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City of Westminster

Committee Agenda

Title:	**Pension Fund Committee**
Meeting Date:	**Thursday 12th October, 2017**
Time:	**7.00 pm**
Venue:	**Room 3.4, 3rd Floor, 5 Strand, London WC2 5HR**
Members:	**Councillors:** Suhail Rahuja (Chairman) The Baroness Philippa Couttie Patricia McAllister Ian Rowley

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 5 Strand 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)

1.	**MEMBERSHIP** To note any changes to the membership.	
2.	**DECLARATIONS** To receive notifications of interest by Members and Officers of any personal or prejudicial interest.	
3.	**MINUTES** To approve the minutes of the Pension Fund Committee held on 27th June 2017.	**(Pages 1 - 6)**
4.	**PENSION ADMINISTRATION UPDATE** Report of the Director of People Services.	**(Pages 7 - 28)**
5.	**NEW EMPLOYER BODIES** Report of the City Treasurer.	**(Pages 29 - 32)**
6.	**QUARTERLY PERFORMANCE REPORT** Report of the City Treasurer.	**(Pages 33 - 72)**
7.	**FUND FINANCIAL MANAGEMENT** Report of the City Treasurer.	**(Pages 73 - 100)**
8.	**MARKETS IN FINANCIAL INSTRUMENT DIRECTIVE 2014/65 UPDATE** Report of the City Treasurer.	**(Pages 101 - 130)**

9.	**MINISTERIAL LETTER CONCERNING POOLING** Report of the City Treasurer.	**(Pages 131 - 134)**
10.	**INVESTMENT STRATEGY AND POOLING UPDATE** Report of the City Treasurer.	**(Pages 135 - 138)**
11.	**PENSION FUND BUSINESS PLAN 2017-18** Report of the City Treasurer.	**(Pages 139 - 150)**
12.	**ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT**	

Charlie Parker
Chief Executive
6 October 2017

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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 27th June, 2017**, Room 3.4, 3rd Floor, 5 Strand, London WC2 5HR.

Members Present: Councillors Suhail Rahuja (Chairman), Peter Cuthbertson, Patricia McAllister and Ian Rowley

Officers Present: Peter Carpenter (Interim Tri-Borough Director of Treasury and Pensions), Yvonne Thompson-Hoyte (Senior Finance Manager – Pensions), Peter Worth (Technical Advisor - Pensions and Treasury), Lee Witham (Director of People Services), Kim Edwards (Senior Pensions and Payroll Adviser) and Toby Howes (Senior Committee and Governance Officer).

Also Present: Jason Bailey (Pension Services Manager, Surrey County Council), Kevin Humpherson (Deloitte), Ian Hammond (Client Service Director, BT) and Christopher Smith (Scheme Member Representative, Pension Board).

1 MEMBERSHIP

1.1 There were no changes to the membership.

2 DECLARATIONS

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 21 March 2017 be signed by the Chairman as a correct record of proceedings.

4 PENSION ADMINISTRATION UPDATE

4.1 Lee Witham (Director of People Services) presented the report and advised that there were improvements to a number of the key performance indicators (KPIs). The only KPI where performance had dropped was in respect of deferred benefits, however this was due to a number of historical leavers being picked up. Members noted that the performance target was 100% for each KPI and Jason Bailey (Pension Services Manager, Surrey County Council) stated that he felt these targets were realistic.

4.2 Lee Witham then turned to issues concerning BT and acknowledged that the performance was unsatisfactory. People Services, Surrey County Council (SCC) and BT had worked collaboratively to move forward and improve in all areas. The key issue had been in relation to Annual Benefit Statements either not being sent to scheme members or being inaccurate. People Services had visited the BT offices to work with BT to address this and the matter had now been resolved, with the statements concerned due to be sent out by SCC in the next 2 weeks. BT had initially indicated that they would not be able to send out the Annual Benefit Statements for 2016-17 before 31 August, however subsequent discussions had resulted in BT stating that this was now achievable.

4.3 Ian Hammond (Client Service Director, BT) then was invited to comment and began by stating that lessons had been learnt from the previous year and improvements were being made as a result of the collaborative approach being taken. Additional resources had been identified and the target to complete the data for the Annual Benefit Statements for 2016-17 was now 17 August. Lee Witham added that efforts would be made to encourage BT to provide the statements to SCC at an even earlier date so SCC had sufficient time to process and to send out to scheme members before 31 August.

4.4 Members expressed concern about the problems being experienced to date which they felt was unsatisfactory. In respect of the 17 August deadline for Annual Benefit Statements, it was asked what were the specific problems experienced in the last year, why was BT confident it could achieve this year's deadline and what factors may affect its ability to complete this. Ian Hammond advised Members that the previous problems had been attributable to incorrect data. However, the errors had now been rectified, either fundamentally or through a manual fix where necessary, so he was confident the 17 August deadline would be met. Similarly, Ian Hammond felt that all errors would be fundamentally fixed for 2017-18 and an end of June 2018 deadline was due to be set to complete the Annual Benefit Statements for that year.

4.5 Christopher Smith (Pension Board Member and Branch Secretary of Unison) advised that he was now receiving much less complaints in relation to pensions. He thanked the work of People Services in helping to resolve issues, although there was still a need for more improvement, which he felt would be achieved if efforts continued.

4.6 The Chairman welcomed the collaborative approach taken and the progress being made. He requested that Members be advised in advance if there were any concerns that the deadlines may not be achieved.

5 NEW ADMISSION AGREEMENT RM EDUCATION (THE ST MARYLEBONE CHURCH OF ENGLAND SCHOOL)

5.1 Lee Witham presented the report that sought approval of a new admission agreement relating to an individual who was employed by RM Education. The Chairman requested that pre-approval be sought from him before future such admission agreements be put before the Committee so that he could be satisfied that the bond was sufficient.

5.2 There was discussion in respect of situations where staff that were subject to transfer of undertakings (TUPE) where they were transferred to a new organisation and to ensure a joined-up approach was taken. Christopher Smith stated that staff such as carers who went to different organisations may have not necessarily have been picked up in respect of admissions and the Chairman added that such situations need to be carefully monitored.

5.3 The Committee approved the admission agreement.

6 DRAFT PENSION FUND ANNUAL REPORT AND STATEMENT OF ACCOUNTS 2016-17

6.1 Peter Carpenter (Interim Tri-Borough Director of Treasury and Pensions) presented this item and advised that the Council had again been the first local authority to submit its Statement of Accounts 2016-17 to the external auditors on 7 April. The standard 30 working days period for public inspection meant that the accounts would be presented to the Audit and Performance Committee on 17 July, the earliest permitted date. Members noted that approval for the final Pension Fund Annual Report was delegated to the Tri-Borough Director of Treasury and Pensions in consultation with the Chairman.

6.2 Turning to the Compliance Statement, the Council was largely compliant apart from in respect of admitted bodies having access to Pension Fund Committee papers, particularly in respect of the unions. However, Peter Carpenter advised that Christopher Smith who as a Pension Board Member received Committee papers was also the Unison representative.

6.3 **RESOLVED:**

That the draft Pension Fund Annual Report 2016-17 be noted and that approval of the final document be delegated to the Tri-borough Director of Treasury and Pensions, in consultation with the Chairman.

7 QUARTERLY PERFORMANCE REPORT

7.1 Kevin Humpherson (Deloitte) provided an update on the performance of the Fund. There were no issues with regard to the performance of any of the fund managers and over the year the Fund had performed well relative to its benchmarks. Majedie had performed below the benchmark for the last quarter, however this was attributable to loss of value in mining stocks and a lack of exposure to consumer staple stocks, however overall for the year Majedie had performed well above the benchmark. Members noted that the £1.4bn loss in respect of Longview was due to one account being moved from active to passive equities.

7.2 With regard to the London Collective Investment Vehicle (CIV), Kevin Humpherson advised that the CIV had taken on another £500m in the form of Majedie assets. The CIV now contained £5bn, of which around £800m was from the Council. Members noted the speed to which the Westminster Fund had transferred assets to the CIV. Peter Carpenter added that transfer of assets from the Wandsworth Fund would soon be undertaken to further increase the total assets held by the CIV and he confirmed that the Minister for Local Government had ruled out funds participating in more than one pooling fund. Participation in the London CIV to date would achieve around £700k savings per year.

7.3 Members welcomed the fact that the Council was at an advanced stage compared to other London CIV members in terms of transferring funds to the CIV. In reply to a query, Peter Carpenter suggested that transferring assets to the CIV was saving the Council around £700k a year.

7.4 **RESOLVED:**

That the performance of the investments and funding position be noted.

8 FUND FINANCIAL MANAGEMENT

8.1 Peter Carpenter presented the report confirmed that there had been no changes to the Risk Register. In respect of cashflow monitoring, fund manager fees had reduced as more assets were pooled to the London CIV. The Chairman emphasised the need to be provided with fund manager fees so comparisons could be made.

9 INVESTMENT STRATEGY AND POOLING UPDATE

9.1 Peter Carpenter advised that transfer of Majedie assets to the London CIV meant that around 76% of the Fund's assets were now held by the CIV. With regard to the Fixed Income Mandate, Peter Carpenter informed Members that a 'Buy and Maintain' tendering process would be undertaken by the Council on behalf of London Councils. This would involve producing an initial long list of 10, of which 4 tenderers would then be shortlisted to present to the Committee and the CIV. The final decision would be ratified by Committee on 12 October. Members noted and approved the minor amendments to the Investment Strategy Statement.

9.2 Members asked whether the CIV was making investments in property, including commercial property. Peter Carpenter advised that there was yet to be any investment in property, however the CIV's next step would be to look at investing in infrastructure, although he suggested property investments might not start until around 2 years from now.

9.3 **RESOLVED:**

1. That progress on the transfer of assets to the London Collective Investment Vehicle be noted.

2. That the progress being made, in liaison with the London Collective Investment Vehicle, in the replacement process and timescales for the fixed income mandate be noted.

3. That the present asset allocations compared to the agreed Asset Allocation Strategy be noted.

4. That the comments made to the Investment Strategy Statement by the Pension Board be noted and the minor changes it recommended be approved.

10 PENSION FUND BUSINESS PLAN 2017-18

10.1 Peter Carpenter presented the report and advised that the Business Plan had sufficient resilience. Every effort was being made to ensure that the tri-boroughs had similar processes in place. The Hammersmith and Fulham Fund would have 57% of its assets in the London CIV following the transfer of passive funds, whilst the Kensington and Chelsea Fund would be able to match the proportion of its assets to the CIV to those already undertaken by the Westminster Fund and the Hammersmith and Fulham Fund in due course.

10.2 Peter Carpenter also commented that efforts were being made to ensure that Committee reports were in the same format as the other tri-boroughs to illustrate a joined-up approach being taken.

10.3 **RESOLVED:**

That the Tri-borough Pensions Business Plan be noted and that the direction of travel in the plan with regard to the Action Plan be agreed.

11 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

11.1 Peter Carpenter advised that the next Pensions Annual General Meeting was due to take place in October. Christopher Smith added that he will be attending and would be happy to address scheme members.

11.2 In noting that Peter Carpenter was leaving the Council, on behalf of Members the Chairman thanked Peter Carpenter for his work in supporting the Committee and in helping to tackle issues such as those in relation to BT and SCC and wished him all the best in his new role.

The Meeting ended at 8.25 pm.

CHAIRMAN: ________________________ **DATE** ______________________

City of Westminster

Pension Fund Committee

Date:	**12th October 2017**
Classification:	**General Release**
Title:	**Pension Administration Update**
Report of:	**Lee Witham, Director of People Services**
Wards Involved:	**All**
Policy Context:	**Service Delivery**
Financial Summary:	**Limited**

1. Executive Summary

1.1. This report provides a summary of the performance of the City Council, Surrey County Council, BT and admitted bodies' payroll providers. This report also gives an update on the performance of the pension administrators Surrey County Council (SCC) for the period June 2017 to August 2017. The detailed key performance indicators (KPIs) are shown in Appendix 1.

2. Surrey County Council (SCC) Performance

2.1. The scope of the KPIs in this report have been agreed between WCC and SCC based on the section 101 agreement, however they will continue to be reviewed on feedback from all parties, including committee members.

2.2. This paper covers June, July and August 2017, with the previous 6 months also shown for comparison.

2.3. People Services continue to hold regular meetings with SCC to discuss both day to day issues plus any future matters that need to be planed for, such as pension workshops, future re-organisations which may result in bulk leavers/retirements as well as performance against KPIs. We have previously highlighted areas where a need for improvement has been identified and these are reviewed again here against the June to August KPIs. The last review meeting was held on 14 September 2017.

2.3.1. **Retirement options issued to members** – After a big improvement between January and May there has been a slight dip in this area in the June - August reporting period. Whilst still within an acceptable level it remains an area that will be closely monitored.

2.3.2. **Deferred benefits and payment of lump sums -** This area has improved from 85% in the last report up to 100% for the June-August period.

2.3.3. **Transfers out of non LGPS schemes -** This KPI has also improved for both quotations and payments, now both showing at 100% for the last quarter.

2.3.4. **Transfers in and out of LGPS -** This is a new KPI that was introduced in February and after a small dip in performance earlier this year this has remained at a constant 100%.

2.3.5. **Pension/Redundancy estimates –** In the last quarter there have been very few requested and those that have were completed on time, this KPI is now at 100%.

2.3.6. **Responding to member's correspondence –** This KPI is now showing at 100%. Jason Bailey SCC Pension Manager has previously advised the committee that they were looking at the re-distribution of work at SCC and we believe the improvement in this KPI is as a result of this change in process. We will however continue to monitor.

2.4. The Annual Benefit Statements (ABS) were made available on line for the first time this year by the deadline of 31st August 2017. Credit must be given to the SCC team who despite only receiving the information from BT on 15th August (rather than 30th April) still managed to successfully upload by the deadline.

2.5. Employees were contacted in a number of ways to advise them of the new process with details of how to register for access to the ALTAIR self-service system. Any staff for whom Surrey did not hold an e-mail address were sent a paper ABS with a covering letter advising them how to register for the self service system for future years ABS's.

2.6. An advertising campaign was also conducted on the council's Intranet and Yammer pages, which was undertaken by the in house pensions team to strengthen the message that ABS's would be available on the ALTAIR self service system the end of August.

2.7. Employee access to ALTAIR will also allow individuals to check personal information held by SCC, such as address, death grant nominations and will also allow employees to run pension estimates.

2.8. General feedback on these changes have been positive. SCC have advised that an upgrade to the system will take place in October to improve the appearance of the ABS and enable mobile and tablet access.

3. BT Performance

3.1. At the last committee it was reported that BT had presented a LGPS recovery plan on 3rd June which indicated that they would not be able to provide the requisite data in order for SCC on behalf of WCC to issue the ABS by the statutory deadline of 31st August. They were advised at the time that this was not acceptable and a revised plan was issued to ensure that WCC were able to fulfil their statutory requirement. However, it should be noted that although the quality of the file was an improvement on the previous year's file (where we failed, as previously reported to issue a number of ABS statements on time) it still required considerable involvement by both tri borough in-house pension teams and SCC to ensure the data was of sufficient quality to meet the deadline.

3.2. The monthly interface reports detailing starters/leavers and changes have now gone live, some 18 months after the BT contract commenced. However the manual leavers forms, detailing pay information that BT are also required to complete when notifying SCC of a leaver, are still not being actioned in a timely manner. Currently the in house team are completing these forms when the employee is entitled to immediate benefits, to avoid any delay in payments to the individual.

3.3. It was reported at the last committee that the outstanding and inaccurate ABS for the 2015/2016 were to be issued by the end of June. I can confirm that these were issued to the affected employees with a written explanation.

3.4. The matter regarding the correction payroll for previous year's errors, including pension contributions is still outstanding and high level discussions are still on-going between BT and Directors of the 3 boroughs.

4. Issues Log

4.1. People Services continue to meet on a regular basis to review any pension matters that have been referred to the in house team by individuals, Unison, BT or Surrey.

4.2. There are currently 6 issues on the log and no new cases have been raised in over a month. One ill health case has been closed, 2 cases have gone to IDRP, one of which has had a full response under this process, the second one is close to closure, the other cases cover transfer ins and also teachers pensionable service queries.

5. Risk Register

5.1. Finance will be presenting the risk register to committee however it should be noted that Operational Administration reference 25 is now showing as Amber as both the interface and EOY files have now been provided to SCC by BT.

6. Pension Administration Strategy (PAS)

6.1. A Pension Administration Strategy (PAS) sets out the expectations and requirements of all parties involved in the administration of the LGPS, giving clear guidelines to meet both statutory and financial regulations.

6.2. Following advice it has been recommended that the PAS should come under the remit of the Pensions Committee rather than the Pension Board.

6.3. The PAS is therefore attached at appendix 2 for consideration by the committee. It is recommended that this strategy has a ‘soft roll out’ to the relevant parties, with written warnings rather than fines being issued until a full go live date of 1st April 2018.

7. Summary

7.1. There have been improvements by both SCC and BT and People Services will continue to work with both to improve the pension service to members.

7.2. The Committee is asked to agree the implementation of a Pension Administration Strategy.

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MONTHLY RESULTS FOR DECEMBER AND JANUARY BASED ON NEW KPI REPORTING

Description	**Target time/date as per Partnership Agreement**
PENSION ADMINISTRATION	
DEATH BENEFITS Notify potential beneficiary of lump sum death	5 days
Write to dependant and provide relevant claim form	5 days
Set up any dependants benefits and confirm payments due	14 days
RETIREMENTS Retirement options issued to members	5 days
New retirement benefits processed for payment following receipt of all necessary documents	5 days
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run
REFUNDS OF CONTRIBUTIONS Refund paid following receipt of claim form	14 days
DEFERRED BENEFITS Statements sent to member following receipt of leaver notification	30 days
DEFERRED PAYMENTS	
Notification to members 3 months before payments due	3 months
Lump Sum (on receipt of all necessary documentation)	5 days
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run

MONTHLY RESULTS FOR DECEMBER AND JANUARY BASED ON NEW KPI REPORTING

Description	Target time/date as per Partnership Agreement
NEW JOINERS New starters processed	30 days
TRANSFERS IN Non LGPS transfers-in quotations	30 days
Non LGPS transfers-in payments processed	30 days
TRANSFERS OUT Non LGPS transfers-out quotations processed	30 days
Non LGPS transfers out payments processed	30 days
Interfunds In - Quotations	30 days
Interfunds In - Actuals	30 days
Interfunds Out - Quotations	30 days
Interfunds Out - Actuals	30 days
ESTIMATES	
1-10 cases	5 Days
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

MONTHLY RESULTS FOR DECEMBER AND JANUARY BASED ON NEW KPI REPORTING

Description	Target time/date as per Partnership Agreement
BUYING ADDITIONAL PENSIONS	
Members notified of terms of purchasing additional pension	15 days
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	
ANNUAL BENEFIT STATEMENTS Active members	31 August each year
ANNUAL BENEFIT STATEMENTS Deferred members	31 August each year
P60s Issued to Pensioners	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	
Survey to retirees	Percentage Satisfied with Service

City of Westminster

Westminster Pension Administration Strategy

Contents

1. Introduction

The delivery of a high quality, cost effective pensions administration service is not just the responsibility of the Administering Authority (Westminster City Council), it also depends upon collaborative working with all stakeholders to ensure that Scheme members, and other interested parties, receive the appropriate level of service and ensure that statutory requirements are met.

The aim of this Pension Administration Strategy (PAS) is to ensure that the Administering Authority along with their Admitted and Scheduled body employers are aware of their responsibilities under the Local Government Pension Scheme (LGPS).

This document also shows the relationship and details the split of responsibilities between the Administering Authority and the Admitted and Scheduled body employers (Employers).

For clarity Westminster acting as Administering Authority (WAA) for the pension fund will treat Westminster the main fund employer (WFE) exactly the same as all the other fund employers.

It should be noted that the Administering Authority is working with Surrey County Council (SCC) to provide the main pension administration service to all fund employers under a 101 shared service arrangement.

Throughout this document contractual and best practice levels of performance are referenced with the aim of incrementally improving the provision of timely accurate data and levels of pension administrative services.

Failure to comply with the standards shown in this document could result in charges being levied by the Administering Authority to Employers in accordance with the terms set out in the schedule of charging in Section 6.

2. Pension Administration Strategy Statement

This statement sets out the aims and objectives of the PAS and references other documents which together make up the overall pensions administration management system.

<u>Statutory background</u>

Regulation 59 of the Local Government Pension Scheme Regulations 2013 (LGPS 2013) enables an Administering Authority to prepare a document detailing administrative standards, performance measurement, data flows and communication vehicles with Employers.

Regulation 70 of the LGPS 2013 allows an Administering Authority to recover costs from an Employer where costs have been incurred because of an Employer's non-compliant level of performance in carrying out its functions under the Regulations.

Aims & Objectives

In creating this strategy, the aim of the Administrating Authority is to have in place a pension management system that meets the needs of the stakeholders by:

- clarifying the roles and responsibilities of all the major stakeholders
- ensuring the services provided by all the major stakeholders are accessible, equitable and transparent
- assisting Employers to provide the effective provision of timely and accurate data

To support these aims this PAS document introduces:

- the standard of expected service between the Administrating Authority and Employers
- a schedule of charges that apply when standards of service fall below expectations
- a strategy in place to develop web enabled services for Employers and employees.

Other documents which make up the overall strategy

- Local Government Pension Scheme Communications Policy

3. Roles and responsibilities

Administering Authority

The responsibilities of the Administering Authority are:

1. To decide how any previous service or employment of an employee is to count for pension purposes, and whether such service is classed as a 'period of membership'.

2. To notify each member regarding the counting of membership in the scheme following notification from the members employer of the relevant service details.

3. To set up and maintain a record for each member of the scheme which contains all the information necessary to produce an accurate benefit calculation following the employer providing useable and accurate financial data.

4. To calculate and pay the appropriate benefits at the correct time, based on membership details held the termination date and the final pay details provided by the employer when an employee ceases employment, or ceases membership of the Scheme.

5. To supply beneficiaries with details of their entitlements including the method of calculation.

6. To set up and maintain a record for each pensioner member.

7. To increase pensions periodically in accordance with the provisions of Pensions Increase Acts and Orders.

8. To pay benefits to the correct beneficiaries only and to take steps to reduce the possibility of fraud taking place.

9. To ensure that sufficient information is issued to satisfy the requirements of Regulation 61 of the LGPS 2013. This relates to fund communication more details are contained within section 4 of this document or alternatively see the communications policy which is also available on the Westminster Pension fund website.

10. To maintain an appointed person for the purposes of the scheme internal dispute resolution procedure (IDRP). The appointed person will in general be the Director of People Services or where the Director had previously been involved in the case an officer of equivalent level will be asked to make a determination. The appointed person will be able to access advice from the funds appointed legal advisors where necessary.

11. To appoint all necessary advisors to enable the appointed person to perform the duties required by the IDRP.

12. To appoint an actuary for the purposes of the triennial valuation of the Pension Fund and provide periodical actuarial advice when required.

13. To arrange and manage the triennial valuation of the pension fund.

14. To ensure compliance with the Data Protection Act 1998.

15. The Administering Authority and its agents will respond to queries from employer's external or internal auditors within 5 working days or advise when a full response can be sent if not possible within that time frame.

