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Committee Agenda

Title:	**Pension Fund Committee**
Meeting Date:	**Thursday 7 March, 2024**
Time:	**6.30 pm**
Venue:	**Rooms 18.06, 18.07 and 18.08 - 18th Floor, 64 Victoria Street, London, SW1E 6QP**
Members:	**Councillors:** Robert Eagleton (Chair) Maggie Carmen Ryan Jude Ed Pitt Ford

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, Steve Clarke.

Email: sclarke1@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)

Stuart Love
Chief Executive
28 February 2024

CITY OF WESTMINSTER

MINUTES

Pension Fund Committee

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Fund Committee** held on **Wednesday 29th November, 2023**, Room 18.07 - 18.08, 18th Floor, 64 Victoria Street, London, SW1E 6QP and via Microsoft Teams.

Members Present: Councillors Robert Eagleton (Chair), Maggie Carmen, Ryan Jude and Ed Pitt Ford.

Also Present:
Phil Triggs (Tri-Borough Director of Treasury and Pensions)
Billie Emery (FM Pensions)
Sarah Hay (Strategic Pension Lead)
Ruby Vuong (Pension Fund Manager, Pensions)
Diana McDonnell-Pascoe (Pension Project and Governance Lead)
Jonny Moore (Investment Advisor – Isio)
Andrew Singh (Investment Advisor – Isio)
Christopher Smith (Chair of the Pension Board)
Jack Robinson-Young (Cabinet and Councillor Coordinator)
Steve Clarke (Committee and Councillor Coordinator)

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 The Committee approved the minutes of its meeting on 19th October 2023.

RESOLVED:

3.2 That the minutes of the meeting held on Thursday the 19th of October be signed as a correct record of proceedings.

4 PENSION ADMINISTRATION STRATEGY

4.1 Sarah Hay, Pensions Officer People Services, introduced the report noting that there was no general administration update for Members due to the Committee's previous update having been received only a month prior; instead, the report focussed on the wider Pension Administration Strategy (PAS). It was highlighted that officers had undertaken a significant amount of work since administration of the fund had moved to Hampshire Pension Services (HPS) in November 2021. It was noted that the PAS was last updated upon the move to HPS, at which time fines for instances where employers failed to supply data within agreed timeframes were introduced. Officers had revised and updated the PAS, including the prospective fines that could be issued to employers for the slow issuance of data, a draft of which was attached to the officer's report. The Committee were asked to consider the updated PAS and agree to officers consulting with the employers on the new PAS, with a view to having it take effect from April 2024.

4.2 Officers highlighted that the primary updates to the proposed PAS were increases in related charges. Under the current PAS, there was a standard £50 non-compliance charge when employers did not provide leaver or starter information in a timely manner, under the new PAS, this would increase to £100. Additionally, for retirements and leavers where the member was immediately entitled to payment of their benefits, the PAS charge would be increased to £250. Officers also noted that they spent a significant amount of time engaging with employers regarding inaccurate remittance data, it was highlighted that, where these issues were repeatedly emerging with individual employers, a £500 charge was proposed.

4.3 Officers drew Members attention to the HPS Employer Benchmarking System scores for the Fund's employers, detailed within the officer's report. It was noted that there had been a marked improvement between 2022 and 2023 with the number of employers showing major data quality issues, with 18 in 2022 falling to 10 in 2023. Although this showed a positive trend, officers highlighted that the revision of the potential PAS non-compliance charges was attributed to the need to ensure employers were providing good quality data in a timely manner which would mitigate the incidence of incurring additional costs to the Fund.

4.4 Members noted that they were generally happy with the updated PAS and supported officers consulting with the employers on the revised Strategy ahead of the prospective April 2024 implementation date. The Committee sought clarity on how the revised charges compared to other fund's non-compliance charges. Officers noted that they had not extensively analysed the charges imposed by other funds but highlighted that the Royal Borough of Kensington and Chelsea charged a flat £50 non-compliance fee. It was clarified that, although the charges were deemed not to be significant considering the impact felt to the fund by absent and delayed data, the charges were to act as a deterrent to employers which would promote the issuance of quality data, minimise delays in receiving the required data and prompt employers to engage.

