been sent to Surrey County Council who have confirmed that the addresses have been loaded on to their Altair database. This phase of the tracing project is now complete with Target, this is 72.5% of frozen refund cases. In relation to the 87 cases which Target were unable to locate addresses, we intend to liaise with a member of the Benefits and Revenues Team at Westminster City Council to discuss possibly seeing if we can locate the remaining 87 via an additional trace.

4.4 Following on from the frozen refund project, we are continuing to trace addresses in batches, populations currently working on listed below:

**Additional 211 records for Deferred – Age population, 55 and over.**

To date Target have successfully located 145 addresses including 7 unfortunately confirmed as deceased. This is over 68% of deferred 55 and over cases so far.

**437 records for Deferred – Age population 54 – 50**

To date Target have successfully located 336 addresses. This is over 76% of deferred 54 to 50 cases so far.

**325 records for Deferred – Age population 49- 45**

This population has recently commenced therefore Target will update with results in next scheduled meeting which is 26/02/2021. We intend to continue to trace addresses for all the deferred status populations above and will update going forward.

4.5 For information we originally raised a PO for this project for £24,000. To date we have spent £12,149.90. The costs per case vary depending on the type of trace the member needs and these range from £20 - £70. We will review our spend going forward as we get close to our agreed cost.

**Status 2** – **Undecided leavers**

4.6 The Fund has now closed down the status 2 project with ITM. ITM completed 882 cases in total over the project and 98 cases that had been with them to action were returned uncompleted as employers did not provide accurate data to process for these cases. As at 31/01/2021, our membership data shows we have 104 cases in the status 2 membership category but not all cases were passed to ITM. When we originally looked at the status 2 data we had in excess of a 1000 cases so the work undertaken with ITM originally managed by Eleanor and since her departure by Zuzana Fernandes in the Pension and Payroll team has proven to be successful. The administration team also picked up some cases before ITM were given the original data to work upon.

4.7 The cases that remain are where we have not been able to get employers to provide accurate responses that allowed cases to be resolved. Zuzana has been engaging with employers and we will continue to do so to chase up relevant responses, but any information now received will be sent to the administration team to deal with as part of the business as usual work.

4.8 The final cost of the ITM status 2 work have come in at £44,486 for the cases completed. The original PO was for £60,000 so we have come in under budget.

## 5. The Exit Cap, Compensation Changes, McCloud and Minimum Retirement Age

5.1 The Committee was previously advised of the introduction of an exit cap introduced on the 4th of November 2020 to limit payments on exit for an individual to more than £95K. The £95K would include payments into the pension fund where pension was released early. A number of organisations were in the process of taking the Government to a judicial review that was due to be held at the end of March. On the 12th of February the Treasury announced that the exit cap was being revoked due to unforeseen consequences.

5.2 Further compensation restrictions may still follow and it's possible the cap will be revised in some format in the future.

5.3 The Government published it's response to the McCloud consultation in February. In summary, the Government is accepting the proposed deferred underpin approach whereby for the members in scope, the fund will have to calculate for years to come if a member would have been better off in the old final salary arrangement or in the current CARE arrangement. For many people their pension will not be enhanced, but an initial underpin calculation will have to be completed and then another when the benefits are due to come into payment so members can make a decision when their benefits come into payment and they know what their final whole time salary. The burden on administration costs going forward is likely to be more impactful than any increase in pension benefits.

5.4 Currently there is no timetable to complete the McCloud work. The project will involve reviewing our current data and collecting missing data from employers that allows for the accurate calculation of whole time pay necessary for any underpin calculation. Given the fund is planning to move pension administrators in 2021, the current approach is that we intend to delay collecting data ideally until we move to our new contractor unless we have to do so through legislation. The majority of people currently reaching retirement age will have benefitted from the increased accrual the CARE scheme gave them from 2014 rather than the increase linked to final salary increases. So far, we have not spent any monies reviewing our data for McCloud yet but will discuss with the new administrator

5.5 The Government has announced another consultation impacting the world of pensions. The latest consultation concerns a proposed increase in the minimum age at which someone can draw pension benefits other than on ill health grounds from 55 to 57 by 2028. The consultation further suggests additional complexity in that current members would retain the 55 minimum retirement age whilst new members would have a minimum 57 retirement age. The fact that members will have different retirement ages, depending on when they joined the scheme, will need to be carefully navigated should this be implemented. The proposal around the increase centres on the desire to maintain a ten year gap between the State Pension Age (SPA) and the earliest date at which members can draw funds. The fund will submit a response to the consultation.

## 6. Summary

6.1 The KPI data is acceptable overall though some payments are not quite being made within our current 5 day KPI standard. There is one case with a 45 day delay in processing and Surrey have been asked to provide additional information on that case.

6.2 The existence exercise with Western Union was closed down early due to concerns for the safety of our members and the fact than in some countries people would have found it impossible to complete the required checks. The exercise was still meaningful whilst it ran and we have maintained the engagement with these members that we started in 2019.

6.3 The data project to process the large number of status 2 cases has been successfully completed with ITM processing 882 cases when the project was closed down. The address tracing project continues with different batches being sent for trace. The trace rates are different for various categories but overall we are tracing the majority of records and we have also identified some deaths in members who have not claimed their pension yet. Where the Target tracing has been exhausted, we will look at working with the benefits team to attempt additional trace work.

6.4 The £95K cap has now been revoked, compensation changes may still follow though. The Government has confirmed that it will instigate a McCloud remedy based on a deferred election basis for those in scope. We are waiting for specific regulations and a timeline to be confirmed before we consider further action at this stage. The administration burden posed by the remedy will be significant and getting data from some employers may prove challenging as it has in the Status 2 project just completed.

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# Westminster County Council - January 2021 Results on K

| Description | Target time/date as per Partnership Agreement | Target | Actual Score for Quarter |
|---|---|---|---|
| **Pension Administration** | | | |
| **Death Benefits**<br>Notify potential beneficiary of lump sum death grant | 5 days | **100%** | % |
| Write to dependant and provide relevant claim form | 5 days | **100%** | % |
| Set up any dependants benefits and confirm payments due | 14 days | **100%** | % |
| **Retirements**<br>Retirement options issued to members | 5 days | **100%** | % |
| New retirement benefits processed for payment following receipt of all necessary documents | 5 days | **100%** | % |

| | | | |
|---|---|---|---|
| Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation | Next available pay run | | % |
| **Refunds of Contributions**<br>Refund paid following receipt of claim form | 14 days | **100%** | % |
| **Deferred Benefits**<br>Statements sent to member following receipt of leaver notification | 30 days | **100%** | % |
| **Notification to members 2 months before payments due** | 2 months | | % |
| **Lump Sum ( on receipt of all necessary documentation)** | 5 days | | % |
| **Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation** | Next available pay run | | % |
| **New Joiners**<br>New starters processed | 30 days | **100%** | % |
| **Transfers In**<br>Non LGPS transfers-in quotations | 30 days | **100%** | % |
| Non LGPS transfers-in payments processed | 30 days | **100%** | % |
| **Transfers Out**<br>Non LGPS transfers-out quotations processed | 30 days | **100%** | % |
| Non LGPS transfers out payments processed | 30 days | **100%** | % |
| Interfunds In - Quotations | 30 days | **100%** | % |
| Interfunds In - Actuals | 30 days | **100%** | % |
| Interfunds Out - Quotations | 30 days | **100%** | % |
| Interfunds Out - Actuals | 30 days | **100%** | % |
| **Estimates** | | | |
| **1-10 cases** | 5 Days | | % |
| **11-50 cases** | Agreed with WCC | | % |
| **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 | | % |
| **Buying Additional Pensions** | | | |
| Members notified of terms of purchasing additional pension | 15 days | | % |
| **Monthly Pensioner Payroll** | | | |
| Full reconciliation of payroll and ledger report provided to WCC | Last day of month | | |
| Issue of monthly payslips | 3 days before pay day | | |
| RTI file submitted to HMRC | 3 days before pay day | | |
| BACS File submitted for payment | 3 days before pay day | | |
| **P35** | EOY | | |
| **Annual Exercises** | | | **Date Achieved** |
| **Annual Benefit Statements** Issued to Active members | 31 August each year | | |
| **Annual Benefit Statements** Issued to Deferred members | 31 August each year | | |
| **P60s Issued to Pensioners** Non LGPS transfers-in quotations processed within 20 days | 31 May each year | | |
| **Apply Pensions Increase to Pensioners** | April each year | | |
| **Pensioners Newsletter** | April each year | | |

**Customer Service**

| | | | |
|---|---|---|---|
| **Correspondence** | | | |
| Acknowledgement if more than 5 days | 2 days | | |
| Response | 10 days | | |

| | | | |
|---|---|---|---|
| 3rd party enquires | 10 days | | |
| **Helpdesk Enquiries** | | | |
| **Volumes of Enquiries Handled By Helpdesk** | Number of Enquiries Handled | | |
| | | | |
| | | | |
| | | | |
| | | | |

## PI Reporting

| Quantity October 2020 | Actual Score October 2020 | Comments | Quantity November 2020 | Actual Score November 2020 | Comments | Quantity December 2020 | Actual Score December 2020 |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| 2 | 100% | X | 2 | 100% | X | 4 | 100% |
| 3 | 100% | X | 4 | 100% | X | 7 | 100% |
| 6 | 100% | X | 3 | 100% | X | 3 | 100% |
| 6 | 100% | X | 13 | 100% | X | 5 | 100% |
| 15 | 80% | 3 cases over the 5 day KPI by an average of 2 days | 11 | 90% | 1 case over the 5 days KPI by 5 days | 14 | 100% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 15 | 100% | X | 11 | 90% | 1 case over the 5 days KPI by 5 days | 14 | 100% |
| 17 | 100% | X | 20 | 100% | X | 15 | 100% |
| 18 | 100% | 136 PROCESSED BY ITM | 6 | 100% | X | 5 | 100% |
| 33 | 100% | X | 40 | 100% | X | 17 | 100% |
| 25 | 84% | 4 cases over the 5 day KPI by an average of 6 days | 11 | 82% | 2 cases over the 5 days KPI by an average of 7 days | 17 | 94% |
| 25 | 100% | X | 11 | 100% | X | 17 | 100% |
| 0 | 100% | X | 0 MANUALLY | 100% | X | 3 | 100% |
| 2 | 100% | X | 5 | 100% | X | 4 | 100% |
| 1 | 100% | X | 2 | 100% | X | 2 | 100% |
| 6 | 100% | X | 5 | 100% | X | 4 | 100% |
| 0 | 100% | X | 0 | 100% | X | 1 | 100% |
| 5 | 100% | X | 8 | 100% | X | 4 | 100% |
| 6 | 100% | X | 3 | 100% | X | 3 | 100% |
| 5 | 100% | X | 8 | 100% | X | 11 | 100% |
| 11 | 100% | X | 10 | 100% | X | 10 | 100% |
| | | | | | | | |
| 6 | 100% | X | 3 | 100% | x | 8 | 100% |
| | | | | | | | |
| | | | | | | | |

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|---|---|---|---|---|---|---|---|
| | | | | | | | |
| 317 | 99.99% | X | 141 | 99.95% | x | 71 | 100.00% |
| | | | | | | | |
| | | | | | | | |
| 0 | 100% | X | 1 | 100% | x | 0 | 100% |
| | | | | | | | |
| | 100% | | | 100% | | | 100% |
| | 100% | | | 100% | | | 100% |
| | 100% | | | 100% | | | 100% |
| | 100% | | | 100% | | | 100% |
| | 31-Mar-20 | | | 31-Mar-20 | | | 31-Mar-20 |
| | | | | | | | |
| | Annual | | | Annual | | | Annual |
| | Annual | | | Annual | | | Annual |
| | 100% | Issued April 2020 | | 100% | Issued April 2020 | | 100% |
| | 100% | | | 100% | | | 100% |
| | 100% | | | 100% | | | 100% |
| | | Issued April 2020 | | | Issued April 2020 | | |
| | | | | | | | |
| | | | | | | | |
| 17 | 100% | X | 20 | 100% | X | 14 | 100% |

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|---|---|---|---|---|---|---|---|
| | | | | | | | |
| | | | | | | | |
| 404 | | | 308 | | | | |
| | - | | | - | | | - |
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| Comments | Quantity January 2021 | Actual Score January 2021 | Comments | Trend | People services Comments |
|---|---|---|---|---|---|
| | | | | | |
| X | 3 | 100% | X | | Death Cases have been identified as a priority by the fund in the COVID Pandemic. Numbers have increased in the last year and we pick up cases via mortality screening, the tell us once service and from next of kin notification. The tracing project we have been running in the last year is also picking up cases for people who never claimed their pension. |
| X | 4 | 100% | X | | We are pleased that everything remains within KPI. |
| X | 4 | 100% | X | | We are pleased that everything remains within KPI. |
| X | 2 | 100% | X | | We remain pleased that retirement are being processed on time as a key priority. |
| X | 16 | 94% | 1 case over the 5 days KPI by 45 days | | We are dissaponited by the late processing pensions for payment. The majority of cases were processed within the 5 day timescale, we have asked the admin team for an explaination of why 1 case was processed 45 days late. |

| | | | | | |
|---|---|---|---|---|---|
| X | 16 | 100% | X | | Except for 1 case in November we are pleased that pensions were paid in the next available pay period. |
| X | 30 | 100% | X | | Refunds is another idenified priority in the COVID Pandemic. We are pleased that this KPI remains 100%. |
| X | 62 | 100% | X | | Pleased that the work ITM has done shows large numbers being processed during the period. |
| X | 38 | 100% | X | | |
| 1 CASE OVER THE 5 DAYS KPI BY 2 DAYS | 16 | 82% | 3 CASES OVER THE 5 DAYS BY AN AVERAGE OF 4 DAYS | | Payment of lump sums is a key priority. We are dissapointed that a small number of cases were late but note the few cases exceed the 5 day KPI by a few days. |
| X | 16 | 100% | X | | we are pleased this KPI is 100% |
| 3 set up manually | 0 | 100% | No manual starters | | |
| X | 4 | 100% | X | | |
| X | 0 | 100% | X | | |
| X | 1 | 100% | X | | |
| X | 1 | 100% | X | | |
| X | 3 | 100% | X | | |
| X | 1 | 100% | X | | |
| X | 13 | 100% | X | | All 100% |
| X | 12 | 100% | X | | we note the late case. The March case would not have been a Priority in the pandemic. |
| | | | | | All 100% |
| X | 6 | 100% | X | | |
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|---|---|---|---|---|---|
| | | | | | |
| x | 0 | 99.99% | X | | |
| | | | | | We have noted that a few of cases were processed late but this against hundreds being actioned. |
| X | 0 | 100% | X | | |
| | | | | | |
| | | 100% | | | |
| | | 100% | | | All 100% |
| | | 100% | | | All 100% |
| | | 100% | | | All 100% |
| | | 31-Mar-20 | | | All 100% |
| | | | | | |
| | | Annual | | | |
| | | Annual | | | |
| Issued April 2020 | | 100% | Issued April 2020 | | |
| | | 100% | | | P60's were issued in April as a priority. |
| | | 100% | | | April 20 PI exercise completd. |
| Issued April 2020 | | | Issued April 2020 | | Newsletters sent to pensioner members, going out to preserved benefit members and active members but pushing letters via portal access where possible. |
| | | | | | |
| | | | | | |
| | 25 | 100% | X | | |

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|---|---|---|---|---|---|
| | | | | | We note a few cases have been responded to late. The helpdesk did have to cope with significant change in March working from home with phones being issued and adapting to new processes. Under the circumstances the KPI do represent a good overall response. No cases reported in May. |
| | | | | | |
| | 578 | | | | Volumes of calls do go up and down quiet a lot, increase associate with the sending out of Annual benefit statements is expected but it is not clear why variation occurs in some months. The ITM work and members being sent details of pension overdue may increase calls from members. |
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City of Westminster

# Committee Report

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|---|---|
| **Decision Maker:** | **PENSION FUND COMMITTEE** |
| **Date:** | **11 March 2021** |
| **Classification:** | **Public** |
| **Title:** | **Pension Fund Business Plan & Investment Consultant Performance Review** |
| **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**<br>***Tri-Borough Director of Treasury and Pensions***<br><br>**ptriggs@westminster.gov.uk**<br>**020 7641 4136** |

## 1 Executive Summary

1.1 The purpose of this report is to present the 2021/22 Pension Fund Business Plan, attached as Appendix 1, which presents the strategic medium-term objectives and a budget forecast for 2021/22.

1.2 Attached in Appendix 2 is the annual performance review of the investment consultant against the agreed Investment Consultant Aims and Objectives, as approved at the Pension Fund Committee at its meeting on 23 October 2019.

## 2 Recommendation

2.1 The Pension Fund Committee is requested to:

- Comment on and approve the attached business plan and budget for 2021/22 (Appendix 1).

## 3 Background

3.1 The Myners Report to HM Treasury, compiled by Lord Myners and published in March 2001, recommended that local authority pension funds should approve an annual business plan in respect of the objectives required for the next one to three years.

3.2 This is the first City of Westminster Pension Fund business plan presented to the Pension Fund Committee and sets out the medium-term objectives and a financial forecast for 2021/22. It is attached at Appendix 1.

3.3 The Fund's business plan objectives cover the following areas:

- Administration
- Communication
- Actuarial/Funding
- Pension Fund Committee Members
- Financial and Risk Management
- Investment
- Local Pension Board

3.4 The forecast budget for 2021/22 details the Fund's expenses by administration, oversight and governance, and investment management. It is estimated that the Fund's administration expenditure fees will be significantly higher in 2020/21, due to the increase in the Surrey County Council annual charge and the cost of the five-year Aquila Heywood's Altair licence fee.

3.5 There will also be significant upfront administration costs during 2021/22 in relation to the pension administration transition from Surrey County Council to Hampshire County Council. In addition, the Fund will be changing software providers from Heywood to Civica and this will form part of the Hampshire County Council annual contract fee.

3.5 Governance and oversight expenses are expected to be broadly in line with previous years. However, the employee recharge is expected to increase. This is as a result of a review of the Tri-Borough Section 113 Agreement, which took place during 2020/21.

3.6 Investment management costs are expected to increase during 2020/21 and in 2021/22. This is due to increased transaction cost disclosure as a result of the LGPS Cost Transparency Code, an increase in asset market values and the transition of investments to more complex asset classes.

3.7 An outturn report will be presented to the Committee to update members on progress, present the Pension Fund business plan outcomes and an outturn expenditure summary.

3.8 In line with best practice, the performance of the Fund's investment consultant against the objectives should be reviewed on an annual basis and the objectives updated at least every three years, or when there has been a material change in the investment approach. Appendix 2 details these objectives and assessed performance as at November 2020.

**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: Business Plan including budget forecast for 2021/22
Appendix 2: Investment Consultant Performance Review
Appendix 3: Detailed budget forecast for 2021/22 (Exempt)

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**City of Westminster Pension Fund**

**Business Plan and Actions for 2021/22**

The Myners Report to HM Treasury, published in March 2001, recommended that local authority pension funds should approve an annual business plan in respect of the objectives required for the next one to three years.

Estimates are based on current investment allocations and expected expenses based on historic information and available forecasts. Investment allocations are subject to changes in market value, impacting management expenses. Future property acquisition costs will also impact associated expenditure.

The strategic medium-term objectives for the Fund are grouped under the following headings:

- Administration
- Communication
- Actuarial/Funding
- Pension Fund Committee Members
- Financial and Risk Management
- Investment
- Local Pension Board

To help meet our objectives a timetable of performance indicators has been agreed and an outturn report will be presented to the Pension Fund Committee to update Members on progress.

## 2021/22 Forecast Budget

| | Company Name (If Applicable) | 2018/19 Actual £000 | 2019/20 Actual £000 | *2020/21 Estimate £000* | 2021/22 Budget £000 |
|---|---|---|---|---|---|
| **Administration** | | | | | |
| Employees | | 184 | 352 | *426* | 428 |
| Supplies and services | | | | | |
| | Legal Costs | 34 | 74 | *27* | 60 |
| | Administrator | 180 | 183 | *294* | 647 |
| | Various Admin* | 149 | 141 | *335* | 88 |
| | | **546** | **750** | ***1,082*** | **1,223** |
| **Governance and oversight** | | | | | |
| Employees | | 240 | 183 | *234* | 246 |
| Training | | 4 | 2 | *3* | 10 |
| Investment advisory services | Deloitte | 100 | 78 | *95* | 100 |
| Governance and compliance | Various** | 40 | 71 | *41* | 45 |
| External audit | Grant Thornton | 16 | 16 | *25* | 25 |
| Actuarial fees | Barnett Waddingham | 36 | 72 | *48* | 50 |
| | | **436** | **423** | ***447*** | **476** |
| **Investment Management** | | | | | |
| Management, Performance and Transaction fees | | 4,802 | 5,631 | *6,067* | 8,634 |
| Custody fees | Northern Trust | 38 | 31 | *49* | 40 |
| | | **4,840** | **5,662** | ***6,116*** | **8,674** |
| | | | | | |
| **Total** | | **5,823** | **6,834** | ***7,645*** | **10,374** |

*Includes Aquila Heywood's Altair software maintenance/licence fees up to 2020/21 (5-year licence fee paid during 2020/21), scheme member tracing and bank charges

**Includes subscription fees/other services, i.e., CIPFA Pensions Network, LGA, Pensions Lifetime and Savings Association, Pensions and Investment Research Consultants

**Administration and Communication**

The Pension Fund is governed by the Public Service Pensions Act 2013 and administered in accordance with secondary legislation.

The administration of the Fund has been undertaken by Surrey County Council since 2015. It was decided to terminate the S101 agreement with effect from 30 November 2021, with services being transferred to Hampshire County Council from 1 December 2021.

| **Administration** | | | |
|---|---|---|---|
| Objective(s)<br>- to ensure scheme is run in accordance with the rules; in accordance with agreed service standards; and in compliance with regulations<br>- to deal with and rectify any errors and complaints in a timely way | | | |
| **Action** | **Description** | **Timescale** | **Primary Responsibility** |
| 1 | Pension Fund Committee to receive pension administration key performance indicators (KPIs) report on a quarterly basis. | Ongoing with reports due at each committee meeting | Lee Witham/Sarah Hay |
| 2 | Pension Fund Committee to receive the Pension Fund Annual Report. | 30 June 2021 | Phil Triggs/Matthew Hopson/Billie Emery |
| 3 | Ensure that any complaints against action or inaction by pension staff are dealt with in a timely manner. | Ongoing | Lee Witham/Phil Triggs |
| 4 | Review the content of the Pension Fund website to ensure it is relevant and kept up to date. | Ongoing | Phil Triggs/Matthew Hopson/Billie Emery |
| 5 | Discuss/meet with Surrey CC/Hampshire CC and report to the Pension Fund Committee. | Quarterly: 2021/22 | Sarah Hay/Phil Triggs |
| 6 | Transition of the pension administration contract from Surrey CC to Hampshire CC. | 1 December 2021 | Lee Witham/Sarah Hay |
| 7 | Mortality screening to identify deceased individuals. | Ongoing | Sarah Hay |

| **Communication** | | | |
|---|---|---|---|
| Objective(s)<br>- to convey the security of the Scheme<br>- to ensure members understand and appreciate the value of their benefits | | | |
| **Action** | **Description** | **Timescale** | **Primary Responsibility** |
| 1 | Ensure communication material complies with current legislation and effectively communicates the benefits of the scheme to members and employers. Ensure communication material is amended to comply with the requirements of the new regulations/legislation. | Ongoing | Lee Witham/Sarah Hay |
| 2 | Communication on a timely basis of material scheme changes to Pension Fund Committee, employer bodies and members. | Ongoing | Phil Triggs/Lee Witham/Sarah Hay |
| 3 | Prepare Pension Fund Annual General Meeting and receive feedback from employers. | 30 June 2021 | Phil Triggs |
| 4 | Communicate actuarial valuation to all employers. | Triennial: March 2023 | Sarah Hay |
| 5 | Provide employers with actuarial accounting briefing note. | Scheduled and admitted bodies: 31 March 2021<br>Academies: 31 August 2021 | Billie Emery |

**Actuarial /Funding:**

The Fund is responsible for commissioning triennial actuarial valuations of the Pension Fund regarding the funding status and level of employers' contributions necessary to fully fund the Pension Fund. Actuarial services are currently subject to tender and will be awarded starting 1 April 2021 for five years.

| **Actuarial/Funding** | | | |
|---|---|---|---|
| Objective(s)<br>- to monitor the funding level of the Scheme including formal valuation every three years<br>- to monitor and reconcile contribution payments to the Scheme by the employers and scheme members<br>- to understand legislative changes which will impact on funding | | | |
| **Action** | **Description** | **Timescale** | **Primary Responsibility** |
| 1 | Provide employers with IAS19/FRS102 funding statements when requested. | Scheduled and admitted bodies: 31 March 2021<br>Academies: 31 August 2021 | Billie Emery |
| 2 | Report the funding level of the Fund to the Pension Fund Committee every quarter. | Ongoing with reports due at each committee meeting | Phil Triggs/Billie Emery |
| 3 | Monitor and reconcile employer contributions remittances with the bank statement. | Ongoing | Alastair Paton |
| 4 | Member training covering actuarial funding issues. | Ongoing | Phil Triggs/Mathew Dawson |
| 5 | New employers admitted into the fund, including bonds, admission agreements and initial funding level. | Ongoing | Sarah Hay |

**Pension Fund Committee**

Investment allocation decisions are delegated to the Pension Fund Committee who oversees the management of the Fund's assets. The Committee appoints fund managers and advisors to assist in reviewing the overall strategic asset allocation, ensuring its suitability and the diversification of assets.

| **Pension Fund Committee Members** | | | |
|---|---|---|---|
| Objective(s)<br>- to train and develop all members to enable them to perform duties effectively<br>- to meet quarterly and to include investment advisor and independent advisors as required<br>- to run meetings efficiently and to ensure decisions are made clearly and effectively | | | |
| **Action** | **Description** | **Timescale** | **Primary Responsibility** |
| 1 | Review Pension Fund Committee member training requirements and implement training plan as appropriate. | Ongoing | Phil Triggs/Mathew Dawson |
| 2 | Ensure that meeting papers are issued at least seven days prior to meeting. | Every meeting | Phil Triggs/Lee Witham |
| 3 | Ensure that governance process remains in line with revised Myners/CIPFA principles to ensure 100% compliance. | Ongoing | Phil Triggs/Mathew Dawson |
| 4 | Ensure that Committee is kept fully up to date with the MHCLG asset pooling guidance. | Ongoing | Phil Triggs |

**Financial & Risk Management/ Investment**

In line with the best practice and the Pension Regulator's Code of Practice, the Pension Fund maintains a risk register to identify and monitor short-term and long-term risks to the Fund.

Investment assets are managed by external investment managers, with segregated assets held by an independent global custodian.

| **Financial & Risk Management** | | | |
|---|---|---|---|
| Objective(s)<br>- to properly record financial transactions to and from the Scheme and produce annual report and accounts within six months of year end<br>- monitor investment adviser fees against budget<br>- assess the risk associated with the management of the Scheme | | | |
| **Action** | **Description** | **Timescale** | **Primary Responsibility** |
| 1 | Monitor Pension Fund expenses for the year against budgeted. | Ongoing: 2021/22 | Phil Triggs/Billie Emery |
| 2 | Produce Annual Statement of Accounts and achieve an unqualified audit. | 31 May 2021 | Phil Triggs/Matthew Hopson/Billie Emery |
| 3 | Produce Pension Fund Annual Report. | 30 June 2021 | Phil Triggs/Matthew Hopson/Billie Emery |
| 4 | Ensure ongoing risk assessments of the management of the Fund. | Ongoing and reported to every committee meeting | Phil Triggs/Matthew Hopson/Billie Emery |
| 5 | Review of the MiFID documents to ensure the Fund retains professional status. | Ongoing | Billie Emery |

| **Investment** | | | |
|---|---|---|---|
| Objective(s)<br>- periodically review investment strategy and benchmarks<br>- monitor performance against benchmarks<br>- maintain contact with pool and investment managers | | | |
| **Action** | **Description** | **Timescale** | **Primary Responsibility** |
| 1 | Annual consideration of CIPFA/Myners principles. | 31 March 2021 | Phil Triggs |
| 2 | Discuss/meet with London CIV and report to Pension Fund Committee. | Quarterly: 2021/22 | Phil Triggs/Matt Hopson |
| 3 | Pension Fund Committee to receive quarterly investment monitoring reports. | Ongoing and reported to every committee meeting | Phil Triggs/Matthew Hopson/Billie Emery |
| 4 | Respond to all government consultations and report to the Pension Fund Committee as necessary. | Ongoing | Phil Triggs/Lee Witham |
| 5 | Continue to implement pooling as per MHCLG pooling guidance. | Ongoing | Phil Triggs |

**Local Pension Board**

Under Section 5 of the Public Service Pensions Act 2013 and Regulation 106 of the LGPS Regulations 2013, a Local Pension Board must be established and maintained. The Pension Board meets four times a year and assists in the governance and administration of the Fund.

| **Local Pension Board** | | | |
|---|---|---|---|
| Objective(s)<br>- to ensure the Local Pension Board is constituted and functions within the regulations<br>- to help facilitate the effective operation of the Local Pension Board | | | |
| **Action** | **Description** | **Timescale** | **Primary Responsibility** |
| 1 | Reasonably comply with any requests from the Local Pension Board with regard to any aspect of the Scheme Manager function. | Ongoing | Phil Triggs/Lee Witham |
| 2 | Give due consideration to recommendations made to the Pension Fund Committee from the Local Pension Board and respond to the Local Pension Board within a reasonable period of time. | Ongoing | Phil Triggs/Lee Witham |
| | Provide Local Pension Board members access to training offered to Pension Fund Committee members. | Ongoing | Phil Triggs/Mat Dawson |
| | Invite members of the Local Pension Board to attend Pension Fund Committee meetings. | Ongoing | Phil Triggs/Mat Dawson |

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**Investment Consultant Aims and Objectives Review 2020:**

**1. Background**

1.1 As per the requirements of the Competition and Markets Authority (CMA), the Pension Fund must establish aims and objectives for its investment consultant. A set of consultant objectives were drawn up for the Pension Fund investment consultant, Deloitte, and approved by Committee on 23 October 2019.

1.2 After conducting an extensive review into the pension fund consultancy and fiduciary management industry, the CMA produced a report, detailing a number of recommendations to improve pension fund governance, with a number of concerns expressed around fees and conflicts of interest.

1.3 The Pensions Regulator (tPR) welcomed the review by the CMA and produced guidance on setting aims and objectives. The Regulator's view is that it is good practice for Pension Funds, including the LGPS, to set aims and objectives for investment consultants and advisors in order to achieve better outcomes and manage areas of underperformance.

**2. Performance Against Aims and Objectives**

2.1 In line with best practice, the performance of the investment consultant against the objectives should be reviewed on an annual basis and the objectives updated at least every three years or when there has been a material change in investment approach.

