



City of Westminster

Committee Report

Decision Maker:	PENSION FUND COMMITTEE
Date:	19 October 2023
Classification:	Public (Appendices 1, 2 and 4 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 2023, together with an update on the London CIV and funding level.
- 1.2 The Fund returned 2.5% net of fees over the quarter to 30 June 2023, performing broadly in line with the benchmark.

2. RECOMMENDATION

- 2.1 The Committee is asked to:
 - Note the performance of the investments and the updated funding level as at 30 June 2023.

- Approve that Appendices 1, 2 and 4 to this report are not for publication on the basis that they contain information relating to the financial or business affairs of any particular person (including the authority holding that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 June 2023. The investment performance report (Appendix 1) has been prepared by Isio, the Fund's investment advisor.
- 3.2 The market value of investments increased by £38.0m to £1.829bn over the quarter to 30 June 2023, with the Fund returning 2.5% net of fees. The Fund slightly underperformed the benchmark by -0.1% net of fees, with the Ruffer Absolute Return mandate being the main detractor to performance, primarily due to the portfolio's defensive positioning. The Fund's underperformance was partially offset by outperformance within the CVC Credit Private debt mandate and Abrdn Long Lease Property, which outperformed their benchmarks by 2.5% and 4.2% net of fees respectively.
- 3.3 Over the 12-month period to 30 June 2023, the Fund underperformed its benchmark net of fees by -1.0% returning 7.2%. This underperformance can be largely attributed to the Abrdn Long Lease Property, which underperformed its benchmark by -11.7%, owing to the detraction in long-dated property over the year. Over the longer three-year period to 30 June 2023, the Westminster Fund underperformed the benchmark net of fees by -1.1%.
- 3.4 It should be noted that Isio continues to rate the fund managers favourably.
- 3.5 Isio Group acquired Deloitte Total Reward and Benefits during May 2023, with the businesses fully integrated from 1 October 2023. There is no change to the current terms and conditions of our existing agreement. However, all rights and obligations have transferred to Isio Group Limited.
- 3.6 Please note during September 2023, the Fund's longstanding investment advisor, Kevin Humpherson, left Isio Group to join Ernest and Young. Kevin had been the Fund's primary investment consultant since 2015 and was instrumental in the Pension Fund's funding level rising from 80% during 2016 to 161% at 30 June 2023. Following Kevin's departure, Jonathan Moore and Andrew Singh will be the Fund's main contacts at Isio.
- 3.7 The Fund's existing contract with Isio Group will expire on 30 September 2024, with an option to extend a further two years to 30 September 2026. Given the acquisition of Deloitte Total Reward and Benefits by Isio Group and the key staff turnover since the contract was awarded, officers feel it

may be necessary to launch a tender process during 2024. The investment consultant tender process could commence during June 2024, with appointment prior to the contract expiration date of 30 September 2024.

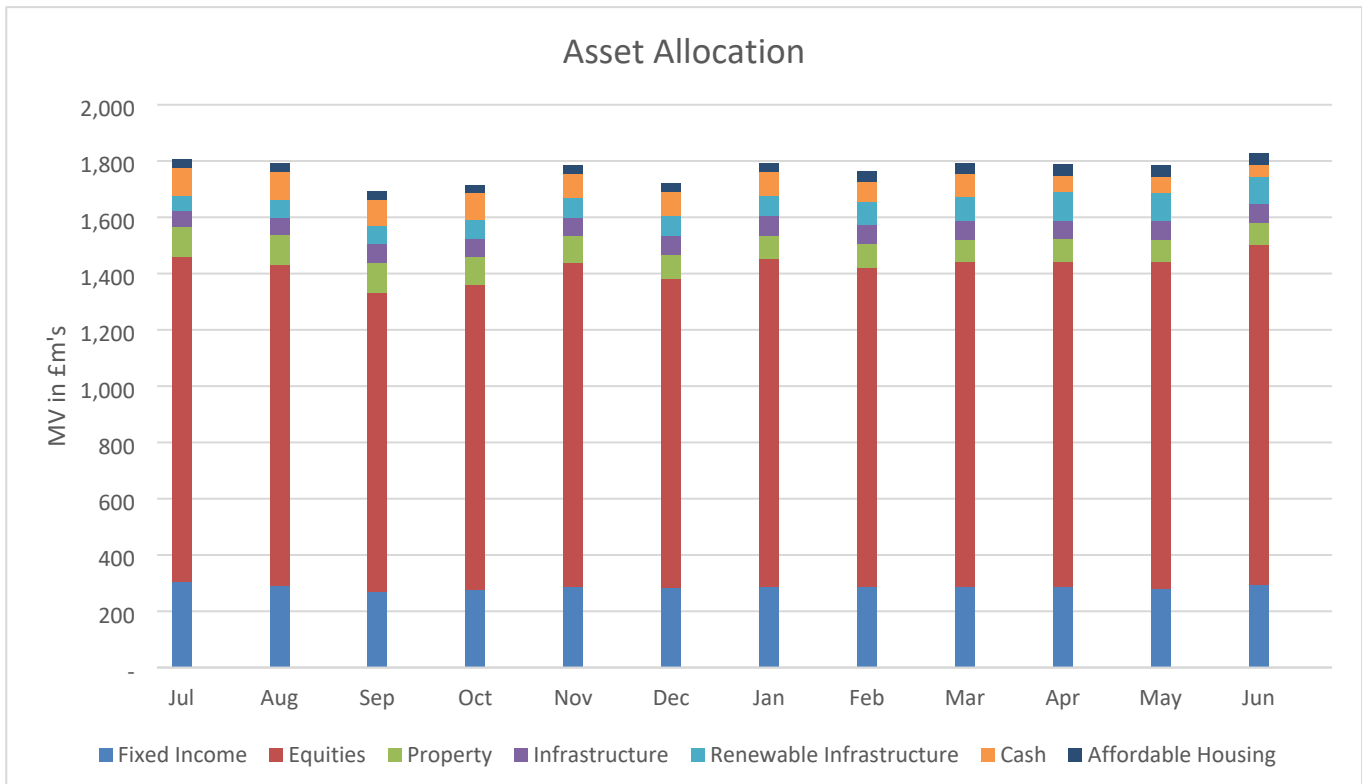
3.8 Since Q1 of 2023, the Fund's officers have engaged with asset managers and other related parties on a number of issues as follows:

- **Exposure to China:** following a Pension Board member query, as at February 2023, the Fund had 1.5% exposure to the China region, including within the LCIV Multi Asset Credit mandate, Baillie Gifford Global Alpha Equity mandate and the LGIM Future World Equity fund.
- **Controversial exposures:** following a scheme member query, officers ascertained the Fund's exposure to sectors including tobacco, alcohol, gambling, adult entertainment and weapons, with very small exposures (<1% of total Fund value) to tobacco, gambling and alcohol reported within the LGIM Future World Fund and Baillie Gifford Global Alpha Fund.
- **ShareAction Healthy markets Initiative:** as part of the healthy markets working group, officers had the opportunity to attend meetings and ask questions with a number of large retailers and manufacturers, including Tesco, Unilever, Nestle and Coca-Cola.
- **Silicon Valley Bank (SVB) and Signature Bank:** during March 2023, SVB and Signature Bank collapsed following large losses as a result of increases in interest rates and a major downturn in growth of the technology industry. The Pension Fund had direct exposure through its Legal & General passive equity mandate of 0.03% to SVB, with the asset manager subsequently writing the position down to zero value. Baillie Gifford had an exposure of 0.42% to Signature Bank, also subsequently revalued to zero and the position sold.

3.9 The estimated funding level for the Westminster Pension Fund has increased to 161% at 30 June 2023 (149% at 31 March 2023). This is largely as a result of an increase in the expected discount rate, which is linked to UK gilts. Please see Appendix 3 for the actuary funding level report.

4. ASSET ALLOCATION AND SUMMARY OF CHANGES

4.1 The chart shows the changes in asset allocation of the Fund from 1 July 2023 to 30 June 2023. 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 55% of assets within equities, 19% in fixed income, 11% in renewable infrastructure, 5% within infrastructure, 5% within property and 5% to affordable and socially supported housing.

4.3 Over the quarter to 30 June 2023, capital calls relating to the Quinbrook Renewables Impact mandate, Macquarie Renewable Infrastructure, Man Group Community Housing fund and CVC Credit Private Debt fund took place.

4.4 During the quarter, sales took place within the NT Ultra Short Bond fund and Insight Buy and Maintain Bond mandate to fund these capital calls.

5. LONDON CIV UPDATE

5.1 The value of Westminster Pension Fund investments directly managed by the London CIV as at 30 June 2023 was £896m, representing 49% of Westminster's investment assets. A further £435m continues to benefit from reduced management fees, through Legal and General having reduced its fees to match those available through the LCIV.

5.2 As at 30 June 2023, the London CIV had £27.8bn of assets under management of which £15.1bn are directly managed by the London CIV. All

London CIV funds, that Westminster are invested in, were on normal monitoring at quarter end.

- 5.3 During the quarter, the London CIV undertook 54 meetings/engagements with Client Funds, including seed investor groups, investment consultant updates, specific pooling opportunities and monthly business updates.
- 5.4 The London CIV aims to launch its Buy and Maintain Credit strategy by the end of 2023, with the London CIV investment team conducting in-depth assessments of four short-listed investment managers. The new fund will offer distinct long and short duration profiles to provide flexibility to target specific levels of duration.
- 5.5 During the quarter, the London CIV announced that the Chief Investment Officer (CIO), Jason Fletcher, would be leaving the company in October 2023. The London CIV are currently conducting a recruitment exercise to appoint a replacement CIO.
- 5.6 Please see the London CIV quarterly investment report as at 30 June 2023, attached at Appendix 4.

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: Isio Investment Report, Quarter Ending 30 June 2023 (exempt)

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

Appendix 3: Hymans Robertson Funding update report at 30 June 2023

Appendix 4: London CIV Quarterly ACS Investment Report at 30 June 2023 (exempt)