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Committee Agenda

City of Westminster

Title:	**Pension Fund Committee**
Meeting Date:	**Thursday 19th March, 2020**
Time:	**7.00 pm**
Venue:	**Room 18.03, 18th Floor, City Hall, 64 Victoria Street, London, SW1E 6QP**
Members:	**Councillors:** Eoghain Murphy (Chairman) Barbara Arzymanow Angela Harvey Patricia McAllister

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

Admission to the public gallery is by ticket, issued from the ground floor reception 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: 07815 663854; 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 OF INTEREST

To receive declarations of interest by Members and Officers of any pecuniary interest or any other significant interest in matters on this agenda.

3. MINUTES **(Pages 5 - 14)**

To approve the minutes of the Pension Fund Committee meetings held on 23 January 2020 and 20 February 2020 respectively.

4. PENSION ADMINISTRATION UPDATE **(Pages 15 - 22)**

Report of the Director of People Services.

5. PENSION DATA QUALITY **(Pages 23 - 28)**

Report of the Director of People Services.

6. ADMISSION AGREEMENT REQUEST FOR GOLD CARE TO BECOME AN ADMISSION BODY IN THE WESTMINSTER CITY COUNCIL PENSION FUND **(Pages 29 - 30)**

Report of the Director of People Services.

7. VOLUNTARY SCHEME PAYS REQUEST FOR 2019-2020

Report of the Director of People Services.

8. TRIENNIAL VALUATION **(Pages 31 - 86)**

Report of the Tri-Borough Director of Treasury and Pensions.

9.	**QUARTERLY PERFORMANCE REPORT** Report of the Tri-Borough Director of Treasury and Pensions.	**(Pages 87 - 128)**
10.	**FUND FINANCIAL MANAGEMENT** Report of the Tri-Borough Director of Treasury and Pensions.	**(Pages 129 - 150)**
11.	**INVESTMENT STRATEGY STATEMENT AND INVESTMENT BELIEFS** Report of the Tri-Borough Director of Treasury and Pensions.	**(Pages 151 - 182)**
12.	**ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT**	
13.	**EXCLUSION OF PRESS AND PUBLIC** **RECOMMENDED:** That under Section 100 (A) (4) and Part 1 of Schedule 12A to the Local Government Act 1972 (as amended), the public and press be excluded from the meeting for the following items of business because they involve the likely disclosure of exempt information on the grounds shown below and it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information:	

Item Nos	Grounds	Para. of Part 1 of Schedule 12A of the Act
7, 14 and 15	Information relating to the financial and business affairs of an individual including the authority holding the information and legal advice	3

14.	**INVESTMENT STRATEGY REVIEW** Report of the Tri-Borough Director of Treasury and Pensions.	
15.	**MINUTES** To approve the confidential minutes of the Pension Fund Committee meeting held on 23 January 2020.	

Stuart Love
Chief Executive
11 March 2020

CITY OF WESTMINSTER

MINUTES

Pension Fund Committee

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Fund Committee** held on **Thursday 23rd January, 2020**, Room 18.02, 18th Floor, City Hall, 64 Victoria Street, London, SW1E 6QP.

Members Present: Councillors Antonia Cox (Chairman), Melvyn Caplan, Patricia McAllister and Eoghain Murphy.

Also Present: Phil Triggs (Tri-Borough Director of Treasury and Pensions), Billie Emery (Pension Fund Manager), Lee Witham (Director of People Services), Sarah Hay (Senior Payroll and Pensions Officer), Eleanor Dennis (Lead Pensions Specialist, People Services), Kevin Humpherson (Deloitte) and Toby Howes (Senior Committee and Governance Officer).

1 MEMBERSHIP

1.1 There were no changes to the membership.

2 DECLARATIONS OF INTEREST

2.1 There were no declarations of interest.

3 MINUTES

3.1 **RESOLVED:**

That the minutes of the meeting held on 23 October 2019 be signed by the Chairman as a correct record of proceedings.

4 PENSION ADMINISTRATION UPDATE

4.1 Sarah Hay (Senior Pensions and Payroll Adviser, People Services) introduced the report and advised that the key performance indicators (KPIs) were generally good, with the only recent issue being some delays to retirement options being issued due to a large number of retirements from a care provider who were part of the Fund. Work was also under way concerning new staff in respect of the 2019 triennial evaluation. With regards to overseas pensioners, Sarah Hay advised that five had now been reinstated, meaning that 17 remained suspended. The Committee heard that discussions were taking place amongst officers over what service the Council wanted before approaching Surrey County Council (SCC) over renewing the Section 101 Agreement on pension administration services. SCC were also shortly due to appoint a new Pension Fund Manager and Members would be updated once the appointment was confirmed.

4.2 Eleanor Dennis (Lead Pensions Specialist, People Services) updated the Committee on data cleansing and advised that the common data score was now 89.9%. Costings for status 2 project were being finalised and updates had been carried out on 'gone away' addresses. Further progress was expected over the next two weeks.

4.3 The Committee noted that JLT were no longer involved with data cleansing and that ITM were currently assisting the Council with this. It was asked whether ITM would continue to work with the Council longer term on this matter. Members commented that outstanding issues needed to be addressed in any new Section 101 Agreement with SCC. Members asked what the level of staff turnover at SCC was and were their staff incentives for performance. Members welcomed the progress made with regards to overseas pensioners, however in respect of red or amber KPIs, the importance of minimising the impact on individuals was emphasised, particularly where this resulted in them experiencing any delays in pension payments. It was also queried whether the performance of the KPIs recorded were accurate.

4.4 In reply to issues raised by Committee, Sarah Hay commented that it useful that the Council had another source to review its data in ITM, although their continued involvement longer term would be subject to further discussions. Sarah Hay added that overall the Council's data was relatively good. There had been improvements in SCC's performance compared to three years ago, however changes in leadership necessitated a need for discussions on the future direction of travel. There were also more SCC staff available for pension administration functions. Sarah Hay advised that staff turnover at SCC was of some concern, however she was unsure as to whether there were incentives available in respect of performance. Where there were any instances of delayed payments to individuals, Sarah Hay advised that SCC were chased to ensure that payments were made promptly and to prevent such instances occurring in the future. With regards to the accuracy of the performance of KPIs, Sarah Hay advised that she was not receiving complaints from scheme members and so this suggested that the figures were accurate.

4.5 Lee Witham (Director of People Services) added that the Council continued to keep a careful eye on the KPIs and visits to SCC had taken place to discuss issues. He advised that around three years ago, scheme members had reported a number of problems with their pensions, however the situation had much improved since. Delays in payments were now very rare, although any delay was unacceptable. Lee Witham acknowledged that an amber or red KPI may impact significantly upon an individual and every action needed to be taken to minimise this.

4.6 The Committee requested a report updating Members on the situation regarding incomplete cases and costs regarding the data cleansing exercise carried out by JLT, who were no longer involved in the process. In addition, the report was to include an update on arrangements with ITM and whether they were to take on data cleansing on a longer term basis.

5 ADMISSION AGREEMENT REQUEST FOR BT TO BECOME AN ADMITTED BODY IN THE WESTMINSTER CITY COUNCIL PENSION FUND

5.1 Sarah Hay (Senior Payroll and Pensions Officer) introduced the report and advised that three employees providing IT end user support were due be outsourced to BT on 1 February. It was recommended that BT become an admitted body to the Pension Fund on a closed admission agreement basis to allow the three employees membership of the Fund.

5.2 Members noted that BT wanted the risk of them defaulting covered by a guarantee and confirmed that they were happy with this arrangement.

RESOLVED:

That it be agreed that the Fund enter into a closed admission agreement with BT to allow the three employees to remain in the Westminster City Council Pension Fund and that the risk of any default by BT be covered by a guarantee.

6 VOLUNTARY SCHEME PAYS REQUESTS FOR 2018-2019

6.1 The Committee considered and agreed the requests in the confidential report.

6.2 **RESOLVED:**

That the voluntary scheme pays requests for 2018-2019 as set out in the report be agreed.

7 VOLUNTARY SCHEME PAYS REQUEST 2017-2018

7.1 The Committee considered and agreed the requests in the confidential report.

7.2 **RESOLVED:**

That the voluntary scheme pays request for 2017-2018 as set out in the report be agreed.

8 FUND FINANCIAL MANAGEMENT

8.1 Billie Emery (Pension Fund Manager) presented the report and highlighted the top five risks on the Risk Register. This included the London Collective Investment Vehicle (LCIV) failing to produce proposals deemed sufficiently ambitious, in light of the recent resignations that had occurred at the LCIV.

With regards to cashflow monitoring, Billie Emery explained that the spike in June 2019 was attributable to a deficit recovery payment.

8.2 During discussions, the Committee noted the governance risk in respect of the LCIV and emphasised the importance of the LCIV to be making progress. Members remarked that cashflow monitoring should be mindful of proposals in respect of the Investment Strategy and asset allocation. In respect of Risk 3 on the Risk Register for Administration, it was commented that it was important to have a contingency plan if key staff from pension administration services left abruptly.

8.3 In reply, Lee Witham acknowledged that there were a relatively small number of staff in the pension administration team, and this was also the case with a number of other local authorities. However, in respect of Westminster, turnover was lower than the average for London local authorities. Sarah Hay added that recruitment for pension administration functions added more resilience to the service.

8.4 **RESOLVED:**

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

2. That the cashflow position, the rolling 12 month forecast and the three year forecast be noted.

3. That the Forward Plan for the Committee be noted.

9 QUARTERLY PERFORMANCE REPORT

9.1 Kevin Humpherson (Deloitte) provided an update on the quarterly performance of the Fund and advised that the LCIV was currently in the process of identifying a permanent replacement for the role of Chief Investment Officer. An appointment had been made in respect of a lead person to work on environmental, social and governance (ESG) issues and they were due shortly to take up post. Kevin Humpherson advised that he was due to meet the LCIV next week and he would update the Committee on matters at the next meeting.

9.2 Members sought an update regarding the transfer of funds from the Longview mandate and the situation concerning CQS. Comments were also sought in respect of the LGIM transition.

9.3 In reply, Kevin Humpherson advised that £50m of Longview assets were to be transferred to Pantheon, whilst discussions needed to take place concerning the allocation of a further £20m from Longview. Turning to CQS, Kevin Humpherson stated that the LCIV had placed CQS under review, however Deloitte’s position was there had been no developments that would lead them to review CQS at present.

9.4 Phil Triggs stated that he was content with the process and timescale involved in respect of the LGIM transition and the associated costs were within reasonable parameters. He added that the Fund was also benefitting from currency hedging.

9.5 **RESOLVED:**

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

10 FUNDING STRATEGY STATEMENT

10.1 Phil Triggs (Tri-Borough Director of Treasury and Pensions) presented the report and stated that the draft Funding Strategy Statement (FFS) had been put together with the assistance of the Fund's actuary. The FFS was now at consultation stage and the final version would be published following the actuary's final valuation and the responses to the consultation. The final version of the FFS would go before the Committee at the March meeting.

10.2 The Committee approved the draft FFS.

10.3 **RESOLVED:**

That the draft Funding Strategy Statement be approved, pending consultation with the employers, and that authority be delegated to the Tri-Brough Director of Treasury and Pensions in consultation with the Chairman to publish the final Funding Strategy Statement.

11 INVESTMENT STRATEGY STATEMENT AND INVESTMENT BELIEFS

11.1 Phil Triggs presented this item and stated that the Investment Strategy Statement (ISS) was a working document and the investment beliefs would underpin the ISS.

11.2 In noting that the ISS was a working document, the Committee agreed to an additional meeting being arranged to discuss the ISS and investment beliefs. Members were also requested to complete questionnaires on investment beliefs and that these be returned to Phil Triggs and Kevin Humpherson for analysis.

11.3 **RESOLVED:**

That an additional meeting of the Committee be arranged to consider the Investment Strategy Statement and investment beliefs.

12 RESPONSIBLE INVESTMENT AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES

12.1 The Committee agreed that further consideration with regards to environmental, social and governance (ESG) polices take place after the ISS had been agreed. Phil Triggs added that ESG was an important area of work and the new document would be based on best practice and he welcomed feedback from Members on this report.

12.2 **RESOLVED:**

That environmental, social and governance policies be considered further following the agreement of the Investment Strategy Statement.

13 ASSET ALLOCATION REVIEW

13.1 The Committee agreed to reconsider asset allocation following agreement on investment beliefs and the ISS.

13.2 **RESOLVED:**

That the asset allocation be reconsidered following the agreement of the Investment Strategy Statement and investment beliefs.

14 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

14.1 Phil Triggs advised that the next Pensions Annual General Meeting was to take place on 26 May.

15 EXCLUSION OF PRESS AND PUBLIC

15.1 That under Section 100 (A) (4) and Part 1 of Schedule 12A to the Local Government Act 1972 (as amended), the public and press be excluded from the meeting for the following items of business because they involve the likely disclosure of exempt information on the grounds shown below and it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information:

Items 6, 7 and 16.

16 MINUTES

16.1 **RESOLVED:**

That the confidential minutes of the meeting held on 23 October 2019 be signed by the Chairman as a correct record of proceedings.

The Meeting ended at 8.26 pm.

CHAIRMAN: ______________________ **DATE** ____________________

CITY OF WESTMINSTER

MINUTES

Pension Fund Committee

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Fund Committee** held on **Thursday 20th February, 2020**, Rooms 18.04 and 18.05, 18th Floor, 64 Victoria Street, London, SW1E 6QP.

Members Present: Councillors Eoghain Murphy (Chairman), Barbara Arzymanow, Angela Harvey and Patricia McAllister.

Officers Present: Gerald Almeroth (Executive Director – Finance and Resources), Phil Triggs (Tri-Borough Director of Treasury and Pensions), Mathew Dawson (Strategic Finance Manager), Billie Emery (Pension Fund Manager) and Toby Howes (Senior Committee and Governance Officer).

1 ELECTION OF CHAIRMAN/MEMBERSHIP

1.1 It was noted that Councillors Barbara Arzymanow and Angela Harvey were newly appointed substantive Members of the Committee, replacing Councillors Melvyn Caplan and Antonia Cox.

1.2 **RESOLVED:**

That Councillor Eoghain Murphy be appointed as Chairman of the Pension Fund Committee.

2 DECLARATIONS OF INTEREST

2.1 Councillor Angela Harvey declared that the Pensions and Lifetime Savings Association had been a client of hers in the past, with the relationship no longer current.

3 DRAFT INVESTMENT STRATEGY STATEMENT AND INVESTMENT BELIEFS

3.1 The Committee had before it the draft Investment Strategy Statement (ISS) and draft Investment Beliefs. Phil Triggs (Tri-Borough Director of Treasury and Pensions) advised that it was good governance to review the ISS on an annual basis, whilst this was the first time that a set of Investment Beliefs had been drawn up. The Committee agreed that the ISS be reviewed on an annual basis.

3.2 The Committee then first considered the draft Investment Beliefs that were based on the five principles of investment governance, long term approach, environmental, social and governance (ESG) factors, asset allocation and management strategies.

3.3 In respect of investment governance, the Committee noted that there were a number of training opportunities available for Members, however it was asked what steps would be taken to ensure that new Members of the Committee received the appropriate training. One Member commented that they had previously received training whilst a Member of the Pension Board. It was noted that a rolling training programme for Committee Members was in place which frequently occurred before or after a Committee meeting and Members welcomed the continuation of this approach. A Member remarked that the Pensions Lifetime Association offered useful training. The Committee stated that consideration should be given as to what extent comparisons were made with the Fund's investment consultants with other investment consultants. Members also asked what other journals on pension related matters were available to them.

3.4 In reply, Phil Triggs stated that discussions would take place with new Members of the Committee with regards to their training needs. He advised that the usual competitive tendering would take place once the contract with the current investment consultant had expired. Members were welcome to collect any pension journals or have these journals sent to them where there were items of particular interest.

3.5 Turning to the long term approach, Members commented that this should reflect that there had been a reduction in equities allocation. The Committee agreed that Point 2d of the long term approach section be re-worded so that it reflects that overall there is a diversified Fund.

3.6 The Committee then considered ESG factors. Members remarked that this should reflect the fact that there had been a notable shift in moving towards ESG assets in the past 12 months and it should be noted that these were now more prominent. Point 3d of this section should also recognise the current mood with regards to ESG considerations during the Committee's decision-making process. Members also sought clarification with regards to what timescales did long-term imply.

3.7 Phil Triggs advised that ESG factors would be a consideration as part of the ISS review. Point 3a of this section set out the advantages of investing in ESG. Phil Triggs advised that 'long term' would mean a period from when a new member of staff was appointed right through to when they were drawing their pension.

3.8 The Committee indicated its satisfaction with the asset allocation investment beliefs.

3.9 Turning to management strategies, Phil Triggs explained that the second sentence of 5c referred to where fund manager fees had previously been performance based. The Committee commented that there should be a distinction between performance of the market and performance of the Fund. It was agreed that words “rather than the performance of the market” be deleted at the end of 5c.

3.10 The Committee then considered the ISS. In respect of objective 7.2 (a), a requirement to invest fund money in a wide range of instruments, Members emphasised the importance of maintaining liquidity for the Fund.

3.11 Turning to objective 7.2 (b), the authority’s assessment of the suitability of particular investments and types of investment, it was commented that due diligence should be refreshed with existing factors. Members noted that a general paper on this matter could be produced for the Committee. It was also suggested that a paper on how benchmarking was undertaken could be provided. The Committee agreed to move paragraph 3.2 of objective 7.2 (b) to the beginning of paragraph 3.1.

3.12 With regard to objective 7.2 (c), the authority’s approach to risk, including ways in which risks are to be measured and managed, Members suggested that a breakdown of Fund assets by country would be useful and Phil Triggs advised that this information could be provided as part of the quarterly fund performance reports.

3.13 For objective 7.2 (d), the authority’s approach to pooling investments, including the use of collective investment vehicles, the Committee noted the significant savings on fund manager fees obtained since the Fund had become part of the London Collective Investment Vehicle. Members also noted that the figures set out in paragraph 5.7 of this objective would change on a quarterly basis, and the final version of the ISS would have the latest figures.

3.14 Moving on to objective 7.2 (a), how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention, and realisation of investments, Members noted that a report on carbon exposure review had been considered by the Committee in October 2019.

3.15 In reply to questions from Members, Phil Triggs advised that the Council, as the administering authority of the Fund, engages in dialogue with other organisations in the Fund with regards to ESG matters, including at the Pensions Annual General Meeting.

3.16 The Committee agreed that the ESG policy also be circulated to external organisations of the Fund. In respect of the last bullet point of 6.8, the Committee also agreed that this be re-worded so that scheme members gain the trust of the governance process.

3.17 The Committee then considered objective 7.2 (f), the exercise of rights (including voting rights) attaching to investments, Phil Triggs advised that the

Council did carry some influence on the Pension and Lifetime Savings Association (PSLA) and the Local Authority Pension Fund Forum (LAPFF) as a member of both these organisations. Updates on the Council's participation with the PSLA and the LAPFF could be provided to the Committee on a quarterly basis.

3.18 The Committee then considered the Responsible Investment Policy in Appendix D of the ISS. Members requested that the word 'notwithstanding' at the beginning of paragraph 1.7 be replaced with a more appropriate word. A re-wording of paragraph 1.10b in respect of passive managers was requested to provide greater clarity. An alternative word to 'investable' in the first word of the last sentence of paragraph 1.11 was also requested.

3.19 The Committee then finally considered Strategic Asset Allocation as Appendix E of the ISS. Members commented that there be the appropriate assurances in place in respect of liquidity of the Fund.

The Meeting ended at 7.14 pm.

CHAIRMAN: ______________________ **DATE** ___________________

City of Westminster

Pension Fund Committee

Date:	**19th March 2020**
Classification:	**General Release**
Title:	**Pension Administration Update**
Report of:	**Sarah Hay, Pensions Officer People Services**
Wards Involved:	**All**
Policy Context:	**Service Delivery**
Financial Summary:	**Limited**

1. Introduction

1.1 This report provides a summary of the performance of Surrey County Council (SCC) with the Key Performance Indicator (KPI) for the period January 2020. The detailed KPIs are shown in Appendix 1. There is an update on the overseas suspended pensioners in Section 4 and an update on the 101 negotiations and the relationship with Surrey in Section 5. The data issues will be covered in a separate paper at this meeting.

2. Executive Summary

2.1 The Pension Administration KPIs are for the period January 2020. The February KPI's were not available at the time of drafting this report. The December 2019 KPI data has been included for comparison.

2.2 The 17 pensions that were suspended following the ending of last year's existence exercise have now been added to the address tracing exercise that the Interim Pension Specialist is leading.

2.3 A draft new 101 agreement has been sent to Surrey for review and we are waiting for their response to our draft service proposal. Discussions on our future pension service continue with the newly appointed pension manager in Surrey Mr Nick Weaver.

3. Surrey County Council (SCC) Performance

3.1 This paper covers the period January 2020, December data is in the appendix for comparison. Overall the performance as reflected in the KPIs was good.

3.2 KPI performance in appendix 1 is summarised below:

3.3 I am pleased to report that overall the KPI's were positive in January. There was one late processing of a retirement by two days. Additionally, due to the implementation of a robot that is sending out letters to members who have a deferred benefit that is due to come into payment, the timescale has been reduced to one month from two. We have therefore recorded that as a 100% KPI failure but we do believe that automation should be explored for the fund to benefit from future administration efficiencies. We will work with Surrey to ensure that they move back towards sending these letters two months before payment is due, pending automation.

3.4 The Pensions Officer has been talking to Surrey about the need to provide WCC with more detailed data on our workloads and other data impacting our fund going forward in addition to the KPI data. This is to help ensure that the Pension Officer, WCC management and then the Pension Committee and Pension Board have a clear picture of the whole situation. We are working with Surrey to build a Monthly Administration Report to include further detail, for example on our mortality screening and further detail on the cases in progress. If the committee would like to see specific information provided, please advise and we will see if this can be included.

4. Overseas Suspended Pensions

4.1 Following the previous committee the seventeen pension records that were still suspended following the Western Union existence exercise were referred to our tracing service with Target. At the time of writing this report two of those pensioners had a trace completed that links them to the address we already had. A further pensioner has been traced to a different address to the one we had on record. We are taking steps to reinstate those pensions and try and find out why the individuals where we had the correct address did not respond to the existence checks. The remaining fourteen are still going through the checking process.

5. 101 Administration Agreement with Surrey / Heywood Software and I Connect

5.1 A new draft 101 agreement has been sent to Surrey for their review. We are keen to ensure that our new 101 agreement provides a tight framework that matches resources and workloads and to include some financial penalties for poor performance. We are working towards agreeing a new 101 with effect from the 1st of April 2020.

5.2 We have now commenced a procurement for the fund's pension administration software and are due to attend an IT Gate to discuss the best options for the fund. Our current contract for administration software runs out in November 2020. We are also investigating the possibility of adopting a monthly data interface, this is to help ensure that data issues going forward can be picked up immediately and should therefore help reduce longer term data problems.

6. Summary

6.1 We are content with the KPI data for January whilst the delay in sending out letters to people with preserved pensions with payment due is disappointing, we are keen to embrace the robot technology to automate processes where possible. Although our KPIs are relatively good we remain aware that the data improvements that we have made in the last eighteen months need to continue at a pace following the 2019 valuation. We are working with Surrey on agreeing a new 101 agreement with additional resourcing and a tighter framework with penalties for future non-compliance. We are talking to Surrey about increasing the monthly data sent to the senior pension officer to include a wider remit of WCC fund work than just the agreed KPIs. We want to ensure that our view of our data and work position going forward is comprehensive.

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Westminster City Council - Jan 2020 Results on KPI Reporting

Description	Target time/date as per Partnership Agreement	Target	Actual Score for Quarter	Quantity December 2019	Actual Score December 2019	Quantity January 2020	Actual Score January 2020	Comments	Trend	People services Comments
Pension Administration										
Death Benefits Notify potential beneficiary of lump sum death grant	5 days	**100%**	%	1	100%	0	100%	x		
Write to dependant and provide relevant claim form	5 days	**100%**	%	4	100%	5	100%	x		
Set up any dependants benefits and confirm payments due	14 days	**100%**	%	1	100%	2	100%	x		
Retirements Retirement options issued to members	5 days	**100%**	%	3	100%	6	83%	1 CASE FAILED, by 2 days		1 case late in January
New retirement benefits processed for payment following receipt of all necessary documents	5 days	**100%**	%	7	100%	7	100%	x		
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run		%	7	100%	7	100%	x		
Refunds of Contributions Refund paid following receipt of claim form	14 days	**100%**	%	28	100%	12	100%	x		
Deferred Benefits Statements sent to member following receipt of leaver notification	30 days	**100%**	%	54	100%	74	100%	38 OF THESE CASES ARE BACKLOG		

Notification to members 2 months before payments due	2 months		%	34	0%	38	0%	1 CASE FAILED, by 2 days on the month timescale. All late for two months.		Please note that Orbis are looking at the introduction of new Robot technology to automate some aspects of our pension admin including sending letters to preserved benefit cases where pension is due to be paid. This has slowed down the sending of letters in December and January to one month before payment is due from our target two. We will work towards moving back to two months. Although we do not want this KPI to slip we are keen to ensure that tecnology is embrased where there is a future benefit.
Lump Sum (on receipt of all necessary documentation)	5 days		%	11	100%	19	100%	x		
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run		%	11	100%	19	100%	x		
New Joiners New starters processed	30 days	**100%**	%	5	100%	38	100%	38 MANUAL SET UP		
Transfers In Non LGPS transfers-in quotations	30 days	**100%**	%	3	100%	7	100%	x		
Non LGPS transfers-in payments processed	30 days	**100%**	%	10	100%	7	100%			
Transfers Out Non LGPS transfers-out quotations processed	30 days	**100%**	%	1	100%	6	100%	X		
Non LGPS transfers out payments processed	30 days	**100%**	%	0	100%	1	100%	X		
Interfunds In - Quotations	30 days	**100%**	%	3	100%	4	100%	X		
Interfunds In - Actuals	30 days	**100%**	%	1	100%	1	100%	x		All 100%
Interfunds Out - Quotations	30 days	**100%**	%	9	89%	10	100%	x		
Interfunds Out - Actuals	30 days	**100%**	%	12	100%	13	100%	X		All 100%
Estimates										
1-10 cases	5 Days		%	1	100%	7	100%			All 100%

11-50 cases	Agreed with WCC		%							
51 cases or over	Agreed with WCC		%							no cases in period.
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		%	66	98%	130	100%			
Buying Additional Pensions										
Members notified of terms of purchasing additional pension	15 days		%	0	N/A	1	100%	X		
Monthly Pensioner Payroll										
Full reconciliation of payroll and ledger report provided to WCC	Last day of month				100%		100%			All 100%
Issue of monthly payslips	3 days before pay day				100%		100%			All 100%
RTI file submitted to HMRC	3 days before pay day				100%		100%			All 100%
BACS File submitted for payment	3 days before pay day				100%		100%			All 100%
P35	EOY				31-Mar-19		31-Mar-19			
Annual Exercises			**Date Achieved**							
Annual Benefit Statements Issued to Active members	31 August each year				Annual		Annual			
Annual Benefit Statements Issued to Deferred members	31 August each year				Annual		Annual			
P60s Issued to Pensioners Non LGPS transfers-in quotations processed within 20 days	31 May each year				100%		100%	Issued April 2019		April 19 Actions completed.
Apply Pensions Increase to Pensioners	April each year				100%		100%			April 19 Actions completed.
Pensioners Newsletter	April each year				100%		100%			April 19 Actions completed.
								Issued April 2019		

Correspondence										
Acknowledgement if more than 5 days	2 days									
Response	10 days			13	85%	16	100%			
3rd party enquires	10 days									
Helpdesk Enquiries										
Volumes of Enquiries Handled By Helpdesk	Number of Enquiries Handled									
					-		-			
Customer Surveys										
Monthly survey to retirees	Percentage Satisfied with Service									

City of Westminster

Pension Fund Committee

Date:	**19th March 2020**
Classification:	**General Release**
Title:	**Pension Data Quality Issues**
Report of:	**Eleanor Dennis, Interim Pensions Specialist People Services**
Wards Involved:	**All**
Policy Context:	**Compliance**
Financial Summary:	**Limited**

1.0 Executive Summary

1.1 The Fund and The Pension Regulator has increased their focus on data quality. The key areas of concern for the City of Westminster Pension Fund (COWPF) are Status 1, Status 2 and address gone away.

1.2 Progress has been made to complete more than two thirds of the outstanding Status 1 cases.

1.3 It has been identified that there are more Status 2 cases than previously thought but there are options on how to process these cases at an additional cost to the Fund.

1.4 Tracing of address gone aways has resulted in nearly 500 more up to date addresses for the Fund's members.

1.5 Independent analysis by ITM has provided a further insight into other areas of COWPF's data that the Fund can now work with Surrey to resolve.

2.0 Introduction

2.1 The Pension Regulator has placed an increased emphasis on the importance of pension schemes ensuring they have good quality data. This is necessary to ensure that the scheme is managed properly but this cannot be done effectively if records are inaccurate, incomplete or not up to date.

2.2 Over the last 12 months a number of data issues have been identified and the pension specialist has worked closely with the Funds administrators and third parties to analyse, identify and improve the quality of the COWPF data.

2.3 The last data quality report demonstrated a significant improvement in the quality of the data of the COWPF (The scores for 2018/19 show an improvement of 14.5% in the common data score and 22.1% conditional data score respectively but there is still work to do.) It is important the good progress made is maintained and data continues to be closely monitored on a regular basis, to ensure the improvement made continues and the quality improves in the future.

2.4 Managing data is high risk as poor data can have a big impact on members benefits and can be expensive for the Fund if things go wrong.

3.0 Key areas Data issues identified

3.1 Status 2 - Legacy undecided leavers

Approximately 1500 legacy status 2 cases (pre November 2018) were identified by Surrey and it was agreed that these would be resolved by engaging with a third party provider of the administrator's choice, JLT. Work was slow to commence, and progress was poorly project managed by Surrey. The intervention of the pension specialist enabled better understanding of expectations and an improved relationship, however the inexperience and inefficiently of the JLT 's processes meant that processing by JLT ceased in December 2019. Surrey continued to complete cases that JLT started but did not finish as a goodwill gesture. Approximately 600 cases have been completed and invoicing for work will be staggered.

3.2 Since then the Fund has asked Surrey to provide an alternative resolution to JLT, on processing the remainder 900 +outstanding cases, plus the additional Status 2 cases recently identified by a third party (ITM). They have confirmed a draft proposal using a temporary resource costing £41,450, and an estimated time to complete of 12 – 15 months. They have in addition recommended the Fund recruit a permanent resource in the role of Data quality Officer at an estimated cost of £24,430 per annum. Please note at this stage Surrey have provided this information with the caveat that an inhouse solution may not be viable, due to the difficulty in recruiting with LGPS experience, BAU impact and focusing on key projects such as I-Connect and regulatory changes due i.e. the McCloud ruling.

3.3 Due to their caveat, Surrey have also recommended data specialist ITM as an alternative solution to all their client's legacy data cleansing. Please see further details in 3.1.

4.0 Status 1 – Valuation impacting errors

4.1 The production of the data quality report is a Pension Regulator requirement of all pension schemes to report annually on the quality of their data and produce an improvement plan.