4.5 Members were supportive of the new PAS charges, although sought confirmation from officers that there would be some level of reasonableness, flexibility and cooperation should an employer be in a difficult position. Officers confirmed that there was support available from officers in helping employers resolve their data issues, and that there was flexibility with the administering of PAS charges, highlighting an example whereby an agreement had been made with a school in which the school had initially been charged for a lack of response in providing joiners and leavers information. It had been agreed that, as an incentive to improve their data quality and timeliness, the school would receive 50% of the charged money back if they managed to provide on time and quality data the following year. This was seen as an example of PAS charges working in terms of engaging employers, in addition to officers' regular reminders and the support offered to employers.

RESOLVED:

4.6 That the Pension Fund Committee noted the draft revised Pension Administration Strategy and agreed for the revised PAS to go out to consultation with the Fund's employers.

5 PENSION PROJECTS & GOVERNANCE UPDATE

5.1 Diana McDonnell-Pascoe, Pension Project and Governance Lead, gave the Committee an overview of their report on the Guaranteed Minimum Pensions (GMP) rectification project. The Committee were notified that officers had received all of the required data from Mercer Ltd who had carried out a rectification exercise, correcting incorrect member records, resulting in an outline of members that required either an increase, a decrease, or no change to the GMP element of their pensions. Officers stated that it was their duty to not knowingly pay incorrect pensions and highlighted the need for the project to be implemented; however, it was for the Committee to decide upon the method by which the rectification project should be implemented. Members were also notified that the rectification data showed trends that the smallest pensions in payment would generally be subject to the most significant proportional reduction.

5.2 Officers elaborated on the four project implementation options available for the Committee to consider which were also outlined in the report, it was noted that there were implications associated with each option. It was also highlighted that the GMP project was a national issue concerning a multitude of Local Government Pension Scheme (LGPS) funds and that there was the possibility of garnering media attention which could lead to additional scrutiny of the decisions made with regard to implementation of the project. By way of information, it was noted that LGPS Scotland had legislated to implement the project but for funds to put in place a balancing shortfall payment which would ensure members continued to receive their payments as if nothing had changed, akin to option two in the officers' report.

5.3 The Committee sought to highlight that regardless of which option was chosen, they would not be recuperating historic overpayments because the erroneous pension payments were not due to any mistake made by the recipients. Officers confirmed that, universally, no funds were recuperating historic overpayments. With regard to option two, which incorporated balancing shortfall payments, it was clarified that should this option be chosen, the balancing payments would be born from the fund, not scheme members.

5.4 The Committee queried whether families of the deceased, who would be calculated as being owed money due to the rectification exercise, would receive the money. Officers confirmed that this would depend on any further analysis officers could make and the decision made by the Committee; it was highlighted that officer's analysis had concentrated on living members in receipt of their pension. Members noted that the rectification data showed that the vast majority of GMP elements would be reduced.

5.5 The Committee discussed the available implementation options, debating between the benefits of options three and four, whilst noting that it may be likely that a final decision would be made by the Committee at the following meeting. Members discussed the possibility of choosing option four with the caveat that those who made it known that they were in a difficult financial position could move to an option three scenario. There were concerns about the capability of scheme members, who would be affected by an option four scenario, in contacting the fund to express their need for an option three scenario. The Committee discussed a possible preference for option three as it resulted in no decrease to the amount received by scheme members whilst ceasing any future overpayment; however, it was understood that the final decision could be taken at the following meeting of the Committee.

5.6 It was noted that there was no clear option emerging from what other LGPS funds were doing and that officers had been informed by Hampshire Pension Services (HPS) that they had received legal advice that withholding pensions increases, akin to an option three scenario, may not be legally sound. HPS had paused their GMP rectification project and were continuing to pay incorrect payments at least until the next financial year. Members noted that some other funds had taken action but there was still time to analyse further and await the outcome of the Department for Levelling Up, Housing and Communities (DLUHC) consultation before making a decision. Officers confirmed that delaying the Committee’s decision to the next meeting was viable and gave an opportunity for further analysis to be carried out. The Committee were minded to delay the decision, so more cost analysis could be done around options three and four; additionally giving the Committee a more comprehensive background to the legality and practicality of options three and four. Officers also mentioned that Members could contact officers in the coming weeks should they require any specific analysis that could be incorporated into the following meeting's report.

