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City of Westminster

Committee Agenda

Title:	**Pension Board**
Meeting Date:	**Wednesday 31st March, 2021**
Time:	**6.30 pm**
Venue:	**This meeting will take place virtually**
Members:	**Councillors:** Tim Mitchell (Chairman) Guthrie McKie **Employer Representative:** Marie Holmes **Scheme Member Representatives**: Terry Neville (Vice-Chairman) Christopher Smith Chris Walker

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

If you require any further information, please contact the Committee Officer, Toby Howes, Senior Committee and Governance Officer.

Tel: 07815 66385T; Email: thowes@westminster.gov.uk
Corporate Website: www.westminster.gov.uk

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

AGENDA

PART 1 (IN PUBLIC)

1.	**MEMBERSHIP** To note any changes to the membership.	
2.	**DECLARATIONS 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.	**NINUTES** To approve the minutes of the Pension Board meeting held on 16 June 2020.	**(Pages 3 - 6)**
4.	**PENSION ADMINISTRATION UPDATE** Report of the Director of People Services.	**(Pages 7 - 14)**
5.	**FUND FINANCIAL MANAGEMENT** Report of the Tri-Borough Director of Treasury and Pensions.	**(Pages 15 - 34)**
6.	**PERFORMANCE OF THE COUNCIL'S PENSION FUND** Report of the Director of Treasury and Pensions.	**(Pages 35 - 136)**
7.	**ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT**	

Stuart Love
Chief Executive
23 March 2021

CITY OF WESTMINSTER

MINUTES

Pension Board

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Board** held on **Tuesday 16th June, 2020**. This meeting took place virtually.

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

Martin Colwell attended as an observer in his capacity as a Scheme Member Representative.

Apologies for Absence: Marie Holmes (Employer Representative).

Officers Present: Phil Triggs (Tri-Borough Director of Treasury and Pensions), Mathew Dawson (Senior Finance Manager, Tri-Borough Treasury and Pensions), Sarah Hay (Senior Pensions and Payroll Officer), Eleanor Dennis (Lead Pensions Specialist) and Toby Howes (Senior Committee and Governance Officer).

1 ELECTION OF CHAIRMAN AND VICE-CHAIRMAN/MEMBERSHIP

1.1 There were no changes to the membership.

1.2 **RESOLVED:**

1. That Councillor Tim Mitchell be appointed as Chairman of the Board for the 2020-2021 municipal year.

2. That Terry Neville be appointed as Vice-Chairman of the Board for the 2020-2021 municipal year.

2 DECLARATIONS OF INTEREST

2.1 There were no declarations of interest.

3 MINUTES

3.1 **RESOLVED:**

That the minutes of the meeting held on 3 March 2020 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 Pension Administration Service had coped well in the midst of the COVID-19 pandemic. The death rate had been lower than expected and there had only been a few incidences of late payments. The key performance indicators were also holding up and Western Union were due to commence a new project in respect of overseas pensioners.

4.2 The Board welcomed the ability of pension administration staff to able to carry out their functions from a home setting.

5 PENSION DATA QUALITY ISSUES

5.1 Eleanor Dennis (Lead Pensions Specialist) presented the report and updated the Board in respect of stage 2 cases, data tracing and the peer review exercise.

5.2 The Board emphasised the need to ensure that the data quality was consistent and sound. It was agreed that the new Pension Fund Manager at Surrey County Council, the administering provider, attend the next meeting to answer questions from the Board about the pension administration service.

6 PENSION FUND PERFORMANCE TO 31 MARCH 2020 AND RISK MONITORING

6.1 Phil Triggs (Tri-Borough Director of Treasury and Pensions) presented the report and advised that the Fund had made a recovery following the initial impact of the COVID-19 pandemic. Additional risks had been included in the Risk Register.

6.2 The Board noted that the London Collective Investment Vehicle had appointed a new Chief Investment Officer.

6.3 **RESOLVED:**

1. That the performance of the Fund’s investments to 31 March 2020; be noted.

2. That the risk registers for the Pension Fund, as updated in May 2020, be noted.

7 STRATEGIC INVESTMENT STRATEGY REVIEW

7.1 Phil Triggs presented the report and advised that the Strategic Investment Review needed to take into context the current COVID-19 pandemic and the resulting effects that it was having on markets, investments and funds. He added that the Pension Fund Committee had deferred a decision on this matter until the Committee's next meeting on 25 June, following additional training for Members.

7.2 The Board emphasised the importance of the need for the Pension Fund Committee to take a decision on this matter in view of the impact on the Fund.

7.3 The Chairman confirmed that he would contact the Chairman of the Pension Fund Committee to put forward the Board's views on this matter.

7.4 **RESOLVED:**

That the revised Investment Strategy review, including the following options presented to the Pension Fund Committee, be noted:

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, for example, direct lending.

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

8 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

8.1 There was no other business.

The Meeting ended at 9.02 am

CHAIRMAN: _____ **DATE** _____

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City of Westminster

Pension Fund Board

Date:	**31st March 2021**
Classification:	**General Release**
Title:	**Pension Administration Update**
Report of:	**Sarah Hay, Pensions Officer People Services**
Wards Involved:	**All**
Policy Context:	**Service Delivery**
Financial Summary:	**Limited**

1. Executive Summary

1.1. This report gives an update on the response of the pension administration service to the COVID pandemic in section 2. In section 3, the report sets out a summary of our KPI data for the year April 2020 to February 2021 to give the board an outline of general case progress in the last year.

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

2. The Impact of COVID

2.1 Since the last Pension Board meeting I can confirm that the team has been working primarily on our pension administration service and have continued to work at home with limited access to the office. Home working has now become normal practice for staff and work continues on a similar level to the pre pandemic work levels as our KPI data shows. Someone has been going into the office at least once a week in part to maintain social contact and to ensure that any post that is received is dealt with promptly.

2.2 There has been a general increase in the numbers of deaths that the team have been dealing with in the last year. Our mortality screening, use of the tell us once service, NFI audit and address tracing service are running with Target who have identified some deceased members. The administration team appear to be coping well with the additional stress of dealing with death cases at this time.

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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 As we are nearly at the end of the Financial year this report provides a look at the KPI performance over the last year between April 2020 and February 2021. March 2021 data is not yet available at the time of writing this report.

3.3 KPI performance in appendix 1 is summarised below:

3.4 Overall the KPI data in 20/21 was positive, particularly considering the administration team had to cope with the changes that the pandemic brought to the way that they worked. This included going from an office environment where the majority of staff worked 5 days a week in the office to an environment where people were expected to work primarily at home. Some of the team initially worked at home on their own laptop devices until the service could adapt to provide them with the relevant hardware.

3.5 Of course not every KPI was 100% in every month and there were some that have been more inconsistent over the course of the last financial year. Of note were that 7 retirement benefits were processed late in the year but this was out of 132 cases. Although the majority of late cases were only late by a few days there was one late case in January that was processed 45 days late and we have asked for an explanation.

3.6 The second KPI of concern was the payment of lump sums which should be processed within 5 days of receipt of all information. There were 22 cases paid late over a number of months though September 2020 was a poor period for this KPI. I understand that holiday taken by staff in August / September impacted some KPI's but people were more restricted in terms of taking their holiday in 2020. There were 187 lump sum payments made during the year and the majority were in time.

3.7 The remaining KPIs were overall within an expected level and are set out in full in appendix 1.

4. Western Union Existence Exercise.

4.1 The board will remember we advised them at the prior meeting that we intended to run a second existence exercise in 2020 following on from the prior successful project in 2019.

4.2 The existence exercise was commenced in September 2020 following a reduction in coronavirus infections across the world and the opening up of many economies. Members living overseas were offered a choice of either returning a

traditional life certificate or collecting a £10 payment for turning up at a local Western Union agent. In January 2021 however we realised that the situation with the virus had changed in many countries and we concluded that it would be unfair on elderly members to expect them to complete an existence exercise when many countries were in lockdown or had significant infections.

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

4.4 We will review running a new existence project next year depending on the situation world wide with the pandemic. We still think that this years exercise was meaningful and allowed the fund to continue engagement with those members overseas.

5. Data Work

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

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

5.3 In addition, we have also sent Target 317 cases of frozen refunds. These are records that Surrey have started to process however these members have left the Fund some time ago and have not received a refund that they were due. We need these members traced for their current address for Surrey County Council to be able to process these refunds to members. Target were able to locate 230 addresses including 2 confirmed as unfortunately deceased. These addresses have been sent to Surrey County Council who have confirmed that the addresses have been loaded on to their Altair database. This phase of the tracing project is now complete with Target, this is 72.5% of frozen refund cases. In relation to the 87 cases which Target were unable to locate addresses for, we have liaised with a member of the Benefits and Revenues Team at Westminster City Council and have arranged for 80 of those to be passed to Capita for an additional free trace.

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

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

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

437 records for Deferred – Age population 54 – 50

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

325 records for Deferred – Age population 49- 45

This population has recently commenced, the first update indicates that 63 have been successfully traced with 4 successful international traces. We intend to continue to trace addresses for all the deferred status populations above and will update going forward.

Status 2 – **Undecided leavers**

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

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

6. Surrey – The Future Pension Administration Service.

6.1 On the 2nd of July 2020, Surrey asked officers to attend a presentation with senior staff at short notice. During that meeting Surrey advised us that they wanted to in effect treble our contract price with no ability on our behalf to clawback anything for poor performance. They also wanted to standardise KPI

across their client base though they would not advise us of their proposals for KPI and wanted to agree that Surrey would in effect agree the admin approach to issues centrally without any reference to us.

6.2 Officers were asked to notify Surrey by September 2020 that we would comply with this request or confirm that we were exiting the service and that they would expect us to do so within 12 months. This was a complete turn around as up until that point WCC had been trying to agree acceptable terms with Surrey for a new 101 agreement to take the service forward.

6.2 The Strategic Pension Officer reviewed options on the market for WCC as an alternative to Surrey. This included looking at the Wandsworth partnership, however it was determined that moving the administration service to Hampshire under a shared service arrangement would be in the best interests of the fund. Hampshire provides finance, HR and payroll back office support for Westminster council which is the largest employer in the Westminster fund. The synergy of having the pension administration under the same organisational roof as the back office HR and payroll support should benefit members and ensure member queries are dealt with quickly.

6.3 A project manager, Diana McDonell- Pascoe has been seconded into People Services working to the Strategic Pension Lead and will be running the transfer project on behalf of WCC, working in partnership with Hampshire and Civica the new pension software provider.

6.4 The service is due to go live with Hampshire in early November 2021 and we will update the board as we go forward with our progress.

6.5 A point to note is that the current software provider Aquila Heywood are not happy that WCC have made the decision to move our service to Hampshire as this service uses a rival product. WCC had agreed a variation to our original software contract that should allow for a termination with reasonable notice but the company are stating that they want the full contract honoured. WCC is in discussions with the company.

6.6 Additionally the Pension Board will want to know that Surrey is now in the process of working with all borough's using their service to exit during the next year. The London Borough of Hillingdon is also moving their pension administration service from Surrey to Hampshire and we will be working closely with them. At the same time the Orbis brand, which was a shared service arrangement between Surrey and East Sussex is being disbanded on the 1st of April 2021. As a result of this Westminster's pension administration is moving from the East Sussex team to the Surrey team on the 1st of April 2021. Officers have expressed their thanks to the East Sussex pension administration team for their solid support in the last 5 years.

7 The Exit Cap, Compensation Changes, McCloud and Minimum Retirement Age

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

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

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

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

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

between the State Pension Age (SPA) and the earliest date at which members can draw funds. The fund will submit a response to the consultation.

8. Summary

8.1 The pension administration service has been working on a pre pandemic basis for much of 20/21 and now everyone is assimilated to working at home.

8.2 The KPI data overall is pretty good for the year.

8.3 An existence project was run in the Autumn of 2020 but this was closed early due to the situation with the pandemic around the world. We still engaged with our pensioners based overseas and the majority of them either returned a life certificate or completed an existence check.

8.4 Of the two main data projects that had been running the Status 2 project was closed down in early January with the majority of cases completed. The address tracing project continues with different batches being sent for trace. Overall, we are pleased with the results of the tracing exercise.

8.5 The fund has made the decision to exit the Surrey service after a price increase and demands from Surrey that officers did not feel was in the interests of members. The service is due to transfer to Hampshire later in 2021 the board will be kept up to date as the project progresses. Our pension administration service is moving from East Sussex to Surrey on the 1st of April.

8.6 The exit cap was introduced and then revoked though we believe it will come back. We are waiting for more detail on the timetable and the regulations to cover the McCloud solution. We are hoping that the fund is not expected to take any action whilst we are in the middle of our exit to Hampshire. A new consultation on increasing the minimum retirement age to 57 has also been sent out.

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City of Westminster

Pension Board

Date:	**31 March 2021**
Classification:	**General Release**
Title:	**Fund Financial Management**
Wards Affected:	**All**
Policy Context:	**Effective control over council activities**
Financial Summary:	**There are no immediate financial implications arising from this report.**
Report of:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. Executive Summary

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

1.2 The cashflow forecast for the next three years has been updated with actuals to 31 December 2020. The bank position continues to be stable.

2. Recommendations

2.1 The Pension Board is asked to note the risk registers for the Pension Fund.

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

3. Risk Register Monitoring

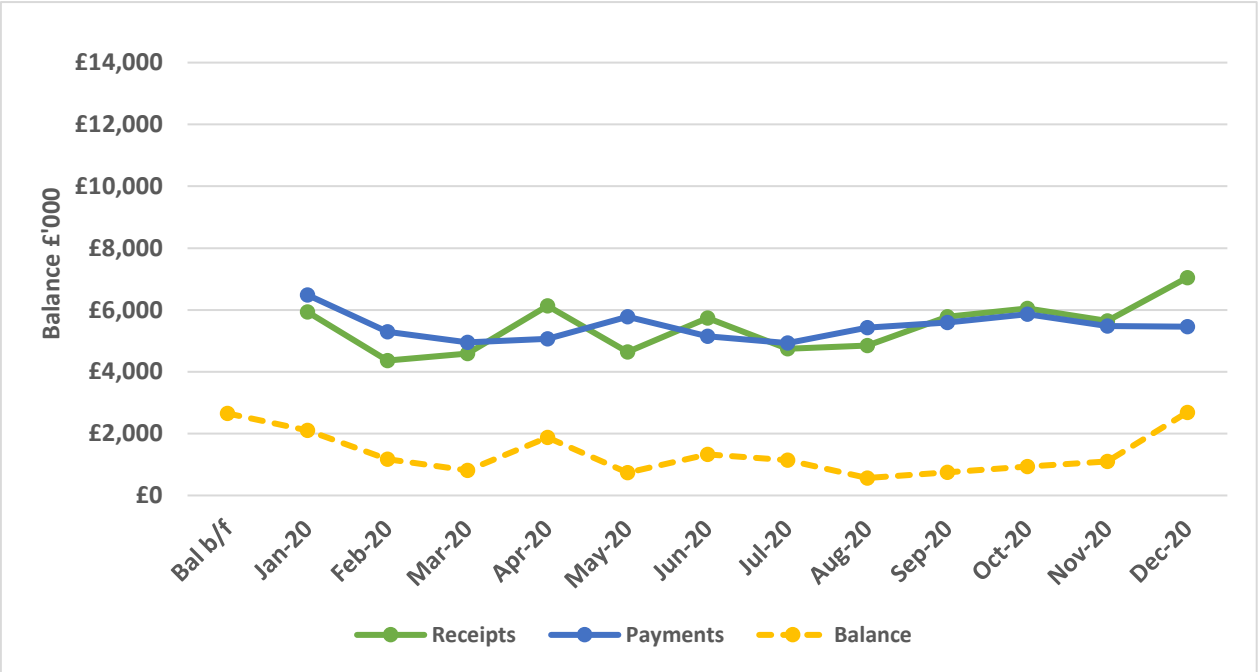
3.1 The risk register is divided into two sections: governance (investment and funding) and pensions administration. The current top five risks to the Pension Fund are highlighted in the table below:

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

4. Cashflow Monitoring and Forecasted Cashflows

4.1 The balance on the pension fund bank account as at 31 December 2020 was £2.689m. Payments from the bank account will continue to exceed receipts on a monthly basis. During the year, cash withdrawals from Fund Managers are expected to take place to maintain a positive cash balance.

