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City of Westminster Pension Fund
Draft Investment Beliefs

This paper has been prepared for the City of Westminster Pension Fund Committee ("the Committee"). The purpose of this paper is to provide a draft set of investment beliefs of the Committee for discussion at the extraordinary Pension Fund Committee meeting on 20 February 2020.

Investment objectives in the Investment Strategy Statement ("Statement")

To provide a framework for the Committee's beliefs, the Statement adopted by the City of Westminster Pension Fund ("the Fund") covers each of the following six objectives in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016:

- A requirement to invest fund money in a wide range of investments;
- The authority's assessment of the suitability of particular investments and types of investment;
- The authority's approach to risk, including the ways in which risks are to be measured and managed;
- The authority's approach to pooling investments, including use of collective investment vehicles;
- The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments;
- The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The draft investment beliefs are shown below.

City of Westminster Pension Fund – draft Investment Beliefs Statement

This is the Core Belief Statement of the City of Westminster Pension Fund, ("the Fund").

The Statement is to set out the Fund's key investment beliefs. These beliefs will form the foundation of discussions, and assist decisions regarding the Fund's structure, its strategic asset allocation and selecting investment managers.

1 Investment Governance

a. The Fund has access to the necessary skills, expertise and resources to manage the whole Fund, as well as internally managing a small proportion of the Fund's assets, such as cash management.
b. Investment consultants, independent advisors and officers are a source of expertise and research to inform and assist the Committee's decisions.
c. The ultimate aim of the Fund's investments is to pay pension liabilities when they become due. The Committee will therefore take account of liquidity and the long-term ability of the Fund to meet these obligations.
d. The Fund is continuously improving its governance structure through bespoke training to implement tactical views more promptly, but acknowledges that it is not possible to achieve optimum market timing.

2 Long Term Approach

a. The strength of the employers' covenant allows the Fund to take a longer term view of investment strategy than most investors.
b. The most important aspect of risk is not the volatility of returns, but the risk of absolute loss over the medium and long term. This would in turn impact the ability of the employers to make adequate contributions to meet the Fund's liabilities.
c. Illiquidity and volatility are shorter term risks which offer potential sources of additional compensation to the long term investor. Moreover, it is important to avoid being a forced seller in short term market setbacks.
d. Over the long term, equities are expected to outperform other liquid assets, particularly government bonds and cash.

3 Environmental, Social and Governance (ESG) factors

a. Certain ESG factors are financially material and may therefore influence the risk and return characteristics of the Fund's investments and the likelihood that the Fund's objectives will be achieved.
b. Well governed companies that manage their business in a responsible manner are less vulnerable to downside risk and may therefore produce higher returns over the long term.
c. In order to improve corporate governance, investment managers should exercise the voting rights attached to the shares they own, as well as engage with management of the companies they invest in.
d. Environmental considerations should reflect a growing recognition in the Committee of the urgency required in its decision-making processes when making investment allocations.
e. If an investment manager fails to adequately consider ESG issues, the Committee is prepared to disinvest assets from that manager.

4 Asset allocation

a. Allocations to asset classes other than equities and government bonds (e.g., corporate bonds, private markets and property) offer the Fund other forms of risk premia (e.g., additional solvency risk/illiquidity risk).
b. Diversification across asset classes and asset types that have low correlation with each other will tend to reduce the volatility of the overall Fund return.
c. In general, allocations to bonds and alternatives are made to achieve additional diversification. As the funding level improves, the Committee may look to certain lower risk strategies to mitigate liability risks and thus dampen the volatility of the Fund's actuarial funding level.

5 Management Strategies

a. A well-balanced portfolio has an appropriate mix of passive and active investments.
b. Passive, index-tracker style management provides low cost exposure to equities and bonds, and is especially attractive in efficient markets.
c. Active management will typically incur higher investment management fees but can provide additional return. Fees should be aligned to the interests of the Fund.
d. Active management performance should be monitored over multi-year rolling cycles and assessed to confirm that the original investment process on appointment is being delivered and that continued appointment is appropriate.
e. Employing a range of management styles can reduce the volatility of overall Fund returns but can also reduce long term outperformance.

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.

Our advice will be specific to your current circumstances and intentions and therefore will not be suitable for use at any other time, in different circumstances or to achieve other aims or for the use of others. Accordingly, you should only use the advice for the intended purpose.