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City of Westminster

Committee Agenda

Title:	**Pension Fund Committee**
Meeting Date:	**Tuesday 20th September, 2016**
Time:	**7.00 pm**
Venue:	**Rooms 3 and 4, 17th Floor, City Hall, 64 Victoria Street, London SW1E 6QP**
Members:	**Councillors:** Suhail Rahuja (Chairman) Antonia Cox Ian Rowley Patricia McAllister

Members of the public are welcome to attend the meeting and listen to the discussion Part 1 of the Agenda

Admission to the public gallery is by ticket, issued from the ground floor reception at City Hall from 6.00pm. If you have a disability and require any special assistance please contact the Committee Officer (details listed below) in advance of the meeting.

An Induction loop operates to enhance sound for anyone wearing a hearing aid or using a transmitter. If you require any further information, please contact the Committee Officer, Toby Howes, Senior Committee and Governance Officer.

Tel: 7641 8470; Email: thowes@westminster.gov.uk
Corporate Website: www.westminster.gov.uk

Note for Members: Members are reminded that Officer contacts are shown at the end of each report and Members are welcome to raise questions in advance of the meeting. With regard to item 2, guidance on declarations of interests is included in the Code of Governance; if Members and Officers have any particular questions they should contact the Head of Legal & Democratic Services in advance of the meeting please.

AGENDA

PART 1 (IN PUBLIC)

1. MEMBERSHIP

To report any changes to the Membership of the Committee.

2. DECLARATIONS OF INTEREST

To receive notifications of interest by Members and Officers of any personal or prejudicial interest.

3. MINUTES **(Pages 1 - 8)**

To approve the Minutes of the meeting of the Pension Fund Committee held on 21st June 2016.

4. TRIENNIAL VALUATION UPDATE **(Pages 9 - 12)**

Report of the City Treasurer.

5. PENSION BOARD ANNUAL REPORT 2015-2016 **(Pages 13 - 24)**

Report of the City Treasurer.

6. PENSION FUND ADMINISTRATION UPDATE **(Pages 25 - 30)**

Report of the Director of People Services.

Includes updates on:

- Meeting with Surrey County Council – Outcomes and Actions
- Internal Audit Update
- Key Performance Indicators – April 2016 to July 2016

Updates on Annual Benefits Statements and Timelines and Auto-enrolment to follow.

Charlie Parker
Chief Executive
13th September 2016

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CITY OF WESTMINSTER

MINUTES

Pension Fund Committee

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Fund Committee** held on **Tuesday 21st June, 2016**, Rooms 3 and 4, 17th Floor, City Hall, 64 Victoria Street, London SW1E 6QP.

Members Present: Councillors Suhail Rahuja (Chairman), Antonia Cox, Patricia McAllister and Ian Rowley.

Officers Present: George Bruce (Tri-Borough Director of Treasury and Pensions), Sarah Hay (Pensions and Payroll Officer), Steven Mair (City Treasurer), Carmel Millar (Director of People Services), Nikki Parsons (Pension Fund Officer) and Toby Howes (Senior Committee and Governance Officer).

Also Present: Kevin Humpherson (Deloitte) and Dr Norman Perry (Pension Board Representative)

1 MEMBERSHIP

1.1 There were no changes to the Membership.

2 DECLARATIONS OF INTEREST

2.1 Councillor Suhail Rahuja declared that he was employed by fund managers who have amongst their clients Hermes. However, he was not involved in any element of the work which relates to the Westminster Pension Fund and accordingly he did not regard this as a prejudicial interest.

3 MINUTES

3.1 **RESOLVED:**

That the Minutes of the meeting held on 22nd March 2016 be signed by the Chairman as a correct record of proceedings.

4 MINUTES OF PENSION BOARD

4.1 The Committee noted that the Minutes of the last Pension Board meeting held on 10th May 2016 would be circulated separately.

5 ASSET POOLING AND LONDON COLLECTIVE INVESTMENT VEHICLE UPDATE

5.1 George Bruce (Tri-Borough Director of Treasury and Pensions) presented the report and advised that the Government was largely satisfied with the London Collective Investment Vehicle's (CIV) response to its pooling criteria, however further information on infrastructure investments and fees savings were requested for the London CIV's detailed response required by 15th July. He confirmed that the proposed transfer of the Westminster Pension Fund's Baillie Gifford assets to the London CIV had been completed on 18th April 2016, following the agreement of the City Treasurer in consultation with the Chairman of the Committee. George Bruce envisaged that most of the transferring of assets from the Fund to the London CIV would take place during 2016 to 2020. He then drew Members' attention to Westminster City Council's specific response to the Government's criteria for pooling of assets and sought the Committee's approval.

5.2 During Members' discussions, clarification was sought as to whether all assets, including examples such as real estate, would need to be included under the London CIV, and if so, within what timelines. A further explanation was sought in respect of the Fund's costs submitted in response to the CEM benchmarking exercise and how these compared nationally. A Member commented on the need for caution in investing in infrastructure, particularly in respect of green sites. The Committee queried why the transfer of the Fund's passive equity investments with Legal and General Investment Management (LGIM) to the London CIV had been delayed from June 2016 to a likely date in September 2016. Councillor Ian Rowley advised Members that there was a useful article entitled "Survival of the unfittest: why the worst infrastructure gets built" in the Oxford Review of Economic Policy on the risks associated in investing in infrastructure and he would circulate this to the Committee and officers.

5.3 In reply to the issues raised by Members, George Bruce anticipated that all assets were likely to be transferred from the Fund to the London CIV at some stage and it was expected that the CIV would consist of around 40-45 mandates from a range of assets. He advised that four real estate mandates were expected to be included within the London CIV structure. George Bruce stated that it was expected that most of the Fund's assets would be transferred to the London CIV by 2020, however there was no legal requirement that this be undertaken and by this time. The Government had issued criteria by which assets did not need to be pooled, and such examples may include situations where it could be demonstrated that pooling such assets would bring more costs, and real estate assets where a strategic case could be made for them to held within the Fund. However, the revised Local Government Pension Scheme (LGPS) Management and Investment of Fund Regulations gave the Government powers to intervene and require that assets be pooled if it thought this was the appropriate action to take. George Bruce anticipated that local authorities would undertake the majority of transferring to their respective pooled vehicles between now and 2020 and most assets would be pooled by 2022. It was not clear how the Government would respond to a Fund failing to pool assets until such a situation arose.

George Bruce advised that there was no current allocation of assets in infrastructure for the Fund, however a target allocation of 5% for this class had been set in the Fund's Statement of Investment Principles.

5.4 In respect of the CEM benchmarking exercise, George Bruce advised that broadly Funds were structured in a similar way, however the Government was still seeking further standardisation. The Westminster Pension Fund's costs were slightly below the national average in 2013, however they were marginally above in 2015 and this could mainly be attributed to performance fees for Majedie equity fund managers who had achieved higher returns for the Fund. In response to a further query from Members, George Bruce stated the figures that would be made publically available would be the CIVs estimated costs savings from pooling. He acknowledged the risks highlighted by Members in investing in infrastructure and the Government had accepted local authorities' rights to determine the level of investing in infrastructure assets, however it would continue to encourage such investments. George Bruce advised that the transfer of LGIM assets to the London CIV had been delayed whilst stamp duty and other tax implications were being addressed.

5.5 The Chairman concluded discussions on this item by emphasising that investing in infrastructure assets would only take place where it was seen to be beneficial to the Fund and was in line with its Statement of Investment Principles and he reiterated the Committee's concerns in investing in greenfield sites and the need to exercise caution in this area.

5.6 **RESOLVED:**

That the Westminster specific response as set out in Appendix 2 of the report be agreed for submission to the Government in July 2016.

6 DRAFT PENSION FUND ANNUAL REPORT AND STATEMENT OF ACCOUNTS 2015-16

6.1 Nikki Parsons (Pension Fund Officer) presented the report and advised that the draft Annual Statement of Accounts for 2015-16, including the Pension Fund accounts, had been submitted for external audit on 9th April, 12 weeks ahead of the statutory requirement of 30th June. However, new arrangements introduced by the Government allowing a 30 working day inspection period before a local authority may approve and publish its accounts meant that the accounts were to be presented to the Audit and Performance Committee for approval on 14th July, the earliest permitted date. Nikki Parsons referred to the topics covered by the Pension Fund Annual Report 2015-2016 and she sought agreement of Members to delegate approval of the final report to the Tri-Borough Director of Treasury and Pensions in consultation with the Chairman.

6.2 During discussions, a Member commented that the Audit and Performance Committee had raised questions in respect of Pension Fund payments being incorrectly charged and she sought further details on this. The Chairman welcomed the promptness in which the accounts had been submitted for external approval and the clearer way in which the accounts had been reported. He sought an explanation of what ISAE in respect of type of assurances meant , what were the transactional costs that were referred to in the analysis of operational expenses and why had schools seemingly been classified as administrating authorities in the report. The Chairman also requested that the figure at the bottom of Note 6 in the report, contributions receivable, be made clear that it is the total contributions received.

6.3 In reply to the issues raised, Steven Mair (City Treasurer) advised that some pension payments had been incorrectly coded in 2015-16, however these had since been identified and corrected following a thorough check. The external auditors had been complimentary of the Pension Fund Statement of Accounts and had only raised four minor issues in respect of presentational matters.

6.4 Nikki Parsons advised that there were some errors in the annual report and these will be duly corrected, whilst the Design Team version of the report would also need to be checked.

6.5 George Bruce advised that ISAE referred to the various slightly different assurance standards that applied in recording and testing internal controls depending on the accountancy body that had issued the standard. In respect of transactional costs referred to in analysis of operational expenses, these could include commissions, stamp duties and registration fees. George Bruce confirmed that the schools listed in the report were scheduled bodies under the Council.

6.6 The Chairman requested that an explanation of the type of assurances and transactional costs be included in the report, as well as highlighting that schools were members of the Pension Scheme as scheduled bodies.

6.7 **RESOLVED:**

That the draft Pension Fund Annual Report be noted and that approval of the final report be delegated to the Tri-Borough Director of Treasury and Pensions, in consultation with the Chairman.

7 PENSIONS ADMINISTRATION UPDATE

7.1 Carmel Millar (Director of People Services) presented the first report on Pension Auto Re-Enrolment and advised that BT was due to send out letters advising those who will be opted into the scheme and those who are not eligible in the next few days. In reply to a query from Members, Sarah Hay (Pensions and Payroll Officer) anticipated that around 200 people would receive letters advising them of this, however once the exact figure from BT was provided, this would be communicated to the Committee.

7.2 Carmel Millar then presented the second report on Surrey County Council Administration Performance and advised that performance had deteriorated between April 2015 and March 2016, primarily due to BT's lack of staff that were knowledgeable of LGPS requirements, as well as the lack of interface between BT's Agresso and the Altair software used for administering the pension scheme. Surrey County Council had also taken on pension administration work with the Council's other tri-borough partners, which had placed an additional strain. The Council was working with BT and Surrey County Council to improve performance and it had communicated the necessity of this. Of particular concern was the performance in payment of pensions to scheme members who had recently retired and this matter had been raised at a recent meeting with Surrey County Council and BT. Carmel Millar added that Surrey County Council had also undergone an internal re-organisation and recruiting more staff to administer the pension scheme.

7.3 During discussions, Members sought clarification as to what notifications were not being provided. A Member asked whether the problems being experienced were primarily due to BT and could action be taken in respect of a sub-standard performance in terms of the service level agreement. The Committee expressed its concern about the performance issues, especially in relation to delayed pension payments to scheme members who had recently retired and the impact it may have on their lives.

7.4 In reply to the issues raised, Carmel Millar explained that there were instances of delays in some notifications about staff who had just retired and consequently there were delays to their initial pension payments. Sarah Hay added that in some instances pension payments had been as late as a month after they were due. She felt that BT and Surrey County Council were equally attributable to the problems being experienced.

7.5 Steven Mair advised that the contract with BT was extensive and there were a number of avenues open to the Council to take action in respect of the sub-standard performance experienced. The Council was presently in commercial negotiations with BT on this matter and staff had put considerable efforts in trying to resolve this. There had also been a number of Audit and Performance Committee meetings that had taken place solely to discuss this issue. George Bruce added that separate key performance indicators for Surrey County Council are included within the annual accounts.

7.6 The Chairman requested that he meet with Surrey County Council, along with any other Committee Members who wished to attend, in order to have the opportunity to impress upon Surrey County Council the implications of the problems being considered and the need to prioritise in resolving them. He requested that the meeting take place in July, prior to the next Committee meeting.

8 TRIENNIAL VALUATION UPDATE

8.1 Carmel Millar updated Members on the triennial valuation and confirmed that the data had been deemed fit for purpose to be submitted for valuation. In reply to queries from Members, Sarah Hay (Pensions and Payroll Adviser) advised that previous problems with the quality of data were attributable to the lack of interface from BT in recording joiners and leavers correctly which would affect liability calculations. However, she advised that these issues had since been largely resolved.

9 FUND FINANCIAL MANAGEMENT

9.1 George Bruce presented the report and began by referring to the Risk Register that gauged the likely impact of the identified risks to the Fund. Three of these risks had decreased in terms of impact from the previous quarter, these being: Failure of custodian or counterparty, whose impact score had decreased to reflect the introduction of the pooling of Baillie Gifford assets to the London CIV; Introduction of European Directive MiFID II that had decreased due to the delay in its introduction, and; Failure of financial system that had decreased due to the accuracy and timeliness of payment processing as identified in the Pension Fund Statement of Accounts 2015-16 and the subsequent audit undertaken by Grant Thornton. George Bruce advised that the Risk Register currently lacked an explanation as to how the likely impact of a particular risk was gauged and this would be included in the Risk Register that was to be reported to the next meeting of the Committee. It would also include an explanation as to what was meant by classifying a particular risk with the impact stated.

9.2 George Bruce confirmed that as of 31st March, the Fund had complied with the LGPS Management and Investment of Funds Regulations 2009. George Bruce also advised that cashflow analysis had indicated a requirement to release £18 million of assets during 2016-17 and it was proposed to meet this by releasing overweight equity mandates with Baillie Gifford and Longview.

9.3 Members commented on the importance of focusing on higher impact risks. It was asked whether an advance could be arranged where a scheme member had not received their pension payment in time. Views on how quickly the Fund was maturing as pension payments rose were also sought.

9.4 In reply, Sarah Hay advised that an advance payment could be arranged with Surrey County Council where scheme members were in difficulty as a result of not receiving their pension payment in time. She advised that an assessment of how the Fund was maturing would be included as part of the triennial valuation.

9.5 **RESOLVED:**

1. That the updated risk register for the Pension Fund be approved and that it be noted that a further review will be undertaken by officers on the scoring process.

2. That the Fund's compliance with the limits specified in Schedule 1 of the LGPS (Management and Investment of Funds) Regulations 2009 be noted.

3. That the cashflow position of the Fund be noted and that approval be given for cash requirements to be funded from the most overweight mandates.

10 QUARTERLY PERFORMANCE UPDATE

10.1 Kevin Humpherson (Deloitte) provided an update on quarterly performance and advised that the Fund had performed below the benchmark for quarter 4 of 2015-2016, mainly due to underperformance of the active equity manager, Baillie Gifford, and the property manager, Standard Life. However since then, performance had improved and all three active mandates had performed above the benchmark. Kevin Humpherson stated that there were no issues of concern to raise on any of the fund managers. He advised that over the last three years, performance remained positive and the performance of Majedie and Hermes had been key to this.

10.2 Kevin Humpherson informed Members that Longview had agreed terms of principles in respect of participation in the London CIV, whilst Majedie were also showing more enthusiasm in becoming involved.

10.3 The Committee welcomed developments in respect of Longview and Majedie and the prospect of them participating in the London CIV. The views of Majedie having their fees reduced or capped in participating in the CIV was asked.

10.4 In reply, Kevin Humpherson felt that Majedie now had a greater understanding of the values of local authorities and were making more efforts to meet the terms of the London CIV, including fees. He added that Majedie's earlier reluctance to be involved in the London CIV may have been due to concerns they had about their capacity. George Bruce added that it was important that the Westminster Fund had a representative on the London CIV Investment Advisory Committee in order to ensure its views were heard. He stated that he had been nominated to be the Tri-Borough representative to the London CIV's Advisory Committee.

10.6 The Chairman requested that an update on Majedie's intentions in respect of the London CIV be circulated to the Committee.

10.7 **RESOLVED:**

That the contents of the paper, the performance report from Deloitte and the current actuarial assumptions and valuation be noted.

11 PENSION FUND INVESTMENT ADVISER CONTRACT

11.1 George Bruce presented the report and advised that the adviser contract was due to expire on 31 October 2016. He drew Members' attention to the tender process proposal as set out in the report and invited the Committee to nominate representatives to the adviser presentations.

11.2 During discussions, a Member enquired whether Pension Board Members could be involved in the adviser presentations. Another Member sought a further explanation as to why the Royal Borough of Kensington and Chelsea (RBKC) had decided not to be involved in a joint procurement process.

11.3 In reply, George Bruce advised that the Pension Board could play a role in observing the procurement process and in scrutinising it, however it could not be involved in making a decision on the Investment Adviser Contract. In respect of RBKC, he advised that they used different consultants and were considering investment advisers who were not part of the National LGPS Framework, and so RBKC had decided not to participate in the procurement process.

11.4 It was agreed that all Members of the Committee be nominated as representatives to the adviser presentations, whilst Pension Board Members were also to be invited to attend in an observational capacity.

11.5 **RESOLVED:**

1. That the report be noted and the proposed tender process using the National LGPS Framework for Pension Fund Investment Advisers be approved; and

2. That all Members of the Pension Fund Committee be nominated as representatives to the Investment Adviser presentations and that Pension Board Members be invited to attend the presentations in an observational capacity.

12 PENSION FUND COMMITTEE FORWARD PLAN

12.1 Members noted the proposed Pension Fund Committee Forward Plan.

13 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

13.1 There was no additional business for the Committee to consider.

14 MINUTES

14.1 **RESOLVED:**

That the confidential Minutes of the meeting held on 22nd March 2016 be signed by the Chairman as a correct record of proceedings.

15 MINUTES OF PENSION BOARD

15.1 The Committee noted that the confidential Minutes of the last Pension Board meeting held on 10th May 2016 would be circulated separately.

The Meeting ended at 8.24 pm.

CHAIRMAN: ______________________ **DATE** ___________________

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**20 September 2016**
Classification:	**Public**
Title:	**Triennial Valuation Update**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no immediate financial implications arising from this report, although the outcome of the valuation has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.**
Report of:	**Steven Mair** ***City Treasurer*** **smair@westminster.gov.uk** **020 7641 2904**

1 Executive Summary

1.1 This report presents the indicative timetable for the triennial valuation process for the City of Westminster Pension Fund.

1.2 The actuary, Barnett Waddingham, is due to attend the Pension Fund Committee meeting and provide a verbal update on the proposed valuation assumptions and potentially the preliminary valuation results.

2 Recommendation

2.1 The Committee note the indicative timetable for the triennial valuation process.

2.2 The Committee note the verbal update to be provided at the meeting by Barnett Waddingham.

3 Background

3.1 The indicative timescales for the triennial valuation process for the City of Westminster Pension Fund is appended to this report.

3.2 At the time of writing, all data had been submitted to the actuary and the process of data cleansing is underway.

3.3 The actuary is due to attend the Committee meeting and provide a verbal update on the preliminary whole fund results, assumptions and indicative 'fund as a whole' results. The latter will only be possible if the Actuary receives timely responses to the data queries.

3.4 It is anticipated that presentation slides will be available and circulated to members of the Committee prior to the meeting.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

Nikki Parsons nparsons@westminster.gov.uk or 020 7641 6925

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 – Indicative 2016 Actuarial Valuation Indicative Timetable

Appendix 1 - City of Westminster - 2016 Actuarial Valuation indicative timetable

Date	Activity	Who	Status
30 Jun 2016	Submit Fund accounts, employer cashflows and investment strategy information	Finance	Complete
8 Jul 2016	Submit employer information	HR	Complete
15 Jul 2016	Submit membership data extract	Surrey	Complete
15 Jul to 12 Aug 2016	Data Cleansing	Surrey/ Actuary	In progress
Week of 12 Sept 2016	Discussion of preliminary whole fund results, assumptions and indicative council results	City Treasurer / Finance / Actuary	
20 Sept 2016	Initial briefing of whole fund results to Pension Fund Committee	Actuary / Pension Fund Committee	
30 Sept 2016	Send data to GAD and calculate results on standardised basis	Actuary	
By 31 Oct 2016	Discussion of employer contribution rates	Actuary / Finance / City Treasurer as reqd.	
15 Nov 2016	Draft valuation report, proposed employer contribution rates and draft Funding Strategy Statement to Pension Fund Committee	Actuary / Pension Fund Committee	
Dec 2016 / Jan 2017	Consultation with employers re contribution rates and draft Funding Strategy Statement inc. Employer forum in December 2016	Finance / Actuary	
27 Feb 2017	Briefing to Pension Board on valuation results and Funding Strategy Statement	Actuary / Finance / Pension Board	
21 Mar 2017	Final valuation report and final Funding Strategy Statement approval	Actuary / Finance / Pension Fund Committee	
31 Mar 2017	Final valuation report and rates and adjustments certificate signed off	Actuary	
1 Apr 2017	New contribution rates applied to Payroll	Employers & BT	

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**20 September 2016**
Classification:	**General Release**
Title:	**Pension Board Annual Report 2015-2016**
Report of:	**Steven Mair** ***City Treasurer***
Wards Involved:	**All**
Policy Context:	**Effective Control over Council Activities**
Financial Summary:	**There are no financial implications arising from this report**

1. EXECUTIVE SUMMARY

1.1 The Pension Board is required to prepare an annual report on its activities and its compliance with the terms of reference which is then addressed to full Council each year.

1.2 This report presents the final version of the 2015-16 Pension Board Annual Report which has been approved by the Chair of the Westminster Pension Board and Tri-Borough Director of Treasury and Pensions, in accordance with the delegation agreed at the Pension Board meeting held 23rd August 2016.

2. RECOMMENDATIONS

2.1 That the Pension Fund Committee note the contents of the Pension Board Annual Report 2015-16 prior to its submission to Full Council.

2.2 That a joint meeting be arranged of Pension Board and Pension Committee to review their respective roles.

3. Detail

3.1 The Pension Board Annual report 2015-16 summarises the work undertaken by the Board during the year. The report is included as Appendix 1.

3.2 The Board has acted in accordance with its terms of reference and has not identified any breaches of legislation or regulation by the Pension Fund, therefore no recommendations have been made by the Pension Board to improve governance.

3.3 The Committee is asked to note the contents of the Pension Board Annual Report 2015-16, prior to its submission to Full Council.

3.4 The Board has actively monitored the performance of the Scheme administrator and the experience of scheme members. They have also examined fund costs and in particular benchmarking costs incurred against comparable public and private schemes. There are opportunities to achieve synergies through coordinated future agendas for both bodies. It is suggested that after a year's experience, it is opportune to have a joint meeting of Committee and Board to coordinate activities.

If you have any queries about this Report or wish to inspect any of the Background Papers please contact:

Nikki Parsons nparsons@westminster.gov.uk or 020 7641 6925

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 – Pension Board Annual Report 2015-16

City of Westminster Pension Fund

Pension Board Annual Report 2015-16

1. Background

1.1 Local Pension Boards were established under the 2013 Pensions Act. Each pension administering authority is required to establish a Board to assist with the effective and efficient governance and administration of the scheme. The Board is also tasked with ensuring compliance with the various legislative requirements and those of the pension's regulator, and this adds to the already well developed governance structure which underpins the Westminster pension scheme.

1.2 The Westminster Pension Board held its first meeting on 27th July 2015. The members of the Board are listed below. Members of the Board are invited to attend the Pension Fund Committee as observers and during the year at least one Board member has attended each Committee meeting. Officers of the Council also attend Board meetings to support the members.

Employer Representatives:

Cllr Peter Cuthbertson (Chairman)
Cllr Adnan Mohammed
Marie Holmes

Employee Representatives:

Susan Manning
Dr Norman Perry (Vice-Chairman)
Christopher Smith

3.3 Terms of reference

Please see Appendix A

3.4 Training undertaken

Please see Appendix B

3.5 Four meetings were held during the first year (prior to 23rd August 2016). The agenda items discussed were:

27 July 2015

Appointment of Chair and Vice Chair
Background and Role of the Pension Board
Role of the Pension Fund Committee
Code of Conduct Policy
Knowledge and Skills Policy
Key Documents

19 October 2015

Pension Fund Committee Agenda from 8 September 2015
Pension Board Indemnity Insurance
Risk Register Scoring Matrix
Pension Administration Contract Cost
Communications and Engagement Update
Data Sharing Update
Pension Board Training Strategy Update
Pension Fund Benchmarking
Public Service Governance and Administration Survey
Future Work Plan

18 January 2016

Pension Fund Committee Minutes from 16 November 2015
Risk Register Review
Pension Administration Costs Update
Training Update
Pension Fund Benchmarking Costs
Audit Arrangements
Data for the Triennial Valuation Update
Pension Board Forward Plan 2016-17

10 May 2016

Pension Fund Committee Minutes from 22 March 2016
Pension Fund 2015-16 Annual Accounts and Audit Update
Risk Register Review
Key Performance Indicators Update
Training Update and Proposals
Pension Fund Benchmarking Costs
London Collective Investment Vehicle Update
Future Work Plan

3.6 The first year has seen the Board developing its role and ensuring that members receive the training necessary to undertake the role. It actively reviewed the governance of the Pension Fund in determining ways in which the Board can add value.