4.2 As a result of the poor data scores of 77.9% common data and 71% for scheme specific data in the 2018 report, the pension specialist worked with and closely monitored Surrey to prioritise working on the Valuation impacting cases first. Surrey were helped by a temporary resource, funded with additional funds of £16k agreed by the Fund.

4.3 These 364 cases were a mixture of undecided leavers, records that needed to be deleted, members still in the scheme but up to date data missing or members who were in the Teachers pension scheme and not Local Government Pension Scheme. Processing ceased in April 2019 as the administrators focused on valuation activities and the departure of the temporary resource. Work commenced again in January 2020 by using experienced existing admin team members at Surrey and to date 260 and a remaining 78 cases hope to be completed by the end of March 2020.

4.4 The 2019 data quality scores demonstrated improved scores of 89.9% common data and 93.1% scheme specific data respectively.

5.0 Data Tracing

5.1 Reports from Surrey highlighted there were a significant number of members with no current address recorded (i.e. gone aways). A decision was made to prioritise 2 sections of the membership population; pensioners and deferred's over 55, totalling 753 records by engaging directly with an experienced third party company Target.

5.2 To date 495 addresses have been found and updated on Altair. 14 deaths identified although we were already aware of 11 of these. Work will continue on the remaining 244 cases some of which will proceed to international trace of £70 per case on a no find no fee basis. In addition, 17 cases that were unsuccessful in the pensioner existence exercise have also been forwarded to Target. They have been able to contact 2 pensioners whose contact details remain the same and 1 who had moved, with pensions now to put back into payment.

6.0 Further data analysis

6.1 Given the challenges experienced in tasking Surrey to identify and resolve existing data issues. The interim Pension Specialist has led engagement for a full independent analysis of the Fund's Status 1 and Status 2 's with data specialists ITM, with agreement from the Committee, at a cost of £6,195 (excluding VAT).

6.2 The purpose of the analysis carried out in February 2020, was to enable the Fund to understand the true picture of all data errors/issues, as well as to help with assessing next steps on how to process the outstanding 900 + Status 2 cases, previously intended for JLT to complete.

The analysis proved to be a useful exercise and the results of which are detailed in appendix 1.

6.3 ITM identified that there were 1200+ status 2 records (300 more than the Fund was aware of). These 1200+ cases is high representing 31% of the active membership. ITM have experienced UK based resource to process these cases at a cost of £60,772 and have estimated that this work would take approx. 4 months.

6.4 Other key outcomes identified in the ITM report are as below;

76 records are unlinked
51 records containing an incorrect/invalid NI number
32 hold a mismatch of gender vs title
1092 frozen refunds
598 gone away addresses (which includes some actives)
27 records detailing the incorrect employer

Initial investigations have highlighted that some of the poor data was inherited from Surrey by previous administrators. Others point to gaps in Surrey's processing and discussion with Surrey has already begun to share the results of the analysis and understand how they may have occurred. It has been agreed that a more collaborative approach is required. This will include input from the WCC inhouse pension team to engage with employers on some issues that can be resolved quickly i.e. by engaging with employers on incorrect data held for active members.to resolve the issues and the Fund will be required to decide on how best to approach these data issues.

6.5 ITM have provided a further proposal to resolve the 598 gone away data tracing but we are confident in our existing relationship with Target and propose to forward a further list to Target focusing in on the frozen refund population.

6.6 In addition, their estimated costs for working through the frozen refund population is £42,588 which they estimate to complete in 4 months. Surrey have confirmed that they would complete the frozen refunds as part of BAU as none are outside of the mandatory 5 year regulatory limit, but the Fund have asked for dates so that this can be monitored.

7.0 Summary

7.1 The collaborative approach of working across all stakeholders in the Fund's data should lead to continually improving data quality score, a better member experience and compliant robust member data for the City of Westminster pension Fund.

7.2 We recommend the COWPF data improvement plan should be expanded to incorporate the results of the ITM analysis. The Fund needs to be mindful of Surrey's challenges and the capabilities and timetable of the BAU team and it may be that a staggered approach to the data processing is taken once the priority of data areas is determined. The plan should ensure that the data issues continue to be monitored to ensure that progress is made within a reasonable time period. ITM have helped to identify key areas for investigation and a decision needs to be made as to what resource is best placed to be the most effective in resolving the issues.

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City of Westminster

Pension Fund Committee

Date:	**19th March 2020**
Classification:	**General Release**
Title:	**Request Approval of Gold Care as an Admission Body in the WCC Pension Fund.**
Report of:	**Sarah Hay Pensions Officer**
Financial Summary:	**Negligible risk**
Report Author and Contact Details:	**Sarah Hay 0207 641 6015**

1. Executive Summary

1.1 This report is requesting that the committee agree to allow two employees of Sanctuary who are being TUPE transferred to Gold Care on March 16th 2020 to remain in the Westminster City Council (WCC) pension fund.

2. Admission Agreement

2.1 Westminster Council transferred the running of two care homes, Carlton Dene and Westmead to Sanctuary in October 2015. A number of Westminster staff were TUPE transferred at the same time and a closed admission agreement was agreed with Sanctuary that allowed the staff to remain in the Local Government Pension Scheme (LGPS). Since 2015, a number of the original staff have left Sanctuary with only two staff remaining with an entitlement to the LGPS.

2.2 During the winter of 2019/2020 management determined that the care service package should be moved from Sanctuary to Gold Care.

2.3 We are requesting a closed admission agreement which will allow the two employees membership of the pension fund through employment with Gold Care. The expected duration of the contract is 9 months plus a possible extension of a further 6 months, WCC will be reviewing the longer term service options going forward.

2.4 The employers' rate for the two individuals will be based on the actuary recommendation. At the time of writing this report the actuarial report is not available. The Fund will also seek a guarantee by the parent company or a bond to cover the risk of default to the value the actuary identifies.

3. Recommendation

3.1 That the committee agree that the Fund enter into a closed admission agreement with Gold Care that allows the two employees to remain in the WCC pension fund.

3.2 That the Fund agree a guarantee or bond to cover the risk of any default by Gold Care.

If you have any questions about this report, or wish to inspect one of the background papers, please contact:
Sarah Hay Tel: 0207 641 6015

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**19 March 2020**
Classification:	**General Release**
Title:	**Triennial Valuation**
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:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. EXECUTIVE SUMMARY

1.1 This paper introduces the final results of the 2019 triennial actuarial valuation process for the City of Westminster Pension Fund, which are further discussed in Appendix 1 attached by the Pension Fund's actuary, Barnett Waddingham (BW). The Funding Strategy Statement is attached as Appendix 2.

1.2 The key highlights are:

- The Fund's funding level, as a whole, has risen to 99% from the 80% level in 2016, which is broadly due to the excellent investment returns over the period, increasing by £209m more than expected.

- The two major changes to the assumptions are a reduction in the real discount rate and a reduction in the long term improvement in pensioner longevity. These two changes combined broadly net off, with the liabilities increasing by £10m in total as a result.

1.3 This paper builds on the initial draft valuation brought to the Pension Fund Committee on 23 October 2019.

2. RECOMMENDATIONS

2.1 That the Pension Fund Committee approves the 2019 triennial actuarial valuation and the Funding Strategy Statement.

3. FINAL ACTUARIAL RESULTS

3.1 In the period from 2016 to 2019, the Pension Fund has increased its overall funding level from 80% to 99%. The main drivers for this improvement were the significant investment returns of £209m above what was assumed in 2016.

3.2 The funding level for Westminster City Council (as a single employer) stands at 86%, improving from 70% previously.

4. CHANGES TO ACTUARIAL ASSUMPTIONS

4.1 There are a number of assumptions made during the triennial actuarial valuation process, with the two most significant ones being longevity projections and the real discount rate used to value liabilities.

4.2 Longevity rates have shown a decline in improvement since 2011, which implies that mortality expectations have started to flatten out. The actuary has taken into account this trend by reducing the long term improvement expectations from 1.50% per annum to 1.25% per annum. This small adjustment makes a substantial difference to the valuation of the liabilities, reducing the total by approximately £83m.

4.3 The real discount rate, a proxy for the real investment return, has fallen from 2016 to 2019, falling from 2.7% (5.1% investment return less 2.4% CPI) to 2.2% (4.8% investment return less 2.6% CPI). The discount rate has reduced for investments as BW has considered that investments have risen significantly in recent years and has factored in a higher level of prudence going forward.

4.4 As a result of the financial changes and demographic changes above, the net increase to the Fund’s overall contribution rate is 1.0%, rising from 16.9% to 17.9%.

4.5 Employers have been fully consulted on their employer contribution rates ahead of the new financial year and have been provisionally agreed.

5 WESTMINSTER AS AN EMPLOYER

5.1 For Westminster City Council as an employer, the average primary contribution rate has risen from 15.7% to 16.8%. The overall contribution rate charged to services has been kept stable for 2020/21 at 24.6%, reflecting the continued deficit recovery requirement.

5.2 Westminster as an employer will continue to pay a deficit recovery amount, which has been set at £22.7 million for 2020/21 in line with 2019/20 budgets. The Council has provisionally agreed to pay off its remaining deficit during the 2019 to 2022 valuation cycle, by paying a lump sum in 2021/22 to save on long term interest costs against the deficit. The latest figure as at December 2019 is a requirement to pay £80m which would be charged to revenue over the 13-year deficit recovery period.

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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: Triennial Actuarial Valuation
Appendix 2: Funding Strategy Statement

VALUATION REPORT

City of Westminster Pension Fund

Actuarial valuation as at 31 March 2019

Barry McKay FFA
Matthew Paton FFA | Barnett Waddingham LLP

Introduction

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We have been asked by Westminster City Council, the administering authority for the City of Westminster Pension Fund (the Fund), to carry out an actuarial valuation of the Fund as at 31 March 2019. The Fund is part of the Local Government Pension Scheme (LGPS), a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 (the Regulations) as amended.

The purpose of the valuation is to review the financial position of the Fund and to set appropriate contribution rates for each employer in the Fund for the period from 1 April 2020 to 31 March 2023 as required under Regulation 62 of the Regulations. Contributions are set to cover any shortfall between the assumed cost of providing benefits built up by members at the valuation date and the assets held by the Fund and to also cover the cost of benefits that active members will build up in the future.

This report is provided further to earlier advice dated 26 September 2019 which set out the background to the valuation and explained the underlying methods and assumptions derivation.

This report summarises the results of the valuation and is addressed to the administering authority of the Fund. It is not intended to assist any user other than the administering authority in making decisions or for any other purpose and neither we nor Barnett Waddingham LLP accept liability to third parties in relation to this advice.

This advice complies with Technical Actuarial Standards (TASs) issued by the Financial Reporting Council – in particular TAS 100: Principles for Technical Actuarial Work and TAS 300: Pensions.

We would be pleased to discuss any aspect of this report in more detail.

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Executive summary

Some of the key results contained within this report are set out below:

1. Funding position

Using the agreed assumptions, the Fund's funding level has increased to 99% at 31 March 2019, an increase of 19% from 80% at 31 Marchn 2016.

2. Change in funding position

The main reason for the increase is the **strong investment performance of 10.8% p.a.** but gains in the funding position have been partially offset by a reduction in future anticipated investment returns and higher expectations of inflation.

3. Contributions

Primary rates have increased due to the reduction in future anticipated returns but **secondary rates have reduced** as a result of the improved funding level. **Stable employer contributions** have generally been achieved and are set out in Appendix 4 in the Rates and Adjustments Certificate.

4. Method and assumptions

The resulting method and assumptions are set out in Appendix 2 and we believe they are appropriate for the 31 March 2019 valuation.

5. Regulatory risks

Regulatory uncertainties have put increased pressure on the 2019 valuation results. An allowance for McCloud/Sargeant has been made in the discount rate and more detail is included within this report.

Background to valuation approach

The purpose of the 2019 actuarial valuation is to set appropriate contribution rates for each employer in the Fund for the period from 1 April 2020 to 31 March 2023, as required under Regulation 62 of the LGPS Regulations.

The contribution rates consist of two elements, the primary rate and the secondary rate:

- The primary rate for each employer is the employer's future service contribution rate (i.e. the rate required to meet the cost of future accrual of benefits) expressed as a percentage of pay.
- The secondary rate is an adjustment to the primary rate to arrive at the total rate each employer is required to pay (for example, to allow for deficit recovery). The secondary rate may be expressed as a percentage of pay or a monetary amount.

Regulation 62 specifies four requirements that the actuary "must have regard" to and these are detailed below:

1. The existing and prospective liabilities arising from circumstances common to all those bodies
2. The desirability of maintaining as nearly a constant a primary rate as possible
3. The current version of the administering authority's Funding Strategy Statement (FSS)
4. The requirement to secure the "solvency" of the pension fund and the "long-term cost efficiency" of the Scheme, so far as relating to the pension fund

The wording of the second objective is not ideal in that it appears to be aimed towards the primary rate rather than taking into account the surplus or deficit of the employer. We believe that if we achieve reasonably stable total individual employer rates (which seems like a preferable objective) then we will also meet the regulatory aim.

Definitions for "solvency" and "long-term cost efficiency" are included in CIPFA's Funding Strategy Statement guidance. These can be briefly summarised as:

- ensuring that employers are paying in contributions that cover the cost of benefit accrual and target a fully funded position over an appropriate time period using appropriate actuarial assumptions, and
- that employers have the financial capacity to increase contributions (or there is an alternative plan in place) should contributions need to be increased in future.

We have considered these four requirements when providing our advice and choosing the method and assumptions used and a number of reports and discussions have taken place with the administering authority before agreeing the final assumptions to calculate the results and set contribution rates. In particular:

- The initial results report dated 26 September 2019 which provides information and results on a whole fund basis as well as more detailed background to the method and derivation of the assumptions.
- The Funding Strategy Statement which will confirm the approach in setting employer contributions.

Note that not all these documents may be in the public domain.

The final assumptions have been agreed with the administering authority. We suggest that the Fund's Funding Strategy Statement is reviewed to ensure that it is consistent with this approach as well as complying with the updated version of CIPFA's Funding Strategy Statement guidance.

We confirm that in our opinion the agreed assumptions are appropriate for the purpose of the valuation. Assumptions in full are set out in Appendix 2.

Regulatory uncertainties

There are currently a few important regulatory uncertainties surrounding the 2019 valuation as follows:

- Effect of the McCloud and Sargeant cases and the cost cap on the future and historic LGPS benefits structure
- Change in timing of future actuarial valuations from a triennial cycle
- Guaranteed Minimum Pensions (GMP) equalisation

Although it is unclear what impact these uncertainties will have on the future benefits of individual members, we have considered these issues in the assumptions used to set the contribution rates for employers. We have made an allowance for the McCloud/Sargeant cases in our derivation of the discount rate and our approach taken to the treatment of McCloud/Sargeant will be disclosed in the Funding Strategy Statement.

Membership data

A summary of the membership data used for the valuation is set out in Appendix 1.

The membership data has been checked for reasonableness and we have compared the membership data with information in the Fund accounts. Any missing or inconsistent data has been estimated where necessary. While this should not be seen as a full audit of the data, we are happy that the data is sufficiently accurate for the purposes of the valuation.

Benefits

Full details of the benefits being valued are 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.

Valuation of liabilities

To calculate the value of the liabilities, we estimate the future cashflows which will be made to and from the Fund throughout the future lifetime of existing active members, deferred benefit members, pensioners and their dependants. We then discount these projected cashflows using the discount rate which is essentially a calculation of the amount of money which, if invested now, would be sufficient together with the income and growth in the accumulating assets to make these payments in future, using our assumption about investment returns.

This amount is called the present value (or, more simply, the value) of members' benefits. Separate calculations are made in respect of benefits arising in relation to membership before the valuation date (past service) and for membership after the valuation date (future service).

To produce the future cashflows or liabilities and their present value we need to formulate assumptions about the factors affecting the Fund's future finances such as inflation, salary increases, investment returns, rates of mortality, early retirement and staff turnover etc.

The assumptions used in projecting the future cashflows in respect of both past service and future service are summarised in Appendix 2.

Assets

We have been provided with audited Fund accounts for each of the three years to 31 March 2019.

The market asset valuation as at 31 March 2019 was £1,418,332,000. Please note that this excludes members' additional voluntary contributions (AVCs).

For the purposes of the valuation, we use a smoothed value of the assets rather than the market value. The financial assumptions that we use in valuing the liabilities are smoothed around the valuation date so that the market conditions used are the average of the daily observations over the period 1 January 2019 to 30 June 2019. Therefore we value the assets in a consistent way and apply the same smoothing adjustment to the market value of the assets.

The smoothed asset valuation as at 31 March 2019 was £1,410,581,000. This was based on a smoothing adjustment of 99.5%.

The Fund's long-term investment strategy has been taken into consideration in the derivation of the discount rate assumption. The investment strategy is set out in the Fund's Investment Strategy Statement (ISS) that should be made publicly available on the Fund's website.

Previous valuation

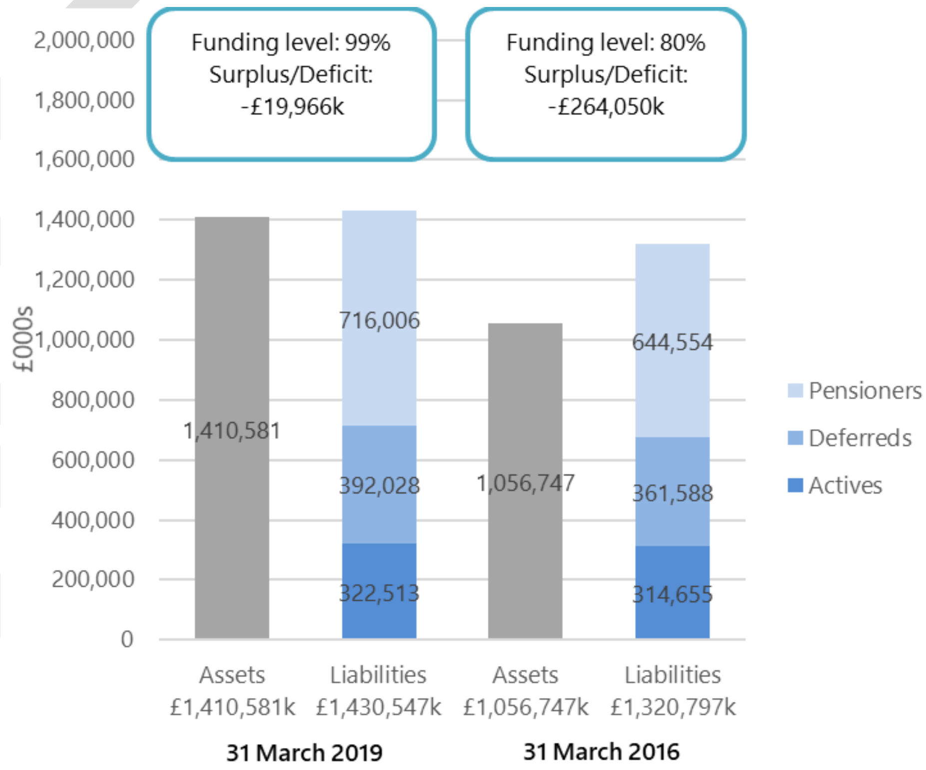
The previous valuation was carried out as at 31 March 2016 by Graeme Muir. The results are summarised in the valuation report dated 31 March 2017 and reported a deficit of £264,050,000.

Results

Shortfall between assets and liabilities

A comparison is made of the value of the existing assets with the value of liabilities. If there is an excess of assets over the liabilities then there is a surplus. If the converse applies there is a deficit.

Using the assumptions summarised in Appendix 2, the results of the valuation are set out in the graph below. This shows how well funded the Fund was at the valuation date.



There was a deficit of £19,966,000 in the Fund at the valuation date, corresponding to a funding level of 99%.

Contribution rates

The total contribution rate payable by employers consists of two elements: the primary rate and the secondary rate.

Primary rate

Using the assumptions summarised in Appendix 2, the resulting average primary rate across the whole Fund is set out in the table below after allowing for member contributions.

The primary rate for the whole Fund is the weighted average (by Pensionable Pay) of the individual employers' primary rates (after allowing for member contributions).

Primary rate	Valuation basis 31 March 2019 % of payroll p.a.	Previous valuation 31 March 2016 % of payroll p.a.
Average total future service rate	25.3%	24.3%
Less average member rate	-7.4%	-7.4%
Fund primary rate	**17.9%**	**16.9%**

Active members pay contributions to the Fund as a condition of membership in line with the rates required under the Regulations.

Please note that expenses are dealt with in the derivation of the discount rate and therefore we make no explicit allowance in the primary rate for expenses.

Secondary rate

The secondary rate is an adjustment to the primary rate to arrive at the total rate each employer is required to pay (for example, to allow for deficit recovery). Where there is a deficit, contributions should be set to restore the funding positions to 100% over an agreed "recovery period".

Please note that the recovery period for individual employers varies across the Fund but the administering authority will set out their approach in their FSS to setting recovery periods to address each employer's shortfalls. Where there is a surplus, in line with the Fund's FSS this may be reflected in contribution rates.

The primary and secondary rate of the individual employer contributions payable are set out in the Rates and Adjustments Certificate in Appendix 4. These will differ from the primary rate set out above as well as varying from each other as they are either based on the employer's own membership and experience or they are the employer's share of the contributions payable within a pool of employers.

The secondary contributions agreed with individual employers have been set at this valuation in order to restore the Fund to a funding position of 100% by 31 March 2039.

In Appendix 4 we also disclose the sum of the secondary rates for the whole Fund for each of the three years beginning 1 April 2020.

Standardised basis

As part of our calculations we have considered the results on a standardised basis as set by the Scheme Advisory Board (SAB). We are required to provide the Scheme Advisory Board with the results for the Fund for comparison purposes.

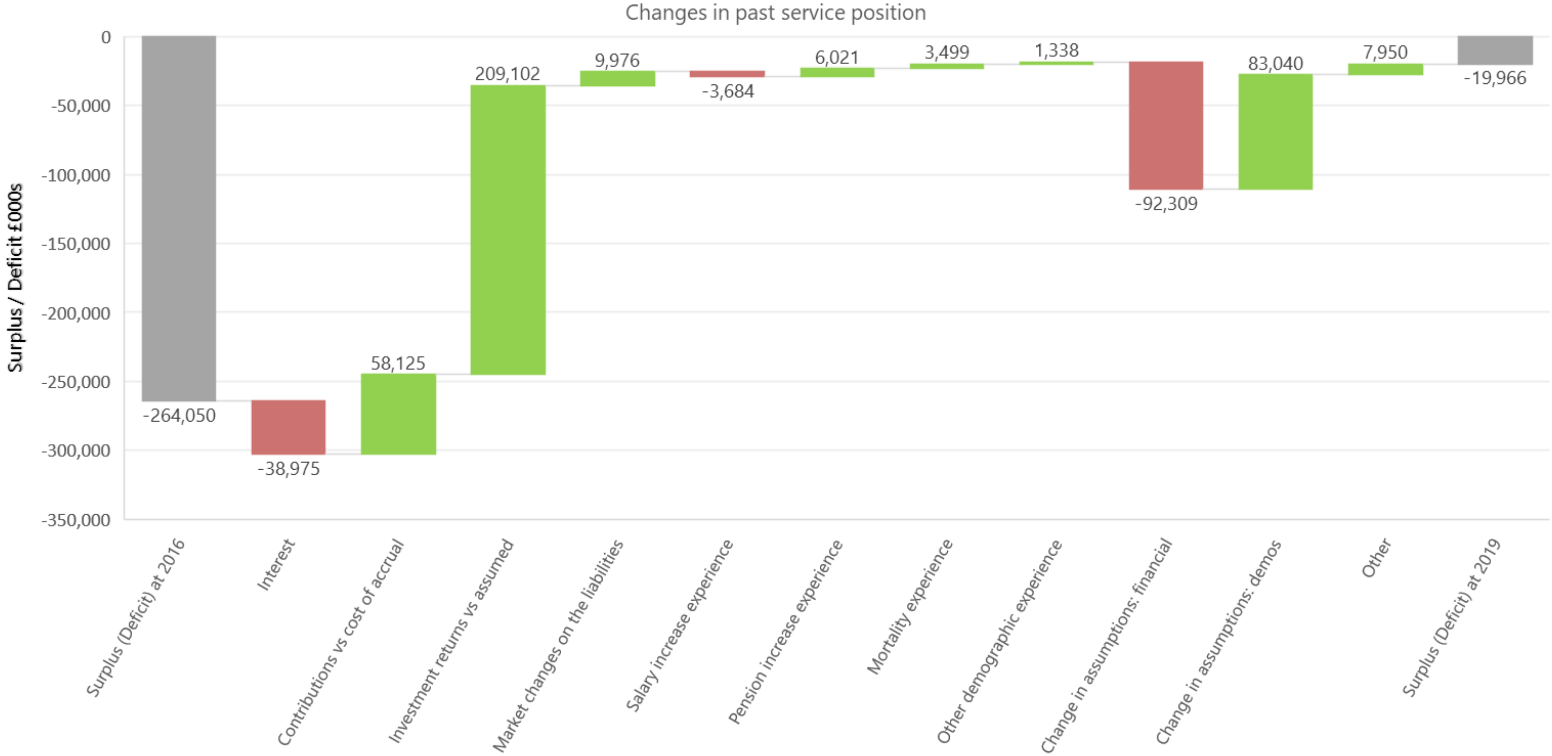
The standardised basis is set by the Government Actuary's Department (GAD) with some of the assumptions used being set locally (such as mortality) and some are set at Scheme level (including all the financial assumptions). It is not used to set contributions as it does not reflect the Fund's investment strategy or the administering authority's attitude to risk; contributions are set using the funding basis.

The results on the standardised basis as at 31 March 2019 are set out in the dashboard in Appendix 3. The dashboard has been introduced since the previous valuation to assist readers to compare LGPS valuation reports and the information will be used by GAD in their Section 13 review of the LGPS funds.

Reconciliation to the previous valuation

Funding position

The previous valuation revealed a deficit of £264,050,000. The key factors that have influenced the funding level of the Fund over the period are illustrated in the chart below.



Experience

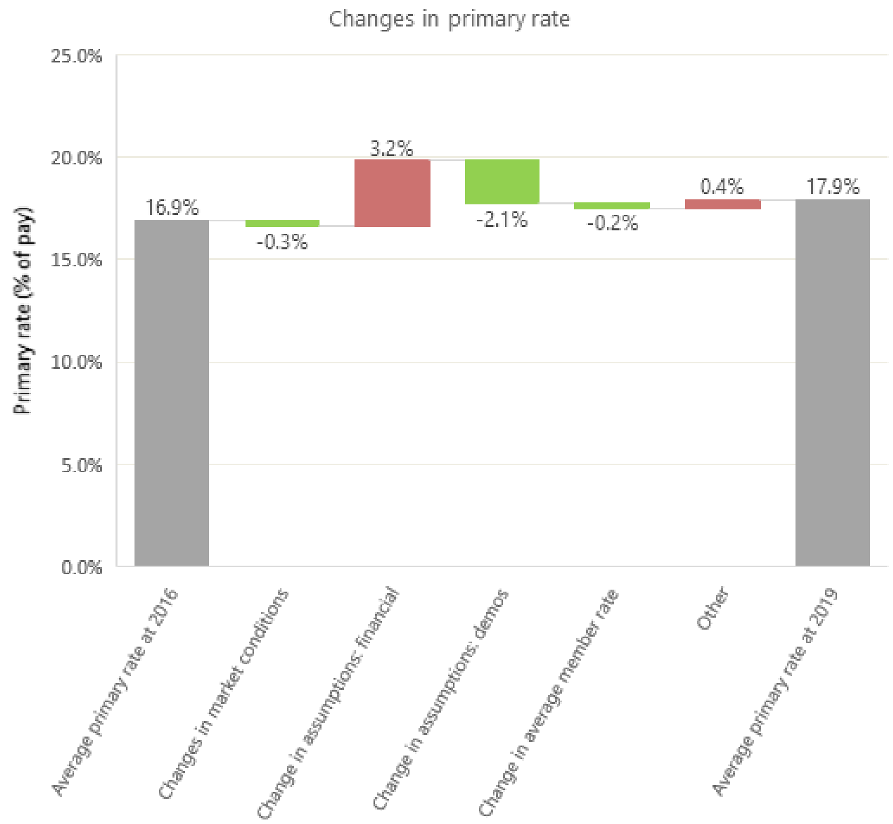
- Investment returns have been strong since 2016 leading to a profit of £209.1m. The Fund has returned over 10.8% p.a. compared to the assumed return of 5.1% p.a. over the three year period. Please note that the assumed return is a long-term assumption.
- Contributions paid were slightly higher than the cost of benefits accrued as the employers made deficit contributions resulting in a profit of £58.1m.
- Salary increases were greater than assumed but this was offset by pension increases being less than assumed resulting in a profit of £2.3m. The overall impact of other demographic experience resulted in a profit of £4.8m.
- The “Other” item is mainly a result of ongoing transfers to and from the Fund that have not been settled as yet.

Assumptions

- A review of the approach when setting the financial assumptions combined with the change in market conditions resulting in an increase in the liabilities of £82.3m
- Updating the mortality assumptions to allow for a fall in future life expectancies resulting in a decrease in the liabilities of £83.0m

Primary contribution rate

The previous valuation resulted in an average primary rate of 16.9% of Pensionable Pay. The reasons for the change in the cost of future benefit accrual are set out in the reconciliation chart below.



Sensitivities to the liabilities

The results set out in this report are based on a particular set of assumptions. The actual cost of providing the benefits will depend on the actual experience, which could be significantly better or worse than assumed. The sensitivity of the results to some of the key assumptions is set out in the table below.

The figures in the table are shown relative to the deficit of £19,966,000 and funding level of 99% on the agreed funding basis.

Sensitivity analysis - Past service funding position

	Valuation basis	Decrease discount rate by 0.1% p.a.	Increase CPI inflation by 0.1%	Increase salary assumption by 0.5%	Increase initial addition to mortality improvement by 0.5%	Increase long-term rate of mortality improvement by 0.25%	Twice as many ill-health retirements
	£000	£000	£000	£000	£000	£000	£000
Smoothed asset value	1,410,581	1,410,581	1,410,581	1,410,581	1,410,581	1,410,581	1,410,581
Total past service liabilities	1,430,547	1,453,451	1,451,683	1,439,176	1,447,658	1,442,744	1,434,629
Surplus (Deficit)	**-19,966**	**-42,870**	**-41,102**	**-28,595**	**-37,077**	**-32,163**	**-24,048**
Funding level	99%	97%	97%	98%	97%	98%	98%

Sensitivities to the primary contribution rate

The calculated primary contribution rate required to fund benefits as they are earned from year to year will also be affected by the particular set of assumptions chosen. The sensitivity of the primary rate to changes in some key assumptions is shown below. Please note that the primary rate set out below does not include any adjustment via the secondary rate. The total contribution rate payable by employers will be a combination of the primary rate and a secondary rate adjustment, further details can be found in Appendix 4.