4.2 The table below shows changes in the bank balance from 1 January 2020 to 31 December 2020.



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

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

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

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

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

4.5 Actual cashflows against the forecast for the quarter ending 31 December 2020 is shown below. There may be monthly variances between the actual and forecasted amounts due to timing differences, e.g., transfer values in and out, payment of lump sums, retirement benefits and death grants.

Cashflows Actuals Compared to Forecast for October to December 2020:

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

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

Variances during the quarter to 31 December 2020:

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

4.6 The three-year cashflow forecast for 2020/21 to 2022/23 is shown below. Forecasted cashflows are calculated using the previous year's cashflows which are then inflated by 2%. Please note this will not match the rolling cashflow.

Three Year Cashflow Forecast for 2020/21 to 2022/23

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

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

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

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

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BACKGROUND PAPERS: None

APPENDICES:

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

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

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

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

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

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

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

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Pension Fund Risk Register - Investment Risk													
Risk Group	Risk Ref.	Movement	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk	Reviewed
				Fund	Employers	Reputation	Total						
Investment	1		The global outbreak of COVID-19 poses economic uncertainty across the global investment markets. Valuations of illiquid assets such as property and infrastructure are increasingly difficult to determine.	5	4	2	11	4	**44**	TREAT - 1) Officers will continue to monitor the impact lockdown measures have on the fund's underlying investments and the wider economic environment. 2) The Fund holds a diversified portfolio, which should reduce the impact of stock market movements. 3) Asset allocation was reviewed during June 2020, a new strategy was agreed in light of COVID-19 with ESG focused equity and renewable infrastructure mandates agreed. 4) Pension Fund Officers in frequent contact with Fund Managers and the Funds investment advisor.	3	**33**	22/02/2021
Investment	2		Significant volatility and negative sentiment in global investment markets following disruptive geo-political uncertainty. Increased risk to global economic stability.	5	4	1	10	4	**40**	TREAT- 1) Continued dialogue with investment managers re management of political risk in global developed markets. 2) Investment strategy involving portfolio diversification and risk control. 3) Investment strategy review took place during June 2020 and a new strategic asset allocation was agreed.	3	**30**	22/02/2021
Investment	3		Volatility caused by uncertainty with regard to the withdrawal of the UK from the European Union and the economic after effects.	4	4	1	9	3	**27**	TOLERATE/TREAT - 1) Officers to consult and engage with advisors and investment managers. 2) The Fund transitioned out of UK equities during November 2019, moving funds into the LGIM global passive. 3) Possibility of hedging currency and equity index movements. 4) The UK struck a trade deal with the EU in December 2020, the deal will be formally reviewed every 5 years. The transition period officially ended on 1 January 2021.	3	**27**	22/02/2021
Investment	4		Investment managers fail to achieve benchmark/ outperformance targets over the longer term: a shortfall of 0.1% on the investment target will result in an annual impact of £1.5m. Following COVID-19, there was some concern around Fund Managers outperforming their benchmarks.	5	3	3	11	3	**33**	TREAT- 1) The Investment Management Agreements (IMAs) clearly state WCC's expectations in terms of investment performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Pension Fund Committee should be positioned to move quickly if it is felt that targets will not be achieved. 4) Portfolio rebalancing is considered on a regular basis by the Pension Fund Committee. 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk compared with less diversified structures.	2	**22**	22/02/2021
Governance	5		That the London Collective Investment Vehicle (LCIV) fails to produce proposals/solutions deemed sufficiently ambitious.	4	4	3	11	2	**22**	TOLERATE - 1) Partners for the pool have similar expertise and like-mindedness of the officers and members involved with the fund, ensuring compliance with the pooling requirements. Ensure that ongoing fund and pool proposals are comprehensive and meet government objectives. 2) Member presence on Shareholder Committee and officer groups. 3)Fund representation on key officer groups.	2	**22**	22/02/2021

Funding	6		Scheme members live longer than expected leading to higher than expected liabilities.	5	5	1	11	2	**22**	TOLERATE: The scheme's liability is reviewed at each triennial valuation and the actuary's assumptions are challenged as required. The actuary's most recent longevity analysis has shown that the rate of increase in life expectancy is slowing down.	2	**22**	22/02/2021
Funding	7		Price inflation is significantly more than anticipated in the actuarial assumptions: an increase in CPI inflation by 0.1% over the assumed rate will increase the liability	5	3	2	10	3	**30**	TREAT- 1) Actuarial valuation results show an increase in the CPI assumption of 0.2% from the 2016 valuation. 2) The fund holds investment in index-linked bonds (RPI protection which is higher than CPI and other real assets to mitigate CPI risk. Moreover, equities will also provide a degree of inflation protection.	2	**20**	22/02/2021
Funding	8		Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	4	4	2	10	2	**20**	1) Monitor numbers and values of transfers out being processed. If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values. 2) No evidence in 2020/21 of members transferring out to DC schemes.	2	**20**	22/02/2021
Funding	9		Employee pay increases are significantly more than anticipated for employers within the Fund.	4	4	2	10	2	**20**	TOLERATE - 1) Actuarial valuation assumptions show a decrease in salary increases by 0.3% from 2016. 2) Fund employers should monitor own experience. 3) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) should be long term assumptions. Any employer specific assumptions above the actuary's long term assumption would lead to further review. 4) Employers to made aware of generic impact that salary increases can have upon the final salary linked elements of LGPS benefits (accrued benefits before 1 April 2014).	2	**20**	22/02/2021
Funding	10		Changes to LGPS Scheme moving from Defined Benefit to Defined Contribution	5	3	2	10	2	**20**	TOLERATE - 1) Political power required to effect the change.	2	**20**	22/02/2021

Operational	11		Insufficient attention paid to environmental, social and governance (ESG) issues, leading to reputational damage. The Council declared a climate emergency in September 2019, how this will effect the Pension Fund going forward is currently unknown.	3	2	4	9	3	**27**	1) Review ISS in relation to published best practice (e.g. Stewardship Code) 2) Ensure fund managers are encouraged to engage and to follow the requirements of the published ISS. 3) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and Pensions and Lifetime Savings Association (PLSA), which raises awareness of ESG issues and facilitates engagement with fund managers and corporate company directors. 4) Following the strategic asset allocation review in June 2020, the Pension Fund has committed 6% towards renewables and 20% to the LCIV Global Sustain Fund, as well as moving the LGIM passive mandate into the LGIM Future World Fund. 5) An ESG and RI Policy was drafted for the Pension Fund and a Responsible Investment Statement was drafted during late 2020.	2	**18**	22/02/2021
Governance	12		Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within laid down timescales.	3	2	1	6	3	**18**	1) Officers consult and engage with MHCLG, LGPS Scheme Advisory Board, advisors, consultants, peers, various seminars and conferences. 2) Officers engage in early planning for implementation against agreed deadlines. 3) Uncertainty surrounding new MHCLG pooling guidance.	3	**18**	22/02/2021
Governance	13		London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	3	3	2	8	3	**24**	1) Pension Fund Committee Chair is a member of the shareholder Committee responsible for the oversight of the CIV and can monitor and challenge the level of resources through that forum. Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work of the London CIV. 2) Officers continue to monitor the ongoing staffing issues and the quality of the performance reporting provided by the London CIV.	2	**16**	22/02/2021
Funding	14		Impact of economic and political decisions on the Pension Fund's employer workforce.	5	2	1	8	2	**16**	1) Barnet Waddingham uses prudent assumptions on future of employees within workforce. Employer responsibility to flag up potential for major bulk transfers outside of the Westminster Fund. The potential for a significant reduction in the workforce as a result of the public sector financial pressures may have a future impact on the Fund. 2) Need to make prudent assumptions about diminishing workforce when carrying out the triennial actuarial valuation.	2	**16**	22/02/2021
Funding	15		Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	4	2	1	7	2	**14**	TOLERATE: Review "budgets" at each triennial valuation and challenge actuary as required. Charge capital cost of ill health retirements to admitted bodies at the time of occurring. Occupational health services provided by the Council and other large employers to address potential ill health issues early.	2	**14**	22/02/2021

Funding	16		Impact of increases to employer contributions following the actuarial valuation	5	5	3	13	2	**26**	TREAT- 1) Officers to consult and engage with employer organisations in conjunction with the actuary. 2) Actuary will assist where appropriate with stabilisation and phasing in processes.	1	**13**	22/02/2021
Funding	17		There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments.	5	4	3	12	2	**24**	TREAT: 1) Cashflow forecast maintained and monitored. 2) Cashflow position reported to committee quarterly. 3) Cashflow requirement is a factor in current investment strategy review.	1	**12**	22/02/2021
Governance	18		Failure to take difficult decisions inhibits effective Fund management	5	3	4	12	2	**24**	TREAT-1) Officers ensure that governance process encourages decision making on objective empirical evidence rather than emotion. Officers ensure that the basis of decision making is grounded in the Investment Strategy Statement (ISS), Funding Strategy Statement (/FSS), Governance policy statement and Committee Terms of Reference and that appropriate advice from experts is sought.	1	**12**	22/02/2021
Governance	19		Changes to LGPS Regulations	3	2	1	6	3	**18**	TREAT - 1) Fundamental change to LGPS Regulations implemented from 1 April 2014 (change from final salary to CARE scheme). 2) Future impacts on employer contributions and cash flows will considered during the 2016 actuarial valuation process. 3) Fund will respond to consultation processes. 4) Impact of LGPS (Management of Funds) Regulations 2016 to be monitored. Impact of Regulations 8 (compulsory pooling) to be monitored.	2	**12**	22/02/2021
Funding	20		Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy.	5	3	3	11	2	**22**	TREAT- 1) Active investment strategy and asset allocation monitoring from Pension Fund Committee, officers and consultants. 2) Investment strategy review is currently underway with an approved switch from equities to fixed income. 3) Setting of Fund specific benchmark relevant to the current position of fund liabilities. 4) Fund manager targets set and based on market benchmarks or absolute return measures. Overall investment benchmark and out-performance target is fund specific.	1	**11**	22/02/2021
Financial	21		Financial loss of cash investments from fraudulent activity.	3	3	5	11	2	**22**	TREAT - 1) Policies and procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised. Strong governance arrangements and internal control are in place in respect of the Pension Fund. Internal Audit assist in the implementation of strong internal controls. Fund Managers have to provide annual SSAE16 and ISAE3402 or similar documentation (statement of internal controls).	1	**11**	22/02/2021
Operational	22		Failure to hold personal data securely in breach of General Data Protection Regulation (GDPR) legislation.	3	3	5	11	2	**22**	TREAT - 1) Data encryption technology is in place which allow the secure transmission of data to external service providers. 2)WCC IT data security policy adhered to. 3) Implementation of GDPR.	1	**11**	22/02/2021

Governance	23		Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	5	2	4	11	2	**22**	TREAT: 1) Officers maintain knowledge of legal framework for routine decisions. 2) Eversheds retained for consultation on non-routine matters.	1	**11**	22/02/2021
Funding	24		Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	5	3	3	11	2	**22**	TREAT: 1) Transferee admission bodies required to have bonds or guarantees in place at time of signing the admission agreement. Regular monitoring of employers and follow up of expiring bonds.	1	**11**	22/02/2021
Regulation	25		A change in government may result in new wealth sharing policies which could negatively impact the value of the pension fund assets.	5	5	1	11	2	**22**	TREAT: 1) Maintain links with central government and national bodies to keep abreast of national issues. Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	1	**11**	22/02/2021
Governance	26		Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding	2	2	1	5	4	**20**	TREAT - 1) Succession planning process in place. 2) Ongoing training of Pension Fund Committee members. 3) Pension Fund Committee new member induction programme. 4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework under designated officer.	2	**10**	22/02/2021
Governance	27		Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	5	3	2	10	2	**20**	TREAT: 1) At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. Committee and officers scrutinise and challenge advice provided.	1	**10**	22/02/2021
Operational	28		Financial failure of third party supplier results in service impairment and financial loss	5	4	1	10	2	**20**	TREAT - 1) Performance of third parties (other than fund managers) regularly monitored. 2) Regular meetings and conversations with global custodian (Northern Trust) take place. 3) Actuarial and investment consultancies are provided by two different providers.	1	**10**	22/02/2021
Investment	29		Failure of global custodian or counterparty.	5	3	2	10	2	**20**	TREAT: 1) At time of appointment, ensure assets are separately registered and segregated by owner. 2) Review of internal control reports on an annual basis. 3) Credit rating kept under review.	1	**10**	22/02/2021
Operational	30		Financial failure of a fund manager leads to value reduction, increased costs and impairment.	4	3	3	10	2	**20**	TREAT - 1) Fund is reliant upon current adequate contract management activity. 2) Fund is reliant upon alternative suppliers at similar price being found promptly. 3) Fund is reliant on LGIM as transition manager. 4) Fund has the services of the London Collective Investment Vehicle (LCIV).	1	**10**	22/02/2021

Investment	31		Global investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers.	5	3	2	10	2	**20**	TREAT- 1) Proportion of total asset allocation made up of equities, bonds, property funds, infrastructure and fixed income, limiting exposure to one asset category. 2) The investment strategy is continuously monitored and periodically reviewed to ensure optimal risk asset allocation. 3) Actuarial valuation and strategy review take place every three years post the actuarial valuation. 4) IAS19 data is received annually and provides an early warning of any potential problems. 5) The actuarial assumption regarding asset outperformance is regarded as achievable over the long term when compared with historical data.	1	**10**	22/02/2021
Governance	32		Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	4	3	3	10	2	**20**	TREAT: 1) Person specifications are used at recruitment to appoint officers with relevant skills and experience. 2) Training plans are in place for all officers as part of the performance appraisal arrangements. 3) Shared service nature of the pensions team provides resilience and sharing of knowledge. 4) Officers maintain their CPD by attending training events and conferences.	1	**10**	22/02/2021
Governance	33		Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests.	3	3	4	10	2	**20**	TREAT - 1) Publication of all documents on external website. 2) Managers expected to comply with ISS and investment manager agreements. 3) Local Pension Board is an independent scrutiny and assistance function. 4) Annual audit reviews.	1	**10**	22/02/2021
Operational	34		Inaccurate information in public domain leads to damage to reputation and loss of confidence.	1	1	3	5	3	**15**	Treat: 1) Ensure that all requests for information (Freedom of Information, member and public questions at Council, etc) are managed appropriately and that Part 2 Exempt items remain so. 2) Maintain constructive relationships with employer bodies to ensure that news is well managed. 3) Stage AGM every year.	2	**10**	22/02/2021
Funding	35		Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	5	3	1	9	2	**18**	TREAT: 1) Review maturity of scheme at each triennial valuation. Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. 2) Cashflow position monitored monthly.	1	**9**	22/02/2021
Governance	36		Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	4	3	2	9	2	**18**	TREAT: 1) External professional advice is sought where required. Knowledge and skills policy in place (subject to Committee Approval).	1	**9**	22/02/2021
Governance	37		Failure to comply with recommendations from the Local Pension Board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator	1	3	5	9	2	**18**	TREAT - 1) Ensure that a cooperative, effective and transparent dialogue exists between the Pension Fund Committee and Local Pension Board.	1	**9**	22/02/2021

Regulation	38		Loss of flexibility to engage with Fund Managers and loss of elective professional status with any or all of the existing Fund managers and counterparties resulting in reclassification. (The Fund is a retail client to counterparties unless opted up).	3	2	2	7	2	**14**	TREAT: 1) More reliance on investment advisor to keep Officers and Committee updated. Officers are considering other financial institution outside of the current mandates to 'opt up' with. 2) Maintaining up to date information about the fund on relevant platforms. 3) Fund can opt up with prospective clients. 4) Keep quantitative and qualitative requirements under review to ensure that they continue to meet the requirements. There is a training programme and log in place to ensure knowledge and understanding is kept up to date. 5) Existing and new Officer appointments subject to requirements for professional qualifications and CPD.	1	**7**	22/02/2021
Operational	39		Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non compliant process.	2	2	3	7	2	**14**	TREAT - 1) Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process.	1	**7**	22/02/2021
Funding	40		The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	4	2	1	7	2	**14**	TREAT: 1) Review at each triennial valuation and challenge actuary as required. Growth assets and inflation linked assets in the portfolio should rise as inflation rises.	1	**7**	22/02/2021

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City of Westminster

Pension Board

Date:	**31 March 2021**
Classification:	**General Release**
Title:	**Performance of the Council's Pension Fund**
Wards Affected:	**All**
Policy Context:	**Effective control over council activities**
Financial Summary:	**There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.**
Report of:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. Executive Summary

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

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

2. Recommendation

2.1 The Pension Board is asked to:

- note the performance of the investments, changes to asset allocation and the funding position.

