



City of Westminster

# Pension Board

**Date:** 9 July 2019

**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.

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## 1. Executive Summary

- 1.1 This report presents the performance of the Pension Fund's investments to 31 May 2019, together with an update of the funding position as at 31 December 2018.
- 1.2 The Fund underperformed the benchmark gross of fees by 0.88% over the three months to 31 May 2019 and the estimated funding level as at 31 December 2018 was 94.5%. Therefore, the funding position remains stable subject to market volatility. An updated funding level will be provided once the triennial actuarial valuation has taken place.

## 2. Recommendation

- 2.1 The Board is asked to note the performance of the investments and funding position.

## 3. Background

- 3.1 The terms of reference of the Pension Fund Committee require the committee to monitor the performance of the Pension Fund, individual

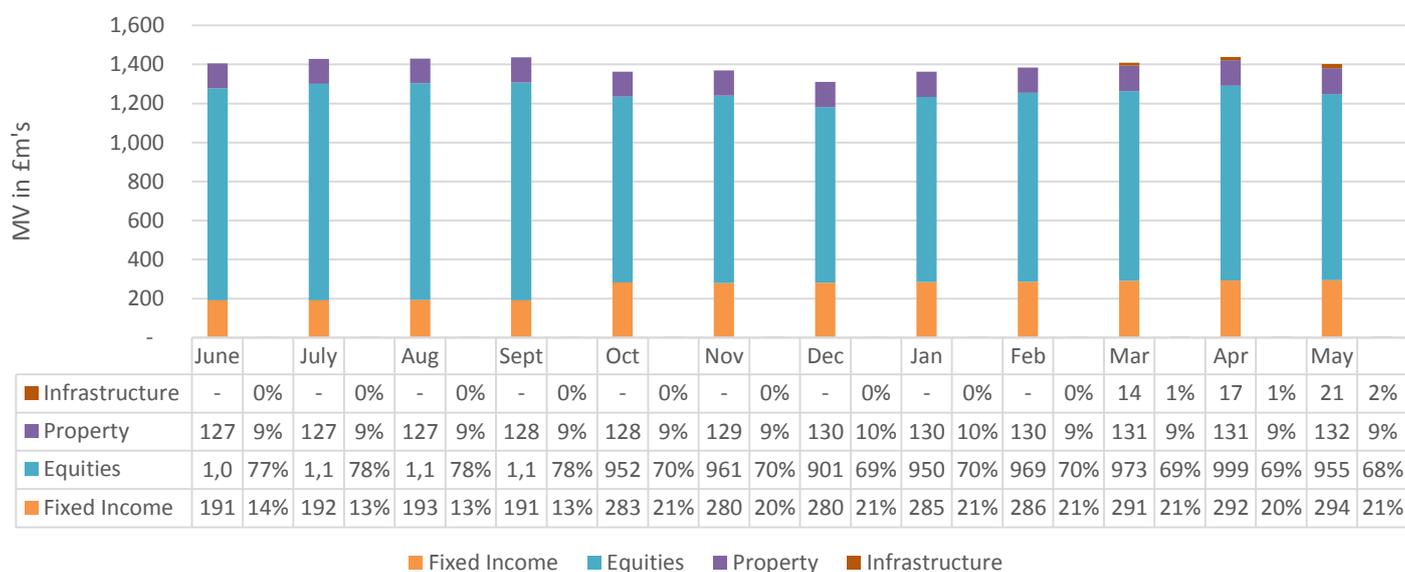
Fund Managers and other service providers to ensure that they remain suitable.

