Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**27 October 2022**
Classification:	**Public (Appendices 2 and 3 are exempt)**
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 30 June 2022, together with an update on the London CIV.

1.2 The Fund returned -7.6% net of fees over the quarter to 30 June 2022, performing broadly in line with the benchmark.

2. RECOMMENDATION

2.1 The Committee is asked to:

- Note the performance of the investments.

- Approve that Appendices 2 and 3 to this report are not for publication on the basis that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information) as set out in paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).

3. BACKGROUND

3.1 This report presents a summary of the Pension Fund's performance to 30 June 2022. The investment performance report (Appendix 1) has been prepared by Deloitte, the Fund's investment advisor.

3.2 The market value of investments decreased by £132m to £1.728bn over the quarter to 30 June 2022, with the Fund returning -7.6% net of fees. The Fund performed broadly in line with the benchmark, with the equity mandates and fixed income portfolios being the main detractors to performance. Much of this underperformance can be attributed to continued heightened inflationary concerns alongside the supply chain disruption caused by the ongoing conflict in Ukraine and strict lockdown measures in China.

3.3 The Fund's underperformance was partially offset by strong outperformance of benchmarks within the Abrdn long lease property fund and Pantheon Global Infrastructure, which outperformed by 9.1% and 15.4% net of fees respectively.

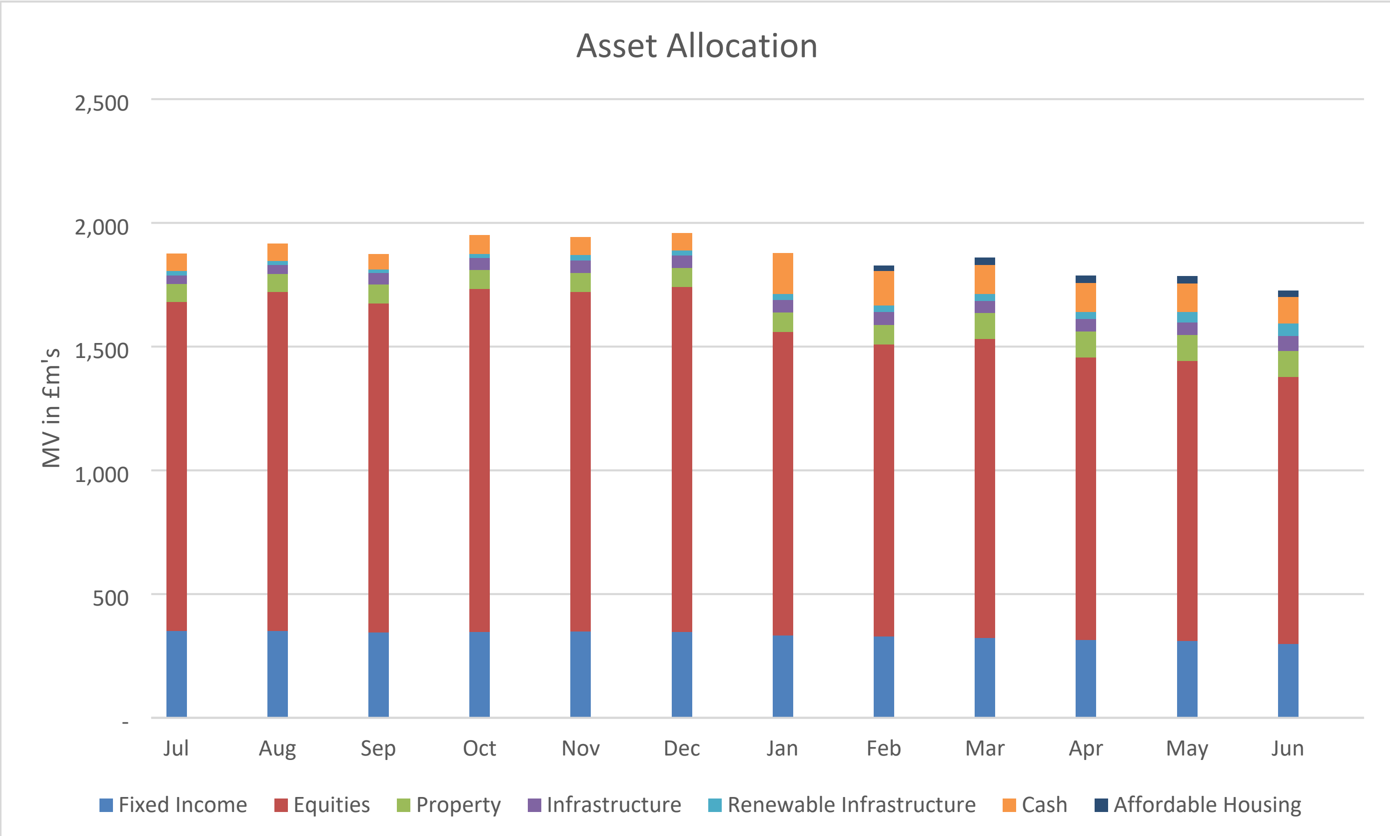
3.4 Over the 12-month period to 30 June 2022, the Fund underperformed its benchmark net of fees by -3.5% returning -9.4%. This underperformance can be largely attributed to the Baillie Gifford (LCIV) Global Alpha Growth mandate, with the strategy's large-cap growth stock bias proving detrimental as investors sought safety in value-oriented parts of the market.

