



City of Westminster

Committee Report

Decision Maker:	PENSION FUND COMMITTEE
Date:	19 March 2020
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 <i>Tri-Borough Director of Treasury and Pensions</i> ptringgs@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 2019, together with an update of the funding position post actuarial valuation.
- 1.2 The Fund outperformed the benchmark net of fees by 0.7% over the quarter to 31 December 2019 and the estimated funding level following the triennial actuarial valuation has risen to 99% from the 80% level in 2016.

2. Recommendation

- 2.1 The Pension Fund Committee is asked to note the performance of the investments and funding position.

3. Background

- 3.1 This report presents a summary of the Pension Fund's performance to 31 December 2019 and estimated funding level following the actuarial valuation. The investment performance report (Appendix 1) has been prepared by Deloitte, the Fund's investment adviser.
- 3.1 The investment performance report shows that over the quarter to 31 December 2019, the market value of the assets increased by £28m to £1,526m. The Fund outperformed the benchmark net of fees by 0.7% over the quarter. The majority of mandates provided a positive return during the quarter, however Majedie, Insight and Pantheon delivered negative returns. Aberdeen Standard, Baillie Gifford and Longview outperformed their benchmark net of fees by 4.9%, 3.4% and 1.8%.
- 3.2 Over the year the Fund marginally underperformed its benchmark net of fees by 0.2%, largely as a result of underperformance within the Majedie UK equity fund. Over the longer three-year period to 31 December 2019, the Fund outperformed the benchmark net of fees by 0.1%, with Aberdeen Standard and Baillie Gifford being the major contributors. Majedie underperformed their benchmarks net of fees by 4.9% during this period.
- 3.3 The advisors continue to rate the fund managers favourably, with the exception of Longview. Deloitte have removed Longview's Global Equity strategy from their rated manager list following the departure of the co-founder and CIO Ramzi Rishani.
- 3.4 Advisors have also expressed ongoing concern about resignations and vacancies at senior management level within the London Collective Investment Vehicle (LCIV). During the quarter, Kevin Corrigan was appointed as interim Chief Investment Officer following the resignation of Mark Thompson. Kevin has joined from Resco Asset Management, where he held the position of Senior Investment Advisor and had previously been CIO at Sandaire Investment Office. Larissa Benbow, Head of Fixed Income, announced her resignation from the LCIV with effect from 28 February. Azim Meghji, formerly Head of Credit at Santander Asset Management who joined the team in December, will take responsibility for the relationships with fixed income managers. It should also be noted that the London CIV have concluded that asset manager, CQS, is no longer 'on watch', however there will be increased monitoring over the next six months.
- 3.5 Over the quarter, it was announced that Margaret Ammon would be joining LGIM as the Chief Risk Officer (CRO), Margaret has over 20 years' experience in risk management, including CRO at M&G Asset Management.
- 3.6 Chris Darroch, Executive Director at Hermes, continues to act as Interim Fund Director until a new Fund Director is appointed. Chris