2.2 In the tables below are the agreed objectives and aims for the investment consultant, Deloitte, against which the consultant performance has been reviewed. Each objective has been assessed individually and assigned a rating as follows:

| **Performance Rating** | **Key** |
|---|---|
| Excellent | |
| Good | |
| Satisfactory | |
| Unsatisfactory | |
| Not able to assess | **N/A** |

2.3 As shown in the performance review below, the consultant has performed well over the past year, meeting the majority of the aims and objectives to an excellent standard. The Fund remains pleased with the work produced by the consultant and aims to continue building on the good working relationship that has already been established.

| 1. Assistance in achieving the Fund's objectives | | | |
|---|---|---|---|
| **Reference** | **Objectives** | **Performance Rating** | **Comments** |
| a) | Any proposed changes in investment strategy or investment managers has a clear rationale linked to the Fund's objectives with specific reference to improving the efficiency of the investment strategy in terms of risk adjusted returns. | | Review of investment strategy during 2020, and manager selections which reflect the new asset allocation. |
| b) | All advice considers funding implications and the ability of the Fund to meet its long-term objectives. | | The actuarial valuation taken into consideration when agreeing the revised asset allocation. |
| c) | The investment consultant has an appropriate framework in place to recognise opportunities to reduce risk. | | The investment consultant has the required due diligence processes in place to reduce risks. |
| d) | The investment consultant has contributed to the Fund's cashflow management process ensuring that the Fund's benefit obligations are met in a cost-efficient manner. | | The Fund cashflow management is run in-house, however the consultant may suggest appropriate income strategies to match the shortfall in cash. |
| | The investment consultant undertakes specific tasks such as the selection of new managers and asset liability studies as commissioned. | | The consultant has drawn up shortlists and arranged interviews for the manager selections during the year. |
| f) | The investment consultant has complied with prevailing legislation, the constraints imposed by the Investment Strategy Statement, the detailed Investment Management Agreements and the policy agreed with the Committee when considering the investment of the Fund's assets. | | The investment consultant and the Pension Fund have a contract in place. |

| 2. Governance and Costs | | | |
|---|---|---|---|
| **Reference** | **Objectives** | **Performance Rating** | **Comments** |
| a) | Assist the Committee to implement the Fund's investments on a more competitive fee basis, through negotiation and periodic benchmarking of fees. | | The investment consultant will produce a fee benchmarking report on an annual basis. The next report is due to be taken to Committee on 10 December 2020. |
| b) | Cost implications, both in terms of investment management expenses and implementation costs, are considered as part of investment strategy advice. | | These factors were taken into consideration during the 2020 investment strategy review. |
| c) | Where the investment consultant has provided support on implementation activity, including activity required to meet Fund benefits, these transactions have been carried out in a cost-effective manner. | **N/A** | The fund transitions are undertaken by the in-house investment team. |
| d) | The investment consultant has demonstrated an understanding and appreciation of governance requirements, in particular, the investment consultant has avoided complexity where simpler, more cost-effective solutions may be available. | | Manager fees taken into consideration during the manager shortlisting and selection process. |
| e) | The investment consultant has ensured that investments are in accordance with the current regulatory and compliance requirements relevant for the LGPS. | | The investment consultant has the required due diligence processes in place to ensure regulatory and compliance requirements are met. |
| f) | The investment consultant has taken into account the necessity for all investment funds within the portfolio, with few exceptions, to utilise one of the pools. | | The consultant includes the asset pool products within the manager shortlisting and selection process. |

| 3. Proactivity/Keeping informed | | | |
|---|---|---|---|
| **Reference** | **Objectives** | **Performance Rating** | **Comments** |
| a) | Advise the Committee on appropriate new investment opportunities. | | The consultant provides training to the Committee on new asset classes. |
| b) | Recognition of the dynamism of investment markets, recognising opportunities to crystallise gains or emerging risks which require immediate attention. | | The investment consultant produces a quarterly report, rating the managers and advising if they believe the mandate is no longer rated favourably. |
| c) | The investment consultant has kept the Committee up to date with regulatory developments and additional compliance requirements. | **N/A** | The Committee is updated by the in-house investment team on regulatory matters. |
| d) | The investment consultant has highlighted areas that the Committee may wish to focus on in the future. | | The investment consultant suggests asset classes which the Committee may wish to explore further. |
| e) | The investment consultant should be generally available for consultation on fund investment matters. | | The consultant advises on all investment matters as required by the Pension Fund Officers and Committee. |

| 4. Monitoring | | | |
|---|---|---|---|
| **Reference** | **Objectives** | **Performance Rating** | **Comments** |
| a) | The investment consultant provides insightful monitoring focused on the reasoning behind performance. | | The investment consultant produces a quarterly report, providing narrative on fund manager performance. |
| b) | The Committee has been kept abreast of investment market developments and their implications for the Fund's investment strategy. | | The consultant meets with Committee members quarterly and advises of market developments. |
| c) | Monitoring is integrated with funding and risk. | | The risks within each mandate are monitored on an ongoing basis and the funding level is taken into consideration. |
| d) | Particular focus on the continued merits of active management. The investment consultant considers the value added by active management on a net of fees basis. | | The consultant provides a quarterly report which details asset manager performance net of fees. |



| 5. Delivery | | | |
|---|---|---|---|
| **Reference** | **Objectives** | **Performance Rating** | **Comments** |

| | | | |
|---|---|---|---|
| a) | The investment consultant has formed a strong working relationship with the Committee, Council Officers and other key stakeholders. | | There is a good working relationship between the investment consultant and Officers/Committee members. |
| b) | Reports and educational material are pitched at the right level, given the Committee's understanding. | | The reports and training matters are clear, easily understandable and concise to meet the needs of the Committee. |
| c) | Provides training/explanation which aids understanding and improves the Committee's governance. | | Training provided by the consultant to meet any needs of the Committee. |
| d) | Meeting papers are provided in a timely fashion, with all required detail and accuracy. | | Papers are usually received by the Pension Fund Officers sufficiently in advance of the Committee meetings. On occasion some reports may require slight revisions to include more detail. |
| e) | The investment consultant works within agreed budgets and is transparent with regard to advisory costs, itemising additional work with fees in advance. | | The consultant sends regular invoices with an itemised breakdown. However, cost of works is not always clear until after the invoice has been delivered. |
| f) | The investment consultant works collaboratively with the scheme's actuary and other advisors or third parties including the global custodian. | | The consultant works with the custodian to calculate the quarterly fund performance and liaises with the actuary on the funding level. |

City of Westminster

# Committee Report

| | |
|---|---|
| **Decision Maker:** | **PENSION FUND COMMITTEE** |
| **Date:** | **11 March 2021** |
| **Classification:** | **Public** |
| **Title:** | **DWP Pension Schemes Act 2021** |
| **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**<br>***Tri-Borough Director of Treasury and Pensions***<br><br>**ptriggs@westminster.gov.uk**<br>**020 7641 4136** |

## 1 Executive Summary

1.1 On 11 February 2021 the Pensions Schemes Act 2021 received Royal Assent, the act covers climate risk governance and reporting which may have a direct impact on the LGPS.

1.2 The proposed new measures will ensure that trustees are legally required to assess and report on the financial risks of climate change within their portfolios, in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

## 2 Recommendation

2.1 The Pension Fund Committee is requested to:

- Note and comment on the Pensions Schemes Act 2021 climate risk reporting disclosures and the Deloitte paper (appendix 1) on The Financial Stability Board's TCFDs.

## 3 Background

3.1 Guy Opperman, Minister for Pensions and Financial Inclusion (DWP), has spoken about climate change and the proposed new requirements for UK Pension Schemes. While the DWP is a different department from the MHCLG (parent dept for the LGPS), its pronouncements have implications for the LGPS and the new requirements could be adopted by the LGPS Scheme Advisory Board.

3.2 Mr Opperman wants the UK to be a leader in Climate Change requirements for its pension schemes. The proposed new measures will ensure that trustees are legally required to assess and report on the financial risks of climate change within their portfolios. It sends a clear signal to UK pensions trustees that decisions on their response to the new requirements should be made sooner rather than later.

3.3 Large Schemes (£5bn+) will need to report by 2021. The 2021 deadline will allow government to identify best practice and extend the measures to smaller schemes by 2024. The Fund will need to work with Deloitte on the reporting requirements well in advance of 2024. The reporting requirements seem to be quite onerous and require planning.

3.4 Some of the reporting will be intensive, and the intention is that some form of annual review or response will be expected. Emission-based reporting against targets will be annual. Clarity will be required across the industry at all levels to ensure consistent and comparable data is available as a result of these requirements.

3.5 Mr Oppenheim has firmly stated that divestment is not the answer: “We are not mandating that schemes commit to specified emissions reductions, and we continue to believe that divestment would be the wrong approach.” This area has now become challenging and more will need to be done to encourage asset managers to engage with the companies they invest in. LAPFF will take a leading role in further developing this.

3.6 To assist trustees with their assessment of investment consultants, on their climate competency, the Investment Consultants Sustainability Working Group (ICSWG) has developed a guide. It will set out 5 themes against which trustees should expect their consultant to demonstrate competency including:

1. Firmwide climate expertise and commitment
2. Individual consultant climate expertise
3. Tools and software
4. Thought leadership and policy advocacy
5. Assessment of investment managers and engagement

## 4 Recommendations & Next Steps

4.1 The proposed action for the Fund is as follows:

1. Await the LGPS Scheme Advisory Board guidance;
2. Review the guidance and set out a road map for compliance;
3. Build the new requirements into the pension fund business plan;
4. Review investment strategy, and consider whether this strategy is likely to meet the future requirements on climate change and sustainability; and
5. Evaluate the way in which climate-related risks and opportunities may affect WCC's strategies.

**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 – Deloitte Paper: The Financial Stability Board's Taskforce on Climate-related Financial Disclosures

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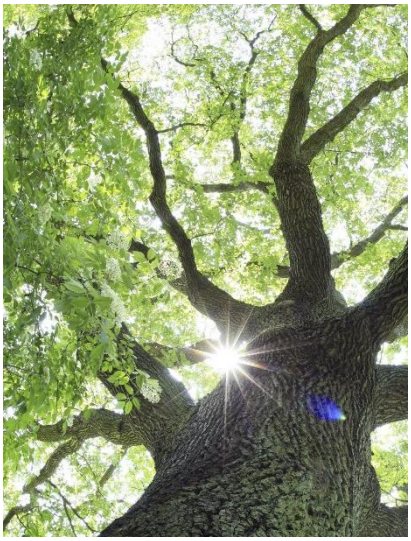
## TCFD

The Financial Stability Board's Taskforce on Climate-related Financial Disclosures ("TCFD") is a global, independent, private sector led group established in December 2015. In June 2017, TCFD published a series of recommendations aimed at identifying, assessing, managing and disclosing climate-related financial risks and opportunities.



There is growing pressure for UK pension schemes to adopt the climate risk governance recommendations of the TCFD and to disclose how they have done so. A consultation was launched, with a deadline of 7 October 2020, to address the content of these potential disclosures and the timeline for their introduction.

DWP published its response to this consultation on 27 January 2021, which confirmed the phased introduction of new climate-related governance requirements. Occupational pension schemes with more than £5bn of net assets, along with authorised master trusts and authorised collective money purchase schemes, will be required to comply with the new requirements from 1 October 2021, publishing a report detailing their compliance within 7 months of their next scheme year end date. Occupational pension schemes with more than £1bn of net assets will need to comply from 1 October 2022. Application to smaller schemes will now be reviewed in 2023 and likely consulted on in 2024.

Trustees will be provided with statutory guidance to support them with these new regulatory requirements. In meeting the new regulations (i.e. to incorporate climate related considerations into their governance processes and to evidence their compliance through an annual report) schemes must adhere to the guidance, and are required to report on deviations in some instances. Also released on 27 January was final non-statutory guidance from the Pensions Climate Risk Industry Group ("PCIG") on how to apply TCFD's framework in a pension scheme context, which was consulted on in 2020.Trustees can use the output from PCIG to begin considering the steps that need to be taken prior to the agreement of final statutory guidance.

We will prepare a more detailed report outlining these new requirements in due course. We will also be seeking to respond to the latest consultation on the recently released draft regulations and statutory guidance. The deadline for this consultation is 10 March 2021. This appears to leave very little time between final confirmation of the statutory guidance and the likely commencement date of these requirements (1 October 2021). With time of the essence, trustees of impacted schemes should therefore take immediate steps to first understand and then implement these new requirements.

## What are the TCFD's recommendations?

In short, the governance requirements mean that pension scheme trustees of impacted schemes must establish and maintain oversight of the climate-related risks and opportunities which are relevant to the scheme. They must then describe how this oversight is maintained in the annual TCFD report.

The governance and reporting requirements also include:

- **Investment and Funding Strategy:** identification and assessment of the impact of climate related risks/opportunities over the short, medium and long term.

- **Integrated Risk Management:** establish and maintain processes for identifying, assessing and managing relevant climate-related risks.

- **Scenario Analysis:** assessing the impact on assets and liabilities for at least two scenarios (one of which corresponds to a global average temperature rise of between 1.5°C and 2°C above pre-industrial levels).

- Metrics and Targets: select and calculate an absolute emissions metric and an emissions intensity metric in respect of the scheme's assets and set at least one non-binding target to measure performance against at least annually.

- TKU: Trustees must have the appropriate degree of knowledge and understanding of the principles relating to the identification, assessment and management of climate change risks.

Trustees must carry out scenario analysis, obtain data, calculate and use metrics and measure performance against targets ***'as far as they are able'***. This means taking all such steps as are reasonable and proportionate in the particular circumstances taking into account the costs, or likely costs, which will be incurred by the scheme and the time required to be spent by the trustees or people acting on their behalf.

We will prepare a more detailed report outlining these new requirements in due course.

Deloitte Total Reward and Benefits Limited
March 2021

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City of Westminster

# Committee Report

| | |
|---|---|
| **Decision Maker:** | **PENSION FUND COMMITTEE** |
| **Date:** | **11 March 2021** |
| **Classification:** | **Public** |
| **Title:** | **Fund Financial Management** |
| **Wards Affected:** | **All** |
| **Policy Context:** | **Effective control over council activities** |
| **Financial Summary:** | **There are no immediate financial implications arising from this report.** |
| **Report of:** | **Phil Triggs**<br>***Tri-Borough Director of Treasury and Pensions***<br><br>**ptriggs@westminster.gov.uk**<br>**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 31 December 2020. The bank position continues to be stable.

## 2. Recommendations

2.1 The Committee is asked to note the risk registers 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.

## 3. Risk Register Monitoring

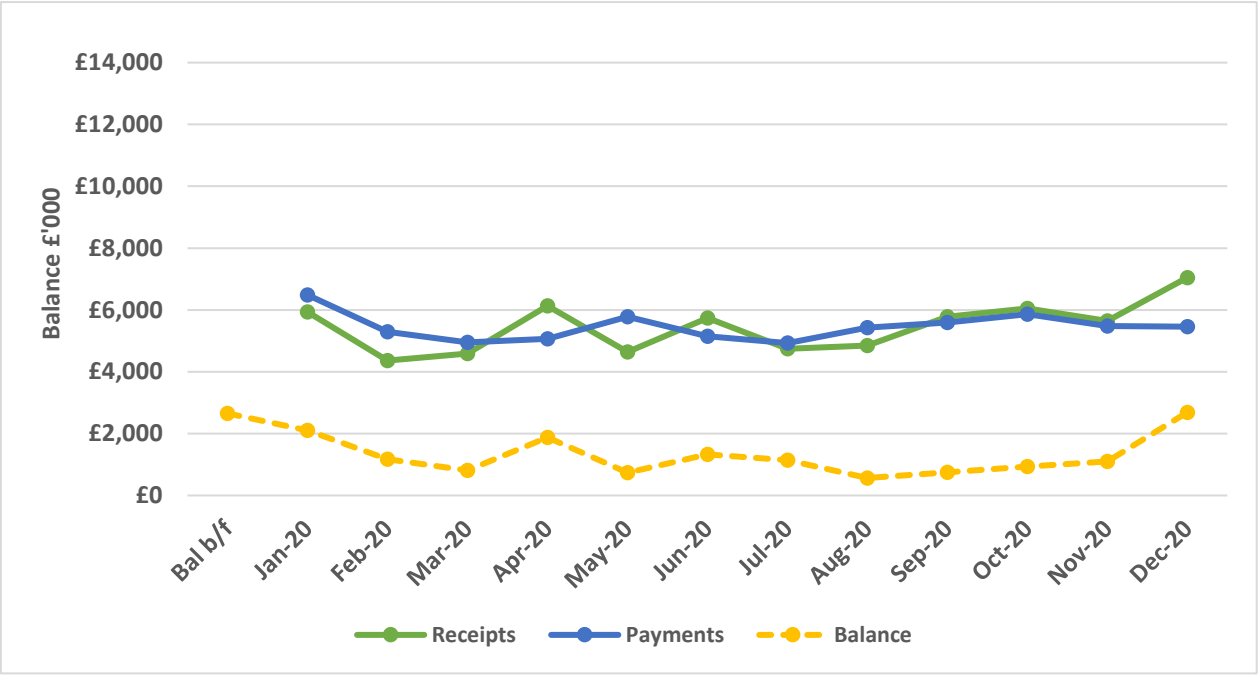
3.1 The risk register is divided into two sections: governance (investment and funding) and pensions administration. The current top five risks to the Pension Fund are highlighted in the table below:

| Risk Group | Risk Rank | Risk Description | Movement |
|---|---|---|---|
| Investment | 1st/41 | Future developments re the COVID-19 pandemic cause economic uncertainty across the global investment markets. Valuations of illiquid assets such as property and infrastructure are increasingly difficult to determine. | ⇔ |
| Investment | 2nd/41 | Significant volatility and negative sentiment in global investment markets following disruptive geo-political uncertainty. Increased risk to global economic stability. | ⇔ |
| Investment | 3rd/41 | Volatility caused by uncertainty with regard to import/import markets following the withdrawal of the UK from the European Union and the economic after effects. | ↓ |
| Administration | 1st/24 | Failure to successfully transition the pensions administration service to Hampshire County Council by 1 December 2021, following termination of the Surrey contract. Alongside this, the administration software is to be moved from Aquila Heywood's Altair to Civica with discussions current on this termination. | **NEW** |
| Administration | 2nd/24 | Pension administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints. There is a concern regarding the high level of senior management departures. | ⇔ |

## 4. Cashflow Monitoring and Forecasted Cashflows

4.1 The balance on the pension fund bank account as at 31 December 2020 was £2.689m. 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 January 2020 to 31 December 2020.




4.3 Payments and receipts have remained stable over the last 12 months. Officers will continue to keep the cash balance under review and take appropriate action where necessary. The Fund is anticipating a deficit recovery receipt of £13m from the Council during March 2021. The Pension Fund held £7.8m in cash with the global custodian as at 31 December 2020.

4.4 The following table illustrates the expected rolling cashflow for the 12-month period from 1 April 2020 to 31 March 2021. Actuals have been used for the period to 31 December 2020 with a forecast used for the remainder of the year. Forecasted cashflows are calculated using the previous year's actual cashflows, which are then divided equally over the 12 months and then inflated by 2%.

**Current Account Cashflows Actuals and Forecast for period April 2020 - March 2021:**

| | Apr-20 | May-20 | Jun-20 | Jul-20 | Aug-20 | Sep-20 | Oct-20 | Nov-20 | Dec-20 | *Jan-21* | *Feb-21* | *Mar-21* | *Forecasted Rolling Total* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | *£000* | *£000* | *£000* | |
| | Actual | Actual | Actual | Actual | Actual | Actual | Actual | Actual | Actual | *F'cast* | *F'cast* | *F'cast* | |
| **Balance b/f** | **807** | **1,875** | **740** | **1,325** | **1,143** | **565** | **752** | **936** | **1,098** | ***2,689*** | ***2,428*** | ***2,166*** | ***£000s*** |
| Contributions | 2,690 | 2,699 | 2,842 | 2,722 | 2,941 | 2,805 | 3,065 | 2,732 | 3,698 | *2,776* | *2,776* | *2,776* | *34,522* |
| Misc. Receipts[1] | 492 | 117 | 84 | 215 | 97 | 168 | 178 | 1,106 | 541 | *793* | *793* | *793* | *5,378* |
| Pensions | (3,445) | (3,466) | (3,491) | (3,478) | (3,545) | (3,520) | (3,536) | (3,550) | (3,498) | *(3,470)* | *(3,470)* | *(3,470)* | *(41,940)* |
| HMRC Tax Payments | (630) | (604) | (611) | (586) | (635) | (625) | (598) | (601) | (588) | *(585)* | *(585)* | *(585)* | *(7,234)* |
| Misc. Payments[2] | (984) | (1,534) | (1,008) | (817) | (1,117) | (1,190) | (1,536) | (1,293) | (1,149) | *(1,406)* | *(1,406)* | *(1,406)* | *(14,846)* |
| Expenses | (6) | (175) | (39) | (47) | (126) | (259) | (196) | (40) | (222) | *(178)* | *(178)* | *(178)* | *(1,645)* |
| **Net cash in/(out) in month** | **(1,884)** | **(2,963)** | **(2,223)** | **(1,991)** | **(2,386)** | **(2,621)** | **(2,624)** | **(1,646)** | **(1,218)** | ***(2,070)*** | ***(2,070)*** | ***(2,070)*** | ***(25,765)*** |
| Withdrawal/deposit with Fund Managers | 2,000 | 1,000 | 2,000 | 1,000 | 1,000 | 2,000 | 2,000 | 1,000 | 2,000 | *1,000* | *1,000* | *(12,000)* | *4,000* |
| Special Contributions* | 951 | 828 | 808 | 808 | 808 | 808 | 808 | 808 | 808 | *808* | *808* | *13,838* | *22,893* |
| **Balance c/f** | **1,875** | **740** | **1,325** | **1,143** | **565** | **752** | **936** | **1,098** | **2,689** | ***2,428*** | ***2,166*** | ***1,935*** | |

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

4.5 Actual cashflows against the forecast for the quarter ending 31 December 2020 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 October to December 2020:**

| | Oct-20 | | | Nov-20 | | | Dec-20 | | |
|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| | F'cast | Actual | Var | F'cast | Actual | Var | F'cast | Actual | Var |
| **Balance b/f** | **239** | **752** | **(513)** | **978** | **936** | **42** | **716** | **1,098** | **(382)** |
| Contributions | 2,776 | 3,065 | (289) | 2,776 | 2,732 | 44 | 2,776 | 3,698 | (922) |
| Misc. Receipts[1] | 793 | 178 | 615 | 793 | 1,106 | (313) | 793 | 541 | 252 |
| Pensions | (3,470) | (3,536) | 66 | (3,470) | (3,550) | 80 | (3,470) | (3,498) | 28 |
| HMRC Tax Payments | (585) | (598) | 13 | (585) | (601) | 16 | (585) | (588) | 3 |
| Misc. Payments[2] | (1,406) | (1,536) | 130 | (1,406) | (1,293) | (113) | (1,406) | (1,149) | (257) |
| Expenses | (178) | (196) | 19 | (178) | (40) | (137) | (178) | (222) | 44 |
| **Net cash in/(out) in month** | **(2,070)** | **(2,624)** | **554** | **(2,070)** | **(1,646)** | **(424)** | **(2,070)** | **(1,218)** | **(852)** |
| Withdrawal/deposit with Fund Managers | 2,000 | 2,000 | 0 | 1,000 | 1,000 | 0 | 2,000 | 2,000 | 0 |
| Special Contributions* | 808 | 808 | 0 | 808 | 808 | 0 | 808 | 808 | 0 |
| **Balance c/f** | **978** | **936** | **42** | **716** | **1,098** | **(382)** | **1,455** | **2,689** | **(1,234)** |

[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 31 December 2020:**

- Lower number of transfer values in during October and December than forecasted. Conversely, higher value transfer ins than anticipated took place during November.
- Higher than expected contributions in December 2020 due to increased pensionable pay, relating to the 2.75% pay award and employee step-ups backdated to 1 April.

4.6 The three-year cashflow forecast for 2020/21 to 2022/23 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 2020/21 to 2022/23:**

| | 2020/21 | 2021/22 | 2022/23 |
|---|---|---|---|
| | £000 | £000 | £000 |
| | F'cast | F'cast | F'cast |
| **Balance b/f** | **807** | **701** | **1,398** |
| Contributions | 33,314 | 33,980 | 34,660 |
| Misc. Receipts[1] | 9,519 | 9,709 | 9,903 |
| Pensions | (41,644) | (42,477) | (43,326) |
| HMRC Tax | (7,020) | (7,160) | (7,303) |
| Misc. Payments[2] | (16,870) | (17,208) | (17,552) |
| Expenses | (2,135) | (2,178) | (2,222) |
| **Net cash in/(out) in year** | **(24,837)** | **(25,333)** | **(25,840)** |
| Withdrawal/(deposit) with Fund Managers | 2,000 | (54,000) | 25,000 |
| Special Contributions* | 22,730 | 80,031 | 32 |
| **Balance c/f** | **701** | **1,398** | **590** |

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

4.7 The deficit recovery receipt expected during 2020/21 totals £22.7m. A final deficit recovery payment of £80m is expected to be received during 2021/22. It is anticipated the Fund will liquidate fund assets during 2022/23 to finance the shortfall in cashflow.

**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

**BACKGROUND PAPERS:** None

**APPENDICES:**

Appendix 1 – Tri-Borough Risk Management Scoring Matrix
Appendix 2 – Pension Fund Risk Register Review at February 2021

| 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 - Administration 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 | | | | | | |
| Admin | 1 | NEW | Failure to successfully transition the pensions administration service to Hampshire County Council by 1 December 2021, following termination of Surrey contract. Alongside this the administration software is to be moved from Heywood's Altair to Civica. | 3 | 3 | 3 | 9 | 5 | **45** | TREAT 1) The Pension Fund is moving the pensions administration service to Hampshire CC following termination of the Surrey contract. 2) Officers maintain regular contact with Surrey CC and Hampshire CC administration team during this time. 3) Project manager to join Westminster City Council on 25 February 2021, to lead the pensions administration transfer project including administration software. | 3 | **27** | 22/02/2021 |
| Admin | 2 | | Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints. There is a concern regarding the high level of senior management departures. | 1 | 4 | 3 | 8 | 4 | **32** | TREAT 1) Surrey CC administers pensions for Surrey, East Sussex, LB Hillingdon and the Tri-Borough. All Tri-Borough Pension Fund's are transitioning their pensions administration from Surrey CC. 2) Officers will continue to monitor ongoing staffing changes at Surrey CC. 3) Ongoing monitoring of contract and KPIs. | 3 | **24** | 22/02/2021 |
| Admin | 3 | | COVID-19 affecting the day to day functions of the Pensions Administration services including customer telephony service, payment of pensions, retirements, death benefits, transfers and refunds. | 2 | 4 | 3 | 9 | 3 | **27** | TREAT 1) The Pensions Administration team have shifted to working from home, with a process now embedded. 2) Revision of processes to enable electronic signatures and configure the telephone helpdesk system to work from home. 3) Maintain regular contact with the Surrey administration team. | 2 | **18** | 22/02/2021 |
| Admin | 4 | | Structural changes in an employer's membership or an employer fully/partially closing the scheme. Employer bodies transferring out of the pension fund or employer bodies closing to new membership. An employer ceases to exist with insufficient funding or adequacy of bond placement. | 5 | 3 | 1 | 9 | 3 | **27** | TREAT 1) Administering Authority actively monitors prospective changes in membership. 2) Maintain knowledge of employer future plans. 3) Contributions rates and deficit recovery periods set to reflect the strength of the employer covenant. 4) Periodic reviews of the covenant strength of employers are undertaken and indemnity applied where appropriate. 5) Risk categorisation of employers part of 2019 actuarial valuation. 6) Monitoring of gilt yields for assessment of pensions deficit on a termination basis. | 2 | **18** | 22/02/2021 |
| Admin | 5 | | Concentration of knowledge in a small number of officers and risk of departure of key staff. | 2 | 2 | 3 | 7 | 3 | **21** | TREAT 1) Practice notes in place. 2) Development of team members and succession planning improvements to be implemented. 3) Officers and members of the Pension Fund Committee will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs. | 2 | **14** | 22/02/2021 |
| Admin | 6 | NEW | Failure of securely sent sensitive data and any unidentified data flows being sent insecurely. | 4 | 3 | 5 | 12 | 2 | **24** | TREAT 1) Active member data is sent on secure platforms between all parties 2) Including "Encrypted" in email subject allows schools and academies to send data to pension admin team securely. 3) Data sent to the actuary using secure webstream portal. | 1 | **12** | 22/02/2021 |
| Admin | 7 | NEW | Failure of cyber security measures, including information technology systems and processes, leading to loss, disruption or damage to the scheme or its members. | 4 | 2 | 5 | 11 | 2 | **22** | TREAT 1) Council has a data recovery plan in place, with files uploaded to the cloud every night and transition of files from the j drive to SharePoint. 2) . As a Council we are continuing to invest in technologies to block and filter phishing emails as well as ensuring our systems are up to date to protect us and our devices against these threats. 3) The IT team continuously review and update the cyber security policies, including the Information Security policy, Acceptable Use policy, Email and Internet policy, Social Media policy, Password Management policy and Data Disposal policy. All of which can be found on the Wire. | 1 | **11** | 22/02/2021 |
| Admin | 8 | | Incorrect data due to employer error, user error or historic error leads to service disruption, inefficiency and conservative actuarial assumptions. | 4 | 4 | 3 | 11 | 2 | **22** | TREAT 1) Update and enforce admin strategy to assure employer reporting compliance. 2) Implementation and monitoring of a Data Improvement Plan as part of the Service Specification between the Fund and Orbis. | 1 | **11** | 22/02/2021 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Admin | 9 | | Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss. | 3 | 2 | 5 | 10 | 2 | **20** | TREAT 1) Third parties regulated by the FCA and separation of duties and independent reconciliation processes are in place. 2) Review of third party internal control reports. 3) Regular reconciliations of pensions payments undertaken by Pension Finance Team. 4) Periodic internal audits of Pensions Finance and HR Teams. 5) Internal Audits last undertaken during 2018/19 showed satisfactory assurance with recommendations implemented during the year. | 1 | **10** | 22/02/2021 |
| Admin | 10 | | Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place. | 5 | 2 | 2 | 9 | 2 | **18** | TREAT 1) Contract monitoring in place with all providers. 2) Procurement team send alerts whenever credit scoring for any provider changes for follow up action. 3) Take advice from the investment advisor on manager ratings to inform decisions on asset managers. | 1 | **9** | 22/02/2021 |
| Admin | 11 | | Non-compliance with regulation changes relating to the pension scheme or data protection leads to fines, penalties and damage to reputation. | 3 | 3 | 2 | 8 | 2 | **16** | TREAT 1) The Fund has generally good internal controls with regard to the management of the Fund. These controls are assessed on an annual basis by internal and external audit as well as council officers. 2) Through strong governance arrangements and the active reporting of issues, the Fund will seek to report all breaches as soon as they occur in order to allow mitigating actions to take place to limit the impact of any breaches. 3) Staff have had more time to work on the implementation of GDPR. | 1 | **8** | 22/02/2021 |
| Admin | 12 | | Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible. | 1 | 3 | 4 | 8 | 2 | **16** | TREAT 1) Contract in place with HCC to provide service, enabling smooth processing of supplier payments. 2) Process in place for Surrey CC to generate lump sum payments to members as they are due. 3) Officers undertaking additional testing and reconciliation work to verify accounting transactions. | 1 | **8** | 22/02/2021 |
| Admin | 13 | | Inability to respond to a significant event leads to prolonged service disruption and damage to reputation. | 1 | 2 | 5 | 8 | 2 | **16** | TREAT 1) Disaster recovery plan in place as part of the Service Specification between the Fund and Surrey County Council 2) Ensure system security and data security is in place 3) Business continuity plans regularly reviewed, communicated and tested 4) Internal control mechanisms ensure safe custody and security of LGPS assets. 5) Gain assurance from the Fund's custodian, Northern Trust, regarding their cyber security compliance. | 1 | **8** | 22/02/2021 |
| Admin | 14 | | Poor reconciliation process leads to incorrect contributions. | 2 | 1 | 1 | 4 | 3 | **12** | TREAT 1) Ensure reconciliation process notes are understood by Pension Fund team. 2) Ensure that the Pension Fund team is adequately resourced to manage the reconciliation process. 3) Contributions reconciliation is undertaken by the pensions team. | 2 | **8** | 22/02/2021 |
| Admin | 15 | | Failure of pension payroll system resulting in pensioners not being paid in a timely manner. | 1 | 2 | 4 | 7 | 2 | **14** | TREAT 1) In the event of a pension payroll failure, we would consider submitting the previous months BACS file to pay pensioners a second time if a file could not be recovered by the pension administrators and our software suppliers. | 1 | **7** | 22/02/2021 |
| Admin | 16 | | Failure to detect material errors in the bank reconciliation process. | 2 | 2 | 2 | 6 | 3 | **18** | TREAT 1) Bank reconciliation carried out in-house by the pensions team, alongside the WCC income management team. | 1 | **6** | 22/02/2021 |
| Admin | 17 | | Failure to pay pension benefits accurately leading to under or over payments. | 2 | 2 | 2 | 6 | 2 | **12** | TREAT 1) There are occasional circumstances where under/over payments are identified. Where underpayments occur, arrears are paid as soon as possible, usually in the next monthly pension payment. Where an overpayment occurs, the member is contacted and the pension corrected in the next month. Repayment is requested and sometimes we collect this over a number of months. | 1 | **6** | 22/02/2021 |
| Admin | 18 | | Unstructured training leads to under developed workforce resulting in inefficiency. | 2 | 2 | 2 | 6 | 2 | **12** | TREAT 1) Implementation and monitoring of a Staff Training and Competency Plan as part of the Service Specification between the Fund and Surrey County Council. 2) Officers regularly attend training events and conferences. 3) Officer in place to record and organise training sessions for officers and members. | 1 | **6** | 22/02/2021 |
| Admin | 19 | | Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment. | 1 | 1 | 1 | 3 | 3 | **9** | TREAT 1) Pension administration records are stored on the Surrey CC servers who have a disaster recovery system in place and records should be restored within 24 hours of any issue, All files are backed up daily. | 2 | **6** | 22/02/2021 |
| Admin | 20 | | Lack of guidance and process notes leads to inefficiency and errors. | 2 | 2 | 1 | 5 | 2 | **10** | TREAT 1) Ensure process notes are compiled and circulated in Pension Fund and Administration teams. | 1 | **5** | 22/02/2021 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Admin | 21 | | Lack of productivity leads to impaired performance. | 2 | 2 | 1 | 5 | 2 | **10** | TREAT<br>1) Regular appraisals with focused objectives for pension fund and admin staff. | 1 | **5** | 22/02/2021 |
| Admin | 22 | | Rise in ill health retirements impact employer organisations. | 2 | 2 | 1 | 5 | 2 | **10** | TREAT 1) Engage with actuary re assumptions in contribution rates. | 1 | **5** | 22/02/2021 |
| Admin | 23 | | Rise in discretionary ill-health retirements claims adversely affecting self-insurance costs. | 2 | 2 | 1 | 5 | 2 | **10** | TREAT 1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations. | 1 | **5** | 22/02/2021 |
| Admin | 24 | | Failure to identify GMP liability leads to ongoing costs for the pension fund. | 1 | 2 | 1 | 4 | 1 | **4** | TREAT 1) GMP identified as a Project as part of the Service Specification between the Fund and Surrey County Council, with minimal effect on the Fund. | 1 | **4** | 22/02/2021 |

