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City of Westminster

Committee Agenda

Title:	**Pension Fund Committee**
Meeting Date:	**Tuesday 23rd January, 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 6.00pm. If you have a disability and require any special assistance please contact the Committee Officer (details listed below) in advance of the meeting.

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

Tel: 020 7641 8470; Email: thowes@westminster.gov.uk
Corporate Website: www.westminster.gov.uk

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

AGENDA

PART 1 (IN PUBLIC)

1.	**MEMBERSHIP** To note any changes to the membership.	
2.	**DECLARATIONS** To receive notifications of interest by Members and Officers of any personal or prejudicial interest.	
3.	**MINUTES** To approve the minutes of the Pension Fund Committee held on 12th October 2017.	**(Pages 1 - 8)**
4.	**PENSION ADMINISTRATION UPDATE** Report of the Director of People Services.	**(Pages 9 - 14)**
5.	**QUARTERLY PERFORMANCE REPORT** Report of the City Treasurer.	**(Pages 15 - 54)**
6.	**FUND FINANCIAL MANAGEMENT** Report of the City Treasurer.	**(Pages 55 - 82)**
7.	**FIXED INCOME MANAGER SELECTION** Report of the City Treasurer.	**(Pages 83 - 98)**
8.	**LONDON COLLECTIVE INVESTMENT VEHICLE GOVERNANCE REVIEW** Report of the City Treasurer.	**(Pages 99 - 102)**
9.	**FOSSIL FUEL INVESTMENT PRACTICES** Report of the City Treasurer.	**(Pages 103 - 132)**

10. ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

Stuart Love
Chief Executive
16 January 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 **Thursday 12th October, 2017**, Room 3.4, 3rd Floor, 5 Strand, London WC2 5HR.

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

Officers Present: Peter Worth (Interim Tri-Borough Director of Treasury and Pensions), Yvonne Thompson-Hoyte (Senior Finance Manager – Pensions), Matthew Hopson (Senior Finance Manager – Treasury), Joanne Meagher (Head of Operational People Services) Kim Edwards (Senior Pensions and Payroll Adviser), Jeremy Beresford (ICF Manager) and Toby Howes (Senior Committee and Governance Officer).

Also Present: Dr Norman Perry (Chairman, Pension Board), Marie Holmes (Pension Board Member) and Christopher Smith (Pension Board Member), Jason Bailey (Pension Services Manager, Surrey County Council), Ian Hammond (Client Service Director, BT), John Wills (BT), 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 27 June 2017 be signed by the Chairman as a correct record of proceedings.

4 PENSION ADMINISTRATION UPDATE

4.1 Joanne Meagher (Head of Operational People Services) introduced the report and advised that the only area that had experienced a dip in a performance in the last quarter was retirement options being issued to pension scheme members. She stated that although performance remained within an acceptable level, the area would continue to be closely monitored.

4.2 Jason Bailey (Pension Services Manager, Surrey County Council) explained that the reason for the drop in performance with regard to retirement options was attributable to 2 cases that had been issued 2 days over the target. Most other key performance indicators (KPIs) were rated green and overall performance continued on an upwards trajectory. Jason Bailey added that some staff had been relocated to the Lewes office to help with Westminster pension matters, whilst technical support remained at the Kingston upon Thames office.

4.3 Kim Edwards (Senior Pensions and Payroll Adviser) confirmed that the Annual Benefit Statements had been issued within the 31 August deadline, after BT had managed to bring forward the date for providing data for Surrey County Council (SCC) to be able to undertake this, however both the tri-borough pensions teams and SCC had made considerable effort to ensure the data was of sufficient quality in order to ensure the deadline was met. There had also been discussions between BT and SCC to ensure the data migrated was correct and BT had sent some staff to work with City Council staff. Kim Edwards added that the process for sending out Annual Benefit Statements was expected to go more smoothly next year.

4.4 Members acknowledged the difficulties that SCC, BT and People Services had faced and queried why the number of cases for some of the KPIs were so high, including for example the fact that 184 new joiners had been recorded between June and August. The Chairman sought clarification as to the main reasons for the problems that had been experienced, in particular in relation to data capture and was this an issue prior to SCC taking over pension administration.

4.5 In reply to issues raised by Members, Jason Bailey advised that the reason for the high number of new joiners recorded for the period was due to SCC catching up on more recent data following BT’s creation of a data interface. Other KPIs had a relatively large number of cases because of the timings of the due dates for some of the activities. Jason Bailey advised that the Altair system was due to be upgraded in October which would make the system more user friendly and allow it to be accessed via mobile phones and tablets.

4.6 Ian Hammond (Client Service Director, BT) advised Members that the main reasons for the problems being experienced involved issues concerning whether the data held was correct and was the software configured to calculate this data in the correct way. He acknowledged that it had taken some time to resolve these issues and BT had placed additional resources to assist. Jeremy Beresford (ICF Manager) added that the problems had also been attributable to the lack of the necessary functionality. However, pension scheme members could now access all information through self-service.

4.7 Joanne Meagher stated that the situation had definitely improved since BT had launched the data interface and the whole process of data transfer should now be more straightforward. Kim Edwards added that BT had now created an interface for both starters and leavers and a new interface for leavers was also being tested. She advised that before BT had been used for the payroll, Serco, the previous provider, had used an automated data transfer system that minimised the chances of errors. BT did not have an automated data transfer in place and this had partly been the issue when trying to ensure SCC was receiving the correct data.

4.8 Christopher Smith (Scheme Member Representative, Pension Board and Unison Branch Secretary) was invited to comment and he stated that the situation had definitely improved and he was receiving much less pension administration related complaints from staff. He thanked People Services, SCC and BT for their efforts to address issues and a number outstanding cases had now been resolved. There was still some work to be done concerning staff that had been outsourced, however this was in the process of being resolved. One matter that was being addressed involved staff at Sanctuary Housing whose pensions had been lower due to the basic rate of pay being erroneously used to calculate their payments.

4.9 The Chairman stated that it would have been desirable if BT had an automated data transfer in place when they assumed the contract, however he welcomed progress that had been made over the last few months and thanked SCC, People Services, BT and Christopher Smith for their input. He also welcomed Christopher Smith to raise any further problems reported by staff.

4.10 The Committee noted and endorsed the Pension Administration Strategy.

5 NEW EMPLOYER BODIES

5.1 Peter Worth (Interim Tri-Borough Director of Treasury and Pensions) presented the report and advised that Sir Milton University Technical College had joined the Fund as a scheduled body. As of April 2018, the Social Homes Regulator, which was to become a new regulatory arm of the Homes and Communities Agency, an existing admitted body, was also to be admitted to the Fund. Peter Worth confirmed that the Social Homes Regulator would be covered by a Crown guarantee, thus satisfying the need for a bond in joining the Fund as an admitted body.

5.2 In respect of proposals to transfer Legal Services to LGSS Law Ltd to become a scheduled body of the Fund, Members commented on whether this should be undertaken on a fully funded basis. The Chairman advised that he would discuss this matter further on what basis the transfer should take place with Peter Worth.

5.3 The Chairman also requested that Councillor Rowley meet with Peter Worth to discuss the Admissions Policy and to take up the matter with the relevant

Cabinet Member.

5.4 **RESOLVED:**

1. That the joining of Sir Simon Milton University Technical College to the Fund as a scheduled body be noted.

2. That the proposed transfer of Legal Services to LGSS Law Ltd to the Fund be noted, but that the basis on which the transfer take place be discussed further between the Chairman and the Interim Tri-borough Director of Treasury and Pensions.

3. That officers be authorised to commence the procedure for the Social Housing Regulator to become an admitted body of the Fund backed by a Crown guarantee.

6 QUARTERLY PERFORMANCE REPORT

6.1 Kevin Humpherson (Deloitte) provided an update on the performance of the Fund in the latest quarter and advised that there were no particular issues concerning any of the fund managers. He advised that the Fund had outperformed its benchmark by 0.4% for the quarter and also continued to perform above the benchmark in year and over the last 3 years. Although Majedie had underperformed this quarter, the performance of Baillie Gifford, Longview and Standard Life had more than offset this.

6.2 During Members' discussions, the Chairman noted that Jill Davys, who currently held the position of Assistant Director, Client Management at the London Collective Investment Vehicle (CIV) was leaving her post and he asked what impact this would have on the CIV. He sought comments on the development of the CIV and why had progress being slower than anticipated. The Chairman noted that the City Council had transferred more of its funds to the London CIV than most other CIV members and expressed frustration that administering authorities did not have the option of investing in more than one investment pool. He asked whether the City Council was required to be in the London CIV and not another investment pool. Members enquired what steps could be taken to speed up progress with the CIV and whether the CIV was investing in property, housing, gas and other fossil fuels. Members commented that it had been prudent for the CIV not to invest in gilts.

6.3 In reply to the issues raised, Kevin Humpherson stated that Jill Davys had been a key figure in monitoring fund managers and her departure would be a loss to the London CIV. There had not yet been an announcement about her replacement and Deloitte would continue to monitor this situation.

6.4 Alistair Sutherland (Deloitte) stated that the London CIV had been the first investment pool for local authorities to be set up and it was disappointing that it had not made more progress compared to other investment pools. This was partly attributable to resourcing issues, whilst it was also complicated by the number of London boroughs who were CIV members and who all had equal status, which could impact upon progress. However, pressure could be placed on the CIV management team to accelerate progress. Alistair Sutherland stated that the CIV was not presently investing in property or housing, although it would have been prudent to have considered this at an earlier stage. He advised that there were some funds within the CIV that would involve assets in gas and other fossil fuels, such as those in global equities, however he felt that it was time that the CIV consider further investment in environmentally friendly assets. Alistair Sutherland stated that in theory the City Council could leave the CIV to join another investment pool if that pool accepted. Peter Worth added that that although the City Council could not independently invest in more than one investment pool, the London CIV could if it so wished invest funds in another investment pool.

6.5 Members agreed that the meeting to select the shortlist of fund managers in respect of the fixed income mandate take place on 9 November, whilst a final decision on the fund manager to manage this mandate would take place on 30 November. The Chairman added that he was meeting London CIV representatives with officers to discuss fixed income mandate options.

6.6 **RESOLVED:**

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

7 FUND FINANCIAL MANAGEMENT

7.1 Yvonne Thompson- Hoyte (Senior Finance Manager – Pensions) presented this item and advised that Markets in Financial Instrument Directive (MiFID) II had been added to the Risk Register. In respect of the risk involving BT unable to provide monthly or end of interface files, this risk had been downgraded from high to medium risk. Members were also updated in respect of the Fund’s current cashflow position.

7.2 During discussions, the Chairman queried why no drawn-down of cash for investments was expected in 2017-2018. In reply, Yvonne Thompson-Hoyte advised that draw-down was not needed because of two recent injections of cash to the Fund. The Chairman commented on the desirability of a more systematic approach to be taken on this matter and requested that there be a report on this at a future meeting.

7.3 Matthew Hopson (Senior Finance Manager – Treasury) circulated an additional appendix to Members and confirmed that it set out the budget as of 30 September 2017.

7.4 **RESOLVED:**

1. That the Fund’s Risk Register be noted.

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

3. That the changes to the Forward Plan be noted.

8 MARKETS IN FINANCIAL INSTRUMENT DIRECTIVE 2014/65 UPDATE

8.1 Peter Worth presented the report and advised that Markets in Financial Instrument Directive 2014/65 (MiFID II) MiFID II presented a risk that all local authorities, including the City Council's, statuses would be changed to retail client as of 3 January 2018 as opposed to the current professional client status. This would result in the City Council not being able to access a wide range of assets, such as services provided by fund managers and advisers. Peter Worth stated that therefore it was recommended that the City Council 'opt up' to acquire elective professional client status.

8.2 Members expressed their support for the proposal to opt up to elective professional client status.

8.3 **RESOLVED:**

1. That the potential impact on investment strategy of becoming a retail client with effect from 3rd January 2018 be noted.

2. That the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy be agreed.

3. That in electing for professional client status, it be acknowledged and agreed to forgo the protections available to retail clients attached as set out in Appendix 1.

4. That it be agreed to approve delegated responsibility to the Tri-Borough Director of Treasury and Pensions for the purposes of completing the applications and determining the basis of the application as either full or single service.

9 MINISTERIAL LETTER CONCERNING POOLING

9.1 Peter Worth drew Members' attention noted the ministerial letter concerning pooling. Members commented on the desirability of being able to participate in more than one investment pool and they felt this should be brought to the attention of the Chief Secretary to the Treasury and the Minister for Local Government.

9.2 **RESOLVED:**

That the contents of the Ministerial letter be noted.

10 INVESTMENT STRATEGY AND POOLING UPDATE

10.1 Peter Worth presented the report that provided an update on transferring assets to the London CIV. He advised that as of 30 June, 76.2% of

Westminster funds had been transferred, or were in the process of being so. Discussions were currently taking place with the CIV to seek clarification of Longview's fees.

10.2 **RESOLVED:**

1. That progress on the transfer of assets to the London CIV and associated fee savings this brings be noted.

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

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

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

11 PENSION FUND BUSINESS PLAN 2017-18

11.1 Peter Worth presented the report and Members noted the update on the action points.

11.2 The Chairman advised that the date of the Pensions Annual General Meeting would be confirmed following discussions with the new Tri-Borough Director of Treasury and Pensions who was due to commence his role in December. The Chairman thanked Peter Worth for his efforts in performing this role on an interim basis.

11.3 **RESOLVED:**

That the update on the action points be noted.

12 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

12.1 Yvonne Thompson-Hoyte advised that training forms requesting details of training undertaken to date would be sent to Members for completion next week.

The Meeting ended at 8.26 pm.

CHAIRMAN: ______________________ **DATE** ___________________

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City of Westminster — Pension Fund Committee

Date:	**23rd January 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 September 2017 to December 2017. 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 September, October, November and December 2017, with the previous reporting period also shown for comparison. The last review meeting with Surrey was held on 29th November 2017 and focused on the September – November figures: this is why they are shown together as one result. December is therefore a standalone month and is shown separately on the KPIs.

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. These areas are shown below with an update on recent performance against the September to December KPIs:

2.3.1. **Retirement Options Issued to Members.** We are pleased to note the improvement from 92% to 94% in the period September through to November and then onto 100% in December. This is considered one of our more important KPI measures.

2.3.2. **New Retirement Benefits Processed for Payment.** This has increased from 97% in the previous reporting period to 100% in this period. Again we are pleased as this is a key priority for the team.

2.3.3. **Pension Payment, Member paid on the next available Pension Payroll.** This KPI saw a fall for September to November to 95% but is now back to 100% in December, although the number of cases in that month were low. People Services will continue to closely monitor as this is one of our key measures.

2.3.4. **Deferred benefits Statement Issued.** There was one case late in December but due to low numbers this reduced the KPI to 86%. This is the first month it has dropped since before June.

2.3.5. **Lump Sum Payment made in 5 days.** Fell to 97% in September to November but is back to 100% in December.

2.3.6. **Interfunds Out Actual Processed in 30 Days.** Fell to 97 % in September to November but is back to 100% in December.

2.4. The improvement to the member self-service access originally planned for October 2017 has been delayed to January 2018. This change will improve the appearance of the Annual Benefit Statement (ABS) and enable mobile and tablet access. Once the upgrade has been completed People Services will promote 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. The new urgent leaver form process is currently in its infancy; however early signs are positive. People Services will monitor forms for accuracy and turnaround time and continue to update the committee.

3.3. In addition to the above agreed process for urgent leavers, BT have produced a number of leavers reports from April 17 to November 17 for all WCC pension leavers in those months. The reports include whole time pay calculations and care pay figures. Officers will check the reports for accuracy and if acceptable Surrey will use these reports to complete the deferment process or prepare refunds.

3.4. The interface process where joining information is submitted by BT to Surrey CC is now up and running with no issues reported. We will not report further on this unless further issues arise.

3.5. In a further development since the last committee a monthly conference call has been set up with BT to discuss any outstanding issues relating to the LGPS. This call is now business as usual and replaces the urgent calls that were in place during the recovery programme. The first call took place on the 11/01/18 and was attended by officer representatives of all three boroughs. The call was generally positive.

3.6. 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 and one new case has been raised in the last month. The majority of cases involve escalating transfer payments or transfer quotes. There is one case ongoing regarding a transfer of an AVC to a private pension company.

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.

