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City of Westminster

Committee Agenda

Title:	**Pension Fund Committee**
Meeting Date:	**Tuesday 15th November, 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: 020 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)

9.	**FUND FINANCIAL MANAGEMENT** Report of the City Treasurer.	**(Pages 87 - 106)**
10.	**PERFORMANCE OF THE COUNCIL'S PENSION FUND** Report of the City Treasurer.	**(Pages 107 - 138)**
11.	**PENSION FUND COMMITTEE FORWARD PLAN** Report of the City Treasurer.	**(Pages 139 - 142)**
12.	**ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT** **PART TWO (IN PRIVATE)** Under Section 100 (A)(4) and Part 1 of Schedule 12A to the Local Government Act 1972 (as amended), the public and press are excluded from the meeting for the following items of business because they involve the likely disclosure of exempt information on the grounds shown below and it is considered that, in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.	
13.	**PENSION FUND INVESTMENT ADVISER CONTRACT** Report of the City Treasurer.	

Charlie Parker
Chief Executive
11 November 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 20th September, 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), Nikki Parsons (Pension Fund Officer), Lee Witham (Director of People Services and Toby Howes (Senior Committee and Governance Officer).

Also Present: Marie Holmes (Pension Board Representative), Susan Manning (Pension Board Representative), Jason Bailey (Pension Services Manager, Surrey County Council), Graeme Muir (Barnett Waddingham) and Alistair Sutherland (Deloitte).

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 21st June 2016 be signed by the Chairman as a correct record of proceedings.

4 TRIENNIAL VALUATION UPDATE

4.1 Graeme Muir (Barnett Waddingham) provided the Committee with an update on progress with the 2016 triennial valuation with a presentation. He began by advising that the Local Government Pension Scheme (LGPS) Regulations stated that the triennial funding valuation was required to certify the levels of employer contributions to secure the solvency of the Fund and the long term cost efficiency of the Scheme. The triennial valuation must also have regard to the Funding Strategy Statement as determined by the administrating authority, which in this case was the Council. Graeme Muir stated that Barnett Waddingham, as the Fund's actuary, played the role of overseeing the triennial valuation.

4.2 Graeme Muir advised that the triennial valuation took place in three steps, these being:

- Step 1: Projection of all possible benefit payments for each scheme member
- Step 2: Attach probabilities to each possible payment to get "expected" payments
- Step 3: Discount "expected" payments to obtain value.

4.3 Members noted that fundamentally, the triennial valuation needed to determine how much money needed to be put into the Fund to support the projected future pension payments. Graeme Muir stated that amongst the challenges of the 2016 valuation was to take into account the new guidance from the Charted Institute of Public Finance and Accountancy, which reminded administering authorities that securing solvency and long term cost efficiency was a regulatory requirement, whereas a constant as possible contribution rate remained only a desirable outcome. Furthermore, Graeme Muir advised that administering authorities in particular needed to adhere to Section 13 of the Public Services Pension Act 2013, which requires an independent review of the valuation and contribution rates to ensure that they are appropriate and for remedial action to be taken where the review identifies any problems. Graeme Muir emphasised the need to ensure that a plan was in place and there may be some "outliers" that could be considered abnormal when compared to other Funds.

4.4 Graeme Muir advised that Funds may still have their own bespoke funding plan, however there was a need to be mindful of key performance indicators (KPIs) measures, and the Section 13 valuation. In the longer term, it was anticipated that Funds would gravitate towards the middle, with Funds being deemed "average."

4.5 Graeme Muir then provided details of the financial assumptions of the triennial valuation. These assumptions used market indices and the Fund's model used assumptions assessed over a six months period spanning valuation date to give stability, a method known as "smoothing". A retail price index inflation rate of 3.3% per annum had been determined as the smoothed rate as of 31st March 2016. Members noted that the 2013 triennial valuation assumed a rate of 0.8% per annum below the RPI, whilst the 2016 valuation proposed an increase of 0.9% below RPI. A rate of 2.4% per annum was the assumed consumer price index (CPI) as a starting point. With regard to long term salary increase assumptions, the 2016 proposal was 1.5% per annum more than CPI as of 31st March 2016, compared to 1.5% per annum for 2013. Turning to the discount rate, Graeme Muir advised that 2.4%, 3,3% and 3.8% per annum were the smoothed rates for gilts, bonds and equities respectively as of 31st March 2016. The prudence allowance for the discount rate was likely to be in the range of 0.5% to 1.5%.

4.6 Graeme Muir advised that the 2013 valuation had determined a whole funding basis of 74% for the Fund, with the Council's at 70%, meaning there was a deficit of around £300 million. The 2016 indicative results had the whole funding basis of between 75% to 80%, with the Council deficit now around £300 million to £350 million. Graeme Muir stated that the key issues revolved around reducing the Council deficit and how quickly this can be undertaken and ensuring to avoid the more serious Scheme Advisory Board and Government Actuary Department "flags." Following further funding discussions and the review of the Funding Strategy Statement, Graeme Muir advised that the triennial valuation was due to be agreed and signed off by 31st March 2017.

4.7 George Bruce (Tri-Borough Director of Treasury and Pensions) added that modelling was being undertaken with a view to paying off the Council's debt in 20 years and he advised that paying the debt off more quickly would save the Council money in the long term.

4.8 During Members' discussions, it was queried whether there would be any issues in respect of the "smoothing approach." Members also sought further explanation as to the reasons why a 3.3% per annum RPI inflation rate had been assumed, as inflation had been closed to 0% in the last year or so.

4.9. In reply, Graeme Muir advised that as long as smoothing was not applied inconsistently, then no issues should arise from this approach. Smoothing was a common approach taken by Barnett Waddingham who also accounted for 25% of the LGPS market. In respect of the RPI inflation rate, Graeme Muir advised that the 3.3% per annum assumption was as an average rate over the next 20 years.

4.10 The Chairman thanked Graeme Muir for the update and requested a further update on the triennial valuation at the next meeting of the Committee on 15th November 2016.

4.11 **RESOLVED:**

1. That the indicative timetable for the triennial valuation process be noted; and

2. That the verbal update provided by Barnett Waddingham be noted.

5 PENSION BOARD ANNUAL REPORT 2015-2016

5.1 Nikki Parsons (Pension Fund Officer) presented the report which provided details of the work and activities of the Pension Board in the last year and to demonstrate its compliance with its terms of reference. Following the report's presentation to the Committee, it was to be submitted to Full Council for formal approval. Nikki Parsons also sought the Committee's approval for a joint meeting to be arranged with the Pension Board to review each respective roles. She suggested that a representative from both the Committee and the Board meet to agree an agenda for the joint meeting.

5.2 The Committee agreed that a joint meeting take place with the Pension Board. Members agreed that Board Members be invited to the Pension Fund Committee meeting on 21 March 2016.

5.3 **RESOLVED:**

1. That the contents of the Pension Board Annual Report 2015-16 be noted prior to its submission to Full Council; and

2. That a joint meeting of the Pension Fund Committee and the Pension Board take place on 21 March 2017 to review their respective roles.

6 PENSION FUND ADMINISTRATION UPDATE

6.1 Jason Bailey (Pension Services Manager, Surrey County Council) provided the first update on this item in respect of progress in addressing pension administration issues. He advised that a meeting had taken place with the Chairman, Council officers and Surrey County Council officers on 3rd August 2016 to discuss this topic and in particular the fact that the pension administration performance was not meeting a number of its KPIs. The problems being experienced were attributable to both BT issues of a technical nature and due to there being an insufficient number of suitably trained staff. Following the meeting, Jason Bailey reported that progress had been made in a number of areas, with most matters largely resolved and he anticipated seeing significant improvements for the KPIs in quarter 3 of 2016/17 and was hopeful that most targets would be met. He advised that there was a particular focus in ensuring that retiring staff had their first pension payments made promptly. Jason Bailey also informed Members that there would be more online services available in future.

6.2 Lee Witham (Director of People Services) added that BT also needed to be taken to task about the issues that had arisen. However, the Council was working collaboratively with Surrey County Council and BT in resolving these issues.

6.3 Sarah Hay (Pensions and Payroll Officer) advised that she would be discussing pension administration arrangements with Surrey County Council officers, the auditors and her colleague Kim Edwards (Senior Payroll, Pensions and Establishment Advisor) on 21st September 2016. She would also be having a follow up meeting at Surrey County Council with Kim

Edwards on 26th October 2016. Jason Bailey added that he was comfortable to have the auditors look at the pension administration processes.

6.4 During Members' discussions, Members asked if there was any action the Council could take that could assist Surrey County Council. It was queried whether the Council and individual pension scheme members could receive compensation in respect of the pension administration performance and in instances where pension scheme members had received their first pension payments late. The Chairman enquired whether the KPIs performance would be reported regularly to the Committee and were these the most appropriate KPIs.

6.5 In reply to issues raised by Members, Jason Bailey advised that some of the problems experienced were attributable to some employers in the pension scheme, such as schools, who used their own payroll providers and who did not provide the relevant details in time. He felt that the development of an online portal would help address the matter. In respect of KPIs, Jason Bailey advised that these were derived from the KPI standards that had been set nationally, and other KPIs, such as contact with pension scheme members, could be added.

6.6 Lee Witham added that the KPIs were also relevant to the Section 101 agreement the Council has with Surrey County Council and were consistent with what the auditors considered important. He felt that most of the relevant KPIs were already included, however additional KPIs could be included in future. In respect of compensation, Lee Witham stated that such matters could be discussed as part of the commercial review and contract negotiation with BT.

6.7 Sarah Hay added that there had been no requests for compensation from pension scheme members to date. She felt that Surrey County Council had made progress in improving their performance and that a number of issues had been traced back to BT.

6.8 Sarah Hay then referred to the paper on pension auto re-enrolment. She advised that not all those who should be auto re-enrolled into the pension scheme had been. Lee Witham added that the Council was challenging BT's auto re-enrolment list and was working collaboratively with BT and Surrey County Council. Members noted the annual benefits statement report and that these statements were in the process of being sent out. Members also noted the paper on the internal audit update.

6.9 The Chairman sought clarification as to the reasons why BT were not auto re-enrolling everyone who should be. In reply, Jason Bailey advised that it was due to the lack of data for both new joiners to the scheme and also those leaving it. The other tri-borough partners also had also experienced problems in coping with having all the correct data. However, Jason Bailey was confident there would be significant improvement and Surrey County Council had appointed a new Team Leader to the pension administration scheme team.

6.10 The Chairman stated that the KPIs should be relevant to Westminster and so should be modified accordingly where appropriate. He requested that the KPIs performance be reported every quarter and include other KPIs identified as relevant, and any others considered irrelevant to be removed. The Chairman also requested that an appropriate representative from BT attend a future meeting of the Committee for the pension fund administration item. He also suggested that a BT representative be invited to the next Pensions Annual General Meeting.

7 ASSET POOLING AND LONDON COLLECTIVE INVESTMENT VEHICLE UPDATE

7.1 George Bruce presented the report and confirmed that the London Collective Investment Vehicle (CIV) had negotiated a reduced fee scale in respect of the Legal and General passive mandate, which would result in a saving of approximately £170,000 for the Westminster Fund. This represented a significant reduction of around 75% and was backdated to 1st July 2016. In respect of the Insight Investment mandate, this contract had been extended until 2016 as agreed by Committee in November 2015, as it had been hoped that more opportunities would be offered by the London CIV. However, until the CIV's fixed income offering was known, it was desirable to extend the Insight contract until the end of 2017, and the approval of the Committee was sought for this extension. George Bruce added that this was subject to it being possible under the Council's procurement rules, and if it was not, then he recommended to transfer both the Corporate and gilt mandates to the Insight UK Corporates Al Maturities Bond Fund. George Bruce confirmed that the Baillie Gifford mandate had been transferred to the London CIV in quarter 2 of 2016-17.

7.2 Members asked whether the total fees savings had been identified and did the London CIV yet have any proposals in respect of property assets.

7.3 In reply, George Bruce advised that only the fees savings from the Baillie Gifford and Legal and General mandates had been realised to date, however negotiations on fees were also taking place in respect of the Majedie and Longview mandates. However, he anticipated that the total fee savings would amount to at least £1 million. George Bruce advised that the London CIV was undertaking its asset allocation in stages and property assets were among one of the later stages. He commented that it was probable that there would not be any moves to acquire property assets until mid or late 2017.

7.4 The Chairman advised that officers and Deloitte were investigating whether to retain a performance related management fee or move to a flat management fee in respect of the Majedie mandate and a report on this would follow at the next meeting. The Committee agreed to extend the Insight investment mandate to the end of 2017.

7.5 **RESOLVED:**

1. That the contents of the report be noted.

2. That the transfer of the Majedie portfolio to the London CIV retaining a combined AuM (assets under management) and performance related fee be agreed, subject to clarification on the impact of the termination of the current performance period; and

3. That the extension of the current Insight mandate by a further 12 months to the end of 2017 be agreed and that if this is not possible within Westminster's procurement rules, then it be agreed to transfer both the Corporate and gilt mandates to the Insight UK Corporates All Maturities Bond Fund.

8 PENSION FUND COSTS AND FEES BENCHMARKING

8.1 George Bruce presented the report and advised that the Fund's administration and governance costs represented £38.98 per member per year, below the inner London average of £42.50, however fund management costs represented £328 per member, above the inner London average of £206. Members noted that the higher than average fund management costs were mainly attributable to the performance related management fee in respect of the Majedie mandate, which accounted for 58% of Westminster's costs. George Bruce advised that the Department for Communities and Local Government also provided data comparing fund manager costs as a percentage of asset value, which for the Westminster Fund represented 0.48% in 2014//15, compared to the average cost of 0.34%. Members noted that this report would be put to the Committee on an annual basis.

8.2 The Chairman requested that the 2012 costs and fees and aggregate figures be circulated to Members and he added that it would be beneficial to compare costs and fees with the Hammersmith and Fulham and the Royal Borough of Kensington and Chelsea funds.

8.3 **RESOLVED:**

That the contents of the report be noted.

9 FUND MANAGER MONITORING MEETINGS

9.1 Nikki Parsons presented the report and advised that officer lead meetings with investment managers on a semi-annual basis would take place to ensure that the managers' processes were consistent with those when they were appointed. These meetings would also be attended by tri-borough officers. Nikki Parsons stated that it was also proposed that an annual fund manager monitoring day takes place where all fund managers are invited to update the Committee and officers on their respective mandates. George Bruce added that feedback from the officer lead meetings would be provided to Members.

9.2 The Committee welcomed the proposals on the annual fund manager meeting and concurred that it would be desirable to take place either at a location in the City or at the Deloitte office. The Chairman requested that the annual fund manager monitoring day be arranged to take place on a Friday in December on a date to be confirmed, and that a representative from the Pension Board also be invited to attend.

9.3 **RESOLVED:**

1. That the proposed annual fund manager monitoring arrangements be agreed; and

2. That it be agreed that the annual fund manager monitoring meeting take place on a Friday in December 2016.

10 FUND FINANCIAL MANAGEMENT

10.1 Nikki Parsons presented the report and confirmed that the Fund complied with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. In respect of cashflow monitoring, Members noted that the dis-investment of £4.5 million had taken place in respect of the Baillie Gifford and Longview mandate in order to meet the cashflow requirements. The actual performance fee payable this year had also been identified as £2.7 million less than originally estimated and so the forecast for the remainder of the year had been duly adjusted. Nikki Parsons advised that a new risk had been added to the risk register, 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.

10.2 Members referred to risk 9 in the risk register: Strategic: Regulation – Introduction of European Directive Markets in Financial Instruments Directive (MiFID) results as a restriction of the Fund's investment options and an increase in costs and asked whether the mitigating action of a Knowledge and Skills Policy was in place for Members and officers. Another Member commented that European Union (EU) procurement regulations in the UK could disappear in the next few years due to costs.

10.3 In reply, George Bruce advised the MiFID was likely to be significantly watered down, which would lower the risk considerably. He added that the Government may continue to mirror EU procurement regulations even after the UK left the EU.

10.4 **RESOLVED:**

1. That the updated risk register for the Pension Fund be approved.

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; and

3. That the cashflow position of the Fund be noted.

11 QUARTERLY PERFORMANCE OF THE COUNCIL'S PENSION FUND

11.1 Alistair Sutherland (Deloitte) updated the Committee on investment performance for quarter 1 of 2016-2017 and advised that currency had been a key factor in influencing returns which had contributed to active fund managers underperforming. Members noted that Majedie, who had performed disappointingly, had subsequently recovered.

11.2 In reply to the Chairman’s query as to further reasons why all the active managers had underperformed, Alistair Sutherland advised that the markets had reacted in a way that had not been anticipated. However, there were no consistent underlying themes as to the reasons for the underperformance and Alistair Sutherland felt that this was due to individual stock issues.

11.3 **RESOLVED:**

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

12 INVESTMENT STRATEGY OPTIONS

12.1 Alistair Sutherland presented the report and advised that Deloitte were querying fund managers as to why they were holding bonds. Consideration also needed to be given as to the whether the Fund’s Investment Strategy was fit for purpose.

12.2 Members queried whether there was a regulatory requirement to have a certain proportion of gilts assets in a Fund. The Chairman sought views on the equity/bond asset class mix for the Fund and would the London CIV would give limitations in this respect.

12.3 In reply, Alistair Sutherland suggested that there should be less reliance on equities. George Bruce stated that efforts would be made to moderate the proportion of equities to around 65% in the Fund and he confirmed that there was no regulatory requirement regarding the proportion of gilts assets. He advised that the London CIV would not be able to deliver everything that was desirable to the Fund in a short period of time, however it was important that the Council was in a prominent position to be able to influence the CIV.

12.4 **RESOLVED:**

1. That the contents of the report be noted; and

2. That it be agreed that an Investment Strategy Review be undertaken once the results of the 2016 actuarial valuation are known.

13 PENSION FUND INVESTMENT ADVISER CONTRACT UPDATE

13.1 Nikki Parsons advised the Committee that the current investment adviser contract with Deloitte was to expire on 31st October 2016. The re-procurement of the contract was to be conducted using the National LGPS Framework for

Pension Fund Investment Advisers, as agreed by the Committee on 21st June 2016. A six months extension to the existing contract with Deloitte up to 30th April 2017 had subsequently been agreed by the Westminster Gate Review Panel on 6th September 2016 to enable sufficient time for a thorough re-procurement process to be conducted. Nikki Parsons then referred Members to the timelines for the new Pension Fund Investment Adviser contract and advised that officers would evaluate the tenders in October prior to a presentation from the tenderers to the Committee and officers.

13.2 Members agreed to the Chairman' suggestions that the investment adviser presentations to the Committee and officers take place on 4th November 2016, with the top three scoring organisations from the October evaluation being invited to present. Members also agreed to the Chairman's suggestion that the Chairman of the Pension Board or a Deputy also be invited to attend the presentations in an observational capacity.

13.3 **RESOLVED:**

That the contents of the report be noted.

14 PENSION FUND COMMITTEE FORWARD PLAN

14.1 The Chairman requested that Pension Administration KPIs be added to the Forward Plan as a standing item.

The Meeting ended at 9.17 pm.

CHAIRMAN: ____________________ **DATE** __________________

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**15 November 2016**
Classification:	**Public**
Title:	**Pension Fund Actuarial Valuation and Funding Strategy Statement**
Wards Affected:	**None**
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 The Fund Actuary, Graeme Muir of Barnett Waddingham, will be attending the meeting to update the Committee on progress with the 2016 actuarial valuation. A draft funding strategy statement reflecting the changes to the CIPFA guidance is presented for consideration.

2 Recommendation

2.1 That the Committee approve the draft Funding Strategy Statement attached at Appendix 2 pending consultation with the employers.

3 Reasons for Decision

3.1 The Fund is required to regularly review the Funding Strategy Statement and to have regard to CIPFA guidance. As the guidance has been recently updated, a revised statement is required to incorporate it.

4 Proposals and Issues

ACTUARIAL VALUATION

4.1. As members will be aware from previous actuarial valuation reports presented to the Committee, the LGPS regulations require all LGPS funds to undertake an actuarial valuation every three years for the purpose of setting employer contribution rates and monitoring the solvency of the funds. All funds in England and Wales are required to carry out a valuation as at 31st March 2016.

4.2. The Fund Actuary, Graeme Muir of Barnett Waddingham, attended the last meeting and set out the background to the valuation, the basis of the assumptions and some indicative results – his presentation handed out at the meeting is attached at Appendix 1 as a reminder.