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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 | Reviewed |
| | | | | Fund | Employers | Reputation | Total | | | | | | |
| Investment | 1 | | The global outbreak of COVID-19 poses economic uncertainty across the global investment markets. Valuations of illiquid assets such as property and infrastructure are increasingly difficult to determine. | 5 | 4 | 2 | 11 | 4 | **44** | TREAT - 1) Officers will continue to monitor the impact lockdown measures have on the fund's underlying investments and the wider economic environment. 2) The Fund holds a diversified portfolio, which should reduce the impact of stock market movements. 3) Asset allocation was reviewed during June 2020, a new strategy was agreed in light of COVID-19 with ESG focused equity and renewable infrastructure mandates agreed. 4) Pension Fund Officers in frequent contact with Fund Managers and the Funds investment advisor. | 3 | **33** | 22/02/2021 |
| Investment | 2 | | Significant volatility and negative sentiment in global investment markets following disruptive geo-political uncertainty. Increased risk to global economic stability. | 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 took place during June 2020 and a new strategic asset allocation was agreed. | 3 | **30** | 22/02/2021 |
| Investment | 3 | | Volatility caused by uncertainty with regard to the withdrawal of the UK from the European Union and the economic after effects. | 4 | 4 | 1 | 9 | 3 | **27** | TOLERATE/TREAT - 1) Officers to consult and engage with advisors and investment managers. 2) The Fund transitioned out of UK equities during November 2019, moving funds into the LGIM global passive. 3) Possibility of hedging currency and equity index movements. 4) The UK struck a trade deal with the EU in December 2020, the deal will be formally reviewed every 5 years. The transition period officially ended on 1 January 2021. | 3 | **27** | 22/02/2021 |
| Investment | 4 | | 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. Following COVID-19, there was some concern around Fund Managers outperforming their benchmarks. | 5 | 3 | 3 | 11 | 3 | **33** | 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 | **22** | 22/02/2021 |
| Governance | 5 | | That the London Collective Investment Vehicle (LCIV) fails to produce proposals/solutions deemed sufficiently ambitious. | 4 | 4 | 3 | 11 | 2 | **22** | 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. 2) Member presence on Shareholder Committee and officer groups. 3)Fund representation on key officer groups. | 2 | **22** | 22/02/2021 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Funding | 6 | | 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** | 22/02/2021 |
| Funding | 7 | | 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 | 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** | 22/02/2021 |
| Funding | 8 | | 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 2020/21 of members transferring out to DC schemes. | 2 | **20** | 22/02/2021 |
| Funding | 9 | | 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** | 22/02/2021 |
| Funding | 10 | | 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** | 22/02/2021 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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) and Pensions and Lifetime Savings Association (PLSA), which raises awareness of ESG issues and facilitates engagement with fund managers and corporate company directors. 4) Following the strategic asset allocation review in June 2020, the Pension Fund has committed 6% towards renewables and 20% to the LCIV Global Sustain Fund, as well as moving the LGIM passive mandate into the LGIM Future World Fund. 5) An ESG and RI Policy was drafted for the Pension Fund and a Responsible Investment Statement was drafted during late 2020. | 2 | **18** | 22/02/2021 |
| 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** | 22/02/2021 |
| Governance | 13 | | 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) Officers continue to monitor the ongoing staffing issues and the quality of the performance reporting provided by the London CIV. | 2 | **16** | 22/02/2021 |
| Funding | 14 | | 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** | 22/02/2021 |
| Funding | 15 | | 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** | 22/02/2021 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Funding | 16 | | 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** | 22/02/2021 |
| Funding | 17 | | 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 | 3 | 12 | 2 | **24** | 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. | 1 | **12** | 22/02/2021 |
| 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** | 22/02/2021 |
| 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** | 22/02/2021 |
| 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** | 22/02/2021 |
| 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** | 22/02/2021 |
| 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** | 22/02/2021 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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** | 22/02/2021 |
| 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** | 22/02/2021 |
| 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** | 22/02/2021 |
| 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** | 22/02/2021 |
| 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** | 22/02/2021 |
| 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** | 22/02/2021 |
| 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** | 22/02/2021 |
| 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** | 22/02/2021 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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** | 22/02/2021 |
| 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** | 22/02/2021 |
| 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** | 22/02/2021 |
| 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** | 22/02/2021 |
| 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** | 22/02/2021 |
| 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** | 22/02/2021 |
| 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** | 22/02/2021 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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** | 22/02/2021 |
| 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** | 22/02/2021 |
| 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** | 22/02/2021 |

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City of Westminster

# Committee Report

| | |
|---|---|
| **Decision Maker:** | **PENSION FUND COMMITTEE** |
| **Date:** | **11 March 2021** |
| **Classification:** | **Public** |
| **Title:** | **Performance of the Council's Pension Fund** |
| **Wards Affected:** | **All** |
| **Policy Context:** | **Effective control over council activities** |
| **Financial Summary:** | **There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.** |
| **Report of:** | **Phil Triggs**<br>***Tri-Borough Director of Treasury and Pensions***<br><br>**ptriggs@westminster.gov.uk**<br>**020 7641 4136** |

## 1. Executive Summary

1.1 This report presents the performance of the Pension Fund's investments to 31 December 2020, together with an update of the funding position.

1.2 The Fund underperformed the benchmark net of fees by 0.4% over the quarter to 31 December 2020 and the estimated funding level was 99.4% as at 31 December 2020.

1.3 Following the investment strategy review during 2020, the Investment Strategy Statement (ISS) has been updated to reflect the Fund's new asset allocation.

## 2. Recommendation

2.1 The Pension Fund Committee is asked to:

- note the performance of the investments and the funding position;
- approve the updated Investment Strategy Statement (attached as Appendix E).

## 3. Background

3.1 This report presents a summary of the Pension Fund's performance to 31 December 2020 and estimated funding level following the actuarial valuation. The investment performance report (Appendix 1) has been prepared by Deloitte, the Fund's investment adviser.

3.2 The investment performance report shows that over the quarter to 31 December 2020, the market value of the assets increased by £119m to £1,704m. The Fund underperformed the benchmark net of fees by 0.4% over the quarter, with all managers delivering positive performance. All managers outperformed their benchmarks with the exception of Hermes.

3.3 Over the 12-month period to 31 December 2020, the Fund outperformed its benchmark net of fees by 1.2%. This was achieved largely as a result of excellent performance within the Baillie Gifford Global Equity portfolio, which outperformed its benchmark by 20% net of fees. Over the longer three-year period to 31 December 2020, the Fund outperformed the benchmark net of fees by 0.4%, again with Baillie Gifford being the major contributor. Longview and Aberdeen Standard underperformed their benchmarks net of fees by -3.0% and -1.6% respectively during this period.

3.4 The advisors continue to rate the fund managers favourably, with the exception of Longview. Deloitte removed Longview's Global Equity strategy from its rated manager list, following the departure of the co-founder and CIO Ramzi Rishani. Additionally, in early October 2020, it was announced that Alistair Graham would step down from the role of CIO of Longview Partners on 31st December 2020, leaving the firm in June 2021. Emma Davies became CFO during December 2020 and Sheila Tickner was announced as Head of Compliance in November 2020. Both have worked at Longview for several years.

3.5 In July 2020, the LCIV announced its intention to add an additional manager(s) to the Multi Asset Credit (MAC) mandate, alongside CQS. At the end of January 2021, LCIV announced it had reached the next stage of the manager selection process and will arrange a meeting with clients to discuss the style of management and intended manager split within the sub-fund.

3.6 The LCIV announced Vanessa Shia as the Head of Private Markets, Gustave Loriot-Boserup as Responsible Investment Manager and Andrea Wildsmith as Head of Risk and Performance, during the final quarter of 2020.

3.7 Over the quarter, Dirk Hoffmann-Becking announced his retirement as portfolio manager at Morgan Stanley (MSIM) effective from 31 March 2021. Dirk will transition his research responsibilities over the coming months to Richard Perrott and Nathan Wong. Given his primary research covered Financials and Consumer Discretionary, the MSIM equity team has adjusted its sector coverage.

3.8 The Fund fully divested from Hermes during the third quarter of 2020, with the investment redeemed on 15 January 2021.

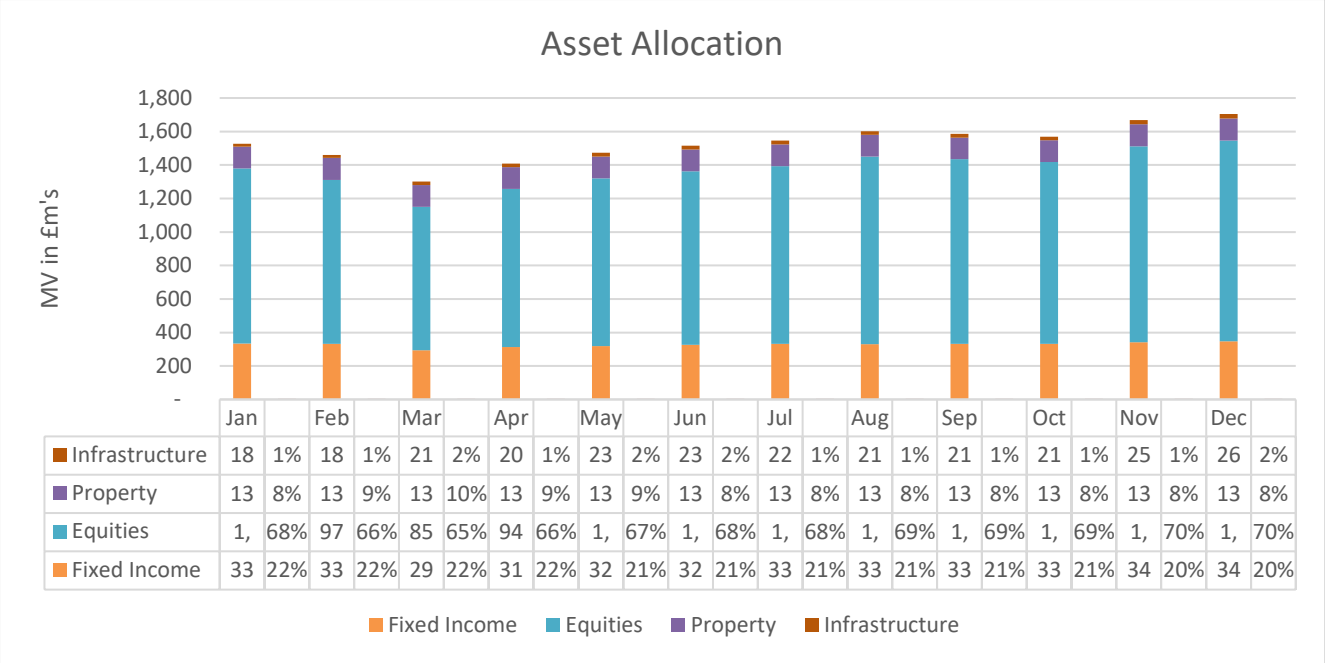
3.9 Following the quarter end, Pantheon's Dinesh Ramasamy and Jerome Duthu-Bengtzon were each promoted to partner, bringing the total number in the global infrastructure and real assets team to eight. Additionally, Paul Barr was appointed as investment partner to Pantheon's global infrastructure and real assets team. Paul has vast experience investing across infrastructure primaries, secondaries and co-investments.

3.10 During November 2020, the Pension Fund commissioned TruCost to undertake a carbon review of the Fund following the transition into the ESG equity mandates. The carbon to value invested metric is used by TruCost to reflect how efficient companies are at creating shareholder value, relative to the carbon emissions produced. The Fund's average carbon to value invested has been reduced by circa 60% since June 2019.

3.11 The estimated funding level (Appendix 2) for the Westminster Pension Fund has increased by 0.9% to 99.4% as at 31 December 2020 (98.5% at 30 September 2020). The funding level for Westminster City Council as an employer has also increased, with a funding level of 89.0% as at 31 December 2020 (88.0% at 30 September 2020). The Council plans to pay off its deficit by 2022, including payments of £22.7m in 2020/21 and £80.0m in 2021/22.

## 4. Asset Allocation and Summary of Changes

4.1 The chart below shows the changes in asset allocation of the Fund from 1 January 2020 to 31 December 2020. Asset allocations may vary due to changes in market value.




| | Jan | | Feb | | Mar | | Apr | | May | | Jun | | Jul | | Aug | | Sep | | Oct | | Nov | | Dec | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Infrastructure | 18 | 1% | 18 | 1% | 21 | 2% | 20 | 1% | 23 | 2% | 23 | 2% | 22 | 1% | 21 | 1% | 21 | 1% | 21 | 1% | 25 | 1% | 26 | 2% |
| Property | 13 | 8% | 13 | 9% | 13 | 10% | 13 | 9% | 13 | 9% | 13 | 8% | 13 | 8% | 13 | 8% | 13 | 8% | 13 | 8% | 13 | 8% | 13 | 8% |
| Equities | 1, | 68% | 97 | 66% | 85 | 65% | 94 | 66% | 1, | 67% | 1, | 68% | 1, | 68% | 1, | 69% | 1, | 69% | 1, | 69% | 1, | 70% | 1, | 70% |
| Fixed Income | 33 | 22% | 33 | 22% | 29 | 22% | 31 | 22% | 32 | 21% | 32 | 21% | 33 | 21% | 33 | 21% | 33 | 21% | 33 | 21% | 34 | 20% | 34 | 20% |

*Fixed Income includes bonds and Multi Asset Credit

4.2 As per the investment strategy review in 2020, the current Westminster Pension Fund target asset allocation is 65% of assets within equities, 19% in fixed income, 5% within infrastructure, 5% within property and 6% in renewable infrastructure.

4.3 Following the global COVID-19 outbreak during the first quarter of 2020, global equity markets were significantly impacted and saw the greatest fall in equity markets since the financial crisis of 2008. Despite the market volatility during this time, equity markets have recovered in the subsequent period.

4.4 Capital calls for the Pantheon Global Infrastructure Fund took place during March, May, September and November 2020, with the fund 40% drawn as at 31 December 2020.

4.5 As agreed at the Committee meeting in June 2020, fund manager interviews for a new active global equities manager took place on 1 September 2020. A decision was made to appoint Morgan Stanley, via the LCIV, to manage the Global Sustain Active Equity fund. The portfolio seeks to provide a concentrated high quality global portfolio of companies, which excludes tobacco, alcohol, adult entertainment, gambling, civilian weapons, fossil fuels, and gas or electrical utilities.

4.6 Funds were transitioned from the Legal & General (LGIM) Global Passive Global mandate to finance the new active equity portfolio on 30 October 2020.

4.7 In addition, a decision was taken by the Committee to transition the remaining funds within the LGIM Global Passive into the LGIM Future World Fund. This fund tracks the LGIM ESG Global Markets Index, whereby an Environmental, Social and Governance (ESG) screening of companies takes place to remove those companies which do not meet the required ESG criteria, e.g., those involved in production of controversial weapons, pure coal miners and violators of the UN Global Compact. This transition also took place during October 2020.

4.8 The value of Pension Fund investments managed by the LCIV as at 31 December 2020 was £851m. This represents 50% of Westminster's investment assets. A further £379m continues to benefit from reduced management fees, Legal and General having reduced its fees to match those available through the LCIV.

## 5. Further Investment Strategy Refinements

5.1 With regard to ongoing refinements of the investment strategy, consideration is to be given to investment assets that will provide further inflation proofing to the pension fund, as well as the possibility of an allocation to residential/social housing. Deloitte will provide a presentation and set of slides to be tabled and discussed at the 11 March 2021 meeting. Officers will work on the outcome of member discussions to provide a further paper at the next meeting.

**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

**Background Papers:** None

**Appendices:**

Appendix 1: Deloitte Investment Report, Quarter Ending 31 December 2020
Appendix 2: Barnett Waddingham Funding Level Update at 31 December 2020
Appendix 3: Investment Strategy Statement 2021/22

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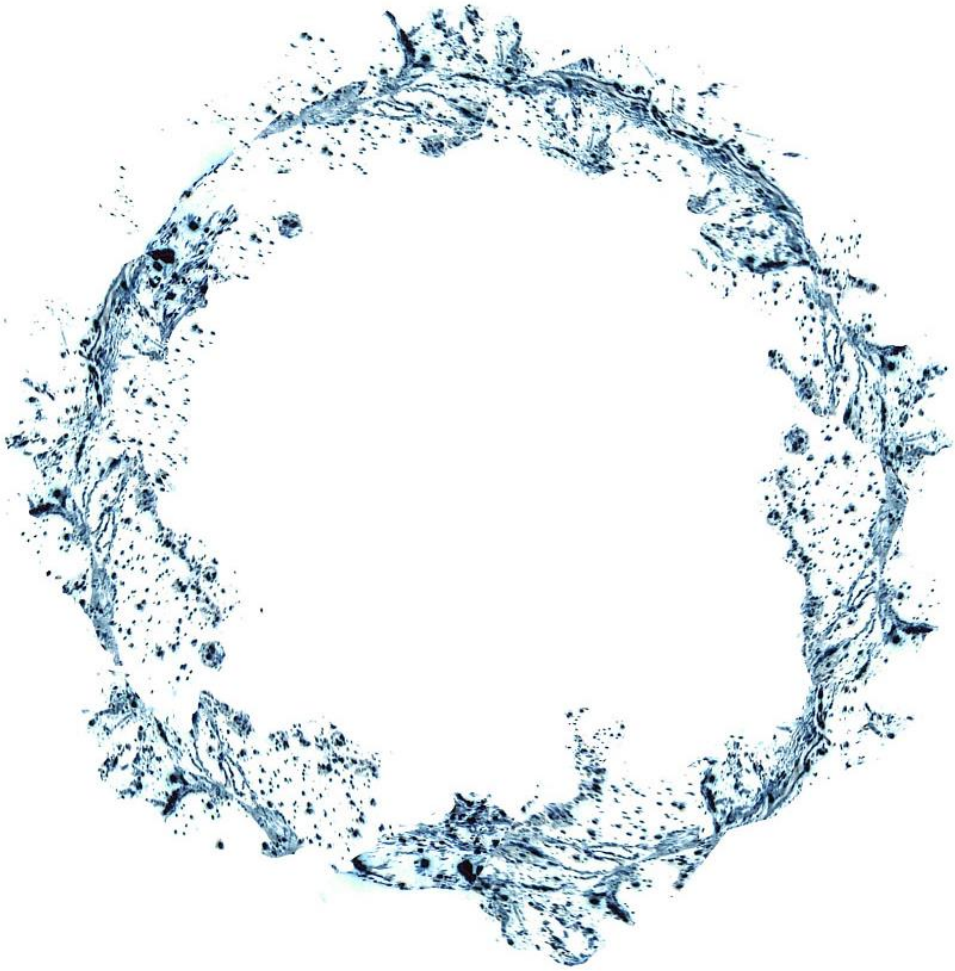
Deloitte.



# City of Westminster Pension Fund

## Investment Performance Report to 31 December 2020

Deloitte Total Reward and Benefits Limited
February 2021

# Contents

# 1 Market Background

## Global Equities

The fourth quarter of 2020 was a strong quarter for global equity markets thanks largely to greater clarity on a number of key macroeconomic issues including the COVID-19 vaccine breakthrough, which provided equity markets with a major boost, Joe Biden's victory in the US Election and the late agreement reached in Brexit talks.

In particular, the emergence of the first COVID-19 vaccines and their subsequent approval gave investors hope that the end of the pandemic was in sight and that the subsequent economic recovery might begin in earnest in 2021. In this regard, conviction in a swift and strong vaccine led economic rebound is high, and markets appeared to have largely shrugged-off a sharp rise in COVID-19 cases in both Europe and North America and the emergence of new more transmittable strains of COVID-19.

There were other factors supporting the rise in equity markets. A Biden victory in the US Presidential Election led to a rally in stock markets, as investors anticipated a more generous fiscal stimulus package and a more collaborative approach both globally and domestically. A $900bn US stimulus package was eventually signed into law late in December offering a range of measures including $325bn for small businesses and direct payments to individuals earning less than $75,000. Equity markets were further boosted by the news that a Brexit deal had been agreed on Christmas Eve that would facilitate a more orderly exit by the UK from the EU.

Over the fourth quarter as a whole, global equity markets delivered a return of 12.9% in local currency terms (or 8.5% in sterling terms). There continued to be a large dispersion in returns at a sector level as the large overall gains were led by Oil & Gas (26.5%) and Financials (20.3%) as investors anticipated a rebound in economic growth as newly approved vaccines are rolled out in 2021. These gains contrasted with Healthcare (-8.9%) and Technology (-4.1%), which experienced profit taking in the fourth quarter after performing strongly throughout 2020.

UK equities delivered a positive return of 12.6% over the quarter, outperforming overseas markets, due to the particular UK-centric boost from the last minute free-trade deal with the EU and its high concentration to outperforming sectors such as Oil & Gas and Financials. The more domestically focused FTSE 250 Index (18.8%) outperformed the FTSE 100 Index (10.9%) benefitting more strongly from the UK securing a future trade deal with the EU.

## Government bonds

After rebounding in the third quarter from record lows, nominal gilt yields continued to rise over October and November before falling back in December 2020 following a resurgence in COVID-19 cases and the increased odds of negative UK base rates as the Bank of England considered its options in anticipation of a potential no deal scenario. Over the fourth quarter as a whole, nominal yields at mid-to-long maturities decreased marginally by up to 5 bps but were relatively unchanged at the short-end, remaining in negative territory as at 31 December 2020. The All Stocks Gilt Index subsequently delivered a modest positive return of 0.6% over the quarter.

Real yields on index-linked gilts also decreased, as falls for mid-to-long maturities were more pronounced (than for nominal gilts) decreasing by between 5-15 bps, while changes were minor at the short-end. As a result of the overall decrease in real yields, the All Stocks Index-Linked Gilts Index delivered a return of 1.2% over the fourth quarter of 2020.

## Corporate bonds

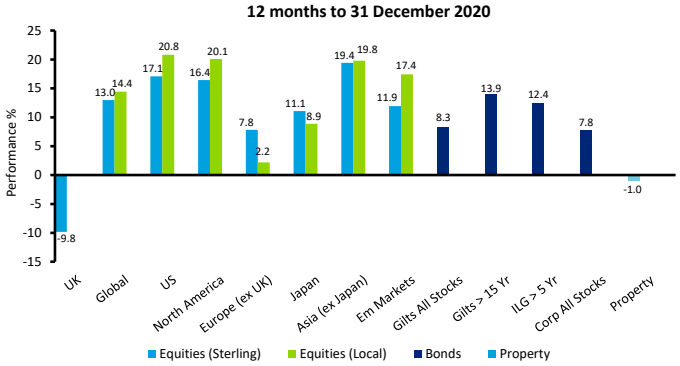
UK credit spreads narrowed further over the fourth quarter, with credit spreads falling by c. 30 bps, mirroring the investor confidence evident within equity markets. UK corporate bonds therefore outperformed equivalent gilts, and the iBoxx All Stocks Non-Gilt Index returned 3.1% over the three months to 31 December 2020.

Whilst credit spreads have now fallen below their historic average levels, default risk remains elevated given the severity of COVID-19's economic impact to date, and the potential for further economic damage from the implementation of increased lockdown restrictions.

## Property

The MSCI UK All Property Index delivered a return of 2.0% over the fourth quarter, and a negative return of -1.0% over the 12 months to 31 December 2020. However, these figures should be caveated given the relatively low level of transaction activity that there has been post COVID-19. Therefore, these performance figures reported in the initial quarters during the pandemic may not represent the full extent of the property market depreciation as a result of COVID-19, and further valuation falls seem possible in the months ahead.

Following looser restrictions in the summer/autumn, the sharp increase of COVID-19 cases going into winter 2020 led to restrictions being reimposed – with another lockdown anticipated in early 2021 - and this has created a further strain on already cash-strapped businesses particularly in the retail, travel and hospitality sectors. Rent collection is therefore anticipated to continue to be an ongoing issue between tenants and landlords into the new year. COVID-19 has also accelerated longer term structural trends such as the switch from high street shopping to online shopping, whilst future demand for central offices has become uncertain following the successful transition to remote-working and desire by many workers for a 'blended' approach in the future. As a result, future demand for central office space may be impacted over the medium-term as office leases come up for renewal.

# 2 Total Fund

## 2.1 Investment Performance to 31 December 2020

The following table provides a summary of the performance of the Fund's managers.

| Manager | Asset Class | Last Quarter (%) | | Last Year (%) | | Last 3 Years (% p.a.) | | Since inception (% p.a.) | |
|---|---|---|---|---|---|---|---|---|---|
| | | Fund Net of fees | B'mark | Fund Net of fees | B'mark | Fund Net of fees | B'mark | Fund Net of fees | B'mark |
| LCIV | Global Equity (Global Alpha Growth) | 11.1 | 8.5 | 32.7 | 12.7 | 17.5 | 9.7 | 17.3 | 12.3 |
| Longview | Global Equity | 9.6 | 7.8 | -1.5 | 12.3 | 7.2 | 10.2 | 11.4 | 12.2 |
| Insight[1] | Buy and Maintain | 4.3 | 2.2 | 8.5 | 5.7 | n/a | n/a | 6.6 | 5.4 |
| LCIV | Multi Asset Credit | 5.3 | 1.0 | 1.9 | 4.6 | n/a | n/a | 2.9 | 4.8 |
| Hermes | Property | 1.7 | 1.8 | -1.6 | -1.1 | 3.0 | 2.7 | 7.9 | 6.9 |
| Aberdeen Standard | Property | 1.3 | 1.1 | 4.0 | 10.3 | 5.6 | 7.2 | 7.8 | 7.1 |
| Pantheon[2] | Global Infrastructure | 2.0 | 2.0 | 2.4 | 8.6 | n/a | n/a | 0.1 | 9.8 |
| **Total** | | **7.5** | **7.9** | **11.7** | **10.5** | **7.7** | **7.3** | **n/a** | **n/a** |

*Source: Northern Trust. Figures may not tie due to rounding.*

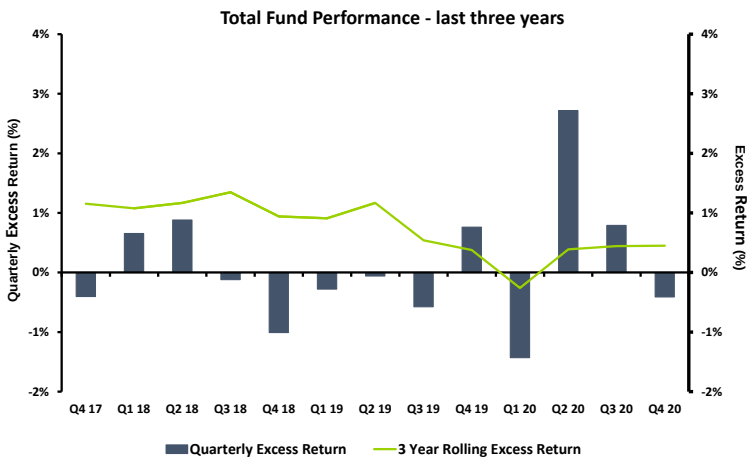
*[1]Insight Buy and Maintain Fund was incepted on 9 April 2018. Since inception returns and benchmark returns reflect a combination of Insight Buy & Maintain Fund returns and benchmark returns from date of inception to 31 December 2020, and Insight IM (Core) Fund returns and benchmark returns from inception date 30 September 2011 until inception of the Buy and Maintain Fund.*

*[2]Pantheon Global Infrastructure Fund performance is calculated by Northern Trust with a 60 calendar day lag, based on Pantheon net asset value in USD which Northern Trust converts to GBP. As such, performance provided is to end October 2020 and includes the impact of fluctuations in the USD to GBP exchange rate.*

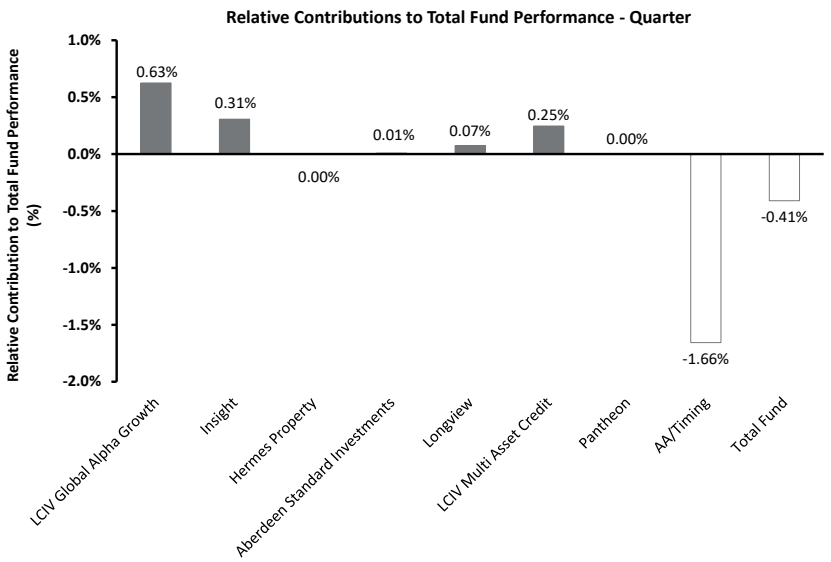
The Total Fund delivered a positive absolute return of 7.5% on a net of fees basis over the quarter to 31 December 2020, with each of the Fund's underlying investments delivering positive absolute returns on a net of fees basis. The Total Fund underperformed the fixed weight benchmark by 0.4% over the three-month period.

Over the one and three year periods to 31 December 2020, the Total Fund delivered positive absolute returns of 11.7% and 7.7% p.a. respectively on a net of fees basis, outperforming the fixed weight benchmark by 1.2% and 0.4% p.a. respectively. Outperformance over the longer term can largely be attributed to the LCIV Global Equity Fund, which has considerably outperformed its benchmark over the one and three year periods to 31 December 2020.