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MONTHLY RESULTS FOR DECEMBER AND JANUARY BASED ON NEW KPI REPORTING

JUNE TO AUGUST REPORTING

SEPTEMBER TO NOVEMBER REPORTING

Description	Target time/date as per Partnership Agreement	Actual Score June to August	No of Cases June to August	Comments	Actual Score September to November 17	No of Cases September to November	Comments	Actual Score Dec 2017	No of cases Dec 2017	Target	Trend	Comment	
PENSION ADMINISTRATION													
DEATH BENEFITS Notify potential beneficiary of lump sum death grant	5 days		0			0		100%	1	100%			
Write to dependant and provide relevant claim form	5 days	100%	5		100%	6		100%	4	100%			
Set up any dependants benefits and confirm payments due	14 days	100%	2		100%	4		NA	0	100%			
RETIREMENTS Retirement options issued to members	5 days	92%	26		94%	16	1 case late	100%	7	100%			
New retirement benefits processed for payment following receipt of all necessary documents	5 days	97%	34		100%	16		100%	3	100%			
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run	100%	34		95%	39		100%	3	100%		Fall in September to November back 100% in December though overall numbers low.	
REFUNDS OF CONTRIBUTIONS Refund paid following receipt of claim form	14 days	100%	21		100%	28		100%	1	100%			
DEFERRED BENEFITS Statements sent to member following receipt of leaver notification	30 days	100%	30		100%	89		86%	7	100%		only 1 case late in December.	
DEFERRED PAYMENTS													
Notification to members 2 months before payments due	3 months	New cases 2 months in advance.	61		100%	62		100%	18	2 months before		Note we have agreed that Surrey can write to members 2 months before benefits due not 3 months effective in December.	
Lump Sum (on receipt of all necessary documentation)	5 days	100%	44		97%	39		100%	10			fell 97% September - November but back to 100% December.	
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run	100%	44		100%	39		100%	10	100%			
NEW JOINERS New starters processed	30 days	100%	184	Monthly interfaces now being provided by BT	100%	62		100%	5	100%			
TRANSFERS IN Non LGPS transfers-in quotations	30 days		7	Clearing last of backlog cases				0	1			Please note that Transfer in KPI have been Temporarily suspended pending backlog clearance as a result of suspended CETV Factors.	
Non LGPS transfers-in payments processed	30 days	100%	3		NA	0		NA	0	100%			
TRANSFERS OUT Non LGPS transfers-out quotations processed	30 days	100%	5	Plus 19 backlog cases cleared.	100%	23		100%	5	100%			
Non LGPS transfers out payments processed	30 days	100%	2		100%	6		100%	1	100%			
Interfunds In - Quotations	30 days	100%	4		NA	0		100%	1	100%			
Interfunds In - Actuals	30 days	NA	0		NA	0		NA	0	100%			
Interfunds Out - Quotations	30 days	100%	9		96%	53		100%	6	100%		dropto 96% in Sept - Nov but back to 100% in December.	
Interfunds Out - Actuals	30 days	100%	3		100%	7		100%	6				
ESTIMATES													
1-10 cases	5 Days	100%	12		100%	46		NA	0				
11-50 cases	Agreed with WCC	NA			NA	NA		N/A			NA		
51 cases or over	Agreed with WCC	NA			NA	NA		N/A			NA		
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	95%	198		100%	137		100%	20				
BUYING ADDITIONAL PENSIONS													

MONTHLY RESULTS FOR DECEMBER AND JANUARY BASED ON NEW KPI REPORTING

JUNE TO AUGUST REPORTING

SEPTEMBER TO NOVEMBER REPORTING

Description	Target time/date as per Partnership Agreement	Actual Score June to August	No of Cases June to August	Comments	Actual Score September to November 17	No of Cases September to November	Comments	Actual Score Dec 2017	No of cases Dec 2017	Target	Trend	Comment	
Members notified of terms of purchasing additional pension	15 days	NA	NA		NA	NA		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	31-Mar-17			Annual			Annual					
Annual Exercises													
ANNUAL BENEFIT STATEMENTS Active members	31 August each year	Annual		Issued by 31/8 target	Annual		N/A	Annual			N/A		
ANNUAL BENEFIT STATEMENTS Deferred members	31 August each year	Annual		Issued 1 week late	Annual		N/A	Annual			N/A		
P60s Issued to Pensioners	31 May each year	100%		Issued April 2017	Annual		Issued April 2017	Annual			N/A	Issued April 2017	
Apply Pensions Increase to Pensioners	April each year	100%			Annual			Annual			N/A		
Pensioners Newsletter	April each year	100%		Issued April 2017	Annual		Issued April 2017	Annual			N/A	Issued April 2017	
CUSTOMER SERVICE													
CORRESPONDENCE													
Acknowledgement if more than 5 days	2 days												
Response	10 days	100%	21		98%	45		100%	12				
3rd party enquires	10 days	NA	NA		NA	NA		N/A	N/A		N/A		
Helpdesk Enquiries													
Volumes of Enquiries Handled By Helpdesk	Number of Enquiries Handled		1369	88% FPF rate.		940 (respresentative of 2 months)	89% FPF rate	90% FPF rate	289				
Customer Surveys													
Survey to retirees	Percentage Satisfied with Service							87.50%			N/A	Results based on survey of members retiring between April and September 2017	

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**23 January 2018**
Classification:	**General Release**
Title:	**Performance of the Council's Pension Fund**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.**
Report of:	**Steven Mair** ***City Treasurer*** **smair@westminster.gov.uk** **020 7641 2904**

1. Executive Summary

1.1 This report presents the performance of the Pension Fund's investments, together with an update on the funding position to 30 September 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 30 September 2017. The investment performance report (Appendix 1) has been prepared by Deloitte, the

Fund's investment adviser, who will be attending the meeting to present the key points and answer questions.

3.3 The Investment Performance Report shows that over the quarter to 30 September 2017, the market value of the assets increased by £32 million to a value of £1,319 million (£1,287) at 30 June 2017). The fund outperformed the benchmark by 0.6% over the quarter. The benchmark was however, supressed mainly by the underperformance of one fund manager by 2.3%.

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

3.5 The Funding update (Appendix 2) has been prepared by the Fund Actuary, Barnett Waddingham. This indicates that the smoothed funding level has increased to 88% over the quarter to 30 September 2017, up from 87% at the last quarter. This indicative position is up 1% on the calculated position at the triennial valuation of 31 March 2016.

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

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

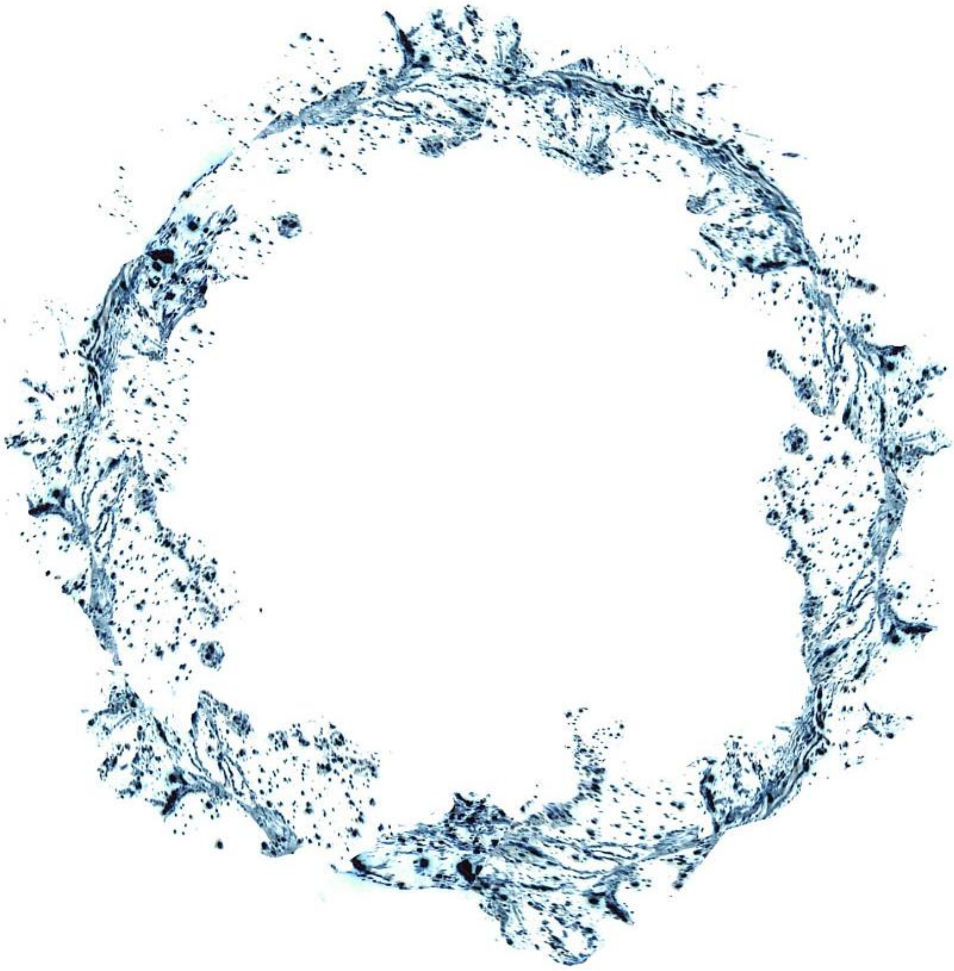
-Hoyte

BACKGROUND PAPERS: None

APPENDICES:

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

Deloitte.



City of Westminster Pension Fund

Investment Performance Report to 30 September 2017

Deloitte Total Reward and Benefits Limited
November 2017

Contents

1 Market Background

Three and twelve months to 30 September 2017

The UK equity markets made further gains over the third quarter of 2017, with the FTSE All Share returning 2.1%. However these gains masked a negative return of 0.4% for September as the Bank of England indicated an increase in interest rates was likely in the near future.

Smaller UK companies outperformed larger companies over the quarter, with the FTSE Small Cap Index returning 3.0% while the FTSE 100 Index returned 1.8%. At a sector level, there was also a dispersion of returns. Basic Materials (12.1%), Oil & Gas (9.8%) and Technology (5.5%) made substantial gains, while Health Care (-6.3%) and Telecommunications (-4.2%) suffered losses.

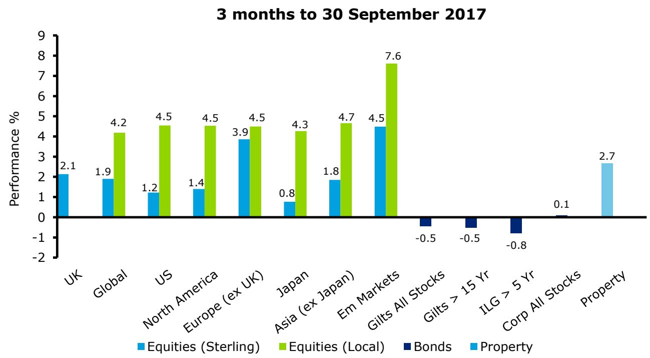
Global equity markets outperformed UK equities in local currency terms (4.2%) as the UK economic prospects continue to lag behind other developed markets following the growing uncertainty over Brexit. However global equities lagged UK equities in sterling terms (1.9%) as Sterling strengthened over the quarter, with currency hedging therefore benefitting investors. All geographic regions delivered positive returns in local currency terms. Emerging Markets (7.6%) was the best performing region in local terms, continuing their recovery, with Japan (4.3%) being the poorest performing region outside the UK, in local currency terms.

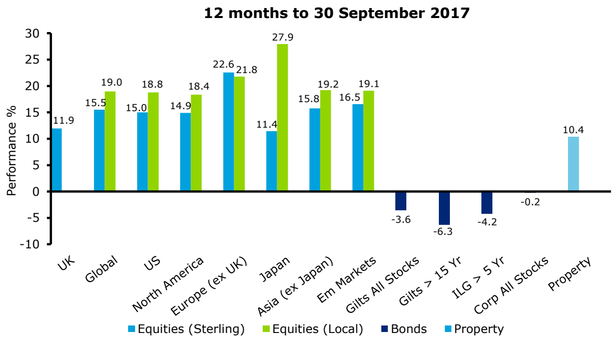
Nominal gilt yields marginally increased over the third quarter as a whole, but falling yields over July and August disguised what was a significant rise in yields during September following renewed expectations of a rise in the UK base rate. This led to the All Stocks Gilts Index delivering a negative return of -0.5% over the quarter. Real yields followed a similar path to nominal yields over the quarter as inflation expectations were broadly unchanged there was a negative return of -0.8% on the Over 5 Year Index-Linked Gilts Index over the period. There was a marginal narrowing of credit spreads over the third quarter, and the iBoxx All Stocks Non Gilt Index delivered a small positive return of 0.1% over the period.

Over the 12 months to 30 September 2017, the FTSE All Share Index delivered a positive return of 11.9% helped by an increasingly positive global economic picture. This was partly offset by the increasing uncertainty caused by Brexit, and UK equities lagged their European and global local currency equivalents. At a sector level, returns have been mixed. Basic Materials (28.3%) was the best performing sector while Utilities (-14.4%) was the poorest performing sector. Global equity markets outperformed the UK in both sterling (15.5%) and local (19.0%) currency terms, with currency hedging beneficial over the year.

UK nominal gilts delivered negative returns over the 12 months to 30 September 2017, with the All Stocks Gilts Index returning -3.6% and the Over 15 year Gilts Index returning -6.3%. UK index-linked gilts also delivered negative returns over the same period, with the Over 5 Year Index-Linked Gilts Index returning -4.2%. Credit spreads narrowed over the year to 30 September 2017, partly offsetting the rise in gilt yields, and the iBoxx All Stocks Non Gilt Index delivered a small negative return of -0.2%.

The IPD UK Monthly Property Index returned 2.7% over the quarter and 10.4% over the year to 30 September 2017, as the market continued to rebound after the bounce back from the negative reaction to the EU referendum. 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.





2 Total Fund

2.1 Investment Performance to 30 September 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	2.4	2.2	2.1	12.1	11.5	11.9	9.0	8.4	8.5	13.7	13.1	11.2
LGIM	Global Equity	3.8	3.8	3.8	18.1	18.1	18.1	9.1	9.0	9.1	12.8	12.8	12.8
Baillie Gifford	Global Equity	3.8	3.8	1.8	21.4	21.1	14.9	19.2	18.9	14.4	16.9	16.5	14.0
Longview	Global Equity	1.0	0.8	1.5	14.9	14.2	14.4	n/a	n/a	n/a	16.1	15.4	13.9
Insight Gilts	Gilts	-0.2	-0.2	-0.3	-1.4	-1.5	-1.6	3.0	2.9	3.0	2.5	2.4	2.5
Insight Non Gilts	Non Gilts	0.4	0.3	0.2	1.5	1.3	0.9	5.6	5.3	4.9	7.1	6.9	6.1
Hermes	Property	2.5	2.4	2.4	10.5	10.1	9.7	11.5	11.1	9.8	10.2	9.8	8.7
Standard Life	Property	2.7	2.6	0.1	10.7	10.2	-1.6	7.9	7.4	7.6	9.1	8.6	6.8
Total		**2.5**	**2.5**	**1.9**	**13.6**	**13.3**	**10.8**	**10.8**	**10.5**	**9.4**	**n/a**	**n/a**	**n/a**

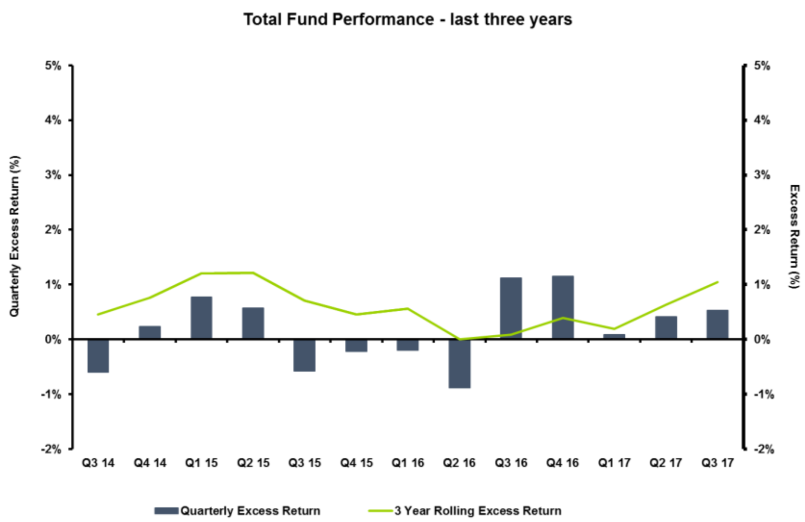
Source: Northern Trust

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

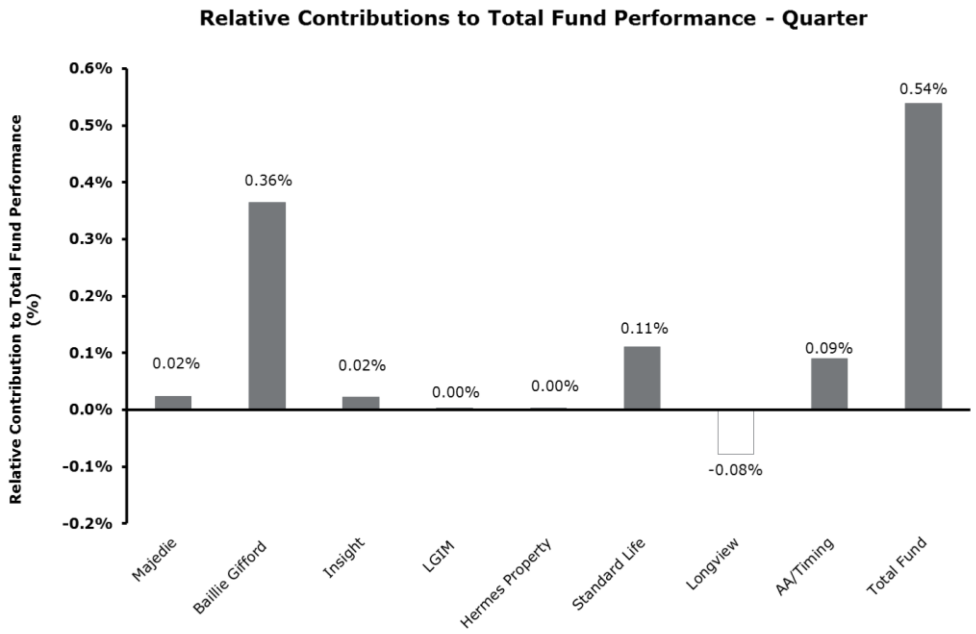
See appendix 1 for more detail on manager fees and since inception dates

Over the quarter the Fund outperformed its benchmark by 0.6% net of fees, with the outperformance of Baillie Gifford and Standard Life offsetting the underperformance from Longview. The Fund has outperformed its benchmark over the last year and three years by 2.5% and 1.1% p.a.

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

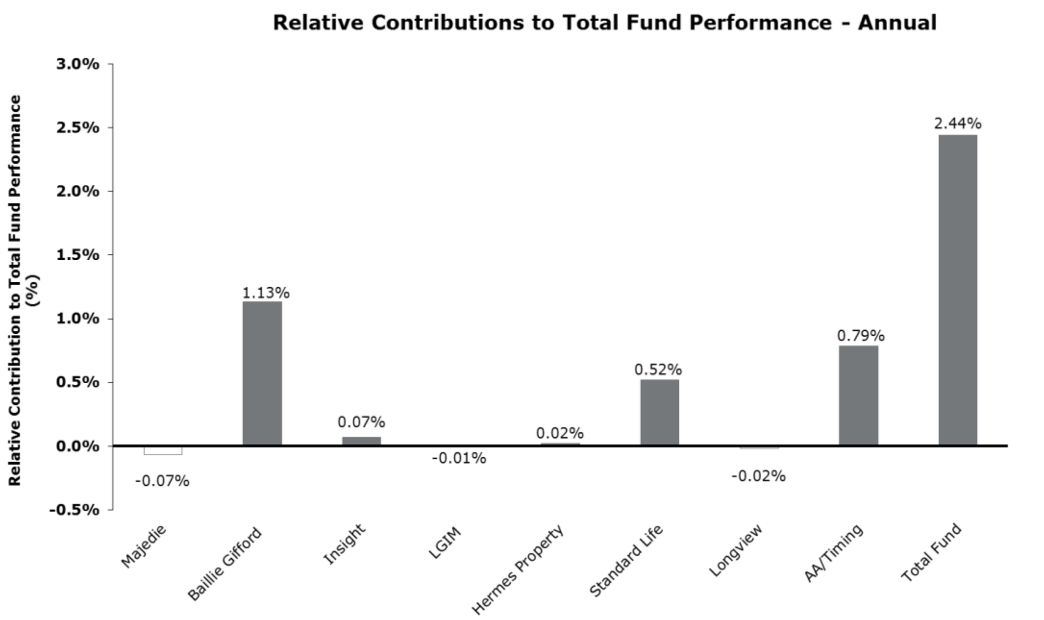


2.2 Attribution of Performance to 30 September 2017



On a net of fees performance basis, the Fund outperformed its benchmark by 0.5% over the third quarter, largely as a result of outperformance from Baillie Gifford and Standard Life.

