



City of Westminster

# Pension Board

<b>Date:</b>	<b>16 June 2020</b>
<b>Classification:</b>	<b>General Release</b>
<b>Title:</b>	<b>Pension Fund Performance to 31 March 2020 and Risk Monitoring</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>Phil Triggs</b> <b><i>Tri-Borough Director of Treasury and Pensions</i></b> <a href="mailto:ptriggs@westminster.gov.uk">ptriggs@westminster.gov.uk</a> <b>020 7641 4136</b>

## 1. Executive Summary

- 1.1 This report presents the performance of the Pension Fund's investments to 31 March 2020, together with an update of the Pension Fund risk registers.
- 1.2 The Fund underperformed the benchmark gross of fees by 1.43% over the quarter end year to 31 March 2020.
- 1.3 The risk register is divided into two sections: governance (investment and funding) and pensions administration. The top five risks are highlighted in the report below.

## 2. Recommendations

- 2.1 The Board is asked to note:
  - the performance of the Fund's investments to 31 March 2020;
  - the risk registers for the Pension Fund, as updated in May 2020.

### 3. Pension Fund Performance

- 3.1 This report provides an update of the Pension Fund's performance to 31 March 2020. The performance analytics report (Appendix 1) has been prepared by Northern Trust, the Fund's global custodian.
- 3.2 The performance analytics report shows that, over the quarter to 31 March 2020, the Fund underperformed its benchmark gross of fees by 1.43%. As a result of COVID-19 impacting global markets and complexities in illiquid asset valuations over the quarter, the market value of the Fund's investment assets fell by £222m to £1.324bn.
- 3.3 The majority of mandates provided a negative return during the quarter. However, Aberdeen Standard and Pantheon provided a positive return of 1.62% and 14.33% gross of fees. Baillie Gifford, Hermes and Pantheon outperformed their benchmark gross of fees by 2.33%, 0.65% and 12.13% respectively.
- 3.4 Over the year, the Fund returned -7.02% gross of fees, underperforming its benchmark gross of fees by 1.43%, largely as a result of the impact of COVID-19 on equities and multi asset credit. During this period, Longview and CQS significantly underperformed their benchmarks by 9.19% and 18.78% (gross of fees) respectively.
- 3.5 Over the longer three-year period to 31 March 2020, the Fund provided a positive return of 1.25%, marginally underperforming its benchmark (gross of fees) by 0.26%, with Aberdeen Standard and Baillie Gifford being the major positive contributors. Longview underperformed its benchmarks gross of fees by 3.34% during this period.
- 3.6 Additionally, our investment advisor, Deloitte, have produced a market and performance update over the quarter to 31 March 2020. This is attached within appendix 2 and provides an update on global equity markets, gilts, corporate bonds, property and private markets.
- 3.7 Over the quarter, the greatest fall in market value came from our equity holdings, with LGIM falling over 20.8%, Longview by 22.5% and Baillie Gifford by a modest 13.2%. This is in comparison to a fall in global markets of 30% to 23 March 2020, with a partial recovery over the final week of March.
- 3.8 The Insight Buy & Maintain Bond fund held up well over the quarter, decreasing by 5.4% in value, additionally there were no defaults as at 31 March 2020. Conversely, CQS's market value fell by 17.0% over the quarter with default risks increasing in the lower credit rating bonds held.
- 3.9 The Fund's property allocations are subject to material uncertainty. Professional Valuers have not been actively valuing many similar sized assets in the market due to the current lockdown environment, as such values have been rolled over from Period 11 with an adjustment and may

be inaccurate to the true 31 March position. Aberdeen Standard have also taken the decision to defer redemptions, switches and subscriptions in the Long Lease Property Fund.

- 3.10 The Pantheon Global Infrastructure fund reports performance quarterly in arrears, therefore this estimate is not a fair representation of the current position as at 31 March 2020. Pantheon have suggested a 10% discount to the current roll forward valuation.

#### **4. Risk Register Monitoring**

- 4.1 The pension fund risk register (presented as Appendix 3 and 4) is divided into two sections: governance (investment and funding) and pensions administration. The current top five risks to the Pension Fund are highlighted below:

- The global outbreak of COVID-19 impacting stock markets worldwide, as well uncertainty surrounding illiquid asset values including property and infrastructure (investment risk).
- The London Collective Investment Vehicle (LCIV) disbanding or the partnership fails to produce proposals/solutions deemed sufficiently ambitious. The LCIV is still waiting to get the change of business plan signed by all 32 London Boroughs, with one borough holding back its signature (governance risk).
- Significant volatility and negative sentiment in global investment markets following disruptive geopolitical uncertainty caused by the ongoing trade war between the US and China. (investment risk).
- COVID-19 affecting the day-to-day functions of the Pensions Administration services, including customer telephony service, payment of pensions, retirements, death benefits, transfers and refunds (administration risk).
- Volatility caused by uncertainty with regard to the UK's exit from the European Union, lack of trade deal and the economic aftereffects. There will be a transition period until the end of 2020, during which time the UK and EU will negotiate new arrangements from 2021. COVID-19 has placed additional uncertainty with regard to this deadline being achieved (investment risk).

**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 Performance Analytics

Appendix 2: Deloitte Q1 2020 update

Appendix 3: Tri-Borough Risk Management Scoring Matrix

Appendix 4: Pension Fund Risk Register Review at 5 May 2020