3.7 The Board have undertaken focussed reviews on different sections of the Pension Fund risk register during the year. The risks which have been reviewed to date were as follows:

<u>18th January 2016</u>
Operational Administration – Failure of Financial System

- It was noted that the implementation of a new finance and HR system in April 2015 had led to comprehensive testing and that workaround solutions had been put in place to ensure that payments to Pension Scheme members and suppliers were being made until issues were resolved.
- Discussions were had about the cost implications of the additional work undertaken by the Council because of the new system and whether additional work would be required in terms of completing the annual accounts.
- An update on progress in addressing the lump sum and supplier payment issue, including identification of additional potential costs to the Pension Fund, was requested for the next meeting (NB report to August meeting).

<u>10th May 2016</u>
Strategic – Pensions Regulation and Regulation Changes

- It was noted that DCLG consults with scheme managers (and this includes Westminster) on any proposed changes in legislation and that this is reported to the Pension Fund Committee.
- In addition, briefings are received by officers from various professional bodies
- Examples of recent changes in legislation and regulation were provided to the Board

Strategic – Introduction of European Directive MiFID II

- It was noted that this directive (which could reclassify local authorities as retail client status from their current professional client status, thus restricting products available for investment) would be delayed and not progressed in its current form
- It was suggested that financial institutions would seek to offer greater protection for pension scheme members

3.8 The Board agreed that the benchmarking of costs and fees incurred by the Pension Fund was an important area of work as part of its role of reviewing, assisting and monitoring the administration of the Scheme. In reviewing the benchmarking of costs, the following comments were made:

- Westminster engages the performance management service from the Fund's Custodian, Northern Trust, to monitor performance of its Pension Fund, although not every local authority uses a performance manager.
- There is a lack of compliance and transparency amongst some Funds in accounting for costs which makes comparisons more difficult.

- Local Authorities are providing detailed information on fees and costs to the London Collective Investment Vehicle (CIV) in response to a consultation on asset pooling. It is currently difficult to benchmark investment manager fees and costs incurred but this collection of data could enhance the ability to make comparisons.
- The London CIV would help drive down costs and fees.

3.9 A key element of the Board's role is to ensure the effective and efficient governance and administration of the pension scheme. Audit arrangements have been reported to the Board during the year and the following points made:
- An internal audit was carried out in October 2014 which resulted in five recommendations. A follow up review in June 2015 concluded that four of these had been fully addressed and one was in progress.
- A Pensions Administration internal audit will take place during 2016/17.
- A representative from Grant Thornton attended the May 2016 meeting. A draft statement of findings from the external audit of the 2015-16 Pension Fund accounts was circulated. There had been no material errors identified and therefore no adjustments had been proposed. Only a minor classification change and recommendations to strengthen some internal controls had been proposed. The recommendation were fully accepted by management and implemented.

3.10 Looking forward, 2016/17 will be a year of great significance for the Local Government Pension Scheme (LGPS). The government has invited detailed submissions from schemes on how they will achieve combining their assets into a small number of pools with a value of in the region of £25 billion each. Whilst schemes will retain the all-important asset allocation decisions, the pooled funds will have a significant influence on the selection of managers. The Board will monitor Westminster's progress and the development of governance structures relating to the pooled funds.

3.11 Next year will also see the results of the triennial valuation. This determines the contribution rate that employers participating in the scheme will pay from 1st April 2017. The actuary will be invited to attend the Pension Board meeting in February 2017 to brief the Board on the valuation results and Funding Strategy Statement.

3.12 The LGPS is becoming increasingly complex and 2016/17 will add to that complexity. The Board in developing its role will seek to assist and constructively challenge the administering authority in continuing to deliver effective management of the scheme.

4. RECOMMENDATIONS

4.1 No specific recommendations have been raised by the Pension Board during 2015-16.

Appendix A

Terms of Reference – City of Westminster Pension Board
March 2015

The purpose of this document is to set out the terms of reference for the local Pension Board of the City of Westminster Pension Fund.

1. Role of the Local Pension Board

   The role of the local Pension Board is defined by section 5 of the Public Service Pensions Act 2013 and regulation 106 of the Local Government Pension Scheme (LGPS) Governance Regulations 2013. It is to assist the administering authority (the Council) with:

- Securing compliance with the LGPS Governance regulations and any other legislation relating to the governance and administration of the LGPS
- Securing compliance with any requirements imposed by the Pensions Regulator in relation to the scheme and
- Ensuring effective and efficient governance and administration of the scheme- recommendations to the Pensions Committee.

2. 2. Membership

   a. Appointment process

   The Pension Board shall consist of six members and be constituted as follows:

- Three employer representatives comprising one from an admitted or scheduled body and two Councillors nominated by the Council; and
- Three scheme member representatives whether from the Council or an admitted or scheduled body.

The process for selecting non-Council nominated employer members of the Pension Board is set out in a separate document "Selection of Pension Board members".

b. Quorum

The Pension Board shall be quorate when three Pension Board Members are in attendance.

c. Chairman of the Board

The Chairman and Vice Chairman of the Board will be appointed by members of the Board as the first business at their first meeting.

d. Substitute members

Each Scheme Member representative may agree a nominate substitute at the first meeting who would act in the Board member's absence.

Each Employer representative is there on behalf of the employer so may be replaced by the nominating body with another individual representing the same employer.

e. Periods of office

Each Board member shall be appointed for a fixed period of three years, which can be extended for a further three year period subject to re-nomination.

f. Termination

Each Board member should endeavour to attend all Board meetings during the year and is required to attend at least two meetings each year. In the event of consistent non-attendance by any Board member, then the membership of that particular Board member should be reviewed by the other Board members with advice from Officers

Other than by ceasing to be eligible as set out above, a Board member may only be removed from office during a term of appointment by the unanimous agreement of all the other Board members present at the meeting.

A Board member may choose not to continue in their role, and so shall notify the Board accordingly following which the process for a replacement shall start.

3. Board meetings

a. Frequency of meetings

The Board shall as a minimum meet twice a year, and where possible, should aim to do so four weeks before the Pensions Committee meets. Meetings shall take place at a time and place agreed by the Pensions Board on an annual basis.

b. Voting rights

Each Board member will be entitled to vote and where a vote is taken the matter will be decided by a majority of the Board members present and voting but it is expected that the Pension Board will as far as possible reach a consensus. In the event of an equality of votes, the Chairman will have a second and or a casting vote.

c. Notice and circulation of papers

The papers for each Board meeting shall be circulated to all Board members one calendar week in advance of each meeting. The papers shall be published on the Council's website unless they contain material considered to be exempt or confidential, as defined by the Local Government Act 1972 and subsequently agreed as such by the Board.

d. Minutes

Minutes of all non-confidential or non-exempt parts of the Board's meetings shall be recorded and published on the Council's website.

e. Secretariat service

Council officers will provide the Board with the secretariat services required.

4. Role of Advisers

a. Access to Council advisers

The Board may request that one of the Council's advisers attends a Board meeting to provide advice or information to the Board. The request should be submitted to the Chief Executive.

b. Appointment of advisers specifically for the Board

If the Board requires advice outside that already provided to the Council, then the request should be made to the Pensions Committee and Council officers.

5. Budget and Expenses

a. Budget

An annual budget will be agreed by the Board for professional advice, training or other purposes if such matters are required and Officers being authorised to incur expenditure to implement the programme.

b. Expenses

Each Board member may claim, upon production of the relevant receipts, travel expenses directly incurred in the work of the Pension Board.

6. Additional policies relating to the Board operations

a. Code of Conduct

The role of Pension Board members requires the highest standards of conduct and therefore, all Board members are required to abide by the Pension Board Code of Conduct.

b. Conflict of Interests

The Board is required to always act within these terms of reference. Board members should abide by the separately prepared Conflicts Policy and keep the policy under review.

c. Knowledge and understanding

All Board members are required to have sufficient knowledge and understanding of pensions matters to undertake their roles. Board members are expected to comply with the separate policy on knowledge and understanding and maintain appropriate records.

7. Reporting

a. Annual report on activity

The Pension Board should prepare an annual report on its activities and its compliance with these terms of reference and the associated policies. This report should be addressed to full Council each year, in the first six months of the financial year, reporting on the activities of the Pension Board for the previous financial year. Such a report will be submitted to the Pension Committee for noting prior to submission to Council.

b. Reporting recommendations

If the Pension Board determines that it wishes to make recommendations to the Pension Committee, such recommendations should be reported to the next meeting of the Pension Committee. The Pension Committee's response to the recommendation will be reported to the next meeting of the Pension Board.

Appendix B

Pension Board Training 2015-16

Date	Training Undertaken	Overview of Content
27th August 2015	Local Pension Board Introductory Training provided by Barnett Waddingham	• Key legislation and documents • Terminology and key roles • Key organisations • Westminster Pension Fund Governance Structure • Knowledge and Understanding requirements for a Local Pension Board Member • Overriding Pensions Legislation • Overview of the Local Government Pension Scheme • Operating the Westminster Pension Fund • The Role of Westminster Local Pension Board • Sources of further information
9th February 2016	Actuarial Valuation Training provided by Barnett Waddingham	• What is an actuary • The role of the actuary in the LGPS • How Barnett Waddingham conducts a valuation • Current Issues affecting the valuations

City of Westminster

Pension Fund Committee

Date:	**20th September 2016**
Classification:	**General Release**
Title:	**Surrey Pension Administration Performance**
Report of:	**Lee Witham Director of People Services**
	All
Policy Context:	**Service Delivery**
Financial Summary:	**Limited**

1. Executive Summary

1.1 Following the report submitted at the previous committee meeting on June 21st 2016, this report sets out an update on the performance of the pension administrators Surrey County Council (SCC).

1.2 The report also maps the strategy of the New Director of People Services to manage the relationship with and performance of SCC in providing Pension Services.

2. Current Position

2.1 The Pensions Fund Committee were advised at the June meeting that there had been some concerns over the performance of SCC in provision of administrative services to WCC fund members.

2.2 The reasons for the drop in service were in part related to the managed service provider BT not being able to meet its requirements to members putting extra strain on the pension administration service. In addition SCC had taken on our Bi-Borough partners from Capita in September 2015 with no staff TUPEd with knowledge of the previous service and the data inherited was poor leading to a higher administration burden on SSC to recover the accuracy of the records.

2.3 Councillor Rahuja, requested a meeting with Jason Bailey the Pensions Manager at SSC following the previous committee. This meeting was held In City Hall on the Wednesday the 3rd of August. In addition to the Chair of the committee and Jason Bailey, George Bruce and Nikki Parsons attended from finance and Carmel Millar and Sarah Hay from People Services.

2.4 At the meeting Jason Bailey presented the Chair with updated KPI data for June and July 2016. The KPI data is attached at the back of this report. The main area for concern is the processing of retirements as members face delays to receiving their pension. The KPI data indicated that 3 cases for June / July were processed outside of the 5 day timescale set down by our 101 agreement.

2.5 Jason Bailey explained some of the problems that SSC had experienced in the previous year that contributed to the service problems. In addition to the points outlined in the above paragraphs, Jason advised the Chair that two key members of his staff had been off on long term sickness absence during the period and this had a direct impact on the service. In addition incorporating the additional work in their workstack meant a restructure was required. This has now been completed.

2.6 The Chair asked if SSC had plans to take on additional pension administration work. Jason Bailey confirmed that they were in talks with other parties but that in the event that new agreements were reached this would not impact WCC as SSC had learned lessons from the transfer of LBHF and RBKC work.

2.7 The Chair expressed that he wished People Services to more proactively Manage SSC and to visit them more to do checks on overall response times.

2.8 The new Director of People Services is undertaking to ensure both BT and SSC meet their obligations to WCC members. There is a commitment from senior management that staff should expect a smooth process when they retire. Leaver forms must be completed by BT within 5 days of the last pay period for the member and SSC will also commit to that timescale for sending out retirement forms and for processing forms once returned by the member so that people are not waiting several months for their entitled payments.

2.9 Grant Thornton the auditors are going to review a number of case types identified by the Pension Officer as a potential concern, particularly retirements. They have met with Surrey CC but are still waiting for reports to sample check ahead of a visit to the administrators. At the time of writing this report it was expected that Grant Thornton would be visiting Surrey before the end of September 2016.

2.10 The Senior Payroll, Pensions and Establishment Officer, Kim Edwards will be accompanying the Pensions Officer on a visit to Surrey on the 26th of October. The purpose of the visit will be to investigate and review the data that produces the monthly KPI supplied and to highlight any issues or concerns raised by Grant Thornton at that point. Waiting until the 26th of October should give officers chance to digest any feedback from Grant Thornton prior to the visit.

3. Summary

3.1 People Services will work with both BT and Surrey County Council to improve the pension service to members going forward and will keep the Committee informed of progress.

KPI - WESTMINSTER CITY COUNCIL PENSION FUND - April to July 2016

Description	Target time/date as per Partnership Agreement	Target	Actual Score April 2016	Actual Score May 2016	Commentary on late cases	Actual Score June and July 2016	Commentary
PENSION ADMINISTRATION							
DEATH BENEFITS Notify potential beneficiary of lump sum death grant	5 days	100%	100.0%	100.0%		100.0%	
Write to dependant and provide relevant claim form	5 days	100.0%	100.0%	100.0%		100.0%	
Set up any dependants benefits and confirm payments due	14 days	100%	100.0%	100.0%		100.0%	
RETIREMENTS Retirement options issued to members	5 days	100%	77.0%	67.0%	Represents less than 5 cases but additional resource to be allocated to this area following recent recruitment campaign and reorganisation. Improvement expected for Q2	77.0%	3 cases completed late
New retirement benefits processed for payment following receipt of claim forms	5 days	100%	83.0%	94.0%		82.0%	4 cases completed late
REFUNDS OF CONTRIBUTIONS Refund paid following receipt of claim form	14 days	100%	100.0%	100.0%		100.0%	
DEFERRED BENEFITS Statements sent to member following receipt of leaver notification	30 days	100%	See note	See note	Timescales are not measured accurately currently as exercise is now being undertaken to bring records up to date following bulk submissions of leaver forms from BT/WCC	See note	Timescales are not measured accurately currently as exercise is now being undertaken to bring records up to date following bulk submissions of leaver forms from BT/WCC
NEW JOINERS New starters processed	30 days	100%	98.0%	100.0%		100.0%	Note only low numbers processed pending receipt of interface file
TRANSFERS IN Non LGPS transfers-in quotations	30 days	100%	100.0%	100.0%		100.0%	
Non LGPS transfers-in payments processed	30 days	100%	100.0%	100.0%		100.0%	
TRANSFERS OUT Non LGPS transfers-out quotations processed	30 days	100%	100.0%	100.0%		100.0%	Low numbers processed pending system updates following revised GAD guidance
Non LGPS transfers out payments processed	30 days	100%	100.0%	100.0%		100.0%	
Monthly Pensioner Payroll							
Full reconciliation of payroll and ledger report provided to WCC	Last day of month		Achieved	Achieved		Achieved	
Issue of monthly payslips	3 days before pay day		Achieved	Achieved		Achieved	
RTI file submitted to HMRC	3 days before pay day		Achieved	Achieved		Achieved	
BACS File submitted for payment	3 days before pay day		Achieved	Achieved		Achieved	
Annual Exercises			Date Achieved				
ANNUAL BENEFIT STAEMENTS Issued to Active members	31 August each year		On target				On target
ANNUAL BENEFIT STAEMENTS Issued to Deferred members	31 August each year		On target subject to Government decision on 2015 revaluation				On target subject to Government decision on 2015 revaluation
P60s Issued to Pensioners Non LGPS transfers-in quotations processed within 20 days	31 May each year		May				
Apply Pensions Increase to Pensioners	April each year		April				
Pensioners Newsletter	April each year		April				
CUSTOMER SERVICE							
	Number of Respondents	**% of Members who rated our service overall as excellent, very good or good**					
Survery issued to all members who had retired since 1 September 2014	40	**93%**					

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**20 September 2016**
Classification:	**Public**
Title:	**Asset Pooling and London CIV Update**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	Savings of approximately £170k per annum are expected from the fee reduction negotiated by the London CIV in discussions with Legal & General Investment Management. There are potential savings from the fee reductions proposed by Majedie and discussions are currently ongoing.
Report of:	**Steven Mair** ***City Treasurer*** **smair@westminster.gov.uk** **020 7641 2904**

1. EXECUTIVE SUMMARY

1.1 This report provides an update on asset pooling with the London CIV and details the fee proposals offered by Legal & General and Majedie. .

1.2 The paper also discussed the soon to expire Insight bond mandate and the options should it not be possible to further extend the contract until end 2017.

2. RECOMMENDATIONS

2.1 That the Committee note the contents of this paper.

2.2 The Committee agree to the transfer of the Majedie portfolio to the London CIV retaining a combined AuM (assets under management) and performance related fee subject to clarification on the impact of the termination of the current performance period.

2.3 The Committee agree to extend the current Insight mandate by a further 12 months to end 2017. If this is not possible within Westminster's procurement rules then to transfer both the Corporate and gilt mandates to the Insight UK Corporates All Maturities Bond Fund.

3. BACKGROUND

4.1 The Committee received reports at its previous meetings explaining progress in establishing the London CIV; noting publication of the Government's Criteria for Pooling; and Westminster's responses to both the February and July criteria.

4.2 The last remaining London fund has now joined the London CIV from July and therefore all 33 London authorities are on board.

4. London CIV Joint Response to Investment Pooling

4.1 The London CIV submitted the joint response to the DCLG in respect of pooling of investments, plus annexes by the 19 July 2016 deadline. These papers can be found at the following link:

http://londonciv.org.uk/2016/07/27/engaging-with-the-boroughs/

4.2 The London CIV response addressed the governance structures, terms of reference, decision-making processes and implementation timetable. The key highlights of the response is summarised below:-

- It is anticipated that the pool will be fully operational by 2033 when all the funds would have transferred to the pool.

- In the medium term it is expecting around 12.6% of the London LGPS investments will be illiquid and therefore held outside the pool. These assets types include private equities, infrastructure, property and hedge funds.

5. Take on of Assets By London CIV

5.1 The mandates that have been transferred to the London CIV to date are:
- Baillie Gifford Global Alpha equities
- Allianz Global equities
- Pyrford International Ltd
- Ruffer LLP

5.2 Mandates that are expected to pool in the next six months are:
- Newton
- Majedie
- BlackRock passive equities

- Longview

5.3 Three of the above mandates are held within the Westminster portfolio, namely Baillie Gifford, Majedie and Longview. No proposal is made in connection with Longview pending the conclusion of on-going fee negotiations.

Passive Equity Mandate – Legal & General Investment Management

5.4 The London CIV has negotiated a reduced fee scale with Legal & General passive mandate which would result into fee savings of approximately £170k for the Westminster portfolio. This is a significant reduction of around 75% and is backdated to 1st July 2016.

5.5 The City of Westminster Pension Fund invests over 20% (£243 million) of the fund in passive equities with LGIM. It was reported to the Committee at its last meeting in May, the transfer of passive equities to the CIV is less contentious, with costs being the main consideration.

5.6 There will be no requirement to transfer these assets to the CIV and the direct link with Legal & General will be maintained. Due to legal complexities around the life wrapper, the Government agreed that these structures could remain outside pooling provided fees were agreed centrally and there was an element of central monitoring.

Majedie Fee Proposals

5.7 Majedie has agreed a fee basis with London CIV and there will be an opportunity to move assets during quarter 4, 2016. Details of the fee proposals are included in Appendix 1 (exempt).

6. Insight Investment Contract

6.1 At the November 2015 meeting, the Committee agreed to continue with the existing Insight Investment mandate and extend the contract until the end of 2016, by when it was hoped there would be more opportunities offered by the London CIV. This contract is again nearing its end date.

6.2 Ideally the Insight contract will be extended until the CIV's fixed income offering are known, which is anticipated by end 2017. If the Committee are satisfied with this option, discussions will be held with Procurement to agree a 12 month contract extension.

6.3 Initial discussions with Procurement indicate difficulties in achieving a contract extension due to the value of the contact. Undertaking a full tender exercise is likely to be recommended. This is not an attractive option in the time available and might result in a shorted lived mandate should the selected manager not be available on the CIV platform.

6.4 A better option than a full tender will be to transfer the existing Insight mandate from direct holdings to units in an Insight fund, the same structure as used in all the other investment portfolios. Acquiring units in a fund is an investment and not a procurement decision and therefore is not required to meet procurement rules.

6.5 The current Insight mandate is split as follows:

Corporate Bonds (benchmark iBoxx Sterling Non Gilt 1-15 yrs Index)	£163 million
UK Government Bonds	£19 million

6.6 Should it not be possible to extend the current contract, it is recommended that the gilt element is rolled up into the corporate bond allocation due to its small scale having no meaningful impact on the overall fund performance.

6.7 Insight does not have a fund with exactly the same benchmark as the current corporate bond holdings. Their fund offering, the UK Corporate All Maturities Bond Fund, is benchmarked against the iBoxx Sterling Non-Gilt All Maturities Index. There is *65*% overlap between the existing holdings and this fund. The main difference is the extended average duration of the fund, 8.3 years v *5.7* years for the existing portfolio.

6.8 Transferring to the Insight fund will incur trading costs equivalent to the 0.2% of the fund value. These costs have been minimised as 69% of the current portfolio will transfer in-specie to the fund. Transaction costs associated with a new manager appointment will be considerably higher.

6.9 Insight has agreed to maintain the existing fee rates should Westminster transfer to the fund. The normal fee rates are higher as the fund has a higher performance target (1% p.a. over benchmark) than Westminster's current 0.9% over benchmark. Westminster will save on custody costs from moving from direct to pooled holdings. Both funds are managed the same team at Insight. A factsheet about the UK Corporate All Maturities Bond Fund is attached as Appendix 2.

6.10 Moving to the fund is not the preferred option, but is a better alternative than a full tender with unknown outcomes that might have a short life.

7. Conclusion

7.1 Local authorities continue to work towards meeting the Government's pooling criteria, in particular, to form pools of £25 billion.

7.2 Feedback from the Government to the July response is awaited.

7.3 Westminster will continue to transition Pension Fund assets to the London CIV where the Fund has a pre-existing relationship with the investment manager and where the transfer of such assets is financially advantageous, as per the delegation approved by the Committee at the March 2016 meeting.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

Nikki Parsons nparsons@westminster.gov.uk or 020 7641 6925

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 – EXEMPT – Majedie Fee Proposals

Appendix 2 – Insight UK Corporate All Maturities Factsheet

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UK CORPORATE ALL MATURITIES BOND FUND

A sub-fund of Insight Investment Discretionary Funds ICVC

Insight INVESTMENT

30 JUNE 2016

FOR PROFESSIONAL CLIENTS ONLY, NOT FOR DISTRIBUTION TO RETAIL CLIENTS

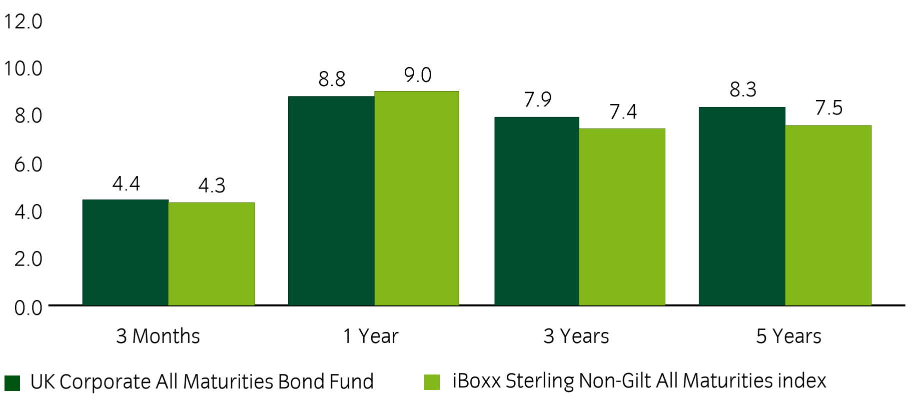
FUND OBJECTIVE

The Fund aims to generate a return by investing principally in sterling denominated fixed interest securities issued by entities other than the UK government.

INVESTMENT APPROACH

The Fund aims to outperform its benchmark by one percentage point per annum over rolling three-year periods.* The Fund is actively managed and seeks to outperform the market through a diversified approach incorporating a wide fixed income opportunity set. The investment universe may include corporate bonds, index linked and conventional gilts, emerging market debt and currencies. The Fund is managed following a rigorous, disciplined and proven investment process that includes in-depth analysis within a strong risk-controlled framework. The management team selects opportunities that offer attractive risk-adjusted returns across a diversified portfolio within clearly defined parameters, with an aim to add value in all market conditions.

PERFORMANCE (%)



Source: Insight Investment. Performance of the Fund is on an offer basis with income reinvested and gross of management charge. Performance for periods over one year is annualised.

