



City of Westminster

Pension Board

Date:	1 February 2023
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.
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1. EXECUTIVE SUMMARY

- 1.1 This report presents the performance of the Pension Fund's investments to 30 November 2022, together with an update on the London CIV.
- 1.2 The Fund returned 0.16% net of fees over the quarter to 30 November 2022, underperforming the benchmark by -1.01%.

2. RECOMMENDATION

- 2.1 The Pension Board is asked to:
 - Note the performance of the investments.

3. BACKGROUND

- 3.1 This report presents a summary of the Pension Fund's performance to 30 November 2022.
- 3.2 The market value of investments decreased by £4m to £1.786bn over the quarter to 30 November 2022, with the Fund returning 0.16% net of fees. The Fund underperformed the benchmark by -1.01% net of fees, with the long lease property being the main detractor to performance. This followed market volatility subsequent to the unveiling of the Chancellor's mini budget on 23 September and Bank of England interventions in the UK Gilts market. The UK commercial property market as measured by the MSCI monthly index subsequently fell by -6.4% in October 2022. This was the largest single monthly fall ever experienced in the UK.
- 3.3 The Fund's underperformance was partially offset by outperformance within the Quinbrook Renewables Impact fund, Macquarie Renewable Energy fund and the London CIV Absolute Return fund, which outperformed by 2.74%, 2.63% and 2.94% net of fees respectively period.
- 3.4 Over the 12-month period to 30 November 2022, the Fund underperformed its benchmark net of fees by -3.65% returning -8.68%, with the equity mandates and fixed income portfolios being the main detractors to performance. The underperformance has largely been 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.
- 3.5 The Pantheon Infrastructure, Quinbrook Renewables and Macquarie Renewable Infrastructure mandates have performed strongly over the one-year period, outperforming their benchmarks by 16.75%, 24.82% and 15.62% net of fees, respectively. Over the longer ten-year period to 30 November 2022, the Fund outperformed the benchmark net of fees by 0.38%.
- 3.6 It should be noted that the investment advisor, 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.
- 3.7 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. The Paris Aligned version has a quantitative assessment process to screen out companies with particular levels of exposure to the fossil fuels industry, plus a qualitative one to screen out companies that will not

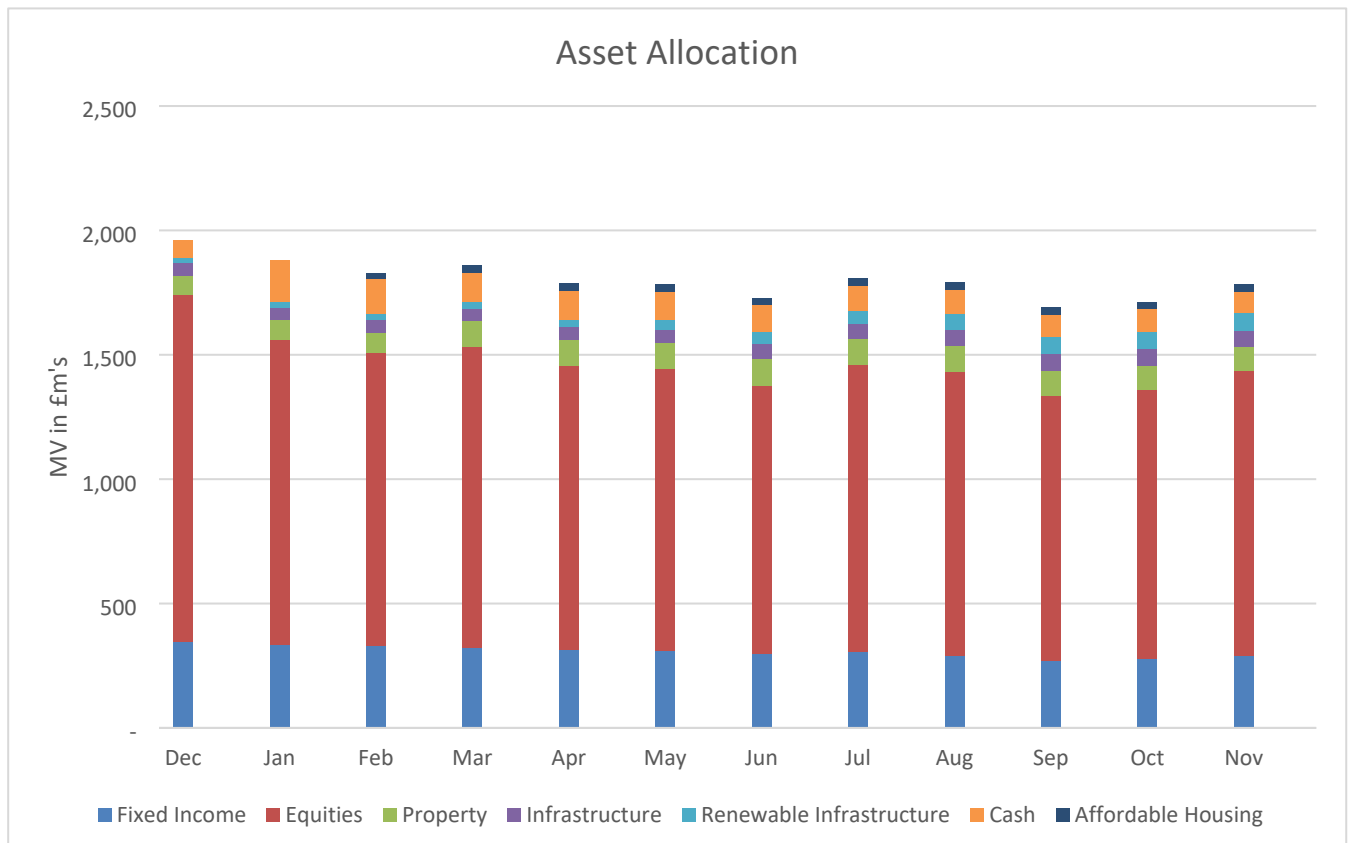
play a role in the future transition to a low carbon environment. This transition took place as scheduled on 5 December 2022.

3.8 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.

3.9 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 December 2021 to 30 November 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 November 2022, capital calls relating to the Pantheon Global Infrastructure fund, Quinbrook Renewables Impact

mandate, Macquarie Renewable Infrastructure fund, Man Group Affordable Housing and CVC Credit Private Debt fund took place.

- 3.4 During the quarter, sales took place within the Insight Buy and Maintain Bond fund, London CIV Absolute Return fund and NT Ultra Short Bond fund, to fund these capital calls.

4. LONDON CIV UPDATE

- 4.1 The value of City of Westminster Pension Fund investments directly managed by the London CIV as at 30 November 2022 was £878m, representing 49% 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 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.
- 4.4 The London CIV launched their UK Community Housing Fund during December 2022, with investments targeting social and affordable housing (50%), specialist housing (25%) and transitional supported housing (25%).
- 4.5 The investment advisor, Deloitte, will present this fund as a potential opportunity to the Pension Fund Committee at the next meeting on 9 March 2023. This follows the Committee's decision to withdraw the 2.5% commitment to the Triple Point Impact Housing Fund, with concerns regarding the level of diversification within the fund and the time taken to raise additional capital.

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: None