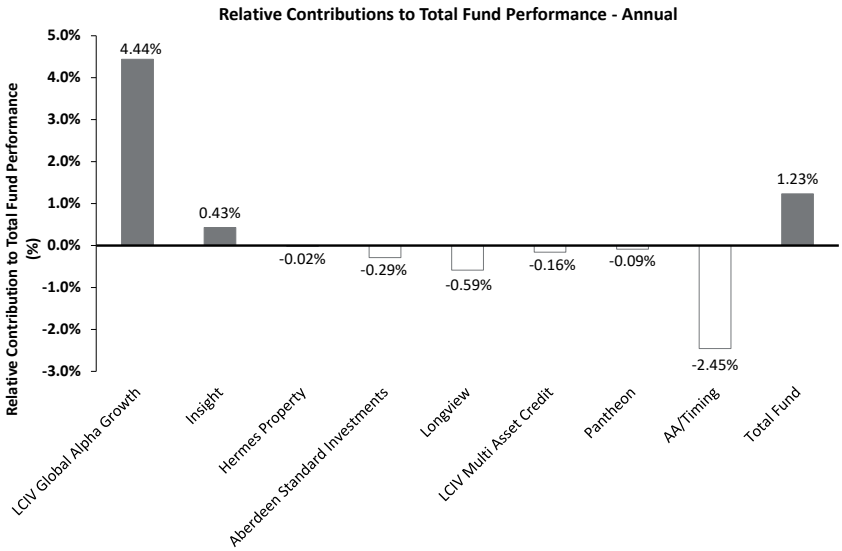
The chart below shows the relative performance of the Fund over the quarter and last three years, highlighting that the rolling three-year performance is ahead of the benchmark. Please note that performance is shown net of fees versus the benchmark.



## 2.2 Attribution of Performance to 31 December 2020




Despite each of the underlying funds delivering positive absolute returns on a net of fees basis, the Fund has underperformed its fixed weight benchmark by 0.4% over the quarter to 31 December 2020. Underperformance over the three month period can largely be attributed to asset allocation, as represented by the "AA/Timing" bar. The negative attribution provided by the "AA/Timing" bar represents the impact of the Fund's underweight allocations to ASI and the LCIV Multi Asset Credit Fund over a period of outperformance, and also includes the effects of investing in the LGIM Future World Global Equity Index Fund – GBP Currency Hedged and the LCIV Global Equity Core Fund on 15 October 2020 and 31 October 2020 respectively. While the LGIM Future World Fund delivered a positive return of 8.1% from the date of inception to the end of the quarter, Northern Trust, the Fund's custodian, does not yet have access to the Solactive L&G ESG Global Markets Index which the LGIM Future World Global Equity Index Fund – GBP Currency Hedged aims to replicate. Therefore the fund's performance has provisionally been measured against the broader market FTSE All Share Index, for which LGIM's Future World strategy underperformed by 4.2% over the period from inception until quarter-end. Meanwhile, the LCIV Global Equity Core Fund, managed by Morgan Stanley, underperformed its MSCI-based benchmark by 4.9% from the date of inception to the end of the quarter, despite delivering a positive absolute return of 6.3% on a net of fees basis over the period. This relative underperformance over the quarter was partially offset most notably by the LCIV Global Alpha Growth Fund, the Insight fixed income strategy and the LCIV Multi Asset Credit Fund which each outperformed their respective benchmarks.




Over the year to 31 December 2020, the Fund outperformed its benchmark by 1.2% on a net of fees basis. Outperformance can largely be attributed to the LCIV Global Equity Fund, having outperformed its MSCI-based benchmark by c. 20% on a net of fees basis over the twelve month period. The negative attribution represented by the "AA/Timing" bar reflects the impact of the Fund's overweight position to Longview, which considerably underperformed its benchmark over the year to 31 December 2020, alongside the impact of investing in the LGIM Future World Global Equity Index Fund – GBP Currency Hedged and the LCIV Global Equity Core Fund over the fourth quarter of 2020, as described above.

## 2.3 Asset Allocation as at 31 December 2020

The table below shows the assets held by manager and asset class as at 31 December 2020.

| Manager | Asset Class | End Sep 2020 (£m) | End Dec 2020 (£m) | End Sep 2020 (%) | End Dec 2020 (%) | Benchmark Allocation (%) |
|---|---|---|---|---|---|---|
| LGIM | Global Equity (Passive) | 658.0 | - | 41.5 | - | - |
| LGIM | Global Equity (Passive – Future World) | - | 378.5 | - | 22.2 | 25.0 |
| LCIV | Global Equity (Global Alpha Growth) | 380.3 | 422.4 | 24.0 | 24.8 | 20.0 |
| LCIV | Global Equity (Global Equity Core) | - | 332.4 | - | 19.5 | 20.0 |
| Longview | Global Equity | 63.3 | 65.2 | 4.0 | 3.8 | 0.0 |
| | **Total Equity** | **1,101.6** | **1,198.7** | **69.5** | **70.3** | **65.0** |
| Insight | Buy and Maintain | 240.8 | 251.1 | 15.2 | 14.7 | 13.5 |
| LCIV | Multi Asset Credit | 91.8 | 96.7 | 5.8 | 5.7 | 6.5 |
| | **Total Bonds** | **332.6** | **347.8** | **21.0** | **20.4** | **20.0** |
| Hermes | Property | 60.4 | 61.4 | 3.8 | 3.6 | 5.0 |
| Aberdeen Standard | Property | 69.4 | 70.3 | 4.4 | 4.1 | 5.0 |
| | **Total Property** | **129.8** | **131.7** | **8.2** | **7.7** | **10.0** |
| Pantheon | Global Infrastructure | 21.3 | 26.2 | 1.3 | 1.5 | 5.0 |
| | **Total Infrastructure Equity** | **21.3** | **26.2** | **1.3** | **1.5** | **5.0** |
| **Total** | | **1,585.3** | **1,704.3** | **100.0** | **100.0** | **100.0** |

*Source: Northern Trust*
*Figures may not sum due to rounding*

The total value of the Fund's invested assets stood at £1,704.3m as at 31 December 2020, representing an increase of c. £119.0m over the fourth quarter of 2020 with each of the Fund's underlying investments delivering positive absolute returns over the three-month period.

The Fund completed its investments into the LGIM Future World Global Equity Fund – GBP Currency Hedged and the LCIV Global Equity Core Fund on 15 October 2020 and 31 October 2020 respectively, which were funded by the proceeds from disinvesting from the Fund's LGIM passive global equity investment.

The Fund's equity allocation became further overweight over the fourth quarter of 2020 as equity markets continued to rise in response to greater clarity on a number of key macroeconomic issues including the COVID-19 vaccine breakthrough, Joe Biden's victory in the US Election and the late agreement reached in Brexit talks. However, looking forward, the Fund's equity exposure is expected to reduce as Pantheon continues to draw down capital, funded from the remaining Longview allocation.

Meanwhile, the Fund remained overweight to bonds and underweight to property as at 31 December 2020, with both percentage allocations falling slightly over the fourth quarter as the Fund's bond and property mandates underperformed the Total Fund return over the period.

During the quarter, Pantheon issued a capital call of $5.5m for payment by 25 November 2020, taking the Fund's total unfunded commitment to Pantheon to c. $55.2m as at mid-December 2020. This capital call was funded from the Fund's Longview allocation.

Following a manager selection exercise on 7 December 2020, the Committee agreed to commit €55m to the Macquarie Renewable Energy Fund 2 and £50m to the Quinbrook Renewable Impact Fund, to represent the Fund's new renewable infrastructure equity allocation. It is likely that both respective investments will represent an allocation in the region of 2.5-3.0% of the Fund's total invested assets once fully drawn down for investment.

Finally, the Committee had previously agreed to fully disinvest from the Hermes UK Property Fund, with the proceeds released on 15 January 2021 post quarter-end. The proceeds received from this disinvestment will be used to fund the allocation to renewable infrastructure equity as and when the Fund's commitments are drawn down for investment by the respective renewable infrastructure equity managers.

## 2.4 Yield analysis as at 31 December 2020

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

| Manager | Asset Class | Yield as at 31 December 2020 |
|---|---|---|
| LGIM | Global Equity (Passive – Future World) | 1.79% |
| LCIV | Global Equity (Global Alpha Growth) | 0.47%* |
| LCIV | Global Equity (Global Equity Core) | 1.45%* |
| Longview | Global Equity | 1.86% |
| Insight | Buy and Maintain | 1.69% |
| LCIV | Multi Asset Credit | 4.52%* |
| Hermes Property | Property | 3.60% |
| Aberdeen Standard Investments | Long Lease Property | 4.24% |
| | **Total** | **1.76%** |

**LCIV funds' yields are provided by the underlying managers (Baillie Gifford, Morgan Stanley 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 |
|---|---|---|---|
| **LGIM** | Global Equity (Passive – Future World) | Major deviation from benchmark returns<br>Significant loss of assets under management | 1 |
| **Baillie Gifford** | LCIV Global Equity (Global Alpha Growth) | Loss of key personnel<br>Change in investment approach<br>Lack of control in growth of assets under management | 1 |
| **Morgan Stanley Investment Management** | LCIV Global Equity (Global Equity Core) | Loss of key personnel<br>Change in investment approach<br>Lack of control in growth of assets under management | 1 |
| **Longview** | Global Equity | Loss of key personnel<br>Change in investment approach<br>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<br>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<br>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

The London CIV had assets under management of £10,750m within the 14 sub-funds (not including commitments to the London CIV Infrastructure Fund, London CIV Inflation Plus Fund and The London Fund) as at 31 December 2020, an increase of £1,174m over the quarter as a result of positive market movements over the period in addition to the impact of new London Borough investments in each of the LCIV Sustainable Equity Fund and the LCIV Global Equity Core Fund over the quarter.

The total assets under oversight, including passive investments held outside the London CIV platform, was £23.3bn as at 31 December 2020, an increase of c. £2.9bn over the quarter with cumulative commitments of £0.6bn to the LCIV Infrastructure Fund, LCIV Inflation Plus Fund and the newly launched The London Fund.

The London Fund was successfully launched on 15 December 2020, with an initial seed investment of £100m by the London Pension Fund Authority and a further £50m expected from the same source during Q1 2021. The London Fund is the first collaborative fund launch between LGPS Pool companies (London CIV and LPPI). The London CIV has identified interest of a

further £153m from its London Borough clients, with a second close planned in Q2 2021. The London Fund will focus on investing in real estate, infrastructure and growth capital sectors, with a secondary objective of generating a social benefit in Greater London.

Over the fourth quarter of 2020, the London CIV approached current investors in the LCIV Global Alpha Growth Fund, which the Fund currently invests in, to determine demand for a Paris Aligned version of the global alpha strategy. The London CIV has identified an initial £630m of potential interest in the strategy, and as such has decided to launch the new Paris Aligned Global Alpha Growth Fund, with the strategy set to be officially launched in early Q2 2021. The LCIV Global Alpha Growth Fund continues to be offered for both new and existing investors.

[redacted]

*COVID-19 Impact:*

The London CIV's employees continue to work remotely, and are expected to remain so for the foreseeable future. The London CIV has continued to host monthly LCIV Business Updates to keep investors informed and up to date with regards to progress with mandate developments and fund launches. All 'Meet the Manager' sessions continue to go ahead as planned.

## Personnel

Over the fourth quarter of 2020, the London CIV hired Vanessa Shia as Head of Private Markets. Vanessa will lead on the London CIV's infrastructure capabilities and will assist with the LCIV Inflation Plus Fund. Vanessa joined on 9 November 2020 and holds a wealth of experience in leading the integration of responsible investment and ESG principles throughout previous roles. Vanessa is expecting to commence maternity leave from February 2021, the London CIV is working with Vanessa to develop a cover plan for the period that she will be unavailable.

The London CIV also hired Gustave Loriot-Boserup as Responsible Investment Manager and Andrea Wildsmith as Head of Risk and Performance over the quarter. Gustave joined in December 2020 from Trucost, where he was responsible for environmental analytics across a range of asset classes. Gustave will work with Jacqueline Jackson in building out the London CIV's climate foot-printing and stewardship capabilities. Andrea will lead on the newly acquired eVestment database, which will be used to help the investment team select and manage public investment.

The London CIV is seeking to employ an equities investment manager, with advertising set to commence in due course.

***Deloitte view –*** It is positive to see a permanent Chief Investment Officer and we hope for continued stability going forward. We are continuing to monitor developments on the business side as well as the new fund launches.

## 3.2 LGIM

### Business

As at 30 June 2020, Legal & General Investment Management ("LGIM") had assets under management ("AuM") of c. £1,241m, an increase of c. £45m since 31 December 2019. (LGIM provides AuM updates biannually and the next 31 December 2020 AuM update will be released in late February/early March 2021.)

*COVID-19 Impact and Reporting Issues:*

LGIM had to adjust its business operations in light of the COVID-19 lockdown restrictions, enacting its business contingency planning, and evolving to enable a greater ability for agile-working for employees to ensure business continuity.

Despite enacting these contingency plans, we experienced a notably high number of reporting delays/concerns on a range of clients with LGIM during summer 2020 which LGIM cited were due to the impact of remote working and a spike in annual leave over the summer at a time of increased reporting requests in the aftermath of COVID-19. We have followed up with LGIM to gain assurance that the Fund receives timely information going forward and – if not fully back to the pre COVID-19 timelines - this has improved to some extent over the recent quarterly reporting cycle.

### Personnel

At the time of writing, LGIM has not yet provided information regarding any significant team or personnel changes to the Index team over the quarter.

***Deloitte View -*** We continue to rate Legal & General positively for its passive investment management capabilities.

## 3.3 Baillie Gifford

### Business

Baillie Gifford held c. £326bn in assets under management as at 31 December 2020, representing an increase of c. £39bn over the quarter primarily as a result of the positive returns delivered by many of Baillie Gifford's equity strategies. The Global Alpha strategy held assets under management of c. £50bn as at 31 December 2020.

*COVID-19 Response:*

Due to Baillie Gifford investing significantly in technology in the years prior to the COVID-19 pandemic, all staff members were already able to work remotely whilst maintaining connection to all of Baillie Gifford's major systems. In addition, Baillie Gifford has encouraged the use of communication tools such as video conferencing to allow client, staff and supplier interaction to continue. As such, Baillie Gifford continues to feel that all operations are working as normal.

### Personnel

Baillie Gifford made no changes to the Global Alpha Fund team over the fourth quarter of 2020.

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

## 3.4 Morgan Stanley Investment Management

### Business

As at 31 December 2020, the LCIV Global Equity Core Fund held assets under management of £504m, a substantial increase of £334m over the quarter primarily as a result of one new London Borough investor being added to the sub-fund.

The Morgan Stanley Global Sustain Fund, which the LCIV Global Equity Core Fund is based upon, held assets under management of $3.1bn as at 31 December 2020. This represents an increase of c. $1.1bn over the quarter since 30 September 2020 following new investments into the strategy.

*COVID-19 Impact:*

MSIM's international equity team switched to remote working at the beginning of the COVID-19 pandemic and has seen no interruption to business.

### Personnel

Over the quarter, Dirk Hoffmann-Becking announced his plan to retire from MSIM and asset management, with an effective date of 31 March 2021. Going forward, Dirk will be sharing his time between pursuing his academic interests and consulting to banks. Dirk has been a portfolio manager across the MSIM International Equity team's strategies since 2013. His primary research coverage includes Financials and Consumer Discretionary, and as such the MSIM International Equity team has adjusted its sector coverage. Over the coming months Dirk will work to complete the transition of his research responsibilities, primarily to Richard Perrott who will cover Financials and Nathan Wong who will expand his coverage of Consumer Discretionary stocks. Over the next months, MSIM will also transition primary coverage of European Pharmaceuticals from Marcus Watson to Helena Miles, and add Fei Teng to coverage of other select Health Care, predominantly ex-US. Marcus will retain his existing US Health Care and IT coverage.

Over previous years, MSIM has focused on building an experienced and well-resourced team and believes the transition resulting from Dirk's retirement will be as seamless as possible for MSIM's clients.

**Deloitte View -** We continue to rate Morgan Stanley Investment Management positively for its active equity capabilities.

## 3.5 Longview

### Business

As at 31 December 2020, Longview held assets under management of c. £18.9bn, a decrease of c. £2.2bn over the quarter with positive market returns partially offsetting c. £4.1bn of net outflows from the firm over the quarter.

*COVID-19 Impact:*

Longview reported that it had enacted its business continuity plan earlier in 2020, in light of the COVID-19 outbreak. All Longview employees are able to carry out their duties remotely, without disruption to any critical functions. Longview has stated that employees are in open commutation throughout each day to ensure that the firm's operational capabilities continue and that Longview is working closely with all third-party providers to ensure continuation of service.

### Personnel

As announced previously, Ken Campbell, Head Trader, retired from financial services at the end of December 2020, relocating to the USA. Also, as previously announced, Dan Langan, CFO and Head of Compliance, retired from the industry at the end of 2020.

Emma Davies became CFO in December 2020 and Sheila Tickner was announced as Head of Compliance in London in November 2020. Sheila and Emma have worked at Longview for ten and eight years respectively.

During the fourth quarter in October 2020, Longview announced that Alistair Graham would be stepping down from his role of CIO of Longview Partners on 31 December 2020, leaving the firm in June 2021. Alistair joined Longview in 2003 and became CIO in October 2018. Post quarter-end, Alex Philipps became CIO from 1 January 2021 with Paul Crinion appointed Head of Research on the same date.

Ken, Dan and Alistair are Members of Longview Partners LLP, and have each sold their ownership interest.

***Deloitte view –*** We have 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

As at 31 December 2020, Insight's assets under management stood at c. £753bn, an increase of c. £21bn over the quarter as a result of positive market movements.

The Insight Buy and Maintain Fund's assets under management remained broadly unchanged at c. £3.0bn over the quarter to 31 December 2020.

*COVID-19 Impact:*

Insight continues to make use of its business continuity plan, which emphasises the ability of all employees to work remotely through a remote access platform. The platform itself supports all investment and operational systems used by Insight, allowing business operations to be maintained without access to Insight offices.

There were no defaults within the Buy and Maintain Fund portfolio over the quarter. Insight recognises that the current slow downgrade pace and better than expected levels of defaults has been supported by the unprecedented level of government and monetary support, with the operating environment for corporates supported by government support programmes, furlough schemes and loan guarantees. Insight anticipates that, as some of these schemes begin to end, there may be an increase in the level of downgrades and defaults.

### Personnel

Insight made no changes to its Buy and Maintain Fund team over the fourth quarter of 2020.

***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

### Business

As at 31 December 2020, CQS' total assets under management stood at c. $20.9bn, increasing by c. $1.6bn over the quarter. The CQS Credit Multi Asset Fund's assets under management increased by c. $0.3bn over the quarter, with CQS managing c. $11.3bn of assets on behalf of clients as at 31 December 2020.

*COVID-19 Impact:*

Over the quarter, at the fund level, the LCIV Multi Asset Credit Fund experienced 19 credit rating downgrades, representing c. 2.5% of the portfolio, with no further defaults over the period. A total of 18 positions received credit rating upgrades over the quarter, representing c. 1.5% of the total portfolio.

### Personnel

There were no specific team/personnel changes to the Credit Multi Asset Fund team over the quarter to 31 December 2020.

***Deloitte View -*** We continue to rate CQS positively for its multi asset capabilities.

## 3.8 Hermes

### Business

As at 31 December 2020, Hermes held total assets under management of c. £39.5bn, an increase of c. £3.2bn following positive returns across a number of Hermes' strategies over the fourth quarter of 2020. As at 25 December 2020, the Hermes Property UK Trust ("HPUT") total net asset value stood at £1.4bn, an increase of c. £5m since 29 September 2020.

*COVID-19 Impact:*

As at mid-January 2021, Hermes had collected 85% of the total rent demanded for Q4 2020, and 69% for Q1 2021.

### Personnel

As reported last quarter, Dermot Kiernan officially joined as a HPUT Fund Director in October 2020. Dermot has 35 years of extensive experience in the UK property sector, most recently as Fund Manager of the M&G UK Property Fund since 2009, and

Hermes anticipates that Dermot will bring an investment philosophy that compliments the responsible investment approach of the HPUT.

***Deloitte view –*** Following the announcement by Hermes to appoint Dermot Kiernan as the new Fund Manager, we will continue to monitor any further personnel changes that occur in the coming months alongside the handover process to Dermot. Over the third quarter of 2020, the Fund agreed to fully disinvest from the HPUT, with the Fund's full investment successfully redeemed on 15 January 2021.

## 3.9 Aberdeen Standard Investments

### Business

As at 31 December 2020, the Aberdeen Standard Investments Long Lease Property Fund had a total fund value of c. £2.7bn, increasing by c. £26m over the quarter.

*COVID-19 Impact:*

After removing the material valuation uncertainty clause and lifting the suspension on trading during the third quarter of 2020, the Long Lease Property Fund continues to trade as normal.

ASI continues to work with its tenants to discuss deferment arrangements where necessary. As at 15 January 2021, the Long Lease Property Fund had collected 95.8% of its Q4 2020 rent.

### Personnel

The departure of Richard Marshall, former Portfolio Manager of the ASI Long Lease Property Fund took place during the fourth quarter in October 2020. Les Ross, who previously held the role of Deputy Portfolio Manager formally became the new Portfolio Manager from 1 August 2020. Whilst we view Les Ross as an experienced replacement, we acknowledge that Richard had held the position of Portfolio Manager of the ASI Long Lease Property Fund since 2006 and his contribution has been viewed as one of the key factors to the Fund's lasting success.

This change place as part of their wider restructure of the global real estate management team to align with the future direction of the business, and also followed the replacement of Keith Skeoch as CEO designate by Stephen Bird earlier in 2020.

***Deloitte View –*** We are closely monitoring the changes to senior leadership at ASI. With regards to real estate and the Long Lease Property Fund specifically, whilst the departure of Richard Marshall was somewhat more of a surprise, Les Ross is the obvious replacement and is very experienced and well positioned to take over. That said, Richard's contribution to the fund was significant and we continue to closely monitor both the fund and wider business.

## 3.10 Pantheon

### Business

As at 30 September 2020, Pantheon's total assets under management stood at c. $58bn, an increase of c. $2bn over the quarter since 30 June 2020.

Following the final close in March 2019, the Global Infrastructure III Fund had $2.2bn in committed assets. As at 31 December 2020, the Global Infrastructure III Fund had completed 31 deals, with $1,723m in closed or committed deals. This represents a 77% commitment level.

*COVID-19 Impact:*

Pantheon's business continuity plan ensures all staff are able to work from home, with all systems and processes in full operation. Pantheon has continued to prioritise the safety and wellbeing of its employees and partners, whilst also ensuring that services to clients have continued at an expected level. Pantheon has increased its use of video or conference calls to continue participation in meetings despite the global restrictions to travel. In addition, Pantheon has provided a series of communications to clients with regular updates on Pantheon's response, portfolios and the wider economy as a result of COVID-19. Pantheon also continues to provide up-to-date guidance on expected capital calls and distributions so clients can plan accordingly.

### Personnel

There were no significant team or personnel changes over the fourth quarter of 2020.

Following quarter end, in January 2021, Dinesh Ramasamy (San Francisco) and Jerome Duthu-Bengtzon (London) were promoted to partner. Dinesh and Jerome who were among eight infrastructure employees recognised in Pantheon's annual promotions. Dinesh and Jerome's promotions bring the total number of partners in the global infrastructure and real assets team to eight.

In addition, following quarter end, Paul Barr was appointed as investment partner to Pantheon's global infrastructure and real assets team. Paul will initially be based in London before relocating to San Francisco in late 2021 or early 2022. Paul has 15 years' experience investing across infrastructure primaries, secondaries and co-investments, most recently during nine years at Singapore-based GIC, a large-scale infrastructure investor.

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

# 4 London CIV

## 4.1 Investment Performance to 31 December 2020

At the end of the fourth quarter of 2020, the assets under management within the 14 sub-funds of the London CIV was £10,750m with a further £606m committed to the Infrastructure and Inflation Plus Funds, and The London Fund. The total assets under oversight (which includes passive investments held outside of the CIV platform) increased by c. £2.9bn to c. £23.3bn 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 Sep 2020 (£m) | Total AuM as at 31 Dec 2020 (£m) | Number of London CIV clients | Inception Date |
|---|---|---|---|---|---|---|
| LCIV Global Alpha Growth | Global Equity | Baillie Gifford | 3,322 | 3,612 | 13 | 11/04/16 |
| LCIV Global Equity | Global Equity | Newton | 665 | 696 | 3 | 22/05/17 |
| LCIV Global Equity Focus | Global Equity | Longview Partners | 785 | 861 | 5 | 17/07/17 |
| LCIV Equity Income | Global Equity | Epoch Investment Partners | 221 | 133 | 2 | 08/11/17 |
| LCIV Emerging Market Equity | Global Equity | Henderson Global Investors | 425 | 498 | 6 | 11/01/18 |
| LCIV Sustainable Equity Fund | Global Equity | RBC Global Asset Management (UK) | 499 | 625 | 4 | 18/04/18 |
| LCIV Global Equity Core Fund | Global Equity | Morgan Stanley Investment Management | 170 | 504 | 2 | 21/08/20 |
| LCIV Sustainable Equity Exclusion Fund | Global Equity | RBC Global Asset Management (UK) | 344 | 385 | 2 | 11/03/20 |
| LCIV Global Total Return | Diversified Growth Fund | Pyrford | 266 | 274 | 4 | 17/06/16 |
| LCIV Diversified Growth | Diversified Growth Fund | Baillie Gifford | 614 | 670 | 7 | 15/02/16 |
| LCIV Absolute Return | Diversified Growth Fund | Ruffer | 756 | 910 | 8 | 21/06/16 |
| LCIV Real Return | Diversified Growth Fund | Newton | 126 | 123 | 2 | 16/12/16 |
| LCIV MAC | Fixed Income | CQS | 1,037 | 1,105 | 12 | 31/05/18 |
| LCIV Global Bond | Fixed Income | PIMCO | 345 | 354 | 3 | 30/11/18 |
| **Total** | | | **9,576** | **10,750** | | |

Over the quarter, one new London Borough invested in the LCIV Sustainable Equity Fund and another, Westminster City Council, invested in the LCIV Global Equity Core Fund.

# 5 LGIM – Global Equity (Passive – Future World)

Legal and General Investment Manager ("LGIM") was appointed to manage a global equity portfolio with a passive ESG approach, with the objective of replicating the performance of the Solactive L&G ESG Global Markets Index benchmark. The manager has an annual management fee based on the value of assets.

## 5.1 Passive Global Equity – Investment Performance to 31 December 2020

| | Last Quarter (%) |
|---|---|
| LGIM Future World Global Equity Index Fund – GBP Currency Hedged | 12.0 |
| Solactive L&G ESG Global Markets Index | 11.8 |
| MSCI World Equity Index | 7.9 |
| Relative (to Benchmark) | 0.2 |

*Source: Legal & General Investment Management*

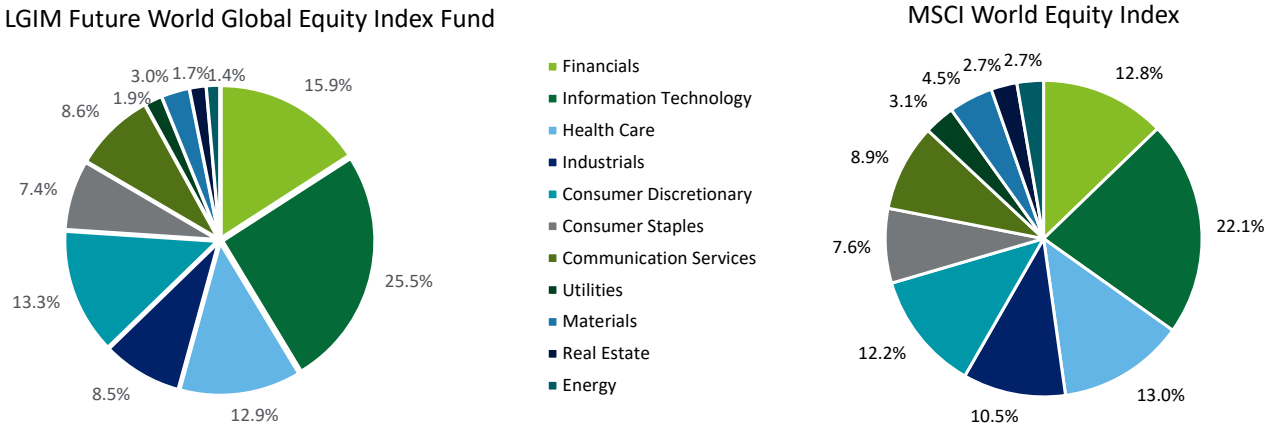
The Fund invested in the LGIM Future World Global Equity Index Fund – GBP Currency Hedged on 15 October 2020. For information purposes, the table above provides the performance of the strategy, the strategy's benchmark, and the MSCI World Equity Index (GBP) over the full quarter to 31 December 2020.

The Fund offers equity exposure while incorporating ESG 'tilts' through LGIM-designed indices. Note, LGIM designs the ESG indices and Solactive are used as the benchmark calculation agent. The tilting mechanism aims to reduce exposure to companies associated with 'poor' ESG practices and to provide greater exposure to those that have stronger ESG credentials. LGIM believes that integrating ESG considerations into the investment process can help to mitigate long-term risk and has the potential to improve long-term financial outcomes.

The LGIM Future World Global Equity Index Fund – GBP Currency Hedged has outperformed its Solactive benchmark by 0.2% on a gross of fees basis over the quarter to 31 December 2020. The Fund outperformed the MSCI World Equity Index (GBP) by 4.1% over the same period, with the strategy's selective stock allocation mechanism proving beneficial over the fourth quarter of 2020.

## 5.2 Portfolio Sector Breakdown at 31 December 2020

The below charts compare the relative weightings of the sectors in the LGIM Future World Global Equity Index Fund and the MSCI World Equity Index as at 31 December 2020.




The LGIM Future World Global Equity Index Fund has a larger allocation to financials and information technology than the MSCI World Equity Index, whilst the lower allocation to utilities, materials and energy represents the ESG tilt applied by the LGIM strategy.

# 6 LCIV – Global Alpha Growth

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 by 2-3% p.a. on a gross of fees basis over rolling 5-year periods.

## 6.1 Global Alpha Growth – Investment performance to 31 December 2020

| | Last Quarter (%) | Last Year (%) | Last 3 Years (% p.a.) | Since Inception (% p.a.) |
|---|---|---|---|---|
| Baillie Gifford – Net of fees | 11.1 | 32.7 | 17.5 | 17.3 |
| MSCI AC World Index | 8.5 | 12.7 | 9.7 | 12.3 |
| Relative | 2.6 | 20.1 | 7.9 | 5.1 |

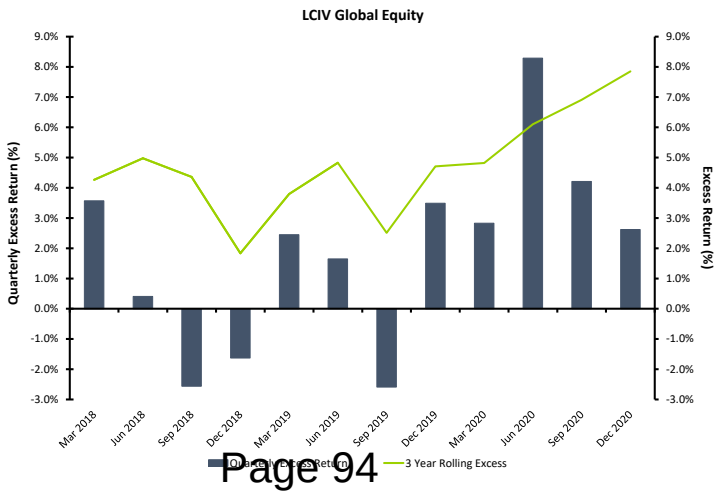
*Source: Northern Trust. Relative performance may not tie due to rounding.*
*Inception date taken as 18 March 2014*

The LCIV Global Alpha Growth Fund, managed by Baillie Gifford, delivered a positive absolute return of 11.1% on a net of fees basis over the quarter to 31 December 2020, outperforming its MSCI AC World Index benchmark by 2.6% over the period. Over the 12-month and annualised three-year periods to 31 December 2020, the strategy has delivered positive absolute returns of 32.7% and 17.5% p.a. on a net of fees basis respectively, outperforming the benchmark by 20.1% and 7.9% p.a. respectively.

