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City of Westminster

Committee Agenda

Title:	**Pension Fund Committee**
Meeting Date:	**Thursday 8th March, 2018**
Time:	**7.00 pm**
Venue:	**Room 3.4, 3rd Floor, 5 Strand, London WC2 5HR**
Members:	**Councillors:** Suhail Rahuja (Chairman) Patricia McAllister Peter Cuthbertson 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 from 6.30pm. 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 Director of Law in advance of the meeting please.

AGENDA

PART 1 (IN PUBLIC)

9. ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

Stuart Love
Chief Executive
28 February 2018

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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 23rd January, 2018**, 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: Phil Triggs (Interim Tri-Borough Director of Treasury and Pensions), Matthew Hopson (Senior Finance Manager – Treasury), Yvonne Thompson-Hoyte (Senior Finance Manager – Pensions), Lee Witham (Director of People Services), Sarah Hay (Pensions and Payroll Officer) and Toby Howes (Senior Committee and Governance Officer).

Also Present: Christopher Smith (Pension Board Member), Kevin Humpherson (Deloitte) and Alistair Sutherland (Deloitte).

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 12 October 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 the key performance indicators (KPIs) were now considerably more stable and performing at a consistently high level. There were a couple of cases that had missed deadlines, but overall the KPIs were on target and it was now “business as usual”. The number of complaints was also very low and Lee Witham felt that this reflected the relevance of the KPIs being used.

4.2 The Chairman asked for more information concerning a missed payment and why the deferred benefits statement issued KPI had fallen to 86%. He also sought clarification in respect of what the interfunds out actual processed in 30 days KPI entailed and updates on BT dealing with urgent leavers forms and correcting payroll errors from the previous year. Turning to the KPI spreadsheet in the report, the Chairman sought an explanation in respect of 87.5% being recorded for survey to retirees. Members welcomed the overall improved performance and noted that People Services would continue to monitor both BT’s and Surrey County Council’s performance.

4.3 In reply to issues raised, Sarah Hay (Pensions and Payroll Officer) advised that there was a missed payment in respect of a deferred payment. Deferred benefit statements had fallen to 86% because 1 out of 7 cases had missed the deadline. Sarah Hay explained that the interfunds out actual processed in 30 days KPI related to staff being transferred to another Local Government Pension Scheme (LGPS). In respect of the survey to retirees KPI, more data from Surrey County Council was required. Sarah Hay advised that BT had taken over the processing of urgent leavers forms on 1 January and initial indications were that this was working well.

4.4 Lee Witham advised that People Services were continuing to monitor BT’s work in correcting payroll errors.

4.5 Christopher Smith (Pension Board Member and Unison Representative) was invited to comment and he stated that queries or complaints he was receiving from staff in his capacity as the City Council’s Unison representative were now very low and he thanked People Services for their contributions to the improvements.

4.6 The Chairman welcomed the improvements and thanked staff for all their efforts. He then requested more information in respect of the survey to retirees KPI be provided at the next meeting.

5 QUARTERLY PERFORMANCE REPORT

5.1 Kevin Humpherson (Deloitte) introduced the item and advised that performance figures had been updated since the publication of the report. He advised that overall the Fund had performed 0.6% above its benchmark for the quarter and outperformed its benchmark over the last year and the last 3 years by 2.5% and 1.1% respectively.

5.2 During Members’ discussions, the Chairman noted that the covering report mentioned that one fund manager had underperformed and he sought clarification as to who this was. Members asked how well funded was the Westminster Pension Fund and how did this compare with other funds and why were cash injections being made to the Fund.

5.3 In reply to the issues raised by Members, Kevin Humpherson advised that Longview had underperformed this quarter, however this was offset by Baillie Gifford and Standard Life's over performance and hence why the quarter was 0.6% above the benchmark. He informed the Committee that the Westminster Pension Fund was currently 88% funded.

5.4 Alistair Sutherland (Deloitte) added that some funds were 100% funded, and the level of funding across the LGPS varied widely. However, the Westminster Fund was increasing its funding levels and heading in the right direction, although there was still an element of risk to the Investment Strategy in that presently there were not sufficient assets to pay pensions.

5.5 Phil Triggs (Tri-Borough Director of Treasury and Pensions) advised that additional controls had been agreed at the beginning of the financial year to ensure meaningful contributions to tackle the Fund's deficit. However, comparisons with other funds were difficult as funds made different assumptions. Phil Triggs advised that the Fund was 75th out of 89 in the funding levels table and the top 3 funded funds were West Sussex, Wandsworth and the Royal Borough of Kensington and Chelsea funds that were funded at 103%, 100% and 99% respectively.

5.6 The Chairman advised that cash injections were being used as deficit recovery payments for the Fund, although these were relatively modest.

5.7 **RESOLVED:**

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

6 FUND FINANCIAL MANAGEMENT

6.1 Yvonne Thompson-Hoyte (Senior Finance Manager – Pensions) presented the report and circulated an update on Risk Register monitoring. She advised that the Fund had successfully opted up to elective professional status with all counterparties ahead of the 3 January deadline in respect of the implementation of Markets in Financial Instrument Directive 2014/65. As a result, risk 10 in the Risk Register had been removed. However, a new risk 10 had been added to the Risk Register to consider the possible loss of elective professional status upon reassessment at the end of each year. An additional risk 11 had also been added in respect of any new financial institutions the Fund may deal with in future would categorise the Fund as a retail client by default unless a further opting up to elective professional status was carried out. If this was not undertaken, it may result in the Fund having restricted access to information from fund managers of such institutions. Turning to cashflow monitoring, Yvonne Thompson-Hoyte advised that a further £10 million for deficit contributions was expected in February.

6.2 Phil Triggs advised that in respect of risk 11, discussions were taking place with fund manages on strategies to prevent being classified as a retail client.

6.3 The Chairman requested that the spreadsheet for cashflow be updated so that it highlights that some of the £10 million deficit contribution comes through payroll contributions as well as cash injections. He also requested that the Committee's Forward Plan for the remainder of 2018 be updated.

6.4 **RESOLVED:**

1. That the Risk Register for the Pension Fund be noted.

2. That the cashflow position and three year forecast be noted.

3. That the changes to the Committee's Forward Plan be noted.

7 FIXED INCOME MANAGER SELECTION

7.1 Phil Triggs (Tri-Borough Director of Treasury and Pensions) presented the report and confirmed that Insight Investment Management had been selected as the preferred Fixed Income Manager, following a presentation to the Chairman and Councillor Ian Rowley, two officers and the Fund's Investment Consultant, Deloitte. Phil Triggs advised that the transfer of funds to Insight Investment Management would be completed by 1 April in time for the new financial year.

7.2 Kevin Humpherson (Deloitte) confirmed that Insight had sent implication documents and these were consistent with what they had set out in their presentation and there should be no change in assumptions for transaction costs.

7.3 The Chairman emphasised the importance of transferring funds promptly and requested that he be informed of timelines for the transfers and what the transaction costs would be. The Committee approved the recommendation in the report.

7.4 **RESOLVED:**

That the award of the Pension Fund's fixed income contract to Insight Investment Management for a length of five years be approved, with an additional five year extension available, subject to the Committee's approval.

8 LONDON COLLECTIVE INVESTMENT VEHICLE GOVERNANCE REVIEW

8.1 Matthew Hopson (Senior Finance Manager – Treasury) presented the report that provided an update on the governance review of the London Collective Investment Vehicle (CIV) and its key findings. He advised that a number of concerns had been raised in the review, the key concern of which surrounds the engagement of a wide stakeholder base with conflicting priorities, as the London CIV had 33 London borough members. This created difficulty in achieving joint outcomes and slowed progress in the pooling of funds and it was not felt that the Investment Advisory Committee and the Joint Committee were operating optimally to help improve this. There were also concerns regarding a perceived lack of transparency, particularly in respect of manager selection. Another issue of concern was that the London CIV was underfunded and under resourced, particularly in the areas of client relations and the Secretariat.

8.2 Matthew Hopson informed Members that the governance review had made 5 key recommendations, these being:

- Establishing and agreeing a more concise and narrowly defined set of statements of purpose for the London CIV, the Investment Advisory Committee and the Joint Committee
- Review the meeting cycle, reducing the number of full committee meetings and making greater use of sub-committees and working groups with each committee focusing on a clear set of objectives
- A better resourced Secretariat
- Recognising the importance of transparency and cultivating trust and to embed this for the CIV's pooling arrangements
- Setting up an independent resourcing and cost model review to provide further clarity and recommendations on the appropriate levels of funding.

8.3 Matthew Hopson commented that as the London CIV was founded on a voluntary basis, this hindered creating robust governance arrangements and there needed to be more uniformity. He also advised that the Chief Investment Officer of the CIV had vacated the post and there were no immediate plans to replaced him. Members heard that the Department for Communities and Local Government was driving the requirement of local authorities to pool their funds with others.

8.4 Phil Triggs emphasised the importance of the London CIV to appoint a Chief Investment Officer at the earliest opportunity. One of the difficulties the CIV encountered was that the 33 London borough members all had different expectations and approaches.

8.5 The Chairman sought views on the recommendations in the report. Members asked if having too many London boroughs in the CIV was the inherent problem behind the lack of progress.

8.6 Alistair Sutherland replied that it was essential that the CIV carried the recommendations through and it was also important to appoint a suitably qualified Chief Investment Officer promptly. He stated that London boroughs needed to recognise that there needed to be compromises and there was no alternative than for the CIV to work.

8.7 The Chairman commented that it was regrettable that the London CIV had not made the same progress as other LGPS investment pools. He requested that the Interim Chief Executive of the London CIV attend the next meeting to update the Committee on the work of the CIV and progress in respect of appointing a new Chief Investment Officer.

8.8 **RESOLVED:**

That the governance review be noted.

9 FOSSIL FUEL INVESTMENT PRACTICES

9.1 Matthew Hopson presented the report and stated that the Committee's priority was to look after the Fund. He advised that there was very little in the way of fossil fuel investments for the Fund, with only a small fossil fuel related investment as part of the Majedie passive equity mandate existing within the Fund. However, Matthew Hopson advised that if this particular investment was considered a risk, the Committee could reconsider this and could, for example, look at changing to a low carbon equivalent investment, although this may be complicated to undertake as this particular investment was under the London CIV.

9.2 Members enquired what the City Council's response to the Friends of the Earth request that local authorities refrain from investing in fossil fuels was. In reply, Matthew Hopson stated that appendix 1 of the report set out the City Council's position.

9.3 Phil Triggs advised that the Fund had the option to join the Local Authority Pension Fund Forum (LAPFF), a pressure group organisation made up of LGPS funds that sought to lobby organisations to make better environment, social and governance decisions. He felt that there was some merit in joining the LAPFF as it has helped achieve changes in some policies.

9.4 Members concurred that there was no need to look at investing in low carbon alternatives at this stage. The Chairman added that consideration would be given to joining the LAPFF in future.

9.5 **RESOLVED:**

1. That the Pension Fund's current approach to fossil fuel investing be noted.

2. That the City Council's response to the Friends of the Earth's divestment query as set out in appendix 1 of the report be noted.

10 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

10.1 There was no other business.

The Meeting ended at 8.14 pm.

CHAIRMAN: ______________________ **DATE** ___________________

City of Westminster

Pension Fund Committee

Date:	**8th March 2018**
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 and BT. The report also gives an update on the Key Performance Indicator (KPI) performance of the pension administrators Surrey County Council (SCC) for the period January 2018. The detailed 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 only the month of January 2018, February data is not available at the time of drafting this committee report, the previous reporting period is also shown for comparison. The next review meeting with Surrey is planned for 1st of March 2018 after the drafting of this paper.

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 was identified. KPI issues for January are discussed below.

2.3.1. **Retirement Options Issued to Members.** We are pleased to note the improvement from 94% in the period September through to November and then onto 100% in December. In this reporting period of January 2018 the KPI remains at 100%. This is considered one of our more important KPI measures.

2.3.2. **Pension Payment, Member paid on the next available Pension Payroll.** This KPI was only 95% for the period September to November but improved to 100% in December, and has maintained a 100% level in January 2018. People Services will continue to closely monitor as this is one of our key measures.

2.3.3. **Deferred benefits Statement Issued.** After a drop in December 2017 to 86% due to one late case we are pleased to note we are back at 100% in January 2018.

2.3.4. **Lump Sum payment made within 5 days.** We are happy to note that this KPI remains at 100% in January 2018 following the same rate in December 2017 and is an increase on the 97% reported for September to December.

2.3.5. **Interfunds Out Actual Processed in 30 Days.** Fell to 97 % in September to November but is back to 100% in December and has remained at 100% in January.

2.3.6. **Material Changes.** One material change i.e a change that may impact someone's pension benefit was processed late in January reducing the accuracy to 97%.

2.3.7. **Correspondence to 3rd Party.** There was only one correspondence to a 3rd party in January 2018 but this was processed outside of the 10 day, deadline and so was late.

2.4. The committee requested a further breakdown of the positive response rate reported for retirees who had been surveyed. The January KPI figures include a 91.3% positive response rate for the period October to December 2017. The Questions the members were asked are as follows;

1. You found it easy to get in touch with us? (Strongly disagree – strongly agree)
2. We were friendly and helpful on the phone? (Strongly disagree - strongly agree)
3. You received all the information you needed about your retirement benefits from Pension Services? (Strongly disagree – strongly agree)
4. Our letters and forms were clear and easy to understand? (strongly disagree – strongly agree)
5. Your retirement was processed in a timely manner? (strongly disagree – strongly agree)

6. Overall, how satisfied are you with the service you received from us? (very unsatisfied – very satisfied)
7. If you would like us to contact you to discuss any points you have raised, please provide us with your contact details in the box (comments)

2.5. The responses to the questions received are as follows:

1 78.26% agreed or strongly agreed.
2 78.26% agreed or strongly agreed.
3 91.31% agreed or strongly agreed.
4 52.17% agreed, with 4.35% disagreeing
5 86.96% agreed or strongly agreed.
6 60.87% said very satisfied. 4.35% said very unsatisfied

2.6. In question 7, where members have provided contact details, Surrey have gone back to them to thank them for their feedback and to request further clarification where that feedback indicated the member was dissatisfied. In the above breakdown one person indicated that Surrey's forms were unclear and not easy to understand. That individual did leave contact details on the survey and they have been contacted by Surrey but have yet to respond at the time of writing this report. A second individual responded on question 6 indicating that they were very unsatisfied with the service they received. This member did leave contact details and they have been contacted though have yet to respond.

