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City of Westminster

Committee Agenda

Title:	**Pension Board**
Meeting Date:	**Tuesday 16th June, 2020**
Time:	**5.00 pm**
Venue:	**Please note that this meeting will take place virtually**
Members:	**Councillors:** Tim Mitchell Guthrie McKie **Employer Representative:** Marie Holmes **Scheme Member Representatives**: Terry Neville Christopher Smith Chris Walker

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: 07815 663854; Email: thowes@westminster.gov.uk
Corporate Website: www.westminster.gov.uk

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

AGENDA

PART 1 (IN PUBLIC)

1.	**ELECTION OF CHAIRMAN AND VICE-CHAIRMAN/MEMBERSHIP** To elect a Chairman and Vice-Chairman of the Pension Board for the municipal year 2020-2021.	
2.	**DECLARATIONS OF INTEREST** To receive declarations of interest by Members and Officers of any pecuniary interest or any other significant interest in matters on this agenda.	
3.	**MINUTES** To approve the minutes of the Pension Board meeting held on 3 March 2020.	**(Pages 5 - 8)**
4.	**PENSION ADMINISTRATION UPDATE** Report of the Director of People Services.	**(Pages 9 - 22)**
5.	**PENSION DATA QUALITY ISSUES** Report of the Director of People Services.	**(Pages 23 - 28)**
6.	**PENSION FUND PERFORMANCE TO 31 MARCH 2020 AND RISK MONITORING** Report of the Tri-Borough Director of Treasury and Pensions.	**(Pages 29 - 92)**
7.	**STRATEGIC INVESTMENT STRATEGY REVIEW** Report of the Tri-Borough Director of Treasury and Pensions.	**(Pages 93 - 120)**
8.	**ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT**	

Stuart Love
Chief Executive
8 June 2020

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CITY OF WESTMINSTER

MINUTES

Pension Board

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Board** held on **Tuesday 3rd March, 2020**, Room 18.06, 18th Floor, 64 Victoria Street, London, SW1E 6QP.

Members Present: Terry Neville (Chairman and Scheme Member Representative), Councillor Guthrie McKie (Vice-Chairman and Employer Representative), Councillor Tim Mitchell (Employer Representative), Marie Holmes (Employer Representative), Martin Colwell (Scheme Member Representative) and Chris Smith (Scheme Member Representative).

Officers Present: Mathew Dawson (Senior Finance Manager, Tri-Borough Treasury and Pensions), Billie Emery (Pension Fund Manager), Eleanor Dennis (Lead Pensions Specialist), Sarah Hay (Senior Pensions and Payroll Officer) and Toby Howes (Senior Committee and Governance Officer).

Also Present: Barry McKay (Westminster City Council's Pension Fund Actuary, Barnett Waddingham).

Apologies for Absence: Chris Walker (Scheme Member Representative).

1 MEMBERSHIP

1.1 There were no changes to the membership.

2 DECLARATIONS OF INTEREST

2.1 Terry Neville (Chairman and Scheme Member Representative) declared that he is a councillor at the London Borough of Enfield, however he is a scheme member of the Westminster Pension Fund.

3 MINUTES

3.1 That the minutes of the meeting held on 27 November 2019 be signed by the Chairman as a correct record of proceedings.

4 PENSION ADMINISTRATION UPDATE

4.1 Sarah Hay (Senior Pensions and Payroll Adviser) presented the report and advised that the key performance indicators (KPIs) were generally good. She referred to the appendix of the report which provided further details concerning the KPIs. Sarah Hay also advised that Surrey County Council had appointed a new Pension Fund Manager.

4.2 Members expressed concern about the number of data inaccuracies that had been identified. The Board requested that a letter be sent to Surrey County Council on its behalf expressing concerns regarding Surrey County Council's performance and asking what plans it was putting in place to make the necessary improvements. The Board also welcomed the new Surrey County Council Pension Fund Manager to attend the next meeting to answer questions that Members may wish to raise.

5 DRAFT INVESTMENT STRATEGY STATEMENT AND INVESTMENT BELIEFS

5.1 Mathew Dawson (Strategic Finance Manager, Treasury and Pensions) presented the report and advised that this was the first time that the Fund had produced some investment beliefs. The investment beliefs focused on long term objectives and the importance of asset allocation was emphasised.

5.2 Members welcomed the report and noted the proposals.

5.3 **RESOLVED:**

That the draft Strategy Statement and Investment Beliefs be noted.

6 DRAFT FUNDING STRATEGY STATEMENT

6.1 Barry McKay (Westminster City Council's Pension Fund Actuary, Barnett Waddingham) from the Council's actuary gave a presentation on the Funding Strategy Statement and the 2019 valuation of the Fund. The Board heard what had been involved in the valuation and the assumptions that were factored in, In addition, Barry McKay explained how this linked in with the Funding Strategy Statement. Members were then informed of the policies that were considered during the process of reviewing the Funding Strategy Statement.

6.2 In reply to questions from Members, Barry McKay confirmed that those taking retirement at 55 years of age were factored into the assumptions for the valuation. In respect of the McCloud case, he advised that there would be consultation on what action to take as a result of this in the spring, and by summer the picture maybe clearer, however extra prudence would apply to the discount rate because of the current uncertainty.

6.3 **RESOLVED:**

1. That the attached draft Funding Strategy Statement be noted.

2. That it be noted that draft Funding Strategy Statement was approved at the Pension Fund Committee on 23 January 2020, pending consultation with the employers, and authority delegated to the Director of Treasury and Pensions in consultation with the Chairman to publish the final Funding Strategy Statement.

7 FUND FINANCIAL MANAGEMENT

7.1 Billie Emery (Pension Fund Manager) presented the report and referred to the five current top risks to the Fund. Members noted the cashflow monitoring situation.

7.2 During discussions, Members asked if pandemics, such as coronavirus, were included in the Risk Register. Members also asked what action was being taken in respect of the impact of the UK leaving the EU.

7.3 In reply, Billie Emery advised that coronavirus appeared as Risk 9 on the Risk Register for Investment. This risk was likely to appear higher on the Risk Register over time as coronavirus spreads more widely.

7.4 Mathew Dawson advised that an officer from the Treasury and Pensions team sat on a group that considered the implications of the UK's' withdrawal from the EU.

7.5 **RESOLVED:**

1. That the risk registers for the Pension Fund be noted.

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

3. That the forward plans for 2019/20 – 2020/21 be noted.

8 QUARTERLY PERFORMANCE REPORT

8.1 Billie Emery presented the report and advised that the Fund had outperformed its benchmark in the last three months to 31 January by 0.63%. Over the year, the Fund had underperformed by 0.39%, largely as a result of underperformance within the Longview and Standard Aberdeen mandates.

8.2 Members welcomed the savings made in fund manager fees and noted the reduction in equity asset allocation. In noting that the Fund was 100% funded, Members asked if there would be changes in how this would be calculated in future.

8.3 In reply, Mathew Dawson stated that the funding level calculations were constantly changing as a result of continual changes in circumstances and many simulations and assumptions were used.

8.4 **RESOLVED:**

That the performance of the investments and funding position be noted.

9 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

9.1 The Board discussed the future arrangements for Members training. Mathew Dawson agreed to contact Members individually to discuss their preferences.

9.2 The Chairman thanked Members for their participation during his time as the Chairman and he advised that the Board was to elect a Chairman from the Employer side and the Vice-Chairman from Scheme Member side for the municipal year 2020-2021 at the next meeting.

The Meeting ended at 8.24 pm.

CHAIRMAN: _____ **DATE** _____

City of Westminster

Pension Board

Date:	**16th June 2020**
Classification:	**General Release**
Title:	**Pension Administration Update**
Report of:	**Sarah Hay, Pensions Officer People Services**
Wards Involved:	**All**
Policy Context:	**Service Delivery**
Financial Summary:	**Limited**

1. Executive Summary

1.1. This report sets out how the fund's administration service has responded to the COVID pandemic and adapted to prioritise our services. This report provides a summary of the performance of Surrey County Council (SCC) with the Key Performance Indicator (KPI) for the period February 2020 to April 2020. The detailed KPIs are shown in Appendix 1.

1.2. There is an update on the situation at Orbis, the funds software procurement, end of year 2020 and the planned existence project for 2020/ 2021.

2. The Impact of COVID

2.1 There is only one place to start this update, the board will be aware that since the last meeting of the board on the 3rd of March the COVID pandemic has shut down or reduced many services. Our day to day pension administration service is generally provided by the administration team in Lewes and the team had to adapt from being practically 100% office based to being close to 100% home based at the end of March.

2.2 The Pension Regulator responded to the crisis acknowledging that funds would be under pressure during the crisis and would need to prioritise services. Orbis responded by advising that they would prioritise the processing of retirements, refunds and death cases. Additionally, ensuring the continued payment of the monthly pension payroll and the processing on time of the April pension increase. Westminster supported these key areas and we are overall pleased to

say that the running of the pension service in these areas has remained stable from March 2020 until the time of writing this report.

2.3 The Helpdesk is currently providing a reduced phone service with lines open between 10am and 12pm and 2PM and 4 pm daily. E-mails are being responded to by the helpdesk directly or tasks are now being fed into the normal work flow. People are being advised that the fund is prioritising the cases outlined above and that there maybe a delay in responding to other cases but workflow is now normalising over all general categories.

2.4 Orbis have had a massive task to support their workers to adapt to home working and many have been using their own laptops in the last few months. Orbis are undertaking the issuing of work laptops and phones for administration staff and are also reviewing providing additional screens that were a standard part of normal working life in the office. Productivity having initially reduced is increasing and we are working with Orbis to ensure the service is effective going forward.

2.5 Two issues that Orbis have had to address is dealing with post and printing letters to send out to members. During the first weeks of lockdown a member of the team was going into the office once a week to pick up and scan post and to print off any letters that needed to be sent out in the post. Orbis have been developing a facility to get printing sent directly to a print provider that can automatically post out as well and this is now up and running however it will only work for the administration team when they have Orbis laptops.

3. KPI Performance

3.1 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 members.

3.2 This paper covers the period of February 2020 to April 2020. It should be noted as above the team had to adapt to enormous change in the way we were working late in March and we have deliberately focused our efforts in key areas including retirements, deaths and refunds.

3.3 KPI performance in appendix 1 is summarised below:

3.4 At the last board meeting on the 3rd of November we reported on November 2019 to January 2020 KPI data.

3.5 This board report we will focus on our key priorities. The first priority is death cases. You will note from appendix 1 that we are 100% on dealing with death and dependent benefit death cases. Overall our numbers are small although we have seen an increase in April and I expect that to continue in May and June. I am also aware that other Orbis funds have seen a corresponding increase as well.

3.6 On retirements we are disappointed that one set of options forms was sent out late and one retirement benefit was processed late. It should be noted the difficult circumstances in March, April and the higher numbers of retirements that the team had to deal with in April when larger numbers of people do traditionally retire. We were disappointed by the five late payments of lump sums over the three months. Although many were paid in time and we were talking late by a few days this was a priority. Getting payments checked and then processed whilst everyone was working remotely proved challenging at times. We also noted the one late pension payment in February.

3.7 The final priority is refunds and I am pleased to say that all new refunds have been processed within our agreed KPI.

3.8 On the other KPI I will not add further commentary as we agreed with Orbis what the priorities would be. I would add that overall I am pleased that the general workloads were maintained in February through April so the team were doing much more than the minimum cases dictated as a priority. I believe the admin team adapted well under the circumstances using their personal laptops to support the Orbis service and going from never working at home to constantly working at home. I am proud of the people working to support our service at this challenging time.

4. End of Year Returns

4.1 End of year files were due to be submitted by the end of April 2020. At the time of writing this report I am aware of two bodies with outstanding returns. One is already a ceased body and the other is an academy. Both are being chased

5. Western Union Existence Checking

5.1 The board will remember that last year we carried out the first existence exercise for our overseas based pensioners.

5.2 The existence exercise will involve members living overseas being invited to attend a Western Union agent near their home address in order to confirm that they are still alive and entitled to the pension. In order to encourage members to complete the certification process we pay them £10 incentive for completing the process.

5.3 The initial project call has been had with Western Union with a timeline loosely based on running a report from the pension payroll in July and then sending out the initial letters to members at the end of August this would potentially lead to any pensions being suspended early in 2021 subject to agreement.

5.4 Western Union had suspended ongoing existence exercises in March when the COVID pandemic made the exercise unsafe for members and Western Union agents. Western Union are reviewing the situation around the world and will

come back to us in the next few weeks but overall we are hopeful that we can run a meaningful exercise this year.

5.5 This years letters will recognise the pandemic and assure members that they are only to complete the certification if they feel it's safe to do so. We will be providing an e-mail address for members to get in contact with us so that we can confirm contact and not suspend the pension of anyone that is vulnerable

6. Orbis, 101 Administration Agreement and Altair Software.

6.1 I am sorry to advise the board that Mr Nick Weaver the current Orbis pension manager has resigned and is leaving is current role this month though there is some suggestion he maybe agreeing a part time role to support Orbis while they try and appoint a successor. Nick had started to drive through some projects that had stalled previously including a direct payment facility to ensure security. I believe Nick understood the frustration of not having a transparent Orbis pension service at a strategic level so that we could work together as partners for the benefit of both parties. Orbis have had 3 pension managers now in less than 18 months.

6.2 WCC and Orbis held a quarterly meeting via Teams on the 4th of June. Mike Lea Assistant Director of Business Operations at Orbis advised us that agencies have been approached and one interview was scheduled to take place for the pension manager role. Mike was advised that WCC wanted to see a more transparent and open culture between Orbis and the fund going forward. Sarah advised Mike that she had only just been advised that there maybe costs related to the implementation of the direct payments module of the Altair system weeks after Orbis was advising the fund that work was underway on implementing the change. Sarah advised that the update on issues and projects has not been consistent.

6.2 A revised 101 agreement has been drafted by the Interim Pension Specialist and was sent to Surrey in February, it was received back in May with their feedback and is currently with our legal team. WCC are keen to include reporting and outline expectations for delivery of a robust pension administration service that meets the needs of the Fund and the changing pensions landscape. Surrey are keen to create a Partnership arrangement that is to the benefit of both parties. Westminster has a good direct relationship with the administrators who do our funds day to day work and it's important to acknowledge that this aspect works well. In addition there needs to be a discussion on the revised costs, which is still outstanding to be agreed by the Orbis board before being shared with WCC.

6.3 A paper was taken to the procurement gate on 19th May to support agreement with the fund's current software provider Heywood for a contract award from November 2020. The fund is keen to ensure that a full competitive tender exercise be run for the next WCC contract starting in November 2023 to allow a two year procurement process.

6.4 At the last meeting the board expressed their concern at the situation at Orbis and wanted to write a letter to the pension manager to express their concern on the service and the level of data issues the fund had. Since that meeting we immediately had to deal with the impact of COVID and ensuring that Orbis were functioning by responding to the three key areas and that the pension payroll was running normally. A proposed letter will be forwarded to the Chair addressed for the attention of Mr Mike Lea Assistant Director of Orbis now that Nick is leaving to allow the board to express their concern. The board can agree the final letter they wish to send Orbis.

7. Summary

7.1 Overall Orbis did respond well to the COVID pandemic and the changes that they had to implement as a primarily office based team to a primarily home based team was not insignificant. The people working in our administration team did pull together running the service on their own home laptops as they did not have office ones previously.

7.2 The KPI data overall is pretty good. We want to work with Orbis to ensure improved efficiency and to help the team settle further into working at home.

7.4 The end of Year Returns for 2020 are nearly all in with two small returns outstanding.

7.5 A new overseas existence exercise has been commenced with Western Union to continue the process we started last year.

7.6 Orbis have just lost their third pension manager in 18 months. The WCC fund has a good relationship with the pension administration team but is seeking a transparent relationship with the Orbis management for the benefit of both parties. A new 101 agreement has been discussed but is currently on hold pending costing and Orbis being able to resource any new agreement.

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Westminster County Council - February 2020 to April 2020 Annual Results on KPI Reporting

Description	Target time/date as per Partnership Agreement	Target	Actual Score for Quarter	Quantity February 2020	Actual Score February 2019	Comments	Quantity March 2020	Actual Score March 2020	Comments	Quantity April 2020	Actual Score April 2020	Comments	Trend	People services Comments
Pension Administration														
Death Benefits Notify potential beneficiary of lump sum death grant	5 days	**100%**	%	2	100%	X	2	100%	X	5	100%	x		Death Cases have been identified as a priority by the fund in the COVID Pandemic. Numbers have increased in April and we expect that to continue in the next few months. We are pleased that these cases have been actioned within KPI.
Write to dependant and provide relevant claim form	5 days	**100%**	%	1	100%	X	2	100%	X	1	100%	x		We are pleased that everything remains within KPI. We expect higher numbers to be processed in the next few months.
Set up any dependants benefits and confirm payments due	14 days	**100%**	%	9	100%	X	1	100%	X	5	100%	x		We are pleased that everything remains within KPI. We expect higher numbers to be processed in the next few months.

Retirements Retirement options issued to members	5 days	**100%**	%	6	100%	X	7	100%	X	11	90%	1 case failed, by 4 days		Retirements are a priority during the COVID pandemic we are dissapointed that we had a late in April by a few days even though this represents an improvement on the prior reporting period. We should note the increased numbers of cases that the team dealt with in April whilst they were embedding working at home.
New retirement benefits processed for payment following receipt of all necessary documents	5 days	**100%**	%	14	100%	X	14	100%		16	94%	1 case failed, by 6 days		Again we are dissapointed that 1 case was processed late in April but there were significant numbers processed on time.
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run	**100%**	%	14	100%	X	14	100%		16	100%	x		
Refunds of Contributions Refund paid following receipt of claim form	14 days	**100%**	%	21	100%	X	9	100%		3	100%	x		Refunds is another idenified priority in the COVID Pandemic. We are pleased that this KPI remains 100%.
Deferred Benefits Statements sent to member following receipt of leaver notification	30 days	**100%**	%	104	100%	X	16	100%	OF WHICH 4 WERE BACKLOG CASES	48	100%	x		

Notification to members 2 months before payments due	2 months		%	19	100%	X	45	100%		15	100%	x		The robot development previously referred to has been working and reducing pressure on the team with someone just having to check the Robot letters and pick up a few where adjustment is needed. This is instead of all letters being produced by a team member and then being checked.
Lump Sum (on receipt of all necessary documentation)	5 days		%	25	96%	1 case failed, by 1 day	22	87%	3 CASES FAILED, BY AN AVERAGE OF 2 DAYS	15	93%	1 case failed, by 3 days		Payment of lump sums is a key priority during COVID. We are dissapointed that a small number of cases were late in February, March and April. The delays appear minimal in length and the team were adapting to working at home from March.
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run		%	25	96%	1 case failed, by 1 day	22	100%		15	100%	x		We note the 1 late case in February 20.
New Joiners New starters processed	30 days	**100%**	%	71	100%		45	100%	6 MANUALLY SET UP	51	100%	46 Via the interface		We are expecting new starters to reduce in May and June following a slow down in recruitment in April and May.