RESOLVED:

5.7 That the Pension Fund Committee deferred their decision on the implementation of the Guaranteed Minimum Pension rectification project to the following meeting.

6 FUND FINANCIAL MANAGEMENT

6.1 Ruby Vuong, Pension Fund Manager, introduced the report which outlined the risk register, categorised into investment and pensions administration, aligned with CIPFA guidance. The Committee were informed that the top five risks as of November 2023 are:

6.1.1 Liability Risk: Elevated price inflation due to global factors, including conflicts and supply chain issues, poses a threat. Current CPI inflation is 4.6% as of October 2023.

6.1.2 Asset and Investment Risk: Geopolitical and economic uncertainties, such as the Russia-Ukraine conflict and bank collapses, contributing to global market volatility and economic instability.

6.1.3 Asset and Investment Risk: Concerns arise if investment managers fail to meet benchmark/outperformance targets, impacting the Fund's annual outcome. The Fund's return in the year to September 2023 was 7.5%, underperforming the benchmark by 2.7%.

6.1.4 Regulatory and Compliance Risk: Proposed regulations by the Department for Levelling Up, Housing and Communities for LGPS administering authorities to assess and report on climate-related risks. The first reporting year is expected in 2024/25, with reports required by December 2025.

6.1.5 Liability Risk: Economic challenges may strain smaller employers, potentially leading to unpaid liabilities in the Fund.

6.2 The Committee were updated on the Pension Fund's Lloyds bank account balance as of October 31, 2023, which was £1.6m, serving day-to-day transactions. Annual payments were expected to exceed receipts, with withdrawals from cash at custody to maintain a positive balance.

6.3 The Committee were informed that a withdrawal of £5.0m from cash at custody was made during the quarter, in order to maintain a positive balance. The Committee were informed that the Fund held £46.4m in cash with Northern Trust as of October 31, 2023. The Committee were informed of the Inflows and outflows within the custody account include manager distributions, asset sales, and purchase, cash inflows and outflows for the three-month period from August 1, 2023, to October 31, 2023.

6.4 The Committee were informed that during the quarter, equalisations occurred in the Quinbrook renewable infrastructure fund, along with capital calls in infrastructure funds. The Fund received £8.0m in distributions from asset managers, bringing the total cash balance to £48.0m as of October 31, 2023.

6.5 The Committee asked regarding the second risk, the liability of elevated price inflation from global pressures, what was being done to manage this. The Committee were replied to by Phil Triggs, Tri-Borough Director of Treasury and Pensions, that a note has been circulated detailing exposure to geopolitical events and the outcomes of potential events.

7 QUARTERLY PERFORMANCE REPORT

7.1 Ruby Vuong, Pension Fund Manager, introduced the report, outlining the Fund's market value which had decreased by £34.0m to £1.795bn in Q3 2023, resulting in a -1.5% net return. The Committee were informed that the underperformance against the benchmark by 1.9% net of fees was attributed to the Baillie Gifford Global Alpha Growth Paris Aligned Fund, countered by outperformance in Macquarie Renewable Infrastructure and Pantheon Global Infrastructure mandates.

7.2 The Committee were informed that over the past 12 months, the Fund underperformed by 2.7%, returning 7.5%, largely due to Abrdn Long Lease Property. The longer three-year period saw a 2.0% underperformance, returning 3.5%, with favourable ratings from Isio for fund managers.

7.3 Committee Members were informed that the London CIV had transitioned the underlying sub fund of the London CIV Absolute Return Fund from the Ruffer Absolute Return Fund into the LF Ruffer Thames Absolute Return Fund. It was also noted that the Pension Fund holds Rio Tinto within its Baillie Gifford Paris Aligned Equity Fund. With the company subject to engagement regarding water impacts at mining sites. Baillie Gifford has engaged with Rio Tinto on ESG practices, noting progress in decarbonisation but highlighting ongoing scrutiny. Officers also engaged on water company exposures, Abrdn performance, and Royal Dutch Shell's climate change risks. The Committee were informed that the Fund's estimated funding level remained stable at 160% at 30 September 2023.