Sensitivity analysis - Primary rate

	Valuation basis	Decrease discount rate by 0.1% p.a.	Increase CPI inflation by 0.1%	Increase salary assumption by 0.5%	Increase initial addition to mortality improvement by 0.5%	Increase long-term rate of mortality improvement by 0.25%	Twice as many ill-health retirements
	% of pay	% of pay	% of pay	% of pay	% of pay	% of pay	% of pay
Total future service rate	25.3%	26.0%	25.5%	25.4%	25.6%	25.6%	26.0%
less employee contribution rate	-7.4%	-7.4%	-7.4%	-7.4%	-7.4%	-7.4%	-7.4%
Total primary rate	**17.9%**	**18.6%**	**18.1%**	**18.0%**	**18.2%**	**18.2%**	**18.6%**

Final comments

Funding Strategy Statement (FSS)

The assumptions used for the valuation must be documented in a revised Funding Strategy Statement to be agreed between the Fund Actuary and the administering authority.

Risks

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 are:

- Employer covenant risk
- Investment risk
- Inflation risk
- Mortality risk
- Member options risk
- Regulatory risk

Sensitivity to some of these risks were set out in the sensitivities section of this report. Please note that this is not an exhaustive list. Further information on these risks and more can be found in our initial results report and will be set out in greater detail in the Funding Strategy Statement.

Rates and Adjustments Certificate

The contributions payable in respect of benefit accrual and any deficit contributions under each employer's recovery period have been set out in Appendix 4 in the Rates and Adjustments Certificate in accordance with Regulation 62 of the Regulations and cover the period from 1 April 2020 to 31 March 2023. In this certificate no allowance will be made for additional costs arising which need to be met by additional contributions by the employer such as non-ill health early retirements.

The contributions in the Rates and Adjustments Certificate are set so that each employer's assets (including future contributions) are projected to be sufficient to cover the benefit payments for their members, on the assumptions set out in this report. Where there is currently a deficit for an individual employer, recovery of this deficit is targeted in line with the Fund's FSS and all employers are projected to be fully funded after a recovery period length of no more than 19 years.

This document has been agreed between the administering authority and the Fund Actuary. Contributions have been set which in our opinion meet the regulatory requirements and the funding objectives set out in the Fund's Funding Strategy Statement.

This report must be made available to members on request.

The next formal valuation is due to be carried out as at 31 March 2022 however we would recommend that the financial position of the Fund is monitored regularly during the period leading up to the next formal valuation. We would be happy to give more detail about the ways that this can be achieved.

Barry McKay

Barry McKay FFA
Partner
Barnett Waddingham LLP

Appendices

Appendix 1 Summary of membership data and benefits

Membership data

The membership data has been provided to us by the administering authority on behalf of the Fund's administrators. We have relied on information supplied by the administering authority being accurate.

The membership data has been checked for reasonableness and we have compared the membership data with information in the Fund's accounts. The numbers in the tables below relate to the number of records and so will include members in receipt of, or potentially in receipt of, more than one benefit.

Any missing or inconsistent data has been estimated where necessary. Whilst this should not be seen as a full audit of the data, we are happy that the data is sufficiently accurate for the purposes of the valuation.

Membership summary

A summary of the membership data used in the valuation is as follows. The membership data from the previous valuation is also shown for comparison. The 2019 average ages are weighted by liability calculated on the funding basis, while the 2016 average ages are unweighted.

Active members

	31 March 2019			31 March 2016		
	Number	Pensionable pay £000s	Average age	Number	Pensionable pay £000s	Average age
Males	1,242	49,662	53	1,451	51,131	45
Females	2,382	68,488	53	2,842	66,485	45
Total	3,624	118,151	53	4,293	117,616	45

Deferred members (including undecided)

	31 March 2019			31 March 2016		
	Number	Current Pension £000s	Average age	Number	Current Pension £000s	Average age
Males	3,059	8,613	53	2,645	7,554	48
Females	6,005	12,795	53	4,955	11,597	47
Total	9,064	21,408	53	7,600	19,150	47

Pensioner and dependant members

	31 March 2019			31 March 2016		
	Number	Current Pension £000s	Average age	Number	Current Pension £000s	Average age
Males	2,487	26,461	69	2,804	25,267	72
Females	3,447	20,463	68	2,775	15,635	71
Total	5,934	46,924	69	5,579	40,901	72

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Projected retirements

In the table below we have set out the number of members who are assumed to reach retirement age over the period from 1 April 2019 to 31 March 2023 as required under the Regulations.

Projected new benefits		
Year to	Number of members	Retirement benefits £000's
31/03/2020	233	4,431
31/03/2021	295	5,187
31/03/2022	312	4,975
31/03/2023	347	6,125

Members may retire for a number of reasons including reaching normal retirement age, retiring through ill-health or redundancy. The amounts set out in the table below are the new retirement benefit amounts, as at the current valuation date that are assumed to come into payment in each of the intervaluation years.

Allowance for GMP equalisation

On 26 October 2018 the judgement was published for the Lloyds Banking Group Pensions Trustees Ltd vs Lloyds Bank Plc & Ors on how their Guaranteed Minimum Pensions (GMPs) should be equalised. However, HM Treasury (HMT) have confirmed that the GMP judgement "does not impact on the current method used to achieve equalisation and indexation in public service pension schemes", which is set out here:

www.gov.uk/government/consultations/indexation-and-equalisation-of-gmp-in-public-service-pension-schemes/consultation-on-indexation-and-equalisation-of-gmp-in-public-service-pension-schemes

On 22 January 2018, the Government published the outcome to its indexation and equalisation of GMP in public service pension schemes consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching State Pension Age (SPA) before 6 April 2021. HMT published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016.

The assumption made at the 2016 valuation was that funds pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase and that funds will be required to pay the full indexation on GMPs for those attaining SPA after 6 April 2016. This effectively assumes that the Government extends their current policy indefinitely and we believe this is a sensible approach to making an interim allowance for GMP equalisation.

Appendix 2 Summary of assumptions

A summary of the assumptions adopted for the valuation at 31 March 2019 is set out below. The assumptions used in the previous valuation are also given below for comparison.

Summary of financial assumptions

Assumptions	Assumptions used for the 2019 valuation	Assumptions used for the 2016 valuation
Financial assumptions		
Market date	31 March 2019	31 March 2016
CPI inflation	2.6% p.a.	2.4% p.a.
Salary increases		
Short-term	n/a	CPI to 31 March 2020
Long-term	3.6% p.a.	3.9% p.a.
Discount rate		
Scheduled bodies	4.8% p.a.	5.1% p.a.
Admitted bodies		
In service	3.3% p.a.	4.5% p.a.
Having left service	3.3% p.a.	3.0% p.a.
Pension increases on GMP	Funds will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increases. For members that reach SPA after this date , we have assumed that Funds are required to pay the entire inflationary increases	

Summary of demographic assumptions

Assumptions	Assumptions used for the 2019 valuation	Assumptions used for the 2016 valuation
Demographic assumptions		
Post-retirement mortality	Male / Female	Male / Female
Member base tables	S3PA	S2PA
Member mortality multiplier	110% / 105%	80% / 85%
Dependant base tables	S3DMA / S3DFA	S2PA
Dependant mortality multiplier	70% / 85%	80% / 85%
Projection model	CMI 2018	CMI 2015
Long-term rate of improvement	1.25% p.a.	1.5% p.a.
Smoothing parameter	7.5	n/a
Initial addition to improvements	0.5% p.a.	n/a
Retirement assumption	Weighted average of each tranche retirement age	
Pre-retirement decrements	GAD 2019 scheme valuation with no salary scale, 50% IH decrement	GAD 2013 scheme valuation
50:50 assumption	Member data	Member data
Commutation	50% of maximum	50% of maximum
% members with qualifying dependant	75% / 70%	75% / 70%
Age difference	Husbands are 3 years older	Husbands are 3 years older

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Demographic assumptions – sample rates

The following tables set out some sample rates of the demographic assumptions used in the calculations. These sample rates are based on those set by the Government Actuary's Department (GAD) based on analysis of the Local Government Pension Scheme (LGPS) in England and Wales.

Allowance for ill-health early retirements

A small proportion of members are assumed to retire early due to ill-health. In the table below we set out an extract of some sample rates from the GAD tables used:

Age	Males	Females
25	0.01%	0.00%
30	0.01%	0.01%
35	0.02%	0.01%
40	0.04%	0.03%
45	0.09%	0.06%
50	0.18%	0.13%
55	0.36%	0.28%
60	0.74%	0.62%
65	1.51%	1.34%

Please note the above rates are the raw decrements as set by GAD. Our assumption is that there will be 50% of the number of ill-health retirements assumed by GAD.

The proportion of ill-health early retirements falling into each tier category has been assumed to be as follows for both males and females:

Tier 1	Tier 2	Tier 3
75%	15%	10%

Death before retirement

A small number of members are assumed to die before reaching retirement age. In the table below we set out an extract of some sample rates from the GAD tables used:

Age	Males	Females
25	0.02%	0.01%
30	0.03%	0.01%
35	0.05%	0.02%
40	0.06%	0.03%
45	0.09%	0.05%
50	0.13%	0.08%
55	0.21%	0.12%
60	0.32%	0.19%
65	0.50%	0.29%

Allowance for withdrawals

This assumption is regarding active members who leave service to move to deferred member status. Active members are assumed to leave service at the following sample rates:

Age	Males	Females
25	9.21%	10.17%
30	7.25%	8.07%
35	5.70%	6.40%
40	4.48%	5.07%
45	3.53%	4.03%
50	2.78%	3.19%
55	2.18%	2.53%
60	1.72%	2.01%
65	1.35%	1.59%

Appendix 3 Dashboard

Past service funding position - local funding basis

Funding level (assets/liabilities)	99%
Funding level (change since previous valuation)	19%
Asset value used at the valuation	£1,410,581,000
Value of liabilities	£1,430,547,000
Surplus (deficit)	-£19,966,000
Discount rate(s)	4.8% p.a.
Assumed pension increases (CPI)	2.6% p.a.
Method of derivation of discount rate, plus any changes since previous valuation	In line with page 9 of the Funding Strategy Statement
Assumed life expectancies at age 65:	
Average life expectancy for future pensioners - men currently age 65	21.7 years
Average life expectancy for future pensioners - women currently age 65	24.3 years
Average life expectancy for future pensioners - men currently age 45	23.1 years
Average life expectancy for future pensioners - women currently age 45	25.8 years

Past service funding position - SAB basis (for comparison purposes only)

Market value of assets	£1,418,331,992
Value of liabilities	£1,275,910,000
Funding level on SAB basis (assets/liabilities)	111%
Funding level on SAB basis (change since last valuation)	17%

BARNETT WADDINGHAM
beyond the expected

Contribution rates payable

Primary contribution rate	17.9% of pay		
Secondary contribution rate (cash amounts in each year in line with CIPFA guidance)			
Secondary contribution rate 2020/21	£22,383,000		
Secondary contribution rate 2021/22	£79,676,000		
Secondary contribution rate 2022/23	-£331,000		
Giving total expected contributions:			
Total expected contributions 2020/21 (£ figure based on assumed payroll)	£44,303,000	Based on assumed payroll of	£122,458,000
Total expected contributions 2021/22 (£ figure based on assumed payroll)	£102,395,000	Based on assumed payroll of	£126,923,000
Total expected contributions 2022/23 (£ figure based on assumed payroll)	£23,217,000	Based on assumed payroll of	£131,550,000
Average employee contribution rate (% of pay)	7.4% of pay		
Employee contribution rate (£ figure based on assumed payroll)	£9,062,000 p.a.	Based on assumed payroll of	£122,458,000 p.a.
Additional information			
Pecentage of liabilities relating to employers with deficit recovery periods longer than 20 years	0%		
Percentage of total liabilities that are in respect of Tier 3 employers	tbc		

Appendix 4 Rates and Adjustments Certificate

Regulatory background

In accordance with Regulation 62 of the Local Government Pension Scheme Regulations we have made an assessment of the contributions that should be paid into the Fund by participating employers for the period 1 April 2020 to 31 March 2023.

The method and assumptions used to calculate the contributions set out in the Rates and Adjustments Certificate are detailed in the Funding Strategy Statement and our report on the actuarial valuation.

The primary rate of contribution as defined by Regulation 62(5) for each employer for the period 1 April 2020 to 31 March 2023 is set out in the table overleaf. The primary rate is the employer's contribution towards the cost of benefits accruing in each of the three years beginning 1 April 2020. In addition each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions as set out below. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Primary and secondary rate summary

The secondary rates across the entire Fund (as a percentage of projected Pensionable Pay and as a monetary amount) in each of the three years in the period 1 April 2020 to 31 March 2023 is set out in the table below.

Secondary Contributions	2020/21	2021/22	2022/23
Total as a % of payroll	18.3%	62.8%	-0.3%
Equivalent to total monetary amounts of	£22,383,442	£79,676,257	-£330,793

General notes

Employers may pay further amounts at any time and future periodic contributions, or the timing of contributions, may be adjusted on a basis approved by us as the Fund Actuary. The administering authority, with the advice from us as the Fund Actuary may allow some or all of these contributions to be treated as a prepayment and offset against future certified contributions.

The certified contributions include an allowance for expenses and the expected cost of lump sum death benefits but exclude early retirement strain and augmentation costs which are payable by participating employers in addition.

The monetary amounts are payable in 12 monthly instalments throughout the relevant year unless agreed by the administering authority and an individual employer.

Employer Code	Employer name	Primary rate	Secondary rate (% pay plus monetary adjustment)			Total contributions i.e. primary (% of pay) plus secondary		
		(% pay)	2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
Scheduled bodies								
00W01	Westminster City Council	16.8%	£22.7m	£80.0m	-	16.8% plus £22.7m	16.8% plus £80.0m	16.8%
00W56	Paddington Academy	18.5%	-	-	-	18.5%	18.5%	18.5%
00W5B	Westminster Academy	16.0%	-0.3%	-0.3%	-0.3%	15.7%	15.7%	15.7%
00W54	King Solomon Academy	21.5%	£1,875	£1,943	£2,014	21.5% plus £1,875	21.5% plus £1,943	21.5% plus £2,014
00W57	Pimlico Academy	16.5%	-	-	-	16.5%	16.5%	16.5%
00W50	ARK Atwood Primary Academy	15.8%	£8,609	£8,923	£9,248	15.8% plus £8,609	15.8% plus £8,923	15.8% plus £9,248
00W5A	St Marylebone School	16.8%	-	-	-	16.8%	16.8%	16.8%
00W58	Harris Academy St Johns Wood (formerly Quintin	17.6%	-0.6%	-0.6%	-0.6%	17.0%	17.0%	17.0%

Employer Code	Employer name	Primary rate	Secondary rate (% pay plus monetary adjustment)			Total contributions i.e. primary (% of pay) plus secondary		
		(% pay)	2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
00W59	St Georges Academy	18.4%	-	-	-	18.4%	18.4%	18.4%
00W55	Millbank Academy	18.4%	-	-	-	18.4%	18.4%	18.4%
00W53	Greycoat Academy	20.2%	-	-	-	20.2%	20.2%	20.2%
00W5C	Westminster City Academy	17.5%	-	-	-	17.5%	17.5%	17.5%
00W83	Creative Education Trust	16.0%	-	-	-	16.0%	16.0%	16.0%
00W5E	Marylebone Boys' School	17.8%	-	-	-	17.8%	17.8%	17.8%
00W51	Churchill Gardens Academy	20.9%	-	-	-	20.9%	20.9%	20.9%
00W52	Gateway Academy	20.5%	£3,358	£3,480	£3,607	20.5% plus £3,358	20.5% plus £3,480	20.5% plus £3,607
00W5D	Wilberforce Academy	19.7%	-	-	-	19.7%	19.7%	19.7%
00W5J	St Marylebone CE Bridge School	17.6%	-	-	-	17.6%	17.6%	17.6%
00W5G	Harris 6th Form College (Academy)	12.0%	2.5%	2.5%	2.5%	14.5%	14.5%	14.5%
00W5N	Pimlico Free School	13.8%	-0.8%	-0.8%	-0.8%	13.0%	13.0%	13.0%
00W5H	Beachcroft Academy	13.4%	-0.4%	-0.4%	-0.4%	13.0%	13.0%	13.0%
00W5K	Sir Simon Milton Technical College	17.8%	-3.9%	-2.0%	0.0%	13.9%	15.8%	17.8%

Employer Code	Employer name	Primary rate	Secondary rate (% pay plus monetary adjustment)			Total contributions i.e. primary (% of pay) plus secondary		
		(% pay)	2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
Admitted bodies								
00W7C	Housing Communities Agency (HCA)	29.5%	-10.4%	-10.4%	-10.4%	19.1%	19.1%	19.1%
00W7B	Housing Ombudsman Service	27.6%	-	-	-	27.6%	27.6%	27.6%
00W7F	Sanctuary Housing Association	33.2%	-	-	-	33.2%	33.2%	33.2%
00W7J	Social Housing Regulator	30.0%	£15,229	£15,784	£16,359	30.0% plus £15,229	30.0% plus £15,784	30.0% plus £16,359
00W7K	Accent Catering	33.3%	£339	£352	£364	33.3% plus £339	33.3% plus £352	33.3% plus £364

City of Westminster Pension Fund Funding Strategy Statement

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Introduction

This is the Funding Strategy Statement for the City of Westminster Pension Fund (the Fund). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 as amended (the Regulations) and describes Westminster City Council's strategy, in its capacity as administering authority, for the funding of the City of Westminster Pension Fund.

The Fund's employers and the Fund Actuary, Barnett Waddingham LLP, have been consulted on the contents of this statement.

This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS) and has been prepared with regard to the guidance (*Preparing and Maintaining a funding strategy statement in the LGPS 2016 edition)* issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Purpose of the Funding Strategy Statement

The purpose of this Funding Strategy Statement (FSS) is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as required by Regulation 62(6) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and
- Take a prudent longer-term view of funding those liabilities.

Aims and purpose of the Fund

The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike; and
- Seek returns on investment within reasonable risk parameters.

The purpose of the Fund is to:

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

Funding objectives

Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations are set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme so far as relating to the pension Fund. The review also looks at compliance and consistency of the actuarial valuations.

Key parties

The key parties involved in the funding process and their responsibilities are set out below.

The administering authority

The administering authority for the Fund is Westminster City Council. The main responsibilities of the administering authority are to:

- Operate the Fund in accordance with the LGPS Regulations;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets in accordance with the Fund's Investment Strategy Statement;
- Pay the benefits due to Scheme members as stipulated in the Regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS and also the ISS after consultation with other interested parties;
- Monitor all aspects of the Fund's performance;
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme employer; and
- Enable the Local Pension Board to review the valuation process as they see fit.

Scheme employers

In addition to the administering authority, a number of other Scheme employers participate in the Fund.

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

- Collect employee contributions and pay these together with their own employer contributions, as certified by the Fund Actuary, to the administering authority within the statutory timescales;
- Notify the administering authority of any new Scheme members and any other membership changes promptly;
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- Pay any exit payments due on ceasing participation in the Fund.

Scheme members

Active Scheme members are required to make contributions into the Fund as set by the Ministry of Housing, Communities and Local Government (MHCLG).

Fund Actuary

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

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill-health retirement costs, compensatory added years costs, etc;
- Provide advice and valuations on the exiting of employers from the Fund;
- Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to their role in advising the Fund; and
- Advise on other actuarial matters affecting the financial position of the Fund.

Funding strategy

The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

The most recent valuation of the Fund was as at 31 March 2019.

The individual employer contribution rates are set out in the Rates and Adjustments Certificate which forms part of the Fund's 2019 valuation report.

The actuarial valuation involves a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. A summary of the methods and assumptions adopted is set out in the sections below.

Funding method

The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution rates to meet that target over an agreed period.

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund.

For all employers, the method adopted is to consider separately the benefits accrued before the valuation date (past service) and benefits expected to be accrued after the valuation date (future service). These are evaluated as follows:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay and pensions. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
- The future service funding rate (also referred to as the primary rate as defined in Regulation 62(5) of the Regulations) is the level of contributions required from the individual employers which, in combination with employee contributions is expected to cover the cost of benefits accruing in future.

The adjustment required to the primary rate to calculate an employer's total contribution rate is referred to as the secondary rate, as defined in Regulation 62(7). Further details of how the secondary rate is calculated for employers is given below in the Deficit recovery/surplus amortisation periods section.

The approach to the primary rate will depend on specific employer circumstances and in particular may depend on whether an employer is an "open" employer – one which allows new recruits access to the Fund, or a "closed" employer – one which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the total contribution rate.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in assessing the future service cost, the primary rate represents the cost of one year's benefit accrual only.

For closed employers, the actuarial funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.

The approach by employer may vary to reflect an employer's specific circumstance, however, in general the closed employers in the Fund are admission bodies who have joined the Fund as part of an outsourcing contract and therefore the Attained Age Method is used in setting their contributions. All other employers (for example the Council, higher education bodies and academies) are generally open employers and therefore the Projected Unit Method is used. The administering authority holds details of the open or closed status of each employer.

Valuation assumptions and funding model

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

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

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

Future price inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20 year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20 year point on the curve is used as this is consistent with the average duration of an LGPS Fund.

Future pension increases

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. A deduction of 1.0% p.a. is therefore made from the RPI assumption to derive the CPI assumption.

Future pay increases

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2019 was CPI plus 1.0% p.a. which includes allowance for promotional increases.

Future investment returns/discount rate

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

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

The discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the Fund's long-term investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the "ongoing" discount rate.

It may be appropriate for an alternative discount rate approach to be taken to reflect an individual employer's situation. This may be, for example, to reflect an employer targeting a cessation event or to reflect the administering authority's views on the level of risk that an employer poses to the Fund. The Fund Actuary will incorporate any such adjustments after consultation with the administering authority.

A summary of the financial assumptions adopted for the 2019 valuation is set out in the table below:

Financial assumptions as at 31 March 2019	
RPI inflation	3.6% p.a.
CPI inflation	2.6% p.a.
Pension/deferred pension increases and CARE revaluation	In line with CPI inflation
Pay increases	CPI inflation + 1.0% p.a.
Discount rate – Scheduled bodies Discount rate – Admitted bodies	4.8% p.a. 3.3% p.a.

Admitted bodies

A more prudent discount rate is adopted for admitted bodies in the Fund, resulting in a higher level of contributions being required from these bodies. This is in recognition of the fact that such employers may typically be expected to participate in the Fund for a limited period of time and so the aim is to increase the likelihood of sufficient assets being available to fund their employees' past service benefits by the time they cease participation in the Fund. In this way, the risk of deficits arising after the termination date and thus needing to be met by other employers in the Fund is reduced. Some admitted bodies may also be deemed to have a weaker covenant than other employers and so a higher contribution requirement reflects the increased risk that these employers present to the Fund.

Asset valuation

For the purpose of the valuation, the asset value used is the market value of the accumulated fund at the valuation date, adjusted to reflect average market conditions during the six months straddling the valuation date. This is referred to as the smoothed asset value and is calculated in a consistent way to the valuation of the liabilities.

The Fund's assets are allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received and benefits paid).

Demographic assumptions

The demographic assumptions incorporated into the valuation are based on Fund-specific experience and national statistics, adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of the assumptions adopted are included in the Fund's 2019 valuation report.

McCloud/Sargeant judgements

The McCloud/Sargeant judgements were in relation to two employment tribunal cases which were brought against the government in relation to possible age and gender discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. These judgements were not directly in relation to the LGPS, however, do have implications for the LGPS.

In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounted to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

Further details of this can be found below in the Regulatory risks section.

At the time of drafting this FSS, it is still unclear how this will affect current and future LGPS benefits. As part of the Fund's 2019 valuation, in order to mitigate the risk of member benefits being uplifted and becoming more expensive, the potential impact of McCloud was covered by the prudence allowance in the discount rate assumption. As the remedy is still to be agreed the cost cannot be calculated with certainty, however, the Fund Actuary expects it is likely to be less than, the impact of reducing the discount rate assumption by 0.05%.

Guaranteed Minimum Pension (GMP) indexation and equalisation

As part of the restructuring of the state pension provision, the government needs to consider how public service pension payments should be increased in future for members who accrued a Guaranteed Minimum Pension (GMP) from their public service pension scheme and expect to reach State Pension Age (SPA) post-December 2018. In addition, a resulting potential inequality in the payment of public service pensions between men and women needs to be addressed. Information on the current method of indexation and equalisation of public service pension schemes can be found here.

On 22 January 2018, the government published the outcome to its *Indexation and equalisation of GMP in public service pension schemes* consultation, concluding that the requirement for public service pension schemes to fully protect the GMP element of individuals' public service pension would be extended to those individuals reaching SPA before 6 April 2021. HMT published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and the Ministerial Direction can be found here.

The 2019 valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, it is assumed that the Fund will be required to pay the entire inflationary increase.

Deficit recovery/surplus amortisation periods

Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. This theory applies down to an individual employer level; each employer in the Fund has their own share of deficit or surplus attributable to their section of the Fund.

Where the valuation for an employer discloses a deficit then the level of required employer contributions includes an adjustment to fund the deficit over a maximum period of 19 years. The adjustment will usually be set as a fixed monetary amount.

Where the valuation for an employer discloses a surplus then the level of required employer contribution may include an adjustment to amortise a proportion of the surplus.

The deficit recovery period or amortisation period that is adopted, and the proportion of any deficit/surplus that is recovered/amortised, for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer (including any security in place) and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

Pooling of individual employers

The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances. Pooling of individual employers may be considered in exceptional circumstances if deemed appropriate by the administering authority and Fund Actuary.

New employers joining the Fund

When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

Admission bodies

New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

Funding at start of contract

Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

Contribution rate

The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

Security

To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the administering authority.

New academies

When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

Funding at start

On conversion to academy status, the new academy will be allocated assets based on the active cover of the relevant local authority at the conversion date. The active cover approach is based on the funding level of the local authority's active liabilities, after fully funding the local authority's deferred and pensioner liabilities.

Contribution rate

The total contribution rate for new academies will be chosen to meet both the costs of benefits accruing to the existing active members in the future, and to try to restore the funding level to 100% over the Fund's maximum deficit recovery period.

Cessation valuations

When a Scheme employer exits the Fund and becomes an exiting employer, as required under the Regulations, the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund Actuary is also required to determine the exit payment due from the exiting employer to the Fund or the exit credit payable from the Fund to the exiting employer.

Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless it is agreed by the administering authority and the other parties involved that an alternative approach is permissible. For example:

- It may be agreed with the administering authority that the exit payment can be spread over some agreed period;
- the assets and liabilities relating to the employer may transfer within the Fund to another participating employer; or
- the employer's exit may be deferred subject to agreement with the administering authority, for example if it intends to offer Scheme membership to a new employee within the following three years.

Similarly, any surplus in the Fund in respect of the exiting employer may be treated differently to a payment of an exit credit, subject to the agreement between the relevant parties and any legal documentation.

In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing approaches depending on the employer and the specific details surrounding the employer's cessation scenario.

For example, if there is no guarantor in the Fund willing to accept responsibility for the residual liabilities of the exiting employer, then those liabilities are likely to be assessed on a "minimum risk" basis leading to a higher exit payment being required from (or lower exit credit being paid to) the employer, in order to extinguish their liabilities to the Fund and to reduce the risk of these liabilities needing to be met by other participating employers in future.

If it is agreed that another employer in the Fund will accept responsibility for the residual liabilities, then the assumptions adopted will be consistent with the current ongoing funding position, but additional prudence will be included in order to take potential uncertainties and risk into account e.g. due to market changes, additional liabilities arising from regulatory or legislative change and political/economic uncertainties. The additional level of prudence will be set by considering the distribution of funding levels under a large number of economic scenarios, with the aim being to gain a reasonable level of confidence that the Fund will be able to meet its benefit obligations to the relevant members in future.

Regulatory factors

At the date of drafting this FSS, the government is currently consulting on potential changes to the Regulations, some which may affect the regulations surrounding an employer's exit from the Fund. This is set out in the *Local government pension scheme: changes to the local valuation cycle and the management of employer risk* consultation document.

Further details of this can be found in the Regulatory risks section below.

Bulk transfers

Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).

A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

Links with the Investment Strategy Statement (ISS)

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

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

Risks and counter measures

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

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

Financial risks

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

The valuation results are most sensitive to the real discount rate (i.e. the difference between the discount rate assumption and the price inflation assumption). Broadly speaking an increase/decrease of 0.1% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by around 2%, and decrease/increase the required employer contribution by around 0.7% of payroll p.a.

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

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

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

Demographic risks

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase in the long-term rate of mortality improvement of 0.25% p.a. will increase the liabilities by around 1%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review. For the past two funding valuations, the Fund has commissioned a bespoke longevity analysis by Barnett Waddingham's specialist longevity team in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

The liabilities of the Fund can also increase by more than has been planned as a result of the additional financial costs of early retirements and ill-health retirements. However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

The administering authority is currently implementing an ill-health self-insurance pool within the Fund whereby a portion of all employers' contributions into the Fund are allocated to a segregated ill-health section of the Fund. When an ill-health retirement occurs, a funding strain (i.e. the difference between the value of the benefits payable to the ill-health member and the value that was assumed as part of the actuarial valuation) is generated in the employer's section of the Fund. As part of the self-insurance policy, assets equal to the funding strain are transferred from the segregated ill-health assets section of the Fund to the employer's section of the Fund to cover the funding strain.

Maturity risk

The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meets its benefit payments. The Fund may carry out cash flow modelling to assess if, when and in what circumstances the Fund will become cash flow negative and options to address this.

The government has published a consultation (*Local government pension scheme: changes to the local valuation cycle and management of employer risk*) which may affect the Fund's exposure to maturity risk. More information on this can be found in the Regulatory risks section below.

Regulatory risks

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

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

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

There are a number of general risks to the Fund and the LGPS, including:

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.
- The potential effects of GMP equalisation between males and females, if implemented, are not yet known.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.
- The State Pension Age is due to be reviewed by the government in the next few years.

At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgements, the cost cap mechanism and the timing of future funding valuations consultation. These are discussed in the sections below.

McCloud/Sargeant judgements and cost cap

The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the Scheme Advisory Board (SAB) in place and HMT allowed SAB to put together a package of proposed benefit changes in order for the LGPS to no longer breach the HMT cost cap. These benefit changes were due to be consulted on with all stakeholders and implemented from 1 April 2019.

However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

At the time of drafting this FSS, it is not yet known what the effect on the current and future LGPS benefits will be.

Consultation: Local government pension scheme: changes to the local valuation cycle and management of employer risk

On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

- amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and
- proposals for changes to the employers required to offer LGPS membership.

The consultation is currently ongoing: the consultation was closed to responses on 31 July 2019 and an outcome is now awaited. This FSS will be revisited once the outcome is known and reviewed where appropriate.

Timing of future actuarial valuations

LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. This results of the national Scheme valuation are used to test the cost control cap mechanism and HMT believed that all public sector scheme should have the cost cap test happen at the same time with the next quadrennial valuation in 2020 and then 2024.

Managing employer exits from the Fund

The consultation covers:

- Proposals for flexibility on exit payments. This includes:
  - Formally introducing into the Regulations the ability for the administering authority to allow an exiting employer to spread the required exit payment over a fixed period.
  - Allowing employers with no active employers to defer payment of an exit payment in return for an ongoing commitment to meeting their existing liabilities (deferred employer status).
- Proposals for further policy changes to exit credits. The proposed change would require the exiting employer's exposure to risk to be taken into account in calculating any exit credit due (for example a pass through employer who is not responsible for any pensions risk would likely not be due an exit credit if the amendments are made to the Regulations).

