

City of Westminster Pension Fund

Insight Post Transition Report

Executive Summary

This paper has been prepared for the City of Westminster Pension Fund Committee (“the Committee”). The note covers a review of the recent transition from the Insight Gilts and Non-Gilts funds to the Buy and Maintain Fund, outlining the actual costs incurred from the transition and how this compares with the expected costs set out in Insight’s transition plan.

In September last year, the Committee sent an Invitation to Tender to a select number of investment managers, looking for a Buy and Maintain Credit pooled fund. The tender responses were evaluated with the highest three scoring managers invited to present to the Committee on 30 November 2017.

Managers were asked to present their proposal and, specifically, a transition plan of how they would move the Fund’s current mandate to the manager’s pooled fund, outlining the expected transition costs involved. After the final evaluation, the mandate was awarded to Insight and the assets were transferred in March/April 2018 to Insight’s Buy and Maintain fund (“IBAM”).

Recap

Insight were instructed to transition the current mandate into BAMF in March 2018. There was a transition period of four weeks, to give the manager flexibility to trade at favorable liquidity points and therefore better pricing, although Insight expected to complete the transition well within this timeframe.

First, Insight reorganized the current portfolio so that its bond holdings were suitable for an in-specie transfer into IBAM. On the first dealing date of IBAM thereafter Insight would subscribe an in-specie and cash transfer for shares in IBAM. Finally, once the legacy hedging instruments remaining in the current portfolio were unwound, the final cash amount would be invested in IBAM.

The expected costs, as presented by Insight in November are outlined in the table below.

Rationale	GBP (m)	Assets %	Cost GBP (k)	Cost %**
Retain	117.0	67.2		
Govt/Supranational sale*	29.5	16.9	-19.5	-0.01
Credit sale	16.8	9.7	-38.2	-0.02
Cash/other sale	10.7	6.2		
	174.1	100.0	-57.7	-0.03
Purchase units	57.1		-188.4	-0.11
Total Costs			-246.1	-0.14

Note: Transition plan based on current portfolio as at 31 October 2017.

* Additional c. £19m held in gilts sub portfolio not included in this analysis.

** Cost as a percentage of the total assets value, c. £174m.

Transition

Trading commenced on 22 March and was completed on 6 April 2018. First, the portfolio was restructured into a format that could be transitioned in-specie into the IBAM. Government and Supranational bonds were sold (including those in the gilts sub portfolio) and corporate bonds that were unsuitable for buy and maintain were also sold (unsuitable due to their structure, credit rating or due to issuer limit). Throughout this restructure, Insight were able to make savings by internally matching sales/purchases on Westminster's portfolio with purchases/sales being made by other mandates managed by Insight, therefore meaning these securities were transacted at nil cost. Based on market spreads, Insight expect these savings to equate to approximately £121,743.

The restructured portfolio was transitioned to IBAM on 12 April. The in-specie subscription of £186,212,096 was transacted at the mid-price of the fund and was therefore achieved at nil cost. A cash balance of £5,453,855 was also subscribed on the same dealing date at a spread of 34bps, incurring transaction costs of c. £18.5k.

The table below outlines a breakdown of the costs of portfolio restructure.

Rationale	GBP (m)	Assets %	Cost GBP (k)	Cost %**
Retain	125.7	65.6		
Govt sale*	28.0	14.6	-5.4	-0.00
Credit sale	29.7	15.5	-42.6	-0.02
Cash/other sale	8.2	4.3	-8.7	-0.00
	191.7	100.0	-56.6	-0.03
Bonds purchased	64.7		-149.0	-0.08
Total Costs			-205.7	-0.11

* Includes the additional c. £19m held in gilts sub portfolio.

** Cost as a percentage of the total assets value, c. £192m.

The total cost of the transition was c. £224k, c. £22k less than the estimated transition plan. It should also be noted that the transition plan excluded any costs associated with the transition of the gilts sub portfolio.

Conclusion

This has been a successful transition in terms of minimising risk and the Fund has experienced good cost savings through matching.

Deloitte Total Reward and Benefits Limited

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Risk Warnings

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

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