16. The Administering Authority and its agents will respond to relevant Freedom of Information requests within 14 working days if possible or advise when a full response can be sent if not possible within that time frame.

17. The Administering Authority will reply to any Pension Ombudsman query within 30 days of receipt or advise of reason for further delay.

<u>Employers</u>

The main duties of the Employer are:

1. To decide who is eligible to become a member of the Scheme. The employer must abide by any admission agreement entered into with the administering authority if applicable. If there is a closed admission agreement only the named employees can be entered into the LGPS.

2. To decide whether that person is employed in a full time, part time, variable time or casual capacity. If the employee is part time the employer must determine the proportion which the employees’ contractual hours relate to the hours of a comparable full time employee.

3. To determine the pay of employees for the purposes of calculating the pension contributions.

4. To determine final pay for the purposes of calculating benefits due from the Scheme.

5. To issue a notification to any employees who cannot become members of the Scheme explaining the reason(s) why.

6. Where, after reasonable efforts, an employee fails to provide information relating to previous service, provide basic information to the Administrating Authority.

7. At cessation of membership of the Scheme, to determine the reason for leaving and entitlement to benefit and notify the Administrating Authority and the Scheme member of the decision.

8. To supply timely and accurate information to the Administrating Authority to ensure the correct calculation of benefits payable from the Scheme.

9. To deduct Additional Voluntary Contributions (AVCs) from a member's pay and pay over to the provider within the statutory deadlines.

10. To be responsible for exercising the discretionary powers given to Employers by the regulations. These regulations also require the Employer to publish its policy in respect of these key discretions.

11. To provide a notice, drawing the employee's attention to their right of appeal under the LGPS, with any statement issued to an employee relating to any decision made about the Scheme.

12. To use an Independent Registered Medical Practitioner qualified in Occupational Health medicine that has been approved by the Administrating Authority in determining ill health retirement.

13. To repay to the Scheme member any incorrectly deducted employee's contributions.

14. To provide the Administrating Authority with Monthly and Year-end information as at 31 March each year in an approved format.

15. To provide the Administrating Authority with an audited copy of the final statement which shall also contain the name and pensionable pay of each employee who is an active member, the amounts which represent pension deductions from pay for each of those employees and the periods covered by

the deductions and any other information requested. The information should also distinguish those amounts representing deductions for voluntary contributions and the employees paying those voluntary contributions.

16. To be responsible for complying with the requirements for funding early retirement for whatever reason as required by the Administering Authority using actuary factors.

17. To cover any professional costs for legal or actuarial services that are incurred by the administering authority on behalf of any employer investigating any amendment in relation to its members of the scheme. An example of this would be where an (transferee) employer wishes to tupe eligible staff to another employer (transferor) and the transferor wishes to become an admitted body within our fund. The transferee employer would be expected to meet the actuarial and legal costs associated with the process and will be invoiced for this. Costs may occur in other circumstances where employers require an individual response on either a legal or actuarial matter.

18. Pay the Administrating Authority interest on payments due from the Employer which are overdue by more than one month.

19. Where a member leaves the Scheme and full contributions have not been deducted for whatever reason, immediately make payment of outstanding member's and Employer's contributions to the Administrating Authority.

20. To ensure compliance with Data Protection Act 1998.

21. The employer and its agents will respond to queries from the Administering Authorities external or internal auditors within 5 working days or advise when a full response can be sent if not possible within that time frame.

22. The employer will reply to the Administering Authority on any query relating to a Pension Ombudsman issue with 14 days of request to allow the Administering Authority to respond to the Pension Ombudsman.

23. The employer must advise the Administering Authority of any change of contact details for the payroll or finance functions for communication purposes.

24. The employer is responsible for all Auto enrolment functions and must advise the Administering Authority of anyone auto enrolled as per the normal new starter process. Employers are advised to contact the pension regulator directly if they have any queries see link to website. http://www.thepensionsregulator.gov.uk/

4. Liaison, engagement and communication strategy

The Administrating Authority will issue and annually review their Local Government Pension Scheme Communications Policy.

The policy will include a strategy for communicating with:

- Scheme Members
- Members' Representatives
- Prospective members
- Employers participating in the Fund

This policy document will set out the mechanisms that the Administrating Authority will use to meet their communication responsibilities it will also include details of what is communicated and the frequency.

Annually the Administrating Authority will issue an engagement plan that will include events for employers, members of the scheme and perspective members of the scheme.

The Communications policy will be updated on the Westminster Pension Fund where it can be found under the Forms and Publications sub heading under the About us main tab.

See link to the pension fund website below.

http://www.wccpensionfund.co.uk/

5. Standard of expected service between the Administrating Authority and the employers

Who *	Administration Description	Performance Targets
	<u>New Starters and Transfers In</u>	
E	**New starter:** The Employer must advise all eligible employees of their membership of the scheme. Members should be given the details of the Pension Fund website http://www.wccpensionfund.co.uk/ Members must be advised that transfers into the scheme must be requested in the first year of joining or thereafter at their employer's discretion. Members must be advised that all necessary forms and contact details are available on the Pension Fund website.	On the first day of the members employment if not provided prior to the start.
E	**New scheme member:** Employer to send to the Administrating Authority the details of the new member. Completing the new starter form available on the website or by sending a file in an approved format by WAA to SCC.	Details to be provided to SCC by the last working day of the month following the first payroll deduction of pension.
AA	**New scheme member** Administrating Authority to create a new pensions record from the completed notification from the Employer.	By the last working day of the month following the data submission by the employer.
AA	**New scheme member:** Administrating Authority to request a transfer quote from the new member's previous scheme.	Within 30 days of receipt of authorisation from the employee. If transfer factors are currently available. If not the member is to be advised of the delay within the same timescale.
AA	**New scheme member:** Administrating Authority to credit member record with membership due from transfer of previous pension benefits.	Within 30 days of receipt of payment from previous scheme.
AA	**New Scheme member:** Notification of service purchased	Within 30 days of receipt of the all the

	by an incoming transfer to be provided to the scheme new member.	information
	Existing members and schemes	
AA	Changes to data which materially affect actual or potential benefit calculations to be processed and provided to the member concerned.	Within 30 days of occurrence or receipt of all necessary information, whichever is later.
AA	Admissions and Inter Fund Adjustment (IFA) in to be notified to the members concerned.	Within 30 days of receipt of all necessary information.
AA	Transfers and Inter Fund Adjustment IFA out to be notified to the receiving scheme.	Within 30 days of receipt of all necessary information
AA	The terms of purchasing additional pension to be notified to the member concerned.	Within 15 days of receipt of all necessary information.
AA	Refund of contributions, where due under the Regulations, to be calculated and paid.	Within 14 days of receipt of all necessary information
AA	Upon notification of a death notification of a pensioner; arrangements put in place for pension payments to cease immediately.	Within 1 working day of receipt of all necessary information
AA	Letters will be sent to next of kin or other relevant party. Setting up of any dependents pension.	Within 5 days of receipt of notification of a death or within 5 days of receipt of all relevant information. Within 14 days of receipt of all necessary information.

	Leavers and Transfers out	
E	**Leaver:** Employer to send the Administrating Authority a completed leaver notification.	By the Last working day of the month following the month in which the members final pensionable pay was processed.
AA	**Leaver:** Administrating Authority to issue a statement of deferred benefits as appropriate.	Within 30 days of receipt of all necessary information.
AA	**Leaver:** Administrating Authority to issue quote for Cash Equivalent Transfer Value (CETV).	Within 30 days days of receipt of all necessary information.
E	**Retirements:** Employer to send the Administrating Authority a completed notification.	By the final working day of the month in which the members final pay is processed but employers should be looking to provide leavers final details to SCC before the member leaves if possible to do so.

AA	**Retirements:** Administrating Authority to send benefit options to member together with relevant forms required for payment of retirement benefits.	Within 5 working days of receiving notification from the Employer.
AA	**Retirements:** Administrating Authority to arrange the payment of Lump Sum.	Within 5 working days of receiving all required information from the Employer and the Member.
AA	**Retirements:** Administrating Authority to arrange payment of Annual Pension (paid monthly).	The pension to be processed on the next available pay period following the release of any lump sum and the member notified in writing.
AA	**Deferred Benefits Into Payment:** Administrating Authority to send a letter to the leaver that includes the benefits that are payable and/or the options for early payment (together with relevant forms to enable payment).	Within one month of the potential due date of any benefit into payment SCC will write to the member.
	Deductions	
E	**Monthly deductions:** Employer to send funds and schedule of deductions from salary to the Administering Authority.	By the 19th day of the month following the month in which contributions were deducted.
	Pensioners	
AA	**Payslips:** Every pensioner to receive a monthly pension advice payslip in the months of April and May. Thereafter, a hard copy payslip will be generated only where the net pension alters by ten pounds (£5) or more from the previous month.	Pensioners can access all their payslips via the member self-service option on the website**.** http://www.wccpensionfund.co.uk/ 3 Working days prior to pay day.
AA	**Increases:** Notify the pensioners of the increase and its effect on their pension by standard letter.	In the month of the payment increase.
	Advisory & Communications	
AA	**Contact centre** Answer phone calls and deal with queries from members and employers.	On working days between the hours of 9.00 am and 5.00 pm.
	Complaints	
AA	All complaints to be acknowledged. A full written response to a complaint must be sent to the complainant.	Within 5 working days. Within 20 working days of its receipt by Surrey, subject to all necessary information being available to Surrey to enable a full response to be given.

* Body responsible for the action

6. Pensions Administration Strategy - Schedule of Charging

Westminster acting as Administering Authority **(WAA)** wishes to support its fund employers to enable them to provide all relevant data to both members and to WAA as per the requirements of the PAS set out above. Any employer who is unclear on the requirements of the PAS or is struggling with any aspect of the requirements should inform WAA of any concern as soon as possible, WAA will provide support where it can. WAA's first priority is to ensure compliance for the benefit of members and employers, ensuring that accurate data is stored for members. That pension can be processed quickly and accurately when required and that WAA and its employers all meet their statutory obligations.

Where additional costs have been incurred by the Administrating Authority as a direct result of an Employer's poor performance these costs will be recovered from the Employer.

The Administrating Authority will give the reasons for doing so in accordance with the regulations.

In addition to the schedule below other circumstances could generate a charge:

- Instances where the performance of the Employing Authority has resulted in fines being levied against the Administering Authority by the Pension Regulator, Pensions Ombudsman, HMRC or other regulatory body.

- Additional cost incurred in providing specialist third party advice in administering the Scheme on behalf of the employer, including but not exclusive to actuarial services, occupational medical practitioner services and legal services.

- Persistent failure to resolve issues in a timely and satisfactory fashion.

In these circumstances the Administrating Authority will set out the calculations of any loss or additional cost incurred, in writing, stating the reason for the cost(s) and the basis for the calculation.

WAA will monitor aspects of the PAS on a quarterly basis, the aspect monitored may change and not all employers' data will necessarily be reviewed on each occasion. WAA will be reviewing data from SCC to ensure its own compliance which will be reported on to the Pension fund Committee and the Pension board. WAA will also seek evidence from SCC of employer compliance with the PAS but may also request data directly from the employer who will be expected to respond with relevant evidence or assurance of compliance where relevant. If an employer does not respond to any request for information within **30 days** of request then this will also be chargeable at **£200** an occasion.

Administration Description	Performance Targets	Charge
New Starters and Transfers In		
New scheme member: Employer to send to the Administrating Authority the details of the new member.	Within 25 working days after the start date.	£50 per case
Leavers and Transfers out		
Scheme Leaver: Employer to send the Administrating Authority a completed leaver notification.	Within 25 working days from the employee's last day in the Scheme.	£50 per case
Retirements: Employer to send the Administrating Authority a completed notification.	At least 15 working days before their final paid day of work.	£50 per case
Deductions		
Monthly deductions: Employer to send funds and schedule of deductions from salary to the Administering Authority. **Payment of Other Sums Due:** Employers should make payment of any invoiced sums as set out within this PAS within 30 days of invoice date.	By the 19th day of the month following the month in which contributions were deducted.	£100 per instance of late payment.

7. Strategy to develop web enabled services for employers and employees.

In 2016/17 the Administrating Authority will implement, develop and engage employers in an on line portal. Initially, the portal will be used for data sharing with employers and information communication with employees.

Whilst forms will be restricted to being downloaded completed and resent, it is anticipated that the portal will be developed to allow members of the scheme to self-serve e-forms direct to the scheme administrators.

8. Further Information

Sarah Hay
Pensions and Payroll Officer

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Tel: 0207 641 6015

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**12 October 2017**
Classification:	**General Release**
Title:	**New employer member bodies of the Fund**
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 updates Members on:

a. Two new scheduled bodies – the Sir Simon Milton University Technical College, and LGSS Law; and

b. One proposed new admitted body –the Social Homes Regulator.

2. Recommendations

2.1 The Committee is asked to:

a. note the Sir Simon Milton University Technical College joining the Pension Fund as a scheduled body;

b. note the proposed transfer of Legal Services to LGSS Law Ltd to become a scheduled body of the Fund;

c. recommend to Cabinet its preferred option regarding:

i. whether the staff should transfer with the funding deficit for this to be recovered over the five year contract period, and

ii. whether the new scheduled body should remain closed to new members

d. authorise officers to commence the procedure for the Social Homes Regulator to become an admitted body of the Fund backed by a Crown guarantee.

3. Sir Simon Milton University Technical College

3.1 The Sir Simon Milton University Technical College is a new technical academy located at Ebury Bridge, within Westminster. It provides technical training for 14-18 year olds and sponsors include Network Rail, Transport for London, Alstom and Sir Robert McAlpine. The College opened 1 September 2017.

3.2 The College has 10-12 non-academic staff who wish to join an occupational pension scheme. The staff are all new to the LGPS except one with two years prior service. Therefore there will be minimal inherited liabilities.

3.3 The College is classed as an academy by the Department for Education. Therefore it has automatic right of membership of the local government pension scheme (LGPS), because academies are classed as schedule bodies under the Public Service Pensions Act.

3.4 In line with the Funding Strategy Statement the actuary has been commissioned to assess an appropriate employer contribution rate for the College as a new employer.

4. LGSS Law Ltd

4.1 Officers have identified an opportunity to merge the Bi-Borough Legal Services with LGSS Law Ltd. LGSS Law Ltd is a shared service provider owned by Cambridgeshire, Northamptonshire and Milton Keynes Councils. The merger will involve transferring 40 staff to LGSS Law Ltd and the Council becoming a shareholder in the company. The transfer is currently planned for 1 December 2017 but is still subject to Cabinet approval.

4.2 Under the proposed bulk transfer legal services staff currently employed by Westminster City Council would remain members of the City of Westminster Pension Fund and LGSS Law Ltd would become a scheduled body of the Fund under paragraph 5 of Part 2 of Schedule 2 of the Local Government Pension Scheme Regulations 2013.

4.3 Two key questions have been raised during negotiations over the transfer:

a) Should staff transfer on a fully funded basis or with a share of any pension deficit;

b) Should the new admitted body be closed to new members.

4.4 As this is not a start-up business but a company which is already trading at a profit, then it is proposed that the deficit accruing to the staff transferring transfers to the new company and be recovered over the life of the contract with the new company, understood to be five years.

4.5 As part of the development of the proposal Legal Services have expressed the desirability for the new admitted body to be open to new employees post-transfer in order to be able to recruit new staff. In previous transfers, membership of the LGPS has been limited to the staff transferred.

5. Social Homes Regulator

5.1 The Social Homes Regulator is a new body being established by the Homes and Communities Agency (HCA) with effect from April 2018. The HCA is an existing admitted body of City of Westminster Pension Fund-. The new body is intended to be the regulatory arm of the HCA.

5.2 The policy of the Pension Fund Committee is for all new admitted bodies to enter into an agreement and provide a bond as guarantee for any future liabilities which might fall on the Fund in the event of default by the new admitted body. Officers have been informed that the new body will be covered by a Crown guarantee, which will satisfy the need for a bond.

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

Peter Worth pworth@westminster.gov.uk or 0207 641 7689

BACKGROUND PAPERS: None

APPENDICES: None

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**12 October 2017**
Classification:	**General Release**
Title:	**Performance of the Council's Pension Fund**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.**
Report of:	**Steven Mair** ***City Treasurer*** **smair@westminster.gov.uk** **020 7641 2904**

1. Executive Summary

1.1 This report presents the performance of the Pension Fund's investments, together with an update on the funding position to March 2017.

2. Recommendation

2.1 The Committee is asked to note the performance of the investments, and funding position.

3. Background

3.1 The terms of reference of the Pension Fund Committee requires the committee to monitor the performance of the Superannuation Fund, individual fund managers, and other service providers to ensure that they remain suitable.

3.2 This report presents a summary of the Pension Fund's performance and estimated funding level to 30 June 2017. The investment performance 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.

3.3 The Investment Performance Report shows that over the quarter to 30 June 2017, the market value of the assets increased by £24 million to a value of £1,287 million (£1,263 at March 2017). The fund outperformed the benchmark by 0.4% over the quarter. The bench mark was however, supressed mainly by the underperformance of one fund manager by 2.3%.

3.4 The Advisors continue to rate the fund managers favourably. However they expressed concern regarding the announcement of the Client Relations Director's imminent departure from London CIV Ltd.

3.5 The Funding update (Appendix 2) has been prepared by the Fund Actuary, Barnett Waddingham. This indicates that the smoothed funding level has increased to 87% over the quarter to 30 June 2017, up from 85% at the last quarter. This indicative position is up 7% on the calculated position at the triennial valuation of 31 March 2016.

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

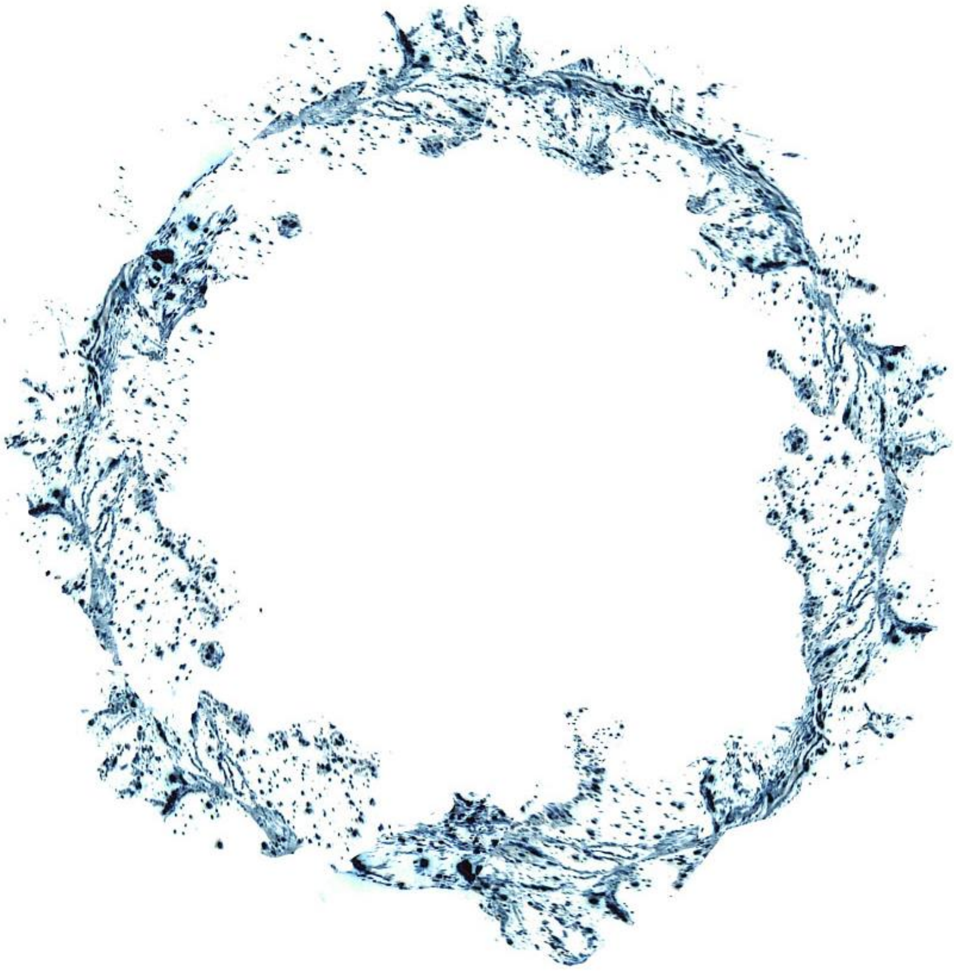
Yvonne Thompson pensionfund@westminster.gov.uk or 020 7641 6925 -Hoyte

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 - Deloitte Investment Report, Quarter Ending 30 June 2017
Appendix 2 - Barnett Waddingham Funding Update as at 30 June 2017

Deloitte.



City of Westminster Pension Fund

Investment Performance Report to 30 June 2017

Deloitte Total Reward and Benefits Limited
August 2017

Contents

1 Market Background

Three and twelve months to 30 June 2017

The UK equity market continued to make gains in the second quarter of 2017, with the FTSE All Share delivering a return of 1.4%. The global nature of the UK market enhanced its return as the economic picture overseas was generally positive. This was partially offset by the weakening picture in the UK amid increasing levels of uncertainty associated with Brexit and the domestic political situation.

Smaller UK companies outperformed larger companies over the second quarter, with the FTSE Small Cap Index returning 3.8% while the FTSE 100 Index returned 1.0% as sterling recovered to some extent, diluting the substantial foreign earnings in the FTSE 100 Index. At a sector level, returns were mixed. Technology (4.3%), Financials (3.9%) and Industrials (3.0%) made gains while Utilities (-6.2%), Basic Materials (-4.6%) and Oil & Gas (-4.2%) suffered losses over the quarter as the oil price receded.

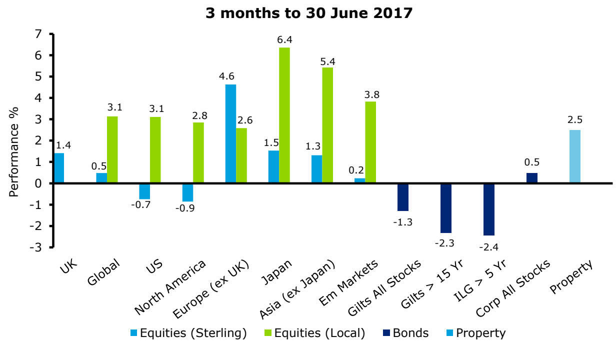
Global equity markets outperformed UK equities in local currency returns (3.1%) but lagged UK equities in sterling terms (0.5%). All geographic regions delivered positive returns in local currency terms, however many unhedged investors would have seen the majority of this positive performance eroded due to the appreciation of sterling over the quarter. Japan was the best performing region in local currency terms (6.4%) closely followed by the rest of the Asia Pacific region.