Changes to employers required to offer LGPS membership

At the time of drafting this FSS, under the current Regulations further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. This could impact on the level of maturity and the cashflow profile for these employers. As described earlier this may increase the risk of contribution income being insufficient to meet benefit outgo, if not in the short term then in the long term as the payroll in respect of these types of employers decreases with fewer active members participating in the Fund.

This also brings an increased risk to the Fund in relation to these employers becoming exiting employers in the Fund. Should they decide not to admit new members to the Fund, the active membership attributable to the employers will gradually reduce to zero, triggering an exit under the Regulations and a potential significant exit payment. This has the associated risk of the employer not being able to meet the exit payment and thus the exit payment falling to the other employers in the Fund.

There are very few employers of this type currently participating in the Fund and so the risks are considered relatively low at present.

Employer risks

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

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

However, the administering authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required. In particular, the Fund regularly commissions an employer risk review from the Fund Actuary to help identify the employers in the Fund that might be considered as high risk. In the case of admitted bodies, the Fund has a policy of requiring some form of security from the employer, in the form of a guarantee or a bond, in case of employer default where the risk falls to the Fund. Where the risk of default falls on the liabilities of an original letting authority, the Fund provides advice to the letting authority to enable them to make a decision on whether a guarantee, some other form of security or a bond should be required.

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

Governance risks

Accurate data is necessary to ensure that members ultimately receive their correct benefits. The administering authority is responsible for keeping data up to date and results of the actuarial valuation depend on accurate data. If incorrect data is valued then there is a risk that the contributions paid are not adequate to cover the cost of the benefits accrued.

Monitoring and review

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

The most recent valuation was carried out as at 31 March 2019, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2020 to 31 March 2023.

The timing of the next funding valuation is due to be confirmed as part of the government's *Local government pension scheme: changes to the local valuation cycle and management of employer risk* consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next funding valuation will be due as at 31 March 2022 but the period for which contributions will be certified remains unconfirmed.

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

Committee Report

City of Westminster

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**19 March 2020**
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:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. Executive Summary

1.1 This report presents the performance of the Pension Fund's investments to 31 December 2019, together with an update of the funding position post actuarial valuation.

1.2 The Fund outperformed the benchmark net of fees by 0.7% over the quarter to 31 December 2019 and the estimated funding level following the triennial actuarial valuation has risen to 99% from the 80% level in 2016.

2. Recommendation

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

3. Background

3.1 This report presents a summary of the Pension Fund's performance to 31 December 2019 and estimated funding level following the actuarial valuation. The investment performance report (Appendix 1) has been prepared by Deloitte, the Fund's investment adviser.

3.1 The investment performance report shows that over the quarter to 31 December 2019, the market value of the assets increased by £28m to £1,526m. The Fund outperformed the benchmark net of fees by 0.7% over the quarter. The majority of mandates provided a positive return during the quarter, however Majedie, Insight and Pantheon delivered negative returns. Aberdeen Standard, Baillie Gifford and Longview outperformed their benchmark net of fees by 4.9%, 3.4% and 1.8%.

3.2 Over the year the Fund marginally underperformed its benchmark net of fees by 0.2%, largely as a result of underperformance within the Majedie UK equity fund. Over the longer three-year period to 31 December 2019, the Fund outperformed the benchmark net of fees by 0.1%, with Aberdeen Standard and Baillie Gifford being the major contributors. Majedie underperformed their benchmarks net of fees by 4.9% during this period.

3.3 The advisors continue to rate the fund managers favourably, with the exception of Longview. Deloitte have removed Longview's Global Equity strategy from their rated manager list following the departure of the co-founder and CIO Ramzi Rishani.

3.4 Advisors have also expressed ongoing concern about resignations and vacancies at senior management level within the London Collective Investment Vehicle (LCIV). During the quarter, Kevin Corrigan was appointed as interim Chief Investment Officer following the resignation of Mark Thompson. Kevin has joined from Resco Asset Management, where he held the position of Senior Investment Advisor and had previously been CIO at Sandaire Investment Office. Larissa Benbow, Head of Fixed Income, announced her resignation from the LCIV with effect from 28 February. Azim Meghji, formerly Head of Credit at Santander Asset Management who joined the team in December, will take responsibility for the relationships with fixed income managers. It should also be be noted that the London CIV have concluded that asset manager, CQS, is no longer 'on watch', however there will be increased monitoring over the next six months.

3.5 Over the quarter, it was announced that Margaret Ammon would be joining LGIM as the Chief Risk Officer (CRO), Margaret has over 20 years' experience in risk management, including CRO at M&G Asset Management.

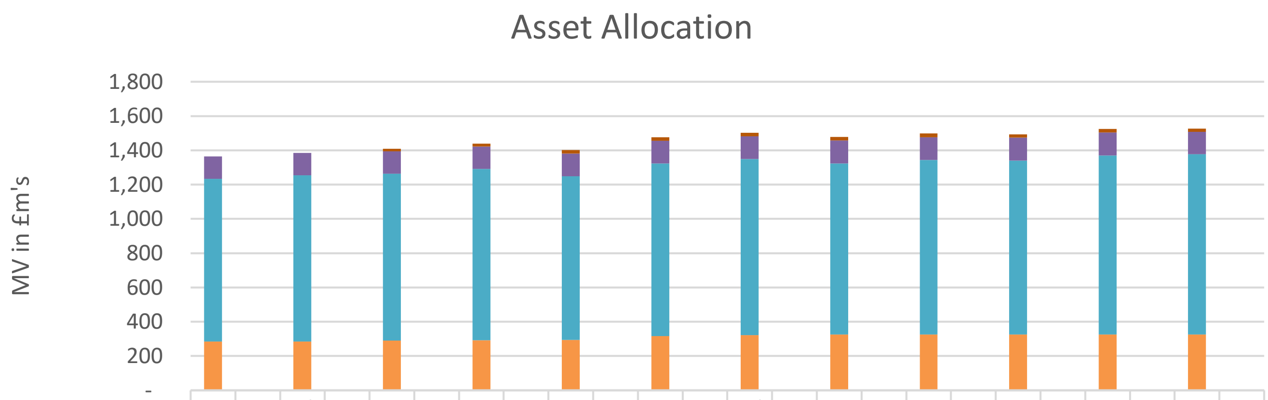
3.6 Chris Darroch, Executive Director at Hermes, continues to act as Interim Fund Director until a new Fund Director is appointed. Chris joined Hermes in December 2009, he is a senior member of Hermes' real estate team and is the Fund Director for BT Pension Scheme's UK real estate investment portfolio.

3.7 During the quarter, Aberdeen Standard made the decision to combine their Real Estate and Private Markets business areas in a bid to leverage research capabilities and deliver a greater range of Private Market solutions to clients. Peter McKellar has been appointed as Executive Chairman and Global Head of Private Markets, and Neil Slater has taken on the role of Global Head of Real Estate and Deputy Head of Private markets from David Paine.

3.8 Following the 2019 triennial actuarial valuation, the estimated funding level for the City of Westminster Pension Fund has risen to 99% (80% in 2016). This can be attributed to excellent investment returns during this period with global equities performing particularly well. The funding level for Westminster City Council as an employer has risen by 16% to 86% in 2019 from 70% in 2016, this is in part due to the Council's deficit recovery payments made to the Pension Fund during this period. The Council plans to pay off its deficit by 2021/22, including £22.7m in 2020/21 and £80m in 2021/22.

4. Asset Allocation and Summary of Changes

4.1 The chart below shows the changes in asset allocation of the Fund from 1 January 2019 to 31 December 2019. Asset allocations may vary due to changes in market value.



	Jan		Feb		Mar		Apr		May		Jun		Jul		Aug		Sep		Oct		Nov		Dec	
Infrastructure	-	0%	-	0%	14	1%	17	1%	21	2%	21	1%	22	1%	22	1%	22	1%	20	1%	20	1%	18	1%
Property	13	10%	13	9%	13	9%	13	9%	13	9%	13	9%	13	9%	13	9%	13	9%	13	9%	13	9%	13	8%
Equities	95	70%	96	70%	97	69%	99	69%	95	68%	1,	68%	1,	68%	99	67%	1,	68%	1,	68%	1,	68%	1,	68%
Fixed Income	28	21%	28	21%	29	21%	29	20%	29	21%	31	21%	32	21%	32	22%	32	22%	32	22%	32	21%	32	21%

*Fixed Income includes bonds and Multi Asset Credit

4.2 The current Westminster Pension Fund target asset allocation is 65% of assets within equities, 20% in fixed income, 5% within infrastructure and 10% within property.

4.3 In December 2018, following a manager selection process, the Pension Fund Committee selected Pantheon Asset Management as the Fund's Infrastructure Manager. The remainder of the portfolio held with Longview will be sold and £70m transitioned in to the Pantheon Global Infrastructure Fund III. The first drawdown took place on 20 March 2019, with £14m in cash held within the global custodian transferred to Pantheon.

4.4 On 16 April 2019 a further Pantheon drawdown took place, with £2.2m transitioned from the Longview equity fund in to the Pantheon Global Infrastructure fund. During May 2019, an additional £3.4m was transferred from the Longview portfolio to Pantheon following another capital call notice.

4.5 During June 2019 £22m in deficit recovery receipts was received, £20m of this was invested within the Insight Buy and Maintain bond fund.

4.6 On 24 July 2019 a negative capital call totalling £4.1m took place within the Pantheon Global Infrastructure Fund, this was as a result of an equalisation following new partners entering the strategy. Following this capital calls of £0.9m and £1m took place on 20 August 2019 and 18 September 2019, using the cash received from the capital equalisation.

4.7 At the 23 October 2019 meeting, the Committee committed to transfer its existing UK equity allocation with Majedie to Legal and General's global passive equity portfolio on a temporary basis, pending an asset allocation review. The legacy assets were transferred into the transition account on 20 November 2019 and trading into the LGIM global passive mandate was completed on 13 December 2019.

4.8 Following the global outbreak of the coronavirus, the value of the Majedie UK equity fund has fallen by 15.5% compared to the FTSE World which has fallen by 10.4% since the transition took place. As at 10 March 2020, as a result of the transfer during Q4 of 2019 the Pension Fund has saved circa £14.4m by transitioning into global passive equities.

4.9 The value of pension fund investments transferred to the LCIV as at 31 December 2019 was £414m. This represents 27% of Westminster's investment assets. A further £661m continues to benefit from reduced management fees, Legal and General having reduced their fees to match those available through the LCIV.

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

Billie Emery pensionfund@westminster.gov.uk or 0207 641 7062

Background Papers: None

Appendices:

Appendix 1: Deloitte Investment Report, Quarter Ending 31 December 2019

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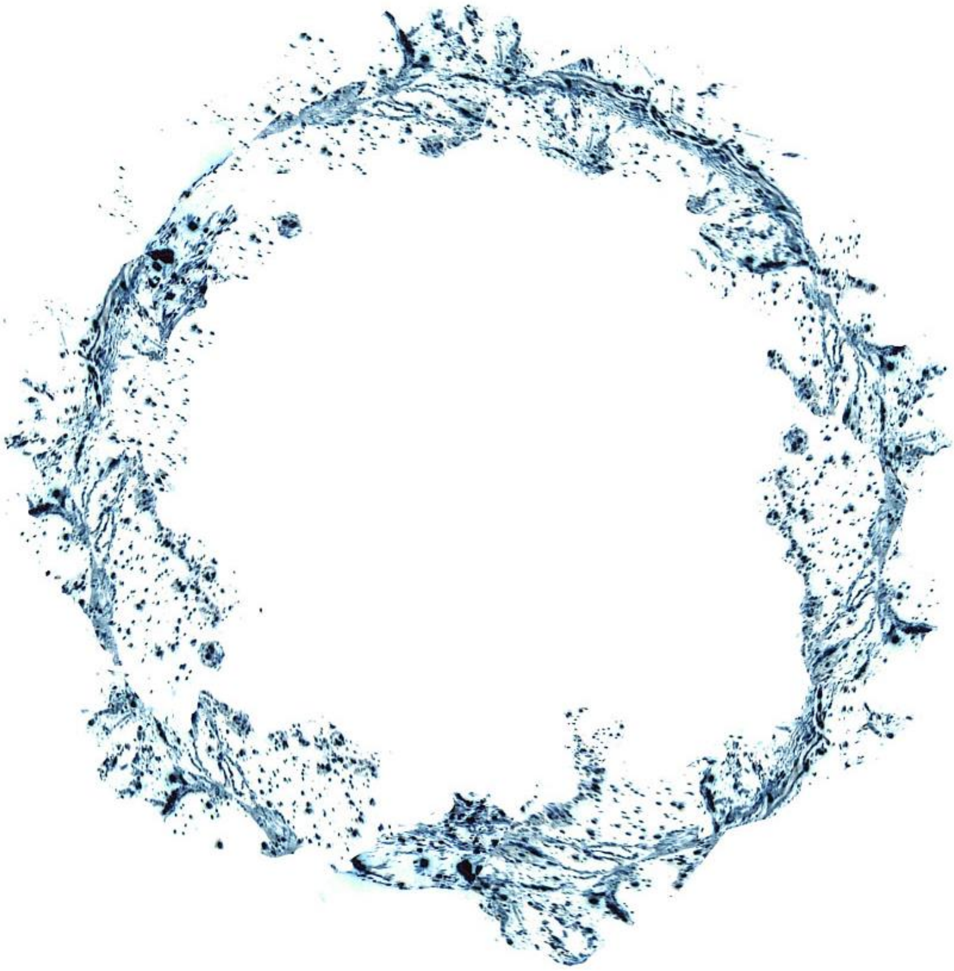
Deloitte.



City of Westminster Pension Fund

Investment Performance Report to 31 December 2019

Deloitte Total Reward and Benefits Limited
March 2020

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1 Market Background

Three and twelve months to 31 December 2019

Global equity markets delivered strong positive returns in the fourth quarter, buoyed by the agreement of an interim US-China trade deal, relatively robust economic data in challenging conditions and accommodating monetary policy by the Fed (which cut rates in October) and other central banks. Gains were shared across all global regions, with emerging markets, which are particularly sensitive to global trade disruptions, delivering the strongest returns.

UK equities also made gains over the quarter to 31 December 2019, with the FTSE All Share Index returning 4.2%. The UK market was particularly sensitive to domestic politics, proving volatile over much of the fourth quarter in response to heightened Brexit uncertainty. The decisive Conservative victory in the general election on 12 December caused UK indices to rally as expectations of an orderly Brexit increased.

The FTSE 100 Index gained 2.7% while the FTSE 250 returned 10.4%, as smaller UK-centric companies received a significant boost from the reduction in political and Brexit uncertainty, outperforming larger multinational companies where return were dampened by sterling appreciation. Technology was the best performing sector returning 14.5%, while Oil & Gas was the poorest performing sector falling 7.6% in the fourth quarter.

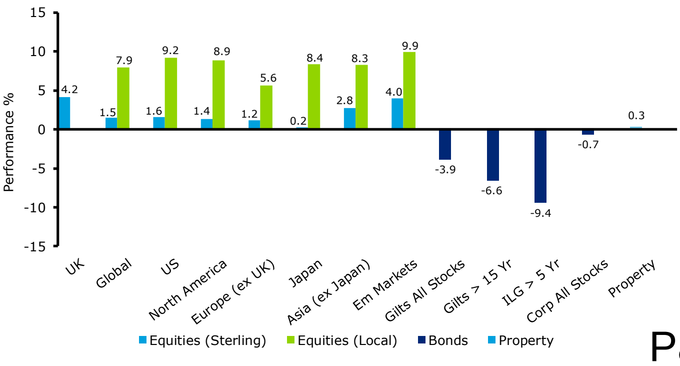
Global markets outperformed UK equities in local currency terms (7.9%) but underperformed in sterling terms (1.5%) as sterling appreciated following the general election. Consequently, currency hedging contributed positively to returns over the quarter. All global regions performed strongly in local currency terms, with Emerging Markets the best performer, returning 9.9%, having benefited strongly from the prospect of a 'Phase one' US-China trade deal. Europe (ex UK) was the poorest performing overseas market, as Germany continues to struggle, but still achieved a positive return of 5.6% over the quarter.

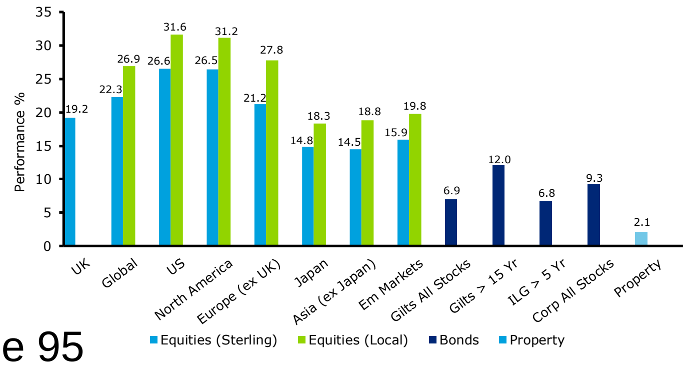
Government bond yields rebounded over the quarter in response to the improving global economic outlook as US and China trade tensions eased. In the UK, gilt yields also increased in response to an apparent reduction in Brexit-related uncertainty. Nominal gilt yields increased sharply, rising by c. 30-40 bps across the curve, partially offsetting significant yield falls in the previous quarter. The All Stocks Gilts Index subsequently delivered a negative return of -3.9% over the quarter with the Over 15 Year Index falling by 6.6%. Real yields also increased with the Over 5 Year Index-Linked Gilts Index delivering a negative return of -8.5% over the same period. Credit spreads tightened over the quarter in response to renewed risk appetite late in the period. Corporate bonds therefore outperformed equivalent gilts, with the iBoxx All Stocks Non Gilt Index experiencing a more modest fall of 0.7%.

Over the 12 months to 31 December 2019, the FTSE All Share Index delivered a positive return of 19.2% as the uncertainty surrounding the global economy appeared to ease over the final 3 months of the year. There was a wide dispersion in returns at a sector level with Technology the best performer, returning 29.6%, whilst Telecommunications was the poorest performing sector falling by 6.3%. Global markets outperformed UK equities in both local currency terms (26.9%) and sterling terms (22.3%), with sterling appreciating over the year against a basket of global currencies. It is worth noting that returns over the calendar year are somewhat inflated by the sharp falls in the final quarter of 2018.

UK nominal gilts achieved strong returns over the 12 months to 31 December 2019 as nominal gilt yields fell by around 50 basis point across the curve. The All Stocks Gilts Index returned 6.9% and the Over 15 Year Gilts Index returned 12.0% over the year to 31 December 2019. UK index-linked gilts delivered positive returns as real yields also fell across the curve. The Over 5 Year Index-Linked Gilts Index returned 6.8%. The iBoxx All Stocks Non Gilt Index returned 9.3% outperforming equivalent gilts as credit spreads tightened slightly over the year.

The MSCI UK All Property Index returned 0.3% over the 3 months to 31 December 2019 and 2.1% over the 12 months to 31 December 2019. The UK property market has continued to cool with significant capital value depreciation in the retail sector.





2 Total Fund

2.1 Investment Performance to 31 December 2019

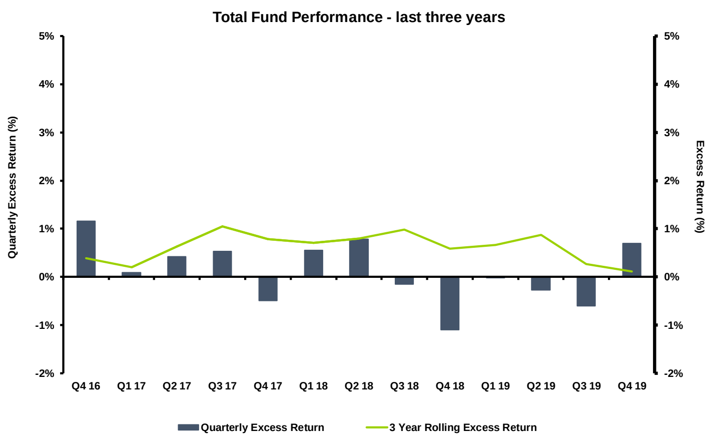
The following table provides a summary of the performance of the Fund's managers.

Manager	Asset Class	Last Quarter (%) Fund Gross	Fund Net[1]	B'mark	Last Year (%) Fund Gross	Fund Net[1]	B'mark	Last 3 Years (% p.a.)[1] Fund Gross	Fund Net[1]	B'mark	Since inception (% p.a.)[1] Fund Gross	Fund Net[1]	B'mark
LCIV[3]	UK Equity	-1.5	-1.6	-0.6	7.5	7.1	14.2	1.0	0.4	5.3	8.7	8.3	7.8
LGIM	Global Equity	7.2	7.1	7.2	25.5	25.4	25.5	11.0	10.9	11.0	11.6	11.5	11.6
LCIV	Global Equity	4.9	4.8	1.4	27.8	27.4	21.7	14.9	14.7	9.9	15.2	14.9	12.2
Longview	Global Equity	3.0	2.8	1.0	20.5	19.8	22.7	12.4	11.8	10.0	14.9	14.2	12.2
Insight[2]	Buy and Maintain	-0.3	-0.3	-0.3	10.4	10.3	6.8	n/a	n/a	n/a	6.4	6.3	5.3
LCIV	Multi Asset Credit	1.5	1.3	1.2	7.0	6.5	5.0	n/a	n/a	n/a	4.3	3.8	5.0
Hermes	Property	0.6	0.5	0.3	2.5	2.1	2.1	7.2	6.8	6.7	9.1	8.7	7.9
Aberdeen Standard	Property	1.6	1.5	-3.4	5.4	4.9	8.9	8.1	7.6	5.1	8.4	7.9	6.6
Pantheon	Global Infrastructure	-9.0	-9.2	2.2	n/a	n/a	n/a	n/a	n/a	n/a	-2.2	-2.8	8.0
Total		**3.2**	**3.1**	**2.4**	**16.8**	**16.5**	**16.7**	**8.1**	**7.7**	**7.6**	**n/a**	**n/a**	**n/a**

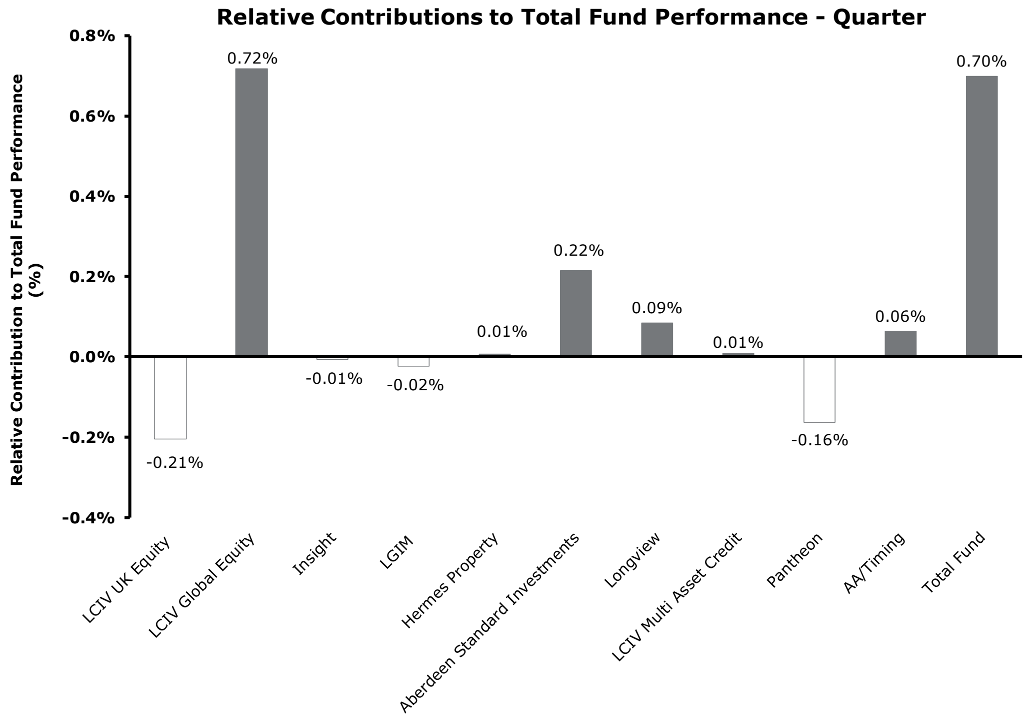
Source: Northern Trust
[1]Estimated by Deloitte when manager data is not available. See appendix 1 for more detail on manager fees and since inception dates
[2]Insight Buy and Maintain Fund was incepted on 9 April 2018. Since inception returns and benchmark returns reflect a combination of Insight Buy & Maintain Fund returns and benchmark returns from date of inception to 31 December 2019, and Insight IM (Core) Fund returns and benchmark returns from inception date 30 September 2011 until inception of the Buy and Maintain Fund
[3]LCIV UK Equity Fund performance and benchmark figures are quoted to 30 November 2019, not 31 December 2019, as the assets were disinvested during December 2019.

The Fund returned 3.1% on a net of fees basis over the quarter to 31 December 2019, outperforming the strategic benchmark by 0.7%. The majority of funds provided positive absolute returns over the period, however the LCIV UK Equity Fund, the Insight Buy & Maintain Fund and the Pantheon Global Infrastructure Fund delivered negative returns, with both the UK Equity Fund and Pantheon underperforming their respective benchmarks over the quarter. The Fund has underperformed its benchmark by 0.2% over the year to 31 December 2019 on a net of fees basis, whilst over the longer three-year period the Fund has outperformed its benchmark by 0.1% p.a. on a net of fees basis.

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

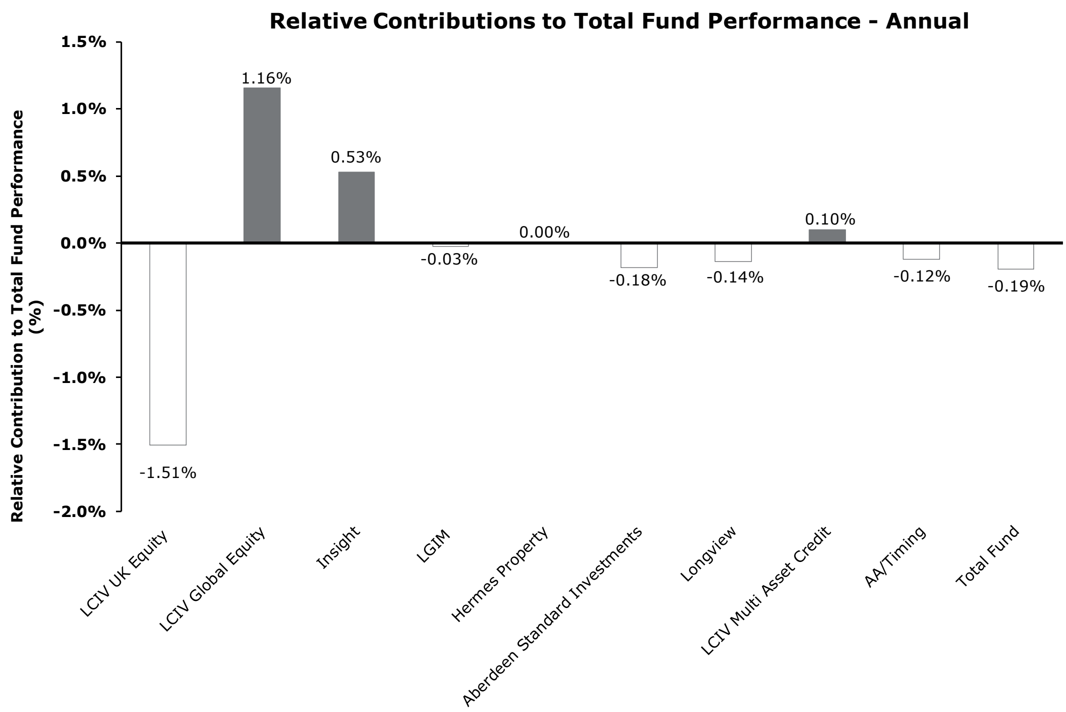


2.2 Attribution of Performance to 31 December 2019



Over the fourth quarter of 2019, the Fund outperformed its composite benchmark by 0.7% on a net of fees basis. Outperformance was primarily driven by the LCIV Global Alpha Growth Fund which outperformed its MSCI-based benchmark over the quarter, alongside strong positive Longview and Aberdeen Standard Investments Long Lease Property Fund performance relative to their respective MSCI and gilts-based benchmarks.

The Fund underperformed its benchmark by 0.2% on a net of fees basis over the year to 31 December 2019. As with the previous quarter, the largest detractor to performance was the LCIV UK Equity Fund, which underperformed its FTSE-based benchmark over the year until its disinvestment at the beginning of December 2019. The negative contribution from the "AA/Timing" bar reflects the impact of holding investments in Longview over the first two quarters of 2019, with the benchmark allocation not allowing for any allocation to Longview whilst the global equity fund underperformed its benchmark over this period.



2.3 Asset Allocation as at 31 December 2019

The table below shows the assets held by manager and asset class as at 31 December 2019.

Manager	Asset Class	End Sep 2019 (£m)	End Dec 2019 (£m)	End Sep 2019 (%)	End Dec 2019 (%)	Benchmark Allocation (%)
LCIV	UK Equity	297.4	0.0	19.9	0.0	0.0
LGIM	Global Equity (Passive)	341.6	661.0	22.8	43.3	45.0
LCIV	Global Equity	308.0	318.6	20.6	20.9	20.0
Longview	Global Equity	69.6	71.6	4.6	4.7	0.0
	Total Equity	**1,016.6**	**1,051.2**	**67.9**	**68.9**	**65.0**
Insight	Buy and Maintain	232.4	231.5	15.5	15.2	13.5
LCIV	Multi Asset Credit	93.8	95.0	6.3	6.2	6.5
	Total Bonds	**326.2**	**326.5**	**21.8**	**21.4**	**20.0**
Hermes	Property	66.9	62.9	4.5	4.1	5.0
Aberdeen Standard	Property	66.4	67.5	4.4	4.4	5.0
	Total Property	**133.3**	**130.4**	**8.9**	**8.5**	**10.0**
Pantheon	Global Infrastructure	21.5	17.8	1.4	1.2	5.0
	Total Infrastructure Equity	**21.5**	**17.8**	**1.4**	**1.2**	**5.0**
Total		**1,497.7**	**1,525.8**	**100**	**100**	**100**

Source: Northern Trust
Figures may not sum due to rounding

Over the quarter to 31 December 2019, the market value of the Fund's assets increased by c. £28.1m as a result of positive Total Fund performance.

At quarter end, the Fund was overweight equities by 3.9% with the exposure increasing over the quarter as a result of strong positive performance from both LGIM and the LCIV Global Alpha Growth Fund. The Fund's overweight equity exposure is expected to reduce as Pantheon continues to draw down capital, funded from the remaining Longview allocation. The Fund was overweight 1.4% to bonds and underweight 1.5% to property as at 31 December 2019.

During the fourth quarter of 2019, Pantheon issued one capital call request for $1.8m and one distribution of $0.5m. Capital calls over the quarter were funded from the bank account held with Northern Trust. As at 15 November 2019, the date of the capital call request, the total unfunded commitment to Pantheon was c. $66.8m.

During December 2019, the disinvestment from the LCIV UK Equity Fund and subsequent transfer to the LGIM World Equity Index Fund – GBP Currency Hedged was completed with the benchmark allocation to the LGIM Fund also increased as a result.