4.3. The next stage is for the Fund Actuary to discuss with the Committee the assumptions to be applied and to present initial results showing for the whole Fund the assets, liabilities, deficit, future service rate and proposed annual deficit recovery lump sum contribution based on a proposed deficit year recovery period. This will be followed in due course by detail at an employer level.

4.4. The Fund Actuary will be attending the Committee meeting to update on progress and present where possible initial results. Data issues have led to the calculations of the results being delayed.

FUNDING STRATEGY STATEMENT

4.5 Regulation 58 of the LGPS Regulations 2013 sets out the requirement for every LGPS fund to maintain a Funding Strategy Statement. The regulation requires the Fund to have regard to the guidance published by CIPFA and to consult with parties it considers appropriate when updating it.

4.6 The current version of the statement was approved by the Pension Fund Committee (which at that time was known as the Superannuation Committee) in March 2014. It is timely to review the statement when undertaking an actuarial valuation. In addition, a few months ago CIPFA issued revised guidance which needs to be incorporated into an updated statement.

4.7 Attached at Appendix 2 is a draft Funding Strategy Statement which reflects the revised CIPFA guidance. The main changes are:

- There is much greater emphasis on achieving and maintaining solvency than before;
- There is more on achieving returns within reasonable risk parameters;
- Maintaining the stability of contribution rates becomes an aspiration which is subordinate to meeting the solvency issues and achieving long term cost efficiency.

4.8 The statement will require further modification once the results of the 2016 valuation are known. In particular how the funding of the admitted and scheduled bodies is approached will need to be incorporated.

NEXT STEPS

4.9 The next stage of the process of the actuarial valuation is consultation with the employers in the Fund on the results, proposed employer contribution rates and the draft funding strategy statement. A final draft of the actuarial valuation report and the funding strategy statement will be presented to the Committee for approval at the next meeting on 21st March 2017.

5 Consultation

5.1 Consultation with the employers in the Fund will take place in the coming months on the results, proposed employer contribution rates and the draft funding strategy statement.

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 Barnett Waddingham – 2016 Valuation; September 2016

Appendix 2 Draft Funding Strategy Statement

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City of Westminster Pension Fund

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2016 Valuation

Graeme Muir FFA, Partner

Barnett Waddingham LLP

November 2016

Agenda

- Purpose of valuations?
- Where were we 2013?
- Where are we at 2016?
  - Challenges
  - Assumptions
  - Results
- Next steps

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Purpose of valuations?

BACKGROUND

Barnett Waddingham
a true partnership approach

Purpose of valuations

Valuations	• Answer questions • Many questions!
Ongoing triennial funding valuation	• How much do employers need to pay in future to have enough assets to pay benefits?
Annual accounting valuations (IAS19/FRS102)	• Help accountants compare
GAD valuations	• Long term costs of LGPS / section 13

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Barnett Waddingham
a true partnership approach

Triennial Funding Valuation

Set out in LGPS Regulations	• to *certify* levels of employer contributions to secure the *solvency* of the Fund and the *long term cost efficiency* of the Scheme
Also have regard to the Funding Strategy Statement	• As determined by administering authority • With some actuarial help and guidance from CIPFA
Actuary to "have regard to desirability of maintaining as nearly constant a (primary) contribution rate as possible"	• Function of Funding Model / investment strategy • Spreading and stepping
Different approaches possible for different employer types	• Statutory/non statutory bodies • Open or closed admission agreements • Look at employer financial strength ("covenant")

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Barnett Waddingham
a true partnership approach

Funding Strategy Statement

Regulation 58 of the LGPS 2013 Regulations

- **Responsibility of the administering authority**
- **Keep under review**
- **Consult other parties (mainly employers)**
- **Have regard to CIPFA guidance**

CIPFA Guidance

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- **Transparency**
- **Prudent long term view**
- **Stability of contributions**

Revised CIPFA guidance just issued

"Administering authorities are reminded that securing solvency and long term cost efficiency is a regulatory requirement whereas a constant as possible (primary) contribution rate remains only a desirable outcome".

How do we do it?

Step 1
- Projection of all possible benefit payments for each member

Step 2
- Attach probabilities to each possible payment to get “expected” payments

Step 3
- Discount “expected” payments to obtain “value”

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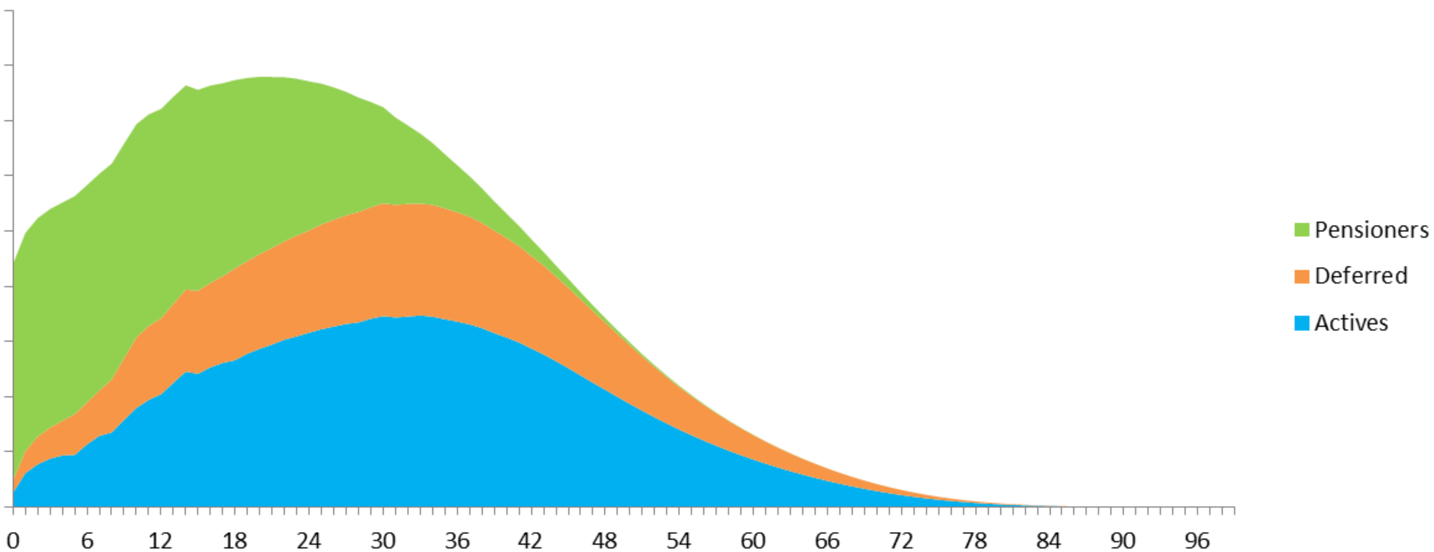

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2013 valuation results

WHERE WERE WE IN 2013?

Barnett Waddingham
a true partnership approach

March 2013 valuation results

- **Liabilities** of £1,164m less **assets** of £867m = **deficit** of £297m
- **Funding Level** of 74%
- Deficit contributions **of 16.5% of Pensionable Pay** to eliminate the deficit over a period of **25 years**
- **13.3% of Pensionable Pay** to meet the cost of new benefits as they are earned from year to year
- Total rate of **29.8% of Pensionable Pay**
- Contributions for Westminster stepped up to total rate via increases in deficit contributions on £1.5m a year
  - Deficit contribution of £9m for 2016/17
  - Further steps anticipated

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Where are we in 2016?

2016 VALUATION CHALLENGES

2016 valuation

- KPIs
- New CIPFA guidance on Funding Strategy Statement
- Standardised results published
- Section 13
- Increased transparency and governance
- Employer Cost Cap
- Consistency

Section 13 valuation

"Section 13 to provide for an independent review (by GAD) of the valuation and employer contribution rates to check that they are appropriate and requires remedial action to be taken where that review identifies a problem."

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Compliance	• **Have valuations been completed in accordance with the Regulations?**
Consistency	• **Has a Fund's valuation been completed on a basis "not inconsistent" with other Funds ?**
Solvency	• **Will certified contributions accumulate enough assets to meet liabilities over an "appropriate" period?**
Long term cost efficiency	• **Are certified rates "enough"?** • **Are employers kicking the contribution can down the road?**

Summary

Funds can still have their own bespoke funding plan

- Funding model / assumptions / recovery period etc.

But need to key an eye on KPI measures and s13 valuation

- And avoid being summoned to the headmaster's office.....
- Will be an issue for some Funds/employers re affordability / stability of contribution

Some additional complexity expected...

Longer term

- Gravitating to the middle...
- Everyone will be average
- No need to compare!
- The public sector equivalent of the Minimum Funding Requirement?

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Where are we in 2016?

FINANCIAL ASSUMPTIONS

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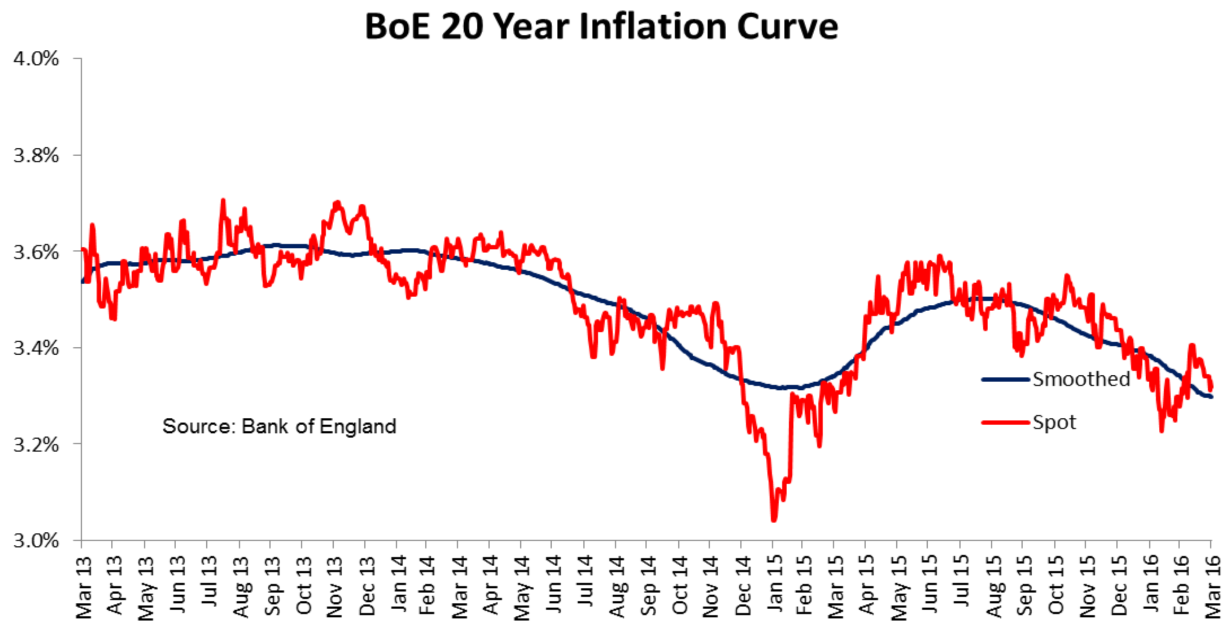
Setting assumptions

- Use **market indices / yield curves**
  - Use 20 year point on curves (duration of Fund liabilities)
- Our model uses assumptions assessed over six month period spanning valuation date **(smoothed)** to give stability
  - Assets smoothed in a consistent way
- Start with **neutral assumptions** (not deliberately optimistic or pessimistic)
  - Introduce **prudence** where there is uncertainty
  - The greater the uncertainty, the greater the **prudence**

Inflation



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As at 31 March 2016

- 3.3% p.a. is the smoothed 20 year point on the BoE curve
- 0.9% deduction for CPI to get **2.4% p.a.**
- **Long term** salary increases of **1.5% more than CPI** (1.8% at 2013)
- **Short term** salary increases of **CPI** (until 2020)

Discount rate – derivation

- Ongoing funding valuation so discount rate is…
  - Weighted expected future **investment return** from long-term investment strategy
- Assumptions assessed over six month period spanning valuation date **(smoothed)**

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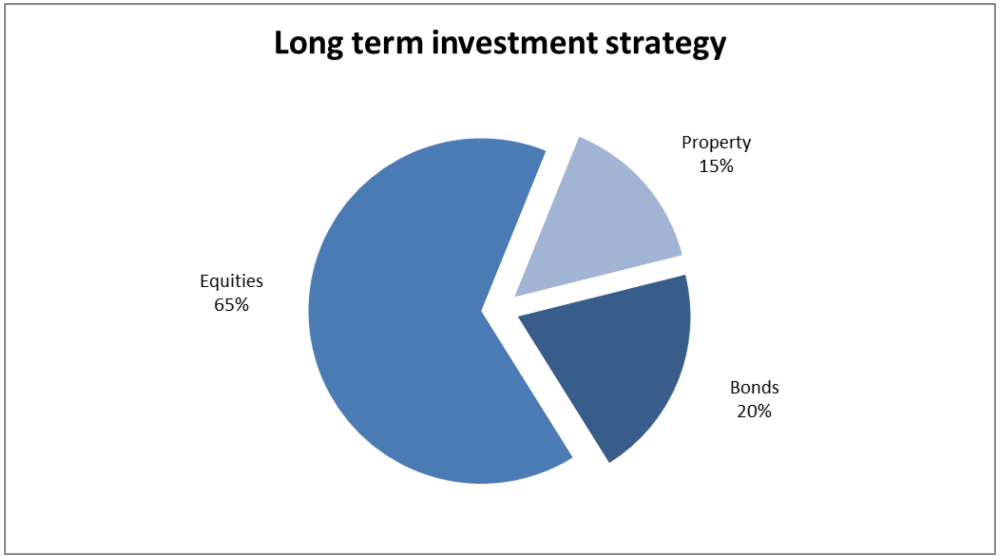

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Discount rate – gilts & bonds

- Straightforward, based on current yields and credit spreads

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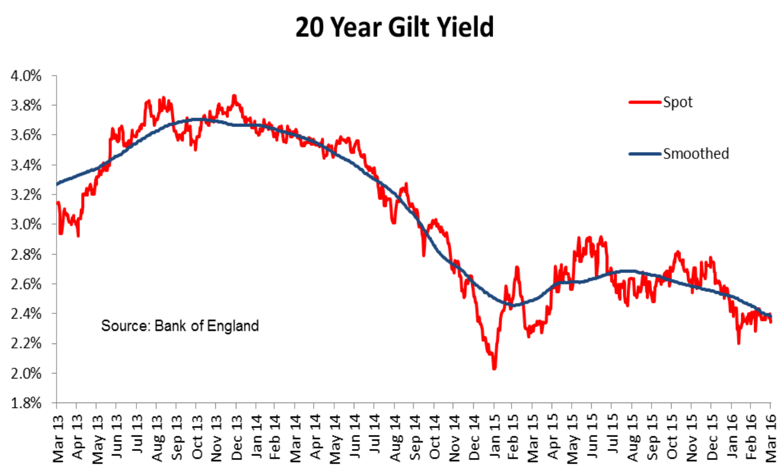
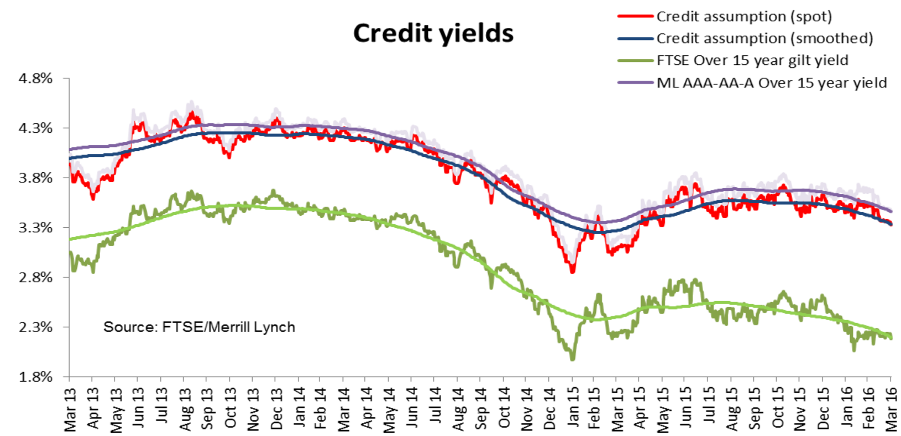




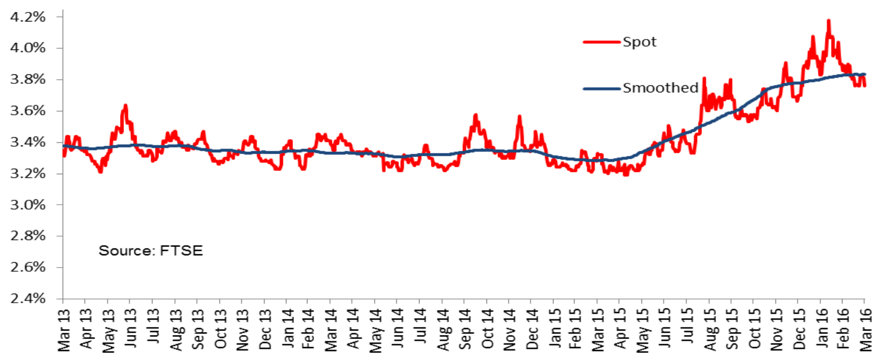
As at 31 March 2016

- **2.4% p.a.** from gilts
- **3.3% p.a.** from bonds

Discount rate – equities – BW model

equity return = dividend yield + inflation (CPI) + real capital growth

FTSE UK All Share Dividend Yield



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As at 31 March 2016

- Smoothed dividend yield of 3.8% p.a.
- plus CPI of 2.4% p.a.
- plus real capital growth of 1.2% p.a.
- equals **7.4% p.a.**

Discount rate - others

- **Property**
  - Expect to return between equities and gilts
  - CPI + 3.5% p.a. gives 5.9% p.a.
- **Cash**
  - Smoothed 20 year LIBOR swap curve point gives a rate of 1.8% p.a.
- **Absolute return**
  - Based on mandate – inflation / cash plus

Discount rate – prudence allowance

- What is prudence?
  - Opposite of rashness…
- Based on a number of factors:
  - the actual **proportion of the liabilities that are the responsibility of tax raising bodies** (or where a tax raising body is providing a guarantee)
  - views on the **ability of employers to pay more** later if required
  - **attitude to risk** and risk appetite of the Administering Authority
  - levels of **uncertainty** in the assumed asset returns
  - overall **asset allocation**

Starting point for 31 March 2016

- 1.1% reduction from neutral / best estimate for Scheduled Bodies
- A bit more for admission bodies

Discount rate – combining returns

Asset class	Percentage of Fund	Initial proposed assumption (% p.a.)	Real (relative to CPI)
Other bonds	20%	3.3%	0.9%
Equities	65%	7.4%	5.0%
Property	15%	5.9%	3.5%
Expenses (deduction)		-0.2%	
Neutral estimate of discount rate based on long-term investment strategy		**6.2%**	**3.8%**
Prudence allowance (Scheduled Bodies)		1.1%	
Prudence allowance (Admitted Bodies, in service)		2.3%	
Prudence allowance (Admitted Bodies, having left service)		4.0%	
Proposed discount rate assumption (Scheduled Bodies)		**5.1%**	**2.7%**
Proposed discount rate assumption (Admitted Bodies, in service)		**3.9%**	**1.5%**
Proposed discount rate assumption (Admitted Bodies, having left service)		**2.2%**	**-0.2%**

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Where are we in 2016?

DEMOGRAPHIC ASSUMPTIONS

Pensioner mortality assumptions

- Review of Fund mortality over period 2011 – 2015
- Now using revised tables
- Impact best demonstrated using **life expectancies**

Life expectancy from age 65 (years)			
		31 March 2016	31 March 2013
Retiring today			
	Male	24.3	23.0
	Female	25.8	25.4
Retiring in 20 years			
	Male	26.5	24.8
	Female	28.1	27.3

Small increase in the value of liabilities

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Where are we in 2016?