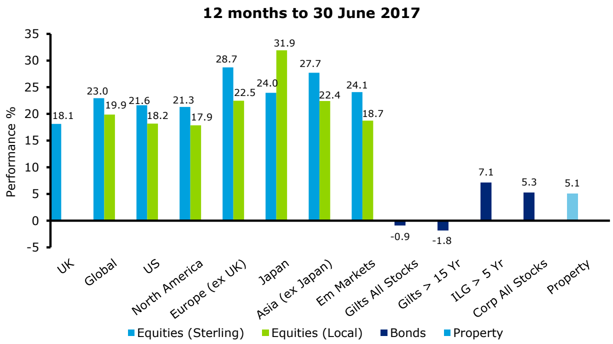
Nominal gilt yields rose over the second quarter of 2017, fuelled by a closer than expected vote by the Monetary Policy Committee to keep rates on hold, which resulted in speculation that tighter monetary policy may soon be on the horizon. As a result, the All Stocks Gilts Index delivered a return of -1.3% over the quarter. Real yields also rose, leading to a return of -2.4% on the Over 5 Year Index-Linked Gilts Index over the same period. Credit spreads narrowed over the quarter, potentially due in part to the rise in nominal gilt yields, and the iBoxx All Stocks Non Gilt Index returned 0.5% over the quarter.

Over the 12 months to 30 June 2017, the FTSE All Share Index delivered a large positive return of 18.1%. Returns have been enhanced by the depreciation of sterling in the aftermath of the EU referendum, and surprisingly robust economic data. There has been a wide dispersion in sector-level returns; Basic Materials (36.1%) was the best performing sector while Telecommunications (-12.6%) was the poorest performing sector. Global equity markets outperformed the UK in both sterling (23.0%) and local (19.9%) currency terms, with currency hedging therefore detracting from performance over the 12 months.

UK nominal gilts delivered slightly negative returns over the 12 months to 30 June 2017, with the All Stocks Gilts Index returning -0.9% and the over 15 Year Gilts Index returning -1.8%. UK index-linked gilts delivered positive returns over the year, with the Over 5 Year Index-Linked Gilts Index returning 7.1% as inflation expectations rose over the year. Credit spreads narrowed over the year, with the iBoxx All Stocks Non Gilt Index delivering a return of 5.3%.

The IPD UK Monthly Property Index returned 2.5% over the quarter and 5.1% over the year to 30 June 2017, as the market bounced back from the sharp falls following the EU Referendum. The search for yield has led to an increase in demand for UK property.





2 Total Fund

2.1 Investment Performance to 30 June 2017

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	-0.9	-1.1	1.4	20.1	19.5	18.1	7.6	7.0	7.4	13.8	13.2	11.3
LGIM	Global Equity	2.8	2.8	2.8	19.7	19.5	19.7	8.1	8.0	8.1	12.6	12.5	12.6
Baillie Gifford	Global Equity	4.6	4.5	0.4	31.0	30.6	22.2	18.5	18.2	14.9	16.9	16.6	14.5
Longview	Global Equity	1.3	1.1	0.1	21.5	20.9	21.6	n/a	n/a	n/a	17.4	16.8	14.7
Insight Gilts	Gilts	-0.6	-0.6	-0.7	-0.2	-0.3	-0.2	3.7	3.6	3.8	2.6	2.5	2.7
Insight Non Gilts	Non Gilts	0.7	0.6	0.5	5.5	5.2	4.5	6.1	5.8	5.5	7.4	7.1	6.3
Hermes	Property	2.7	2.6	2.6	7.9	7.5	6.3	12.3	11.9	10.5	10.1	9.7	8.6
Standard Life	Property	2.8	2.6	-0.8	8.6	8.1	1.0	7.8	7.3	9.0	9.0	8.5	7.2
Total		**1.7**	**1.6**	**1.2**	**18.5**	**18.1**	**15.0**	**10.2**	**9.9**	**9.2**	**7.5**	**7.1**	**7.0**

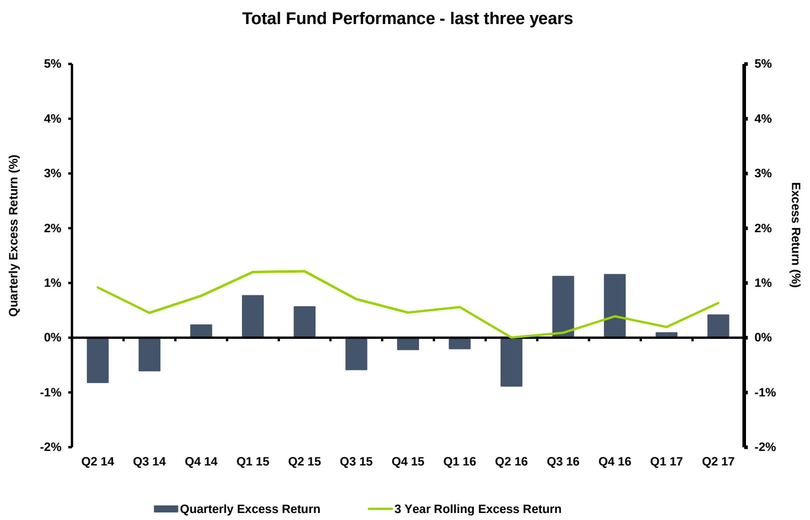
Source: Northern Trust

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

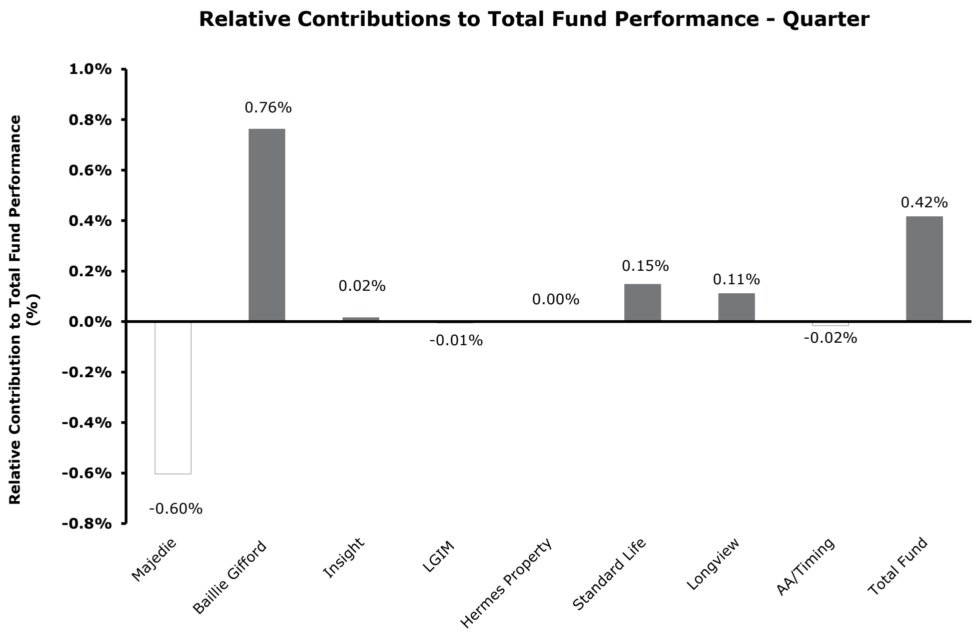
See appendix 1 for more detail on manager fees and since inception dates

Over the quarter the Fund outperformed its benchmark by 0.4% net of fees, with the outperformance of Baillie Gifford, Longview and Standard Life offsetting the underperformance from Majedie. The Fund has outperformed its benchmark over the last year, three years and since inception by 3.1%, 0.7% p.a. and 0.1% p.a. respectively.

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

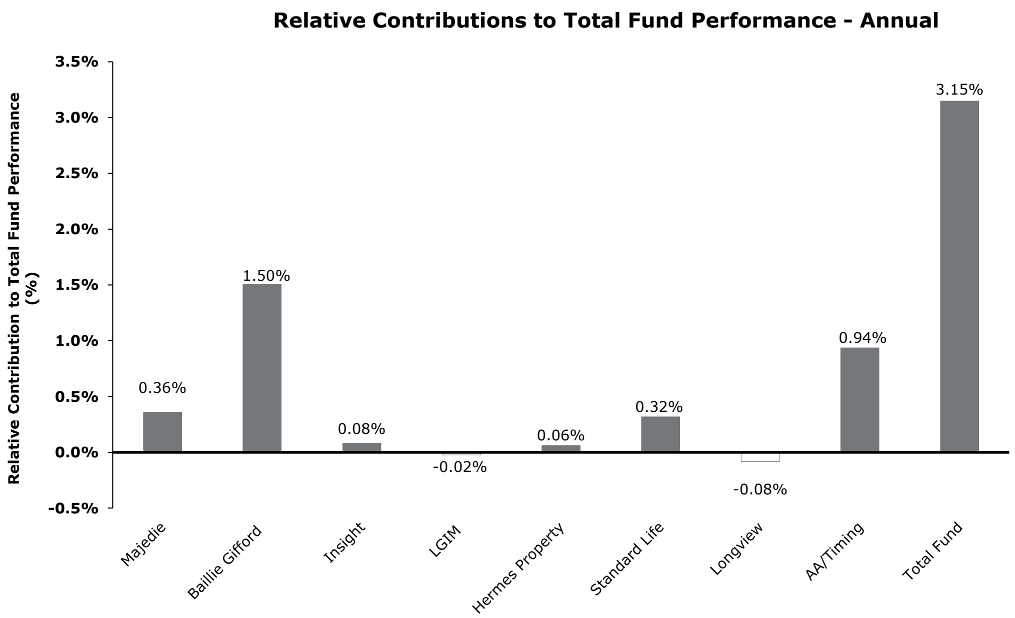


2.2 Attribution of Performance to 30 June 2017



Outperformance by Baillie Gifford, Standard Life and Longview over the quarter helped to counteract the impact of the underperformance from Majedie.

Majedie's longer term performance contributed to the Fund's outperformance over the year, however Baillie Gifford provided the largest contribution to outperformance, outperforming its benchmark by 8.4% over the last 12 months.



2.3 Asset Allocation as at 30 June 2017

The table below shows the assets held by manager and asset class as at 30 June 2017.

Manager	Asset Class	End Mar 2017 (£m)	End June 2017 (£m)	End Mar 2017 (%)	End June 2017 (%)	Benchmark Allocation* (%)
Majedie	UK Equity	303.6	302.8	24.0	23.5	22.5
LGIM	Global Equity (Passive)	283.0	290.9	22.4	22.6	22.5
Baillie Gifford	Global Equity	233.8	244.6	18.5	19.0	25
Longview	Global Equity	141.0	142.8	11.2	11.1	
	Total Equity	**961.4**	**981.1**	**76.1**	**76.2**	**70**
Insight	Fixed Interest Gilts (Passive)	18.9	18.8	1.5	1.5	20
Insight	Sterling Non-Gilts	170.6	171.9	13.5	13.4	
	Total Bonds	**189.5**	**190.7**	**15.0**	**14.8**	**20**
Hermes	Property	57.3	58.8	4.5	4.6	5
Standard Life	Property	54.8	56.3	4.3	4.4	5
To be determined	Property / Infrastructure	0.0	0.0	0.0	0.0	
	Total Property	**112.1**	**115.1**	**8.9**	**8.9**	**10**
	Total	**1,263.0**	**1,286.9**	**100**	**100**	**100**

Source: Northern Trust 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. £23.9m, with positive absolute returns from all of the Fund's managers excluding Insight's Fixed Interest Gilts Fund, which reduced in market value by c. £0.1m.

As at 30 June 2017, the Fund was 6.2% overweight equities when compared with the amended benchmark allocation and underweight bonds and property by c. 5.2% and 1.1% respectively.

2.4 Yield analysis as at 30 June 2017

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 June 2017
Majedie	UK Equity	2.90%
Baillie Gifford	Global Equity	1.18%
Insight Fixed Interest Gilts	Fixed Interest Gilts (Passive)	0.70%
Insight Sterling Non-Gilts	Sterling Non-Gilts	2.00%
LGIM	Global Equity (Passive)	0.22%*
Hermes Property	Property	5.30%
Standard Life Long Lease	Property	4.32%
Longview	Global Equity	2.12%
	Total	**1.91%**

*Benchmark yield 2.38%

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 Aberdeen	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 London CIV

Business
As at 30 June 2017, the London CIV had 8 sub-funds and assets under management of £4,940m which had increased from £3,573m as at the 31 March 2017. New subscriptions over the quarter to 30 June 2017 included the Majedie UK Equity Fund and the Newton Global Equity Fund.

Since the quarter end it has been announced that Jill Davys who was responsible for leading on the manager monitoring for the CIV is leaving.

Deloitte view – The London CIV is still at relatively early stages and we continue to monitor the development, particularly with regards to the building of the Fixed Income and Alternative sub funds. To achieve its goals, the CIV will need to recruit further personnel to the investment team and look at how it communicates effectively with the boroughs. We see the news regarding Jill Davys' departure as being a cause for concern.

The slow progress in launching new funds covering other investment options continues to be a disappointment and a source of frustration given the timescales around the requirement for schemes to pool assets.

3.2 Majedie UK Equity

Business

Total AUM for Majedie as at 30 June 2017 was £14.2bn, an increase of £200bn from last quarter.

Majedie's UK Equity Fund was added to the London CIV platform over the quarter, bringing £510m of assets with three London LGPS clients.

Personnel

There have been no personnel changes to the Majedie team.

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

3.3 Baillie Gifford

Business

Total assets under management as at 30 June 2017 were c. £167bn, an increase from c. £159bn as at 31 March 2017. This increase was mainly due to the market movements. Baillie Gifford continued to suffer net capital outflows from existing clients as pensions schemes continue to de-risk from equities and rebalance their portfolios.

Baillie Gifford recently opened its first sales office in Hong Kong. Business from UK clients now accounts for only around a third of the assets under management.

Personnel

There were no significant changes to the portfolio management staff over the quarter. Gerald Smith left the ACWI ex US Alpha Portfolio Construction Group (PCG) at the end of June – Gerald has been Head of Baillie Gifford's Multi Asset and Fixed Income Department since September 2015 and will continue in that role.

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

3.4 LGIM

Business

As at 31 December 2016, Legal & General Investment Management ("LGIM") had total assets under management of £894bn, an increase of £52bn since 30 June 2016, with the largest increases seen in Global Fixed Income and Multi-Asset mandates. Note, Legal & General now reports on a semi-annual reporting timetable and the next update figures (June 2017) will be released by September 2017.

Personnel

Anton Meder's previously announced move to become CEO of LGIM America ('LGIMA'), and Colin Reedie's move from Head of Euro Credit to replace Anton as Co-Head of Global Fixed Income, became effective after the quarter-end on 1 April 2017. With both changes being promotions of individuals already in the business, we do not expect to see any significant change to the running of the business. The Fixed Income team made three additional recruitments in the second quarter including Patrick Dan, a senior portfolio manager, along with two more junior support staff.

LGIM has also continued to build out its LDI & Pooled Fund Solutions team, with 7 new joiners in the second quarter, coming on top of the 8 new joiners the previous quarter. LGIM now considers itself well-resourced to service the recent increase in demand in this area. The joiners included Nelly Terekhova, a Portfolio Construction Manager, and Yonathan Sabbath, a Transitions Manager. There were also 3 leavers during the quarter though their roles have been replaced by the new joiners noted above.

At the Index Team level, Nelson Nery joined to replace the role recently made vacant by the retirement last quarter of the long-standing previous Index Bonds Fund Manager, Helen Stuart. There was also one leaver, Shadi Sarhangpour, who left her role as Index Equity Fund Manager.

Deloitte View – We continue to rate Legal & General positively for its passive and LDI capabilities.

3.5 Longview

Business
Assets under management as at 30 June 2017 increased by c. £0.9bn from the end of Q1 2017 to c. £17.9bn.

The capacity limit of $25.0bn is close to being reached, with assets currently standing at around $23bn. Longview has a concentrated portfolio and wants to remain open to existing clients and is therefore managing the capacity constraints closely. Over the quarter there was £500m invested through existing relationships.

The sub-fund with the London CIV has now been launched. Longview and the London CIV are working together to plan the transition for boroughs with exposure to the strategy.

Personnel
Longview has two new partners, Katie Moran and James Williams. Both have been with Longview for some time; Katie Moran continues to work in the Research team, and James Williams continues in the Risk & Portfolio Analysis team.

Longview continues to look for a research analyst.

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

3.6 Insight

Business
Insight continued to see an inflow of assets over the quarter, with assets under management growing to £552bn. While Insight lost 3 clients over the first quarter, one to another consultant's fiduciary offering and two were lost on competitive tender, it is continuing to see clients increasing their hedge ratios with a number also looking to reduce the levels of leverage in the portfolios. In addition to growth in LDI strategies, Insight saw strong demand across a range of other strategies including cash, asset back securities and secure finance.

Insight is in the process of launching a range of buy and maintain credit strategies with different durations, that will sit alongside its existing constant duration fund, and is considering launching two emerging market debt funds.

Insight is in the process of changing the Bonds Plus and Bonds Plus strategies to daily dealing – currently the funds are weekly dealt.

Personnel
Insight made a couple of changes over the quarter:

- Jonathan Eliot, previously at Man Group, has taken over as Chief Risk Officer, replacing Charles Farquharson who has retired;
- Angus Woolhouse has assumed the role as Head of Distribution, replacing Philip Anker who is returning to the US. Woolhouse joins from Barings.
- James McKerrow is joining the Money Markets team

Deloitte view – We continue to rate Insight positively for its Fixed Income capabilities and continue to monitor how growth is being managed across the business.

3.7 Hermes

Business
Total assets under management increased by £2.3bn over the quarter, to £30.8bn for the business as a whole as at 30 June 2017. Over the quarter, assets under management within the HPUT remained relatively stable, ending the period at c. £1.4bn.

Personnel
There were no changes to the Unit Trust team over the quarter. David Nicol has been appointed as Chairman of the Appointments Committee, following the retirement of Simon Melliss. As a reminder, the Appointments Committee is appointed by investors and is responsible for the current appointment of Hermes as investment manager. The Appointments Committee also has several governance responsibilities and risk oversight roles.

Deloitte view – We continue to rate the team managing HPUT.

3.8 Standard Life Aberdeen

Business

Earlier in the year it was announced that Standard Life and Aberdeen Asset Management would merge in an effort to deliver cost savings in an increasingly cost sensitive industry. During the second quarter, the shareholders of both companies gave their approval to the merger and the investment division management committee was announced. The formal announcement of the creation of the new combined entity was made on 14 August – the new combined business is called Standard Life Aberdeen plc, with the investment business operating under the name Aberdeen Standard Investments.

The Long Lease Fund's assets under management increased slightly to £1.78bn over the second quarter, following positive performance, with no significant inflows or outflows over the quarter.

Personnel

There were no personnel changes over the second quarter of 2017.

Deloitte View – We are still waiting further details on the longer-term implications of the deal, although it is expected that there will be rationalisation across both businesses from both front and back office functions. Not surprisingly, both sides are keen to stress that the respective businesses are complementary and ther is little overlap in strategies within the property business, with this analysis having been taken a step further, looking to see how many time over the last 12 – 18 months the organisations had been bidding on the same properties.

Corporate activity within the asset management industry is difficult and we will monitor developments closely and keep the Committee informed of any changes that we believe could impact the teams managing the fund's assets.

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 London CIV

4.1 Investment Performance to 30 June 2017

As at 30 June 2017, the London CIV had 8 sub-funds and assets under management of £4,940m, increased from £3,573m as at the 31 March 2017. This growth was attributable to the two new sub-funds added over the quarter, which added c. £1,170m to the platform, as well as positive investment performance.

The table below provides an overview of the sub-funds currently available on the London CIV platform.

Sub-fund	Asset Class	Manager	Total AuM as at 30 June 2017 (£m)	Total AuM as at 31 Mar 2017 (£m)	Number of London CIV clients	Inception Date
LCIV MJ UK Equity	UK Equity	Majedie	510	N/A	3	18/05/17
LCIV Global Equity Alpha	Global Equity	Allianz Global Investors	691	667	3	02/12/15
LCIV BG Global Alpha Growth	Global Equity	Baillie Gifford	1,674	1,602	9	11/04/16
LCIV NW Global Equity	Global Equity	Newton	659	N/A	3	22/05/17
LCIV PY Total Return	Diversified growth fund	Pyrford	225	204	3	17/06/16
LCIV Diversified Growth	Diversified growth fund	Baillie Gifford	362	355	5	15/02/16
LCIV RF Absolute Return	Diversified growth fund	Ruffer	473	413	5	21/06/16
LCIV NW Real Return	Diversified growth fund	Newton	346	332	3	16/12/16
Total			**4,940**	**3,573**	**18**	

Following the quarter end, the sub-fund with Longview was launched. Longview and the London CIV are working together to plan the transition for the relevant Fund’s. The London CIV is expecting to add the following three sub-funds over the coming months:

- Epoch Investment Partners – Global equity income sub-fund.
- RBC – Sustainable equity sub-fund.
- Janus Henderson – Emerging market equity sub-fund.

A key development after the quarter end was the announcement that Jill Davys will be leaving the CIV. Jill was closely involved in the manager monitoring undertaken and we see her departure as a loss to the CIV.

5 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.

5.1 Global equity – Investment performance to 30 June 2017

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Baillie Gifford – Gross of fees	4.6	31.0	18.5	16.9
Net of fees	4.5	30.6	18.2	16.6
MSCI AC World Index	0.4	22.2	14.9	14.5
Relative (net of fees)	4.1	8.4	3.3	2.1

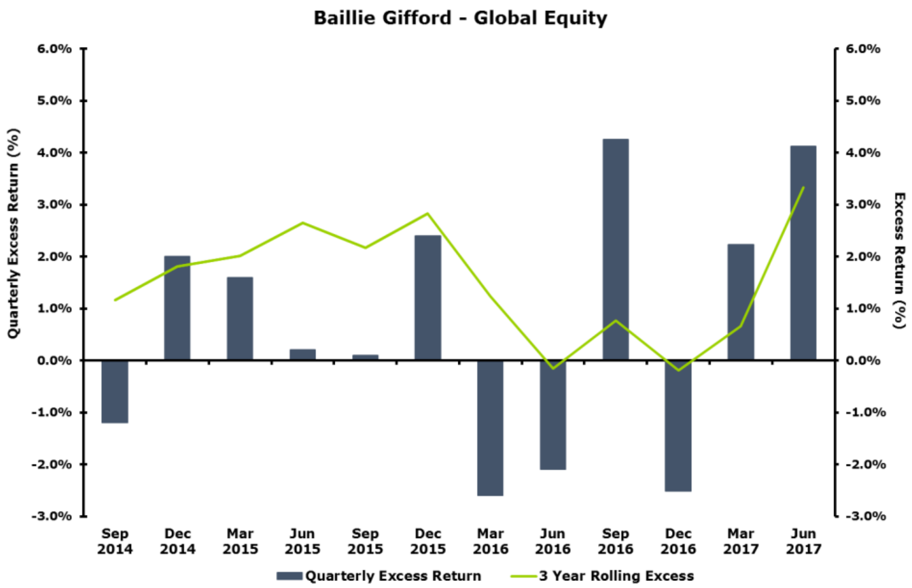
Source: Baillie Gifford, via Northern Trust and estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 18 March 2014

The Baillie Gifford Global Equity Alpha Fund has outperformed its benchmark by 4.1% net of fees over the quarter and by 8.4% over the year to 30 June 2017.

