CITY OF WESTMINSTER

MINUTES

Pension Fund Committee
MINUTES OF PROCEEDINGS

Minutes of a hybrid meeting of the **Pension Fund Committee** held on **Thursday the 29th of June 2023**, Room 18.01 - 18.03, 18th Floor, 64 Victoria Street, London, SW1E 6QP and via Microsoft Teams.

Members Present: Councillors Robert Eagleton, Maggie Carman, Ryan Jude, Ed Pitt Ford.

Also Present: Mathew Dawson (Strategic Investment Manager), Billie Emery (FM Pensions), Sarah Hay (Strategic Pension Lead), Kevin Humpherson (Deloitte), Diana McDonnell-Pascoe (Pension Project and Governance Lead), Jonny Moore (Deloitte), Jack Robinson-Young (Cabinet and Councillor Coordinator), Katherine Stagg (Committee and Councillor Coordinator) Phil Triggs (Tri-Borough Director of Treasury and Pensions)

1 MEMBERSHIP

1.1 There were no changes to the membership.

1.2 The Chair of the Pension Fund Committee welcomed Councillor Maggie Carman to the Committee as a new permanent member.

2 DECLARATIONS OF INTEREST

2.1 Councillor Pitt Ford declared that with regards to Item 13, Asset Allocation Review, that he holds shares with the company Octopus Group Holdings Ltd and would therefore not be present for that agenda item.

3 MINUTES

3.1 The Committee approved the minutes of its meeting on the 9th of March 2023.

3.2 **RESOLVED**

That the minutes of the meeting held on Thursday the 9th of March be signed as a correct record of proceedings.

4 LOCAL GOVERNMENT PENSION SCHEME PROJECTS & GOVERNANCE UPDATE

4.1 The Pension Project & Governance Lead, Diana McDonnell-Pascoe, presented her report outlining the current position of the Guaranteed Minimum Pension (GMP), McCloud, Pensions Dashboard, Pension Website Review and the Internal and External Audit.

4.2 The GMP has had full engagement from all parties and Ms McDonnell-Pascoe foresaw future governance running smoothly. As of the end of May this year all post-PI data had been sent from Hampshire Pension Services to Mercer who were processing this in line with the project plan.

4.3 The McCloud data sets are still being compiled to be sent on to Hampshire and the Pension Project & Governance Lead reported that they had successfully engaged with Oracle and a third-party supplier, Claremont, to access the final part of the data. Hampshire are drafting a proposal based on the Scheme Advisory Board guidance on how to apply the remedy to poor data sets, or instances of no data sets, from employers.

4.4 The Pensions Dashboard programme deadline has now been extended to the 31st of October 2023 and Hampshire have engaged Civica to be the integrated service provider for the project.

4.5 The Pension Project & Governance Lead informed the Committee that the External Audit is expected in July, and that she expects greater collaboration with the auditors, Grant Thornton.

4.6 The Internal Audit has been completed for the fourth of the four quarters in FY2022 / 23 and the governance piece is still being developed, the Pension Project & Governance Lead informed the Committee that she is happy with the progress to date.

5 PENSION ADMINISTRATION UPDATE

5.1 The Pensions Officer People Services, Sarah Hay, introduced her report outlining the performance of Hampshire Pension Services (HPS). This covered KPI data for the period January 2023 to May 2023 which she informed the Pension Fund Committee was 100% within target.

5.2 The Committee received an update on complaints received and were informed that two related to transfers out of the Fund and another that has progressed to an IDRP stage one. She further informed the Committee that she is now working with HPS to ensure the other transfer is resolved.

5.3 The Committee were informed that the annual returns were positive, and the annual returns have been submitted with queries seemingly lower than last year. The Committee were informed that the PAS changes in relation to missing data will be checked to make sure the quality of data does not go backwards.

5.4 The Committee were informed that the number of deferred fund member statements were high at 99.38% for 2022 / 23. The Pensions Officer People Services said it was her aim to produce active member statements in line with the deadline of 31st August 2023.

5.5 The Committee questioned the £25,000 for an uptick in administration costs, and were informed that as membership figures rose, so did the cost of administrating them. The Pensions Officer People Services believed this is worth the cost due to the good service being received.

5.6 The Committee asked for clarity on what a reserve refund was and were informed that these were people in the fund with less than 2 years' service.

5.7 The Committee asked for further information on one of the complaints and were informed by the Pension Project & Governance lead that this was due to a person leaving local government and moving into the private sector and the governance issues around this.

6 FUND FINANCIAL MANAGEMENT

6.1 The Tri-Borough Director of Treasury and Pensions addressed the Pension Fund Committee and spoke briefly on current risks to the governance outlook.

