



City of Westminster

# Committee Report

<b>Decision Maker:</b>	<b>PENSION FUND COMMITTEE</b>
<b>Date:</b>	<b>16 November 2015</b>
<b>Classification:</b>	<b>Public</b>
<b>Title:</b>	<b>Fund Financial Management</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 immediate financial implications arising from this report.</b>
<b>Report of:</b>	<b>Steven Mair</b> <i>City Treasurer</i> <a href="mailto:smair@westminster.gov.uk">smair@westminster.gov.uk</a> <b>020 7641 2904</b>

## 1. Executive Summary

- 1.1 This report presents a variety of information that will assist the Pension Fund Committee in monitoring key areas to ensure effective control of the Fund's operations and help inform strategic decisions.

## 2. Recommendation

- 2.1 The Committee is asked approve the updated risk register for the Pension Fund.
- 2.2 The Committee is asked to note the Fund's position against the Investment Regulations.
- 2.3 The Committee is asked to note the Class Actions update.
- 2.4 The Committee is asked to note the information regarding the pooling of investments in the LGPS.
- 2.5 The Committee is asked to note the information regarding the Markets in Financial Instruments Directive II

2.6 The Committee approve the extension of the current Investment Adviser Contract with Deloitte to 31 October 2016

### **3. Risk Register Monitoring**

3.1 The risk register has been reviewed by officers and is attached as Appendix 1 for information. The rationale for the changes is set out on the first page of the appendix.

### **4. Investment Regulations Limits Review**

4.1 As at 30 September 2015, the Fund complied with the LGPS Management & Investment Funds Regulations 2009 as documented in the Statement of Investment Principles.

4.2 In particular, the fund had no self-investments (regulatory maximum of 5%), it had no single segregated holding great than 10% and its largest investment in a single vehicle was 23.3% with Majedie against the limit of 35%. The LGIM holding is split between two vehicles.

### **5. Class Actions Update**

5.1 The report from SRKW provided by IPS on recent class action matters is attached as Appendix 2. This report highlights all new and on-going investor class actions and specifically identifies those relevant to the City of Westminster Pension Fund. There are no new actions recommended for consideration.

### **6. Consultations / Legislation Changes**

#### Pooling of Investments

6.1 In the Budget of 7th July, the government announced that it would work with LGPS administering authorities to ensure that investments are pooled to reduce investment management costs and that a consultation would be issued in the autumn.

6.2 The government's criteria are expected to include a target size for investment pools (£30bn has been mooted), along with governance and cost factors. It is expected that a further criterion on infrastructure will also be included, following the Chancellor's conference speech.

6.3 The existing investment regulations are likely to be revised to allow authorities to participate in pools more easily. It is anticipated that there will be legislation to compel authorities to pool investments if they do not do so voluntarily.

6.4 Allocation decisions are expected to remain with local investment committees and there may be an exceptional allowance for some assets to be managed locally.

- 6.5 The Fund's anticipated participation in the London Collective Investment Vehicle (see item elsewhere on the agenda) should help it to satisfy some of the expected requirements for pooling
- 6.6 The Local Government Association's letter and briefing note are attached for the Committee's information (appendices 3 and 4). The Committee will be kept informed of further developments.

### Markets in Financial Instruments Directive II

- 6.7 Under the Markets in Financial Instruments Directive II (MiFID II)– a set of rules governing investment managers set to come into force in January 2017 – councils will be defaulted to retail client status.
- 6.8 In order to retain their current professional client status, they will need to assure investment managers of their expertise and knowledge to reassure managers they understand risks.
- 6.9 Remaining as retail clients could, according to a briefing by the Local Government Association, mean managers could eject LGPS schemes from particular products, resulting in a 'fire sale' of assets. The briefing paper is attached as Appendix 5.
- 6.10 The LGA is discussing the process with the Financial Conduct Authority to see if any changes could make the process smoother for local authorities in relation to their pensions functions.
- 6.11 In the meantime, the LGA is advising funds to make their committee aware of the issue. The Committee will be kept informed of further developments.

## **7. Investment Adviser Contract**

- 7.1 At the previous meeting in September, the Committee were advised that the extension of the existing investment adviser contract with Deloitte will expire at the end of March 2016. The intention was for officers to carry out a bi-borough procurement with RBKC of the investment advisory contract using the National LGPS Framework.
- 7.2 The Pension Fund Committee at RBKC are still yet to reach a decision on their future investment adviser requirements therefore a joint procurement exercise at this time will not be possible.
- 7.3 In the event that RBKC do not wish to procure a new investment advisory contract, officers will carry out a retender using the National LGPS Framework on a stand alone basis.
- 7.4 It is therefore recommended the Committee agree to extend the current contract with Deloitte to 31 October 2016.

**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 – Pension Fund Risk Register
- Appendix 2 – SRKW Report 1 July to 30 September 2015
- Appendix 3 – LGA letter on Pooling of Investments in the LGPS
- Appendix 4 – LGA briefing on Pooled Investments
- Appendix 5 – LGA paper on MiFID II and its impact on LGPS investments