The graph below shows the net quarterly returns and the rolling three year excess returns relative to the benchmark. The Fund's current three year excess return is ahead of the target (+2% p.a.) having outperformed the benchmark by 3.3% p.a.

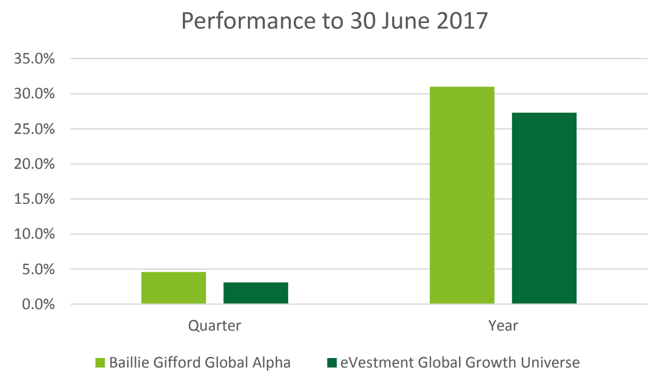


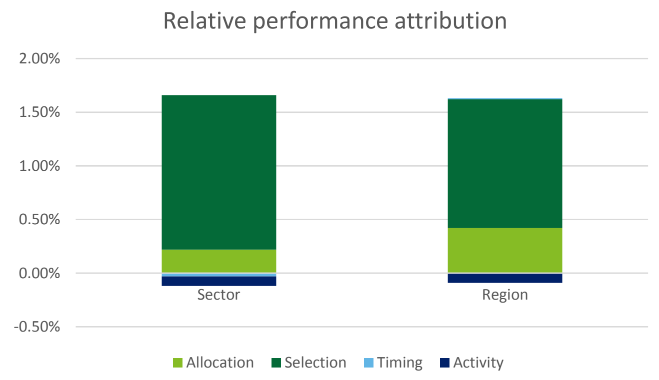
5.2 Performance Analysis

When analysing the performance of an active equity manager, it is important to understand the 'style' of the strategy and assess the performance and attribution with this in mind. One way to do this is to compare the performance with other products of similar style.

The Global Alpha fund has a growth bias, meaning the manager looks for stocks with potential for earning growth resulting in capital gains as opposed to dividend income. The analysis below compares the Global Equity Fund with a universe of global growth equity products. The universe is provided by eVestment and contains 90 products from 62 firms.

The chart below compares the performance of Baillie Gifford with the peer group (gross of fees).





Source: eVestment

Baillie Gifford's Global Alpha Fund has outperformed its peer group by 1.6% over the quarter and 5.2% over the year. The chart above to the right shows the attribution of relative performance to the peer group, broken down into allocation, selection, activity and timing. The full definitions of each category can be found in the appendix.

Baillie Gifford's outperformance relative to the peer group over the quarter can be largely attributable to superior selection, i.e. bottom-up skill, particularly within the technology and consumer discretionary sectors. Royal Caribbean Cruises, a stock which is held by very few other managers in this peer group (average 0.1% allocation) was a large contributor to returns over the quarter, being one of Baillie Gifford's largest stocks (3.6% allocation). Holding more than double the allocation of Amazon (4.7% versus 2.0% in the peer group) also contributed strongly.

Allocation (top-down skill) also contributed positively over the quarter on both a sector and regional basis. The strategy benefited from less exposure to the energy sector than its peers (2.2% allocation versus 3.1%) and regionally, Baillie Gifford continued to benefit from a higher allocation to emerging markets (16.2% versus 10.4% in the peer group) as EM continued to rally over the quarter.

The top 10 holdings in the portfolio account for c. 29.0% of the Fund and are detailed below.

Top 10 holdings as at 30 June 2017	Proportion of Baillie Gifford Fund
Amazon	4.1%
Naspers	3.7%
Royal Caribbean Cruises	3.5%
Prudential	3.4%
Taiwan Semiconductor Manufacturing	2.8%
SAP	2.6%
Alphabet	2.3%
Anthem	2.3%
Alibaba	2.2%
AIA	2.1%
Total	**29.0%**

Note: The numbers in this table may not sum due to rounding

6 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.

6.1 Passive Global Equity – Investment Performance to 30 June 2017

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
LGIM - Gross of fees	2.8	19.7	8.1	12.6
Net of fees[1]	2.8	19.5	8.0	12.5
FTSE World (GBP Hedged) Index	2.8	19.7	8.1	12.6
Relative (net of fees)	0.0	-0.2	-0.1	-0.1

Source: Northern Trust

(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 tracked the benchmark over the quarter to 30 June 2017. However, the Fund has underperformed the benchmark by 0.2% over the year and by 0.1% p.a. over both the last three years and since the inception of the mandate. This underperformance is not unexpected given the cost of hedging.

7 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.

7.1 Active UK Equity – Investment Performance to 30 June 2017

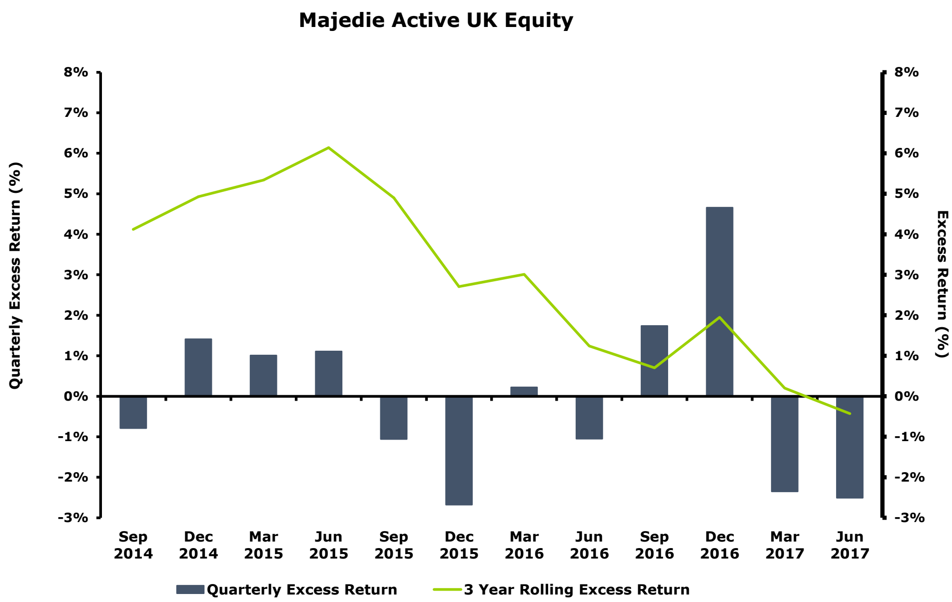
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Majedie - Gross of fees	-0.9	20.1	7.6	13.8
Net of fees[1]	-1.1	19.5	7.0	13.2
MSCI AC World Index	1.4	18.1	7.4	11.3
Relative (on a net basis)	-2.5	1.4	-0.4	2.1

Source: Northern Trust

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 31 May 2006



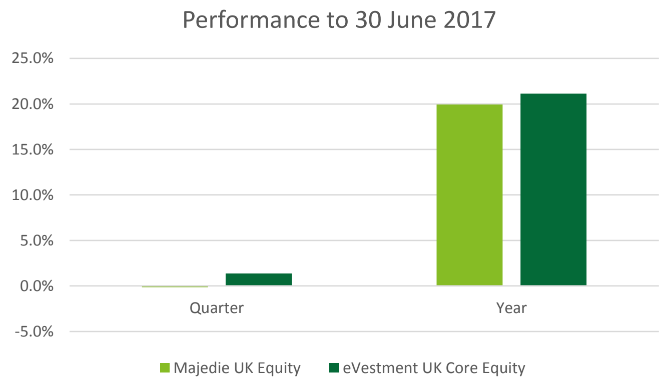
Majedie underperformed its benchmark over the quarter by 2.5% but has outperformed its benchmark over the year by 1.4% on a net of fees basis. Over the three years the manager has underperformed its benchmark on a net of fees basis by 0.4% p.a.

7.2 Performance analysis

When analysing the performance of an active equity manager, it is important to understand the 'style' of the strategy and assess the performance and attribution with this in mind. One way to do this is to compare the performance with other products of similar style.

The UK Equity Fund uses a multi-manager approach with 4 fund managers responsible for their own portfolios within the strategy. Each manager has a slightly different management style and therefore the Fund can, at times, display a bias to a certain style depending on the current market environment. The analysis below compares the UK Equity Fund to a universe of core UK equity managers, allowing us to analyse Majedie's chosen style drift as well as sector positioning and stock selection, versus this universe. The universe is provided by eVestment and contains 78 products across 38 firms.

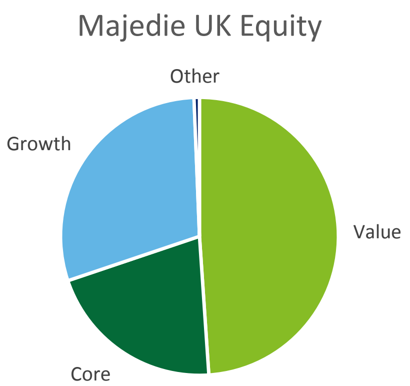
The chart below compares the performance of Majedie with its peer group (gross of fees).

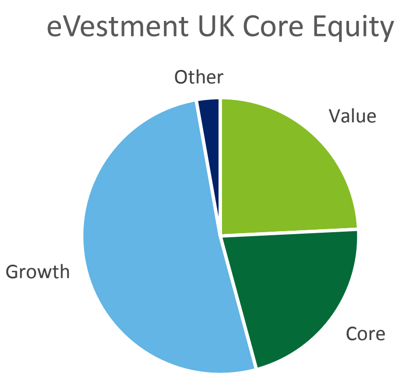


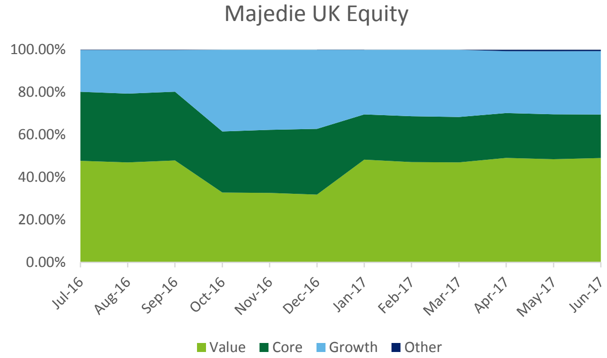
Majedie has underperformed the core equity universe by 2.3% over the quarter and by 1.0% over the year to 30 June 2017. Over the past year Majedie has had a value tilt in the portfolio (49% allocation versus average 24% across the peer group), reflecting concerns that the broader market is overvalued and, if there were to be a correction, the more cyclical value stocks would perform better in such an environment. However this position has detracted from performance over both the quarter and year as growth stocks have continued to fare better.

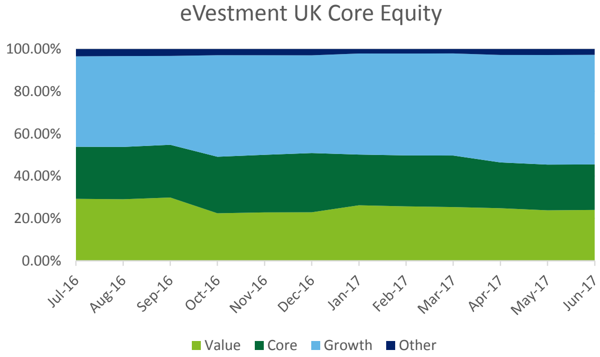
Source: eVestment.

The charts below show Majedie's style allocation over the quarter and year compared to the average allocation across the peer group.









Source: eVestment.

Majedie has had an overweight to value and underweight to growth stocks over the past 6 months, relative to its peers. While this has not paid off in performance terms, it does illustrate Majedie's concerns on markets and represents a relatively defensive position should there be a market correction.

8 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.

8.1 Active Global Equity – Investment Performance to 30 June 2017

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Longview - Gross of fees	1.3	21.5	n/a	17.4
Net of fees[1]	1.1	20.9	n/a	16.8
MSCI World Index	0.1	21.6	n/a	14.7
Relative (on a net basis)	1.0	-0.7	n/a	2.1

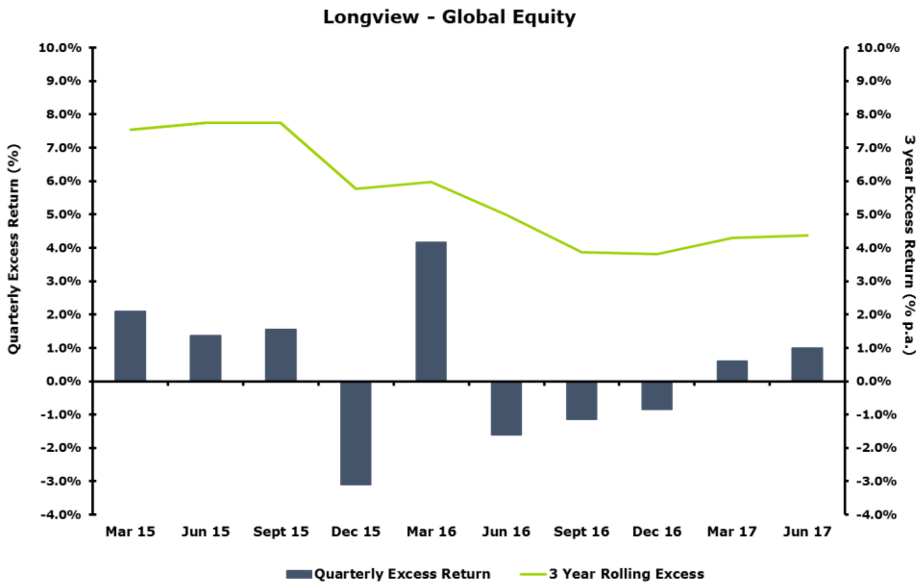
Source: Northern Trust

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date 15 January 2015

Longview outperformed the benchmark by 1.0% on a net of fees basis over the second quarter of 2017. Over the year the Fund is behind the benchmark (net of fees) by 0.7% but above benchmark since inception by 2.1% p.a. The Fund targets an outperformance of 3% p.a. over a three year period.



8.2 Style analysis

Longview runs a very concentrated core equity portfolio. The manager places high conviction in a small number of stocks (30-35), looking to add value through bottom up security selection. Therefore the most appropriate measure to monitor performance is to look at the stocks in the portfolio and understand where the performance is coming from. It is also important to understand the reasons a stock has been retained as well as why the manager has made a purchase or sale.

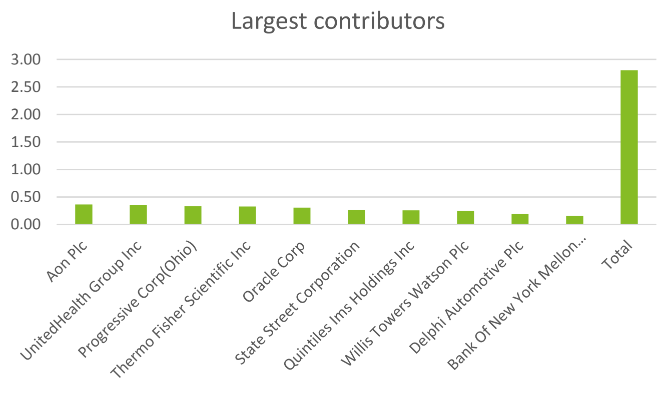
Stock	Average quarter weight	Performance
Cash	4.62%	0.09%
Aon Plc	4.50%	8.11%
Progressive Corp (Ohio)	3.92%	8.44%
Delphi Automotive Plc	3.84%	4.98%
UnitedHealth Group Inc	3.79%	9.29%
Bank of New York Mellon Corp	3.66%	4.31%
Parker-Hannifin Corp	3.64%	-3.67%
Quintiles Ims Holdings Inc	3.62%	7.10%
Zimmer Biomet Holdings Inc	3.62%	1.13%
Fidelity Natl Information services	3.60%	3.62%

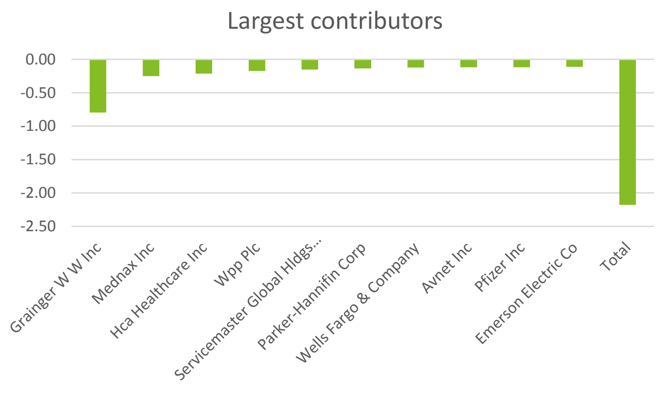
*Largest contributors, largest detractors.
Source: eVestment

It was a relatively steady quarter for Longview, with 22 of the 36 stocks held performing positively, while there was no specific individual case which stood out. Eight of Longview's top 10 weighted stocks performed positively over the quarter, with three being in the highest contributors to performance. Aon Plc continues to be a strong performing stock, with Longview having held the stock for over 5 years.

In terms of detractors, industrial distribution company WW Grainger stood out, accounting for one third of the portfolio's total losses over the quarter. WW Grainger's business model is to sell planned purchases (contracted amounts, often with volume discount), and spot purchases (orders placed daily from the website). The company has been pushing up spot purchase pricing, which contribute to c. 40% of the revenue and, as a result, is looking expensive compared to competitors. WW Grainger has started to re-price its spot purchase pricing and is expecting volumes to improve as a result. The stock fell c. 30% over the quarter and was 2.9% of the portfolio.

Longview still has a relatively high cash allocation of 4.6%.





Source: eVestment.

9 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.

9.1 Insight – Active Non Gilts

9.1.1 Investment Performance to 30 June 2017

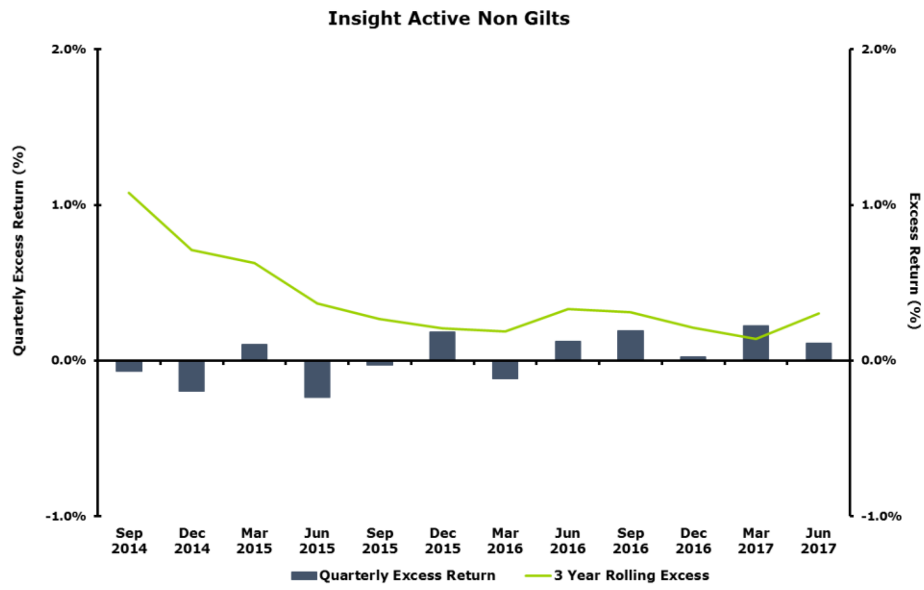
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Insight Non Gilts - Gross of fees	0.7	5.5	6.1	7.4
Net of fees[1]	0.6	5.2	5.8	7.1
iBoxx £ Non-Gilt 1-15 Yrs Index	0.5	4.5	5.5	6.3
Relative (on a net basis)	0.1	0.7	0.3	0.8

Source: Northern Trust

(1) Estimated by Deloitte

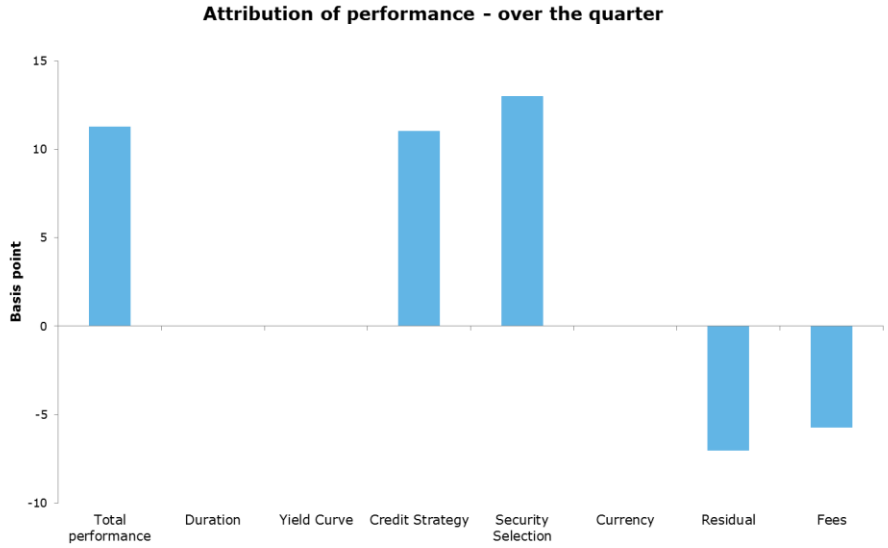
See appendix 1 for more detail on manager fees

Inception date taken as 31 May 2006.



Over the quarter the Non-Gilt portfolio outperformed the benchmark by 0.1%. Over the year to 30 June 2017, the portfolio has outperformed the benchmark by 0.7%, by 0.3% p.a. over the 3 years to 30 June 2017 and by 0.8% p.a. since inception. Performance remains below the outperformance target of 0.9% p.a. across all periods.

9.1.2 Attribution of Performance



Source: Estimated by Insight

Insight's outperformance this quarter has been driven by its credit strategy and security selection, with there being no excess performance from the portfolio's duration positioning, yield curve or currency.

9.2 Insight – Government Bonds

9.2.1 Investment Performance to 30 June 2017

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Insight Gilts - Gross of fees	-0.6	-0.2	3.7	2.6
Net of fees[1]	-0.6	-0.3	3.6	2.5
FTSE A Gilts up to 15 Yrs Index	-0.7	-0.2	3.8	2.7
Relative (on a net basis)	0.1	-0.1	-0.2	-0.2

Source: Northern Trust

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 30 June 2008.

The gilt portfolio aims to track the benchmark and has performed broadly in-line, or within acceptable tracking levels, over all periods to 30 June 2017.

9.3 Duration of portfolios

	31 March 2017		30 June 2017	
	Fund (Years)	Benchmark (Years)	Fund (Years)	Benchmark (Years)
Non-Government Bonds (Active)	4.7	5.6	5.7	5.6
Government Bonds (Passive)	4.5	4.8	4.5	5.0

Source: Insight

10 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.