Positive performance continues to be driven by the Global Alpha Growth Fund's allocation to businesses that have been able to continue operating – and in some cases even thrive i.e. technology stocks - despite the widespread societal lockdowns as a result of the COVID-19 pandemic. Such stocks are grouped into Baillie Gifford's "rapid growth" holdings allocation, which represented c. 45% of the strategy's portfolio at the beginning of the quarter, and are predominantly technology-enabled stocks. Baillie Gifford is confident that the rapid growth portfolio is well placed due to the competitive advantages possessed by each of these businesses, and the manager continues to test and review the potential for further upside in holdings where they have already experienced a noticeable appreciation in share price.

At a sector level, Baillie Gifford's overweight allocation to Consumer Discretionary, relative to the MSCI-based benchmark, proved beneficial over the fourth quarter. Stock selection within the Consumer Discretionary sector added to outperformance over the quarter with Tesla alone contributing c. 1.0% to relative outperformance, and luxury retail business Farfetch adding a further c. 0.8%. Baillie Gifford's Industrials, Communication Services and Healthcare sector exposures also contributed positively to performance over the fourth quarter of 2020. Set against these gains, the strategy's Energy allocation, despite providing positive absolute returns, detracted from relative performance owing to an underweight position relative to the benchmark, and disadvantageous stock selection within Financials also detracted from performance over the three months to 31 December 2020.

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 7.9% p.a. over the three year period to 31 December 2020.



## 6.2 Positioning Analysis

The top ten holdings in the portfolio account for c. 24.1% of the fund and are detailed below.

| Top 10 holdings as at 31 December 2020 | Proportion of Baillie Gifford Fund |
|---|---|
| Naspers | 3.1% |
| Amazon | 2.9% |
| Alphabet | 2.7% |
| Tesla | 2.5% |
| Moody's | 2.3% |
| Ryanair | 2.2% |
| Mastercard | 2.1% |
| Microsoft | 2.1% |
| Softbank | 2.1% |
| Shopify | 2.1% |
| **Total** | **24.1%** |

*Source: London CIV*
*Figures may not sum due to rounding*

## 6.3 Performance Analysis

The table below represents the top five contributors to performance over the quarter to 31 December 2020.

| Top 5 contributors as at 31 December 2020 | Contribution (%) |
|---|---|
| Tesla | +0.99 |
| Farfetch | +0.75 |
| Ryanair | +0.72 |
| Trade Desk | +0.47 |
| Cloudfare | +0.44 |

Baillie Gifford notes that positive performance can be attributed to a wide number of positions during the fourth quarter, rather than return being driven by a small group of stocks or single theme. That said, Tesla was the largest contributor to positive performance for the second consecutive quarter.

Going forward, Baillie Gifford aims to increase the strategy's exposure to cyclical businesses, under the impression that such stocks will profit most from the anticipated global economic recovery, should the rollout of COVID-19 vaccinations prove to be successful. As such, Baillie Gifford has added to the strategy's positions in Booking.com and Ryanair.

The table below represents the top 5 detractors to performance over the quarter to 31 December 2020.

| Top 5 detractors as at 31 December 2020 | Contribution (%) |
|---|---|
| Alibaba | -0.70 |
| SAP | -0.40 |
| Reliance Industries | -0.20 |
| Teladoc Health | -0.18 |
| Ainylam Pharmaceuticals | -0.17 |

# 7 LCIV – Global Equity Core

Morgan Stanley Investment Management was appointed to manage an active equity portfolio with a focus on sustainability when selecting investment opportunities, held as a sub-fund on the London CIV platform from 31 October 2020. The aim of the fund is to outperform the MSCI AC World Index.

## 7.1 Global Equity Core – Investment Performance to 31 December 2020

| | Last Quarter (%) |
|---|---|
| Net of fees | 1.2 |
| Benchmark (MSCI World Net Index) | 8.5 |
| Global Franchise Fund (net of fees) | 0.0 |
| Net Performance relative to Benchmark | -7.3 |

Source: Morgan Stanley and Northern Trust. Relative performance may not tie due to rounding.

The Fund invested in the LCIV Global Equity Core Fund on 31 October 2020. For information purposes, the table above provides the performance of the LCIV Global Equity Core Fund, the strategy's benchmark, and the Morgan Stanley Global Franchise Fund over the full fourth quarter. The LCIV Global Equity Core Fund follows the same strategy and, in general, has the same investment principles as the Global Franchise Fund, but is subject to a greater number of restrictions, owing to the emphasis on sustainability. As such, there exists a number of marginal differences in the characteristics of the two funds.

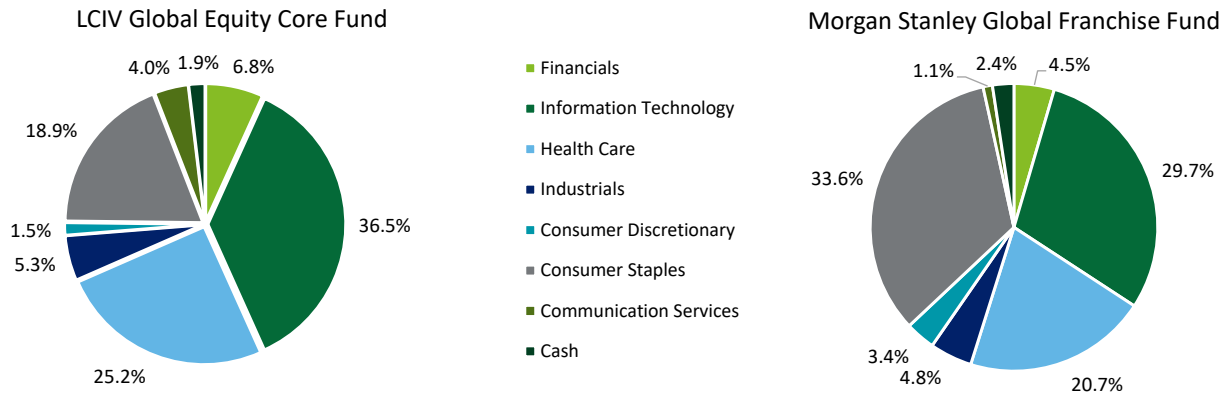
Over the fourth quarter of 2020, the LCIV Global Equity Core Fund has delivered a positive return of 1.2% on a net of fees basis, but has underperformed the MSCI World Net Index by 7.3% over the period. The LCIV Global Equity Core Fund's portfolio is predominantly comprised of quality franchises with strong recurring cash flows. While such a portfolio is expected to prove beneficial during volatile periods, the underperformance relative to the broader equity market over the quarter can primarily be attributed to the strategy's under allocation to cyclical stocks, with investor risk appetite significantly returning over the quarter.

Stock selection also proved to be a detraction to recent relative performance, with two of the strategy's largest allocations, Reckitt Benckiser and SAP, providing negative returns over the quarter. Reckitt Benckiser faced specific pricing challenges over the three-month period to 31 December 2020, while SAP underperformed as a result of governance and business model changes. It is expected that SAP's transformation should lead to an improvement in the company's future earnings.

The LCIV Global Equity Core Fund has outperformed the Global Franchise Fund over the three-month period to 31 December 2020, with outperformance attributed to a higher allocation to financials and technology, and a lower allocation to beverage companies, which continued to be disadvantaged by continuing social distancing measures.

## 7.2 Portfolio Sector Breakdown at 31 December 2020

The charts below compare the relative weightings of the sectors in the LCIV Global Equity Core Fund and the Morgan Stanley Global Franchise Fund as at 31 December 2020.




Source: London CIV and Morgan Stanley

The Global Equity Core strategy has a higher allocation to information technology, healthcare and financials, and a lower allocation to consumer staples due to its sustainable investment tilt.

As at 31 December 2020, the Global Franchise Fund portfolio is made up c. 10% of tobacco stocks. The Global Equity Core Fund is restricted from investing in tobacco, and hence holds a substantially smaller allocation to consumer staples.

## 7.3 Performance Analysis

The table below summarises the Global Equity Core Fund portfolio's key characteristics as at 31 December 2020, compared with the Morgan Stanley Global Franchise Fund.

| | Global Sustain Fund | Global Franchise Fund |
|---|---|---|
| No. of Holdings | 41 | 31 |
| No. of Countries | 7 | 6 |
| No. of Sectors* | 6 | 7 |
| No. of Industries* | 19 | 14 |

*Not including cash

Source: London CIV and Morgan Stanley

### Holdings

The top 10 holdings in the Global Equity Core Fund account for c. 48.8% of the strategy and are detailed below.

| Global Equity Core Fund Holding | % of NAV |
|---|---|
| Microsoft | 6.7 |
| Reckitt Benckiser | 6.1 |
| Visa | 5.6 |
| SAP | 5.1 |
| Henkel Vorzug | 4.9 |
| Accenture | 4.6 |
| Procter & Gamble | 4.2 |
| Baxter International | 3.9 |
| Becton Dickinson | 3.9 |
| Medtronic | 3.8 |
| Total | 48.8* |

| Global Franchise Fund Holding | % of NAV |
|---|---|
| Microsoft | 8.6 |
| Reckitt Benckiser | 8.0 |
| Philip Morris | 7.9 |
| Visa | 5.5 |
| Accenture | 4.8 |
| Procter & Gamble | 4.6 |
| SAP | 4.4 |
| Baxter International | 4.1 |
| Danaher | 4.0 |
| Automatic Data Processing | 3.9 |
| Total | 55.8* |

*Note figures may not sum due to rounding

Source: London CIV and Morgan Stanley

Seven stocks are consistently accounted for in the top ten holdings of both strategies.

# 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.

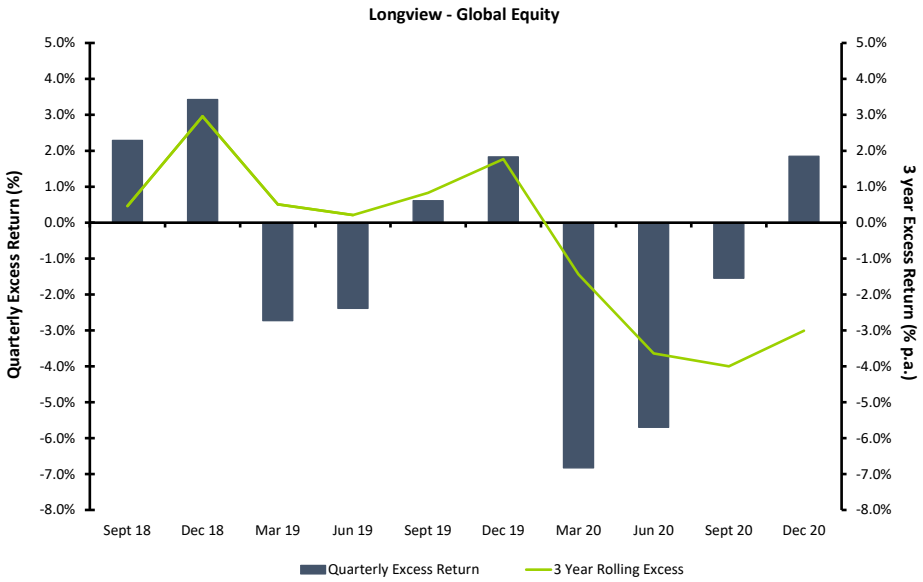
## 8.1 Active Global Equity – Investment Performance to 31 December 2020

| | Last Quarter (%) | Last Year (%) | Last 3 Years (% p.a.) | Since Inception (% p.a.) |
|---|---|---|---|---|
| Longview - Net of fees | 9.6 | -1.5 | 7.2 | 11.4 |
| MSCI World Index | 7.8 | 12.3 | 10.2 | 12.2 |
| Relative | 1.9 | -13.8 | -3.0 | -0.8 |

*Source: Northern Trust. Relative performance may not tie due to rounding.*
*Inception date 15 January 2015*

Over the fourth quarter of 2020, the Longview Global Equity Fund delivered a positive absolute return of 9.6% on a net of fees basis, outperforming its MSCI World Index benchmark by 1.9% over the period. Over the longer year and three-year periods to 31 December 2020, the fund has underperformed its benchmark by 13.8% and 3.0% p.a. respectively.

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.




Longview attributes specific stock price movements within the strategy's portfolio to macro factors and COVID-19 related news, as opposed to stock specific announcements. Within the portfolio, companies that have been negatively impacted as a result of social distancing measures throughout 2020 rallied over the fourth quarter of the year, following the commencement of mass vaccination programmes across the US and Europe. Longview feels that the portfolio is well positioned to benefit from a return towards normality, but the manager retains an expectation that COVID-19 associated volatility will continue to be present in the market for some time.

Longview recognises that the portfolio's limited exposure to Apple, Microsoft, Amazon, Alphabet, Facebook and Tesla, which combined account for c. 15% of the MSCI World Index, was responsible for over a third of the strategy's relative underperformance over the year to 31 December 2020. However, Longview states that it will continue to search for businesses that it can identify attractive underlying quality and intrinsic value in, rather than selecting stocks purely because they are owned by the index.

Over the fourth quarter of 2020, the Global Equity Fund made one new portfolio acquisition – L3 Harris Technologies, a US defense company formed from the 2019 merger of L3 Technologies and Harris Corporation. L3 Harris is the 6th largest defense company in the US, with revenues derived predominantly from the US Department of Defense and other US government entities, and a further c. 30% of revenues coming from commercial customers and international governments. Longview recognises that the company's underlying demand drivers are likely to remain steady and predictable over time, and the company has a relatively low single contract exposure compared to its peers, thereby reducing counterparty risk. As such, Longview believes L3 Harris to be a sustainable, high return business, protected by significant barriers to entry.

The strategy did not sell any positions over the quarter to 31 December 2020.

## 8.2 Performance Analysis

The tables below represent the top five and bottom five contributors to performance over the fourth quarter of 2020.

| Top Five Contributors for Q4 2020 | Contribution (%) |
|---|---|
| HCA Healthcare | +0.86 |
| Whitbread | +0.77 |
| Lloyds | +0.61 |
| US Foods | +0.58 |
| Emerson Electric | +0.45 |

For the second consecutive quarter, HCA Healthcare, provided the largest contribution to performance. Positive performance follows strong published results over the third quarter of 2020, with significant facility revenue and underlying profit growth over the period as a result of the somewhat weakened lockdown restrictions in the US, with share growth over the fourth quarter of 2020 being stimulated by the US Election results alongside the rollout of vaccinations, with HCA likely to be a beneficiary of Democratic healthcare policy changes. Lloyds also contributed positively to performance over the quarter, after detracting significantly from performance over Q3 due to Brexit-related headwinds. Lloyds performance was boosted by positive COVID-19 vaccination news alongside the late agreement of a trade deal between the UK and the EU in December 2020.

Sanofi provided the largest detraction to performance over the quarter following delays to two drug development programmes, which included a potential COVID-19 vaccine candidate. Sanofi has been one of the largest detractors to performance for two consecutive quarters running.

| Top Five Detractors for Q4 2020 | Contribution (%) |
|---|---|
| Sanofi | -0.80 |
| Fidelity | -0.68 |
| Willis Towers Watson | -0.46 |
| AON | -0.42 |
| Henkel | -0.35 |

# 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 31 December 2020

| | Last Quarter (%) | Last Year (%) | Since Inception (% p.a.) |
|---|---|---|---|
| Insight Non Gilts - Net of fees | 4.3 | 8.5 | 6.6 |
| iBoxx £ Non-Gilt 1-15 Yrs Index | 2.2 | 5.7 | 5.4 |
| Relative | 2.0 | 2.8 | 1.3 |

*Source: Northern Trust. Relative performance may not tie due to rounding.*
*Inception date taken as 12 April 2018*

Over the quarter to 31 December 2020, the Insight Buy and Maintain Fund delivered a positive absolute return of 4.3% on a net of fees basis, outperforming its temporary iBoxx non-gilt benchmark by 2.0%. The Buy and Maintain Fund delivered a positive absolute return of 8.5% on a net of fees basis over the year to 31 December 2020, outperforming the benchmark by 2.8% over the period.

The strategy benefitted from the significant narrowing of credit spreads over the quarter to 31 December 2020, with Insight estimating that many aspects of the credit market have now returned to pre-COVID-19 pandemic levels.

Positive absolute returns were primarily driven by US dollar-based credit and sectors with sensitivities to the COVID-19 pandemic, subsequent lockdowns and the consequent economic impacts. US dollar-based credit rallied more noticeably than sterling denominated credit over the quarter, given the particular extent of the improvement in US investor sentiment.

Owing to the availability of attractively priced new credit issuance, Insight added a number of positions over the quarter including Heathrow, IAG and Cellnex, a European mobile telephony tower business. Insight continues to maintain its position to Intu SGS which has continued to recover following its parent issuer, Intu Plc, entering administration earlier in the year. There were no sales during the quarter for credit related reasons.

Insight has confirmed that there were no defaults within the Buy and Maintain portfolio over the fourth quarter of 2020. Insight was not able to provide detail with regards to the number of credit downgrades over the quarter at the time of writing.

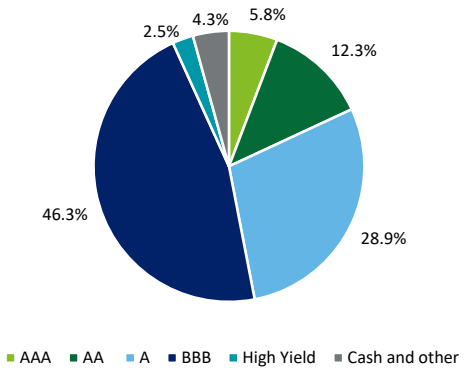
## 9.2 Performance Analysis

The table below summarises the Buy and Maintain portfolio's key characteristics as at 31 December 2020.

| | 30 Sept 2020 | 31 Dec 2020 |
|---|---|---|
| Yield (%) | 2.1 | 1.7 |
| No. of issuers | 172 | 173 |
| Modified duration (years) | 8.5 | 8.7 |
| Spread duration (years) | 8.7 | 8.7 |
| Government spread (bps) | 185 | 145 |
| Swaps spread (bps) | 181 | 138 |
| Largest issuer (%) | 1.5 | 1.4 |
| 10 largest issuers (%) | 10.9 | 10.7 |

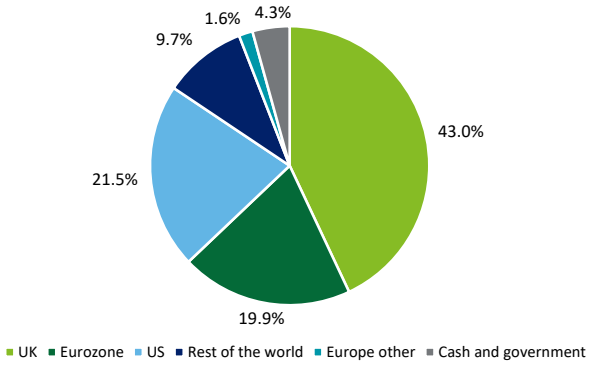
*Source: Insight*
** Not available at the time of writing*

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

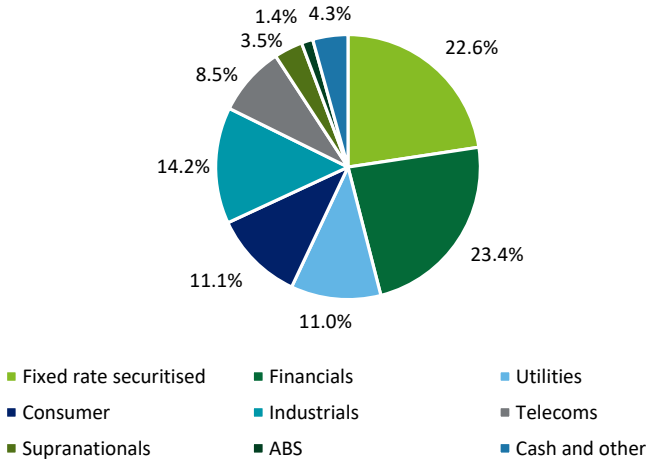



As at 31 December 2020, the fund's investment grade holdings made up c. 93.3% of the portfolio, a decrease of c. 1.9% over the quarter. The fund remains predominantly invested in BBB and A rated bonds.

The graph below shows the split of the Buy and Maintain portfolio by country as at 31 December 2020.




The graph below shows the split of the Buy and Maintain portfolio by sector as at 31 December 2020.



The table below shows the top 10 issuers by market value as at 31 December 2020.

| Issuer name | Rating* | Holding (%) |
|---|---|---|
| UK Treasury | AA | 1.4 |
| RI Finance | BBB | 1.2 |
| M&G | BBB | 1.0 |
| BMW | A | 1.0 |
| Notting Hill Genesis | A | 1.0 |
| CPUK Finance | BBB | 1.0 |
| Phoenix Group | BBB | 1.0 |
| International Bank of Recon and Development | AAA | 1.0 |
| HSBC | BBB | 1.0 |
| London and Quadrant Housing | A | 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 31 December 2020

| | Last Quarter (%) | Last Year (%) | Since Inception (% p.a.) |
|---|---|---|---|
| CQS – MAC –Net of fees | 5.3 | 1.9 | 2.9 |
| 3 Month Libor + 4% | 1.0 | 4.6 | 4.8 |
| Relative | 4.3 | -2.7 | -1.9 |

*Source: Northern Trust*
*Inception date taken as 30 October 2018*

Over the quarter to 31 December 2020, the Multi Asset Credit Fund, managed by CQS, outperformed its cash-based benchmark by 4.3%, delivering an absolute return of 5.3% on a net of fees basis. Despite delivering a positive absolute return of 1.9% over the year to 31 December 2020, the strategy underperformed the benchmark by 2.7%, owing largely to the extent of the underperformance relative to the benchmark over the first quarter of 2020.

As reported last quarter, despite the market's focus on a strong and broad economic recovery, CQS expects that some impacts from COVID-19 are yet to occur, with central bank support unlikely to be sustainable in the long-term, further lockdowns and travel restrictions possible, and recessionary pressures remaining elevated. As a result, the Multi Asset Credit Fund continues to implement a cautious approach, ensuring the portfolio remains defensively positioned in terms of sector exposures, reducing exposure to COVID-19 sensitive sectors, and continuing to access positions which CQS feels are cash generative and exhibit a strong fundamental outlook. Therefore, the strategy's financial sector exposure has increased significantly since the beginning of 2020 and the strategy's energy exposure has reduced from an overweight to an underweight position, of which both strategic movements have benefitted the portfolio over the fourth quarter of 2020.

For the second consecutive quarter, each of the Multi Asset Credit Fund's underlying asset class allocations contributed to positive performance over the quarter to 31 December 2020. The strategy's US and European loans and high yield allocations were the greatest contributors to performance over the period, with credit spreads narrowing and investor risk appetite rising somewhat.

Seeking to maintain a low exposure to COVID-19 sensitive businesses, and a high exposure to companies with a strong fundamental outlook, CQS reduced the strategy's investment grade bonds allocation and increased its exposure to loans over the quarter, where the manager has looked to recognise relative value opportunities.

Over the quarter to 31 December 2020, CQS experienced 19 credit rating downgrades, representing c. 2.5% of the portfolio, with no defaults occurring over the period. The Multi Asset Credit Fund portfolio recognised 18 credit rating upgrades over the quarter, representing c. 1.5% of the portfolio.

While credit rating agencies have recently lowered short-term default assumptions, CQS has maintained its elevated default assumptions under the belief that default rates could remain elevated throughout 2021 and 2022, particularly in COVID-19 sensitive sectors such as travel, leisure, hospitality, entertainment and retail. The manager does not believe the current market risk premium to fully reflect this potential for default.

## 10.2 Portfolio Analysis

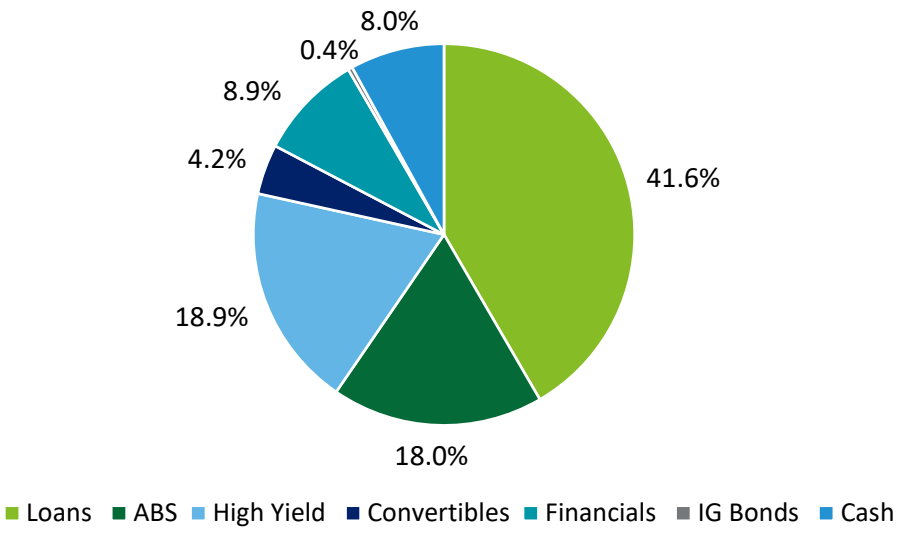
The table below summarises the Multi Asset Credit portfolio's key characteristics as at 31 December 2020.

| | 30 Sep 2020 | 31 Dec 2020 |
|---|---|---|
| Weighted Average Bond Rating | BB- | BB- |
| Long Bond Equivalent Exposure with Public Rating (%) | 88.6* | 87.5 |
| Investment with Public Rating (%) | 89.9* | 87.8 |
| Yield to Maturity (%) | 5.2 | 4.5 |
| Spread Duration | 3.8 | 3.5 |
| Interest Rate Duration | 1.4 | 1.5 |

*Source: London CIV*
**As at 31 August 2020*

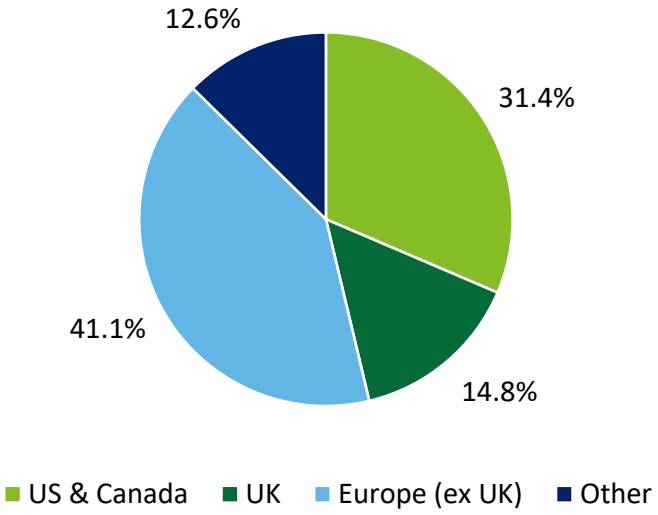
## 10.3 Asset Allocation

The asset allocation split of the Multi Asset Credit Fund as at 31 December 2020 is shown below.




## 10.4 Country Allocation

The graph below shows the regional split of the LCIV Multi Asset Credit Fund as at 31 December 2020.



# 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 31 December 2020

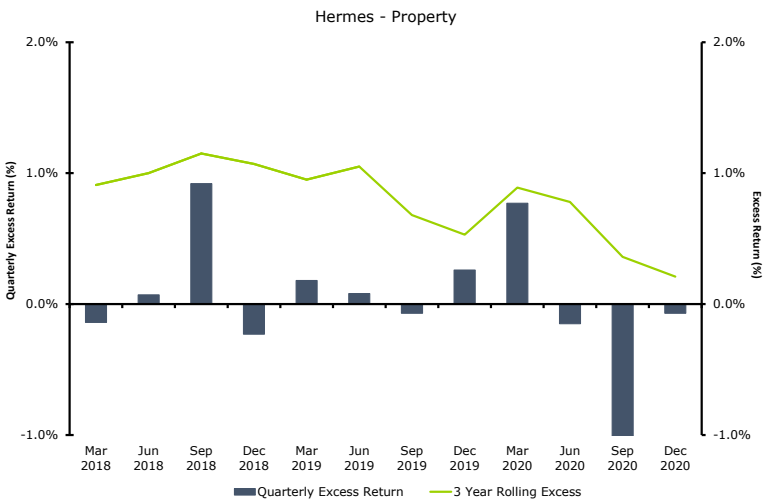
| | Last Quarter (%) | Last Year (%) | Last 3 Years (% p.a.) | Since Inception (% p.a.) |
|---|---|---|---|---|
| **Hermes – Net of fees** | 1.7 | -1.6 | 3.0 | 7.9 |
| **Benchmark** | 1.8 | -1.1 | 2.7 | 6.9 |
| **Relative** | -0.1 | -0.5 | 0.2 | 1.1 |

*Source: Northern Trust. Relative performance may not tie due to rounding.*
*Inception date is taken as 26 October 2010*

The Hermes Property Unit Trust delivered a positive absolute return of 1.7% on a net of fees basis over the fourth quarter of 2020, slightly underperforming its IPD-based benchmark by 0.1%. Over the year to 31 December 2020, the HPUT has returned -1.6% on a net of fees basis, underperforming its benchmark by 0.5%. Over the three-year period, the Trust has delivered positive absolute returns of 3.0% p.a., outperforming the IPD-based benchmark by 0.2% p.a. on a net of fees basis.

The positive absolute returns achieved by the HPUT over the fourth quarter of 2020 can primarily be attributed to the portfolio's industrial assets, with the sector continuing to benefit from a resilient occupier market and positive stable investor sentiment, particularly in the logistics sub-sector following the accelerated growth in online retail, stimulated by the COVID-19 pandemic.

The HPUT's investments in retail warehouses, unit shops, shopping centres and offices outside of London continued to detract from performance over the quarter, with the COVID-19 pandemic accelerating longer-term structural trends such as the switch from high street shopping to online shopping and a greater proportion of office employees working remotely. As such, the retail and office sectors have been materially impacted by these fundamental changes.




As highlighted last quarter, Hermes completed the sale of its Black Horse Tower asset located in Cockfosters on 2 October 2020, having agreed to the disposal of the asset during the first quarter of 2020 for £34m, and having agreed to a surrender premium of £2.2m with the current occupier, Lloyds Bank. This represents a c. 24% premium to the end-December 2019 valuation, with Hermes recognising the opportunity to capture a premium price.

During November 2020, Hermes completed the sale of Carlson Court, Putney, for £23m. This represents a premium of c. 10% over the valuation as at end September 2020, the time of going under offer, and a premium of c. 7% over the valuation as at end October 2020. The property was fully vacant at the time of sale.

In December 2020, Hermes completed the sale of Summit Centre, Heathrow, for £37.5m, reflecting a premium of 6.1% over the end October 2020 valuation. Hermes reflects that the asset was at the end of its business plan, with considerable risks to income in the short to medium term, potentially impacting liquidity and pricing of the asset. Hermes recognised strong demand for the Greater London industrial sector, and accepted the oportunity to capture a preimum price and crystallise total returns of 18.4% p.a. since the asset's acquisition over the third quarter of 2014.

Also in December 2020, Hermes completed the sale of Belleknowes Industrial Estate, Inverkeithing. The asset was sold for £10.5m, reflecting a net initial yield of 6.0% and a 24% premium to the end October 2020 valuation. The units are c. 40 years old and require significant capital expenditure to ensure they are marketable, and environmental risks exist with the estate susceptible to flooding. The estate has also previously experienced high levels of voids and has historically struggled to let some of the larger units in the estate.

Hermes completed the acquisition of Templars Shopping Park, Oxford, on 30 December 2020, for a price of £45.0m. This purchase represents a net initial yield of 7.3%, an equivalent yield of 6.8% and a capital value of £325 per sq. ft., with the acquisition completed off-market at a perceived mis-pricing as a result of vendor distress. The investment comprises a prime retail warehouse park, built in the mid-1980s, located on a prominent site near the city centre. The site totals 8.9 acres, comprising 14 units totalling 138,588 sq. ft. and 467 car parking spaces. With current sentiment towards retail is poor, Hermes recognised an opportunity to purchase the asset at attrative pricing, with strong fundamentals of tight supply and good tenant demand.