- 3.2 This report presents a summary of the Pension Fund's performance to 31 May 2019 and estimated funding level to 31 December 2018. The investment performance report (Appendix 1) has been prepared by Northern Trust, the Fund's custodian.
- 3.3 The Investment Performance Report shows that over the three months to 31 May 2019 the market value of the assets increased by £18m to £1,403bn. The Fund underperformed the benchmark gross of fees by 0.88% during this period. This is mainly attributable to underperformance within the Longview, Standard Life and Majedie mandates. However, this has been partly offset by positive performance from Insight and Baillie Gifford, who outperformed their benchmark gross of fees by 1.0% and 0.57% over the three-month period.
- 3.4 Over the longer three-year period to 31 May 2019, the Fund outperformed the benchmark gross of fees by 0.48%, with Baillie Gifford and Standard Life being the major contributors. Both Majedie and Longview underperformed their benchmarks gross of fees by 2.58% and 0.91% respectively during this period.
- 3.5 The funding update (Appendix 2) has been prepared by the fund actuary, Barnett Waddingham. The estimated funding level for the Westminster City Council Fund as assessed by the actuary at 31 December 2018 was 94.5% (95.8% at 30 September 2018), a decrease of 1.3%. This was mainly due to a fall in equity markets up to 31 December 2018.
- 3.6 However, the position is an improvement on the 31 March 2018 of funding level of 92.2% and is also up 15.8% on the funding level of 80% that was calculated at the triennial valuation of 31 March 2016. An up-to-date funding level will be provided by the actuary once they have completed the triennial review as the actuarial assumptions and membership data are likely to change.

#### **4. Asset Allocation and Summary of Changes**

- 4.1 The chart below shows the changes in asset allocation of the Fund from 1 June 2018 to 31 May 2019. Asset allocations may vary due to changes in market value.

## Asset Allocation



\*Fixed Income includes bonds and Multi Asset Credit

- 4.2 The Westminster Pension Fund target asset allocation is 65% of assets within equities, 20% in fixed income, 10% within property and 5% in infrastructure.
- 4.3 In June 2018, the Fund's investment advisor undertook a review of the Longview equity mandate with the Fund being 12% overweight against its policy asset allocation to equities. The Pension Fund Committee elected to rebalance the Fund's portfolio by gradually selling down its holdings in the Longview mandate, with the intention of transferring the portfolio into fixed income (multi asset credit) and infrastructure asset classes.
- 4.4 During August 2018, the Pension Fund Committee elected to further diversify the Fund in to a Multi Asset Credit (MAC) portfolio by selecting CQS as a fixed income manager via the London CIV platform. The LCIV CQS MAC fund offers diversification in a wide variety of different fixed income securities that are resilient at different stages of the economic cycle. A £91m transfer of assets from Longview to the CQS MAC portfolio took place in October 2018.
- 4.5 In December 2018, following a manager selection process, the Pension Fund Committee selected Pantheon Asset Management as the Fund's Infrastructure Manager. The remainder of the portfolio held with Longview will be sold and £70m transitioned in to the Pantheon Global Infrastructure Fund III. The first drawdown took place on 20 March 2019, with £14m in cash held within the global custodian transferred to Pantheon.

- 4.6 On 16 April 2019 a further Pantheon drawdown took place, with £2.2m transitioned from the Longview equity fund in to the Pantheon Global Infrastructure fund.
- 4.7 During May 2019, an additional £3.4m was transferred from the Longview portfolio to Pantheon following another capital call notice. This brings the asset allocation in infrastructure to 2% with 68% remaining within equities.

## **5. Update on London CIV**

- 5.1 The value of pension fund investments transferred to the LCIV at 31 May 2019 was £667m. This represents 47% of Westminster's investment assets. A further £319m continues to benefit from reduced management fees, Legal and General having reduced their fees to match those available through the LCIV.
- 5.2 During the first quarter of 2019, Mike O'Donnell joined the London CIV as the Chief Executive Officer, this was followed by the appointment of Mark Thompson as permanent CIO. Mark will start in September 2019 and brings with him over thirty years of experience in the financial services industry. Mark has held the position of CIO at HSBC Bank UK Pension Scheme for over eight years and worked for over twenty years at Prudential/M&G Investments in a variety of senior investment positions.

**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: Northern Trust Investment Report, as at 31 May 2019

Appendix 2: Barnett Waddingham Funding Update as at 31 December 2018