Over the year the Fund outperformed the benchmark by 2.4% with Baillie Gifford and Standard Life being the largest contributors once again. 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 30 September 2017

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

Manager	Asset Class	End June 2017 (£m)	End Sept 2017 (£m)	End June 2017 (%)	End Sept 2017 (%)	Benchmark Allocation* (%)
Majedie	UK Equity	302.8	310.1	23.5	23.5	22.5
LGIM	Global Equity (Passive)	290.9	302.0	22.6	22.9	22.5
Baillie Gifford	Global Equity	244.6	254.0	19.0	19.2	25
Longview	Global Equity	142.8	144.1	11.1	10.9	
	Total Equity	**981.1**	**1,010.2**	**76.2**	**76.6**	**70**
Insight	Fixed Interest Gilts (Passive)	18.8	18.7	1.5	1.4	20
Insight	Sterling Non-Gilts	171.9	172.5	13.4	13.1	
	Total Bonds	**190.7**	**191.2**	**14.8**	**14.5**	**20**
Hermes	Property	58.8	60.3	4.6	4.6	5
Standard Life	Property	56.3	57.8	4.4	4.4	5
To be determined	Property / Infrastructure	0.0	0.0	0.0	0.0	
	Total Property	**115.1**	**118.1**	**8.9**	**9.0**	**10**
	Total	**1,286.9**	**1,319.5**	**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. £32.6m, with positive absolute returns from all of the Fund's managers excluding Insight's Fixed Interest Gilts Fund, which reduced in market value by c. £0.1m.

As at 30 September 2017, the Fund was 6.6% overweight equities when compared with the amended benchmark allocation and underweight bonds and property by c. 5.5% and 1.0% respectively.

2.4 Yield analysis as at 30 September 2017

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

Manager	Asset Class	Yield as at 30 September 2017
Majedie	UK Equity	3.11%
Baillie Gifford	Global Equity	0.73%
Insight Fixed Interest Gilts	Fixed Interest Gilts (Passive)	0.80%
Insight Sterling Non-Gilts	Sterling Non-Gilts	2.10%
LGIM	Global Equity (Passive)	0.24%*
Hermes Property	Property	5.20%
Standard Life Long Lease	Property	4.27%
Longview	Global Equity	2.23%
	Total	**1.89%**

*Benchmark yield 2.4%

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 30 September 2017, the London CIV had 9 sub-funds and assets under management of £5,556m, an increase of c. £600m over the quarter, with one new sub-fund added (Longview global equity) and one investor being added to the Ruffer sub-fund.

Personnel

Early in the quarter it was announced that Jill Davys was leaving the CIV – Jill was responsible for liaising and monitoring the managers on the platform. Post quarter end 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.

On a more positive note, the CIV has hired individuals to lead on the fixed income and equity areas – both reporting into Julian Pendock, the CIO. We also understand that a replacement for Jill Davys has been appointed.

Deloitte view – The London CIV is still at a relatively early stage in terms of building out its offerings to the London boroughs and we continue to monitor the developments, particularly with regards to the building of the Fixed Income and Alternative sub funds. To achieve its goals, the CIV will need to recruit further personnel to the investment team and look at how it communicates effectively with the boroughs and their advisors. We see recent turnover of key staff as being a concern, adding to the concerns about the slow pace of progress.

3.2 Majedie

Business

The total assets under management for Majedie was c. £14.5bn as at 30 September 2017, an increase of £300m over the quarter. This was largely down to positive market movements rather than new asset flows.

The latest Tortoise Fund capacity has been filled and the fund is now closed again.

Personnel

One graduate trainee joined the UK Equity Fund team over the quarter. No other personnel changes were noted.

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

3.3 Baillie Gifford

Business

Total assets under management as at 30 September 2017 was c. £173bn, up from c. £167bn as at 30 June 2017. The AUM for the Global Alpha Fund was £32.6bn as at 30 September 2017, an increase of £1bn over the quarter. The increase in assets under management have been due to a combination of improving market conditions and outperformance by key funds. These effects mask the net investor outflows over the quarter which continue, due to a combination of de-risking and rebalancing following the recent gains made in equity markets.

Personnel

Three partner retirements were announced during the quarter, although none directly impact the Global Alpha fund:

- Sarah Whitley. Head of the Japanese team since 2001, will retire after 37 years at Baillie Gifford, and her role will be taken over by fellow partner Donald Farquharson;
- Stephen Roger, Head of Credit, will retire after 17 years at the firm. Gregory Turnbull Schwartz will take over the Investment Grade portfolios while Rob Baltzer will continue as head of High Yield Credit; and
- Ken Barker, Client Director, will retire after 16 years at Baillie Gifford, and plans are being put in place to transition his client relationships to other personnel.

These retirements will each take effect in April 2018.

Deloitte view: We continue to rate Baillie Gifford positively for its diversified growth 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 the Solutions and Multi-Asset parts of the business. 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, Joseph LaPorta, previously at Northern Trust, who joined as a Portfolio Manager. There were no leavers over the quarter.

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

3.5 Longview

Business

Assets under management increased over the quarter by c. £1.0bn to c. £18.9bn as at 30 September, as a result of inflows and market movements.

The Fund has now reached its capacity limit of $25bn and is closed to new investors, with Longview currently operating a waiting list. There is limited capacity for existing clients but this is being monitored closely by Longview.

The Fund is now operational on the London CIV, with c. $1.5bn of capacity reserved for CIV clients.

Personnel

There have been no changes to the Longview team over the third quarter of 2017.

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

3.6 Insight

Business

Total assets under management remained broadly unchanged over the quarter at c. £550bn. Insight won 6 new client mandates totalling £0.7bn over the quarter, but lost one client (£1.9bn).

Total assets in Insight's Bonds Plus Fund were £3,627m as at 30 September 2017.

Insight will be changing the Bonds Plus 200 and Bonds Plus 400 to daily dealing in Q4 2017 – currently the funds are weekly dealt.

Personnel

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

- Chris Brown has been promoted to head of Money Market, replacing Colin Cave who left at the end of Q2.
- James McKerrow joined as part of the Money Market Team in July 2017 with a focus on repo trading and gilt financing. James previously spent 9 years at LCH Limited as a Portfolio Manager.
- Drago Dimitrov joined as a Credit Analyst in July 2017 in the New York investment team. His focus will be on the evaluation of leveraged loans in the primary and secondary markets. Drago previously spent 2 years as a Credit Analyst at ZAIS Group.
- There will be 3 new joiners in the Secured Finance team in Q4 due to increased client demand.
- After Howard Kearns and Heather Porter joined in Q2, Michael Scott has joined the Modelling and hedge design team in Q3. Michael has a PHD in Mathematics and Statistics.
- Jack Rowett has joined the Financial Solutions Discovery team. Jos Vermeulen has been promoted to Head of Solution Design, with Paul Richmond supporting.
- Steve Aukett has taken a career break and will be returning in January; he will be taking the role of Client Lead on his return.

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 decreased by c. £0.7bn over the third quarter to £30.1bn as at 30 September 2017. Over the quarter, assets under management within the HPUT increased slightly to c. £1.5bn as at 30 September 2017 from c. £1.4bn as at 30 June 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

During the third quarter, the merger between Standard Life and Aberdeen Asset Management was completed. The new combined business is called Standard Life Aberdeen plc, with the investment business operating under the name Aberdeen Standard Investments.

The Fund's assets under management increased to £1.95bn over the third quarter, following positive performance, with no significant inflows or outflows over the quarter.

Personnel

Following the quarter end, the leadership team for Aberdeen Standard Investments Real Estate Division was announced. The team will report to David Paine and Pertti Vanhanen, Global Co-Heads of Real Estate and will be:

- Andrew Allen – Global Head of Investment Research
- Anne Breen – Global Head of Investment Process and Strategy
- Andrew Creighton – Heading of Continental European Real Estate
- Claire George – Global COO (Platform and Operations)
- Mike Hannigan – Head of Real Estate UK
- Paolo Alonzi – Global COO (Finance and Strategy)
- Puay-Ju Kang – Global Head of Real Estate Multi Manager and Head of Real Estate Asia Pacific

The integration of the underlying team structures is expected to take place through Q1 2018. The only senior departure to date will be Russel Chaplin, from the Aberdeen side, which will take place over the next 4 to 5 months.

There has been no change to Richard Marshall's role and he will continue to be the Fund Manager on the Long Lease Property Fund.

Deloitte View – We are still waiting further details on the longer-term implications of the deal, although it is expected that there will be rationalisation across both businesses from both front and back office functions and we are aware that in some areas the required "consultation process" has been started.

Corporate activity within the asset management industry is difficult and tends to result in a period of uncertainty for both clients and the in-house teams. While we will monitor developments closely and keep the Committee informed of any changes impacting the teams managing the long lease fund, we are less concerned about the potential implications given the long(er) term nature of the underlying investments.

We remain positive on long lease property given the long-term, inflation-linked nature of the contractual cash-flows which arise from this type of investment.

4 London CIV

4.1 Investment Performance to 30 September 2017

As at 30 September 2017, the London CIV had 9 sub-funds and assets under management of £5,556m, increased from £4,940m as at 30 June 2017. This growth was attributable to a new sub-fund added over the quarter, which added c. £376m to the platform, as well as positive investment performance.

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

Sub-fund	Asset Class	Manager	Total AuM as at 30 June 2017 (£m)	Total AuM as at 30 September 2017 (£m)	Number of London CIV clients	Inception Date
LCIV MJ UK Equity	UK Equity	Majedie	510	523	3	18/05/17
LCIV Global Equity Alpha	Global Equity	Allianz Global Investors	691	715	3	02/12/15
LCIV BG Global Alpha Growth	Global Equity	Baillie Gifford	1,674	1,742	9	11/04/16
LCIV NW Global Equity	Global Equity	Newton	659	661	3	22/05/17
LCIV LV Global Equity	Global Equity	Longview Partners	n/a	376	3	17/07/17
LCIV PY Total Return	Diversified growth fund	Pyrford	225	223	3	17/06/16
LCIV Diversified Growth	Diversified growth fund	Baillie Gifford	362	434	5	15/02/16
LCIV RF Absolute Return	Diversified growth fund	Ruffer	473	539	6	21/06/16
LCIV NW Real Return	Diversified growth fund	Newton	346	343	3	16/12/16
Total			**4,940**	**5,556**	**19**	

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

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

5 Baillie Gifford – Global Equity

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

5.1 Global equity – Investment performance to 30 September 2017

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Baillie Gifford – Gross of fees	3.8	21.4	19.2	16.9
Net of fees	3.8	21.1	18.9	16.5
MSCI AC World Index	1.8	14.9	14.4	14.0
Relative (net of fees)	2.0	6.2	4.5	2.5

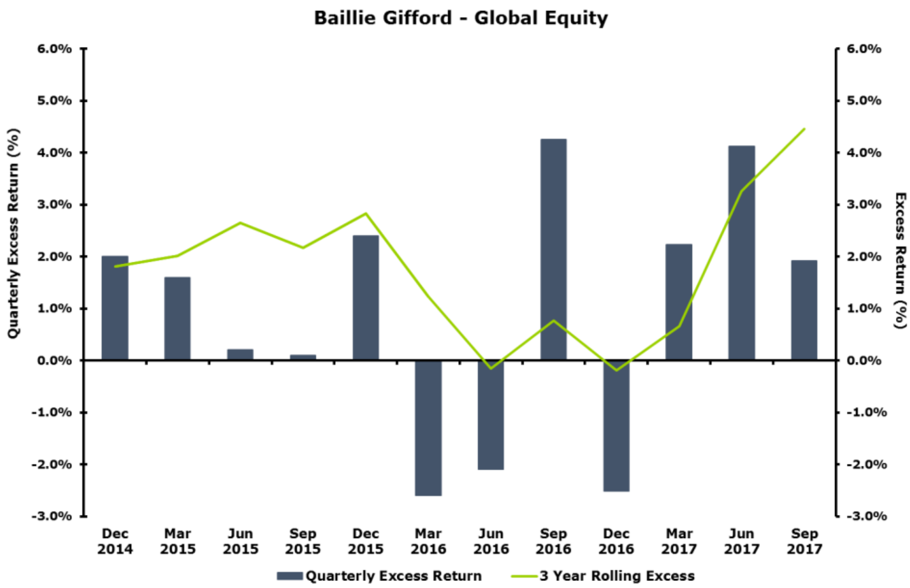
Source: Northern Trust and estimated by Deloitte.

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 2.0% net of fees over the quarter and by 6.2% over the year to 30 September 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 4.5% p.a.

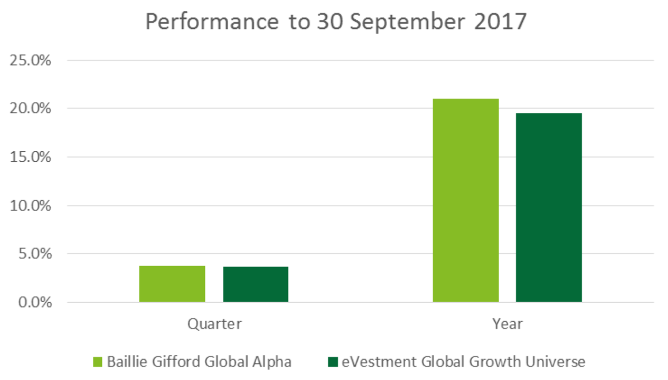


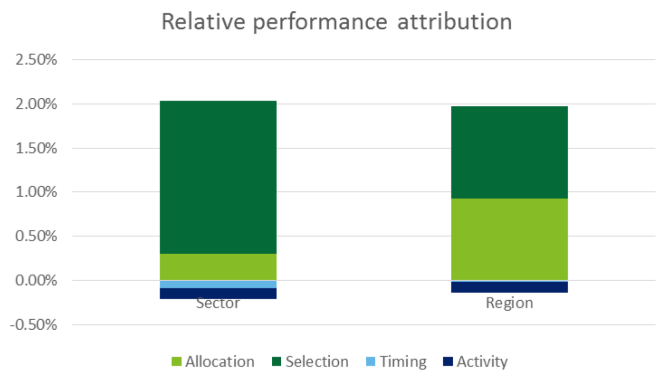
5.2 Performance Analysis

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 earning growth resulting in capital gains as opposed to dividend income. The analysis below compares the Global Equity Fund with a universe of global growth equity products. The universe is provided by eVestment and contains 90 products from 62 firms.

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





Source: eVestment

Baillie Gifford's Global Alpha Fund has outperformed its peer group by 0.1% over the quarter and 1.6% over the year. The chart above to the right shows the attribution of relative performance to the peer group, broken down into allocation, selection, activity and timing. The full definitions of each category can be found in the appendix.

Baillie Gifford's outperformance relative to the peer group over the quarter can be again largely attributable to superior selection (bottom-up skill). The main contributions were from companies that had reported strong operating results as the market appeared to revert back from moving on market sentiment and political rhetoric to stock fundamentals.

The top 10 holdings in the portfolio account for c. 28.0% of the Fund and are detailed below.

Top 10 holdings as at 30 September 2017	Proportion of Baillie Gifford Fund
Naspers	3.8%
Amazon	3.3%
Prudential	3.3%
Royal Caribbean Cruises	3.1%
Taiwan Semiconductor Manufacturing	2.8%
SAP	2.5%
Alibaba	2.4%
Alphabet	2.4%
Anthem	2.2%
Moody's	2.1%
Total	**28.0%**

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

6 LGIM – Global Equity (Passive)

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

6.1 Passive Global Equity – Investment Performance to 30 September 2017

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
LGIM - Gross of fees	3.8	18.1	9.1	12.8
Net of fees[1]	3.8	18.1	9.0	12.8
FTSE World (GBP Hedged) Index	3.8	18.1	9.1	12.8
Relative (net of fees)	0.0	0.0	-0.1	0.0

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 30 September 2017. However, the Fund has underperformed the benchmark by 0.1% p.a. over the last three years whilst tracking the benchmark 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 30 September 2017

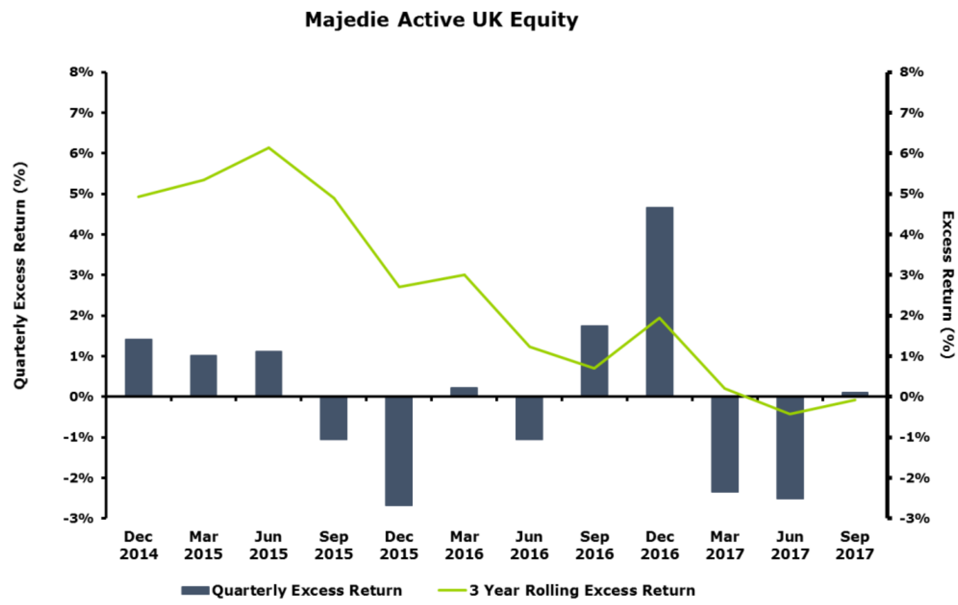
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Majedie - Gross of fees	2.4	12.1	9.0	13.7
Net of fees[1]	2.2	11.5	8.4	13.1
MSCI AC World Index	2.1	11.9	8.5	11.2
Relative (on a net basis)	0.1	-0.4	-0.1	1.9

Source: Northern Trust

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 31 May 2006

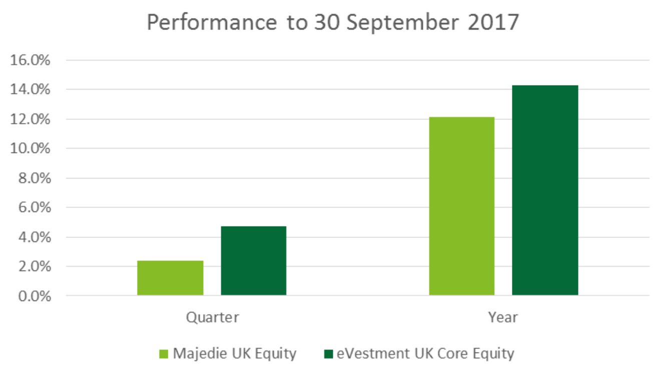


Majedie outperformed its benchmark over the quarter by 0.1% but has underperformed its benchmark over the year by 0.4% on a net of fees basis. Over the three years the manager has underperformed its benchmark on a net of fees basis by 0.1% p.a.