WHOLE FUND RESULTS

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Initial results

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Past service funding position		Proposed basis 31 March 2016 £000
Smoothed asset value		1,056,747
Past service liabilities		
	Actives	325,561
	Deferred pensioners	383,821
	Pensioners	659,773
	Total	1,369,155
Surplus (Deficit)		(312,408)
Funding level		77%

Primary rate	% of payroll
Total future service rate	25.3%
less employee contribution rate	(7.4%)
Total primary rate	**17.9%**

Total rate	% of payroll
Primary rate	17.9%
plus deficit recovery over 25 years	12.2%
Total rate	**30.1%**

Total rate	% of payroll
Primary rate	17.9%
plus deficit recovery over 22 years	13.7%
Total rate	**31.6%**

Total rate	% of payroll
Primary rate	17.9%
plus deficit recovery over 20 years	14.9%
Total rate	**32.8%**

Westminster City Council

Westminster City Council	2013	2016	Change
Assets (£000s)	589,461	671,415	81,954
Liabilities (£000s)	853,561	956,788	103,227
Deficit (£000s)	264,100	285,373	21,273
Funding Level	69%	70%	1.1%
Payroll (£000s)	76,021	81,762	5,741
Future service rate (% of pay)	12.5%	15.7%	3.2%
2016/17 future service contributions	10,220	12,803	2,583

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Recovery period (years)	Monetary deficit contributions (£000s)			
	2016/17	2017/18	2018/19	2019/20
25	9,008	13,143	13,654	14,186
22		14,690	15,262	15,856
20		15,981	16,603	17,249

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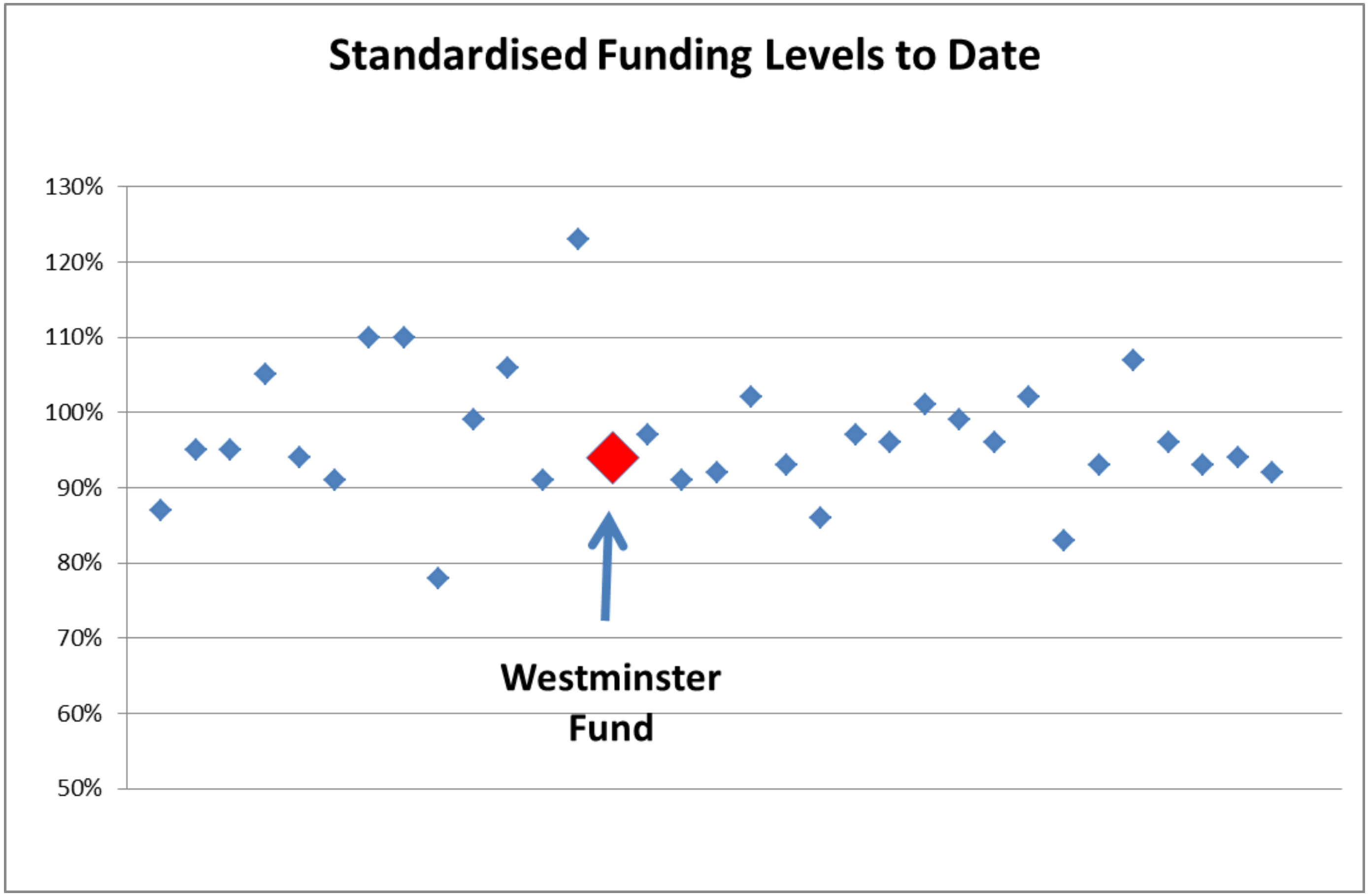
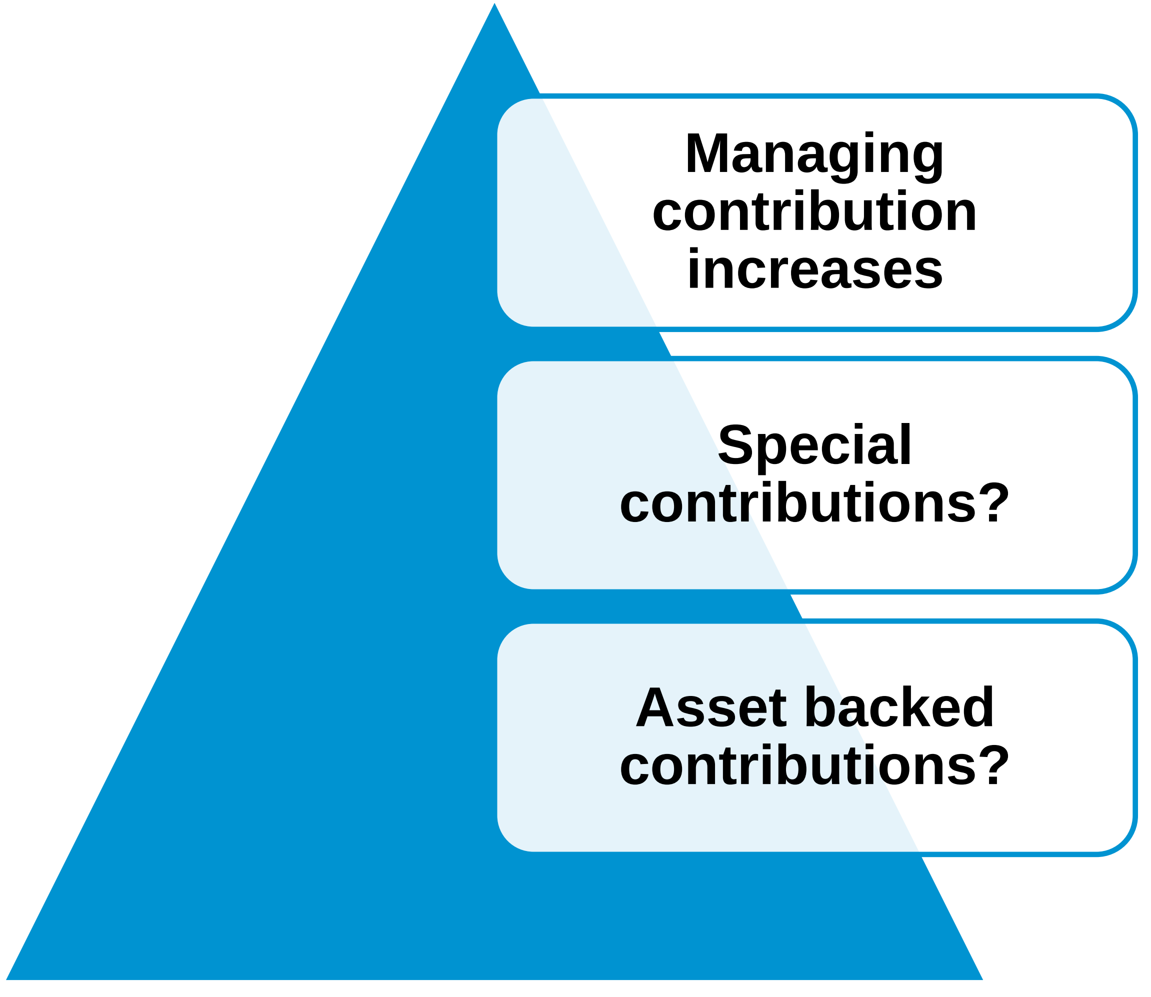
Standardised Funding Levels



Next steps……



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APPENDIX 2

CITY OF WESTMINSTER PENSION FUND
DRAFT FUNDING STRATEGY STATEMENT 2016

1. Purpose of the Funding Strategy Statement

1.1 The purpose of this Funding Strategy Statement is to explain the funding objectives of the Fund and in particular:

- How the costs of the benefits provided under the Local Government Pension Scheme (the "Scheme") are met though the Fund in a prudent way;
- The objectives in setting employer contribution rates and the desirability of maintaining stability in the primary contribution rate; and
- Ensuring that the regulatory requirements to set contributions that will maintain the solvency and long term cost-efficiency of the Fund are met.

2. Aims and Purpose of the Fund

2.1 The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible; and
- Seek returns on investment within reasonable risk parameters.

2.2 The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits provided under the Regulations;
- Meet the costs associated in administering the Fund; and
- Receive contributions, transfer values and investment income.

3. Responsibilities of Key Parties

3.1 The key parties involved in the funding process and their responsibilities are as follows:

The Administering Authority

3.2 The Administering Authority for the Pension Fund is the Westminster City Council. The main responsibilities of the Administering Authority are to:

- Operate a pension fund;
- Collect employee and employer contributions investment income and other amounts due to the Fund, as stipulated in the LGPS Regulations;
- Invest the Fund's assets in accordance with the LGPS regulations;
- Pay the benefits due to Scheme members; as stipulated by the LGPS regulations;

- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this Funding Strategy Statement (FSS), the Statement of Investment Principles (SIP) and Investment Strategy Statement (ISS) after consultation with other interested parties; and
- Monitor all aspects of the Fund's performance and funding, amending the FSS and ISS accordingly;
- Manage any potential conflicts of interest arising from the Borough's dual role as scheme employer and fund administrator
- Enable the Pension Board to review the valuation process as set out in their terms of reference.

Individual Employers

3.3 In addition to the administering authority, a number of scheduled and admitted bodies participate in the Fund.

The responsibilities of each individual employer that participates in the Fund, including the administering authority, are to:

- Deduct contributions from employees' salaries correctly and pay these, together with their own employer contributions as certified by the Fund Actuary, to the administering authority within the statutory timescales;
- Notify the administering authority of all changes in Scheme membership and any other membership changes promptly;
- Exercise any discretions permitted under the Regulations; and
- Meet the costs of any augmentations or other additional costs, such as early retirement strain, in accordance with agreed policies and procedures.

Fund Actuary

3.4 The Fund Actuary for the City of Westminster Pension Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the LGPS regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc.
- Provide advice and valuations on the exiting of employers in the Fund
- Advise the administering authority on bonds and other forms of security against the financial effect on the Fund of employer default.

- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the regulations.
- Ensure that the administering authority is aware of any professional guidance or other professional requirements that may be of relevance to the administrator's role in advising the fund; and
- Advise on other actuarial matters affecting the financial position of the Fund.

4. Solvency Issues and Target Funding Levels

4.1 Given the statutory position of the LGPS administering authorities and the tax-backed nature of employing authorities who make up the core of the scheme and the statutory basis of the scheme, the LGPS remains outside the solvency arrangements established for private sector occupational pension schemes.

4.2 LGPS regulations require each administering authority to secure fund solvency and long-term cost efficiency by means of employer contribution rates established by mandatory valuation exercises.

4.3 Maintaining as nearly a constant a primary employer contribution rate is a desirable outcome, but not a regulatory requirement. It is for LGPS administering authorities to seek to achieve a balance between the objectives in a prudent manner.

4.4 Solvency is defined as meaning that the rate of employer contributions should be set at such a level as to ensure that the scheme's liabilities can be met as they arise. This does not mean that the Fund should be 100% funded at all times, but that the rate of employer contributions should be set to target a funding level for the whole fund of 100% over an appropriate time period and using an appropriate set of actuarial assumptions.

4.5 Employers should collectively have the financial capacity to increase employer contributions and/or the Fund should be able to realise contingent assets if future circumstances require, in order to continue to target a funding level of 100%. If these conditions are met, it is anticipated that the Fund will be able to pay scheme benefits as they fall due.

4.6 The rate of employer contributions shall be deemed to be set at an appropriate level to ensure long-term cost efficiency if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to the rate for any surplus or deficit in the Fund. The Government Actuary's Department (GAD) will assess whether this condition is met.

5. Primary rate of the employers' contribution

5.1 The primary rate for each employer is that employer's future service contribution rate which is the contribution rate required to meet the cost of the future accrual of benefits, expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any specific employer circumstances.

5.2 The primary rate for the whole Fund is the weighted average, by payroll, of the individual employers' primary rates.

5.3 The secondary rate of the employer's contribution is an adjustment to the primary rate to arrive at the rate each employer is required to pay. It may be expressed either as a percentage adjustment to the primary rate and/or as a cash adjustment for each of the three years of the inter-valuation period. This will be set out in the rates and adjustments certificate. For any employer, the rate they are actually required to pay is the sum of the primary and secondary rates.

5.4 The actuary should disclose the secondary rates for the whole scheme in each of the three inter-valuation years. These should be calculated as a weighted average based on the whole scheme payroll. The purpose of this is to facilitate a single net rate of contributions expected to be received over each of the three years that can be readily compared with other rates and reconciled with actual receipts.

6 Solvency Issues and Non Local Authority Employers

6.1 The number and type of non local government bodies operating within the LGPS has grown considerably since 2004, when Funding Strategy Statements were first introduced. There are now many more private sector contractors, companies spun off from local authorities and academies which have employees who continue to qualify for membership by dint of transferred rights under the TUPE regulations. Employees in academies qualify for the scheme because of academies' scheduled body status. Key issues are:

- The need to set appropriate employer contribution levels and deficit recovery periods for these employers which do not have tax-raising powers and therefore have weaker covenants than local authorities;
- The underlying investment strategy of the assets backing the liabilities of these employers;
- The financial standing of those employers (or their parent companies or guarantors) and their ability to meet the cost of current membership, fund any deficit and ability to ensure against default.
- The long and short term effects of high contribution rates on non local authority employers in terms of their financial viability.

6.2 In the interests of transparency, the FSS should clearly set out the risk assessment methodology to assess the long term financial health of employers and how this will be monitored. ***This will be included when the actuarial valuation results are known, along with any issues regarding the increasing maturity of the Fund**.*

7. Valuation Assumptions and Funding Model

7.1 In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

7.2 The assumptions adopted at the valuation can therefore be considered as:

- The statistical assumptions which are essentially estimates of the likelihood of benefits and contributions being paid, and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current or present value.

Future Price Inflation

7.3 The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities. This is derived by considering the average difference in yields over the appropriate period from conventional and index linked gilts during the six months straddling the valuation date to provide an estimate of future price inflation as measured by the Retail Price Index (or “RPI”).

Future Pay Inflation

7.4 As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay inflation. Historically, there has been a close link between price and pay inflation with pay increases exceeding price inflation in the longer term. However, in recent years, this model has broken down due to pay freezes in the public sector and continuing restraint to restrict salary growth across many sectors.

Future Pension Increases

7.5 Pension increases are linked to changes in the level of the Consumer Price Index (or “CPI”). Inflation as measured by the CPI has historically been less then RPI due mainly to different calculation methods. An adjustment is therefore made to the RPI assumption to derive the CPI assumption.

Future Investment Returns/Discount Rate

7.6 To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

7.7 The discount rate that is adopted will depend on the funding target adopted for each employer.

7.8 For open employers, the discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the “ongoing” discount rate.

7.9 For closed employers, an adjustment may be made to the discount rate in relation to the remaining liabilities, once all active members are assumed to have retired if at that time (the projected “termination date”), the employer either wishes to leave the Fund, or the terms of their admission require it.

7.10 The Fund Actuary will incorporate such an adjustment after consultation with the Administering Authority.

7.11 The adjustment to the discount rate for closed employers is to set a higher funding target at the projected termination date, so that there are sufficient assets to fund the remaining liabilities on a “minimum risk” rather than on an ongoing basis. The aim is to minimise the risk of deficits arising after the termination date.

Asset Valuation

7.12 For the purposes of the valuation, the asset value used is the market value of the accumulated Fund at the valuation date adjusted to reflect average market conditions during the six months straddling the valuation date.

Statistical Assumptions

7.13 The statistical assumptions incorporated into the valuation, such as future mortality rates, are based on national statistics. These are adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

8. Deficit Recovery/Surplus Amortisation Periods

8.1 Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. Accordingly the Fund will normally either be in surplus or in deficit.

8.2 Where the actuarial valuation discloses a significant surplus or deficit then the levels of required employers’ contributions will include an adjustment to either amortise the surplus or fund the deficit over a period of years.

8.3 The period that is adopted for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer’s liabilities;
- The covenant of the individual employer and any limited period of participation in the Fund; and

- The implications in terms of stability of future levels of employers' contribution.

9. Pooling of Individual Employers

9.1 The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

9.2 However, certain groups of individual employers can be pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

9.3 The main purpose of pooling is to produce more stable employer contribution levels in the longer term whilst, recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

10. Cessation Valuations

10.1 On the cessation of an employer's participation in the Scheme, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer.

10.2 In assessing the deficit on termination, the Fund Actuary may adopt a discount rate based on gilt yields and adopt different assumptions to those used at the previous valuation in order to protect the other employers in the Fund from having to fund any future deficits which may arise from the liabilities that will remain in the Fund.

11. Links with the Statement of Investment Principles (SIP)

11.1 The main link between the Funding Strategy Statement (FSS) and the SIP relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the underlying investment strategy as set out in the SIP.

11.2 As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the underlying investment strategy. This ensures consistency between the funding strategy and investment strategy.

12. Risks and Countermeasures

12.1 Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

12.2 The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

13. Financial Risks

13.1 The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

13.2 The valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.5% per annum in the real discount rate will decrease/increase the liabilities by ten%, and decrease/increase the required employer contribution by around 2.5% of payroll.

13.3 However, the Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

13.4 The Committee may also seek advice from the Fund Actuary on valuation related matters.

13.5 In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

14. Demographic Risks

14.1 Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will reduce the funding level by between 0.5 to 1%.

14.2 The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review.

14.3 The liabilities of the Fund can also increase by more than has been planned as a result of early retirements.

14.4 However, the Administering Authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

15. Regulatory Risks

15.1 The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by central government.

15.2 The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

15.3 However, the Administering Authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

16. Governance

16.1 Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; and
- An employer ceasing to exist without having fully funded their pension liabilities.

16.2 However, the Administering Authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required.

16.3 In addition, the Administering Authority keeps in close touch with all individual employers participating in the Fund to ensure that, as Administering Authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

17. Monitoring and Review

17.1 This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

17.2 The Administering Authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

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City of Westminster

Pension Fund Committee

Date:	**15 November 2016**
Classification:	**General Release**
Title:	**BT Managed Services Improvement Plan**
Report of:	**Lee Witham, Director of People Services**
Wards Involved:	**All**
Policy Context:	**Service Delivery**
Financial Summary:	**Limited**

1. Executive Summary

1.1 BT presented a “Service Improvement & Recovery Plan” to the Tri-borough Chief Executives on the 8th July 2016. The plan includes the following:

- Outstanding programme deliverables.
- Recovery plan for payroll service including a root cause analysis to prevent recurring issues.
- Quality improvement plan for all services.
- Performance measures.
- Resource profile plan to complete the remedial work which does not place dependences on operational resources in the BT Shared Service Centre (SSC).

1.2 The Westminster City Council (WCC) Enhanced ICF team, BT programme and BT SSC are working jointly together to deliver the outstanding activity and to improve the quality of the service across all the functions of Finance, HR & Payroll and service support.

1.3 Payroll and Pensions has been the agreed priority for the Recovery and Improvement Plan, both stabilisation phase (incuding control / exception reports) and long term sustainability of build.