3. Background

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

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

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

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

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

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

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

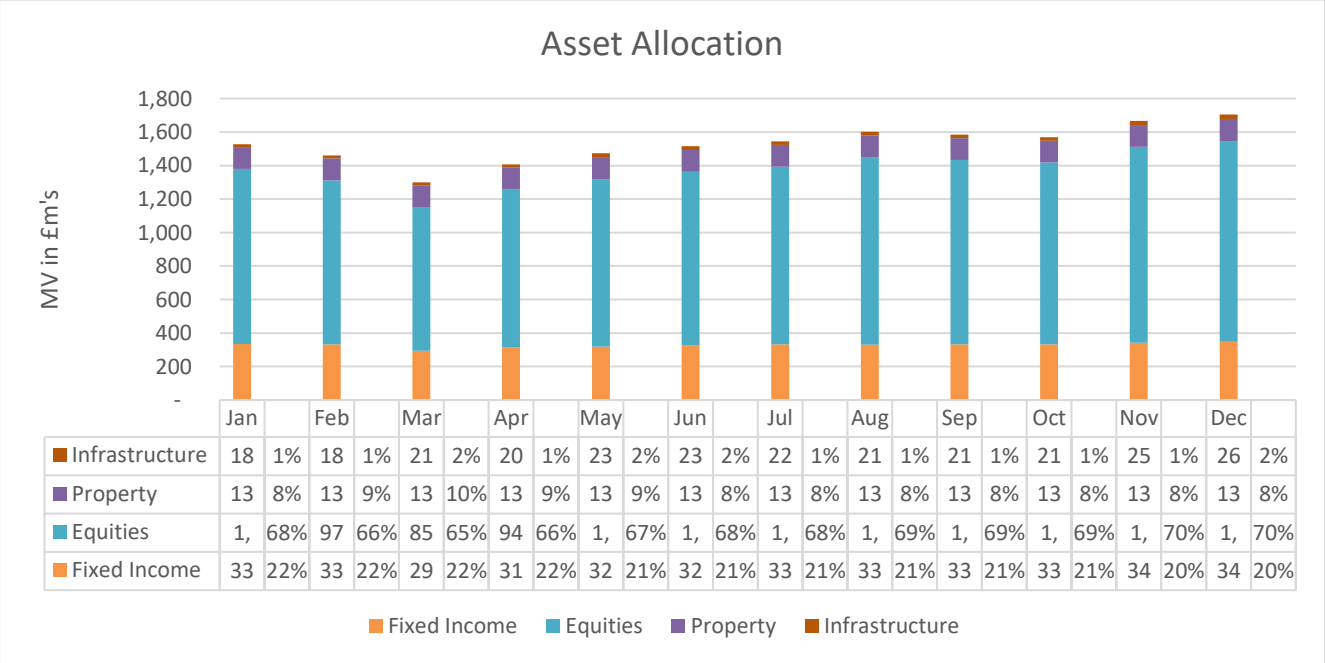
3.8 Following the quarter end, Pantheon's Dinesh Ramasamy and Jerome Duthu-Bengtzon were each promoted to partner, bringing the total number in the global infrastructure and real assets team to eight. Additionally, Paul Barr was appointed as investment partner to Pantheon's global infrastructure and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

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

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

4. Asset Allocation and Summary of Changes

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



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

*Fixed Income includes bonds and Multi Asset Credit

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

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

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

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

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

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

4.8 As agreed at the Committee meeting in June 2020, fund manager interviews for a new asset allocation to renewable infrastructure took place on 7 December 2020. The Committee explored the fund on offer at the London CIV alongside external fund manager offerings. A decision was made to appoint two renewable infrastructure managers, Macquarie and Quinbrook with each manager allocated a 3% holding of the Pension Fund assets.

4.9 Macquarie is one of the largest infrastructure managers in the world with c. €99bn in infrastructure assets under management. The Renewable Energy Fund 2 will focus on assets at the construction and operational stages of development, consisting of offshore and onshore wind assets

and solar PV. The geographical location of the assets will primarily be allocated to Western Europe, alongside North America and Asia.

4.10 Quinbrook are a relatively new manager, founded in 2015, who focus entirely on low carbon and renewable energy products within the infrastructure sector. Their Renewable Energy Impact Fund will invest solely in UK assets at both the development and operational stage. Target assets include solar PV and onshore wind, alongside supporting infrastructure such as battery storage and connection assets.

4.11 Following the appointment of two new renewables infrastructure managers in December 2020, the sale of the Hermes property fund took place during mid-January 2021. Subsequent to this, the first renewables infrastructure drawdown took place during late January 2021 and it is expected that these funds will be c.50% drawn by March 2022.

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

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

Billie Emery pensionfund@westminster.gov.uk

Background Papers: None

Appendices:

Appendix 1: Deloitte Investment Report, Quarter Ending 31 December 2020
Appendix 2: Barnett Waddingham Funding Level Update at 31 December 2020

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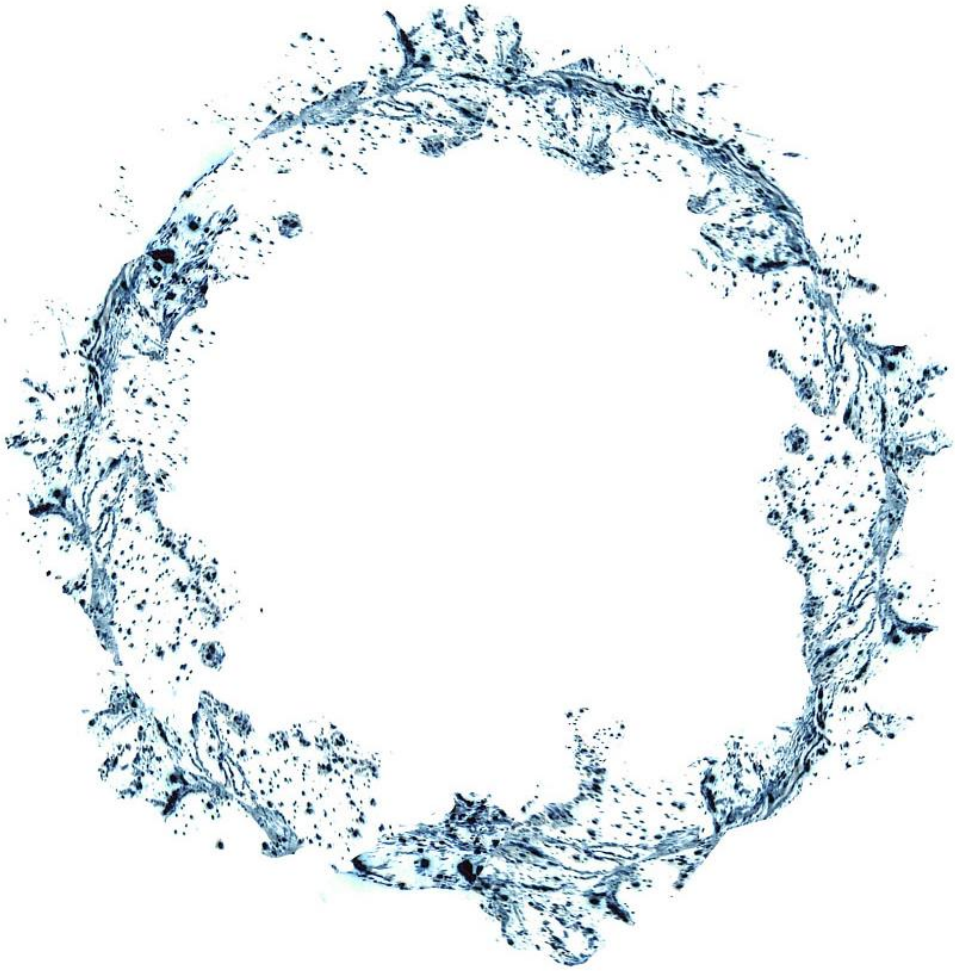
Deloitte.



City of Westminster Pension Fund

Investment Performance Report to 31 December 2020

Deloitte Total Reward and Benefits Limited
February 2021

Contents

1 Market Background

Global Equities

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

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

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

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

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

Government bonds

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

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

Corporate bonds

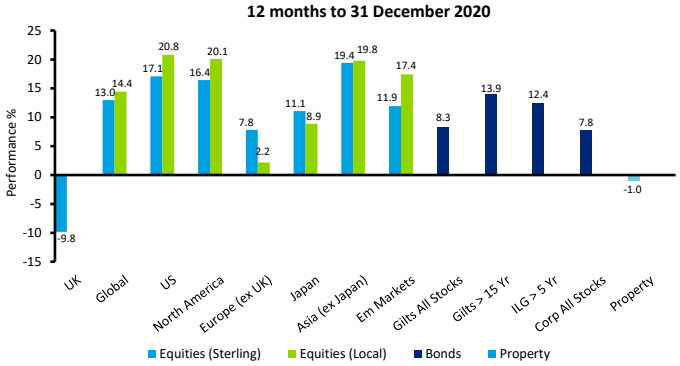
UK credit spreads narrowed further over the fourth quarter, with credit spreads falling by c. 30 bps, mirroring the investor confidence evident within equity markets. UK corporate bonds therefore outperformed equivalent gilts, and the iBoxx All Stocks Non-Gilt Index returned 3.1% over the three months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

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

Property

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

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



2 Total Fund

2.1 Investment Performance to 31 December 2020

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

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

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

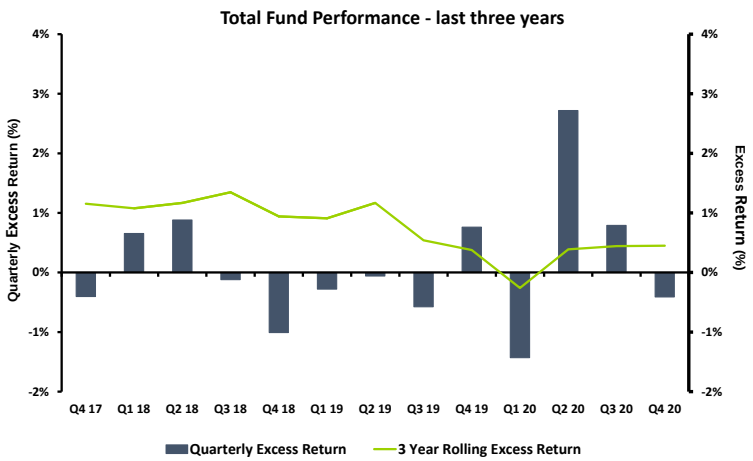
[1]Insight Buy and Maintain Fund was incepted on 9 April 2018. Since inception returns and benchmark returns reflect a combination of Insight Buy & Maintain Fund returns and benchmark returns from date of inception to 31 December 2020, and Insight IM (Core) Fund returns and benchmark returns from inception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

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

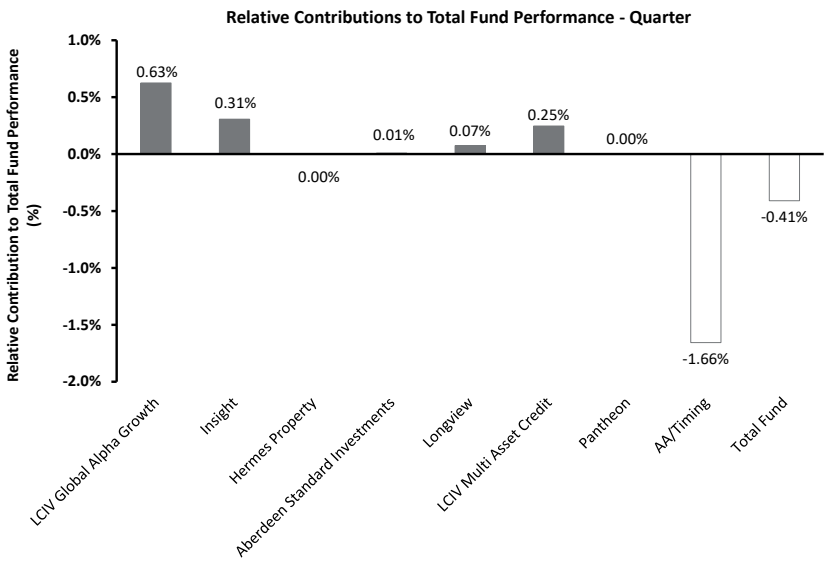
The Total Fund delivered a positive absolute return of 7.5% on a net of fees basis over the quarter to 31 December 2020, with each of the Fund's underlying investments delivering positive absolute returns on a net of fees basis. The Total Fund underperformed the fixed weight benchmark by 0.4% over the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

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

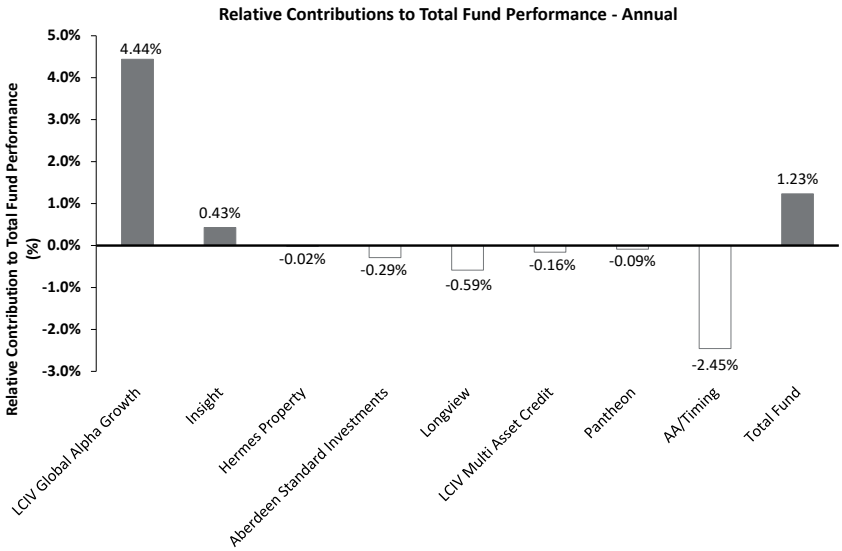
The chart below shows the relative performance of the Fund over the quarter and last three years, highlighting that the rolling three-year performance is ahead of the benchmark. Please note that performance is shown net of fees versus the benchmark.