FUND MANAGER'S COMMENTS

The Fund delivered a positive return and outperformed its benchmark. Credit markets were supported by accommodative central bank policies during the quarter. However, the surprise result of the UK referendum on EU membership was the main event in June. Credit spreads widened before retracing a proportion of their losses at quarter-end. Government bonds rallied sharply. Credit strategy detracted. We had a modest long position in credit which was negative. Our key long was in financials, which also detracted. However, the effect was mitigated as during the period we implemented tail risk hedges using credit default swap indices which contributed positively following the referendum. Security selection was positive within tier 2 bank debt in particular, outperformers included Commerzbank and Erste Group. In the energy sector, Enlink Midstream and Enterprise Products also outperformed. Currency was a modest positive. We had a small short position in the yen early in the quarter which was negative and were long the US dollar in May and early June.

FUND FACTS

Fund size	£2.4bn
Inception date	November 2004
Benchmark	iBoxx Sterling Non-Gilt All Maturities index
Fund manager	Peter Bentley

KEY BENEFITS

- Actively managed and aims to outperform the corporate bond market
- Aims for consistent risk-adjusted returns through a diversified portfolio
- Rigorous, disciplined and proven investment process
- A large and experienced team of fixed income specialists

*This is not a guarantee, may not be achieved and a capital loss may occur. Funds which have a higher performance aim generally take more risk to achieve this and so have a greater potential for the returns to be significantly different than expected.

Past performance is not a guide to future performance.

The value of investments and any income from them will fluctuate and is not guaranteed (this may be partly due to exchange rate fluctuations). Investors may not get back the full amount invested. This document is aimed at professional clients only. It is not designed for, and should not be used or relied upon by retail clients. Unless otherwise stated, all data is as at the date of this factsheet and represents share class S.

UK CORPORATE ALL MATURITIES BOND FUND

INTEREST RATE EXPOSURE BY CURRENCY

(in weighted average duration)

	Fund	Benchmark
Sterling	99.5	100.0
US dollar	0.4	0.0
Euro	-0.2	0.0
Total	**99.7**	**100.0**

ALLOCATION

	Fund	Benchmark
Government	0.0	0.0
Supranationals	11.6	23.4
Financials	26.4	24.8
Corporate Cyclicals	5.8	11.9
Corporate Non-Cyclicals	19.2	30.9
Securitised	16.6	9.1
ABS	4.3	0.0
Insight Emerging Market Debt Fund	3.1	0.0
Insight Short Dated High Yield Fund	1.3	0.0
Interest Rate Swaps	0.0	0.0
CDX	-1.4	0.0
iTraxx	-10.4	0.0
Cash	23.5	0.0

CREDIT RATING BREAKDOWN (% of Fund)

	Fund	Benchmark
AAA	13.3	20.8
AA	8.0	19.3
A	32.5	37.0
BBB	29.6	23.0
BB	0.4	0.0
Credit indices	-11.8	0.0
Not defined	0.0	0.0
Insight Funds	4.4	0.0
Cash	23.5	0.0

STATISTICS

	Fund	Benchmark
Semi Annual Yield	3.6	2.5
Semi Annual Duration	8.3	8.0

TECHNICAL DETAILS

Legal structure	Open Ended Investment Company (UCITS)
Domicile	UK
Share class currency	Sterling
Dealing frequency	Daily, midday
Pricing method	Swinging single price
Depositary	National Westminster Bank plc
Administrator	The Bank of New York Mellon (International) Limited

SHARE CLASS P

ISIN gross £ acc	GB00B06FWV32
ISIN gross £ inc	GB00B3R60R85
ISIN net £ acc	GB00B037G095
ISIN net £ inc	GB00BSHYYP30
Ongoing charges	0.34%
Annual management charge	0.3%
Minimum initial investment	£1m

SHARE CLASS S

ISIN gross £ acc	GB00B06FWY62
ISIN gross £ inc	GB00B08V0605
ISIN net £ acc	GB00B037G210
Ongoing charges	0.04%
Annual management charge	Fees negotiated and charged outside the Fund via a fee agreement.
Minimum initial investment	£3m

Need more information?

For details on all of our fund ranges or to obtain any literature please contact:

Institutional Business Development
+44 (0) 207 321 1547
business.development@ insightinvestment.com

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**20 September 2016**
Classification:	**General Release**
Title:	**Pension Fund Costs and Fees Benchmarking**
Report of:	**Steven Mair** ***City Treasurer***
Wards Involved:	**All**
Policy Context:	**Effective Control over Council Activities**
Financial Summary:	**There are no financial implications arising from this report**

1. Executive Summary

1.1 This report summarises the costs for each type of expenditure which the Pension Fund incurred during the 2015/16 financial year compared to the previous two years and presents the benchmarking data which is available for comparing costs against other pension funds.

2. Recommendation

2.1 The Committee note the contents of this paper

3. Westminster Pension Fund Management Expenses 2015-16

3.1 In previous years, the Pension Fund Committee has reviewed the annual analysis of scheme costs.

3.2 The breakdown of the Pension Fund management expenses for 2015-16 is included as Appendix 1 (exempt) and the comparative figures for the prior two years are also included.

3.3 Fund manager fees are based on the market value of the fund, which has increased 10% over the three year period from £964 million to £1,058 million. The increase in manager fees is largely attributable to the performance management fees paid to one fund manager to reward out-performance. This is detailed in Appendix 1 (exempt).

3.4 Advisory and Professional fees are mainly determined by the volume of work undertaken by these advisors at the request of the Pensions Committee. The reduction in these costs over the three year period reflects the level of work undertaken plus the lower fees which have been secured during the re-tender of the Actuary and Pensions Administration contracts. Actuarial and investment strategy reviews are not annual events.

3.5 Central costs are the internal staffing and associated costs incurred for managing the Pension Fund. The costs which are paid by the Council in respect of those officers within City Treasurers and Peoples Services who undertake work on behalf of the Pension Fund are recharged each year. These costs have remained relatively constant over the three years.

3.6 All expense invoices are checked by officers against budget based purchase orders. The monitoring of investment returns is based on net of fees calculations.

4. Benchmarking Costs Provided by the DCLG

4.1 The analysis below considers Westminster's costs compared to the annual analysis prepared by the DCLG for 2014-15. Data for 2015-16 is expected towards the end of the year.

Table A: Local Government Pension Scheme administration and fund management costs in England and Wales 2014-15, per scheme member (psm)

	Administration costs (£ psm)	Fund management costs (£ psm)	**Total costs (£ psm)**
English shires	£22.41	£130.05	£152.46
Metropolitan authorities	£15.91	£148.77	£164.68
Inner London	£42.50	£205.66	£248.17
Outer London	£48.94	£174.74	£223.68
Other English authorities	£48.14	£152.07	£200.21
All English authorities	**£24.98**	**£142.28**	**£167.26**
Welsh authorities	**£28.28**	**£180.17**	**£208.45**
All authorities	**£25.19**	**£144.65**	**£169.84**

4.2 The above is a measure of administration costs per member. The appropriate comparison for Westminster is inner London £42.50, as this takes into account scheme size and local costs.

4.3 Westminster had 16,060 scheme members at 31st March 2015.

4.4 Westminster's costs in 2014-15 of £7,047,000 comprise investment £5,261,000, administration and governance £626,000 and transaction fees £1,160,000.

4.5 Westminster's administration costs and Governance costs represent £38.98 per member, below the inner London average of £42.50.

4.6 Westminster's fund management costs represent £328 per member, significantly in excess of the inner London average of £206. More than half (58%) of Westminster's costs are represented by one fund manager, Majedie, mostly the performance related element. While performance fees look expensive when the investment manager exceeds their target, they do provide an alignment of interest.

4.7 The DCLG also provide data to allow comparison of fund manager costs as a percentage of asset value. For inner London the average cost in 14/15 was 0.34% of the year end market value. For Westminster the value was 0.48%.

Conclusion

4.8 Westminster's administration costs are lower than the inner London average. Investment costs are higher with the performance fee element for Majedie being the main explanation.

5. Benchmarking Costs Provided by CEM Benchmarking

5.1 CEM provide a global benchmarking service. The latest available survey based on 2014 data comprised of a database of 407 funds representing £5.8 trillion in assets, 194 of these were public funds.

5.2 The median membership was 43,618 members (versus Westminster's 16,060 members). The median assets per member was £104,941 (versus Westminster's £68,406).

5.3 It is important to note that costs included in the report for the LGPS are reported for the financial year ending March 2015 but for the wider universe of funds, costs are for the year ending December 2014.

5.4 In 2014/15, Westminster's total investment cost was 50.8 bps (£5,329k). This was above the global median of 49.2 bps (£5,161k). Total investment costs excluded transaction costs.

5.5 CEM calculates a benchmark cost for each fund to take account of differences in total costs due to fund size and asset mix. For Westminster, the benchmark cost was 49.9 bps (£5,234k). Comparing against this benchmark, Westminster incurred an excess cost of just 0.9 bps (£94k).

5.6 CEM list generic reasons why a Fund's costs might be higher compared to their benchmark are:

- Using a higher cost implementation style such as appointing external fund managers and employing active fund management. This in not taken account of in the benchmark equation. The Westminster Pension Fund was 73% externally actively managed, which was above the global average of 67%. Active managers have the capacity to outperform the benchmark index and therefore can provide additional returns in excess of the fees paid.

- Paying more than similar sized funds for same-style, same-asset-class investment management. Peer-based reporting is available (but not yet purchased) from CEM benchmarking at an additional cost, which provides further analysis on this.

- Paying more than similar sized funds for oversight, custodial and other costs. Westminster incurred costs of 3.3 bps which matched the LGPS median and was below the Global median of 4.0 bps.

Conclusion

5.7 Being high or low cost is neither good nor bad. The important question is whether the Fund is receiving sufficient value for any cost. The investment performance of the Fund Managers is monitored quarterly by this Committee and the payment of outperformance fees over recent years would tend to support this.

If you have any queries about this Report or wish to inspect any of the Background Papers please contact:

Nikki Parsons

Pension Fund Officer

Email: nparsons@westminster.gov.uk

Telephone: 020 8641 6925

BACKGROUND PAPERS:

- CEM Benchmarking 2014/15 Investment Benchmarking Analysis for City of Westminster

APPENDICES:

Appendix 1: EXEMPT

Westminster Pension Fund Management Costs

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**20 September 2016**
Classification:	**General Release**
Title:	**Fund Manager Monitoring Meetings**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no financial implications arising from this report.**
Report of:	**Steven Mair** ***City Treasurer*** **smair@westminster.gov.uk** **020 7641 2904**

1. Executive Summary

1.1 This report sets out the proposed arrangements for the monitoring of fund managers to be undertaken by the Pension Fund Committee, to which all of the Fund's managers are invited to provide the Committee with updates on the investments.

2. Recommendation

2.1 That the Committee approve the proposed annual fund manager monitoring arrangements.

2.2 The Committee agree the session format and proposed questions for the first fund manager monitoring meetings.

3. Background

3.1 It is important that members are fully informed about the various fund managers employed by the Fund to ensure effective decisions are made about investment strategy and implementation.

3.2 Investments for the Westminster Pension Fund are currently managed by seven different fund managers, one of which (Baillie Gifford) is pooled within the London CIV.

4. Proposal and Issues

4.1. It is proposed to implement a fund manager monitoring programme for officers and members. Although Deloitte meet with and talk to the fund managers regularly, it is important that direct contact is maintained to ensure that those involved in running the Fund are fully informed. The monitoring arrangements will include two elements – one officer lead and a second aimed at members of the Committee.

4.2. The officer lead meeting will involve a semi-annual meeting at the investment managers offices with direct access to the portfolio manager, the purpose being to confirm that the manager's process are consistent with those when appointed and identify any changes that will warrant reconsideration of the mandate. Due to the overlap of managers between Westminster, Hammersmith & Fulham and Kensington and Chelsea, these visits may cover more than one Scheme. Feedback will be provided to the Committee after each meeting.

4.3. It is also proposed that an annual fund manager monitoring day takes place where all the Fund's managers are invited to come in and give members a refresher of their mandate and updates on their people, processes and performance.

4.4. It is proposed that each manager would have 30 minutes to give a refresher of their mandate and updates on their people, processes and performance. The meetings could either be held in one full day session or two evening sessions.

4.5. A suggested list of questions for the fund managers is shown in Appendix 1 for members' comments. It is planned to provide these to the managers in advance to provide focus for the sessions. Managers will be briefed to spend no more than 20 minutes addressing the advance questions to give members sufficient time for any follow ups or additional matters they wish to raise.

4.6. The Committee is asked to approve the monitoring arrangements and agreed their preference for when the fund manager meetings should take place.

4.7. Officers will then seek to make the necessary arrangements with the fund managers and agree the date for the session/s in consultation with the Chair of the Pension Fund Committee.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

Nikki Parsons nparsons@westminster.gov.uk or 020 7641 6925

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 – Proposed Questions for fund manager monitoring sessions 2016

APPENDIX 1

Proposed questions for fund managers

1. Please provide a brief overview of the portfolio you manage on behalf of Westminster including your investment philosophy and process.

2. Please outline any significant changes which have occurred in relation to your key staff or to your business which directly impact on the portfolio.

3. Please describe any changes you have made to your investment process since Westminster first invested in the current portfolio (or over the last three years where the investment has been held for longer), the reasons for them and the resulting impact on performance.

4. Please can you outline current portfolio characteristics including number of holdings, turnover, active risk, risk factors etc.

5. Please discuss your performance attribution analysis over the last 12 months and describe the level of risk you have taken to achieve this performance. How does this compare with the long term performance and risk level in your fund?

6. Please describe how you expect the portfolio to change over the coming 12 months.

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**20 September 2016**
Classification:	**General Release**
Title:	**Fund Financial Management**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no immediate financial implications arising from this report.**
Report of:	**Steven Mair** ***City Treasurer*** **smair@westminster.gov.uk** **020 7641 2904**

1. Executive Summary

1.1 This report presents a variety of information that will assist the Pension Fund Committee in monitoring key areas to ensure effective control of the Fund's operations and help inform strategic decisions.

2. Recommendations

2.1 The Committee is asked approve the updated risk register for the Pension Fund.

2.2 The Committee is asked to note the Fund's compliance with the limits specified in Schedule 1 of the LGPS (Management and Investment of Funds) Regulations 2009.

2.3 The Committee is asked to note the cashflow position of the Fund.

3. Risk Register Monitoring

3.1 The risk register has been reviewed by officers and is attached as Appendix 1 for information. The rationale for the changes is set out on the first page of the Appendix.

4. Investment Regulations Limits Review

4.1 As at 30 June 2016, the Fund complied with the LGPS (Management and Investment of Funds) Regulations 2009 as documented in the Statement of Investment Principles.

4.2 In particular, the Fund had no self-investments (regulatory maximum of 5%), it had no single segregated holding great than 10% and its largest investment in a single vehicle was 22.83% with Majedie against the limit of 35%. The LGIM holding is split between two vehicles.

5. Consultations / Legislation Changes

LGPS Investment Regulations

5.1 This consultation which ran until 19 February 2016, proposed to revoke and replace the regulations that currently govern the management and investment of funds in the local government pension scheme.

5.2 The DCLG are still analysing the feedback which was received nationally from the consultation and an update will be provided to the Pension Fund Committee once more information is available.

6. Cashflow Monitoring

6.1 The cashflow forecast which was previously presented to the Pension Fund Committee at the last meeting has been updated to reflect the actual position to the end of July 2016, which was the latest available as at the time of writing the report. This is included at Appendix 2.

6.2 At the meeting in June, the Committee approved the realisation of assets totalling £18 million during 2016/17 from the overweight equity mandates, identified as being Baillie Gifford and Longview.

6.3 Officers have been monitoring the cash balance and it is now expected that additional funds will likely be needed in order to meet the cashflow requirements within the next two months. Therefore, the necessary arrangements will be put in place to dis-invest £4.5 million from both the Baillie Gifford mandate (managed by the London CIV) and the Longview mandate.

6.4 The expenses forecasted at the start of the year for 2016/17 was estimated to be £5,260k which was largely attributable to the performance fee paid by the Fund on out-performance by one fund manager. However, the actual performance fee which is now payable this year is considerably less than expected (approximately £2,700k less), therefore the forecast for the remainder of the year has been adjusted to reflect this.

6.5 Officers will continue to monitor the cash balance on a regular basis and will take the appropriate action to liquidise the assets in order to fulfil the cashflow requirement as stated above.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

Nikki Parsons nparsons@westminster.gov.uk or 020 7641 6925

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 – Pension Fund Risk Register Review, September 2016
Appendix 2 – Cash Flow Monitoring

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Appendix 1: Pension Fund Risk Register, September 2016

Changes to the risk register since previous quarter

Type	Ref	Risk	Rationale
New risk	14	**OPERATIONAL: GOVERNANCE** London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence fund managers do not achieve their targets.	Now that some of the Fund's assets have transferred to the management of the London CIV, it is appropriate to add this risk to the register. The impact is low at the moment as only one mandate has transferred and there are no plans to make changes to fund managers at the moment.

Pension Fund risk register, September 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Next Next Review Date
			Likelihood	Impact			
1	**STRATEGIC: INVESTMENT** That the combination of assets in the investment portfolio fails to fund the liabilities in the long term.	• Investment strategy in place and reviewed periodically. • Performance is measured against a liability based benchmark. • Fund performance is reviewed quarterly.	2	3	Low 6	City Treasurer	November 2016
2	**STRATEGIC: INVESTMENT** Fund managers fail to achieve the returns agreed in their management agreements.	• Independent monitoring of fund manager performance by custodian against targets. • Investment adviser retained to keep watching brief. • Fund manager performance is reviewed quarterly.	3	3	Low 9	City Treasurer	November 2016
3	**STRATEGIC: INVESTMENT** Failure of custodian or counterparty.	• At time of appointment, ensure assets are separately registered and segregated by owner. • Review of internal control reports on an annual basis. • Credit rating kept under review.	2	3	Low 6	City Treasurer	November 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact			
4	**STRATEGIC: FUNDING** The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	• Review at each triennial valuation and challenge actuary as required. • Growth assets and inflation linked assets in the portfolio should rise as inflation rises.	4	3	Medium 12	City Treasurer	November 2016
5	**STRATEGIC: FUNDING** There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments.	• Cashflow forecast maintained and monitored. • Cashflow position reported to sub-committee quarterly. • Cashflow requirement is a factor in current investment strategy review.	2	1	Very Low 2	City Treasurer	November 2016
6	**STRATEGIC: FUNDING** Scheme members live longer than expected leading to higher than expected liabilities.	• Review at each triennial valuation and challenge actuary as required.	4	2	Low 8	City Treasurer	November 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact			
7	**STRATEGIC: FUNDING** Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	• Review maturity of scheme at each triennial valuation. • Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. • Cashflow position monitored monthly.	2	3	Low 6	City Treasurer	November 2016
8	**STRATEGIC: REGULATION** Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	• Maintain links with central government and national bodies to keep abreast of national issues. • Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	3	4	Medium 12	City Treasurer and Acting Director of HR	November 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact			
9	**STRATEGIC: REGULATION** Introduction of European Directive MiFID II results is a restriction of Fund's investment options and an increase in costs	• Officers are engaging with Fund Managers to understand the position better • Knowledge and Skills Policy in place for Officers and Members of the Committee • Maintain links with central government and national bodies to keep abreast of national issues.	2	2	Very Low 4	City Treasurer	November 2016
10	**OPERATIONAL: GOVERNANCE** Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	• Officers maintain knowledge of legal framework for routine decisions. • Eversheds retained for consultation on non-routine matters.	2	2	Very Low 4	City Treasurer	November 2016
11	**OPERATIONAL: GOVERNANCE** Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	• External professional advice is sought where required • Knowledge and skills policy in place (subject to Committee Approval)	3	3	Low 9	City Treasurer	November 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact			
12	**OPERATIONAL: GOVERNANCE** Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	• Person specifications are used at recruitment to appoint officers with relevant skills and experience. • Training plans are in place for all officers as part of the performance appraisal arrangements. • Shared service nature of the pensions team provides resilience and sharing of knowledge.	3	3	Low 9	City Treasurer and Acting Director of HR	November 2016
13	**OPERATIONAL: GOVERNANCE** Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	• At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. • Committee and officers scrutinise and challenge advice provided.	2	2	Very Low 4	City Treasurer	November 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact			
14	**OPERATIONAL: GOVERNANCE** London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	• Pension Fund Committee Chair is a member of the Joint member Committee responsible for the oversight of the CIV and can monitor and challenge the level of resources through that forum. • Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work of the London CIV.	3	2	Low	City Treasurer	Sept 2016
15	**OPERATIONAL: FUNDING** Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	• Transferee admission bodies required to have bonds in place at time of signing the admission agreement. • Regular monitoring of employers and follow up of expiring bonds.	3	2	Low 6	City Treasurer and Acting Director of HR	November 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact			
16	**OPERATIONAL: FUNDING** Ill health costs may exceed “budget” allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	• Review “budgets” at each triennial valuation and challenge actuary as required. • Charge capital cost of ill health retirements to admitted bodies at the time of occurring. • Occupational health services provided by the Council and other large employers to address potential ill health issues early.	3	2	Low 6	City Treasurer and Acting Director of HR	November 2016
17	**OPERATIONAL: FUNDING** Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	• Monitor numbers and values of transfers out being processed. • If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values.	2	3	Low 6	City Treasurer and Acting Director of HR	November 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact			
18	**OPERATIONAL: ADMINISTRATION** Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	• Third parties regulated by the FCA and separation of duties and independent reconciliation procedures in place. • Review of third party internal control reports. • Regular reconciliations of pension payments undertaken by Pensions Finance Team. • Periodic internal audits of Pensions Finance and HR teams.	4	2	Low 8	City Treasurer and Acting Director of HR	November 2016
19	**OPERATIONAL: ADMINISTRATION** Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place.	• Contract monitoring in place with all providers. • Procurement team send alerts whenever credit scoring for any provider changes for follow up action.	3	1	Very Low 3	City Treasurer and Acting Director of HR	November 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact			
20	**OPERATIONAL: ADMINISTRATION** Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible.	• Contract in place with BT to provide service enabling smooth processing of supplier payments • Process in place for Surrey CC to generate lump sum payments to members as they are due. • Officers undertaking additional testing and reconciliation work to verify accounting transactions	2	2	Very Low 4	City Treasurer	November 2016
21	**OPERATIONAL: ADMINISTRATION** Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	• In the event of a pension payroll failure we would consider submitting the previous months BACS file to pay pensioners a second time if a file could not be recovered by the pension administrators and our software suppliers.	1	5	Very Low 5	Acting Director of HR	November 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact			
22	**OPERATIONAL: ADMINISTRATION** Failure to pay pension benefits accurately leading to under or over payments.	• There are occasional circumstances where under or over payments are identified. Where under payments occur arrears are paid as soon as possible usually in the next monthly pension payment. Where an overpayment occurs, the member is contacted and the pension corrected in the next month. Repayment is requested and sometimes we collect this over a number of months.	2	3	Low 6	Acting Director of HR	November 2016
23	**OPERATIONAL: ADMINISTRATION** Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	• Pension administration records are stored on the surrey servers they have a disaster recovery system in place and records should be restored within 24 hours of any issue, files are backed up daily.	1	5	Very Low 5	Acting Director of HR	November 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact			
24	**OPERATIONAL: ADMINISTRATION** Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	• Surrey CC administers pensions for Surrey, East Sussex and is taking on our Triborough partners. They have a number of very experienced administrators two of whom tuped to them from LPFA with our contract. Where issues arise the Pensions Liaison Officer reviews directly with the Pensions Manager at Surrey. More detailed performance reports are being developed.	2	3	Low 6	Acting Director of HR	November 2016
25	**Operational: Administration** BT unable to provide monthly or end of year interface files in a format suitable for Surrey CC to update service records and undertake day to day operations. Inaccuracies in service records held on the pensions administration system may impact on the triennial funding valuation at March 2016 and notifications to starters and leavers.	• Issue has been escalated by the Chief Executive for high level resolution with BT • Test files are currently with SCC • Actuary undertakes data cleansing on the service records and is confident this will mitigate the inaccuracies in service records	4	3	Medium 12	Acting Director of HR	November 2016

Appendix 2: CASHFLOW MONITORING

Cashflow Forecasts 2016-17 and the following 3 financial years

	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000
	F'cast	F'cast	F'cast	F'cast
Balance b/f	**8,658**	**4,718**	**5,518**	**5,918**
Contributions	36,000	37,500	39,000	40,500
Misc. Receipts[1]	1,200	1,300	1,400	1,500
Pensions	(36,000)	(38,000)	(40,000)	(42,000)
HMRC Tax	(6,480)	(7,000)	(7,500)	(8,000)
Misc. Payments[2]	(11,400)	(13,000)	(15,000)	(17,000)
Expenses	(5,260)	(6,000)	(6,500)	(7,000)
Net cash in/(out) in month	**(21,940)**	**(25,200)**	**(28,600)**	**(32,000)**
Withdrawals from Fund Managers	18,000	26,000	29,000	32,000
Balance c/f	**4,718**	**5,518**	**5,918**	**5,918**