2.4 Yield analysis as at 31 December 2019

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

Manager	Asset Class	Yield as at 31 December 2019
LGIM	Global Equity (Passive)	0.24%
LCIV	Global Equity	0.60%**
Longview	Global Equity	2.10%
Insight	Buy and Maintain	2.18%
LCIV	Multi Asset Credit	5.39%**
Hermes Property	Property	3.30%
Aberdeen Standard Investments	Long Lease Property	4.20%
	Total	**1.28%**

**Yield and benchmark yield (2.8%) as at 31 December 2018. Benchmark yield represents the income that would be distributed.*
***LCIV funds' yields are provided by the underlying managers (Baillie Gifford and CQS). Disinvested from LCIV UK Equity Fund in December 2019.*

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
LGIM	Global Equity (Passive)	Major deviation from benchmark returns Significant loss of assets under management	1
Baillie Gifford	LCIV 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	2
Insight	Buy and Maintain	Departure of any of the senior members of the investment team	1
CQS	LCIV Multi Asset Credit	Significant changes to the investment team responsible for the fund	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
Pantheon	Global Infrastructure	Significant changes to the investment team responsible for the fund	1

3.1 London CIV

Business
As at 31 December 2019, the London CIV had assets under management of £8,612m within the 14 sub-funds, a decrease of £211m over the quarter. The total assets under oversight, including passive investments held outside the CIV platform, increased by £0.5bn over the quarter to £20.0bn.

The LCIV Infrastructure Fund had its first close at the end of October, with six pool members committed and around £400m raised. The fund is expected to make 4 to 6 commitments per year, with its first a renewable energy fund.

The LCIV UK Equity Fund was also closed during the fourth quarter following the final two pool members moving assets out into global equities.

Personnel
Kevin Corrigan has been appointed as interim Chief Investment Officer following the resignation of Mark Thompson, as reported in the previous quarter. Kevin has joined from Resco Asset Management, where he held the position of Senior Investment Advisor and had previously been CIO at Sandaire Investment Office. The London CIV are continuing to search for a permanent CIO and Head of Responsible Investment.

Also during the quarter, Silvia Knott-Martin became a Client Relations Manager. Silvia previously held positions at Aon Hewitt, State Street and AXA in similar relationship manager roles.

On 9 January 2020, the London CIV announced Larissa Benbow will be leaving the firm with effect from 28 February. Larissa holds the role of Head of Fixed Income after joining the London CIV in June 2017. Larissa had previously planned to take extended leave, as such, with the recruitment of interim resources during 2019, Larissa's responsibilities will be picked up as follows:

- Azim Meghji, formerly Head of Credit at Santander Asset Management who joined the team in December 2019, will take responsibility for the relationships with fixed income managers. Azim will be supported by Pru Odedra;
- Rob Hall will assume responsibility for Infrastructure and Property with support from Pru Odedra;
- Mariya Gurylyova, with additional support from Andrea Wildsmith, a consultant who joined the team in 2019, will undertake London CIV's systems work; and
- Kevin Corrigan will assume responsibility for consultant relations.

LCIV Multi Asset Credit Fund
LCIV informed London Local Authorities ("LLA's") in July 2019 that CQS, the manager of the LCIV MAC Fund, had been placed "on watch". This followed LCIV concerns regarding CQS' strategy and high staff turnover, as well as recent underperformance.

In December 2019, LCIV met with CQS to advise that they are exploring options with other multi asset credit managers in the market. LCIV have commenced an external search with some initial managers which they plan to continue. LCIV are currently exploring the opportunity for another manager to hold a minority stake in the LCIV MAC Fund with the potential for the new manager to hold a larger stake in future. If or how any additional manager(s) will be used in relation to the LCIV MAC Fund will be determined by both the engagement and the outcome of the searches being undertaken by the LCIV, with a further update initially expected to be provided to investors in Q1 2020. As at the time of completing this report, there has been no update provided relating to this.

Deloitte view – It is crucial that steps are taken to rebuild the senior management team and an appropriate strategy agreed for taking the pool forward, getting "buy-in" from the shareholders. The departure of Larissa Benbow is significant given her role and involvement in the setup of numerous sub funds.

We will be meeting the LCIV to discuss Larissa's departure as well as their views on CQS and development of the MAC sub fund. Any change to the structure or manager(s) of the sub fund would require a thorough review from the Committee.

3.2 LGIM

Business
As at 30 June 2019, Legal & General Investment Management ("LGIM") had total assets under management ("AuM") of £1,135bn, an increase of £30bn since 31 December 2018.

Personnel
At quarter end, LGIM announced that Margaret Ammon would be joining in February 2020 as Chief Risk Officer and Camille Blackburn would be joining in January 2020 as Chief Compliance Officer, subject to regulatory approvals.

Margaret has over 20 years' experience in risk management, most recently as Chief Risk Officer for Asset Management at M&G Plc. Prior to this, Margaret held roles at Colonial First State Global Asset Management as CRO, Schroders as APAC Head of Risk for Schroders and CRO for Old Mutual.

Camille will join with responsibility for overseeing the global compliance framework and report to Margaret and joins from M&G Plc. Camille has previously held the position of Chief Compliance Officer at Aviva Investors and will replace Teresa Poy who is retiring from the role.

At the Index Team level, there were two new joiners, with Tobias Merfeld and Hatshepsut James taking the roles of ETF Investment Strategist and ETF Platform Manager respectively.

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

3.3 Baillie Gifford

Business

Baillie Gifford held c. £218.6bn in assets under management as at 31 December 2019, an increase of c. £12.5bn over the fourth quarter of 2019.

Personnel

There have been no significant team or personnel changes over the quarter to 31 December 2019.

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

3.4 Longview

Business

Longview's assets under management increased by c. £0.6bn to c. £24.1bn over the quarter to 31 December 2019, with negative net flows of £154m over the fourth quarter of 2019.

Personnel

There have been no significant team or personnel changes to the investment team over the quarter to 31 December 2019.

During the fourth quarter of 2019, Paul Jones joined Longview as Head of IT. Prior to joining, Paul worked at Pantheon Ventures for 8 years as Chief Technology Officer. In his capacity, Paul had responsibility for all technology functions including: strategy and architecture, software development, cybersecurity, and infrastructure and cloud platform. Prior to Pantheon Ventures, Paul spent 7 years at Tokio Marine/Kiln Group in the Lloyds Reinsurance market as Head of Group Architecture and was responsible for all aspects of systems architecture and software delivery. During that period Paul was responsible for a large number of systems implementations.

***Deloitte view* –** We have recently removed Longview's Global Equity strategy from our rated manager list following the departure of the co-founder and CIO Ramzi Rishani. As such, going forward, we will not be recommending the Longview Global Equity strategy to clients.

3.5 Insight

Business

Insight's total assets under management decreased from c. £714bn as at 30 September 2019 to c. £660bn as at 31 December 2019. This decrease in c. £54bn in assets under management appears to be attributable to a rise in gilt yield over the quarter to 31 December 2019, which in turn lead to a fall in their hedged liabilities of their LDI portfolios over the quarter with Insight including hedged liabilities in its assets under management calculations.

Over the fourth quarter of 2019, the Insight Buy and Maintain Fund's assets under management increased by c. £2bn to stand at c. £2.7bn as at 31 December 2019.

Personnel

Insight made no changes to their Buy and Maintain fund team over the fourth quarter of 2019.

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

3.6 CQS – Multi Asset Credit

Business

As at 31 December 2019, CQS held assets under management of c. $19.2bn which reflects an increase of c. $1.3bn over the quarter. The Credit Multi Asset Fund's assets under management increased by c. $1.1bn over the fourth quarter of 2019, managing c. $8.1bn on behalf of its clients as at 31 December 2019.

Personnel

There were no specific team/personnel changes to the Credit Multi Asset Fund team over the quarter to 31 December 2019.

***Deloitte View* -** We plan to hold a meeting with CQS during the first quarter of 2020 to discuss the LCIV's reasons for placing the manager "on watch" and to consider CQS' views with regards to LCIV exploring the opportunity for another manager to hold a minority stake in the LCIV MAC Fund.

3.7 Hermes

Business

As at 31 December 2019, Hermes held total assets under management of c. £37.1bn, reflecting an increase of c. £1.3bn over the quarter. Within the HPUT, total assets under management remained at c. £1.5bn over the quarter to 25 December 2019, with figures not available as at 31 December 2019.

Personnel

As mentioned in the investment report covering the quarter to 30 September 2019, Chris Matthew, Fund Director of the Hermes Property Unit Trust, left the firm on 31 October 2019 following a period of leave due to ill health within his family.

Chris had been Fund Director of the HPUT for over 15 years and additionally worked as an Executive Director for the wider Hermes group, providing a significant contribution to the success and growth of the business. Hermes states that the search for Chris' replacement is well under way.

As mentioned last quarter, Russell Black, who was previously appointed as Interim Fund Manager during the second quarter of 2019, has been appointed as Fund Manager. Additionally, Ian Cody was permanently appointed as Asset Manager for HPUT following a successful period as interim manager.

Chris Darroch, Executive Director at Hermes, continues to act as Interim Fund Director until a new Fund Director has been appointed. Chris joined Hermes in December 2009, he is a senior member of Hermes' real estate team and is the Fund Director for BT Pension Scheme's UK real estate investment portfolio. Chris will continue to report to Chris Taylor, head of Private Markets, during his time in the role.

Deloitte view – We are monitoring the personnel changes, including the appointment of a new Fund Manager.

3.8 Aberdeen Standard Investments – Long Lease Property

Business

The Long Lease Property Fund's assets under management increased by c. £0.1bn over the fourth quarter of 2019 to c. £2.6bn as at 31 December 2019. The Fund had a queue of investor commitments of c. £245m as at 31 December 2019 with the uncertainty surrounding Brexit making it difficult for ASI to find attractive opportunities to invest in.

Personnel

On 2 October 2019, ASI announced that Martin Gilbert, Chairman of ASI, has decided to step down. Martin will retire from most of his board roles at the next AGM in May 2020 but will remain as Chairman of ASI until September 2020 to ensure a smooth transition period. Martin first joined Aberdeen Asset Management over 30 years ago and currently holds the positions of Chairman at Aberdeen Standard Investments and Vice Chairman of the Standard Life Aberdeen group. Martin will continue to focus on the strengthening of current client relationships and establishing new ones. He will continue to work closely with ASI's leadership team to ensure that his responsibilities are smoothly passed over and that the service remains the same.

ASI has made the decision to combine their Real Estate and Private Markets business areas in a bid to leverage research capabilities and deliver a greater range of Private Market solutions to clients. Peter McKellar has been appointed as Executive Chairman and Global Head of Private Markets, and Neil Slater has taken on the role of Global Head of Real Estate and Deputy Head of Private markets from David Paine.

There were no senior management changes to the team managing the Long Lease Property Fund over the fourth quarter of 2019.

Deloitte View – We continue to rate Aberdeen Standard Investments positively for its long lease property capabilities.

3.9 Pantheon

Business

Pantheon's total assets under management stood at c. $47bn as at 30 September 2019, remaining the same level as at 30 June 2019. Following the final close in March 2019, the Global Infrastructure III Fund has $2.2bn in assets committed.

As at 1 January 2020, the Global Infrastructure III Fund has completed 23 deals, with $1,081m in closed or committed deals. This represents a 49% commitment level.

Personnel
There were no specific team/personnel changes to the Global Infrastructure III Fund team over the quarter.

Andrea Echberg, a Partner in Pantheon's London office, has been appointed Co-Head of the Infrastructure & Real Assets Investment Committee. Andrea was previously a member of the committee, and has been with the firm 7 years

***Deloitte View* -** We continue to rate Pantheon positively for its global infrastructure capabilities.

4 London CIV

4.1 Investment Performance to 31 December 2019

At the end of the fourth quarter of 2019, the assets under management within the 14 sub-funds of the London CIV was £8,612m. The total assets under oversight (which includes passive investment held outside of the CIV platform) increased by c. £0.5bn to c. £20bn over the quarter. 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 Sep 2019 (£m)	Total AuM as at 31 Dec 2018 (£m)	Number of LCIV clients	Inception Date
LCIV UK Equity	UK Equity	Majedie	415	-	0	18/05/17
LCIV Global Equity Alpha	Global Equity	Allianz Global Investors	-	-	-	02/12/15
LCIV Global Alpha Growth	Global Equity	Baillie Gifford	2,705	2,782	13	11/04/16
LCIV Global Equity	Global Equity	Newton	660	668	3	22/05/17
LCIV Global Equity	Global Equity	Longview Partners	847	871	5	17/07/17
LCIV Equity Income	Global Equity	Epoch Investment Partners	262	260	2	08/11/17
LCIV Emerging Market Equity	Global Equity	Henderson Global Investors	352	346	6	11/01/18
LCIV Sustainable Equity Fund	Global Equity	RBC Global Asset Management (UK)	434	448	3	18/04/18
LCIV Global Total Return	Diversified growth fund	Pyrford	323	325	5	17/06/16
LCIV Diversified Growth	Diversified growth fund	Baillie Gifford	685	726	8	15/02/16
LCIV Absolute Return	Diversified growth fund	Ruffer	868	898	10	21/06/16
LCIV Real Return	Diversified growth fund	Newton	152	134	2	16/12/16
LCIV MAC	Fixed Income	CQS	846	858	12	31/05/18
LCIV Global Bond	Fixed Income	PIMCO	274	295	3	30/11/18
LCIV Infrastructure Fund	Infrastructure	Stepstone	-	399*	6	31/10/2019
Total			**8,823**	**8,612**		

Source: London CIV
Figures may not sum due to rounding
**Represents committed assets not yet drawn down.*

London CIV successfully launched the LCIV Infrastructure Fund over the fourth quarter of 2019, managed by Stepstone with initial commitments of £399m seeded by six London Borough Pension Funds. The LCIV Infrastructure Fund's first investment of $75m was made into the Macquarie GIG Renewable Energy Fund 2 ("MGREF2"), at the beginning of 2020. The MGREF2 has a 100% renewable energy focus with a large allocation to onshore wind, offshore wind and solar PV assets.

5 LGIM – Global Equity (Passive)

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

5.1 Passive Global Equity – Investment Performance to 31 December 2019

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
LGIM - Gross of fees	7.2	25.5	11.0	11.6
Net of fees[1]	7.1	25.4	10.9	11.5
FTSE World (GBP Hedged) Index	7.2	25.5	11.0	11.6
Relative (net of fees)	-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 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.

Over the quarter to 31 December 2019, the fund marginally underperformed its FTSE-based benchmark. The fund also marginally underperformed its benchmark over the year and three-year periods to 31 December 2019.

6 LCIV – Global Equity

Baillie Gifford was appointed to manage an active Global Equity mandate from 18 March 2014, held as a sub-fund under the London CIV platform from 11 April 2016. 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.

6.1 Global Equity – Investment performance to 31 December 2019

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Baillie Gifford – Gross of fees	4.9	27.8	14.9	15.2
Net of fees[1]	4.8	27.4	14.6	14.9
MSCI AC World Index	1.4	21.7	9.9	12.2
Relative (net of fees)	3.4	5.7	4.7	2.7

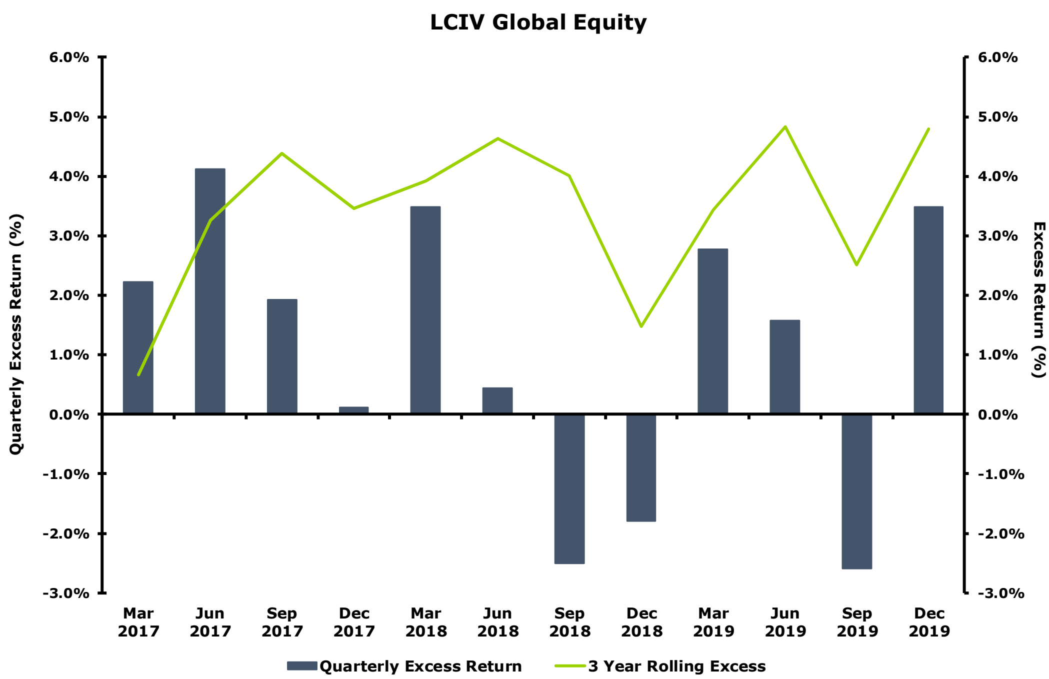
Source: Northern Trust
[1]Estimated by Deloitte. See appendix 1 for more detail on manager fees
Inception date taken as 18 March 2014

The LCIV Global Alpha Growth Fund, managed by Baillie Gifford, outperformed the MSCI AC World Index benchmark by 3.4% on a net of fees basis over the quarter to 31 December 2019, returning 4.8% in absolute terms on a net of fees basis. Over the 12-month and annualised three-year periods to 31 December 2019, the fund outperformed its benchmark by 5.7% and 4.7% p.a. respectively on a net of fees basis, delivering absolute returns of 27.4% and 14.6% p.a. on a net of fees basis respectively.

Over a quarter where global equity markets delivered particularly strong positive returns, the LCIV Global Alpha Growth Fund's returns surpassed that of the wider market as a result of Baillie Gifford's exposure to healthcare biotechnology stocks, amongst other exposures across less-traditional areas of the market.

The fund's c. 49% allocation to the US market was of particularly merit this quarter, with US markets lifted by the agreement of an interim US-China trade deal.

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 4.7% p.a. over the three year period to 31 December 2019.



6.2 Performance Analysis

The top 10 holdings in the portfolio account for c. 25.6% of the fund and are detailed below.

Top 10 holdings as at 31 December 2019	Proportion of Baillie Gifford Fund
Alibaba	3.2%
Amazon	3.0%
Prudential	2.9%
Moody's	2.6%
Alphabet	2.5%
Mastercard	2.5%
Anthem	2.4%
Naspers	2.3%
AIA	2.2%
Microsoft	2.0%
Total	**25.6%**

Source: London CIV
Figures may not sum due to rounding

The tables below show the top 5 and bottom 5 contributors to performance over the quarter to 31 December 2019.

Top 5 contributors as at 31 December 2019	Contribution (%)
Alibaba	+0.37
Alnylam Pharmaceuticals	+0.35
Seattle Genetics	+0.33
Anthem	+0.26
Ryanair	+0.23

Alnylam Pharmaceuticals and Seattle Genetics were among the top contributors to positive performance over the quarter, highlighting the impact of Baillie Gifford's healthcare biotechnology holdings. The fund's largest holding, Alibaba, provided the largest positive contribution with Naspers, the eighth largest holding providing the largest detraction to performance over the quarter to 31 December 2019.

Top 5 detractors as at 31 December 2019	Contribution (%)
Naspers	-0.32
Apache	-0.25
Amazon	-0.18
Prosus	-0.18
Grubhub	-0.17

7 Longview – Global Equity

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

7.1 Active Global Equity – Investment Performance to 31 December 2019

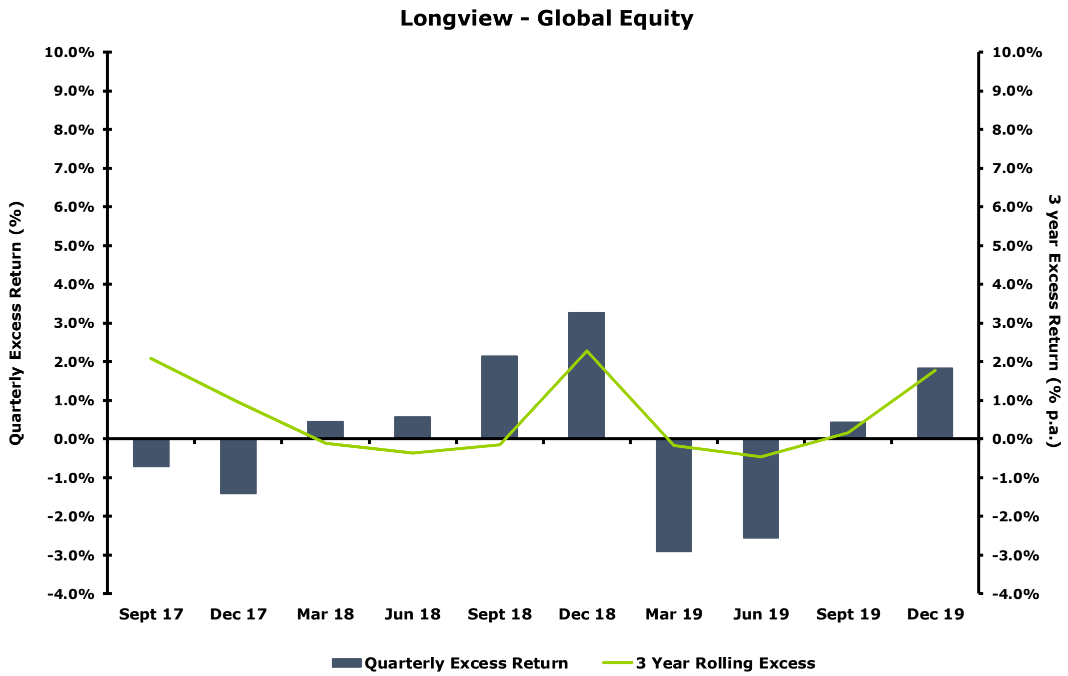
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Longview - Gross of fees	3.0	20.5	12.4	14.9
Net of fees[1]	2.8	19.8	11.8	14.2
MSCI World Index	1.0	22.7	10.0	12.2
Relative (on a net basis)	1.8	-2.9	1.8	2.0

Source: Longview (longer term returns provided by Northern Trust)
[1]Estimated by Deloitte. See appendix 1 for more detail on manager fees
Inception date 15 January 2015

Longview returned 2.8% on a net of fees basis over the fourth quarter of 2019, outperforming its MSCI-based benchmark by 1.8%. Over the longer one-year and three-year periods to 31 December 2019, the fund has underperformed its benchmark by 2.9% and outperformed its benchmark by 1.8% p.a. respectively on a net of fees basis.

The Global Equity Fund's overweight exposure to the healthcare sector helped drive positive returns, with underweight exposures to real estate and utilities also boosting performance relative to the MSCI-based benchmark due to the sensitivity of the two sectors to changes in interest rates.

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.



7.2 Performance Analysis

The tables below represent the top 5 and bottom 5 contributors to performance over the fourth quarter of 2019.

Top 5 contributors as at 31 December 2019	Contribution
State Street	+1.02
UnitedHealth	+0.87
HCA Healthcare	+0.63
Charter Communications	+0.48
Parker Hannifin	+0.28

State Street delivered the largest contribution to performance, benefitting from low initial earnings expectations leading to a rise in price earnings ratio. Healthcare stocks, UnitedHealth and HCA Healthcare, profited from reduced political concerns over the quarter, with HCA Healthcare providing the largest detraction to performance over the third quarter of 2019.

The largest detraction to performance, on an individual stock level, came from Compass who announced a cost cutting exercise was to be undertaken in 2020 which promoted negative responses by the market.

Top 5 detractors as at 31 December 2019	Contribution
Compass	-0.83
Oracle	-0.46
Asahi Group	-0.30
Henkel	-0.20
US Foods	-0.13

8 Insight – Buy and Maintain

Insight was appointed to manage a buy and maintain credit portfolio. The fund aims to invest in predominantly investment grade credit which the manager believes can be held to maturity. The manager's fee is based on the value of assets.

8.1 Buy and Maintain Fund - Investment Performance to 31 December 2019

	Last Quarter (%)	Last Year (%)	Since Inception (% p.a.)
Insight Non Gilts - Gross of fees	-0.3	10.4	6.4
Net of fees[1]	-0.3	10.3	6.3
iBoxx £ Non-Gilt 1-15 Yrs Index	-0.3	6.8	5.3
Relative (on a net basis)	0.0	3.5	1.0

Source: Northern Trust
[1]Estimated by Deloitte. See appendix 1 for more detail on manager fees
Inception date taken as 12 April 2018

The Insight Buy and Maintain Fund tracked its temporary iBoxx non-gilt benchmark on a net of fees basis over the quarter to 31 December 2019, providing a negative absolute return of -0.3%. Over the year to 31 December 2019, the Buy and Maintain Fund has outperformed its benchmark by 3.5%, returning 10.3% on a net of fees basis over the period.

8.2 Performance Analysis

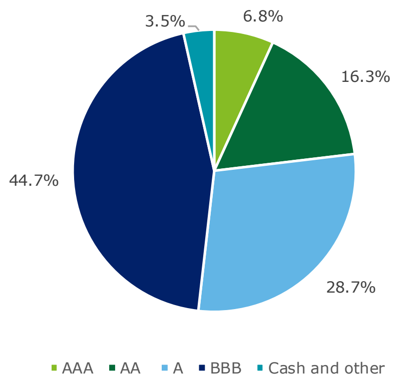
The table below summarises the Buy and Maintain portfolio's key characteristics as at 31 December 2019.

	30 September 2019	31 December 2019
Yield (%)	2.2	2.2
No. of issuers	168	175
Modified duration (years)	8.3	8.5
Spread duration (years)	8.2	7.9
Government spread (bps)	160	132
Swaps spread (bps)	151	121
Largest issuer (%)	1.2	4.3
10 largest issuers (%)	10.7	13.9

Source: Insight

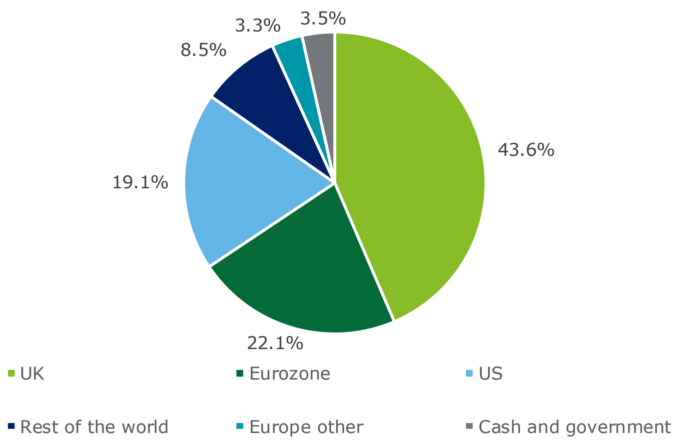
The largest issuer allocation and total 10 largest issuer allocations have increased over the quarter as a result of Insight's newly acquired 4.3% holding in the UK Treasury.

The graph below shows the split of the Buy and Maintain portfolio by credit rating.

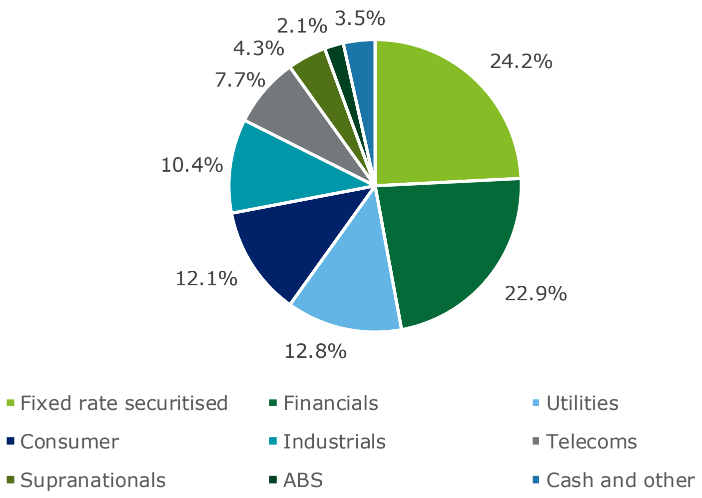


As at 31 December 2019, the fund's investment grade holdings made up c. 96.5% of the portfolio, with the fund predominantly invested in BBB and A rated bonds.

The graph below shows the split of the Buy and Maintain portfolio by country as at 31 December 2019.



The graph below shows the split of the Buy and Maintain portfolio by sector as at 31 December 2019.



The table below shows the top 10 issuers by market value as at 31 December 2019.

Issuer name	Rating*	Holding (%)
UK Treasury	AA	4.3
International Bank for Reconstruction & Development	AAA	1.3
Royal London	BBB	1.2
M&G	BBB	1.1
CPUK Finance	BBB	1.0
London & Quadrant Housing Trust	A	1.0
General Electric	BBB	1.0
Volkswagen	BBB	1.0
Tesco Property	BBB	1.0
EDF	A/BBB	1.0

**Ratings provided by Insight*

9 LCIV – Multi Asset Credit

CQS was appointed to manage a multi asset credit mandate, under the London CIV platform, in October 2018 with the aim of outperforming the 3 month Sterling LIBOR benchmark by 4% p.a. An annual fee covers the manager's and the London CIV platform management fees.

9.1 Multi Asset Credit – Investment Performance to 31 December 2019

	Last Quarter (%)	Last Year (%)	Since Inception (% p.a.)
CQS – MAC – Gross of fees	1.5	7.2	4.5
Net of fees[1]	1.3	6.5	3.8
3 Month Libor + 4%	1.2	5.0	5.0
Relative (on a net basis)	0.1	1.5	-1.2

Source: Northern Trust
[1]Estimated by Deloitte. See appendix 1 for more detail on manager fees
Inception date taken as 30 October 2018

Over the fourth quarter of 2019, the LCIV Credit Multi Asset Fund, managed by CQS, outperformed its benchmark by 0.1% on a net of fees basis. The Credit Multi Asset Fund delivered net of fees returns of 6.5% over the year to 31 December 2019, outperforming its benchmark by 1.5%.

The fund decreased its nominal exposure to loans by 3% to 45% over the quarter. Despite this, loans provided the largest contribution to performance within the fund's portfolio alongside high yield and ABS with high yield markets experiencing strong growth across European and US holdings.