2.7. The Pension Officer has asked Surrey to e-mail the two people involved one more time to see if they want to provide further feedback at this time. We would not wish to keep chasing our pensioners though and we should not lose focus on the overall positive feedback and that it's only two individuals who raised a concern.

2.8. The Committee should also note the 91.3% positive feedback from the same survey for the period September to December 2017 reported on the attached appendix. The Pension Officer has requested additional breakdown on this data and will update the committee in the next report.

2.9 The improvement to the member self-service access has been completed in January 2018. This change will improve the appearance of the Annual Benefit Statement (ABS) and enable mobile and tablet access. One individual has already provided direct feedback that the revised site is more intuitive to use and makes pension information easier to understand. People Services are now planning to promote the online access to scheme members.

3. BT Performance

3.1 In an update from the previous committee, WCC People Services have agreed with BT that they will take over the completion of urgent pension leaver forms from 1st of January 2018. The agreed process is that People Services raise an

Incident with BT when they are aware of an impending retirement case. People Services then advise the pensions lead officer at BT of the incident number so that these cases can be escalated quickly and pension leaver forms can be returned to Surrey before the members last day of employment.

3.2 It is still too early to give the committee real feedback on the process we introduced on January the 1st. There have been few retirements that would require BT to provide an immediate response.

3.3 In an update from our last committee report we can confirm that WCC officers have been completing Q and A work on automated monthly leavers files that BT have produced The process has picked up errors in the initial files and BT have addressed those returning files for a further Q and A. The second Q and A is due to be completed as this report is submitted. WCC Officers are hopeful that this will allow BT to send monthly leavers files to Surrey to pick up all the non-urgent leavers going forward.

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 review any pension matters that have been referred to the in house team by individuals, Unison, BT or Surrey.

4.2 There are currently 5 issues on the log. Four cases are chasing transfers in and there is one case regarding a transfer of an AVC to a private pension company. This case is almost completed with the main payment made to the individual SIPP provider and we are waiting for supplier forms to be completed to pay the agreed compensation.

5. Risk Register

5.1 Finance will be presenting the risk register to committee however as it was last reported Operational Administration reference 26 is remaining as Amber until we are satisfied that the leaver process with BT is timely and accurate.

6. Summary

6.1 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.

Updated Pension KPI January 2018 | **SEPTEMBER TO NOVEMBER REPORTING** | **Dec-17** | **Jan-18**

Description	Target time/date as per Partnership Agreement	Actual Score September to November 17	No of Cases September to November	Comments	Actual Score Dec 2017	No of cases Dec 2017	Actual Score Jan 2018	No of Cases January 2018	Target	Trend	Comment	
PENSION ADMINISTRATION												
DEATH BENEFITS Notify potential beneficiary of lump sum death grant	5 days		0		100%	1	100%	1	100%			
Write to dependant and provide relevant claim form	5 days	100%	6		100%	4	100%	6	100%			
Set up any dependants benefits and confirm payments due	14 days	100%	4		NA	0	100%	2	100%			
RETIREMENTS Retirement options issued to members	5 days	94%	16	1 case late	100%	7	100%	6	100%			
New retirement benefits processed for payment following receipt of all necessary documents	5 days	100%	16		100%	3	100%	10	100%			
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run	95%	39		100%	3	100%	10	100%			
REFUNDS OF CONTRIBUTIONS Refund paid following receipt of claim form	14 days	100%	28		100%	1	100%	3	100%			
DEFERRED BENEFITS Statements sent to member following receipt of leaver notification	30 days	100%	89		86%	7	100%	14	100%			
DEFERRED PAYMENTS												
Notification to members 2 months before payments due	3 months	100%	62		100%	18	100%	24	100%			
Lump Sum (on receipt of all necessary documentation)	5 days	97%	39		100%	10	100%	11				
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run	100%	39		100%	10	100%	11	100%			
NEW JOINERS New starters processed	30 days	100%	62		100%	5	100%	16	100%			
TRANSFERS IN Non LGPS transfers-in quotations	30 days				0	1	100%	1				
Non LGPS transfers-in payments processed	30 days	NA	0		NA	0	NA	0	100%			
TRANSFERS OUT Non LGPS transfers-out quotations processed	30 days	100%	23		100%	5	100%	6	100%			
Non LGPS transfers out payments processed	30 days	100%	6		100%	1	100%	1	100%			
Interfunds In - Quotations	30 days	NA	0		100%	1	NA	0	100%			
Interfunds In - Actuals	30 days	NA	0		NA	0	NA	0	100%			
Interfunds Out - Quotations	30 days	96%	53		100%	6	100%	8	100%			
Interfunds Out - Actuals	30 days	100%	7		100%	6	100%	3				
ESTIMATES												
1-10 cases	5 Days	100%	46		NA	0	100%	6				
11-50 cases	Agreed with WCC	NA	NA		N/A		N/A			NA		
51 cases or over	Agreed with WCC	NA	NA		N/A		N/A			NA		

Updated Pension KPI January 2018 | **SEPTEMBER TO NOVEMBER REPORTING** | **Dec-17** | **Jan-18**

Description	Target time/date as per Partnership Agreement	Actual Score September to November 17	No of Cases September to November	Comments	Actual Score Dec 2017	No of cases Dec 2017	Actual Score Jan 2018	No of Cases January 2018	Target	Trend	Comment	
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	100%	137		100%	20	97%	29			1 case late	
BUYING ADDITIONAL PENSIONS												
Members notified of terms of purchasing additional pension	15 days	NA	NA		N/A		N/A			N/A		
Monthly Pensioner Payroll												
Full reconciliation of payroll and ledger report provided to WCC	Last day of month	100%			100%		100%					
Issue of monthly payslips	3 days before pay day	100%			100%		100%					
RTI file submitted to HMRC	3 days before pay day	100%			100%		100%					
BACS File submitted for payment	3 days before pay day	100%			100%		100%					
P35	EOY	Annual			Annual		Annual					
Annual Exercises												
ANNUAL BENEFIT STATEMENTS Active members	31 August each year	Annual		N/A	Annual		Annual			N/A		
ANNUAL BENEFIT STATEMENTS Deferred members	31 August each year	Annual		N/A	Annual		Annual			N/A		
P60s Issued to Pensioners	31 May each year	Annual		Issued April 2017	Annual		Annual			N/A	Issued April 2017	
Apply Pensions Increase to Pensioners	April each year	Annual			Annual		Annual			N/A		
Pensioners Newsletter	April each year	Annual		Issued April 2017	Annual		Annual			N/A	Issued April 2017	
CUSTOMER SERVICE												
CORRESPONDENCE												
Acknowledgement if more than 5 days	2 days											
Response	10 days	98%	45		100%	12	100%	12				
3rd party enquires	10 days	NA	NA		N/A	N/A	0%	1			1 case late	
Helpdesk Enquiries												
Volumes of Enquiries Handled By Helpdesk	Number of Enquiries Handled		940 (respresentative of 2 months)	89% FPF rate	90% FPF rate	289	90% FPF rate	508				
Customer Surveys												
Survey to retirees	Percentage Satisfied with Service				87.50%	Results based on survey of members retiring between April and September 2017	91.3%	Results based on survey of members retiring between October and December 2017				

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**08 March 2018**
Classification:	**Public**
Title:	**Performance of the Council's Pension Fund**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.**
Report of:	**Steven Mair** **City Treasurer** **smair@westminster.gov.uk** **020 7641 2904**

1. Executive Summary

1.1 This report presents the performance of the Pension Fund's investments, together with an update on the funding position to 31 December 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 require the committee to monitor the performance of the Pension 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 31 December 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 31 December 2017, the market value of the assets increased by £48 million to a value of £1,367 million (£1,319) at 30 September 2017). The fund underperformed the benchmark net of fees by 0.5%. This is mainly attributable to the underperformance of the Majedie and Longview portfolios.

3.4 The Advisors continue to rate the fund managers favourably. They have however, expressed ongoing concern about resignations and vacancies at senior management level within the London CIV.

3.5 The Funding update (Appendix 2) has been prepared by the Fund Actuary, Barnett Waddingham. This indicates that the estimated funding level as at 31 December 2017 was 89.8% an increase of 1.4% on the last quarter's 88.4% to September 2017. This is due mainly to a greater return on assets than that anticipated at the time of the triennial valuation in March 2016. This position is also up 9.8% on the funding level of 80% that was calculated 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:

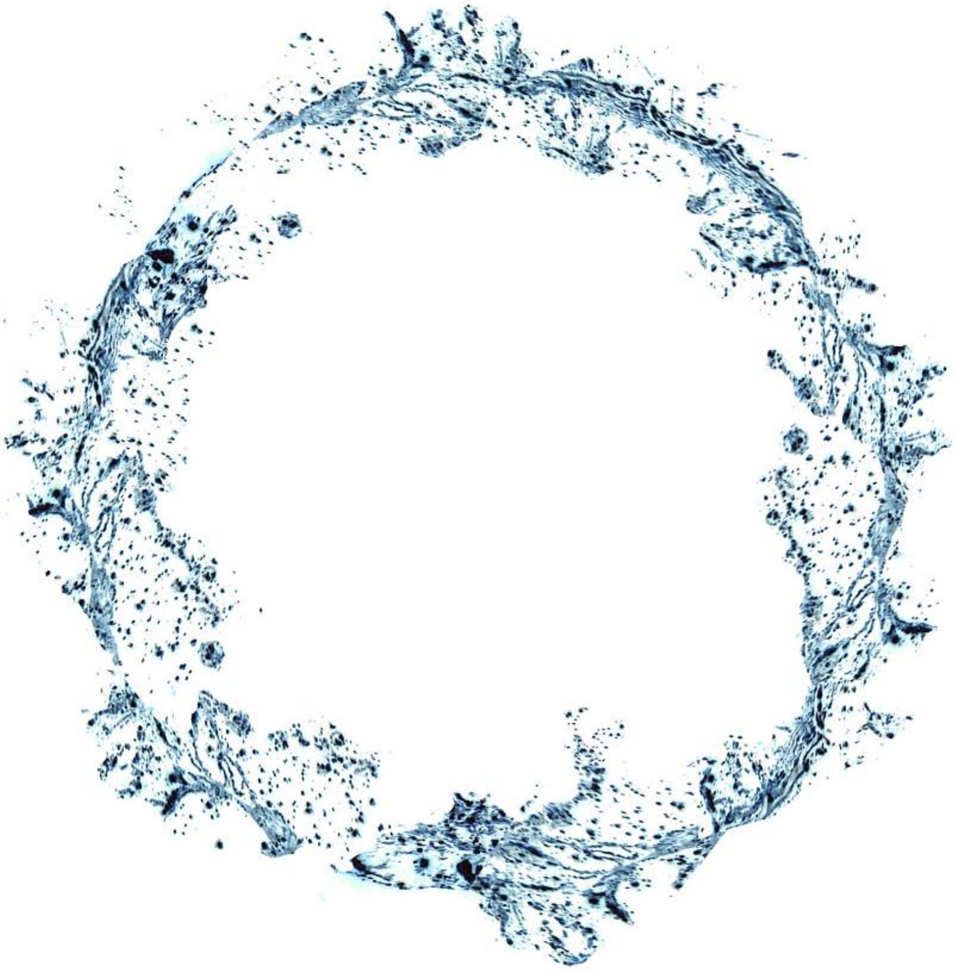
Yvonne Thompson-Hoyte pensionfund@westminster.gov.uk or 020 7641 6925

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 - Deloitte Investment Report, Quarter Ending 31 December 2017
Appendix 2 - Barnett Waddingham Funding Update as at 31 December 2017

Deloitte.



City of Westminster Pension Fund
Investment Performance Report to 31 December 2017

Deloitte Total Reward and Benefits Limited
February 2018

Contents

1 Market Background

Three and twelve months to 31 December 2017

The UK equity market had a strong fourth quarter of 2017, with the FTSE All Share Index returning 5.0%, helped by rising oil prices and the continued strength of the global economy. The majority of these gains occurred in December, with the Index posting positive returns of 4.8%.

Large UK companies slightly outperformed smaller companies over the quarter but both generated significant returns with the FTSE 100 Index returning 5.0% while the FTSE Small Cap Index returned 4.2%. At a sector level, there was more of a dispersion in returns: Basic Materials (11.1%), Oil & Gas (9.7%) and Technology (8.8%) made substantial gains, while Utilities (-7.9%) and Health Care (-2.4%) suffered losses.

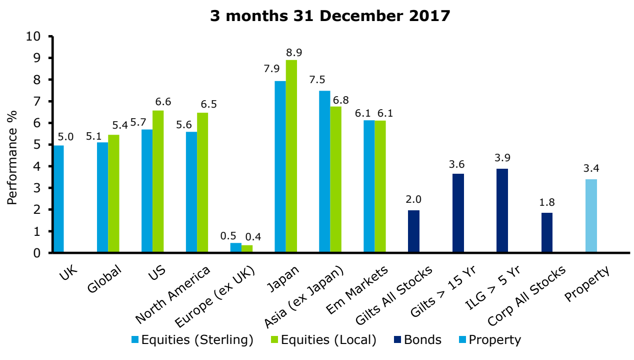
Global equity markets outperformed UK equities in local currency terms (5.4%) as well as sterling terms (5.1%) with the UK's economic prospects continuing to lag the strong macroeconomic environment globally given the continued uncertainty over Brexit. Sterling strengthened slightly over the quarter, with currency hedging therefore benefitting investors. All geographic regions delivered positive returns in local currency terms: Japan (8.9%) was the best performing region in local terms, with Europe ex-UK (0.4%) being the poorest performing region outside the UK, in local currency terms, dampened by concerns around political issues in Germany and Spain and in spite of strong economic growth in the region.