Transfers In Non LGPS transfers-in quotations	30 days	**100%**	%	8	100%	X	3	100%		6	100%	x		
Non LGPS transfers-in payments processed	30 days	**100%**	%	3	100%	X	2	100%		4	75%	1 case failed, by 15 days		We note the late case in April but this was not a key priority during the pandemic.
Transfers Out Non LGPS transfers-out quotations processed	30 days	**100%**	%	14	100%	X	5	100%		2	100%	x		We are please that this KPI has improved from the prior reporting period.
Non LGPS transfers out payments processed	30 days	**100%**	%	1	100%	X	0	100%		1	100%	x		
Interfunds In - Quotations	30 days	**100%**	%	7	100%	X	8	100%		6	100%	x		
Interfunds In - Actuals	30 days	**100%**	%	1	100%	x	4	100%		3	100%	x		All 100%
Interfunds Out - Quotations	30 days	**100%**	%	14	100%	x	12	89%	1 case	6	100%	x		we note the two late cases. The March case would not have been a Priority in the pandemic.
Interfunds Out - Actuals	30 days	**100%**	%	6	100%	x	7	100%		0	100%	x		All 100%
Estimates														
1-10 cases	5 Days		%		n/a		3	100%		2	100%	x		All 100%
11-50 cases	Agreed with WCC		%	11	100%	x								
51 cases or over	Agreed with WCC		%											we have not been processing estimate requests in the pandemic.
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		%		100%		144	98%		100	100%	x		We have noted that a couple of cases were processed late but this against hundreds being actioned.
Buying Additional Pensions														
Members notified of terms of purchasing additional pension	15 days		%	2	100%	x	1	N/A		2	100%	x		
Monthly Pensioner Payroll														
Full reconciliation of payroll and ledger report provided to WCC	Last day of month				100%			100%			100%			All 100%
Issue of monthly payslips	3 days before pay day				100%			100%			100%			All 100%
RTI file submitted to HMRC	3 days before pay day				100%			100%			100%			All 100%
BACS File submitted for payment	3 days before pay day				100%			100%			100%			All 100%
P35	EOY				31-Mar-19			31-Mar-19			31-Mar-20			
Annual Exercises			**Date Achieved**											
Annual Benefit Statements Issued to Active members	31 August each year				Annual			Annual			Annual			

Annual Benefit Statements Issued to Deferred members	31 August each year				Annual			Annual			Annual			
P60s Issued to Pensioners Non LGPS transfers-in quotations processed within 20 days	31 May each year				100%			100%	Issued April 2019		100%	Issued April 2020		P60's were issued in April as a priority.
Apply Pensions Increase to Pensioners	April each year				100%			100%			100%			April 20 PI exercise compl
Pensioners Newsletter	April each year				100%			100%			100%			Newsletters sent to pensioner members, going out to preserved benefit members and active members but pushing letters via portal access where possible.
Correspondence														
Acknowledgement if more than 5 days	2 days													
Response	10 days			22	100%		13	85%	2 cases late, 1 case late by 5 days and the second case late by 2 days	17	100%			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.
Helpdesk Enquiries														

Volumes of Enquiries Handled By Helpdesk	Number of Enquiries Handled									577 calls				Volumes of calls in April were significant. We believe this was particularly high due to pensioner members responding to requests to register for member self service.

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City of Westminster

Pension Board

Date:	**16th June 2020**
Classification:	**General Release**
Title:	**Pension Data Quality Issues**
Report of:	**Eleanor Dennis, Interim Pensions Specialist People Services**
Wards Involved:	**All**
Policy Context:	**Compliance**
Financial Summary:	**Limited**

1.0 Executive Summary

1.1 The Fund and The Pension Regulator has increased their focus on data quality. The key areas of concern for the City of Westminster Pension Fund (COWPF) are Status 1, Status 2 and address gone aways.

1.2 All Status 1 cases have now been completed.

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1.3 Tracing of address gone aways has resulted in over 600 additional up to date addresses for the Fund's members.

1.4 Independent analysis by ITM has provided a further insight into other areas of COWPF's data that the Fund can now work with Surrey to resolve and a project has commenced with ITM to complete the outstanding Status 2 work.

2.0 Introduction

2.1 The Pension Regulator has placed an increased emphasis on the importance of pension schemes ensuring they have good quality data. Managing data is high risk as there are so many elements to maintain and it is constantly changing. The consequences of poor data include impacting on members benefits, which can be expensive for the Fund if things go wrong. Good quality data is necessary to ensure that the scheme is managed properly but this cannot be done effectively if records are inaccurate, incomplete or not up to date.

2.2 Over the last 18 months several data issues have been identified and the pension specialist has worked closely with the Funds administrators and external third parties to analyse, identify and improve the quality of the COWPF data.

2.3 The last data quality report demonstrated a significant improvement in the quality of the data of the COWPF (The scores for 2018/19 show an improvement of 14.5% in the common data score and 22.1% conditional data score respectively but there is still more work to do). It is important the good progress made continues and data continues to be closely monitored on a regular basis, to ensure the improvements made are sustained and the quality continues to improve in the future.

Key areas data issues were identified

3.0 Status 1 – Valuation impacting errors

3.1 The production of the data quality report is a Pension Regulator requirement of all pension schemes to report annually on the quality of their data and produce an improvement plan.

3.2 As a result of the poor data scores of 77.9% common data date and 71% for scheme specific data in the 2018 report. The pension specialist worked with and closely monitored Surrey to prioritise working on the with the Valuation impacting cases first. Surrey were helped by a temporary resource, funded with additional funds of £16k agreed by the Fund.

3.3 These 364 cases with errors such as undecided leavers, records that needed to be deleted, members still in the scheme but with missing pay data or members who were in the Teacher's pension scheme or who had opted out. Status 1 processing ceased in April 2019, due to the administrators focusing on valuation activities and the departure of their temporary resource. With half of the additional funds remaining and no ability to recruit externally to complete this work. Work recommenced in January 2020 by using experienced existing admin team members at Surrey and all remaining cases were completed in April 2020 at no additional cost to the Fund.

3.4 The 2019 data quality scores demonstrated improved scores of 89.9% common data and 93.1% scheme specific data respectively as a result of the data quality work completed in 2019. We await in the later end of 2020 to see the impact of this work.

4. Status 2 - Legacy undecided leavers

4.1 Approximately 1500 legacy Status 2 cases (pre-November 2018) were identified by Surrey and it was agreed that these would be resolved by engaging with a third party provider of the administrator's choice, JLT. Work was slow to commence, and progress was poorly project managed by Surrey. The intervention of the pension specialist enabled better understanding of expectations and an improved relationship however the inexperience and inefficiency of the JLT 's processes meant that processing by JLT ceased in December 2019. Surrey continued to complete some cases that JLT started but did not finish, as a goodwill gesture. Verification and auditing by Orbis have confirmed that 476 cases were completed by JLT.

4.2 The Fund asked Surrey to provide an alternative solution to JLT, on processing the outstanding Status 2 cases. In the draft proposal Surrey estimated costs of £41,450, recruiting a temporary resource, and an estimated timescale for completion of 12 – 15 months. They have in addition recommended that a permanent data resource at Orbis is recruited to work for the COWPF in the role of Data quality Officer at an estimated cost of £24,430 per annum.

Please note this proposal was provided with the cavate that such a solution may not be a viable for Surrey. Due to the difficulty in recruiting an individual with good LGPS experience and Surrey's lack of ability to commit to implementing and project managing due to the BAU's team workflow and other focuses such as I-Connect and regulatory changes due i.e. the McCloud ruling.

4.3 Due to their cavate, Surrey have also recommended data specialist ITM as an alternative solution to all their Fund's for legacy data cleansing.

5.0 Data Tracing

5.1 Reports from Surrey highlighted that there were over 3000 members with no current address (i.e. gone aways). It was decided to first focus on finding addresses for sections of the membership population; pensioners (those already in receipt of their pensions) and deferred's over 55 (those who were eligible to take their pension benefits), totalling 753 records. We engaged directly with an experienced external company Target, to carry out this work on the Fund's behalf.

5.2 To date 649 addresses have been found and updated on Altair, of which 14 are deceased. An additional 8 members were identified separately as deceased under the National Fraud Initiative. Further work will continue the remaining 96 cases which will proceed to international trace of £70 per case on a no find no fee basis. In addition, 17 cases that were unsuccessful in the pensioner existence exercise have also been forwarded to Target. They have been able to trace and verify 5 pensioners, some for whom the contact details remained the same with pensions now put back into payment.

6.0 Further data analysis

6.1 Given the challenges experienced in tasking Surrey to identify and resolve existing data issues. The interim Pension Specialist has led engagement for a full independent analysis of the Fund's Status 1 and Status 2 's with data specialists ITM, with agreement from the Committee, at a cost of £6,195 (excluding VAT).

6.2 The purpose of the analysis carried out in February 2020, was to enable the Fund to understand the true picture of all data errors/issues. As well as to help with assessing next steps on how to process the outstanding 900 + Status 2 cases, previously intended for JLT to complete.

6.3 The analysis proved to be a useful exercise with ITM identifying that there were 1200+ status 2 records (300 more than the Fund was aware of). These status 2 cases represent 31% of the active membership, which is high.

6.5 Initial investigations have highlighted that some of the poor data was inherited from Surrey by previous administrators. Others point to gaps in Surrey's processing and discussion with Surrey has already begun to share the results of the analysis and understand how they may have occurred. It has been agreed that a more collaborative approach is required. This will include input from the WCC inhouse pension team to engage with employers on some issues that can be resolved quickly i.e. by engaging with employers on incorrect data held for active members.to resolve the issues and the Fund will be required to decide on how best to approach these data issues.

6.6 COWPF has with agreement of the Committee chair to engage with ITM to resolve the outstanding status 2 cases in March 2020. ITM have experienced UK based resource to process these cases at an estimated cost of £60,772 and have estimated that this work would take approx. 4 months.

6.7 However, Surrey have been very slow to engage with COWPF for the project which has led to a delays in the ITM starting to process cases. However, ITM have attended training hosted by the existing administration team in May and all cases in scope have been ringfenced by Orbis. Guidance notes and letters have also been revised and processes agreed. It has been agreed that Orbis will process stage 2 (the payment part) of refund process in the existing team or at Kingston depending on workloads at the time.

Surrey have agreed to carry out peer review on ITM cases. However due to current demands from end of year work, and the impact of COVID-19 on the team. It is proposed that this is carried out by senior members of the existing experienced admin team, however this will be done as overtime at an additional hourly charge of £25 – £39 per hour paid by the Fund. It is expected that this is done in an efficiently and promptly manner with regular feedback on their findings. Surrey will provide a peer review on 10% cases until COWPF is satisfied with the quality and thereafter this will fall to 5%.

6.8 ITM have been very patient in the process and are keen to commence processing cases. In the meantime, their dedicated team of 4 have been able to refresh the in scope cases which is now approximately 1000. Look through all those cases and contact each Fund employer to request the missing information. COWPF existing in house team assist ITM in working with the Fund employers to ensure employers are aware of their responsibility to respond. However due to the delays caused by Orbis it is expected that the project will now be completed by ITM the end of August 2020.

7.0 Summary

7.1 The collaborative approach of working across all stakeholders in the Fund's data should lead to continually improving data quality score, a better member experience and compliant robust member data for the City of Westminster pension Fund.

7.2 The uncertain environment in which we are all working has led to some challenges for the Orbis team to adapt and impacted on their delivery. However, it is hoped that the completed of these legacy status 2 cases will put the Fund data in a stronger position to respond to the impact of this.

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City of Westminster

Pension Board

Date:	**16 June 2020**
Classification:	**General Release**
Title:	**Pension Fund Performance to 31 March 2020 and Risk Monitoring**
Wards Affected:	**All**
Policy Context:	**Effective control over council activities**
Financial Summary:	**There are no immediate financial implications arising from this report.**
Report of:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. Executive Summary

1.1 This report presents the performance of the Pension Fund's investments to 31 March 2020, together with an update of the Pension Fund risk registers.

1.2 The Fund underperformed the benchmark gross of fees by 1.43% over the quarter end year to 31 March 2020.

1.3 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.

2. Recommendations

2.1 The Board is asked to note:

- the performance of the Fund's investments to 31 March 2020;
- the risk registers for the Pension Fund, as updated in May 2020.

3. Pension Fund Performance

3.1 This report provides an update of the Pension Fund's performance to 31 March 2020. The performance analytics report (Appendix 1) has been prepared by Northern Trust, the Fund's global custodian.

3.2 The performance analytics report shows that, over the quarter to 31 March 2020, the Fund underperformed its benchmark gross of fees by 1.43%. As a result of COVID-19 impacting global markets and complexities in illiquid asset valuations over the quarter, the market value of the Fund's investment assets fell by £222m to £1.324bn.

3.3 The majority of mandates provided a negative return during the quarter. However, Aberdeen Standard and Pantheon provided a positive return of 1.62% and 14.33% gross of fees. Baillie Gifford, Hermes and Pantheon outperformed their benchmark gross of fees by 2.33%, 0.65% and 12.13% respectively.

3.4 Over the year, the Fund returned -7.02% gross of fees, underperforming its benchmark gross of fees by 1.43%, largely as a result of the impact of COVID-19 on equities and multi asset credit. During this period, Longview and CQS significantly underperformed their benchmarks by 9.19% and 18.78% (gross of fees) respectively.

3.5 Over the longer three-year period to 31 March 2020, the Fund provided a positive return of 1.25%, marginally underperforming its benchmark (gross of fees) by 0.26%, with Aberdeen Standard and Baillie Gifford being the major positive contributors. Longview underperformed its benchmarks gross of fees by 3.34% during this period.

3.6 Additionally, our investment advisor, Deloitte, have produced a market and performance update over the quarter to 31 March 2020. This is attached within appendix 2 and provides an update on global equity markets, gilts, corporate bonds, property and private markets.

3.7 Over the quarter, the greatest fall in market value came from our equity holdings, with LGIM falling over 20.8%, Longview by 22.5% and Baillie Gifford by a modest 13.2%. This is in comparison to a fall in global markets of 30% to 23 March 2020, with a partial recovery over the final week of March.

3.8 The Insight Buy & Maintain Bond fund held up well over the quarter, decreasing by 5.4% in value, additionally there were no defaults as at 31 March 2020. Conversely, CQS's market value fell by 17.0% over the quarter with default risks increasing in the lower credit rating bonds held.

3.9 The Fund's property allocations are subject to material uncertainty. Professional Valuers have not been actively valuing many similar sized assets in the market due to the current lockdown environment, as such values have been rolled over from Period 11 with an adjustment and may

be inaccurate to the true 31 March position. Aberdeen Standard have also taken the decision to defer redemptions, switches and subscriptions in the Long Lease Property Fund.

3.10 The Pantheon Global Infrastructure fund reports performance quarterly in arrears, therefore this estimate is not a fair representation of the current position as at 31 March 2020. Pantheon have suggested a 10% discount to the current roll forward valuation.

4. Risk Register Monitoring

4.1 The pension fund risk register (presented as Appendix 3 and 4) is divided into two sections: governance (investment and funding) and pensions administration. The current top five risks to the Pension Fund are highlighted below:

- The global outbreak of COVID-19 impacting stock markets worldwide, as well uncertainty surrounding illiquid asset values including property and infrastructure (investment risk).

- The London Collective Investment Vehicle (LCIV) disbanding or the partnership fails to produce proposals/solutions deemed sufficiently ambitious. The LCIV is still waiting to get the change of business plan signed by all 32 London Boroughs, with one borough holding back its signature (governance risk).

- Significant volatility and negative sentiment in global investment markets following disruptive geopolitical uncertainty caused by the ongoing trade war between the US and China. (investment risk).

- 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 (administration risk).

- Volatility caused by uncertainty with regard to the UK's exit from the European Union, lack of trade deal and the economic aftereffects. There will be a transition period until the end of 2020, during which time the UK and EU will negotiate new arrangements from 2021. COVID-19 has placed additional uncertainty with regard to this deadline being achieved (investment risk).

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

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

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1: Northern Trust Performance Analytics
Appendix 2: Deloitte Q1 2020 update
Appendix 3: Tri-Borough Risk Management Scoring Matrix
Appendix 4: Pension Fund Risk Register Review at 5 May 2020

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NORTHERN TRUST

City of Westminster Total Fund

Investment Risk & Analytical Services

March 31, 2020

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SECTION 1

City of Westminster Total Fund

Investment Risk & Analytical Services

March 31, 2020

Investment Hierarchy

Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return							Inception Date
			One Month	Three Months	One Year	Three Years	Five Years	Ten Years	Inception to Date	
City of Westminster Total Fund	**1,323,832,749**	**100.00**	**-10.53**	**-14.18**	**-7.02**	**1.25**	**4.33**	**7.20**	**7.73**	**30/09/2009**
City of Westminster Total BM			*-8.68*	*-12.75*	*-5.59*	*1.50*	*4.24*	*6.59*	*7.23*	*30/09/2009*
Excess Return			*-1.86*	*-1.43*	*-1.43*	*-0.26*	*0.09*	*0.61*	*0.50*	*30/09/2009*
Equities	**855,308,353**	**64.61**	**-12.62**	**-18.60**	**-10.21**	**0.29**	**4.21**	**-**	**5.67**	**30/09/2014**
UK Equities	**3,046**	**0.00**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**30/09/2014**
Majedie	**3,046**	**0.00**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**30/09/2011**
FTSE ALL Share GBP			-	-	-	-	-	-	-	*30/09/2011*
Excess Return			-	-	-	-	-	-	-	*30/09/2011*
FTSE All Share GBP + 2%pa			-	-	-	-	-	-	-	*30/09/2011*
Excess Return			-	-	-	-	-	-	-	*30/09/2011*
Global Equities	**855,305,307**	**64.61**	**-12.62**	**-18.60**	**-8.12**	**2.75**	**6.00**	**-**	**7.50**	**30/09/2014**
Baillie Gifford	**276,396,590**	**20.88**	**-10.76**	**-13.16**	**-1.27**	**6.61**	**9.96**	**-**	**11.58**	**18/03/2014**
MSCI AC World GBP Net			*-10.89*	*-15.99*	*-6.74*	*1.79*	*6.62*	-	*8.51*	*18/03/2014*
Excess Return			*0.13*	*2.83*	*5.47*	*4.83*	*3.34*	-	*3.06*	*18/03/2014*
MSCI AC World GBP Net +2%pa			*-10.68*	*-15.49*	*-5.08*	*3.69*	*8.56*	-	*10.49*	*18/03/2014*
Excess Return			*-0.08*	*2.33*	*3.81*	*2.92*	*1.40*	-	*1.09*	*18/03/2014*
LGIM	**523,405,269**	**39.54**	**-13.25**	**-20.81**	**-11.05**	**0.84**	**2.93**	**-**	**7.73**	**31/10/2012**
FTSE World GBP Hedged			*-13.30*	*-20.81*	*-11.03*	*0.82*	*2.92*	-	*7.73*	*31/10/2012*
Excess Return			*0.05*	*0.01*	*-0.03*	*0.02*	*0.01*	-	*0.00*	*31/10/2012*
Longview Partners	**55,503,448**	**4.19**	**-15.68**	**-22.48**	**-13.36**	**0.77**	**6.42**	**-**	**8.05**	**20/01/2015**
MSCI World TR Net (GBP)			*-10.62*	*-15.65*	*-5.83*	*2.21*	*7.03*	-	*7.99*	*20/01/2015*
Excess Return			*-5.06*	*-6.83*	*-7.53*	*-1.44*	*-0.61*	-	*0.06*	*20/01/2015*
MSCI World TR Net (GBP) +2% pa			*-10.41*	*-15.16*	*-4.16*	*4.11*	*8.97*	-	*9.95*	*20/01/2015*
Excess Return			*-5.27*	*-7.32*	*-9.19*	*-3.34*	*-2.55*	-	*-1.90*	*20/01/2015*
Fixed Income	**297,833,033**	**22.50**	**-10.22**	**-8.74**	**-4.00**	**-0.02**	**1.65**	**-**	**2.67**	**30/09/2014**
Insight IM (Core)	**219,068,167**	**16.55**	**-7.55**	**-5.38**	**0.17**	**1.86**	**2.86**	**-**	**5.53**	**30/09/2011**
iBoxx £ Non-Gilts 1-15			*-4.58*	*-2.97*	*0.72*	*1.68*	*2.60*	-	*4.80*	*30/09/2011*
Excess Return			*-2.97*	*-2.41*	*-0.55*	*0.17*	*0.26*	-	*0.73*	*30/09/2011*
iBoxx £ Non-Gilts 1-15 +0.9%pa			*-4.50*	*-2.75*	*1.58*	*2.57*	*3.49*	-	*5.39*	*30/09/2011*
Excess Return			*-3.05*	*-2.63*	*-1.41*	*-0.72*	*-0.63*	-	*0.14*	*30/09/2011*
Insight IM (Gilts)	**0**	**0.00**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**30/09/2011**
FTSE Gilts Up to 15 Yrs			-	-	-	-	-	-	-	*30/09/2011*
Excess Return			-	-	-	-	-	-	-	*30/09/2011*