9.2 Portfolio Analysis

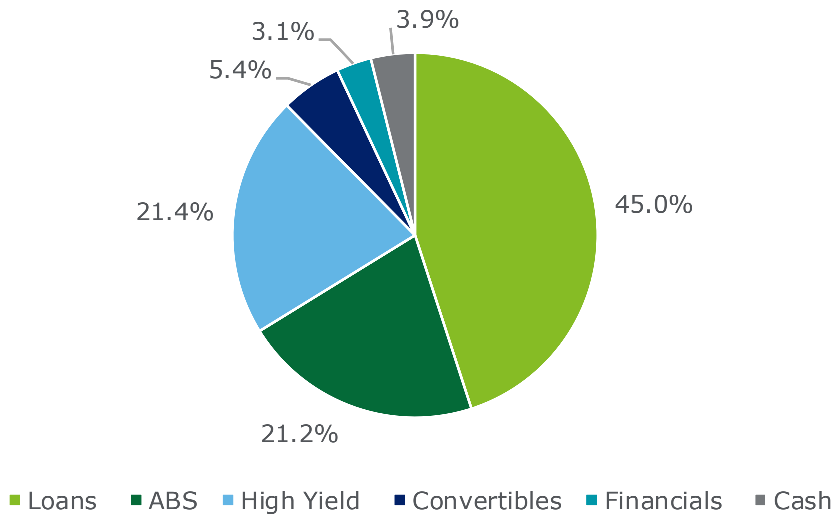
The table below summarises the Multi Asset Credit portfolio's key characteristics as at 31 December 2019.

	30 Sep 2019	31 Dec 2019
Weighted Average Bond Rating	B+	B+
Long Bond Equivalent Exposure with Public Rating (%)	84.9	85.0
Investment with Public Rating (%)	82.9	84.2
Yield to Maturity (%)	5.7	5.4
Spread Duration	4.1	3.9
Interest Rate Duration	1.7	1.6

Source: CQS

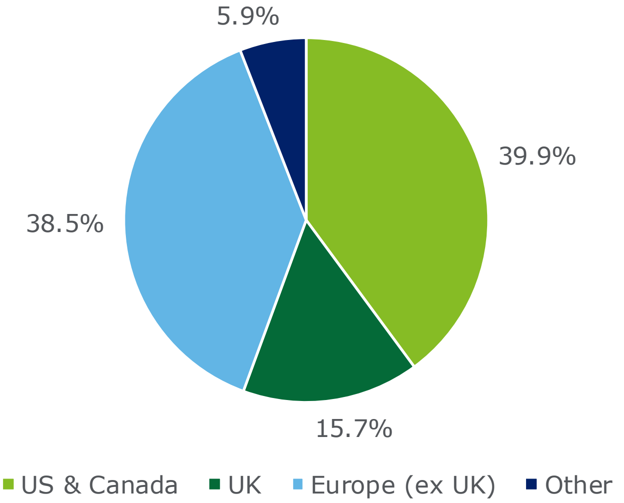
9.3 Asset Allocation

The asset allocation split of the Credit Multi Asset Fund as at 31 December 2019 is shown below.



9.4 Country Allocation

The graph below shows the regional split of the CQS Credit Multi Asset Fund as at 31 December 2019.



10 Hermes – Property

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

10.1 Property – Investment Performance to 31 December 2019

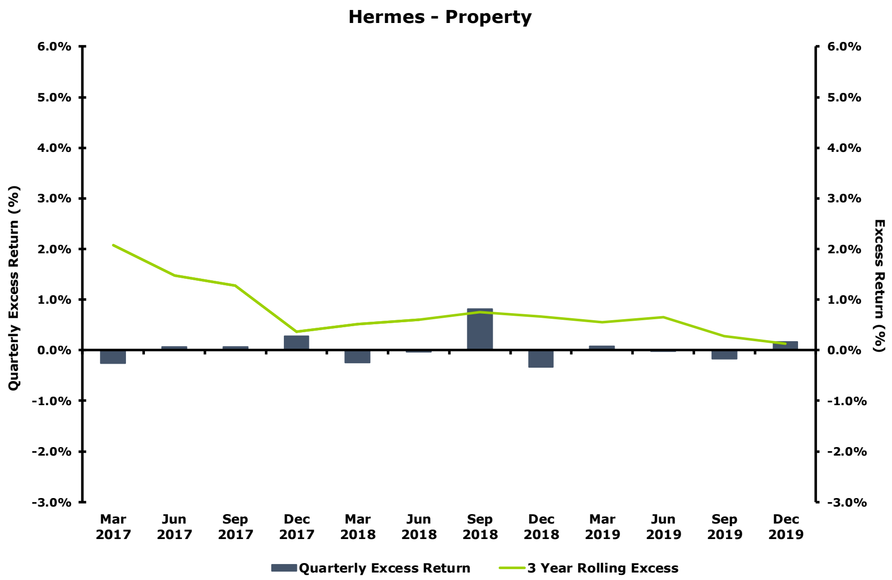
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Hermes - Gross of fees	0.6	2.5	7.2	9.1
Net of fees[1]	0.5	2.1	6.8	8.7
Benchmark	0.3	2.1	6.7	7.9
Relative (on a net basis)	0.2	0.0	0.1	0.8

Source: Hermes
[1]Estimated by Deloitte. See appendix 1 for more detail on manager fees
Inception date is taken as 26 October 2010

Hermes returned 0.5% on a net of fees basis over the quarter to 31 December 2019, outperforming its IPD-based benchmark by 0.2%. The strategy tracked its benchmark over the year to 31 December 2019 on a net of fees basis and marginally outperformed its benchmark by 0.1% p.a. over the longer three-year period to 31 December 2019 on a net of fees basis.

The Trust's west end office assets provided the largest contribution to performance over the quarter to 31 December 2019 with offices in the rest of the UK also contributing positively to performance. The Trust's industrial sector assets continued to provide a positive contribution to performance, albeit not as large as the Trust's office sector allocation.

Retail warehouses, unit shops and shopping centres were the largest detractors to performance over the fourth quarter of 2019, with poor investor sentiment and weak occupier demand in the retail sector continuing to have an effect on valuations.



10.2 Activity

During December 2019, HPUT sold The George, Eton for £2.7m. This reflects a net initial yield of 4.5% and a significant premium of 27% over the end-September 2019 valuation. The property was part of a sale and leaseback portfolio acquired in 2011.

Also during December 2019, the strategy sold its position in Recency House, London. The property sold for £36.0m, representing a 20% premium in comparison to the end-September 2019 valuation. The Trust acquired the freehold property for £16m in October 2012.

Lettings and other activities were also completed on numerous assets over the fourth quarter of 2019:

- Erdington Industrial Park, Birmingham: During the fourth quarter of 2019, the Manager completed the letting of two vacant units (combined 35,000 sq. ft.) in the park. The new lettings with Leacy MG Ltd are on a 10-year term with break at 5 year and will contribute a total amount of c. £182,000 p.a. after incentives to the Trust rental income.

- Centrus Industrial Estate, Hertford: Over the quarter, the Manager completed a 10-year lease renewal with an existing tenant in the estate. The lease term includes a break at year 5 and accounts for a total rental income of c. £71,600 p.a. The estate remains fully let following this renewal.

- Guinness Road Trading Estate, Manchester: During the quarter, the tenant, Redhall Jex Ltd who had entered administration and occupied a 21,000 sq. ft. unit in the estate terminated the lease. The Manager agreed terms with a new tenant to take over the unit for a 5 year lease at c. £106,000 p.a. with review in September 2020.

- Nexus Park, Newbury: In November 2019, the Manager agreed terms with Haiken Ltd for a 10 year lease term at c. £122,700 p.a. to take over the 12,700 sq. ft. vacant unit in the park. The lease includes a 12 month rent free incentive and break at year 5.

- Horndon Industrial Park, West Horndon: During the quarter, a number of lease renewals and lettings terms were agreed in the industrial park accounting for a total rental income of c. £300,000 p.a. after incentives. The recently completed refurbishment works led to a significant reduction of the vacancy rate in the estate.

- Staycity Greenwich, Block E, Greenwich : Over the quarter, the 5 year rent review with the tenant operator Staycity was agreed at c. £576,338 p.a. which provides a 10% increase to the rental income.

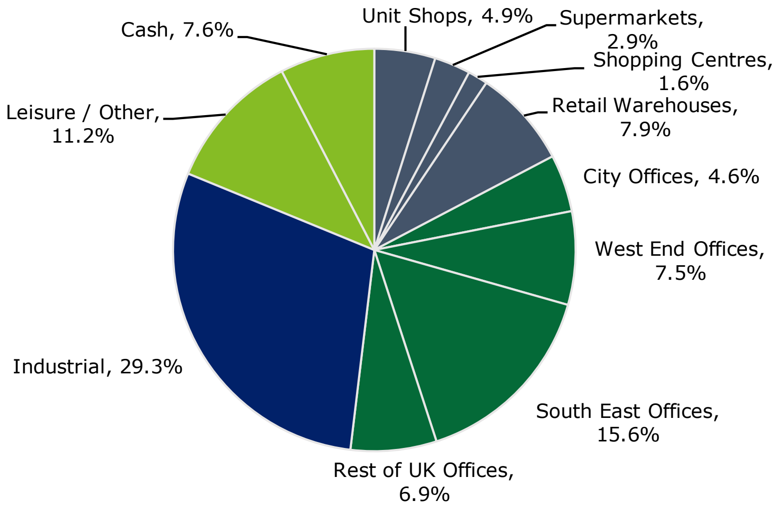
- Horizon Building, Hurley, Maidenhead: During November and December 2019, the Manager documented the rent reviews with the tenants Pfizer and Leo Laboratories which will secure a 5% uplift in the annual rental income for a total of c. £1m p.a.

- Maybird Shopping Park, Stratford Upon Avon: A reversionary lease was completed with B&Q for a new 10 year letting at c. £512,000 p.a. after tenant incentives. The Manager will contribute to the refurbishment works which B&Q will undertake to upgrade the unit. In the same period terms have been agreed with Poundland and Superdrug to take over 15,000 sq. ft vacant space in the park, subject to planning.

- St John Street, Farringdon: Over the quarter, the Manager undertook a project of refurbishment of the office floors and ground floor retail premises of its grade II listed investment building. The Trust will fund the capital works up to £3.6 million and the project is expected to complete in late 2020. The refurbishment will improve a tired and inefficient asset to provide larger floorplates, high quality grade A offices and maximise value.

10.3 Portfolio Summary as at 31 December 2019

The Hermes Property Unit Trust invests across retail, offices, industrials and other sectors, with the split as at 31 December 2019 shown below.



The table below shows the top 10 directly held assets in the fund as at 31 December 2019, representing c. 34.2% of the fund.

Asset	Sub-sector	Value (£m)
Maybird Shopping Park, Stratford-upon-Avon	Retail Warehouses	74.8
8/10 Great George Street, London SW1	Offices	64.7
Broken Wharf House, London	Leisure/Other	59.1
Polar Park, Bath Road, Heathrow	Industrials	54.9
Horndon Industrial Park, West Horndon CM13	Industrials	50.8
27 Soho Square, London W1	Offices	47.7
Sainsbury's, Beaconsfield	Supermarkets	42.9
Round Foundry & Marshalls Mill, Leeds	Offices	40.5
Camden Works, London	Offices	38.7
Hythe House, Hammersmith	Offices	36.3
Total		**510.2**

Source: Hermes

11 Aberdeen Standard Investments – Long Lease Property

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

11.1 Long Lease Property – Investment Performance to 31 December 2019

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Aberdeen Standard - Gross of fees	1.6	5.4	8.1	8.4
Net of fees[1]	1.5	4.9	7.6	7.9
Benchmark	-3.4	8.9	5.1	6.6
Relative (on a net basis)	4.9	-4.0	2.5	1.3

Source: Aberdeen Standard Investments
[1]Estimated by Deloitte. See appendix 1 for more detail on manager fees
Since inception: 14 June 2013

Over the quarter to 31 December 2019, the ASI Long Lease Property Fund delivered 1.5% on a net of fees basis, outperforming its FT British Government All Stocks Index benchmark by 4.9%.

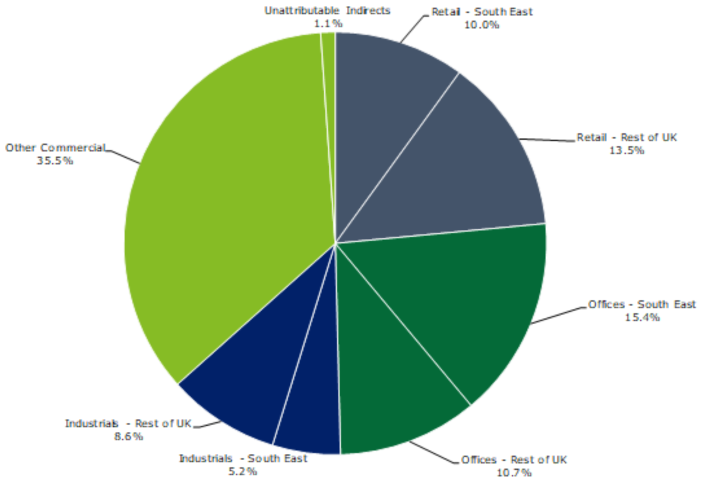
Investors have continued to remain cautious over the fourth quarter of 2019 with transaction activity muted prior to the December UK general election results. Returns continue to be driven by income as capital growth remained negative, and the IPD UK property benchmark returned a total return of only 0.3%. Where capital value across the wider real estate market fell by c. 1.0% over the quarter, the ASI Long Lease Property Fund experienced capital growth of 0.6%. Negative capital growth continues to be driven by the retail sector.

The Fund's outperformance over the quarter continues to be attributable to the stronger tenant quality within ASI's portfolio, in addition to the continued demand for long inflation-linked leases with investors cautious of assets with short term leases given the uncertain outlook for the UK. The Fund also continued to benefit from its underweight exposure to retail generally, and positive capital growth in the select retail assets that the Fund does hold, alongside the lack of any high street, shopping centre or retail warehouse exposure.

The supermarket sector, which makes up the largest proportion of the Fund's retail exposure saw modest positive returns of 0.3% over the quarter. For example, the Sainsbury's store in Tadley, Hampshire, increased in value by 2.7%.

11.2 Portfolio Holdings

The sector allocation in the Long Lease Property Fund as at 31 December 2019 is shown in the graph below.



Over the quarter to 31 December 2019, the Fund's allocation to the office sector decreased by 0.5% to 26.1%. The allocation to the retail decreased by 0.4% over the quarter to 23.5%, whilst the allocation to other commercial increased by 0.7% to 35.5% over the quarter.

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

Tenant	% Net Income
Tesco	7.8
Whitbread	5.9
Sainsbury's	4.8
Marston's	4.6
Asda	4.0
Salford University	3.8
QVC	3.7
Save the Children	3.7
Lloyds Bank	3.6
Poundland	3.5
Total	**45.2 ***

*Total may not equal sum of values due to rounding

As at 31 December 2019, the top 10 tenants contributed 45.2% of the total net income of the Fund. Of which 16.6% of the net income came from the supermarket sector, with Tesco, Sainsbury's and Asda continuing to make up a significant proportion of the Fund at quarter end.

The unexpired lease term decreased from 25.7 years as at 30 September 2019 to 25.4 years as at 31 December 2019. The proportion of income with fixed, CPI or RPI rental increases decreased to 90.1% over the quarter.

11.3 Sales and Purchases

Over the quarter, ASI exchanged contracts to fund a pre-let development of a new 225-bedroom hotel in the heart of Bristol. The pre-let has been agreed with Dalata Hotel Group Plc, with a 35-year term and five-yearly RPI linked reviews (capped at 3.5% max and 0.5% minimum) trading under their Clayton four-star brand. The total consideration is around £46m, with a resulting net initial yield of 4.25%. ASI also completed the 25-year lease of a new car-storage facility at the Port of Immingham to Kia Motors, following completion of the development. This was a pre-let funding, agreed earlier in the year for £24.5m and reflected a net initial yield of 5.4% with rents reviewed every five years in line with RPI and capped at 9%.

The unexpired lease term decreased slightly from 25.7 years as at 30 September 2019 to 25.4 years as at 31 December 2019, remaining more than double the unexpired lease term of the market as a whole. The proportion of income with fixed, CPI or RPI rental increases reduced to 90.1% over the quarter following one asset having its last index-linked review. The progression of the UK Statistics Authority's announcement to reform RPI to bring it into line with CPIH is being monitored as, should this take place, this would reduce the Fund's long term rental income growth.

12 Pantheon – Global Infrastructure Fund III

Pantheon was appointed to manage a global infrastructure mandate with the aim of outperforming the 3 month Sterling LIBOR benchmark by 8% p.a. The manager has an annual management fee and performance fee.

12.1 Global Infrastructure - Investment Performance to 31 December 2019

Capital Calls and Distributions
Westminster committed $91.5m to Pantheon in February 2019.

- Over the quarter, Pantheon issued one capital call and one distribution:
    - A net capital call of $1.8m for payment by 15 November 2019, representing c. 2.0% of Westminster's total commitment. This was comprised of a $2.3m capital call and a $0.5m distribution.
    - $0.5m distribution to be paid to the Fund by 16 December 2019, representing c. 0.6% of Westminster's total commitment.
- Following quarter end, Pantheon issued one capital call:
    - $0.9m for payment by 6 March 2020, representing c. 1.0% of Westminster's total commitment.

The remaining unfunded commitment as at the end of February was c. $65.9m, with the Fund's total contribution at c. $25.7m and the Fund's $91.5m commitment c. 28% drawn.

Pantheon expects to draw a further c. 31% and c. 27% of clients' committed funds across 2020 and 2021 respectively which would take the commitment drawn to c. 83% as at the end of 2021.

Activity
PGIF III closed one deal over the quarter - Project Nitrogen, a $68m secondary investment in a global diversified infrastructure portfolio. A $67m deal reported in the second quarter of 2019, renamed Project Zayo, is currently in the process of legal closing.

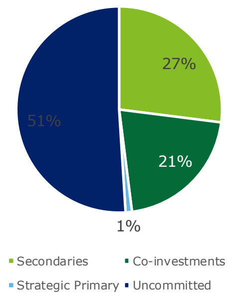
Following quarter end, PGIF has reached legal closing with two further projects:

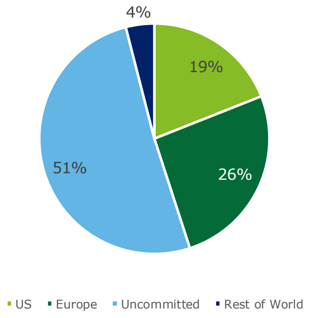
- Project Violin – a $66m co-investment in a European telecommunications project.
- Project Megabyte – a $8m follow on to the secondary investment completed in December 2018 in a North American digital infrastructure project.

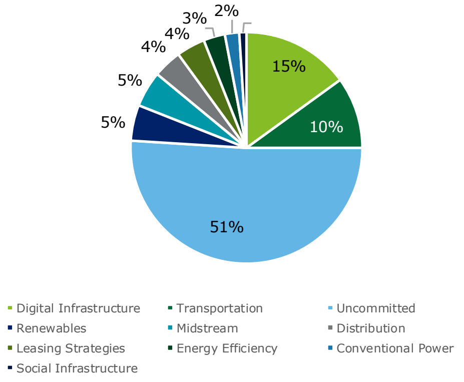
Pipeline
Pantheon currently has an investment pipeline of infrastructure opportunities, with potential near-term deals representing c. $3.8bn of potential investments across secondary deals and co-investments. This pipeline represents opportunities shared between all Pantheon products with a demand for infrastructure. There is no guarantee that each of these opportunities will be completed.

12.2 Asset Allocation

The charts below show the current diversification by strategy, geography and sector in PGIF III as at 31 December 2019.







The target geographic diversification is 30-50% North America, 40-60% Europe and 3-15% Asia and others. The PGIF III also aims to be 15-20% energy infrastructure (midstream), 20-30% energy infrastructure (power/utility), 20-30% transportation, 10-20% PPP/social infrastructure and 10-20% other.

12.3 Investments Held

The table below shows a list of the investments held by PGIF III as at January 2020.

Project Name	Geography	Sector	Type	Deal Size ($m)	Commitment Date
Roger	Europe	Energy Infrastructure	Secondary	28	12/2017
TRAC Domestic	North America	Transportation	Co-investment	12	01/2018
Naturgy	Europe	Energy Infrastructure	Co-investment	32	05/2018
Luton Airport	Europe	Transportation	Co-investment	23	06/2018
Ribera	Europe	Energy Infrastructure	Co-investment	33	07/2018
Invenergy	North America	Energy Infrastructure	Co-investment	31	08/2018
VTG	Europe	Light Rail	Co-investment	41	09/2018
Inti	Europe	Energy Infrastructure	Secondary	23	12/2018
Megabyte	North America	Telecom	Secondary	54	12/2018
Hivory	Europe	Telecom	Co-investment	34	12/2018
Fairway	Global	Energy Infrastructure	Secondary	58	12/2019
Proxiserve	Europe	Energy Infrastructure	Co-investment	33	04/2019
Springbank	North America	Transportation	Secondary	60	05/2019
ORYX Midstream	North America	Energy Infrastructure	Co-investment	66	05/2019
Gemini	Europe	Transportation	Secondary	62	07/2019
Kookaburra	Europe	Diversified Infrastructure	Secondary	57	07/2019
Sullivan	Global	Diversified Infrastructure	Secondary	120	07/2019
Nitrogen	Europe	Telecommunications	Secondary	68	12/2019
Zayo	North America	Telecommunications	Co-investment	67	In closing
Mclaren	Global	Diversified Infrastructure	Secondary	71	In closing
Violin	Europe	Telecommunications	Co-investment	66	In closing
Megabyte (follow-on)	North America	Digital Infrastructure	Secondary	8	In closing

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
Majedie	UK Equity	22.5	FTSE All-Share Index	+2.0 p.a. (net of fees)	**31/05/06**
LGIM	Global Equity	22.5	FTSE World GBP Hedged	Passive	**01/11/12**
Baillie Gifford	Global Equity	20.0	MSCI AC World Index	+2.0 p.a. (net of fees)	**18/03/14**
Longview	Global Equity	0.0	MSCI World (GBP) Index	To outperform the benchmark over a market cycle	**15/01/15**
Insight	Buy and Maintain	13.5	Insight Custom Benchmark	n/a	**12/04/18**
CQS	Multi Asset Credit	6.5	3 Month Libor	+ 4% p.a. (net of fees)	**30/10/18**
Hermes	Property	5.0	IPD UK PPFI Balanced PUT Index	+0.5 p.a. (net of fees)	**26/10/10**
Aberdeen Standard Investments	Property	5.0	FTSE Gilts All Stocks Index +2% p.a.	+0.5 p.a. (net of fees)	**14/06/13**
Pantheon	Global Infrastructure	5.0	3 month Libor	+ 8% p.a. (net of fees)	**15/04/19**
	Total	**100.0**			

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 – 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.

Deloitte Total Reward and Benefits Limited is authorised and regulated by the Financial Conduct Authority.

Appendix 4 – MiFID II Cost Summary

On 3 January 2018, the Markets in Financial Instruments Directive II ("MiFID II") was introduced. A key component of this legislation is for fund managers to disclose all costs incurred, with the view to increasing transparency. MiFID II Costs and Charges disclosures are performed annually and will be provided during the first quarterly report of each year. A summary over the year to 31 March 2019 can be found below:

CLIENT NAME: Westminster City Council Pension Fund

Reporting Period: 1st April 2018- 31st March 2019

Value of Scheme as at 31st March 2019: £1,408,903,289.12

Aggregation of all Costs and Charges incurred during the reporting period:

Cost Category	Amount (£)	% of investment
Investment services and/or ancillary services	113,045	0.01
Third Party payments received by the Investment Firm	-	-
Investment product costs	4,758,000	0.36
Total costs and charges	**4,871,045**	**0.37**

Totals may not sum due to rounding.

Cumulative effect of costs and charges on return

The illustration below uses Reduction in Yield (RIY) methodology to show impact of the total costs you have incurred on the return of your investment. The amounts shown are the cumulative costs of investment services and products.

	Amount (£)	Percentage (%)
Cumulative effect of costs and charges on return	5,172,370	0.39

Annual performance figures sourced from Northern Trust. LCIV UK Equity Fund and LCIV Global Equity Fund performance figures estimated using London CIV quarterly reports.

Description of the illustration.

The following is an example of the cumulative effect of costs over time:

An investment portfolio with a beginning value of £1,331m, gaining an annual return of 10%, and subject to a fee of 0.4% per annum (calculated and paid monthly), would grow to £3,331m after 10 years.

In comparison, an investment portfolio with a beginning value of £1,331m, gaining an annual return of 10% but not subject to any fees would grow to £3,453m after 10 years.

The annualised returns over a 10-year period would be 10.0% (gross of fees) and 9.6% (net of fees).

Therefore the cumulative impact of costs (fees) on investment return (reduction in yield) would be 0.40% per annum.

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**19 March 2020**
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:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. Executive Summary

1.1 The risk register is divided into two sections: governance (investment and funding) and pensions administration. The top five risks are highlighted in the report below.

1.2 The cashflow forecast for the next three years has been updated with actuals to 31 December 2019. The bank position continues to be stable.

1.3 The forward plan for 2019/20 – 2020/21 for the Pension Fund Committee is attached.

2. Recommendations

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

2.2 The Committee is asked to note the cashflow position, the rolling 12-month forecast and the three-year forecast.

2.3 The Committee is asked to note the attached forward plan for 2019/20 – 2020/21.

3. Risk Register Monitoring

3.1 The risk register is divided into two sections: governance (investment and funding) and pensions administration. The current top five risks to the Pension Fund are highlighted below:

- The London CIV disbands or fails to produce proposals deemed sufficiently ambitious (governance risk).

- Significant volatility and negative sentiment in global investment markets following disruptive geo-political uncertainty caused by the conflict between the US and Iran, as well as the ongoing trade war with China (governance risk).

- Outbreak of coronavirus within China and the rest of the world impacting stock markets globally (governance risk).

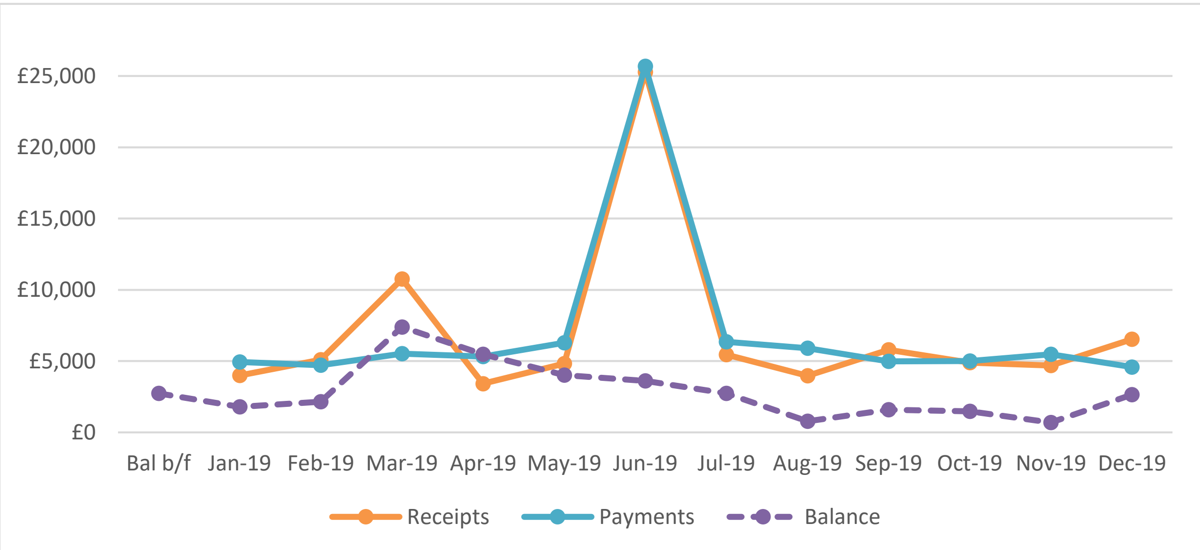
- Volatility caused by uncertainty with regard to the withdrawal of the UK from the European Union, lack of any trade deal and the economic after effects (governance risk).

- Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints (administration risk).

4. Cashflow Monitoring and Forecasted Cashflows

4.1 The balance on the pension fund bank account as at 31 December 2019 was £2.648m. Payments from the bank account will continue to exceed receipts on a monthly basis. During the year, cash withdrawals from Fund Managers are expected to take place to maintain a positive cash balance.

4.2 The table below shows changes in the bank balance from 1 January 2019 to 31 December 2019.



4.3 The peak in receipts during March 2019 and June 2019 include a £10m and £22m deficit recovery receipt, as per the Council's approved budgeted deficit recovery plan. Payments out of the Pension Fund bank account have remained stable over the year, with the exception of June 2019, when a £20m investment was made to the Insight Buy and Maintain portfolio as per the Investment Strategy Consideration paper.

4.4 Officers will continue to keep the cash balance under review and take appropriate action where necessary. The Pension Fund held £19m in cash with the custodian as at 31 December 2019.

4.5 The following table illustrates the expected rolling cashflow for the 12-month period from 1 April 2019 to 31 March 2020. Actuals have been used for the period to 31 December 2019 with a forecast used for the remainder of the year. Forecasted cashflows are calculated using the previous year's actual monthly cashflows which are then inflated by 2%.

Current Account Cashflows Actuals and Forecast for period April 2019- March 2020:

	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	*Jan-20*	*Feb-20*	*Mar-20*	*Forecasted Rolling Total*
	£000	£000	£000	£000	£000	£000	£000	£000	£000	*£000*	*£000*	*£000*	
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	*F'cast*	*F'cast*	*F'cast*	
Balance b/f	**7,397**	**5,486**	**4,021**	**3,620**	**2,727**	**791**	**1,580**	**1,469**	**692**	***2,648***	***2,203***	***3,072***	***£000s***
Contributions	2,881	4,022	3,157	3,509	3,698	3,500	3,469	3,382	3,710	*3,792*	*3,624*	*3,772*	*42,516*
Misc. Receipts[1]	539	780	113	1,766	268	282	1,421	1,317	831	*711*	*1,977*	*490*	*10,495*
Pensions	(3,323)	(3,347)	(3,386)	(3,397)	(3,398)	(3,388)	(3,364)	(3,428)	(3,403)	*(3,288)*	*(3,268)*	*(3,287)*	*(40,280)*
HMRC Tax Payments	(590)	(566)	(569)	(588)	(607)	(563)	(574)	(570)	(581)	*(583)*	*(605)*	*(565)*	*(6,960)*
Misc. Payments[2]	(1,243)	(1,599)	(1,673)	(2,329)	(1,850)	(982)	(1,033)	(1,316)	(550)	*(999)*	*(812)*	*(1,167)*	*(15,552)*
Expenses	(175)	(785)	(52)	(30)	(47)	(61)	(30)	(161)	(52)	*(78)*	*(47)*	*(511)*	*(2,028)*
Net cash in/(out) in month	**(1,911)**	**(1,495)**	**(2,410)**	**(1,069)**	**(1,938)**	**(1,212)**	**(111)**	**(776)**	**(44)**	***(445)***	***869***	***(1,268)***	***(11,810)***
Withdrawal/deposit with Fund Managers	0	0	(20,000)	0	0	2,000	0	0	2,000	*0*	*0*	*1,000*	*(15,000)*
Special Contributions*	0	31	22,008	177	2	0	0	0	0	*0*	*0*	*0*	*22,218*
Balance c/f	**5,486**	**4,021**	**3,620**	**2,727**	**791**	**1,580**	**1,469**	**692**	**2,648**	***2,203***	***3,072***	***2,805***	

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

4.6 Actual cashflows against the forecast for the quarter ending 31 December 2019 is shown below. There may be monthly variances between the actual and forecasted amounts due to timing differences, e.g., transfer values in and out, payment of lump sums, retirement benefits and death grants.