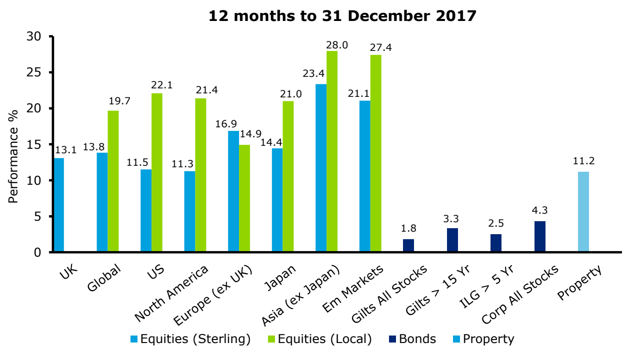
Nominal gilt yields fell over the fourth quarter as a whole, with the market anticipating that future rate rises might proceed at a slower pace than previously expected. The All Stocks Gilts Index delivered a positive return of 2.0% over the quarter. Real yields also decreased over the quarter, reflecting the falls in nominal yields with inflation expectations broadly unchanged. Index-linked gilts also performed positively with the Over 5 Year Index-Linked Gilts Index returning 3.9% over the period. Credit spreads were broadly unchanged over the fourth quarter; the iBoxx All Stocks Non Gilt Index delivered a positive return of 1.8% in line with the broader move in gilt yields.

Over the 12 months to 31 December 2017, the FTSE All Share Index delivered a positive return of 13.1%, helped by an increasingly positive global economic picture and increases in the price of oil. Basic Materials (25.0%) was the best performing sector while Utilities (-14.8%) was the poorest. The increasing uncertainty caused by Brexit continued to weigh on UK equities however, with all global markets generating superior returns in local currency terms over the period. The strengthening of sterling over the period suggests that currency hedging has been beneficial.

UK nominal gilts delivered positive returns over the 12 months to 31 December 2017, with the All Stocks Gilts Index returning 1.8% and the Over 15 year Gilts Index returning 3.3%. UK index-linked gilts also delivered positive returns over the same period, with the Over 5 Year Index-Linked Gilts Index returning 2.5%. Credit spreads narrowed over the year to 31 December 2017 by around 18bps. Consequently, corporate bonds outperformed equivalent gilts with the iBoxx All Stocks Non Gilt Index delivering a return of 4.3%.

The IPD UK Monthly Property Index returned 3.4% over the quarter and 11.2% over the year to 31 December 2017. The search for yield has contributed to the increased demand for UK property, which is still viewed as a "safe haven" by some overseas investors - foreign demand remains strong despite the uncertainty surrounding Brexit with the London market benefiting.





2 Total Fund

2.1 Investment Performance to 31 December 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	2.5	2.3	5.0	5.8	5.2	13.1	9.2	8.6	10.1	13.5	12.9	11.6
LGIM	Global Equity	5.3	5.3	5.3	18.8	18.7	18.7	9.8	9.8	9.9	13.3	13.2	13.3
Baillie Gifford	Global Equity	5.1	5.0	4.9	23.0	22.6	13.2	18.4	18.1	14.6	17.2	16.8	14.4
Longview	Global Equity	3.4	3.2	4.6	11.8	11.1	11.8	n/a	n/a	n/a	15.9	15.3	14.4
Insight Gilts	Gilts	0.8	0.8	0.8	0.8	0.7	0.6	2.2	2.1	2.2	2.5	2.4	2.5
Insight Non Gilts	Non Gilts	1.7	1.6	1.4	4.7	4.5	3.8	4.7	4.5	4.2	7.1	6.9	6.1
Hermes	Property	3.7	3.6	3.3	11.2	10.8	10.8	10.3	9.9	9.5	10.4	10.0	8.9
Aberdeen Standard	Property	2.9	2.8	2.4	11.5	11.0	3.8	8.3	7.8	6.1	9.3	8.8	7.0
Total		**3.7**	**3.6**	**4.1**	**12.7**	**12.3**	**11.7**	**10.9**	**10.5**	**9.7**	**n/a**	**n/a**	**n/a**

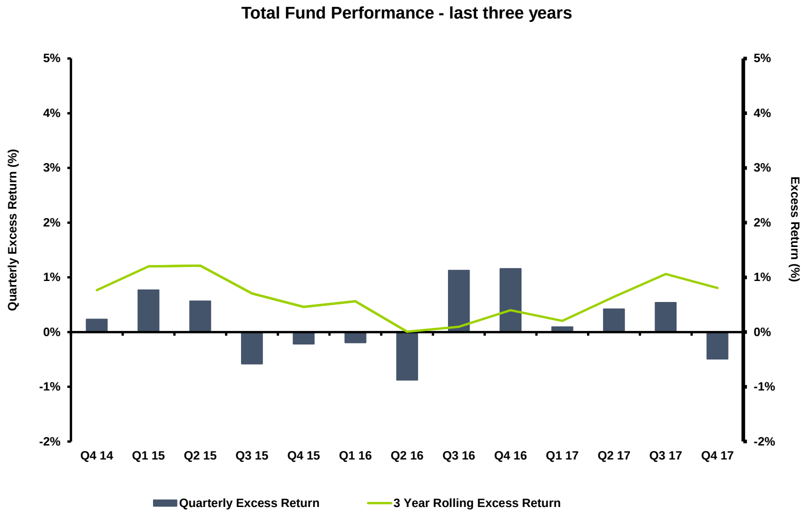
Source: Northern Trust

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

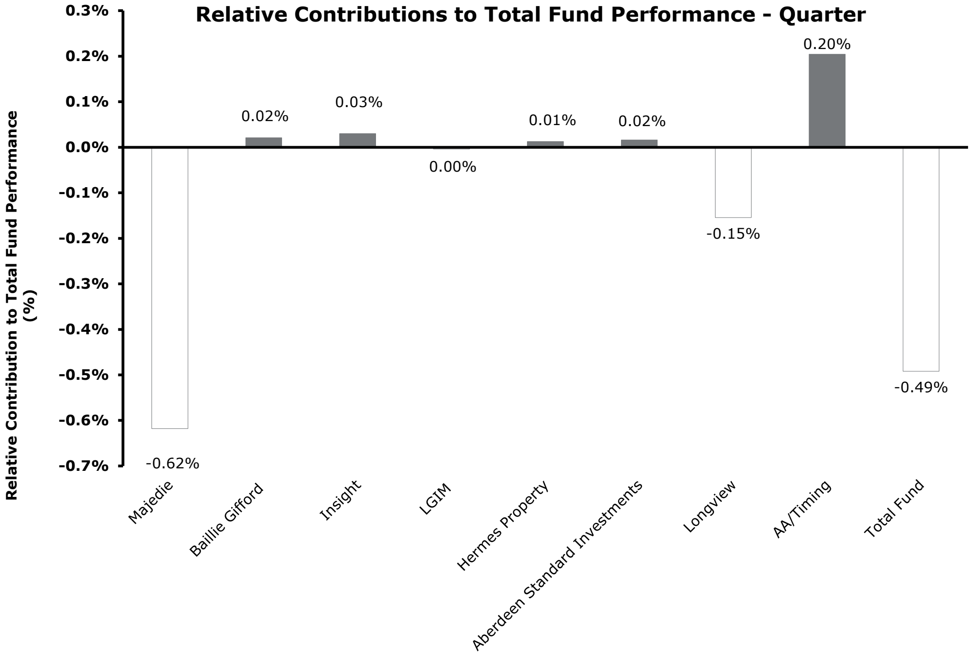
See appendix 1 for more detail on manager fees and since inception dates

Over the quarter the Fund underperformed its benchmark by 0.5% on a net of fees basis, with the outperformance of Hermes and Aberdeen Standard being offset by the underperformance from Majedie and Longview. The Fund has outperformed its benchmark over the last year and three years by 0.6% and 0.8% 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.

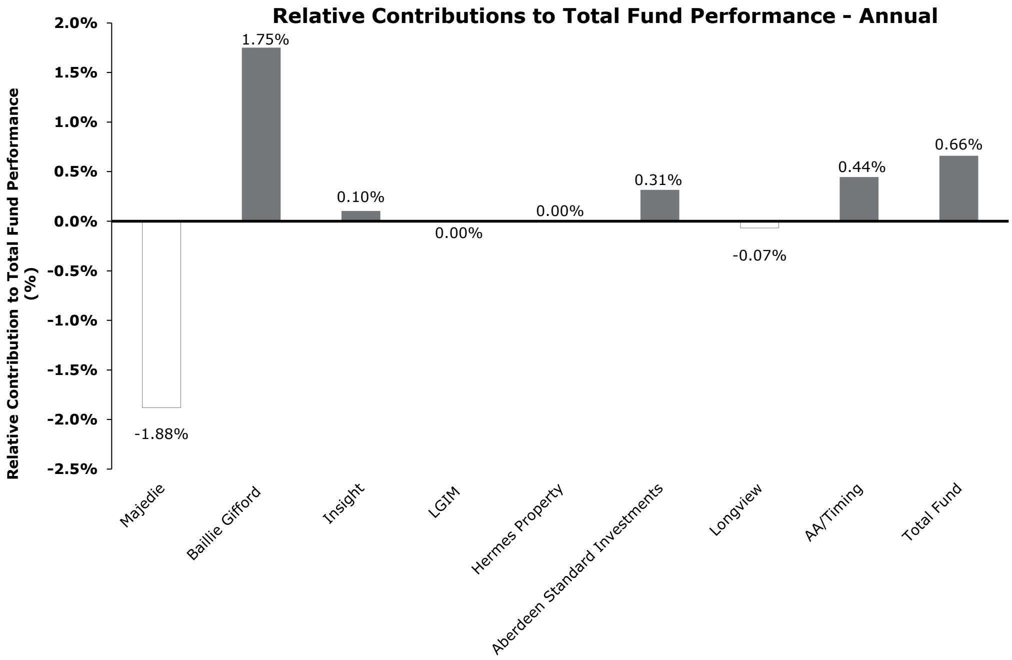


2.2 Attribution of Performance to 31 December 2017



On a net of fees performance basis, the Fund underperformed its benchmark by 0.5% over the fourth quarter, largely as a result of underperformance from Majedie and Longview.

Over the year the Fund outperformed the benchmark by 0.7% with Baillie Gifford and Aberdeen Standard Investments being the largest contributors once again, offsetting underperformance from Majedie. The positive contribution shown by the “AA/Timing” bar was primarily driven by the Fund having an overweight allocation to equities.



2.3 Asset Allocation as at 31 December 2017

The table below shows the assets held by manager and asset class as at 31 December 2017.

Manager	Asset Class	End Sept 2017 (£m)	End Dec 2017 (£m)	End Sept 2017 (%)	End Dec 2017 (%)	Benchmark Allocation* (%)
Majedie	UK Equity	310.1	317.8	23.5	23.2	22.5
LGIM	Global Equity (Passive)	302.0	317.9	22.9	23.2	22.5
Baillie Gifford	Global Equity	254.0	266.8	19.2	19.5	25
Longview	Global Equity	144.1	149.0	10.9	10.9	
	Total Equity	**1,010.2**	**1,051.5**	**76.6**	**76.9**	**70**
Insight	Fixed Interest Gilts (Passive)	18.7	18.9	1.4	1.4	20
Insight	Sterling Non-Gilts	172.5	175.4	13.1	12.8	
	Total Bonds	**191.2**	**194.3**	**14.5**	**14.2**	**20**
Hermes	Property	60.3	62.6	4.6	4.6	5
Aberdeen Standard	Property	57.8	59.5	4.4	4.3	5
To be determined	Property / Infrastructure	0.0	0.0	0.0	0.0	
	Total Property	**118.1**	**122.1**	**9.0**	**8.9**	**10**
	Total	**1,319.5**	**1,367.8**	**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. £48.3m, with positive absolute returns from all of the Fund's managers.

As at 31 December 2017, the Fund was 6.9% overweight equities when compared with the amended benchmark allocation and underweight bonds and property by c. 5.8% and 1.1% respectively.

2.4 Yield analysis as at 31 December 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 31 December 2017
Majedie	UK Equity	3.28%
Baillie Gifford	Global Equity	0.69%
LGIM	Global Equity (Passive)	0.23%*
Longview	Global Equity	2.27%
Insight Fixed Interest Gilts	Fixed Interest Gilts (Passive)	0.80%
Insight Sterling Non-Gilts	Sterling Non-Gilts	2.00%
Hermes Property	Property	5.10%
Aberdeen Standard Investments	Long Lease Property	4.14%
	Total	**1.89%**

*Benchmark yield is 2.4% (represents the income that would be generated).

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
Aberdeen Standard Investments	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 31 December 2017, the London CIV had 10 sub-funds and assets under management of £6,336m, an increase of c. £800m over the quarter, with one new sub-fund added (Epoch Investment Partners Global Equity), one new investor being added to the Pyrford sub-fund and the Baillie Gifford sub-fund and three investors being added to the Ruffer sub-fund.

Personnel
Over the quarter it was announced that Hugh Grover, CEO of the London CIV, had resigned from his role and that Mark Hyde-Harrison, former chief of the Barclays UK Retirement Fund and current head of defined contribution strategy at Willis Towers Watson, would step in as interim CEO while a permanent replacement is sought.