7.2 Performance analysis

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

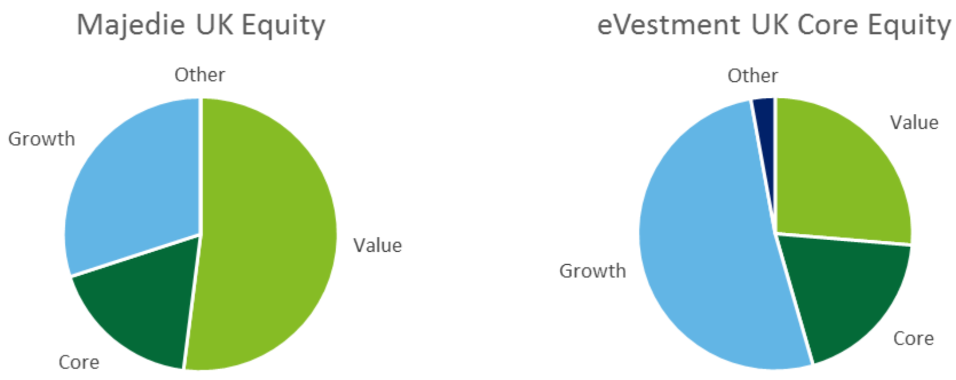
The chart below compares the performance of Majedie with its peer group (gross of fees).

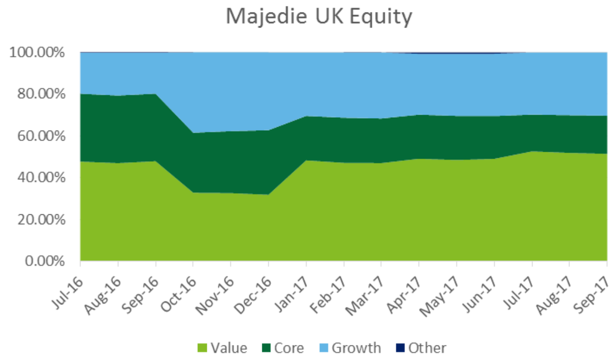


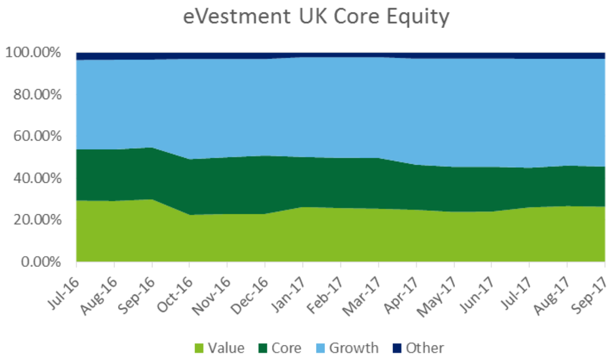
Majedie has underperformed the core equity universe by 2.3% over the quarter and by 2.2% over the year to 30 September 2017. Over the past year Majedie has had a value tilt in the portfolio (52% allocation versus average 26% across the peer group), reflecting concerns that the broader market is overvalued 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 6 months, relative to its peers and helps illustrate Majedie's concerns on markets, representing a relatively defensive position should there be a market correction.

8 Longview – Global Equity

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

8.1 Active Global Equity – Investment Performance to 30 September 2017

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Longview - Gross of fees	1.0	14.9	n/a	16.1
Net of fees[1]	0.8	14.2	n/a	15.4
MSCI World Index	1.5	14.4	n/a	13.9
Relative (on a net basis)	-0.7	-0.2	n/a	1.5

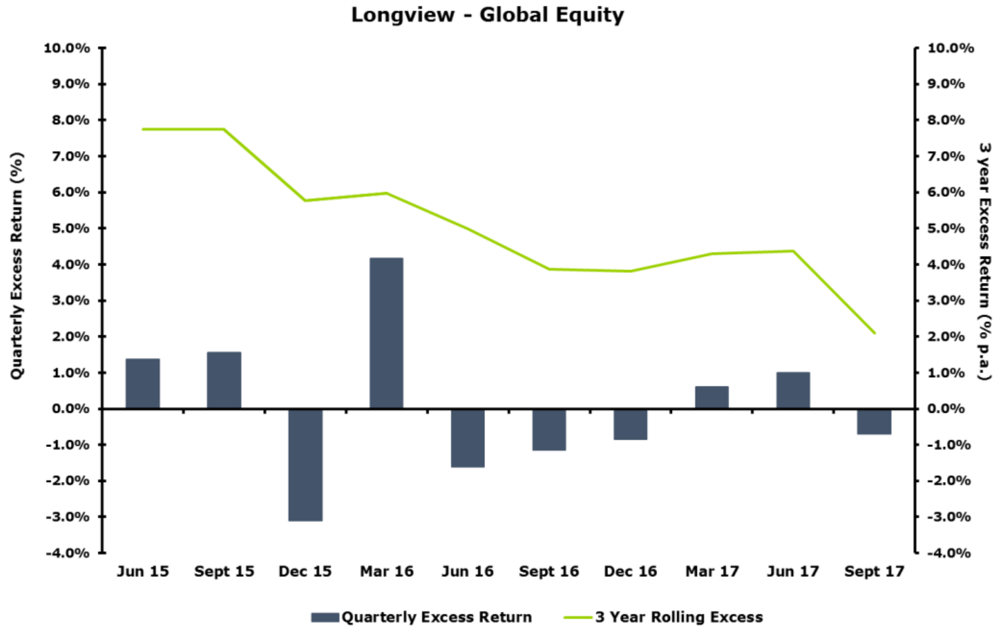
Source: Northern Trust

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date 15 January 2015

Longview underperformed the benchmark by 0.7% on a net of fees basis over the third quarter of 2017. Over the year the Fund is behind the benchmark (net of fees) by 0.2% but above benchmark since inception by 1.5% 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 although note, the Fund has only been invested in Longview from January 2015, therefore longer term performance is illustrative only.



8.2 Performance analysis

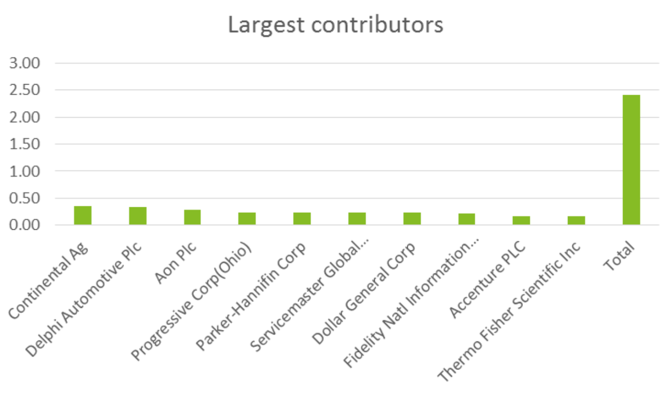
Longview runs a very concentrated core equity portfolio. The manager places high conviction in a small number of stocks (30-35), looking to add value through bottom up security selection. Therefore the most appropriate measure to monitor performance is to look at the stocks in the portfolio and understand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

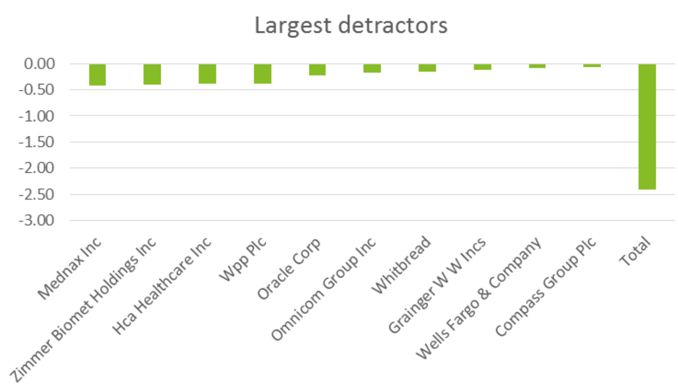
Stock	Average quarter weight	Performance
Aon Plc	4.37%	6.60%
Progressive Corp(Ohio)	3.87%	6.11%
Delphi Automotive Plc	3.81%	8.63%
UnitedHealth Group Inc	3.68%	2.33%
Bank of New York Mellon Corp	3.67%	0.98%
Parker-Hannifin Corp	3.63%	6.37%
Fidelity Natl Information Services	3.55%	5.85%
Quintiles Ims Holdings Inc	3.51%	2.41%
Oracle Corp	3.43%	-6.39%
Zimmer Biomet Holdings Inc	3.40%	-11.87%

*Largest contributors, largest detractors.
Source: eVestment

Eight of Longview's top 10 weighted stocks performed positively over the quarter, with five being among the highest contributors to performance. Aon Plc continues to be a strong performing stock, with Longview having held the stock for over 5 years. One of the largest contributors was Delphi Automotive, an automotive parts manufacturer, who are undertaking a de-merger of their business to split out the engine and safety/electronics focused areas of the business which has generated excitement in the market. Longview believes that the restructuring may be value destructive and are watching this stock closely.

WPP, an advertising and public relations company, was one of the biggest detractors over the quarter. Digital makes up 40% of WPP's revenue and there are concerns that this is being impacted by the disruptive presence of providers such as Google. Longview does not subscribe to this belief and does not see a structural issue within the industry. Longview believes that WPP face challenges with one of its biggest clients (Unilever) cutting advertising costs, but is comfortable maintaining the position in the stock for the time being. Longview still has a relatively high cash allocation of 4.44%.





Source: eVestment.

9 Insight – Bonds

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

9.1 Insight – Active Non Gilts

9.1.1 Investment Performance to 30 September 2017

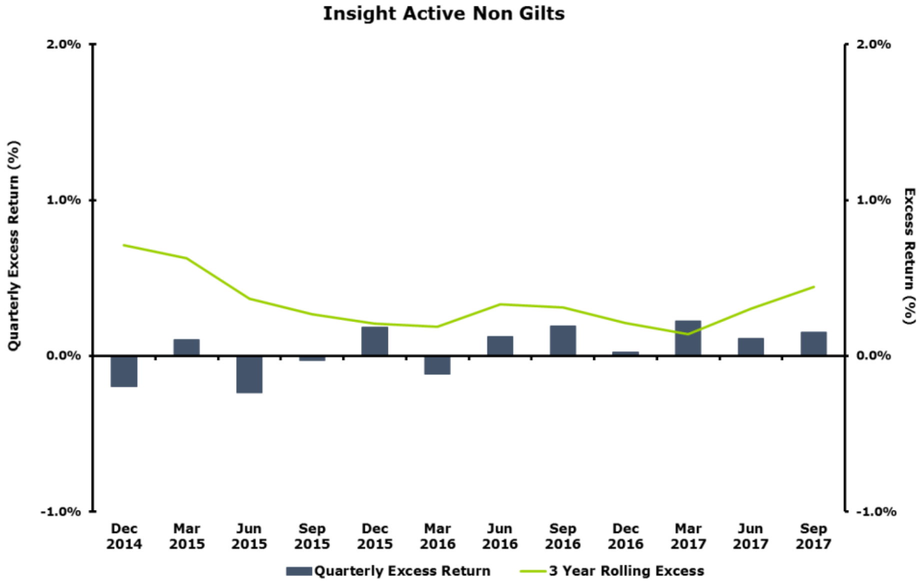
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Insight Non Gilts - Gross of fees	0.4	1.5	5.6	7.1
Net of fees[1]	0.3	1.3	5.3	6.9
iBoxx £ Non-Gilt 1-15 Yrs Index	0.2	0.9	4.9	6.1
Relative (on a net basis)	0.1	0.4	0.4	0.8

Source: Northern Trust

(1) Estimated by Deloitte

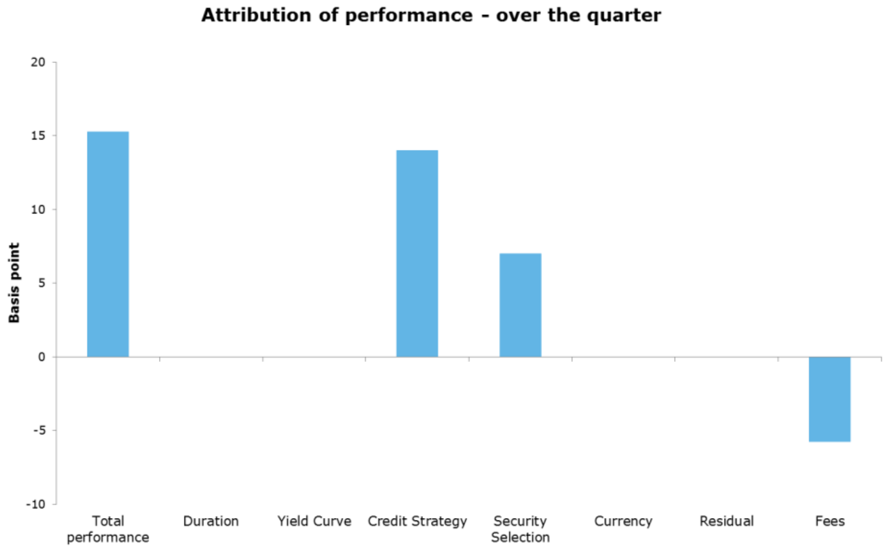
See appendix 1 for more detail on manager fees

Inception date taken as 31 May 2006.



Over the third quarter the Non-Gilt portfolio outperformed the benchmark by 0.1%. Over the year to 30 September 2017, the portfolio has outperformed the benchmark by 0.4%, by 0.4% 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 30 September 2017

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Insight Gilts - Gross of fees	-0.2	-1.4	3.0	2.5
Net of fees[1]	-0.2	-1.5	2.9	2.4
FTSE A Gilts up to 15 Yrs Index	-0.3	-1.6	3.0	2.5
Relative (on a net basis)	0.1	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 30 September 2017.

9.3 Duration of portfolios

	30 June 2017		30 September 2017	
	Fund (Years)	Benchmark (Years)	Fund (Years)	Benchmark (Years)
Non-Government Bonds (Active)	5.7	5.6	5.5	5.5
Government Bonds (Passive)	4.5	5.0	4.7	5.0

Source: Insight

10 Hermes – Property

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

10.1 Property – Investment Performance to 30 September 2017

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Hermes - Gross of fees	2.5	10.5	11.5	10.2
Net of fees[1]	2.4	10.1	11.1	9.8
Benchmark	2.4	9.7	9.8	8.7
Relative (on a net basis)	0.0	0.4	1.3	1.1

Source: Hermes

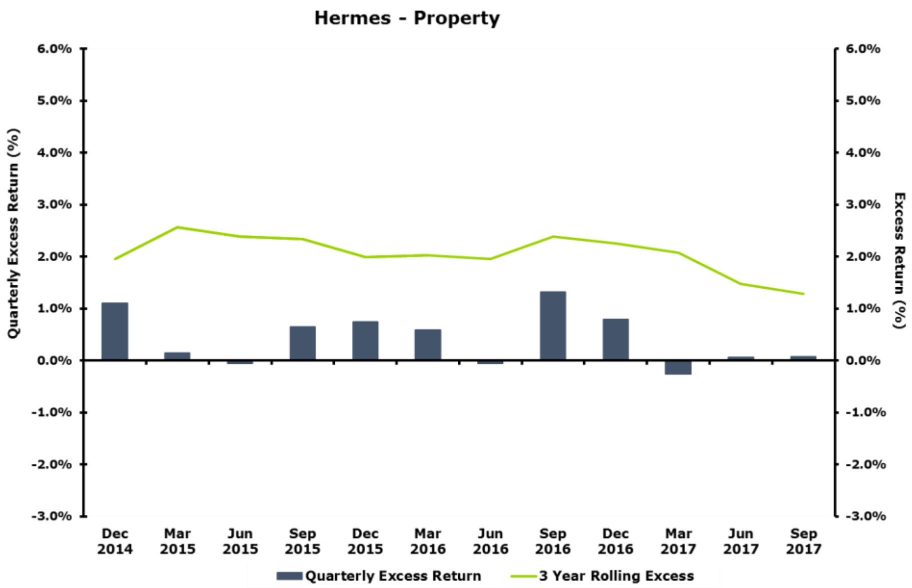
(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date is taken as 26 October 2010

Hermes performed in line with the benchmark over the quarter, returning 2.4% in absolute terms. The strategy remains ahead of its benchmark over the year, three years and since inception to 30 September 2017 by 0.4%, 1.3% p.a. and 1.1% p.a. respectively. The strategy is ahead of target (to outperform the benchmark by 0.5% p.a.) across all periods bar the one year to 30 September 2017.

Key contributors to the performance over the quarter came from properties in the Industrial sector and the Rest of UK Offices sector. The main detractors over the quarter were the Trust's holdings in City Offices and West End Offices, with City Office delivering a marginally negative return over the quarter.



10.2 Sales and Purchases

There was one acquisition and no disposals during the third quarter of 2017.

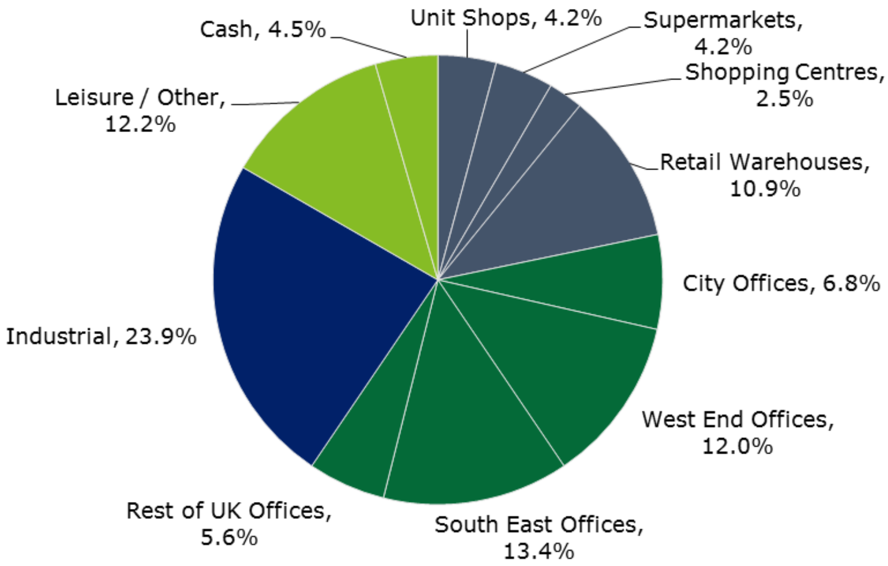
The acquisition was a small freehold shop located in Croydon with residential accommodation for a price of c. £2.7m. The property is adjacent to an existing HPUT asset and the purchase of this investment adds to the Trust's existing holing of four units.