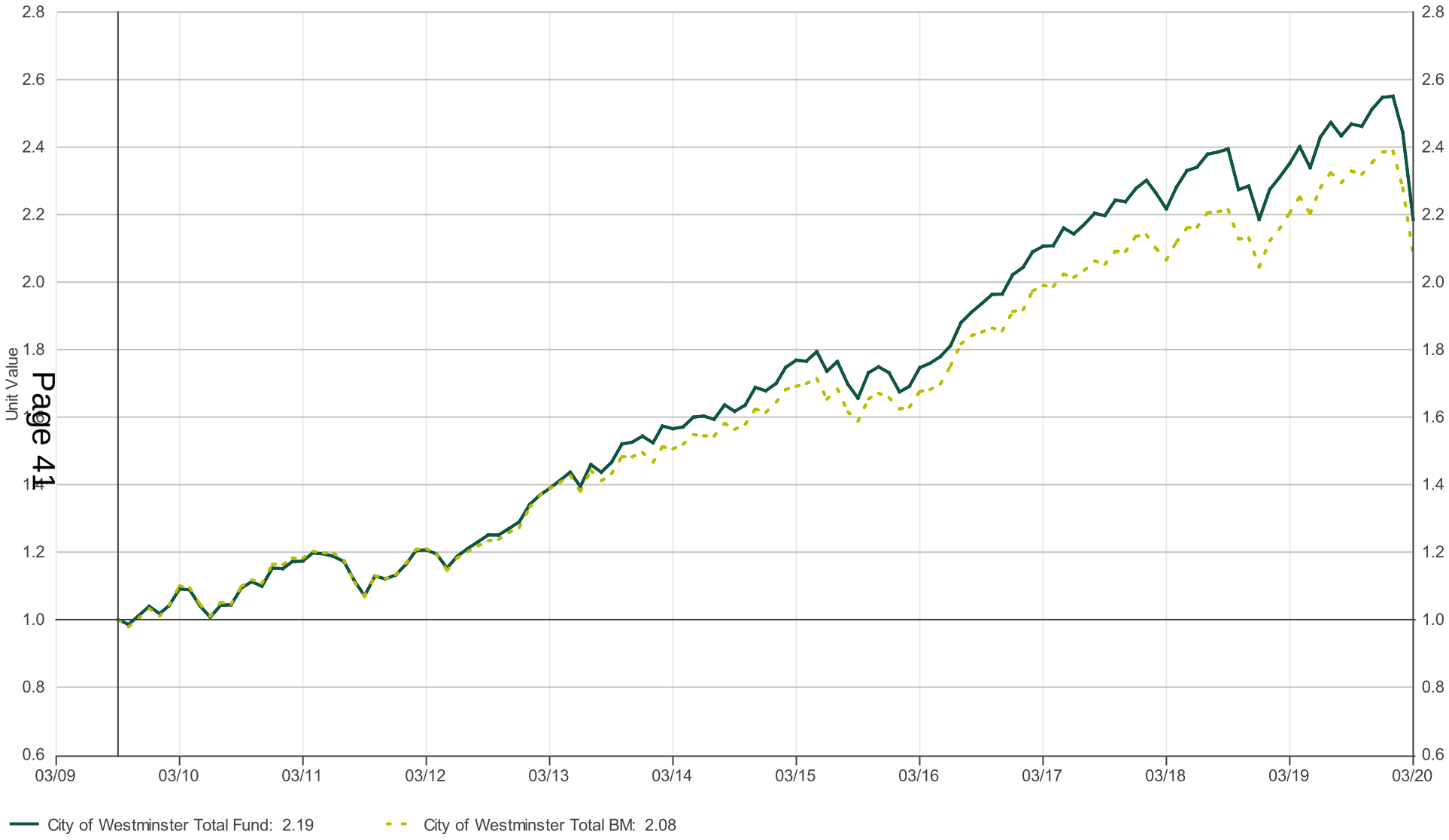
Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return							Inception Date
			One Month	Three Months	One Year	Three Years	Five Years	Ten Years	Inception to Date	
LCIV Global MAC	**78,764,866**	**5.95**	**-16.88**	**-16.95**	**-13.84**	**-**	**-**	**-**	**-9.52**	**30/10/2018**
3 Month Libor + 4%			*0.41*	*1.24*	*4.95*	*-*	*-*	*-*	*5.02*	*30/10/2018*
Excess Return			*-17.29*	*-18.19*	*-18.78*	*-*	*-*	*-*	*-14.54*	*30/10/2018*
Real Estate	**130,847,680**	**9.88**	**-0.29**	**0.72**	**3.78**	**7.13**	**7.52**	**-**	**8.14**	**30/09/2014**
Hermes Property	**62,256,056**	**4.70**	**-1.14**	**-0.26**	**1.60**	**6.50**	**7.60**	**-**	**8.81**	**30/09/2011**
IPD UK PPFI Balanced PUT			*-1.03*	*-1.03*	*0.54*	*5.61*	*6.64*	*-*	*7.49*	*30/09/2011*
Excess Return			*-0.11*	*0.78*	*1.06*	*0.89*	*0.96*	*-*	*1.32*	*30/09/2011*
IPD UKPPFI Balanced PUT+0.5%pa			*-0.99*	*-0.91*	*1.04*	*6.10*	*7.14*	*-*	*7.82*	*30/09/2011*
Excess Return			*-0.15*	*0.65*	*0.57*	*0.40*	*0.46*	*-*	*0.99*	*30/09/2011*
Standard Life Property	**68,591,625**	**5.18**	**0.50**	**1.62**	**5.92**	**7.73**	**7.41**	**-**	**8.34**	**14/06/2013**
FTSE Gilts All Stocks + 2.0%pa			*1.57*	*6.81*	*11.98*	*6.65*	*6.76*	*-*	*7.36*	*14/06/2013*
Excess Return			*-1.07*	*-5.20*	*-6.06*	*1.08*	*0.65*	*-*	*0.98*	*14/06/2013*
FTSE Gilts All Stock Index			*1.42*	*6.32*	*9.94*	*4.63*	*4.75*	*-*	*5.34*	*14/06/2013*
Excess Return			*-0.92*	*-4.70*	*-4.02*	*3.10*	*2.66*	*-*	*3.00*	*14/06/2013*
Cash	**19,204,776**	**1.45**	**0.18**	**9.90**	**-10.05**	**1.83**	**1.88**	**-**	**1.70**	**30/09/2014**
In-House Cash	**19,204,776**	**1.45**	**0.18**	**9.90**	**-10.05**	**1.83**	**1.88**	**-**	**1.68**	**31/08/2014**
Infrastructure	**20,638,907**	**1.56**	**10.24**	**14.33**	**-**	**-**	**-**	**-**	**11.86**	**15/04/2019**
Pantheon Global Infrastructure	**20,638,907**	**1.56**	**10.24**	**14.33**	**-**	**-**	**-**	**-**	**11.86**	**15/04/2019**
3 Month Libor + 8%			*0.73*	*2.20*	*-*	*-*	*-*	*-*	*10.39*	*15/04/2019*
Excess Return			*9.51*	*12.13*	*-*	*-*	*-*	*-*	*1.47*	*15/04/2019*

Market Value Summary - One Month

Account/Group	29/02/2020 Market Value	Net Contribution*	Income	Fees	Appreciation	31/03/2020 Market Value
City of Westminster Total Fund	**1,480,790,642**	**-1,016,309**	**19,414**	**16,309**	**-155,960,997**	**1,323,832,749**
Equities	**979,225,741**	**-317,234**	**111**	**21,213**	**-123,600,266**	**855,308,353**
UK Equities	**3,663**	**-704**	**86**	**0**	**0**	**3,046**
Majedie	3,663	-704	86	0	0	3,046
Global Equities	**979,222,078**	**-316,530**	**25**	**21,213**	**-123,600,266**	**855,305,307**
Baillie Gifford	310,047,093	-295,318	25	0	-33,355,211	276,396,590
LGIM	603,348,600	-21,213	0	21,213	-79,922,118	523,405,269
Longview Partners	65,826,385	0	0	0	-10,322,937	55,503,448
Fixed Income	**331,838,691**	**-99,004**	**9**	**0**	**-33,906,663**	**297,833,033**
Insight IM (Core)	236,966,735	0	0	0	-17,898,568	219,068,167
Insight IM (Gilts)	0	0	0	0	0	0
LCIV Global MAC	94,871,956	-99,004	9	0	-16,008,095	78,764,866
Real Estate	**131,679,273**	**-451,417**	**124**	**-4,904**	**-380,300**	**130,847,680**
Hermes Property	63,435,119	-456,321	124	0	-722,867	62,256,056
Standard Life Property	68,244,154	4,904	0	-4,904	342,567	68,591,625
Cash	**19,927,310**	**-756,359**	**19,169**	**0**	**14,657**	**19,204,776**
In-House Cash	19,927,310	-756,359	19,169	0	14,657	19,204,776
Infrastructure	**18,119,626**	**607,705**	**1**	**0**	**1,911,575**	**20,638,907**
Pantheon Global Infrastructure	18,119,626	607,705	1	0	1,911,575	20,638,907

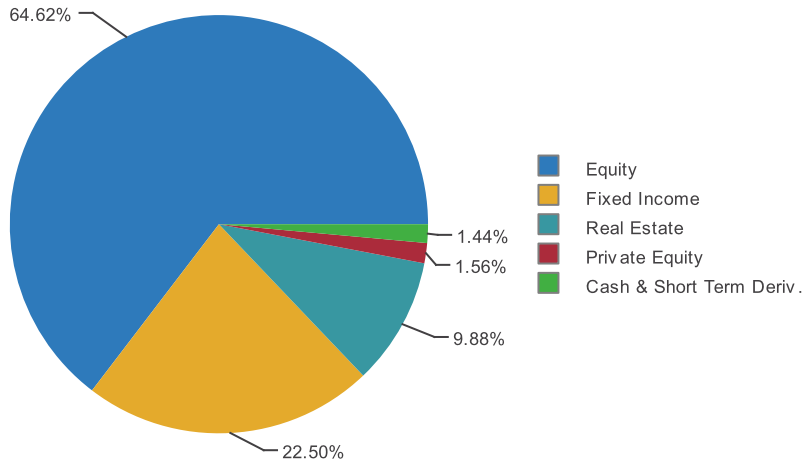
**Net Contributions include Cash Contributions/Distributions, Security Deliveries/Receipts, Fees/Fee Rebates, Inter Account transfers for Consolidations & Benefits Payments.*
Copied History or Backloaded Data may not display the correct Contributions/Withdrawals creating misrepresentation.

Growth Over Time - Inception to Date



Asset Class Performance

ASSET CLASS ENDING WEIGHTS



MARKET VALUE SUMMARY OVER TIME

	1 Mo
Beginning Market Value	1,480,791
Net Contribution	-1,016
Income	19
Fees	16
Appreciation	-155,961
Ending Market Value	1,323,833

**Market Values are in 000s.*

Asset Class	End MV	End Wt	1 Mo	3 Mos	YTD	1 Yr	3 Yrs	5 Yrs	ITD
Equity	**855,476,430**	**64.62**	**-12.62**	**-18.60**	**-18.60**	**-10.17**	**0.29**	**4.20**	
Common Stock	855,476,430	64.62	-12.62	-18.60	-18.60	-10.17	0.29	4.20	
Fixed Income	**297,833,024**	**22.50**	**-10.22**	**-8.75**	**-8.75**	**-4.00**	**-0.00**	**1.73**	
Marketable Bonds	219,068,167	16.55	-7.55	-5.38	-5.38	0.17	1.79	3.04	
Collateralized Mortgage Oblig.	78,764,857	5.95	-16.89	-16.96	-16.96	-13.85			
Real Estate	**130,847,555**	**9.88**	**-0.29**	**0.72**	**0.72**	**3.85**	**7.25**	**7.61**	
Private Equity	**20,623,432**	**1.56**	**10.23**	**14.33**	**14.33**				
Cash & Short Term Deriv.	**19,052,308**	**1.44**	**0.22**	**9.88**	**9.88**	**3.65**	**1.96**	**1.27**	
Pending Cash	**0**	**0.00**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Fund Gross of Fees	**1,323,832,749**	**100.00**	**-10.53**	**-14.18**	**-14.18**	**-7.02**	**1.25**	**4.33**	**7.73**
City of Westminster Total BM			-8.68	-12.75	-12.75	-5.59	1.50	4.24	7.23
Excess Return			*-1.86*	*-1.43*	*-1.43*	*-1.43*	*-0.26*	*0.09*	*0.50*

Excess is calculated using arithmetic methodology

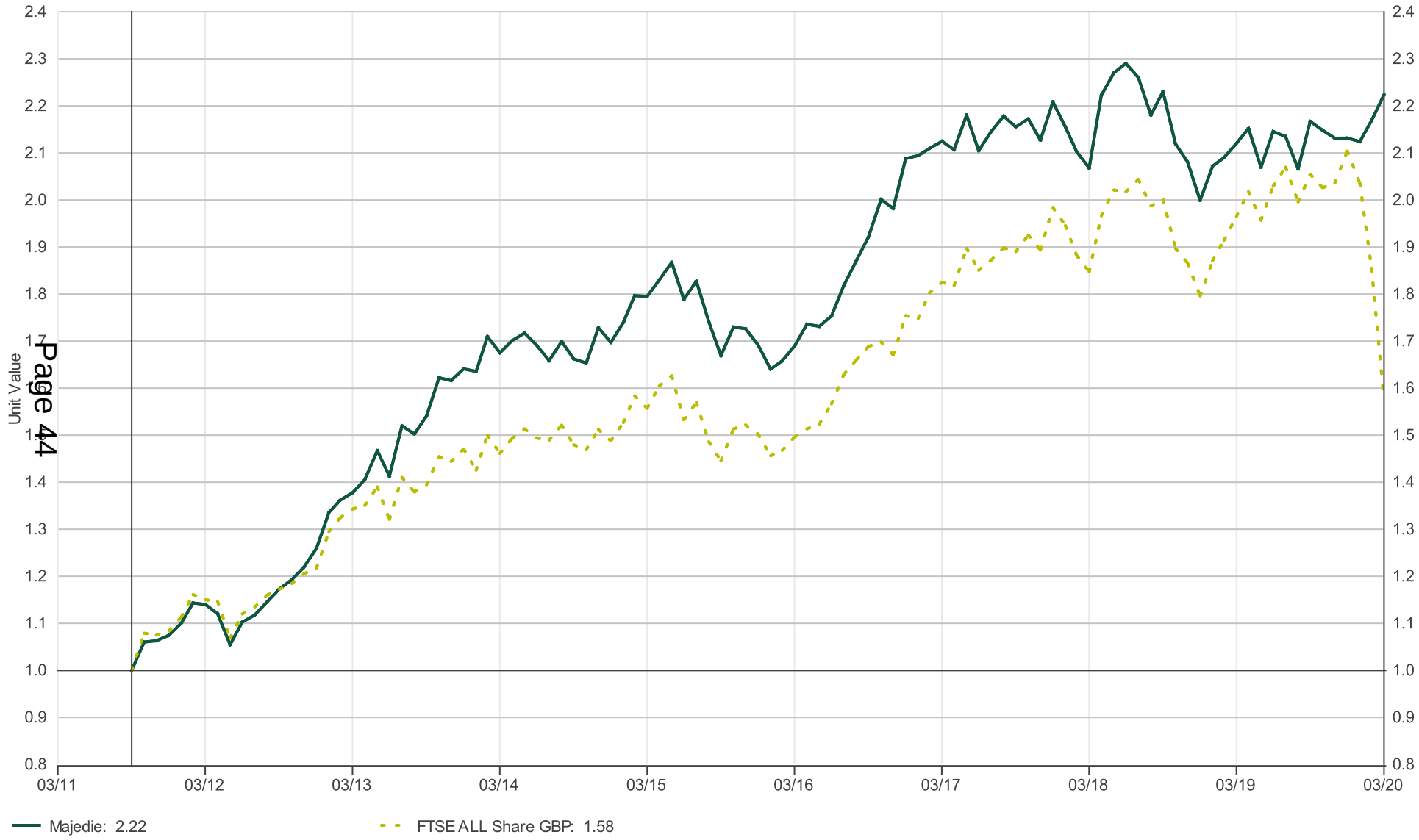
SECTION 2

Majedie

Investment Risk & Analytical Services

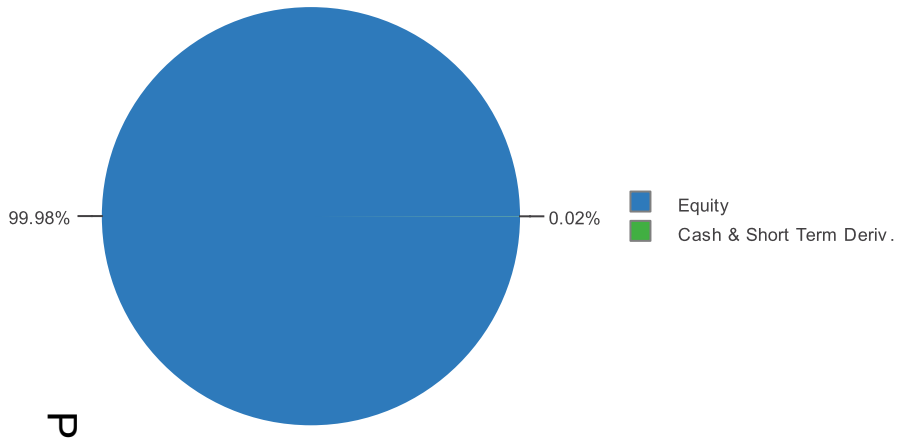
March 31, 2020

Growth Over Time - Inception to Date



Asset Class Performance

ASSET CLASS ENDING WEIGHTS



MARKET VALUE SUMMARY OVER TIME

	1 Mo
Beginning Market Value	4
Net Contribution	-1
Income	0
Fees	0
Appreciation	0
Ending Market Value	3

**Market Values are in 000s.*

Asset Class	End MV	End Wt	1 Mo	3 Mos	YTD	1 Yr	3 Yrs	5 Yrs	ITD
Equity	**3,045**	**99.98**							
Common Stock	3,045	99.98							
Cash & Short Term Deriv.	**1**	**0.02**							
Total Fund Gross of Fees	**3,046**	**100.00**							