Post quarter end it was announced that Julian Pendock, CIO of the London CIV, had resigned from his role.

Deloitte view – We view the recent departures as significant losses to the London CIV both in terms of their position of seniority as well as the fact that both have been involved since the CIV's establishment in 2015. It is crucial that steps are taken to rebuild the senior management team and an appropriate strategy agreed for taking the pool forward, getting "buy-in" from the shareholders.

3.2 Majedie

Business

The total assets under management for Majedie was c. £14.5bn as at 31 December 2017, unchanged from the previous quarter.

Personnel

There were no changes to the team over the fourth quarter of 2017.

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

3.3 Baillie Gifford

Business

Total assets under management as at 31 December 2017 was c. £180bn, up from c. £167bn as at 30 September 2017. The AUM for the Global Alpha Fund was £34bn as at 31 December 2017, representing an increase of £1bn over the quarter. The increase in assets under management has been due to a combination of improving market conditions and outperformance. The Fund's liquidity and capacity remains comfortable with no plans to reopen to new clients.

Personnel

There were no changes to the 3 main fund decision-makers (Charles Plowden, Spencer Adair and Malcom MacColl). The periodic rotations of the graduate bench that supports them took place over the quarter.

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

3.4 LGIM

Business

As at 30 June 2017, Legal & General Investment Management ("LGIM") had total assets under management of £951bn, an increase of £57bn since 31 December 2016, with the largest increases seen in Solutions and Multi-Asset. (Note, Legal & General now report asset growth figures on a semi-annual reporting timetable and the next updated figures (December 2017) will be released by March 2018.)

Personnel

At the Index team level, there was one new joiner over the quarter, Harvey Sidhu, who joined as Head of Index Plus from BlackRock where he held the position of Lead Global Portfolio Manager. Lee Collins and David Barron also joined the Index Team as Head of Index Fixed Income and Head of Index Equity & FBI (Factor Based Investing) as internal transfers from other Legal & General departments. There was one leaver during the quarter as Pedro Santay left his role as European fund manager to take up a role based in continental Europe, with Chris Tydeman taking over his responsibilities.

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

3.5 Longview

Business

Assets under management increased over the quarter to c. £19.6bn as at 31 December 2017, primarily as a result of market movements. The Fund has reached its capacity limit of $25bn and is now closed to new investors, with a waiting list in operation.

There is limited capacity available for existing clients but this is being monitored closely by Longview.

Personnel

There were no personnel changes took place over the fourth quarter of 2017, but Longview is looking to recruit an additional technical analyst to bolster its team.

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

3.6 Insight

Business

Total assets under management increased over the fourth quarter from c. £550bn to c. £585bn.

Personnel

Insight made no changes to their Bonds Plus team over the quarter, however, within the Secured Finance team:

- Alok Bedekar joined as a Senior Analyst, where he will primarily be responsible for the origination, execution and ongoing portfolio management of illiquid asset-backed credit investments. Alok was previously a Director at Shawbrook Bank plc.
- Joseph Lawson joined as an analyst. Joseph is primarily responsible for the analysis, modelling and surveillance of asset-backed investments. Previously, Joseph was an analyst at Performance Trust Capital Partners.
- Lenny Kushnirsky also joined as an analyst, primarily responsible for the analysis, modelling and surveillance of asset-backed investments. Lenny previously began his career as an actuarial analyst with Sibson Consulting in 2014.

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

3.7 Hermes

Business

Total assets under management increased by c. £0.7bn over the fourth quarter to £30.8bn. Assets under management within the HPUT remained at c. £1.5bn as at 31 December 2017.

Personnel

There were no changes to the HPUT team over the quarter.

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

3.8 Aberdeen Standard Investments – Long Lease Property

Business

The Long Lease Property fund's assets under management increased to £2.1bn as at 31 December 2017.

Since the two businesses merged, ASI has put in place a formalised process where all potential transactions are reviewed and an "allocation policy" applied where interest is expressed in the investment by more than one fund/client portfolio.

Following the quarter end ASI announced that from 1 April 2018 the fee rate being charged on the Long Lease Property Fund will be changing from the flat fee of 0.5% on assets invested to the following sliding fee scale:

- 0.5% on first £25m of assets invested;
- 0.4% on assets in the range of £25m-£50m; and
- 0.3% on assets over £50m.

This will benefit the Fund which had c. £59.5m invested as at 31 December 2017. Fee reductions will be achieved through a management charge rebate in the form of either increasing the number of units held or through a monthly cash payment.

Personnel

Aberdeen Standard Investments has announced that the leadership team for Aberdeen Standard Investments Real Estate Division will be led by Global Co-Heads of Real Estate, David Paine and Pertti Vanhanen.

Deloitte View – We continue to monitor ASI post-merger with the organisation currently in the midst of the integration. ASI has been keen to stress that the management of the Long Lease Property Fund is unaffected by the merger but there have already been changes to processes employed by the wider property team as a whole.

We have arranged a meeting with ASI to discuss more fully the implications of the recent transactions which will see c. £141bn of money managed on behalf of Scottish Widows transferred elsewhere and the sale of Standard Life's insurance business to Phoenix.

4 London CIV

4.1 Investment Performance to 31 December 2017

As at 31 December 2017, the London CIV had 10 sub-funds and assets under management of £6,336m, an increase from £5,556m as at 30 September 2017. This growth was attributable to a new sub-fund added over the quarter, which added c. £140m to the platform, as well as positive investment performance and an increase in the number of investors within various sub-funds.

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 September 2017 (£m)	Total AuM as at 31 December 2017 (£m)	Number of London CIV clients	Inception Date
LCIV MJ UK Equity	UK Equity	Majedie	523	531	3	18/05/17
LCIV Global Equity Alpha	Global Equity	Allianz Global Investors	715	742	3	02/12/15
LCIV BG Global Alpha Growth	Global Equity	Baillie Gifford	1,742	1,826	9	11/04/16
LCIV NW Global Equity	Global Equity	Newton	661	641	3	22/05/17
LCIV LV Global Equity	Global Equity	Longview Partners	376	442	3	17/07/17
LCIV EP Income Equity	Global Equity	Epoch Investment Partners	-	140	1	08/11/17
LCIV PY Total Return	Diversified growth fund	Pyrford	223	359	4	17/06/16
LCIV Diversified Growth	Diversified growth fund	Baillie Gifford	434	477	6	15/02/16
LCIV RF Absolute Return	Diversified growth fund	Ruffer	539	834	9	21/06/16
LCIV NW Real Return	Diversified growth fund	Newton	343	344	3	16/12/16
Total			**5,556**	**6,336**	**21**	

During the quarter, the Epoch sub-fund was added. Epoch and the London CIV are working together to plan the transition for the relevant funds. The London CIV is expecting to add the following sub-funds over the coming months:

- RBC – Sustainable equity sub-fund.
- Janus Henderson – Emerging market equity sub-fund.

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.

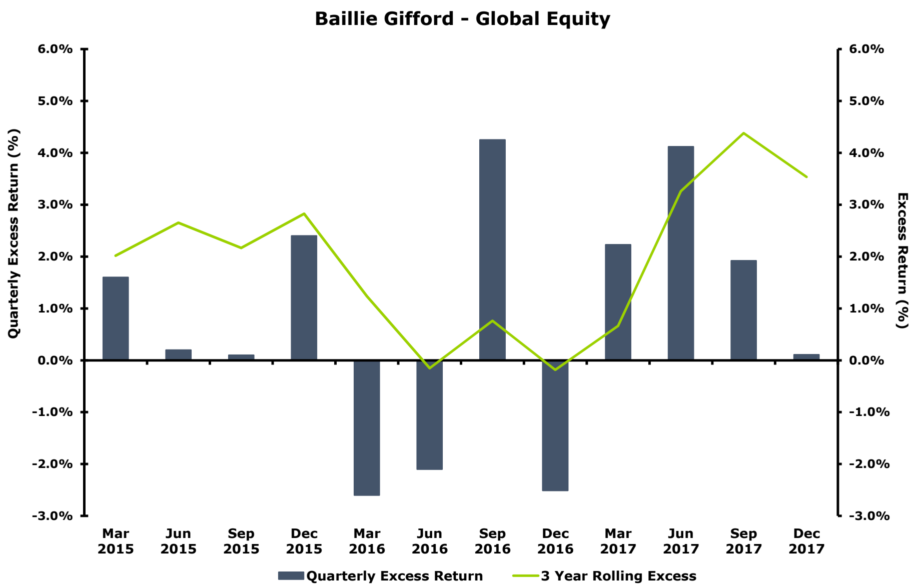
5.1 Global equity – Investment performance to 31 December 2017

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Baillie Gifford – Gross of fees	5.1	23.0	18.4	17.2
Net of fees	5.0	22.6	18.1	16.8
MSCI AC World Index	4.9	13.2	14.6	14.4
Relative (net of fees)	0.1	9.4	3.5	2.4

Source: 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 0.1% net of fees over the quarter and by 9.4% over the year to 31 December 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 3.5% p.a.

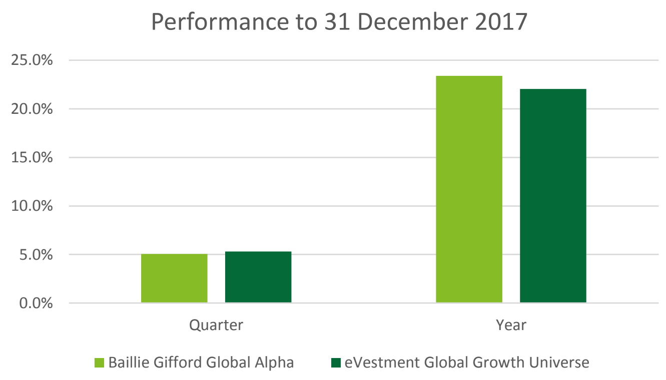


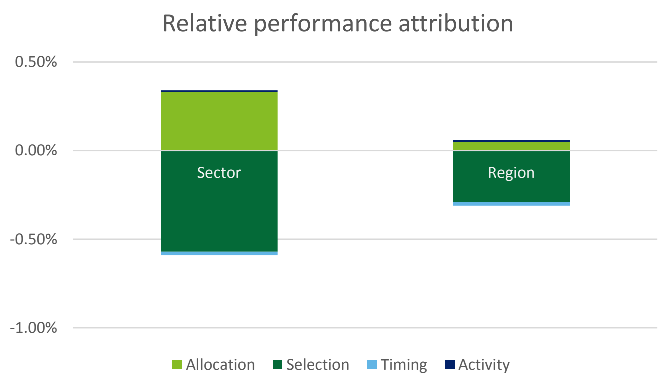
5.2 Performance Analysis

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 earnings growth resulting in capital gains as opposed to dividend income. The analysis overleaf 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 underperformed its peer group by 0.2% over the quarter, but has outperformed its peer group by 1.3% 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 year can be largely attributable to the high outperformance of the most volatile "rapid growth" portfolio sector, Baillie Gifford does not expect this level of outperformance in the future.

The top 10 holdings in the portfolio account for c. 26.6% of the Fund and are detailed below.

Top 10 holdings as at 31 December 2017	Proportion of Baillie Gifford Fund
Naspers	4.6%
Amazon	3.8%
Prudential	3.3%
Taiwan Semiconductor Manufacturing	2.8%
Royal Caribbean Cruises	2.5%
Alphabet	2.5%
Anthem	2.4%
SAP	2.4%
Alibaba	2.3%
Moody's	2.1%
Total	**26.6%**

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

6 LGIM – Global Equity (Passive)

Legal and General Investment Manager ("LGIM") was appointed to manage a global equity portfolio with the objective of replicating the performance of the FTSE All World Index benchmark. The manager is remunerated on a tiered fixed fee based on the value of assets.

6.1 Passive Global Equity – Investment Performance to 31 December 2017

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
LGIM - Gross of fees	5.3	18.8	9.8	13.3
Net of fees[1]	5.3	18.7	9.8	13.2
FTSE World (GBP Hedged) Index	5.3	18.7	9.9	13.3
Relative (net of fees)	0.0	0.0	-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 and year to 31 December 2017. However, the Fund has underperformed the benchmark by 0.1% p.a. over the last three years and since the inception of the mandate. This slight underperformance over the last three years 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 31 December 2017

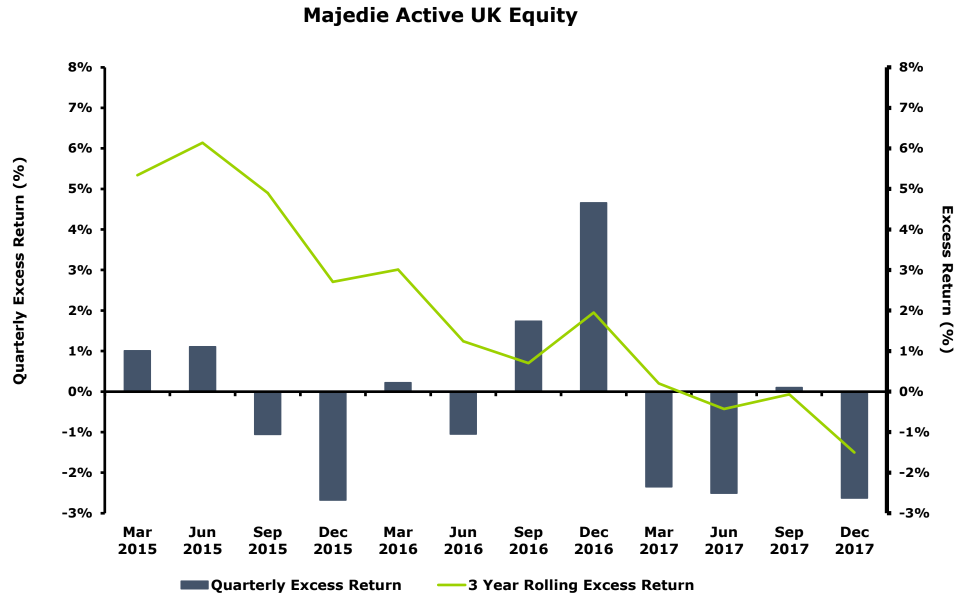
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Majedie - Gross of fees	2.5	5.8	9.2	13.5
Net of fees[1]	2.3	5.2	8.6	12.9
MSCI AC World Index	5.0	13.1	10.1	11.6
Relative (on a net basis)	-2.7	-7.9	-1.5	1.3

Source: Northern Trust

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 31 May 2006



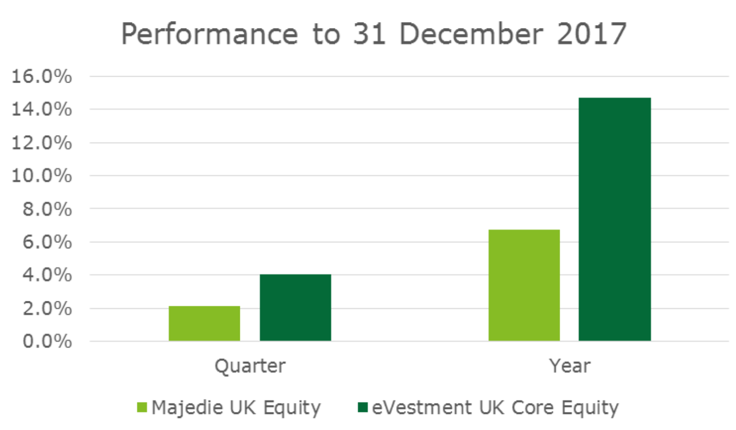
Majedie underperformed its benchmark over the quarter by 2.9% and has underperformed its benchmark over the year by 7.9% on a net of fees basis. Over the three years the manager has underperformed its benchmark on a net of fees basis by 1.5% p.a.