Asset management is ongoing at the following properties:

- B&Q, Clifton Moor, York: The lease with B&Q expired at the end of May 2017 and a new lease has been completed on a 10 year term until May 2027. The new 10 year lease with B&Q is at a passing rent of c. £775,000, a reduction of 10% compared to the previous lease but 15% higher than the estimated rental value.
- Citygate, 47/57 Mosley Street, Manchester: The Trust secured a new letting to the Secretary of State for Communities and Local Government over four floors, beginning at the end of September 2017. The term of the lease will be 15 years, providing the Trust with c. £700,000 rent passing per annum. The tenant has break options in years 5 and 10, as well as an option to take the vacant fifth floor. This let removes a significant void from the portfolio as it had been vacant since refurbishment of the site completed in early 2016.

10.3 Portfolio Summary as at 30 September 2017

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



The table below shows the top 10 directly held assets in the Fund as at 30 September 2017, representing c.33.4% of the Fund.

Asset	Sub-sector	Value (£m)
Maybird Shopping Park, Stratford-upon-Avon	Retail Warehouses	108.5
8/10 Great George Street, London SW1	Offices	62.3
Polar Park, Bath Road, Heathrow	Industrial	44.7
27 Soho Square, London W1	Offices	44.4
Sainsbury's, Maxwell Road, Beaconsfield	Supermarkets	41.2
Hythe House, Hammersmith	Offices	40.0
2 Cavendish Square, London W1	Offices	37.9
Camden Works, Oval Road, London NW1	Offices	37.7
Christopher Place, St Albans	Shopping Centre	36.3
Boundary House, 91/93 Charterhouse St, London EC1	Offices	35.0
Total		**487.9**

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 30 September 2017

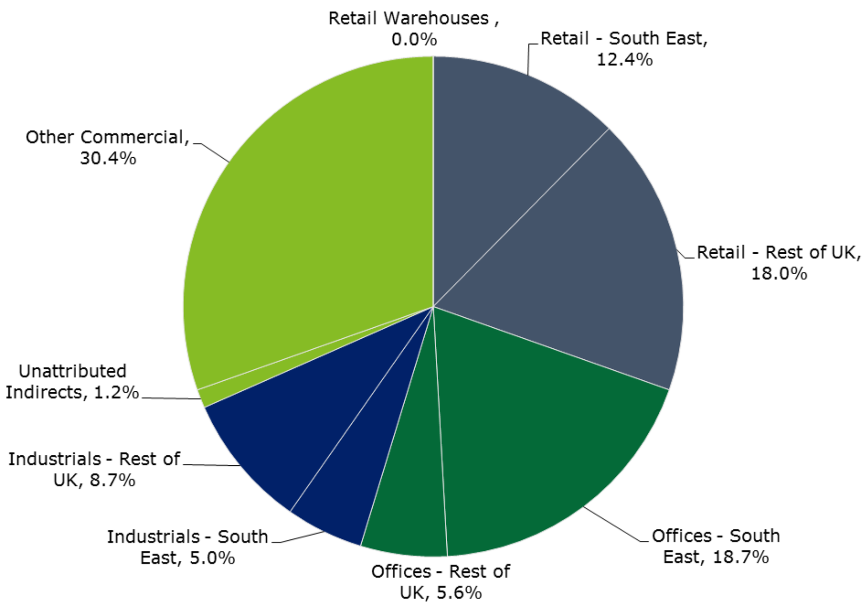
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Standard Life - Gross of fees	2.7	10.7	7.9	9.1
Net of fees[1]	2.6	10.2	7.4	8.6
Benchmark	0.1	-1.6	7.6	6.8
Relative (on a net basis)	2.5	11.8	-0.2	1.8

Source: Standard Life
(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 2.6% net of fees over the third quarter of 2017, outperforming the benchmark of the FTSE Gilt All Stocks Index + 2% by 2.5% net of fees.

11.2 Portfolio Holdings

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



The Fund's holdings in the office sector have decreased slightly from 24.4% as at 30 June 2017 to 24.3% as at 30 September 2017. Furthermore, the Fund's retail sector holdings have reduced significantly from 32.8% as at 30 June 2017 to 30.4%.

Throughout the quarter, the Fund's industrial weight has reduced from 13.9% to 13.7%, while the "other" weighting has increased from 28.9% to 31.6%, following the purchase of two assets in the healthcare and hotel sectors.

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	9.9
Whitbread	6.4	7.8
Sainsbury's	4.9	6.1
Marston's	4.6	5.7
Asda	4.4	5.4
QVC	4.0	4.9
Salford University	3.9	4.7
Save The Children	3.7	4.5
Steinhoff	3.6	4.4
Glasgow City Council	3.5	4.3
Total	**47.0**	**57.7***

*Total may not equal sum of values due to rounding

The top 10 tenants contribute 57.7% of the total net income into the Fund. Supermarkets continue to dominate with Tesco, Sainsbury's and Asda contributing 21.4% to the Fund's total net rental income as at 30 September 2017.

The Fund's average unexpired lease term decreased slightly over the quarter from 25.1 years to 24.7 years.

11.3 Sales and Purchases

There were three purchases over the quarter:

- The Fund made its second investment in the healthcare sector during the quarter, with the purchase of two-interconnected properties at 95 and 97 Harley Street, London, for £37.5m. Both buildings are let until 2040 with five-yearly rent reviews or minimum fixed increases. The lease is guaranteed by HCA international, part of the world's largest private hospital group.
- The Fund bought a 152-bed Premier Inn in Birmingham for £26.5m reflecting an initial yield of 4.14%. Originally brought to the market with an unexpired lease term of 13 years, the Fund subsequently completed the purchase on an extended 20-year lease term. Whitbread plc guarantees the lease, with five-yearly rent reviews linked to CPI at a cap and collar of 5% and 0%.

There were no sales during the quarter.

Appendix 1 – Fund and Manager Benchmarks

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

Total Fund

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

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

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

Appendix 2 – Manager Ratings

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

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

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

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

Appendix 3 – eVestment Attribution

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

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

Definitions

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

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

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

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

Limitations

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

Universe construction

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

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

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

Appendix 4 – Risk warnings & Disclosures

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

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

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

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City of Westminster Pension Fund

Funding update report as at 30 September 2017

Barnett Waddingham LLP

24 November 2017

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 30 September 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.

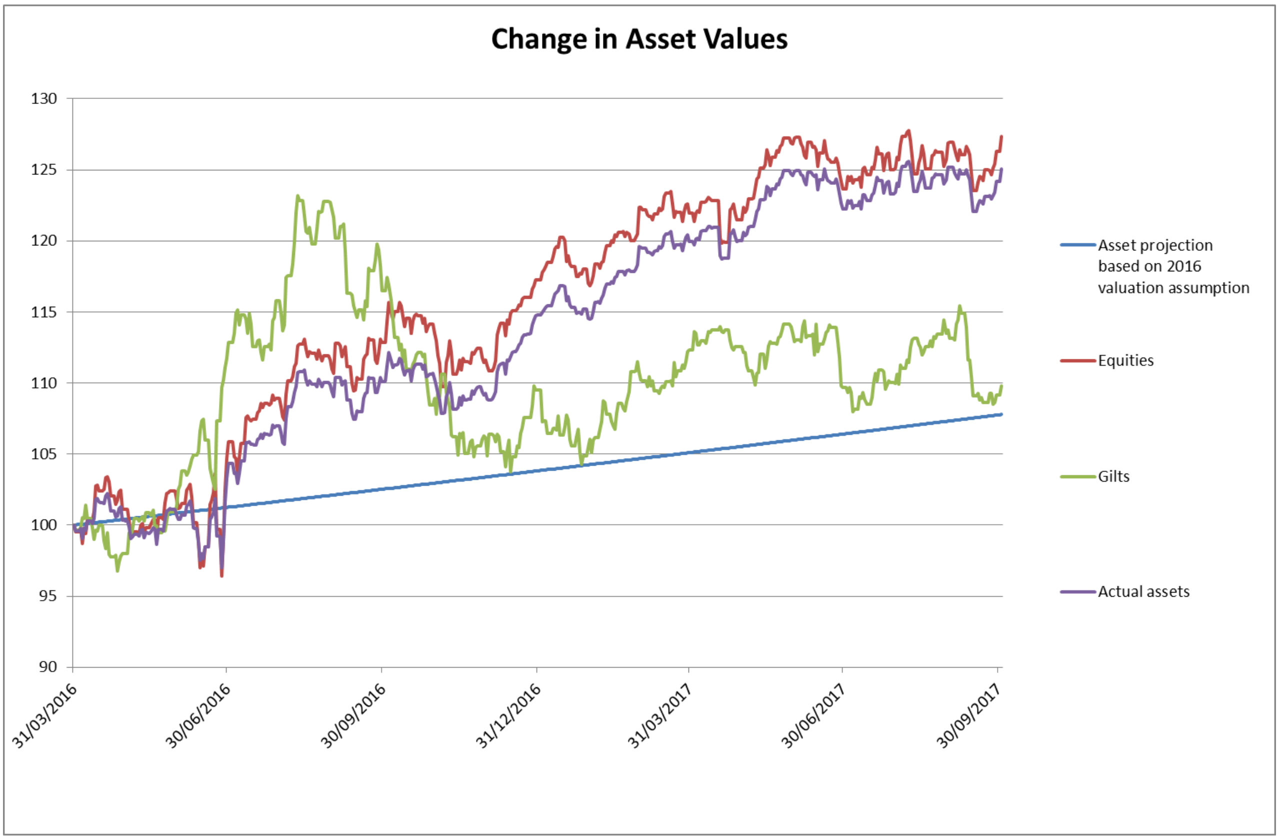
Assets

The estimated (unsmoothed) asset allocation of the City of Westminster Pension Fund as at 30 September 2017, based on data received from Westminster City Council, is as follows:

Assets (market value)	30 Sep 2017		30 Jun 2017		31 Mar 2016	
	£000s	%	£000s	%	£000s	%
UK and overseas equities	997,704	76.4%	981,644	76.3%	790,289	74.1%
Bonds	154,415	11.8%	154,055	12.0%	130,390	12.2%
Property	114,739	8.8%	113,295	8.8%	105,811	9.9%
Gilts	28,675	2.2%	27,873	2.2%	26,733	2.5%
Cash and accruals	10,767	0.8%	8,916	0.7%	13,120	1.2%
Total assets	**1,306,302**	**100%**	**1,285,784**	**100%**	**1,066,343**	**100%**

The investment return achieved by the Fund's assets in market value terms for the quarter to 30 September 2017 is estimated to be 1.6%. The return achieved since the previous valuation is estimated to be 24.2% (which is equivalent to 15.5% p.a).

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



As we can see the asset value as at 30 September 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 show how the main financial assumptions have changed since the last triennial valuation:

Assumptions (smoothed)	30 Sep 2017		30 Jun 2017		31 Mar 2016	
	Nominal	Real	Nominal	Real	Nominal	Real
	% p.a.		% p.a.		% p.a.	
Pension increases (CPI)	2.71%	-	2.72%	-	2.39%	-
Salary increases	4.21%	1.50%	4.22%	1.50%	3.89%	1.50%
Discount rate	5.09%	2.38%	5.03%	2.31%	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 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 30 September 2017 without completing a full valuation, however, we are satisfied that the approach of rolling forward the previous valuation data to 30 September 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 30 September 2017 is 88.4% and the average required employer contribution would be 27.2% 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 discount rate underlying the smoothed funding level as at 30 September 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 5.7% 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 (p.a.)
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	1,069,289	1,336,290	(267,001)	80%	17.2%	12.5%	29.7%	5.0%	6.0%
31 May 2016	1,088,792	1,361,959	(273,167)	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	1,308,698	1,480,805	(172,107)	88%	19.1%	8.2%	27.3%	5.1%	5.7%
30 Sep 2017	1,309,182	1,480,224	(171,042)	88%	19.0%	8.2%	27.2%	5.1%	5.7%

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 30 September 2017; and
- Estimated Fund returns based on Fund asset statements provided to 30 September 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:	**23 January 2018**
Classification:	**General Release**
Title:	**Fund Financial Management**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no immediate financial implications arising from this report.**
Report of:	**Steven Mair** ***City Treasurer*** **smair@westminster.gov.uk** **020 7641 2904**

1. Executive Summary

1.1 The risk register has been updated to include two additional risks in relation to of Markets in Financial Instruments Directive II (MiFID II) under the heading 'Strategic: Regulation.' Risk number ten in relation to failure to meet the deadline for MIFID II has been removed from the risk register as this was delivered ahead of the deadline of January 3 2018 and is no longer a risk. The cash flow forecast has been updated for the next three years with actuals up to November 2018. The updated forward plan to March 2018 is attached at appendix 3.

2. Recommendations

2.1 The Committee is asked to note the risk register for the Pension Fund.

2.2 The Committee is asked to note the cash flow position and three year forecast.

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

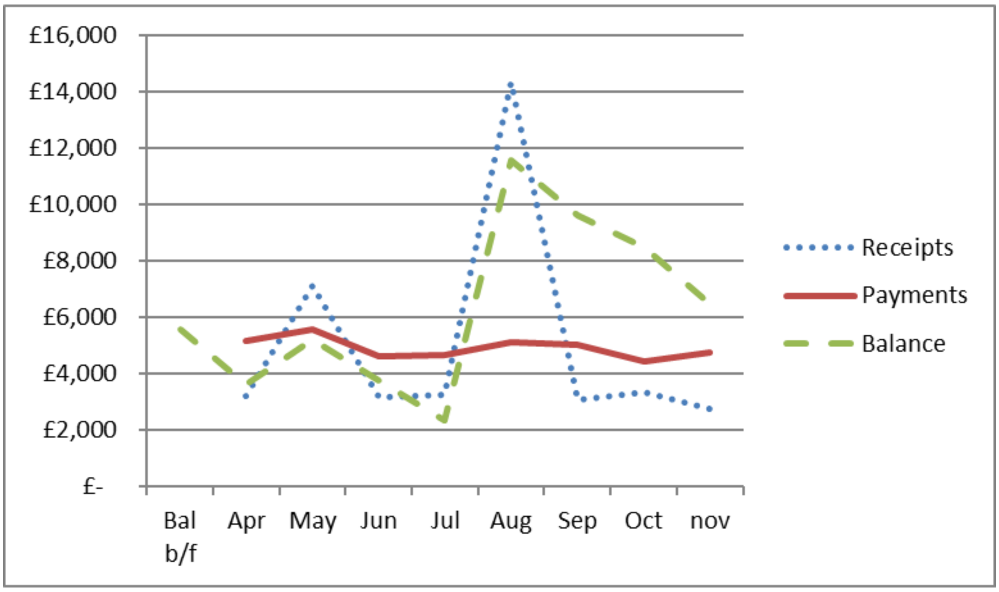
3. Risk Register Monitoring

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

4. Cashflow Monitoring

4.1 The balance on the pension fund bank account at 30 November 2017 was £6.5 million. A further £10.0 million for deficit contributions is expected from the Council in February 2018.

4.2 The table below shows the bank balances from April to November 2017.



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 January 2018 Committee.

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

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

BACKGROUND PAPERS: None

APPENDICES:

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

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Appendix 1 - Tri Borough Risk Management Scoring Matrix

Scoring (Impact)

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

Scoring (Likelihood)

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

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Appendix 2: Pension Fund Risk Register, January 2018

Changes to the risk register since previous quarter

Type	Ref	Risk	Rationale
Risk removed from Strategic: Regulation	10	Failure to meet the deadline or rejection of MiFID II 'opt up' application resulting in reclassification of fund from professional to retail client impacting Fund's investment options and an increase in costs	The Pension Fund has been successfully 'opted up' to elective Professional Client status with all counterparties.
New risk added to Strategic Regulation	10	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.	The Categorisation of the Pension Fund to elective Professional Client status is subject to annual review and or counterparties being informed of any changes in circumstances.
New risk added to Strategic Regulation	11	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)	The Pension Fund is an elective Professional Client only with the counterparties that applications have been submitted to and confirmation received. This may result in restricted access to information from counterparties outside of the current IMA arrangements.

Pension Fund risk register, October 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
1	**STRATEGIC: INVESTMENT** That the combination of assets in the investment portfolio fails to fund the liabilities in the long term.	• Investment strategy in place and reviewed periodically. • Performance is measured against a liability based benchmark. • Fund performance is reviewed quarterly.	2	5		Low 10	City Treasurer	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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.	2	4		Low 8	City Treasurer	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 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	March 2018

<table>
<tr><th rowspan="2">Ref</th><th rowspan="2">Risk</th><th rowspan="2">Mitigating Actions</th><th colspan="3">Residual risk score</th><th rowspan="2">Risk Rating</th><th rowspan="2">Officer responsible</th><th rowspan="2">Next Review Date</th></tr>
<tr><th>Likelihood</th><th>Impact £'s</th><th>Impact No's</th></tr>
<tr><td>26</td><td>OPERATIONAL: ADMINISTRATION
Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.</td><td>• 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.</td><td>3</td><td></td><td>3</td><td>Low
9</td><td>Director of People Services</td><td>March 2018</td></tr>
<tr><td>27</td><td>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.</td><td>• 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</td><td>3</td><td></td><td>5</td><td>Medium
15</td><td>Director of People Services</td><td>March 2018</td></tr>
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Appendix 3: CASHFLOW MONITORING

<u>Three Year Cashflow Forecast for 2017/18 - 2019/20</u>

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

Cashflow actuals and forecast for period April 2017 to March 2018

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

Notes

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

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

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

4 additional deficit payments

Aug-17			Sep-17			Oct-17			Nov-17			Dec-17	*Jan-18*	*Feb-18*	*Mar-18*
£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	*£000*	*£000*	*£000*	*£000*
F'cast	Actual	Var	F'cast	Actual	Var	F'cast	Actual	Var	F'cast	Actual	Var	*F'cast*	*F'cast*	*F'cast*	*F'cast*
1,244	**2,353**	**(1,109)**	**10,169**	**11,549**	**(1,380)**	**9,094**	**9,598**	**(504)**	**8,019**	**8,485**	**(466)**	***6,944***	***5,869***	***4,794***	***13,919***
3,550	3,016	534	3,550	2,963	587	3,550	2,850	700	3,550	2,701	849	3,550	3,550	3,550	3,550
208	1,296	(1,088)	208	93	115	208	477	(269)	208	62	146	208	208	208	208
(3,000)	(3,103)	103	(3,000)	(3,110)	110	(3,000)	(3,108)	108	(3,000)	(3,116)	116	(3,000)	(3,000)	(3,000)	(3,000)
(583)	(543)	(40)	(583)	(543)	(40)	(583)	(544)	(39)	(583)	(545)	(38)	(583)	(583)	(583)	(583)
(1,083)	(1,470)	387	(1,083)	(1,253)	170	(1,083)	(788)	(295)	(1,083)	(1,108)	25	(1,083)	(1,083)	(1,083)	(1,083)
(167)		(167)	(167)	(101)	(66)	(167)		(167)	(167)		(167)	(167)	(167)	(167)	(167)
(1,075)	**(804)**	**(271)**	**(1,075)**	**(1,951)**	**876**	**(1,075)**	**(1,113)**	**38**	**(1,075)**	**(2,006)**	**931**	***(1,075)***	***(1,075)***	***(1,075)***	***(1,075)***
0	0	*0*	0		*0*	0		*0*	0	0	*0*	*0*	*0*	*0*	*0*
10,000	10,000	*0*	0		*0*	0		*0*	0	0	*0*			10,200	0
10,169	**11,549**	**(1,380)**	**9,094**	**9,598**	**(504)**	**8,019**	**8,485**	**(466)**	**6,944**	**6,479**	**465**	**5,869**	**4,794**	**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 Feedback from Annual fund manager monitoring day MiFID II update

Committee Report

City of Westminster

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**23 January 2018**
Classification:	**General Release**
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 work undertaken to replace the fixed Income contract which expired at the end of 2017 and provide recommendation to award the fixed income contract to Insight Investment Management.

