



City of Westminster

# Committee Agenda

Title: Pension Fund Committee

Meeting Date: Thursday 20th April, 2023

Time: 6.30 pm

Venue: 18th Floor, 64 Victoria Street, London, SW1E 6QP

Members: Councillors:

Patricia McAllister (Chair)      Ed Pitt Ford  
Robert Eagleton                      Ryan Jude

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

**Admission to the public gallery is by ticket, issued from the ground floor reception from 6.00pm. If you have a disability and require any special assistance please contact the Committee Officer (details listed below) in advance of the meeting.**



**An Induction loop operates to enhance sound for anyone wearing a hearing aid or using a transmitter. If you require any further information, please contact the Committee Officer, Jack Robinson-Young: Cabinet and Committee Coordinator.**

**Email: [jrobinsonyoung@westminster.gov.uk](mailto:jrobinsonyoung@westminster.gov.uk)  
Corporate Website: [www.westminster.gov.uk](http://www.westminster.gov.uk)**

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

## **AGENDA**

### **PART 1 (IN PUBLIC)**

- |  |                       |
|--|-----------------------|
| <b>1. MEMBERSHIP</b>                                     |                       |
| <b>2. DECLARATIONS OF INTEREST</b>                       |                       |
| <b>3. MINUTES</b>  | <b>(Pages 3 - 8)</b>  |
| <b>4. STRATEGIC INVESTMENT STRATEGY REVIEW FOLLOW UP</b> | <b>(Pages 9 - 22)</b> |

**Stuart Love**  
**Chief Executive**  
**13 April 2023**



CITY OF WESTMINSTER

## MINUTES

### Pension Fund Committee MINUTES OF PROCEEDINGS

Minutes of a hybrid meeting of the **Pension Fund Committee** held on **Thursday the 9<sup>th</sup> of March 2023**, Room 18.04 - 18.05, 18th Floor, 64 Victoria Street, London, SW1E 6QP and via Microsoft Teams.

**Members Present:** Councillors Patricia McAllister, Robert Eagleton, Ryan Jude, Ed Pitt Ford.

**Also Present:** Billie Emery (FM Pensions), Kevin Humpherson (Deloitte), Diana McDonnell-Pascoe (Pension Project and Governance Lead), Jonny Moore (Deloitte), Jack Robinson-Young (Cabinet and Councillor Coordinator), Phil Triggs (Tri-Borough Director of Treasury and Pensions), Steven Law (Hymans Robertson), Lee Witham (Director of People Services)

#### **1 MEMBERSHIP**

1.1 There were no changes to the membership.

1.2 The Chair of the Committee Councillor McAllister rescinded the position of Chair for this Committee, and Councillor Eagleton was elected as Chair.

#### **1.3 RESOLVED:**

That Councillor Robert Eagleton be elected Chair of the Pension Fund Committee for the meeting on Thursday the 9th of March.

#### **2 DECLARATIONS OF INTEREST**

1.4 Councillor Pitt Ford declared that with regards to Item 5, Asset Allocation Review, that he holds shares with the company Octopus Group Holdings Ltd.

#### **3 MINUTES**

3.1 The Committee approved the minutes of its meeting on 9 March 2022.

#### 1.5 **RESOLVED:**

That the minutes of the meeting held on Tuesday the 9 March 2022 be signed as a correct record of proceedings.

### **4 ACTUARIAL VALUATION**

- 1.6 The Committee were presented to by Steven law from Hymans Robertson and the valuation outcome and funding level were outlined to the Committee.
- 1.7 The Committee was also informed of the major changes to the 2022 actuarial financial assumptions.

### **5 ASSET ALLOCATION REVIEW**

- 1.8 The Committee were presented to by representatives from Deloitte, who outlined the investment strategy and the most appropriate strategic asset allocation.
- 1.9 Following discussions on the Asset Allocation Review, the Committee requested that a further extraordinary meeting be held to discuss this item at length.

#### **ACTION**

That the Committee Clerk will arrange an Extraordinary Pension Fund Committee meeting in April 2023 to discuss a revised asset allocation strategy, including rebalancing.

#### 1.10 **RESOLVED:**

That the Committee agreed with the recommendations from Deloitte on cash management and for a manager selection exercise relation to the remaining 2.5% allocation to affordable social housing.

