



City of Westminster

Committee Report

Decision Maker:	PENSION FUND COMMITTEE
Date:	6 December 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 ptringgs@westminster.gov.uk 020 7641 4136

1. EXECUTIVE SUMMARY

- 1.1 This report presents the performance of the Pension Fund's investments to 30 September 2022, together with an update on the London CIV.
- 1.2 The Fund returned -1.8% net of fees over the quarter to 30 September 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- Approve that Appendices 2 and 3 to this report are not for publication on the basis that they contain information relating to the financial or business affairs of any particular person (including the authority holding that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 September 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 £37m to £1.691bn over the quarter to 30 September 2022, with the Fund returning -1.8% net of fees. The Fund underperformed the benchmark by -0.4% net of fees, with the equity mandates and fixed income portfolios being the main detractors to performance.
- 3.3 The underperformance continues to be driven by the continued heightened inflationary concerns, alongside the supply chain disruption caused by the ongoing conflict in Ukraine and strict lockdown measures in China.
- 3.4 The Fund's underperformance was partially offset by strong outperformance of benchmarks within the Abrdn Long Lease Property fund, Quinbrook Renewable Infrastructure fund and Pantheon Global Infrastructure, which outperformed by 9.7%, 13.5% and 7.8% net of fees respectively. It should be noted that the Abrdn mandate is benchmarked against Gilts + 2%, with the benchmark suffering due to the rise in gilt rates over the three-month period.
- 3.5 Over the 12-month period to 30 September 2022, the Fund underperformed its benchmark net of fees by -3.8% returning -11.5%. 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.
- 3.6 The Abrdn long lease property fund has again performed strongly over the one-year period, outperforming its benchmark by 28.2% net of fees, due to a rise in gilt yields over the year with the fund benchmarked against Gilts +2%. Alongside this, the Pantheon Infrastructure fund, Quinbrook Renewables and Macquarie Renewable Infrastructure mandate have returned 37.3%, 23.7 and 23.7% net of fees, respectively. Over the longer three-year period to 30 September 2022, the Fund slightly underperformed the benchmark net of fees by 0.4%.
- 3.7 It should be noted that Deloitte continues to rate the fund managers favourably. However, given the significant underperformance of the Baillie Gifford Global Alpha, Deloitte hosted a meeting with senior management at Baillie Gifford to discuss strategy during October 2022. Deloitte remain content that the manager continues to maintain its investment philosophy and will continue to monitor the performance of the fund.

3.8 During August 2022, a decision was taken to amend the investment policy of the London CIV (Morgan Stanley) Global Equity Quality fund (formerly Global Equity Core). The revised policy:

- formalises the objective of achieving a lower greenhouse gas emissions intensity than the MSCI All Country World Index; and
- extends fossil fuel and related omissions and introduces a GHG emissions intensity filter.