Excess is calculated using arithmetic methodology

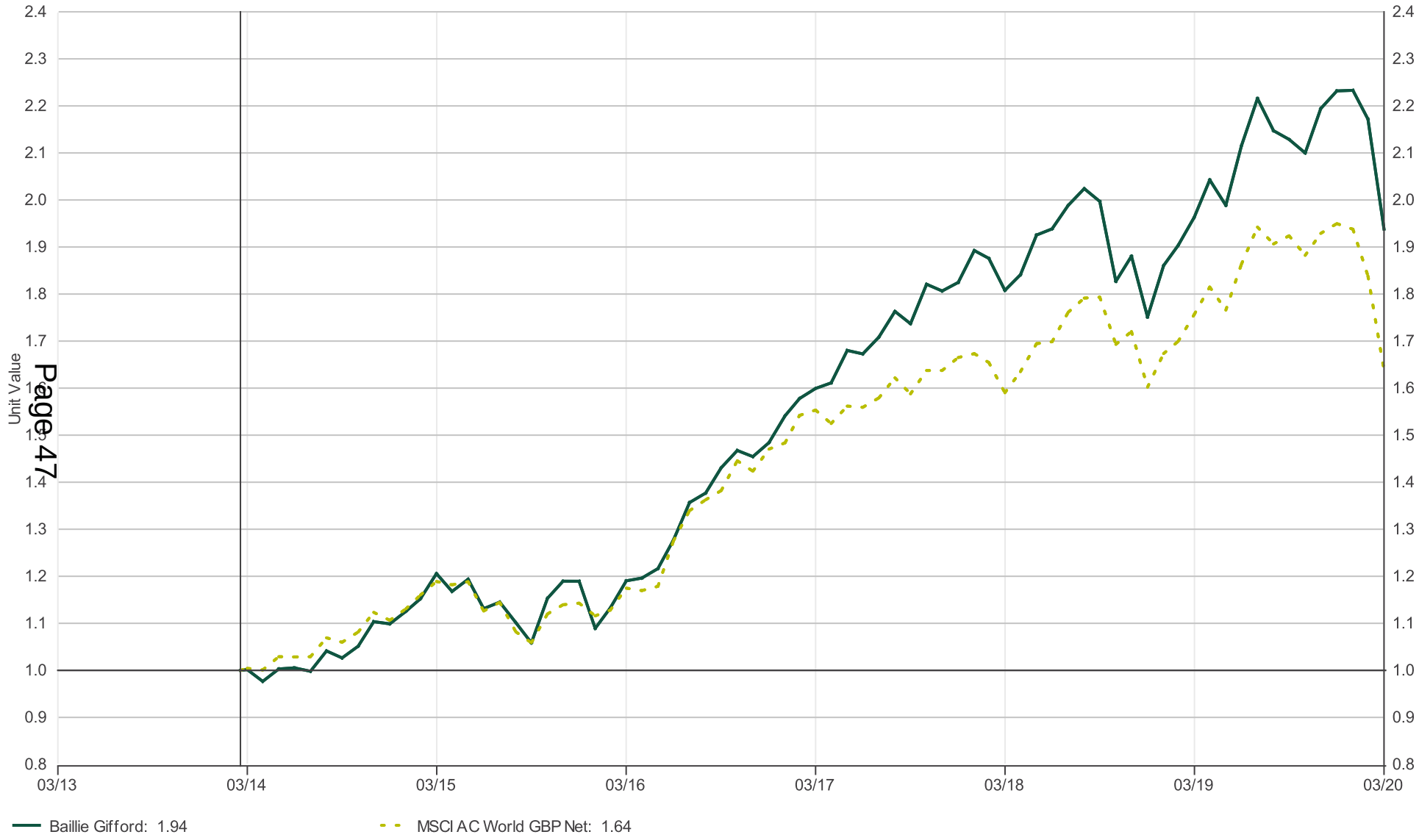
SECTION 3

Baillie Gifford

Investment Risk & Analytical Services

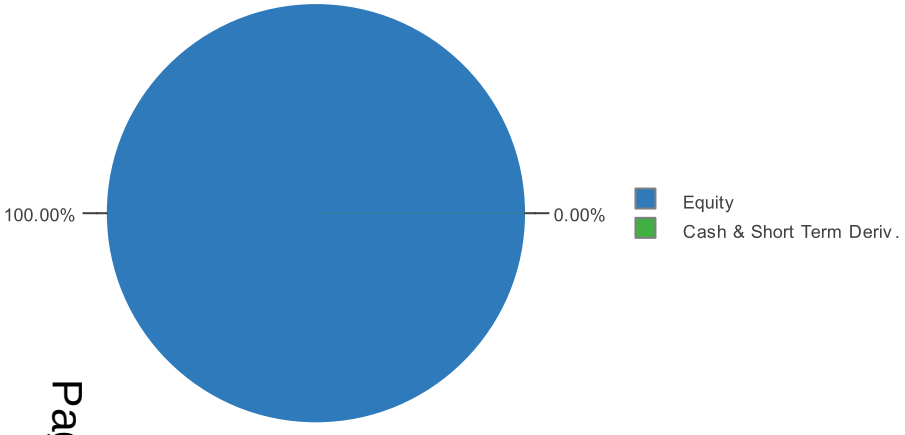
March 31, 2020

Growth Over Time - Inception to Date



Asset Class Performance

ASSET CLASS ENDING WEIGHTS



MARKET VALUE SUMMARY OVER TIME

	1 Mo
Beginning Market Value	310,047
Net Contribution	-295
Income	0
Fees	0
Appreciation	-33,355
Ending Market Value	276,397

**Market Values are in 000s.*

Asset Class	End MV	End Wt	1 Mo	3 Mos	YTD	1 Yr	3 Yrs	5 Yrs	ITD
Equity	**276,396,564**	**100.00**	**-10.77**	**-13.17**	**-13.17**	**-1.19**	**6.68**	**9.97**	
Common Stock	276,396,564	100.00	-10.77	-13.17	-13.17	-1.19	6.68	9.97	
Cash & Short Term Deriv.	**26**	**0.00**	**0.01**	**0.01**	**0.01**	**0.40**	**0.34**		
Pending Cash	**0**	**0.00**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Fund Gross of Fees	**276,396,590**	**100.00**	**-10.76**	**-13.16**	**-13.16**	**-1.27**	**6.61**	**9.96**	**11.58**
MSCI AC World GBP Net			-10.89	-15.99	-15.99	-6.74	1.79	6.62	8.51
Excess Return			*0.13*	*2.83*	*2.83*	*5.47*	*4.83*	*3.34*	*3.06*

Excess is calculated using arithmetic methodology

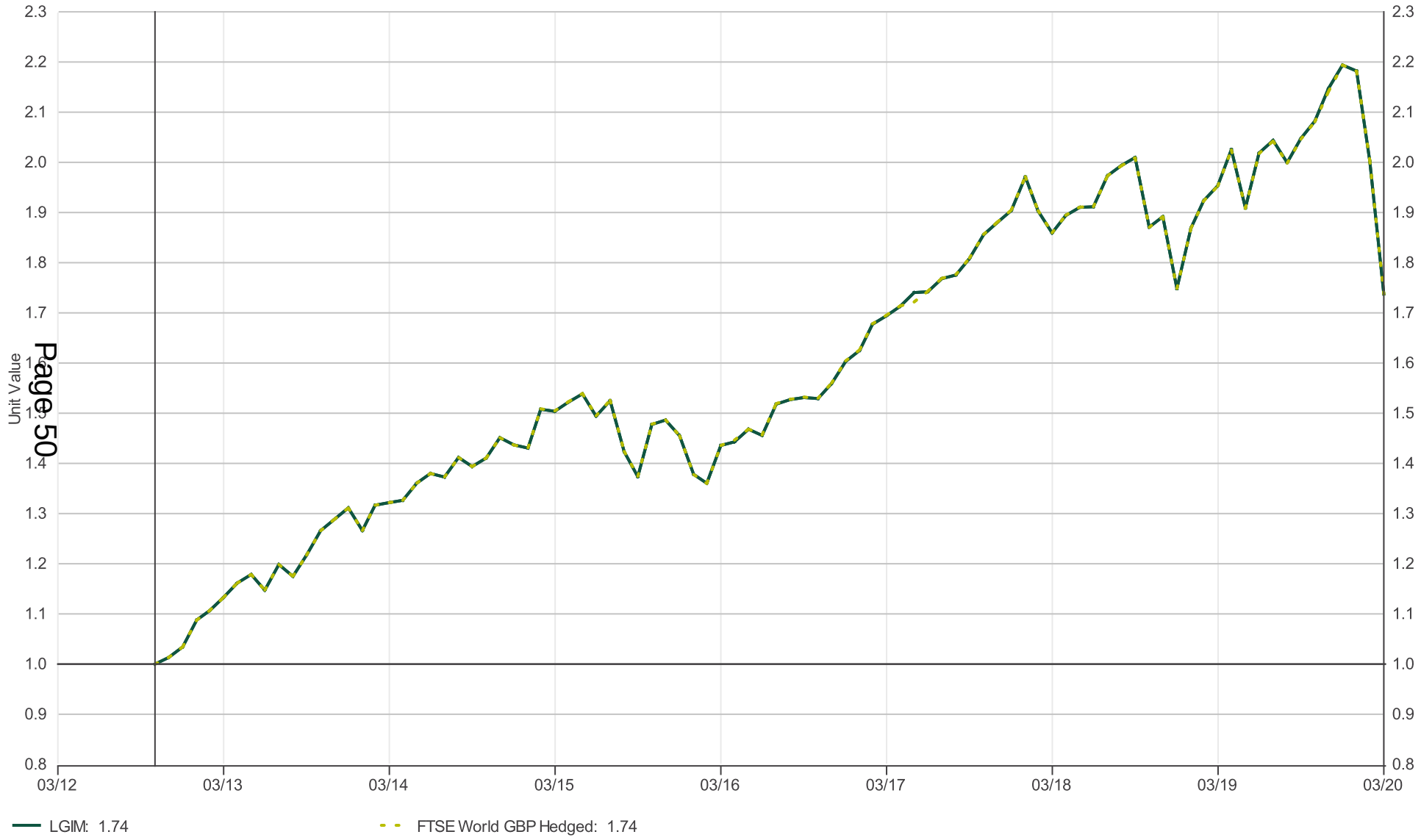
SECTION 4

LGIM

Investment Risk & Analytical Services

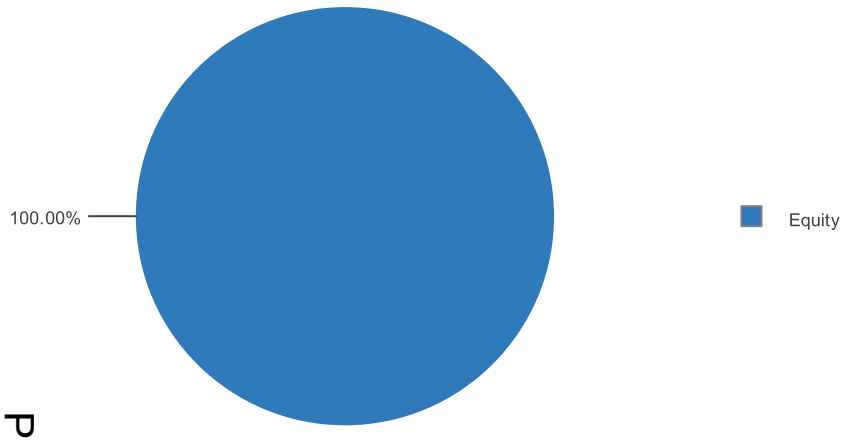
March 31, 2020

Growth Over Time - Inception to Date



Asset Class Performance

ASSET CLASS ENDING WEIGHTS



MARKET VALUE SUMMARY OVER TIME

	1 Mo
Beginning Market Value	603,349
Net Contribution	-21
Income	0
Fees	21
Appreciation	-79,922
Ending Market Value	523,405

**Market Values are in 000s.*

Asset Class	End MV	End Wt	1 Mo	3 Mos	YTD	1 Yr	3 Yrs	5 Yrs	ITD
Equity	**523,405,269**	**100.00**	**-13.25**	**-20.81**	**-20.81**	**-11.05**	**0.84**	**2.92**	
Common Stock	523,405,269	100.00	-13.25	-20.81	-20.81	-11.05	0.84	2.92	
Cash & Short Term Deriv.	**0**	**0.00**							
Pending Cash	**0**	**0.00**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Fund Gross of Fees	**523,405,269**	**100.00**	**-13.25**	**-20.81**	**-20.81**	**-11.05**	**0.84**	**2.93**	**7.73**
FTSE World GBP Hedged			-13.30	-20.81	-20.81	-11.03	0.82	2.92	7.73
Excess Return			*0.05*	*0.01*	*0.01*	*-0.03*	*0.02*	*0.01*	*0.00*

Excess is calculated using arithmetic methodology

SECTION 5

Longview Partners

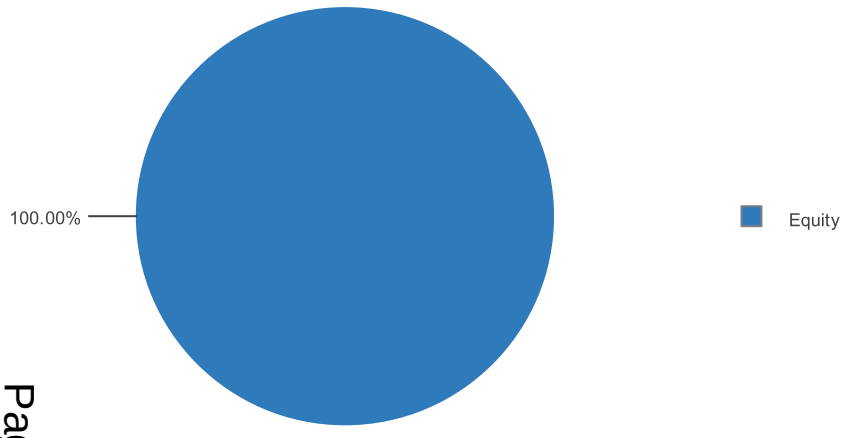
Investment Risk & Analytical Services

March 31, 2020

Growth Over Time - Inception to Date

Asset Class Performance

ASSET CLASS ENDING WEIGHTS



MARKET VALUE SUMMARY OVER TIME

	1 Mo
Beginning Market Value	65,826
Net Contribution	0
Income	0
Fees	0
Appreciation	-10,323
Ending Market Value	55,503

**Market Values are in 000s.*

Asset Class	End MV	End Wt	1 Mo	3 Mos	YTD	1 Yr	3 Yrs	5 Yrs	ITD
Equity	**55,503,448**	**100.00**	**-15.68**	**-22.48**	**-22.48**	**-13.36**	**0.77**	**6.42**	**8.05**
Common Stock	55,503,448	100.00	-15.68	-22.48	-22.48	-13.36	0.77	6.42	8.05
Total Fund Gross of Fees	**55,503,448**	**100.00**	**-15.68**	**-22.48**	**-22.48**	**-13.36**	**0.77**	**6.42**	**8.05**
MSCI World TR Net (GBP)			-10.62	-15.65	-15.65	-5.83	2.21	7.03	7.99
Excess Return			*-5.06*	*-6.83*	*-6.83*	*-7.53*	*-1.44*	*-0.61*	*0.06*

Excess is calculated using arithmetic methodology

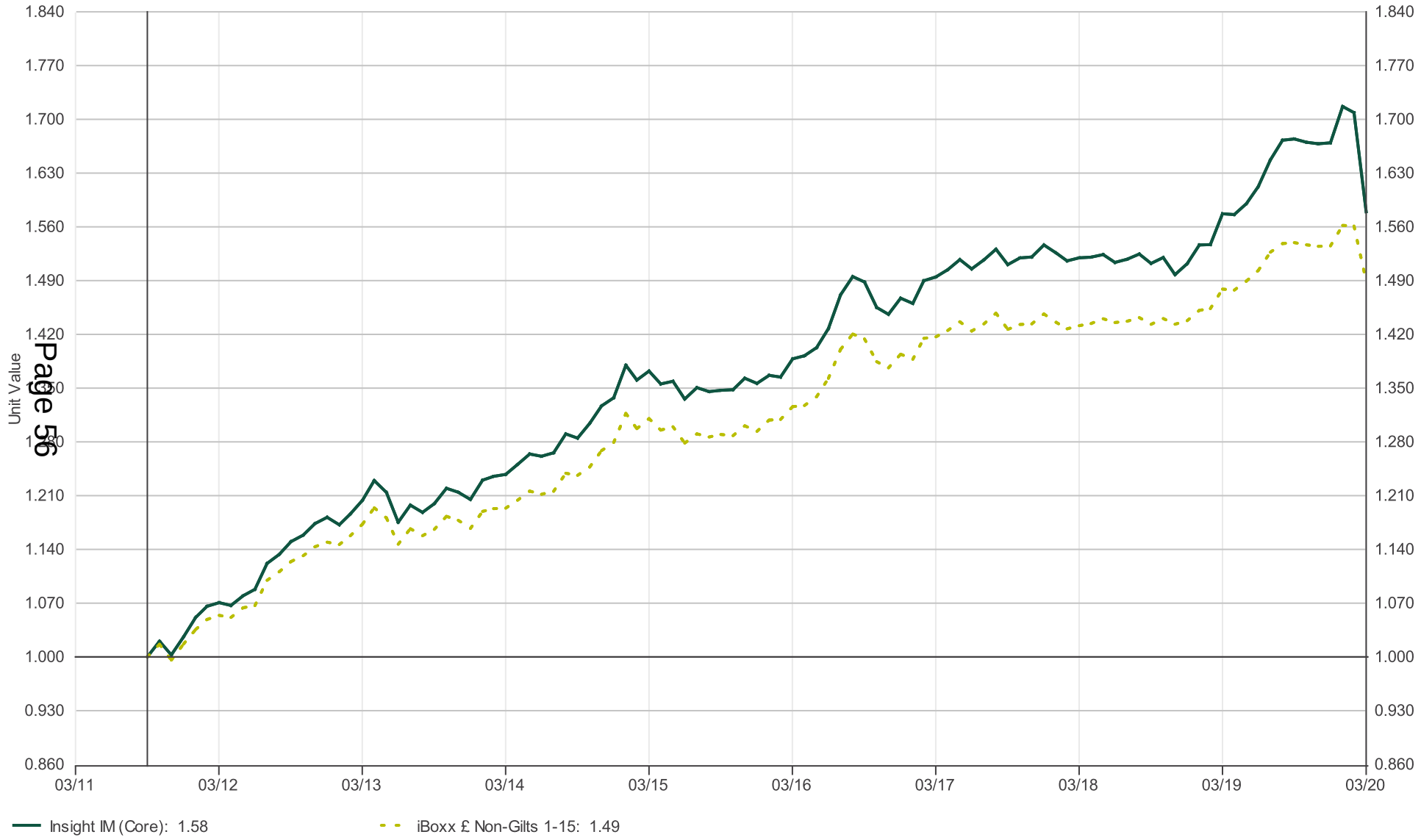
SECTION 6

Insight IM (Core)