Cashflows Actuals Compared to Forecast for October to December 2019:

	Oct-19			Nov-19			Dec-19		
	£000	£000	£000	£000	£000	£000	£000	£000	£000
	F'cast	Actual	Var	F'cast	Actual	Var	F'cast	Actual	Var
Balance b/f	**2,783**	**1,580**	**1,203**	**2,930**	**1,469**	**1,462**	**2,336**	**692**	**1,644**
Contributions	2,902	3,469	(566)	3,091	3,382	(291)	3,192	3,710	(519)
Misc. Receipts[1]	665	1,421	(756)	333	1,317	(983)	61	831	(770)
Pensions	(3,265)	(3,364)	99	(3,240)	(3,428)	188	(3,298)	(3,403)	105
HMRC Tax Payments	(565)	(574)	9	(565)	(570)	5	(565)	(581)	16
Misc. Payments[2]	(1,505)	(1,033)	(472)	(535)	(1,316)	781	(817)	(550)	(267)
Expenses	(85)	(30)	(55)	(678)	(161)	(517)	(378)	(52)	(326)
Net cash in/(out) in month	**(1,852)**	**(111)**	**(1,741)**	**(1,594)**	**(776)**	**(818)**	**(1,805)**	**(44)**	**(1,761)**
Withdrawal/deposit with Fund Managers	2,000	0	2,000	1,000	0	1,000	2,000	2,000	0
Special Contributions*	0	0	0	0	0	0	0	0	0
Balance c/f	**2,930**	**1,469**	**1,462**	**2,336**	**692**	**1,644**	**2,532**	**2,648**	**(117)**

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

Variances during the quarter to 31 December 2019:

- Higher contributions going forward on a monthly basis due to the transfer of City West Homes employees in to the Council, whereby a higher contribution rate is payable.
- There was a large transfer value in during October and a large volume of transfers in during November and December.
- There was a large volume of transfers out and lump sums in November, and a lower value of transfers out and lump sums during October.
- Due to the unanticipated higher contributions and miscellaneous receipts during the quarter there was no need to withdrawal cash from managers until December.

4.7 The three-year cashflow forecast for 2019/20 to 2021/22 is shown below. Forecasted cashflows are calculated using the previous year's cashflows which are then inflated by 2%. Please note this will not match the rolling cashflow.

Three Year Cashflow Forecast for 2019/20 - 2021/22:

	2019/20	2020/21	2021/22
	£000	£000	£000
	F'cast	F'cast	F'cast
Balance b/f	**7,397**	**3,188**	**5,274**
Contributions	43,330	44,196	45,080
Misc. Receipts[1]	7,686	7,840	7,997
Pensions	(38,964)	(39,744)	(40,538)
HMRC Tax	(6,964)	(7,103)	(7,245)
Misc. Payments[2]	(12,870)	(13,128)	(13,390)
Expenses	(2,427)	(2,476)	(2,525)
Net cash in/(out) in year	**(10,209)**	**(10,414)**	**(10,622)**
Withdrawal/(deposit) with Fund Managers	(16,000)	0	(64,000)
Special Contributions*	22,000	12,500	70,000
Balance c/f	**3,188**	**5,274**	**652**

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

4.8 The deficit recovery receipt expected during 2020/21 totals £22.7m and comprises of a £12.5m lump sum and £10.2m within contributions spread evenly across the year. A final deficit recovery payment of £80m is expected to be received during 2021/22, consisting of lump sum of £70m and £10m within contributions spread evenly across the year

5. Forward Plan

5.1 The rolling forward plan for the Pension Fund Committee is attached for 2019/20 – 2020/21.

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

Billie Emery pensionfund@westminster.gov.uk or 0207 641 7062

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 – Tri-Borough Risk Management Scoring Matrix
Appendix 2 – Pension Fund Risk Register Review at January 2020
Appendix 3 – Pension Fund Committee Forward Plan: 2019/20 – 2020/21

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Appendix 1 - Tri Borough Pension Fund 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

Control		Details required
Terminate	Stop what is being done.	A clear description of the specific actions to be taken to control the risk or opportunity
Treat	Reduce the likelihood of the risk occurring.	
Take	Circumstances that offer positive opportunities	
Transfer	Pass to another service best placed to deal with mitigations but ownership of the risk still lies with the original service.	The name of the service that the risk is being transferred to and the reasons for the transfer.
Tolerate	Do nothing because the cost outweighs the benefits and/or an element of the risk is outside our control.	A clear description of the specific reasons for tolerating the risk.

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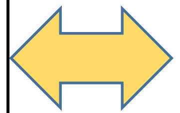
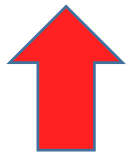
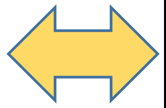
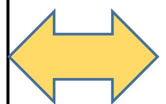
Pension Fund Risk Register - Administration Risk														
Risk Group	Risk Ref.	Movement	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score	Reviewed
				Fund	Employers	Reputation	Total						
Admin	1	↑	Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints. There is a concern regarding the high level of senior management departures.	1	4	3	8	4	**32**	TREAT 1) Surrey CC administers pensions for Surrey, East Sussex, LB Hillingdon and the Tri-Borough. 2) Officers will continue to monitor ongoing staffing changes at Surrey CC. 3) Ongoing monitoring of contract and KPIs.	3	**24**	08/01/2020
Admin	2	↔	Structural changes in an employer's membership or an employer fully/partially closing the scheme. Employer bodies transferring out of the pension fund or employer bodies closing to new membership. An employer ceases to exist with insufficient funding or adequacy of bond placement.	5	3	1	9	3	**27**	TREAT 1) Administering Authority actively monitors prospective changes in membership. 2) Maintain knowledge of employer future plans. 3) Contributions rates and deficit recovery periods set to reflect the strength of the employer covenant. 4) Periodic reviews of the covenant strength of employers are undertaken and indemnity applied where appropriate. 5) Risk categorisation of employers planned to be part of 2019 actuarial valuation. 6) Monitoring of gilt yields for assessment of pensions deficit on a termination basis.	2	**18**	08/01/2020
Admin	3	↔	Concentration of knowledge in a small number of officers and risk of departure of key staff.	2	2	3	7	3	**21**	TREAT 1) Practice notes in place. 2) Development of team members and succession planning improvements to be implemented. 3) Officers and members of the Pension Fund Committee will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs.	2	**14**	08/01/2020
Admin	4	↔	Incorrect data due to employer error, user error or historic error leads to service disruption, inefficiency and conservative actuarial assumptions.	4	4	3	11	2	**22**	TREAT 1) Update and enforce admin strategy to assure employer reporting compliance. 2) Implementation and monitoring of a Data Improvement Plan as part of the Service Specification between the Fund and Orbis. TREAT 1) Northern Trust provides 3rd party validation of performance and valuation data. Admin team and members are able to interrogate data to ensure accuracy.	1	**11**	08/01/2020
Admin	5	↔	Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	3	2	5	10	2	**20**	TREAT 1) Third parties regulated by the FCA and separation of duties and independent reconciliation processes are in place. 2) Review of third party internal control reports. 3) Regular reconciliations of pensions payments undertaken by Pension Finance Team. 4) Periodic internal audits of Pensions Finance and HR Teams. 5) Internal Audits during 2018/19 showed satisfactory assurance with recommendations implemented during the year.	1	**10**	08/01/2020
Admin	6	↔	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.	5	2	2	9	2	**18**	TREAT 1) Contract monitoring in place with all providers. 2) Procurement team send alerts whenever credit scoring for any provider changes for follow up action. 3) Take advice from the investment advisor on manager ratings to inform decisions on asset managers.	1	**9**	08/01/2020
Admin	7	↔	Non-compliance with regulation changes relating to the pension scheme or data protection leads to fines, penalties and damage to reputation.	3	3	2	8	2	**16**	TREAT 1) The Fund has generally good internal controls with regard to the management of the Fund. These controls are assessed on an annual basis by internal and external audit as well as council officers. 2) Through strong governance arrangements and the active reporting of issues, the Fund will seek to report all breaches as soon as they occur in order to allow mitigating actions to take place to limit the impact of any breaches. 3) Staff have had more time to work on the implementation of GDPR.	1	**8**	08/01/2020
Admin	8	↔	Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible.	1	3	4	8	2	**16**	TREAT 1) Contract in place with HCC to provide service, enabling smooth processing of supplier payments. 2) Process in place for Surrey CC to generate lump sum payments to members as they are due. 3) Officers undertaking additional testing and reconciliation work to verify accounting transactions.	1	**8**	08/01/2020

Admin	9		Inability to respond to a significant event leads to prolonged service disruption and damage to reputation.	1	2	5	8	2	**16**	TREAT 1) Disaster recovery plan in place as part of the Service Specification between the Fund and Surrey County Council 2) Ensure system security and data security is in place 3) Business continuity plans regularly reviewed, communicated and tested 4) Internal control mechanisms ensure safe custody and security of LGPS assets. 5) Gain assurance from the Fund's custodian, Northern Trust, regarding their cyber security compliance.	1	**8**	08/01/2020
Admin	10		Poor reconciliation process leads to incorrect contributions.	2	1	1	4	3	**12**	TREAT 1) Ensure reconciliation process notes are understood by Pension Fund team. 2) Ensure that the Pension Fund team is adequately resourced to manage the reconciliation process. 3) Contributions reconciliation is undertaken by the pensions team.	2	**8**	08/01/2020
Admin	11		Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	1	2	4	7	2	**14**	TREAT 1) 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	**7**	08/01/2020
Admin	12		Failure to detect material errors in the bank reconciliation process.	2	2	2	6	3	**18**	TREAT 1) Bank reconciliation carried out in-house by the pensions team, alongside the WCC income management team.	1	**6**	08/01/2020
Admin	13		Failure to pay pension benefits accurately leading to under or over payments.	2	2	2	6	2	**12**	TREAT 1) There are occasional circumstances where under/over payments are identified. Where underpayments 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.	1	**6**	08/01/2020
Admin	14		Unstructured training leads to under developed workforce resulting in inefficiency.	2	2	2	6	2	**12**	TREAT 1) Implementation and monitoring of a Staff Training and Competency Plan as part of the Service Specification between the Fund and Surrey County Council. 2) Officers regularly attend training events and conferences. 3) Officer in place to record and organise training sessions for officers and members.	1	**6**	08/01/2020
Admin	15		Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	1	1	1	3	3	**9**	TREAT 1) Pension administration records are stored on the Surrey CC servers who have a disaster recovery system in place and records should be restored within 24 hours of any issue, All files are backed up daily.	2	**6**	08/01/2020
Admin	16		Lack of guidance and process notes leads to inefficiency and errors.	2	2	1	5	2	**10**	TREAT 1) Ensure process notes are compiled and circulated in Pension Fund and Administration teams.	1	**5**	08/01/2020
Admin	17		Lack of productivity leads to impaired performance.	2	2	1	5	2	**10**	TREAT 1) Regular appraisals with focused objectives for pension fund and admin staff.	1	**5**	08/01/2020
Admin	18		Rise in ill health retirements impact employer organisations.	2	2	1	5	2	**10**	TREAT 1) Engage with actuary re assumptions in contribution rates.	1	**5**	08/01/2020
Admin	19		Rise in discretionary ill-health retirements claims adversely affecting self-insurance costs.	2	2	1	5	2	**10**	TREAT 1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations.	1	**5**	08/01/2020
Admin	20		Failure to identify GMP liability leads to ongoing costs for the pension fund.	1	2	1	4	1	**4**	TREAT 1) GMP identified as a Project as part of the Service Specification between the Fund and Surrey County Council, with minimal effect on the Fund.	1	**4**	08/01/2020

Pension Fund Risk Register - Investment Risk													
Risk Group	Risk Ref.	Movement	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score	Reviewed
				Fund	Employers	Reputation	Total						
Governance	1		That the London Collective Investment Vehicle (LCIV) disbands or the partnership fails to produce proposals/solutions deemed sufficiently ambitious	5	4	3	12	3	**36**	TOLERATE - 1) Partners for the pool have similar expertise and like-mindedness of the officers and members involved with the fund, ensuring compliance with the pooling requirements. Ensure that ongoing fund and pool proposals are comprehensive and meet government objectives. Member presence on Shareholder Committee and officer groups. 2) Following the commencement of his role as CIO during September 2019 Mark Thompson announced his resignation from the position citing that he could not commit to the demands of the role. In the interim Kevin Corrigan has joined the LCIV team as CIO, he has over twenty-five years' experience in the financial services industry and was formerly CIO at Sandaire. In addition to this, Kevin Cullen (Client Relations Director) has announced his decision to retire next year. He will be helping the London CIV with succession arrangements between now and his intended retirement date of the end March 2020. Larissa Benbow, Head of Fixed Income, has also announced her resignation for the end of February.	3	**36**	08/01/2020
Investment	2		Significant volatility and negative sentiment in global investment markets following disruptive geo-political uncertainty caused by the conflict between the US and Iran, as well as the ongoing trade war with China.	5	4	1	10	4	**40**	TREAT- 1) Continued dialogue with investment managers re management of political risk in global developed markets. 2) Investment strategy involving portfolio diversification and risk control. 3) Investment strategy review will follow post actuarial 2019 valuation.	3	**30**	08/01/2020
Investment	3		Outbreak of coronavirus within China and the rest of the world impacting stock markets globally.	4	4	1	9	4	**36**	TREAT - 1) The officers will continue to monitor the impact on an ongoing basis. 2) The Fund holds a diversified portfolio, which should reduce the impact of stock market movements. 3) Asset allocation will be reviewed during March 2020 committee meeting.	3	**27**	05/03/2020

Investment	4	↔	Volatility caused by uncertainty with regard to the UK's exit from the European Union, lack of trade deal and the economic after effects. There will be a transition period until the end of 2020, during which time the UK and EU will negotiate new arrangements from 2021.	4	4	1	9	3	**27**	1) Officers to consult and engage with advisors and investment managers. 2) Future possibility of looking at move from UK to Global benchmarks on UK Equities and UK Property. 3) Possibility of hedging currency and equity index movements. 4) The UK exited the EU on 31 January 2020, there is now a transition period until the end of 2020. During this time current rules on trade, travel and business for the UK and EU will apply.	3	**27**	18/02/2020
Funding	5	↓	Scheme members live longer than expected leading to higher than expected liabilities.	5	5	1	11	2	**22**	TOLERATE: The scheme's liability is reviewed at each triennial valuation and the actuary's assumptions are challenged as required. The actuary's most recent longevity analysis has shown that the rate of increase in life expectancy is slowing down.	2	**22**	08/01/2020
Funding	6	↑	Price inflation is significantly more than anticipated in the actuarial assumptions: an increase in CPI inflation by 0.1% over the assumed rate will increase the liability valuation by upwards of 1.7%.	5	3	2	10	3	**30**	TREAT- 1) Actuarial valuation results show an increase in the CPI assumption of 0.2% from the 2016 valuation. 2) The fund holds investment in index-linked bonds (RPI protection which is higher than CPI and other real assets to mitigate CPI risk. Moreover, equities will also provide a degree of inflation protection.	2	**20**	08/01/2020
Funding	7	↔	Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	4	4	2	10	2	**20**	1) 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) No evidence in 2018/19 of members transferring out to DC schemes.	2	**20**	08/01/2020
Funding	8	↓	Employee pay increases are significantly more than anticipated for employers within the Fund.	4	4	2	10	2	**20**	TOLERATE - 1) Actuarial valuation assumptions show a decrease in salary increases by 0.3% from 2016. 2) Fund employers should monitor own experience. 3) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) should be long term assumptions. Any employer specific assumptions above the actuary’s long term assumption would lead to further review. 4) Employers to made aware of generic impact that salary increases can have upon the final salary linked elements of LGPS benefits (accrued benefits before 1 April 2014)	2	**20**	08/01/2020
Funding	9	↔	Changes to LGPS Scheme moving from Defined Benefit to Defined Contribution	5	3	2	10	2	**20**	TOLERATE - 1) Political power required to effect the change.	2	**20**	08/01/2020

Investment	10		Investment managers fail to achieve benchmark/ outperformance targets over the longer term: a shortfall of 0.1% on the investment target will result in an annual impact of £1.5m.	5	3	1	9	3	**27**	TREAT- 1) The Investment Management Agreements (IMAs) clearly state WCC's expectations in terms of investment performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Pension Fund Committee should be positioned to move quickly if it is felt that targets will not be achieved. 4) Portfolio rebalancing is considered on a regular basis by the Pension Fund Committee. 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk compared with less diversified structures.	2	**18**	08/01/2020
Operational	11		Insufficient attention paid to environmental, social and governance (ESG) issues, leading to reputational damage. The Council declared a climate emergency in September 2019, how this will effect the Pension Fund going forward is currently unknown.	3	2	4	9	3	**27**	1) Review ISS in relation to published best practice (e.g. Stewardship Code) 2) Ensure fund managers are encouraged to engage and to follow the requirements of the published ISS. 3) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which raises awareness of ESG issues and facilitates engagement with fund managers and corporate company directors. 4) Following a carbon review of the Pension Fund investments, the Fund may consider investing in low carbon assets. 5) An ESG and RI Policy has been drafted for the Pension Fund pending a review of the ISS.	2	**18**	08/01/2020
Governance	12		Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within laid down timescales.	3	2	1	6	3	**18**	1) Officers consult and engage with MHCLG, LGPS Scheme Advisory Board, advisors, consultants, peers, various seminars and conferences. 2) Officers engage in early planning for implementation against agreed deadlines. 3) Uncertainty surrounding new MHCLG pooling guidance.	3	**18**	08/01/2020
Investment	13		Increased risk to global economic stability. Outlook deteriorates in advanced economies because of heightened uncertainty and setbacks to growth and confidence, with declines in oil and commodity prices. Leading to tightened financial conditions, reduced risk appetite and raised credit risks. Geo-political risk as a result of events and political uncertainty.	4	3	1	8	3	**24**	TREAT- 1) Increased vigilance and continued dialogue with managers as to events on and over the horizon. 2) Continued investment strategy involving portfolio diversification and risk control. 3) Investment strategy review will follow post actuarial 2019 valuation.	2	**16**	08/01/2020

Governance	14		London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	3	3	2	8	3	**24**	1) Pension Fund Committee Chair is a member of the shareholder 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) Following the commencement of his role as CIO during September 2019 Mark Thompson announced his resignation from the position citing that he could not commit to the demands of the role. In the interim Kevin Corrigan has joined the LCIV team as CIO, he has over twenty-five years' experience in the financial services industry. In addition to this, Kevin Cullen (Client Relations Director) has announced his decision to retire next year. Officers will continue to monitor the ongoing staffing issues at the LCIV.	2	**16**	08/01/2020
Funding	15		Impact of economic and political decisions on the Pension Fund's employer workforce.	5	2	1	8	2	**16**	1) Barnet Waddingham uses prudent assumptions on future of employees within workforce. Employer responsibility to flag up potential for major bulk transfers outside of the Westminster Fund. The potential for a significant reduction in the workforce as a result of the public sector financial pressures may have a future impact on the Fund. 2) Need to make prudent assumptions about diminishing workforce when carrying out the triennial actuarial valuation.	2	**16**	08/01/2020
Funding	16		Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	4	2	1	7	2	**14**	TOLERATE: 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	**14**	08/01/2020
Funding	17		Impact of increases to employer contributions following the actuarial valuation	5	5	3	13	2	**26**	TREAT- 1) Officers to consult and engage with employer organisations in conjunction with the actuary. 2) Actuary will assist where appropriate with stabilisation and phasing in processes.	1	**13**	08/01/2020
Funding	18		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.	5	4	3	12	2	**24**	TREAT: 1) Cashflow forecast maintained and monitored. 2) Cashflow position reported to committee quarterly. 3) Cashflow requirement is a factor in current investment strategy review.	1	**12**	08/01/2020
Governance	19		Failure to take difficult decisions inhibits effective Fund management	5	3	4	12	2	**24**	TREAT-1) Officers ensure that governance process encourages decision making on objective empirical evidence rather than emotion. Officers ensure that the basis of decision making is grounded in the Investment Strategy Statement (ISS), Funding Strategy Statement (/FSS), Governance policy statement and Committee Terms of Reference and that appropriate advice from experts is sought.	1	**12**	08/01/2020

Governance	20		Changes to LGPS Regulations	3	2	1	6	3	**18**	TREAT - 1) Fundamental change to LGPS Regulations implemented from 1 April 2014 (change from final salary to CARE scheme). 2) Future impacts on employer contributions and cash flows will considered during the 2016 actuarial valuation process. 3) Fund will respond to consultation processes. 4) Impact of LGPS (Management of Funds) Regulations 2016 to be monitored. Impact of Regulations 8 (compulsory pooling) to be monitored.	2	**12**	08/01/2020
Funding	21		Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy.	5	3	3	11	2	**22**	TREAT- 1) Active investment strategy and asset allocation monitoring from Pension Fund Committee, officers and consultants. 2) Investment strategy review is currently underway with an approved switch from equities to fixed income. 3) Setting of Fund specific benchmark relevant to the current position of fund liabilities. 4) Fund manager targets set and based on market benchmarks or absolute return measures. Overall investment benchmark and out-performance target is fund specific.	1	**11**	08/01/2020
Financial	22		Financial loss of cash investments from fraudulent activity.	3	3	5	11	2	**22**	TREAT - 1) Policies and procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised. Strong governance arrangements and internal control are in place in respect of the Pension Fund. Internal Audit assist in the implementation of strong internal controls. Fund Managers have to provide annual SSAE16 and ISAE3402 or similar documentation (statement of internal controls).	1	**11**	08/01/2020
Operational	23		Failure to hold personal data securely in breach of General Data Protection Regulation (GDPR) legislation.	3	3	5	11	2	**22**	TREAT - 1) Data encryption technology is in place which allow the secure transmission of data to external service providers. 2)WCC IT data security policy adhered to. 3) Implementation of GDPR.	1	**11**	08/01/2020
Governance	24		Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	5	2	4	11	2	**22**	TREAT: 1) Officers maintain knowledge of legal framework for routine decisions. 2) Eversheds retained for consultation on non-routine matters.	1	**11**	08/01/2020
Funding	25		Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	5	3	3	11	2	**22**	TREAT: 1) Transferee admission bodies required to have bonds or guarantees in place at time of signing the admission agreement. Regular monitoring of employers and follow up of expiring bonds.	1	**11**	08/01/2020
Regulation	26		A change in government may result in new wealth sharing policies which could negatively impact the value of the pension fund assets.	5	5	1	11	2	**22**	TREAT: 1) 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.	1	**11**	08/01/2020
Governance	27		Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding	2	2	1	5	4	**20**	TREAT - 1) Succession planning process in place. 2) Ongoing training of Pension Fund Committee members. 3) Pension Fund Committee new member induction programme. 4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework under designated officer.	2	**10**	08/01/2020

Governance	28		Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	5	3	2	10	2	**20**	TREAT: 1) At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. Committee and officers scrutinise and challenge advice provided.	1	**10**	08/01/2020
Operational	29		Financial failure of third party supplier results in service impairment and financial loss	5	4	1	10	2	**20**	TREAT - 1) Performance of third parties (other than fund managers) regularly monitored. 2) Regular meetings and conversations with global custodian (Northern Trust) take place. 3) Actuarial and investment consultancies are provided by two different providers.	1	**10**	08/01/2020
Investment	30		Failure of global custodian or counterparty.	5	3	2	10	2	**20**	TREAT: 1) At time of appointment, ensure assets are separately registered and segregated by owner. 2) Review of internal control reports on an annual basis. 3) Credit rating kept under review.	1	**10**	08/01/2020
Operational	31		Financial failure of a fund manager leads to value reduction, increased costs and impairment.	4	3	3	10	2	**20**	TREAT - 1) Fund is reliant upon current adequate contract management activity. 2) Fund is reliant upon alternative suppliers at similar price being found promptly. 3) Fund is reliant on LGIM as transition manager. 4) Fund has the services of the London Collective Investment Vehicle (LCIV).	1	**10**	08/01/2020
Investment	32		Global investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers.	5	3	2	10	2	**20**	TREAT- 1) Proportion of total asset allocation made up of equities, bonds, property funds, infrastructure and fixed income, limiting exposure to one asset category. 2) The investment strategy is continuously monitored and periodically reviewed to ensure optimal risk asset allocation. 3) Actuarial valuation and strategy review take place every three years post the actuarial valuation. 4) IAS19 data is received annually and provides an early warning of any potential problems. 5) The actuarial assumption regarding asset outperformance is regarded as achievable over the long term when compared with historical data.	1	**10**	08/01/2020
Governance	33		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.	4	3	3	10	2	**20**	TREAT: 1) Person specifications are used at recruitment to appoint officers with relevant skills and experience. 2) Training plans are in place for all officers as part of the performance appraisal arrangements. 3) Shared service nature of the pensions team provides resilience and sharing of knowledge. 4) Officers maintain their CPD by attending training events and conferences.	1	**10**	08/01/2020
Governance	34		Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests.	3	3	4	10	2	**20**	TREAT - 1) Publication of all documents on external website. 2) Managers expected to comply with ISS and investment manager agreements. 3) Local Pension Board is an independent scrutiny and assistance function. 4) Annual audit reviews.	1	**10**	08/01/2020

Operational	35		Inaccurate information in public domain leads to damage to reputation and loss of confidence.	1	1	3	5	3	**15**	Treat: 1) Ensure that all requests for information (Freedom of Information, member and public questions at Council, etc) are managed appropriately and that Part 2 Exempt items remain so. 2) Maintain constructive relationships with employer bodies to ensure that news is well managed. 3) Stage AGM every year.	2	**10**	08/01/2020
Funding	36		Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	5	3	1	9	2	**18**	TREAT: 1) 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. 2) Cashflow position monitored monthly.	1	**9**	08/01/2020
Governance	37		Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	4	3	2	9	2	**18**	TREAT: 1) External professional advice is sought where required. Knowledge and skills policy in place (subject to Committee Approval).	1	**9**	08/01/2020
Governance	38		Failure to comply with recommendations from the Local Pension Board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator	1	3	5	9	2	**18**	TREAT - 1) Ensure that a cooperative, effective and transparent dialogue exists between the Pension Fund Committee and Local Pension Board.	1	**9**	08/01/2020
Regulation	39		Loss of flexibility to engage with Fund Managers and loss of elective professional status with any or all of the existing Fund managers and counterparties resulting in reclassification. (The Fund is a retail client to counterparties unless opted up).	3	2	2	7	2	**14**	TREAT: 1) 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. 2) Maintaining up to date information about the fund on relevant platforms. 3) Fund can opt up with prospective clients. 4) Keep quantitative and qualitative requirements under review to ensure that they continue to meet the requirements. There is a training programme and log in place to ensure knowledge and understanding is kept up to date. 5) Existing and new Officer appointments subject to requirements for professional qualifications and CPD.	1	**7**	08/01/2020
Operational	40		Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non compliant process.	2	2	3	7	2	**14**	TREAT - 1) Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process.	1	**7**	08/01/2020
Funding	41		The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	4	2	1	7	2	**14**	TREAT: 1) Review at each triennial valuation and challenge actuary as required. Growth assets and inflation linked assets in the portfolio should rise as inflation rises.	1	**7**	08/01/2020

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Appendix 3

PENSION FUND COMMITTEE **Forward Plan – 2019/20 - 2020/21**

Area of work	**Mar 2020**	**Jun 2020**	**Oct 2020**	**Jan 2021**
Standing Items	Pension Fund Committee minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan	Pension Fund Committee minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan	Pension Fund Committee minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan	Pension Fund Committee minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan
Governance	Final Investment Strategy Statement Review Final Triennial Valuation Report	Pension Fund Annual Report and Accounts 2019/20 Review of Governance Compliance Statement Business Plan Pension Fund Costs 2019/20	Training Plan London CIV governance update	Training Update London CIV governance update
Investments	Pooling and CIV update Investment Strategy Review	Pooling and CIV update Annual report to Scheme Advisory Board re pooling arrangements	Pooling and CIV update Infrastructure Manager Review	MiFID II annual review Pooling and CIV update

Area of work	Mar 2020	Jun 2020	Oct 2020	Jan 2021
Administration	Data backlog health check report	Annual Allowances		

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**19 March 2020**
Classification:	**General Release**
Title:	**Final Investment Strategy Statement and Investment Beliefs**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no financial implications arising from this report.**
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1. EXECUTIVE SUMMARY

1.1 As per the Local Government Pension Scheme (LPGS) Management and Investment of Funds Regulations 2016, the Westminster Pension Fund is required to publish an Investment Strategy Statement (ISS).

1.2 Attached is the final ISS, which sets out the Pension Fund's policy on investment, risk management, LGPS pooling and environmental, social and governance (ESG) issues, for both its own investments and those being managed through the London Collective Investment Vehicle (LCIV).

1.3 Also attached is the Investments Beliefs statement for the Fund, which will be adopted and form a core part of the Fund's investment strategy going forward.

2. RECOMMENDATIONS

2.1 The Committee is requested to:

- approve the final Investment Strategy Statement and Investment Beliefs, as per the changes requested at the Pension Fund Committee meeting on 20 February 2020.

- delegate authority to the Tri-Borough Director of Treasury and Pensions to publish the final ISS and Investment Beliefs.

3. INVESTMENT STRATEGY STATEMENT

3.1 The Investment Strategy Statement sets out the requirements of the LGPS legislation and the Pension Fund Committee's terms of reference. The ISS has been prepared in accordance with the Ministry of Housing, Communities and Local Government (MHCLG) Guidance on Preparing and Maintaining an Investment Strategy Statement.

3.2 The six main objectives of the legislation are detailed in relation to Westminster City Council's Pension Fund policies and strategies. These are:

- Objective 7.2 (a): A requirement to invest fund money in a wide range of instruments. This sets out how the investment strategy deals with diversification and return to meet the long-term objectives of the fund;

- Objective 7.2(b): The authority's assessment of the suitability of particular investments and types of investment. This sets out how the Pension Fund Committee assesses the suitability of investments and measures their suitability;

- Objective 7.2(c): The authority's approach to risk, including ways in which risks are to be measured and managed. This sets out how the Pension Fund Committee assesses the different types of risk in order to establish what is acceptable to ensure that the fund meets its obligations;

- Objective 7.2(d): The authority's approach to pooling investments, including the use of collective investment vehicles. This sets out the Pension Fund Committee's approach to LGPS pooling and also what the LCIV can offer in terms of investment opportunities;

- Objective 7.2(e): How environmental, social and governance (ESG) considerations are taken into account in the selection, non-selection, retention and realisation of investments. This sets out how the Fund meets these obligations, and also how potential investments with the LCIV will comply with these obligations;

- Objective 7.2(f): The exercise of rights (including voting rights) attaching to investments. This sets out how the Fund meets these obligations and also how potential investments with the LCIV will be dealt with.

3.3 The ISS also deals in turn with the Funds compliance with the CIPFA Pensions Panel Principles for investment decision making in the LGPS, shown as Appendix A of the ISS. These six principles cover a range of factors as follows:

- Effective decision-making
- Clear objectives
- Risk and Liabilities
- Performance Assessment
- Responsible Ownership
- Transparency and Reporting

3.4 The Fund's compliance with the Stewardship Code 2020 Guidance is set out within Appendix B of the ISS. 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 LCIV's Stewardship Statement can be found within Appendix C of the ISS.