### **6 FUND FINANCIAL MANAGEMENT**

- 1.11 The Committee were presented with an update reference the financial management of the Fund by the Tri-Borough Director of Treasury and Pensions, Phil Triggs. He informed the Committee that the risk register was divided in to two sections: governance (investment and funding) and pensions administration.
- 1.12 The top 5 risks for the fund were outlined to the Committee, which included liability risks, asset and investment risk, regulatory and compliance risks and liability risk.
- 1.13 The Committee were informed that the current bank account as at 31 January 2023 was £1.245m, which is used for day-to-day transactions. The Committee

were also informed that payments and receipts have remained stable over the last 12 months.

1.14 The Tri-Borough Director then turned to the cash position, which stood at £10.8m in Northern Trust as at 31 January 2023.

1.15 The Committee was finally informed of the 12-month and 3-year cash flow positions. The Committee were informed that the forecasts are estimated using an average of the previous quarters and for the 3-year cash flow position, CPI-inflation is also taken into account.

#### 1.16 **RESOLVED**

That the Committee noted the top five risks for the Pension Fund

That the Committee noted the cashflow position for the Pension Fund bank account and cash held at custody, the rolling 12-month forecast and the 3-year forecast.

### **7 QUARTERLY PERFORMANCE REPORT**

1.17 The Committee were informed of the performance of the Pension Fund's investments to 31 December 2022, together with an update on the London CIV.

1.18 The Tri-Borough Director of Treasury and Pensions informed the Committee of the return, net of fees, over the quarter to 31 December 2022 and how this performance was in relation to the benchmark.

### **8 RESPONSIBLE INVESTMENT STATEMENT**

1.19 The Committee were informed by the Tri-Borough Director of Treasury and Pensions that the purpose of the Responsible Investment Statement was to make clear the Pension Fund's approach to investing responsibly. This included the integration of environmental, social and governance factors as part of the strategy.

1.20 The Committee were informed that the statement covers topics in detail, such as:

8.2.1 Investment journey: since 2019, the Fund has made a number of conscious investment decisions to improve the environmental, social and governance impact.

8.2.2 Carbon journey: the Pension Fund has taken significant steps to reduce its carbon footprint, and the Committee were informed that since June 2019 the emissions linked to the fund have fallen by circa 75%

8.2.3 United Nations Sustainable Development Goals: as adopted by UN members during 2016, the Sustainable Development Goals are calls for action by

developed countries. The Responsible Investment Statement sets out how the Fund will work towards achieving these goals.

8.2.4 Voting and engagement: the Fund is collaborating with key stakeholders in the investment community that will be key in influence companies to run more sustainably.

8.3 The Committee praised the hard work from Officers on this area of work for the Fund and praised the report before Committee.

8.4 **RESOLVED:**

That the Committee noted the Responsible Investment Statement.

That Officers would bring a revised version of the Responsible Investment Statement to the next Pension Fund Committee in June to include a section on nature positivity and restoration.

That the Committee delegated authority to the Tri-Borough Director of Treasury and Pensions to publish the Responsible Investment Statement on Westminster Council's website.

## **9 PENSION ADMINISTRATION UPDATE**

8.5 Diana McDonnell-Pascoe, the Pension Project and Governance Lead, presented the Pension Administration Update to the Committee and informed the Committee that the papers dispatched had not clearly indicated that a decision was required by the Committee, and that she would be asking for a decision to be made.

8.6 The report provided a summary of the performance of Hampshire Pensions Services for November 2022 through to January 2023 which detailed 189 business as usual case pending action at the end of January 2023.

8.7 There was one complaint made during this period by a staff member during this period which has led to Hampshire Pensions Services reviewing their wording for retirement letters for more clarity.

8.8 In the previous report to Committee, outstanding queries following the 2022 annual returns stood at 63, this has now reduced to 16 with the original figure having been 775.

8.9 The Committee were informed that later this year a letter will be sent to all fund employers and an example will be presented to Committee. The letter will measure three key accuracies: timeliness, financial control, and data accuracy. This will use a traffic light format against the expected standards in each area.

## **ACTION**

For the Committee to be presented with an example letter for the correspondence on data submission.

