City of Westminster

Pension Board

Date:	**31 March 2021**
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** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@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 2020, together with an update of the changes in asset allocation and funding position.

1.2 The Fund underperformed the benchmark net of fees by 0.4% over the quarter to 31 December 2020 and the estimated funding level was 99.4% as at 31 December 2020.

2. Recommendation

2.1 The Pension Board is asked to:

- ➢ note the performance of the investments, changes to asset allocation and the funding position.

3. Background

3.1 This report presents a summary of the Pension Fund's performance to 31 December 2020 and estimated funding level following the actuarial valuation. The investment performance report (Appendix 1) has been prepared by Deloitte, the Fund's investment adviser.

3.2 The investment performance report shows that over the quarter to 31 December 2020, the market value of the assets increased by £119m to £1,704m. The Fund underperformed the benchmark net of fees by 0.4% over the quarter, with all managers delivering positive performance. All managers outperformed their benchmarks with the exception of Hermes.

3.3 Over the 12-month period to 31 December 2020, the Fund outperformed its benchmark net of fees by 1.2%. This was achieved largely as a result of excellent performance within the Baillie Gifford Global Equity portfolio, which outperformed its benchmark by 20% net of fees. Over the longer three-year period to 31 December 2020, the Fund outperformed the benchmark net of fees by 0.4%, again with Baillie Gifford being the major contributor. Longview and Aberdeen Standard underperformed their benchmarks net of fees by -3.0% and -1.6% respectively during this period.

3.4 The advisors continue to rate the fund managers favourably, with the exception of Longview. Deloitte removed Longview's Global Equity strategy from its rated manager list, following the departure of the co-founder and CIO Ramzi Rishani. Additionally, in early October 2020, it was announced that Alistair Graham would step down from the role of CIO of Longview Partners on 31st December 2020, leaving the firm in June 2021. Emma Davies became CFO during December 2020 and Sheila Tickner was announced as Head of Compliance in November 2020. Both have worked at Longview for several years.

3.5 The LCIV announced Vanessa Shia as the Head of Private Markets, Gustave Loriot-Boserup as Responsible Investment Manager and Andrea Wildsmith as Head of Risk and Performance, during the final quarter of 2020.

3.6 Over the quarter, Dirk Hoffmann-Becking announced his retirement as portfolio manager at Morgan Stanley (MSIM) effective from 31 March 2021. Dirk will transition his research responsibilities over the coming months to Richard Perrott and Nathan Wong. Given his primary research covered Financials and Consumer Discretionary, the MSIM equity team has adjusted its sector coverage.

3.7 The Fund fully divested from Hermes during the third quarter of 2020, with the investment redeemed on 15 January 2021.

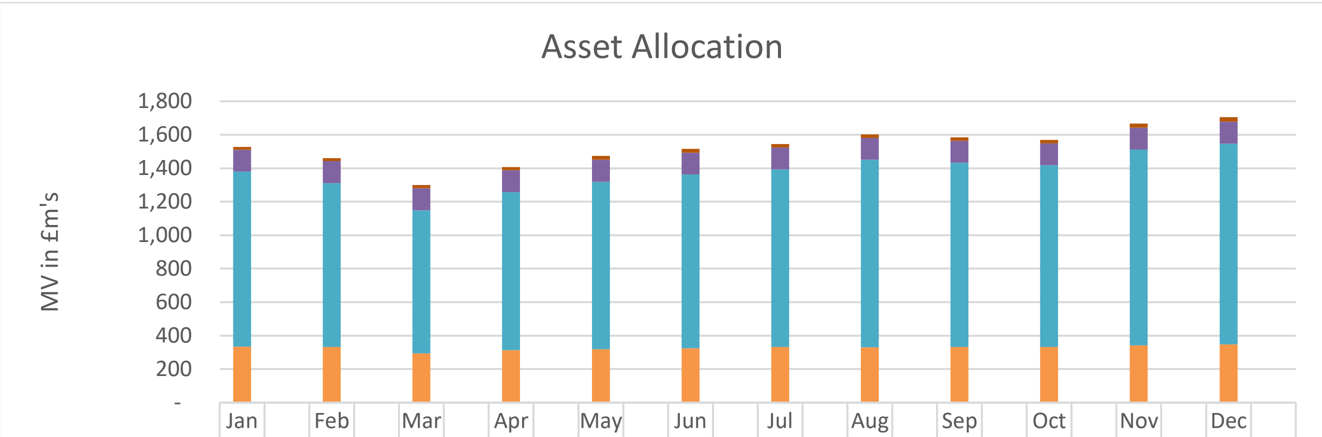
3.8 Following the quarter end, Pantheon's Dinesh Ramasamy and Jerome Duthu-Bengtzon were each promoted to partner, bringing the total number in the global infrastructure and real assets team to eight. Additionally, Paul Barr was appointed as investment partner to Pantheon's global infrastructure and real assets team. Paul has vast experience investing across infrastructure primaries, secondaries and co-investments.