Investment Risk & Analytical Services

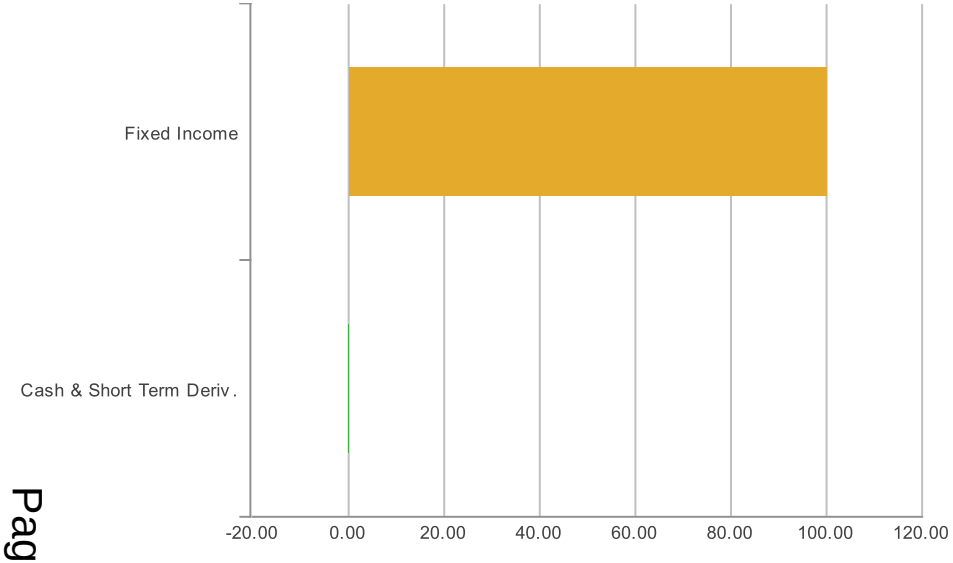
March 31, 2020

Growth Over Time - Inception to Date



Asset Class Performance

ASSET CLASS ENDING WEIGHTS



MARKET VALUE SUMMARY OVER TIME

	1 Mo
Beginning Market Value	236,967
Net Contribution	0
Income	0
Fees	0
Appreciation	-17,899
Ending Market Value	219,068

**Market Values are in 000s.*

Asset Class	End MV	End Wt	1 Mo	3 Mos	YTD	1 Yr	3 Yrs	5 Yrs	ITD
Fixed Income	**219,068,167**	**100.00**	**-7.55**	**-5.38**	**-5.38**	**0.17**	**1.85**	**2.92**	
Marketable Bonds	219,068,167	100.00	-7.55	-5.38	-5.38	0.17	1.89	3.19	
Cash & Short Term Deriv.	**-0**	**-0.00**					**1.25**	**1.08**	
Total Fund Gross of Fees	**219,068,167**	**100.00**	**-7.55**	**-5.38**	**-5.38**	**0.17**	**1.86**	**2.86**	**5.53**
iBoxx £ Non-Gilts 1-15			-4.58	-2.97	-2.97	0.72	1.68	2.60	4.80
Excess Return			*-2.97*	*-2.41*	*-2.41*	*-0.55*	*0.17*	*0.26*	*0.73*

Excess is calculated using arithmetic methodology

Greatest Asset Impact - One Month

TOP LARGEST HOLDINGS

Asset Description	Sector/Industry	Country	31/03/2020 Market Value	Gain/Loss	31/03/2020 Weight	Base Return	Contribution to GOF
INSIGHT GLOBAL FUNDS II BUY AND ...	Corporates	Ireland	219,068,167	-17,898,568	100.00	-7.55	-7.55
UNITED STATES DOLLARS	Cash & Short Term Deriv.	United States	-0	0	-0.00	0.00	0.00
SubTotal			219,068,167	-17,898,568	100.00		-7.55

LARGEST POSITIVE IMPACT

Asset Description	Sector/Industry	Country	31/03/2020 Market Value	Gain/Loss	31/03/2020 Weight	Base Return	Contribution to GOF
UNITED STATES DOLLARS	Cash & Short Term Deriv.	United States	-0	0	-0.00	0.00	0.00
INSIGHT GLOBAL FUNDS II BUY AND ...	Corporates	Ireland	219,068,167	-17,898,568	100.00	-7.55	-7.55
SubTotal			219,068,167	-17,898,568	100.00		-7.55

LARGEST NEGATIVE IMPACT

Asset Description	Sector/Industry	Country	31/03/2020 Market Value	Gain/Loss	31/03/2020 Weight	Base Return	Contribution to GOF
INSIGHT GLOBAL FUNDS II BUY AND ...	Corporates	Ireland	219,068,167	-17,898,568	100.00	-7.55	-7.55
UNITED STATES DOLLARS	Cash & Short Term Deriv.	United States	-0	0	-0.00	0.00	0.00
SubTotal			219,068,167	-17,898,568	100.00		-7.55

BEST PERFORMERS

Asset Description	Sector/Industry	Country	31/03/2020 Market Value	Gain/Loss	31/03/2020 Weight	Base Return	Contribution to GOF
UNITED STATES DOLLARS	Cash & Short Term Deriv.	United States	-0	0	-0.00	0.00	0.00
INSIGHT GLOBAL FUNDS II BUY AND ...	Corporates	Ireland	219,068,167	-17,898,568	100.00	-7.55	-7.55
SubTotal			219,068,167	-17,898,568	100.00		-7.55

WORST PERFORMERS

Asset Description	Sector/Industry	Country	31/03/2020 Market Value	Gain/Loss	31/03/2020 Weight	Base Return	Contribution to GOF
INSIGHT GLOBAL FUNDS II BUY AND ...	Corporates	Ireland	219,068,167	-17,898,568	100.00	-7.55	-7.55
UNITED STATES DOLLARS	Cash & Short Term Deriv.	United States	-0	0	-0.00	0.00	0.00
SubTotal			219,068,167	-17,898,568	100.00		-7.55
Total Fund Gross of Fees			219,068,167			-7.55	

SECTION 7

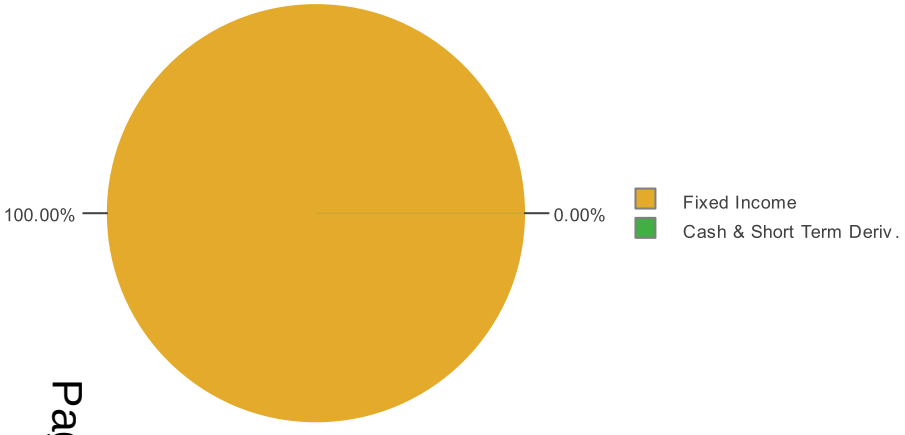
LCIV Global MAC

Investment Risk & Analytical Services

March 31, 2020

Asset Class Performance

ASSET CLASS ENDING WEIGHTS



MARKET VALUE SUMMARY OVER TIME

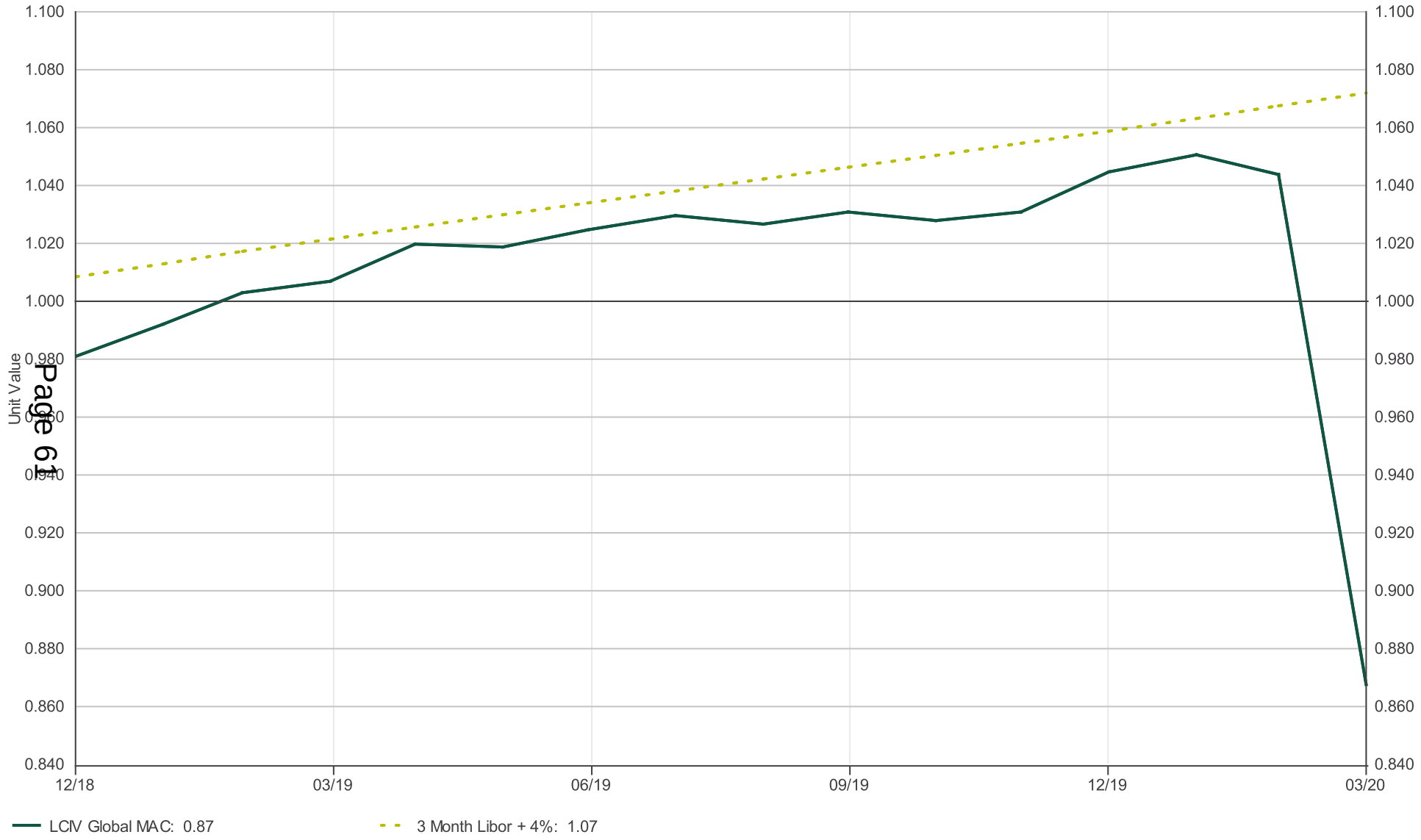
	1 Mo
Beginning Market Value	94,872
Net Contribution	-99
Income	0
Fees	0
Appreciation	-16,008
Ending Market Value	78,765

**Market Values are in 000s.*

Asset Class	End MV	End Wt	1 Mo	3 Mos	YTD	1 Yr	3 Yrs	5 Yrs	ITD
Fixed Income	**78,764,857**	**100.00**	**-16.89**	**-16.96**	**-16.96**	**-13.85**			**-9.53**
Collateralized Mortgage Oblig.	78,764,857	100.00	-16.89	-16.96	-16.96	-13.85			-9.53
Cash & Short Term Deriv.	**9**	**0.00**	**0.01**	**0.01**	**0.01**				
Pending Cash	**0**	**0.00**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Fund Gross of Fees	**78,764,866**	**100.00**	**-16.88**	**-16.95**	**-16.95**	**-13.84**			**-9.52**
3 Month Libor + 4%			0.41	1.24	1.24	4.95			5.02
Excess Return			*-17.29*	*-18.19*	*-18.19*	*-18.78*			*-14.54*

Excess is calculated using arithmetic methodology

Growth Over Time - Inception to Date



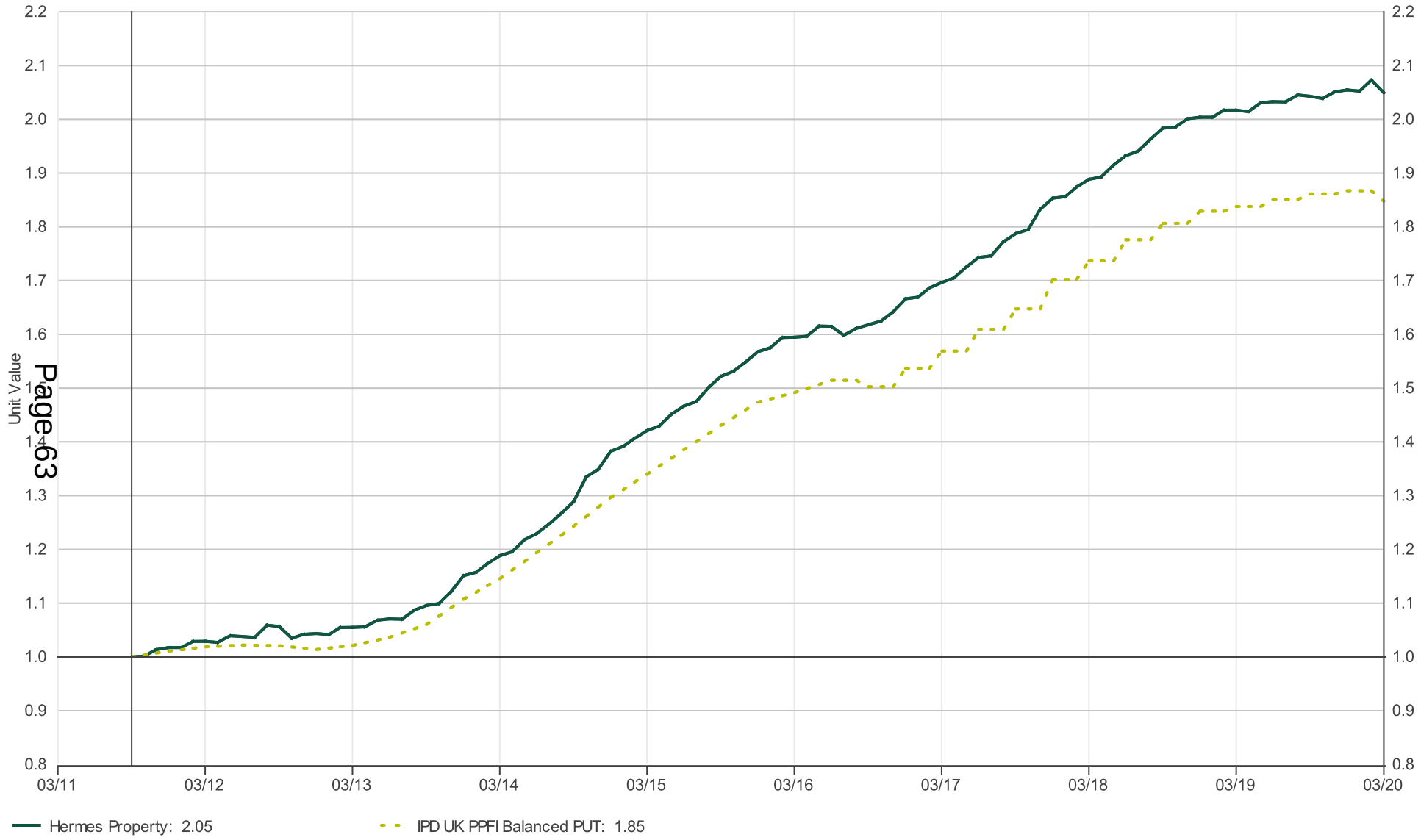
SECTION 8

Hermes Property

Investment Risk & Analytical Services

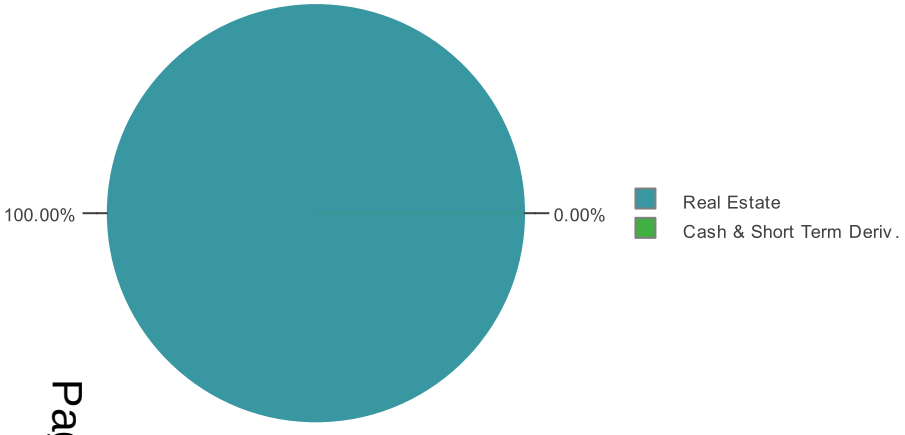
March 31, 2020

Growth Over Time - Inception to Date



Asset Class Performance

ASSET CLASS ENDING WEIGHTS



MARKET VALUE SUMMARY OVER TIME

	1 Mo
Beginning Market Value	63,435
Net Contribution	-456
Income	0
Fees	0
Appreciation	-723
Ending Market Value	62,256

**Market Values are in 000s.*

Asset Class	End MV	End Wt	1 Mo	3 Mos	YTD	1 Yr	3 Yrs	5 Yrs	ITD
Real Estate	**62,255,931**	**100.00**	**-1.15**	**-0.26**	**-0.26**	**1.68**	**6.71**	**7.78**	
Cash & Short Term Deriv.	**125**	**0.00**	**0.04**	**0.08**	**0.08**	**0.47**	**0.37**	**0.33**	
Pending Cash	**0**	**0.00**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Fund Gross of Fees	**62,256,056**	**100.00**	**-1.14**	**-0.26**	**-0.26**	**1.60**	**6.50**	**7.60**	**8.81**
IPD UK PPFI Balanced PUT			-1.03	-1.03	-1.03	0.54	5.61	6.64	7.49
Excess Return			*-0.11*	*0.78*	*0.78*	*1.06*	*0.89*	*0.96*	*1.32*

