City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**9 March 2023**
Classification:	**General Release (Appendix 1 is exempt)**
Title:	**Strategic Investment Strategy Review**
Wards Affected:	**All**
Policy Context:	**Effective control over council activities**
Financial Summary:	**There are no direct financial implications arising from this report.**
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 details the investment strategy review undertaken by the Fund's investment advisor, Deloitte, shown as Appendix 1. A review of the current investment strategy has been undertaken, highlighting observations, the updated funding level and recommendations to contemplate when considering the new investment strategy.

2. RECOMMENDATIONS

2.1 The Committee is recommended to:

- discuss the proposals set out within Deloitte's investment strategy review and agree the most appropriate strategic asset allocation for the Fund going forward.

- approve that Appendix 1 to this report is not for publication on the basis that it contains information relating to the financial or business affairs of any particular person (including the authority holding that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. PROPOSALS AND ISSUES

Current Investment Strategy

3.1 The Fund's current strategic 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.

3.2 Since the 2019 valuation the funding position has significantly improved, rising to 128% in 2022. Given the stronger funding position there is an opportunity to reduce investment risk within the portfolio, taking into consideration wider investment market dynamics.

3.3 Based on the Fund's current strategic asset allocation, the expected annual return is 6.5% per annum, with a volatility of 12.0% per annum. Deloitte also estimates, by using its worst-case scenario modelling, the one-year 95% value at risk (VaR) to be £420m. VaR is a measure of how much the scheme's deficit could change in one year with a 1 in 20 probability.

3.4 Currently the largest contributor to funding risk is the Fund's large allocation to equities, with exposures to interest rate and inflation sensitivity also a significant contributor to risk. Therefore, there is an opportunity to reduce risk levels by reducing the Fund's exposure to more risky asset classes.

3.5 The Fund is expected to be cashflow positive until 2023/24 and neutral from 2024/25. However, Macquarie, Quinbrook and CVC Credit are expected to commence distribution income from 2025, this is forecast to produce an additional £15m of income per annum.

Issues to consider

3.6 The following observations have been highlighted for consideration when preparing the proposed new investment strategy:

- The Fund's equity allocation is overweight, with the Insight Buy and Maintain Bond portfolio also overweight. However, the Insight weighting will reduce as the CVC Credit Private Debt portfolio draws down.

- There is potential to reduce investment risk which will satisfy the Fund's lower return target, following the increase in funding level.

- The Fund is cashflow neutral and it is expected more income will be generated from illiquid asset cashflows over the next few years. Therefore, there is potential to switch off the income from other parts of the portfolio where no longer required.

- The 2.5% allocation to affordable and socially supported housing is yet to be allocated. The Deloitte report sets out opportunities within the London CIV UK Community Housing Fund and Man Group Community Housing Fund II. However, it is recommended that a full manager selection exercise is undertaken.

4. RECOMMENDATIONS AND NEXT STEPS

Strategy proposals

4.1 Deloitte has set out recommendations for the Fund's investment strategy, with the aim of reducing equity allocation risk and funding risk:

- **Rebalance:** rebalance the overweight and underweight allocations within the equity mandates, Multi Asset Credit fund and Insight Buy and Maintain Bond fund. Any excess cash to be held for the purpose of illiquid fund draw down requests.

- **De-Risk:** transition 5% from global equities into the Insight Buy and Maintain Bond fund. This has potential to reduce the VaR by £23m.

- **Cash management:** continue to use cash held within temporary investments (Northern Trust Short Duration Bonds and London CIV Absolute Return) to fund capital calls for illiquid mandates. Additionally, continue to fund the CVC Credit private debt drawdowns from the Insight Buy and Maintain Bond fund.

- **Affordable and socially supported housing:** undertake a manager selection exercise to identify a mandate for the 2.5% affordable and socially supported housing allocation.

4.2 The Committee should discuss and agree the most appropriate strategic asset allocation for the Fund going forward. Upon agreement of the above recommendations, a timeline for implementation, setting out a plan for 2023 in order of preference, will be established.

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: Investment Strategy Review (exempt)