2. RECOMMENDATIONS

2.1 That the Committee approves:

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

3. REASONS FOR DECISION

3.1 The current fixed income contract with Insight Investment Management has expired, and remains holding over based on historical contract terms. This needs to be addressed as soon as possible.

3.2 With the help of the Pension Fund investment consultant Deloitte, a "buy and maintain" request for proposal was issued, to which 17 fund managers responded. Of these the three highest scoring managers (Insight, PIMCO and LGIM) were invited to present to a panel consisting of two Pension Fund Committee members, two Council Officers and the Fund's investment consultant.

3.3 Of these managers presenting, Insight were judged to have performed the best on the day and the Panel unanimously agreed that they were the preferred choice for the mandate, subject to delivering the fees offered and approval from the Pension Fund Committee.

4. PROCUREMENT PROCESS

Request for Proposal

4.1 The initial procurement process was set to include the London CIV (LCIV), who were procuring a fixed income manger simultaneously for their Investment Vehicle.

4.2 Whilst initially Deloitte and Council Officers were working with LCIV for a joint solution, it became clear that this was not going to be feasible for two reasons:

a. The length of time that LCIV required to on-board the selected managers was problematic for the Fund as its contract with Insight would have expired with no facility for extension.
b. LCIV's global fixed income mandate was not congruent with the Pension Fund Committee's preference for a long duration buy and maintain style mandate

4.3 A decision was taken to work with Deloitte to issue a request for proposal on 28 September 2017 and run an independent procurement process.

4.4 Results of this initial request for proposal are shown below:

	Axa	BlackRock	**Insight**	LGIM	M&G	RLAM	Schroders	Threadneedle	Western	JPM	PIMCO
Business Strategy	7.5%	10.0%	**7.5%**	10.0%	8.8%	7.5%	7.5%	7.5%	10.0%	10.0%	10.0%
Mandate experience	6.7%	9.2%	**8.3%**	9.2%	4.2%	10.0%	5.8%	5.8%	6.7%	7.5%	9.2%
Investment team	9.0%	12.8%	**14.3%**	14.3%	12.0%	12.0%	9.8%	12.0%	10.5%	11.3%	12.8%
Investment process	16.8%	11.6%	**15.0%**	15.7%	12.3%	16.1%	15.9%	15.2%	14.8%	15.9%	17.0%
Proposed Fund	14.6%	18.7%	**15.8%**	18.0%	15.6%	13.3%	13.2%	14.0%	13.9%	16.0%	17.5%
Fees	12.4%	10.3%	**11.8%**	7.9%	11.6%	9.8%	8.8%	5.3%	8.6%	9.2%	7.5%
Client service	4.6%	3.3%	**3.8%**	3.8%	4.2%	3.8%	4.6%	4.6%	5.0%	5.0%	5.0%
Other	5.0%	5.0%	**5.0%**	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Total	**76.5%**	**80.8%**	**81.4%**	**83.7%**	**73.6%**	**77.4%**	**70.6%**	**69.4%**	**74.4%**	**79.9%**	**84.0%**

4.5 Once these initial results were received, Pension Fund Committee members and Council Officers attended a shortlisting meeting with Deloitte to discuss the results and each manager's submission in detail.

4.6 Following on from these discussions, it was agreed that Insight, LGIM and PIMCO would be invited to present to a panel at Deloitte's offices to discuss their investment propositions in more detail, and answer questions from the panel.

Manager Selection

4.7 On 30 November 2017, the manager selection meeting was held and it was decided that Insight should be reappointed to manage the Fund's fixed income strategy.

4.8 With each manager offering very similar target returns, and each having sound approaches to investment process and risk management, price was a significant factor in the decision.

4.9 Insight were able to offer the lowest fee but, more convincingly, were able to offer significantly lower transaction costs in comparison with their competitors from the existing mandate, and were able to give more certainty on costs rather than very wide ranging estimates.

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: Request for Proposal

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Buy and Maintain Credit Manager Selection Invitation to Tender

Overview

This tender is being issued as part of a search for a manager offering a Buy and Maintain Credit mandate for the City of Westminster Pension Fund ("the Fund").

The Committee ("the Committee") has asked Deloitte to assist with the identification and appointment of an investment manager offering an appropriately structured Buy and Maintain Credit pooled fund that could replace the existing mandate.

This exercise is not being carried out as part of an OJEU procurement process. However, the Committee expects that the selected mandate will become one of the funds options offered by the London Council's CIV ("the CIV"), making it available to other boroughs. The CIV's preference would be for a segregated mandate.

Mandate description

As at the end of March 2017, the Scheme's assets amounted to approximately £1,263m of which £189.5m is invested in a combination of gilts and corporate bonds, managed on a segregated basis.

The Fund currently has a traditional benchmark aware segregated credit portfolio that is managed with the objective of outperforming the iBoxx £ Non-Gilt 1-15 Years Index by 0.9% per annum gross of fees.

The expectation is that the holdings will be transferred on an in specie basis to the selected investment organisation and restructured accordingly.

Tender evaluation

The evaluation will comprise two elements:

- A questionnaire (i.e. the response to this document) – 60%; and
- A presentation to the Committee – 40%.

However, the assessment of the responses will be based on the assumption that your organisation either already offers an appropriately structured pooled fund managed on a Buy & Maintain basis or that one will be available for launch before the end of 2017. Candidates not currently offering or able to launch an appropriate pooled fund within the timescales will not be considered.

Responses to this questionnaire will be reviewed and scored by Deloitte working with the Fund's Officers, with the top three candidates invited to present their proposals to the Officers and representatives of the Committee. At the presentation, the candidates will be expected to provide more detail on how the assets will be transferred from the current arrangements to the proposed fund and what the cost of the transfer is likely to be. Additional information will be provided to the candidates selected for interview ahead of the presentations.

It is anticipated that a representative from the London CIV will also attend the presentations.

The Committee does not undertake to accept the lowest cost proposal. The Committee reserves the right to discount any submission where it is felt that insufficient detail has been provided in response to this tender.

The scoring of the responses to this tender will be based on the following areas:

- Business strategy – 10%
- Investment team – 15%
- Mandate experience – 10%
- Investment process – 20%
- Proposed fund – 20%
- Fees – 15%
- Client service – 5%
- Other – 5%

Managers asked to present to the Committee will be provided with further information, with the scoring from the presentation based on a combination of the expected fit with the Committee and the ability to set up and take on the mandate in a cost effective manner.

Timescales

Please confirm whether you will be submitting a response to this questionnaire and that your organisation either already offers or is about to launch an appropriately structured pooled fund for the mandate.

Any questions or queries relating to the mandate or the information requested should be submitted before noon on Monday 9th October 2017. The responses to any clarification questions will be distributed to all managers who have confirmed that they are completing this tender.

Reponses to the tender along with any supporting information should be returned to Kevin Humpherson (khumpherson@deloitte.co.uk) by noon on Monday 16th October 2017. Any submissions received after this deadline will not be considered.

Your responses to the questions in this tender should be clear and concise. Your response to this questionnaire should be submitted in electronic format as a Word document. In preparing your response, please do not alter the order of the questions asked.

1. Business (10%)

1. Please provide an overview of your organisation, including details on:
    - The ownership structure of your organisation;
    - Regulatory approvals;
    - The proportion of the equity of the business held by the current employees and what happens to any equity ownership when an individual leaves the business;
    - Any changes in the ownership structure in the last 5 years; and
    - Any investment that has been undertaken in the business to help you meet your business objectives.
2. Please provide a brief summary of your business strategy for the next 5 years (max 400 words).

2. Mandate experience (10%)

1. Please provide background on your organisation's experience and commitment to Fixed Income and, in particular, Buy and Maintain Credit, including:

    - Number of fixed interest investment professionals including the number focused on the management of Buy and Maintain mandates;
    - A breakdown of assets under management ("AUM") split along the lines set out below. Please provide the following details on assets under management – in sterling terms. For row D, please provide figures for the particular strategy being proposed for this tender.

	£m	31 Dec 12	31 Dec 13	31 Dec 14	31 Dec 15	31 Dec 16
A	Total assets under management					
B	Total fixed income					
C	Total UK Buy and Maintain					
D	Total UK Buy and Maintain pooled					

Fixed income - total

Assets under management - £m	31 Dec 12	31 Dec 13	31 Dec 14	31 Dec 15	31 Dec 16	30 June 17
UK pension funds						
UK local authorities						
London boroughs						
Other UK non-pension fund						
Non UK clients						

Buy and Maintain

Assets under management - £m	31 Dec 12	31 Dec 13	31 Dec 14	31 Dec 15	31 Dec 16	30 June 17
UK pension funds						
UK local authorities						
London boroughs						
Other UK non-pension fund						
Non UK clients						

2. Please provide details of any Buy and Maintain strategies you manage on both a pooled and segregated basis.

Strategy Name	Benchmark	Performance target	Inception date	Pooled/ segregated	AUM - £m 30 June 2017

3. Please provide details of the number of Buy and Maintain Credit clients won and lost in each of the last 5 years and the associated value of assets.

	Wins		**Losses**	
	Value (£m)	**Number**	**Value (£m)**	**Number**
2012				
2013				
2014				
2015				
2016				
2017 (to 30 June)				

3. Investment team (15%)

1. Please provide details of the team responsible for managing Buy and Maintain Credit. Where fundamental analysis is carried out by a separate team of analysts, please include summary details for the team including number of analysts, location of the analysts and how the team is organised.

Name	Role	Yrs investment experience	Yrs with your organisation	Yrs in current role

2. Please provide details of any departures from the team responsible for managing Buy and Maintain Credit mandates over the last 3 years.

3. To what extent is the remuneration of the team linked to the performance of the funds being managed? Please summarise the basis for any performance related remuneration including details of whether any element of this remuneration is either deferred or invested in the product(s) managed.

4. If successful, who would comprise the team responsible for managing the mandate and delivering the service to the Fund?

5. Who would attend the Committee meetings to discuss/review performance? Please provide a brief CV for each of the individuals.

4. Investment process (20%)

1. Please summarise your investment philosophy and approach (max 400 words).
2. Please describe your research process (max 400 words).
3. Please describe your security selection process (max 400 words).
4. Please describe your portfolio construction process (max 400 words).
5. To what extent are environmental, social and governance issues taken into account in the selection of the investments?
6. How is the weighting of securities entering the portfolio determined?
7. What steps are taken to ensure that there is sufficient diversification within the portfolio?
8. How is risk within the portfolio measured and monitored? What systems/tools are used in the risk management process?
9. What changes or enhancements have been made to your process over the last 5 years?
10. What sell disciplines are applied?
11. How is the currency risk monitored and managed?
12. To what extent are derivatives used within the process? If used, please explain what role they would be used for, detailing any constraints or restrictions applied.
13. If you use a separate dealing desk, to what extent does the dealing team have discretion over the purchase/sale of holdings?
14. How do you measure the effectiveness of your dealing?
15. Please describe what risk management tools/processes are used in the management of the portfolio.
16. Have you had an independent review undertaken of your compliance procedures? If so, by whom and what were the main findings?

5. Proposed strategy and fund characteristics (20%)

1. What is the name of the pooled fund being proposed for this mandate? What is the legal structure of the fund? Why is this fund being proposed? When was the fund launched?
2. Who is responsible for the day to day management of the fund detailed in this section of the tender? Why was this individual/team selected for this role and what discretion does this individual/team have in terms of the implementation of the underlying investment process?
3. Who oversees this team and monitors adherence to process and the portfolio guidelines?
4. Are either the fund or the process proposed in this instance capacity constrained? If so, at what level of assets will you look to close the proposed fund?
5. Is the current fund tax efficient for a UK pension scheme? Have you had the tax efficiency independently assessed?
6. What is the dealing frequency of this fund?
7. What is the pricing basis for the fund? Is there a bid/offer spread? If so, what is the current spread and how wide has it been?
8. Are you willing to accept in-specie transfers in and out of the fund? Are there additional costs associated (i.e. other than the bid/offer spread) with an in specie transfer and, if so, who bears these costs?
9. Is there scope to delay or defer redemptions?
10. How is residual cash held within the fund?
11. Does the fund make regular distributions of income?

12. Please provide a summary of the key characteristics for a Buy and Maintain mandate, including:

Performance objective	
Expected number of holdings	
Initial investment universe	
Maximum weight in any single security at time of purchase	
Maximum cash weighting	
Average duration	
Restrictions on sector allocation	
Maximum allocation to non £ issues	
Maximum allocation to currencies other than sterling	
Sector limits/restrictions	
Maximum allocation to different credit rating bands	
Maximum allocation to non-rated bonds	
Maximum allocation to sub investment grade bonds	
Expected annual turnover (please state your definition of turnover)	

Please clarify the extent to which any limits summarised above apply (a) at time of purchase and/or (b) on an ongoing basis.

13. What other controls or guidelines are applied in the day to day management of the portfolio?

14. Who is responsible for monitoring adherence to any controls or guidelines and who do they report to?

6. Fees (15%)

1. What is the standard fee structure for this fund?

2. What fee are you proposing for this mandate and as a potential London CIV mandate (if different).

3. Please provide details of any additional fees or charges incurred by the fund.

7. Client service (5%)

1. Please describe your approach to client service (max 400 words).

2. Please provide an example of a typical monitoring report, including any risk monitoring that can be provided to clients.

3. What is your approach to trustee training/education?

8. Other (5%)

1. Is your firm GIPS compliant?

2. Has your firm's GIPS compliance been verified and if so, by whom?

3. Please summarise your Corporate Governance Policy?

4. Who is the custodian of your Buy and Maintain pooled fund(s)?

5. Please summarise the process used to monitor the services provided by the custodian?

6. Do you provide full "look through" transparency in your reporting to clients?

Questionnaire completed by:

Date:

Deloitte.

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**23 January 2018**
Classification:	**General Release**
Title:	**London Collective Investment Vehicle Governance Review**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**Although no direct impact on the general fund, the Pension Fund has in excess of £500m invested directly with the London Collective Investment Vehicle (CIV) and consequently has vested interests in good governance arrangements**
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 governance review of the London CIV (LCIV) undertaken by Willis Towers Watson.
b. The report highlights a number of issues that currently exist within the LCIV.
c. The report also makes a number of recommendations for change and improvement in LCIV's current governance arrangements.

2. RECOMMENDATIONS

2.1 That the Committee notes:

a. The governance review attached at Appendix 1

3. GOVERNANCE REVIEW – KEY POINTS

3.1 It should be noted that the governance review highlights several significant concerns and makes a number of key recommendations.

3.2 The key concern surrounds the engagement of a wide stakeholder base with conflicting priorities and managing these different groups in order to achieve joint outcomes. The Investment Advisory Committee and the Joint Committee are not perceived to be operating optimally in their current forms.

3.3 There is also a perceived lack of transparency from LCIV in a number of areas, with particular concern in relation to manager selection.

3.4 There is a fundamental issue with the cost recovery model which is leaving LCIV underfunded and under resourced, especially in client relations and secretariat.

3.5 Formal arrangements for submitting priorities from each local authority would assist in holding LCIV to account, but this does not happen in this way and are only submitted ad hoc or not at all.

4. GOVERNANCE REVIEW - RECOMMENDATIONS

Key recommendations

4.1 The five key recommendations are listed below:

- Establish and agree a more concise and narrowly defined set of statements of purpose – for LCIV, the PSJC and the IAC in particular. This is an absolute priority. Consistent and focused communication, with clear linkages with business planning and strategy, of this set of purposes is vital for them to be effectively embedded in practice.

- The committee meeting cycle should be reviewed, reducing the number of full committee meetings and making greater use of sub -committees and working groups. Each committee should be focused on a clearly defined set of objectives within accompanying measures. The Terms of Reference of the stakeholder committees (PSJC and IAC or replacement equivalents) require concurrent redrafting.

- A well-resourced Secretariat function is required to support the various committees and governance bodies. This should likely come from LCIV, recognising that this needs to be appropriately funded.

- There needs to be a recognition of the importance of transparency and cultivating trust, and a clear cultural and strategic shift to embedding this at the heart of LCIV pooling arrangements. LCIV and its stakeholders should take this opportunity to reset their relationship. The client portal offers an excellent mechanism for efficient, open and comprehensive information sharing – it should be set up as a 'one-stop shop' to distribute

LCIV information to stakeholders, and in turn fully utilised by stakeholders to gather the information they require.

- An independent resourcing and cost model review is required to give further clarity and recommendations on the appropriate levels of each, including how these develop over time.

Additional Recommendations

4.2 The report also laid out five other supplementary recommendations below:

- A useful mechanism for stakeholders to express clearly to LCIV their priorities, concerns and key measures of interest would be an annual 'Letter of expectations'. The PSJC (or similar replacement body) would be the most appropriate vehicle for delivering this.

- The Terms of Reference for the key stakeholders' committees and working groups are significantly below those of good practice investment organisations. There are issues over comprehensiveness as well as over clarity of purpose and scope of responsibilities which need to be remedied.

- LCIV needs to invest significantly in improving its database (quantitative knowledge) and understanding (qualitative knowledge) of the LLA funds – this has systems and resourcing (particularly in the Client Relationships function) implications.

- Reporting to stakeholders should be more streamlined and focused, bringing out strategic KPIs and measures of success.

- It seems appropriate at this stage to move away from the London Councils' governance model, with its associated constraints (including some political separations).