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 with a 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 particular style depending on the current market environment and the strength of views being expressed by the managers. 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.

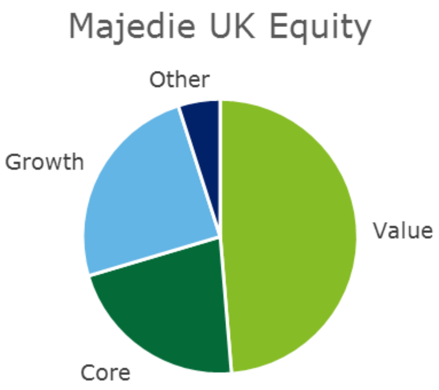
The chart below compares the performance of Majedie with its peer group (gross of fees).

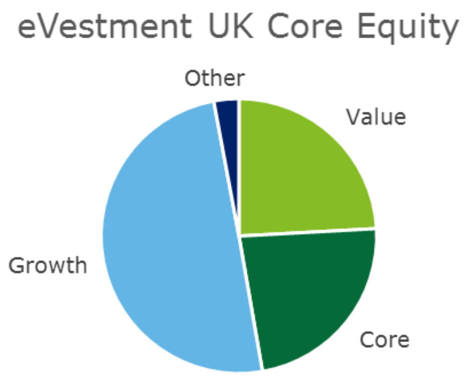


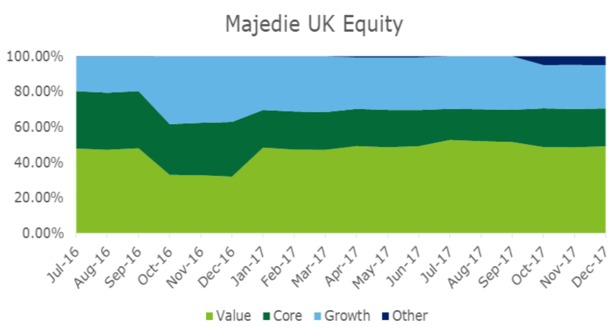
Majedie has underperformed the core equity universe by 2.0% over the quarter and by 7.9% over the year to 31 December 2017. Over the past year Majedie has had a value tilt in the portfolio (49% allocation versus average 24% across the peer group), reflecting concerns that the broader market is overvalued and, if there were to be a correction, the more cyclical value stocks would perform better in such an environment.

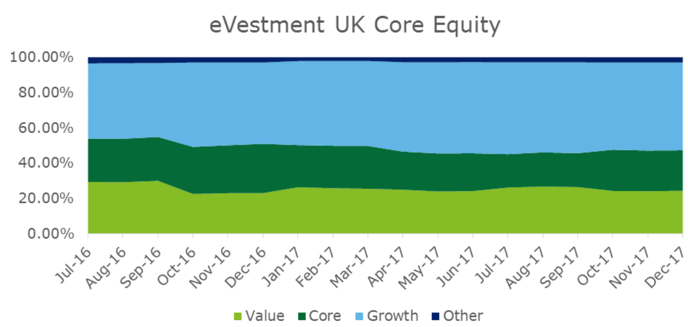
Source: eVestment.

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 allocation to value and underweight to growth stocks over the past 9 months, relative to its peers. This illustrates 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 31 December 2017

	Last Quarter (%)	Last Year (%)	Since Inception (% p.a.)
Longview - Gross of fees	3.4	11.8	15.9
Net of fees[1]	3.2	11.1	15.3
MSCI World Index	4.6	11.8	14.4
Relative (on a net basis)	-1.4	-0.7	0.9

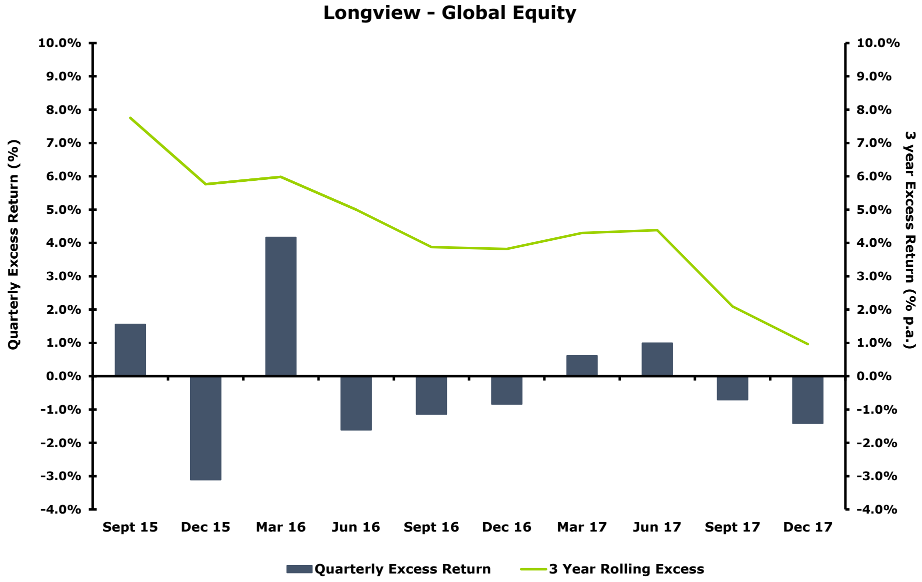
Source: Northern Trust

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date 15 January 2015

Longview underperformed the benchmark by 1.4% on a net of fees basis over the fourth quarter of 2017. Over the year the Fund is behind the benchmark (net of fees) by 0.7% but above benchmark since inception by 0.9% p.a. The Fund targets an outperformance of 3% p.a. over a three year period. The chart below shows the quarter and rolling three year returns.



8.2 Performance analysis

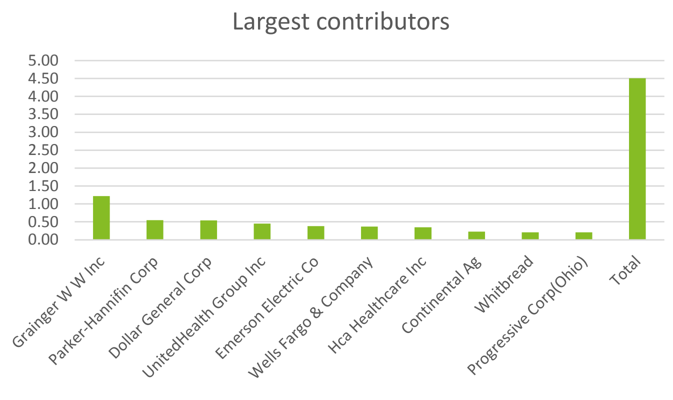
Longview runs a very concentrated core equity portfolio. The manager places high conviction in a small number of stocks (30-35), looking to add value through bottom up security selection. Therefore the most appropriate measure to monitor performance is to look at the stocks in the portfolio and understand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

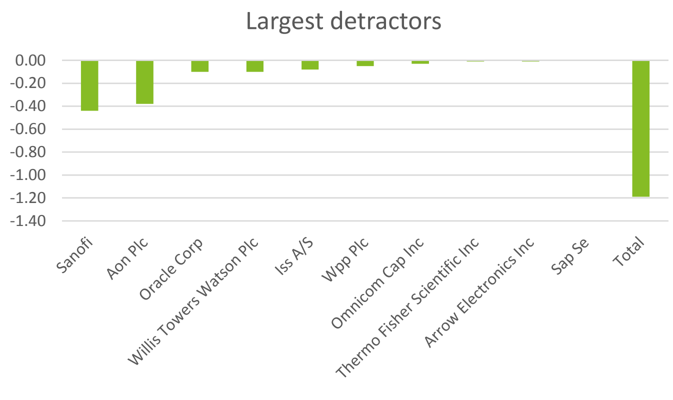
Stock	Average quarter weight	Performance
Aon Plc	4.46%	-8.51%
Aptiv Plc	4.09%	2.50%
Parker-Hannifin Corp	3.96%	13.77%
UnitedHealth Group Inc	3.96%	11.35%
Grainger W W Inc	3.95%	30.99%
Dollar General Corp	3.70%	14.70%
Bank of New York Mellon Corp	3.64%	1.44%
Hca Healthcare Inc	3.64%	9.64%
Wells Fargo & Company	3.64%	10.15%
Fidelity Natl Information Services	3.60%	0.52%

*Largest contributors, largest detractors.
Source: eVestment

Nine of Longview's top 10 weighted stocks performed positively over the quarter, with six being in the highest contributors to performance, a number of which benefited from the large-scale tax reforms passed in the US. Sanofi and Aon were the two largest detractors from relative performance with Sanofi, a pharmaceutical company losing market share to Eli Lilly and other competitors who have been reducing product prices.

These relative detractors were in part offset by WW Grainger, an industrial supplier, which contributed positively to relative performance over the quarter following strong earnings results on the back of higher volumes driven by its strategic pricing initiatives.





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 31 December 2017

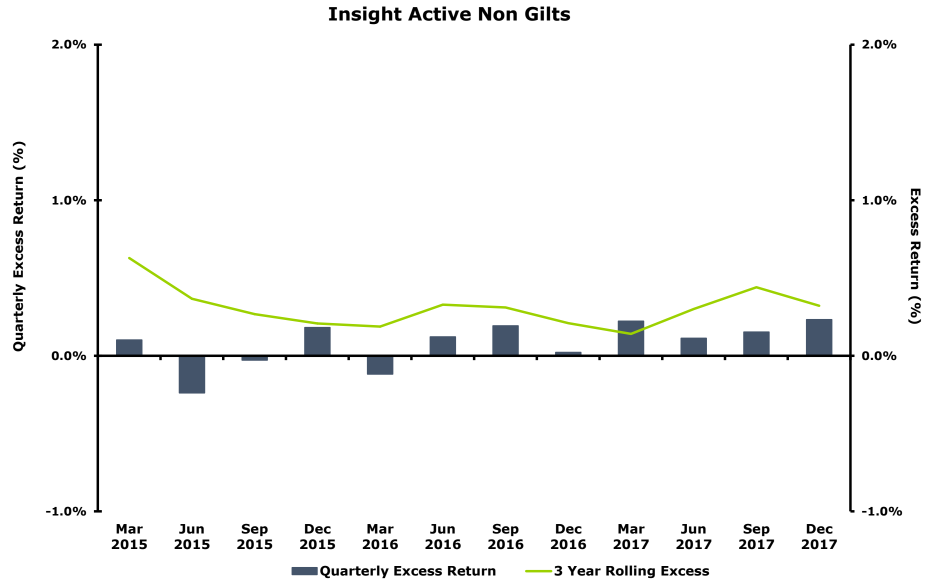
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Insight Non Gilts - Gross of fees	1.7	4.7	4.7	7.1
Net of fees[1]	1.6	4.5	4.5	6.9
iBoxx £ Non-Gilt 1-15 Yrs Index	1.4	3.8	4.2	6.1
Relative (on a net basis)	0.2	0.7	0.3	0.8

Source: Northern Trust

(1) Estimated by Deloitte

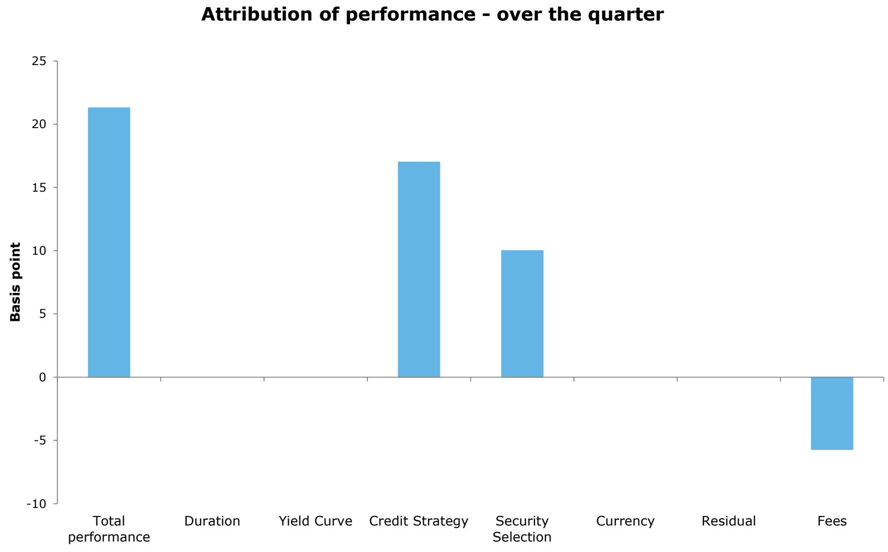
See appendix 1 for more detail on manager fees

Inception date taken as 31 May 2006.