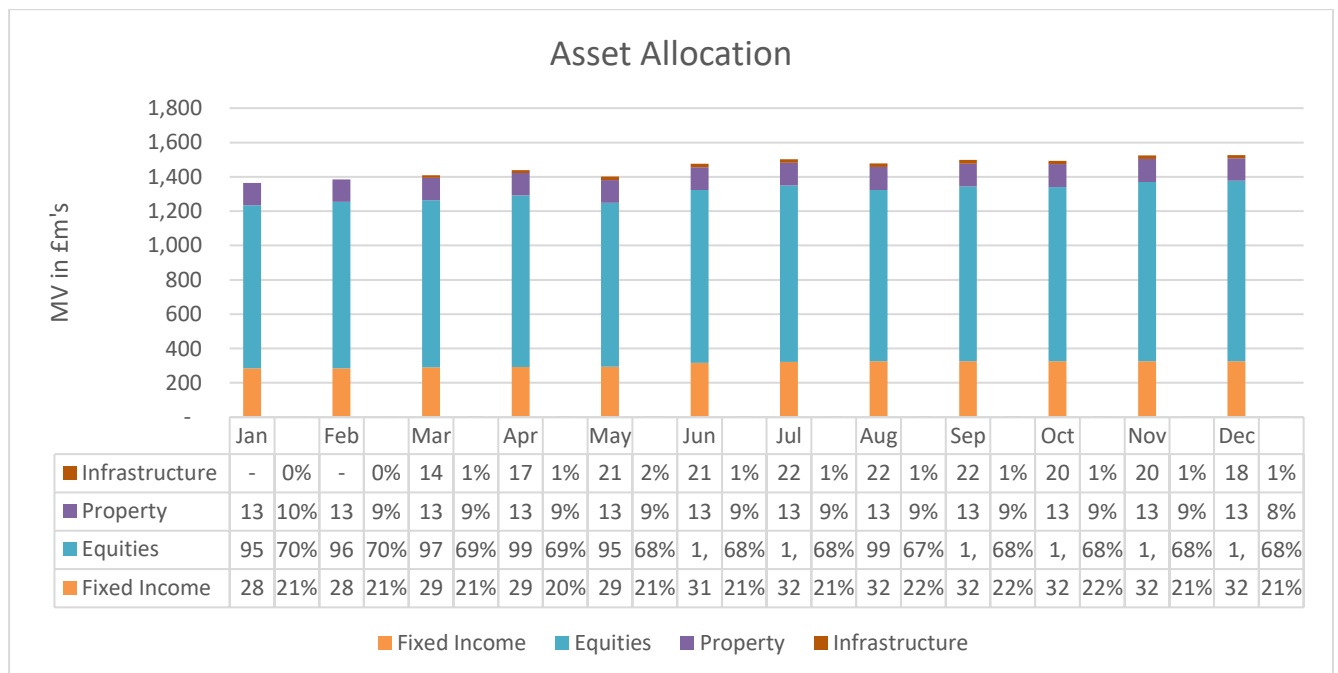
joined Hermes in December 2009, he is a senior member of Hermes' real estate team and is the Fund Director for BT Pension Scheme's UK real estate investment portfolio.

3.7 During the quarter, Aberdeen Standard made the decision to combine their Real Estate and Private Markets business areas in a bid to leverage research capabilities and deliver a greater range of Private Market solutions to clients. Peter McKellar has been appointed as Executive Chairman and Global Head of Private Markets, and Neil Slater has taken on the role of Global Head of Real Estate and Deputy Head of Private markets from David Paine.

3.8 Following the 2019 triennial actuarial valuation, the estimated funding level for the City of Westminster Pension Fund has risen to 99% (80% in 2016). This can be attributed to excellent investment returns during this period with global equities performing particularly well. The funding level for Westminster City Council as an employer has risen by 16% to 86% in 2019 from 70% in 2016, this is in part due to the Council's deficit recovery payments made to the Pension Fund during this period. The Council plans to pay off its deficit by 2021/22, including £22.7m in 2020/21 and £80m 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 2019 to 31 December 2019. Asset allocations may vary due to changes in market value.



*Fixed Income includes bonds and Multi Asset Credit

- 4.2 The current Westminster Pension Fund target asset allocation is 65% of assets within equities, 20% in fixed income, 5% within infrastructure and 10% within property.
- 4.3 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.
- 4.4 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. During May 2019, an additional £3.4m was transferred from the Longview portfolio to Pantheon following another capital call notice.
- 4.5 During June 2019 £22m in deficit recovery receipts was received, £20m of this was invested within the Insight Buy and Maintain bond fund.
- 4.6 On 24 July 2019 a negative capital call totalling £4.1m took place within the Pantheon Global Infrastructure Fund, this was as a result of an equalisation following new partners entering the strategy. Following this capital calls of £0.9m and £1m took place on 20 August 2019 and 18 September 2019, using the cash received from the capital equalisation.
- 4.7 At the 23 October 2019 meeting, the Committee committed to transfer its existing UK equity allocation with Majedie to Legal and General's global passive equity portfolio on a temporary basis, pending an asset allocation review. The legacy assets were transferred into the transition account on 20 November 2019 and trading into the LGIM global passive mandate was completed on 13 December 2019.
- 4.8 Following the global outbreak of the coronavirus, the value of the Majedie UK equity fund has fallen by 15.5% compared to the FTSE World which has fallen by 10.4% since the transition took place. As at 10 March 2020, as a result of the transfer during Q4 of 2019 the Pension Fund has saved circa £14.4m by transitioning into global passive equities.
- 4.9 The value of pension fund investments transferred to the LCIV as at 31 December 2019 was £414m. This represents 27% of Westminster's investment assets. A further £661m continues to benefit from reduced management fees, Legal and General having reduced their 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:

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Background Papers: None

Appendices:

Appendix 1: Deloitte Investment Report, Quarter Ending 31 December 2019