6.2 The Tri-Borough Director of Treasury and Pensions informed the Committee that at March 31 2023, the balance in the Pension Fund's Lloyds bank account was £774k. The Committee were informed that over the past 12 months, payments and receipts have remained steady. Fund officers monitor the cash balance closely and take necessary measures to ensure adequate liquidity.

6.3 As of March 31 2023, the Committee were informed that the Fund held £19.4m in cash with Northern Trust.

6.4 The Committee asked why the trend on liability risk had not been judged as a downward trend and remaining static, the Tri-Borough Director of Treasury and Pensions replied informing Members that this paper was written before the most recent announcement of CPI inflation and subsequent interest rate rises.

6.5 The Committee asked how high the risk was in relation to the Task Force on Climate-related Financial Disclosure regulations, in reply, the Tri-Borough Director of Treasury and Pensions stated that the Fund has been monitoring the carbon impact on equities for the past 4/5 years and there has been a 75% reduction in that time.

6.6 **RESOLVED**

That the Committee noted the top five risks for the Pension Fund

That the Committee noted the cashflow position for the Pension Fund bank account and cash held at custody, the rolling twelve-month forecast and the rolling three-month forecast.

7 IMC REVIEW & BUSINESS PLAN

7.1 Phil Triggs, the Tri-Borough Director of Treasury and Pensions, introduced the paper which recommended that Local Authority pension funds create an annual business plan outlining their objectives for the next one to three years. The business plan discussed in this document includes objectives in various areas such as administration, communication, actuarial/funding, pension fund committee members, financial and risk management, investment, and the local pension board.

7.2 The forecast budget for 2023/24 provided details on the Fund's expenses categorised into administration, oversight and governance, and investment management. The Committee were informed that administration expenditure fees are expected to be slightly higher due to increased Hampshire staffing costs and Westminster membership data. Additionally, project costs related to the McCloud project and guaranteed minimum pension rectification are anticipated to increase. Governance and oversight expenses were also expected to be slightly higher compared to previous years due to an increase in Finance employee recharge and investment advisory costs following an asset allocation review based on the triennial valuation.

7.3 The Tri-Borough Director of Treasury and Pensions informed the Committee that investment management costs were projected to increase further in 2023/24 due to the LGPS Cost Transparency Code, increased asset market values, and a transition to more complex asset classes that attract higher management fees.

7.4 The Committee were informed that an outturn report will be presented to a future meeting providing updates on progress, the outcomes of the Pension Fund business plan, and a summary of expenditure.

7.5 The Committee asked if training could be arranged on the London CIV, and the Tri-Borough Director of Treasury and Pensions confirmed this could be arranged.
ACTION: That Officers will arrange for training to be scheduled for Members of the Pension Fund Committee in relation to the London CIV.

7.6 The Committee asked why the training budget had increased, while also welcoming the additional training. In reply, Members were informed that there are numerous training days throughout the year, and it was anticipated that the increased provision of £5,000 was an adequate sum.

7.7 The Committee welcomed that there was only one CMA assessment performance rating identified as “yellow” tracking for good, with all others excellent.

7.8 **RESOLVED**

That the Committee commented on and approved the business plan and budget for 2023/24 (Appendix 1).

That the Committee approved that Appendix 3 to this report was 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).

8 RESPONSIBLE INVESTMENT STRATEGY

8.1 The Tri-Borough Director of Treasury and Pensions introduced the report and informed the Committee that as of February 2023, the Fund has become a signatory to the Financial Reporting Council's UK Stewardship Code, an achievement held by only a few LGPS Funds.

8.2 The Committee were informed that this statement provides detailed coverage on various topics, including the investment journey, carbon reduction efforts, alignment with the United Nations Sustainable Development Goals (SDGs), and voting and engagement strategies to encourage sustainable business practices.

8.3 The Committee were informed that the Fund has made conscious investment decisions since 2019 to enhance the ESG impact of its investments. These decisions include transitioning equities into ESG tilted mandates, investing in renewable infrastructure, and supporting affordable and socially responsible housing.

8.4 The Committee were informed that the Fund has taken significant steps to reduce its carbon footprint, resulting in approximately a 75% decrease in CO2 emissions by December 2022. The RI Statement also highlighted how the Pension Fund contributes to the United Nations SDGs through its investment assets, aligning with the goals established by the international community. Collaboration with key stakeholders in the investment community is emphasised as a means to influence companies to operate their businesses more sustainably, including active voting and engagement practices.

8.5 The Committee asked if there was anything more that should be done for sustainable investments. In reply, Officers said this would come through in a general strategy review, which came before Members at the March meeting. Anything further could of course be looked into on a rolling basis.