1.4 The Pensions Fund Committee requested that a representative from BT attend the next Committee meeting and Craig Anderson, BT Service Delivery Director, will be attending to answer member’s questions.

2. Current Position

The main problems impacting operational performance of pensions from WCC's perspective are as follows:

2.1 No system report or interface is currently available detailing starters and leavers and other material changes for pension purposes. This means that the work needs to be undertaken manually by BT staff. This is slow, reliant on very limited skilled resource and is open to human error.

2.2 Leavers - we are aware that the manual reporting of leavers is not happening in every case and certainly not within the expected timescales. This is affecting Surrey County Council's ability to release pensions and issue deferred pension statements.

2.3 Starters & Changes - Surrey has yet to receive any interface files of joiners data from BT in the current financial year. This means significant numbers of pension records are out of date or absent. In extreme cases, a member could have joined and left the scheme with Surrey having no record of that member. WCC have requested that Surrey are work collaboratively with BT to help reach a swift resolution to the missing information.

2.4 Auto enrolment – Despite BT confirming that they had re-enrolled individuals who opted out of the LGPS it appears that this did not happen. Letters were sent to employees but a bulk upload did not run. BT has agreed to write to those affected employees again and notify them that they can opt out before the auto enrolment takes place.

2.5 Annual Benefits Statements (ABS) – there are approximately 250 individuals who have not received their ABS this year as they were absent in 2015/16, for example as a result of sickness or maternity. We are still awaiting an update from BT on when correct data will be sent to Surrey. We are also aware that there are a small group of people whose pay figures provided to Surrey do not align with their Agresso pay record. BT is currently investigating these cases.

3. Progress

3.1 There is much concern over BT's ability to fully resource this project with the required skilled resource. This is having a large impact on the very small retained resource within WCC People Services that have to do a lot of extra work as a result. This work is purely cost of failure and is extremely inefficient.

3.2 A joint review of the redundancy process was held on the 20th October and the redundancy form has been simplified as a result. It is envisaged that this will improve the process for obtaining estimates.

4. Summary

4.1 People Services will continue to 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.

Pension Fund Committee

City of Westminster

Date:	**15 November 2016**
Classification:	**General Release**
Title:	**Surrey Pension Administration Performance**
Report of:	**Lee Witham, Director of People Services**
Wards Involved:	**All**
Policy Context:	**Service Delivery**
Financial Summary:	**Limited**

1. Executive Summary

1.1 Following on from the report submitted at the previous Committee meeting on September 20th 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 approach of Westminster City Council's (WCC) People Services team 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 At the September Committee Meeting Key Performance Indicators (KPI's) were presented by the Director of People Services for the period April 2016 - July 2016. The KPI's were highlighting some areas of concern that WCC officers had: firstly retirement options were being issued late to some members and secondly the processing of the retirements thereafter were also not within the 5 working days required. The KPI report also indicated that the combined achievement for June and July 2016 for sending out member option forms on retirement was 77% accurate with 3 cases completed late. The new retirement benefits processed for payment had an accuracy figure of 82% with 4 cases completed late in the same period.

2.3 Surrey have now provided the updated KPI information adjusted to cover the 2nd Quarter, July to September 2016. These are shown in Appendix 2. Specifically on the retirement KPI's that were referenced in paragraph 2.2 above there has been a slight improvement in the percentage of cases processed within timescale: sending out members option forms within 5 days rose from 77% to 80%; and paying member benefits within 5 days increased from 82% to 85%. Surrey have been challenged that this KPI needs to improve further.

2.4 Jason Bailey the Surrey Lead Pensions Manager has provided additional information, in Appendix 1, to accompany the KPI report for Quarter 2. This acknowledges the need to improve and also calls out a number of issues they are experiencing from BT's end of the process that are impacting them.

2.5 In September the Committee highlighted their concern to officers that members should be receiving their pension payments in a timely manner. The Committee also instructed the Director of People Services to review the KPI's that Surrey were producing with the aim of producing a new KPI framework to provide data that WCC needed to better monitor the performance of Surrey.

2.6 The Director of People Services requested help from procurement in reviewing the KPI framework. Further he tasked Jo Meagher (Head of Operational People Services) and Kim Edwards (Senior Payroll, Pensions and Establishment Advisor) to address with Surrey the underperformance issues and to agree a new KPI regime.

2.7 Jo, Kim, Sarah Hay (Pensions Officer) along with Christopher Smith, Unison and Pension Board representative, visited Surrey on 26th October to address the above concerns.

2.8 A WCC officer from the procurement team, Harbinder Manku, dialled into the meeting section of this visit to discuss the KPI's. WCC requested that KPI's be presented on a quarterly basis to run in conjunction with the Pension Fund Committee meetings. This will marry the administration data to the reporting periods that the Committee have from finance.

2.9 WCC requested that some additional KPI's be added to the existing framework to ensure they more accurately reflected the actual pension member experience of the service. In particular, WCC requested additional information on deferred members, those members who have left without an immediate payment of pension. WCC have also asked Surrey to report on any changes that materially affect a member's benefit being processed within 30 days. WCC have agreed that in some cases where large numbers of redundancy calculations are requested at one time that a revised (customer acceptable) timescale maybe agreed with Surrey as opposed to the 10 day maximum turnaround time in the current framework to enable delivery within set Council restructuring timescales.

2.10 WCC have further requested that Surrey provide volume details: the numbers of cases being processed in each area being monitored. This should give both WCC and Surrey context for each KPI. For example a 100% KPI achievement where there have been no cases processed is meaningless data.

2.11 In addition, WCC have requested additional information is provided where there is any issue that impacts a particular KPI. Where members benefits are delayed as a result of Surrey's under performance WCC have requested names and details of the reason for the delay to be provided. The Proposed KPI format will take effect from December as Surrey need to amend their reporting systems to pick up the new data WCC have requested.

2.12 An example of the new proposed KPI framework, which covers the points made in 2.9, 2.10 and 2.11 is shown in Appendix 3. This will become operational in December 2016 when the required reporting changes have been implemented.

2.13 WCC are still waiting for the final audit report from Grant Thornton. Early feedback has indicated that sample testing of calculations shows that benefits are being calculated correctly. However we have yet to see the final report where we have asked them to review Surrey's performance in meeting the agreed timescales on processing certain priority cases.

3. Summary

3.1 People Services will continue to 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.

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Appendix 1 - Westminster KPI report – Q2 2016/17

1. KPI summary and revisions to KPI reporting

The KPI report in the existing format provided to the Westminster Pension Fund has been updated for Quarter 2 and this is contained in Appendix 2.

Surrey recognises that an improvement in performance is required in a few areas and is fully committed to the aim of providing a first class service to the members of the pension fund. In October 2016 we appointed a new team leader with a specific focus on ensuring mechanisms are in place internally to improve service delivery for our customers. We are confident that this new appointment will swiftly bring about the improvements that Westminster are demanding.

Recent discussions have also been held with Westminster colleagues in which Surrey acknowledged that the traditional reporting summary, although adequately reporting the core elements of administration, would benefit from some enhancement in order to provide improve levels of transparency and assurance for Committee and Board members.

A productive meeting was held between representatives from Surrey and Westminster on 26 October 2016 at which proposed extensions to current reporting were discussed. A draft of the new KPI reporting table is attached as Appendix 3 with new areas highlighted. Indicative quarterly volumes based on Q2 are also provided where these are available in order to provide a base guide for future reporting but note the comments accompanying these.

It is proposed that the new summary be adopted for reports provided for cases from 1 December 2016 onwards. This will allow Surrey to modify existing reporting mechanisms to ensure they are fit for purpose for all new measures.

2. Current External Factors Impacting on Surrey

Surrey's ability to deliver an effective administration service is impacted from time to time by influences outside of our control and which can have a direct impact on performance and resourcing. In the spirit of partnership, Surrey will work with Westminster colleagues to minimise the impact on service delivery where possible but it is important that the Board and Committee are aware of the problems Surrey is encountering. A brief summary of current issues is shown overleaf.

1) **Starters/Changes interface**. Surrey has yet to receive any interface files of joiners data from BT in the current financial year. This means significant numbers of pension records are out of date or absent. In particular, this places a real burden on the administration team and helpdesk who are spending valuable resource time responding to enquiries from frustrated scheme members who understandably expect their pension records to be up to date. In extreme cases, a member could have joined and left the scheme with Surrey having no record of that member. Surrey is working collaboratively with BT to help reach a swift resolution to the missing information. Delayed submission also results in the creation of backlogs which then require additional resourcing.

2) **Leaver Information**. When a member leaves the scheme, Surrey requires detailed 'final salary' and CARE pay information in order to calculate a member's entitlements. In the case of a number of employers, this information is not being provided in a timely manner. The major source of absent information currently is BT who are not routinely providing leaving information for those members who are leaving prior to retirement. As above, this causes additional wok for the administration team through avoidable queries/complaints from scheme members as well as the stockpiling of cases which then need to be resourced.

3) **Annual Benefit Statements** not issued. Immediately prior to the production process, Surrey were advised that a number of benefit statements needed to be withheld because the year-end information provided by BT (which drives the content of the statements) was incorrect. This delayed the whole process for all members but has also created additional enquiries from members as well as additional expense as a further statement print run will be required once the revised data is received.

4) **GAD guidance on transfers**. Following GAD changes to transfer factors and methodology earlier this year a number of system upgrades were required in order to process certain cases. Although these updates have now been applied, additional resource will need to be applied to bring the outstanding cases up to date. It is important to stress that any delays with the processing of transfers do not impact on the member's benefits.

Jason Bailey
Lead Pensions Manager
Surrey County Council

November 2016

East Sussex
County Council

SURREY

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

Description	Target time/date as per Partnership Agreement	Target	Actual Score April 2016	Actual Score May 2016	Actual Score June and July 2016	Actual Score Q2 2016 - July to Sept	Comments on individual targets
PENSION ADMINISTRATION							
DEATH BENEFITS Notify potential beneficiary of lump sum death grant	5 days	**100%**	100.0%	100.0%	100.0%	87.5%	One case over target (out of 8)
Write to dependant and provide relevant claim form	5 days	100.0%	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%	100.0%	
RETIREMENTS Retirement options issued to members	5 days	**100%**	77.0%	67.0%	77.0%	80.0%	5 cases completed over target
New retirement benefits processed for payment following receipt of claim forms	5 days	**100%**	83.0%	94.0%	82.0%	85.0%	4 cases completed over target
REFUNDS OF CONTRIBUTIONS Refund paid following receipt of claim form	14 days	**100%**	100.0%	100.0%	100.0%	97.5%	1 case over target
DEFERRED BENEFITS Statements sent to member following receipt of leaver notification	30 days	**100%**				See covering report	
NEW JOINERS New starters processed	30 days	**100%**	98.0%	100.0%	100.0%	100.0%	Note only low numbers processed pending receipt of interface file from BT - see report
TRANSFERS IN Non LGPS transfers-in quotations	30 days	**100%**	100.0%	100.0%	100.0%	100.0%	Low numbers processed but system updates now complete following revised GAD guidance
Non LGPS transfers-in payments processed	30 days	**100%**	100.0%	100.0%	100.0%	100.0%	Low numbers processed but system updates now complete following revised GAD guidance
TRANSFERS OUT Non LGPS transfers-out quotations processed	30 days	**100%**	100.0%	100.0%	100.0%	81.0%	4 cases completed over target but not transfers out, just enquiries from IFAs
Non LGPS transfers out payments processed	30 days	**100%**	100.0%	100.0%	100.0%	100.0%	Low numbers processed but system updates now complete following revised GAD guidance
Monthly Pensioner Payroll							
Full reconciliation of payroll and ledger report provided to WCC	Last day of month		Achieved	Achieved	Achieved	Achieved	
Issue of monthly payslips	3 days before pay day		Achieved	Achieved	Achieved	Achieved	
RTI file submitted to HMRC	3 days before pay day		Achieved	Achieved	Achieved	Achieved	
BACS File submitted for payment	3 days before pay day		Achieved	Achieved	Achieved	Achieved	
Annual Exercises			Date Achieved				
ANNUAL BENEFIT STATEMENTS Issued to Active members	31 August each year		On target			September 16 - see covering report	
ANNUAL BENEFIT STATEMENTS Issued to Deferred members	31 August each year		On target subject to Government decision on 2015 revaluation			September 2016	
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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PROPOSED NEW LAYOUT

Description	Target time/date as per Partnership Agreement	Target	Actual Score for Quarter	Commentary	Quantity (how many cases actioned)	Indicative Figures of Volumes from Q2	Comments
PENSION ADMINISTRATION							
DEATH BENEFITS Notify potential beneficiary of lump sum death grant	5 days	**100%**	%			**8**	
Write to dependant and provide relevant claim form	5 days	**100%**	%			**6**	
Set up any dependants benefits and confirm payments due	14 days	**100%**	%			**5**	
RETIREMENTS Retirement options issued to members	5 days	**100%**	%			**24**	
New retirement benefits processed for payment following receipt of all necessary documents	5 days	**100%**	%			**27**	
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run		%			**27**	
REFUNDS OF CONTRIBUTIONS Refund paid following receipt of claim form	14 days	**100%**	%			**40**	
DEFERRED BENEFITS Statements sent to member following receipt of leaver notification	30 days	**100%**	%			**Less than 20**	**Will increase once leaver forms received from BT/employers**
DEFERRED PAYMENTS							
Notification to members 3 months before payments due	3 months		%			**36**	
Lump Sum (on receipt of all necessary documentation)	5 days		%			**30**	
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run		%			**30**	
NEW JOINERS New starters processed	30 days	**100%**	%			**44**	**Will increase once interface issues resolved**
TRANSFERS IN Non LGPS transfers-in quotations	30 days	**100%**	%			**Less than 10**	**Will increase now GAD guidance issues resolved**
Non LGPS transfers-in payments processed	30 days	**100%**	%			**Less than 10**	
TRANSFERS OUT Non LGPS transfers-out quotations processed	30 days	**100%**	%			**22**	
Non LGPS transfers out payments processed	30 days	**100%**	%			**Less than 5**	
ESTIMATES							
1-10 cases	5 Days		%			**50**	
11-50 cases	Agreed with WCC		%				
51 cases or over	Agreed with WCC		%				
MATERIAL CHANGES							
Any changes to data which materially affect actual or potential benefits to be processed within 30 days of receiving all necessary data	30 days		%			**New measure TBC**	
BUYING ADDITIONAL PENSIONS							
Members notified of terms of purchasing additional pension	15 days		%			**New measure TBC**	
Monthly Pensioner Payroll							
Full reconciliation of payroll and ledger report provided to WCC	Last day of month						
Issue of monthly payslips	3 days before pay day						
RTI file submitted to HMRC	3 days before pay day						
BACS File submitted for payment	3 days before pay day						
P35	EOY						
Annual Exercises			Date Achieved				
ANNUAL BENEFIT STATEMENTS Issued to Active members	31 August each year						
ANNUAL BENEFIT STATEMENTS Issued to Deferred members	31 August each year						
P60s Issued to Pensioners Non LGPS transfers-in quotations processed within 20 days	31 May each year						
Apply Pensions Increase to Pensioners	April each year						
Pensioners Newsletter	April each year						
CUSTOMER SERVICE							
CORRESPONDENCE							
Acknowledgement if more than 5 days	2 days						
Response	10 days						
3rd party enquires	10 days						
Helpdesk Enquiries							
Volumes of Enquiries Handled By Helpdesk	Number of Enquiries Handled						
Customer Surveys							
Monthly survey to retirees	Percentage Satisfied with Service						

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**15 November 2016**
Classification:	**Public**
Title:	**Asset Pooling and London Collective Investment Vehicle Update**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	Savings of approximately £193k per annum are expected if the Majedie portfolio is transferred to the London CIV on the fee basis recommended and Majedie achieve performance in line with their target.
Report of:	**Steven Mair** ***City Treasurer*** **smair@westminster.gov.uk** **020 7641 2904**

1. EXECUTIVE SUMMARY

1.1 The London Collective Investment Vehicle (CIV) has agreed with Majedie for the UK equity fund to be available on the platform. It is recommended that the current Majedie portfolio is transferred to the CIV on a base plus performance fee basis, saving an estimated £193k per annum.

1.2 The paper also provides and update on the extension of the contract for the Insight bond mandate until end 2017.

2. RECOMMENDATIONS

2.1 That the Committee note the contents of the paper.

2.2 That the Committee agree to transfer the Majedie Portfolio to the London CIV as soon as it is possible to do so.

2.3 That the Committee agree the fee basis for the Majedie UK Equity fund to be the base fee plus performance fee.

3. Transfer of Assets to London CIV

Majedie

3.1 At the September meeting, it was reported that Majedie had agreed a fee basis for the London CIV and that officers were investigating whether to retain a performance management fee or move to a flat management fee in respect of the current mandate. Those discussions with the fund manager have now concluded.

3.2 The fund currently pays a base fee plus a performance fee to Majedie. Exempt appendix 1 shows a comparison of the two fee arrangements and the level of outperformance which would be required to be equivalent with the base fee only option. The appendix sets out the reason for the recommendation.

Longview

3.3 Discussions between the London CIV and Longview are still on-going and the position is not expected to be agreed until Spring 2017. The Committee will be updated as further information becomes available.

4. Insight Investment Contract

4.1 At the September meeting, it was reported that the Insight Investment contract, which had previously been extended until the end of 2016, was again nearing its end date. Various options were discussed and ideally, the Insight contract would be extended until the London CIV's fixed income offering are known, which is anticipated by the end of 2017. The Committee agreed to a further extension of the Insight contract to the end of 2017, providing this option be ratified by procurement.

4.2 The Chief Procurement Officer has since confirmed that the Pension Fund can contract with the existing supplier without having to go through a tender exercise. Discussions are currently on-going with Legal Services, to put in place a 12 month extension to the current contract with Insight Investments.

4.3 The London CIV are due to hold a seminar on Fixed Income and Cashflow Considerations for London Local Authorities on the day of this Committee meeting, and it is hoped that the Tri-Borough Director of Treasury and Pensions will be able to provide a verbal update to the Committee.

5. Conclusion

5.1 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 Option Comparison
Appendix 2 – EXEMPT – Majedie Fee Options

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**15 November 2016**
Classification:	**Public**
Title:	**Investment Regulations and Investment Strategy Statement**
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 The Government has issued guidance on the preparation of Investment Strategy Statements (ISS) as required under the soon to be released revised investment regulations. This note summarises the anticipated investment regulations and the finalised guidance.

1.2 The investment environment under the new regulations will be one of increased freedom but with more onerous justification of investment policy together with greater requirements to consult with interested parties and to report on the application of policy. There will also be greater Government powers of intervention, mainly but not exclusively, aimed at pooling.

1.3 It is not anticipated that the Committee will have to alter its current investment strategy. It may well have to consider the extent of diversification and the adequacy of risk management, which was already anticipated post the actuarial review.

1.4 The Committee will be required to review its policy on ethical, social and corporate governance issues and in particular to discuss oversight of voting with the London Collective Investment Vehicle (CIV).

2. RECOMMENDATIONS

2.1 The Committee is invited:

a. To note that a draft Investment Strategy Statement (ISS) prepared in accordance with the revised investment regulations and guidance will be presented to the March 2017 Committee meeting.

b. To discuss the requirement for greater detail on environmental, social and corporate governance (voting) matters including greater consultation with interested parties, including the Pension Board, which will have to be reflected in the ISS.

3. PROPOSALS AND ISSUES

3.1 The Government issued revised investment regulations in September 2016, to have effect from 1st November 2016. The centre piece of the regulations was the replacement of the Statement of Investment Principles (SIP) with a requirement to prepare and operate in accordance with an ISS. Guidance has recently been issued on the preparation of an ISS. Each scheme is required to have an ISS by 1st April 2017 and a draft will be presented to the 21st March 2017 meeting of the Committee.

Overview of the Investment Regulations

3.2 The revised investment regulations are quite short, running to only seven pages. The key deletion is the old schedule 1 that specified limits on the allocation to particular types of assets. The main sections in the investment Regulation are:

a) Requirement to keep the assets of the pension fund separate from those of the administering authority, to collect contributions and income and to operate separate bank accounts for the fund.

b) No borrowing is permitted except temporary loans (90 days max) to allow the payment of pensions.

c) An authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State. The ISS must include:

- a requirement to invest fund money in a wide variety of investments;
- the authority's assessment of the suitability of particular investments and types of investments;
- the authority's approach to risk, including the ways in which risks are to be measured and managed;

- the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- the authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments;
- the authority's policy on the exercise of the rights (including voting rights) attaching to investments;
- the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment (a scheme specific replacement of the old schedule 1);
- The authority must consult such persons as it considers appropriate as to the contents of its investment strategy; and
- The ISS must be reviewed at least every three years and investments must be made in accordance with the ISS.