2.2 Attribution of Performance to 31 December 2020



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



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

2.3 Asset Allocation as at 31 December 2020

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

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

Source: Northern Trust
Figures may not sum due to rounding

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

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

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

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

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

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

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

2.4 Yield analysis as at 31 December 2020

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

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

**LCIV funds' yields are provided by the underlying managers (Baillie Gifford, Morgan Stanley and CQS).*

3 Summary of Manager Ratings

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

Manager	Mandate	Triggers for Review	Rating
LGIM	Global Equity (Passive – Future World)	Major deviation from benchmark returns Significant loss of assets under management	1
Baillie Gifford	LCIV Global Equity (Global Alpha Growth)	Loss of key personnel Change in investment approach Lack of control in growth of assets under management	1
Morgan Stanley Investment Management	LCIV Global Equity (Global Equity Core)	Loss of key personnel Change in investment approach Lack of control in growth of assets under management	1
Longview	Global Equity	Loss of key personnel Change in investment approach Lack of control in growth of assets under management	2
Insight	Buy and Maintain	Departure of any of the senior members of the investment team	1
CQS	LCIV Multi Asset Credit	Significant changes to the investment team responsible for the fund	1
Hermes	Property	Significant growth in the value of assets invested in the fund Changes to the team managing the mandate	1
Aberdeen Standard Investments	Property	Richard Marshall leaving the business or ceasing to be actively involved in the fund without having gone through an appropriate hand-over A build up within the fund of holdings with remaining lease lengths around 10 years	1
Pantheon	Global Infrastructure	Significant changes to the investment team responsible for the fund	1

3.1 London CIV

Business

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

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

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

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

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

Multi Asset Credit Fund

As reported in last quarter's report, the London CIV has decided to add an additional, complementary, manager to the LCIV Multi Asset Credit Sub Fund mandate, alongside CQS, with the manager selection process being led by Rob Hall, Asim Meghji and Jason Fletcher and the process subject to independent oversight from Exco and internal oversight from a committee made up of London CIV board members.

In addition, the London CIV plans to establish a separate sub fund, alongside the LCIV Multi Asset Credit Fund, which will have a specific focus to high yield bonds and leveraged loans. The London CIV has specified that this will, at least initially, consist of only one manager, CQS. The new sub fund will implement different investment objectives to the LCIV Multi Asset Credit Fund, which the London CIV feels will be more aligned with CQS' multi asset credit strategy, whilst fees and other arrangements will mirror the existing LCIV Multi Asset Credit Fund.

Following quarter end, in January 2021, the London CIV announced that it had reached the next stage of the manager selection process and is looking to arrange a group meeting with clients and consultants to further discuss the type and style of the additional manager to be added to the LCIV Multi Asset Credit Fund, alongside the percentage split of assets that is to be agreed between the new manager and CQS.

The London CIV has confirmed that if, at the point of hiring a complementary manager to the LCIV Multi Asset Credit Fund, more of the sub fund's current investors wish to move to the proposed new high yield / leveraged loans fund, provided there is significant demand, the London CIV will initiate the fund launch process for this fund. It is anticipated that this would delay the addition of the new manager to the LCIV Multi Asset Credit Fund by a minimum of three months, as a result of the requirement to submit an application to the FCA for the new sub fund alongside the standard requirements to draft the investment and business cases for the setup of the new sub fund.

The London CIV is looking to ensure that all relevant parties and stakeholders are well informed throughout the process, and will inform all parties should any other avenues become available for consideration. It is anticipated that the manager procurement exercise for the appointment of the second manager to the existing LCIV Multi Asset Credit Fund will be completed by early Q2 2021.

COVID-19 Impact:

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

Personnel

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

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

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

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

3.2 LGIM

Business

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

COVID-19 Impact and Reporting Issues:

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

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

Personnel

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

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

3.3 Baillie Gifford

Business

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

COVID-19 Response:

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

Personnel

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

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

3.4 Morgan Stanley Investment Management

Business

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

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

COVID-19 Impact:

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

Personnel

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

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

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

3.5 Longview

Business

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

COVID-19 Impact:

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

Personnel

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

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

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

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

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

3.6 Insight

Business

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

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

COVID-19 Impact:

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

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

Personnel

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

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

3.7 CQS

Business

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

COVID-19 Impact:

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

Personnel

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

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

3.8 Hermes

Business

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

COVID-19 Impact:

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

Personnel

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

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

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

3.9 Aberdeen Standard Investments

Business

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

COVID-19 Impact:

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

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

Personnel

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

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

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

3.10 Pantheon

Business

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

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

COVID-19 Impact:

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

Personnel

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

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

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

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

4 London CIV

4.1 Investment Performance to 31 December 2020

At the end of the fourth quarter of 2020, the assets under management within the 14 sub-funds of the London CIV was £10,750m with a further £606m committed to the Infrastructure and Inflation Plus Funds, and The London Fund. The total assets under oversight (which includes passive investments held outside of the CIV platform) increased by c. £2.9bn to c. £23.3bn over the quarter. The table below provides an overview of the sub-funds currently available on the London CIV platform.

Sub-fund	Asset Class	Manager	Total AuM as at 30 Sep 2020 (£m)	Total AuM as at 31 Dec 2020 (£m)	Number of London CIV clients	Inception Date
LCIV Global Alpha Growth	Global Equity	Baillie Gifford	3,322	3,612	13	11/04/16
LCIV Global Equity	Global Equity	Newton	665	696	3	22/05/17
LCIV Global Equity Focus	Global Equity	Longview Partners	785	861	5	17/07/17
LCIV Equity Income	Global Equity	Epoch Investment Partners	221	133	2	08/11/17
LCIV Emerging Market Equity	Global Equity	Henderson Global Investors	425	498	6	11/01/18
LCIV Sustainable Equity Fund	Global Equity	RBC Global Asset Management (UK)	499	625	4	18/04/18
LCIV Global Equity Core Fund	Global Equity	Morgan Stanley Investment Management	170	504	2	21/08/20
LCIV Sustainable Equity Exclusion Fund	Global Equity	RBC Global Asset Management (UK)	344	385	2	11/03/20
LCIV Global Total Return	Diversified Growth Fund	Pyrford	266	274	4	17/06/16
LCIV Diversified Growth	Diversified Growth Fund	Baillie Gifford	614	670	7	15/02/16
LCIV Absolute Return	Diversified Growth Fund	Ruffer	756	910	8	21/06/16
LCIV Real Return	Diversified Growth Fund	Newton	126	123	2	16/12/16
LCIV MAC	Fixed Income	CQS	1,037	1,105	12	31/05/18
LCIV Global Bond	Fixed Income	PIMCO	345	354	3	30/11/18
Total			**9,576**	**10,750**		

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

5 LGIM – Global Equity (Passive – Future World)

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

5.1 Passive Global Equity – Investment Performance to 31 December 2020

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

Source: Legal & General Investment Management

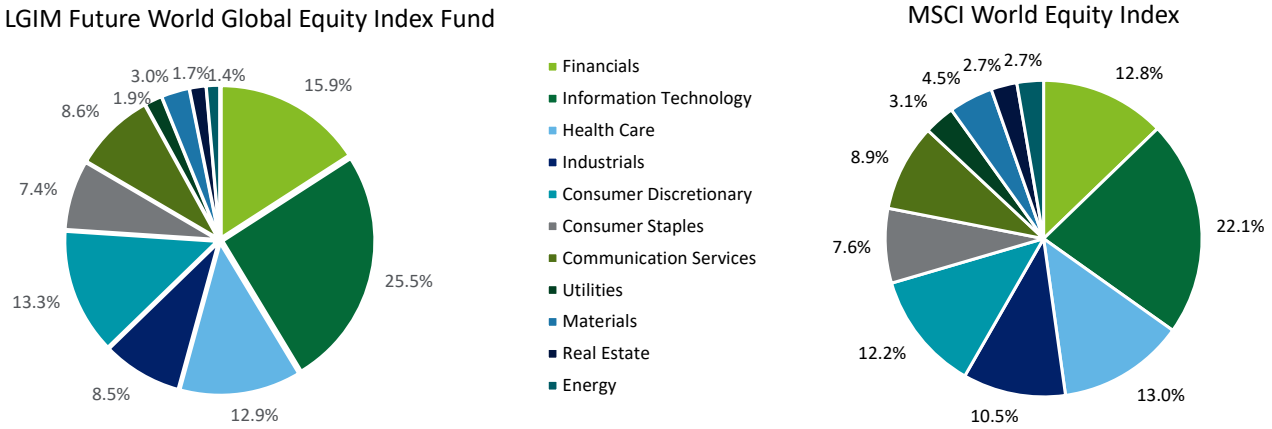
The Fund invested in the LGIM Future World Global Equity Index Fund – GBP Currency Hedged on 15 October 2020. For information purposes, the table above provides the performance of the strategy, the strategy's benchmark, and the MSCI World Equity Index (GBP) over the full quarter to 31 December 2020.

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

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

5.2 Portfolio Sector Breakdown at 31 December 2020

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



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

6 LCIV – Global Alpha Growth

Baillie Gifford was appointed to manage an active Global Equity mandate from 18 March 2014, held as a sub-fund under the London CIV platform from 11 April 2016. The manager is remunerated on an asset-based fee, reflecting the total value of assets invested in the strategy across the Tri-borough. The target is to outperform the benchmark by 2-3% p.a. on a gross of fees basis over rolling 5-year periods.

6.1 Global Alpha Growth – Investment performance to 31 December 2020

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

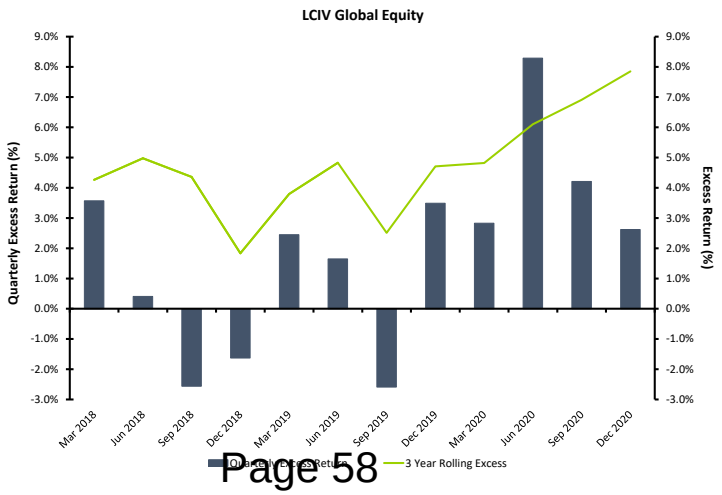
Source: Northern Trust. Relative performance may not tie due to rounding.
Inception date taken as 18 March 2014

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

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

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

The graph below shows the net quarterly returns and the rolling three-year excess returns relative to the benchmark. The fund's current three-year excess return is ahead of the target (+2% p.a.), having outperformed the benchmark by 7.9% p.a. over the three year period to 31 December 2020.



6.2 Positioning Analysis

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

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

Source: London CIV
Figures may not sum due to rounding

6.3 Performance Analysis

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

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

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

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

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

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

7 LCIV – Global Equity Core

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

7.1 Global Equity Core – Investment Performance to 31 December 2020

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

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

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

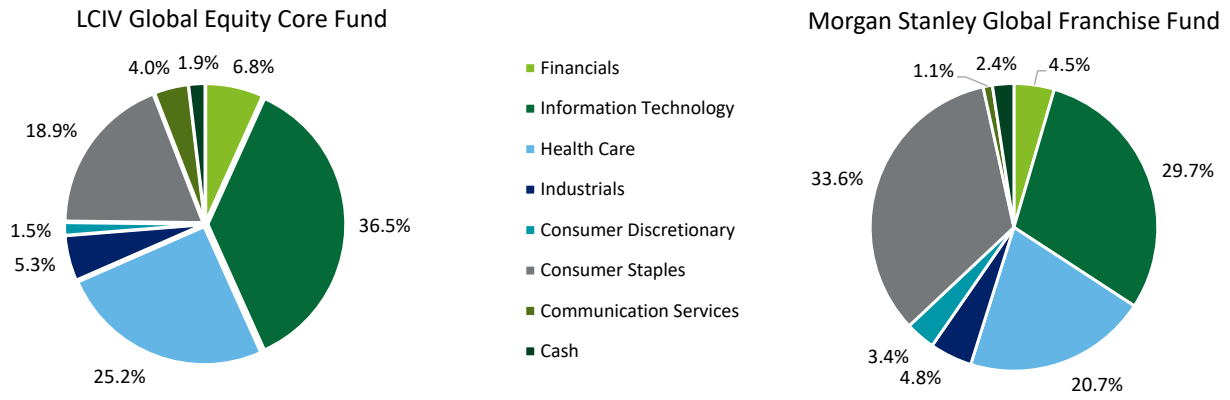
Over the fourth quarter of 2020, the LCIV Global Equity Core Fund has delivered a positive return of 1.2% on a net of fees basis, but has underperformed the MSCI World Net Index by 7.3% over the period. The LCIV Global Equity Core Fund's portfolio is predominantly comprised of quality franchises with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

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

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

7.2 Portfolio Sector Breakdown at 31 December 2020

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



Source: London CIV and Morgan Stanley

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

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

7.3 Performance Analysis

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

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

*Not including cash

Source: London CIV and Morgan Stanley

Holdings

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

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

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

*Note figures may not sum due to rounding

Source: London CIV and Morgan Stanley

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

8 Longview – Global Equity

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

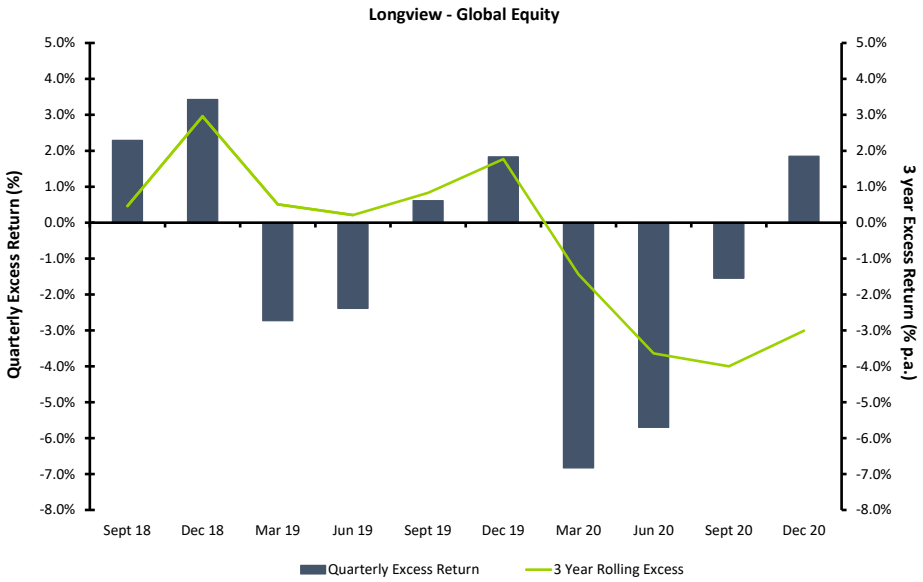
8.1 Active Global Equity – Investment Performance to 31 December 2020

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

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

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

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



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

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

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

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

8.2 Performance Analysis

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

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

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

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

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

9 Insight – Buy and Maintain

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

9.1 Buy and Maintain Fund - Investment Performance to 31 December 2020

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

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

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

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

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

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

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

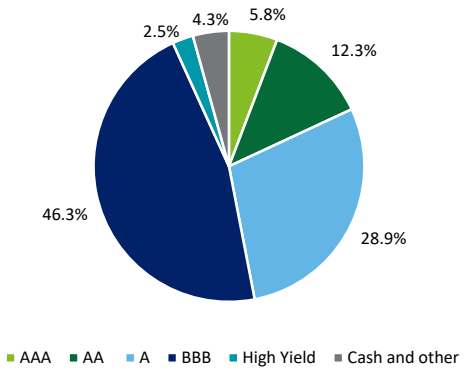
9.2 Performance Analysis

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

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

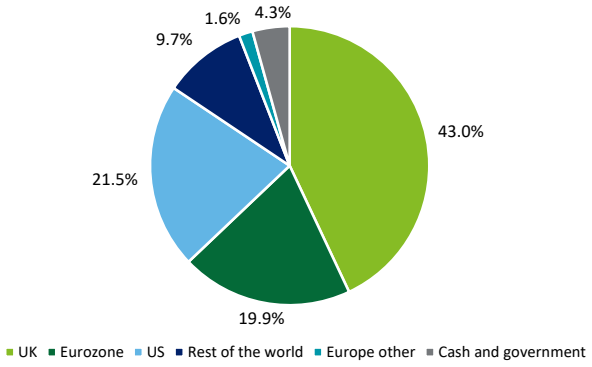
Source: Insight
** Not available at the time of writing*

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

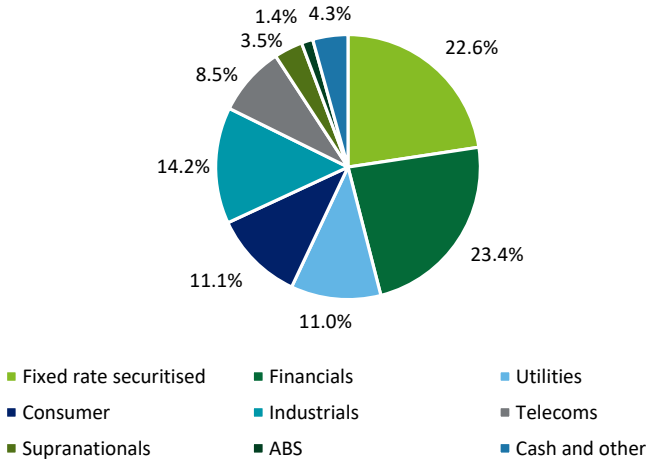


As at 31 December 2020, the fund's investment grade holdings made up c. 93.3% of the portfolio, a decrease of c. 1.9% over the quarter. The fund remains predominantly invested in BBB and A rated bonds.