Notes
[1] Includes Transfers in, Overpayments, Bank Interest, VAT reclaim, Recharges
[2] Includes Transfers out, Lump Sums, Death Grants, Refunds

Cashflow actuals and forecast for period April 2016 to March 2017

	Apr-16			May-16			Jun-16			Jul-16			*Aug-16*	*Sep-16*	*Oct-16*	*Nov-16*	*Dec-16*	*Jan-17*	*Feb-17*	*Mar-17*	*Outturn 16/17*
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
	F'cast	Actual	Var	F'cast	Actual	Var	F'cast	Actual	Var	F'cast	Actual	Var	*F'cast*	*F'cast*	*F'cast*	*F'cast*	*F'cast*	*F'cast*	*F'cast*	*F'cast*	*F'cast*
Balance b/f	**8,658**	**8,658**	**0**	**7,238**	**6,618**	**620**	**5,348**	**5,107**	**241**	**3,928**	**1,967**	**1,961**	***2,831***	***941***	***8,151***	***6,731***	***4,841***	***3,421***	***11,001***	***9,111***	
Contributions	3,000	2,973	27	3,000	2,738	262	3,000	1,259	1,741	3,000	4,785	(1,785)	*3,000*	*3,000*	*3,000*	*3,000*	*3,000*	*3,000*	*3,000*	*3,000*	*35,755*
Misc. Receipts[1]	100	21	79	100	609	(509)	100	142	(42)	100	149	(49)	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*1,721*
Pensions	(3,000)	(2,940)	(60)	(3,000)	(2,970)	(30)	(3,000)	(2,956)	(44)	(3,000)	(2,944)	(56)	*(3,000)*	*(3,000)*	*(3,000)*	*(3,000)*	*(3,000)*	*(3,000)*	*(3,000)*	*(3,000)*	*(35,810)*
HMRC Tax	(540)	(537)	(3)	(540)	(546)	6	(540)	(541)	1	(540)	(535)	(5)	*(540)*	*(540)*	*(540)*	*(540)*	*(540)*	*(540)*	*(540)*	*(540)*	*(6,479)*
Misc. Payments[2]	(950)	(1,536)	586	(950)	(830)	(120)	(950)	(729)	(221)	(950)	(509)	(441)	*(950)*	*(950)*	*(950)*	*(950)*	*(950)*	*(950)*	*(950)*	*(950)*	*(11,204)*
Expenses	(30)	(21)	(9)	(500)	(512)	12	(30)	(315)	285	(30)	(82)	52	*(500)*	*(400)*	*(30)*	*(500)*	*(30)*	*(30)*	*(500)*	*(30)*	*(2,950)*
Net cash in/(out) in month	**(1,420)**	**(2,040)**	**620**	**(1,890)**	**(1,511)**	**(379)**	**(1,420)**	**(3,140)**	**1,720**	**(1,420)**	**864**	**(2,284)**	***(1,890)***	***(1,790)***	***(1,420)***	***(1,890)***	***(1,420)***	***(1,420)***	***(1,890)***	***(1,420)***	
Withdrawals from Fund Managers	0	0	0	0	0	0	0	0	0	9,000	0	9,000	*0*	*9,000*	*0*	*0*	*0*	*9,000*	*0*	*0*	*18,000*
Cash Transfers from Custodian											2,502										*2,502*
Balance c/f	**7,238**	**6,618**	**620**	**5,348**	**5,107**	**241**	**3,928**	**1,967**	**1,961**	**11,508**	**2,831**	**8,677**	**941**	**8,151**	**6,731**	**4,841**	**3,421**	**11,001**	**9,111**	**7,691**	

Notes
[1] Includes Transfers in, Overpayments, Bank Interest, VAT reclaim, Recharges
[2] Includes Transfers out, Lump Sums, Death Grants, Refunds

Committee Report

City of Westminster

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**20 September 2016**
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.**
Report of:	**Steven Mair** ***City Treasurer*** **smair@westminster.gov.uk** **020 7641 2904**

1. Executive Summary

1.1 This report presents a summary of the Pension Fund's performance to 30 June 2016, together with an estimated valuation position.

2. Recommendation

2.1 The Committee note the contents of this paper, the performance report from Deloitte and the current actuarial assumptions and valuation.

3. Background

Performance of the Fund

3.1 This report presents a summary of the Pension Fund's performance and estimated funding level to 30 June 2016. The investment report (Appendix 1) has been prepared by Deloitte, the Fund's investment adviser, who will be attending the meeting to present the key points and answer questions.

3.2 The Investment Performance Report shows that over the quarter to 30 June 2016, the market value of the assets increased by £38.7 million with positive absolute returns from all of the Fund's mandates.

3.3 The Funding update (Appendix 2) has been provided by the Fund Actuary, Barnett Waddingham. This indicates that the smoothed funding level has increased to 79% over the quarter to 30 June 2016, compared to 78% which was reported at the previous meeting for the position as at 31 March 2016. The current funding level exceeds that reported at the last triennial valuation at 31 March 2013 (74%).

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

Nikki Parsons nparsons@westminster.gov.uk or 020 7641 6925

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 - Deloitte Investment Report, Quarter Ending 30 June 2016
Appendix 2 - Barnett Waddingham Funding Update Report as at 30 June 2016

City of Westminster Pension Fund

Funding update report as at 30 June 2016

Barnett Waddingham LLP

5 August 2016

Contents

Introduction

We have carried out a quarterly monitoring assessment of the City of Westminster Pension Fund (the Fund) as at 30 June 2016. The purpose of this assessment is to provide an update on the funding position.

We assess the funding position on a smoothed basis which is an estimate of the average position over a six month period spanning the reporting date. As the smoothing adjustment reflects average market conditions spanning a six month period straddling the reporting date, the smoothed figures are projected numbers and likely to change up until three months after the reporting date. The smoothed results are indicative of the underlying trend.

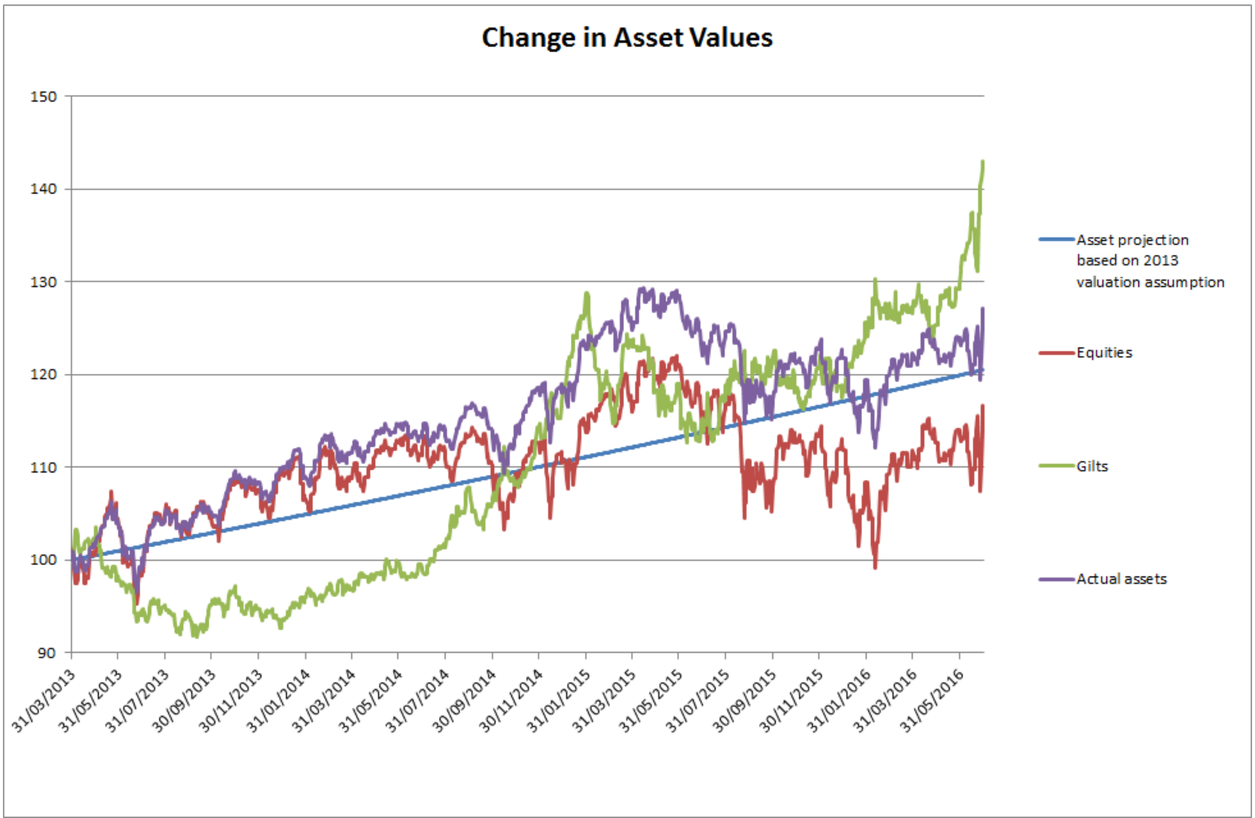
Assets

The estimated (unsmoothed) asset allocation of the City of Westminster Pension Fund as at 30 June 2016 is as follows:

Assets (Market Value)	30 June 2016		31 March 2016		31 March 2013	
	£000's	%	£000's	%	£000's	%
UK and Overseas Equities	806,806	73.5%	773,617	73.1%	643,179	73.6%
Bonds	143,033	13.0%	146,427	13.8%	111,092	12.7%
Property	106,582	9.7%	105,810	10.0%	35,787	4.1%
Gilts	28,022	2.6%	26,732	2.5%	49,821	5.7%
Cash and Accruals	12,934	1.2%	5,349	0.5%	34,303	3.9%
Total Assets	**1,097,377**	**100%**	**1,057,934**	**100%**	**874,182**	**100%**

The investment return achieved by the Fund's assets in market value terms for the quarter to 30 June 2016 is estimated to be 4.2%. The return achieved since the previous valuation is estimated to be 27.1% (which is equivalent to 7.7% p.a.).

The following chart shows the changes in equity and bond markets since the previous actuarial valuation and compares them with the estimated actual fund returns and the expected fund returns assumed at the previous valuation:



As we can see the asset value as at 30 June 2016 in market value terms is more than where it was projected to be at the previous valuation.

Changes in market conditions – market yields and discount rates

The actual investment returns earned by the Fund will affect the value of the Fund's assets. The value of the Fund's liabilities, however, is dependent on the assumptions used to value the future benefits payable. The following table shows how these assumptions have changed since the last triennial valuation:

Assumptions (Smoothed)	30 June 2016		31 March 2016		31 March 2013	
	Nominal	Real	Nominal	Real	Nominal	Real
	%p.a.		%p.a.		%p.a.	
Pension Increases	2.42%	-	2.49%	-	2.74%	-
Salary Increases	4.22%	1.80%	4.29%	1.80%	4.54%	1.80%
Discount Rate						
Scheduled Bodies	5.55%	3.14%	5.78%	3.29%	5.90%	3.16%
Admission Bodies (in service)	4.28%	1.86%	4.53%	2.03%	4.90%	2.16%
Admission Bodies (left service)	2.50%	0.08%	2.77%	0.28%	3.50%	0.76%

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate – the higher the real discount rate the lower the value of liabilities. The main real discount rate is broadly similar as at the 2013 valuation, maintaining the value of liabilities used for funding purposes.

Summary of results

The results of our assessment indicate that:

- the current projection of the smoothed funding level as at 30 June 2016 is 79% and the average required employer contribution would be 31.0% of payroll assuming the deficit is to be paid by 2038;
- this compares with the reported (smoothed) funding level of 74% and average required employer contribution of 29.8% of payroll at the City of Westminster Pension Fund funding valuation.

The discount rate underlying the smoothed funding level as at 30 June 2016 is 5.6% p.a. The investment return required to restore the funding level to 100% by 2038, without the employers paying deficit contributions, would be 6.7% p.a.

SAB comparison model

For illustrative purposes, we have also assessed the funding position using the LGPS Scheme Advisory Board's (SAB) standardised financial assumptions. As part of the 2016 actuarial valuation, we will be required to calculate this funding level and submit it to the SAB so that LGPS Funds can be easily compared with each other. For the purposes of our calculation, we have adopted a 3% real discount rate based on a CPI assumption of 2% p.a.

As at 31 March 2013, we estimate the funding level of the Whole Fund to be 78% on the SAB basis. As at 30 June 2016, this is estimated to have increased to 88%.

The funding position for each month since the formal valuation is shown in Appendix 1. It should be borne in mind that the nature of the calculations is approximate and so the results are only indicative of the underlying position.

As part of the formal 2016 valuation we will be assessing the funding position and required contribution rates not only on a basis that is consistent with the last valuation, but also in light of the SAB's comparative basis and also the Government Actuary's section 13 valuation. We will also be reviewing all the assumptions (and in particular the possible impact of Brexit) and so the results set out in this report are unlikely to be those that we finally report on from the formal 2016 valuation. Without pre-empting these discussions it is likely that we will be considering a more prudent view of the future than adopted at the 2013 valuation (at least for the Scheduled Bodies).

We would be pleased to answer any questions arising from this report.

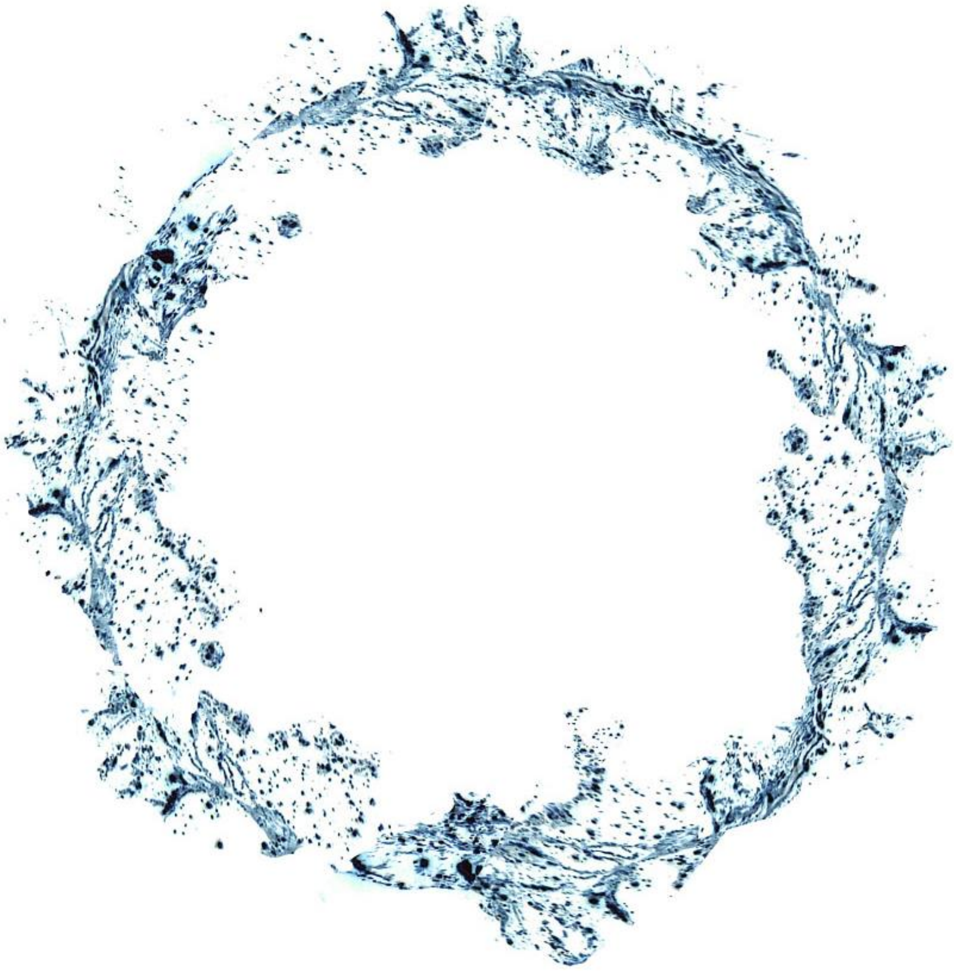
Graeme D Muir FFA
Partner
Barnett Waddingham LLP

Appendix 1 **Financial position since previous valuation**

Below we show the financial position on a smoothed basis for each month since the previous full valuation. As the smoothing adjustment reflects average market conditions spanning a six month period straddling the reporting date, the smoothed figures for the previous three months are projected numbers and likely to change up until three months after the reporting date.

Smoothed Valuation Date	Assets £000's	Liabilities £000's	Surplus/ Deficit £000's	Funding Level %	Final Salary Ongoing (% of Payroll)	CARE Ongoing Cost (% of Payroll)	Past Service Ctbn	Total Ctbn (% of payroll)	Main Discount Rate	Return required to restore funding level (pa)
March 2013	866,938	1,164,198	(297,260)	74%	14.3%	13.3%	16.5%	29.8%	5.9%	7.1%
April 2013	878,910	1,165,568	(286,658)	75%	14.3%	13.8%	13.1%	26.8%	5.9%	7.1%
May 2013	888,642	1,169,568	(280,926)	76%	14.2%	13.7%	12.9%	26.6%	5.9%	7.1%
June 2013	895,688	1,170,718	(275,030)	77%	14.1%	13.5%	12.7%	26.2%	6.0%	7.1%
July 2013	904,339	1,173,403	(269,063)	77%	14.0%	13.4%	12.5%	25.9%	6.0%	7.0%
August 2013	909,690	1,175,518	(265,828)	77%	13.9%	13.3%	12.4%	25.7%	6.0%	7.1%
September 2013	918,777	1,183,051	(264,274)	78%	13.9%	13.3%	12.3%	25.7%	6.0%	7.1%
October 2013	929,362	1,191,805	(262,443)	78%	13.9%	13.4%	12.3%	25.7%	6.0%	7.0%
November 2013	938,213	1,201,055	(262,842)	78%	13.9%	13.4%	12.3%	25.7%	6.0%	7.0%
December 2013	946,872	1,211,047	(264,176)	78%	14.0%	13.4%	12.4%	25.8%	6.0%	7.0%
January 2014	954,969	1,220,108	(265,139)	78%	13.9%	13.4%	14.1%	27.5%	6.0%	7.0%
February 2014	962,658	1,228,794	(266,137)	78%	13.9%	13.4%	14.3%	27.7%	6.0%	7.0%
March 2014	1,004,578	1,236,829	(232,251)	81%	13.9%	13.4%	14.4%	27.8%	6.0%	6.9%
April 2014	1,005,726	1,247,749	(242,023)	81%	-	13.4%	15.8%	29.2%	6.0%	6.9%
May 2014	1,007,188	1,258,014	(250,825)	80%	-	13.4%	16.3%	29.7%	5.9%	6.9%
June 2014	1,009,896	1,238,977	(229,081)	82%	-	12.8%	15.5%	28.3%	6.1%	7.0%
July 2014	1,009,337	1,256,980	(247,642)	80%	-	13.0%	15.2%	28.2%	6.1%	7.0%
August 2014	1,009,990	1,267,542	(257,552)	80%	-	13.0%	15.8%	28.8%	6.0%	7.0%
September 2014	1,009,471	1,277,558	(268,087)	79%	-	13.0%	16.4%	29.4%	6.0%	7.0%
October 2014	1,023,980	1,302,309	(278,329)	79%	-	13.2%	17.1%	30.4%	5.9%	7.0%
November 2014	1,034,712	1,316,533	(281,820)	79%	-	13.3%	17.7%	31.0%	5.9%	6.9%
December 2014	1,040,341	1,330,754	(290,413)	78%	-	13.4%	18.4%	31.8%	5.9%	6.9%
January 2015	1,078,282	1,357,915	(279,633)	79%	-	13.7%	17.5%	31.2%	5.8%	6.8%
February 2015	1,091,181	1,371,376	(280,195)	80%	-	13.8%	17.9%	31.7%	5.8%	6.7%
March 2015	1,104,985	1,374,723	(269,739)	80%	-	13.7%	17.6%	31.3%	5.8%	6.8%
April 2015	1,106,355	1,376,996	(270,640)	80%	-	13.6%	17.4%	31.0%	5.9%	6.9%
May 2015	1,105,768	1,385,201	(279,433)	80%	-	13.5%	17.8%	31.4%	6.0%	7.0%
June 2015	1,103,539	1,409,858	(306,319)	78%	-	13.9%	19.0%	32.8%	5.9%	7.0%
July 2015	1,075,550	1,399,015	(323,464)	77%	-	13.4%	19.9%	33.3%	6.0%	7.2%
August 2015	1,065,910	1,403,042	(337,132)	76%	-	13.3%	20.5%	33.8%	6.1%	7.3%
September 2015	1,054,032	1,415,081	(361,048)	74%	-	13.3%	21.6%	34.9%	6.1%	7.4%
October 2015	1,045,357	1,393,809	(348,452)	75%	-	14.1%	20.9%	35.0%	6.1%	7.4%
November 2015	1,037,921	1,376,553	(338,632)	75%	-	13.9%	20.2%	34.0%	5.9%	7.1%
December 2015	1,044,752	1,374,674	(329,922)	76%	-	14.0%	19.4%	33.4%	5.8%	7.0%
January 2016	1,044,649	1,365,555	(320,905)	77%	-	14.0%	18.7%	32.7%	5.8%	7.0%
February 2016	1,039,835	1,350,435	(310,600)	77%	-	13.9%	18.0%	31.9%	5.8%	7.0%
March 2016	1,035,950	1,320,585	(284,635)	78%	-	13.8%	17.3%	31.2%	5.8%	6.9%
April 2016	1,062,187	1,339,884	(277,697)	79%	-	14.1%	14.0%	28.1%	5.6%	6.7%
May 2016	1,069,701	1,351,663	(281,962)	79%	-	14.3%	16.3%	30.6%	5.6%	6.7%
June 2016	1,073,450	1,360,660	(287,209)	79%	-	14.4%	16.6%	31.0%	5.6%	6.6%

Deloitte.



City of Westminster Pension Fund

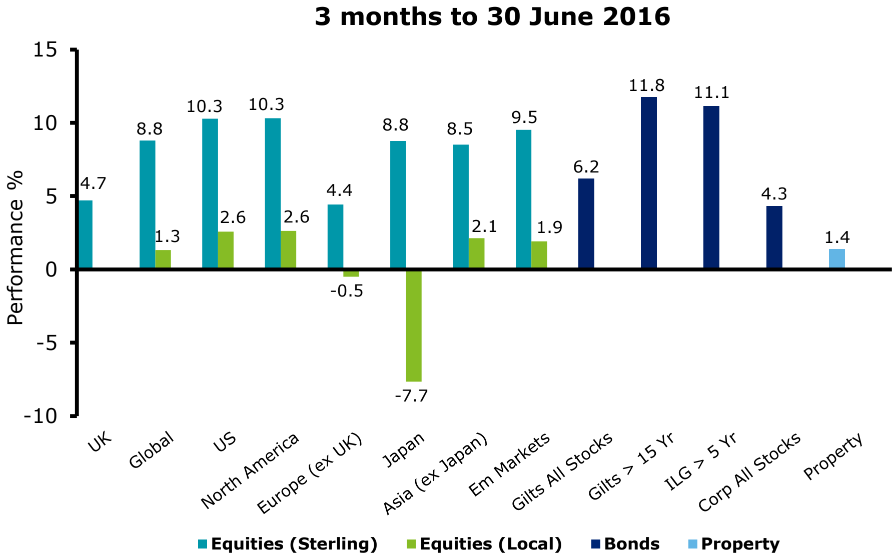
Investment Performance Report to 30 June 2016

Deloitte Total Reward and Benefits Limited
August 2016

Contents

1 Market Background

Three months to 30 June 2016



Equity markets

The UK equity market delivered a positive return over the second quarter of 2016, with the FTSE All Share Index delivering a return of 4.7%. There was considerable volatility experienced over the period, mainly due to the EU referendum, as markets reacted to the changing outcomes of the polls in the run up to the vote and the UK's ultimate decision to leave the EU. The fall in equity markets in the immediate aftermath of the result corrected a rally experienced in the run up to the vote as the market had anticipated, and priced in, a 'Remain' result. However, over the final few days of the quarter the equity market rallied again to pre-referendum levels, with defensive stocks performing well alongside companies which export globally which appeared more attractive due to the depreciation of sterling.