10.1 Property – Investment Performance to 30 June 2017

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Hermes - Gross of fees	2.7	7.9	12.3	10.1
Net of fees[1]	2.6	7.5	11.9	9.7
Benchmark	2.6	6.3	10.5	9.0
Relative (on a net basis)	0.0	1.2	1.4	0.7

Source: Hermes

(1) Estimated by Deloitte

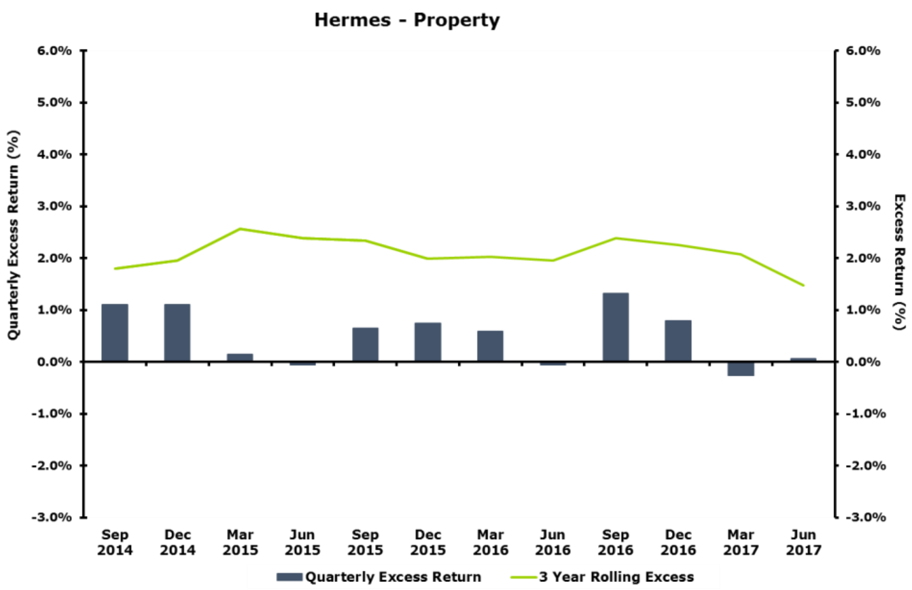
See appendix 1 for more detail on manager fees

Inception date is taken as 26 October 2010

Hermes performed in line with the benchmark over the quarter, returning 2.6% in absolute terms. The strategy remains ahead of its benchmark over the year, three years and since inception to 30 June 2017 by 1.2%, 1.4% p.a. and 0.7% p.a. respectively. The strategy is ahead of target (to outperform the benchmark by 0.5% p.a.) across all periods.

Key contributors to the performance over the quarter came from properties in the Industrial sector. The main detractors over the quarter were the Trust's holdings in Retail Warehouses and West End Offices, both sectors having a fairly muted (albeit positive) quarter.

At a stock specific level, Hermes notes the negative return by the Broken Wharf House, London, and Christopher Place in St. Albans. With planning costs and vacancy affecting the performance of Broken Wharf House and the recent drop in value of shopping centres directly affecting Christopher Place. The main contributors this quarter came from the industrial sector, with Hermes noticing strong, positive, valuation movements in 3 Heathrow properties and Elstree Distribution Park in Borehamwood.



10.2 Sales and Purchases

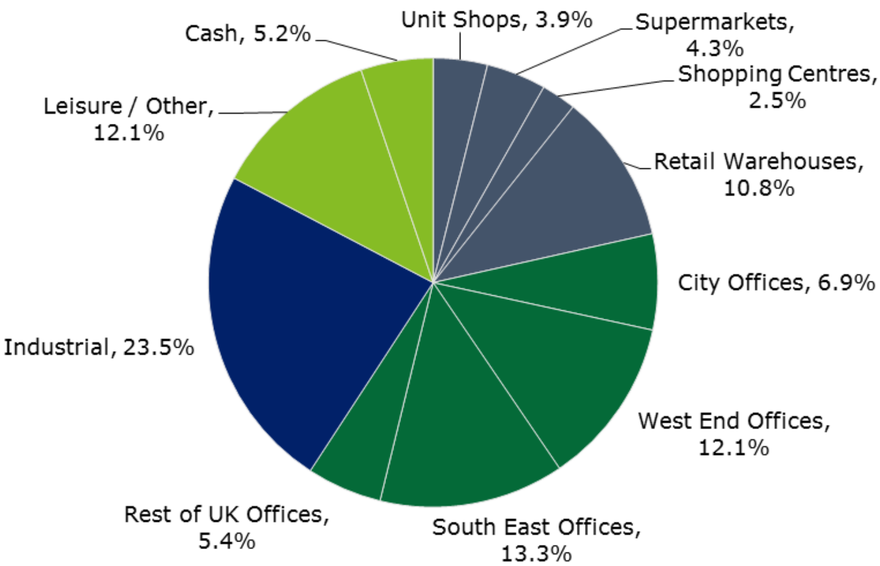
There were no acquisitions or disposals during the second quarter of 2017. Hermes notes that it is looking at some new assets but is unlikely to be finalising any deals until later this year.

Asset management is ongoing at the following properties:

- Elstree Distribution Park, Borehamwood: the lease with Home Delivery Network, which was set to expire in March 2018, has been renewed for another 10 year term starting from June 2017. This has removed the void risk and has also achieved a 17% increase in rent.
- The Warwick, Regency House, 1-4 Warwick Street, London W1: rent review on the ground floor bar settled following a determination by an arbitrator. New passing rent set at £290,000, a significant increase from the previous passing rent of £160,000. This increase in rent has been back-dated to the date of the rent review and will be paid into the Trust's Q3 income distribution.
- 27 Soho Square, London, W1D: after becoming vacant in January 2017, the Trust has invested c.£560,000 to complete the comprehensive refurbishment of the building's first floor office. Hermes believes this has significantly improved the marketability and rental potential of this floor, with the expectation of an improvement in EPC rating to B.

10.3 Portfolio Summary as at 30 June 2017

The Hermes Property Unit Trust invests across retail, offices, industrials and other sectors, with the split as at 30 June 2017 shown below.



The table below shows the top 10 directly held assets in the Fund as at 30 June 2017, representing c.36.1% of the Fund.

Asset	Sub-sector	Value (£m)
Maybird Shopping Park, Stratford-upon-Avon	Retail Warehouses	108.5
8/10 Great George Street, London SW1	Offices	62.0
27 Soho Square, London W1	Offices	44.2
Polar Park, Bath Road, Heathrow	Industrial	43.4
Sainsbury's, Maxwell Road, Beaconsfield	Supermarkets	41.2
Hythe House, Hammersmith	Offices	39.0
2 Cavendish Square, London W1	Offices	37.9
Camden Works, Oval Road, London NW1	Offices	37.7
Christopher Place, St Albans	Shopping Centre	36.5
Boundary House, 91/93 Charterhouse St, London EC1	Offices	35.0
Total		**485.4**

11 Standard Life Aberdeen – Long Lease Property

Standard Life Aberdeen ("SLA") 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.

11.1 Long Lease Property – Investment Performance to 30 June 2017

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Standard Life - Gross of fees	2.8	8.6	7.8	9.0
Net of fees[1]	2.6	8.1	7.3	8.5
Benchmark	-0.8	1.0	9.0	7.2
Relative (on a net basis)	3.4	7.1	-1.7	1.3

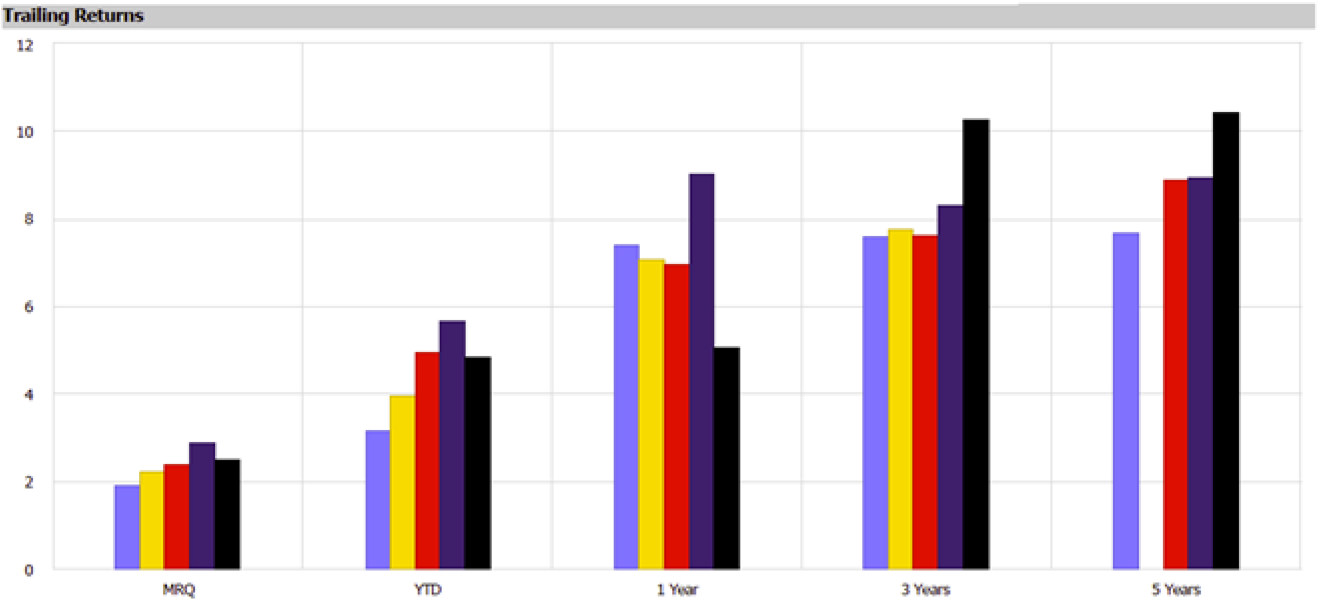
Source: Standard Life

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Since inception: 14 June 2013

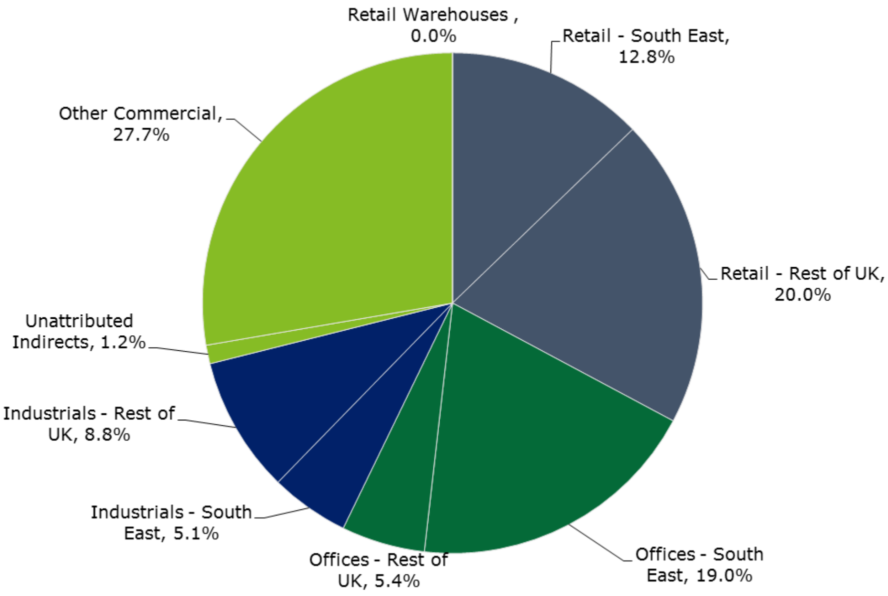
The SLA Long Lease Property Fund returned 2.6% net of fees over the second quarter of 2017, outperforming the benchmark of the FTSE Gilt All Stocks Index + 2% by 3.4% net of fees. The chart below shows the longer term performance of the SLA Long Lease Property Fund relative to a number of other long lease products.



	VT	RM	MRQ	YTD	1 Year	3 Years	5 Years
Aviva Investors: Lime Property Fund - UK Long Secure Income	PF	NF	1.92	3.14	7.38	7.58	7.67
BlackRock: UK Long Lease Property	CF	NF	2.20	3.96	7.07	7.78	---
M&G Investment Management Ltd: M&G Secured Property Income Fund	PF	NF	2.38	4.94	6.96	7.62	8.87
Standard Life Investments (Aberdeen Standard Investments): Long Lease Property Fund	PF	GF	2.88	5.64	9.04	8.31	8.95
IPD Index: IPD	SA	IX	2.50	4.82	5.06	10.25	10.43

11.2 Portfolio Holdings

The sector allocation in the Long Lease Property Fund as at 30 June 2017 is shown in the graph below.



The Fund's holding in the office sector has increased from 21.9% as at 31 March 2017 to 24.4% as at 30 June 2017, in response to the £89.1m acquisition of an office at 33 Foley Street.

Throughout the quarter, the Fund's industrial and "Other" weights have reduced from 14.7% and 30.5% to 13.9% and 28.9% respectively.

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	7.9	10.0
Whitbread	5.2	6.6
Sainsbury's	4.9	6.2
Marston's	4.6	5.8
Asda	4.4	5.6
QVC	4.0	5.1
Salford University	3.7	4.7
Save The Children	3.7	4.6
Steinhoff	3.6	4.6
Glasgow City Council	3.3	4.2
Total	**45.3**	**57.3***

*Total may not equal sum of values due to rounding

The top 10 tenants contribute 57.3% of the total net income into the Fund. Supermarkets continue to dominate with Tesco, Sainsbury's and Asda contributing 21.8% to the Fund's total net rental income as at 30 June 2017.

The Fund's average unexpired lease term decreased slightly over the quarter from 25.4 years to 25.1 years.

11.3 Sales and Purchases

There were two purchases over the quarter:

- The Fund acquired an office at 33 Foley Street for £89.1m. The asset is on a sale and lease back basis to Kier Group. The 25 year lease has annual RPI-linked rent reviews with a cap and collar of 4% p.a. and 2% p.a. respectively. The property is currently under development and is expected to be completed in October.
- The Fund also purchased the Ivy Restaurant in Covent Garden for £37.5m. The 35 year lease has annual RPI-linked rent reviews.

The Fund also exchanged contracts to sell one asset:

- SLI exchanged contracts to sell its Debenhams store in Nottingham for £28.85m. The asset is being sold at a premium to its current valuation and Standard Life has concerns around the business strength of Debenhams and its declining share price. The sale of the asset also reduced the Fund's retail exposure.

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 Aberdeen	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 – eVestment Attribution

eVestment Attribution provides holdings-based portfolio analysis tool, allowing deeper insight into how portfolio returns are generated, active returns to be de-composed and value-add from sector, style and regional effects to be quantified.

eVestment collects data directly from the investment managers. The calculations are based on holdings and may differ slightly from those provided by the manager.

Definitions

Allocation: Allocation effect captures the value added by the manager relative to the benchmark or peer group from active allocation to sectors, regions and styles. The Allocation effect isolates the manager's active weighting decisions relative to the benchmark or average allocations across a peer group. This captures the manager's 'top-down' skill.

Selection: Selection effect captures the value added by the manager relative to the benchmark or peer group from overweighting or underweighting specific stocks. The Selection effect isolates the manager's active stock selection decisions rather than holding the same securities as the benchmark or peer group. This captures the manager's 'bottom-up' skill.

Activity: This tracks the difference between the linked actual monthly returns and buy-and-hold monthly returns. This captures intra-period trading.

Timing: This measures the combined effects of compounding and changes in allocations and holdings through time.

Limitations

- Attribution analysis is available for a minimum period of one quarter and maximum period of 5 years.
- Only equity products are eligible for attribution analysis (this includes institutional, SMA, and ETF products).
- Holdings data is collected on a quarterly basis. Adjustments are made to account for intra-quarter trading activity.
- Managers are not permitted to view the holdings page for products other than those managed by their firm.

Universe construction

On an ongoing basis, all eVestment Universes are updated & scrubbed approximately 45 days after quarter-end, where several factors are considered, including:

- Screening of fundamental portfolio characteristics vs universe medians; emphasis on outliers, data trends and accuracy;
- Analysis of sector allocations vs existing eVestment style universes; emphasis on significant over/under-exposures to key "style" sectors (technology, financials, etc.);
- Statistical performance and risk screening versus appropriate benchmarks and universe medians, such as returns, standard deviation, tracking error and correlation coefficients over trailing and rolling time periods;
- Review of product narratives detailing a manager's investment strategy, screening process, portfolio construction methodologies and buy/sell disciplines;
- Manager reported capitalisation and style emphasis, or duration, quality and style emphasis and product benchmark.

Security eligibility and weight threshold requirements for individual portfolios apply to universe construction as well. After this process is complete, the eVestment team will collectively review preliminary classifications on new universe entrants and any suggested reclassifications of existing products. Following final agreement among the eVestment team, products are added or moved and new universes are promoted to the live eVestment system for use by all eVestment clients.

Appendix 4 – Risk warnings & Disclosures

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

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

Our advice must not be copied or recited to any other person than you and no other person is entitled to rely on our advice for any purpose. We do not owe or accept any responsibility, liability or duty towards any person other than you.

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City of Westminster Pension Fund

Funding update report as at 30 June 2017

Barnett Waddingham LLP

24 August 2017

Contents

Introduction

We have carried out a a quarterly monitoring assessment of the City of Westminster Pension Fund (the Fund) as at 30 June 2017. The purpose of this assessment is to provide an update on the funding position.

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

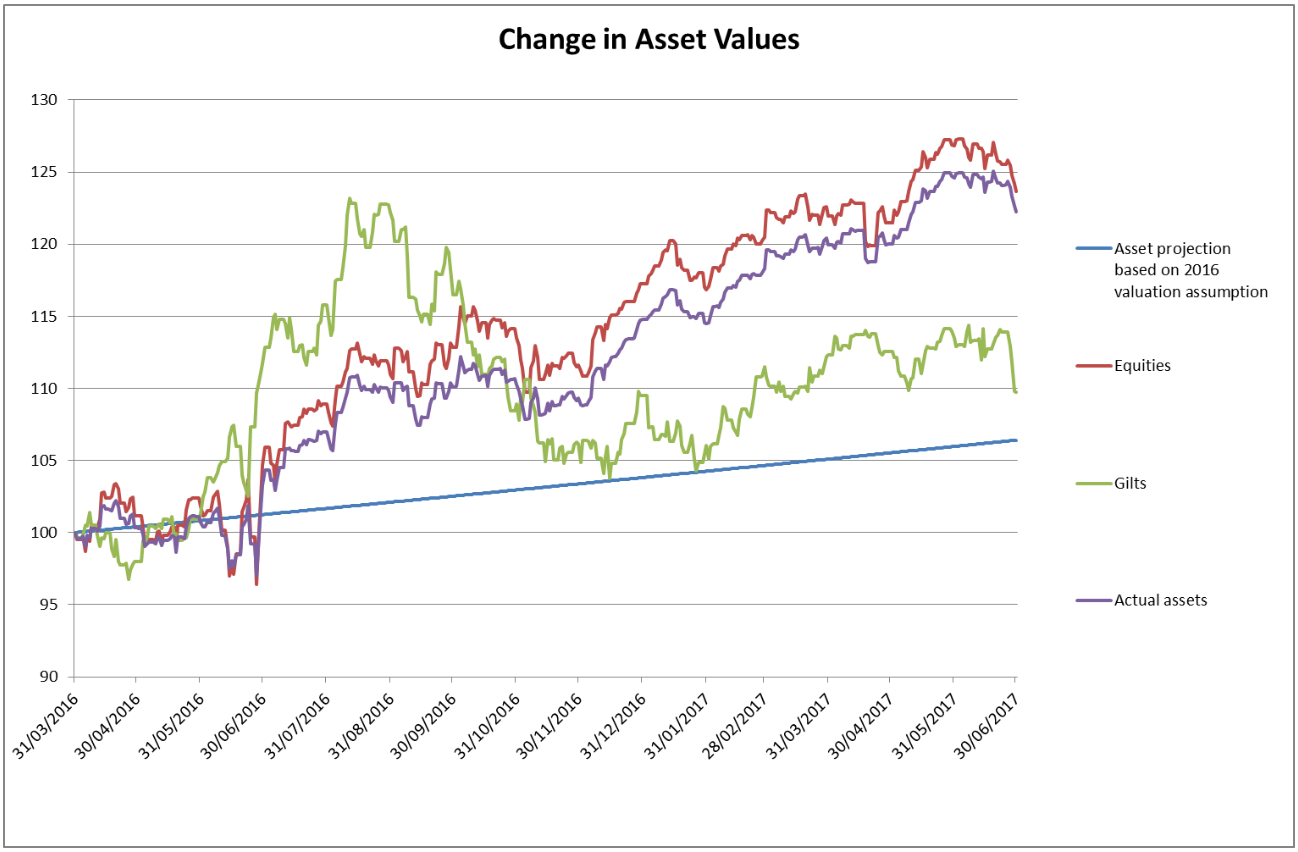
Assets

The estimated (unsmoothed) asset allocation of the City of Westminster Pension Fund as at 30 June 2017 is as follows:

Assets (market value)	30 Jun 2017		31 Mar 2017		31 Mar 2016	
	£000s	%	£000s	%	£000s	%
UK and overseas equities	981,644	76.3%	960,774	76.1%	790,289	74.1%
Bonds	154,055	12.0%	156,337	12.4%	130,390	12.2%
Property	113,295	8.8%	110,739	8.8%	105,811	9.9%
Gilts	27,873	2.2%	27,334	2.2%	26,733	2.5%
Cash and accruals	8,916	0.7%	6,708	0.5%	13,120	1.2%
Total assets	**1,285,784**	**100%**	**1,261,892**	**100%**	**1,066,343**	**100%**

The investment return achieved by the Fund's assets in market value terms for the a quarter to 30 June 2017 is estimated to be 1.9%. The return achieved since the previous valuation is estimated to be 22.2% (which is equivalent to 17.4% p.a.).

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



As we can see the asset value as at 30 June 2017 in market value terms is more than where it was projected to be at the previous valuation.

Changes in market conditions – market yields and discount rates

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

Assumptions (smoothed)	30 Jun 2017		31 Mar 2017		31 Mar 2016	
	Nominal	Real	Nominal	Real	Nominal	Real
	% p.a.		% p.a.		% p.a.	
Pension increases (CPI)	2.72%	-	2.79%	-	2.39%	-
Salary increases	4.22%	1.50%	4.29%	1.50%	3.89%	1.50%
Main discount rate	5.01%	2.29%	5.05%	2.26%	5.10%	2.71%

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate – the higher the real discount rate the lower the value of liabilities. As we see the real discount rate is lower than at the 31 March 2016 valuation, increasing the value of liabilities used for funding purposes.

Please note that from 15 May 2017 to 3 July 2017 the Bank of England (BoE) temporarily suspended the publication of their implied inflation curve (on which our RPI increase assumption, and so our CPI increase assumption, is based) while they carried out a review of their methodology. The BoE resumed publication of the implied inflation curve from 3 July 2017, however, they have also revised previous publications dating back to 1 January 2017. Our assumptions below take into account the new methodology from 1 January 2017.