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



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



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

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

**Ratings provided by Insight*

10 LCIV – Multi Asset Credit

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

10.1 Multi Asset Credit – Investment Performance to 31 December 2020

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

Source: Northern Trust
Inception date taken as 30 October 2018

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

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

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

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

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

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

10.2 Portfolio Analysis

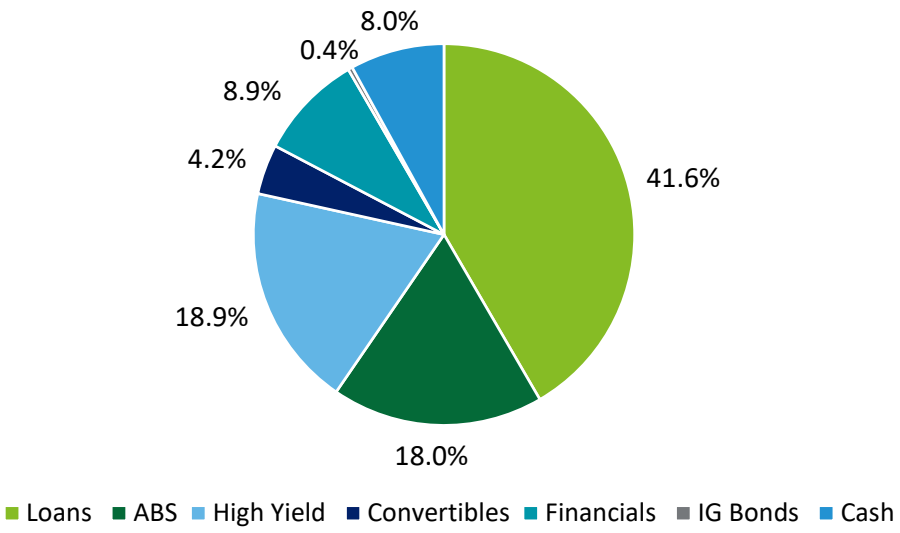
The table below summarises the Multi Asset Credit portfolio's key characteristics as at 31 December 2020.

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

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

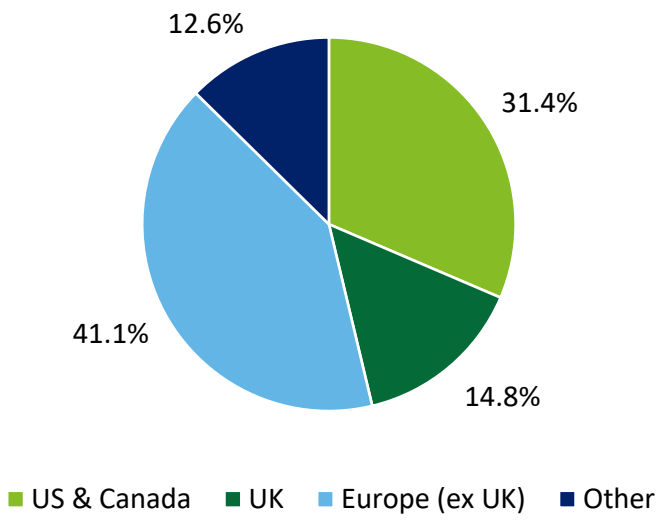
10.3 Asset Allocation

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



10.4 Country Allocation

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



11 Hermes – Property

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

11.1 Property – Investment Performance to 31 December 2020

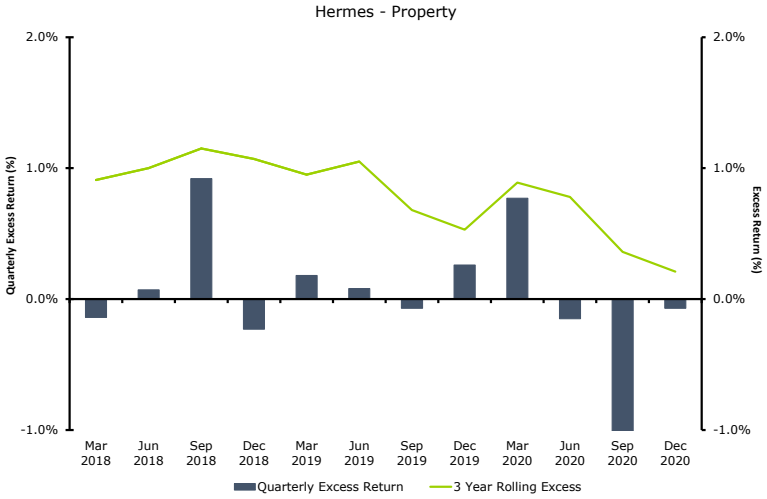
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Hermes – Net of fees	1.7	-1.6	3.0	7.9
Benchmark	1.8	-1.1	2.7	6.9
Relative	-0.1	-0.5	0.2	1.1

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

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

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

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



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

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

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

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

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

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

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

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

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

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

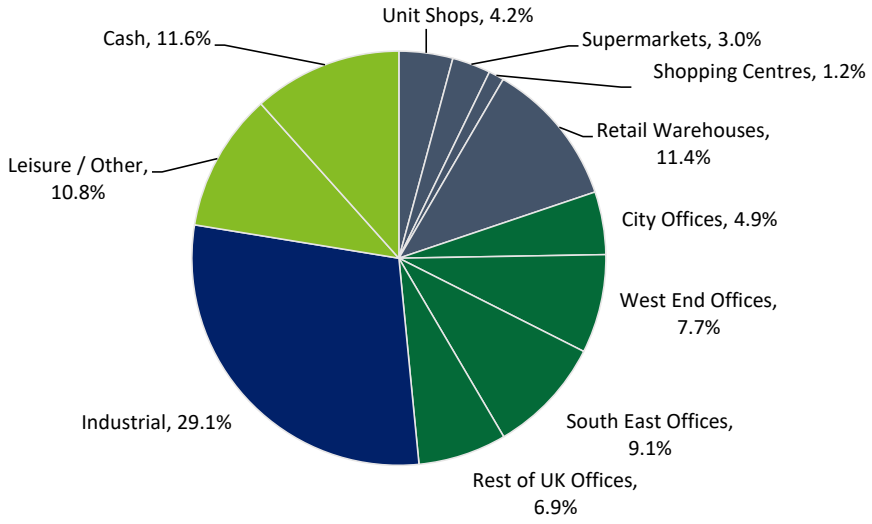
- Guinness Road Trading Estate, Manchester: During the fourth quarter of 2020, the Manager completed a new lease with Worldwide Confectionary Limited, occupying a 14,500 sq. ft. unit in the estate at a 10 year term at 94,254 p.a. after incentives (£6.50 per sq. ft.). In the same period, the Manager also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

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

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

11.2 Portfolio Summary as at 25 December 2020

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



Source: Hermes

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

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

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

Source: Hermes

12 Aberdeen Standard Investments – Long Lease Property

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

12.1 Long Lease Property – Investment Performance to 31 December 2020

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

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

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

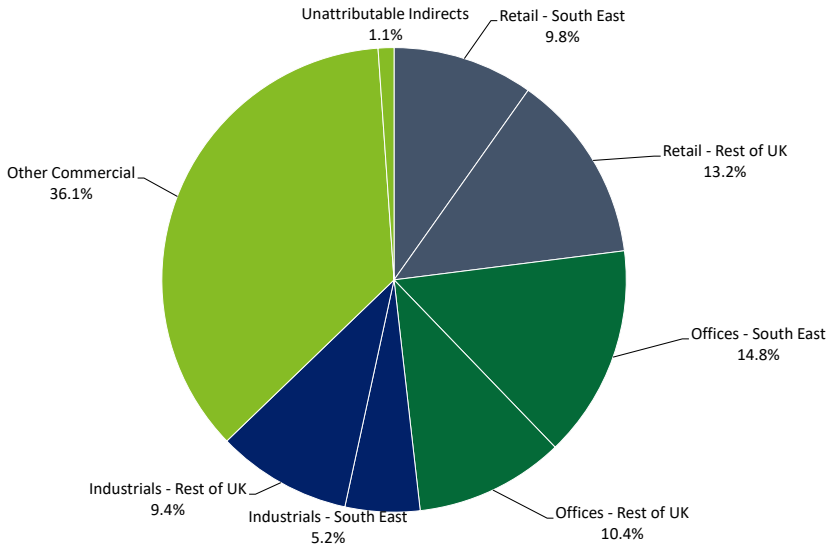
The Long Lease Property Fund has underperformed the wider property market, as measured by the MSCI (formerly IPD Monthly) UK All Property Index, by 0.7% over the quarter on a net of fees basis.

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

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

12.2 Portfolio Holdings

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



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

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

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

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

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

- Marstons' plc, whose pubs had closed for trade but have now largely re-opened, has deferred its rent payments for Q2, to be repaid over the next 12 months. Q3 and Q4 rent is to be paid monthly.

- Park Holidays, which has had holiday bookings cancelled, on park leisure facilities closed and parks only open to existing lodge and caravan owners, has had 50% of its rent deferred for Q2 to be repaid in Q4. Parks have since re-opened on a reduced service basis with Q3 rent paid monthly. All payments are up to date.

- Caprice (The Ivy) has re-opened after previously being closed for trade. Re-gearing is being discussed but proving complicated. An 18 year lease extension has been negotiated in exchange for 3 months rent free.

- Z-hotels has re-opened, previously closed for trade. Rent has been deferred for Q2, to be repaid over the next 12 months. Rent deferment has also been requested for Q4.

- Merlin Attractions' Legoland park and hotel has now re-opened, following previous closure. Rent deferment has been agreed for Q3, having paid rent in full for Q2 and Q4.

- Napier University, following the impact of the loss of summer trade as a result of no summer schools and the cancellation of the Edinburgh Fringe Festival, alongside COVID-19 restrictions on the academic year, has deferred 50% of its Q3 rent and 25% of its Q4 rent.

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

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

*Total may not equal sum of values due to rounding

As at 31 December 2020, the top 10 tenants contributed 44.2% of the total net income of the Fund, of which, 16.5% of the net income came from the supermarket sector, with Tesco, Sainsbury's and Asda continuing to make up a significant proportion of the Fund at quarter end.

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

13 Pantheon – Global Infrastructure Fund III

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

13.1 Global Infrastructure - Investment Performance to 31 December 2020

Capital Calls and Distributions

Westminster committed $91.5m to Pantheon in February 2019.

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

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

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

Activity

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

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

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

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

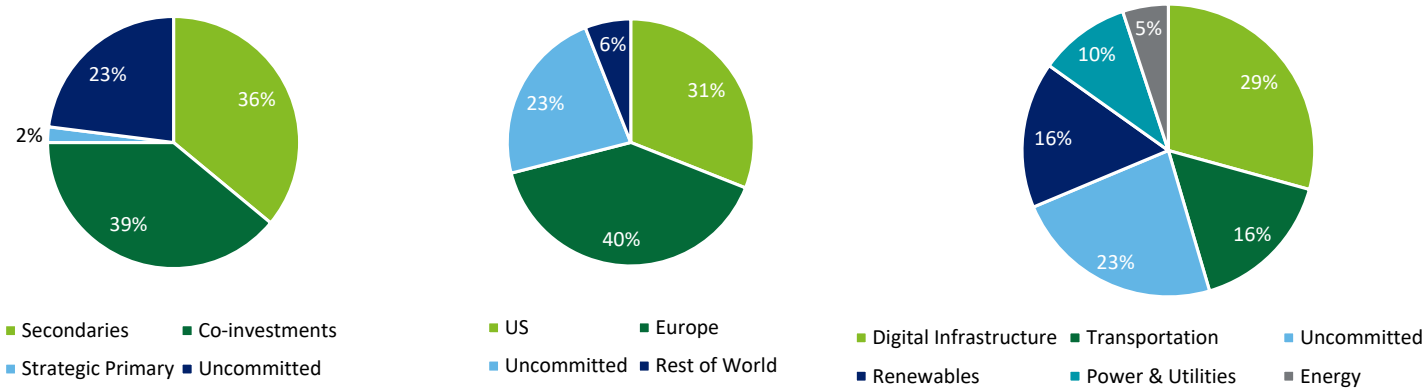
Project Ribera, a 50:50 joint venture partnership between Pantheon and Goldman Sachs with initial agreement closing in July 2018 for a deal size of c. $32m, has been removed from the PGIF III portfolio over the quarter. At closing there was a pipeline deal that part of the commitment would go to, to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

Pipeline

Pantheon currently has an investment pipeline of infrastructure opportunities, with potential near-term deals representing c. $3.5bn of potential investments across secondary deals and co-investments. This pipeline represents opportunities shared between all Pantheon products with a demand for infrastructure. There is no guarantee that each of these opportunities will be completed.

13.2 Asset Allocation

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



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

13.3 Investments Held

The table below shows a list of the investments held by PGIF III as at 31 December 2020. Pantheon has been unable to provide an updated COVID-19 analysis report as at the time of writing this report. As such, the "COVID-19 Impact" column of the table below reflects the results of the analysis as at 1 November 2020.