3.9 During November 2020, the Pension Fund commissioned TruCost to undertake a carbon review of the Fund following the transition into the ESG equity mandates. The carbon to value invested metric is used by TruCost to reflect how efficient companies are at creating shareholder value, relative to the carbon emissions produced. The Fund's average carbon to value invested has been reduced by circa 60% since June 2019.

3.10 The estimated funding level (Appendix 2) for the Westminster Pension Fund has increased by 0.9% to 99.4% as at 31 December 2020 (98.5% at 30 September 2020). The funding level for Westminster City Council as an employer has also increased, with a funding level of 89.0% as at 31 December 2020 (88.0% at 30 September 2020). The Council plans to pay off its deficit by 2022, including payments of £22.7m in 2020/21 and £80.0m 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 2020 to 31 December 2020. Asset allocations may vary due to changes in market value.



	Jan		Feb		Mar		Apr		May		Jun		Jul		Aug		Sep		Oct		Nov		Dec	
Infrastructure	18	1%	18	1%	21	2%	20	1%	23	2%	23	2%	22	1%	21	1%	21	1%	21	1%	25	1%	26	2%
Property	13	8%	13	9%	13	10%	13	9%	13	9%	13	8%	13	8%	13	8%	13	8%	13	8%	13	8%	13	8%
Equities	1,	68%	97	66%	85	65%	94	66%	1,	67%	1,	68%	1,	68%	1,	69%	1,	69%	1,	69%	1,	70%	1,	70%
Fixed Income	33	22%	33	22%	29	22%	31	22%	32	21%	32	21%	33	21%	33	21%	33	21%	33	21%	34	20%	34	20%

*Fixed Income includes bonds and Multi Asset Credit

4.2 As per the investment strategy review in 2020, the current Westminster Pension Fund target asset allocation is 65% of assets within equities, 19% in fixed income, 5% within infrastructure, 5% within property and 6% in renewable infrastructure.

4.3 Following the global COVID-19 outbreak during the first quarter of 2020, global equity markets were significantly impacted and saw the greatest fall in equity markets since the financial crisis of 2008. Despite the market volatility during this time, equity markets have recovered in the subsequent period.

4.4 Capital calls for the Pantheon Global Infrastructure Fund took place during March, May, September and November 2020, with the fund 40% drawn as at 31 December 2020.

4.5 As agreed at the Committee meeting in June 2020, fund manager interviews for a new active global equities manager took place on 1 September 2020. A decision was made to appoint Morgan Stanley, via the LCIV, to manage the Global Sustain Active Equity fund. The portfolio seeks to provide a concentrated high quality global portfolio of companies, which excludes tobacco, alcohol, adult entertainment, gambling, civilian weapons, fossil fuels, and gas or electrical utilities.

4.6 Funds were transitioned from the Legal & General (LGIM) Global Passive Global mandate to finance the new active equity portfolio on 30 October 2020.

4.7 In addition, a decision was taken by the Committee to transition the remaining funds within the LGIM Global Passive into the LGIM Future World Fund. This fund tracks the LGIM ESG Global Markets Index, whereby an Environmental, Social and Governance (ESG) screening of companies takes place to remove those companies which do not meet the required ESG criteria, e.g., those involved in production of controversial weapons, pure coal miners and violators of the UN Global Compact. This transition also took place during October 2020.

4.8 As agreed at the Committee meeting in June 2020, fund manager interviews for a new asset allocation to renewable infrastructure took place on 7 December 2020. The Committee explored the fund on offer at the London CIV alongside external fund manager offerings. A decision was made to appoint two renewable infrastructure managers, Macquarie and Quinbrook with each manager allocated a 3% holding of the Pension Fund assets.

4.9 Macquarie is one of the largest infrastructure managers in the world with c. €99bn in infrastructure assets under management. The Renewable Energy Fund 2 will focus on assets at the construction and operational stages of development, consisting of offshore and onshore wind assets and solar PV. The geographical location of the assets will primarily be allocated to Western Europe, alongside North America and Asia.

4.10 Quinbrook are a relatively new manager, founded in 2015, who focus entirely on low carbon and renewable energy products within the infrastructure sector. Their Renewable Energy Impact Fund will invest solely in UK assets at both the development and operational stage. Target assets include solar PV and onshore wind, alongside supporting infrastructure such as battery storage and connection assets.

4.11 Following the appointment of two new renewables infrastructure managers in December 2020, the sale of the Hermes property fund took place during mid-January 2021. Subsequent to this, the first renewables infrastructure drawdown took place during late January 2021 and it is expected that these funds will be c.50% drawn by March 2022.

4.12 The value of Pension Fund investments managed by the LCIV as at 31 December 2020 was £851m. This represents 50% of Westminster's investment assets. A further £379m continues to benefit from reduced management fees, Legal and General having reduced its 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:

Billie Emery pensionfund@westminster.gov.uk

Background Papers: None

Appendices:

Appendix 1: Deloitte Investment Report, Quarter Ending 31 December 2020
Appendix 2: Barnett Waddingham Funding Level Update at 31 December 2020