These requirements are discussed below (paragraph 3.8). The requirements to take 'proper advice' and to invest in a wide variety of investments may potentially lead to challenge and debate with the investment advisor.

d) The Government can give directions to the administering authority if it is satisfied that the authority is not having regard to the ISS guidance. Directions may include:

- A requirement to make changes to the ISS;
- How to invest particular assets; and
- Transfer of the investment functions to the Government or nominated person.

The guidance (paragraph 3.6 below) discussed the circumstances when the powers of direction will be used. The regulations require the Government to consult with the administering authority in advance of any direction and to consider evidence as to how the fund is being managed.

e) The authority must take proper advice before making investment manager appointments. This presumably includes transferring assets to the London CIV.

3.3 The ISS requires additional details compared with the SIP (in particular on risk management, pooling, ESG and voting), which are discussed below. As mentioned above, a draft ISS reflecting the current position of the fund will be prepared for the 21 March 2017 meeting.

3.4 The application of the Government's powers of direction is also discussed in the guidance. Such are the scope of the powers that it is anticipated that authorities who could not address the Government's concerns during the consultation period will take the required action in advance of a direction being issued.

ISS Guidance

3.5 The guidance is designed to assist in preparing the ISS. As highlighted above the ISS must be in accordance with the guidance. The guidance is summarised below.

Powers of Direction

3.6 The guidance refers to the new freedoms for administering authorities (no schedule 1 limitations) and the ISS being a 'prudential framework' and the powers of direction as a safeguard to ensure that this less prescriptive approach is used appropriately and in the best long term interests of scheme beneficiaries and taxpayers. The guidance refers to prior consultation and the general law principle to make investment decisions in the best long term interest of beneficiaries and tax payers.

3.7 The consultation previously indicated that powers of intervention were mainly aimed at authorities that did not participate in pooling. The guidance does not state this, but it presumably remains the main purpose. The Committee will need to consider the meaning of best long term interest, which presumably relates to solvency, cost and taking decisions based on long term returns. One view point is that a thoughtful Committee should not be concerned with the use of the powers. An alternative viewpoint is that future Governments may take a different (and issue specific) view of best long term interest. There is no way to prejudge how these powers will be applied by the current and future Governments. In preparing the ISS, the Committee will need to be diligent in addressing each of the bullet points in 3.2(c).

Contents of ISS

3.8 The guidance summarises the requirements when preparing an ISS as follows:

- Must take proper advice;
- Must set out clearly the balance between different types of investments;
- Must identify the risks associated with their overall investment strategy;
- Must periodically review their policy to mitigate against any such risks;
- Should ensure that their policy on asset allocation is compatible with achieving their locally determined solvency target;
- Must periodically review the suitability of their investment portfolio to ensure that returns, risk and volatility are all appropriately managed and are consistent with their overall investment strategy;

- Should clearly state their appetite for risk;
- Should be aware of the risks that may impact on their overall funding and investment strategies;
- Should take measures to counter those risks;
- Should periodically review the assumptions on which their investment strategy is based; and
- Should formulate contingency plans to limit the impact of risks that might materialise.

3.9 None of the above should cause any concern to the Committee. If not already explicitly stated in the SIP or elsewhere (e.g. funding strategy statement) it will be implicit in the current strategy and the actions taken by the Committee. Addressing these questions is good practice.

Pooling

3.10 The regulations require that each Fund must commit to a [singular] pool that meets the pooling criteria issued last year, or otherwise approved. Particular requirements within the guidance are:

- To notify the Scheme Advisory Board and the Secretary of State of any changes [in pool governance structures] which result in failure to meet the criteria;
- Set out the proportion of assets that will be invested through pooling;
- Set out the structure and governance arrangements of the pool and the mechanisms by which the authority can hold the pool to account;
- Set out the services that will be shared or jointly procured;
- Provide a summary of assets that the authority has determined are not suitable for investing through the pool along with its rationale for doing so, and how this demonstrates value for money;
- Regularly review any assets, and no less than every 3 years, that the authority has previously determined should be held outside of the pool, ensuring this continues to demonstrate value for money; and
- Submit an annual report on the progress of asset transfers to the Scheme Advisory Board.

3.11 In complying with aspects of these regulations e.g. pool governance arrangements, it is expected that the London CIV will prepare standardised content. The references to assets to be pooled or excluded should cause no concern if the Committee remains confortable with the London CIV as the platform for fund manager appointments. The reference to pooling decisions being based on ‘value for money’ considerations may or may not imply that it is purely the cost of managing assets that should be considered and not potential returns. Unless the Committee has issues with pooling, the exact definition of ‘value for money’ has no practical implications.

Social, Environmental or Corporate Governance Considerations

3.12 The first part of the guidance seeks to prevent 'boycotts, disinvestment and sanctions against foreign nations and the UK defence industries' other than Government sanctions by stating the legal basis on which investment decisions must be made. These include:

- Taking proper advice and act prudently;
- Prudently being defined as a duty to discharge statutory responsibilities with care, skill, prudence and diligence;
- To act in accordance with ordinary public law principles, in particular, the ordinary public law of reasonableness;
- Schemes should consider any factors that are financially material to the performance of their investments, including social, environmental and corporate governance factors over the long term.

3.13 None of the above appears to be different from the basis on which the Committee currently operates and thus have no immediate consequences.

3.14 The guidance continues "Although schemes should make the pursuit of a financial return their predominant concern, they may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision." The use of non-financial considerations has to be quantified and explained in the ISS.

3.15 The above wording although consistent with the Committee's current approach is likely to be seen as an invitation to scheme members to express views on social and environmental aspects of investment policy. This is amplified in a discussion on social investments (where the social impact may be in addition or part substitution to the financial return) where it is stated that "these investments will also be compatible with the prudent approach providing administering authorities have good reason to think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund." When presented with 'social investments' the Committee will have to consider whether any adverse financial consequences are 'significant' and balances by social benefits.

3.16 The guidance requires that when setting policy on social, environmental and corporate governance matters, the Committee should explain the extent to which the views of their local pension board and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors. Although the Committee is at liberty to not have a process for seeking views of interested parties, they should be wary of challenge and the Government's powers to amend the ISS. It is suggested that the policy of these issues is reconsidered from the standpoint of seeking to consult with the Pensions Board.

<u>The Exercise of Voting Rights</u>

3.17 The final section of the guidance is concerned with ensuring the highest standards of corporate governance in the companies in which funds invest. Good governance is seen as enhancing shareholder value. Stewardship activities include monitoring and engaging with companies with the aim of exerting a positive influence on companies to promote strong governance, manage risk, increase accountability and drive improvements in the management of environmental, social and corporate governance issues.

3.18 The Committee’s current policy is that corporate governance activity, including voting, is an essential part of the decision to buy and hold investments and should be undertaken by the appointed investment managers. The guidance ‘encourages’ (not the same as requires?) Funds’ to consider the best way to engage with companies either directly, in partnership with other investors or through their investment managers, and explain their policy on stewardship with reference to the Stewardship Code. The new requirement is that administering authorities should become Signatories to the Stewardship Code and state how they implement the seven principles and guidance of the Code, which apply on a “comply or explain” basis. A summary of the Stewardship Code is attached (Appendix 1).

3.19 The guidance requires a discussion within the ISS on the exercise of voting rights, including holding investment managers to account on voting records and stewardship in general. There is a suggestion on appointing an independent proxy voting agent to exercise their proxy voting and monitor the voting activity of the managers. Finally, a requirement to publish a report of voting activity as part of the pension fund annual report.

3.20 The current social, environmental and ethical policy as set out in the SIP is:

“The Fund recognises that the neglect of corporate governance and corporate social responsibility may lead to poor or reduced shareholder returns. The Committee has considered how the Fund may best implement a corporate social responsibility policy, given the current resources available to the Fund. Accordingly, the Committee has delegated social, environmental and ethical policy to the investment managers. The Committee believes this is the most efficient approach whilst ensuring the implementation of policy by each manager is consistent with current best practice and there is appropriate disclosure and reporting of actions taken. To that extent, the Committee maintains a policy of non-interference with the day-to-day decision making of the investment managers.”

3.21 The Committee went to considerable effort to establish a Stewardship Policy setting out the basis on which fund managers were expected to vote. In particular the policy identified common stewardship concerns (e.g. executive remuneration) and informed fund managers the issues that they should consider when voting. The policy was approved by the Committee in November 2014 and was subsequently circulated to fund managers. It includes a promise to publish annually a statement on these stewardship activities undertaken by the Committee. If the Committee follows through on the policy and signs up to the UK Stewardship Code itself, then it would be fully compliant with the guidance.

3.22 It is likely that the Committee's current approach of delegation to fund managers remains valid but will have to be explained. Also that the fund managers will be required to report on voting activity, in particular failures to vote. The requirement to comment on voting in the annual report is not onerous. However, it can be expected that there will be greater interest in voting.

3.23 All this is either made more complicated or potentially simplified by the London CIV. With the CIV appointing fund managers they will be expected to exercise the oversight discussed above. It will not be possible within pooled funds for the Committee to operate its own voting policy. Rather pressure will be brought on the London CIV if their policy is deemed inadequate.

4 IMPLICATIONS FOR THE PENSION FUND COMMITTEE

4.1 Looking from a high level the new investment regulations and guidance do provide greater freedom to set strategy. However, the regulations and guidance' requires that strategy be justified based as in the best long term interest of beneficiaries and tax payers and the management of risk explained. This should be seen as best practice, although with an unwelcome degree of Government oversight.

4.2 The requirements for ethical, social and corporate governance will require a review of the Committee's current approach to these issues, in particular a discussion with the London CIV in connection with the Stewardship Code, increased reporting and greater effort to take into account the views of the Pension Board and Scheme Members. These areas will be addressed in drafting the ISS in the next few months.

4.3 Overall, the regulations and guidance offer the opportunity to review current investment policy and ensure that justification is adequately documented.

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

George Bruce pensionfund@westminster.gov.uk or 020 7641 6925

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 – Summary of UK Stewardship Code

Appendix 1

UK Stewardship Code Summary

The Financial Reporting Council (FRC) published the UK Stewardship Code (the Code) in July 2010. The Code is designed to lay out the responsibilities of institutional investors as shareholders and provide guidance as to how those responsibilities might be met. Pension fund trustees and other investors are ‘strongly encouraged’ to ‘report if and how they have complied with the Code’

The Stewardship Code consists of seven key Principles:

Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

Principle 2: Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

Principle 3: Institutional investors should monitor their investee companies.

Principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

Principle 5: Institutional investors should be willing to act collectively with other investors where appropriate.

Principle 6: Institutional investors should have a clear policy on voting and disclosure of voting activity.

Principle 7: Institutional investors should report periodically on their stewardship and voting activities.

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**15 November 2016**
Classification:	**Public**
Title:	**Fund Manager Monitoring Meeting Update**
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 finalised arrangements for the fund manager monitoring day, to which the Fund's managers are invited to provide the Committee with updates on the investments.

2. Recommendation

2.1 That the Committee note the contents of this report.

3. Background

3.1 At the September meeting, the Pension Fund Committee approved the annual fund manager monitoring day, where all fund managers are invited to update the Committee and officers on their respective mandates. It was agreed that the actively managed portfolio managers should be invited (thus excludes the Legal & General passive global equities mandate) and this should take place in December 2016.

4. Fund Manager Monitoring Day Arrangements

4.1. The fund manager monitoring day will take place on Friday 16th December 2016 and will be held at Deloitte's offices, 2 New Street Square, London EC4A 3BZ. All Pension Fund Committee members and the Chair of the Pension Board (or a Pension Board alternate) are invited to attend.

3.2 The timings of the day are as follows:

Time	Fund Manager	Mandate
9.30am	Baillie Gifford / London CIV	Pooled Global Equities
10.30am	Majedie	Pooled UK Equities
11.30am	Longview	Pooled Global Equities
12.30pm	LUNCH	
1.15pm	Insight	Segregated Bonds
2.15pm	Hermes	Pooled Property
3.15pm	Standard Life	Pooled Long Lease Property

3.3 The fund managers have all confirmed their attendance and they have been provided with the prescribed set of questions, which can be found at Appendix 1. The presentations will each last for 30 minutes, with 15 minutes at the end for any other questions which members may wish to raise.

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 – Questions for fund manager monitoring sessions – December 2016

APPENDIX 1

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.

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**15 November 2016**
Classification:	**Public**
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 to note the risk register for the Pension Fund.

2.2 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. There are no changes to report.

4. Consultations / Legislation Changes

4.1 The LGPS investment Regulation changes are reported elsewhere on this agenda.

5. Cashflow Monitoring

5.1 The cashflow forecast has been updated to reflect the actual position held at the end of September 2016. This is included at Appendix 2.

5.2 In September 2016, arrangements were put in place to redeem £4.5 million from both the Baillie Gifford mandate (managed by the London Collective Investment Vehicle) and the Longview mandate as previously approved by the Pension Fund Committee. Half of these funds were transferred into the bank account to service the immediate cashflow requirement and the remainder is being held in a money market fund earning interest at Northern Trust until it is required. This is expected to be required in January 2017.

5.3 Income which is earned from both the Baillie Gifford fund and Hermes fund are now being taken as cash distributions. The quarterly distributions which are paid amount to approximately £530,000 per manager. Again, these funds will be held at Northern Trust until the cash is required.

5.4 The Collective Investment Vehicle (CIV) fee savings for the Baillie Gifford mandate have been reflected in the cashflow forecast for this and the following three years. The fee savings for the Legal and General mandate are not included because the fees are not paid by invoice but are deducted from the fund at source. Any fee savings for the Majedie mandate will be incorporated once discussions have been finalised.

5.5 Officers will continue to monitor the cash balance on a regular basis and will transfer funds from Northern Trust as required.

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, November 2016
Appendix 2 – Cash Flow Monitoring, November 2016

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Appendix 1: Pension Fund Risk Register, November 2016

<u>Changes to the risk register since previous quarter</u>

Type	Ref	Risk	Rationale

Pension Fund risk register, November 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 2016

Appendix 2: CASHFLOW MONITORING

<u>Cashflow Forecasts 2016-17 and the following 3 financial years</u>

	2016/17			2017/18	2018/19	2019/20
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
	F'cast	**Outturn**	**Var**	**F'cast**	**F'cast**	**F'cast**
Balance b/f	**8,658**	**8,658**	**0**	**3,795**	**1,635**	**1,195**
Contributions	36,000	35,728	272	37,500	39,000	40,500
Misc. Receipts[1]	1,200	4,208	(3,008)	1,300	1,400	1,500
Pensions	(36,000)	(35,720)	(280)	(38,000)	(40,000)	(42,000)
HMRC Tax	(6,480)	(6,470)	(10)	(7,000)	(7,500)	(8,000)
Misc. Payments[2]	(11,400)	(10,760)	(640)	(13,000)	(15,000)	(17,000)
Expenses	(5,260)	(2,689)	(2,571)	(6,000)	(6,500)	(7,000)
CIV savings on invoiced fees	0	340	(340)	720	760	800
Net cash in/(out) in month	**(21,940)**	**(15,363)**	**(6,577)**	**(24,480)**	**(27,840)**	**(31,200)**
Withdrawals from Fund Managers	18,000	9,000	9,000	18,000	23,000	27,000
Income Distribution		1,500	(1,500)	4,320	4,400	4,480
Balance c/f	**4,718**	**3,795**	**923**	**1,635**	**1,195**	**1,475**

<u>Notes</u>

[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		
	£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
Balance b/f	**8,658**	**8,658**	**0**	**7,238**	**6,618**	**620**	**5,348**	**5,107**	**241**	**3,928**	**1,967**	**1,961**
Contributions	3,000	2,973	27	3,000	2,738	262	3,000	1,259	1,741	3,000	4,785	(1,785)
Misc. Receipts[1]	100	21	79	100	609	(509)	100	142	(42)	100	2,651	(2,551)
Pensions	(3,000)	(2,940)	(60)	(3,000)	(2,970)	(30)	(3,000)	(2,956)	(44)	(3,000)	(2,944)	(56)
HMRC Tax	(540)	(537)	(3)	(540)	(546)	6	(540)	(541)	1	(540)	(535)	(5)
Misc. Payments[2]	(950)	(1,536)	586	(950)	(830)	(120)	(950)	(729)	(221)	(950)	(509)	(441)
Expenses	(30)	(21)	(9)	(500)	(512)	12	(30)	(315)	285	(30)	(82)	52
Net cash in/(out) in month	**(1,420)**	**(2,040)**	**620**	**(1,890)**	**(1,511)**	**(379)**	**(1,420)**	**(3,140)**	**1,720**	**(1,420)**	**3,366**	**(4,786)**
Withdrawals from Fund Managers	0	0	0	0	0	0	0	0	0	9,000	0	9,000
Income Distributions												
Balance c/f	**7,238**	**6,618**	**620**	**5,348**	**5,107**	**241**	**3,928**	**1,967**	**1,961**	**11,508**	**5,333**	**6,175**

Notes

[1] Includes Transfers in, Overpayments, Bank Interest, VAT reclaim, Recharges

[2] Includes Transfers out, Lump Sums, Death Grants,
Refunds

	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
	F'cast	Actual	Var	F'cast	Actual	Var	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast
Balance b/f	***5,333***	***5,333***	***0***	***3,443***	***3,222***	***221***	***6,915***	***5,495***	***3,775***	***2,355***	***6,935***	***5,215***	***8,658***
Contributions	*3,000*	*3,001*	*(1)*	*3,000*	*2,972*	*28*	*3,000*	*3,000*	*3,000*	*3,000*	*3,000*	*3,000*	*35,728*
Misc. Receipts[1]	*100*	*2*	*98*	*100*	*183*	*(83)*	*100*	*100*	*100*	*100*	*100*	*100*	*4,208*
Pensions	*(3,000)*	*(2,970)*	*(30)*	*(3,000)*	*(2,940)*	*(60)*	*(3,000)*	*(3,000)*	*(3,000)*	*(3,000)*	*(3,000)*	*(3,000)*	*(35,720)*
HMRC Tax	*(540)*	*(530)*	*(10)*	*(540)*	*(541)*	*1*	*(540)*	*(540)*	*(540)*	*(540)*	*(540)*	*(540)*	*(6,470)*
Misc. Payments[2]	*(950)*	*(975)*	*25*	*(950)*	*(481)*	*(469)*	*(950)*	*(950)*	*(950)*	*(950)*	*(950)*	*(950)*	*(10,760)*
Expenses	*(500)*	*(639)*	*139*	*(400)*	*0*	*(400)*	*(30)*	*(330)*	*(30)*	*(30)*	*(330)*	*(30)*	*(2,349)*
Net cash in/(out) in month	***(1,890)***	***(2,111)***	***221***	***(1,790)***	***(807)***	***(983)***	***(1,420)***	***(1,720)***	***(1,420)***	***(1,420)***	***(1,720)***	***(1,420)***	***(15,363)***
Withdrawals from Fund Managers	*0*	*0*	*0*	*9,000*	*4,500*	*4,500*	*0*	*0*	*0*	*4,500*	*0*	*0*	*9,000*
Income Distributions										*1,500*			*1,500*
Balance c/f	**3,443**	**3,222**	**221**	**10,653**	**6,915**	**3,738**	**5,495**	**3,775**	**2,355**	**6,935**	**5,215**	**3,795**	**3,795**

Notes

[1] Includes Transfers in, Overpayments, Bank Interest, VAT reclaim, Recharges

[2] Includes Transfers out, Lump Sums, Death Grants, Refunds

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Committee Report

City of Westminster

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**15 November 2016**
Classification:	**Public**
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 September 2016.

2. Recommendation

2.1 The Committee note the contents of this paper and the performance report from Deloitte.

3. Background

Performance of the Fund

3.1 This report presents a summary of the Pension Fund's performance to 30 September 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 September 2016, the market value of the assets increased by £64.7 million with positive absolute returns from all of the Fund's mandates.

3.3 There is no funding level update this quarter as the actuarial valuation results are elsewhere on this agenda and the information would not be meaningful until the funding basis is agreed.