8.6 **RESOLVED**

That the Committee approved the updated RI Statement to be published on the Council's website

9 SUSTAINABLE DEVELOPMENT GOALS

9.1 The Tri-Borough Director of Treasury and Pensions introduced his report, outlining that during 2015 all UN members adopted the 2030 Agenda for Sustainable Development with 17 goals. The Committee were informed that the Fund's asset managers already meet a number of the SDGs as set out by the United Nations. These include significant work towards addressing the gender pay gay, reducing deaths and illness from air pollution, developing reliable renewable infrastructure, efficient use of natural resources and improving impact on climate change mitigation.

9.2 The Fund's renewable infrastructure manager, Macquarie, holds a number of assets within its portfolio including onshore and offshore wind and solar. The manager meets a number of the UN SDGs, set out in the report.

9.3 The Committee were informed that the Pension Fund's affordable housing manager, Man Group, has a long-term goal of providing 13,000 new homes that cost no more than 35% of an average household's gross income. They have demonstrated achievement of a number of UN SDGs, set out in the report.

9.4 The Committee were informed that the Pension Fund's second renewables manager, Quinbrook, invests solely in UK assets at both the development and operational stage. Target assets include solar PV and onshore wind, alongside supporting infrastructure such as battery storage and connection assets.

9.5 The Committee were informed that Abrdn manage the Fund's allocation to long lease property, which aims to provide long-term and inflation-linked income through UK property investments.

9.6 **RESOLVED**

That the Committee noted the progress the Fund's asset managers have made in meeting the UN's 17 SDGs.

10 ANNUAL REPORT & ACCOUNTS

10.1 The Committee were presented to by the Tri-Borough Director of Treasury and Pensions and informed that the Fund's Annual Statement of Accounts for 2022/23 were prepared ahead of schedule and are awaiting external audit, with no significant findings anticipated. The draft Statement of Accounts will be presented at the Audit and Performance Committee, and the final version will be presented after the completion of the external audit.

10.2 Turning to the Annual Report overview, the Tri-Borough Director of Treasury and Pensions informed Committee Members that the Fund's net assets decreased by £81.8 million to £1.794 billion at the end of March 2023. It was outlined that the decline is attributed to poorer performance in equities, long lease property, and fixed income assets during the year.

10.3 The Committee were informed that the Fund's overall return for the financial year ending March 2023 was -3.4%, underperforming its benchmark by -0.9% net of fees. This underperformance was primarily due to weak performance in long lease property, global equities, and fixed income portfolios. Some funds, such as Pantheon infrastructure, Macquarie renewables, and Quinbrook impact, performed well with net returns of 22.6%, 21.2%, and 30.6% respectively, after accounting for fees.

10.4 The Tri-Borough Director of Treasury and Pensions said that the funding level for the Westminster Pension Fund had increased by 5% to 149% as of March 2023, compared to 144% at the end of December 2022.

10.5 The Tri-Borough Director of Treasury and Pensions informed the Committee that during the financial year 2022/2023, HPS had achieved 100% performance across various administration key performance indicators, with a reduction in administration costs since the transition from Surrey CC.

10.6 **RESOLVED**

That the Committee approved the draft Pension Fund Annual Report for 2022/23.

That the Committee delegated completion and approval of the final document to the Tri-Borough Director of Treasury and Pensions in consultation with the Chair.

That the Committee noted the Pension Fund accounts for 2022/23.

11 QUARTERLY PERFORMANCE

11.1 The Committee were updated on the performance of the Fund by the Tri-Borough Director of Treasury and Pensions and that the current target asset allocation for the fund is 60% in equities, 19% in fixed income, 6% in renewable infrastructure, 5% in infrastructure, 5% in property, and 5% in affordable and socially supported housing.

11.2 During the quarter ending 31 March 2023, capital calls had been made for the Quinbrook Renewables Impact mandate, Man Group Community Housing fund, and CVC Credit Private Debt fund. Sales were executed within the NT Ultra Short Bond fund and LCIV Absolute Return mandate to fund these capital calls.

11.3 Turning to the London CIV, the Tri-Borough Director of Pensions and Treasury informed the Committee that as of March 31 this year, the Fund had £872 million (of which, 49% were investment assets) directly managed by the

London CIV. An additional £408 million continues to benefit from reduced management fees due to Legal and General matching the fees available through the London CIV. The London CIV had £26.8 billion of assets under management as of March with £14.3 billion directly managed by the London CIV. All funds in which Westminster is invested were under normal monitoring at the end of the quarter. During the quarter, the London CIV held 76 meetings/engagements with Client Funds.

11.4 The Committee asked on the London CIV report, with the MAC and Absolute Return funds having carbon exposure if they counted as being actively managed and what can be done about carbon exposure. In reply the Tri-Borough Director of Treasury and Pensions said that these funds are actively managed but not to same extent as active equities, being they are a different asset class.