Excess is calculated using arithmetic methodology

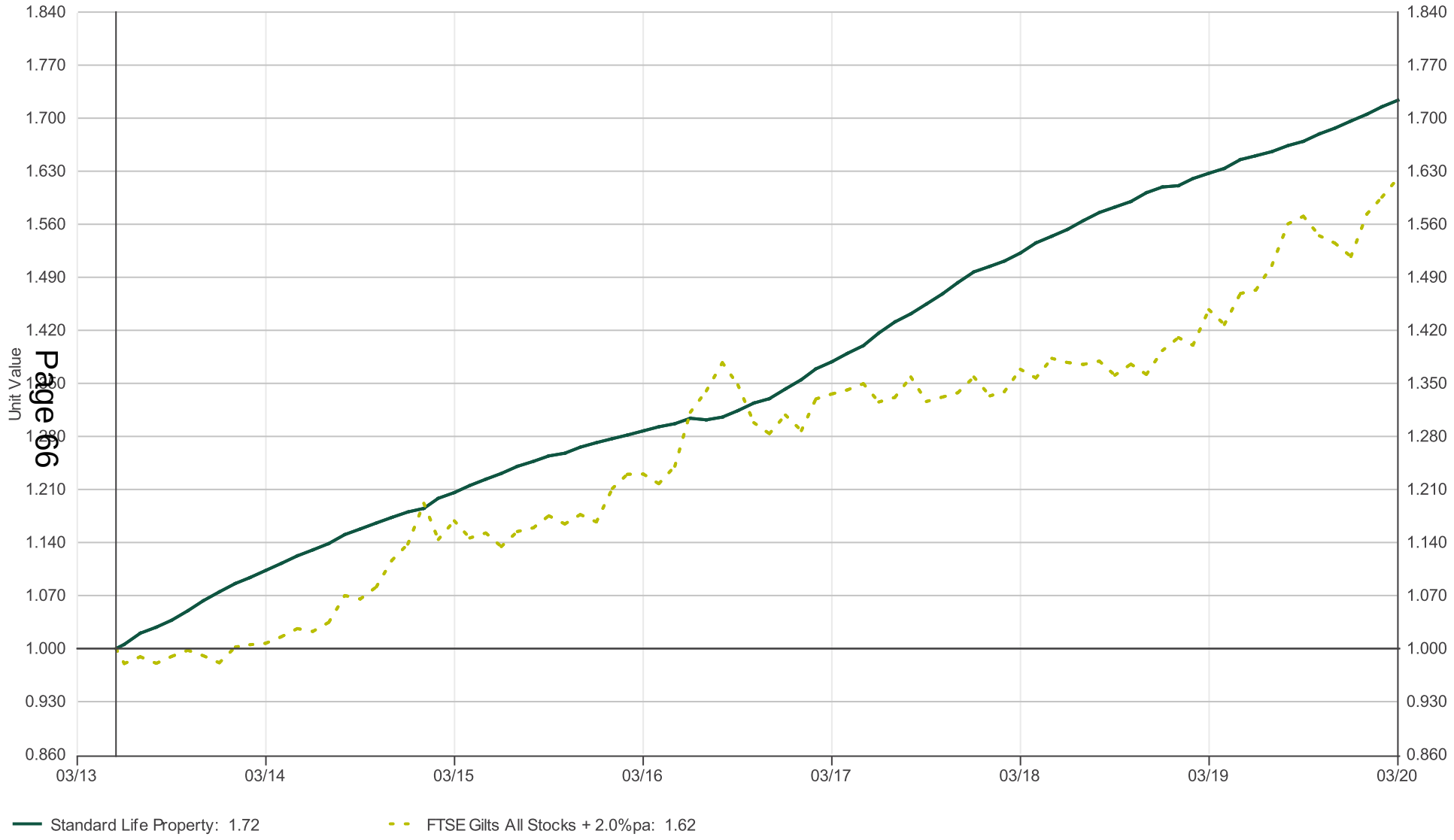
SECTION 9

Standard Life Property

Investment Risk & Analytical Services

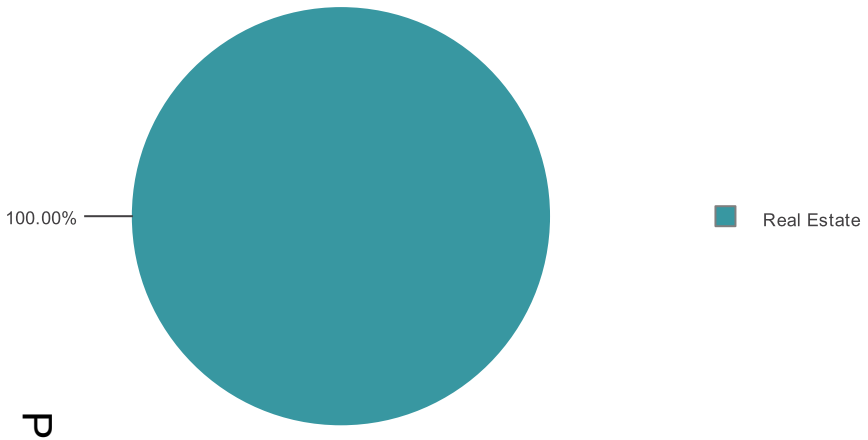
March 31, 2020

Growth Over Time - Inception to Date



Asset Class Performance

ASSET CLASS ENDING WEIGHTS



MARKET VALUE SUMMARY OVER TIME

	1 Mo
Beginning Market Value	68,244
Net Contribution	5
Income	0
Fees	-5
Appreciation	343
Ending Market Value	68,592

**Market Values are in 000s.*

Asset Class	End MV	End Wt	1 Mo	3 Mos	YTD	1 Yr	3 Yrs	5 Yrs	ITD
Real Estate	**68,591,625**	**100.00**	**0.50**	**1.62**	**1.62**	**5.92**	**7.73**	**7.41**	
Cash & Short Term Deriv.	**0**	**0.00**							
Pending Cash	**0**	**0.00**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Fund Gross of Fees	**68,591,625**	**100.00**	**0.50**	**1.62**	**1.62**	**5.92**	**7.73**	**7.41**	**8.34**
FTSE Gilts All Stocks + 2.0%pa			1.57	6.81	6.81	11.98	6.65	6.76	7.36
Excess Return			*-1.07*	*-5.20*	*-5.20*	*-6.06*	*1.08*	*0.65*	*0.98*

Excess is calculated using arithmetic methodology

SECTION 10

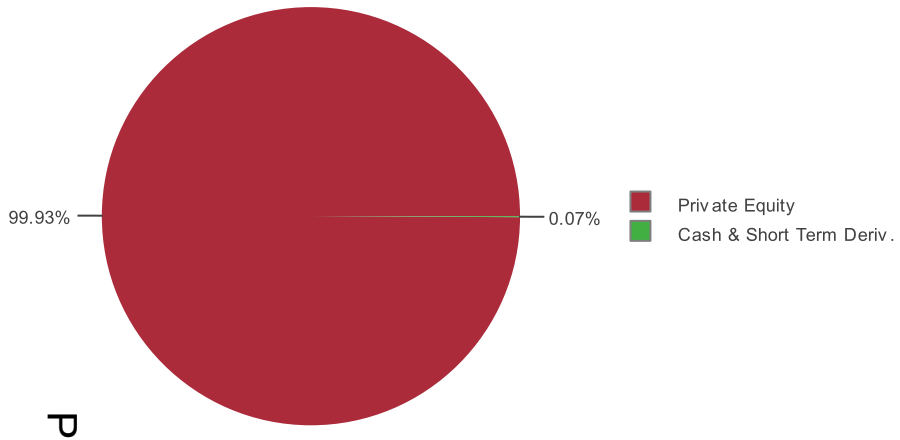
Pantheon Global Infrastructure

Investment Risk & Analytical Services

March 31, 2020

Asset Class Performance

ASSET CLASS ENDING WEIGHTS



MARKET VALUE SUMMARY OVER TIME

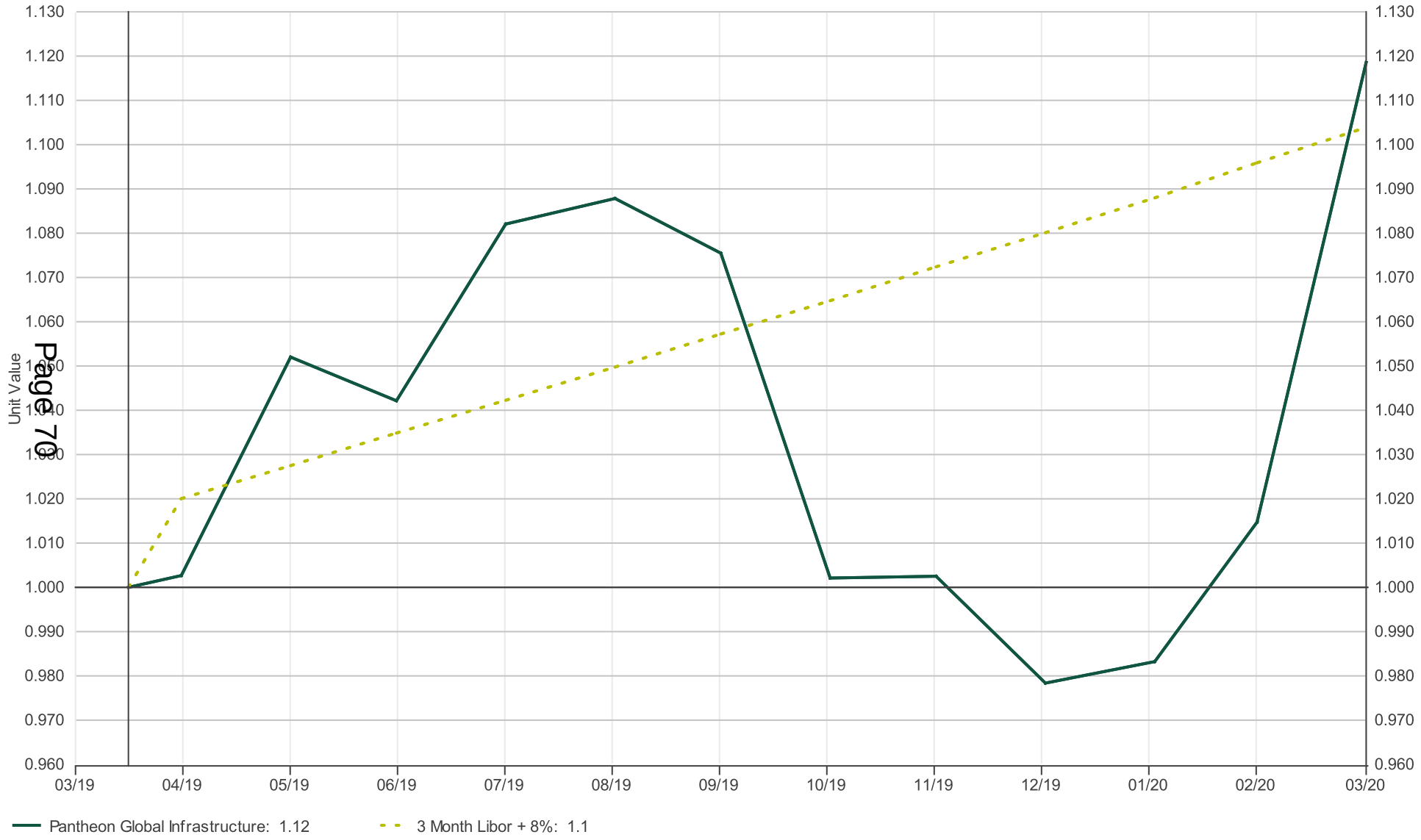
	1 Mo	3 Mos	1 Yr
Beginning Market Value	18,120	17,784	
Net Contribution	608	295	
Income	0	0	
Fees	0	0	
Appreciation	1,912	2,561	
Ending Market Value	20,639	20,639	20,639

**Market Values are in 000s.*

Asset Class	End MV	End Wt	1 Mo	3 Mos	YTD	1 Yr	3 Yrs	5 Yrs	ITD
Private Equity	**20,623,432**	**99.93**	**10.23**	**14.33**	**14.33**				
Cash & Short Term Deriv.	**15,476**	**0.07**	**11.40**	**15.46**	**15.46**				**-14.12**
Pending Cash	**0**	**0.00**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Fund Gross of Fees	**20,638,907**	**100.00**	**10.24**	**14.33**	**14.33**				**11.86**
3 Month Libor + 8%			0.73	2.20	2.20				10.39
Excess Return			*9.51*	*12.13*	*12.13*				*1.47*

Excess is calculated using arithmetic methodology

Growth Over Time - Inception to Date



Category: **Total Fund Gross of Fees**

SECTION 11

Appendix

Investment Risk & Analytical Services

March 31, 2020

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Deloitte.

City of Westminster Pension Fund
Q1 2020 Investment Update

Introduction

This note has been prepared for the City of Westminster Pension Fund Committee ("the Committee") regarding the investments currently held in the City of Westminster Pension Fund ("the Fund") in light of an extremely volatile period for investment markets.

The purpose of this report is to provide an update on market performance over the quarter, alongside an estimated valuation of the Fund's investment portfolio as at 31 March 2020 and an indication of the extent of, and explanations for, the change in valuation over Q1 2020.

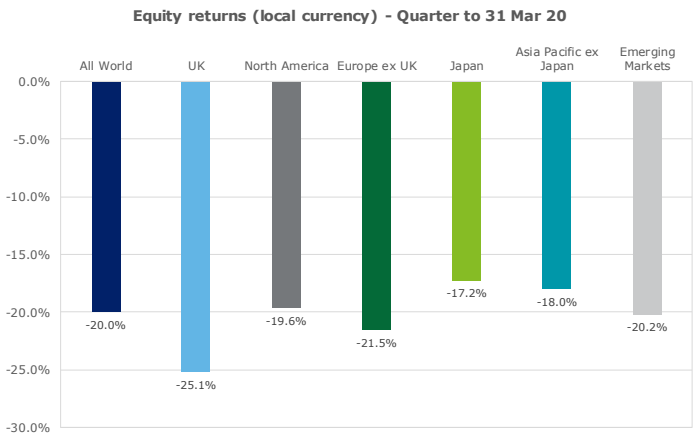
Market Update

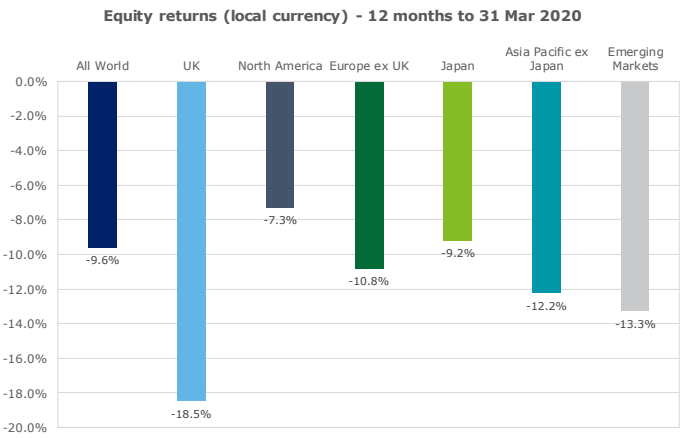
Global equity markets

At the start of the quarter, equity investors were more focused on the generally benign economic outlook and were relatively indifferent to the coronavirus outbreak under an apparent assumption that the virus would remain relatively contained within China and that central banks would offer the requisite monetary stimulus to offset the relatively minor resulting economic weakness.

In the end it proved to be a historically bad quarter for equity markets globally as the Covid 19 virus spread quickly and resulting economic fallout worsened. The 20% fall in global equity markets rivals falls seen during the global financial crisis, however the speed of the falls and the volatility within markets were more extreme. During the second half of February, global equity markets experienced their steepest weekly fall since the 2008 Global Financial Crisis. March was a particularly volatile month. On Monday 16 March for example, the S&P 500 Index registered its largest daily fall since Black Monday in 1987.

The extreme trends in equity prices mirror the severity of the coronavirus outbreak. With the virus proving highly transmittable, containment has been vital to slowing its spread. The restrictions on travel and the severe lockdown measures introduced have had an immediate and extreme impact on economic activity. The outbreak is now truly global and its spread through Europe, and now the US, has proved particularly worrying and is of particular significance to the health of the global economy and the continued stability of financial markets more generally.



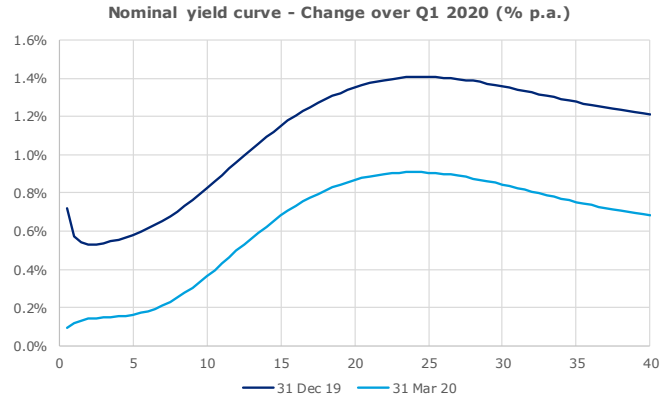


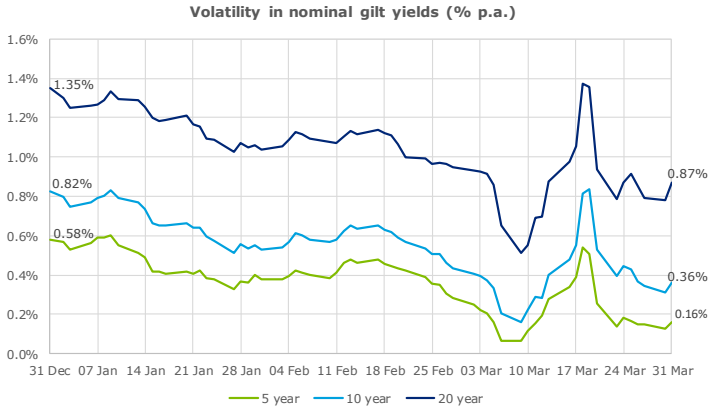
Returns would have been worse still if it hadn't been for a rally in equity markets over the last week of the quarter in response to the sheer weight of stimulus offered by central banks and governments. Time will tell whether the recent recovery is well-founded and that recent falls in equity indices are reflective of the true scale of the economic downturn. It is hoped that volatility from this point on will be less extreme, but like the outbreak itself, the future direction of markets is inherently uncertain.