- 8.10 The Pension Project and Governance Lead informed the Committee that they required a direction from the Committee on continuing international address tracing for the remaining 83 cases or not. The Pension Board had made a recommendation not to continue. The Committee agreed with the Pension Boards recommendation not to continue international address tracing and that the team should no longer address trace for these 83 international cases.

8.11 **RESOLVED:**

That the Committee agreed to cease address tracing for the remaining 83 international cases.

## **10 GUARANTEED MINIMUM PENSION PROJECT**

- 10.1 The Pension Project and Governance Lead presented to Committee on the failure of Mercer Ltd to complete their required part of the Guaranteed Minimum Pension (GMP) Rectification project by the deadline of February 2023.
- 10.2 The Committee were reminded that the decision to appoint Mercer Ltd was made in November 2021 following the transfer of pension administration services from Surrey to Hampshire Pensions Services. There was a significant delay to Mercer Ltd starting the rectification project despite Mercer Ltd receiving necessary data in their requested format in time. Mercer Ltd continually reassured Officers that they could delivery by February 2023 until an email in late December 2022 informing Officers there was now a significant risk to non-delivery.
- 10.3 There had been a failure in the calculation tool used by Mercer Ltd and they then proposed a new deadline concluding in October 2023. The contract was considered for termination and being given to Hampshire Pension Services, but this was not taken. Mercer Ltd have engaged a company called Intellica to help manage the project, which has given Westminster Council Officers increased confidence.
- 10.4 A formal complaint to Mercers Ltd has been lodged and they have been placed on Westminster Councils poor performance contract monitor.

## **11 AOB**

- 11.1 Phil Triggs referenced the success of the UK Stewardship Code application and acknowledged the excellent work of the project manager, Joshua Pledge, and Pension Fund Manager, Billie Emery. The Committee Members agreed

that the outcome was excellent and asked that their thanks to the two Officers be minuted.

- 11.2 Phil Triggs presented the Chair, Councillor McAllister, with a card and gifts to acknowledge and thank her for her long service to the Pension Fund Committee. He referenced Westminster's latest funding level at 142%, its recent successful investments into infrastructure, renewable energy, private debt and affordable housing, and its Responsible Investment strategy and UK Stewardship Code signatory status.

The Meeting ended at 20:42.

**CHAIR:** \_\_\_\_\_ **DATE** \_\_\_\_\_





City of Westminster

## Committee Report

<b>Decision Maker:</b>	<b>PENSION FUND COMMITTEE</b>
<b>Date:</b>	<b>20 April 2023</b>
<b>Classification:</b>	<b>General Release (Appendix 1: Exempt)</b>
<b>Title:</b>	<b>Strategic Investment Strategy Review Follow Up</b>
<b>Wards Affected:</b>	<b>All</b>
<b>Policy Context:</b>	<b>Effective control over council activities</b>
<b>Financial Summary:</b>	<b>There are no direct financial implications arising from this report.</b>
<b>Report of:</b>	<b>Phil Triggs</b> <b><i>Tri-Borough Director of Treasury and Pensions</i></b> <a href="mailto:p.triggs@westminster.gov.uk">p.triggs@westminster.gov.uk</a> <b>020 7641 4136</b>

### 1. EXECUTIVE SUMMARY

- 1.1 Following the Pension Committee meeting on 9 March 2023, the Fund's investment advisor, Deloitte, has prepared an investment strategy review follow up for the Fund.
- 1.2 This report highlights findings, recommendations and implementation considerations to consider reference the revised investment strategy, shown as Appendix 1.

### 2. RECOMMENDATIONS

- 2.1 The Committee is recommended to:
  - discuss the recommendations set out within Deloitte's investment strategy review follow up and discuss and agree an appropriate strategic asset allocation for the Fund going forward.
  - approve that Appendix 1 to this report is not for publication on the basis that it contains information relating to the financial or

business affairs of any particular person (including the authority holding that information) as set out in paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).