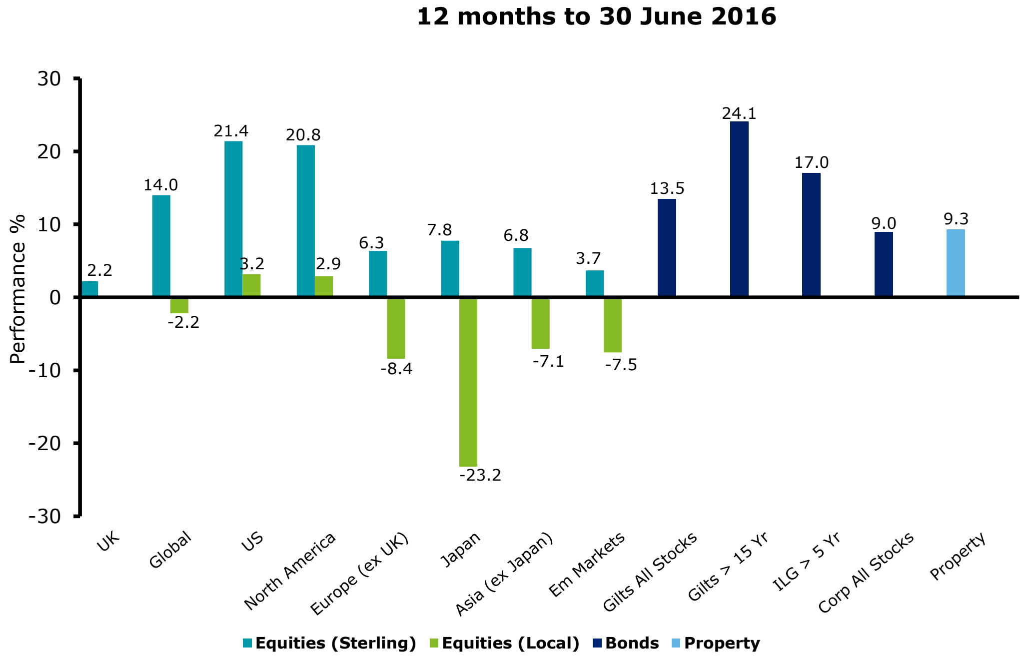
Large UK companies outperformed smaller companies over the second quarter, with the FTSE 100 Index returning 6.5% while the FTSE Small Cap Index delivered a negative return of -0.6%. Small cap stocks fell in value to a greater extent following the result of the referendum and did not rally to the same extent as larger more stable companies in the remainder of the quarter. There was a wide spread of returns experienced at the sector level. Similar to last quarter, the top performing sectors were Oil & Gas (22.6%) and Basic Materials (14.9%) which continued to benefit from a rebound in the price of oil which rose above $50 a barrel as well as benefiting from the depreciation of sterling. The poorest performing sectors were Consumer Services (-8.5%) and Financials (-4.2%), with their more UK-centric focus.

Global equity markets outperformed the UK in sterling terms (8.8%) but underperformed the UK in local currency terms (1.3%) over the second quarter. Currency hedging was therefore detrimental as sterling depreciated against a basket of global currencies, most significantly against the Japanese yen and the dollar. At a regional level, the US achieved the highest return, delivering 10.3% in sterling terms and 2.6% in local currency terms. Japan was the poorest performing region, delivering a return of -7.7% in local currency terms, however, the significant depreciation of sterling against the Japanese yen meant that sterling investors in Japanese equities without currency hedging achieved a return of 8.8%.

Bond markets

The uncertainty and volatility caused by the EU referendum led investors to look for safe haven assets and, despite the credit rating of the UK suffering following the outcome of the referendum, there was an increase in demand for UK government bonds. As a result, UK nominal gilts delivered positive returns over the second quarter, with the All Stocks Gilts Index returning 6.2%, as yields fell significantly across all maturities. Real yields on UK index-linked gilts fell further into negative territory over the period, with the Over 5 Year Index-linked Gilts Index returning 11.1%. Credit spreads widened slightly over the quarter but this was more than offset by the fall in gilt yields resulting in corporate bonds delivering a positive return over the period, with the iBoxx All Stocks Non Gilt Index returning 4.3%.

Twelve months to 30 June 2016



Equity markets
Over the 12 months to 30 June 2016, the FTSE All Share Index has delivered a positive return of 2.2%. Performance was volatile and continued to vary significantly across sectors. Financials was the poorest performing sector over the year (-18.8%) whilst the Consumer Goods sector was the highest performer (20.7%). Global equity markets outperformed the UK in sterling terms (14.0%) but underperformed the UK in local currency terms (-2.2%), with currency hedging detracting.

Bond markets
UK nominal gilts delivered positive returns over the year, with the All Stocks Gilts Index returning 13.5% and the Over 15 Year Gilts Index returning 24.1%, as gilt yields fell significantly across all maturities. Real yields also fell significantly over the year, with the Over 5 Year Index Linked Gilts Index returning 17.0%. Despite credit spreads widening over the year, corporate bonds delivered positive returns due to the impact of the fall in gilt yields with the iBoxx All Stocks Non Gilt Index returning 9.0% over the period.

2 Total Fund

2.1 Investment Performance to 30 June 2016

The following table summarises the performance of the Fund's managers.

Manager	Asset Class	Last Quarter (%)			Last Year (%)			Last 3 Years (% p.a.)[1]			Since inception (% p.a.)[1]		
		Fund		B'mark	Fund		B'mark	Fund		B'mark	Fund		B'mark
		Gross	Net[1]		Gross	Net[1]		Gross	Net[1]		Gross	Net[1]	
Majedie	UK Equity	3.7	3.7	4.7	-2.0	-2.3	2.2	7.5	7.1	5.9	9.5	9.1	5.5
LGIM	Global Equity	1.4	1.4	1.4	-2.6	-2.7	-2.6	8.4	8.2	8.4	10.3	10.2	10.3
Baillie Gifford	Global Equity	6.8	6.7	8.8	11.9	11.5	13.9	n/a	n/a	n/a	10.5	10.1	11.9
Longview	Global Equity	7.2	7.0	8.6	16.4	15.8	14.4	n/a	n/a	n/a	15.2	14.5	11.0
Insight	Gilts	2.4	2.4	2.5	6.7	6.6	6.8	4.1	4.0	4.1	5.4	5.3	5.5
Insight	Non-Gilts	3.0	2.9	2.8	7.0	6.8	6.6	6.5	6.2	5.9	5.9	5.7	5.5
Hermes	Property	1.4	1.3	1.4	11.3	10.9	8.9	15.6	15.2	13.3	9.9	9.5	8.9
Standard Life	Property	1.4	1.3	6.7	6.5	6.0	15.8	9.5	9.0	10.3	9.5	9.0	10.3
Total		**3.7**	**3.6**	**4.5**	**4.4**	**4.0**	**6.0**	**9.2**	**8.9**	**8.9**	**6.0**	**5.6**	**5.6**

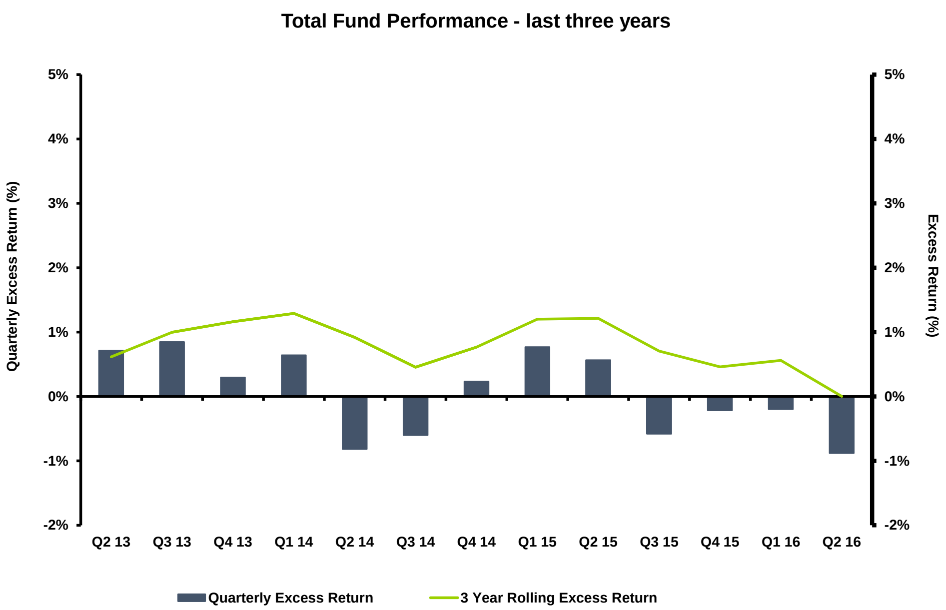
Source: Investment Managers

(1) Estimated by Deloitte when manager data is not available

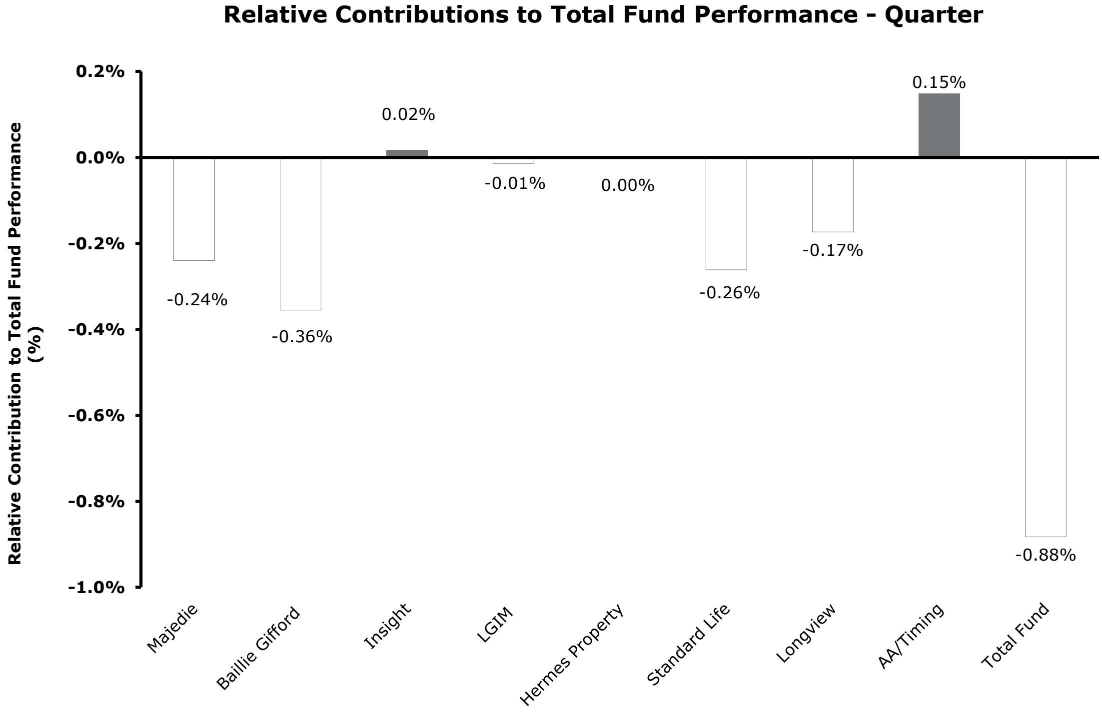
See appendix 1 for more derail on manager fees and since inception dates

Over the quarter the Fund underperformed its benchmark, mostly due to the underperformance of the active equity managers Majedie, Baillie Gifford and Longview along with the property manager, Standard Life.

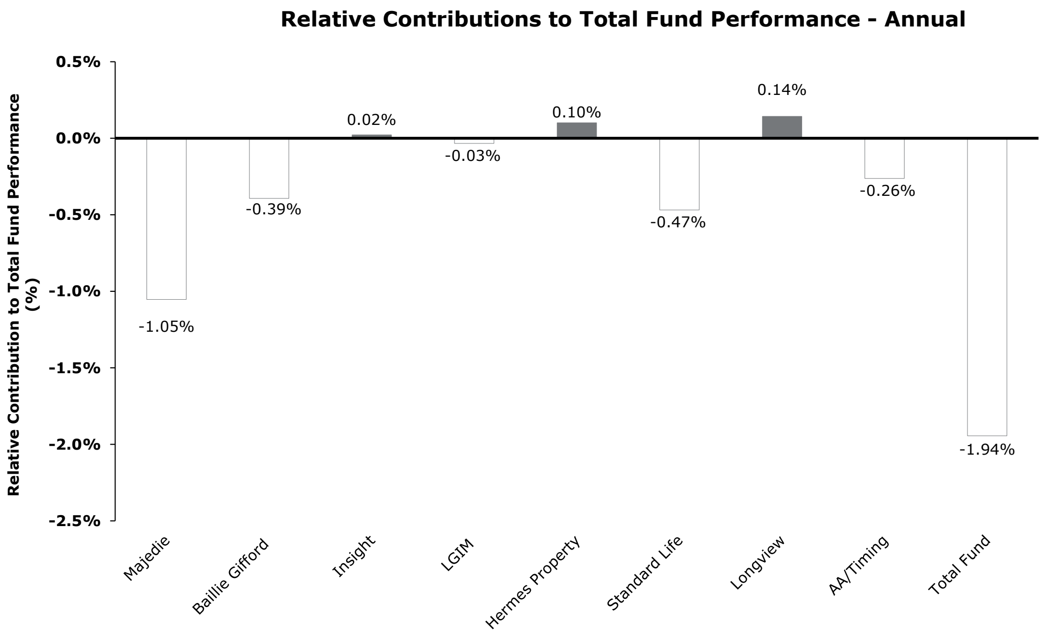
The chart below shows the performance of the Fund over the last three years, highlighting that the rolling three-year performance is in line with the benchmark – despite the recent run of disappointing quarterly returns. Key drivers to performance have been Majedie and Hermes. Please note that performance is shown net of fees versus the benchmark.



2.2 Attribution of Performance to 30 June 2016



The Fund underperformed its composite benchmark by 0.9% over the second quarter of 2016, with weak relative performance across the board. The Fund's underweight position to Standard Life contributed positively to performance.



The Fund underperformed over the year, largely due to underperformance from Majedie, Baillie Gifford and Standard Life. When considering this analysis, it should be borne in mind that the Standard Life Long Lease Fund is benchmarked againsts gilts where the performance of the benchmark has been impacted by further reductions in bond yields. The AA/Timing bar largely reflects the fact that the actual allocation has differed from the benchmark. The average overweight allocation to Majedie and Baillie Gifford over the year has contributed to the negative contribution from AA/Timing.

2.3 Asset Allocation as at 30 June 2016

The table below shows the assets held by manager and asset class as at 30 June 2016.

Manager	Asset Class	End Mar 2016 (£m)	End Jun 2016 (£m)	End Mar 2016 (%)	End Jun 2016 (%)	Benchmark Allocation* (%)
Majedie	UK Equity	241.5	250.6	22.8	22.9	22.5
LGIM	Global Equity (Passive)	239.9	243.2	22.7	22.2	22.5
Baillie Gifford	Global Equity	178.9	191.3	16.9	17.4	25.0
Longview	Global Equity	113.9	121.9	10.8	11.1	
	Total Equity	**774.2**	**807.0**	**73.2**	**73.6**	**70.0**
Insight	Fixed Interest Gilts (Passive)	18.4	18.8	1.7	1.7	20.0
Insight	Sterling Non-Gilts	158.5	163.2	15.0	14.9	
	Total Bonds	**176.9**	**182.0**	**16.7**	**16.6**	**20.0**
Hermes	Property	55.4	55.5	5.2	5.1	5.0
Standard Life	Property	51.1	51.8	4.8	4.7	5.0
To be Determined	Property / Infrastructure	-	-	-	-	-
	Total Property	**106.5**	**107.3**	**10.1**	**9.8**	**10.0**
	Total	**1,057.6**	**1,096.3**	**100**	**100**	**100**

Source: Investment Managers Figures may not sum due to rounding

* The benchmark allocation has been set to 70% equity, 20% bonds and 10% property to better align the benchmark performance calculation with the allocation and performance of the Fund. The Fund's long term strategic benchmark allocation includes a 5% allocation to Property / Infrastructure, which will be funded from the equity portfolio.

Over the quarter the market value of the assets increased by c. £38.7m, with positive absolute returns from all of the Fund's mandates.

As at 30 June 2016, the Fund was overweight equities by c. 3.6% when compared with the amended benchmark allocation, with overweight allocations to UK equities and active global equities. As a result of these overweight positions, the Fund was underweight bonds by c. 3.4% and c. 0.2% underweight property.

2.4 Yield analysis as at 30 June 2016

The table below shows the yield on each of the Fund's investments.

Manager	Asset Class	Yield as at 30 June 2016
Majedie	UK Equity	3.35%
LGIM	Global Equity (Passive)	0.28%#
Baillie Gifford	Global Equity	1.30%*
Longview	Global Equity	2.35%
Insight	Fixed Interest Gilts (Passive)	0.53%
Insight	Sterling Non-Gilts	2.85%
Hermes	Property	4.10%
Standard Life	Property	4.50%
	Total	**2.17%**

at the end of June the yield on the benchmark index was 2.7%. * refers to the dividend yield for the London CIV Global Alpha Strategy.

3 Summary of Manager Ratings

The table below summarises Deloitte's ratings of the managers employed by the Fund and triggers against which managers should be reviewed.

Manager	Mandate	Triggers for Review	Rating
Majedie	UK Equity	Further turnover within the core investment team Re-opening the UK Equity products with no clear limits on the value of assets that they would take on	1
Baillie Gifford	Global Equity	Loss of key personnel Change in investment approach Lack of control in growth of assets under management	1
Longview	Global Equity	Loss of key personnel Change in investment approach Lack of control in growth of assets under management	1
LGIM	Global Equity (Passive)	Major deviation from benchmark returns Significant loss of assets under management	1
Insight	Sterling Non-Gilts Fixed Interest Gilts (Passive)	Departure of any of the senior members of the investment team Steps to broaden their product offering beyond the current UK and European focus without first bringing in the additional expertise	1
Hermes	Property	Significant growth in the value of assets invested in the fund Changes to the team managing the mandate	1
Standard Life	Property	Richard Marshall leaving the business or ceasing to be actively involved in the Fund without having gone through an appropriate hand-over A build up within the Fund of holdings with remaining lease lengths around 10 years	1

3.1 Majedie UK Equity

Business

Majedie has come to a provisional agreement with the London CIV in relation to making its UK Equity strategy available through the London platform. With this provisional agreement, Majedie will make additional capacity available to the London Boroughs on a matching basis. Although final details are yet to be confirmed, we understand this will likely result in a reduction of fees charged by Majedie to the London Boroughs.

The UK Equity Fund had inflows of c. £240m and outflows of c. £390m over the quarter, with most outflows being from UK defined benefit schemes while inflows coming from a combination of defined contribution and high net worth clients.

Total AUM for Majedie as at 30 June 2016 was £11.6bn.

Personnel

There were two new joiners over the quarter with Richard Clarke-Wilson joining the client relationship team, and Matt Hambly as a compliance assistant.

Deloitte view – We continue to rate Majedie positively for its UK Equity capabilities.

3.2 Baillie Gifford

Business

Total assets under management increased over the second quarter of 2016 and were c. £130bn as at 30 June 2016. However, there continues to be a trend of UK pension funds moving from global equity funds to lower volatility funds.

The Fund's investment with Baillie Gifford is now held through the London CIV and, through the economies of scale provided by the pool, the Fund is now paying a reduced annual management charge of 36bps (compared with 40bps previously).

Personnel

During the quarter, 3 experienced fund managers joined the credit team; Gregory Schwartz (investment credit manager from Kames), and high yield credit managers Lesley Dunn (from AAM) and Eleanor Price (from Insight Investment Management).

As mentioned last quarter, two new partners (investment manager, John MacDougall and Client Director, Tim Garratt) were appointed from 1 May 2016 and one partner (Client Director, Peter Hadden) retired, bringing the total number of partners to 41.

Deloitte view – We continue to rate Baillie Gifford positively for its global equity capabilities. While it is unusual for Baillie Gifford to recruit experienced investment professionals into its equity teams, this is not the first time experienced hires have been added to the fixed income part of the business.

3.3 LGIM

Business

As at 31 December 2015, Legal & General Investment Management ("Legal & General") had total assets under management of c. £520bn.

Personnel

Michael Marks joined as COO, as a permanent replacement for Robert Moore, who was promoted to CEO of LGIM's American business. Michael has 28 years' experience and joined from BlackRock, where he was regional head of the client solutions group. Michael Kovacz joined as Head of Investments Technology from Northern Trust to provide business direction for the index team on strategic technology projects and develop tactical solutions.

Deloitte View - We continue to rate Legal & General positively for its passive capabilities.

3.4 Longview

Business

Assets under management at the end of March 2016 were £14.9bn.

As per previous quarters, as a result of de-risking, a number of UK defined benefit pension schemes transferred assets from Longview over the quarter, with this capacity being recycled to Australian and American investors.

We are not aware of any further update from Longview on its progress with discussions regarding the London CIV. As an update on last quarter: both parties had agreed in principal on a fee and capacity structure and were working through the finer detail. We expect the CIV to make a formal announcement over the coming months.

Personnel

This quarter Michael Hunt who is the group's Head of Risk relocated to Guernsey. However, we note that his job has not changed; just his location.

Deloitte view – We continue to rate Longview for its global equity capabilities.

3.5 Insight

Business

Insight continued to see a strong inflow of assets over the quarter. Assets under management were c. £440bn as at 31 March 2016 with continued demand from investors looking to hedge their inflation and interest rate risk.

Personnel

There were two new joiners announced over the quarter (although both started post quarter end):

- Tim Doherty joins the New York office and will cover investment grade and non-investment grade issuers primarily in the US energy sector, reporting to David Hamilton. Tim joins from Credit Agricole USA where he has worked as a desk analyst since 2010.
- Teo Lasarte joins the London team and will cover investment grade and non-investment grade in the consumer and industrials sectors, both in developed and emerging markets. Teo joins from BoAML where he has worked since 2006.

There were three leavers over the quarter:

- Tamara Burnell left the credit research team, having joined less than 12 months ago. Tamara is moving to a more senior role with LGIM.
- Eleanor Price also departed to relocate back to Scotland for family reasons (joining Baillie Gifford), and Anna Stevens decided not to return after maternity leave.

Insight has stated that these departures have been filled by Tim and Teo, as detailed above.

Deloitte view – We continue to rate Insight positively for its Fixed Income capabilities.

3.6 Hermes

Business

Over the quarter, assets under management within the HPUT remained relatively stable, ending the period at c. £1.3bn. The interest from prospective unit holders continues to be strong and the Trust Managers continue to hold subscriptions for new investment.

The EU Referendum did not affect the number of investors in the Trust over the quarter, there was only one small redemption (£1.2m or 0.1% of the Trust) in May 2016 and the Trust Manager continues to see demand from the secondary market. Cash flows over the quarter were from secondary market transactions. The current bid/offer spread for the fund remains at c. 7%.

Personnel

There were no changes to the team over the quarter.

Deloitte view – Following the UK's decision to leave the EU, several property funds implemented liquidity restrictions albeit this was primarily driven by retail rather than institutional investors. Hermes has not experienced any redemptions post the referendum and there is no queue to exit the fund. We continue to rate the team managing HPUT.

3.7 Standard Life

Business

The Fund's assets under management increased slightly to £1.66bn over the second quarter, largely as a consequence of positive performance, with no significant inflows or outflows over the quarter. SLI continues to see interest in the Long Lease Property Fund, with two clients making additional total commitments of £34m over the second quarter.

Personnel

There were no changes to the team over the quarter.

Deloitte View - The Long Lease Property Fund is only open to institutional investors and was not affected by any post-referendum liquidity restrictions. We remain positive on long lease property given the long-term, inflation-linked nature of the contractual cashflows which arise from this type of investment.

4 Baillie Gifford – Global Equity

Baillie Gifford was appointed to manage an active Global Equity mandate from 18 March 2014. The manager is remunerated on an asset based fee, reflecting the total value of assets invested in the strategy across the Tri-borough. The target is to outperform the benchmark of 2% p.a.

4.1 Global equity – Investment performance to 31 March 2016

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Baillie Gifford – Gross of fees	6.8	11.9	n/a	10.5
Net of fees[1]	6.7	11.5	n/a	10.1
MSCI AC World Index	8.8	13.9	n/a	11.9
Relative (net of fees)	-2.1	-2.4	n/a	-1.8

Source: Baillie Gifford, via London CIV

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 18 March 2014

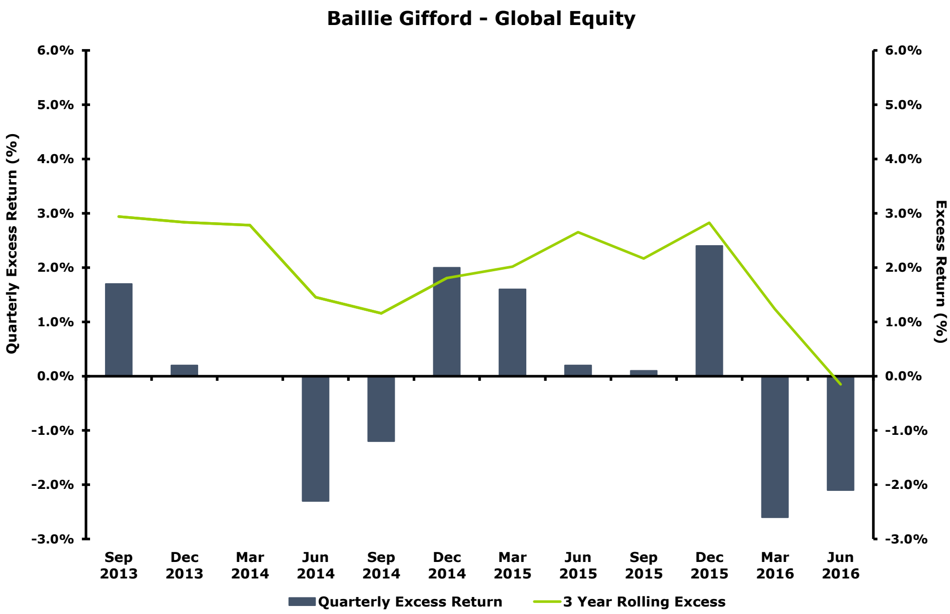
The Fund now invests in the Baillie Gifford Global Alpha Fund through the London CIV which has been made available with c. £1bn of additional capacity.