Lettings and other activities were also completed on numerous assets over the fourth quarter of 2020:

- Boundary House, London: During the quarter, the Manager agreed a rent review with the tenant, Stone King LLP, who occupies three floors in the building totalling 11,560 sq. ft. A 5-year rent review has been agreed in line with the ERV at a blended rent of £58.32 equating to a total rental income of 674,272 p.a.;

- Wellington Gate, Tunbridge Wells: In October 2020, the Manager completed a lease renewal with Hobson Prior International Ltd for a 5-year term at £94,350 p.a. (£25.50 per sq. ft.) after incentives. There is a tenancy break at year 3 of the lease term on 6 month notice;

- Peterwood Park, Croydon: During November 2020, the Manager completed two lease renewals with the tenant, Vodafone Limited, who occupies two units in the estate, a total of 35,000 sq. ft. The renewals in the two units were agreed respectively for a 5 year term and a 10 year reversionary lease securing a total rental income of £392,500 p.a. after incentives;

- Fairway Trading Estate, Heathrow: In November 2020, the Manager completed a lease renewal with the tenant, Fara Foundation, who occupies a 13,240 sq. ft. unit in the estate. The letting was completed for a 5 year term at £188,413 (£14.25 per sq. ft.) p.a. after incentives. The rent agreed was at a premium to the market rent and was the highest rent on the estate. The industrial estate remains fully let; and

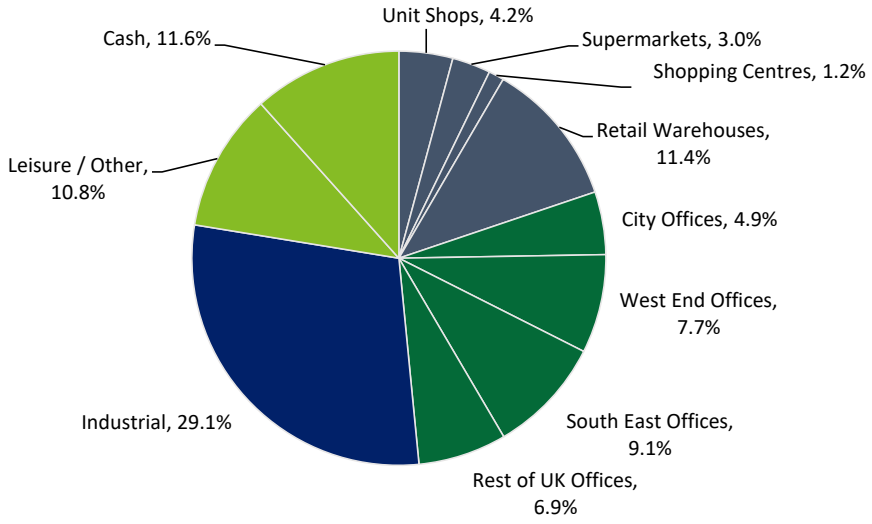
- Guinness Road Trading Estate, Manchester: During the fourth quarter of 2020, the Manager completed a new lease with Worldwide Confectionary Limited, occupying a 14,500 sq. ft. unit in the estate at a 10 year term at 94,254 p.a. after incentives (£6.50 per sq. ft.). In the same period, the Manager also completed a lease renewal with an existing tenant in the estate, Bailey Instruments Ltd, for a 5 year term at £48,950 per annum after incentives (£6.25 per sq. ft.).

As at mid-January 2021, the Trust had collected c. 85% of the total Q4 2020 rent demanded, with Hermes stating that continuous engagement and support provided to tenants is helping to achieve an increase in collection rates. However, the sector discepencies are likely to remain, with shopping centres and leisure the most affected sectors, returning Q4 collection rates of c. 42% and c. 39% respectively 90 days after quarter end, and so far Hermes has collected c. 69% of the rent demanded for Q1 2021, as at mid-January.

As at 25 December 2020, the Trust had an average lease length of c. 8.2 years, unchanged from c. 8.2 years three months previously as at 29 September 2020.

## 11.2 Portfolio Summary as at 25 December 2020

The Hermes Property Unit Trust invests across retail, offices, industrials and other sectors, with the split as at 25 December 2020 shown below.




*Source: Hermes*

As at 25 December 2020, the Trust held c. 12% of the portfolio in cash, in preparation for investment. Following quarter end, a large proportion of the cash holding has been used to pay redemptions, thereby decreasing the Trust's cash position to c. 5%.

The table below shows the top 10 directly held assets in the fund as at 25 December 2020, representing c. 36.4% of the fund.

| Asset | Sub-sector | Value (£m) |
|---|---|---|
| 8/10 Great George Street, London SW1 | Offices | 62.1 |
| Maybird Shopping Park, Stratford-upon-Avon | Retail Warehouses | 60.3 |
| Broken Wharf House, London | Leisure/Other | 58.2 |
| Polar Park, Bath Road, Heathrow | Industrials | 55.4 |
| Horndon Industrial Park, West Horndon CM13 | Industrials | 52.0 |
| 27 Soho Square, London W1 | Offices | 47.3 |
| Templars Shopping Park, Oxford | Retail Warehouses | 45.0 |
| Sainsbury's, Beaconsfield | Supermarkets | 42.9 |
| Round Foundry & Marshalls Mill, Leeds | Offices | 39.7 |
| Boundary House, London EC1 | Offices | 34.5 |
| **Total** | | **497.3** |

*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 31 December 2020

| | Last Quarter (%) | Last Year (%) | Last 3 Years (% p.a.) | Since Inception (% p.a.) |
|---|---|---|---|---|
| Aberdeen Standard - Net of fees | 1.3 | 4.0 | 5.6 | 7.8 |
| Benchmark | 1.1 | 10.3 | 7.2 | 7.1 |
| Relative | 0.2 | -6.2 | -1.6 | 0.8 |

*Source: Aberdeen Standard Investments. Relative performance may not tie due to rounding.*
*Since inception: 14 June 2013*

The ASI Long Lease Property Fund delivered an absolute return of 1.3% on a net of fees over the fourth quarter of 2020, outperforming its FT British Government All Stocks Index Benchmark by 0.2%.

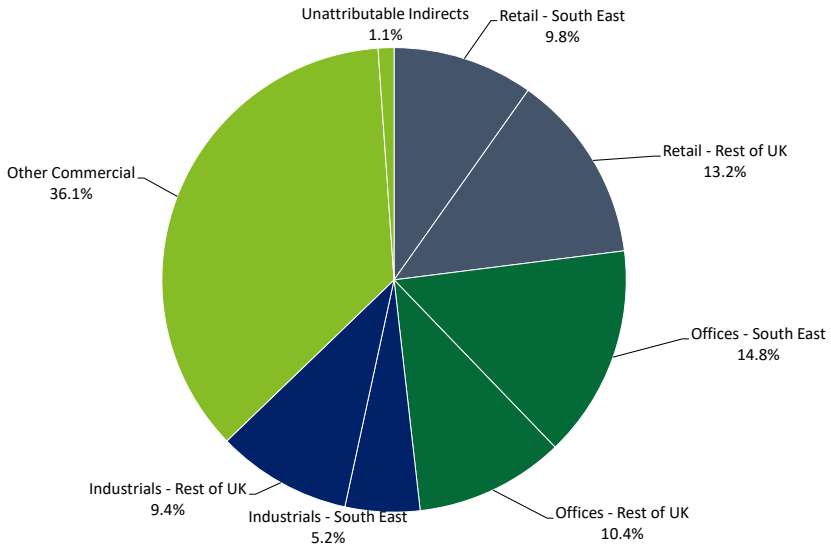
The Long Lease Property Fund has underperformed the wider property market, as measured by the MSCI (formerly IPD Monthly) UK All Property Index, by 0.7% over the quarter on a net of fees basis.

After removing the material valuation uncertainty clause and lifting the suspension on trading during the third quarter of 2020, the Long Lease Property Fund continues to trade as normal.

Rent collection marginally increased over the fourth quarter of 2020 compared to Q3 as ASI realised Q4 collection rates of 95.8% compared with 95.3% over the third quarter of 2020, as at 15 January 2021. Over the fourth quarter of 2020, 3.2% of the Long Lease Property Fund's rental income is subject to deferment arrangements, with 1.0% unpaid or subject to ongoing discussions with tenants. As at 22 January 2021, ASI has collected 80.5% of its Q1 2021 rent, with 12.6% subject to deferment arrangements and 11.5% of rent unpaid or subject to ongoing discussions with tenants as at 15 January 2021.

## 12.2 Portfolio Holdings

The sector allocation in the Long Lease Property Fund as at 31 December 2020 is shown in the graph below.



Over the quarter to 31 December 2020, the ASI Long Lease Property Fund's allocation to the office and retail sectors decreased by 0.4% and 0.1% to 25.2% and 23.0% respectively. The allocations to industrials and other commercial properties increased by 0.3% to 14.6% and by 1.3% to 35.9% respectively over the quarter.

Q4 2020 and Q1 2021 rent collection, split by sector, as at 22 January 2021 is reflected in the table below:

| Sector | Proportion of Fund (%) | Q4 2020 collection rate (%) | Q1 2021 collection rate (%) |
|---|---|---|---|
| Alternatives | 6.1 | 100.0 | 63.5 |
| Car Parks | 3.7 | 100.0 | 100.0 |
| Car Showrooms | 2.9 | 100.0 | 40.1 |
| Hotels | 7.9 | 75.2 | 36.9 |
| Industrial | 15.0 | 100.0 | 60.6 |
| Leisure | 3.3 | 100.0 | 100.0 |
| Public Houses | 5.6 | 77.3 | 11.3 |
| Offices | 27.4 | 100.0 | 95.4 |
| Student Accommodation | 9.6 | 100.0 | 70.5 |
| Supermarkets | 18.5 | 100.0 | 100.0 |
| Total | 100.0 | 95.8 | 80.5 |

The hotels and public houses sectors have expressed the poorest rental collection statistics over Q4 2020 and Q1 2021 as at 22 January 2021, whilst the student accommodation sector continues to be impacted by COVID-19. However, the leisure sector, previously the most impacted by the COVID-19 outbreak, has seen 100% rental collection statistics over Q4 2020 and Q1 2021 as lockdown restrictions were eased.

As at 31 December 2020, six tenants have issued requests to ASI for rent deferment, representing 13.7% of Fund income:

[redacted]

The table below shows details of the top ten tenants in the fund measured by percentage of net rental income as at 31 December 2020:

| Tenant | % Net Income | Credit Rating |
|---|---|---|
| Tesco | 7.8 | BBB |
| Whitbread | 5.8 | BBB |
| Sainsbury's | 4.8 | BB |
| Marston's | 4.5 | BB |
| Asda | 3.9 | BBB |
| Salford University | 3.7 | A |
| QVC | 3.5 | BB |
| Save the Children | 3.5 | BB |
| Lloyds Bank | 3.4 | AA |
| Poundland | 3.4 | B |
| Total | 44.2* | |

*Total may not equal sum of values due to rounding

As at 31 December 2020, the top 10 tenants contributed 44.2% of the total net income of the Fund, of which, 16.5% 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 24.5 years as at 30 September 2020 to 24.3 years as at 31 December 2020. The proportion of income with fixed, CPI or RPI rental increases rose by 0.1% over the quarter to 90.6%. The UK Statistics Authority have recommended aligning RPI methodology with that of CPIH by 2030. ASI will be submitting a formal response within the consultation period, which has been extended to August 2021. In January 2021, it was announced that the earliest that the change can take place had been pushed back from 2025 to 2030.

# 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 31 December 2020

### Capital Calls and Distributions

Westminster committed $91.5m to Pantheon in February 2019.

Over the quarter, Pantheon issued one capital call and one distribution of capital:

- A capital call of $5.5m for payment by 25 November 2020, representing c. 6.0% of Westminster's total commitment; and
- A distribution of $0.7m issued on 16 December 2020, representing c. 0.8% of Westminster's total commitment.

The remaining unfunded commitment as at 16 December 2020 was c. $55.2m, with the Fund's total contribution at c. $36.4m and the Fund's $91.5m commitment c. 40% drawn.

### Activity

The PGIF III completed three further deals over the fourth quarter of 2020, with one further deal completed in January 2021 following quarter end:

- One co-investment digital infrastructure project in North America, Project Parallel Infrastructure, with a commitment value of c. $52m;
- One secondary and one co-investment diversified infrastructure project in Europe, Project Kapany and Project Epsilon respectively, with commitment values of c. $130m and c. $69m respectively; and
- One co-investment energy infrastructure project in Europe, Project MapleCo, with a commitment value of c. $44m.

Over the quarter, Pantheon stated that the PGIF III was in the process of closing four further co-investment deals and two secondary investments:

- Three co-investment digital infrastructure projects, Project Telxius and Project Teemo in Europe, and Project Astound Broadband in North America, with commitment values of c. $26m, c. $29m and c. $69m respectively;
- One APAC co-investment transportation project, Project Kinetic, with a commitment value of c. $45m;
- One secondary North American digital infrastructure project, Project Megabyte II, with a commitment value of c. $52m; and
- One secondary North American energy infrastructure project, Project Emerald, with a commitment value of c. $67m.

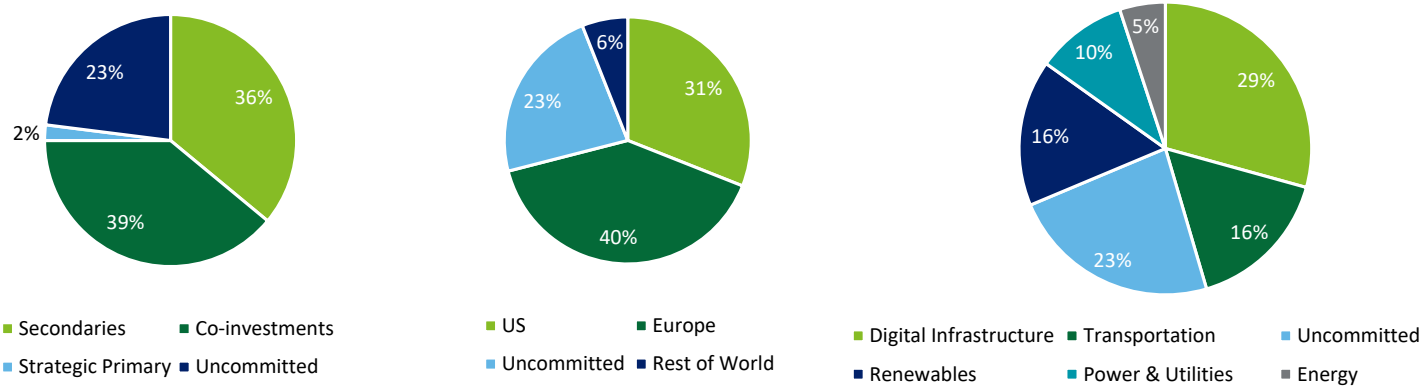
Project Ribera, a 50:50 joint venture partnership between Pantheon and Goldman Sachs with initial agreement closing in July 2018 for a deal size of c. $32m, has been removed from the PGIF III portfolio over the quarter. At closing there was a pipeline deal that part of the commitment would go to, to fund the re-design of, and retrofit a Microsoft data center in Ireland. This deal has subsequently fallen away as a result of regulatory hurdles in Ireland. The joint venture had full investment discretion over the future pipeline and has not elected to fund any other deals. No capital was called for investment and the deal has reached a "stop funding date". Pantheon intends to release the reserved amount for other opportunities in PGIF III, and the release of commitment is to be discussed at Pantheon's Global Infrastructure and Real Assets committee in February 2021. Pantheon expects this process to be approved and has therefore removed Project Ribera from the PGIF III track record.

### Pipeline

Pantheon currently has an investment pipeline of infrastructure opportunities, with potential near-term deals representing c. $3.5bn 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.

## 13.2 Asset Allocation

The charts below show the current diversification by strategy, geography and sector in PGIF III as at 31 December 2020.




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 December 2020. Pantheon has been unable to provide an updated COVID-19 analysis report as at the time of writing this report. As such, the "COVID-19 Impact" column of the table below reflects the results of the analysis as at 1 November 2020.

[redacted]

# 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 |
|---|---|---|---|---|---|
| LGIM | Future World Global Equity | 25.0 | Solactive ESG Global Markets Index | Passive | 15/10/20 |
| Baillie Gifford | LCIV Global Alpha Growth | 20.0 | MSCI AC World Index | +2.0 p.a. (net of fees) | 18/03/14 |
| Morgan Stanley | LCIV Global Equity Core | 20.0 | MSCI AC World Index (net dividends reinvested) | Generate total returns (comprising of both capital growth and income) over a 5-10 year period | 30/10/20 |
| Longview | Global Equity | 0.0 | MSCI World (GBP) Index | To outperform the benchmark over a market cycle | 15/01/15 |
| Insight | Buy and Maintain | 13.5 | Insight Custom Benchmark | n/a | 12/04/18 |
| CQS | Multi Asset Credit | 6.5 | 3 Month Libor | + 4% p.a. (net of fees) | 30/10/18 |
| Hermes | Property | 5.0 | IPD UK PPFI Balanced PUT Index | +0.5 p.a. (net of fees) | 26/10/10 |
| Aberdeen Standard Investments | Property | 5.0 | FTSE Gilts All Stocks Index +2% p.a. | +0.5 p.a. (net of fees) | 14/06/13 |
| Pantheon | Global Infrastructure | 5.0 | 3 month Libor | + 8% p.a. (net of fees) | 15/04/19 |
| | 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 – Fee Benchmarking

[redacted]

| | | | | |
|---|---|---|---|---|
| [redacted] | | | | |
| [redacted] | | | | |
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[redacted]

# Appendix 4 – Risk Warnings & Disclosures

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

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

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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# City of Westminster Pension Fund

## Funding update report as at 31 December 2020

**Barnett Waddingham LLP**

18 February 2021

# Contents

# Introduction

Westminster City Council, as administering authority for the City of Westminster Pension Fund (the Fund), has asked that we carry out a quarterly monitoring assessment of the Fund as at 31 December 2020. The purpose of this assessment is to provide an update on the funding position.

The Fund participates in the Local Government Pension Scheme (LGPS). The LGPS is a defined benefit statutory scheme administered in accordance with Local Government Pension Scheme Regulations 2013 (the Regulations).

We have taken account of current LGPS Regulations (as amended) as at the date of this report.

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases in relation to age discrimination. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published. At the same time, the Government also announced the unpausing of the 2016 cost cap process and that it would take into consideration the McCloud remedy. At the time of producing this report the outcome of these matters is still to be agreed so the exact impact they will have on LGPS benefits is unknown. An allowance consistent with that adopted for the Fund's 31 March 2019 valuation has been made for the current uncertainties in LGPS benefits, details of which can be found in the Changes in market conditions – market yields and discount rates section.

The information in this report is addressed to and is provided for use by Westminster City Council as the administering authority to the Fund. This report may be shared with other interested parties but it does not constitute advice to them.

This report complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 300: Pensions (TAS 300) as issued by the Financial Reporting Council (FRC).

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

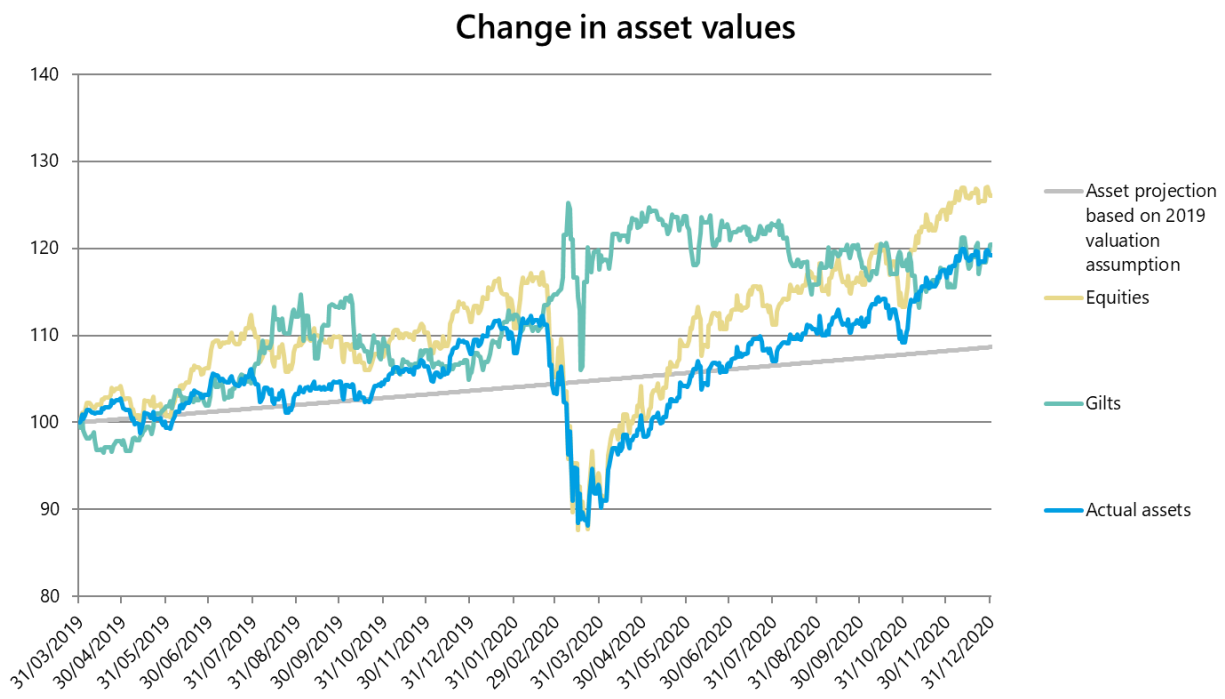
# Assets

The estimated (unsmoothed) asset allocation of the City of Westminster Pension Fund as at 31 December 2020, based on data received from Westminster City Council, is as follows:

| Assets (market value) | 31 December 2020 | | 30 September 2020 | | 31 March 2019 | |
|---|---|---|---|---|---|---|
| | £000s | % | £000s | % | £000s | % |
| Equities | 1,295,495 | 76% | 1,193,598 | 75% | 1,064,368 | 75% |
| Other bonds | 251,128 | 15% | 240,833 | 15% | 198,690 | 14% |
| Property | 157,855 | 9% | 151,019 | 9% | 144,358 | 10% |
| Cash | 2,550 | 0% | 7,567 | 0% | 10,916 | 1% |
| **Total assets** | **1,707,028** | **100%** | **1,593,017** | **100%** | **1,418,332** | **100%** |

The investment return achieved by the Fund's assets in market value terms for the quarter to 31 December 2020 is estimated to be 7.1%. The return achieved since the previous valuation is estimated to be 19.2% (which is equivalent to 10.5% p.a).

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




As we can see the asset value as at 31 December 2020 in market value terms is more than where it was projected to be at the previous valuation.

For funding purposes, we use a smoothed value of the assets rather than the market value. The financial assumptions that we use in valuing the liabilities are smoothed around the valuation date so that the market conditions used are the average of the daily observations over the six month period around 31 December 2020. Therefore, we value the assets in a consistent way and apply the same smoothing adjustment to the market value of the assets.

# Changes in market conditions – market yields and discount rates

The actual investment returns earned by the Fund will affect the value of the Fund's assets. The value of the Fund's liabilities, however, is dependent on the assumptions used to value the future benefits payable.

For the purpose of this exercise it is appropriate to use the method and assumptions consistent with those set by the Fund actuary for the purpose of the 31 March 2019 actuarial valuation, updated where necessary to reflect market conditions. Further details of the derivation of the financial and demographic assumptions can be found in the relevant actuarial valuation report.

The following table show how the main financial assumptions have changed since the last triennial valuation:

| | 31 December 2020 | | 30 September 2020 | | 31 March 2019 | |
|---|---|---|---|---|---|---|
| Assumptions (smoothed) | Nominal | Real | Nominal | Real | Nominal | Real |
| | % p.a. | | % p.a. | | % p.a. | |
| Pension increases (CPI) | 2.37% | - | 2.34% | - | 2.65% | - |
| Salary increases | 3.37% | 1.00% | 3.34% | 1.00% | 3.65% | 1.00% |
| Discount rate | 3.97% | 1.61% | 4.07% | 1.73% | 4.84% | 2.19% |

The discount rate assumption is set with reference to the Fund's long term investment strategy and therefore reflects the long term expected return on assets for the Fund. Consistent with the method adopted for the 31 March 2019 valuation, we have included in the discount rate assumption an explicit prudence allowance of 0.7%. This incorporates an allowance for current uncertainties in LGPS benefits (relating to the effects of the McCloud/Sargeant judgement and the cost cap).

As noted in the Introduction, the final remedy in response to the McCloud/Sargeant judgement will only be known once the Government's consultation is finalised and a final set of remedial Regulations are published. Furthermore, it is also not known yet what benefit changes in addition to the McCloud remedy (if any) may be made in light of the results of the cost cap process.

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As we see, the real discount rate is lower than at the 31 March 2019 valuation, increasing the value of liabilities used for funding purposes.

# Results

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

The results of our assessment indicate that:

- The current projection of the smoothed funding level as at 31 December 2020 is 99.4% and the average required employer contribution would be 22.3% of payroll assuming the deficit is to be paid by 31 March 2039.
- This compares with the reported (smoothed) funding level of 98.6% and average required employer contribution of 18.8% of payroll at the 31 March 2019 funding valuation.

The discount rate underlying the smoothed funding level as at 31 December 2020 is 4.0% p.a. The investment return required to restore the funding level to 100% by 31 March 2039, without the employers paying deficit contributions, would be 4.0% p.a.

Whilst the funding level has been maintained and the deficit has reduced, the cost of benefits has increased due to a fall of the discount rate relative to assumed pension increases, resulting in an increase in the total required contribution rate.

## Impact of the upcoming RPI reform

Following the Government's response to the consultation on the reform of RPI on 25 November 2020, and the expectation that the UK Statistics Authority will implement the proposed changes to bring RPI in line with CPIH from 2030, it is currently being discussed with the administering authority to change the CPI inflation assumption to be 0.8% p.a. below the 20 year point on the Bank of England implied inflation curve. This differs from the existing gap of 1.0% p.a. and would lead to an increase of the CPI inflation assumption of 0.2%.

An increase of the CPI inflation assumption will also increase the expected long term returns of asset classes with CPI-linked return. As 70% of the Fund's long term asset target consists of such inflation-linked assets the discount rate has risen by 0.14% offsetting some of the impact of the CPI inflation assumption increase.

Changing the CPI inflation assumption would therefore decrease the funding level by 1% and increase the average required total employer contribution by 1.6% of payroll.

BARNETT WADDINGHAM
beyond the expected

## Westminster City Council

We have also estimated the funding position of Westminster City Council. The development since 31 March 2019 can be found in the table below.

| Smoothed results | Assets | Liabilities | Surplus / (Deficit) | Funding level | CARE ongoing cost |
|---|---|---|---|---|---|
| Valuation date | £000s | £000s | £000s | % | % of pay |
| 31 Mar 2019 | 952,247 | 1,104,595 | (152,348) | 86% | 16.8% |
| 30 Apr 2019 | 967,125 | 1,117,039 | (149,914) | 87% | 17.1% |
| 31 May 2019 | 978,573 | 1,126,775 | (148,202) | 87% | 17.3% |
| 30 Jun 2019 | 990,090 | 1,134,713 | (144,623) | 87% | 17.5% |
| 31 Jul 2019 | 995,425 | 1,139,250 | (143,825) | 87% | 17.5% |
| 31 Aug 2019 | 1,002,471 | 1,144,578 | (142,107) | 88% | 17.6% |
| 30 Sep 2019 | 1,005,329 | 1,148,818 | (143,489) | 88% | 17.6% |
| 31 Oct 2019 | 1,007,432 | 1,154,176 | (146,744) | 87% | 17.7% |
| 30 Nov 2019 | 1,009,145 | 1,159,693 | (150,548) | 87% | 17.8% |
| 31 Dec 2019 | 991,682 | 1,146,605 | (154,923) | 86% | 17.3% |
| 31 Jan 2020 | 979,867 | 1,139,276 | (159,409) | 86% | 17.0% |
| 29 Feb 2020 | 1,008,599 | 1,137,337 | (128,738) | 89% | 16.9% |
| 31 Mar 2020 | 986,513 | 1,141,440 | (154,927) | 86% | 17.0% |
| 30 Apr 2020 | 992,299 | 1,146,594 | (154,295) | 87% | 17.0% |
| 31 May 2020 | 998,034 | 1,155,822 | (157,788) | 86% | 17.2% |
| 30 Jun 2020 | 1,021,497 | 1,183,178 | (161,681) | 86% | 17.9% |
| 31 Jul 2020 | 1,044,076 | 1,210,734 | (166,658) | 86% | 18.7% |
| 31 Aug 2020 | 1,112,534 | 1,232,766 | (120,232) | 90% | 19.2% |
| 30 Sep 2020 | 1,107,124 | 1,253,261 | (146,137) | 88% | 19.8% |
| 31 Oct 2020 | 1,125,404 | 1,271,148 | (145,744) | 89% | 20.2% |
| 30 Nov 2020 | 1,146,297 | 1,281,855 | (135,558) | 89% | 20.4% |
| 31 Dec 2020 | 1,153,994 | 1,291,128 | (137,134) | 89% | 20.6% |

# Final comments

There are many factors that affect the Fund's funding position and could lead to the Fund's funding objectives not being met within the timescales expected. Some of the key risks that could have a material impact on the Fund include longevity risk, financial risks (including inflation and investment risk) and regulatory risks. There is more detail on this contained within the Fund's Funding Strategy Statement and the 31 March 2019 actuarial valuation report.

Note that the funding position at a future date will be dependent on the investment performance of the Fund as well as future market conditions which determine the financial assumptions.

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

**Graeme D Muir FFA**
**Partner**
**Barnett Waddingham LLP**

# Appendix 1 Financial position since previous valuation

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

Please note that the results shown below are sensitive to the underlying assumptions. For example, increasing the discount rate assumption by 0.5% will increase the funding level by about 10%, and increasing the CPI inflation assumption by 0.5% will reduce the funding level by about 9%.

| Smoothed results | Assets | Liabilities | Surplus / (Deficit) | Funding level | CARE ongoing cost | Past service ctbn | Total ctbn | Discount rate | Return required to restore funding level |
|---|---|---|---|---|---|---|---|---|---|
| Valuation date | £000s | £000s | £000s | % | % of pay | % of pay | % of pay | % p.a. | % p.a. |
| 31 Mar 2019 | 1,410,581 | 1,430,547 | (19,966) | 99% | 17.9% | 0.9% | 18.8% | 4.8% | 4.9% |
| 30 Apr 2019 | 1,447,503 | 1,447,420 | 83 | 100% | 18.2% | 0.0% | 18.2% | 4.8% | 4.8% |
| 31 May 2019 | 1,454,375 | 1,460,533 | (6,158) | 100% | 18.4% | 0.3% | 18.7% | 4.7% | 4.8% |
| 30 Jun 2019 | 1,483,529 | 1,471,765 | 11,764 | 101% | 18.6% | 0.0% | 18.6% | 4.7% | 4.7% |
| 31 Jul 2019 | 1,494,312 | 1,478,072 | 16,240 | 101% | 18.7% | 0.0% | 18.7% | 4.6% | 4.6% |
| 31 Aug 2019 | 1,490,620 | 1,485,419 | 5,201 | 100% | 18.7% | 0.0% | 18.7% | 4.6% | 4.6% |
| 30 Sep 2019 | 1,497,782 | 1,491,329 | 6,453 | 100% | 18.8% | 0.0% | 18.8% | 4.5% | 4.5% |
| 31 Oct 2019 | 1,509,343 | 1,498,720 | 10,623 | 101% | 18.9% | 0.0% | 18.9% | 4.5% | 4.4% |
| 30 Nov 2019 | 1,522,534 | 1,506,309 | 16,225 | 101% | 19.0% | 0.0% | 19.0% | 4.4% | 4.4% |
| 31 Dec 2019 | 1,507,589 | 1,489,490 | 18,099 | 101% | 18.5% | 0.0% | 18.5% | 4.4% | 4.4% |
| 31 Jan 2020 | 1,478,239 | 1,480,233 | (1,994) | 100% | 18.1% | 0.1% | 18.2% | 4.4% | 4.4% |
| 29 Feb 2020 | 1,481,306 | 1,478,878 | 2,428 | 100% | 18.0% | (0.1%) | 17.9% | 4.4% | 4.4% |
| 31 Mar 2020 | 1,447,859 | 1,484,922 | (37,063) | 98% | 18.1% | 1.6% | 19.7% | 4.4% | 4.5% |
| 30 Apr 2020 | 1,450,763 | 1,492,138 | (41,375) | 97% | 18.2% | 1.8% | 20.0% | 4.3% | 4.5% |
| 31 May 2020 | 1,461,205 | 1,502,891 | (41,686) | 97% | 18.3% | 1.8% | 20.1% | 4.3% | 4.4% |
| 30 Jun 2020 | 1,500,202 | 1,539,265 | (39,063) | 97% | 19.1% | 1.7% | 20.8% | 4.2% | 4.4% |
| 31 Jul 2020 | 1,538,006 | 1,575,929 | (37,923) | 98% | 19.9% | 1.6% | 21.5% | 4.2% | 4.3% |
| 31 Aug 2020 | 1,588,260 | 1,605,344 | (17,084) | 99% | 20.5% | 0.7% | 21.2% | 4.1% | 4.2% |
| 30 Sep 2020 | 1,613,561 | 1,632,733 | (19,172) | 99% | 21.0% | 0.8% | 21.8% | 4.1% | 4.1% |
| 31 Oct 2020 | 1,633,742 | 1,656,717 | (22,975) | 99% | 21.5% | 1.0% | 22.5% | 4.0% | 4.1% |
| 30 Nov 2020 | 1,663,784 | 1,671,248 | (7,464) | 100% | 21.7% | 0.3% | 22.0% | 4.0% | 4.0% |
| 31 Dec 2020 | 1,674,005 | 1,683,912 | (9,907) | 99% | 21.9% | 0.4% | 22.3% | 4.0% | 4.0% |

# Appendix 2 Data, method and assumptions

## Data

In completing our calculations we have used the following items of data, which we received from Westminster City Council:

- The results of the valuation as at 31 March 2019 which was carried out for funding purposes;
- Estimated whole Fund income and expenditure items for the period to 31 December 2020; and
- Estimated Fund returns based on Fund asset statements provided to 31 December 2020, and Fund income and expenditure as noted above.