3.5 The Abrdn long lease property fund has again performed strongly over the one-year period, outperforming its benchmark by 25.8% net of fees, owing to a rise in gilt yields over the year with the fund benchmarked against Gilts +2%. Alongside this, the Pantheon infrastructure fund and Macquarie renewable infrastructure mandate have returned 33.5% and 16.8% net of fees, respectively. Over the longer three-year period to 30 June 2022, the Fund slightly underperformed the benchmark net of fees by 0.4%.

3.6 It should be noted that Deloitte continue to rate the fund managers favourably. However, given the significant underperformance of the Baillie Gifford Global Alpha, Deloitte will be hosting a meeting with senior management at Baillie Gifford to discuss strategy during October 2022.

4. ASSET ALLOCATION AND SUMMARY OF CHANGES

4.1 The chart shows the changes in asset allocation of the Fund from 1 July 2021 to 30 June 2022. Please note asset allocations may vary due to changes in market value.



*Fixed Income includes bonds, multi asset credit (MAC) and private debt
**Cash includes the NT ESG Ultra Short Bond Fund and Ruffer (LCIV) Absolute Return Fund

4.2 The current Westminster Pension Fund target asset allocation is 60% of assets within equities, 19% in fixed income, 6% in renewable infrastructure, 5% within infrastructure, 5% within property and 5% to affordable and socially supported housing.

4.3 During the quarter to 30 June 2022, capital calls for the Pantheon Global Infrastructure fund and Macquarie Renewable Infrastructure fund took place. There was also an equalisation within the Quinbrook Renewables Impact mandate.

5. LONDON CIV UPDATE

5.1 The value of City of Westminster Pension Fund investments directly managed by the London CIV as at 30 June 2022 was £839m, representing 49% of Westminster's investment assets. A further £377m continues to benefit from reduced management fees, through Legal and General having reduced its fees to match those available through the LCIV.

5.2 During April 2022, Mike O'Donnell announced he would be stepping down from his role as CEO from March 2023. Following the quarter end, Dean Bowden was appointed as the successive London CIV CEO, with an anticipated start date of November 2022. Mike will support Dean in the period of transition before stepping back from the full time role. Dean joins the London CIV from Quilter Investors where he was most recently CEO and Director of Quilter Investors Portfolio Management and Managing Director and Director of Quilter Investors Limited.

5.3 As at 30 June 2022, the London CIV had £24.7bn of assets under management of which £13bn are directly managed by the London CIV. This equates to 57% of total London LGPS assets, with a target of 71% pooled by 2025.

5.4 During the quarter, the London CIV undertook 38 meetings/engagements with Client Funds, including meet the manager sessions, seed investor group discussions and monthly business updates.

5.5 All London CIV funds, that Westminster are invested, were on normal monitoring at quarter end. During the second quarter, the London CIV carried out an in-depth annual review of the LCIV Global Alpha Growth Fund (Baillie Gifford), with London CIV remaining confident in the investment process but acknowledging that there could have been better management of investment risk.

5.6 The realignment of the London CIV Multi Asset Credit (MAC) mandate commenced in February 2022, with the introduction of PIMCO as a second manager alongside CQS. The addition of PIMCO extends the range of credit instruments targeted by the fund, increases the level of diversification of risk and mitigates manager-specific risk. This transition was successfully completed as scheduled on 31 July 2022. Aggregate annual management fee savings of 5bps are expected following the introduction of PIMCO.

5.7 Please see the London CIV quarterly investment report as at 30 June 2022, attached at appendix 3.

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 30 June 2022
Appendix 2: Deloitte Investment Report, Fee Benchmarking (exempt)
Appendix 3: London CIV Quarterly ACS Investment Report at 30 June 2022 (exempt)