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

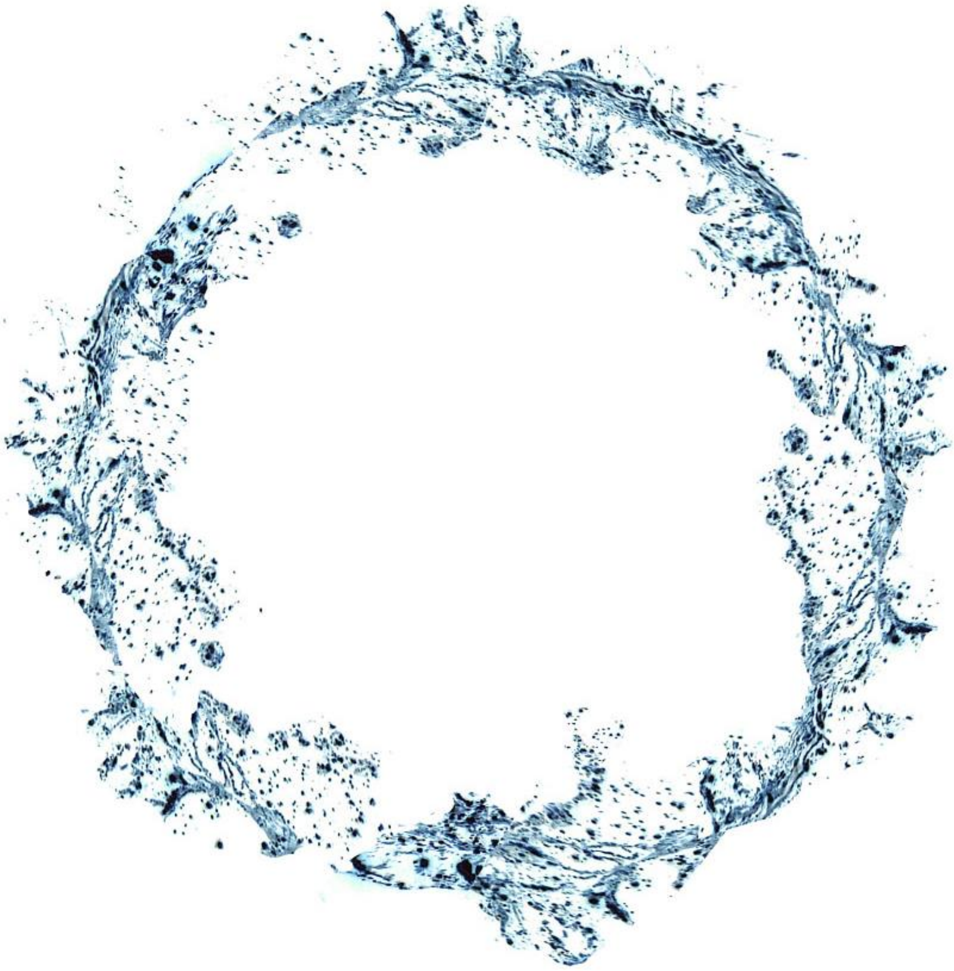
Nikki Parsons nparsons@westminster.gov.uk or 020 7641 6925

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 - Deloitte Investment Report, Quarter Ending 30 September 2016

Deloitte.



City of Westminster Pension Fund

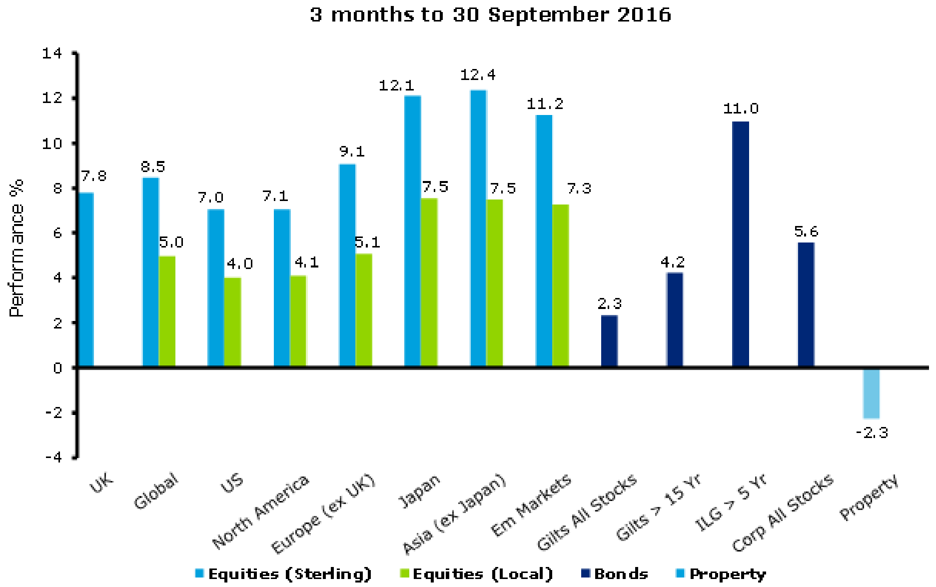
Investment Performance Report to 30 September 2016

Deloitte Total Reward and Benefits Limited
1 November 2016

Contents

1 Market Background

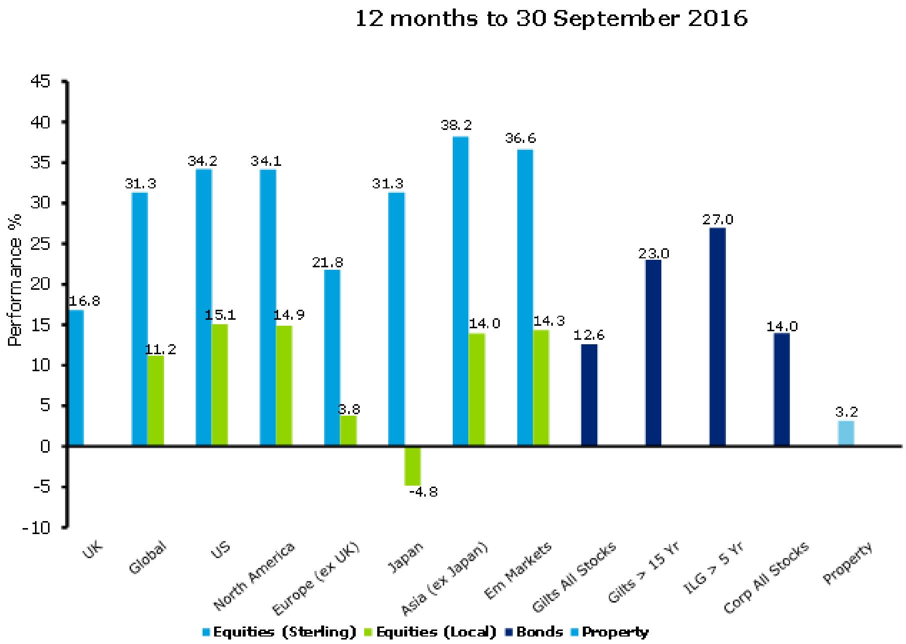
Three months to 30 September 2016



Equity markets
The UK equity market rose over the third quarter of 2016, with the FTSE All Share Index delivering a return of 7.8%. Markets continued the post-Brexit rally which started at the end of the second quarter due to a revaluation of overseas revenues at more favourable exchange rates, as well as positive sentiment from better than expected economic data.
Global equity markets outperformed the UK in sterling terms (8.5%) but underperformed in local currency terms (5.0%) over the third quarter as sterling continued to depreciate against a basket of global currencies.

Bond markets
Following the EU referendum, the Bank of England cut the base rate to 0.25% and extended the UK's quantitative easing program. The prospect of even lower interest rates for even longer led nominal yields lower. As a result, UK nominal gilts delivered positive returns over the quarter, with the All Stocks Gilts Index returning 2.3%. This, combined with increased inflation expectations due to the continued weakening of sterling, caused real yields to drop significantly further into negative territory and the Over 5 Year Index-linked Gilts Index returned 11.0%. Credit spreads narrowed over the quarter and, coupled with the fall in gilt yields, resulted in corporate bonds outperforming gilts over the period, with the iBoxx All Stocks Non Gilt Index returning 5.6%.

Twelve months to 30 September 2016



Equity markets

Over the 12 months to 30 September 2016, the FTSE All Share Index has delivered a positive return of 16.8%. Performance was volatile and continued to vary significantly across sectors. Financials was the poorest performing sector over the year (-1.0%) whilst Technology was the highest performer (57.6%). Global equity markets outperformed the UK in sterling terms (31.3%) but underperformed the UK in local currency terms (11.2%), with currency hedging detracting.

Bond markets

UK nominal gilts delivered strong returns over the year, with the All Stocks Gilts Index returning 12.6% and the Over 15 Year Gilts Index returning 23.0% 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 27.0%. The narrowing of credit spreads over the year, coupled with the fall in gilt yields, resulted in strong corporate bond returns with the iBoxx All Stocks Non Gilt Index returning 14.0% over the period.

Property market

The UK property market delivered a return of -2.3% over the quarter, with falls in the capital value of property largely being a reflection of concerns about the implications of Brexit and the levels of liquidity within funds. Over the year to 30 September 2016 property delivered a return of 3.2%.

2 Total Fund

2.1 Investment Performance to 30 September 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	9.6	9.5	7.8	15.2	14.8	16.8	7.7	7.3	6.6	10.2	9.9	6.2
LGIM	Global Equity	5.2	5.2	5.2	11.5	11.3	11.4	8.1	8.0	8.1	11.1	11.0	11.1
Baillie Gifford	Global Equity	12.2	12.1	7.9	33.1	32.7	30.5	n/a	n/a	n/a	14.5	14.1	14.0
Longview	Global Equity	6.9	6.8	7.9	28.6	28.0	29.9	n/a	n/a	n/a	17.3	16.7	14.3
Insight	Gilts	1.0	1.0	1.0	5.9	5.8	6.0	4.4	4.3	4.5	5.3	5.2	5.4
Insight	Non-Gilts	4.0	4.0	3.8	10.3	10.1	9.7	7.2	7.0	6.6	6.2	5.9	5.7
Hermes	Property	0.3	0.2	-1.2	7.4	7.0	4.3	14.8	14.4	12.0	9.5	9.1	8.4
Standard Life	Property	0.9	0.8	2.9	5.3	4.8	14.9	8.7	8.2	11.0	9.0	8.5	10.4
Total		**6.9**	**6.8**	**5.7**	**16.8**	**16.5**	**16.7**	**9.8**	**9.5**	**9.4**	**7.0**	**6.6**	**6.7**

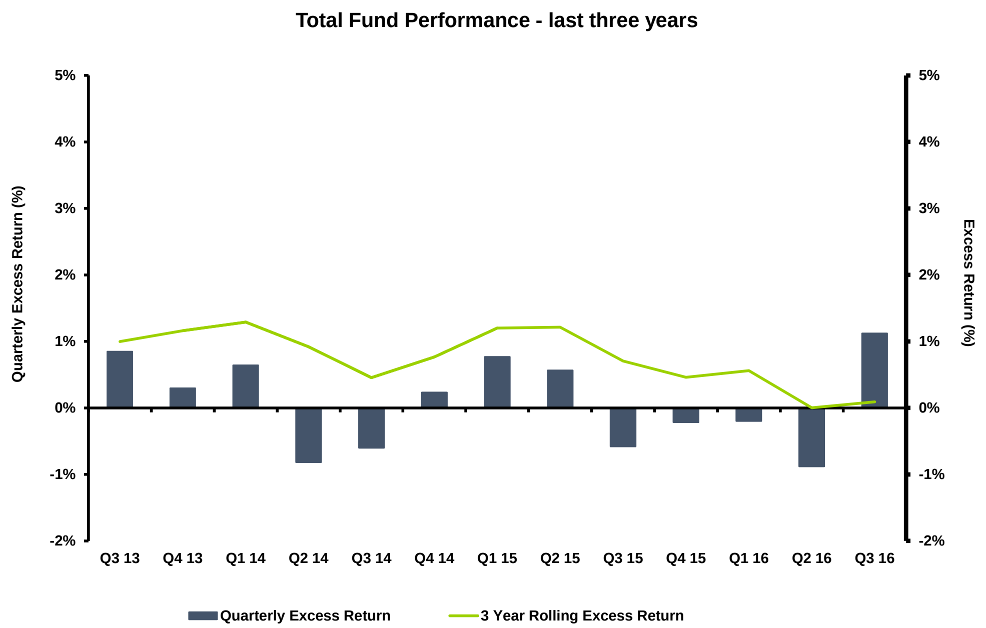
Source: Investment Managers

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

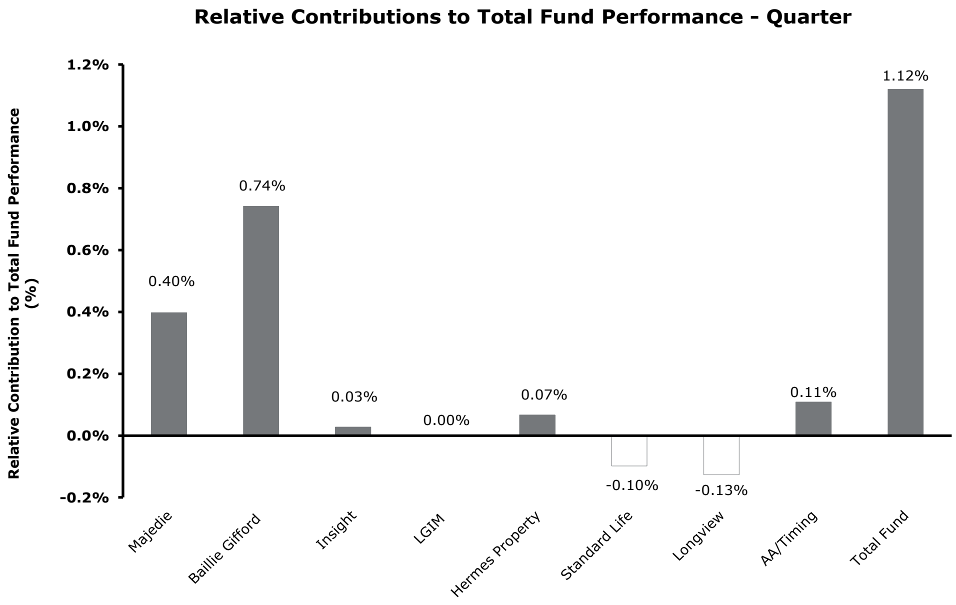
See appendix 1 for more detail on manager fees and since inception dates

Over the quarter the Fund outperformed its benchmark by 1.1% net of fees, mostly due to the strong performance of the active equity managers Majedie and Baillie Gifford.

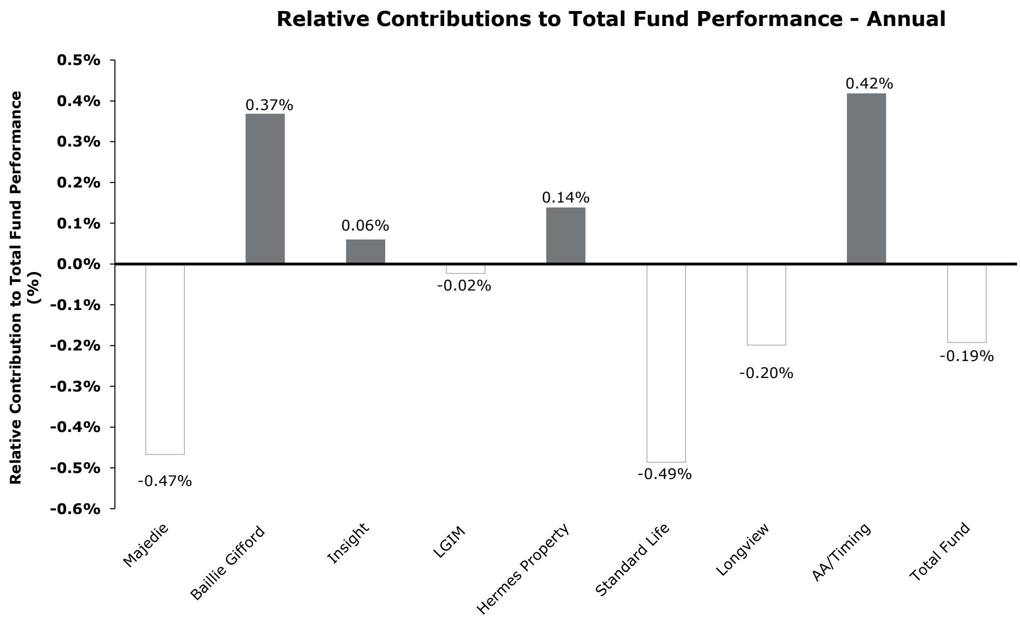
The chart below shows the performance of the Fund over the last three years, highlighting that the rolling three-year performance is slightly ahead of the benchmark. Please note that performance is shown net of fees versus the benchmark.



2.2 Attribution of Performance to 30 September 2016



The Fund outperformed its composite benchmark by 1.1% on a net of fees basis over the third quarter of 2016, led by strong performances from Majedie and Baillie Gifford. The Fund's overweight positions with Majedie and Baillie Gifford contributed positively to performance over the quarter.



The Fund has marginally underperformed over the year, due to underperformance from Majedie, Standard Life and Longview. When considering this analysis, it should be borne in mind that the Standard Life Long Lease Fund is benchmarked againsts gilts where 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, with overweight positions with Baillie Gifford and Insight and an underweight position with Standard Life contributing positively.

2.3 Asset Allocation as at 30 September 2016

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

Manager	Asset Class	End Jun 2016 (£m)	End Sep 2016 (£m)	End Jun 2016 (%)	End Sep 2016 (%)	Benchmark Allocation* (%)
Majedie	UK Equity	250.6	274.6	22.9	23.7	22.5
LGIM	Global Equity (Passive)	243.2	255.8	22.2	22.0	22.5
Baillie Gifford	Global Equity	191.3	209.2	17.4	18.0	25.0
Longview	Global Equity	121.9	125.5	11.1	10.8	
	Total Equity	**807.0**	**865.1**	**73.6**	**74.5**	**70.0**
Insight	Fixed Interest Gilts (Passive)	18.8	19.0	1.7	1.6	20.0
Insight	Sterling Non-Gilts	163.2	169.7	14.9	14.6	
	Total Bonds	**182.0**	**188.7**	**16.6**	**16.3**	**20.0**
Hermes	Property	55.5	55.0	5.1	4.7	5.0
Standard Life	Property	51.8	52.2	4.7	4.5	5.0
To be determined	Property / Infrastructure	-	-	-	-	-
	Total Property	**107.3**	**107.2**	**9.8**	**9.2**	**10.0**
	Total	**1,096.3**	**1,161.0**	**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. £64.7m, with positive absolute returns from all of the Fund's mandates.

As at 30 September 2016, the Fund was overweight equities by c. 4.5% when compared with the amended benchmark allocation and underweight bonds and property by c. 3.7% and c. 0.8% respectively.

2.4 Yield analysis as at 30 September 2016

The table below shows the yield as reported by the managers on each of the Fund's investments.

Manager	Asset Class	Yield as at 30 September 2016
Majedie	UK Equity	3.05%
Baillie Gifford	Global Equity	1.20%
Insight Fixed Interest Gilts	Fixed Interest Gilts (Passive)	2.80%
Insight Sterling Non-Gilts	Sterling Non-Gilts	2.00%
LGIM	Global Equity (Passive)	0.24%[1]
Hermes Property	Property	3.99%
Standard Life Long Lease	Property	4.52%
Longview	Global Equity	2.24%
	Total	**1.97%**

[1] The yield on the FTSE World Index as at the end of the quarter was 2.6%.

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

No significant flows into or out of the UK Equity Fund this quarter. Some capacity was recycled to investors in the wealth management sector.

Total AUM for Majedie as at 30 September 2016 was £12.3bn.

Personnel

Simon Hazlitt will leave Majedie at the end of the year and is being regarded as a "good leaver". He will be replaced on the client relationship team by James Mowat who joins from Ballie Gifford. There have been no changes to the investment team or process.

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

3.2 Baillie Gifford

Business

Total assets under management increased by 13% over the third quarter of 2016 to c. £148bn as at 30 September 2016. However, there continues to be a trend of UK pension funds moving from mainstream global equity funds to lower volatility funds.

Personnel
John MacDougall, a partner in the firm with 16 years investment experience, became one of the Long Term Global Growth (LTGG) portfolio managers at the end of the quarter – the LTGG portfolio team is a separate team to the group that manages the Global Alpha strategy that the Fund invests in.