The data has been checked for reasonableness and we are happy that the data is sufficient for the purpose of this report.

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

## Method

To assess the value of the Fund's liabilities as at 31 December 2020, we have rolled forward the value of the liabilities calculated for the funding valuation as at 31 March 2019 using the financial assumptions below and estimated cashflows paid to and from the Fund.

It is not possible to assess the accuracy of the estimated value of the liabilities as at 31 December 2020 without completing a full valuation. However, we are satisifed that the approach of rolling forward the previous valuation data to 31 December 2020 should not introduce any material assumptions in the results provided that the actual experience of the Fund is broadly in line with the underlying assumptions and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

We have been provided with the Fund assets at various dates but for dates that these are not available, we calculate the Fund assets by rolling forward the previous assets provided allowing for investment returns (estimated where necessary), and estimated cashflows paid to and from the Fund. The latest date that we have been provided with the Fund assets is 31 December 2020.

## Assumptions

For the purpose of this exercise it is appropriate to use the method and assumptions consistent with those set by the Fund actuary for the purpose of the 31 March 2019 actuarial valuation, updated where necessary to reflect market conditions.

A summary of the main financial assumptions adopted is set out in the main body of this report.

As noted in the Introduction, an allowance has been made for current uncertainties in LGPS benefits (relating to the effects of the McCloud/Sargeant judgement and the cost cap). This is allowed for within the prudence allowance which is incorporated into the discount rate assumption.

At the time of producing this report the outcome of the effects relating to the McCloud/Sargeant judgement are still to be agreed upon. The final remedy in response to the judgement will only be known once the

Government's consultation is finalised and a final set of remedial Regulations are published. Furthermore, it is also not known yet what benefit changes in addition to the McCloud remedy (if any) may be made in light of the results of the cost cap process.

The main demographic assumptions are:

- The post retirement mortality tables adopted are the S3PA tables with a multiplier of 110% for males and 105% for females.;
- The dependant post retirement mortality tables adopted are the S3DA tables with a multiplier of 70% for males and 85% for females.

These base tables are then projected using the CMI 2018 Model, allowing for a long-term rate of improvement of 1.25% p.a, a smoothing parameter of 7.5 and an initial addition parameter of 0.5% p.a.

The other key demographic assumptions are:

- Members retire at a single age, based on the average age at which they can take each tranche of their pension; and
- It is assumed that members will exchange 50% of their commutable pension for cash at retirement.

Further details of the derivation of the financial and demographic assumptions can be found in the relevant actuarial valuation report.

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# City of Westminster Pension Fund
# Investment Strategy Statement 2021/22

## 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, the Tri-Borough Director of Treasury and Pensions and the appointed consultants and actuaries support the Pension Fund 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.

**1.7** Governing all investment decisions are the Committee's core investment beliefs they have been established based on the views of the members and are listed below:

**1 Investment Governance**
a. The Fund has access to the necessary skills, expertise and resources to manage the whole Fund, as well as internally managing a small proportion of the Fund's assets, such as cash management.
b. Investment consultants, independent advisors and officers are a source of expertise and research to inform and assist the Committee's decisions.
c. The ultimate aim of the Fund's investments is to pay pension liabilities when they become due. The Committee will therefore take account of liquidity and the long-term ability of the Fund to meet these obligations.
d. The Fund is continuously improving its governance structure through bespoke training to implement tactical views more promptly, but acknowledges that it is not possible to achieve optimum market timing.

**2 Long Term Approach**
a. The strength of the employers' covenant allows the Fund to take a longer term view of investment strategy than most investors.
b. The most important aspect of risk is not the volatility of returns, but the risk of absolute loss over the medium and long term. This would in turn impact the ability of the employers to make adequate contributions to meet the Fund's liabilities.
c. Illiquidity and volatility are shorter term risks which offer potential sources of additional compensation to the long term investor. Moreover, it is important to avoid being a forced seller in short term market setbacks.
d. Over the long term, equities are expected to outperform other liquid assets, particularly government bonds and cash.

**3 Environmental, Social and Governance (ESG) factors**
a. Certain ESG factors are financially material and may therefore influence the risk and return characteristics of the Fund's investments and the likelihood that the Fund's objectives will be achieved.
b. Well governed companies that manage their business in a responsible manner are less vulnerable to downside risk and may therefore produce higher returns over the long term.
c. In order to improve corporate governance, investment managers should exercise the voting rights attached to the shares they own, as well as engage with management of the companies they invest in.
d. Environmental considerations should reflect a growing recognition in the Committee of the urgency required in its decision-making processes when making investment allocations.
e. If an investment manager fails to adequately consider ESG issues, the Committee is prepared to disinvest assets from that manager.

**4 Asset allocation**
a. Allocations to asset classes other than equities and government bonds (e.g., corporate bonds, private markets and property) offer the Fund other forms of risk premia (e.g., additional solvency risk/illiquidity risk).
b. Diversification across asset classes and asset types that have low correlation with each other will tend to reduce the volatility of the overall Fund return.
c. In general, allocations to bonds and alternatives are made to achieve additional diversification. As the funding level improves, the Committee may look to certain lower risk strategies to mitigate liability risks and thus dampen the volatility of the Fund's actuarial funding level.

**5 Management Strategies**
a. A well-balanced portfolio has an appropriate mix of passive and active investments.
b. Passive, index-tracker style management provides low cost exposure to equities and bonds, and is especially attractive in efficient markets.
c. Active management will typically incur higher investment management fees but can provide additional return. Fees should be aligned to the interests of the Fund.
d. Active management performance should be monitored over multi-year rolling cycles and assessed to confirm that the original investment process on appointment is being delivered and that continued appointment is appropriate.
e. Employing a range of management styles can reduce the volatility of overall Fund returns but can also reduce long term outperformance.

## 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.
- Adaptability to be able to maintain liquidity for the Fund.

**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** Suitability is a critical test for whether or not a particular investment should be made. When assessing the suitability of investments, the Committee takes into account the following from its due diligence:

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

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

**3.4** 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.

**3.5** 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 when 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 (LCIV) 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 £16.8bn of assets under management, including £8bn under direct management, with 15 funds launched as of 2020/21.

**5.4** The Fund has transitioned c. 50% of assets into the London CIV as of 30 November 2020. Going forward the Fund will look to transition further 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 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 c. 22% of its assets within a passive equity fund 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. However, the Fund benefits from reduced management fees, with Legal & General Investment Management having reduced their fees to match those available through the London CIV. The Fund agrees for the London CIV to monitor the passive funds as part of the broader pool.

**5.7** The remaining c. 28% of Fund is held within investment assets including property, bonds and infrastructure, and these will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision to disinvest.

**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 if the funds have been transferred.

| City of Westminster Fund | Available on the LCIV | Invested via the LCIV |
|---|---|---|
| **Listed Equities** | | |
| Passive Equities: LGIM | Yes | Yes |
| Global: Baillie Gifford | Yes | Yes |
| Global: Longview | Yes | No |
| Global: Morgan Stanley | Yes | Yes |
| **Cash** | | |
| At custody | No | |
| **Fixed Income** | | |
| Multi Asset Credit: CQS | Yes | Yes |
| Global Bonds: Insight | No | |
| **Alternatives** | | |
| Infrastructure: Pantheon | No | |
| Renewable Infrastructure: Quinbrook | No | |
| Renewable Infrastructure: Macquarie | No | |
| **Property** | | |
| Property: Hermes | No | |
| Property: Aberdeen Standard | No | |

**5.9** The Pension Fund Committee is 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 by 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 initially undertaken by TruCost and reported to Committee in September 2019, whereby the Fund's equity and property portfolio carbon footprints were mapped. This exercise will be undertaken on an annual basis going forward, with the last review taking place as at 31 October 2020. A responsible investment (RI) policy and ESG policy was drafted for the Fund and adopted by the Committee for 2020/21 onwards. 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** The Pension Fund Committee 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 **gain the confidence of members** in 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 6% allocation to renewable infrastructure, where the asset managers invest solely within renewables including solar, wind, transmission and storage. Alongside this, the Fund has transitioned c. £690m in equities into the LCIV Global Sustain Fund and

LGIM Future World Fund. The Global Sustain Fund seeks to provide a concentrated high-quality global portfolio of companies, however, excludes tobacco, alcohol, adult entertainment, gambling, civilian weapons, fossil fuels, and gas or electrical utilities. The LGIM Future World Fund tracks the L&G ESG Global Markets Index, whereby an Environmental, Social and Governance screening of companies takes place to remove those companies which do not meet the required ESG criteria.

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: gaining our members confidence**

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 the 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

Westminster City Council
16th Floor City Hall
Tri-Borough Treasury and Pensions Team
64 Victoria Street
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**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 Executive Director of Finance and Resources, 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 2019. 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.

**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.

**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 London 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 London 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 London CIV are exercise of voting rights and engagement with investee companies. The London 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 London 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 London 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 London CIV's Investors are prioritised.

The London 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 London CIV board on a regular basis. A Conflicts of Interest Register is maintained. Shareholders of the London 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 London 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 London CIV encourages its investment managers to satisfy themselves that investee companies adhere to the spirit of the UK Corporate Governance Code.

The London 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 London CIV recognises that constructive engagement with company management can help protect and enhance shareholder value. Typically, the London 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 London 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 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 London 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 London 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 London 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 London 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 London CIV will require detailed justification for non-compliance.

The London 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 London 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 London 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. With these noble objectives at the forefront, 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 is aware of the nature of the index construction in the investment selection process places and the proximity of ESG issues in comparison with an active portfolio, but still hold ESG issues in its responsible investment policy as the passive manager actively 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. Investee 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 London CIV platform and actively seek to align these policies with manager insights. Lobbying with other London CIV 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 London CIV 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 London CIV'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** | **65.0%** | **+/-3.0%** |
| Passive Equities | 22.5% | |
| Global - Active | 42.5% | |
| **Cash** | **0.0%** | **+/-0.0%** |
| Cash | 0.0% | |
| **Fixed Income** | **19.0%** | **+/-1.9%** |
| Global Bonds | 13.5% | |
| Multi Asset Credit | 6.5% | |
| **Alternatives** | **11.0%** | **+/-1.0%** |
| Infrastructure | 5.0% | |
| Renewable Infrastructure | 6.0% | |
| **Property** | **5.0%** | **+/-0.5%** |
| Property | 5.0% | |
| **Total** | **100.0%** | |

## Investment & Administration Risk Register

**Appendix F**

| 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 | | | | | | |
| Investment | 1 | ↑ | The global outbreak of COVID-19 impacting stock markets worldwide, as well uncertainty surrounding illiquid asset values including property and infrastructure. | 5 | 4 | 2 | 11 | 4 | **44** | TREAT - 1) The officers will continue to monitor the impact on an ongoing basis. 2) The Fund holds a diversified portfolio, which should reduce the impact of stock market movements. 3) Asset allocation will be reviewed in Q1 of 2020/21. 4) Pension Fund Officers in frequent contact with Fund Managers and the Funds investment advisor. | 3 | **33** | 05/05/2020 |
| Governance | 2 | ↔ | That the London Collective Investment Vehicle (LCIV) fails to produce proposals/solutions deemed sufficiently ambitious. | 4 | 4 | 3 | 11 | 3 | **33** | 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) Jason Fletcher was appointed as the permeant CIO during April and is due to begin the role in July 2020. Jason has over 25 years worth of experience in the financial services industry and held the position of CIO at the LGPS Central pool. The LCIV have also appointed Jacquelin Jackson as the Head of Responsible Investment to lead the pool in their commitment to responsible investment and better understanding LCIV clients ESG requirements. Following Kevin Cullen's retirement, Cameron McMullen will be joining the LCIV as the new Client Relations Director. | 3 | **33** | 05/05/2020 |
| Investment | 3 | ↑ | Significant volatility and negative sentiment in global investment markets following disruptive geo-political uncertainty caused by the ongoing trade war between the US and 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 take place in Q1 of 2020/21. | 3 | **30** | 05/05/2020 |
| Investment | 4 | ↔ | Volatility caused by uncertainty with regard to the UK's exit from the European Union, lack of trade deal and the economic after effects. There will be a transition period until the end of 2020, during which time the UK and EU will negotiate new arrangements from 2021. | 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 exited the EU on 31 January 2020, there is now a transition period until the end of 2020. During this time current rules on trade, travel and business for the UK and EU will apply. | 3 | **27** | 05/05/2020 |

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 | 05/05/2020 |
| 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 | 05/05/2020 |
| 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 2020/21 of members transferring out to DC schemes. | 2 | 20 | 05/05/2020 |
| 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 | 05/05/2020 |
| 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 | 05/05/2020 |
| 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 | 05/05/2020 |

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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. | 2 | **18** | 05/05/2020 |
| 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** | 05/05/2020 |
| 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 take place in Q1 of 2020/21. | 2 | **16** | 05/05/2020 |
| 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) Jason Fletcher was appointed as the permeant CIO during April and is join to begin the role in July 2020. Jason has over 25 years worth of experience in the financial services industry and held the position of CIO at the LGPS Central pool. The LCIV have also appointed Jacquelin Jackson as the Head of Responsible Investment and lead the pool in their commitment to responsible investment and better understanding LCIV clients ESG requirements. Following Kevin Cullen's retirement, Cameron McMullen will be joining the LCIV as the new Client Relations Director. | 2 | **16** | 05/05/2020 |

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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** | 05/05/2020 |
| 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** | 05/05/2020 |
| 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** | 05/05/2020 |
| Funding | 18 | | 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 | 3 | 12 | 2 | **24** | 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. | 1 | **12** | 05/05/2020 |
| Governance | 19 | | 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** | 05/05/2020 |
| Governance | 20 | | 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** | 05/05/2020 |

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Funding | 21 | | 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** | 05/05/2020 |
| Financial | 22 | | 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** | 05/05/2020 |
| Operational | 23 | | 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** | 05/05/2020 |
| Governance | 24 | | 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** | 05/05/2020 |
| Funding | 25 | | 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** | 05/05/2020 |
| Regulation | 26 | | 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** | 05/05/2020 |
| Governance | 27 | | 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** | 05/05/2020 |
| Governance | 28 | | 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** | 05/05/2020 |

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Operational | 29 | | 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** | 05/05/2020 |
| Investment | 30 | | 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** | 05/05/2020 |
| Operational | 31 | | 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** | 05/05/2020 |
| Investment | 32 | | 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** | 05/05/2020 |
| Governance | 33 | | 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** | 05/05/2020 |
| Governance | 34 | | 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** | 05/05/2020 |
| Operational | 35 | | 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** | 05/05/2020 |

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Funding | 36 | | 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** | 05/05/2020 |
| Governance | 37 | | 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** | 05/05/2020 |
| Governance | 38 | | 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** | 05/05/2020 |
| Regulation | 39 | | 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** | 05/05/2020 |
| Operational | 40 | | 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** | 05/05/2020 |
| Funding | 41 | | 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** | 05/05/2020 |

| Pension Fund Risk Register - Administration 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 | | | | | | |
| Admin | 1 | NEW | COVID-19 affecting the day to day functions of the Pensions Administration services including customer telephony service, payment of pensions, retirements, death benefits, transfers and refunds. | 2 | 4 | 3 | 9 | 4 | 36 | TREAT 1) The Pensions Administration team have shifted to working from home. 2) The administrators have prioritised death benefits, retirements including ill health and refunds. If there is any spare capacity the administrators will prioritise transfers and divorce cases. 3) Revision of processes to enable electronic signatures and configure the telephone helpdesk system to work from home. 4) Maintain regular contact with the Surrey administration team. | 3 | 27 | 05/05/2020 |
| Admin | 2 | | Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints. There is a concern regarding the high level of senior management departures. | 1 | 4 | 3 | 8 | 4 | 32 | TREAT 1) Surrey CC administers pensions for Surrey, East Sussex, LB Hillingdon and the Tri-Borough. 2) Officers will continue to monitor ongoing staffing changes at Surrey CC. 3) Ongoing monitoring of contract and KPIs. 4) Nick Weaver was appointed as Head of Pensions Administration in Q4 of 2019/20. | 3 | 24 | 05/05/2020 |
| Admin | 3 | | Structural changes in an employer's membership or an employer fully/partially closing the scheme. Employer bodies transferring out of the pension fund or employer bodies closing to new membership. An employer ceases to exist with insufficient funding or adequacy of bond placement. | 5 | 3 | 1 | 9 | 3 | 27 | TREAT 1) Administering Authority actively monitors prospective changes in membership. 2) Maintain knowledge of employer future plans. 3) Contributions rates and deficit recovery periods set to reflect the strength of the employer covenant. 4) Periodic reviews of the covenant strength of employers are undertaken and indemnity applied where appropriate. 5) Risk categorisation of employers part of 2019 actuarial valuation. 6) Monitoring of gilt yields for assessment of pensions deficit on a termination basis. | 2 | 18 | 05/05/2020 |
| Admin | 4 | | Concentration of knowledge in a small number of officers and risk of departure of key staff. | 2 | 2 | 3 | 7 | 3 | 21 | TREAT 1) Practice notes in place. 2) Development of team members and succession planning improvements to be implemented. 3) Officers and members of the Pension Fund Committee will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs. | 2 | 14 | 05/05/2020 |
| Admin | 5 | | Incorrect data due to employer error, user error or historic error leads to service disruption, inefficiency and conservative actuarial assumptions. | 4 | 4 | 3 | 11 | 2 | 22 | TREAT 1) Update and enforce admin strategy to assure employer reporting compliance. 2) Implementation and monitoring of a Data Improvement Plan as part of the Service Specification between the Fund and Orbis.<br>TREAT 1) Northern Trust provides 3rd party validation of performance and valuation data. Admin team and members are able to interrogate data to ensure accuracy. | 1 | 11 | 05/05/2020 |
| Admin | 6 | | Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss. | 3 | 2 | 5 | 10 | 2 | 20 | TREAT 1) Third parties regulated by the FCA and separation of duties and independent reconciliation processes are in place. 2) Review of third party internal control reports. 3) Regular reconciliations of pensions payments undertaken by Pension Finance Team. 4) Periodic internal audits of Pensions Finance and HR Teams. 5) Internal Audits during 2018/19 showed satisfactory assurance with recommendations implemented during the year. | 1 | 10 | 05/05/2020 |
| Admin | 7 | | Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place. | 5 | 2 | 2 | 9 | 2 | 18 | TREAT 1) Contract monitoring in place with all providers. 2) Procurement team send alerts whenever credit scoring for any provider changes for follow up action. 3) Take advice from the investment advisor on manager ratings to inform decisions on asset managers. | 1 | 9 | 05/05/2020 |
| Admin | 8 | | Non-compliance with regulation changes relating to the pension scheme or data protection leads to fines, penalties and damage to reputation. | 3 | 3 | 2 | 8 | 2 | 16 | TREAT 1) The Fund has generally good internal controls with regard to the management of the Fund. These controls are assessed on an annual basis by internal and external audit as well as council officers. 2) Through strong governance arrangements and the active reporting of issues, the Fund will seek to report all breaches as soon as they occur in order to allow mitigating actions to take place to limit the impact of any breaches. 3) Staff have had more time to work on the implementation of GDPR. | 1 | 8 | 05/05/2020 |
| Admin | 9 | | Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible. | 1 | 3 | 4 | 8 | 2 | 16 | TREAT 1) Contract in place with HCC to provide service, enabling smooth processing of supplier payments. 2) Process in place for Surrey CC to generate lump sum payments to members as they are due. 3) Officers undertaking additional testing and reconciliation work to verify accounting transactions. | 1 | 8 | 05/05/2020 |

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Admin | 10 | | Inability to respond to a significant event leads to prolonged service disruption and damage to reputation. | 1 | 2 | 5 | 8 | 2 | 16 | TREAT 1) Disaster recovery plan in place as part of the Service Specification between the Fund and Surrey County Council 2) Ensure system security and data security is in place 3) Business continuity plans regularly reviewed, communicated and tested 4) Internal control mechanisms ensure safe custody and security of LGPS assets. 5) Gain assurance from the Fund's custodian, Northern Trust, regarding their cyber security compliance. | 1 | 8 | 05/05/2020 |
| Admin | 11 | | Poor reconciliation process leads to incorrect contributions. | 2 | 1 | 1 | 4 | 3 | 12 | TREAT 1) Ensure reconciliation process notes are understood by Pension Fund team. 2) Ensure that the Pension Fund team is adequately resourced to manage the reconciliation process. 3) Contributions reconciliation is undertaken by the pensions team. | 2 | 8 | 05/05/2020 |
| Admin | 12 | | Failure of pension payroll system resulting in pensioners not being paid in a timely manner. | 1 | 2 | 4 | 7 | 2 | 14 | TREAT 1) In the event of a pension payroll failure, we would consider submitting the previous months BACS file to pay pensioners a second time if a file could not be recovered by the pension administrators and our software suppliers. | 1 | 7 | 05/05/2020 |
| Admin | 13 | | Failure to detect material errors in the bank reconciliation process. | 2 | 2 | 2 | 6 | 3 | 18 | TREAT 1) Bank reconciliation carried out in-house by the pensions team, alongside the WCC income management team. | 1 | 6 | 05/05/2020 |
| Admin | 14 | | Failure to pay pension benefits accurately leading to under or over payments. | 2 | 2 | 2 | 6 | 2 | 12 | TREAT 1) There are occasional circumstances where under/over payments are identified. Where underpayments occur, arrears are paid as soon as possible, usually in the next monthly pension payment. Where an overpayment occurs, the member is contacted and the pension corrected in the next month. Repayment is requested and sometimes we collect this over a number of months. | 1 | 6 | 05/05/2020 |
| Admin | 15 | | Unstructured training leads to under developed workforce resulting in inefficiency. | 2 | 2 | 2 | 6 | 2 | 12 | TREAT 1) Implementation and monitoring of a Staff Training and Competency Plan as part of the Service Specification between the Fund and Surrey County Council. 2) Officers regularly attend training events and conferences. 3) Officer in place to record and organise training sessions for officers and members. | 1 | 6 | 05/05/2020 |
| Admin | 16 | | Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment. | 1 | 1 | 1 | 3 | 3 | 9 | TREAT 1) Pension administration records are stored on the Surrey CC servers who have a disaster recovery system in place and records should be restored within 24 hours of any issue, All files are backed up daily. | 2 | 6 | 05/05/2020 |
| Admin | 17 | | Lack of guidance and process notes leads to inefficiency and errors. | 2 | 2 | 1 | 5 | 2 | 10 | TREAT 1) Ensure process notes are compiled and circulated in Pension Fund and Administration teams. | 1 | 5 | 05/05/2020 |
| Admin | 18 | | Lack of productivity leads to impaired performance. | 2 | 2 | 1 | 5 | 2 | 10 | TREAT<br>1) Regular appraisals with focused objectives for pension fund and admin staff. | 1 | 5 | 05/05/2020 |
| Admin | 19 | | Rise in ill health retirements impact employer organisations. | 2 | 2 | 1 | 5 | 2 | 10 | TREAT 1) Engage with actuary re assumptions in contribution rates. | 1 | 5 | 05/05/2020 |
| Admin | 20 | | Rise in discretionary ill-health retirements claims adversely affecting self-insurance costs. | 2 | 2 | 1 | 5 | 2 | 10 | TREAT 1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations. | 1 | 5 | 05/05/2020 |
| Admin | 21 | | Failure to identify GMP liability leads to ongoing costs for the pension fund. | 1 | 2 | 1 | 4 | 1 | 4 | TREAT 1) GMP identified as a Project as part of the Service Specification between the Fund and Surrey County Council, with minimal effect on the Fund. | 1 | 4 | 05/05/2020 |

# Responsible Investment Statement

**City of Westminster Pension Fund • 2021**

City for All

City of Westminster

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# Introduction

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The City of Westminster 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.

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.

The Pension Fund acknowledges that the neglect of corporate social responsibility and poor attention paid to environmental, social and governance issues is more likely to lead to poor or reduced shareholder returns. Therefore, the ESG approach has become integral to the Fund's overall investment strategy and recognises ESG factors as central themes in measuring the sustainability and impact of the Fund's investments.

# Investment Horizon

The City of Westminster Pension Fund Investment Strategy Statement (ISS) sets out the Fund's policy on investment, risk management, LGPS pooling and environmental, social and governance issues. Alongside this the Fund's core investment beliefs set out the foundation of discussions, regarding the structure of the Fund, its strategic asset allocation and the selection of investment managers, incorporating ESG factors into this decision-making process.

The Fund's investment priorities over the coming years will be centred around the following topics:

**Renewable Infrastructure**

- UK government has pledged to target net zero greenhouse gas emissions by 2050, therefore significant investment is required within renewables infrastructure.
- The Fund has committed a 6% asset allocation to renewables infrastructure, with a number of specialist managers to be considered.

**Real Estate**

- There is potential within the real estate asset allocation for further diversification, alongside the long lease property mandate.
- Moving in to residential property or affordable housing could offer another form of diversification, whilst socially benefiting the community.

**Green Bonds**

- To help meet the UK target of net zero carbon emissions by 2050, the UK government will issue its first green bonds in 2021.
- There is potential for a future review of the Fund's existing allocation to corporate bonds and exploring options available within the green bonds space.

# Carbon Journey

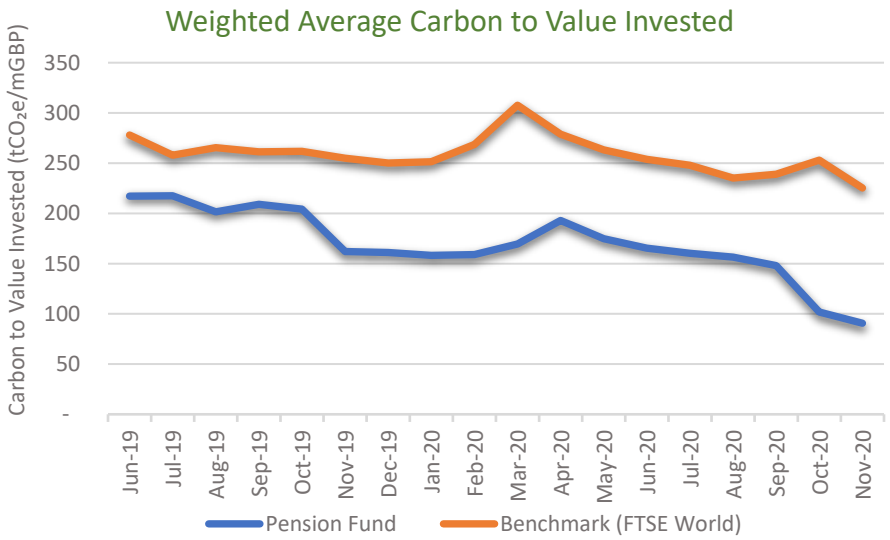
The City of Westminster Pension Fund has committed to reducing its carbon emissions, alongside Westminster City Council. The Pension Fund appointed TruCost to undertake a carbon mapping of the Fund's equity and property investments as at 30 September 2019. This included metrics such as carbon intensity, carbon emissions, stranded assets and energy transition.

Since this mapping took place, the Fund has transitioned its London CIV (LCIV) UK Equity allocation and Legal & General (LGIM) Global Passive Equities into the LCIV Global Sustain Fund and LGIM Future World Fund. The Global Sustain Fund seeks to provide a concentrated high-quality global portfolio of companies, however, excludes tobacco, alcohol, adult entertainment, gambling, civilian weapons, fossil fuels, and gas or electrical utilities. The LGIM Future World Fund tracks the L&G ESG Global Markets Index, whereby an Environmental, Social and Governance screening of companies takes place to remove those companies which do not meet the required ESG criteria.

Alongside this, a 6% commitment has been made towards investment within renewable infrastructure, with funds to be transitioned from the Hermes Property Fund. A fund manager selection process took place during December 2020, with the aim of having cash invested during 2021.

During November 2020, the Pension Fund commissioned TruCost to undertake a Carbon Review of the Fund following the transition into the ESG equity mandates, as at 31 October 2020.

The *carbon to value invested* metric is used by TruCost to reflect how efficient companies are at creating shareholder value, relative to the carbon emissions produced. The following graph depicts the Fund's carbon to value invested journey against the benchmark, within the equity allocation, from 30 June 2019 to 30 November 2020. The Pension Fund has been benchmarked against the FTSE World Index.




# ESG Case Studies

Environmental

Social

Governance

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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.

## Environmental: Ingenuity House case study

Ingenuity House, held within the Long Lease Property Fund, is a multifunctional office building with an array of workspaces, meeting rooms, cafes and restaurants. Located in one of the UK's best commercial hubs, Ingenuity House sets the standard for highly innovative workplaces and has received both the Gold and Silver regional awards for innovation from the BCO.

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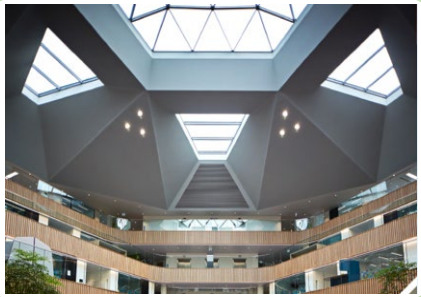


**Source:** Aberdeen Standard Investments Ingenuity House

## Social: Teladoc case study

The Pension Fund holds, Teladoc, within its LCIV (Baillie Gifford) Growth Alpha Equity portfolio. The company is the largest telemedicine company in the US, providing remote access to services such as primary care appointments, expert second opinions, health support and chronic care management.

By providing healthcare services via video or phone consultants, this increases the accessibility to the services, helps to lower average healthcare costs and improves efficiency of the healthcare system.

In the first quarter of 2020, following the COVID-19 outbreak, Teladoc welcomed over a million new customers, ensuring the ability to continue to access healthcare at a time when hospitals and clinics would otherwise be unavailable to them. Teladoc operates in over 175 countries, and the company claims in the US an average saving of $472 per medical visit. Alongside this, in countries with nationalised healthcare, savings will benefit the government and therefore the public.


**Source:** Baillie Gifford: Positive Change Impact Report

## Governance: Amazon case study

Amazon is a multinational technology company, focusing on e-commerce, logistics, digital streaming, hardware, data storage and media, held within our LGIM Future World Fund. In recent years, worrying allegations from current and former employees regarding staff not feeling safe at work, levels of sick pay and an ongoing culture of fear and retaliation have surfaced. Over the last 12 months, LGIM have engaged with Amazon on a number of corporate governance issues, including separation of CEO and board chair roles and human capital.