Project Name	Geography	Sector	Type	Deal Size ($m)	Commitment Date	COVID-19 Impact
Roger	Europe	Diversified Infrastructure	Secondary	29	Dec 17	High
DCLI	North America	Transportation	Co-investment	12	Dec 17	Low
Naturgy	Europe	Energy Infrastructure	Co-investment	33	May 18	Medium
Luton Airport	Europe	Transportation	Co-investment	23	May 18	High
Invenergy	North America	Energy Infrastructure	Co-investment	75	Aug 18	Low
VTG	Europe	Transportation	Co-investment	64	Sep 18	Medium
Inti	Europe	Energy Infrastructure	Secondary	23	Dec 18	Low
Megabyte	North America	Digital Infrastructure	Secondary	75	Dec 18	Low
Hivory	Europe	Digital Infrastructure	Co-investment	34	Dec 18	Low
Fairway	Global	Diversified Infrastructure	Secondary	53	Dec 18	Low
Proxiserve	Europe	Energy Infrastructure	Co-investment	32	Mar 19	Medium
Asterion Industrial Fund I	Europe	Diversified Infrastructure	Strategic Primary	16	Mar 19	Medium

Springbank	North America	Transportation	Secondary	60	May 19	High
ORYX Midstream	North America	Energy Infrastructure	Co-investment	65	May 19	Medium
Gatwick Airport	Europe	Transportation	Secondary	65	Jun 19	High
Kookaburra	APAC	Diversified Infrastructure	Secondary	59	Jul 19	High
Sullivan	Global	Diversified Infrastructure	Secondary	121	Jul 19	High
Whitehelm European Fund II	Europe	Diversified Infrastructure	Strategic Primary	15	Sep 19	Low
GlobalConnect	Europe	Digital Infrastructure	Secondary	67	Dec 19	Low
McLaren	Global	Diversified Infrastructure	Secondary	52	Jan 20	High
IFT	Europe	Digital Infrastructure	Co-investment	67	Jan 20	Low
Zayo	North America	Digital Infrastructure	Co-investment	67	Mar 20	Low
Energy Asset Group	Europe	Energy Infrastructure	Co-investment	23	Apr 20	Low
Viridor	Europe	Energy Infrastructure	Co-investment	49	July 20	Tbc
Parallel Infrastructure	North America	Digital Infrastructure	Co-investment	52	Oct 20	Tbc
Kapany	Europe	Diversified Infrastructure	Secondary	130	Nov 20	Tbc
Epsilon	Europe	Diversified Infrastructure	Co-investment	69	Dec 20	Tbc
MapleCo	Europe	Energy Infrastructure	Co-investment	44	Jan 21	Tbc
Megabyte II	North America	Digital Infrastructure	Secondary	52	Pending	Tbc
Emerald	North America	Energy Infrastructure	Secondary	67	Pending	Tbc
Telxius	Europe	Digital Infrastructure	Co-investment	26	Pending	Tbc
Teemo	Europe	Digital Infrastructure	Co-investment	29	Pending	Tbc
Astound Broadband	North America	Digital Infrastructure	Co-investment	69	Pending	Tbc
Kinetic	APAC	Transportation	Co-investment	45	Pending	Tbc

Appendix 1 – Fund and Manager Benchmarks

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

Total Fund

Inception: 1 June 2006. Current benchmark allocation effective from 25 March 2015.

Manager	Asset Class	Long Term Strategic Benchmark Allocation	Benchmark	Outperformance Target	Inception Date
LGIM	Future World Global Equity	25.0	Solactive ESG Global Markets Index	Passive	15/10/20
Baillie Gifford	LCIV Global Alpha Growth	20.0	MSCI AC World Index	+2.0 p.a. (net of fees)	18/03/14
Morgan Stanley	LCIV Global Equity Core	20.0	MSCI AC World Index (net dividends reinvested)	Generate total returns (comprising of both capital growth and income) over a 5-10 year period	30/10/20
Longview	Global Equity	0.0	MSCI World (GBP) Index	To outperform the benchmark over a market cycle	15/01/15
Insight	Buy and Maintain	13.5	Insight Custom Benchmark	n/a	12/04/18
CQS	Multi Asset Credit	6.5	3 Month Libor	+ 4% p.a. (net of fees)	30/10/18
Hermes	Property	5.0	IPD UK PPFI Balanced PUT Index	+0.5 p.a. (net of fees)	26/10/10
Aberdeen Standard Investments	Property	5.0	FTSE Gilts All Stocks Index +2% p.a.	+0.5 p.a. (net of fees)	14/06/13
Pantheon	Global Infrastructure	5.0	3 month Libor	+ 8% p.a. (net of fees)	15/04/19
	Total	100.0			

Appendix 2 – Manager Ratings

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

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

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

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

Appendix 3 – Fee Benchmarking

The table in this Appendix compares the annual management charges that the Fund is subject to for each of the funds held in the investment portfolio, and the market average annual management charges for each of these funds – detailing the ongoing investment fee savings that the Fund has been able to achieve.

Manager	Fund	Annual Management Charges (% p.a.)	Market Average Annual Management Charges (% p.a.)	Annual fee saving (£m)*
LGIM	Future World Global Equity Index Fund – GBP Currency Hedged	0.058	0.180[1]	0.46
LCIV	Global Alpha Growth Fund	0.346	0.390[2]	0.19
LCIV	Global Equity Core Fund	0.475	0.650	0.58
Longview	Global Equity Fund	0.700	0.700	-
Insight	Buy and Maintain Credit Fund	0.132[3]	0.210	0.20
LCIV	Multi Asset Credit Fund	0.410	0.450	0.04
Hermes	UK Property Fund	0.400	0.400	-
Aberdeen Standard Investments	Long Lease Property Fund	0.407[4]	0.500	0.07
Pantheon	Global Infrastructure Fund	0.700	0.850	0.04
			Total	1.57

*Based on amounts invested as at 30 September 2020

[1] AMC of 0.250% p.a. on the first £5m invested, 0.225% p.a. on the next £10m invested, 0.200% on the next £35m invested, and 0.175% p.a. thereafter

[2] AMC of 0.65% p.a. on the first £30m invested, 0.50% on the next £30m, and 0.35% p.a. thereafter

[3] AMC of 0.15% p.a. on the first £100m invested, and 0.12% p.a. thereafter

[4] AMC of 0.50% p.a. on the first £25m invested, 0.40% p.a. on the next £25m invested, and 0.30% p.a. thereafter

Appendix 4 – Risk Warnings & Disclosures

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

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

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

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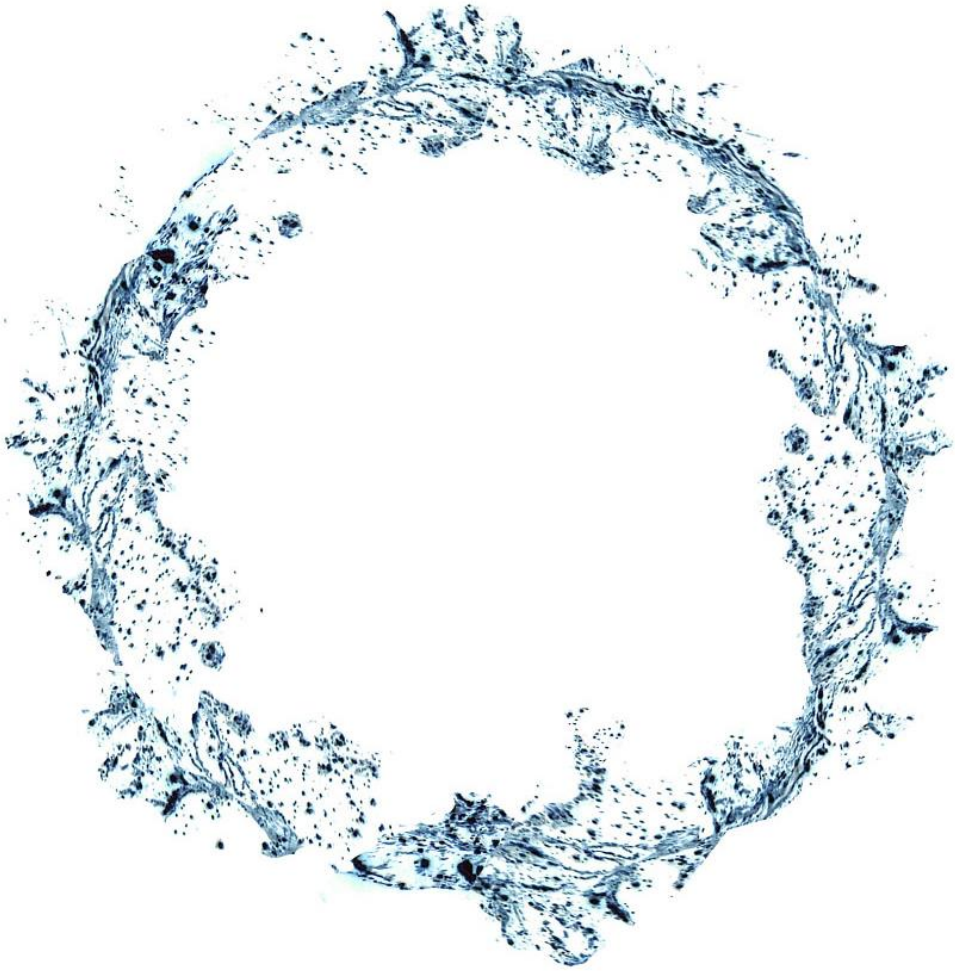


City of Westminster Pension Fund

Investment Performance Report to 31 December 2020

Deloitte Total Reward and Benefits Limited
February 2021

Contents

1 Market Background

Global Equities

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

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

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

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

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

Government bonds

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

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

Corporate bonds

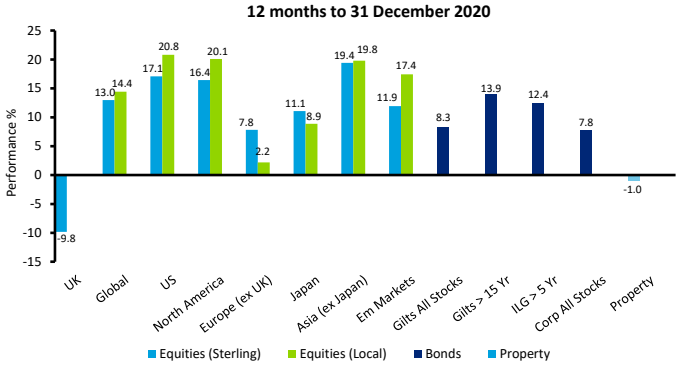
UK credit spreads narrowed further over the fourth quarter, with credit spreads falling by c. 30 bps, mirroring the investor confidence evident within equity markets. UK corporate bonds therefore outperformed equivalent gilts, and the iBoxx All Stocks Non-Gilt Index returned 3.1% over the three months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

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

Property

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

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



2 Total Fund

2.1 Investment Performance to 31 December 2020

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

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

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

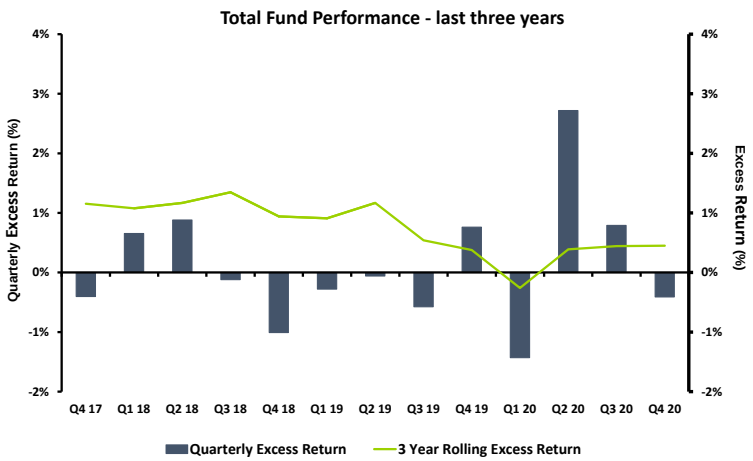
[1]Insight Buy and Maintain Fund was incepted on 9 April 2018. Since inception returns and benchmark returns reflect a combination of Insight Buy & Maintain Fund returns and benchmark returns from date of inception to 31 December 2020, and Insight IM (Core) Fund returns and benchmark returns from inception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

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

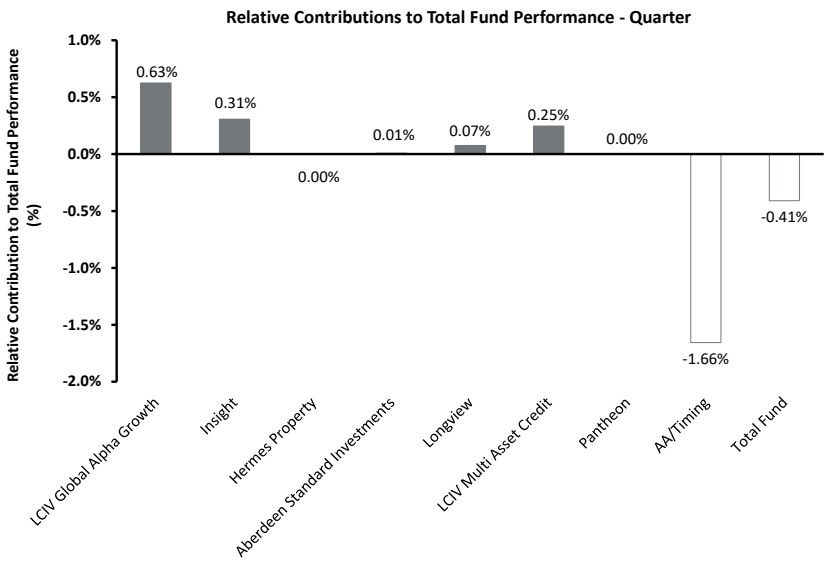
The Total Fund delivered a positive absolute return of 7.5% on a net of fees basis over the quarter to 31 December 2020, with each of the Fund's underlying investments delivering positive absolute returns on a net of fees basis. The Total Fund underperformed the fixed weight benchmark by 0.4% over the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

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

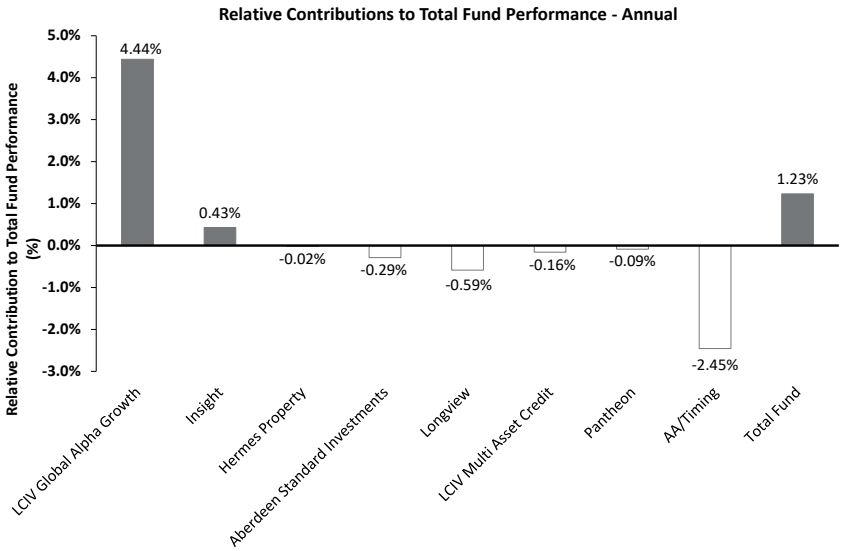
The chart below shows the relative performance of the Fund over the quarter and last three years, highlighting that the rolling three-year performance is ahead of the benchmark. Please note that performance is shown net of fees versus the benchmark.