Deloitte view – We continue to rate Baillie Gifford positively for its global equity capabilities.

3.3 LGIM

Business
As at 30 June 2016, Legal & General Investment Management ("Legal & General") had total assets under management of c. £842bn, of which, £334bn was in passive solutions.

Personnel
Colm O,Brien, currently Head of Index Equity will be taking on the newly created role of Head of Index, EMEA, overseeing both index equity and index fixed income teams, reporting to Chad Rakvin. As a result, Sebastian Faucher, Head of Index Fixed Income has left the firm, with his role being absorbed by Colm's new position.

Deloitte View – We do not see these team structural changes having a negative impact on the business or funds, given the portfolio management teams for index equity and index fixed income remain intact, however we will continue to closely monitor any further developments. We continue to rate Legal & General positively for its passive capabilities.

3.4 Longview

Business
Assets under management at the end of September 2016 were £16.2bn, representing an increase of c. £1.3bn over the quarter.

As per previous quarters, no large cash flows have been seen in the fund, although Longview won a sizable mandate for a Canadian client during the quarter.

There have been no further updates from Longview on its progress with discussions regarding the London CIV. As a recap, both parties had agreed in principal on a fee and capacity structure and are working through the finer detail. We expect the CIV to make a formal announcement over the coming months.

Personnel
Nigel Masding, a Research Analyst who joined Longview in 2009 and was a partner in the firm, was asked to leave the team during the third quarter. This was primarily due to a divergence in investment principles between Nigel and Longview, with Nigel tending towards a more macro-focussed outlook. Nigel was responsible for 5 of the stocks in the portfolio, which have now been divided up amongst the remaining six analysts. Longview is looking to hire a replacement in the next 6-12 months but is happy with the current team structure. No client has left Longview due to Nigel's departure.

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

3.5 Insight

Personnel
There were a number of new joiners announced over the quarter:

- Kevin McLaughlin joined the New York office in August as Head of Liability and Risk Management for North America, reporting to Andrew Giles.
- Teo Lasarte, Tim Doherty and Rachel Plevinksy joined as Credit Analysts in the Fixed Income Group.
- Jonathan Lake joined as a fixed income dealer.
- Alan Connery joined the Specialist Equities Team as a Senior Portfolio Manager.
- Sunny Romo joined as a Client Service Specialist working directly alongside client directors.

There were two leavers over the quarter:

- A Dealer from the fixed income group.
- A Senior Portfolio Manager from the Specialist Equities Team.

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 investors in the Trust over the quarter and there were no redemptions. 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 – We continue to rate the team managing HPUT.

3.7 Standard Life

Business

The Fund's assets under management increased slightly to £1.7bn over the third quarter, largely as a consequence of positive performance, with no significant inflows or outflows over the quarter.

Personnel

Ted Roy, a portfolio manager providing support to Richard Marshall on the Long Lease Property Fund, has relocated to SLI's Singapore office. Les Ross, who has worked in the Real Estate team for a number of years, will act as Ted's replacement.

Deloitte View – Following the UK's decision to leave the EU, several property funds implemented liquidity restrictions – the Long Lease Property Fund was not affected by any such liquidity restrictions. Whilst the wider property market delivered a negative return over the quarter, 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 30 September 2016

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Baillie Gifford – Gross of fees	12.2	33.1	n/a	14.5
Net of fees	12.1	32.7	n/a	14.1
MSCI AC World Index	7.9	30.5	n/a	14.0
Relative (net of fees)	4.2	2.2	n/a	0.1

Source: Baillie Gifford, via London CIV and estimated by Deloitte

See appendix 1 for more detail on manager fees

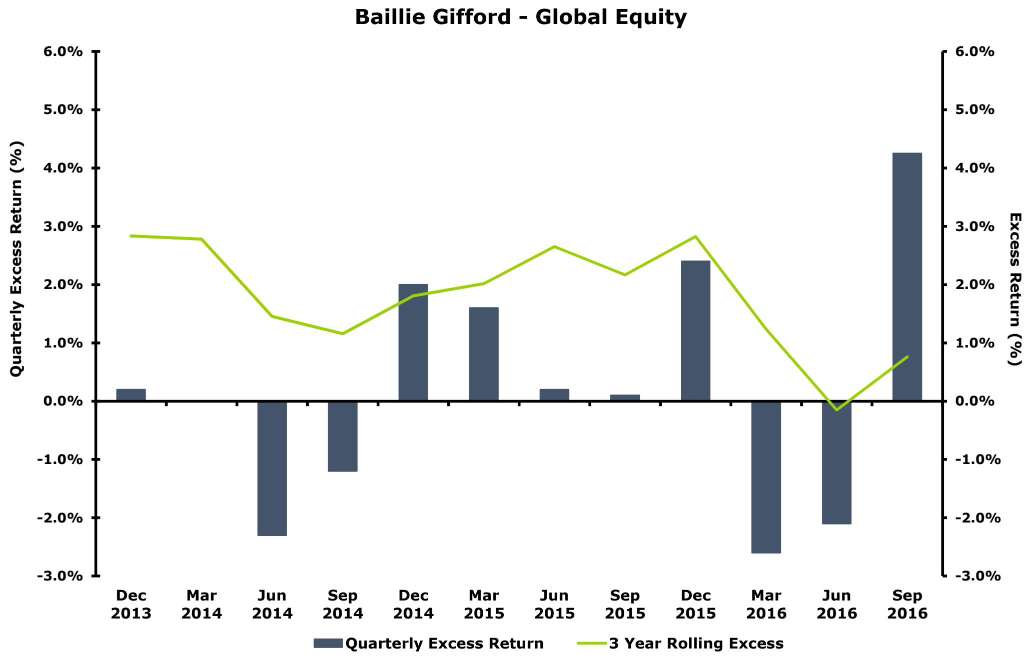
Inception date taken as 18 March 2014

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 outperformed its benchmark by 4.2% net of fees over the quarter and by 2.2% over the year to 30 September 2016. Since inception, it is 0.1% net of fees ahead of the benchmark.

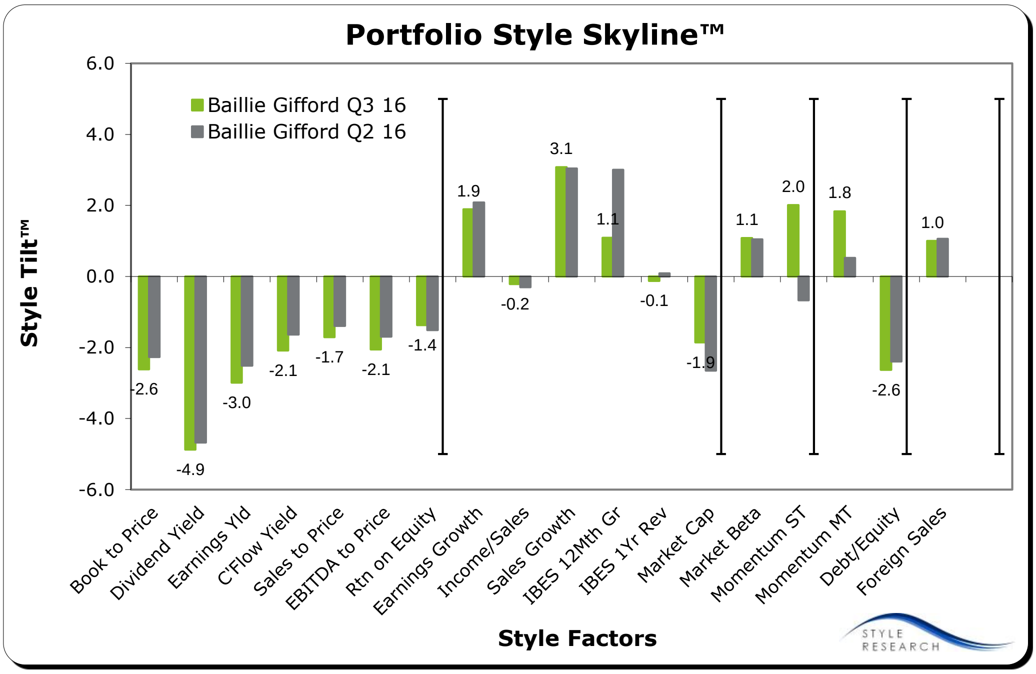
In contrast to the UK political upheaval and heightened volatility across the global markets, the third quarter was a stable period for Ballie Gifford. The strong performance was primarily driven by stock market returns and the relative weakness of sterling.

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 outperformed by 0.9% p.a..



4.2 Style Analysis

We have analysed the Style of Baillie Gifford's Global Alpha portfolio as at 30 September 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. 28% of the Fund and are detailed below.

Top 10 holdings as at 30 September 2016	Proportion of Baillie Gifford Fund
Amazon	4.6%
Naspers	3.3%
Prudential	3.1%
Taiwan Semiconductors	2.8%
Royal Caribbean Cruises	2.8%
SAP	2.7%
Alphabet	2.4%
Moody's	2.2%
CRH plc	2.1%
First Republic Bank	2.1%
Total	**28.1%**

Baillie Gifford	30 June 2016	30 September 2016
Total Number of holdings	98	98
Active risk	4.2%	4.1%
Coverage	6.8%	7.0%

As at 30 September 2016, the number of holdings within the portfolio remained the same, although the overlap with the FTSE All World index increased slightly and the active risk figure dropped slightly.

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 30 September 2016

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
LGIM - Gross of fees	5.2	11.5	8.1	11.1
Net of fees[1]	5.2	11.3	8.0	11.0
MSCI AC World Index	5.2	11.4	8.1	11.1
Relative (net of fees)	0.0	-0.1	-0.1	-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, three years and since the inception of the mandate.

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 30 September 2016

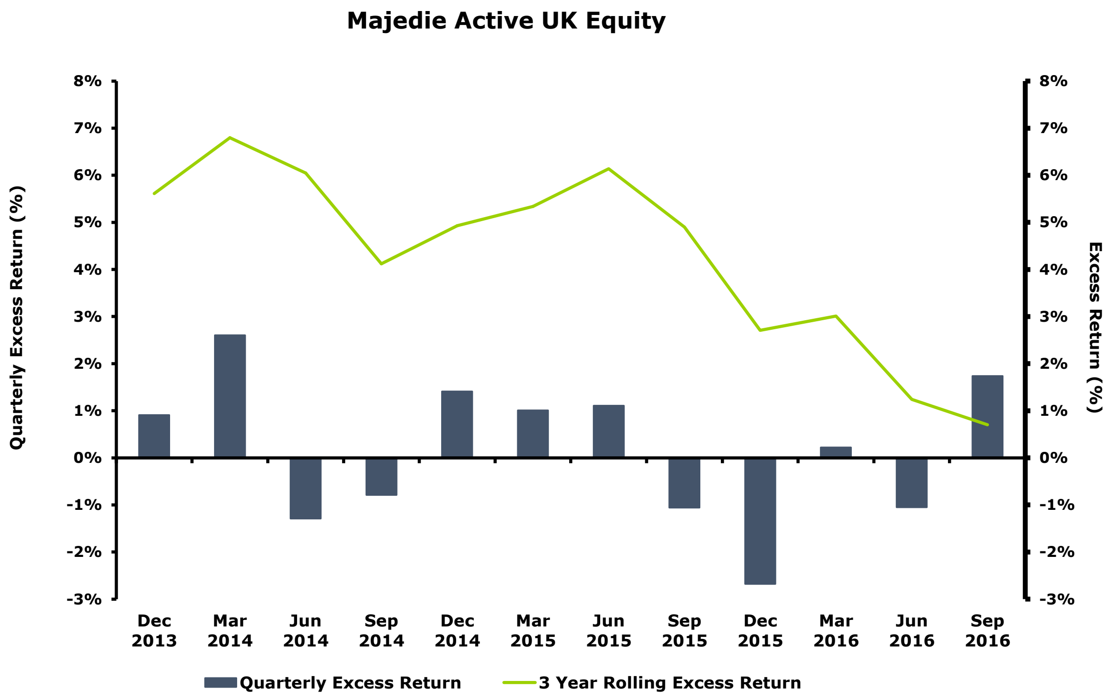
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Majedie - Gross of fees	9.6	15.2	7.7	10.2
Net of fees[1]	9.5	14.8	7.3	9.9
MSCI AC World Index	7.8	16.8	6.6	6.2
Relative (on a net basis)	1.7	-2.0	0.7	3.7

Source: Majedie

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 31 May 2006



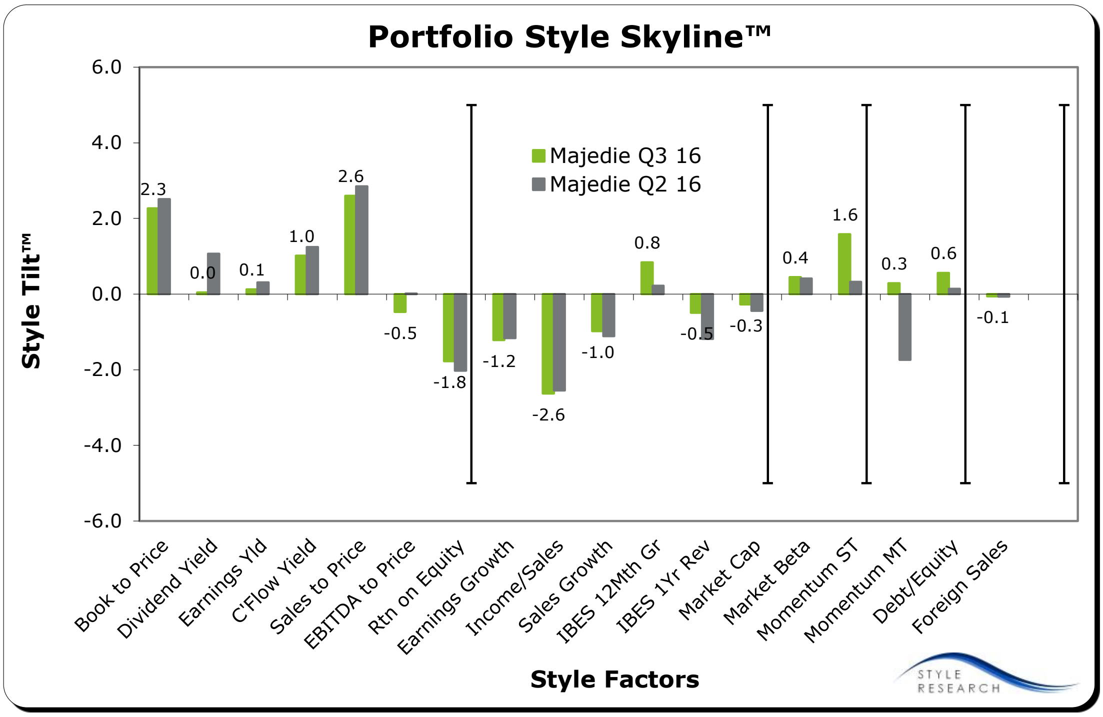
Majedie outperformed its benchmark over the quarter by 1.7% net of fees but performance remains under benchmark for the year to 30 September 2016 by 2.0% net of fees. Over the longer timeframes of three years and since inception, the manager has outperformed its benchmark on a net basis by 0.7% p.a. and 3.7% p.a. respectively, dropping below the target outperformance of 1% p.a. over a 3 year period.

Over the quarter, the top performer was Anglo American, with Majedie remaining positive on the outlook for the mining sector. The fund's holdings in HSBC and Barclays delivered positive returns. Although the banking fines are still to be finalised, Majedie does not believe these will have a significant impact on the holdings. Majedie's underweight position in consumer staples also worked in its favour, for the first quarter in a long while.

The greatest underperformance in the fund came from Orange, which had performed well over the year but suffered from continued uncertainty in the EU. Majedie is positioning itself to be more defensive due to caution regarding politics within the EU, with the upcoming Italian referendum and French election.

6.2 Style analysis

We have analysed the Style of Majedie as at 30 September 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 September 2016	Proportion of Majedie Fund
BP	7.0%
Royal Dutch Shell	7.0%
HSBC	6.7%
Vodafone	4.1%
GlaxoSmithKline	3.9%
Tesco	3.6%
Anglo American	3.4%
Barclays	3.0%
Rentokil Initial	2.8%
BHP Billiton	2.7%
Total	**44.1%**

Majedie	30 June 2016	30 September 2016
Total Number of holdings	156	154
Active risk	3.6%	3.6%
Coverage	37.8%	37.4%

As at 30 September 2016, Majedie held 154 stocks in total, with an overlap with the FTSE All Share index of 37.4%. 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 September 2016, remained at 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 September 2016

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Longview - Gross of fees	6.9	28.6	n/a	17.3
Net of fees[1]	6.8	28.0	n/a	16.7
MSCI World Index	7.9	29.9	n/a	14.3
Relative (on a net basis)	-1.1	-1.9	n/a	2.4

Source: Longview

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

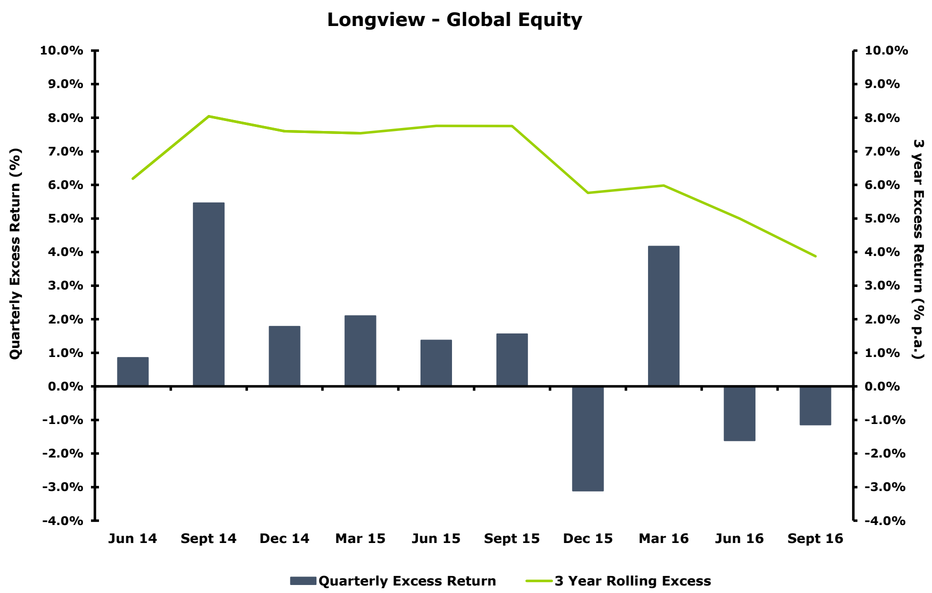
Inception date 15 January 2015

Longview underperformed the benchmark by 1.1% on a net of fees basis over the third quarter of 2016, and is behind the benchmark over the year to 30 September 2016 by 1.9%. Since inception, the Fund has outperformed by 2.4% p.a., dropping below the target outperformance of 3% p.a..

Whitbread, owner of Premier Inn and Costa Coffee, was purchased by Longview after the Brexit vote with Longview believing it had an attractive valuation. Whitbread was a top performer on the back of a steady revenue stream from Premier Inn which continues to take market share. Room utilisation wasn't affected by the Brexit vote and, with the weakening pound, more overseas travellers are expected.

The biggest detractor from performance was Sanofi. The healthcare company lost market share more quickly than expected following the patent expiration for its diabetes drug, Lantus. Longview believes this is a short-term affect, having already priced the loss of Lantus into its valuation model. An additional factor was the uncertainty surrounding healthcare in the US due to the Presidential election which has weighed on several stocks.