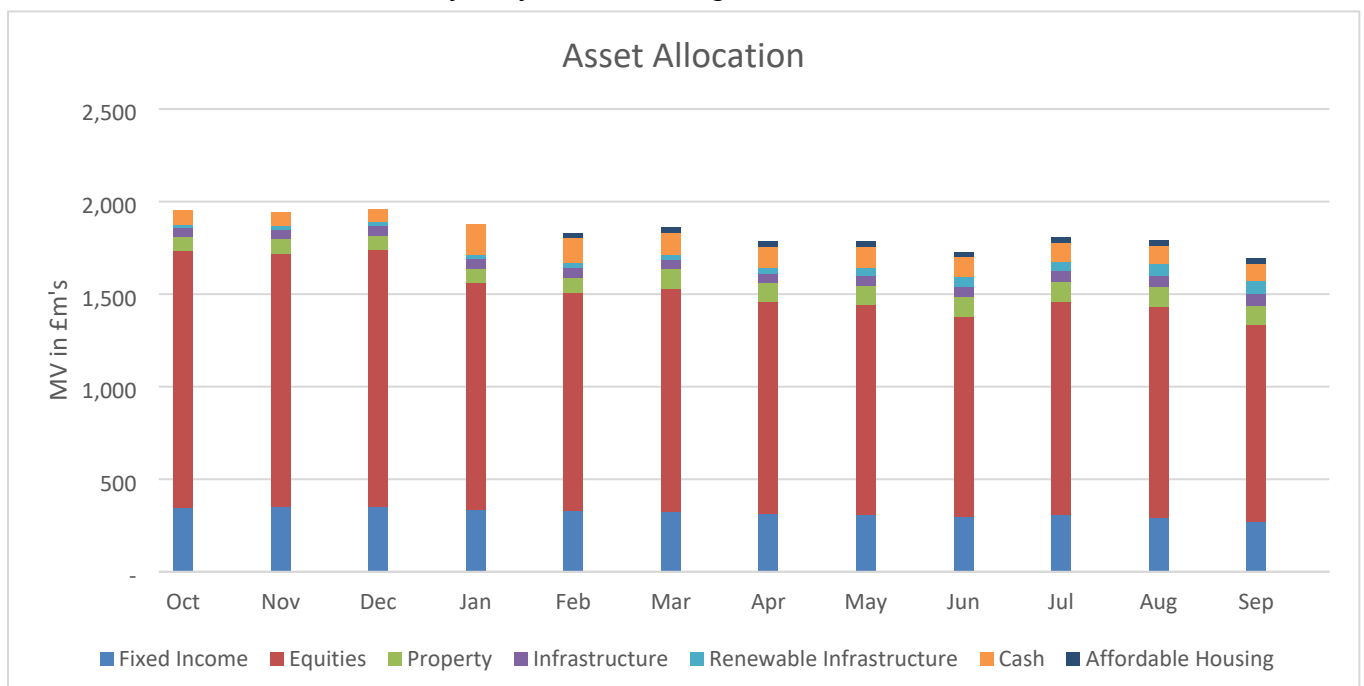
3.9 At the last Committee meeting on 27 October 2022, the Pension Fund Committee elected to transition the Fund’s holdings within the London CIV (Baillie Gifford) Global Alpha Equity mandate into the BG Paris-Aligned version. This transition was scheduled to take place on 5 December 2022. The Committee will be updated on the transition outcome at the next Committee meeting in March 2023.

3.10 In the period from 2019 to 2022, the Pension Fund has increased its overall funding level from 99% to 128%. The main drivers for this improvement are the significant investment returns and additional deficit recovery payments received from the Council.

3.11 The final actuarial report for 2022 triennial valuation will be taken to the next Pension Fund Committee on 9 March 2023.

3. ASSET ALLOCATION AND SUMMARY OF CHANGES

3.1 The following chart shows the changes in asset allocation of the Fund from 1 October 2021 to 30 September 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

- 3.2 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.
- 3.3 Over the quarter to 30 September 2022, capital calls relating to the Pantheon Global Infrastructure fund, Quinbrook Renewables Impact mandate, Macquarie Renewable Infrastructure fund and CVC Credit Private Debt fund took place.

4. LONDON CIV UPDATE

- 4.1 The value of City of Westminster Pension Fund investments directly managed by the London CIV as at 30 September 2022 was £839m, representing 50% of Westminster's investment assets. A further £358m continues to benefit from reduced management fees, through Legal and General having reduced its fees to match those available through the LCIV.
- 4.2 As at 30 September 2022, the London CIV had £23.8bn of assets under management of which £13.3bn are directly managed by the London CIV.
- 4.3 During the quarter, the London CIV undertook 28 meetings/engagements with Client Funds, including the AGM and annual conference, seed investor group discussions and monthly business updates.
- 4.4 All London CIV funds, that Westminster are invested, were on normal monitoring at quarter end. During the quarter, the London CIV carried out an in-depth review of the LCIV Global Alpha Growth Fund (Baillie Gifford), with London CIV remaining confident that the shortfall in returns can be recovered.
- 4.5 The London CIV are now working on the implementation stage of the LCIV UK Community Housing Fund. With the London CIV conducting due diligence to select the underlying managers, and the fund expected to be launched by the end of the year.
- 4.6 During the quarter, the London CIV published their annual Stewardship and Voting guidelines, as well as the Taskforce for Climate-Related Financial Disclosures (TCFD) for the reporting year ended 31 December 2021.
- 4.7 Please see the London CIV quarterly investment report as at 30 September 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:

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Background Papers: None

Appendices:

Appendix 1: Deloitte Investment Report, Quarter Ending 30 September 2022

Appendix 2: Deloitte Investment Report, Fee Benchmarking (exempt)

Appendix 3: London CIV Quarterly ACS Investment Report at 30 September 2022 (exempt)