The Baillie Gifford Global Equity Alpha Fund has underperformed its benchmark over the quarter and year to 30 June 2016, as well as over the period since inception.

Regionally the underweight positions to both the UK and US, and the overweight position to Europe detracted most from performance, whilst the overweight position to emerging markets contributed positively.

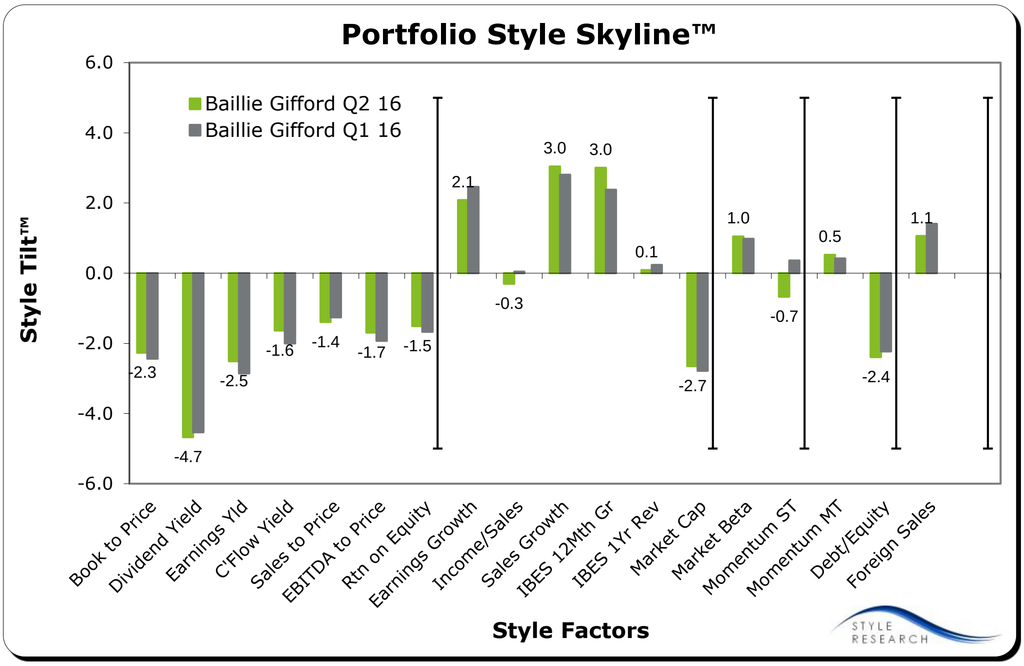
From a stock selection perspective, the largest detractors were Royal Caribbean Cruises and Ryanair who both suffered from the perception of lower consumer spending post Brexit. Prudential and Bank of Ireland also suffered from the financial selloff at the end of June, detracting from performance.

The graph below shows the net quarterly returns and the rolling three year excess returns relative to the benchmark. Note that Westminster only invested in this strategy from 18th March 2014 and previous periods are shown for information only. The Fund's current three year excess return is behind the target (+2% p.a.) having underperformed the benchmark by c. 0.2% p.a.



4.2 Style Analysis

We have analysed the Style of Baillie Gifford's Global Alpha portfolio as at 30 June 2016, the results of which can be seen in the below graph. When considering the analysis it should be borne in mind that any figures in excess of +/- 1 are considered to be meaningful.



As can be seen, Baillie Gifford has a marked negative bias to value related factors and a positive bias to growth factors which is consistent with the manager's stated investment approach. This is a similar position to last quarter.

The top 10 holdings in the portfolio account for c. 27.8% of the Fund and are detailed below.

Top 10 holdings as at 30 June 2016	Proportion of Baillie Gifford Fund
Amazon	4.3%
Naspers	3.3%
Royal Caribbean Cruises	2.8%
CHR plc	2.8%
Taiwan Semiconductors	2.7%
Prudential	2.7%
SAP	2.4%
Alphabet	2.4%
Markel	2.3%
First Republic Bank	2.1%
Total	**27.8%**

Baillie Gifford	31 March 2016	30 June 2016
Total Number of holdings	100	98
Active risk	4.2%	4.2%
Coverage	6.8%	6.8%

As at 30 June 2016, the number of holdings within the portfolio fell slightly, although the overlap with the FTSE All World index and the active risk figures remained unchanged.

5 LGIM – Global Equity (Passive)

LGIM was appointed to manage a passive global equity mandate from the 31 October 2012. The manager is remunerated on a fixed fee based on the value of assets. The target is to deliver performance in line with the stated benchmarks.

5.1 Passive Global Equity – Investment Performance to 31 March 2016

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
LGIM – Gross of fees	1.4	-2.6	8.4	10.3
***Net of fees*[1]**	1.4	-2.7	8.2	10.2
FTSE World GBP Hedged	1.4	-2.6	8.4	10.3
Relative (net of fees)	0.0	-0.1	-0.2	-0.1

Source: LGIM

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 1 November 2012 (prior to that the mandate was an active equity mandate). The portfolio aims to track the benchmark.

The investment objective of the Fund is to track the performance of the FTSE AW-World Index (less withholding tax if applicable) - GBP Hedged (with the exception of advanced emerging markets) to within +/-0.5% p.a. for two years out of three.

The LGIM Fund has performed broadly in line with the benchmark over the quarter, one year and since the inception of the mandate.

We understand that there has been a change to the London CIV's plans on how passive funds will be offered under the new pooling arrangements and are awaiting further detail.

6 Majedie – UK Equity

Majedie was appointed to manage an active UK equity mandate. The manager's remuneration is a combination of a fixed fee based on the value of assets and a performance related fee which is payable when the excess return of the portfolio over a rolling 3 year period is more than 1% p.a. The target is to outperform the benchmark by 2% p.a.

6.1 Active UK Equity – Investment Performance to 31 March 2016

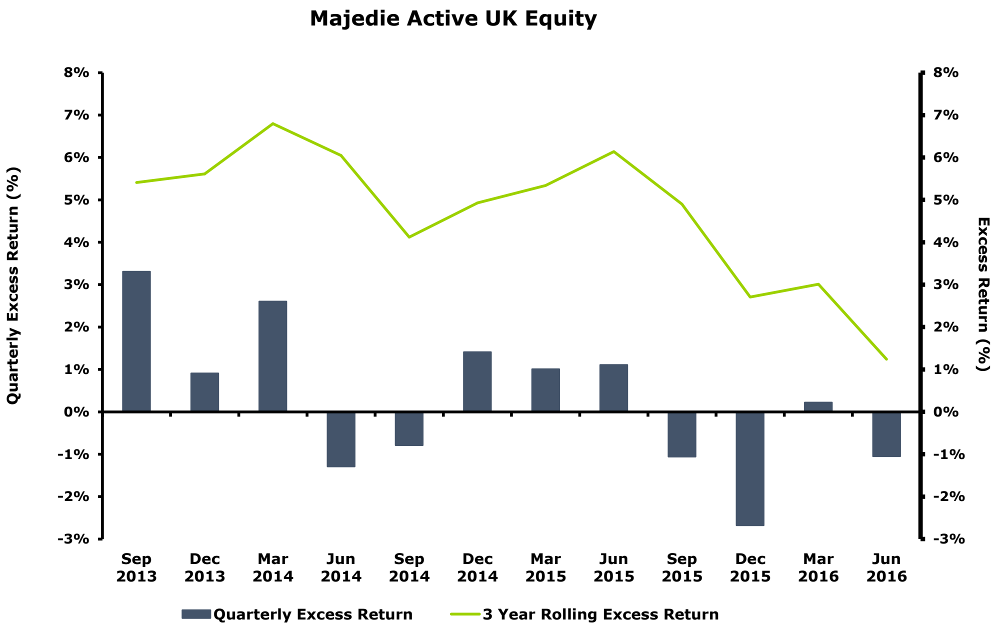
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Majedie – Gross of fees	3.7	-2.0	7.5	9.5
Net of fees[1]	3.7	-2.3	7.1	9.1
FTSE All-Share Index	4.7	2.2	5.9	5.5
Relative (net of fees)	-1.0	-4.5	1.2	3.6

Source: Majedie

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 31 May 2006



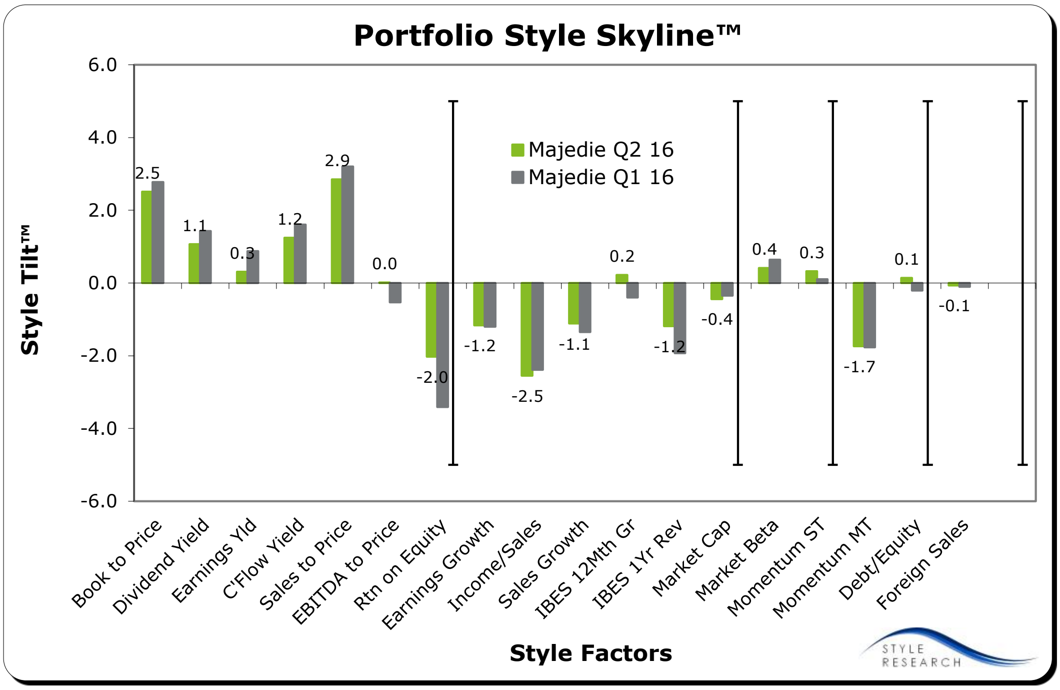
Majedie underperformed its benchmark over the quarter by 1.0% net of fees and performance remains under benchmark for the year to 30 June 2016 by 4.5% net of fees. Over the longer timeframes of three years and since inception, the manager has outperformed its benchmark on a net basis by 1.2% p.a. and 3.6% p.a. respectively and therefore remains ahead of target longer term.

Over the quarter, the top two performer stocks in the portfolio were BP and Anglo American, with Majedie's conviction of mining and oil companies continuing to work in their favour. Majedie believes these sectors are still undervalued by the market and, as they are not overly exposed to the UK economy, Majedie continues to see potential in these sectors.

The greatest underperformance in the fund came from the holdings in Royal Bank of Scotland (which suffered following the Brexit vote) and Telecom Italia – which struggled with the arrival of a new competitor, Etihad.

6.2 Style analysis

We have analysed the Style of Majedie as at 30 June 2016. When considering the analysis it should be borne in mind that any figures in excess of +/- 1 are considered to be meaningful.



The portfolio continues to show a modest positive bias to value factors and a modest negative bias to growth factors. Given the approach where the portfolio is managed by 4 different individuals, we would not be surprised to see this change over time with the style skyline depending on where Majedie finds appropriate opportunities.

The top 10 holdings in the Majedie fund account for c. 44% of the fund and are detailed below.

Top 10 holdings as at 30 June 2016	Proportion of Majedie Fund
Royal Dutch Shell	7.3%
BP	7.1%
HSBC	6.0%
Vodafone	5.1%
Tesco	3.6%
Orange	3.6%
GlaxoSmithKline	3.2%
Anglo American	2.7%
Rentokil Initial	2.7%
Barclays	2.6%
Total	**43.9%**

Majedie	31 March 2016	30 June 2016
Total Number of holdings	152	156
Active risk	3.5%	3.6%
Coverage	38.5%	37.8%

As at 30 June 2016, Majedie held 156 stocks in total, with an overlap with the FTSE All Share index of 37.8%. This coverage is significantly higher than both Baillie Gifford and Longview, reflecting to an extent the multi manager approach. Majedie's active risk, as at 30 June 2016, increased slightly to 3.6%.

7 Longview – Global Equity

Longview was appointed on 15 January 2015 to manage an active global equity mandate. The manager's remuneration is based on the value of assets invested across the Tri-borough. The expectation is that the fund will outperform the benchmark by 3% p.a.

7.1 Active Global Equity – Investment Performance to 30 June 2016

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Longview – Gross of fees	7.2	16.4	n/a	15.2
Net of fees[1]	7.0	15.8	n/a	14.5
MSCI World Index	8.6	14.4	n/a	11.0
Relative (net of fees)	-1.6	1.4	n/a	3.5

Source: Longview

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

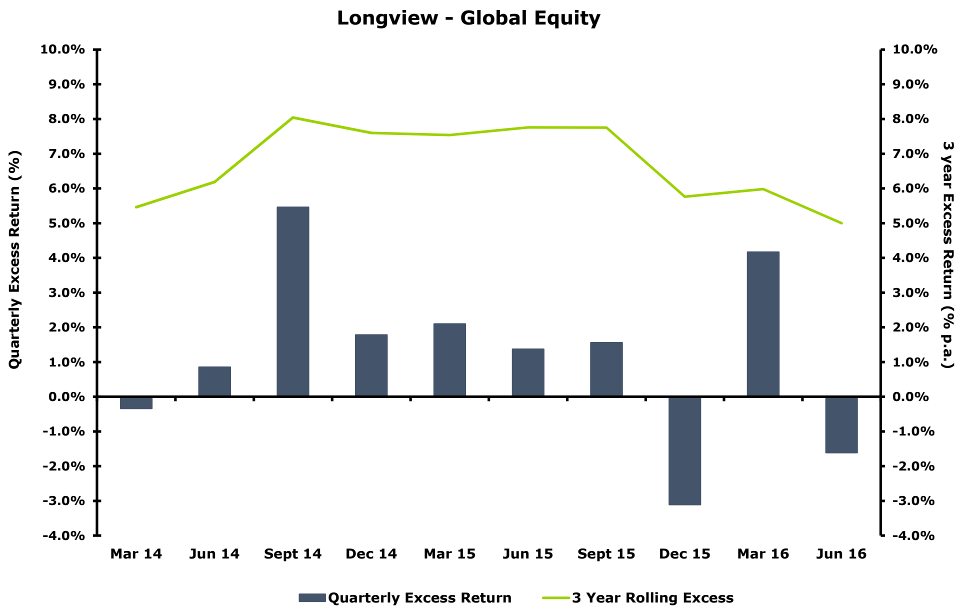
Inception date 15 January 2015

Longview underperformed the benchmark by 1.6% on a net of fees basis over the second quarter of 2016, but remains ahead of benchmark over the year to 30 June 2016 by 1.4%. Since inception, the Fund has outperformed by 3.5% and is ahead of target.

Pfizer (the pharmaceutical company) performed well over the quarter, with the market seemingly pleased with the withdrawal from the Allergan takeover bid. Compass (a support services company) also performed well, benefitting from both strong results and the fall in sterling as most of its revenue comes from overseas.

Similar to last quarter, auto-part companies Delphi Automotive and Continental suffered over concerns for the global auto market and suspicions that the US market had peaked. Longview remains comfortable with these stocks as it believes that demand will continue at current levels.

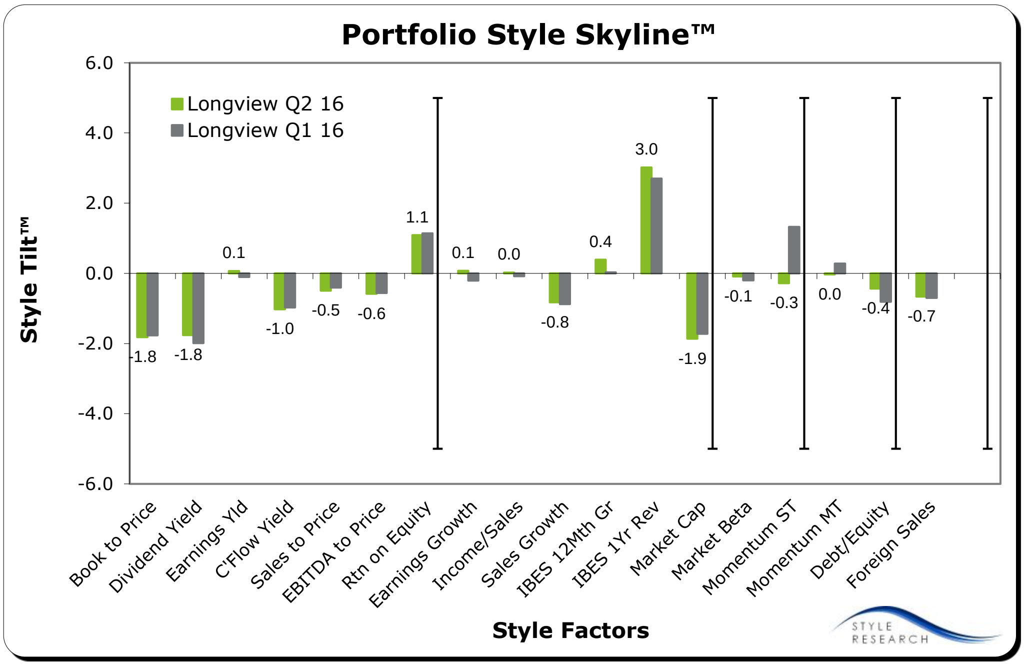
Also detracting from performance was the fund's holding in Lloyds which is very exposed to the UK economy and as a result, performed poorly on the back of the Brexit vote.



For information purposes we have included the longer run performance history for the strategy. The Fund remains ahead of benchmark and target over the longer term.

7.2 Style analysis

The Style "skyline" for Longview's global equity portfolio as at 30 June 2016 is shown below graph. When considering the analysis it should be borne in mind that any figures in excess of +/- 1 are considered to be meaningful.



Longview does not currently have a strong bias to either value or growth factors, with the analysis showing little change from the previous quarter's "skyline".

The top 10 holdings in the Longview fund account for c. 38% of the fund and are detailed below.

Top 10 holdings as at 30 June 2016	Proportion of Longview Fund
AON	4.7%
Zimmer Biomet	3.9%
UnitedHealth	3.8%
Fidelity National Info Services	3.7%
Compass	3.7%
Thermo Fisher Scientific	3.7%
Fiserv	3.6%
Oracle	3.6%
Accenture	3.6%
Pfizer	3.4%
Total	**37.7%**

Longview	31 March 2016	30 June 2016
Total Number of holdings	32	35
Active risk	4.6%	4.6%
Coverage	4.3%	4.4%

As at 30 June 2016, Longview held 35 stocks in total, with an overlap with the FTSE All World index of only 4.4%. This coverage is low due to the high conviction investing that Longview undertakes, which also leads to an active risk of 4.6% as at 30 June 2016.

8 Insight – Bonds

Insight was appointed to manage two bond portfolios – an actively managed corporate bond (non – Gilt) portfolio and a passively managed gilt portfolio. The manager's fee is based on the value of assets. The target of the Non-Gilt portfolio is to outperform the benchmark by 0.9% p.a.

8.1 Insight – Active Non Gilts

8.1.1 Investment Performance to 31 March 2016

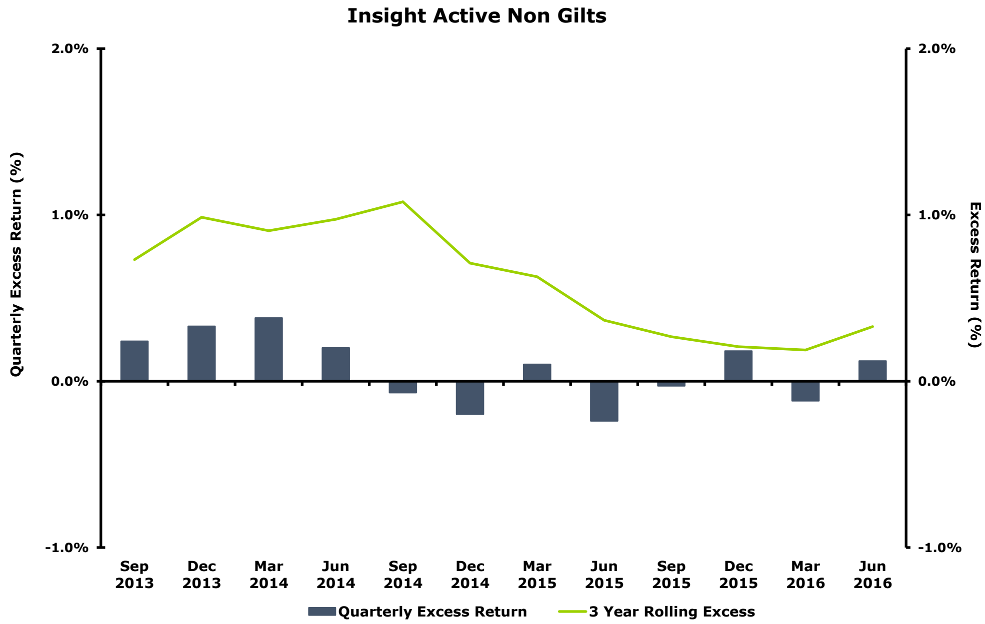
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Insight (Non-Gilts) – Gross of fees	3.0	7.0	6.5	5.9
***Net of fees*[1]**	2.9	6.8	6.2	5.7
iBoxx £ Non-Gilt 1-15 Yrs Index	2.8	6.6	5.9	5.5
Relative (net of fees)	0.1	0.2	0.3	0.2

Source: Insight

Estimated by Deloitte

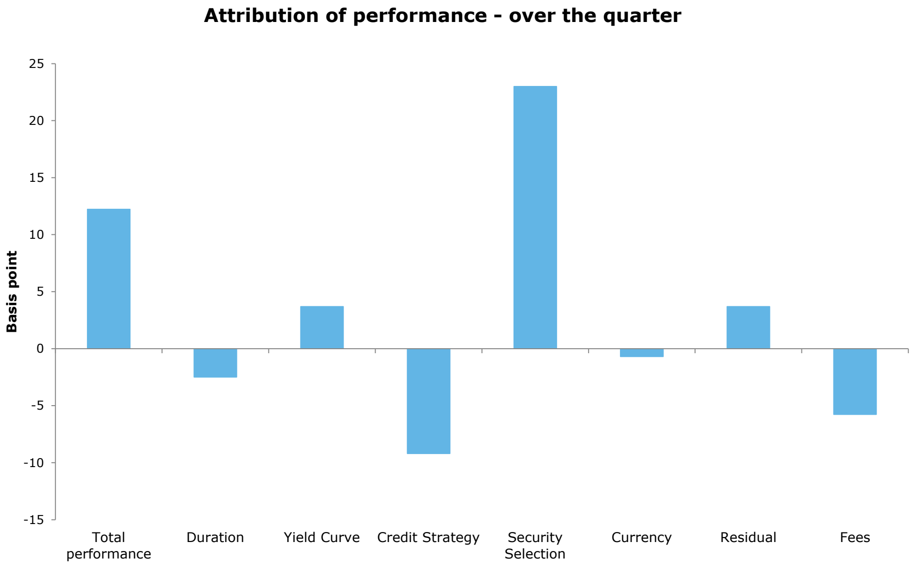
See appendix 1 for more detail on manager fees

Inception date taken as 31 May 2006.



Over the quarter the portfolio marginally outperformed the benchmark by 0.1% net of fees. Over the year to 30 June 2016, the Fund has outperformed the benchmark by 0.2%. The Fund has outperformed the benchmark by 0.3% p.a. over the 3 years to 30 June 2016 and by 0.2% p.a. since inception.

8.1.2 Attribution of Performance



Source: Estimated by Insight

Insight's outperformance this quarter has been driven by security selection and its yield curve positioning, with the duration positioning and credit strategy offsetting some of this outperformance.

8.2 Insight – Government Bonds

8.2.1 Investment Performance to 31 March 2016

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Insight (Passive Bonds) – Gross of fees	2.4	6.7	4.1	5.4
Net of fees[1]	2.4	6.6	4.0	5.3
FTSE A Gilts up to 15 Yrs Index	2.5	6.8	4.1	5.5
Relative (net of fees)	-0.1	-0.2	-0.1	-0.2

Source: Insight
Estimated by Deloitte
See appendix 1 for more detail on manager fees
Inception date taken as 30 June 2008.