Gilt yields

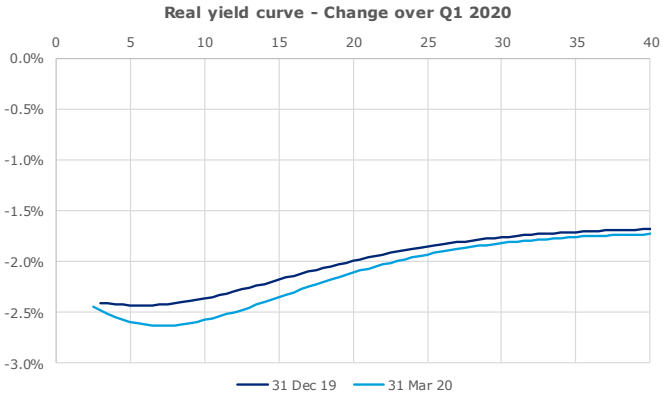
Gilt yields trended lower over the quarter, in line with the deterioration of economic outlook and the Bank of England's subsequent rate cuts and quantitative easing measures.

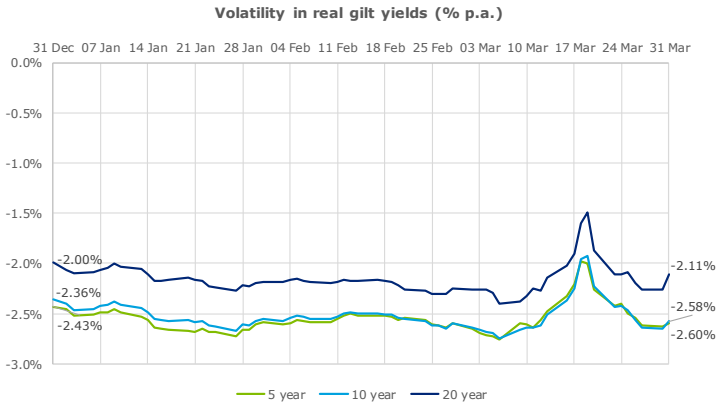
However, like equity markets, gilt yields were also highly volatile over the quarter. At the beginning of March a sharp increase in risk aversion caused yields to plummet. Yields then reversed their downward trend rising sharply as investors sought to raise cash and potentially in anticipation of a future surge in supply to fund the government's stimulus package. By the end of the quarter, gilt yields had trended lower again thanks to a general calming of markets and the expansion of the Bank of England's quantitative easing programme specifically.





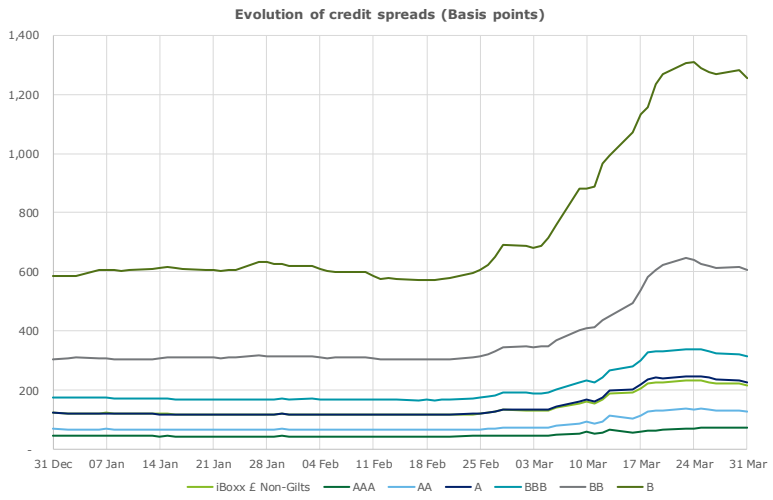
Real yields on index-linked gilts trended lower over the quarter, but to a much lesser extent, with the anticipated decline in economic activity, and a significant decline in oil prices specifically, causing inflation expectation to fall.





Corporate bonds

As risk appetite diminished and default risks become elevated, credit spreads have also increased sharply.



Credit spreads (bps)	31 Dec 2019	31 Mar 2020
iBoxx £ Non-Gilts	122	216
AAA	45	72
AA	68	128
A	122	226
BBB	176	313
BB	304	607
B	586	1,254

As well as the obvious increase in the probability of default, which shouldn't be underestimated given the severity of the economic slowdown, investor demand for liquidity has also contributed to the rise in spreads.

Corporate issuers are finding it more challenging to service their debt obligations given the disruption to cashflow. However, central bank promises to extend quantitative easing programmes to cover investment grade credit and short term commercial paper has helped to stabilise spreads. In fact, preliminary data suggests that there has been spike in corporate debt issuance over March. This suggests that central bank support for the corporate bond market is working, successfully encouraging companies to raise the debt necessary to keep their businesses functioning and their workers employed.

Credit spreads remain high and a sharp rise in issuance will work to keep spreads at elevated levels. Whilst, some investors might be tempted to re-enter the market or increase corporate bond positions, heightened default risks remain and the market has become more illiquid increasing trading costs.

Property and private market assets

Reduced business activity and disruption to corporate cashflow has also affected property markets. Tenants across all sectors are requesting rental deferment, with the hotel, leisure and non-essential retail sectors being the hardest hit. Government contribution to salary overheads is likely to ease some pressure.

The same theme is true across all areas of private markets, with corporate cashflow and the ability to service payments and debt obligations being the key risk. Private debt typically lends to higher levered companies. Average leverage of 4-6x debt-to-earnings are much higher than the 2-3x leverage typical in public investment grade markets, putting sponsors under more pressure. There could also be less refinance capital available in the market, with the influx of central bank money not reaching this market and institutional investors unlikely to commit to illiquid investments for the time being.

Business continuity is essential. Private equity managers are not typically long-term holders of companies. While it is common for PE managers to stress test and implement contingency plans for events such as natural disasters and cyber security, they may not have considered the possibility and implications of widespread quarantine.

Infrastructure assets are generally considered essential for society, however asset usage is key. Assets that are heavily linked to GDP risk are likely to suffer. Even if the asset itself is relatively stable, there could be an impact somewhere along the supply chain. Again, highly geared assets and companies will come under more pressure.

In line with government guidance, construction of assets is likely to be delayed, affecting strategies with development projects. The cashflow impact of operational delays are usually hedged, with construction risk

often lying with the developers. However, this protection is likely to be lost in the event of the developer's insolvency.

An issue across all real assets and private markets is valuation. With limited liquidity and fewer transactions in the market, valuations become less reliable. Many UK property managers have therefore applied gating restrictions on their funds, deferring subscriptions and redemptions for the time being, as well as the distribution of income.

Given the illiquid nature of private market assets, the full impact of the Covid 19 outbreak is likely to be felt in the months ahead.

Fund valuation as at 31 March 2020

The table below provides an estimated valuation of the Fund's investment portfolio as at 31 March 2020 based on figures provided by the Fund's investment managers, compared against the corresponding valuations as at 31 December 2019.

Fund	31 December 2019 (£m)	31 March 2020 (£m)	% change in valuation (estimate)*
Legal & General World Equity Index Fund – GBP Currency Hedged	661.0	523.4	-20.8%
LCIV Global Alpha Growth Fund	318.6	276.4	-13.2%
Longview Global Equity Fund	71.6	55.5	-22.5%
Insight Buy and Maintain Fund	231.5	219.1	-5.4%
LCIV Multi Asset Credit Fund	95.0	78.8	-17.0%
Hermes Property Unit Trust Fund	62.9	62.2	-1.1%
Aberdeen Standard Investments Long Lease Property Fund	67.5	68.6	1.6%
Pantheon Global Infrastructure Fund III	18.6	17.8[1]	-7.9%[2]
Cash	18.9	19.0	1.0%
Total[3]	**1,545.4**	**1,320.7**	**-14.6%**

Source: Individual investment managers and have not been independently verified.
Figures may not sum to total due to rounding.
*May not account for all cashflows over the period. Where cashflows have occurred, this has been assumed at the end of the period for the purposes of % change calculation. Excludes residual value held in Majedie.
[1]Pantheon valuation based on 31 March 2020 NAV, converted from USD to GBP, and reduced by 10% based on Pantheon estimation of value as a proportion of NAV.
[2]Percentage change modified to take account of £0.7m capital call for investment over Q1 2020.
[3]Fund cashflows over the quarter are accounted for in the percentage change figure.

Equity allocation

As perhaps would be expected, the largest contribution to the fall in total Fund valuation over the quarter came from the Fund's equity allocation.

The Legal & General World Equity Index Fund – GBP Currency Hedged fell in value by 20.8% in what proved to be a historically bad quarter for global equity markets as a direct result of the Covid 19 pandemic. Global equity markets were previously down by c. 30% over the quarter to 23 March 2020, with a late rally over the last week of the quarter helping to restore parity at least slightly.

The LCIV Global Alpha Growth Fund, managed by Baillie Gifford, fell in value by a considerably modest 13.2% over the first quarter of 2020 as the strategy's large cap exposures in emerging market economies delivered flat to marginally positive returns over the period. The strategy's strategic positions in Financials and Industrials have proved favourable over the quarter.

Longview's global equity strategy also fell in value considerably over the quarter (c. 22.5%). Longview's c. 30% exposure to cyclical businesses, which are highly exposed to economic risks, contributed negatively to performance with US pharmaceutical stocks also badly impacted by the Covid 19 pandemic.

Bonds allocation

The Insight Buy and Maintain Fund held up reasonably well over such a volatile period, decreasing in value by 5.4% with Insight generally viewing the risk of default as a low probability event – there have been no defaults as at 31 March. Insight continues to monitor and stress-test all holdings in the Buy & Maintain Fund to ensure issuers have sufficient liquidity and resilience to a potential recession. The fund is well positioned to withstand the likely increase in credit downgrades of investment grade rated bonds and can hold sub-investment grade bonds, with the primary focus of the fund to buy and hold credit which the manager believes are "money good".

The LCIV Multi Asset Credit Fund, managed by CQS, fell in value by 17.0% over the quarter. CQS' high yield bond exposures have contributed the most to negative performance over the first quarter of 2020 with default risks increasing considerably for those bonds at the lower end of the credit rating spectrum. The strategy's exposure to US oil, gas and consumable fuels companies proved to be the most noticeable detractors to performance within high yield, impacted by the ongoing oil trade war alongside Covid 19 impacts.

Investor demand for liquidity is unlikely to waive, with credit spreads likely to remain elevated. The LCIV Multi Asset Credit Fund may be subject to further volatility and pricing reductions over the coming weeks while Covid 19 continues to impact investment markets.

Property allocation

Both Hermes and Aberdeen Standard's valuations are subject to material uncertainty. The Hermes Trust's valuers have confirmed that they are still able to produce valuations and make professional judgements, however given the market volatility and lack of market evidence available, there is much less certainty than under normal market conditions. The Trust has the ability to defer redemptions for up to three quarters, however, as of yet, dealing has not been suspended.

Aberdeen Standard has taken the decision to defer redemptions, switches and subscriptions in the Long Lease Property Fund. This has been a move driven by a valuation perspective rather than a cash issue, i.e. the property valuers have expressed discomfort at being able to put an appropriate and relevant price on assets at this time. Aberdeen Standard, as per the Terms and Conditions, may delay redemptions for up to 12 months. All redemption requests received from now will be put into a queue and settled when the strategy has been brought out of deferral. In addition, where income options have been selected, Aberdeen Standard has suspended the income facilities on each of the impacted funds, including the Long Lease Property Fund, for the duration of the deferral period.

Hermes is regularly monitoring its position in response to receiving a mixture of requests for deferrals and monthly payments rather than quarterly, together with "rental holidays" requests, which had been previously anticipated to some extent. The Trust recorded quarterly rental collection rates of 56% with retail and leisure sectors recording collection rates below 30%. The industrial and office sectors, usually contributing c. 70% of the total rent demanded, were recording collection rates of approximately 50% and 70% respectively. The Trust continues to hold ongoing conversations with tenants and has taken a pragmatic approach to support tenants for the remainder of this uncertain period.

As at the end of March 2020, none of the Trust's planned sales have been impacted. In February, the Trust completed the sales of two London office investments that had reached business plan completion and were considered to carry some degree of risk with limited future growth potential.

Aberdeen Standard has confirmed that the long lease strategy has received 77% of its Q2 rent, likely rising to 90%, although many tenants have initiated negotiations for deferrals going forward. Hotels, leisure and non-essential retail, representing c. 10%, 5% and 5% of the portfolio respectively have been impacted the most, with supermarkets (19%) and offices (25%) having paid rent in full.

Infrastructure equity allocation

Pantheon typically reports performance quarterly in arrears and uses a cash roll forward to estimate more up to date valuations. Given the current market conditions, this estimation is not a fair representation of the Pantheon Global Infrastructure Fund III's ("PGIF III") current position. Pantheon have suggested a 10% discount to this roll forward valuation is applied although clearly this is a very vague estimate. Pantheon are working on producing a flash valuation on Pantheon's own funds at the end of the month that will provide a more accurate representation of valuations.

Infrastructure assets which are particularly exposed to GDP risk will clearly be at risk to the developments following the Covid 19 outbreak. The extent of any impact will depend wholly on the degree and the lifetime of any potential recession. As of Q3 2019, Pantheon reports that 36% of assets in the PGIF III portfolio have GDP linkages, although this is mitigated through short-to-medium term contracts and diversified sector exposures.

Pantheon expects its transportation assets, such as its large airport exposure, and those GDP-linked assets with a high exposure to volume type risks to be impacted in the short-term by the Covid 19 outbreak. For example Project Gemini, a secondary investment in Gatwick airport, is likely to be materially impacted with numerous regular flights cancelled and countries in "lock down". Project management teams are working on contingency plans to preserve cash and are planning to raise c. £300m from banks.

In addition, the reduction in energy usage and prices, sensitive to the extent and length of any recession, will likely impact the strategy's midstream, energy and power assets over the short to medium term.

Deloitte Total Reward and Benefits Limited
15 April 2020

Risk Warnings

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

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.

Deloitte.

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	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. 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

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 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

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) disbands or the partnership fails to produce proposals/solutions deemed sufficiently ambitious. The LCIV is still to get the change of business plan signed by all 32 London Boroughs.	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

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

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

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

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

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

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
Reputation	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

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City of Westminster

Pension Board

Date:	**16 June 2020**
Classification:	**General Release**
Title:	**Strategic Investment Strategy Review**
Wards Affected:	**All**
Policy Context:	**Effective control over council activities**
Financial Summary:	**There are no direct financial implications arising from this report.**
Report of:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. EXECUTIVE SUMMARY

1.1 This report details the investment strategy review undertaken by the Fund's investment advisor, Deloitte, shown as Appendix 1. A review of the current investment strategy has been undertaken, highlighting observations and options to contemplate when considering the refreshed investment strategy.

1.2 The investment strategy presented has been revised from its original form due to the ongoing impact of the COVID-19 pandemic.

1.3 Also attached are the management fee schedules, which detail the management fee implications, including:

- a breakdown of current fees compared with expected fees;
- a comparison of passive equity versus active equity management; and
- annual fixed costs.

2. RECOMMENDATIONS

2.1 The Board is asked to note the revise investment strategy review, including the following options presented to the Committee:

a) Reduce the equity allocation by 10% to 55%, with 5% invested within fixed income and 5% in an illiquid alternative asset class.

b) Review the current equity portfolio and agree to the addition of a new actively managed equity mandate to complement the existing portfolio.

c) Select renewable infrastructure as a new illiquid alternative asset class.

d) Consider the placing of an additional 5% in fixed Income across the existing portfolios or to allocate to a new mandate, e.g., direct lending.

e) Consider whether residential property would offer greater diversification than the existing long lease and core mandates.

3. PROPOSALS AND ISSUES

Current Investment Strategy

3.1 The Fund's strategic asset allocation, as at 30 November 2019, consisted of 65% allocated to equities, 20% to fixed income, 10% to property and 5% to infrastructure. Whilst the 65% allocation to equities has contributed positively to the Fund's performance, this allocation has also increased the Fund's volatility.

3.2 Based on the Fund's current strategic asset allocation, the best estimate of the median expected return is 5.4% per annum, with a volatility of 13.2% per annum. Deloitte also estimates, by using its worst case scenario modelling, the one-year 95% value at risk (VAR) to be £418m.

3.3 The overall funding level of the Fund has improved by 18% to a 99% fund level at 31 March 2019, compared with 81% at 31 March 2016, with the Council's own funding level increasing by 16% during this period to 86%. The Council plans to pay off its deficit by 2021/22, with £22.7m deficit contributions expected in 2020/21 and £80m during 2021/22.

Issues to consider

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

- Reliance on equity markets: almost two-thirds of the Fund's allocation is to equities. Given the improvement in funding level,

the Committee should consider whether the structure and allocation to equities is still appropriate.

- Diversification: the Fund has minimal risk mitigation from diversification of asset classes. There is scope for further diversification, particularly with the use of more illiquid assets.

- Forward funding arrangement: deficit recovery contributions of circa £102.7m are expected in the next two years.

- Annual cashflow deficit: it is estimated that going forward, the Fund will operate an annual cashflow deficit (contributions received minus pensions paid) of circa £10m. This does not take in to account the contributions received from the forward funding agreement.

- Liquidity: the Fund holds circa £20m in cash with the global custodian, Northern Trust.

- Generating income: investment income (dividends and interest) from asset managers is currently redistributed back into each fund. It would be relatively easy to switch to the distributing share class with no additional cost.

Strategy Proposals

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

- **Strategy 1:** Reduce equities allocation to 60%, with the additional 5% going to fixed income: this has the benefit of reducing volatility to 12.8%. However, the expected return will reduce by 0.2%.

- **Strategy 2:** Reduce equities allocation to 55%, and make a 5% allocation to fixed income and 5% to a new illiquid alternative. This would bring the volatility down to 12.6% with the expected return reducing by 0.2%.

- **Strategy 3:** Reduce equities allocation to 50%, and increase the allocation to fixed income by 5%, infrastructure by 5% and 5% to a new illiquid alternative. This would reduce the volatility to 12.3%. However, the expected return would fall by 0.3%.

Proposed strategy and implementation

3.6 As per the Deloitte strategy review, the recommended way forward would be to implement Strategy 2 and decrease the equity allocation by 10%, moving 5% to fixed income and 5% to illiquid alternatives. This

would result in a decrease of 0.2% in expected return but volatility would decrease by 0.6% to 12.6% and value at risk would reduce by £30m.

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

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

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

3.10 This has come more into focus given the portfolio manager for the long lease property fund (Aberdeen Standard), Richard Marshall, has announced his retirement. Given the current illiquidity in property and the fact the long lease fund is currently "locked up", this is not an immediate priority for the Fund.

3.11 The recommended 5% allocation to an illiquid alternative could provide an opportunity for the Fund to invest within renewable infrastructure. With the UK government's pledge to target net zero greenhouse gas emissions by 2050, a significant amount of investment is required within the renewable infrastructure space.

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

4 MANAGEMENT FEE IMPLICATIONS

4.1 The Pension Board should note the management fee schedules, current fees compared with expected fees, passive versus active equity management fees and annual fixed costs relating to the Pension Fund.

4.2 As set out in Appendix 2, the annual fixed costs charged to the Pension Fund relating to pooling and investment management advisory fees total £128k per annum.

4.3 The management fee schedule, within Appendix 2, sets out the annual management charge within each mandate, along with the additional London CIV management fees for those pooled in the LCIV and any performance fees. The London CIV management fee ranges from 5bps for active equity management to 0.5bp for passive equities.