11.5 **ACTION:** That Officers will speak to the CIV regarding the carbon exposure and report back to the Pension Fund Committee.

11.6 **RESOLVED**

That the Committee noted the performance of the investments and the updated funding level as at 31 March 2023

That the Committee approved all 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)

12 ASSET ALLOCATION FOLLOW UP

12.1 The Tri-Borough Director of Treasury and Pensions introduced his report which outlined to the Committee that the current strategic asset allocation of the Fund is as follows: 60% in equities, 19% in fixed income, 6% in renewable energy infrastructure, 5% in infrastructure, 5% in property, and 5% in affordable housing.

12.2 The Committee were informed that the Fund's funding position has significantly improved since the 2019 actuarial valuation, increasing from 99% to 149% as of March 31, 2023. With the stronger funding position, there is an opportunity to reduce investment risk in the portfolio, considering the broader dynamics of the investment market.

12.3 The Committee were updated on the equities allocation, which is currently the biggest contributor to funding risk. Additionally, the 2.5% target allocation to affordable housing has not been allocated yet. The Fund is cashflow neutral and there is no immediate concern for having to generate additional income. However, the Committee were informed that the infrastructure mandates are expected to generate supplementary income in the future.

12.4 During the investment strategy review, Isio recommended transferring 5% of the Fund's global equities into the Insight Buy and Maintain Bond fund. This shift was expected to decrease the Fund's volatility from 12.0% to 11.0% per annum and enhance risk-adjusted returns by 0.3% annually. The primary motivation behind this proposal was to ensure that member benefits can be met on time and fulfil the fiduciary duty of the Pension Fund Committee.

12.5 The Committee were informed that as funding levels generally increase, pension schemes will usually reduce investment and funding risks by transitioning into less volatile asset classes. Introducing higher risk at this stage could jeopardize the funding gains and surpluses achieved since the 2019 valuation, potentially leading to reductions caused by negative market movements.

12.6 The Committee were informed that Isio's had maintained their view that the most appropriate strategy going forward would be to reduce risk by increasing the Pensions Fund's fixed income allocation by 5%, funded by a reduction in equity mandates. Additionally, Isio suggested considering renewable infrastructure as a replacement for parts of the fixed income allocation if it meets the lower-risk criteria. The Tri-Borough Director of Treasury and Pensions informed Members that Officers were supportive of this approach.

12.7 The Tri-Borough Director of Treasury and Pensions informed the Committee that the source of the 5% reduction in equity allocated needed to be considered, with 1/3 managed passively by LGIM and the remaining 2/3 held in active portfolios. Isio put the following recommendations to the Committee:

Rebalance: to rebalance the overweight and underweight allocations within the equity and fixed income mandates. With any excess cash held for the purpose of illiquid fund draw down requests.
De-risk: to transition 5% from the active global equity mandates into the Quinbrook Renewable Energy Infrastructure. The Committee was recommended to take 2.5% from each of the two active global equity funds.
Affordable housing: to allocate 2.5% to the LCIV affordable housing sub-fund.

12.8 **RESOLVED**

That the Committee discussed the recommendations, as set out within Isio's investment strategy review follow up, and agree an appropriate strategic asset allocation as set out above for the Fund going forward.

That the Committee approved that Appendices 1 and 2 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)

13 AFFORDABLE HOUSING SHORTLIST

13.1 Before discussion on this item took place, Councillor Ed Pitt Ford recused himself due to a conflict of interest. He was not present for this item and did not return to the Committee as this was the last item on the agenda.

13.2 At the June meeting of 2021, the Committee received a report from the investment advisor (which was at the time Deloitte) regarding the residential property asset class. The aim was to explore options for an inflation protection mandate. The committee decided to proceed with a manager shortlist and selection process for an affordable housing investment manager. They allocated 5% of assets to the affordable housing asset class, with funding to come from the equity allocation. Initially, 2.5% was allocated to the Man Group Community Housing Fund, leaving 2.5% as of yet unallocated.

13.3 Turning to the Fund Manager Shortlisting Process, the Committee were informed that Isio (the Fund's investment advisor) had conducted a shortlist selection process researching a longlist of managers offering affordable housing strategies in the market. Basing this on key criteria such as investment managers targeting affordable housing, strategies currently raising capital, and strategies with strong expected cash yields and quick distribution. Isio has now proposed a shortlist of managers for consideration by the Committee.

13.4 **RESOLVED**

The Committee agreed to allocate the 2.5% remaining affordable housing allocation to the London CIV UK Housing Fund.

That the Committee approved 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).

The meeting ended at 20:33

CHAIR: ________________ **DATE:** ________________