The gilt portfolio has slightly underperformed its benchmark over the quarter, the year and the longer periods to 30 June 2016.

8.3 Duration of portfolios

	31 Mar 2016		30 Jun 2016	
	Fund (Years)	Benchmark (Years)	Fund (Years)	Benchmark (Years)
Non-Government Bonds (Active)	5.5	5.4	5.6	5.4
Government Bonds (Passive)	4.7	5.0	4.8	4.9

Source: Insight

9 Hermes – Property

Hermes was appointed to manage a core UK property portfolio. The manager is remunerated on a fixed fee based on the value of assets. The target is to outperform the benchmark by 0.5% p.a.

9.1 Portfolio Monitoring Summary

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Hermes – Gross of fees	1.4	11.3	15.6	9.9
Net of fees[1]	1.3	10.9	15.2	9.5
Benchmark	1.4	8.9	13.3	8.9
Relative (net of fees)	-0.1	2.0	1.9	0.6

Source: Hermes

Estimated by Deloitte

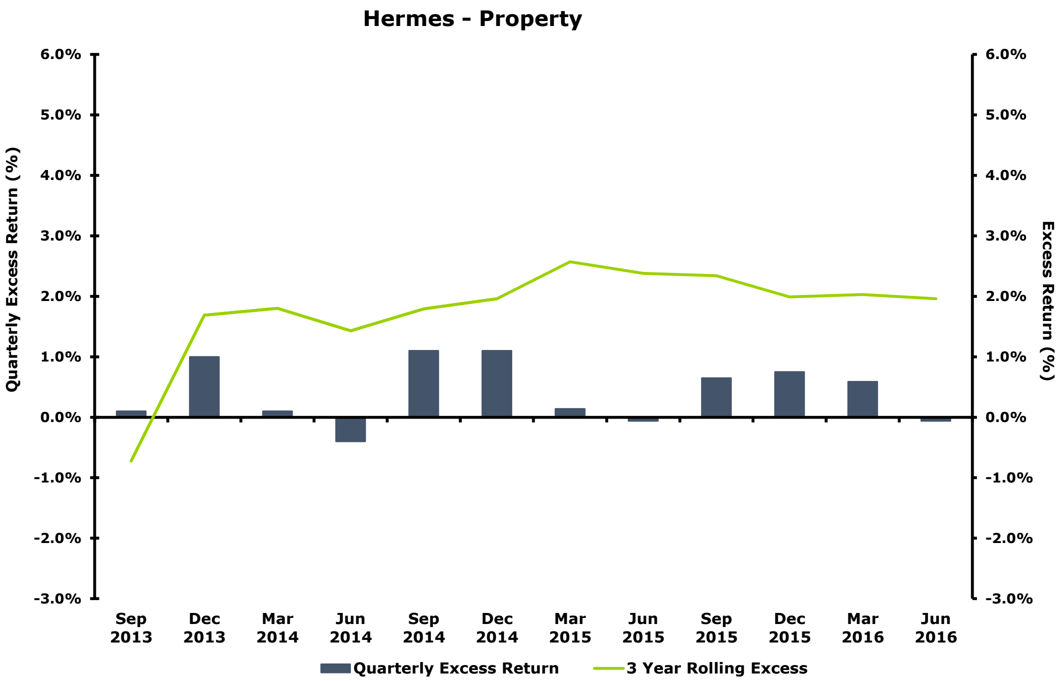
See appendix 1 for more detail on manager fees

Inception date is taken as 26 October 2010

Hermes marginally underperformed its benchmark by 0.1% over the quarter with longer term performance remaining ahead of benchmark and target.

This quarter there were positive contributions from the Trust's holdings in the Industrials and Retail Warehouses sectors, but performance was dragged back by the holdings in the office sectors.

Over the year to 30 June 2016, the Trust's investments in the office sector (West End, City and Rest of UK) and the industrial sector have performed well.



9.2 Sales and Purchases

The team completed two sales over the quarter:

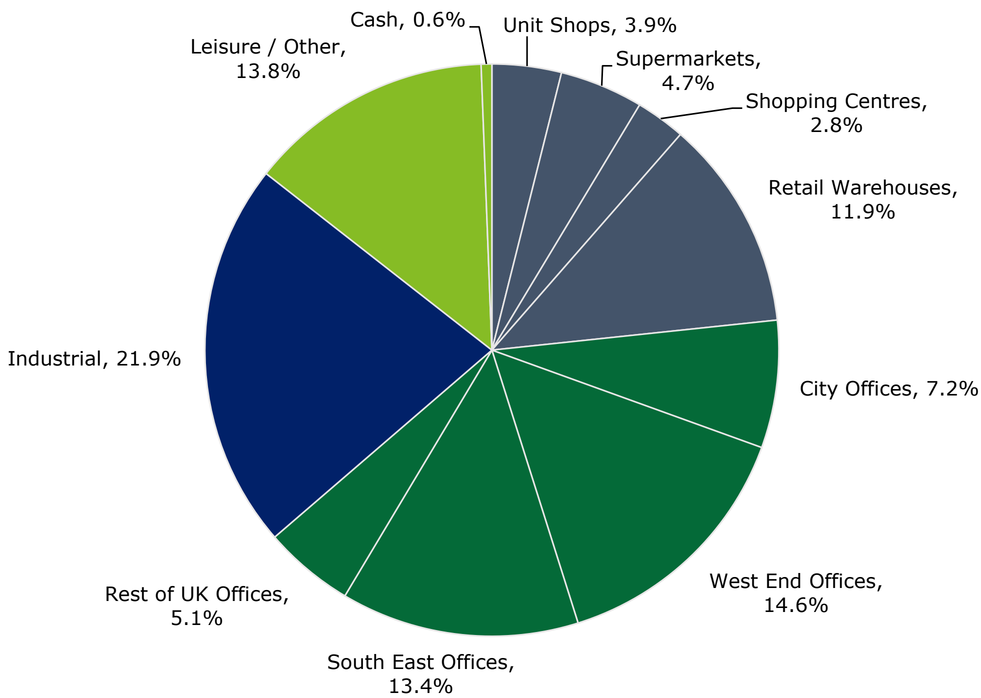
- 135 & 137 High Street in Bromley were sold for £3.17m in May 2016. The sale reflects a net initial yield of 6.4% and achieves the disposal of a small asset that was expected to be adversely impacted by a new development in nearby Croydon.

- The Union Jack pub in London was sold for £2.26m at the end of the second quarter of 2016 (completing on 6th July). The sale reflects an initial yield of 3.0% and achieves a significant premium of c. 40% over the end-May 2016 valuation of £1.6m.

There were no purchases in the second quarter of 2016, but asset management continues to the property at 8/10 Great George Street, to Polar Park in Heathrow and to the Maybird shopping park in Stratford-upon-Avon.

9.3 Portfolio Summary as at 30 June 2016

The Hermes Property Unit Trust invests across retail, offices, industrials and other sectors, with the split as at 30 June 2016 shown below.



The table below shows the top 10 directly held assets in the Fund as at 30 June 2016.

Asset	Sub-sector	Value (£m)
Maybird Shopping Park, Stratford-upon-Avon	Retail Warehouses	112.0
8/10 Great George Street, London	West End Offices	59.7
27 Soho Square, London	West End Offices	46.3
Sainsbury's, Maxwell Road, Beaconsfield	Supermarkets	42.5
2 Cavendish Square, London	West End Offices	41.1
Hythe House, Hammersmith	Standard Offices SE	38.9
Christopher Place, St Albans	Shopping Centres	37.2
Polar Park, Heathrow	Standard Industrial	36.2
Rotunda Complex, Oval Road, London	Standard Offices SE	34.1
Boundary House, London	City Offices	34.1
Total		**481.9**

10 Standard Life – Long Lease Property

Standard Life Investments ("SLI") was appointed to manage a UK property portfolio investing in core assets where the focus is on properties with long leases let to high quality tenants. The manager is remunerated on a fixed fee based on the value of assets. The target is to outperform the FT British Government All Stocks Index benchmark +2.0% p.a. by 0.5% p.a.

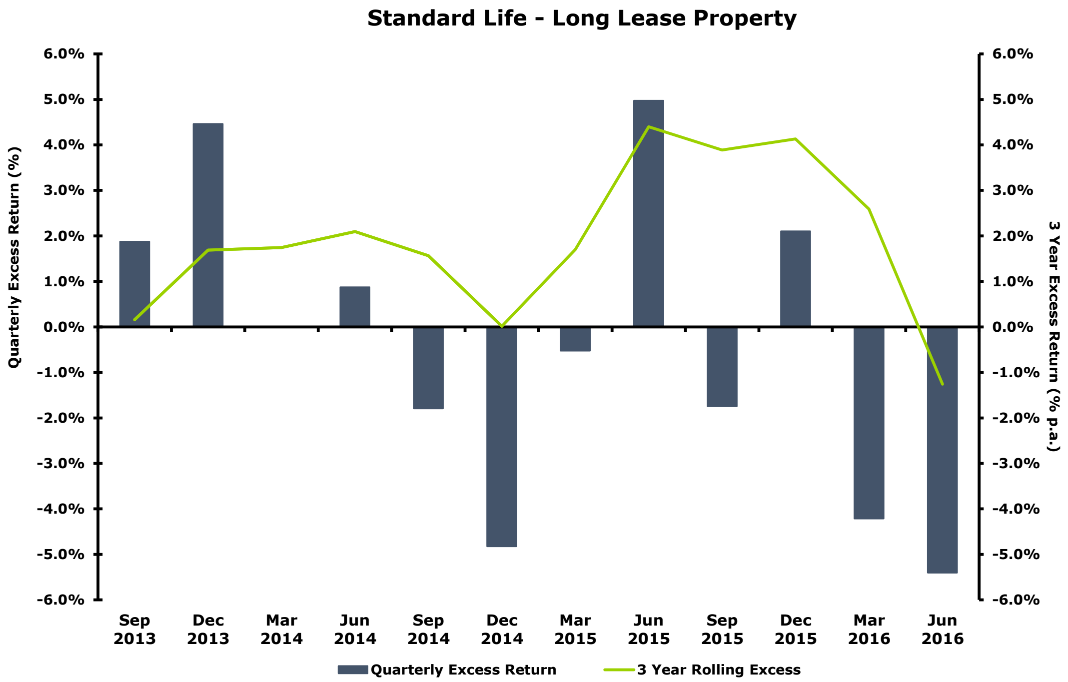
10.1 Portfolio Monitoring Summary

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Standard Life – Gross of fees	1.4	6.5	9.5	9.5
Net of fees[1]	1.3	6.0	9.0	9.0
Benchmark	6.7	15.8	10.3	10.3
Relative (net of fees)	-5.4	-9.8	-1.3	-1.3

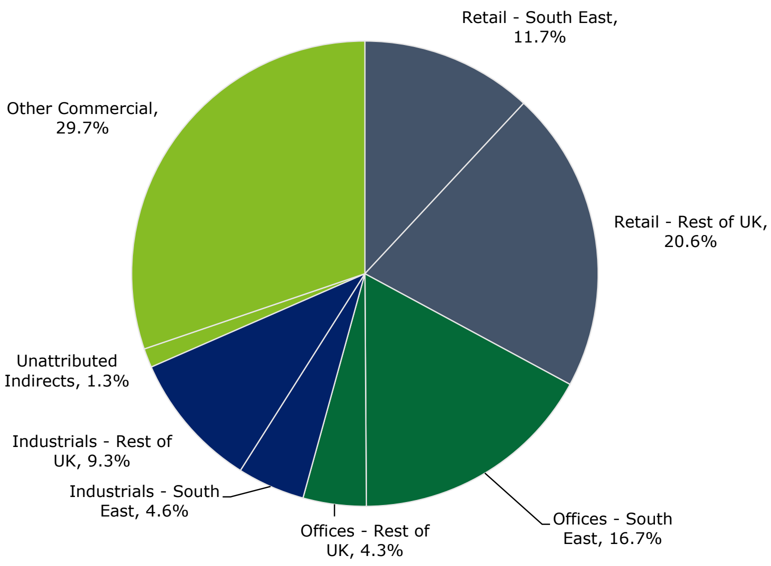
Source: Standard Life
(1) Estimated by Deloitte
See appendix 1 for more detail on manager fees
Since inception: 14 June 2013

The SLI Long Lease Property Fund returned 1.4% over the second quarter of 2016, underperforming the benchmark of the FTSE Gilt All Stocks Index + 2% by 5.4% net of fees. The Fund continues to lag the wider property market, which returned 9.3% over the year to 30 June 2016, but returns remain attractive from an absolute perspective and are in line with those achieved by other property funds with a long lease focus.

Net performance of the Long Lease Fund is shown below. Please note that the Fund only invested in this fund from June 2013 and previous periods are shown for information only.



The sector allocation in the Long Lease Property Fund as at 30 June 2016 is shown in the graph below.



The Fund remains underweight the office sector (21.0% compared to 35.2%) and remains underweight the industrial sector (13.8% compared to 20.6%) at the end of the second quarter of 2016. The Fund is also slightly underweight the retail sector (34.2% compared to 37.3%) which is dominated by supermarkets and contains no shopping centres and only a small allocation to retail warehouses.

The Fund continues to be significantly overweight the "Other" sector (31.0% compared to 6.9%) as a result of its holdings in a range of car parks, student accommodation, hotels, medical centres and law courts, as well as its indirect holding in the Standard Life Investments Commercial Ground Rent Fund.

The table below shows details of the top ten tenants in the Fund measured by percentage of net rental income:

Tenant	Total Rent £m p.a.	% Net Income
Tesco	7.81	10.3
Whitbread	5.06	6.7
Sainsbury's	4.89	6.5
ASDA	4.42	5.9
Salford University	3.69	4.9
Marston's	3.64	4.8
Poundland	3.60	4.8
Save The Children	3.58	4.7
Glasgow City Council	3.10	4.1
Travis Perkins Group	3.00	4.0
Total	**42.78**	**56.6**

The top 10 tenants contribute 56.6% of the total net income into the Fund. Supermarkets continue to dominate with Tesco, Sainsbury's and Asda contributing 22.6% to the Fund's total net rental income.

The Fund's average unexpired lease term reduced over the quarter from 26.3 years to 25.9 years.

The proportion of the Fund invested in assets with fixed, part-fixed, CPI or RPI-linked rental increases increased slightly over the quarter from 90.6% to 90.9%.

10.2 Sales and Purchases

During the quarter, the Fund made a forward purchase commitment for a distribution warehouse in Dartford let to TNT for £34.1m, representing an initial yield of 4.6%p.a. Once up and built, TNT will be on a 20 year lease with 5 yearly RPI-linked rent reviews, subject to a cap of 4% and a floor of 1%.

The Fund also made a forward commitment to purchase an office development in Birmingham for £54.4m, representing an initial yield of 4.6% p.a. The property, once completed, will be let to Interserve (FTSE 250 Company) for 30 years with annual RPI-linked rent reviews caped at 4% with a floor of 2%.

The Fund disposed of its Morrison’s Supermarket asset in Harrow during the second quarter of 2016 citing concerns over its recent trading record. The asset was sold for £28.4m, which was slightly above valuation. This reduces the Fund’s exposure to supermarkets, with SLI noting a slight weakening in supermarket valuations in recent months.

Appendix 1 – Fund and Manager Benchmarks

The tables in this Appendix detail the benchmarks and outperformance targets, for the Total Fund and each individual manager.

Total Fund

Inception: 1 June 2006. Current benchmark allocation effective from 25 March 2015.

Manager	Asset Class	Long Term Strategic Benchmark Allocation	Benchmark	Outperformance Target	Inception Date	Fees (p.a.)	Tracking Error p.a.
Majedie	UK Equity	20.0	FTSE All-Share Index	+2.0 p.a. (net of fess)	31/05/06	c.35bps base fees +20 performance fee on 1 outperformance over 3 year rolling	2.0-6.0
LGIM	Global Equity	20.0	FTSE World GBP Hedged	Passive	01/11/12	13bps base fees	+/- 0.5
Baillie Gifford	Global Equity	25.0	MSCI AC World Index	+2.0 p.a. (net of fess)	18/03/14	36bps base fee	
Longview	Global Equity		MSCI World (GBP) Index	To outperform the benchmark over a market cycle	15/01/15	75bps base fees minus a rebate dependent on fund size	
Insight	Fixed Interest Gilts	-	FTSE GILTS up to 15 Yrs Index	Passive	31/05/06	10bps base fees	
	Non-Gilts	20.0	iBoxx £ Non-Gilt 1-15 Yrs Index	+ 0.90 p.a. (gross fees)	31/05/06	c.24bps base fee	0 - 3.0
Hermes	Property	5.0	IPD UK PPFI Balanced PUT Index	+0.5 p.a. (net of fess)	26/10/10	40bps base fee	
Standard Life	Property	5.0	FTSE Gilts All Stocks Index +2% p.a.	+0.5 p.a. (net of fess)	14/06/13	50bps base fee	
To be determined	Property / Infrastructure	5.0					
	Total	100.0					

For the purposes of our performance calculations we have assumed the 5% awaiting allocation to property / infrastructure is split evenly between Majedie and LGIM.

Appendix 2 – Manager Ratings

Based on our manager research process, we assign ratings to the investment managers for specific products or services. The ratings are based on a combination of quantitative and qualitative factors, where the inputs for the qualitative factors come from a series of focused meetings with the investment managers. The ratings reflect our expectations of the future performance of the particular product or service, based on an assessment of:

- The manager's business management;
- The sources of ideas that go to form the portfolio ("alpha generation");
- The process for including the ideas into the portfolio ("alpha harnessing"); and
- How the performance is delivered to the clients.

On the basis of the research and analysis, managers are rated from 1 (most positive) to 4 (most negative), where managers rated 1 are considered most likely to deliver outperformance, net of fees, on a reasonably consistent basis. Managers rated 1 will typically form the basis of any manager selection short-lists.

Where there are developments with an investment manager that cause an element of uncertainty we will make the rating provisional for a short period of time, while we carry out further assessment of the situation.

Appendix 3 – Style analysis

The Style Skylines are designed to answer the question "How significantly different is the portfolio from the benchmark?" in respect of Style factors which are important and relevant in equity markets.

In each Style Skyline, the first six bars from the left are Value factors (shown as blue bars in the output). The next six bars are the Growth factors (green bars) and include four current/historic measures as well as two forward-looking Growth factors (incorporating IBES consensus earnings estimates and earnings revisions). The remaining bars on the right cover Size, Beta, Momentum, Gearing/Leverage and Foreign Sales.

As a general rule of thumb, for any individual Style tilt (Standard or Adjusted):

- Style tilts less than -0.5 or more than +0.5 indicate a tilt is observable.
- Style tilts less than -1 or more than +1 are statistically significant.
- Style tilts less than -2 or more than +2 are statistically very significant.

There is a further interpretation when we compare across similar factors such as the Value factors (blue bars in the Style Skyline) or the Growth factors (green bars). If most of the Value factors are positive and, say, between 0.4 to 0.6 this suggests that there is a significant Value tilt even though no individual tilt is very significant i.e. multiple tilts in a similar direction within Value or within Growth can reinforce our interpretation of a Style orientation.

It is possible that more extreme tilts can be produced when portfolios and benchmarks are themselves narrowly defined against the market e.g. it is not unusual for Small Cap portfolios to show tilts of 3, 4 or even much larger in magnitude against a Small Cap benchmark. In these cases the significance of the tilts should not be overemphasized.

There is little purity of definition, but in general the various Value and Growth tilt possibilities can be initially interpreted as follows:

Value Factors	Growth Factors	Interpretation
Positive	Negative	Traditional Value
Positive	Positive	Growth at the Right Price
Negative	Positive	Traditional Growth
Negative	Negative	Popular Recovery Situations

Appendix 4 – Risk warnings & Disclosures

- Past performance is not necessarily a guide to the future.
- The value of investments may fall as well as rise and you may not get back the amount invested.
- Income from investments may fluctuate in value.
- Where charges are deducted from capital, the capital may be eroded or future growth constrained.
- Investors should be aware that changing investment strategy will incur some costs.
- Any recommendation in this report should not be viewed as a guarantee regarding the future performance of the products or strategy.

Our advice will be specific to your current circumstances and intentions and therefore will not be suitable for use at any other time, in different circumstances or to achieve other aims or for the use of others. Accordingly, you should only use the advice for the intended purpose.

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**20 September 2016**
Classification:	**General Release**
Title:	**Investment Strategy Options**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no immediate financial implications arising from this report.**
Report of:	**Steven Mair** ***City Treasurer*** **smair@westminster.gov.uk** **020 7641 2904**

1 Executive Summary

1.1 This report introduces the paper prepared by Deloitte on market update and investment opportunities which they will be presenting at the meeting.

2 Recommendation

2.1 The Committee:

a. note the contents of this paper

b. approve that an investment strategy review be undertaken once the results of the 2016 actuarial valuation are known.

3 Overview

3.1 The attached paper from Deloitte (Appendix 1) discusses the fund's current asset allocation and the long term expected returns from the portfolio. The purpose of accumulating contributions and investing is to generate a sufficient return to pay the scheme liabilities as they fall due. Adjusting the exposure to real assets (tradionally equities and property) will change both the expected return and the volatility of returns. Higher equity allocations lead to greater expected returns and also greater volatility of outcomes.

3.2 The Quarterly actuarial update (reported under item 12 of this agenda) indicates a projected funding level of 79% as at June 2016. The report adds that the discount rate underlying the smoothed funding level as at 30 June 2016 is 5.6% p.a. The investment return required to restore the funding level to 100% by 2038, without the employers paying deficit contributions, would be 6.7% p.a.

3.3 The Deloitte paper indicates that the current portfolio has an expected return of 6.4%. This suggests that approximately 70% of the deficit closure can be expected to be provided by investment returns in excess of the discount rate.

3.4 The above numbers will be updated by the outcome of the 2016 triennial valuation. When the deficit and the required investment return are known, it will be appropriate for the Committee to consider the extent that investment returns in excess of the discount rate can address the revised deficit.

3.5 The Deloitte paper mentions that in recent years modelling has been undertaken suggesting investment strategies that are less equity oriented. These will have offered greater certainty out outcomes but modestly lower expected returns. The recommendations arising from these reviews were never fully implemented and as a consequence the equity allocation as at June 2016 of 74% compares with suggested targets of 50%.

3.6 The current portfolio is concentrated with one assets class, which has performed well in recent years. Any sustained correction in equities will have a major impact on the funding level and the required employer contributions. It is proposed that once the revised actuarial position is known, that the investment consultant working with the actuary be asked to model various equity allocations and a wider range of asset classes indicating the likely returns, both median and spread of outcomes. Working with the Actuary this modelling will indicate the impact of different asset returns on the level of contributions from employers.

3.7 Reviewing the asset allocation on a regular basis is appropriate to address changes in the funding level, the returns that can be expected from each asset class and also employers ability to meet deficit contributions.

4 Recommendation

4.1 That a review of investment strategy is undertaken when the results of the 2016 actuarial valuation are known to illustrate potential portfolios with varying expected returns and range of outcomes (returns and contributions) to enable the Committee to determine whether the current strategic asset allocation is optimum.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

George Bruce gbruce@westminster.gov.uk 020 7641 2258

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 – Market Update and Investment Opportunities

Deloitte.

City of Westminster Pension Fund
Market Update and Investment Opportunities

Executive Summary

This paper has been prepared for the City of Westminster Pension Fund Committee ("the Committee"). The note covers recent market movements, looking at some of the factors that have been driving markets and the potential implications for pension schemes.

A strategy review was undertaken in 2012 that was updated in 2015 that proposed a reduction in the Fund's reliance on equity markets, increasing the allocation to property and property-like investments. As part of the review of the investment strategy, the decision was taken to switch the Fund's investment in conventional gilts into Standard Life's Long Lease Property Fund. Relative to the target benchmark allocation agreed in 2015, the Fund currently has a 5% unfunded allocation to Property or Infrastructure, which is expected to be funded from the equity portfolio.

With the 2016 Actuarial Valuation in progress, it is an opportune time for the Committee to take a step back and reassess whether the strategy remains relevant in the light of the level of return required, the funding level for the Fund, the cashflow requirements, the prevailing market environment and the investment opportunities that are available.

In this paper we look at the asset mix at a high level and outline some investment opportunities which we believe are attractive in the current market, with a particular focus on improving the level of diversification and generating contractual income.

Brexit and Market Update

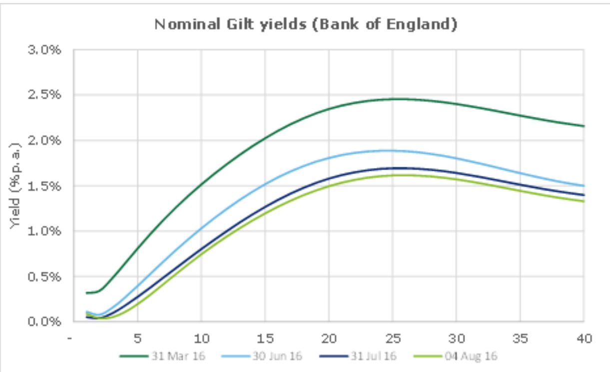
The key issue affecting markets in the UK and globally has been the UK's decision to leave the EU. With the nature and timeframe for Britain's exit of the EU remaining uncertain, it is difficult to comment on the longer term implications of the Brexit vote with any degree of confidence. That said, since the referendum result, markets have been volatile and the impact on most pension schemes has been marked.