4.4 A comparison of active and passive equity management fees is shown within Appendix 2. With funds invested with an active equity manager, up to 93% could be saved on fees annually if the cash were to be invested within a passive mandate. It should be noted that the performance volatility of the active equity asset managers should also be taken into consideration.

4.5 Using asset values as at 31 January 2020, the following table breaks down the management fees under the current investment strategy compared with the expected fees if Strategy 2 were to be implemented. It is anticipated that there would be a slight increase in fees of circa 3% if Strategy 2 was implemented. This is a result of a reduction in the allocation to equities moving to illiquid asset classes, which generally have a higher management cost associated with them.

Table 1

Asset Managers	Current Strategy	Current Fees	Strategy 2 Proposal	Estimated Fees
Equity	**65%**	**£3,409,074**	**55%**	**£2,242,416**
Passive Equities	22.5%	£178,091	18.3%	£145,111
Global Active	20.0%	£1,143,985	36.7%	£2,097,305
UK Active	22.5%	£2,086,999	0.0%	£0
Fixed Income	**20%**	**£730,836**	**25%**	**£1,271,910**
Multi Asset Credit	6.5%	£532,571	6.5%	£532,571
Bonds	13.5%	£198,265	13.5%	£198,265
Illiquid Strategy	0.0%	£0	5%	£541,074
Property	**10%**	**£1,164,877**	**10%**	**£1,164,877**
Property	5.0%	£306,889	5.0%	£306,889
Property	5.0%	£316,915	5.0%	£316,915
Infrastructure	**5%**	**£541,074**	**5%**	**£541,074**
Infrastructure	5.0%	£541,074	5.0%	£541,074
Illiquid Return	**0%**	**£0**	**5%**	**£772,963**
Renewable Infrastructure	0.0%	£0	5.0%	£772,963
	100%	**£5,845,862**	**100%**	**£5,993,240**

Please note the data above excludes performance fees.

5 TIMING CONSIDERATIONS

5.1 Following the global COVID-19 outbreak during the first quarter of 2020, global equity markets have been significantly impacted and have seen the greatest fall in equity markets since the financial crisis of 2008.

5.2 As at 31 March 2020, the FTSE 100 index has fallen 25% from 31 December 2019. Globally, markets have also seen massive falls in market value, with the Dow Jones Industrial average index falling by 23% over the same period. Since this fall, however, global markets have recovered, with the Dow Jones having recovered by 8.2% at the end of trading on 4 May 2020.

5.3 Since the Majedie UK Equities transition on 18 November 2020, the value of the UK Equities fund has fallen by 15.5% compared with the FTSE World which has dropped 10.4% during the same period to 9 March 2020. This has resulted in a saving of circa £14.4m by transitioning from UK active equities into global passive.

5.4 Despite the market volatility of the last two months, equity markets have been calmer in recent weeks, with the “fear index”, the Vix, falling back considerably from highs of 82 on 16 March 2020 to 32 at 5 May 2020.

5.5 As at 29 May 2020, markets have somewhat recovered with the Pension Fund market value increasing by 10% from 31 March 2020. The majority of this recovery has been seen within the global equity funds; Baillie Gifford and LGIM.

6 PENSION FUND COMMITTEE OUTCOME

6.1 The attached investment strategy review was taken to the Pension Fund Committee on 13 May 2020. Following the debate, the Committee requested further training on renewables and infrastructure, with the intention of agreeing a revised investment strategy at the next meeting on 25 June 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:

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Deloitte.

City of Westminster Pension Fund

Investment Strategy Review

May 2020

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Investment Strategy Review

Introduction

Investment Strategy Review

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

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

Recap of the Fund

Recap of the Fund

2016 asset allocation

Asset allocation 30 June 2016

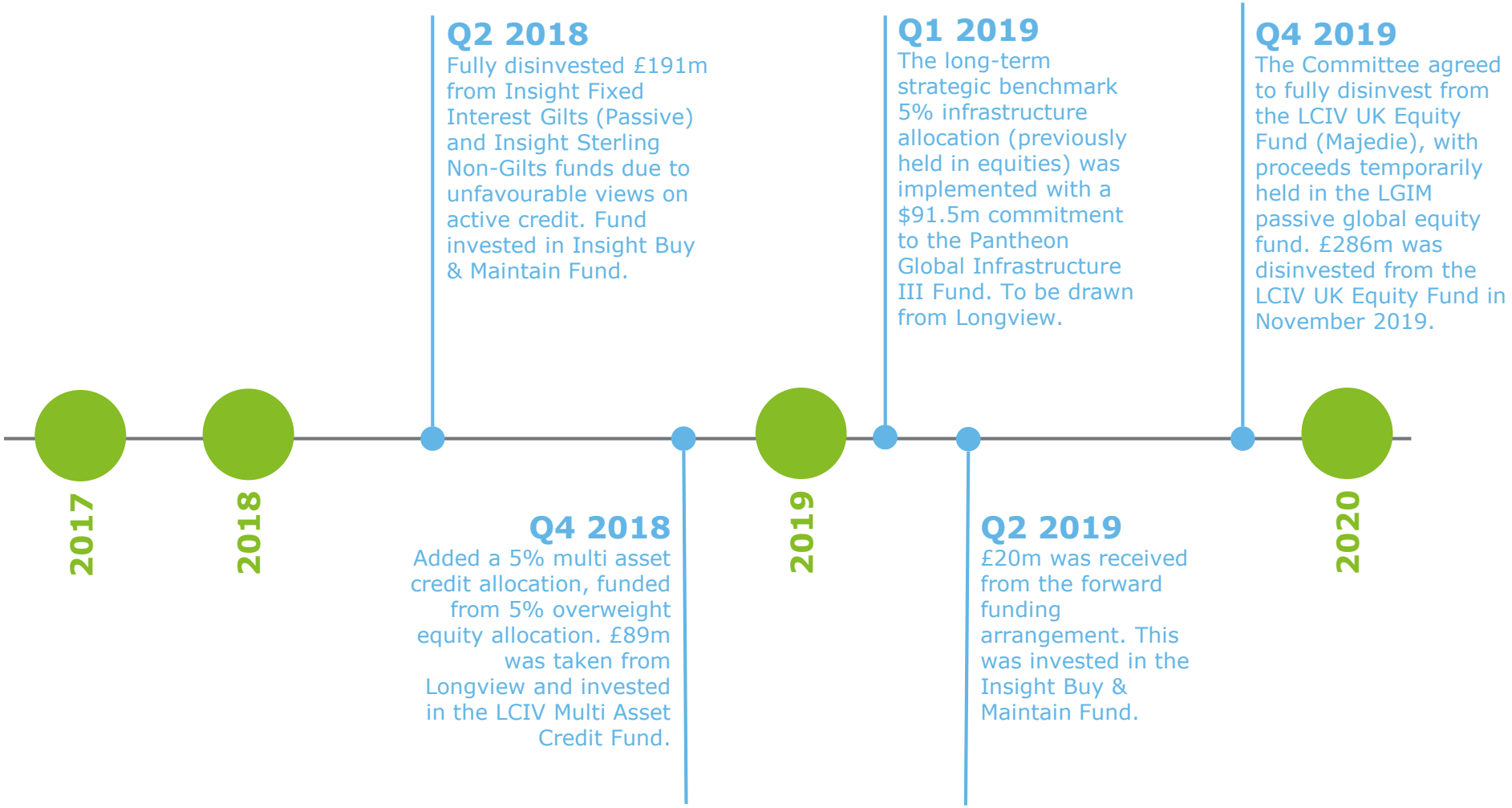
Manager	Asset Class	End Jun 2016 (£m)	End Jun 2016 (%)	Benchmark Allocation (%)
Majedie	UK Equity	250.6	22.8	22.5
LGIM	Global Equity (Passive)	243.2	22.1	22.5
Baillie Gifford	Global Equity	191.3	17.4	25.0
Longview	Global Equity	121.9	11.1	
	Total Equity	**807.0**	**73.4**	**70.0**
Insight	Fixed Interest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

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

Recap of the Fund

Changes to portfolio since 2016 valuation

Changes since 2016 actuarial valuation



Recap of the Fund

2019 asset allocation

Asset allocation

Manager	Asset Class	End Nov 2019 (£m)	End Nov 2019 (%)	Estimated End March 2020 (£)	Estimated End March 2020 (%)	Benchmark Allocation (%)
LCIV	UK Equity (Majedie, active)	9.0	0.6	0.0	0.0	22.5
LGIM	Global Equity (Passive)	646.9	42.4	523.4	39.6	22.5
LCIV	Global Equity (Baillie Gifford, active)	317.4	20.8	276.4	20.9	20.0
Longview	Global Equity (active)	71.4	4.7	55.5	4.2	0.0
	Total Equity	**1,044.7**	**68.5**	**855.3**	**64.8**	**65.0**
Insight	Buy and Maintain Credit	231.5	15.2	219.1	16.6	13.5
LCIV	Multi Asset Credit	93.8	6.2	78.8	6.0	6.5
	Total Fixed Income	**325.3**	**21.3**	**297.8**	**22.0**	**20.0**
Hermes	Core Property	67.1	4.4	62.2	4.7	5.0
Aberdeen Standard	Long Lease Property	67.1	4.4	68.6	5.2	5.0
	Total Property	**134.2**	**8.8**	**130.8**	**9.9**	**10.0**
Pantheon	Global Infrastructure	20.1	1.3	17.8	1.3*	5.0
	Total Infrastructure Equity	**20.1**	**1.3**	**17.8**	**1.3**	**5.0**
Cash	In-House Cash	1.1	0.1	19.0	**1.4**	-
Total		**1,525.5**	**100**	**1,320.7**	**100**	**100**

End March allocations are estimated, based on available data.

*Estimated, based on 10% write-down estimate from Pantheon. Accounts for £0.7m distribution in Q1.

Current investment strategy

Current investment strategy

2019 actuarial valuation

Current strategy

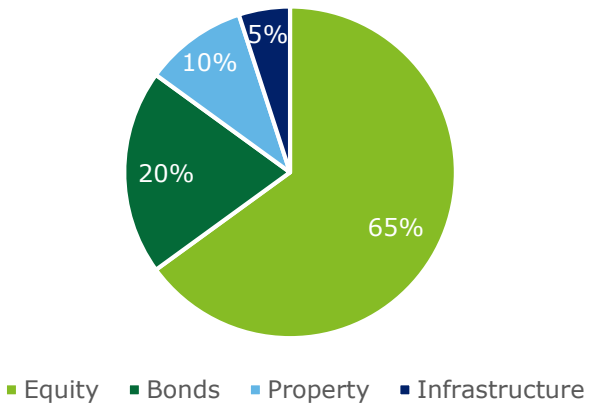
Based on the current strategic benchmark, the Fund's median best estimate expected return is 5.4% p.a., with a volatility of 13.2%. Whilst the 65% strategic allocation to equities contributes positively to the Fund's expected return, this allocation also has the impact of increasing Fund volatility.

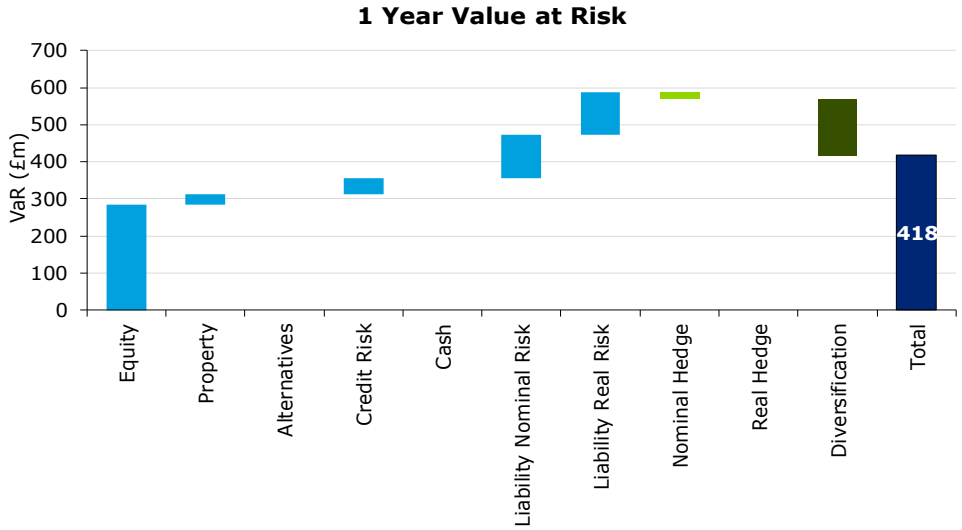
1 Year 95% Value at Risk ("VaR") is a representation of how the deficit/surplus could change given a 1 in 20 year worst case scenario. This analysis is useful as it allows us to quantify the risk within the portfolio and determine as to whether or not the fund could withstand such an event.

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

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

Current benchmark allocation





Current investment strategy

2019 actuarial valuation

Funding level

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

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

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

Source: Copy of SLT Pensions Survey

Forward funding arrangement

The Fund received a £20m payment in Q2 2019 through a forward funding arrangement, which was invested in the Insight Buy & Maintain Fund. Through the same forward funding arrangement, it is expected that a further £80m will be received in April 2021. Deficit recovery payments are expected to be £23m, c. £14m of which will be an upfront sum.

Current investment strategy

Issues to consider

Reliance on equity markets

The Fund's current strategic benchmark includes a 65% allocation to equities, with the actual allocation being almost in line. The Fund's infrastructure mandate with Pantheon is still in drawdown, with c. £50m still to be drawn. This is to be funded from equities, in particularly Longview, which had c.£55m as at 31 March 2020. We estimate that once Pantheon is fully drawn, the equity allocation will be c. 62%.

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

Diversification

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

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

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

Current investment strategy

Cashflow considerations

Forward funding arrangement

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

Annual cashflow deficit

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

Next year, the Fund is expected to receive a £23m deficit recovery contribution, £14m of which will be an upfront sum. Approximately £10m of the £80m forward funding arrangement to be paid in April 2021 is currently earmarked to be used to cover the expected annual cashflow deficit. Based on this, the Fund should have no requirement to take income from the investment portfolio for the next two years. However beyond this period, the Fund may need regular income distributions from its investments. This is also under the assumption that current income from the portfolio continues to be distributed.

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

It should be noted that Hermes have the discretion to defer income for up to three quarters.

Liquidity

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

Current investment strategy

Cashflow considerations

Generating income

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

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

Strategy proposal

Strategy proposal

Possible solutions

Strategic allocation

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

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

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

Strategy proposal

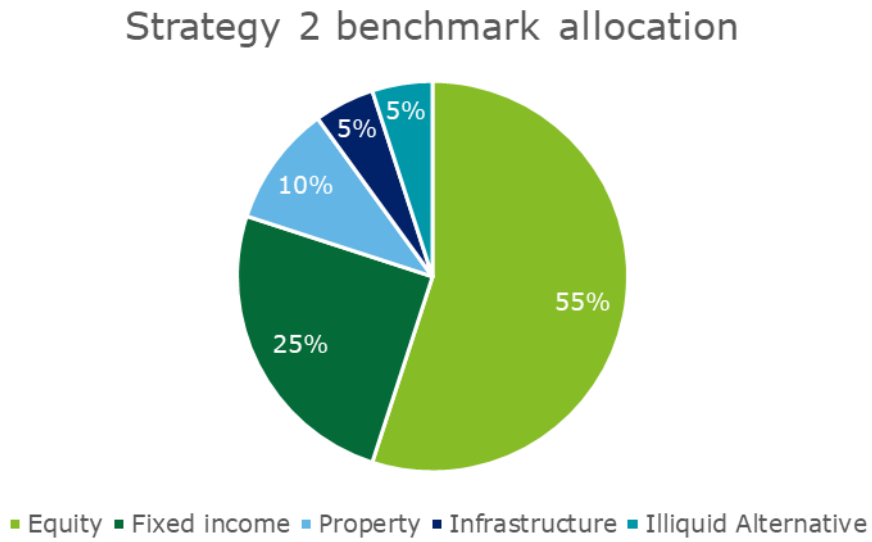
Strategy 2

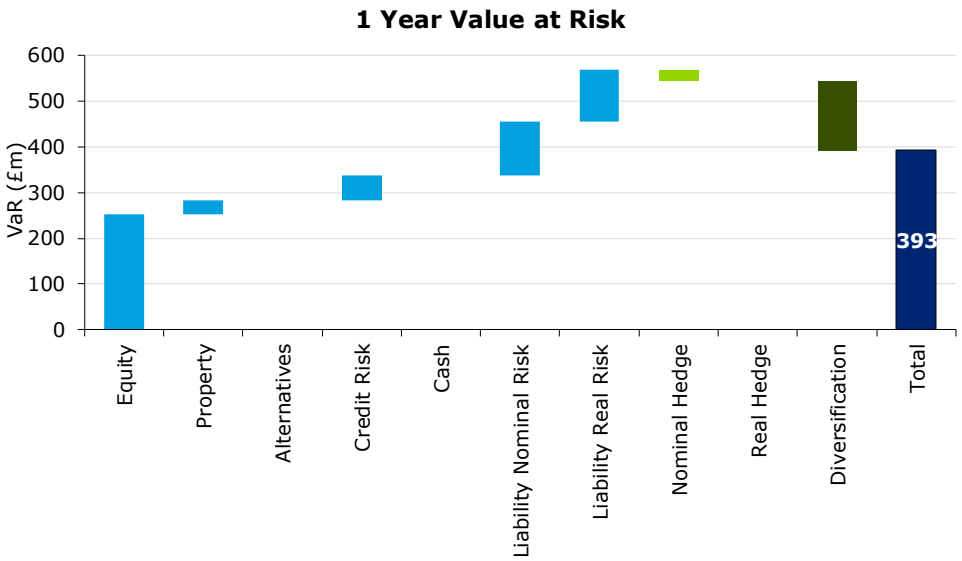
To implement Strategy 2, the Fund would be required to:

Decrease the equity allocation by c. 7%	Make a c. 3% allocation to a new fixed income strategy / rebalance the existing portfolio	Make a 5% allocation to a new illiquid alternative

This would result in:

A 0.2% decrease in expected return	A 0.6% decrease in expected volatility	A c. £30m decrease in equity portfolio Value at Risk





Conclusion

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Conclusion

Recommendations and next steps

Investment strategy

The Committee should discuss and agree the most appropriate strategic allocation for the Fund going forward. We have recommended a strategy which we believe is suitable for Fund given the funding position and current investment markets. Specifically we have suggested:

1. Reducing the strategic equity allocation by c. 10% to 55%, increasing the fixed income allocation to 25% and introducing a 5% allocation to a new illiquid alternative.

2. Consider Renewable Infrastructure as a new illiquid alternative. This may require training on the asset class ahead of assessing suitable strategies.

3. Consider whether the 5% increase to fixed income should be to a new mandate or to rebalance the existing portfolio.

4. Following the real estate training session, review the appropriateness of the current property portfolio and agree next steps and consider whether a residential property allocation may offer more diversification than the current long lease mandate.

5. Review the equity portfolio and in particular, give consideration to adding a new mandate that would compliment the Baillie Gifford fund.

Risk Warnings

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

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