Over the fourth quarter the Non-Gilt portfolio outperformed the benchmark by 0.2%. Over the year to 31 December 2017, the portfolio has outperformed the benchmark by 0.7%, by 0.3% p.a. over the 3 years to 30 September 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 31 December 2017

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Insight Gilts - Gross of fees	0.8	0.8	2.2	2.5
Net of fees[1]	0.8	0.7	2.1	2.4
FTSE A Gilts up to 15 Yrs Index	0.8	0.6	2.2	2.5
Relative (on a net basis)	0.0	0.1	-0.1	-0.1

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 31 December 2017.

9.3 Duration of portfolios

	30 September 2017		31 December 2017	
	Fund (Years)	Benchmark (Years)	Fund (Years)	Benchmark (Years)
Non-Government Bonds (Active)	5.5	5.5	5.7	5.5
Government Bonds (Passive)	4.7	5.0	4.8	4.9

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 31 December 2017

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Hermes - Gross of fees	3.7	11.2	10.3	10.4
Net of fees[1]	3.6	10.8	9.9	10.0
Benchmark	3.3	10.8	9.5	8.9
Relative (on a net basis)	0.3	0.0	0.4	1.1

Source: Hermes

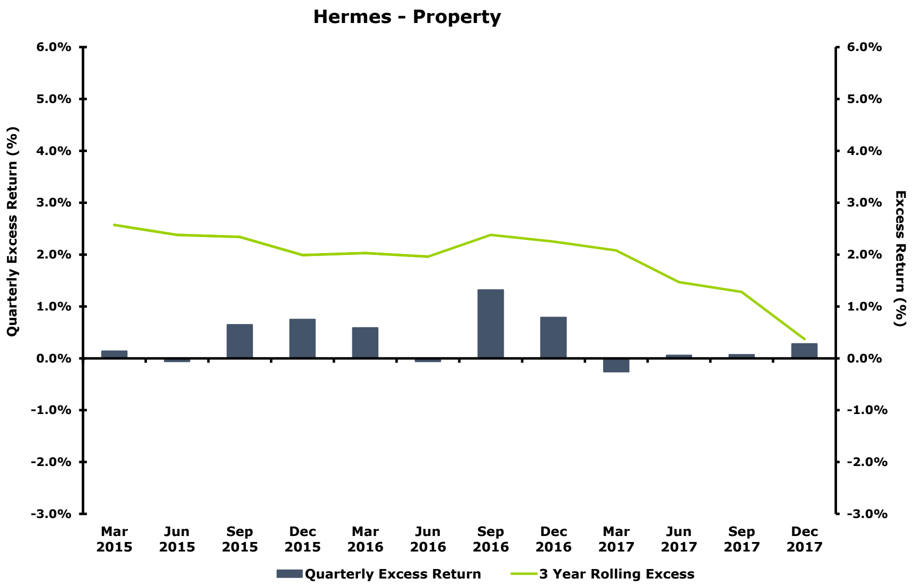
(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date is taken as 26 October 2010

Hermes outperformed the benchmark by 0.3% over the quarter on a net of fees basis, returning 3.6% in absolute terms. The strategy performed in line with its benchmark over the year, whilst outperforming the benchmark over the three year period and since inception to 31 December 2017 by 0.4% p.a. and 1.1% p.a. respectively. The strategy is only ahead of target (to outperform the benchmark by 0.5% p.a.) over the period since inception to 31 December 2017.

Key contributors to the performance over the quarter came from properties in the Industrial sector and the "Other" sector. The main detractors were the Trust's holdings in City Offices and West End Offices, however all sectors delivered positive absolute returns over the quarter.



10.2 Sales and Purchases

There were 4 acquisitions and 2 disposals over the fourth quarter of 2017.

The Trust acquired Coln Industrial Estate, Old Bath Road, Poyle in October 2017 for a price of £16.5m. The property comprises 7 industrial units arranged over three separate terraces and is located in close proximity to Heathrow Airport, the M4 and M25. The property is fully let to 6 tenants producing a total rental income of c. £920k per annum, providing strong rental growth prospects in the short to medium term.

Another acquisition made by the Trust was of One City Place, an office building in Chester City Centre which is the administrative centre of Cheshire. The purchase price was £18.35m and was completed in November 2017, reflecting an initial yield of 6.9% and an equivalent yield of 6.5%. The property adjoins the main Chester railway station.

In October 2017, the Trust paid £9.25m to acquire the freehold interest in a multi-let industrial estate at 2 Childerditch Lane, West Horndon, Essex which includes seven industrial units and associated yard areas. The property is adjacent to the existing HPUT owned Horndon Industrial Park and consolidates the Trust's ownership. Master planning is under way for a major residential led redevelopment of the entire estate.

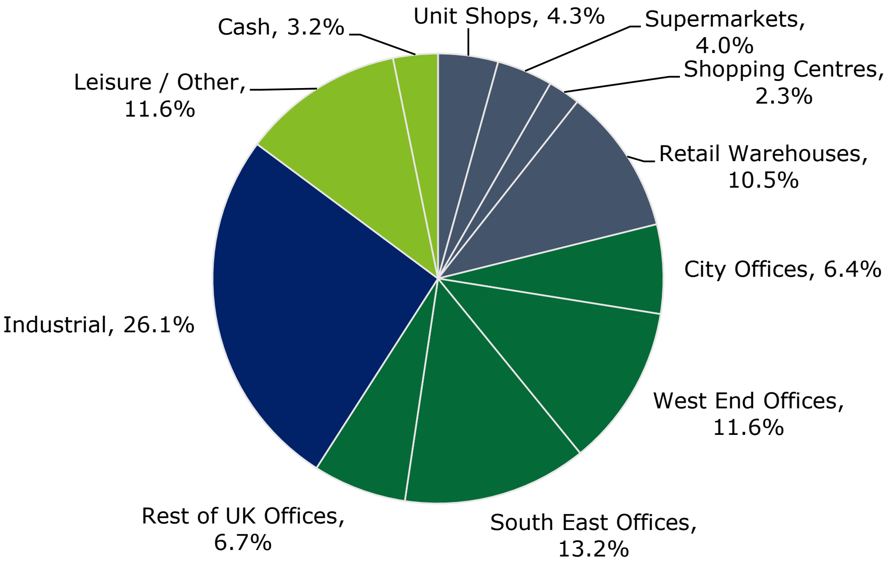
The Trust purchased a property at 71 North End, Croydon for the purposes of site assembly for a price of £3.85m in November 2017. The freehold retail premises consists of a basement and upper floor accommodation. The property is close to an existing HPUT asset (75-87 North End) and the purchase of this investment adds to the Trust's existing holding. The property is in prime position between the principal entrances to the Whitgift and Centrale shopping centres. The Whitgift Shopping Centre is due to be redeveloped into Westfield Croydon for completion in 2021.

The Trust disposed of 2 Cavendish Square, London in December 2017 with the transaction completing in May 2018. The property will be sold for £38.1m (net initial yield 4.33%) and the deferred completion will provide the Trust with additional rental income, estimated to be over £750,000. The rationale for the disposal is that with the investment being a leasehold, having just over 100 years to expiry, the appetite for this type of investment will fall with depreciating lease term.

The second disposal over the quarter was of Magdelayne Court, Broomfield, Chelmsford in December 2017 with the transaction completing in February 2018. The sale price will be £15.3m (net initial yield 5.0%) reflecting a 12% premium on the end-October 2017 valuation. The reasoning behind the disposal was that despite the investment currently being let to a strong covenant for a term in excess of 20 years, the property is becoming increasingly over rented as the minimum increases in rent are adding to the rental burden on the tenant. The Trust expects this to reduce the potential for the property to out-perform in the medium/long term.

10.3 Portfolio Summary as at 31 December 2017

The Hermes Property Unit Trust invests across retail, offices, industrials and other sectors, with the split as at 31 December 2017 shown below.



The table below shows the top 10 directly held assets in the Fund as at 31 December 2017, representing c.33.7% of the Fund.

Asset	Sub-sector	Value (£m)
Maybird Shopping Park, Stratford-upon-Avon	Retail Warehouses	110.0
8/10 Great George Street, London SW1	Offices	65.0
Polar Park, Bath Road, Heathrow	Industrial	48.8
27 Soho Square, London W1	Offices	44.4
Horndon Industrial Park, West Horndon, CM13	Industrials	43.0
Sainsbury's, Maxwell Road, Beaconsfield	Supermarkets	41.2
Hythe House, Hammersmith	Offices	40.8
Camden Works, Oval Road, London NW1	Offices	38.6
2 Cavendish Square, London W1	Offices	38.1
Christopher Place, St Albans	Shopping Centre	36.0
Total		**505.8**

11 Aberdeen Standard Investments – Long Lease Property

Aberdeen Standard Investments was appointed to manage a long lease property mandate with the aim of outperforming the FT British Government All Stocks Index benchmark by 2.0% p.a. The manager has an annual management fee.

11.1 Long Lease Property – Investment Performance to 31 December 2017

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Aberdeen Standard - Gross of fees	2.9	11.5	8.3	9.3
Net of fees[1]	2.8	11.0	7.8	8.8
Benchmark	2.4	3.8	6.1	7.0
Relative (on a net basis)	0.4	7.2	1.7	1.8

Source: Aberdeen Standard Investments

(1) Estimated by Deloitte

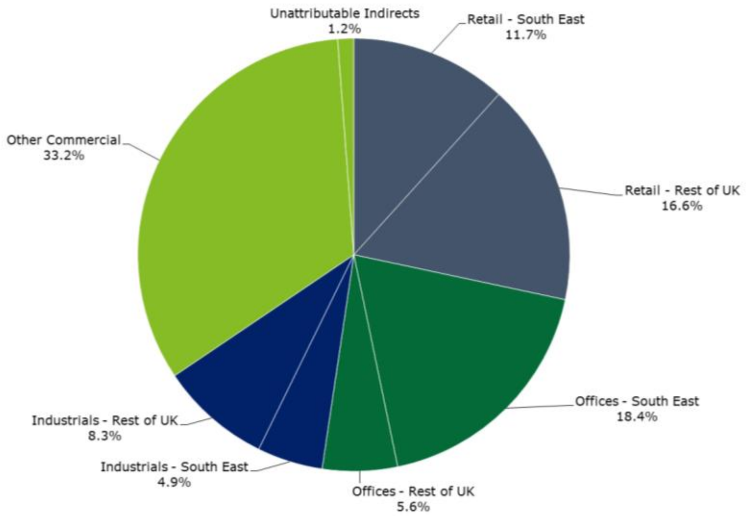
See appendix 1 for more detail on manager fees

Since inception: 14 June 2013

The ASI Long Lease Property Fund returned 2.8% net of fees over the fourth quarter of 2017, outperforming the benchmark of the FTSE Gilt All Stocks Index + 2% by 0.4% net of fees.

11.2 Portfolio Holdings

The sector allocation in the Long Lease Property Fund as at 31 December 2017 is shown in the graph below.



The Fund’s holdings in the office sector have decreased slightly from 24.3% as at 30 September 2017 to 24.0% as at 30 December 2017. Furthermore, the Fund’s retail sector holdings have reduced from 30.4% as at 30 September 2017 to 28.3%.

Throughout the quarter, the Fund's industrial weight has reduced from 13.7% to 13.2%, while the "other" weighting has increased from 31.6% to 34.4%.

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	8.1	9.0
Whitbread	6.4	7.1
Sainsbury's	4.9	5.5
Marston's	4.6	5.1
Asda	4.4	4.9
QVC	4.0	4.5
Salford University	3.9	4.3
Save The Children	3.8	4.2
Poundland	3.6	4.0
Glasgow City Council	3.5	3.9
Total	**47.2**	**52.4 ***

*Total may not equal sum of values due to rounding

The top 10 tenants contribute 52.4% of the total net income into the Fund. Supermarkets continue to dominate with Tesco, Sainsbury's and Asda contributing 19.4% to the Fund's total net rental income as at 31 December 2017.

The Fund's average unexpired lease term increased over the quarter from 24.7 years to 27.0 years following the sale of some assets with shorter lease lengths.

The Fund continues to have a high level of inflation-linkage, with the vast majority of income linked to RPI, CPI or fixed increases in rent.

11.3 Sales and Purchases

The Fund made three sales over the quarter:

- The Fund sold a property occupied by Debenhams in Nottingham for c. 5% above valuation to an overseas investor. The motivation behind the sale was due to concerns regarding Debenhams' performance and uncertainty surrounding the future of the High Street retail sector.
- The Fund sold two car showrooms over the quarter. One was an Audi showroom in Ayr (Scotland) for £4.125m with a net initial yield of 5.8%. The other, a BMW showroom in Harrogate for £5.75m with a net initial yield 5.5%.

The Fund made one acquisition over the quarter:

- The Fund completed the purchase of the portfolio of holiday parks for a fee of £145m over the quarter. The holding will be allocated two thirds to Long Lease Property Fund and one third to the ASI Ground Rents Fund. The portfolio consists of 9 holiday parks, located on the south east and south west coast within a 2-3 hour drive of London. The initial yield was 3% with annual linked rent reviews with a cap and collar of 4% and 1% p.a.
- Two of the Fund's development assets completed over the quarter, 33 Foley Street which is medical facility in central London and an office asset which will be the Headquarters of Interserve, located near Birmingham Airport.