Summary of results

The results of our assessment indicate that:

- the current projection of the smoothed funding level as at 30 June 2017 is 86.9% and the average required employer contribution would be 28.3% of payroll assuming the deficit is to be paid by 2038;
- this compares with the reported (smoothed) funding level of 80.0% and average required employer contribution of 28.5% of payroll at the 31 March 2016 funding valuation.

The discount rate underlying the smoothed funding level as at 30 June 2017 is 5.0% p.a. The investment return required to restore the funding level to 100% by 2038, without the employers paying deficit contributions, would be 5.7% p.a.

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

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

Graeme D Muir FFA
Partner
Barnett Waddingham LLP

Barnett Waddingham
a true partnership approach

Appendix 1 Financial position since previous valuation

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

Smoothed Valuation date	Assets £000s	Liabilities £000s	Surplus / Deficit £000s	Funding level %	CARE ongoing cost (% of payroll)	Past service ctbn	Total ctbn (% of payroll)	Discount rate	Return required to restore funding level (p.a.)
31 Mar 2016	1,056,747	1,320,797	(264,050)	80%	16.9%	11.6%	28.5%	5.1%	6.1%
30 Apr 2016	1,069,289	1,336,290	(267,001)	80%	17.2%	11.9%	29.1%	5.0%	6.0%
31 May 2016	1,088,792	1,361,959	(273,167)	80%	17.7%	12.1%	29.8%	4.9%	5.9%
30 Jun 2016	1,103,684	1,383,592	(279,908)	80%	18.2%	12.4%	30.6%	4.8%	5.9%
31 Jul 2016	1,121,960	1,404,218	(282,258)	80%	18.6%	12.4%	31.0%	4.8%	5.8%
31 Aug 2016	1,133,402	1,420,778	(287,376)	80%	18.9%	12.7%	31.6%	4.8%	5.9%
30 Sep 2016	1,150,014	1,437,397	(287,383)	80%	19.3%	12.6%	31.9%	4.9%	5.9%
31 Oct 2016	1,172,816	1,449,340	(276,524)	81%	19.4%	12.2%	31.6%	4.9%	5.9%
30 Nov 2016	1,185,339	1,456,336	(270,997)	81%	19.5%	12.0%	31.5%	5.0%	6.0%
31 Dec 2016	1,206,192	1,462,395	(256,203)	82%	19.5%	11.3%	30.8%	5.1%	6.0%
31 Jan 2017	1,217,761	1,466,656	(248,895)	83%	19.5%	11.1%	30.6%	5.1%	6.0%
28 Feb 2017	1,237,696	1,476,136	(238,440)	84%	19.7%	10.6%	30.3%	5.1%	5.9%
31 Mar 2017	1,261,355	1,484,995	(223,640)	85%	19.8%	10.0%	29.8%	5.0%	5.8%
30 Apr 2017	1,272,196	1,485,224	(213,028)	86%	19.7%	9.6%	29.3%	5.0%	5.8%
31 May 2017	1,289,936	1,486,706	(196,770)	87%	19.6%	8.9%	28.5%	5.0%	5.7%
30 Jun 2017	1,294,438	1,489,350	(194,912)	87%	19.5%	8.8%	28.3%	5.0%	5.7%

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**12 October 2017**
Classification:	**General Release**
Title:	**Fund Financial Management**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no immediate financial implications arising from this report.**
Report of:	**Steven Mair** ***City Treasurer*** smair@westminster.gov.uk **020 7641 2904**

1. Executive Summary

1.1 The risk register has been updated to include an additional risk in relation to MiFID II under the heading 'Strategic: Regulation' and risk number 26 (formerly 25) has been modified due to improvement in aspects of service delivery. The cash flow forecast has been updated for the next three years and the forward plan has been updated with three workflows for the October to March 2018 meeting cycles.

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 cash flow position and three year forecast.

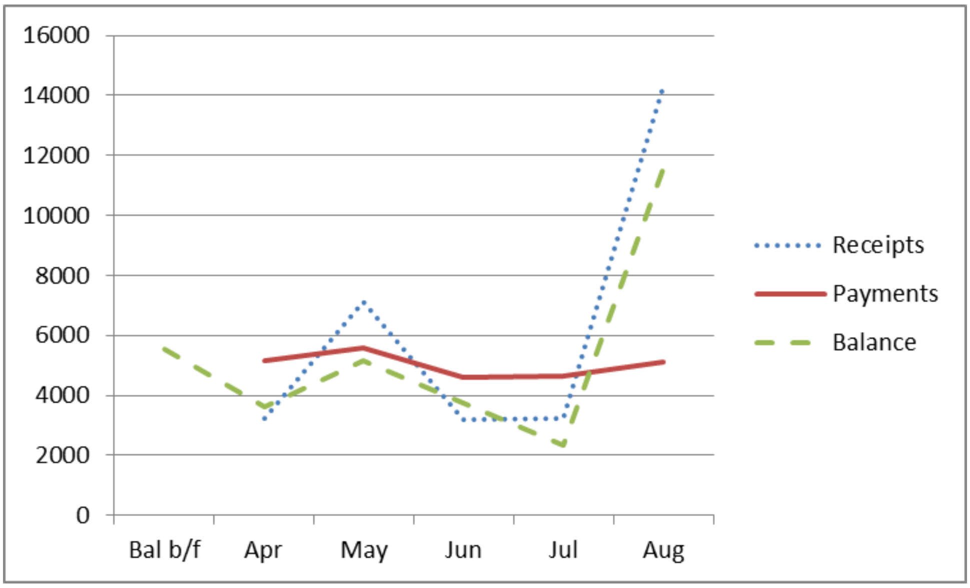
2.3 The Committee is asked to note the changes to the forward plan.

3. Risk Register Monitoring

3.1 Officers have been monitoring the implementation of Markets in Financial Instruments Directive II (MiFID II) and the likely implications for the Pension Fund's Investments. The implementation date has been confirmed by the Financial Conduct Authority as 3 January 2018. Item 10 has been added to the register to consider the implications of missing the deadline or the rejection by of an application to 'opt up'. The requirements and impact of MiFID II have been explained in Agenda item 10 'MiFID II Update'. Risk rating for number 26 has also been changed from high to medium. The risk register is attached at appendix 2.

4. Cashflow Monitoring

4.1 The balance on the pension fund bank account at 31 August 2017 was £11.5 million. This was due to a one off payment £10 million into the fund toward reducing the deficit. The graph below shows the bank account position as well as receipts and payments to August 2017



4.2 The Fund is not expected to draw-down cash from investments for 2017/18 in addition the original plan to receive distributions into the pension fund bank account is now not likely to be exercised for this year. This is because, a further £20 million is due to be paid into the bank account over the year, as recommended in the triennial valuation.

4.3 Officers will continue to keep the cash balance on under review and take appropriate action where necessary.

5. Budget Monitoring

5.1 The pension fund has a budget for the fund account which is monitored on a quarterly basis. The Q2 outturn is attached at appendix 5 (to Follow).

6. Forward Plan

6.1 The forward plan has been reviewed and amended for the Committee to updates on MiFID II during the October 2017 meeting cycle.

6.2 The updated forward plan is attached at appendix 4.

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

Yvonne Thompson-Hoyte ythoyte@westminster.gov.uk or 020 7641 6925

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 – Tri-Borough Risk Management Scoring Matrix
Appendix 2 – Pension Fund Risk Register Review, October 2017
Appendix 3 – Cash Flow Monitoring, October 2017
Appendix 4 – Pension Fund Forward Plan, October 2017

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Appendix 1 - Tri Borough Risk Management Scoring Matrix

Scoring (Impact)

Impact Description	Category	Description
1 Very Low	Cost/Budgetary Impact	£0 to £25,000
	Impact on life	Temporary disability or slight injury or illness less than 4 weeks (internal) or affecting 0-10 people (external)
	Environment	Minor short term damage to local area of work.
	Reputation	Decrease in perception of service internally only – no local media attention
	Service Delivery	Failure to meet individual operational target – Integrity of data is corrupt no significant effect
2 Low	Cost/Budgetary Impact	£25,001 to £100,000
	Impact on life	Temporary disability or slight injury or illness greater than 4 weeks recovery (internal) or greater than 10 people (external)
	Environment	Damage contained to immediate area of operation, road, area of park single building, short term harm to the immediate ecology or community
	Reputation	Localised decrease in perception within service area – limited local media attention, short term recovery
	Service Delivery	Failure to meet a series of operational targets – adverse local appraisals – Integrity of data is corrupt, negligible effect on indicator
3 Medium	Cost/Budgetary Impact	£100,001 to £400,000
	Impact on life	Permanent disability or injury or illness
	Environment	Damage contained to Ward or area inside the borough with medium term effect to immediate ecology or community
	Reputation	Decrease in perception of public standing at Local Level – media attention highlights failure and is front page news, short to medium term recovery
	Service Delivery	Failure to meet a critical target – impact on an individual performance indicator – adverse internal audit report prompting timed improvement/action plan - Integrity of data is corrupt, data falsely inflates or reduces outturn of indicator
4 High	Cost/Budgetary Impact	£400,001 to £800,000
	Impact on life	Individual Fatality
	Environment	Borough wide damage with medium or long term effect to local ecology or community
	Reputation	Decrease in perception of public standing at Regional level – regional media coverage, medium term recovery
	Service Delivery	Failure to meet a series of critical targets – impact on a number of performance indicators – adverse external audit report prompting immediate action - Integrity of data is corrupt, data falsely inflates or reduces outturn on a range of indicators
5 Very High	Cost/Budgetary Impact	£800,001 and over
	Impact on life	Mass Fatalities
	Environment	Major harm with long term effect to regional ecology or community
	Reputation	Decrease in perception of public standing nationally and at Central Government – national media coverage, long term recovery
	Service Delivery	Failure to meet a majority of local and national performance indicators – possibility of intervention/special measures – Integrity of data is corrupt over a long period, data falsely inflates or reduces outturn on a range of indicators

Scoring (Likelihood)

Descriptor	Likelihood Guide
1. Improbable, extremely unlikely	Virtually impossible to occur 0 to 5% chance of occurrence.
2. Remote possibility	Very unlikely to occur 6 to 20% chance of occurrence
3. Occasional	Likely to occur 21 to 50% chance of occurrence
4. Probable	More likely to occur than not 51% to 80% chance of occurrence
5. Likely	Almost certain to occur 81% to 100% chance of occurrence

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Appendix 2: Pension Fund Risk Register, October 2017

Changes to the risk register since previous quarter

Type	Ref	Risk	Rationale
New risk added to Strategic: Governance	10	Failure to meet the deadline or rejection of MiFID II ‘opt up’ application resulting in reclassification of fund from professional to retail client impacting Fund’s investment options and an increase in costs	More information is now available about MiFID II which indicates that failure to meet the deadline for opting up or refusal of an application with any counterparty would result in the automatic reclassification of the Pension Fund as a retail client. This could result in costly transition of funds as our current counterparties are not authorised to conduct business with retail clients.
Risk rating high to medium	26	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 valuations and notifications to starters and leavers.	BT have provided the EOY file on time and the monthly reports are being provided.

Pension Fund risk register, October 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
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	5		Low 10	City Treasurer	December 2017
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	4		Medium 12	City Treasurer	December 2017
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	5		Low 10	City Treasurer	December 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
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.	3	4		Medium 12	City Treasurer	December 2017
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.	1	4		Low 4	City Treasurer	December 2017
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.	3	4		Medium 12	City Treasurer	December 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
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		4	Low 8	City Treasurer	December 2017
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	3		Low 9	City Treasurer and Director of People Services	December 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
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 the Local Government Association and 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.	3	5		Medium 15	City Treasurer	December 2017
10	**STRATEGIC: REGULATION** Failure to meet the deadline or rejection of MiFID II 'opt up' application resulting in reclassification of fund from professional to retail client impacting Fund's investment options and an increase in costs	• Officers are engaging with LGA and keeping abreast of FCA deadline • Officers are engaging with Fund managers and other counterparties to understand their requirements • Early gathering and assessment of the evidence for submission. • Use of CIPFA approved database to submit applications. • Contingency plan for assets.	3	5		Medium 15	City Treasurer	December 2017

11	**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	4		Low 8	City Treasurer	December 2017
12	**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	December 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
13	**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 Director of People Services	December 2017
14	**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	4		Low 8	City Treasurer	December 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
15	**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.	2	4		Low 8	City Treasurer	December 2017
16	**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	4		Medium 12	City Treasurer and Director of People Services	December 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
17	**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.	2	2		Low 4	City Treasurer and Director of People Services	December 2017
18	**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	1		Low 2	City Treasurer and Director of People Services	December 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
19	**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	4		High 16	City Treasurer and Director of People Services	December 2017
20	**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.	2	5		Low 10	City Treasurer and Director of People Services	December 2017

Ref	Risk	Mitigating Actions	Residual risk score: Likelihood	Residual risk score: Impact £'s	Residual risk score: Impact No's	Risk Rating	Officer responsible	Next Review Date
21	**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		5	Low 10	City Treasurer	December 2017
22	**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	Low 5	Director of People Services	December 2017

Ref	Risk	Mitigating Actions	Residual risk score: Likelihood	Residual risk score: Impact £'s	Residual risk score: Impact No's	Risk Rating	Officer responsible	Next Review Date
23	**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	Director of People Services	December 2017
24	**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	Low 5	Director of People Services	December 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
25	**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.	3		3	Low 9	Director of People Services	December 2017
26	**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 valuations 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	3		5	Medium 15	Director of People Services	December 2017

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Appendix 3: CASHFLOW MONITORING

Three Year Cashflow Forecast for 2017/18 - 2019/20

	2017/18	2018/19	2019/20
	£000	£000	£000
	F'cast	F'cast	F'cast
Balance b/f	**5,544**	**22,644**	**28,894**
Contributions	42,600	42,700	42,800
Misc. Receipts[1]	2,500	2,800	3,100
Pensions	(36,000)	(36,500)	(37,000)
HMRC Tax	(7,000)	(7,500)	(8,000)
Misc. Payments[2]	(13,000)	(15,000)	(17,000)
Expenses	(2,000)	(2,250)	(2,500)
Net cash in/(out) in month	**(12,900)**	**(15,750)**	**(18,600)**
Withdrawals from Fund Managers	0	2,000	4,000
Income Distribution	0	0	0
Special Contributions	30,000	20,000	20,000
Balance c/f	**22,644**	**28,894**	**34,294**

Cashflow actuals and forecast for period April 2017 to March 2018

	Apr-17			May-17			Jun-17			Jul-17		
	£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	**5,544**	**5,544**	**0**	**4,469**	**3,618**	**851**	**3,394**	**5,179**	**(1,785)**	**2,319**	**3,746**	**(1,427)**
Contributions	3,550	2,729	821	3,550	7,065	(3,515)	3,550	2,925	625	3,550	3,101	449
Misc. Receipts[1]	208	495	(287)	208	64	144	208	255	(47)	208	144	64
Pensions	(3,000)	(3,046)	46	(3,000)	(3,069)	69	(3,000)	(3,068)	68	(3,000)	(3,090)	90
HMRC Tax	(583)	(567)	(16)	(583)	(544)	(39)	(583)	(546)	(37)	(583)	(538)	(45)
Misc. Payments[2]	(1,083)	(1,537)	454	(1,083)	(1,955)	872	(1,083)	(999)	(84)	(1,083)	(1,010)	(73)
Expenses	(167)	0	(167)	(167)	0	(167)	(167)	0	(167)	(167)	0	(167)
Net cash in/(out) in month	**(1,075)**	**(1,926)**	**851**	**(1,075)**	**1,561**	**(2,636)**	**(1,075)**	**(1,433)**	**358**	**(1,075)**	**(1,393)**	**318**
Withdrawals from Fund Managers	0	0	*0*	0	0	*0*	0	0	*0*	0	0	*0*
Special Contributions 4	0	0	*0*	0	0	*0*	0	0	*0*	0	0	*0*
Balance c/f	**4,469**	**3,618**	**851**	**3,394**	**5,179**	**(1,785)**	**2,319**	**3,746**	**(1,427)**	**1,244**	**2,353**	**(1,109)**

Notes

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

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

3 Includes £3.7 deficit funding paid by WCC to the Fund

4 additional deficit payments

Aug-17			*Sep-17*	*Oct-17*	*Nov-17*	*Dec-17*	*Jan-18*	*Feb-18*	*Mar-18*
£000	**£000**	**£000**	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***
F'cast	**Actual**	**Var**	***F'cast***	***F'cast***	***F'cast***	***F'cast***	***F'cast***	***F'cast***	***F'cast***
1,244	**2,353**	**(1,109)**	***10,169***	***9,094***	***8,019***	***6,944***	***5,869***	***24,794***	***23,719***
3,550	3,016	534	3,550	3,550	3,550	3,550	3,550	3,550	3,550
208	1,296	(1,088)	208	208	208	208	208	208	208
(3,000)	(3,103)	103	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)
(583)	(543)	(40)	(583)	(583)	(583)	(583)	(583)	(583)	(583)
(1,083)	(1,470)	387	(1,083)	(1,083)	(1,083)	(1,083)	(1,083)	(1,083)	(1,083)
(167)		(167)	(167)	(167)	(167)	(167)	(167)	(167)	(167)
(1,075)	**(804)**	**(271)**	***(1,075)***	***(1,075)***	***(1,075)***	***(1,075)***	***(1,075)***	***(1,075)***	***(1,075)***
0	0	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
10,000	10,000	*0*	0	0	0	0	20,000	0	0
10,169	**11,549**	**(1,380)**	**9,094**	**8,019**	**6,944**	**5,869**	**24,794**	**23,719**	**22,644**

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Appendix 4

PENSION FUND COMMITTEE **Forward Plan – March 2017**

Area of work	22 Jun 2017	12 Oct 2017	7 Dec 2017	8 Mar 2018
Standing Items	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	Pension Board minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan
Governance	Pension Fund Annual Report and Accounts 2016/17 Progress on compliance with TPR Code of Practice Review of Governance Compliance Statement Business Plan	Annual report of Pension Board activities Review of Pension Fund expenses		Investment Strategy Statement Review
Investments	Pooling and CIV update Investment Strategy Review Annual report to Scheme Advisory Board re pooling arrangements	Pooling and CIV update Investment Strategy Review Update on fixed income tender MiFID II Decision and update	Pooling and CIV update Investment Strategy Review Fund Manager Monitoring Arrangements Award fixed income manager. MiFID II update	Pooling and CIV update Investment Strategy Review Feedback from Annual fund manager monitoring day MiFID II update

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**12 October 2017**
Classification:	**General Release**
Title:	**Markets in Financial Instrument Directive 2014/65**
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 outlines the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 ("MiFID II") and in particular the risk to the Council as a pension fund administering authority of becoming a retail client on 3rd January 2018 and recommends that the committee agree that elections for professional client status should be made on behalf of the Authority immediately.

2. Recommendations

2.1 The Investment Committee is asked to:

(a) Note the potential impact on investment strategy of becoming a retail client with effect from 3rd January 2018

(b) Agree to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy.

(c) Be aware that in electing for professional client status the committee acknowledges and agrees to forgo the protections available to retail clients attached as **Appendix 1**.

(d) Agree to approve delegated responsibility to the Tri-Borough Director of Pensions and Treasury for the purposes of completing the applications and determining the basis of the application as either full or single service.

3. Background

3.1 Under the current UK regime, local authorities are automatically categorised as per se professional clients in respect of non-MiFID scope business and are categorised as 'per se professional' clients for MiFID scope business if they satisfy the MiFID Large Undertakings test. Local authorities that do not satisfy the Large Undertakings test may opt up to elective professional client status if they fulfil certain 'opt-up criteria'.

3.2 Following the introduction of the Markets in Financial Instrument Directive 2014/65 ("MiFID II"), with effect from 3 January 2018 firms will no longer be able to categorise a local public authority or a municipality that (in either case) does not manage public debt ("local authority") as a "per se professional client" or elective eligible counterparty (ECP) for both MiFID and non-MiFID scope business. Instead, all local authorities must be classified as "retail clients" unless they are opted-up by firms to an "elective professional client" status.

3.3 Furthermore, the Financial Conduct Authority (FCA) has exercised its discretion to adopt gold-plated opt-up criteria for the purposes of the quantitative opt-up criteria, which local authority clients must satisfy in order for firms to reclassify them as an elective professional client.

4. Potential impact

4.1 A move to retail client status would mean that all financial services firms like banks, brokers, advisers and fund managers will have to treat local authorities the same way they do non-professional individuals and small businesses. This includes a raft of protections ensuring that investment products are suitable for the customer's needs, and that all the risks and features have been fully explained. Whilst this provides a higher standard of protection for the client, it also involves more work and potential costs for both the firm and the client, in order to prove to the regulator that all such requirements have been met.

4.2 Such protections would come at the price of local authorities not being able to access the wide range of assets needed to implement an effective, diversified investment strategy. Retail status would significantly restrict the range of financial institutions and instruments available to authorities. Many institutions currently servicing the local government pension scheme (LGPS) are not authorised to deal with retail clients and may not wish to undergo the required changes to resources and permissions in order to do so.

4.3 Even if the institution secures the ability to deal with retail clients the range of instruments it can make available to the client will be limited to those defined under FCA rules as ‘non-complex’ which would exclude many of the asset classes currently included in LGPS fund portfolios. In many cases managers will no longer be able to even discuss (‘promote’) certain asset classes and vehicles with the authority as a retail client.

5. Election for professional client status

5.1 MiFID II does allow for retail clients which meet certain conditions to elect to be treated as professional clients (to ‘opt up’). There are two tests which must be met by the client when being assessed by the financial institution. the quantitative and the qualitative test.

5.2 The Local Government Pension Scheme Advisory Board (SAB) and the Local Government Association (LGA) along with the Department of Communities and Local Government (DCLG) and the Investment Association (IA) have successfully lobbied the FCA to make the test better fitted to the unique situation of local authorities.

5.3 The new tests recognise the status of LGPS administering authorities as providing a ‘pass’ for the quantitative test while the qualitative test can now be performed on the authority as a collective rather than an individual. A summary of and extracts from the FCA policy statement which set out these new tests is attached at Appendix 2.

5.4 The election to professional status must be completed with all financial institutions prior to the change of status on 3rd January 2018. Failure to do so by local authorities would result in the financial institution having to take ‘appropriate action’ which could include a termination of the relationship at a significant financial risk to the authority.

5.5 The SAB and the LGA have worked with industry representative bodies including the IA, the British Venture Capital Association (BVCA) and others to develop a standard opt up process with letter and information templates. This process should enable a consistent approach to assessment and prevent authorities from having to submit a variety of information in different formats.

5.6 A flowchart of the process is attached at Appendix 3 and the letter and information templates are attached at Appendices 4 and 5.

5.7 Applications can be made in respect of either all of the services offered by the institution (even if not already being accessed) or a particular service only. A local authority may wish to do the latter where the institution offers a wide range of complex instruments which the authority does not currently use and there is no intention to use the institution again once the current relationship has come to an end, for example, if the next procurement is achieved via the LGPS pool. It is recommended that officers determine the most appropriate basis of the application, either via full or single service.

5.8 Authorities are not required to renew elections on a regular basis but will be required to review the information provided in the opt up process and notify all institutions of any changes in circumstances which could affect their status, for example, if the membership of the committee changed significantly resulting in a loss of experience or if the relationship with the authority's investment advisor was terminated.