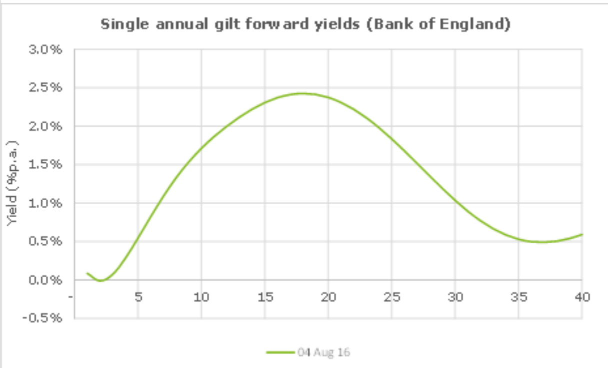
The market reaction to the EU Referendum result was perhaps not surprising. With a Remain victory 'priced in' there was a sharp correction in the immediate aftermath of the result, with sterling depreciating significantly, equity markets falling sharply and gilt yields declining to new lows.

It remains too early to assess the economic implications of Brexit. Financial markets have recovered from the short-term shock but there remains considerable uncertainty over the process by which UK might leave the EU, and the implications of this. Adding to the economic uncertainty are a range of political factors, not least of which being elections in the US and some European countries over the next 12 months. If the exit process is relatively benign, it should have mild impacts on the global economy, with more specific implications for UK and Europe. But even in this base case, global growth is likely to be lower and uncertainty higher over the next couple of years.

Yields

In the immediate aftermath of the EU Referendum, bond yields fell dramatically. Over the second quarter gilts yields fell by around 50bps (0.5%) across the curve, most of which happened after the result was announced. Yields fell further in July in the run up to the August Monetary Policy Committee ("MPC") meeting in anticipation of a rate cut and further quantitative easing and when these expectations were met by the Bank of England, cutting the base rate to 0.25%, the yield curve fell further still by another 10 – 15bps.





Equity

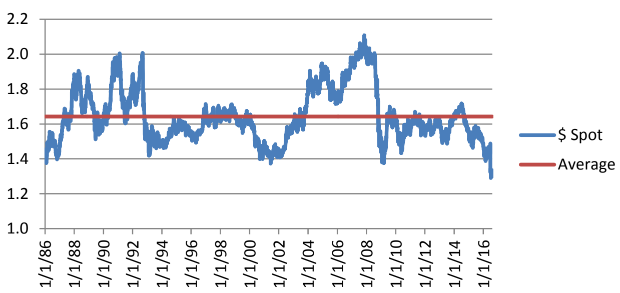
Interestingly, after an initial sharp fall, equity markets recovered quickly with the rise in the FTSE 100 largely reflecting that around three quarters of earnings from the larger companies come from overseas with the stocks benefiting from a weaker sterling. Averting one's gaze away from the UK's main index, the picture becomes less clear cut. UK centric stocks bore the brunt of the post referendum risk aversion. The FTSE 250 Index, which is dominated by such stocks, fell 6.1% between the 23 June and the quarter end, albeit it did recover in July.

P/E ratios have continued to rise sharply and are now in excess of the historical highs of the "dot-com bubble". Declining corporate earnings at the same time as a rally in UK equities post the EU Referendum appear to indicate that UK equities are somewhat over-valued relative to earnings and are becoming increasingly reliant on the persistently cheap cost of capital. With the UK's economic fortunes uncertain, an earnings based reduction in P/E ratios looks unlikely.

Sterling

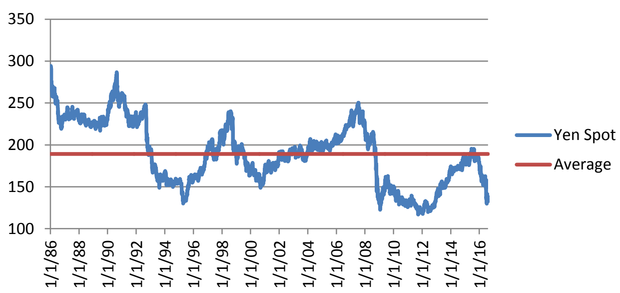
Sterling was one of the headline sufferers of the EU Referendum result as it fell 10.5% versus the US Dollar in the week following the result. Sterling continued to fall against the major currencies through July such that since the start of the year it has depreciated by roughly 12%, 15% and 25% against the dollar, euro and yen.

£ exchange rate vs US $



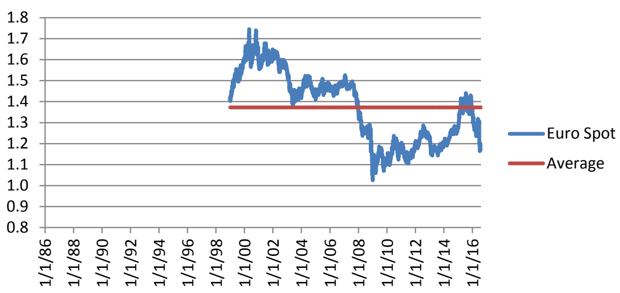
Source: Bloomberg

£ exchange rate vs Yen



Source: Bloomberg

£ exchange rate vs Euro



Source: Bloomberg

Impact for Pension Schemes

For many pension schemes, the fall in gilt yields has been a significant factor and continues to be the main area of concern.

The reasons a pension scheme typically holds gilts are to protect the scheme's funding level against movements in interest rates and (implied) inflation and to meet expected benefit cash flows.

Schemes that have not held gilts but where the liabilities are assessed on a gilts basis will have seen a substantial increase in their funding deficit and will now be faced with the challenge of whether to implement or increase hedging levels. With over 40% of the global government bond universe having negative yields, it should not be assumed that because UK yields are low that they will rise and return to historic levels. While analysis of the forward curve shows that the market has almost consistently got expectations of future gilt yields wrong for the last 40 years, we believe that bond yields and interest rates will remain low for even longer.

The low yielding environment creates challenges for schemes looking to generate income to match liability cash flows and has forced investors to seek alternative sources of income.

Current Investment Strategy

The table below shows the Target long term strategic allocation versus the Actual mix of the assets as at the end of June 2016 – it should be noted that the Committee agreed that for performance measurement purposes, the Fund's benchmark is assumed to be 70% equity, 20% bonds and 10% property.

Manager	Asset Class	Target (%)	Actual (%)	Benchmark	Outperformance Target
Majedie	UK Equity	20.0	22.9	FTSE All-Share Index	**+2.0 p.a. (net of fess)**
LGIM	Global Equity	20.0	22.2	FTSE World GBP Hedged	**Passive**
Baillie Gifford	Global Equity	25.0	17.4	MSCI AC World Index	**+2.0 p.a. (net of fess)**
Longview	Global Equity		11.1	MSCI World (GBP) Index	**To outperform the benchmark over a market cycle**
	Total Equities	**65.0**	**73.6**		
Insight	Fixed Interest Gilts	-	1.7	FTSE Gilts up to 15 Yrs Index	**Passive**
	Non-Gilts	20.0	14.9	iBoxx £ Non-Gilt 1-15 Yrs Index	**+ 0.90 p.a. (gross)**
	Total Bonds	**20.0**	**16.6**		
Hermes	Property	5.0	5.1	IPD UK PPFI Balanced PUT Index	**+0.5 p.a. (net of fess)**
Standard Life	Property	5.0	4.7	FTSE Gilts All Stocks Index +2% p.a.	**+0.5 p.a. (net of fess)**
	Property / Infrastructure	5.0	-		
	Total Other	**15.0**	**9.8**		
	Total	**100.0**	**100.0**		

The main recommendations from the previous investment strategy reviews were:

- In 2010 to reduce the reliance on equities being the main source of excess return, with the proposal to cut the allocation from 72% to 50% and to introduce a 10% allocation to alternatives – in the work carried out in 2012, this was revised to a reducing the equity allocation to 65%;
- Increasing the bond allocation from 20%;
- Increasing the allocation to property and property-like investments from 8% to 18% which was subsequently revised to 15%.

In the event, the decision was taken in 2013 to switch out of conventional gilts into long lease property, reflecting concerns about the reduction in bond yields and the additional yield that was available from property with bond-like properties. Steps were also taken to introduce further diversification to the equity portfolio, transferring assets from Newton to a combination of Baillie Gifford and Longview.

Expected return

The 2013 Actuarial Valuation report assumed an expected return on the investment portfolio of 6.2% p.a. The table below shows the expected return, based on our current expected return for the asset class.

Mandate	Benchmark Allocation	Expected Return
Majedie	22.5%	7.5%
LGIM	22.5%	7.3%
Baillie Gifford	25.0%	7.3%
Longview		
Insight Gilts	20.0%	2.2%
Insight non Gilts		3.9%
Hermes	5.0%	6.5%
Standard Life	5.0%	5.0%
	Total	**6.4%**

The actual return on the Fund over the three years to 31 March 2016 (i.e. since the last Actuarial Valuation) was 7.7% p.a.

Points to consider

- While equities have in general delivered strong returns over the last 3 and 6 year periods (approximately 10% and 9% per annum for global equities respectively) – albeit with a reasonable level of volatility, the UK bond market has been stronger (12% per annum for both periods) as yields have continued to fall. Given the Fund’s continued reliance on equities, as the 2016 actuarial valuation process is in train, now would be an appropriate point to look at whether this remains relevant – particularly given the increased focus on income generation.
- The Fund’s agreement with Insight has expired and the Fund is restricted on the extent to which the agreement could be extended further. Although Insight has agreed to continue to manage the assets as per the previous agreement, this is still something which should be reviewed by the Committee. Last year, alternative approaches to bond management were discussed with the Committee, such as Buy and Maintain Credit.

Investment Opportunities

In this section, we outline some of the areas that we believe could be of potential interest to the Committee when considering the investment strategy.

Infrastructure

Over the past few decades, infrastructure investment by governments in developed economies has slowly reduced with a steady trend from public to private financing of infrastructure projects. The 2008 financial crisis added to the problem, weakening economies and increasing regulation.

There is a real need for infrastructure investment with the European Commission forecasting that Europe will need €2 trillion in new infrastructure projects by 2020. The UK government has also set up the first ever National Infrastructure Plan which forecasts a £483bn pipeline between now and 2020-21.

While there is some blurring between some types of property and infrastructure, the characteristics associated with infrastructure investments typically include high barriers to entry, economies of scale, regulated industries, long term cash flows often linked to inflation and inelastic demand relatively immune to the fortunes of the underlying economy.

Key risks tend to be regulatory/political in nature. With barriers to entry so important, there is always a risk of some form of competition diluting returns. In addition, a lot of investments carry with them development risk. However it is important to highlight that the characteristics and key risks within infrastructure can be vary by mandate type.

UK versus Global

The infrastructure investment opportunity and attractiveness within a country is dependent on numerous factors such as the relative ease of doing business, tax rates, the availability of capital, government policy and quality of existing infrastructure. The UK has been an attractive location for institutional investment due to its stable risk/return profile and the existence of well-regulated financial markets. Most of the opportunities available have tended to be around regulated utilities or, more recently, focused around renewable energy projects encompassing wind and solar power.

Greenfield versus Brownfield

Greenfield assets are assets at the construction phase, before they become operational. Greenfield assets can require substantial capital and time to construct and are therefore subject to completion risk and usage risk. Given these factors, we would expect the returns from Greenfield assets to be more "equity-like". In the current climate, weaker outlook for GDP is likely to adversely affect the returns from Greenfield assets.

Brownfield assets are those which have completed construction and are in the operational phase. This allows cash flow projections to be more accurately estimated, particularly in the case of regulated assets, and investors are able to see value opportunities by monitoring the asset's current management and business development plans.

Open ended versus closed ended

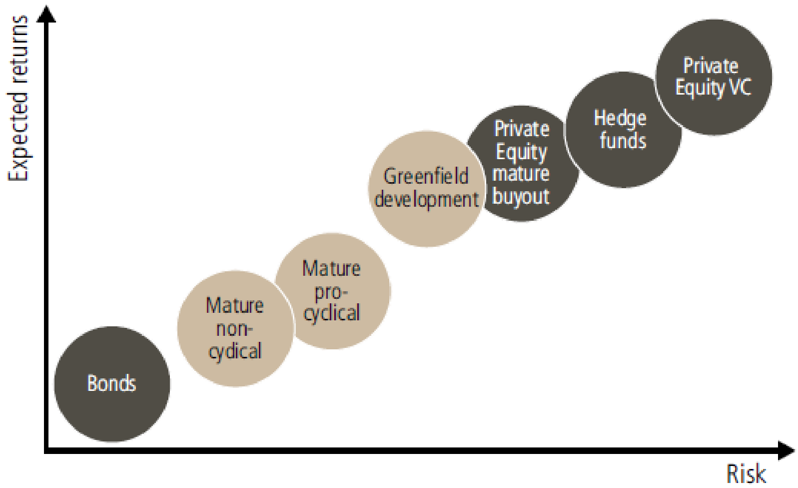
A closed ended fund operates within a set lifespan, similar to the typical Private Equity fund model. The manager collects capital commitments from investors over a set period and will then look to deploy this capital during the investment phase (usually up to four years). The total fund term tends to be at least 10 years with a further couple of years giving the manager time to realise the investments. An open ended fund does not have a time horizon, and usually offers quarterly/annual liquidity (subject to an initial lock-in), allowing managers to buy and sell assets at the most appropriate time and market conditions. Open ended funds also offer investors an immediate source of income as well as giving some transparency into the fund before investing.

In some cases we are seeing a hybrid approach being offered where the fund starts off as a closed ended vehicle which then becomes more open ended after an initial investment period.

Returns will depend on a number of factors – not least of which being geography, industry and whether the fund is targeting Brownfield or Greenfield opportunities.

The diagram below gives an indication of the risk/return relationship between elements of infrastructure and other alternative assets.

Infrastructure risk-return expectations



Source: UBS Asset Management. For illustrative purposes only

We are aware of a number of products that are currently open to investors where the focus is more on regulated utility related assets that are expected to deliver IRRs in the region of 8 – 10% per annum.

Fees for infrastructure investment vary tremendously, ranging from the private equity level of 1.5% - 2% plus a performance element for funds offered by some of the longer established players, to a limited number of providers looking to build credentials offering flat fees of 0.8% - 1.0%.

Private lending

Private financing to corporate borrowers was historically an area which banks dominated. However following the financial crisis, the profitability issues in the banking sector as well as increased regulation have meant that banks' capacity to lend has reduced, creating an opportunity for institutional investors.

While there are banks still lending in this space, private lending offers other advantages for corporate borrowers given the more bespoke terms on offer. The ability to offer non-amortizing debt and larger loans provides borrowers with more flexibility and lower governance requirements.

Loans are typically for a period of 5 – 7 years, where our preference is for the senior secured part of the capital structure. We are aware of a number of products available where the manager is focusing on loans to middle market companies, partnering with private equity firms, where the expectation is that returns will be in the region of Libor plus 6% per annum.

As with infrastructure, while there are organisations offering funds in this space looking to charge private equity type fees, there are also funds available where the fees are below 1%, albeit with a performance kicker for any return above a hurdle rate.

Real estate debt

Along similar lines to private lending, we continue to see some investment opportunities in the real estate debt market for pension schemes to step into the space vacated by the banks, financing real estate.

Investment opportunities exist in the real estate debt space, typically falling into either the senior part of the capital structure (where returns are typically Libor plus in nature) or where the focus is more on mezzanine debt (where more of an absolute level of return is expected).

Reflecting that there has been interest from both pension funds and annuity funds in this sector of the market, focusing primarily on senior debt, the premiums available have contracted from those seen 4 years ago.

Recognising that there are additional governance issues involved with introducing allocations across a number of the areas touched on above, we have seen a handful of investment organisations offering funds that look to invest in opportunities across a number of these areas.

Deloitte Total Reward and Benefits Limited
August 2016

Risk Warnings

- Past performance is not necessarily a guide to the future.
- The value of investments may fall as well as rise and you may not get back the amount invested.
- Income from investments may fluctuate in value.
- Where charges are deducted from capital, the capital may be eroded or future growth constrained.
- Investors should be aware that changing investment strategy will incur some costs.
- Any recommendation in this report should not be viewed as a guarantee regarding the future performance of the products or strategy.

Our advice will be specific to your current circumstances and intentions and therefore will not be suitable for use at any other time, in different circumstances or to achieve other aims or for the use of others. Accordingly, you should only use the advice for the intended purpose.

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**20 SEPTEMBER 2016**
Classification:	**General Release**
Title:	**Pension Fund Investment Adviser Contract**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no immediate financial implications arising from this report, although the contract appointment will potentially result in a change in costs currently incurred by the Pension Fund.**
Report of:	**Steven Mair** ***City Treasurer*** **smair@westminster.gov.uk** **020 7641 2831**

1. Executive Summary

1.1 This report is to update the Committee on the Pension Fund's Investment Adviser contract re-procurement progress.

2. Recommendation

2.1 The Committee is asked to note the contents of this report.

3. Background

3.1 The current investment adviser contract with Deloitte is due to expire on 31 October 2016. At the meeting held on 21 June 2016, the Committee approved the re-procurement of the contract be conducted using the National LGPS Framework for Pension Fund Investment Advisers.

3.2 Officers from the Pensions Team have been working alongside colleagues from the internal procurement and legal teams to progress the work required. A copy of the indicative timeline for the process is included as Appendix A.

4. Progress on Contract Re-Procurement

4.1 To enable sufficient time for a thorough re-procurement process to be conducted, it was necessary to seek a variation to the existing contract with Deloitte to allow for a further extension of 6 months up to 30th April 2017. The amendment to the contract was approved by the Westminster Gate Review Panel on 6 September 2016. This is an officer led panel, with representatives from procurement, Category Management, Legal and Finance.

4.2 The next stage in the process is for the Westminster Review Panel to approve the proposed strategy for the re-procurement. This Gate 1 meeting is due to be held after the writing of this report on 13 September 2016. Officers will attend the Gate 1 meeting and set out the financial implications, the project approach, the recommended strategy and the evaluation criteria. Assuming the strategy will be approved at this meeting, the Invitation to Tender will then be issued.

4.3 The tender document for the investment consultancy services includes a scoring mechanism that allocates a 30% to price and 70% to quality/service in line with the requirements on the National LGPS Framework Agreement. Westminster's procurement rules require any tenders that do not have a 60% price and 40% quality/service score to be cleared by the Cabinet Member for Finance. This was duly sought and approved in August.

4.4 Officers will evaluate the tenders received in October. Following the advice of internal Procurement, it will not be possible to shortlist the number of suppliers who are invited to present at this stage. Submissions can only be rejected if the provider is awarded a zero score during the written evaluation.

4.5 At the last meeting in June, it was agreed that all members of the Pension Fund Committee be nominated as representatives to the Investment Adviser presentations and that Pension Board Members could also attend as observers. On the indicative timeline (Appendix A) these presentations are due to be held between the 12th and 14th October.

4.6 Following the presentations, the scoring will be reviewed by officers in the light of new information to identify the preferred adviser. A Gate 2 report on the contract award and implementation plan will then need to be submitted to the Westminster Procurement Review Panel for approval.

4.7 The decision to appoint the contract can then be made at the November Committee meeting.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

Nikki Parsons nparsons@westminster.gov.uk or 020 7641 6925

BACKGROUND PAPERS:

None

APPENDICES

Appendix 1 Indicative Procurement Plan – Investment Adviser Contract

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	Responsible	Start date	Deadline	Status	11/07/16	18/07/16
Preparation of Specification, ITT and Contract Terms and Conditions	FS/NP/GB		29/08/16	complete		
Draft and agree Gate 1 report	FS/NP/GB	22/08/16	29/08/16	complete		
Circulate the Gate 1 report to finance and legal	FS		30/08/16	complete		
Submit extension paper to Gate	FS	31/08/16	31/08/16	complete		
Gate meeting for approval of contract extension	FS/NP	06/09/16	06/09/16	complete		
Submit Gate 1 to Gate	FS		07/09/16	complete		
Gate 1 meeting for approval of report.	FS/NP/GB		13/09/16			
Issue ITT	FS		13/09/16			
Receive and Open tenders	FS		03/10/16			
Technical Evaluation	NP/GB	03/10/16	07/10/16			
Moderation of Scores	FS/NP/GB	07/10/16	07/10/16			
Commercial Evaluation	FS	06/10/16	07/10/16			
Run Supplier Presentations	FS/NP/GB	12/10/16	14/10/16			
Draft Gate 2	FS/NP/GB	17/10/16	21/10/16			
Agree Gate 2 report	FS/NP/GB	21/10/16	26/10/16			
Circulate the Gate 2 report to finance and legal	FS	26/10/16	02/11/16			
Submit Gate 2 to Gate	FS		02/11/16			
Gate 2 meeting	FS/NP/GB		08/11/16			
Submission of report to Pensions Committee	NP/GB		08/11/16			
Approval - Pensions Committee	NP/GB		15/11/16			

Key:

FS	Felicity Steen - Assistant Category Manager
NP	Nikki Parsons - Pension Fund Officer
GB	George Bruce - Tri-Borough Director of Treasury and Pe

25/07/16	01/08/16	08/08/16	15/08/16	22/08/16	29/08/16	05/09/16	12/09/16	19/09/16	26/09/16	03/10/16	10/10/16	17/10/16	24/10/16	31/10/16	07/11/16	14/11/16

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	Responsible	Start date	Deadline	Status
Preparation of Specification, ITT and Contract Terms and Conditions	FS/NP/GB		29/08/16	In progress
Draft and agree Gate 1 report	FS/NP/GB	22/08/16	29/08/16	In progress
Circulate the Gate 1 report to finance and legal	FS		30/08/16	
Nikki: Leave	NP	30/08/16	02/09/16	
Submit Gate 1 to Gate	FS		14/09/16	
George: Leave	GB	02/09/16	12/09/16	
Gate 1 meeting for approval of report.	FS/NP/GB		20/09/16	
Issue ITT	FS		20/09/16	
Nikki: Leave	NP	16/09/2016`	19/09/16	
Nikki: Leave	NP	23/09/16	28/09/16	
Receive and Open tenders	FS		10/10/16	
Technical Evaluation	NP/GB	10/10/16	14/10/16	
Moderation of Scores	FS/NP/GB	14/10/16	14/10/16	
Commercial Evaluation	FS	10/10/16	14/10/16	
Run Supplier Presentations	FS/NP/GB	14/10/16	14/10/16	
Draft Gate 2	FS/NP/GB	14/10/16	21/10/16	
Agree Gate 2 report	FS/NP/GB	21/10/16	26/10/16	
George: Leave	GB	17/10/16	28/10/16	
Circulate the Gate 2 report to finance and legal	FS	26/10/16	02/11/16	
Submit Gate 2 to Gate	FS		02/11/16	
Gate 2 meeting	FS/NP/GB		08/11/16	
Submission of report to Pensions Committee	NP/GB		14/11/16	
Approval - Pensions Committee	NP/GB		21/11/16	

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**20 September 2016**
Classification:	**General Release**
Title:	**Pension Fund Committee Forward Plan**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no financial implications arising from this report.**
Report of:	**Steven Mair** ***City Treasurer*** **smair@westminster.gov.uk** **020 7641 2831**

1. Executive Summary

1.1 This report presents the forward plan of work for the Pension Fund over the coming 12 months.

2. Recommendation

2.1 The Committee is asked to agree the forward plan of work for the coming year.

3. Background

3.1 A forward plan gives members visibility of the reports to be expected over the 12 months and allows a regular dialogue about the items to include.

3.2 A draft work plan for the coming 12 months is set out in Appendix 1 covering the various areas of work the Committee are responsible for. It is proposed to report the rolling 12 month plan as a standing item on the agenda going forward, to allow members to input to it at each meeting.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

Nikki Parsons nparsons@westminster.gov.uk or 020 7641 6925

BACKGROUND PAPERS: None

APPENDIX 1 – Draft Forward Plan for the Pension Fund Committee – September 2016

Appendix 1

Draft Forward Plan for the Pension Fund Committee – September 2016

Area of work	15 Nov 2016	21 Mar 2017	TBC Jun 2017	TBC Sep 2017
Governance	Pension Board minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Forward Plan Scheme Advisory Board Key Performance Indicators Risk Register review Admission Policy and Risk Register	Pension Board minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Forward Plan Business Plan	Pension Board minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Forward Plan Pension Fund Annual Report and Accounts 2016/17 Progress on compliance with TPR Code of Practice Review of Governance Compliance Statement	Pension Board minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Forward Plan Annual report of Pension Board activities Review of Pension Fund expenses
Investments	Pooling and CIV update Investment Adviser Contract Feedback from Annual fund manager monitoring day	Pooling and CIV update Investment Strategy Review	Pooling and CIV update Investment Strategy Review	Pooling and CIV update

Area of work	15 Nov 2016	21 Mar 2017	TBC Jun 2017	TBC Sep 2017
	Investment Strategy Statement (replaces SIP)			
Funding	Draft Actuarial Valuation results and contribution rates	Final Actuarial Valuation report Funding Strategy Statement		