4.3 The full report is attached at appendix 1 for further consideration.

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 – LCIV Governance Review

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**23 January 2018**
Classification:	**General Release**
Title:	**Fossil Fuel Investments**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**The Council has approximately**
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 Fund's current approach to fossil fuel investment.
b. Any possibilities for divestment in the future

2. RECOMMENDATIONS

2.1 That the Committee notes:

a. The Pension Fund's current approach to fossil fuel investing.
b. The Council's response to Friends of the Earth's divestment query (attached at appendix 1).

3. INVESTMENT STRATEGY STATEMENT

3.1 The Pension Fund Committee reviewed and agreed the investment strategy statement in March 2017, which is agreed annually, which discusses the Fund's approach to environment, social and governance (ESG) issues.

3.2 Section 6 of the Investment Strategy Statement details the Pension Fund's ESG Policies. The Pension Fund has committed to socially responsible investing (SRI) and recognises that neglecting these factors may lead to poor investment returns. There is currently no specific reference to the approach with fossil fuels.

3.3 The Fund has a fiduciary duty to its members to provide the best level of investment returns, and should not take ESG decisions on the basis they would have a negative impact on overall fund returns.

4. FOSSIL FUELS

Engagement

4.1 The Pension Fund requires all of its fund managers to actively engage with the companies they are invested in and promote good corporate governance.

4.2 The Fund has the option to join the Local Authority Pension Fund Forum (LAPFF), a pressure group organisation made up of Local Authority Pension Funds that seeks to lobby organisations to make better ESG decisions.

4.3 The collective large equity holdings in the passive and actively managed funds of these LGPS funds provide significant levels of voting rights and are better able to influence large energy companies such as BP and Royal Dutch Shell.

Options for Divestment

4.4 Currently, the Pension Fund's largest allocation to fossil fuel companies remains in its passive equity portfolio, which is procured via the London CIV.

4.5 The significant cost savings of using the London CIV mean that the Fund would like to remain on the passive fund platform; the London CIV currently does not have any passive equity trackers that exclude fossil fuels.

4.6 The City of Westminster Pension Fund does, however, have representation on a London CIV working group that has been set up to assist in selecting a manager who can provide a passive equity ex-fossil fuel mandate. Once this has been set up, it would provide a credible option for divesting should the Committee wish to go down this route.

4.7 The investment strategy statement is due for review in 2018 and the Committee will need to consider its future approach to fossil fuels at this time.

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: Council response to Friends of the Earth
Appendix 2: Investment Strategy Statement

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Appendix 1: Council substantive response to Friends of the Earth Query

Westminster Pension Fund Committee carefully reviewed its approach towards environmental, social and corporate governance issues in March 2017 when it approved the Investment Strategy Statement for 2017/18.   It also undertakes this review each year and in doing so considers all relevant factors when coming to an agreed strategy.

As well as considering these issues as you may be aware in setting the Investment Strategy, the Pension Fund Committee has a primary fiduciary responsibility to ensure that it achieves the best return on its investments for the fund’s membership and for the local taxpayer.

The Pension Fund Committee has delegated day to day social, environmental and ethical policy to investment managers but within a framework of the Governance Strategy, as set out in the Investment Strategy Statement. Furthermore the Pension Fund supports standards of best practice by companies both in the disclosure and management of corporate social responsibility issues and in addition we are looking to joining the Local Authority Pension Fund Forum (LAPFF) which is focussed on good governance, environmental and social risk including carbon risk.

Westminster currently has 65% of its funds managed through the London Collective Investment Vehicle (LCIV) and in connection with this we have joined a working party with other London Councils to divest from fossil fuels to open up alternative pooled investments. Currently however there are no carbon-free funds available through the LCIV to bring on board carbon-free options that the Fund can invest in.

The Investment Strategy is subject to review next year and I am sure that this will be a key issue for the Pension Fund Committee to take into account in its review.

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City of Westminster Pension Fund Investment Strategy Statement 2017/18

1. Introduction

1.1 This is the first Investment Strategy Statement (ISS) adopted by the City of Westminster Pension Fund ("the Fund").

Under The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the Fund is required to publish this ISS. It replaces the Statement of Investment Principles which was previously required under Schedule 1 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The Regulations require administering authorities to outline how they meet each of 6 objectives aimed at improving the investment and governance of the Fund.

1.2 This Statement addresses each of the objectives included in the 2016 Regulations:

- A requirement to invest fund money in a wide range of instruments
- The authority's assessment of the suitability of particular investments and types of investment
- The authority's approach to risk, including the ways in which risks are to be measured and managed
- The authority's approach to pooling investments, including the use of collective investment vehicles
- The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments
- The authority's policy on the exercise of rights (including voting rights) attaching to investments

We deal with each of these in turn below.

1.3 The Pension Fund Committee (the "Committee") of the City of Westminster Pension Fund oversees the management of the Fund's assets. Although not trustees, the Members of the Committee owe a fiduciary duty similar to that of trustees to the council-tax payers and guarantors of other scheme employers, who would ultimately have to meet any shortfall in the assets of the Fund, as well as to the contributors and beneficiaries of the Fund.

1.4 The relevant terms of reference for the Committee within the Council's Constitution are:

The Pension Fund Committee's responsibilities are set out in their terms of reference and are to have responsibility for all aspects of the investment and other management activity of the Council's Pension Fund, including, but not limited to, the following matters:

- To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the Investment Consultant.

- To monitor performance of the Superannuation Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable;
- To determine the Fund management arrangements, including the appointment and termination of the appointment of the Fund Managers, Actuary, Custodians and Fund Advisers.
- To agree the Statement of Investment Principles, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and the Governance Compliance Statement and to ensure compliance with these.
- To approve the final accounts and balance sheet of the Superannuation Fund and to approve the Annual Report..
- To receive actuarial valuations of the Superannuation Fund regarding the level of employers' contributions necessary to balance the Superannuation Fund.
- To oversee and approve any changes to the administration arrangements, material contracts and policies and procedures of the Council for the payment of pensions, compensation payments and allowances to beneficiaries.
- To make and review an admission policy relating to admission agreements generally with any admission body.
- To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
- To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
- To receive and consider the Auditor's report on the governance of the Pension Fund.
- To determine the compensation policy on termination of employment and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
- To determine policy on the award of additional membership of the pension fund and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
- To determine policy on the award of additional pension and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub- Committee).
- To determine policy on retirement before the age of 60 and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub- Committee).
- To determine a policy on flexible retirement and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
- To determine questions and disputes pursuant to the Internal Disputes Resolution Procedures.
- To determine any other investment or pension policies that may be required from time to time so as to comply with Government regulations

and to make any decisions in accordance with those policies other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).

The Committee has responsibility for:

- Determining an overall investment strategy and strategic asset allocation, with regard to diversification and the suitability of asset classes
- Appointing the investment managers, an independent custodian, the actuary, the investment advisor(s) and any other external consultants considered necessary
- Reviewing on a regular basis the investment managers' performance against benchmarks, portfolio risk and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls
- Monitoring compliance with the ISS & Funding Strategy Statement (FSS) and reviewing its contents
- Reviewing policy on social, environmental and ethical considerations, and on the exercise of voting rights

The City Treasurer and the appointed consultants and actuaries support the Committee. The day-to-day management of the Fund's assets is delegated to investment managers.

1.5 This ISS will be reviewed at least once a year, or more frequently as required - in particular following valuations, future asset/liability studies and performance reviews, which may indicate a need to change investment policy, or significant changes to the FSS.

1.6 Under the previous Regulations the Statement of Investment Principles required to state how it complies with the revised six investment principles as outlined within the CIPFA Pensions Panel Principles. Although not formally required under the 2016 Regulations this information is given in Appendix A. In addition, Appendix B includes a disclosure of the Fund's policy on how the Committee discharge their stewardship responsibilities.

2. Objective 7.2 (a): A requirement to invest fund money in a wide range of instruments

2.1 Funding and investment risk is discussed in more detail later in this ISS. However, at this stage it is important to state that the Committee is aware of the risks it runs within the Fund and the consequences of these risks.

2.2 In order to control risk the Committee recognises that the Fund should have an investment strategy that has:

- Exposure to a diverse range of sources of return, such as market, manager skill and through the use of less liquid holdings.
- Diversity in the asset classes used
- Diversity in the approaches to the management of the underlying assets.

A consequence of this approach is that the Fund's assets are invested in a wide range of instruments.

2.3 This approach to diversification has seen the Fund dividing its assets across 4 broad categories; UK equities, Global equities, Fixed Income and Property. The size of assets invested in each category will vary depending on investment conditions. However, it is important to note that each category is itself diversified.

2.4 The main risk the Committee are concerned with is to ensure the long-term ability of the fund to meet pension, and other benefit obligations, as they fall due is met. As a result the Committee place a high degree of importance on ensuring the expected return on the assets is sufficient to do so, and does not have to rely on a level of risk which the Committee considers excessive.

The Fund currently has a negative cash flow position. The Committee is mindful that this position may change in future and keeps the liquidity within the Fund monitored.

At all times the Committee seeks to ensure that their investment decisions, including those involving diversification, are the best long term interest of Fund beneficiaries.

2.5 To mitigate these risks the Committee regularly reviews both the performance and expected returns from the Fund's investments to measure whether it has met and is likely to meet in future its return objective. In addition to keeping their investment strategy and policy under regular review the Committee will keep this ISS under review to ensure that it reflects the approaches being taken.

3. Objective 7.2(b): The authority's assessment of the suitability of particular investments and types of investment

3.1 When assessing the suitability of investments the Committee takes into account a number of factors:

- Prospective return
- Risk
- Concentration
- Risk management qualities the asset has, when the portfolio as a whole is considered
- Geographic and currency exposures
- Whether the management of the asset meets the Fund's ESG criteria.

3.2 Suitability is a critical test for whether or not a particular investment should be made.

3.3 Each of the Fund's investments has an individual performance benchmark which their reported performance is measured against.

3.3 The Committee monitors the suitability of the Fund's assets on a quarterly basis. To that end they monitor the investment returns and the volatility of the individual investments together with the Fund level returns and risk. This latter point being to ensure the risks caused by interactions between investments within the portfolio is properly understood. Where comparative statistics are available the Committee will also compare the Fund asset performance with those of similar funds.

3.4 The Committee relies on external advice in relation to the collation of the statistics for review.

4. Objective 7.2(c): The authority's approach to risk, including ways in which risks are to be measured and managed

4.1 The Committee recognises that there are a number of risks involved in the investment of the assets of the Fund amongst which are the following:

4.2 Geopolitical and currency risks:

- are measured by the value of assets (the concentration risk), in any one market leading to the risk of an adverse influence on investment values arising from political intervention; and
- are managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

4.3 Manager risk:

- is measured by the expected deviation of the prospective risk and return as set out in the manager(s) investment objectives, relative to the investment policy; and
- is managed by monitoring the actual deviation of returns relative to the objective and factors inherent in the manager(s) investment process.

4.4 Solvency and mismatching risk:

- are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies; and
- are managed by assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

4.5 Liquidity risk:

- is measured by the level of cash flow required over a specified period; and
- managed by assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment cash policy

4.6 Custodial risk:

- is measured by assessing the creditworthiness of the global custodian and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.

4.7 Employer contributions are based upon financial and demographic assumptions determined by the actuary. The main risks to the Fund are highlighted within sections 12 to 15 of the Funding Strategy Statement (FSS). The risks to the Fund are controlled in the following ways:

- The adoption and monitoring of asset allocation benchmarks, ranges and performance targets constrain the investment managers from deviating significantly from the intended approach while permitting the flexibility for managers to enhance returns
- The appointment of more than one manager with different mandates and approaches provides for the diversification of manager risk

4.8 The investment management agreements constrain the manager's actions in areas of particular risk and set out the respective responsibilities of both the manager and the Fund.

4.9 The Committee are aware investment risk is only one aspect of the risks facing the Fund. The other key risk they are aware of is the ability of the Fund to meet the future liabilities, support the investment risk (i.e. the level of volatility of investment returns) and underwrite actuarial risk, namely the volatility in the actuarial funding position and the impact this has on contributions.

4.10 The Committee are of the view that the diversification of the Fund assets is sufficiently broad to ensure the investment risk is low and will continue to be low. When putting in place the investment strategy the Committee carefully considered both the individual asset risk characteristics and those of the combined portfolio to ensure the risks were appropriate.

Estimating the likely volatility of future investment returns is difficult as it relies on both estimates of individual asset class returns and also the correlation between them. These can be based on historic asset class information for some of the listed asset classes the Fund uses. However, for other private market and less liquid assets it is much more difficult.

The Committee is also mindful that correlations change over time and at times of stress can be significantly different from they are in more benign market conditions.

To help manage risk the Committee uses an external investment adviser to monitor the risk. In addition when carrying out their investment strategy review the Committee also had different investment advisers asses the level of risk involved.

4.11 The Fund targets a long-term return 5.1% as aligned with the latest triennial valuation from the Actuary. The investment strategy is considered to have a low degree of volatility.

4.12 When reviewing the investment strategy on a quarterly basis the Committee considers advice from their advisers and the need to take additional steps to protect the value of the assets that may arise or capitalise on opportunities if they are deemed suitable.

4.13 At each review of the Investment Strategy Statement the assumptions on risk and return and their impact on asset allocation will be reviewed.

5 Objective 7.2(d): The authority's approach to pooling investments, including the use of collective investment vehicles.

5.1 The Fund recognises the Government's requirement for LGPS funds to pool their investments and is committed to pursuing a pooling solution that ensures maximum cost effectiveness for the Fund, both in terms of return and management cost.

5.2 The Fund has joined the London Collective Investment Vehicle (CIV) as part of the Government's pooling agenda. The London CIV has been operational for some time and is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid asset classes to follow.

5.3 The Fund has already transitioned assets into the London CIV with a value of £178m as at the 28th February 2017 and will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

5.4 The Fund is monitoring developments and the opening of investment strategy fund openings on the London CIV platform with a view to transitioning liquid assets across to the London CIV as soon as there are suitable sub-funds to meet the Fund's investment strategy requirements.

5.5 The Fund holds 22.3% £280m of its assets in life funds and intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being. The Fund agrees for the London CIV to monitor the passive funds as part of the broader pool.

5.6 The Fund holds £110m or 8.8% of the Fund held in illiquid assets and these will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision to disinvest.

City of Westminster Total Fund	Available on the CIV	Transferred
UKEquities		
Majedie	May-17 (£301m)	
Global Equities		
Baillie Gifford	Yes	£178m
LGIM		
Longview Partners	Jun-17 (£140m)	
Fixed Income		
Insight IM (Core)		
Insight IM (Gilts)		
Real Estate		
Hermes Property		
Standard Life Property		
Cash		
In-House Cash		

5.7 The Committee are aware that certain of the assets held within the Fund have limited liquidity and moving them would come at a cost. Whilst it is the expectation to make use of the London CIV for the management of the majority of the Fund assets in the longer term, the Committee recognises that transitioning from the current structure to the London CIV will be a protracted exercise spread over a number of years to ensure unnecessary costs are not incurred.

5.8 At each review of the investment strategy, which will happen at least every three years, the investment of the above assets will be actively considered by the City of Westminster Pension Fund, and in particular whether a collective investment option is appropriate.

5.9 More information on the London CIV and its operation is included in Appendix D of this statement.

6 Objective 7.2(e): How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

6.1 A review of the Fund's approach to Socially Responsible Investments (SRI) was completed in March 2015 and is contained in the existing SIP. The Fund adopted an SRI Policy which outlines its approach to the management of Environmental, Social and Governance (ESG) issues within its investment portfolio. The existing SRI Policy now needs reviewing as the last update was undertaken 2 years ago, although as funds are moved across to the London CIV, the Council will need to understand and apply the London CIV's principles.

The Present ESG Policy

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

The London Collective Investment Vehicle (CIV) ESG Policy (Wording)

6.3 The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills.

6.4 The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed

6.5 The Fund expects its external investment managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making

6.6 Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes

6.7 The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

6.8 The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

The Fund in preparing and reviewing its Investment Strategy Statement will inform stakeholders, including but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate.

7 Objective 7.2(f): The exercise of rights (including voting rights) attaching to investments

The Present Policy

7.1. The Committee has delegated the Fund's voting rights to the investment managers, who are required, where practical, to make considered use of voting in the interests of the Fund. The Committee expects the investment managers to vote in the best interests of the Fund

The London Collective Investment Vehicle (CIV) ESG Policy (Wording)

7.2 The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

7.3 The Fund has delegated responsibility for voting rights to the Fund's external investment managers and expects them to vote in accordance with the Fund's voting policy as set out in Sections 6.2 and 7.1.

7.4 The Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Pension Fund website: (we do not do this at the moment)

7.5 The Fund has reviewed the London CIV Statement of Compliance with the Stewardship Code and has agreed to adopt this Statement.

7.6 In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

7.7 The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests

In addition the Fund:

7.8 Is a member of the Pension and Lifetime Savings Association (PLSA) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners

7.9 Joins wider lobbying activities where appropriate opportunities arise.

8 Feedback on this statement

Any feedback on this investment Strategy Statement is welcomed. If you have any comments or wish to discuss any issues then please contact:

Peter Carpenter – Interim Tri-Borough Director of Pensions and Treasury
pcarpenter@westminster.gov.uk
020 7641 2832

Investment Strategy Statement: Appendix A

Compliance with CIPFA Pensions Panel Principles for investment decision making in the local government pension scheme in United Kingdom

Decision Making

Regulation 12(3) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires an administering authority to report on its compliance with the six Myners' Principles, in accordance with guidance given by the Secretary of State. The guidance for the Local Government Pension Scheme is set out in the CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012',

The Fund aims to comply with all of the Myners' Principles, recognising it is in all parties' interests if the Fund operates to standards of investment decision-making and governance identified as best practice. It is also recognised as important to demonstrate how the Fund meets such principles and best practice.

The Secretary of State has previously highlighted the principle contained in Roberts v. Hapwood whose administering bodies exercise their duties and powers under regulations governing the investment and management of Funds:

"A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons the body stands somewhat in the position of trustees or managers of others".

The Myners' Principles are seen as supporting this approach. The principles, together with the Fund's position on compliance, are set out below:

Principle 1 - Effective decision-making

Administrating authorities should ensure that:

- **Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and**
- **Those persons or organizations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.**

Full Compliance

The Council has delegated the management and administration of the Fund to the Committee, which meets at least quarterly. The responsibilities of the Committee are described in paragraph 1.4 of the ISS.

The Committee is made up of elected members of the Council who each have voting rights.

The Committee obtains and considers advice from and is supported by the City Treasurer, Tri-Borough Director of Treasury & Pensions, and as necessary from the Fund's appointed actuary, investment managers and advisors.

The Committee has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the scheme's regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

Business plans are presented to the Committee annually.