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	
Aberdeen Standard Investments	Property	5.0	FTSE Gilts All Stocks Index +2% p.a.	+0.5 p.a. (net of fess)	14/06/13	50bps on first £25m, 40bps on next £25m, 30bps thereafter	
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.

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City of Westminster Pension Fund

Funding update report as at 31 December 2017

Barnett Waddingham LLP

31 January 2018

Version 1

Contents

Introduction

Westminster City Council, as administering authority for the City of Westminster Pension Fund (the Fund), has asked that we carry out a quarterly monitoring assessment of the Fund as at 31 December 2017. The purpose of this assessment is to provide an update on the funding position.

The Fund participates in the Local Government Pension Scheme (LGPS). The LGPS is a defined benefit statutory scheme administered in accordance with Local Government Pension Scheme Regulations 2013 (the Regulations).

The information in this report is addressed to and is provided for use by Westminster City Council as the administering authority to the Fund. This report may be shared with other interested parties but it does not constitute advice to them.

This report complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 300: Pensions (TAS 300) as issued by the Financial Reporting Council (FRC).

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.

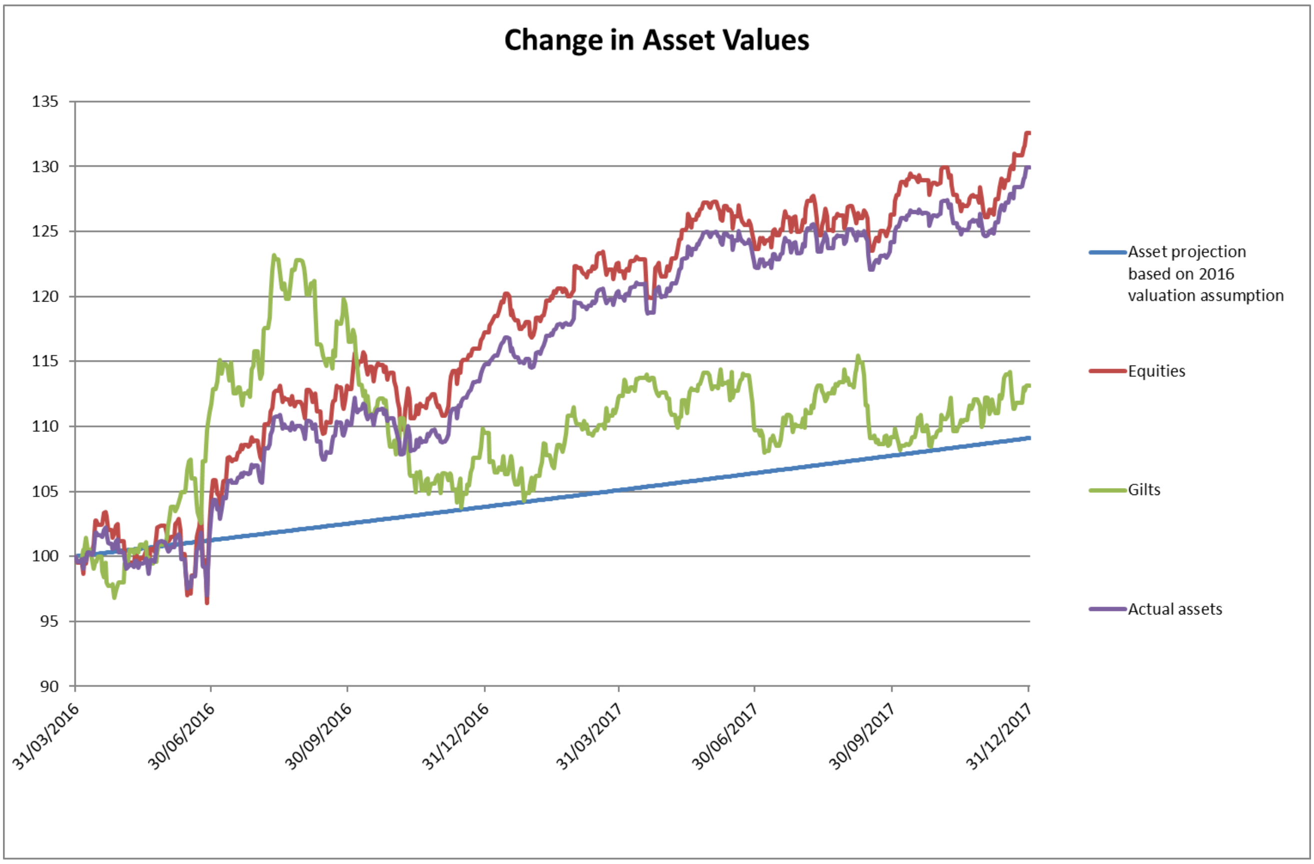
Assets

The estimated (unsmoothed) asset allocation of the City of Westminster Pension Fund as at 31 December 2017, based on data received from Westminster City Council, is as follows:

Assets (market value)	31 Dec 2017		30 Sep 2017		31 Mar 2016	
	£000s	%	£000s	%	£000s	%
UK and overseas equities	1,051,938	77.0%	997,704	76.4%	790,289	74.1%
Bonds	136,722	10.0%	154,415	11.8%	130,390	12.2%
Property	119,067	8.7%	114,739	8.8%	105,811	9.9%
Gilts	45,805	3.4%	28,675	2.2%	26,733	2.5%
Cash and accruals	13,039	1.0%	10,767	0.8%	13,120	1.2%
Total assets	**1,366,571**	**100%**	**1,306,302**	**100%**	**1,066,343**	**100%**

The investment return achieved by the Fund's assets in market value terms for the quarter to 31 December 2017 is estimated to be 4.6%. The return achieved since the previous valuation is estimated to be 29.9% (which is equivalent to 16.1% 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 31 December 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.

For the purpose of this exercise it is appropriate to use the method and assumptions consistent with those set by the Fund actuary for the purpose of the 31 March 2016 actuarial valuation, updated where necessary to reflect market conditions. Further details of the derivation of the financial and demographic assumptions can be found in the relevant actuarial valuation report.

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.

The following table shows how the main financial assumptions have changed since the last triennial valuation:

Assumptions (smoothed)	31 Dec 2017		30 Sep 2017		31 Mar 2016	
	Nominal	Real	Nominal	Real	Nominal	Real
	% p.a.		% p.a.		% p.a.	
Pension increases (CPI)	2.73%	-	2.71%	-	2.39%	-
Salary increases	4.23%	1.50%	4.21%	1.50%	3.89%	1.50%
Discount rate	5.11%	2.38%	5.09%	2.38%	5.10%	2.71%

In addition to that, it is assumed that salaries increase in line with CPI until 31 March 2020.

The discount rate assumption is set with reference to the Fund's long term investment strategy and therefore reflects the long term expected return on assets for the Fund. Consistent with the method adopted for the 31 March 2016 valuation, we have included in the main discount rate assumption an explicit prudence allowance of 1.1%.

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – 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.

Results

The funding position for each month has been rolled forward from the formal valuation and 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.

It is not possible to assess the accuracy of the estimated liability as at 31 December 2017 without completing a full valuation, however, we are satisfied that the approach of rolling forward the previous valuation data to 31 December 2017 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation.

The results of our assessment indicate that:

- The current projection of the smoothed funding level as at 31 December 2017 is 89.8% and the average required employer contribution would be 26.4% 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 29.1% of payroll at the 31 March 2016 funding valuation.

The main discount rate underlying the smoothed funding level as at 31 December 2017 is 5.1% p.a. The investment return required to restore the funding level to 100% by 2038, without the employers paying deficit contributions, would be 5.6% p.a.

Final comments

There are many factors that affect the Fund's funding position and could lead to the Fund's funding objectives not being met within the timescales expected. Some of the key risks that could have a material impact on the Fund include longevity risk and financial risks (including inflation and investment risk). There is more detail on this contained within the Fund's Funding Strategy Statement and the 31 March 2016 actuarial valuation report.

Note that the funding position at a future date will be dependent on the investment performance of the Fund as well as future market conditions which determine the financial assumptions.

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

Graeme D Muir FFA
Partner
Barnett Waddingham LLP

Appendix 1 Financial position since previous valuation

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

Please note that the results shown below are sensitive to the underlying assumptions. For example, increasing the discount rate assumption by 0.5% will increase the funding level by about 8%, and increasing the CPI inflation assumption by 0.5% will reduce the funding level by about 8%.

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
31 Mar 2016	1,056,747	1,320,797	(264,050)	80%	16.9%	12.2%	29.1%	5.1%	6.1%
30 Apr 2016	1,069,276	1,336,290	(267,014)	80%	17.2%	12.6%	29.8%	5.0%	6.0%
31 May 2016	1,088,786	1,361,959	(273,173)	80%	17.7%	12.8%	30.5%	4.9%	5.9%
30 Jun 2016	1,103,684	1,383,592	(279,908)	80%	18.2%	13.0%	31.2%	4.8%	5.9%
31 Jul 2016	1,121,960	1,404,218	(282,258)	80%	18.6%	13.1%	31.7%	4.8%	5.8%
31 Aug 2016	1,133,402	1,420,778	(287,376)	80%	18.9%	13.3%	32.2%	4.8%	5.9%
30 Sep 2016	1,150,014	1,437,397	(287,383)	80%	19.3%	13.2%	32.5%	4.9%	5.9%
31 Oct 2016	1,172,816	1,449,340	(276,524)	81%	19.4%	12.7%	32.1%	4.9%	5.9%
30 Nov 2016	1,185,339	1,456,336	(270,997)	81%	19.5%	12.5%	32.0%	5.0%	6.0%
31 Dec 2016	1,206,192	1,462,395	(256,203)	82%	19.5%	11.8%	31.3%	5.1%	6.0%
31 Jan 2017	1,217,761	1,466,656	(248,895)	83%	19.5%	11.5%	31.0%	5.1%	6.0%
28 Feb 2017	1,237,696	1,476,136	(238,440)	84%	19.7%	11.1%	30.8%	5.1%	5.9%
31 Mar 2017	1,261,355	1,484,995	(223,640)	85%	19.8%	10.4%	30.2%	5.0%	5.8%
30 Apr 2017	1,272,196	1,485,224	(213,028)	86%	19.7%	9.9%	29.6%	5.0%	5.8%
31 May 2017	1,291,739	1,485,421	(193,682)	87%	19.6%	9.1%	28.7%	5.0%	5.7%
30 Jun 2017	1,297,593	1,482,855	(185,262)	88%	19.4%	8.7%	28.1%	5.0%	5.7%
31 Jul 2017	1,305,713	1,482,050	(176,337)	88%	19.2%	8.3%	27.5%	5.0%	5.7%
31 Aug 2017	1,308,966	1,479,801	(170,835)	88%	19.1%	8.1%	27.2%	5.1%	5.7%
30 Sep 2017	1,312,205	1,479,877	(167,672)	89%	19.0%	8.0%	27.0%	5.1%	5.7%
31 Oct 2017	1,325,951	1,484,899	(158,948)	89%	19.0%	7.6%	26.6%	5.1%	5.7%
30 Nov 2017	1,328,527	1,487,841	(159,314)	89%	18.9%	7.6%	26.5%	5.1%	5.7%
31 Dec 2017	1,341,651	1,494,515	(152,864)	90%	19.0%	7.4%	26.4%	5.1%	5.6%

Appendix 2 Data and assumptions

Data

In completing our calculations for pension accounting purposes we have used the following items of data, which we received from Westminster City Council:

- The results of the valuation as at 31 March 2016 which was carried out for funding purposes;
- Estimated whole Fund income and expenditure items for the period to 31 December 2017; and
- Estimated Fund returns based on Fund asset statements provided to 31 December 2017, and Fund income and expenditure as noted above.

The data has been checked for reasonableness and we are happy that the data is sufficient for the purpose of this report.

Full details of the benefits being valued are as set out in the Regulations as amended and summarised on the LGPS website and the Fund's membership booklet. We have made no allowance for discretionary benefits.

Assumptions

For the purpose of this exercise it is appropriate to use the method and assumptions consistent with those set by the Fund actuary for the purpose of the 31 March 2016 actuarial valuation, updated where necessary to reflect market conditions.

A summary of the main financial assumptions adopted is set out in the main body of this report.

The main demographic assumptions are:

- The post retirement mortality tables adopted are the S2PA tables with a multiplier of 80% for males and 85% for females. These base tables are then projected using the CMI 2015 Model, allowing for a long term rate of improvement of 1.5% p.a;
- The dependant post retirement mortality tables adopted are the S2PMA tables with a multiplier of 95% for males and the S2DFA tables with a multiplier of 100% for females. These base tables are then projected using the CMI 2015 Model, allowing for a long term rate of improvement of 1.5% p.a;
- Members retire at a single age, based on the average age at which they can take each tranche of their pension; and
- It is assumed that members will exchange 50% of their commutable pension for cash at retirement.

Further details of the derivation of the financial and demographic assumptions can be found in the relevant actuarial valuation report.

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**08 March 2018**
Classification:	**Public**
Title:	**Fund Financial Management**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no immediate financial implications arising from this report.**
Report of:	**Steven Mair** **City Treasurer** **smair@westminster.gov.uk** **020 7641 2904**

1. Executive Summary

1.1 The risk register has been updated to reflect an increase in the risk rating for the London CIV governance and resourcing arrangements. The cash flow forecast has been updated for the next three years with actuals up to January 2018. The updated forward plan to March 2018 is attached at appendix 4 with a draft forward plan for the upcoming year 2018/19 at appendix 5.

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 to the forward plan and comment on the draft forward plan for 2018/19.