3.5 The Fund's Responsible Investment policy is set out in Appendix D of the ISS. The purpose of this policy document is to lay out the Fund's approach as to how environmental, social and governance (ESG) considerations are considered in the selection, non-selection, retention and realisation of investments.

3.6 The strategic asset allocation of the Fund can be found within Appendix E of the ISS (as per the draft recommended asset allocation following Deloitte's investment strategy review). This sets out the target asset allocation to a variety of assets as well as the review ranges. Once the review range of an asset is triggered, a rebalancing exercise should be undertaken to ensure the Fund stays within its target allocation limits. It is recommended that the Pension Fund Committee approves these asset review ranges.

4. INVESTMENT BELIEFS

4.1 The objective of the Investment Beliefs is to set out the Fund's key investment beliefs. These beliefs will form the foundation of discussions, and assist decisions, reference the structure of the Fund, its strategic asset allocation and the selection of investment managers.

4.2 When considering the Pension Fund Committee's investment beliefs, it is useful to consider the six objectives within the LGPS (Management and Investment of Funds) Regulations, listed in section 3.2 of this report. A clear set of investment beliefs can help achieve good governance by providing a framework for all investment decisions.

4.3 The Investment Beliefs are attached at Appendix 2 and fall into five key areas, as follows:

- Investment governance
- Long term approach
- Environmental, social and governance (ESG) factors
- Asset allocation

- Management strategies

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

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BACKGROUND PAPERS:

None.

APPENDICES:

Appendix 1 – Investment Strategy Statement
Appendix 2 – Investment Beliefs

City of Westminster Pension Fund
Investment Strategy Statement 2020/21

1. Introduction

1.1 This is the Investment Strategy Statement (ISS) adopted by the City of Westminster Pension Fund ("the Fund"), which is administered by Westminster City Council ("the Administering Authority").

Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the Fund is required to publish this ISS. 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) A requirement to invest fund money in a wide range of instruments;
b) The authority's assessment of the suitability of particular investments and types of investment;
c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
d) The authority's approach to pooling investments, including the use of collective investment vehicles;
e) 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; and
f) 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 Executive Director of Finance and Resources, the Tri-Borough Director of Treasury and Pensions and the appointed consultants and actuaries support the Pension Fund 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.

1.7 Governing all investment decisions are the Committee's core investment beliefs they have been established based on the views of the members and are listed below:

1 Investment Governance
a. The Fund has access to the necessary skills, expertise and resources to manage the whole Fund, as well as internally managing a small proportion of the Fund's assets, such as cash management.
b. Investment consultants, independent advisors and officers are a source of expertise and research to inform and assist the Committee's decisions.
c. The ultimate aim of the Fund's investments is to pay pension liabilities when they become due. The Committee will therefore take account of liquidity and the long-term ability of the Fund to meet these obligations.
d. The Fund is continuously improving its governance structure through bespoke training to implement tactical views more promptly, but acknowledges that it is not possible to achieve optimum market timing.

2 Long Term Approach
a. The strength of the employers' covenant allows the Fund to take a longer term view of investment strategy than most investors.
b. The most important aspect of risk is not the volatility of returns, but the risk of absolute loss over the medium and long term. This would in turn impact the ability of the employers to make adequate contributions to meet the Fund's liabilities.
c. Illiquidity and volatility are shorter term risks which offer potential sources of additional compensation to the long term investor. Moreover, it is important to avoid being a forced seller in short term market setbacks.
d. Over the long term, equities are expected to outperform other liquid assets, particularly government bonds and cash.

3 Environmental, Social and Governance (ESG) factors
a. Certain ESG factors are financially material and may therefore influence the risk and return characteristics of the Fund's investments and the likelihood that the Fund's objectives will be achieved.
b. Well governed companies that manage their business in a responsible manner are less vulnerable to downside risk and may therefore produce higher returns over the long term.
c. In order to improve corporate governance, investment managers should exercise the voting rights attached to the shares they own, as well as engage with management of the companies they invest in.
d. Environmental considerations should reflect a growing recognition in the Committee of the urgency required in its decision-making processes when making investment allocations.
e. If an investment manager fails to adequately consider ESG issues, the Committee is prepared to disinvest assets from that manager.

4 Asset allocation
a. Allocations to asset classes other than equities and government bonds (e.g., corporate bonds, private markets and property) offer the Fund other forms of risk premia (e.g., additional solvency risk/illiquidity risk).
b. Diversification across asset classes and asset types that have low correlation with each other will tend to reduce the volatility of the overall Fund return.
c. In general, allocations to bonds and alternatives are made to achieve additional diversification. As the funding level improves, the Committee may look to certain lower risk strategies to mitigate liability risks and thus dampen the volatility of the Fund's actuarial funding level.

5 Management Strategies
a. A well-balanced portfolio has an appropriate mix of passive and active investments.
b. Passive, index-tracker style management provides low cost exposure to equities and bonds, and is especially attractive in efficient markets.
c. Active management will typically incur higher investment management fees but can provide additional return. Fees should be aligned to the interests of the Fund.
d. Active management performance should be monitored over multi-year rolling cycles and assessed to confirm that the original investment process on appointment is being delivered and that continued appointment is appropriate.
e. Employing a range of management styles can reduce the volatility of overall Fund returns but can also reduce long term outperformance.

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.
- Adaptability to be able to maintain liquidity for the Fund.

2.3 This approach to diversification has seen the fund dividing its assets into four broad categories global equities, Fixed Income, Property and Alternatives. The size of the assets invested in each category will vary depending on investment conditions, the strategic asset allocation can be found within appendix E. However, it is important to note that each category is itself diversified. A consequence of this approach is that the Fund's assets are invested in a wide range of instruments.

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 and seeks appropriate advice from investment advisors.

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 Suitability is a critical test for whether or not a particular investment should be made. When assessing the suitability of investments, the Committee takes into account the following from its due diligence:

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

3.3 The policy on asset allocation is compatible with achieving the locally determined solvency target.

3.4 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.

3.5 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 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 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 when they are in more benign market conditions.

4.11 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.

4.12 The Fund targets a long-term return 4.8% as aligned with the latest triennial valuation from the Actuary. The investment strategy is considered to have a low degree of volatility.

4.13 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. In addition to this the risk registers are updated on a quarterly basis, appendix F.

4.14 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 Funds approach to pooling arrangements meet the criteria set out in the Local government pension scheme: investment reform criteria and guidance.

5.3 The Fund joined the London Collective Investment Vehicle (LCIV) as part of the Government's pooling agenda. The London CIV was launched in December 2015 by the 32 local authorities within London and has circa £18bn of assets under management, including £8bn under direct management, with 14 funds launched as of 2019/20.

5.4 The Fund has transitioned c. 27% of assets into the London CIV as of 31 March 2020. Going forward the Fund will look to transition further assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

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

5.6 The Fund holds c. 43% of its assets within a passive equity fund 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. However, the Fund benefits from reduced management fees, with Legal & General Investment Management having reduced their fees to match those available through the London CIV. The Fund agrees for the London CIV to monitor the passive funds as part of the broader pool.

5.7 The remaining c. 30% of Fund is held within investment assets including property, bonds and infrastructure, 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.

5.8 The table below details the investment funds held by the Pension Fund and indicates whether this mandate is available on the LCIV platform and if the funds have been transferred.

City of Westminster Fund	Available on the LCIV	Transferred to LCIV
Listed Equities		
Passive Equities: LGIM	Yes	Yes
Global: Baillie Gifford	Yes	Yes
Global: Longview	Yes	No
Cash		
In-house	No	
Fixed Income		
Multi Asset Credit: CQS	Yes	Yes
Global Bonds: Insight	No	
Infrastructure		
Infrastructure: Pantheon	No	
Property		
Property: Hermes	No	
Property: Aberdeen Standard	No	

5.9 The Pension Fund Committee is aware that certain 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.

5.10 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.

5.11 The London CIV is an FCA authorised company established by the London Local Authorities (LLAs) to provide a collaborative vehicle for pooling LGPS pension fund assets. London CIV shareholders approved a new Corporate Governance and Controls framework at the July 2018 Annual General Meeting (AGM). This framework details the governance arrangements for approving the London CIV's annual budget, business plan and objectives, governance structures and appointments, shareholder agreement and transparency of information and reporting. It was agreed to review the framework after one year of operation which provides an opportunity to assess how it can be improved further, in particular to improve its effectiveness in achieving collaboration and an effective working relation between London CIV and its 32 shareholders collectively.

5.12 The London CIV Company Board comprises of an independent Chairman, 7 non-executive Directors (NEDs), including 2 nominated by the LLAs, 3 executive Directors and the LCIV Treasurer. The Board has a duty to act in the best interests of the shareholders and has collective responsibility for:

- Strategy and Oversight
- Budget &forward plan
- Reviews performance
- Major contracts and significant decisions including in relation to funds
- Financial reporting & controls
- Compliance, risk and internal controls
- Key policies
- Governance

5.13 The London CIV has four Committees, responsible for investment oversight, audit and risk, remuneration and nominations and day to day operations of the company. These comprise of executive and non-executive members.

The role of the Investment Oversight Committee is to:

- determine, maintain and monitor the Company's investment strategy, investment performance and performance risks of the portfolios in accordance with the Company strategy and business plan.

The responsibilities of the Compliance, Audit & Risk Committee include:

- oversee compliance obligations;
- risk management framework; and
- integrity of financial statements and reporting

The responsibilities of the Remuneration & Nomination Committee include:

- remuneration policy;
- remuneration of key staff; and
- nominations and succession planning of key staff and Board members.

The Executive Directors acting collectively as the Executive Committee have a number of specific delegated responsibilities for the day-to-day operations of the company, supported by the wider executive leadership team. The role of the Executive Committee in summary is to:

- execute board-approved strategic objectives and business plan in line with risk appetite and financial limits;
- identify, discuss, and formulate effective solutions to address issues and opportunities facing the Company;
- ensure the day-to-day operations meet relevant legal requirements and compliance obligations of the Company; and
- ensure the Board & Board Committee members receive timely, accurate and transparent management information & reporting to fulfil their duties & responsibilities.

5.14 The London CIV Shareholder Committee is responsible for scrutinising the actions of the Board, reporting and transparency, consultation on the strategy and business plan, matters reserved to shareholders, responsible investment and emerging issues. The Committee meets on a quarterly basis and comprises of 12 members including Councillors and Treasurers from the LLAs.

5.15 The London CIV hosts an AGM on a semi-annual basis, to which all 32 members are invited. This allows members the opportunity to exercise shareholder power, approve the annual budget and hold the Board to account.

5.16 External independent oversight and assurance of the pool company is provided by the FCA, depositary, external auditors and the MHCLG.

5.17 More information on the London CIV and its operation is included in Appendix C 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 carbon exposure was undertaken by TruCost and reported to Committee in September 2019, whereby the Fund's equity and property portfolio carbon footprints were mapped. This exercise will be undertaken on an annual basis going forward. Following this, a responsible investment (RI) policy and ESG policy was drafted for the Fund to be adopted by the Committee for 2020/21 onwards. The RI Policy outlines the approach to the management of Environmental, Social and Governance (ESG) issues within the investment portfolio and can be fund within appendix D.

The Present ESG Policy

Introduction

6.2 The City of Westminster (WCC) Pension Fund (the Pension Fund) is committed to being a responsible investor and a long-term steward of the assets in which it invests. The Fund has a fiduciary duty to act in the best interests of its beneficiaries and this extends to making a positive contribution to the long-term sustainability of the global environment.

6.3 The Pension Fund recognises that the neglect of corporate social responsibility and poor attention paid to environmental, social and governance (ESG) issues may lead to poor or reduced shareholder returns. This presents a significant responsibility for the Pension Fund Committee (the Committee). The ESG approach has become integral to the Fund's overall investment strategy.

6.4 The Fund maintains a policy of non-interference with the day-to-day decision making of the investment managers. The Committee believes that this is the most efficient approach whilst ensuring the implementation of policy by each manager is consistent with current best practice and the appropriate disclosure and reporting of actions.

6.5 There are a wide range of ESG issues, with none greater currently than climate change and carbon reduction. The Pension Fund recognises climate change as the biggest threat to global sustainability alongside its administering authority employer, Westminster City Council, which has committed itself to achieving carbon neutrality by 2030.

6.6 Members of the Pension Fund place their trust in the Pension Fund Committee who hold a fiduciary duty to act in the members' best interests and ensure that their pension benefits are fully honoured in retirement. That is why, as well as targeting investment returns that match the pension liabilities, the Committee is committed to managing the investment risks: the risks that pose a substantial threat to LGPS members' long-term future.

6.7 The Pension Fund's revised investment strategy should be governed by the following investment principles, which are set out below

6.8 Investment Principles

- The Pension Fund as a long-term investor, is committed to **investing to build a better future** through the integration of ESG issues at all stages of the investment decision-making process.

- Through active ownership, the Pension Fund **engages with the investment community** to help ensure a sustainable future for all its stakeholders. This includes demanding best practice amongst its investment managers and challenging their investment outcomes where appropriate.

- The Pension Fund recognises that significant value can be achieved through **collaboration with other stakeholders**. The Pension Fund will work closely with its LGPS pool company (the London CIV), other LGPS funds and member groups such as the Local Authority Pension Fund Forum (LAPFF) to ensure corporate interests are aligned with the Pension Fund's values.

- The Pension Fund wants to **gain the trust and pride of members** in the governance process and the way in which in the Fund is invested on their behalf. It is important for the Pension Fund to be completely transparent and accountable to members and stakeholders.

6.9 Policy Implementation: investing to build a better future

The Pension Fund will continue to assess investment opportunities that have a positive impact on society as whole. These include but are not limited to, investments in fixed income (green bonds), property, low carbon assets, renewables and social impact opportunities. The Fund currently has a 5% allocation to global infrastructure, where the asset manager has the freedom to invest within renewables if a suitable venture presents itself.
The Pension Fund views engagement with companies as an essential activity and encourages companies to take position action towards reversing climate change. The Westminster Pension Fund is a responsible owner of companies and cannot exert that positive influence if it has completely divested from carbon intensive producing companies. The Pension Fund will continue to encourage positive change whilst officers will continue to engage with the investment managers on an ongoing basis to monitor overall investment performance, including carbon and other ESG considerations.

6.10 Policy Implementation: engaging with investment community

Institutional investors have the power to influence and change behaviour globally. The WCC Pension Fund believes that there is significant value in being able to actively engage with the companies we invest in and be part of the transition to a global, low carbon economy.

The Fund expects managers to integrate ESG factors into investment analysis and decision making. Monitoring these effectively can assist with resolving issues at early stages through effective engagement with companies and board members. The Fund expects asset managers where possible to engage and collaborate with other institutional investors, as permitted by relevant legal codes to ensure the greatest impact.

The measurement of ESG performance is still developing and benefitting from significant improvements. There are several performance benchmarks and disclosure frameworks that exist to measure the different aspects of available ESG data which include carbon emissions and a variety of social impact scores.

- The Pension Fund carries out a carbon footprint exercise on its separate portfolios annually via a specialist firm. The outcome of this measurement exercise will be instrumental in ensuring that the fund is able to meet its decarbonisation goals through effective asset allocation.

- The Pension Fund will continue to work closely with its investment managers to measure the carbon impact of its investments. This will involve developing internal metrics and agreed targets which will be reviewed on a regular basis.

Increasingly, there is growing interest in the investment community to develop investment strategies that focus on sustainable investments. As well as the wider investment community, the Pension Fund will support and contribute to the work carried out by the London CIV in the development of sustainable investments.

6.11 Policy Implementation: collaboration with other stakeholders

The introduction of pooling across the Local Government Pension Scheme (LGPS) will impact how the Pension Fund's responsible investment policy is implemented. The WCC fund is committed to playing a key role as part of the LGPS London CIV pool, with circa 70% of assets pooled.

As asset owners, the Pension Fund, in line with its investment strategy, is responsible for deciding how its assets are invested through its strategic asset allocation. In addition to engaging with the investment community, the Pension Fund will continue to work closely with other UK and London LGPS funds to find common solutions for ESG issues.

As more funds are onboarded into the London CIV, the Pension Fund expects to further increase its investment in the pool. This is expected to create economies of scale and increased synergies for the Pension Fund through a significant reduction in management fees and greater influence when engaging with external stakeholders. The London CIV will manage the Pension Fund's investments in line with the Fund's strategic objectives and those of the other London LGPS Funds.

The Pension Fund actively contributes to the engagement efforts of pressure groups, such as the Local Authority Pension Fund Forum (LAPFF) and requires investment managers to vote in accordance with the LAPPF's governance policies. In exceptional cases, investment managers will be required to explain their reason for not doing so, preferably in advance of the AGM. This will be monitored on a regular basis.

6.12 Policy Implementation: gaining our members trust

WCC's LGPS members have spent at least part of their careers helping to deliver key services to their community. It is important for them to understand how their Pension Fund is managed and the contribution its investments make in securing a sustainable future. Members are encouraged to take an active interest in the governance processes of their Pension Fund and their views are represented within the work of the Local Pension Board.

The Pension Fund will aim to provide members with a variety of information which allows them to easily understand the types of investments within the portfolio.

The Pension Fund reports on its overall performance annually through an annual report which is readily accessible to members on the fund's website.

Data within the annual report will include investment performance, an assessment of the key performance indicators (KPIs) of the Fund's administrative function and the Fund's assessment of its many risks.

The Pension Fund hosts an annual general meeting (AGM), following the end of the financial year, which all members and key stakeholders are invited to attend. This includes updates on the administration service, investment performance from our investment advisor, as well as a market update from an asset manager and a presentation from our actuary.

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. 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.

7.2 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.

7.3 In addition the Fund:
- Is a member of the Pension and Lifetime Savings Association (PLSA) and the Local Authority Pension Fund Forum (LAPFF) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners; and
- Joins wider lobbying activities where appropriate opportunities arise.

7.4 Ongoing voting and engagement is covered with the Funds Responsible Investment Policy (Appendix D).

7.5 The Committee expects any directly appointed asset managers and the pool company (London CIV) to comply with the Stewardship Code (2020) and this is monitored on an annual basis. See appendix B and C for further details on the Funds approach to stewardship.

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:

Tri-Borough Treasury and Pensions Team
PensionFund@westminster.gov.uk

Westminster City Council
16th Floor City Hall
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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. Hopwood 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 Executive Director of Finance and Resources, 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 2019. 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 asset allocation is outlined in appendix E.

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 Deloitte, 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.

In order to comply with the CMA investment consultancy and Fiduciary Management Market Investigation Order 2019, The Fund's investment advisors are measured annually against an agreed set of criteria which was agreed by Committee at the 23 October 2019 meeting.

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 Responsible Investment (RI) Policy (Appendix D). 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 RI Policy (Appendix D).

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.

Compliance with the Stewardship Code

The **Stewardship Code** is a set of principles or guidelines released in 2010 and updated in 2020 by the Financial Reporting Council (FRC) 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 Committee has not formally adopted the latest version of the Stewardship code, however expects any directly appointed fund managers and the pool company (London CIV) to comply and this is monitored on an annual basis.

Information on London CIV
Stewardship Statement is attached – Other London CIV details are included in ISS main 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 London 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 London 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 London CIV are exercise of voting rights and engagement with investee companies. The London 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 London 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 London 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 London CIV's Investors are prioritised.

The London 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 London CIV board on a regular basis. A Conflicts of Interest Register is maintained. Shareholders of the London 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 London 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 London CIV encourages its investment managers to satisfy themselves that investee companies adhere to the spirit of the UK Corporate Governance Code.

The London 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 London CIV recognises that constructive engagement with company management can help protect and enhance shareholder value. Typically, the London 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 London 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 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 London 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 London 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 London 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 London 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 London CIV will require detailed justification for non-compliance.

The London 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 London 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 London 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.

Responsible Investment Policy: **Appendix D**

Introduction

1.1. Responsible Investment is defined by the United Nation's 'Principles for Responsible Investment' document as an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and to generate sustainable, long term returns. The Pension Fund's approach to responsible investment is aligned with the Fund's investment beliefs and recognises ESG factors as central themes in measuring the sustainability and impact of its investments.

1.2. Failure to appropriately manage ESG factors is considered to be a key risk for the Pension Fund as this can have an adverse impact on the Fund's overall investment performance, which ultimately affects the scheme members, employers and local council tax payers.

1.3. The United Nations has established 17 Sustainable Development Goals (SDGs) as a blueprint to achieving a better and more sustainable future for all. These goals aim to address the challenges of tackling climate change, supporting industry, innovation and infrastructure, and investing in companies that are focused on playing a key role in building that sustainable future.

1.4. The Pension Fund acknowledges that these goals form a vital part of acting as a responsible investor alongside its administering authority employer, Westminster City Council, with the Council having recently committed itself to achieving carbon neutrality by the year 2030.

1.5. The Pension Fund maintains a policy of engagement with all its stakeholders, including those operating in the investment industry. It is broadly recognised that, in the foreseeable future, the global economy will transition from its reliance on fossil fuels to the widespread adoption of renewable energy as its main source. The impact of this transition on the sustainability of investment returns will be continually assessed by officers, advisors and investment managers.

1.6. The Pension Fund Committee is committed to playing an active role in the transition to a sustainable economic and societal environment. To that extent, the Pension Fund will continue to seek investments that match its pensions liability profile, whilst having a positive impact on overall society. Greater impact can be achieved through active ownership and lobbying for global companies to change and utilise their resources sustainably.

1.7. With these noble objectives at the forefront, it is important to note that the Pension Fund Committee has a vital, fiduciary duty to act in the best interests of the LGPS beneficiaries to ensure that their pension benefits are honoured in retirement.

Policy Implementation: Selection Process

1.8. The Pension Fund Committee delegates the individual investment selection decisions to its investment managers. To that extent, the Pension Fund maintains a policy of non-interference with the day-to-day decision-making processes of the investment managers. However, as part of its investment manager appointment process, the Pension Fund Committee assesses the investment managers' abilities to integrate ESG factors into their investment selection processes.

1.9. This includes, but is not limited to:

   a. evidence of the existence of a Responsible Investment policy;
   b. evidence of ESG integration in the investment process;

c. evidence of sign-up to the relevant responsible investment frameworks such as the United Nations Principles for Responsible Investment (PRI);
d. evidence of compliance with the Stewardship Code as published by the Financial Reporting Council (FRC);
e. a track record of actively engaging with global companies and stakeholders to influence best practice;
f. an ability to appropriately disclose, measure and report on the overall impact of ESG decisions made.

1.10. As part of its investment selection process, the Pension Fund Committee will obtain proper advice from the Fund's internal and external advisors with the requisite knowledge and skills. Our investment advisor will assess ESG considerations as part of its due diligence process and assess investment managers against the following criteria:

a. for active managers, the advisor will assess how ESG issues are integrated into investment selection, divestment and retention decisions;
b. for passive managers, the investment advisor is aware of the nature of the index construction in the investment selection process places and the proximity of ESG issues in comparison with an active portfolio, but still hold ESG issues in its responsible investment policy as the passive manager actively engages with global companies and stakeholders where appropriate;
c. consideration of whether managers are making most effective use of voting rights and if votes are exercised in a manner consistent with ESG considerations specified by the manager;
d. how significantly managers value ESG issues and whether any specialist teams and resources are dedicated to this area; and
e. how ESG risk assessment is integrated into the portfolio investment selection process and the value and effectiveness of these assessments.

1.11. Investment managers are expected to follow best practice and use their influence as major institutional investors and long-term stewards of capital to promote best practice in the companies/projects in which they invest. Investee companies will be expected to comply with all applicable laws and regulations in their respective markets as a minimum.

Policy Implementation: Ongoing Engagement and Voting

1.12. Whilst it is still quite difficult to quantify the impact of the less tangible non-financial factors on the economic performance of an organisation, this is an area that continues to see significant improvement in the measurement of benchmarking and organisational progress. Several benchmarks and disclosure frameworks exist to measure the different aspects of available ESG data which include carbon emissions, diversity on company boards and social impact. It is apparent that poor scoring on these ESG factors can have an adverse impact on an organisation's financial performance. It is therefore important for the appointed investment managers to effectively assess the impact such factors may have on the underlying investment performance.

1.13. The Pension Fund views active engagement as an essential activity in ensuring long-term value and encourages investment managers to consider assessing a range of factors, such as the company's historical financial performance, governance structures, risk management approach, the degree to which strategic objectives have been met and environmental, governance and social issues.

1.14. Pension Fund officers will continue to engage with the investment managers on an ongoing basis to monitor overall investment performance, including ESG considerations. This can be implemented in several forms which include, but are not limited to:

a. Regular meetings with investment managers to assess investment performance and the progress made towards achieving ESG targets;
b. reviewing reports issued by investment managers and challenging performance where appropriate;
c. working with investment managers to establish appropriate ESG reporting and disclosures in line with the Pension Fund's objectives;
d. contributing to various working groups that seek to positively influence the reporting of industry standards on ESG metrics;
e. actively contributing to the efforts of engagement groups such as the Local Authority Pension Fund Forum (LAPFF), of which the fund is a member (currently 83 LGPS member funds).

1.15. The Pension Fund holds units in pooled equity funds, where our asset managers will have the opportunity to vote at company meetings on our behalf. Engagement with companies can have a direct impact on voting choices and fund manager voting and engagement reports are reviewed on a regular basis.

1.16. The Fund will continue to collaborate with the London CIV on maintaining a shared voting policy for the equity managers on the London CIV platform and actively seek to align these policies with manager insights. Lobbying with other London CIV clients will give the Pension Fund greater control and impact over our voting choices and a centralised process will ensure our voting remains consistent and has the greatest impact.

1.17. The Pension Fund's officers will work closely with the London CIV pool, through which the Pension Fund will increasingly invest, in developing and monitoring its internal frameworks and policies on all ESG issues which could present a material financial risk to the long-term performance of the fund. This will include the London CIV's ESG frameworks and policies for investment analysis, decision making and responsible investment.

1.18. In preparing and reviewing its Investment Strategy Statement, the Pension Fund will consult with interested stakeholders including, but not limited to:

a. Pension Fund employers;
b. Local Pension Board;
c. advisors/consultants to the fund;
d. investment managers.

Policy Implementation: Training

1.19. The Pension Fund Committee and the Fund's officers will receive regular training on ESG issues and responsible investment. A review of training requirements and needs will be carried out at least once on annual basis. Training is intended to cover the latest updates in legislation and regulations, as well as best practice with regards to ESG integration into the pension fund's investment process.

Strategic Asset Allocation: **Appendix E**

The below table sets out the Fund's strategic asset allocation along with review range which would trigger a rebalancing exercise.

Strategic Asset Allocation	Target (%)	Review Range
Listed Equities	**65.0%**	**+/-3.0%**
Passive Equities	22.5%	
Global - Active	20.0%	
UK - Active	22.5%	
Cash	**0.0%**	**+/-0.0%**
Cash	0.0%	
Fixed Income	**20.0%**	**+/-2.0%**
Global Bonds	13.5%	
Multi Asset Credit	6.5%	
Alternatives	**5.0%**	**+/-0.5%**
Infrastructure	5.0%	
Property	**10.0%**	**+/-1.0%**
Commercial Property	5.0%	
Long Lease Property	5.0%	
Total	**100.0%**	

The strategic asset allocation is currently under review and is subject to change.

Investment Strategy Statement: Appendix F – Investment & Administration Risk Register

To be included in final version, please see FFM report for latest risk registers.

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Deloitte.

City of Westminster Pension Fund
Draft Investment Beliefs

This paper has been prepared for the City of Westminster Pension Fund Committee ("the Committee"). The purpose of this paper is to provide a draft set of investment beliefs of the Committee for discussion at the extraordinary Pension Fund Committee meeting on 20 February 2020.

Investment objectives in the Investment Strategy Statement ("Statement")

To provide a framework for the Committee's beliefs, the Statement adopted by the City of Westminster Pension Fund ("the Fund") covers each of the following six objectives in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016:

- A requirement to invest fund money in a wide range of investments;
- 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 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.

The draft investment beliefs are shown below.

City of Westminster Pension Fund – draft Investment Beliefs Statement

This is the Core Belief Statement of the City of Westminster Pension Fund, ("the Fund").

The Statement is to set out the Fund's key investment beliefs. These beliefs will form the foundation of discussions, and assist decisions regarding the Fund's structure, its strategic asset allocation and selecting investment managers.

1 Investment Governance

a. The Fund has access to the necessary skills, expertise and resources to manage the whole Fund, as well as internally managing a small proportion of the Fund's assets, such as cash management.
b. Investment consultants, independent advisors and officers are a source of expertise and research to inform and assist the Committee's decisions.
c. The ultimate aim of the Fund's investments is to pay pension liabilities when they become due. The Committee will therefore take account of liquidity and the long-term ability of the Fund to meet these obligations.
d. The Fund is continuously improving its governance structure through bespoke training to implement tactical views more promptly, but acknowledges that it is not possible to achieve optimum market timing.

2 Long Term Approach

a. The strength of the employers' covenant allows the Fund to take a longer term view of investment strategy than most investors.
b. The most important aspect of risk is not the volatility of returns, but the risk of absolute loss over the medium and long term. This would in turn impact the ability of the employers to make adequate contributions to meet the Fund's liabilities.
c. Illiquidity and volatility are shorter term risks which offer potential sources of additional compensation to the long term investor. Moreover, it is important to avoid being a forced seller in short term market setbacks.
d. Over the long term, equities are expected to outperform other liquid assets, particularly government bonds and cash.

3 Environmental, Social and Governance (ESG) factors

a. Certain ESG factors are financially material and may therefore influence the risk and return characteristics of the Fund's investments and the likelihood that the Fund's objectives will be achieved.
b. Well governed companies that manage their business in a responsible manner are less vulnerable to downside risk and may therefore produce higher returns over the long term.
c. In order to improve corporate governance, investment managers should exercise the voting rights attached to the shares they own, as well as engage with management of the companies they invest in.
d. Environmental considerations should reflect a growing recognition in the Committee of the urgency required in its decision-making processes when making investment allocations.
e. If an investment manager fails to adequately consider ESG issues, the Committee is prepared to disinvest assets from that manager.

4 Asset allocation

a. Allocations to asset classes other than equities and government bonds (e.g., corporate bonds, private markets and property) offer the Fund other forms of risk premia (e.g., additional solvency risk/illiquidity risk).
b. Diversification across asset classes and asset types that have low correlation with each other will tend to reduce the volatility of the overall Fund return.
c. In general, allocations to bonds and alternatives are made to achieve additional diversification. As the funding level improves, the Committee may look to certain lower risk strategies to mitigate liability risks and thus dampen the volatility of the Fund's actuarial funding level.

5 Management Strategies

a. A well-balanced portfolio has an appropriate mix of passive and active investments.
b. Passive, index-tracker style management provides low cost exposure to equities and bonds, and is especially attractive in efficient markets.
c. Active management will typically incur higher investment management fees but can provide additional return. Fees should be aligned to the interests of the Fund.
d. Active management performance should be monitored over multi-year rolling cycles and assessed to confirm that the original investment process on appointment is being delivered and that continued appointment is appropriate.
e. Employing a range of management styles can reduce the volatility of overall Fund returns but can also reduce long term outperformance.

Deloitte Total Reward and Benefits Limited
February 2020

Risk Warnings

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

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