### **3. PROPOSALS AND ISSUES**

#### **Investment Strategy Review**

- 3.1 The Fund's current strategic asset allocation is 60% of assets within equities, 19% in fixed income, 6% in renewable energy infrastructure, 5% within infrastructure, 5% within property and 5% to affordable and socially supported housing.
- 3.2 Since the 2019 valuation, the funding position (99%) has significantly improved, rising to 144% at 31 December 2022. Given the stronger funding position, there is an opportunity to reduce investment risk within the portfolio, taking into consideration wider investment market dynamics.
- 3.3 Currently the largest contributor to funding risk is the Fund's large allocation to equities, with the 2.5% target allocation to affordable and socially supported housing still to be allocated. The Fund is cashflow neutral and additional income generation is not an immediate concern for the Fund, with the infrastructure mandates expected to start generating supplementary income going forward.

#### **De-risking**

- 3.4 During the investment strategy review, Deloitte proposed to transition 5% from global equities into the Insight Buy and Maintain Bond fund. This would be expected to reduce the Fund's volatility to 11.0% per annum from 12.0% and improve the risk adjusted returns by 0.3% p.a.
- 3.5 The key driver behind this proposal is to ensure member benefits can be met as they fall due and fulfil the fiduciary duty of the Pension Fund Committee. Typically, as funding levels increase, schemes opt to reduce their investment and funding risks by transitioning into less volatile asset classes.
- 3.6 Seeking to increase risk at this stage poses a risk to the funding gains and surpluses achieved since the 2019 valuation, with a potential for these to be reduced by negative market movements.

#### **Other Considerations**

- 3.7 Following the meeting on 9 March 2023, Deloitte agreed to prepare a revised strategic asset allocation model taking into consideration three scenarios for the 5% equity transition: bonds, renewable infrastructure and private equity. All three proposals are expected to return the same risk adjusted returns of 6.1% p.a. However, allocations to renewable

infrastructure and private equity are expected to come at a higher level of volatility with only a marginal increase in expected returns.

- 3.8 While further investments in renewable energy infrastructure can provide diversification and investment growth, the asset class is highly susceptible to movements in the energy market, as highlighted by recent volatility. Private equity funds can deliver relatively uncorrelated returns to traditional markets. However, they take on a higher level of risk and are not subject to the same level of regulation as an exchange.
- 3.9 Deloitte maintains that the most appropriate strategy to de-risk would be to increase the Fund's credit allocation by 5%, with the reduction to come from the equity mandates. Going forward, Deloitte has proposed to consider renewable infrastructure as a replacement for parts of the fixed income allocation, provided it meets the lower risk profile. Alongside this, private equity could be used as a source of further diversification and risk reduction from the remaining equity allocation.

#### **4. IMPLEMENTATION CONSIDERATIONS**

- 4.1 The Committee needs to consider the most appropriate source of the 5% reduction in equity allocation, with a third managed passively by LGIM and the remaining held in active portfolios managed by Baillie Gifford and Morgan Stanley. All of the funds have ESG considerations integrated into their investment processes.
- 4.2 Within Appendix 1, Deloitte explore the fund metrics, performance, sector allocations and the cost implications of divestment across the three equity funds. Given the lower cost of the passive portfolio and greater levels of diversification, the investment advisor recommends the 5% allocation to be taken from the active mandates, with the split to be agreed by the Committee.

#### **5. RECOMMENDATIONS AND NEXT STEPS**

##### **Recommendations**

- 5.1 Deloitte has set out the following recommendations for the Fund's investment strategy, with the aim of reducing equity allocation risk and funding level risk:

**Rebalance:** rebalance the overweight and underweight allocations within the equity and fixed income mandates. Any excess cash to be held for the purpose of illiquid fund draw down requests.

**De-Risk:** transition 5% from the active global equity mandates into the Insight Buy and Maintain Bond fund. The Committee is recommended to take 2.5% from each of the two active equity funds.

**Affordable and socially supported housing:** undertake a manager selection exercise to identify a mandate for the 2.5% affordable and socially supported housing allocation.

- 5.2 The Committee should discuss and agree the most appropriate strategic asset allocation for the Fund going forward. Upon agreement of the above recommendations, a timeline for implementation, setting out a plan for 2023 in order of preference, will be established.

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

**Billie Emery** [bemery@westminster.gov.uk](mailto:bemery@westminster.gov.uk)

**BACKGROUND PAPERS:**

None

**APPENDICES:**

Appendix 1: Investment Strategy Review Follow Up (Exempt)

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

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