2.2 Attribution of Performance to 31 December 2020



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



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

2.3 Asset Allocation as at 31 December 2020

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

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

Source: Northern Trust
Figures may not sum due to rounding

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

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

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

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

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

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

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

2.4 Yield analysis as at 31 December 2020

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

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

**LCIV funds' yields are provided by the underlying managers (Baillie Gifford, Morgan Stanley and CQS).*

3 Summary of Manager Ratings

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

Manager	Mandate	Triggers for Review	Rating
LGIM	Global Equity (Passive – Future World)	Major deviation from benchmark returns Significant loss of assets under management	1
Baillie Gifford	LCIV Global Equity (Global Alpha Growth)	Loss of key personnel Change in investment approach Lack of control in growth of assets under management	1
Morgan Stanley Investment Management	LCIV Global Equity (Global Equity Core)	Loss of key personnel Change in investment approach Lack of control in growth of assets under management	1
Longview	Global Equity	Loss of key personnel Change in investment approach Lack of control in growth of assets under management	2
Insight	Buy and Maintain	Departure of any of the senior members of the investment team	1
CQS	LCIV Multi Asset Credit	Significant changes to the investment team responsible for the fund	1
Hermes	Property	Significant growth in the value of assets invested in the fund Changes to the team managing the mandate	1
Aberdeen Standard Investments	Property	Richard Marshall leaving the business or ceasing to be actively involved in the fund without having gone through an appropriate hand-over A build up within the fund of holdings with remaining lease lengths around 10 years	1
Pantheon	Global Infrastructure	Significant changes to the investment team responsible for the fund	1

3.1 London CIV

Business

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

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

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

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

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

[redacted]

COVID-19 Impact:

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

Personnel

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

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

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

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

3.2 LGIM

Business

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

COVID-19 Impact and Reporting Issues:

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

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

Personnel

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

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

3.3 Baillie Gifford

Business

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

COVID-19 Response:

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

Personnel

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

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

3.4 Morgan Stanley Investment Management

Business

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

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

COVID-19 Impact:

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

Personnel

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

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

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

3.5 Longview

Business

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

COVID-19 Impact:

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

Personnel

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

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

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

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

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

3.6 Insight

Business

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

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

COVID-19 Impact:

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

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

Personnel

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

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

3.7 CQS

Business

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

COVID-19 Impact:

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

Personnel

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

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

3.8 Hermes

Business

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

COVID-19 Impact:

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

Personnel

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

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

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

3.9 Aberdeen Standard Investments

Business

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

COVID-19 Impact:

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

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

Personnel

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

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

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

3.10 Pantheon

Business

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

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

COVID-19 Impact:

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

Personnel

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

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

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

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

4 London CIV

4.1 Investment Performance to 31 December 2020

At the end of the fourth quarter of 2020, the assets under management within the 14 sub-funds of the London CIV was £10,750m with a further £606m committed to the Infrastructure and Inflation Plus Funds, and The London Fund. The total assets under oversight (which includes passive investments held outside of the CIV platform) increased by c. £2.9bn to c. £23.3bn over the quarter. The table below provides an overview of the sub-funds currently available on the London CIV platform.

Sub-fund	Asset Class	Manager	Total AuM as at 30 Sep 2020 (£m)	Total AuM as at 31 Dec 2020 (£m)	Number of London CIV clients	Inception Date
LCIV Global Alpha Growth	Global Equity	Baillie Gifford	3,322	3,612	13	11/04/16
LCIV Global Equity	Global Equity	Newton	665	696	3	22/05/17
LCIV Global Equity Focus	Global Equity	Longview Partners	785	861	5	17/07/17
LCIV Equity Income	Global Equity	Epoch Investment Partners	221	133	2	08/11/17
LCIV Emerging Market Equity	Global Equity	Henderson Global Investors	425	498	6	11/01/18
LCIV Sustainable Equity Fund	Global Equity	RBC Global Asset Management (UK)	499	625	4	18/04/18
LCIV Global Equity Core Fund	Global Equity	Morgan Stanley Investment Management	170	504	2	21/08/20
LCIV Sustainable Equity Exclusion Fund	Global Equity	RBC Global Asset Management (UK)	344	385	2	11/03/20
LCIV Global Total Return	Diversified Growth Fund	Pyrford	266	274	4	17/06/16
LCIV Diversified Growth	Diversified Growth Fund	Baillie Gifford	614	670	7	15/02/16
LCIV Absolute Return	Diversified Growth Fund	Ruffer	756	910	8	21/06/16
LCIV Real Return	Diversified Growth Fund	Newton	126	123	2	16/12/16
LCIV MAC	Fixed Income	CQS	1,037	1,105	12	31/05/18
LCIV Global Bond	Fixed Income	PIMCO	345	354	3	30/11/18
Total			**9,576**	**10,750**		

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

5 LGIM – Global Equity (Passive – Future World)

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

5.1 Passive Global Equity – Investment Performance to 31 December 2020

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

Source: Legal & General Investment Management

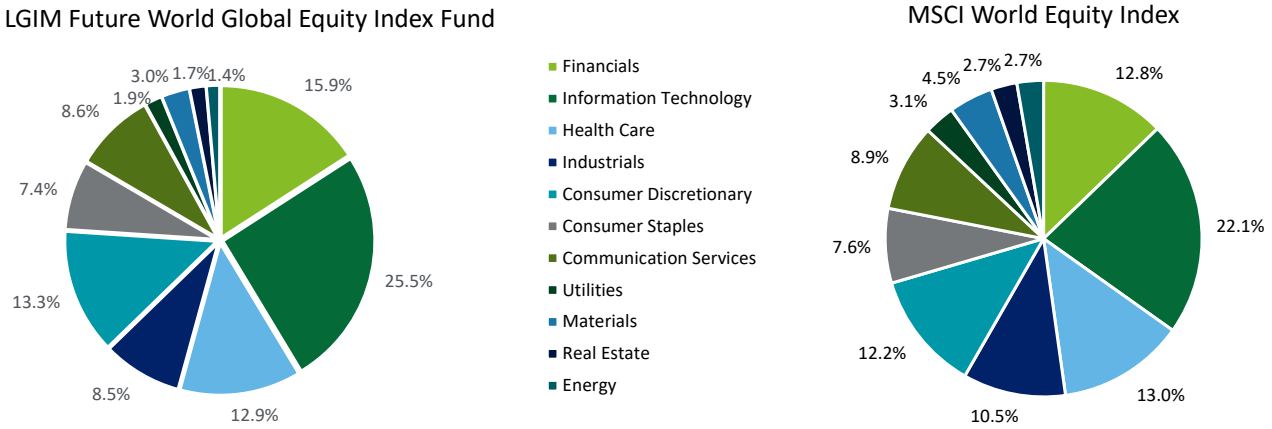
The Fund invested in the LGIM Future World Global Equity Index Fund – GBP Currency Hedged on 15 October 2020. For information purposes, the table above provides the performance of the strategy, the strategy's benchmark, and the MSCI World Equity Index (GBP) over the full quarter to 31 December 2020.

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

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

5.2 Portfolio Sector Breakdown at 31 December 2020

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



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

6 LCIV – Global Alpha Growth

Baillie Gifford was appointed to manage an active Global Equity mandate from 18 March 2014, held as a sub-fund under the London CIV platform from 11 April 2016. The manager is remunerated on an asset-based fee, reflecting the total value of assets invested in the strategy across the Tri-borough. The target is to outperform the benchmark by 2-3% p.a. on a gross of fees basis over rolling 5-year periods.

6.1 Global Alpha Growth – Investment performance to 31 December 2020

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

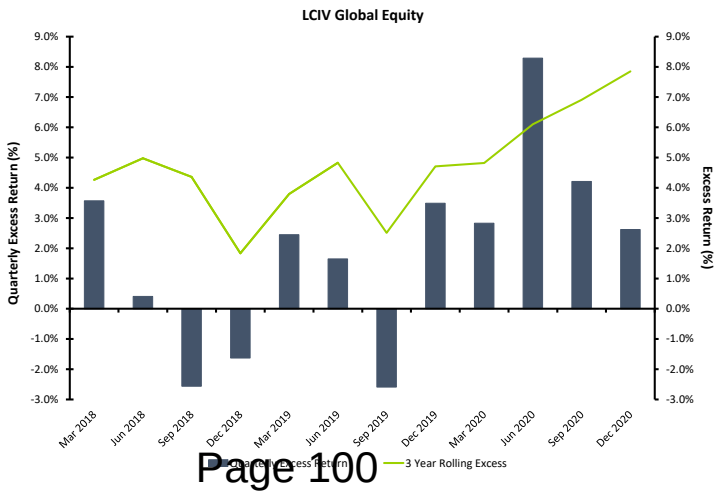
Source: Northern Trust. Relative performance may not tie due to rounding.
Inception date taken as 18 March 2014

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

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

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

The graph below shows the net quarterly returns and the rolling three-year excess returns relative to the benchmark. The fund's current three-year excess return is ahead of the target (+2% p.a.), having outperformed the benchmark by 7.9% p.a. over the three year period to 31 December 2020.



6.2 Positioning Analysis

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

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

Source: London CIV
Figures may not sum due to rounding

6.3 Performance Analysis

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

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

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

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

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

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

7 LCIV – Global Equity Core

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

7.1 Global Equity Core – Investment Performance to 31 December 2020

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

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

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

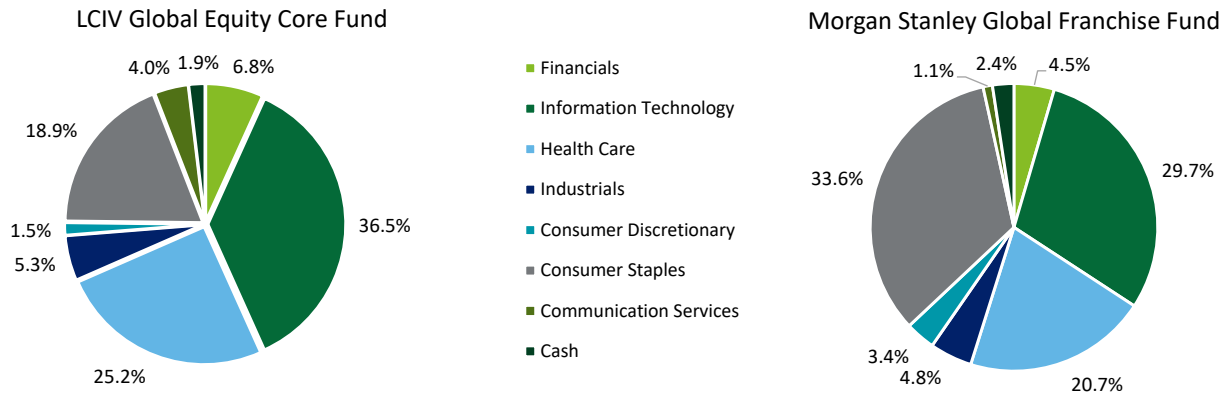
Over the fourth quarter of 2020, the LCIV Global Equity Core Fund has delivered a positive return of 1.2% on a net of fees basis, but has underperformed the MSCI World Net Index by 7.3% over the period. The LCIV Global Equity Core Fund's portfolio is predominantly comprised of quality franchises with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

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

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

7.2 Portfolio Sector Breakdown at 31 December 2020

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



Source: London CIV and Morgan Stanley

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

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

7.3 Performance Analysis

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

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

*Not including cash

Source: London CIV and Morgan Stanley

Holdings

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

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

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

*Note figures may not sum due to rounding

Source: London CIV and Morgan Stanley

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

8 Longview – Global Equity

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

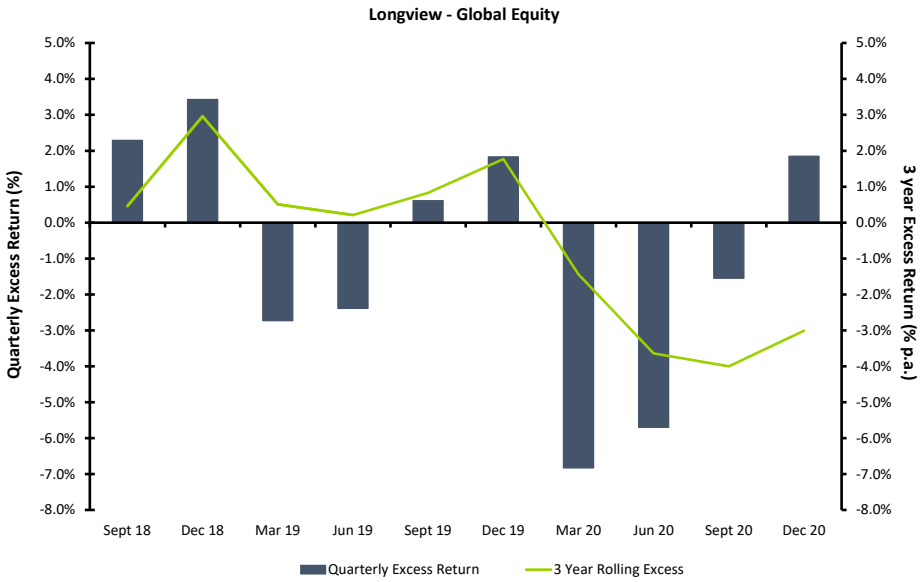
8.1 Active Global Equity – Investment Performance to 31 December 2020

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

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

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

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



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

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

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

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

8.2 Performance Analysis

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

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

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

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

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

9 Insight – Buy and Maintain

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

9.1 Buy and Maintain Fund - Investment Performance to 31 December 2020

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

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

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

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

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

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

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

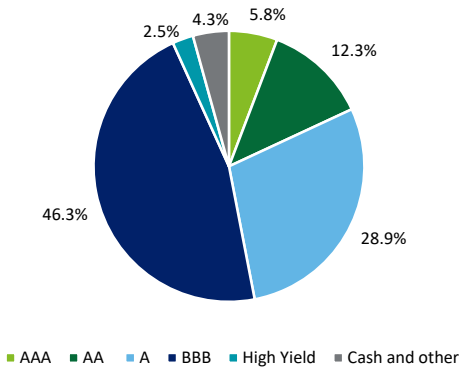
9.2 Performance Analysis

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

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

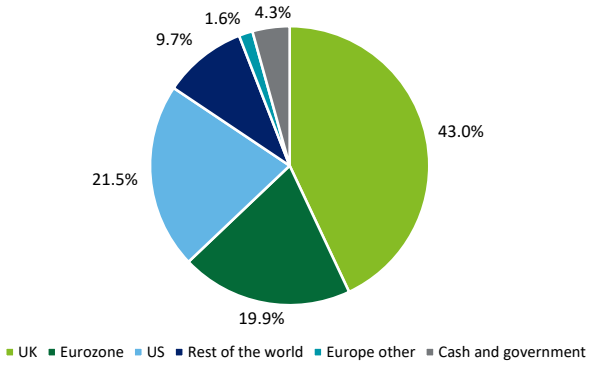
Source: Insight
** Not available at the time of writing*

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

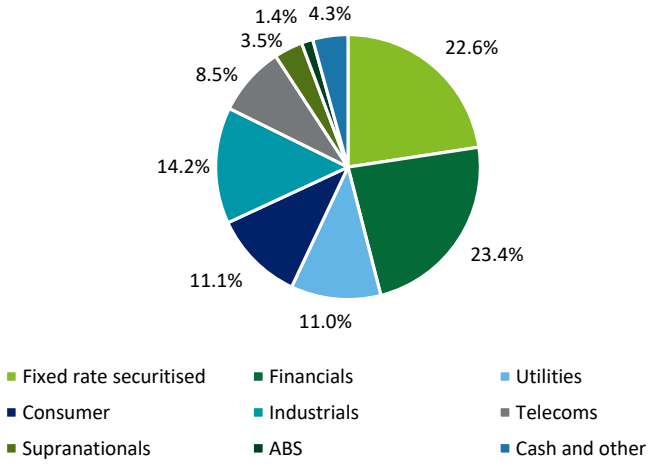


As at 31 December 2020, the fund's investment grade holdings made up c. 93.3% of the portfolio, a decrease of c. 1.9% over the quarter. The fund remains predominantly invested in BBB and A rated bonds.

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



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



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

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

**Ratings provided by Insight*

10 LCIV – Multi Asset Credit

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

10.1 Multi Asset Credit – Investment Performance to 31 December 2020

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

Source: Northern Trust
Inception date taken as 30 October 2018

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

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

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

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

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

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

10.2 Portfolio Analysis

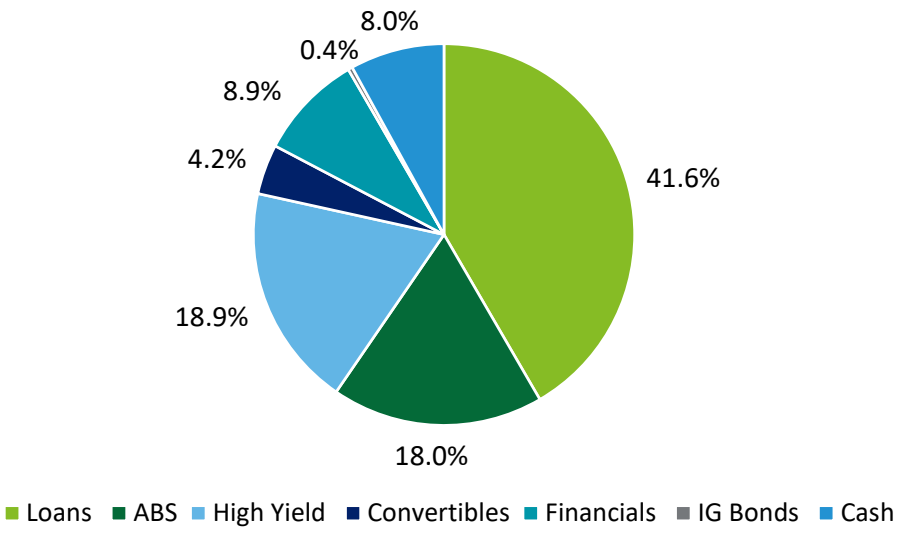
The table below summarises the Multi Asset Credit portfolio's key characteristics as at 31 December 2020.