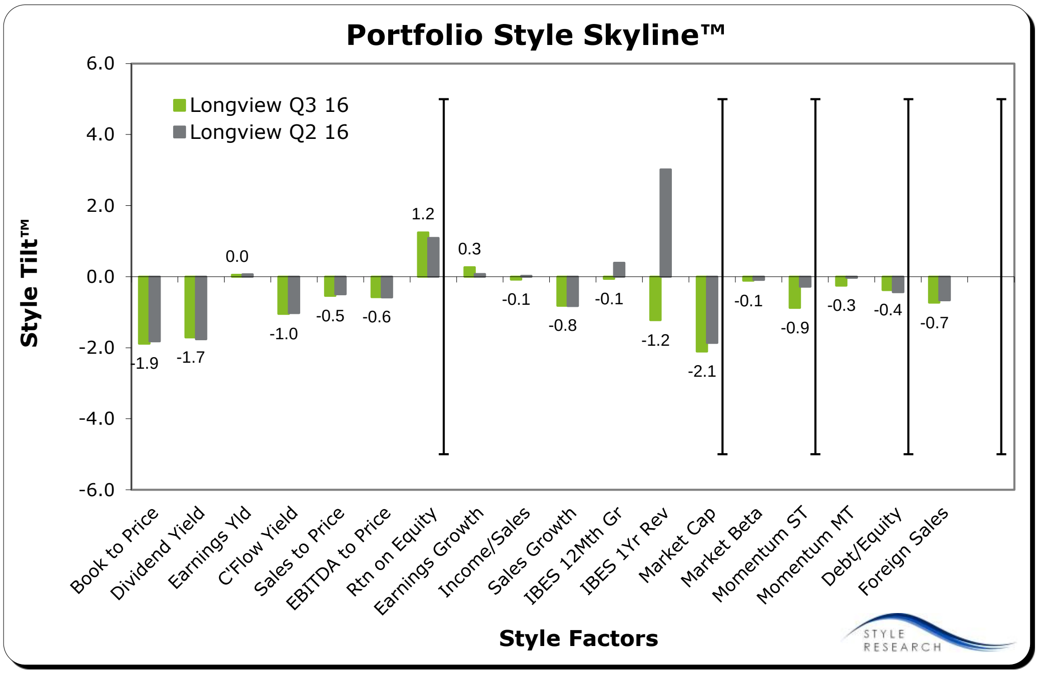
Wells Fargo was affected by the news of its employees opening fee paying bank accounts without customer permission. The fines are small but Longview believes the bank may suffer from mid-term reputation damage and being under the spotlight simply bears more risk.



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 September 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. 37% of the fund and are detailed below.

Top 10 holdings as at 30 September 2016	Proportion of Longview Fund
AON	4.5%
Zimmer Biomet	3.9%
Thermo Fisher Scientific	3.7%
Accenture	3.6%
Fidelity National Info Services	3.6%
SAP	3.6%
Parker Hannifin	3.6%
UnitedHealth	3.5%
Willis Towers Watson	3.4%
Time Warner	3.4%
Total	**36.8%**

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

As at 30 September 2016, Longview held 35 stocks in total, with an overlap with the FTSE All World index of only 4.3%. 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 September 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 30 September 2016

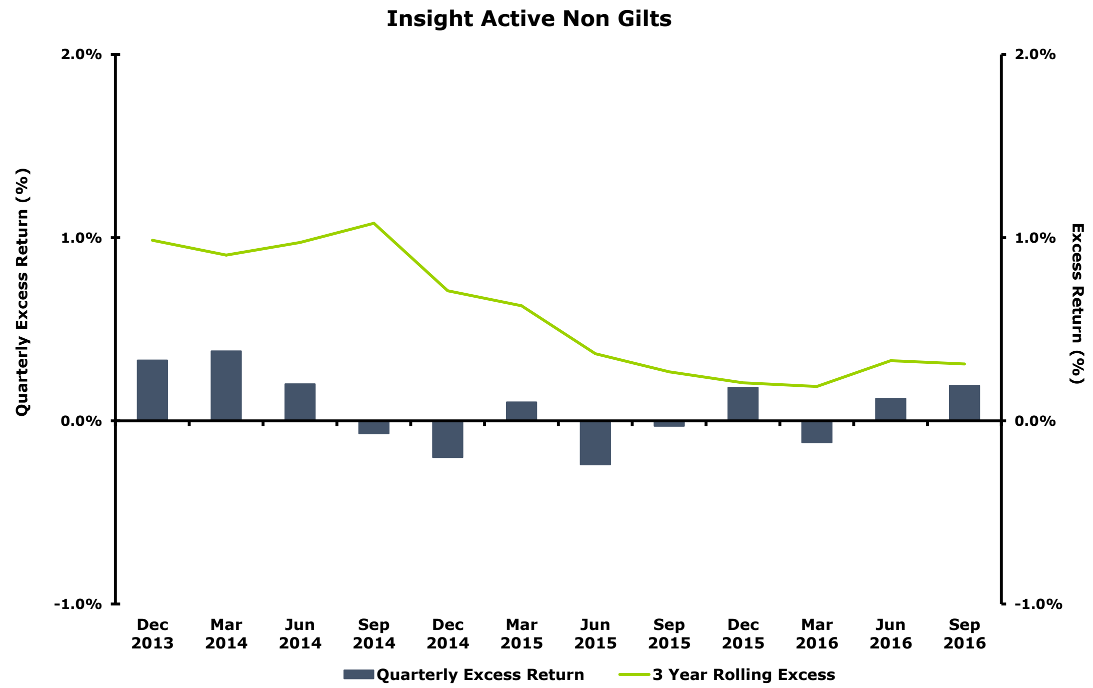
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Insight Non Gilts - Gross of fees	4.0	10.3	7.2	6.2
Net of fees[1]	4.0	10.1	7.0	5.9
iBoxx £ Non-Gilt 1-15 Yrs Index	3.8	9.7	6.6	5.7
Relative (on a net basis)	0.2	0.4	0.4	0.2

Source: Insight

(1) 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 0.2% net of fees. Over the year to 30 September 2016, the Fund has outperformed the benchmark by 0.4%. The Fund has outperformed the benchmark by 0.4% p.a. over the 3 years to 30 September 2016 and by 0.2% p.a. since inception. Performance therefore remains below the target of 0.9% p.a. outperformance.

8.1.2 Attribution of Performance
This information was not available at the time of drafting this report.

8.2 Insight – Government Bonds
8.2.1 Investment Performance to 30 September 2016

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Insight Gilts - Gross of fees	1.0	5.9	4.4	5.3
Net of fees[1]	1.0	5.8	4.3	5.2
FTSE A Gilts up to 15 Yrs Index	1.0	6.0	4.5	5.4
Relative (on a net basis)	0.0	-0.2	-0.2	-0.2

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

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

8.3 Duration of portfolios

	30 June 2016		30 September 2016	
	Fund (Years)	Benchmark (Years)	Fund (Years)	Benchmark (Years)
Non-Government Bonds (Active)	5.6	5.4	5.8	5.5
Government Bonds (Passive)	4.8	4.9	4.7	5.0

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	0.3	7.4	14.8	9.5
Net of fees[1]	0.2	7.0	14.4	9.1
Benchmark	-1.2	4.3	12.0	8.4
Relative (on a net basis)	1.4	2.7	2.4	0.7

Source: Hermes

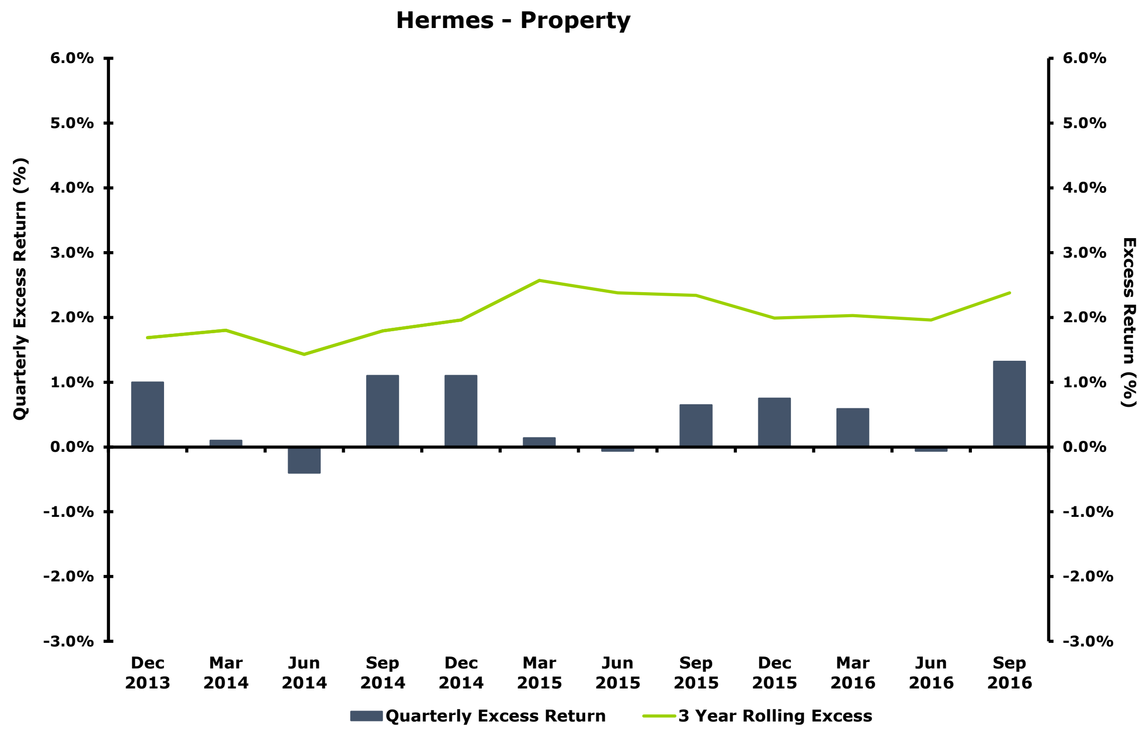
(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date is taken as 26 October 2010

Hermes outperformed its benchmark by 1.4% 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, Unit Shops, Shopping Centres and "Other" sectors, but performance was dragged back by the holdings in the Office sectors, Retail Warehouses and Supermarkets.



9.2 Sales and Purchases

The team completed two sales over the quarter:

- Walmer Castle Public House in Notting Hill was sold for £5.5m which reflected an initial yield of 3.39%. It also reflects a significant premium of 22% over the end-June valuation of £4.5m.
- Pizza East in Notting Hill was sold for £2.82m in September reflecting an initial yield of 3.3% and a significant premium of 25% over the end-July valuation of £2.25m.

There were two acquisitions completed over the quarter:

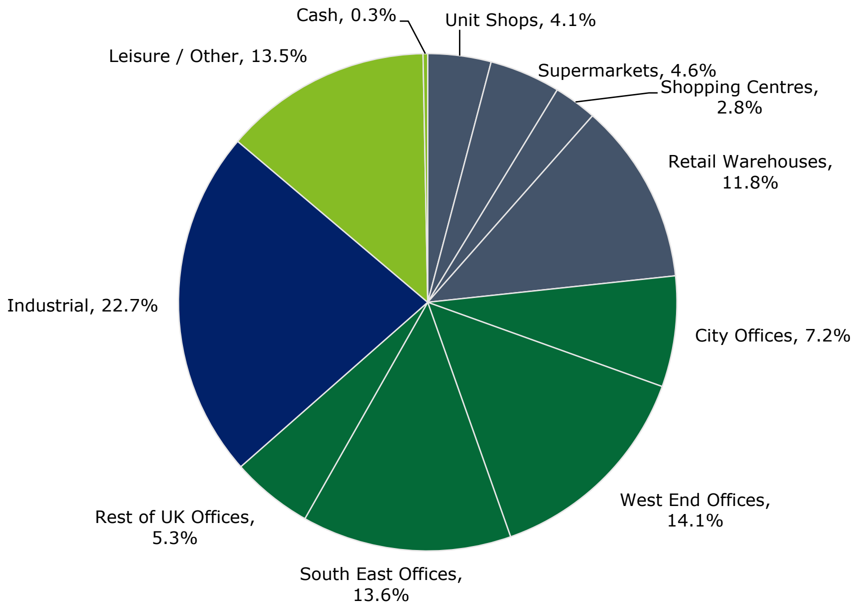
- Unit 5, St Andrews Way in London was bought for £4.54m. It enables the Trust to conclude the site assembly of Thomas Road and a planning application for a major redevelopment of the site will be submitted in Q4.
- 85 North End in Croydon was purchased for £1.9m. The property is located between two existing HPUT assets which will give the Trust greater control over tenant mix and longer term redevelopment options.

Asset management is ongoing at the following properties:

- Planning consent has been received for a new office-led development of 81,000 sq.ft at Carlson Court in Putney.
- A new 10 year lease has been completed with Royal & Sun Alliance at Park View House in Chelmsford.
- Refurbishment works to units 3 & 4 have been completed at the Summit Centre in Heathrow. The planning application is being worked up to undertake the same works to units 1 & 6.
- Consent was given in July 2016 for a 150 bed hotel scheme on the site of the existing pub at The Broadway in Wimbledon. A decision is also expected in late October 2016 on the application for a c. 55,000 sq.ft office building on the site.

9.3 Portfolio Summary as at 30 September 2016

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



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

Asset	Sub-sector	Value (£m)
Maybird Shopping Park, Stratford-upon-Avon	Retail Warehouses	110.0
8/10 Great George Street, London	West End Offices	58.0
27 Soho Square, London	West End Offices	44.3
Sainsbury's, Maxwell Road, Beaconsfield	Supermarkets	41.2
Polar Park, Heathrow	Standard Industrial	38.3
Hythe House, Hammersmith	Standard Offices SE	38.3
2 Cavendish Square, London	West End Offices	37.8
Christopher Place, St Albans	Shopping Centres	37.2
Rotunda Complex, London	Standard Offices SE	34.1
Boundary House, London	City Offices	34.1
Total		**473.3**

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	0.9	5.3	8.7	9.0
Net of fees[1]	0.8	4.8	8.2	8.5
Benchmark	2.9	14.9	11.0	10.4
Relative (on a net basis)	-2.1	-10.1	-2.8	-1.9

Source: Standard Life

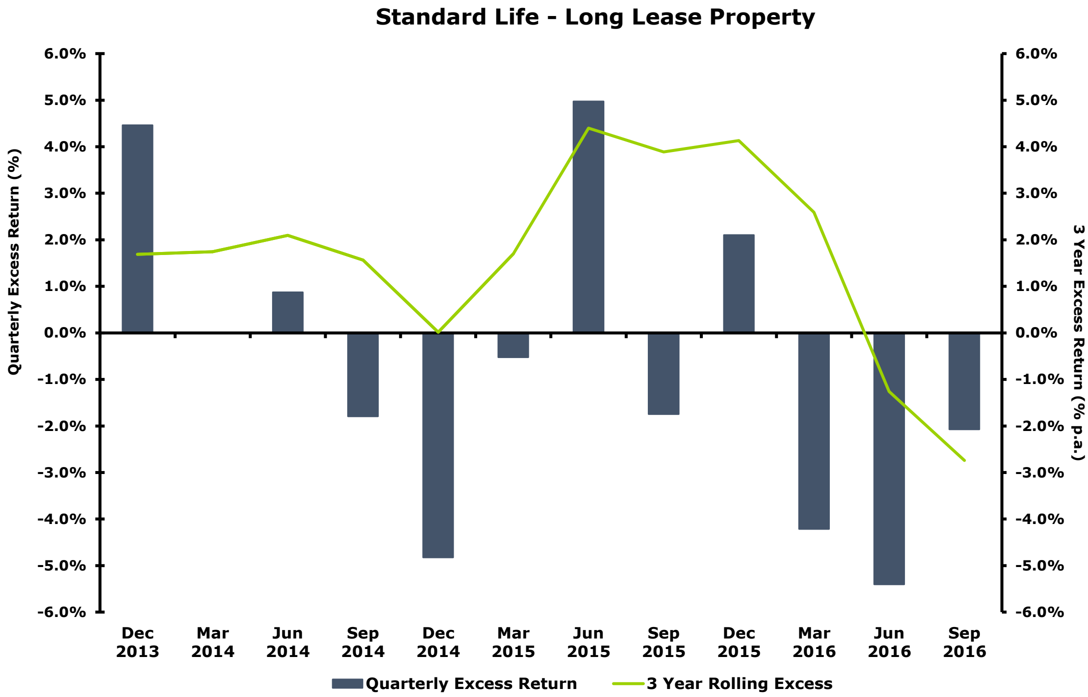
(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

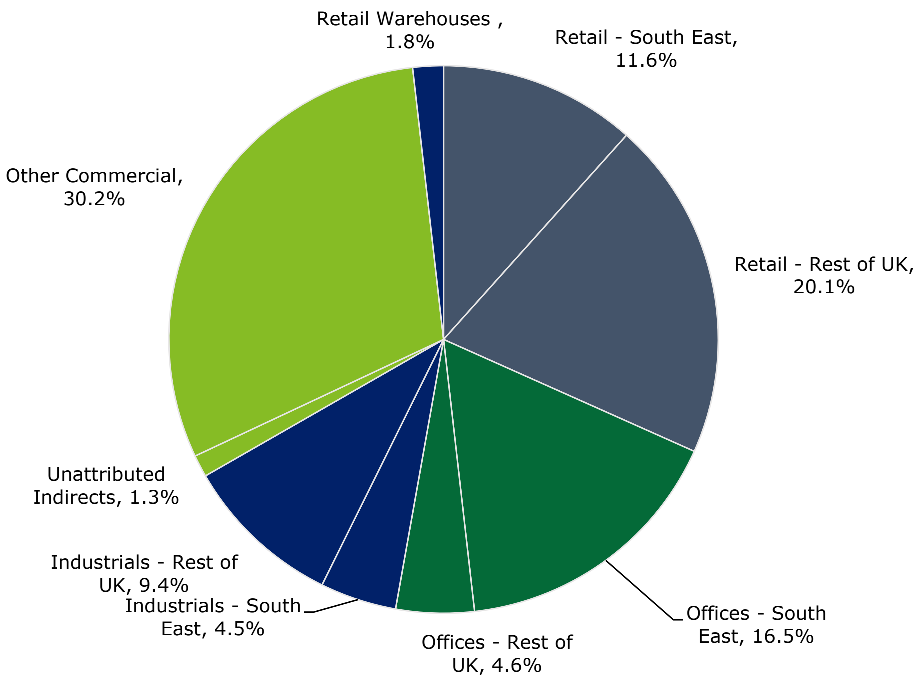
Since inception: 14 June 2013

The SLI Long Lease Property Fund returned 0.8% net of fees over the third quarter of 2016, underperforming the benchmark of the FTSE Gilt All Stocks Index + 2% by 2.1% net of fees, however the fund outperformed the wider property market which fell over the quarter, returning -2.3%.

Net performance of the Long Lease Fund is shown below.



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



The Fund remains underweight the office sector (21.0% compared to 30.3%) and remains underweight the industrial sector (13.9% compared to 18.9%) at the end of the third quarter of 2016. The Fund is also underweight the retail sector (33.5% compared to 40.9%).

The Fund continues to be significantly overweight the "Other" sector (30.2% compared to 9.9%) 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	7.89	10.4
Whitbread	5.06	6.7
Sainsbury's	4.90	6.4
ASDA	4.42	5.8
Salford University	3.69	4.9
Marston's	3.64	4.8
Poundland	3.60	4.7
Save The Children	3.58	4.7
Glasgow City Council	3.10	4.1
Travis Perkins Group	2.99	3.9
Total	**42.87**	**56.3***

*Total may not equal sum of values due to rounding

The top 10 tenants contribute 56.3% 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 slightly over the quarter from 25.9 years to 25.6 years.

10.2 Sales and Purchases

There were no acquisitions or disposals over this quarter.

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.

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**15 November 2016**
Classification:	**Public**
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

Forward Plan for the Pension Fund Committee – November 2016

Area of work	**21 Mar 2017**	**TBC Jun 2017**	**TBC Sep 2017**	**TBC Nov 2017**
Standing Items	Pension Board minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan – Pension Board to attend for joint discussion on future work	Pension Board minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan	Pension Board minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan	Pension Board minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan
Governance	Business Plan Internal Audit Findings Admission Policy and Risk Register Risk Register scoring review Scheme Advisory Board Key Performance	Pension Fund Annual Report and Accounts 2016/17 Progress on compliance with TPR Code of Practice Review of Governance Compliance Statement	Annual report of Pension Board activities Review of Pension Fund expenses	

Area of work	21 Mar 2017	TBC Jun 2017	TBC Sep 2017	TBC Nov 2017
	Indicators (if available)			
Investments	Pooling and CIV update Investment Strategy Statement (replaces SIP) Investment Strategy Review Feedback from Annual fund manager monitoring day	Pooling and CIV update Investment Strategy Review Annual report to Scheme Advisory Board re pooling arrangements	Pooling and CIV update Investment Strategy Review	Pooling and CIV update Investment Strategy Review Fund Manager Monitoring Arrangements
Funding	Final Actuarial Valuation report Final Funding Strategy Statement			