6. LGPS pools

6.1 LGPS pools will be professional investors in their own right so will not need to opt up with the external institutions they use. Local authorities will however need to opt up with their LGPS pool in order to access the full range of services and sub-funds on offer.

6.2 In some circumstances, in particular where the pool only offers access to fund structures such as Authorised Contracted Schemes (ACS) the pool could use 'safe harbour' provisions resulting from local authorities continuing to be named as professional investors in both the Financial Promotion Order (the "FPO") or in the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order (the "PCISO"). These provisions would enable the promotion and potential sale of units in fund structures to local authorities as retail investors.

6.3 Elections to professional status will be needed for every financial institution that the authority uses outside of the pool, both existing and new, together with a continuing review of all elections. If all new purchases are made via fund structures within the pool then no new elections will be required, only an ongoing review of the elections made with the pool and any legacy external institutions the number of which would reduce as assets are liquidated and cash transferred.

7. Next steps

7.1 In order to continue to effectively implement the Authority's investment strategy after 3rd January 2018, applications for election to be treated as a professional client should be submitted to all financial institutions with which the authority has an existing or potential relationship with in relation to the investment of the pension fund.

7.2 This process should commence as soon as possible in order to ensure completion in good time and avoids the need for appropriate action to be taken by institutions in relation to the Authority's pension fund investments.

8. Recommendation

8.1 The Tri-Borough Director of Pensions and Treasury should be granted the necessary delegation to make applications on the authority's behalf and to determine the nature of the application on either full or single service basis.

Peter Worth
Interim Tri-Borough Director of Pensions and Treasury
Contact officer: Peter Worth, interim Tri-Borough Director of Pensions and Treasury
Tel: 07714 333240 **E-mail:** pworth@westminster.gov.uk

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 – Retail client protections
Appendix 2 – Summary of FCA policy statement
Appendix 3 – Opt up process flowchart
Appendix 4 – Opt up letter template
Appendix 5 – Opt up information template

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

Peter Worth pworth@westminster.gov.uk or 020 7641 7689

Warnings - loss of protections as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This document contains, for information purposes only, a summary of the protections that you will lose if you request and agree to be treated as a Professional Client.

1. **Communicating with clients, including financial promotions**

   As a Professional Client the simplicity and frequency in which the firm communicates with you may be different to the way in which they would communicate with a Retail Client. They will ensure however that our communication remains fair, clear and not misleading.

2. **Information about the firm, its services and remuneration**

   The type of information that the firm provides to Retail Clients about itself, its services and its products and how it is remunerated differs to what the firm provides to Professional Clients. In particular,

   (A) The firm is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients; and

   (B) there are particular restrictions on the remuneration structure for staff providing services to Retail Clients which may not be applicable in respect of staff providing services to Professional Clients;

   (C) the information which the firm provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, they are required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and

   (D) when handling orders on behalf of Retail Clients, the firm has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

3. **Suitability**

   In the course of providing advice or in the course of providing discretionary management services, when assessing suitability for Professional Clients, the firm is entitled to assume that in relation to the products, transactions and services for which you have been so classified, that you have the necessary level of experience and knowledge to understand the risks involved in the management of your investments. The firm will assess this information separately for Retail Clients and would be required to provide Retail Clients with a suitability report.

4. **Appropriateness**

   For transactions where the firm does not provide you with investment advice or discretionary management services (such as an execution-only trade), it may be required to assess whether the transaction is appropriate. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, the firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. **Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in any execution.

6. **Reporting information to clients**

For transactions where the firm does not provide discretionary management services (such as an execution-only transactions), the timeframe for our providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. **Client reporting**

Investment firms that hold a retail client account that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. **Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. **Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Hence, depending on how you are constituted you may not have access to the Financial Services Compensation Scheme.

10. **Exclusion of liability**

The FCA rules restrict the firm's ability to exclude or restrict any duty of liability which the firm owes to Retail Clients more strictly than in respect of Professional Clients.

11. **Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, the firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. **Transfer of financial collateral arrangements**

As a Professional Client, the firm may conclude title transfer financial collateral arrangements with you for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. **Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

It should be noted that at all times you will have the right to request a different client categorisation and that you will be responsible for keeping the firm informed of any change that could affect your categorisation as a Professional Client.

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FCA Markets in Financial Instruments Directive II Implementation – Policy Statement II

The matters relating to the reclassification of local and public authorities as retail are covered in Chapter 8 pages 64 to 74 of the full document https://www.fca.org.uk/publication/policy/ps17-14.pdf

Highlights (see highlighted sections following for context)

1. Firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions

2. Governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment

3. Adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test

4. Rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion

5. Compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions

6. Retain the 10 transactions on average per quarter test as one of the four available criteria for enabling a local authority body to opt up.

7. Firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged

8. Changed the portfolio size threshold to £10m

9. Proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018 are being taken forward

Page 67 Our response on the qualitative test

MiFID II requires the qualitative test to be applied to local authorities seeking to opt-up to professional client status, with the test itself unchanged from MiFID. It is important that an investment firm is confident that a client can demonstrate their expertise, experience and knowledge such that the firm has gained a reasonable assurance that the client is capable of making investment decisions and understanding the nature of risks involved in the context of the transactions or services envisioned.

COBS 3.5.4 requires that the qualitative test should be carried out for the person authorised to carry out transactions on behalf of the legal entity. 'Person' in this context may be a single person or a group of persons. We understand that the persons within a local authority who invest on behalf of pension funds are elected officials acting as part of a pensions committee. In those circumstances, firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions. We also understand that typically the person(s) within local authorities who invest the treasury reserves of those authorities are likely to be officers of the authorities, who are delegated authority from elected members and act under an agreed budget and strategy.

Given different governance arrangements, we cannot be prescriptive, but we would stress the importance of firms exercising judgement and ensuring that they understand the arrangements of the local authority and the clear purpose of this test. It remains a test of the individual, or respectively the individuals who are ultimately making the investment decisions, but governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment.

We agree that adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test.

Page 68 Our response on the quantitative test – approach for Local Government Pension Schemes (LGPS)

We recognise that local authority pension schemes are established within the framework of the LGPS Regulations and are subject to the oversight of the Pensions Regulator, as well as the broader public policy in MiFID II, such as ensuring that local authority pension schemes receive appropriate investment services, and that they understand the costs and risks involved with such service.

Some expressed concerns about interpreting the quantitative criteria in light of the common governance of local authority pension scheme administration, and recognise that the drafting of our proposed rules was not sufficient to achieve our policy intention of allowing all local authorities administering LGPS pension funds to have the ability to successfully opt up. Therefore, our rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion. This will assist all local authority pension fund administrators who wish to opt-up to meet the quantitative test, but maintain the need for local authorities to qualitatively demonstrate their sophistication to become professional clients. We agree with views that compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions.

Page 69 Our response on the quantitative test – undertaking 10 transactions on average per quarter

We accept that some local authorities will not be able to meet this part of the quantitative test (particularly when investing pension funds). However, it continues to be our view that regular and recent experience of carrying out relevant transactions remains a useful proxy for assessing sophistication. We have received no arguments against this view, and so confirm that we will retain this test as one of the four available criteria for enabling a local authority body to opt up.

While theoretically this criterion could be 'gamed' by firms and clients by churning portfolios, we believe it is an unlikely course of action for local authorities who are accountable to the electorate and have specific statutory duties requiring prudent management of their financial affairs. In future, we could scrutinise any firm who appeared to be recommending this course of action to its client and question whether the firm was acting in the client's best interest and whether the firm believed that an artificially higher number of trades contributed to the expertise, experience and knowledge of their client.

Page 70 Our response on the quantitative test – employment in the financial sector for at least 1 year in a professional position

We accept we could be clearer about who this test is applied to, while ensuring it can be applied flexibly to different governance arrangements. We also recognise that employment in the financial sector is a criterion that can only apply to a natural person.

In response, we have amended the proposed drafting in COBS 3.5.3BR(b)(ii) to note that 'the person authorised to carry out transactions on behalf of the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged'. This should allow local authorities to delegate authority to make investment decisions on their behalf to professional staff with at least one year's experience. We recognise that this redrafted criterion may not be useful for assessing the collective decision making involved in investing local authority pension funds. However, we think this will be less problematic given our new fourth criterion aimed at LGPS administering authorities.

We do not interpret the term ‘financial sector’ in a limited way for the purposes of COBS 3.5.3BR(2)(b)(ii), and firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged. This meets the purpose of the test, to ensure the person acting on behalf of a client has the expertise, experience and knowledge necessary in relation to the investment or service being sold and the risks involved.

Page 71 Our response on the quantitative test – portfolio size threshold

We have changed the portfolio size threshold to £10m. This follows further data and case studies provided by local authorities, Department for Communities and Local Government (DCLG) new data, and wider CP responses.

We believe £10m is closer to our policy goal of restricting the ability of the smallest, and by implication the least sophisticated, local authorities (town and parish councils, and the smallest county and district councils) to opt-up, but giving larger ones the ability to do so more readily, (provided they meet the other criteria).

Based on the number of local authorities we estimated were investing in MiFID scope instruments and understanding the quoted portfolio size in the DCLG dataset for 2014/15, in CP16/29 we estimated that 63 additional local authorities would not be able to opt-up to professional client status for the purposes of engaging in MiFID business as a result of our consulted upon policy.

At a £15m portfolio size threshold, this increased to 78 additional local authorities which would not be able to opt-up to professional client status for the purposes of engaging in MiFID business when we used the new 2015/16 DCLG dataset.

Applying the £10m threshold to data over the following years:

2014/15 – 27 local authorities would not be able to opt-up to professional client status; and the estimated one-off costs for investment firms would decrease from £1.7m to £0.8m and on-going costs from £0.8m to £0.3m.
2015/16 – 42 local authorities would not be able to opt-up, and the one-off costs for investment firms would decrease from £2.0m to £1.1m, and on-going costs would reduce from £0.9m to £0.5m.47

While a local authority’s ability to borrow extra funds to ‘game’ this requirement may be possible, it is questionable whether local authorities would be able to justify this approach while at the same time making budgets and investment strategies available for public scrutiny.

Page 74 Our response on transitional arrangements

MiFID II gives us very limited discretion with regard to transitional arrangements for applying these rules in respect of local authorities and provides no ability to extend the deadline for compliance with this requirement beyond 3 January 2018. We consulted in CP16/43 on proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018. These proposals are being taken forward (see Chapter 24). However, firms will not be expected to re-consider categorisation of existing clients other than local authorities, where MiFID II rules are the same as existing MiFID rules transposed at COBS 3.

Otherwise, we have made further consequential drafting changes to transitional provisions at COBS TP 1 that were added when MiFID was implemented in 2007, but that are no longer carried across into MiFID II.

More generally, COBS 3.5.8G notes that professional clients have the responsibility to keep investment firms informed about any changes that affect their current categorisation. Further, at COBS 3.5.9R, if the firm becomes aware that the client no longer fulfils the initial conditions that made the client eligible to be an elective professional client, it must take “appropriate action”. Neither MiFID II, nor our rules specify what ‘appropriate action’ is, which will depend on the facts of the case and what would be in the client’s best interest. Firms must exercise judgement and consider what would be in the best interests of the client. For example, if a client no longer meets the quantitative test to opt up to professional client status, a firm may decide it is appropriate to cease providing investment services but to do so in a way that minimises losses to the client.

UK Local Authority Client Opt-Up Process

STAGES	TIMELINE	GUIDANCE
Preparatory Stage **Finalise standard opt-up process**	**End July 2017**	(i) Finalise industry standard quantitative and qualitative questionnaire; (ii) Finalise request and consent letter from Local Authority to be opted-up; and (iii) Finalise response letter from investment firms agreeing to the opt-up.
Stage 1 **Local authorities to complete letter and questionnaire and send to investment firms**	**August – September 2017**	Local authorities to complete and send investment firms: (i) request and consent letter to be opted-up to professional client status; and (ii) completed quantitative and qualitative questionnaire (to allow investment firms to satisfy themselves that the local authority passes the qualitative test).
Stage 2 **Investment Firms to validate the information and run the client status assessment**	**September – October 2017**	Investment firms to validate information received from local authorities to determine information is (i) sufficient; and (ii) appropriate. Assess the information received by the local authority and confirm that it: (i) has provided the request and consent letter to be treated as a professional client; and (ii) passes (i) the quantitative test and (ii) the qualitative test Log and store the local authority information and the results of the internal assessment.
Stage 3 **Dispatch the confirmation letter to LA clients confirming professional client status**	**October 2017**	If a local authority has provided the request and consent letter and has satisfied the requirements for both: (i) the quantitative test; and (ii) the qualitative test, send a letter confirming the classification of the client as a professional client.
Stage 4 **Client re-categorisation**	**3 January 2018**	Once the steps above are complete, as of 3 January 2018, the firm may continue to treat the local authority as a professional client.

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Letter requesting categorisation as an elective professional client

[ON [AUTHORITY] HEADED PAPER]

[Manager name]

[Manager address]

[Date]

Dear **[●]**

<u>Request to be treated as a professional investor</u>

I am writing to you ahead of the implementation in the UK of the Markets in Financial Instruments Directive (2014/65/EU) (MiFID II). I have been authorised by NAME OF AUTHORITY (the "Local Authority") to inform you that, in its capacity as an administering authority of a local government pension scheme, it wishes to be treated as a professional client for the purpose of:

(a) any and all investment service(s) which it receives from you (the "Services"); and/or

(b) the promotion to us of, and investment in, any and all fund(s) managed or advised by you (the "Fund Promotions/Investments").

We understand you are required to categorise all of your clients as either professional clients or retail clients and that you currently categorise the Local Authority as a Professional Client ("Professional Client"). However as of 3 January 2018, under new rules deriving from MiFID II, you will be obliged to re-categorise the Local Authority as a Retail Client ("Retail Client") as regards receiving Services from you and/or as regards existing fund investments and any future Fund Promotions/Investments, unless you are satisfied you can otherwise treat the Local Authority as an elective Professional Client and opt-up the Local Authority to this particular client status.

I confirm and acknowledge that the Local Authority is aware that, being categorised as a Professional Client, it will not benefit from the protections and investor compensation rights set out in more detail in Schedule 1. In doing so, I confirm that the Local Authority has reviewed and considered the loss of these protections and rights very carefully and has, if it felt so appropriate, taken advice from legal, financial or other advisors.

I wish to inform you that the Local Authority wishes to be categorised as a Professional Client for the purposes of the Services and/or Fund Promotions/Investments, as applicable in its capacity as an administrating authority of the Local Government Pension Scheme.

Prior to re-categorising the Local Authority, as a Professional Client, I understand that you will be required to assess the Local Authority on certain quantitative and qualitative grounds. In order to facilitate this assessment, please find attached a completed questionnaire for your review and consideration.

Subject to you being reasonably assured that, as of 3 January 2018, the Local Authority satisfies the necessary quantitative and qualitative grounds and may be categorised as an elective Professional Client, the Local Authority confirms the following:

(a) its request to be categorised as a Professional Client, in its capacity as an administrating authority of the Local Government Pension Scheme, in relation to the Services and/or Fund Promotions/Investments.

(b) all information provided to you by us (for the purposes of facilitating your assessment of the Local Authority's request to be categorised as a Professional Client) is true, accurate and complete.

(c) the Local Authority understands the contents of Schedule 1 which contains summaries of the protections and investor compensation rights, if any, that the Local Authority will lose once it is categorised as a Professional Client. Please note that I can confirm that the Local Authority is fully aware of the consequences of losing such protections and still wishes to apply to be categorised as Professional Client in respect of the Services and/or Fund Promotions/Investments.

(d) the Local Authority has had sufficient time to consider the implications of categorisation as a Professional Client and has separately taken any legal, financial or other advice that it deems appropriate.

(e) the Local Authority will inform you of any change that could affect its categorisation as a Professional Client. I also confirm that the Local Authority understands its responsibility to ask you for a higher level of protection if it is unable to properly assess or manage the risks involved with the investments comprised within the portfolio management mandates which you have been appointed to manage.

(f) I acknowledge the Local Authority understands that you shall be permitted, in your sole discretion and without providing any reason, to re-categorise the client as a Retail client or cease to provide the Services or otherwise carry out any fund promotion to us or allow future investment in funds by us.

If you have any questions regarding this application please contact **[name]** on **[number]** or alternatively e-mail us at **[email address]**.

Yours sincerely,

……………………………………………

[insert name and position] [Authority]

Schedule 1

Warnings - loss of protections for the Local Authority if categorised as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This Schedule contains, for information purposes only, a summary of the protections lost when requesting and agreeing to be treated as a Professional Client.

Part 1 – Loss of protections as a Professional Client when receiving Services

1. **Communicating with clients, including financial promotions**

   As a Professional Client the simplicity and frequency in which firms communicate with you may be different to the way in which we would communicate with a Retail Client. Firms will ensure however that their communication remains fair, clear and not misleading.

2. **Information about the firm, its services and remuneration**

   The type of information that a firm provides to Retail Clients about itself, its services and products and how it is remunerated differs to what it provides to Professional Clients. In particular,

   (A) It is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients;

   (B) the information which it provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, it is required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and

   (C) when handling orders on behalf of Retail Clients, it has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

3. **Suitability**

   In the course of providing advice or in the course of providing portfolio management services, when assessing suitability for Professional Clients, a firm is entitled to assume that, in relation to the products, transactions and services for which Professional Clients have been so classified, that they have the necessary level of experience and knowledge to understand the risks involved in the management of their investments. Firms cannot make such an assumption in the case of Retail Clients and must assess this information separately. Firms would be required to provide Retail Clients with a suitability report, where they provide investment advice.

4. **Appropriateness**

   For transactions where a firm does not provide investment advice or portfolio management services (such as an execution-only trade), a firm may be required to assess whether the transaction is appropriate for the client in question. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, a firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. **Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in determining best execution.

6. **Reporting information to clients**

For transactions where a firm does not provide portfolio management services (such as an execution-only transactions), the timeframe for providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. **Client reporting**

Firms that manage a retail portfolio that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. **Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. **Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

10. **Exclusion of liability**

A firms' ability to exclude or restrict any duty of liability owed to clients is narrower under the FCA rules in the case of Retail Clients than in respect of Professional Clients.

11. **Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, a firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. **Transfer of financial collateral arrangements**

As a Professional Client, a firm may conclude title transfer financial collateral arrangements for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. **Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

Part 2 – Loss of protections for the Local Authority as a potential investor if categorised as a Professional Client for the purposes of Fund Promotions

1. **Fund promotion**

   It is generally not permitted for firms to market alternative investment funds (AIFs) to investors who are Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will (subject to complying with applicable marketing rules) be generally permitted to market shares or units in AIFs to you, without being subject to this restriction.

2. **Non-mainstream pooled investments**

   For the purposes of the UK regulatory regime, AIFs typically fall within the definition of an "unregulated collective investment scheme". The UK regulator considers unregulated collective investment schemes to be a high-risk investment, which are not generally suitable investments for Retail Clients. As such, firms are not permitted to promote investments in unregulated collective investment schemes to Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will be generally permitted to promote an investment in unregulated collective investment schemes to you, without being subject to this restriction (and without making any assessment of whether the investment would be suitable or appropriate for you).

3. **Communicating with clients, including financial promotions**

   Detailed rules govern generally the form and content of financial promotions which are issued to investors who are Retail Clients. However, these detailed form and content rules apply less rigorously where a promotion is issued only to investors who are Professional Clients. As a Professional Client, firms will be generally permitted to issue promotions to you which do not satisfy the detailed form and content rules for Retail Clients. Firms must ensure however that communications remains fair, clear and not misleading.

4. **Financial Ombudsman**

   The services of the Financial Ombudsman Service may not be available to you as a Professional Client

5. **Investor compensation**

   Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

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Elective Professional Client - Status Assessment

NAME OF LOCAL AUTHORITY:____

CAPACITY: **As administering authority of the local government pension scheme**

NAME OF OFFICIAL COMPLETING QUESTIONNAIRE:____________________________

DATE:___________________

QUANTITATIVE TEST

Answer questions (a) - (d) below. Please ensure that the detail forming the basis of the determination is recorded.

Please answer question (a) with a "Yes" / "No" answer	
(a) Does the size of the local authority's financial instruments portfolio (including both cash deposits and financial instruments) for the purposes of its administration of a local government pension scheme **exceed GBP 10,000,000**? Portfolio size_______ as at date: ………………………………………………….	☐ Yes ☐ No
(b) Is the local authority an 'administering authority' of the Local Government Pension Scheme within the meaning of the version of Schedule 3 of The Local Government Pension Scheme Regulations 2013 or, (in relation to Scotland) within the meaning of the version of Schedule 3 of The Local Government Pension Scheme (Scotland) Regulations 2014 in force at 1 January 2018, and is acting in that capacity?	☐ Yes ☐ No
If the answer is "Yes" to question (b) above, it is not necessary to carry out the assessment in question (c) or question (d) and the answer "N/A" can be given in both cases	
(c) Has the local authority carried out transactions (in significant size) on the relevant market, at an average frequency of at least **10 per quarter** for the **previous four quarters** (i.e. at least 40 investments on the relevant market in the last year)? Transaction total: ……………………………………………………………………...	☐ Yes ☐ No ☐ N/A
(d) Does the person authorised to carry out transactions on behalf of the local authority work or has that person worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged? Details of role: …………………………………………………………………………	☐ Yes ☐ No ☐ N/A

<u>QUALITATIVE TEST</u>

The "qualitative test" requires a firm to undertake an assessment of the **expertise, experience and knowledge** of the local authority, in order for the firm to be reasonably assured, in light of the nature of the transactions or services envisaged, that the local authority is capable of **making its own investment decisions** and **understanding the risks involved**[1].

In order for a firm to undertake the assessment required for the purposes of the qualitative test, certain information must be received from local authorities. Local authorities should provide answers to the questions set out below in as comprehensive a fashion as possible. The responses received from the local authority client should be considered and assessed internally by the firm.

TO BE COMPLETED BY THE LOCAL AUTHORITY CLIENT

Section 1: Decision making body for pension investing within your authority

Please complete the following section in relation to the decision making body within the authority.

1.	Please indicate which <u>one</u> of the models below is used for investment decisions in the administering authority.

a	All decisions delegated to committee or sub-committee. (*Please tick whether you have enclosed or provided a link to the minute giving the officer completing this document the necessary authorisation to do so*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
b	Decisions delegated to committee or sub- committee with partial delegation to an officer or officers. (*Please tick whether you have enclosed or provided a link to the minute giving the officer completing this application the necessary authorisation to do so*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
c	All decisions delegated to an officer or officers.	YES NO	☐ ☐
d	Other	YES NO	☐ ☐

2.	Please enclose or provide a link to the relevant scheme of delegations, which confirm details of the model elected above.	Enclosed Link	☐ ☐

3.	If you have selected model "d - other" above, please use the box below to describe the composition of the decision making model giving details of the parties and their functions. Details should include information on how the decision making body is constructed, constituted and periodically reviewed.

[1] COBS 3.5.3R (1)

Section 2: Expertise, experience and knowledge

Please answer the following questions in relation to the members of the committee or sub-committee (*not officers, investment advisors or consultants*) which makes investment decisions of behalf of the authority.