Amazon are working to improve these issues and adapting their working environment, with claims of industry leading safety protocols, increased pay and adjusted absentee policies. During 2020, LGIM voted in favour of 10 shareholder resolutions at the Company's AGM, including 2 relating to governance structures.

LGIM's engagement with the company continues as they push for greater disclosures and to ensure it is adequately managing its broader stakeholders, and most importantly, its human capital.


**Source:** LGIM ESG Impact Report Q2 2020

# Fund Key Facts

## Aberdeen Standard Long Lease

**77%** Energy data collected

**74%** Water data collected

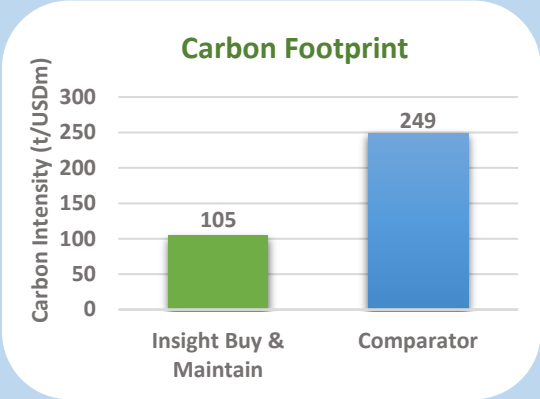
**83%** A-D Energy Performance Certificate rating

**5** Metric tonnes of carbon saved by solar installation

**Source:** ASI Long Lease Key ESG Metrics 2020

## Insight Buy & Maintain

The carbon intensity of the fund is 84 (t/USDm) lower than its comparators.




**Source:** Insight Buy & Maintain ESG Report Q2 2020

## LCIV Global Alpha

**48%** women employed

**52%** men employed

**41.8%** Lower relative carbon footprint than the benchmark

**Source:** Baillie Gifford Gender Pay Gap 2019

## Pantheon Global Infrastructure

**5%** Invested in solar

**4%** Invested in wind

**43%** of senior roles held by women

**100%** recycling rate

**Source:** Pantheon Infrastructure ESG Report Q3 2020

## LGIM Future World

Companies failing to meet globally accepted business practices are excluded from the Future World Fund, based on any of the following criteria:

- Involved in production of controversial weapons
- Involved solely in the extraction of coal
- Violators of the UN Global Compact initiative

## LCIV Global Sustain

The Global Sustain Fund avoids sectors such as alcohol, tobacco, weapons, gambling, fossil fuels and electric utilities and undertakes an engaged investment approach considering financial returns and ESG criteria.

# Voting & Engagement

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.

The Fund will continue to collaborate with the London CIV on maintaining a shared voting policy for the equity managers on the London CIV platform and actively seek to align these policies with manager insights. Lobbying with other London CIV 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.

The Pension Fund views engagement with companies as an essential activity and encourages companies to take positive 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 all 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

## Engagement: Nike case study

As part of the LCIV Global Sustain Fund, Morgan Stanley have engaged with Nike on a number of issues including labour, carbon, diversity and inclusion.

Given the complexity of the Nike supply chain, the labour conditions within outsourced factories remain a concern, however they have implemented initiatives to mitigate these. As part of this, the company conducts hundreds of audits of suppliers including unannounced audits. Morgan Stanley have also engaged with the company on using modern technology, such as apps, to receive direct feedback from factory workers.

Alongside this the company have adopted aggressive targets to reduce direct and indirect emissions and has shifted to using more sustainably sourced cotton. They have also reduced the water use per garment by 25% since 2015.

To improve diversity across the company, Nike have introduced a requirement to have diverse slates of candidates for internal and external recruitment.

**Source:** Morgan Stanley ESG Report Q3 2020

## LCIV Global Sustain

**54**
Total Management Meetings

**44**
ESG Engagements

### ESG Engagements by Topic:

**13**
Environment

**22**
Social

**27**
Governance

### Of which, engagements on:

**11**
Climate Change

**5**
Diversity

**8**
Cyber Security

**Source:** Morgan Stanley ESG Report Q3 2020

## LGIM Future World

**168**
Total number of engagements

**158**
Number of companies engaged with

### ESG Engagements by Topic:

**10**
Environment

**114**
Social

**68**
Governance

### Top 5 engagement topics:

1. Gender and ethnic diversity
2. Remuneration
3. COVID-19
4. Disclosures
5. Public Health

**Source:** LGIM ESG Report Q3 2020

## LCIV Global Alpha

**98**
Total number of engagements

**61**
Number of companies engaged with

### ESG Engagements by Topic:

**10**
Environment

**18**
Social

**37**
Governance

### Percentage resolutions voted:

**91%**
With management

**4%**
Against management

**Source:** Baillie Gifford Proxy Voting Q3 2020

Data as at 30 September 2020

# Connected Organisations

The Pension Fund recognises that significant value can be achieved through collaboration with other stakeholders. The Pension Fund works closely with its LGPS pool company, other LGPS funds and member groups such as the Local Authority Pension Fund Forum (LAPFF), Pensions and Lifetime Savings Association (PLSA) and ShareAction to ensure corporate interests are aligned with the Pension Fund's values.

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.

## Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum are a collection of over 83 local authority pension funds, with assets under management of over £300bn, promoting the highest standard of governance with the aim of protecting the long-term value of pension funds. The LAPFF engage directly with companies, on behalf of all asset owners and pension fund trustee members, on issues such as executive pay, reliable accounting and a transition to a net carbon zero economy.

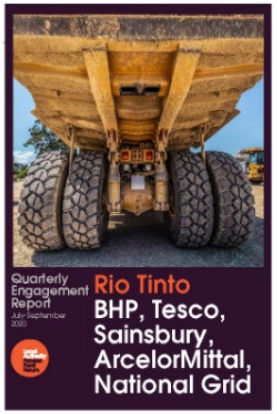
## LAPFF Case Study

The LAPFF produce quarterly engagement reports, covering all ESG related issues from climate change, governance, human rights and cyber security.

Over the quarter to 30 September 2020, the LAPFF engaged with 27 companies, including Sainsbury, Tesco and the National Grid.

At the National Grid 2020 AGM, LAPFF asked the National Grid to commit to its delayed setting of scope 3 carbon emission reduction targets. The company published a response on its website, signifying that it would provide information on scope 3 targets in October.

Alongside this, the company has set a target of aiming for a carbon-neutral grid by 2025, including the provision of electric vehicle charging stations.




**Source:** LAPFF Quarterly Engagement Report 30 September 2020

## Pensions and Lifetime Savings Association

The City of Westminster Pension Fund is a member of the PLSA, who aim to raise industry standards, share best practice and support members. The PLSA works across a range of stakeholders including governments, regulators and parliament to help the implementation of sustainable policies and regulation. They represent over 1,300 pension schemes totalling £1.3tn in assets under management, including those in the public and private sectors.

The PLSA provide an important source for training, support and guidance on regulations and pension support services.

### PLSA Case Study

The PLSA published its response to the MHCLG proposals regarding the McCloud and Sargeant discrimination cases by, extending the underpin to younger scheme members with the underpin period applying from the 1st April 2014 to the 31st March 2022.

The PLSA conducted a survey of its members and consulted the Local Authority Committee on the proposals within the MHCLG consultation. On the whole the PLSA was supportive of the Government's plan to implement a two-stage underpin process, however they did express concerns about the impact these proposals would have on funds and pensions administrators given the significant resourcing requirements.


PENSIONS AND LIFETIME SAVINGS ASSOCIATION

LOCAL GOVERNMENT PENSION SCHEME (ENGLAND AND WALES): AMENDMENTS TO THE STATUTORY UNDERPIN

A RESPONSE TO MHCLG'S CONSULTATION PAPER

OCTOBER 2020

**Source:** PLSA Response to MHCLG's Consultant Paper

## ShareAction

ACCESS TO NUTRITION INITIATIVE

ShareAction

ShareAction is a registered charity who promotes responsible investment, working with investors to help influence how companies operate their business on a range of Environmental, Social and Governance (ESG) factors. This includes areas such as climate change, gender diversity, living wages, decarbonisation, biomass and healthy markets.

Most recently, ShareAction has been working on a Healthy Markets coalition group. The Healthy Market Initiative aims to make food retailers and manufactures take on accountability for their role and impact on people's diets. The City of Westminster is a member of the Healthy Markets coalition and along with other members, represents over $1 trillion in assets under management. The Fund has actively engaged with ShareAction on this initiative, attending coalition meetings, as well as contacting our equity managers and the LAPFF on their behalf to see if they would be willing to engage.

### ShareAction Case Study

In 2019 ShareAction partnered with the Access to Nutrition Initiative (ATNI) on its Healthy Markets Campaign. ATNI adapted the core methodology used for the Global Access to Nutrition Indexes to assess the disclosure of the UK food retail sector. In March 2020, the ATNI published its UK Supermarkets spotlight analysing the top 10 food retailers in the UK, scoring them against a number of indicators including governance, nutrient profiling, promotions and labelling. Whilst some retailers provide better transparency than others, all of them have the scope to explain more fully their commitments and action in all areas. Following the outcome of the report ATNI recommended that all 10 supermarket chains publish comprehensive strategies on diet, nutrition and health.

**Source:** ATNI UK Supermarket Spotlight 2020

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City of Westminster

# Committee Report

| | |
|---|---|
| **Decision Maker:** | **PENSION FUND COMMITTEE** |
| **Date:** | **11 March 2021** |
| **Classification:** | **Public** |
| **Title:** | **Responsible Investment Statement** |
| **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**<br>***Tri-Borough Director of Treasury and Pensions***<br><br>**ptriggs@westminster.gov.uk**<br>**020 7641 4136** |

## 1 Executive Summary

1.1 In late 2019, the Local Government Pension Scheme (LGPS) Scheme Advisory Board (SAB) issued draft guidance on Responsible Investment in the LGPS. This guidance outlined the duties of investment decision makers in LGPS administering authorities.

1.2 This paper introduces the Responsible Investment Statement for the Westminster Pension Fund, which is attached as Appendix 1 to this paper.

## 2 Recommendation

2.1 The Pension Fund Committee is requested to:

- Note and comment on the Responsible Investment (RI) Statement;
- Delegate authority to the Tri-Borough Director of Treasury and Pensions to publish the final version of the RI Statement.

## 3 Background

3.1 The purpose of the Responsible Investment Statement is to make clear the Pension Fund's approach to investing responsibly. This includes the integration of environmental, social and governance (ESG) factors as part of the Pension Fund's investment strategy.

3.2 The aim of the Responsible Investment Statement is to demonstrate to scheme members the direction in which the Pension Fund is moving in terms of responsible investment, decarbonisation/climate change and other ESG related issues.

3.3 The statement covers in detail topics such as:

- **The investment horizon of the Fund:** this highlights the Fund's potential investment priorities over the long-term, including socially beneficial housing, renewable infrastructure and green bonds.

- **Carbon journey:** over the last 18 months, the Pension Fund has taken significant steps to reduce its carbon footprint by transitioning equities into ESG focused funds and diversifying into renewable infrastructure. Since June 2019, the Fund's average carbon to value invested has fallen by circa 60%.

- **Voting and engagement:** collaboration with key stakeholders in the investment community will be key in influencing companies to run their businesses more sustainably.

3.3 Several investment cases study examples have also been included in the RI statement to demonstrate how the Pension Fund has been implementing the policy.

3.4 This statement will be subject to regular, ongoing review.

**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: Responsible Investment Statement

# Responsible Investment Statement

**City of Westminster Pension Fund • 2021**

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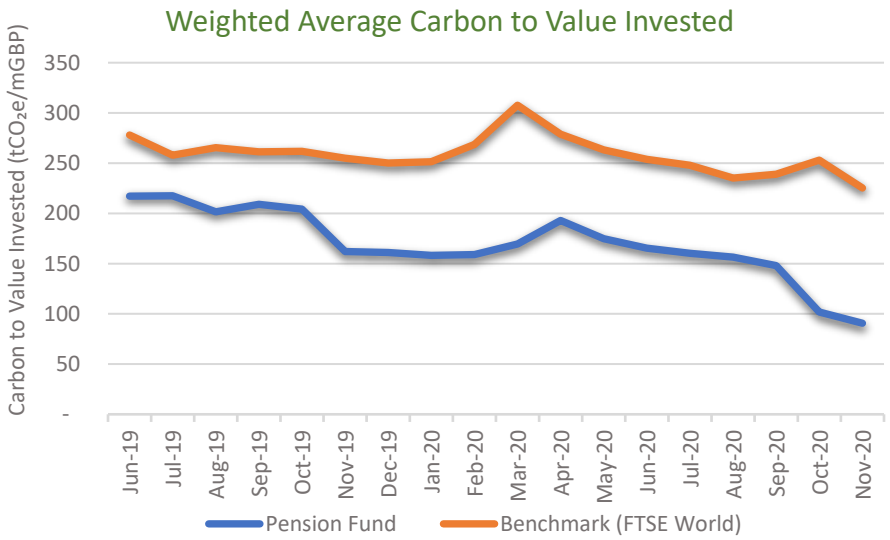


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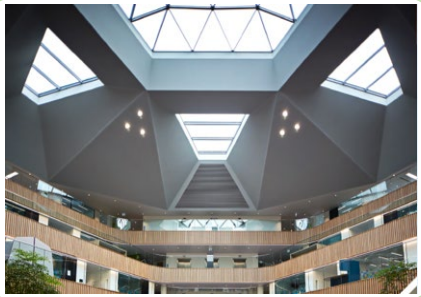

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The Pension Fund holds, Teladoc, within its LCIV (Baillie Gifford) Growth Alpha Equity portfolio. The company is the largest telemedicine company in the US, providing remote access to services such as primary care appointments, expert second opinions, health support and chronic care management.

By providing healthcare services via video or phone consultants, this increases the accessibility to the services, helps to lower average healthcare costs and improves efficiency of the healthcare system.

In the first quarter of 2020, following the COVID-19 outbreak, Teladoc welcomed over a million new customers, ensuring the ability to continue to access healthcare at a time when hospitals and clinics would otherwise be unavailable to them. Teladoc operates in over 175 countries, and the company claims in the US an average saving of $472 per medical visit. Alongside this, in countries with nationalised healthcare, savings will benefit the government and therefore the public.


**Source:** Baillie Gifford: Positive Change Impact Report

## Governance: Amazon case study

Amazon is a multinational technology company, focusing on e-commerce, logistics, digital streaming, hardware, data storage and media, held within our LGIM Future World Fund. In recent years, worrying allegations from current and former employees regarding staff not feeling safe at work, levels of sick pay and an ongoing culture of fear and retaliation have surfaced. Over the last 12 months, LGIM have engaged with Amazon on a number of corporate governance issues, including separation of CEO and board chair roles and human capital.

Amazon are working to improve these issues and adapting their working environment, with claims of industry leading safety protocols, increased pay and adjusted absentee policies. During 2020, LGIM voted in favour of 10 shareholder resolutions at the Company's AGM, including 2 relating to governance structures.

LGIM's engagement with the company continues as they push for greater disclosures and to ensure it is adequately managing its broader stakeholders, and most importantly, its human capital.


**Source:** LGIM ESG Impact Report Q2 2020

# Fund Key Facts

## Aberdeen Standard Long Lease

**77%** Energy data collected

**74%** Water data collected

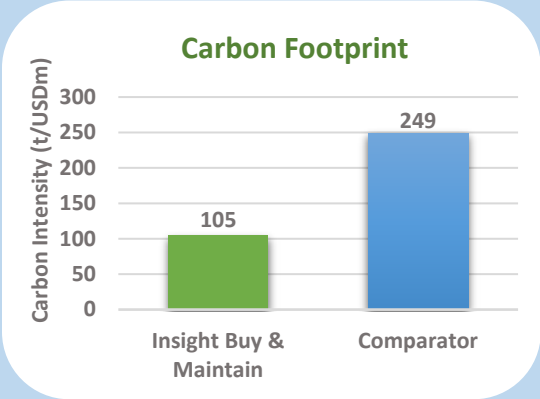
**83%** A-D Energy Performance Certificate rating

**5** Metric tonnes of carbon saved by solar installation

**Source:** ASI Long Lease Key ESG Metrics 2020

## Insight Buy & Maintain

The carbon intensity of the fund is 84 (t/USDm) lower than its comparators.




**Source:** Insight Buy & Maintain ESG Report Q2 2020

## LCIV Global Alpha

**48%** women employed

**52%** men employed

**41.8%** Lower relative carbon footprint than the benchmark

**Source:** Baillie Gifford Gender Pay Gap 2019

## Pantheon Global Infrastructure

**5%** Invested in solar

**4%** Invested in wind

**43%** of senior roles held by women

**100%** recycling rate

**Source:** Pantheon Infrastructure ESG Report Q3 2020

## LGIM Future World

Companies failing to meet globally accepted business practices are excluded from the Future World Fund, based on any of the following criteria:

- Involved in production of controversial weapons
- Involved solely in the extraction of coal
- Violators of the UN Global Compact initiative

## LCIV Global Sustain

The Global Sustain Fund avoids sectors such as alcohol, tobacco, weapons, gambling, fossil fuels and electric utilities and undertakes an engaged investment approach considering financial returns and ESG criteria.

# Voting & Engagement

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.

The Fund will continue to collaborate with the London CIV on maintaining a shared voting policy for the equity managers on the London CIV platform and actively seek to align these policies with manager insights. Lobbying with other London CIV 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.

The Pension Fund views engagement with companies as an essential activity and encourages companies to take positive 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 all 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

## Engagement: Nike case study

As part of the LCIV Global Sustain Fund, Morgan Stanley have engaged with Nike on a number of issues including labour, carbon, diversity and inclusion.

Given the complexity of the Nike supply chain, the labour conditions within outsourced factories remain a concern, however they have implemented initiatives to mitigate these. As part of this, the company conducts hundreds of audits of suppliers including unannounced audits. Morgan Stanley have also engaged with the company on using modern technology, such as apps, to receive direct feedback from factory workers.

Alongside this the company have adopted aggressive targets to reduce direct and indirect emissions and has shifted to using more sustainably sourced cotton. They have also reduced the water use per garment by 25% since 2015.

To improve diversity across the company, Nike have introduced a requirement to have diverse slates of candidates for internal and external recruitment.

**Source:** Morgan Stanley ESG Report Q3 2020

## LCIV Global Sustain

**54**
Total Management Meetings

**44**
ESG Engagements

### ESG Engagements by Topic:

**13**
Environment

**22**
Social

**27**
Governance

### Of which, engagements on:

**11**
Climate Change

**5**
Diversity

**8**
Cyber Security

**Source:** Morgan Stanley ESG Report Q3 2020

## LGIM Future World

**168**
Total number of engagements

**158**
Number of companies engaged with

### ESG Engagements by Topic:

**10**
Environment

**114**
Social

**68**
Governance

### Top 5 engagement topics:

1. Gender and ethnic diversity
2. Remuneration
3. COVID-19
4. Disclosures
5. Public Health

**Source:** LGIM ESG Report Q3 2020

## LCIV Global Alpha

**98**
Total number of engagements

**61**
Number of companies engaged with

### ESG Engagements by Topic:

**10**
Environment

**18**
Social

**37**
Governance

### Percentage resolutions voted:

**91%**
With management

**4%**
Against management

**Source:** Baillie Gifford Proxy Voting Q3 2020

Data as at 30 September 2020

# Connected Organisations

The Pension Fund recognises that significant value can be achieved through collaboration with other stakeholders. The Pension Fund works closely with its LGPS pool company, other LGPS funds and member groups such as the Local Authority Pension Fund Forum (LAPFF), Pensions and Lifetime Savings Association (PLSA) and ShareAction to ensure corporate interests are aligned with the Pension Fund's values.

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.

## Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum are a collection of over 83 local authority pension funds, with assets under management of over £300bn, promoting the highest standard of governance with the aim of protecting the long-term value of pension funds. The LAPFF engage directly with companies, on behalf of all asset owners and pension fund trustee members, on issues such as executive pay, reliable accounting and a transition to a net carbon zero economy.

## LAPFF Case Study

The LAPFF produce quarterly engagement reports, covering all ESG related issues from climate change, governance, human rights and cyber security.

Over the quarter to 30 September 2020, the LAPFF engaged with 27 companies, including Sainsbury, Tesco and the National Grid.

At the National Grid 2020 AGM, LAPFF asked the National Grid to commit to its delayed setting of scope 3 carbon emission reduction targets. The company published a response on its website, signifying that it would provide information on scope 3 targets in October.

Alongside this, the company has set a target of aiming for a carbon-neutral grid by 2025, including the provision of electric vehicle charging stations.


**Source:** LAPFF Quarterly Engagement Report 30 September 2020

## Pensions and Lifetime Savings Association

The City of Westminster Pension Fund is a member of the PLSA, who aim to raise industry standards, share best practice and support members. The PLSA works across a range of stakeholders including governments, regulators and parliament to help the implementation of sustainable policies and regulation. They represent over 1,300 pension schemes totalling £1.3tn in assets under management, including those in the public and private sectors.

The PLSA provide an important source for training, support and guidance on regulations and pension support services.

### PLSA Case Study

The PLSA published its response to the MHCLG proposals regarding the McCloud and Sargeant discrimination cases by, extending the underpin to younger scheme members with the underpin period applying from the 1st April 2014 to the 31st March 2022.

The PLSA conducted a survey of its members and consulted the Local Authority Committee on the proposals within the MHCLG consultation. On the whole the PLSA was supportive of the Government's plan to implement a two-stage underpin process, however they did express concerns about the impact these proposals would have on funds and pensions administrators given the significant resourcing requirements.


PENSIONS AND LIFETIME SAVINGS ASSOCIATION

LOCAL GOVERNMENT PENSION SCHEME (ENGLAND AND WALES): AMENDMENTS TO THE STATUTORY UNDERPIN

A RESPONSE TO MHCLG'S CONSULTATION PAPER

OCTOBER 2020

**Source:** PLSA Response to MHCLG's Consultant Paper

## ShareAction

ACCESS TO NUTRITION INITIATIVE

ShareAction

ShareAction is a registered charity who promotes responsible investment, working with investors to help influence how companies operate their business on a range of Environmental, Social and Governance (ESG) factors. This includes areas such as climate change, gender diversity, living wages, decarbonisation, biomass and healthy markets.

Most recently, ShareAction has been working on a Healthy Markets coalition group. The Healthy Market Initiative aims to make food retailers and manufactures take on accountability for their role and impact on people's diets. The City of Westminster is a member of the Healthy Markets coalition and along with other members, represents over $1 trillion in assets under management. The Fund has actively engaged with ShareAction on this initiative, attending coalition meetings, as well as contacting our equity managers and the LAPFF on their behalf to see if they would be willing to engage.

### ShareAction Case Study

In 2019 ShareAction partnered with the Access to Nutrition Initiative (ATNI) on its Healthy Markets Campaign. ATNI adapted the core methodology used for the Global Access to Nutrition Indexes to assess the disclosure of the UK food retail sector. In March 2020, the ATNI published its UK Supermarkets spotlight analysing the top 10 food retailers in the UK, scoring them against a number of indicators including governance, nutrient profiling, promotions and labelling. Whilst some retailers provide better transparency than others, all of them have the scope to explain more fully their commitments and action in all areas. Following the outcome of the report ATNI recommended that all 10 supermarket chains publish comprehensive strategies on diet, nutrition and health.

**Source:** ATNI UK Supermarket Spotlight 2020

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City of Westminster

# Committee Report

| | |
|---|---|
| **Decision Maker:** | **PENSION FUND COMMITTEE** |
| **Date:** | **11 March 2020** |
| **Classification:** | **Public** |
| **Title:** | **ShareAction Healthy Markets Coalition** |
| **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**<br>***Tri-Borough Director of Treasury and Pensions***<br><br>**ptriggs@westminster.gov.uk**<br>**020 7641 4136** |

## 1 Executive Summary

1.1 This paper seeks approval from the Pension Fund Committee for the Pension Fund to formally join the ShareAction Healthy Markets Coalition, as well providing officers with delegated authority to co-sign letters to target retailers and manufacturers on the Committee's behalf.

## 2 Recommendations

2.1 The Pension Fund Committee is requested to delegate authority to the Tri-Borough Director of Treasury and Pensions to co-sign ShareAction Coalition letters to the target retailers and manufactures.

## 3 Background

3.1 ShareAction is a registered charity which promotes responsible investment, working with investors to help influence how companies operate their business on a range of Environmental, Social and Governance (ESG) factors. This includes areas such as climate change, gender diversity, the living wage, decarbonisation/climate change, biomass and healthy markets.

3.2 Over the last year, ShareAction has been working to further the Healthy Markets coalition group. The Healthy Market Initiative aims to make food retailers and manufactures take accountability for their role and impact on people's diets amid growing concerns surrounding increasing levels of obesity. This can include interventions such as education, increased reporting, packing and labelling, pricing/offers and the development of nutrition strategies.

3.3 To date, ShareAction has engaged with a number of the largest food retailers and manufacturers in the UK. As part of the initiative, ShareAction maintains a dialogue with each of these companies, including signed coalition letters, which cover the criticalness of the topic, opportunities and risks and disclosure of strategies and targets. As at 31 December 2020, the Pension Fund had circa £15m exposure to those target companies, which equates to 0.88% of the total Fund's market value.

3.4 Of particular note is the Tesco Special Resolution, on Healthy Diets, due to be voted on at Tesco's 2021 AGM. The resolution was co-ordinated by ShareAction and is asking Tesco to report on its nutrition and health strategy, together with metrics and targets, including progress reporting within its Annual Report (Appendix 1). As shareholders of Tesco, this is a good opportunity for the Fund to engage with our equity managers and the Local Authority Pension Fund Forum (LAPFF) on this issue and express our support for this resolution.

## 4 Next Steps

4.1 The Committee is requested to delegate authority to the Tri-Borough Director of Treasury and Pensions, to co-sign any future coalition letters in respect of the Healthy Markets initiative, including letters to our equity managers and the LAPFF on the Tesco Special Resolution on Healthy Diets.

**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: ShareAction: Tesco Special Resolution on Healthy Diets

ShareAction»

# ShareAction's Healthy Markets Initiative

## Q&A Special Resolution on Healthy Diets at Tesco's 2021 AGM

## What are we doing?

A coalition of institutional investors with over £140bn AUM and over one hundred retail investors have filed the first ever health-related special shareholder resolution directed at a food retailer, to be voted on at Tesco's 2021 AGM.

The resolution, which has been coordinated by ShareAction, asks Tesco to:

- Disclose what percentage of food and non-alcoholic drink sales comes from healthy products (defined in accordance with UK Department for Health guidance)
- Set an ambitious target to significantly increase such share by 2030
- Publish a comprehensive nutrition and health strategy on how they are going to achieve such targets by 2022 and report annually on progress

Through this special resolution, we hope to bring awareness to the rising investor expectations on the vital role that major food companies like Tesco can play in supporting healthy eating. In line with best practice in the sector, food companies are being asked to publish comprehensive strategies to increase their sales of healthier food and drink products. This is a way to manage the financial and reputational risks and opportunities associated with regulatory and market trends targeting unhealthy products.

## Why are we asking this?

Obesity is one of the most pressing global public health issues. Excess weight affects two thirds of adults and one third of children in the UK, with those on lower incomes being disproportionately affected. This has severe impacts on public health and society, annually costing the NHS and the economy £6 and £54 billion respectively, which the Covid-19 pandemic is further accentuating. Excess weight and associated conditions such as diabetes have emerged as key risk factors for severe complications and death in patients with the virus.

Food and drink retailers play a crucial role in creating our food environments by making key decisions on which products they stock and how they price and market these to consumers. In the UK, two of every three pounds spent on food is in supermarkets, with over half of the grocery market made up of supermarkets' own brand products. Currently, this environment is built on the sale of food containing high amounts of fat, sugar, and salt, with over two thirds of packaged food and drink products being unhealthy.

With increasing public awareness, demand for healthier foods and increasing government regulation; including forthcoming measures restricting the marketing of unhealthy food and drink products at retail level; the sector is at substantial risk if it fails to set key targets in this area and adapt.

Yet, there is great potential for supermarkets to significantly increase the number of healthy products they sell and increase profitability. Tesco has already conducted small-scale trials of health-based interventions, which found that price promotions of fruit and vegetables resulted in a 13% increase in sales, while moving chocolate products out of prominent displays reduced sales by 22%. But Tesco has not yet implemented these on a broader scale.

Across the investment industry, gaining access to accurate, up-to-date data on ESG issues is a continual challenge. In particular, there is a significant lack of disclosure and data on health metrics, such as what retailers are doing to support the health of their customers. Through this shareholder resolution, we look to address this gap and enable access to much needed data for investors and key stakeholders.

## Why are we targeting Tesco?

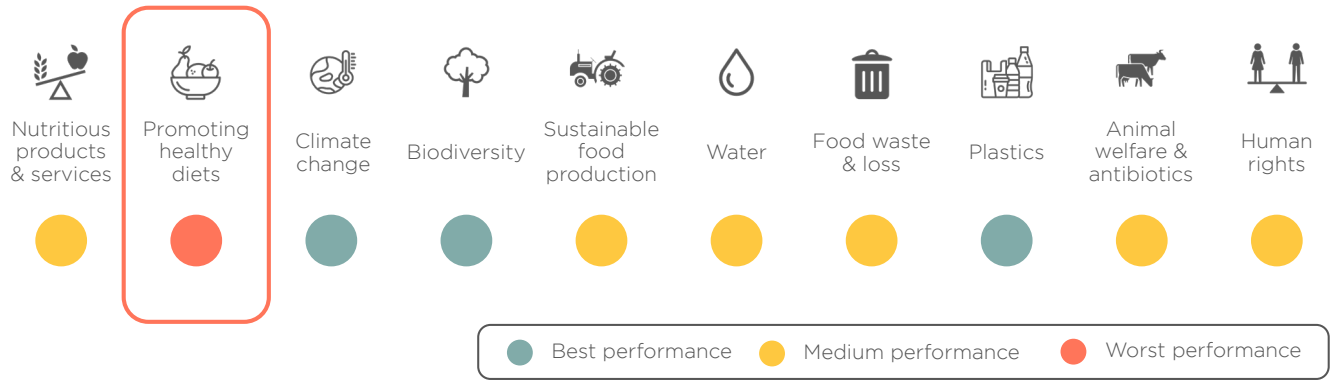
The Healthy Markets initiative has been engaging with a number of supermarkets in the UK since 2019. Tesco is the absolute leader in terms of market share, holding over a quarter of the grocery market in Great Britain. However, this position of leadership has not yet been translated to the key corporate responsibility area of nutrition.

In a recent review by the Access to Nutrition Initiative, Tesco were found to report on less than a third of all possible indicators. According to The Food Foundation, this is also the area of its weakest performance across major environmental and social topics for the food sector.

Whilst we recognise that Tesco has made some important commitments and progress in this area, concern remains that the company has not yet demonstrated how its strategy and commitments in nutrition and health are aligned with regulatory and market trend towards healthier diets.

In contrast, some of the company's competitors have set objectives for shifting the sales of healthier food and drink products over time. For example, M&S and Sainsbury's (existing targets, and upcoming targets).

Tesco's traffic light score for environmental and social topics




Source: Food Foundation, Plating up Progress, 2020

## How can investors get involved?

We believe that this resolution presents an opportunity for Tesco to bring its work in line with current best practice in the sector and address a major gap in its corporate strategy.

For this reason, we believe it is in the interest of Tesco's shareholders to:

- Highlight the importance of greater disclosure on their work and progress in supporting healthier diets as part of their engagement with the company;
- Encourage Tesco's Board to recommend voting in favour by sending a letter (please inform ShareAction of your intention to do this so engagement can be coordinated);
- Signal support for the resolution publicly;
- Amplify the message of the resolution by sharing our press release and communications messages with your network;
- Vote in favour of the special resolution at Tesco's 2021 AGM. (Notice of meeting and statement in response to the shareholder requisitioned resolution expected in May, AGM expected June);
- Join the Healthy Markets investor coalition and be involved in further shaping the initiative.

Please contact Louisa Hodge, Engagement Manager - louisa.hodge@shareaction.org if you are interested in supporting the resolution, or if you would like to find out more about either the resolution or the Healthy Markets initiative more widely.

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ShareAction»

ShareAction is a UK registered charity working globally to lay the tracks for responsible investment across the investment system. Its vision is a world where all finance powers social progress.

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