Several of the Committee members have extensive experience of dealing with Investment matters and training is made available to new Committee members.

Principle 2 - Clear objectives

An overall investment objective(s) should be set for the Fund that takes account of the pension liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

Full Compliance

The aims and objectives of the Fund are set out within the FSS and within the ISS. The main fund objective is to meet the cost of pension liabilities and to enable employer contribution rates to be kept as nearly constant as possible at reasonable cost to the taxpayers and admitted bodies.

The investment strategy has been set with the objective of controlling the risk that the assets will not be sufficient to meet the liabilities of the Fund while achieving a good return on investment (see paragraphs 4 and 5 above). The approach taken reflects the Fund's liabilities and was decided upon without reference to any other funds. The Fund's performance is measured against the investment objective on a quarterly basis.

The Fund's strategy is regularly reviewed.

Principle 3 – Risk and liabilities

In setting and reviewing their investment strategy, administrating authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Full Compliance

The Committee has, in conjunction with its advisers, agreed an investment strategy that is related to the Fund's liabilities. An actuarial valuation of the Fund takes place every three years, with the most recent triennial valuation taking place in 2016. The investment strategy is designed to give diversification and specialisation and achieve optimum return against acceptable risk.

The asset allocation of the Fund is set to maximise the potential to close the funding deficit over future years. The current allocation is outlined in paragraph 4.3 of the SIP.

Principle 4 – Performance Assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members

Full Compliance

The IAC has appointed investment managers with clear index strategic benchmarks (see paragraph 4.2 above) within an overall Investment objective which place maximum accountability for performance against that benchmark on the manager.

The managers are monitored at quarterly intervals against their agreed benchmarks, and independent detailed monitoring of the Fund's performance is carried out by Deloittes, the Fund's advisor and by Northern Trust, the Fund's custodian who provide the performance figures. Moreover portfolio risk is measured on quarterly basis and the risk/return implications of different strategic options are fully evaluated.

The advisor is assessed on the appropriateness of asset allocation recommendations and the quality of advice given.

The actuary is assessed on the quality and consistency of the actuarial advice received. Both the advisor and the actuary have fixed term contracts which when expired are tendered for under the OJEU procedures.

The Committee monitors the investment decisions it has taken, including the effectiveness of these decisions. In addition the Committee receives quarterly reports as to how the Fund has performed against their investment objective.

Principle 5 – Responsible Ownership

Administering authorities should:

- **Adopt, or ensure their investment managers adopt, the Institutional Shareholders Committee Statement of Principles on the responsibilities of shareholders and agents.**
- **Include a statement of their policy on responsible ownership in the statement of investment principles.**
- **Report periodically to scheme members on the discharge of such responsibilities.**

Full Compliance

The Fund is committed to making full use of its shareholder rights. The approach used is outlined in paragraph 8 of the ISS and in the Fund's SRI Policy. Authority has been delegated to the investment managers to exercise voting rights on behalf of the Fund. The investment managers are required to report how they have voted in their quarterly reports.

The Fund believes in using its influence as a shareholder to promote corporate social responsibility and high standards of corporate governance in the companies in which it invests – the Fund's approach to this is outlined in paragraph 7 of the ISS and in the Fund's SRI Policy.

Principle 6 – Transparency and reporting

Administering authorities should:

- **Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives.**
- **Provide regular communications to scheme members in the form they consider most appropriate.**

Full Compliance

Links to the Governance Compliance Statement, the ISS, the FSS, and the Communications Statement are all included in the Pensions Fund Annual Report which is published and is accessible to stakeholders of the Fund on the Council's web site, and a website developed specifically for the Fund.

All Committee meetings are open to members of the public and agendas and minutes are published on the Council's website and internal intranet.

Investment Strategy Statement: Appendix B

Compliance with the Stewardship Code

The **Stewardship Code** is a set of principles or guidelines released in 2010 and updated in 2012 by the Financial Reporting Council directed at institutional investors who hold voting rights in United Kingdom companies. Its principal aim is to make shareholders, who manage other people's money, be active and engage in corporate governance in the interests of their beneficiaries.

The Code applies to pension funds and adopts the same "comply or explain" approach used in the UK Corporate Governance Code. This means that it does not require compliance with principles but if fund managers and institutional investors do not comply with any of the principles set out, they must explain why they have not done so.

The seven principles, together with the council's position on compliance, are set out below:

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Stewardship responsibilities are outlined in section 1.4 of the ISS, which outlines the terms of reference of the Committee.

Investment Managers, authorised under the regulations, are appointed to manage virtually all the assets of the Fund. The Committee actively monitor the Fund Managers through quarterly performance analysis, annual and periodic meetings with the Fund Managers and through direct monitoring by the Fund's investment advisor, which includes monitoring and reporting on:

- Fund manager performance
- Investment Process compliance and changes
- Changes in personnel (joiners and leavers)
- Significant portfolio developments
- Breaches of the IMA
- Business wins and losses; and
- Corporate and other issues.

Voting is delegated to Fund Managers through the Investment Management Agreement (IMA).

The fund will ensure that all its equity, fixed income and diversified managers sign up to the FRC Stewardship Code including: Majedie, Baillie Gifford, LGIM, Longview Partners, Insight, Hermes and Standard Life.

2. Have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The Committee encourages its fund managers to have effective policies addressing potential conflicts of interest.

Committee members are also required to make declarations of interest prior to all Committee meetings.

3. Monitor their investee companies.

Day-to-day responsibility for managing the Fund's investments are delegated to the relevant fund managers, who are expected to monitor companies, intervene where necessary, and report back regularly on activity undertaken.

The Fund's expectations with regards to voting and engagement activities are outlined in its SRI Policy.

Fund Manager Internal Control reports are monitored, with breaches reported back to the Committee.

4. Establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

Day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. The Fund's expectations with regards to voting and engagement activities are outlined in its SRI Policy.

The Fund Managers are expected to have their own SRI/ESG policy and to disclose their guidelines for such activities in their own statement of adherence to the Stewardship Code.

5. Willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximize the influence that it can have on individual companies.

6. Have a clear policy on voting and disclosure of voting activity.

The Fund currently votes on all decisions and this is reported via Northern Trust. The Fund's approach to voting is clearly outlined in the ISS and SRI Policy,

7. Report periodically on their stewardship and voting activities.

A section on voting is included in each quarterly Business Plan Update, with a yearly review of the policy.

The Fund's annual report includes information about the Fund's voting and engagement work

Investment Strategy Statement: Appendix C – Risk Register

Ref	Risk	Mitigating Actions	Residual risk score: Likelihood	Residual risk score: Impact	Risk Rating	Officer responsible	Next Next Review Date
1	**STRATEGIC: INVESTMENT** That the combination of assets in the investment portfolio fails to fund the liabilities in the long term.	• Investment strategy in place and reviewed periodically. • Performance is measured against a liability based benchmark. • Fund performance is reviewed quarterly.	2	3	Low 6	City Treasurer	March 2016
2	**STRATEGIC: INVESTMENT** Fund managers fail to achieve the returns agreed in their management agreements.	• Independent monitoring of fund manager performance by custodian against targets. • Investment adviser retained to keep watching brief. • Fund manager performance is reviewed quarterly.	3	3	Low 9	City Treasurer	March 2016
3	**STRATEGIC: INVESTMENT** Failure of custodian or counterparty.	• At time of appointment, ensure assets are separately registered and segregated by owner. • Review of internal control reports on an annual basis. • Credit rating kept under review.	2	3	Low 6	City Treasurer	March 2016
4	**STRATEGIC: FUNDING** The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	• Review at each triennial valuation and challenge actuary as required. • Growth assets and inflation linked assets in the portfolio should rise as inflation rises.	4	3	Medium 12	City Treasurer	March 2016
5	**STRATEGIC: FUNDING** There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments.	• Cashflow forecast maintained and monitored. • Cashflow position reported to sub-committee quarterly. • Cashflow requirement is a factor in current investment strategy review.	2	1	Very Low 2	City Treasurer	March 2016
6	**STRATEGIC: FUNDING** Scheme members live longer than expected leading to higher than expected liabilities.	• Review at each triennial valuation and challenge actuary as required.	4	2	Low 8	City Treasurer	March 2016
7	**STRATEGIC: FUNDING** Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	• Review maturity of scheme at each triennial valuation. • Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. • Cashflow position monitored monthly.	2	3	Low 6	City Treasurer	March 2016
8	**STRATEGIC: REGULATION** Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	• Maintain links with central government and national bodies to keep abreast of national issues. • Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	3	4	Medium 12	City Treasurer and Acting Director of HR	March 2016
9	**STRATEGIC: REGULATION** **I**ntroduction of European Directive MiFID II results is a restriction of Fund's investment options and an increase in costs	• Officers are engaging with Fund Managers to understand the position better • Knowledge and Skills Policy in place for Officers and Members of the Committee • Maintain links with central government and national bodies to keep abreast of national issues.	2	2	Very Low 4	City Treasurer	March 2016
10	**OPERATIONAL: GOVERNANCE** Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	• Officers maintain knowledge of legal framework for routine decisions. • Eversheds retained for consultation on non-routine matters.	2	2	Very Low 4	City Treasurer	March 2016

11	**OPERATIONAL: GOVERNANCE** Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	• External professional advice is sought where required • Knowledge and skills policy in place (subject to Committee Approval)	3	3	Low 9	City Treasurer	March 2016
12	**OPERATIONAL: GOVERNANCE** Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	• Person specifications are used at recruitment to appoint officers with relevant skills and experience. • Training plans are in place for all officers as part of the performance appraisal arrangements. • Shared service nature of the pensions team provides resilience and sharing of knowledge.	3	3	Low 9	City Treasurer and Acting Director of HR	March 2016
13	**OPERATIONAL: GOVERNANCE** Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	• At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. • Committee and officers scrutinise and challenge advice provided.	2	2	Very Low 4	City Treasurer	March 2016
14	**OPERATIONAL: GOVERNANCE** London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	• Pension Fund Committee Chair is a member of the Joint member Committee responsible for the oversight of the CIV and can monitor and challenge the level of resources through that forum. • Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work of the London CIV.	3	2	Low	City Treasurer	March 2016
15	**OPERATIONAL: FUNDING** Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	• Transferee admission bodies required to have bonds in place at time of signing the admission agreement. • Regular monitoring of employers and follow up of expiring bonds.	3	2	Low 6	City Treasurer and Acting Director of HR	March 2016
16	**OPERATIONAL: FUNDING** Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	• Review "budgets" at each triennial valuation and challenge actuary as required. • Charge capital cost of ill health retirements to admitted bodies at the time of occurring. • Occupational health services provided by the Council and other large employers to address potential ill health issues early.	3	2	Low 6	City Treasurer and Acting Director of HR	March 2016
17	**OPERATIONAL: FUNDING** Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	• Monitor numbers and values of transfers out being processed. • If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values.	2	3	Low 6	City Treasurer and Acting Director of HR	March 2016
18	**OPERATIONAL: ADMINISTRATION** Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	• Third parties regulated by the FCA and separation of duties and independent reconciliation procedures in place. • Review of third party internal control reports. • Regular reconciliations of pension payments undertaken by Pensions Finance Team. • Periodic internal audits of Pensions Finance and HR teams.	4	2	Low 8	City Treasurer and Acting Director of HR	March 2016
19	**OPERATIONAL: ADMINISTRATION** Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place.	• Contract monitoring in place with all providers. • Procurement team send alerts whenever credit scoring for any provider changes for follow up action.	3	1	Very Low 3	City Treasurer and Acting Director of HR	March 2016

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

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

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

Investment Strategy Statement: Appendix D

Information on London CIV

Stewardship Statement is attached – Other London CIV details are included in ISS main Statement

LONDON CIV
DRAFT UK STEWARDSHIP CODE STATEMENT

The London Collective Investment Vehicle (CIV) was formed as a voluntary collaborative venture by the London Local Authorities in 2014 to invest the assets of London Local Government Pension Scheme (LGPS). The London CIV and its London Local Authority investors recognise the importance of being long term stewards of capital and in so doing supports the UK Stewardship Code, which it recognises as best practice.

The London LGPS CIV Limited ("London CIV") is fully authorised by the FCA as an Alternative Investment Fund Manager (AIFM) with permission to operate a UK based Authorised Contractual Scheme fund (ACS Fund). The London CIV in the management of its investments has appointed a number of external investment managers. We therefore see our role as setting the tone for the effective delivery of stewardship managers on our behalf and on behalf of our investing Funds. We are clear that we retain responsibility for this being done properly and fully in the interests of our own shareholders.

This Statement sets out how the London CIV implements the seven principles of the Code.

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

The London CIV on behalf of its London Local Authority Shareholders recognises its position as an investor on their behalf with ultimate responsibility to members and beneficiaries and recognises that effective stewardship can help protect and enhance the long-term value of its investments to the ultimate benefit of all stakeholders in the LGPS.

As we do not invest directly in companies, we hold our fund managers accountable for the delivery of stewardship on our behalf in terms of day-to-day implementation of its stewardship activity. We require the appointed fund management teams to be responsible for holding to account the management and boards of companies in which they invest. The London CIV believes that this approach is compatible with its stewardship responsibilities as it is the most effective and efficient manner in which it can promote and carry out stewardship activities in respect of its investments, and ensure the widest reach of these activities given the CIV's investment arrangements.

A key related area where stewardship is integrated into the wider process is in the selection and monitoring of external investment managers. When considering the appointment of external investment managers the consideration of Environmental Social and Governance (ESG) integration and stewardship activity of each investment manager is part of the selection process.

The London CIV expects its equity investment managers to adhere to the principles within the UK Stewardship Code. This position is communicated to the Fund's investment managers and forms the basis of the approach to monitoring the investment managers as outlined in this document. Whilst the Stewardship Code is primarily directed at UK equity investments, the CIV encourages its investment managers to apply the principles of the Code to overseas equity holdings where possible.

The primary mechanisms for the application of effective stewardship for the CIV are exercise of voting rights and engagement with investee companies. The CIV expects its external equity investment managers that invest directly in companies, to pursue both these mechanisms. We receive quarterly reporting from managers which includes their stewardship and voting activities where appropriate. We seek consistently to ensure that these stewardship activities are carried out actively and effectively in the furtherance of good long-term investment returns.

We expect all of the CIV's equity managers to be signatories to the Code and have publicly disclosed their policy via their Statements on how they will discharge their stewardship responsibilities. We expect managers that invest in companies directly to discharge their responsibilities by:

- having extensive dialogue with the company's management throughout the year on a range of topics such as governance, financial performance and strategy; and
- voting, either directly or via the services of voting agencies.

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

Day-to-day implementation of the Fund's stewardship activity has been delegated to external investment managers. The CIV expects its investment managers to document their approach to stewardship, which should include how they manage any conflicts of interest that arise to ensure that the interests of the CIV's Investors are prioritised. The CIV will review annually the conflicts of interest policy of its managers and how any conflicts have been managed during the year.

The London CIV has policies in place to manage conflicts of interest that may arise for the Board and its officers when making decisions on its behalf. The Conflicts of Interest policy is reviewed by the CIV board on a regular basis. A Conflicts of Interest Register is maintained.

Shareholders of the CIV attending the Pensions Sectoral Joint Committee are required to declare any conflicts of interest at the start of any meeting.

Principle 3
Institutional investors should monitor their investee companies.

We recognise that active and ongoing monitoring of companies is the foundation of good stewardship, reminding companies in which we invest that they have obligations to their shareholders to deliver returns over the appropriate long-term investment timeframe and, consistent with this, to manage any related environmental and social risks responsibly.

The CIV requires its external investment managers to monitor investee companies. Issues to be monitored are likely to vary, however typically these might include a company's corporate strategy, financial performance, risk (including those from environmental and social factors), capital structure, leadership team and corporate governance. The CIV encourages its investment managers to satisfy themselves that investee companies adhere to the spirit of the UK Corporate Governance Code.

The CIV reviews investment managers in this area as part of their regular meetings. For equity investment managers this includes consideration of:

- who has overall responsibility for ESG risk analysis and integration;
- resources and experience of the team;
- at what stages of the process ESG risks are considered;
- exposures to environmental, social or governance risk within the portfolio; and
- the investment manager's willingness to become an insider and, if so, whether the manager has a policy setting out the mechanisms through which this is done.

Principle 4
Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

The CIV recognises that constructive engagement with company management can help protect and enhance shareholder value. Typically, the CIV expects its investment managers to intervene with investee companies when they view that there are material risks or issues that are not currently being adequately addressed.

The CIV reviews investment managers in this area as part of their regular meeting. For equity investment managers that invest directly in Companies, this includes consideration of:

- whether voting activity has led to any changes in company practice;
- whether the investment manager's policy specifies when and how they will escalate engagement activities;
- overall engagement statistics (volume and areas of focus);
- example of most intensive engagement activity discussed as part of the manager's annual review meeting; and
- the estimated performance impact of engagement on the strategy in question.

Given the range of fund managers and Fund investments, the CIV carries out its monitoring at the manager level to identify:

- trends to ensure progress is being made in stewardship activities;
- specific managers where progress or the rate of progress is not adequate; and
- appropriate specific actions necessary.

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

As day-to-day management of the Fund's assets has been delegated to external investment managers, the CIV expects its investment managers to get involved in collective engagement where this is an efficient means to protect and enhance long-term shareholder value.

In addition the London CIV will work collectively with other investors including other LGPS Asset pools and the Local Authority Pension Fund Forum (LAPFF) to enhance the impact of their engagement activities.

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

The CIV has delegated its voting rights to the Fund's investment managers and requires them to vote, except where it is impractical to do so. The CIV also monitors the voting alerts of the LAPFF and where these are issued, requires the investment managers to take account of these alerts as far as practical to do so. Where the investment manager does not vote in line with the LAPFF voting alerts, the CIV will require detailed justification for non compliance.

The CIV reviews and monitors the voting policies and activities of its investment managers, this includes consideration of:

- the manager's voting policy and, what areas are covered;
- the level of voting activity
- whether the investment manager typically informs companies of their rationale when voting against or abstaining (and whether this is typically in advance of the vote or not);
- if securities lending takes place within a pooled fund for the strategy, whether the stock is recalled for all key votes for all stocks held in the portfolio; and
- whether a third party proxy voting service provider is used and, if so, how.

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

The London CIV encourages transparency from its investment managers and expects its managers to report publicly on their voting in an appropriate manner. In addition the London CIV receives reviews and monitors quarterly the voting and stewardship engagement activities of its investment managers.
The CIV reports quarterly to its investors and will include information on voting and engagement activities from investment managers where appropriate including updates as required on updated stewardship and voting policies of managers. The CIV also requires its managers to provide it with annual assurances on internal controls and compliance through recognised framework such as the AAF01/06 or equivalent.

This statement will be reviewed regularly and updated as necessary.
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