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

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

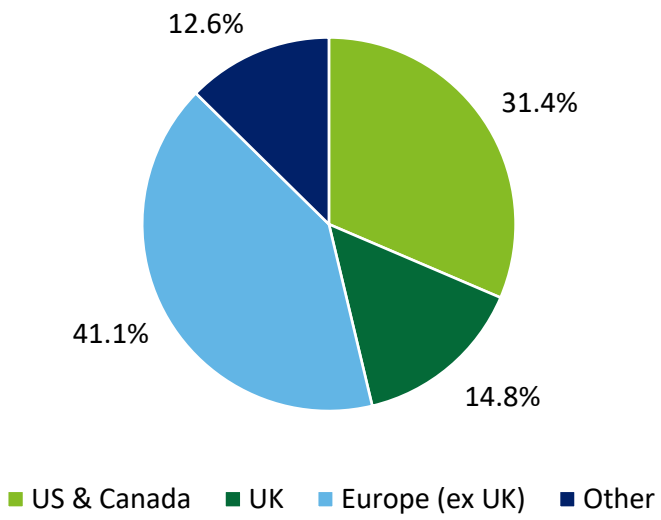
10.3 Asset Allocation

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



10.4 Country Allocation

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



11 Hermes – Property

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

11.1 Property – Investment Performance to 31 December 2020

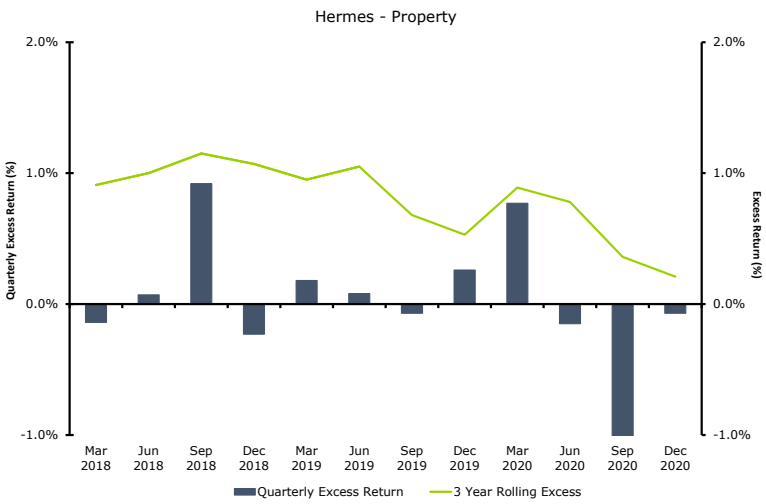
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Hermes – Net of fees	1.7	-1.6	3.0	7.9
Benchmark	1.8	-1.1	2.7	6.9
Relative	-0.1	-0.5	0.2	1.1

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

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

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

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



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

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

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

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

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

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

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

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

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

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

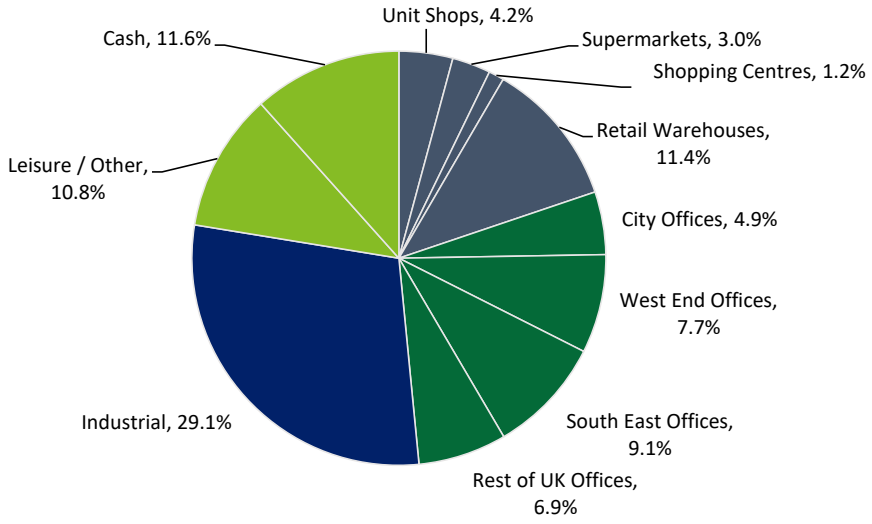
- Guinness Road Trading Estate, Manchester: During the fourth quarter of 2020, the Manager completed a new lease with Worldwide Confectionary Limited, occupying a 14,500 sq. ft. unit in the estate at a 10 year term at 94,254 p.a. after incentives (£6.50 per sq. ft.). In the same period, the Manager also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

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

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

11.2 Portfolio Summary as at 25 December 2020

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



Source: Hermes

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

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

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

Source: Hermes

12 Aberdeen Standard Investments – Long Lease Property

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

12.1 Long Lease Property – Investment Performance to 31 December 2020

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

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

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

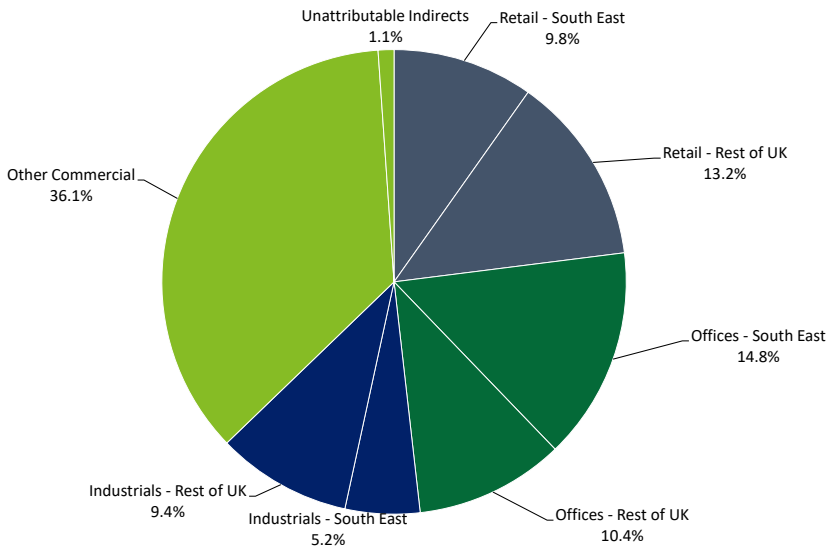
The Long Lease Property Fund has underperformed the wider property market, as measured by the MSCI (formerly IPD Monthly) UK All Property Index, by 0.7% over the quarter on a net of fees basis.

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

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

12.2 Portfolio Holdings

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



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

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

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

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

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

[redacted]

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

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

*Total may not equal sum of values due to rounding

As at 31 December 2020, the top 10 tenants contributed 44.2% of the total net income of the Fund, of which, 16.5% of the net income came from the supermarket sector, with Tesco, Sainsbury's and Asda continuing to make up a significant proportion of the Fund at quarter end.

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

13 Pantheon – Global Infrastructure Fund III

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

13.1 Global Infrastructure - Investment Performance to 31 December 2020

Capital Calls and Distributions

Westminster committed $91.5m to Pantheon in February 2019.

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

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

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

Activity

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

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

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

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

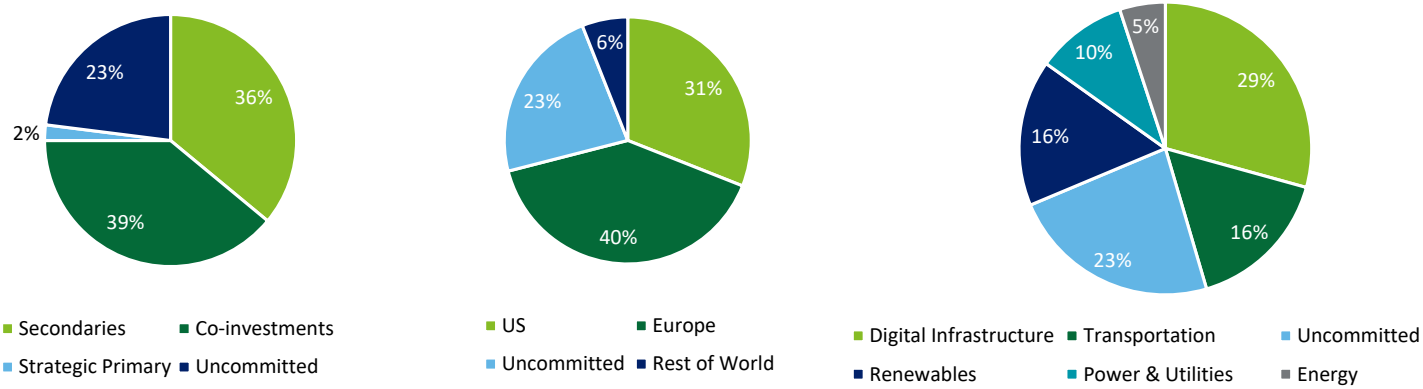
Project Ribera, a 50:50 joint venture partnership between Pantheon and Goldman Sachs with initial agreement closing in July 2018 for a deal size of c. $32m, has been removed from the PGIF III portfolio over the quarter. At closing there was a pipeline deal that part of the commitment would go to, to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

Pipeline

Pantheon currently has an investment pipeline of infrastructure opportunities, with potential near-term deals representing c. $3.5bn of potential investments across secondary deals and co-investments. This pipeline represents opportunities shared between all Pantheon products with a demand for infrastructure. There is no guarantee that each of these opportunities will be completed.

13.2 Asset Allocation

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



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

13.3 Investments Held

The table below shows a list of the investments held by PGIF III as at 31 December 2020. Pantheon has been unable to provide an updated COVID-19 analysis report as at the time of writing this report. As such, the "COVID-19 Impact" column of the table below reflects the results of the analysis as at 1 November 2020.

[redacted]

Appendix 1 – Fund and Manager Benchmarks

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

Total Fund

Inception: 1 June 2006. Current benchmark allocation effective from 25 March 2015.

Manager	Asset Class	Long Term Strategic Benchmark Allocation	Benchmark	Outperformance Target	Inception Date
LGIM	Future World Global Equity	25.0	Solactive ESG Global Markets Index	Passive	15/10/20
Baillie Gifford	LCIV Global Alpha Growth	20.0	MSCI AC World Index	+2.0 p.a. (net of fees)	18/03/14
Morgan Stanley	LCIV Global Equity Core	20.0	MSCI AC World Index (net dividends reinvested)	Generate total returns (comprising of both capital growth and income) over a 5-10 year period	30/10/20
Longview	Global Equity	0.0	MSCI World (GBP) Index	To outperform the benchmark over a market cycle	15/01/15
Insight	Buy and Maintain	13.5	Insight Custom Benchmark	n/a	12/04/18
CQS	Multi Asset Credit	6.5	3 Month Libor	+ 4% p.a. (net of fees)	30/10/18
Hermes	Property	5.0	IPD UK PPFI Balanced PUT Index	+0.5 p.a. (net of fees)	26/10/10
Aberdeen Standard Investments	Property	5.0	FTSE Gilts All Stocks Index +2% p.a.	+0.5 p.a. (net of fees)	14/06/13
Pantheon	Global Infrastructure	5.0	3 month Libor	+ 8% p.a. (net of fees)	15/04/19
	Total	100.0			

Appendix 2 – Manager Ratings

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

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

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

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

Appendix 3 – Fee Benchmarking

[redacted]

[redacted]				
[redacted]				
[redacted]				
[redacted]				
[redacted]				
[redacted]				
[redacted]				
[redacted]				
[redacted]				
[redacted]				
[redacted]				

[redacted]

Appendix 4 – Risk Warnings & Disclosures

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

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

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

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City of Westminster Pension Fund

Funding update report as at 31 December 2020

Barnett Waddingham LLP

18 February 2021

Contents

Introduction

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

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

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

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

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

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

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

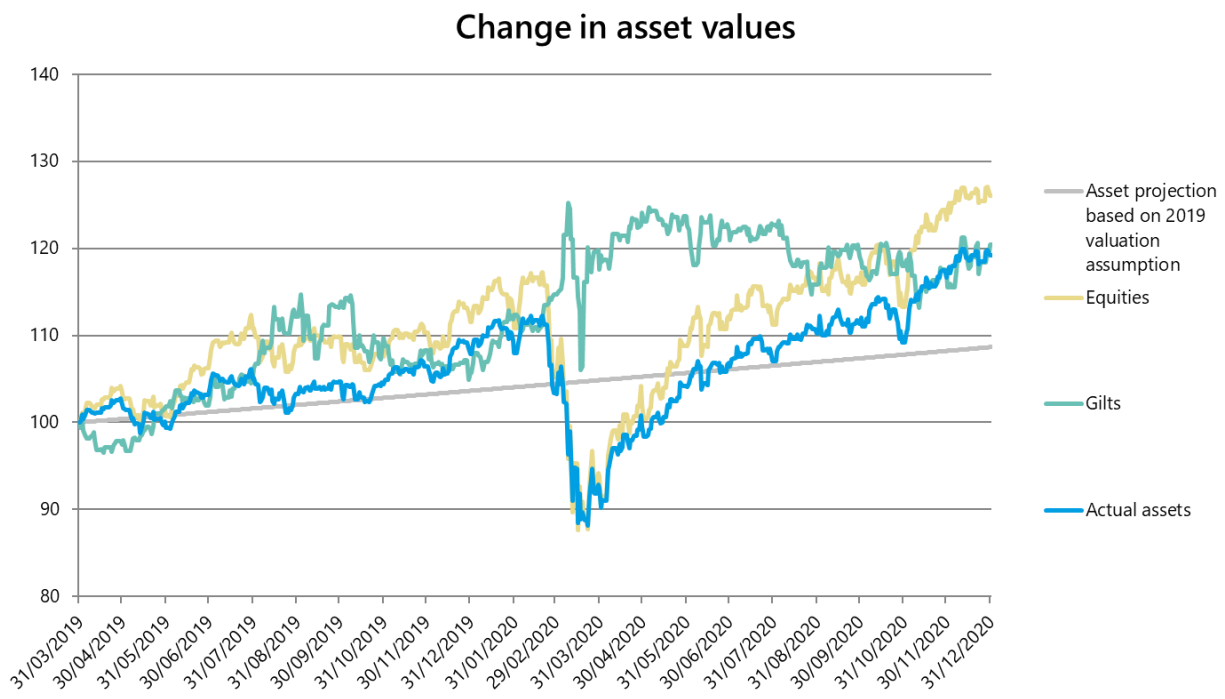
Assets

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

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

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

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



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

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

Changes in market conditions – market yields and discount rates

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

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

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

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

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

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

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

Results

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

The results of our assessment indicate that:

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

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

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

Impact of the upcoming RPI reform

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

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

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

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Westminster City Council

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

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

Final comments

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

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

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

Graeme D Muir FFA
Partner
Barnett Waddingham LLP

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Appendix 1 Financial position since previous valuation

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

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

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

Appendix 2 Data, method and assumptions

Data

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

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

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

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

Method

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

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

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

Assumptions

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

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

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

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

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

The main demographic assumptions are:

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

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

The other key demographic assumptions are:

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

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

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