If you answered (c) to Section 1 Question 1, please move to Section 3.

1	Are members provided with a written brief on joining the committee? (*Please tick whether you have enclosed or provided a link to a copy of an example of the briefing*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
2	Are members provided with training on investment matters? (*Please tick whether you have enclosed or provided a link to examples of the training offered to members in the last 12 months*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
	Please indicate the total number of hours of training offered and delivered to the committee over the last 12 months.	hours offered hours delivered	
3	Is the attendance of members at training monitored and recorded?	YES NO	☐ ☐
4	Please state the average number of hours of training committee members have attended over the last 12 months.	hours	
5	Please state the average number of hours at investment conferences that committee members have attended over the last 12 months.	hours	
6	Are members required to complete a self-assessment with regard to their knowledge of investments? (*Please tick whether you have enclosed or provided a link to details of the self-assessment tool used*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
7	Please state the number of years served on the committee (or other such investment committees) on average for each member	years	
8	Please provide any other information which may assist with the assessment of the knowledge, experience and expertise of the committee or sub-committee - (such as the average number of years of independent investment experience by members).		

Section 3: Investment history and strategy

1	Please complete the following questions in relation to the authority's history and current strategy with regard to investments which are acquired through an investment manager's investment mandate or invested in directly (e.g. funds).

Asset class or investment vehicle	Number of years held	Currently Held
Fixed interest securities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Index-linked securities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Listed equities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Pooled investment vehicles (PIVs) – authorised funds (e.g. UCITS, NURS, PAIFs)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Pooled investment vehicles (PIVs) – unauthorised (e.g. investment trusts, close-ended real estate funds, hedge funds)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Property PIVs	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Private equity funds	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Property	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Exchange traded derivatives (ETDs)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Over-the-counter derivatives (OTCs)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Commodities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Cash deposits	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Commercial paper	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Floating rate notes	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Money market funds	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Other asset classes or investment vehicles where the authority has experience (Please give details below)		
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐

2	Please tick whether you have enclosed or provided a link to the most recent version of the authority's Investment Strategy Statement.	Enclosed Link	☐ ☐
3	Has the authority taken the appropriate advice, as required by regulation, in preparing its Investment Strategy Statement?	YES NO	☐ ☐

Section 4: Understanding risks

Please answer the following questions in relation to the members of the committee or sub-committee or officers (*not investment advisors or consultants*) making investment decisions of behalf of the authority.

1	Does the authority have a risk framework and/or risk management policy in place in relation to investments? (*Please tick whether you have enclosed or provided a link to a details of the framework/policy*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
2	Was external advice taken with regard to the preparation, monitoring and review of the framework/policy?	YES NO	☐ ☐
	If yes, please provide the name of the advisor:		
3	Is the risk framework/policy reviewed on a regular basis?	YES NO	☐ ☐
	If YES please state the frequency of the review.		
	(*Please tick whether you have enclosed or provided a link to details of the last review*)	Enclosed Link	☐ ☐
4	Are those directly involved in decision making provided with training on risk management, including focused training on understanding the risks involved with investments? (*Please tick whether you have enclosed or provided a link to examples of the training offered in the last 12 months*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
5	Are those directly involved in decision making required to complete a self-assessment with regard to their understanding of risk management? (*Please tick whether you have enclosed or provided a link to details of the self-assessment tool used*)	YES NO Enclosed Link	☐ ☐ ☐ ☐

Section 5: Support for investment decisions taken by committee/sub-committee of the authority

Please answer the following questions in relation to those officers, advisors or consultants who directly contribute to assisting the committee/sub-committee of the authority take investment decisions or those officers who have delegated decision making powers.

In Section 1 Question 1, if you answered:

- Model a - please complete Question 1 below
- Model b - please complete Questions 1 and 2 below
- Model c - please complete Question 2 below
- Model d - please complete the below questions as appropriate

1.	For each officer providing support to the committee or sub-committee please provide the following information.

Job title	Relevant qualifications	Years experience in role[2]

2.	For each officer with delegated investment powers please provide the following information (these may be the same officers as above).

Job title	Limit on asset classes or investment vehicles	Limit on delegation (£m)

3	Does the authority have a written succession plan in place to manage key person risk in relation to the above officers? (*Please tick whether you have enclosed or provided a link to details of the succession plan*)	YES NO Enclosed Link	☐ ☐ ☐ ☐

4.	For each individual investment advisor used by the authority please provide the following information *only to be completed where these individual investment advisors are engaged on an independent basis and not acting on behalf of an entity listed in point 5 below)*.

Name	Relevant qualifications	Years experience in role[3]

[2] Or similar role which would provide knowledge of the provision of the services envisaged, which may have been carried out at a different organisation.

[3] Or similar role which would provide knowledge of the provision of the services envisaged.

5.	For each investment advisory firm used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

6.	For each individual investment consultant used by the authority please provide the following information (*only to be completed where these consultants are engaged on an independent basis and not acting on behalf of an entity listed in point 7 below)*.

Name	Relevant qualifications	Years experience in role[4]

7.	For each investment consultancy firm used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

8.	Please confirm whether the officer, investment advisor firm/individual, investment consultancy firm/individual, is aware of the reliance being placed on it for the purposes of the client categorisation of Local Authorities.	YES ☐ NO ☐

[4] Or similar role which would provide knowledge of the provision of the services envisaged.

Section 6 General questions

1.	In the last three years has the authority been censured for a material breach of Local Government investment regulations in force from time to time or any other related legislation governing investment? (*If yes please tick whether you have enclosed or provided a link to a details of the breach*)	YES NO Enclosed Link	☐ ☐ ☐ ☐

2.	Please use the box below to provide any further information which may be useful in the support of your application.

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**12 October 2017**
Classification:	**General Release**
Title:	**Ministerial Letter Concerning Pooling**
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 On 22 August 2017 the Chief Secretary to the Treasury and the Minister for Local Government wrote to all Chairs of Local Government Pension Funds and Pools praising progress toward pooling achieved to date but also expressing concern about progress and the need for all funds to invest through pools to achieve maximum savings.

1.2 The letter seeks a report from all pools in October on progress with regard to pooling to 30 September including steps being taken to increase infrastructure investment.

2. Commentary

2.1 The letter although addressed to Chairs of Pension Funds as well as Pension Pools only requires a response from the Chairs of Pension Pools.

2.2 The City of Westminster Pension Fund has actively participated in asset pooling through the London CIV having transitioned the Baillie Gifford and Majedie mandates to the CIV – a total of 42% of the Fund's assets at 30 Jun 2017.

2.3 Discussions with officers at the Local Government Association have confirmed that Ministers would only expect see mandates to transfer where to do so would achieve value for money.

2.4 Of the remaining mandates held by the City of Westminster Pension Fund only the Longview mandate could possibly transition. However the manager is requiring additional fees which mean this would not provide value for money.

3. Recommendation

3.1 Members are asked to note the content of the Ministerial letter.

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

Peter Worth pworth@westminster.gov.uk or 020 7641 7689

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 – Ministerial letter

Department for
Communities and
Local Government

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Chairs of LGPS pension funds
Chairs of LGPS investment pools

2 2 AUG 2017

LOCAL GOVERNMENT PENSION SCHEME (LGPS) INVESTMENT POOLING: SPRING 2017 PROGRESS REVIEW

Thank you for your reports on progress to 31 March and updates to our officials on developments since then. We have been pleased to see that most pools in development have been moving at pace towards becoming operational, including launching procurements for pool operators and, where new operators are being established, making key senior appointments and preparing applications for Financial Conduct Authority (FCA) authorisation. We have also been pleased to note progress in some pools towards your ambitions on infrastructure investment, with some significant new funding committed this year. We are well aware of the substantial demands on your staff and resources required to deliver the progress already made and the challenges still to be overcome in order to deliver, and we are grateful to all those involved.

However in some areas we have not yet received the assurance we require. We have made clear that all funds must fully participate in a pool and all pools must have an FCA authorised operator. In order to achieve the maximum savings, funds must invest through the pools, with minimal exceptions where there is a value for money case, and they must delegate manager selection to the operator. Our officials will of course continue to engage with funds and pools where there are outstanding issues over the summer. But if we are not satisfied that there is a clear path and timetable for delivery, the Department for Communities and Local Government will consult on further action, including use of the powers available.

We will expect a further report on progress to 30 September from all pools in October. At that time we will want to see further details of savings achieved and planned, as well as plans for reporting, including on fees and net performance by asset class, and for increasing your infrastructure investment in line with your ambition.

We remain committed to this vital long term change programme in order to deliver improved net investment performance and capacity to invest in infrastructure, and to protect the sustainability of the LGPS for the benefit of its members. We look forward to working with you to bring the first stage of the reform to a successful conclusion with the establishment of pools across the LGPS.

CHIEF SECRETARY TO THE TREASURY **MARCUS JONES MP** **CAROLINE NOKES MP**

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**12 October 2017**
Classification:	**General Release**
Title:	**Investment Strategy and Pooling Update**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	Full year savings of approximately £0.5m per annum are forecast for 2017/18 from the transfer of the Majedie and Baillie Gifford assets to the CIV and the reduction of fees by Legal & General to match the CIV fees. The tender for a new Fixed Income Contract, in liaison with the CIV, could also deliver additional savings.
Report of:	**Steven Mair** ***City Treasurer*** **smair@westminster.gov.uk** **020 7641 2904**

1. EXECUTIVE SUMMARY

1.1 This paper updates Members on:

a. Progress towards meeting the Government's targets for pooling investments, in particular the transfer for assets to the London CIV.
b. Work being undertaken to replace the Fixed Income contract which expires at the end of 2017.

2. RECOMMENDATIONS

2.1 That the Committee note:

a. The progress on the transfer of assets to the London CIV and associated fee savings this brings;
b. The progress being made, in liaison with the London CIV, in the replacement process and timescales for the fixed Income mandate

c. The present asset allocations compared to the agreed Asset Allocation Strategy.
d. That the Committee note the comments made to the Investment Strategy Statement by the Pensions Board and approve the minor changes recommended.

3. REASONS FOR DECISION

3.1 The Department for Communities and Local Government (DCLG) published its requirements and guidance in November 2015 for local government pension fund assets to be managed via supra-fund asset pools in order drive down manager fees across the local government pension scheme. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require local government pension funds to set out their approach to pooling investments including the use of collective investment vehicles, and the guidance accompanying the Regulations expects funds to have made significant progress to establishing asset pools and transferring assets by April 2018.

3.2 This report sets out those funds available for use at the present time and the City of Westminster Pension Fund's movement into these instruments.

4. PROPOSALS AND ISSUES

Asset Pooling Present Position

4.1 As at the 30 June 2017, 76.2% of the City of Westminster Pension Fund assets had either transitioned to the London CIV or were achieving the same fees as the CIV or were about to be moved to the CIV as set out below:

Fund Manager	Mandate	Date of transition	Value £m	Percentage of CoW Fund	Estimated full year fee savings £m
Bailie Gifford	Global Equities	April 2016	244.6	19.0%	0.070
Majedie	UK Equities	May 2017	302.6	23.5%	0.212
Legal & General	Global Equities	Same fee as CIV	290.9	22.6%	0.220
Longview	Global Equities	Deferred	142.8	11.1%	
Total			**980.9**	**76.2%**	**0.502**

4.2 In addition the fixed income mandate of a further £190.7m (14.8% of the Fund) was scheduled for joint procurement with CIV., which is a further 15.1% of the portfolio. The remaining assets held are in pooled property funds valued at £115.1m, which are currently outside asset pooling.

4.3 This percentage puts Westminster at the forefront of London Borough Pension Funds with assets in the London CIV.

Longview transition

4.4 Transferring the Longview mandate could potentially yield fee savings of 0.138% or £0.2m per annum depending on the total value of assets held by the CIV. However because the assets held by City of Westminster Pension Fund are not directly comparable, transitioning would potentially require additional one-off transaction costs. Negotiations are ongoing to try to resolve these additional costs.

Fixed Income Mandate

4.5 In December 2016, the City of Westminster Pension Fund extended its fixed Income Mandate for a year to December 2017 in order to allow the London CIV to on-board appropriate products. It is clear now, that due to different priorities, that an appropriate product will not be ready by December 2017.

4.6 Accordingly Deloitte have commenced the procurement process on behalf of the Pension Fund. The timetable is set out below.

Date	Stage
28th September	Requests for Proposals sent to fund managers
9th October	Deadline for questions from fund managers
16th October	Deadline for fund manager Invitation to Tender responses
Early November	Evaluation and shortlisting of tenders
Mid/late November	Presentations from shortlisted tenderers Appoint fund manager

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

Peter Worth pworth@westminster.gov.uk or 0207 641 7689

BACKGROUND PAPERS: None

APPENDICES: None

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**12 October 2017**
Classification:	**General Release**
Title:	**Pension Fund Business Plan 2017-18**
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 2831**

1. Executive Summary

1.1 It is Best Practice for Council Services to have business plans that set out to the objectives of the Service, how this is being delivered, and highlighting issues and how these are to be mitigated.

1.2 As a Tri-borough Service, it is equally important to ensure that there is as much standardisation and compliance as is possible across the three Councils to ensure economies of scales and associated savings can be delivered.

1.3 At the last Committee in June, 17 action points were identified in the business plan in order to meet these objectives. This report provides an update on the action points.

2. Recommendation

2.1 That the Committee notes the update on the action points.

3. Background

3.1 The Pension Fund Business Plan was presented at the Committee of June 2017. The Plan identified 17 action points that were required to meet the three objectives under the broad headings:

a. Operational (*doing things better*)
b. Assurance (doing things right)
c. Financial (being cost efficient)

3.2 The intention is to improve collaboration and implement a standardised approach the Tri Borough Pension Fund Arrangements

4. Progress To Date

4.1 A detailed report on progress against each of the 17 action points will be presented at the next Pension Fund Committee.

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

Peter Worth pworth@westminster.gov.uk or 020 7641 2832

BACKGROUND PAPERS: PENSION FUND BUSINESS PLAN 2017/18

APPENDIX 1

PENSIONS ACTION PLAN MONITOR 2017/18

Pensions Action Plan

Since the Pensions shared service was established, there have been several important developments to improve the effectiveness of the team and deliver some of the synergies expected from a shared service offering.

These include increased collaboration and more efficient use of resources, improved levels of skills and competencies and greater resilience in delivering the services.

This plan seeks to build further on the work done to date and identified actions to be taken to put the Tri-Borough Pensions Service as a leader amongst its peers.

The actions in this plan are split into 3 key areas;

Operational improvements which will streamline existing working practices and work towards a consistent set of outputs to be delivered by the team,

Assurance improvements which highlight ways of demonstrating the Funds are being managed effectively and within the regulatory framework, and

Financial proposals which will ensure the costs of delivering the scheme administration are understood and minimised.

The objectives of the improvements were identified as follows:

1. Operational (*doing things better*):
    a. To ensure Pension Committees and Local Pension Boards are fully supported;
    b. To better understand, manage and monitor the risks of the Funds;
    c. To support an improvement in the quality of communications with Employers and scheme members.

2. Assurance (*doing things right*):
    a. To ensure the most effective governance arrangements are in place;
    b. To improve the level of controls assurance and reporting frameworks;
    c. To ensure the Scheme is efficiently managed and complies with relevant regulations.

3. Financial (*being cost efficient*):
    a. To fully understand the Funds’ current and expected financial position;
    b. To optimise the procurement of services utilised by the Funds;
    c. To minimise the cost of administering the Funds locally;
    d. To improve the quality and transparency of financial reporting.

Governance

Action	Link to Objectives	Purpose	Completion Date	Hammersmith and Fulham	Kensington and Chelsea	Westminster
Embed ISS and FSS Statements	1c 2a 2c	To ensure the Regulatory requirements of the Public Service Pensions Act 2013 are met in terms of embedding and scrutinizing the working of the new Investment Strategy and Funding Strategy Statements	June 2018	To be reviewed in 12 months when new ISS and FSS beds in	To be reviewed in 12 months when new ISS and FSS beds in	To be reviewed in 12 months when new ISS and FSS beds in
Update Risk Registers to reflect Financial and Member Risks	1a 1b	Update Risk registers so that risks reflect financial and member metrics to ensure decision makers are regularly aware of the risks involved and can establish mitigation as necessary.	September 2017	Risk register now reflects impact on members and budget and will be kept under review	outstanding	Risk register now reflects impact on members and budget and will be kept under review
Knowledge & Skills Training programme	1a 2a 2c	To ensure Local Pension Boards/Pension Committees and Officers meet regulatory requirements to have the necessary knowledge and skills and to support individuals to achieve this requirements through training needs analysis and a bespoke training programme.	December 2017	Self assessment to be conducted in October 2017 to determine training needs. This is required for the MiFID II 'opt up'	Self assessment to be conducted in October 2017 to determine training needs. This is required for the MiFID II 'opt up'	Self assessment to be conducted in October 2017 to determine training needs. This is required for the MiFID II 'opt up'

Action	Link to Objectives	Purpose	Completion Date	Hammersmith and Fulham	Kensington and Chelsea	Westminster
Agree 'Pensions Administration' SLA between HR and Finance	1a 2a 2b	To clarify the internal roles and responsibilities involved in operating the Pension Fund in terms of regulatory requirements and key functions to ensure the quality and continuity of service is provided to employees, employers and other stakeholders.	September 2017	Outstanding	Outstanding	Outstanding
Update Contracts Register	2a 2c	Ensure all contractual arrangements are documented in one place and on-going procurement requirements are known and planned for.	September 2017	Contracts are monitored by officers through the Capital Resourcing database.	Contracts are monitored by officers through the Capital Resourcing database.	Contracts are monitored by officers through the Capital Resourcing database.

Scheme Administration

Action	Link to Objectives	Purpose	Completion Date	Hammersmith and Fulham	Kensington and Chelsea	Westminster
Long Term Cash Flow forecast (given negative cash flow positions)	1a 3a 3d	1. Identify monthly cash flows for each fund for next 3 years 2. Highlight key drivers of cash flows and major risk areas 3. Establish monitoring and updating procedures 4. Provide regular updates to Pension Committees 5. Agree policy of actions to address shortfalls	September 2017	Cash flow monitoring is presented at PF Committee as a standing item including a 3 year forecast. A monthly report also goes to the EMT. Areas of concern are identified for the short and medium term. A draw-down policy will be developed to support negative cash flow.	Cash flow monitoring outstanding A draw-down policy will be developed to support negative cash flow.	Cash flow monitoring is presented at PF Committee as a standing item including a 3 year forecast. A monthly report also goes to the EMT. Areas of concern are identified for the short and medium term. A draw-down policy will be developed to support negative cash flow.

Action	**Link to Objectives**	**Purpose**	**Completion Date**	**Hammersmith and Fulham**	**Kensington and Chelsea**	**Westminster**
Resolve issues on the end to end Starters Leavers Changes process	1b 1c 2b 3a 3c 3d	1. Document and Agree end to end process and ownership at each stage. 2. Agree monitoring and review process 3. Provide regular updates to Pension Committees	October 2017	To be updated for next Committee	To be updated for next Committee	To be updated for next Committee
Admission Agreement Process	1a 1b 1c 2c	1. Prepare standardised approach to the process of instigating an Admission Agreement 2. Agree the approach with HR and Pension Committees 3. Communicate approach internally and to all Employing Bodies 4. Provide regular updates to Pension Committees	December 2017	To be updated for next Committee	To be updated for next Committee	To be updated for next Committee

Action	Link to Objectives	Purpose	Completion Date	Hammersmith and Fulham	Kensington and Chelsea	Westminster
Forge Closer relationship with London CIV	1b 1c	1. Ensure that 3B requirements are fully articulated and understood 2. Ensure 3B have a voice on all the main working groups to shape requirements and outcomes	July 2017	There is Officer and Member level representation on key working groups in the CIV. There are spaces on working groups to be filled	There is Officer and Member level representation on key working groups in the CIV. There are spaces on working groups to be filled	There is Officer and Member level representation on key working groups in the CIV. There are spaces on working groups to be filled
Improve Fund Websites	1c 3c	1. Update template webpage for new key areas 2. Work with IT to deliver user friendly interface subject to VFM including link to employee portal at Surrey 3. Ensure awareness of website to employers and employees	December 2017	To be updated for next Committee	To be updated for next Committee	To be updated for next Committee

Action	Link to Objectives	Purpose	Completion Date	Hammersmith and Fulham	Kensington and Chelsea	Westminster
Ensure Funds Reconcile to Financial System within financial year	1b 1c 2b 3a 3c 3d	1. Ensure that financial system reflects custodian records as submitted on a quarterly basis. 2. Ensure all reconciliations (other than above) signed off on a monthly basis	June 2017			To be updated for next meeting due to closure of accounts sign off and the rollover of balances
Create Key Controls Matrix	2b	1. Establish matrix of all financial controls 2. Agree monitoring and reporting procedures	June 2017	Outstanding	Outstanding	Outstanding

Funding & Investments

Action	Link to Objectives	Purpose	Completion Date	Hammersmith and Fulham	Kensington and Chelsea	Westminster
Investment Strategy Reviews	1a 1b 2c	To ensure each Fund's investment strategy is optimal. The Funds are currently considering the appropriateness of their strategies in light of the tri-ennial revaluation, cash flow forecasts and rebalancing policies and further work may be required depending on the expected consultation on asset pooling. Existing Manager's underperformance or new developments in the markets may trigger a further review.	September 2017 As required	Strategy has been updated following the triennial valuation. This is subject to quarterly and monthly monitoring by the Investment Advisor and Officers	Strategy has been updated following the triennial valuation. This is subject to quarterly and monthly monitoring by the Investment Advisor and Officers	Strategy has been updated following the triennial valuation. This is subject to quarterly and monthly monitoring by the Investment Advisor and Officers

Action	Link to Objectives	Purpose	Completion Date	Hammersmith and Fulham	Kensington and Chelsea	Westminster
Improve Fund Manager Monitoring Arrangements	1a 2a	1. To maximise the benefits from engagement with Fund Managers by establishing a structured meeting schedule and standard format involving Officers and Members. 2. Work with the CIV to ensure that monitoring arrangements for Funds that are transferred are to the same level	September 2017	Awaiting information	Awaiting information	Fund manager meeting days will be scheduled over December to January.
Investment Adviser Contract	1a 3b	To ensure each Fund secures the best possible advice and value for money in relation to its investment adviser arrangements.	2017	To be updated for December 2017	New Adviser Contract to commence 1 October following procurement process	To be updated for December 2017
Actuarial Services Contract	2c 3b	To ensure each Fund secures the best value for money in relation to its actuarial arrangements.	2017	To be updated for December 2017	To be updated for December 2017	To be updated for December 2017

Action	**Link to Objectives**	**Purpose**	**Completion Date**	**Hammersmith and Fulham**	**Kensington and Chelsea**	**Westminster**
Review Fund Manager Fees	3a 3c 3d	1. Given the national focus on Investment Management Costs ensure fee data is accurate and comparable using appropriate benchmarking services and demonstrates good value to the Funds. 2. Only transfer items to the London CIV if Fee reductions (ensuring performance is maintained at same level)	2017	To be updated for December 2017	To be updated for December 2017	To be updated for December 2017