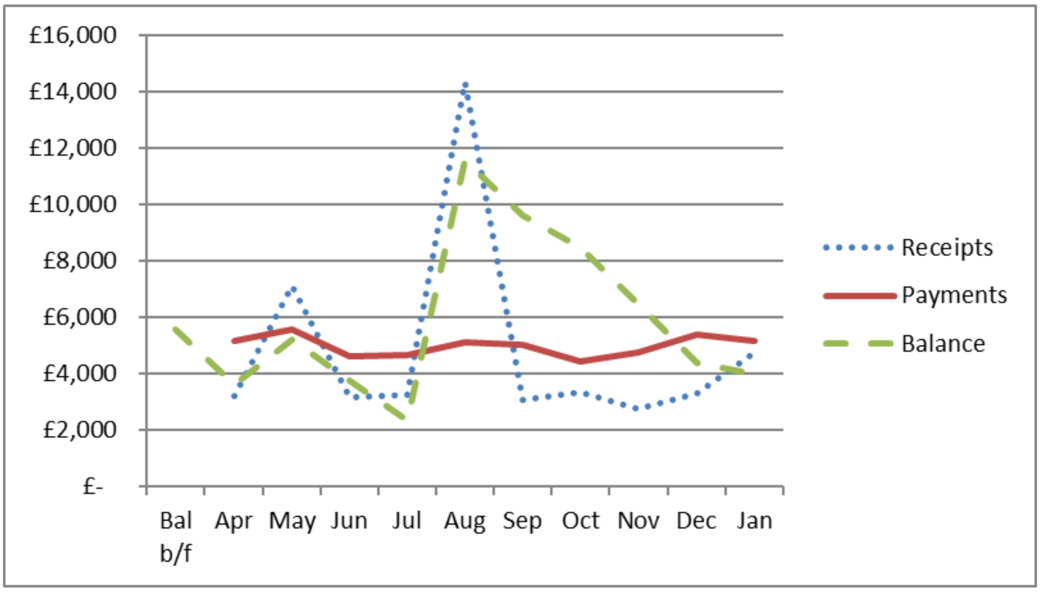
3. Risk Register Monitoring

3.1 A report on a governance review of the London CIV (LCIV) was presented at the last Pension Fund Committee. The report raised concerns about the governance arrangements and resourcing of the LCIV. The report made suggested a number of recommendations to be implemented in relations to the findings. As a result the Local Pension Board agreed that risk number 16 relating to the capacity of the LCIV to deliver the investment strategy be raised from low to medium along with closer monitoring for improvements.

4. Cashflow Monitoring

4.1 The balance on the pension fund bank account at 31 January 2018 was £4.0 million.

4.2 The table below changes in the bank balance from April 2017 to January 2018.



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

5. Forward Plan

5.1 The forward plan attached at appendix 4 has been reviewed and amended for the March 2018 Committee. A draft plan for 2018/19 has been attached at appendix 5 for comment.

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, March 2018
Appendix 3 – Cash Flow Monitoring, March 2018
Appendix 4 – Pension Fund Forward Plan, March 2018
Appendix 5 – Draft Pension Fund Forward Plan, 2018/19

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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, March 2018

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

Type	Ref	Risk	Rationale
Risk rating increased from Low to medium	16	**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.	A recent governance review highlighted concerns around the governance and resourcing of the London CIV. A number of recommendations were also made to rectify concerns. In light of the above the Pension Board agreed that the risk rating be increased to medium and that the LCIV should be monitored more closely in these areas.

Pension Fund risk register, March 2018

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	January 2018
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	January 2018
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	January 2018

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	January 2018
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	January 2018
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	January 2018

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	June 2018
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	June 2018

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	June 2018
10	**STRATEGIC: REGULATION** Loss of 'elective Professional Status' with any or all of existing Fund managers and counterparties resulting in reclassification of fund from professional to retail client status impacting Fund's investment options.	• Keep quantitative and qualitative requirements under review to ensure that they continue to meet the requirements • training programme and log in place to ensure knowledge and understanding is kept up to date • Existing and new Officer appointments subject to requirements for professional qualifications and CPD.	2	5		Low 10	City Treasurer	June 2018

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
11	**STRATEGIC: REGULATION** Loss of flexibility to engage with Fund Managers that the fund has not 'opted up' with regard to new products, resulting in reduced knowledge about investment opportunities that may benefit the fund. (The Fund is a retail client to counterparties unless opted up)	• More reliance on investment advisor to keep Officers and Committee updated. • Officers are considering other financial institution outside of the current mandates to 'opt up' with • Maintaining up to date information about the fund on relevant platforms. • Fund can opt up with prospective clients.	5	2		Low 10	City Treasurer	June 2018
12	**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	June 2018
13	**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	June 2018

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
14	**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	June 2018
15	**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	June 2018

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
16	**OPERATIONAL: GOVERNANCE** London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	• Pension Fund Committee Chair is a member of the Joint member Committee responsible for the oversight of the CIV and can monitor and challenge the level of resources through that forum. • Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work of the London CIV.	3	4		Medium 12	City Treasurer	June 2018
17	**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	June 2018

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
18	**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	June 2018
19	**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	June 2018

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
20	**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	June 2018
21	**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	June 2018

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
22	**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	June 2018
23	**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	June 2018

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
24	**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	June 2018
25	**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	June 2018

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
26	**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	June 2018
27	**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	June 2018

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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**	**12,844**	**19,094**
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	8,500	2,000	4,000
Income Distribution	0	0	0
Special Contributions	11,700	20,000	20,000
Balance c/f	**12,844**	**19,094**	**24,494**

Notes:

The summary above shows the forecast that was presented at the meeting of 23/1/2018 and the corrected position

1. The special contributions was revised from £30m down to £20 million on the detailed cashflow but was not fed through to the summary
2. The reason for the revision was that access to better information showed that part of the special contributions was being collected through the payroll and as a result the one off lump sums that were anticipated were overstated.
3. The closing position as stated on the detailed cashflow is expected to be £12.8m and not 22.6m as the adjustment was not fed through to the sumary
4. The make up of the £20.2m stated in the cash flow is expected to be £11.5 from WCC + £0.2m from other employers and £8.5m from cash at managers.
5. WCC has already paid £10million with the remaining £1.5m expected in February 2018

Cashflow actuals and forecast for period April 2017 to March 2018

	Apr-17			May-17			Jun-17	
	£000	£000	£000	£000	£000	£000	£000	£000
	F'cast	Actual	Var	F'cast	Actual	Var	F'cast	Actual
Balance b/f	**5,544**	**5,544**	**0**	**4,469**	**3,618**	**851**	**3,394**	**5,179**
Contributions	3,550	2,729	821	3,550	7,065	(3,515)	3,550	2,925
Misc. Receipts[1]	208	495	(287)	208	64	144	208	255
Pensions	(3,000)	(3,046)	46	(3,000)	(3,069)	69	(3,000)	(3,068)
HMRC Tax	(583)	(567)	(16)	(583)	(544)	(39)	(583)	(546)
Misc. Payments[2]	(1,083)	(1,537)	454	(1,083)	(1,955)	872	(1,083)	(999)
Expenses	(167)	0	(167)	(167)	0	(167)	(167)	0
Net cash in/(out) in month	**(1,075)**	**(1,926)**	**851**	**(1,075)**	**1,561**	**(2,636)**	**(1,075)**	**(1,433)**
Withdrawals from Fund Managers	0	0	*0*	0	0	*0*	0	0
Special Contributions 4	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**

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

	Jul-17		
£000	£000	£000	£000
Var	F’cast	Actual	Var
(1,785)	**2,319**	**3,746**	**(1,427)**
625	3,550	3,101	449
(47)	208	144	64
68	(3,000)	(3,090)	90
(37)	(583)	(538)	(45)
(84)	(1,083)	(1,010)	(73)
(167)	(167)	0	(167)
358	**(1,075)**	**(1,393)**	**318**
0	0	0	*0*
0	0	0	*0*
(1,427)	**1,244**	**2,353**	**(1,109)**

Aug-17			Sep-17			Oct-17			Nov-17	
£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**
1,244	**2,353**	**(1,109)**	**10,169**	**11,549**	**(1,380)**	**9,094**	**9,598**	**(504)**	**8,019**	**8,485**
3,550	3,016	534	3,550	2,963	587	3,550	2,850	700	3,550	2,701
208	1,296	(1,088)	208	93	115	208	477	(269)	208	62
(3,000)	(3,103)	103	(3,000)	(3,110)	110	(3,000)	(3,108)	108	(3,000)	(3,116)
(583)	(543)	(40)	(583)	(543)	(40)	(583)	(544)	(39)	(583)	(545)
(1,083)	(1,470)	387	(1,083)	(1,253)	170	(1,083)	(788)	(295)	(1,083)	(1,108)
(167)		(167)	(167)	(101)	(66)	(167)		(167)	(167)	
(1,075)	**(804)**	**(271)**	**(1,075)**	**(1,951)**	**876**	**(1,075)**	**(1,113)**	**38**	**(1,075)**	**(2,006)**
0	0	*0*	0		*0*	0		*0*	0	0
10,000	10,000	*0*	0		*0*	0		*0*	0	0
10,169	**11,549**	**(1,380)**	**9,094**	**9,598**	**(504)**	**8,019**	**8,485**	**(466)**	**6,944**	**6,479**

	Dec-17			Jan-18			*Feb-18*	*Mar-18*
£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	***£000***	***£000***
Var	**F'cast**	**Actual**	**Var**	**F'cast**	**Actual**	**Var**	***F'cast***	***F'cast***
(466)	**6,944**	**6,479**	**465**	**5,869**	**4,384**	**1,485**	***4,794***	***13,919***
849	3,550	3,212	338	3,550	3,068	482	3,550	3,550
146	208	81	127	208	1,591	(1,383)	208	208
116	(3,000)	(3,123)	123	(3,000)	(3,100)	100	(3,000)	(3,000)
(38)	(583)	(542)	(41)	(583)	(551)	(32)	(583)	(583)
25	(1,083)	(1,258)	175	(1,083)	(1,331)	248	(1,083)	(1,083)
(167)	(167)	(465)	298	(167)	(161)	(6)	(167)	(167)
931	**(1,075)**	**(2,095)**	**1,020**	**(1,075)**	**(484)**	**(591)**	***(1,075)***	***(1,075)***
0	0	0	*0*	0	0	*0*	*8,500*	*0*
0	0	0	*0*	0	84	*(84)*	1,700	0
465	**5,869**	**4,384**	**1,485**	**4,794**	**3,984**	**810**	**13,919**	**12,844**

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Appendix 4

PENSION FUND COMMITTEE Forward Plan – March 2017

Area of work	22 Jun 2017	12 Oct 2017	23 Jan 2018	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	London CIV governance review	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	Award fixed income manager. MiFID II update	Pooling and CIV update Investment Strategy Review

Appendix 5

PENSION FUND COMMITTEE **Draft Forward Plan – 2018/19**

Area of work	**21 Jun 2018**	**18 Oct 2018**	**13 Dec 2018**	**04 Mar 2019**
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 2017/18 Review of Governance Compliance Statement General Data Protection Regulation (GDPR) Business Plan	Annual report of Pension Board activities Training Plan Progress on compliance with TPR Code of Practice London CIV governance update	London CIV governance review	Investment Strategy Statement Review Briefing on Triennial Valuation
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 annual review	Pooling and CIV update Investment Strategy Review

Area of work	21 Jun 2018	18 Oct 2018	13 Dec 2018	04 Mar 2019
Administration	Voluntary Scheme Pays, Tax Paper. Pension Administration Strategy (PAS) – update Initial Audits Discretionary Policies Paper. Western Union certification exercise for Overseas Pensioners.	Update on Hampshire Project. Impact on Pension Administration going Forward. Pension Board Recruitment	Hampshire Project. First Months Issues for Pension Administration. Pension Administration Strategy (PAS) – update Initial Audits	

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**08 March 2018**
Classification:	**Exempt**
Title:	**Pension Fund Costs**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**The report appendix details the full breakdown of expenses of the fund.**
Report of:	**Steven Mair** **City Treasurer** **smair@westminster.gov.uk** **020 7641 2904**

1. EXECUTIVE SUMMARY

1.1 This paper updates Members on:

a. The Pension Fund costs

2. RECOMMENDATIONS

2.1 That the Committee notes:

a. The Pension Fund costs

3. PENSION FUND COSTS

3.1 Appendix 1 attached provides a full breakdown of the costs incurred by the fund in relation to professional, investment management, central and advisory for the financial years 2015/16, 2016/17 and the 2017/18 financial year as at P8.

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

Matt Hopson mhopson@wesminster.gov.uk or 0207 641 4126

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1: Pension Fund Costs

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**08 March 2018**
Classification:	**Public**
Title:	**Fixed Income Manager Selection**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**Although no direct impact on the general fund, the change to the fixed income mandate for the Pension Fund is expected to generate savings of approximately £100K-150K per annum**
Report of:	**Steven Mair** **City Treasurer** **smair@westminster.gov.uk** **020 7641 2904**

1. EXECUTIVE SUMMARY

1.1 This paper updates Members on:

a. The current progress with Insight Investment management transition.

2. RECOMMENDATIONS

2.1 That the Committee Notes:

a. The transition progress.

3. TRANSITION UPDATE

3.1 On 23 January 2018, the Pension Fund Committee elected to formally appoint Insight Investment Management to run the Fund’s buy and maintain fixed income mandate.

3.2 Officers working with Fund's investment consultants Deloitte then started the process with Insight to formally begin the transition.

3.3 There was a delay in Insight preparing and providing the full documentation for signing, which was received on 26 February 2018. This was promptly sent to the Fund's lawyers Eversheds-Sutherland for final review before submission.

4. FURTHER UPDATE

4.1 The transition process is now underway. The Committee will be provided a full transition report upon completion detailing the final transition costs at the next Pension Fund Committee meeting.

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

Matt Hopson mhopson@wesminster.gov.uk or 0207 641 4126

BACKGROUND PAPERS: None

APPENDICES:

None