7.4 The Committee were informed that the Fund's target asset allocation includes 55% in equities, 19% in fixed income, 11% in renewable infrastructure, 5% each in infrastructure and property, and 5% in affordable housing. Capital calls related to Quinbrook Renewables Impact mandate, Macquarie Renewable Infrastructure, and Pantheon Global Infrastructure. The Committee were informed that a 5% transition from equities to renewable infrastructure occurred in July 2023.

7.5 The Committee were informed that Westminster Pension Fund investments (managed by London CIV) as of 30 September 2023 were £786m, representing 44% of total assets. An additional £423m benefits from reduced fees through Legal and General's fee adjustment. London CIV's total assets under management were £27.4bn, with £14.8bn directly managed. All London CIV funds in which Westminster is invested were on normal monitoring at quarter end. The Committee were informed that during the quarter, London CIV conducted 70 meetings and engagements with Client Funds, including updates on investment consultants, pooling opportunities, and monthly business updates.

7.6 The Committee asked Officers if they felt that asset manager benchmarks, such as Man Group, were ambitious enough. In reply, Officers said that while it can appear unambitious, this is largely because fund managers will adopt a careful view to setting performance targets.

7.7 The Committee asked that if at the start of this year, scenarios on high levels of inflation and interest rates had been modelled. The Committee were informed that this would have been done as part of the strategic asset allocation review, to allow for potential mitigations to be put in place to protect the Fund.

7.8 The Committee asked if Officers present had faith in the strategy being undertaken by Baillie Gifford. In reply, the Tri-Borough Director of Treasury and Pensions said that the vast majority of Funds that Isio work with will have exposure to Baillie Gifford. The Committee were further informed that due diligence had been refreshed and although immediate events had not been favourable, the longer-term strategy has delivered fruitfully.

8 ESG PRIVATE EQUITY

8.1 Following the Fund’s strategic investment review, the committee considered integrating ESG Private Equity into the Fund's strategic asset allocation. This included an overview of ESG Private Equity, its characteristics, risks, market conditions, and Isio’s perspective on its attractiveness.

8.2 Private Equity involves ownership of non-publicly listed companies. Its returns are variable, requiring specialized expertise for access. Investments can be direct or through pooled funds, including open-ended, closed-ended, listed funds, and funds of funds.

8.3 Private Equity presents higher risks but is expected to offer compensatory returns. Risks include illiquidity, small company volatility, equity exposure, and manager selection challenges. Isio emphasised the potential volatility in pricing due to the absence of a listed market.

8.4 Isio outlined integrating ESG into Private Equity with a focus on impact investment aligned with UN Sustainable Development Goals. However, Isio advised there is limited attractive ESG opportunities within the current market.

8.5 The Department for Levelling Up, Housing, and Communities released an LGPS Consultation proposing a 10% allocation to high-growth private equity schemes. The consultation outcome is pending, and proposals, including the 10% allocation, are expected to face significant opposition, especially in the face of many LGPS funds having achieved comfortable full funding status.

8.6 The Fund's actuarial valuation in March 2022 showed a funding level of 128%, rising to 160% by September 2023. Considering this strong funding position, the Fund has reduced overall risk, adjusted allocations, and refrained from including Private Equity in the strategic asset allocation due to its failure to meet risk reduction objectives.

8.7 Isio advised that market conditions reveal a softening of capital raised in private equity, cooling investor interest, elevated buy-out pricing, and increasing market share of smaller deals. The sector faces uncertainty with interest rate changes impacting debt financing costs, posing challenges for future returns.

8.8 The Tri-Borough Director of Treasury and Pensions emphasised to the Committee the long-term, hard work that had been undertaken by the Council to ensure the Pension Fund was fully funded. Moreover, the Council had deployed nearly £200m in deficit payments in the last six years, some of it from the council’s own cash reserves to pay off in full its own employer deficit at 31 March 2022. In response to Cllr Pitt Ford’s assertion that any surplus within the pension fund was money that the council could afford to lose, Mr Triggs strongly refuted that concept, stating that there was had been an opportunity cost to the use of those internal funds, and the council certainly could not afford to lose it in the quest for returns from higher risks assets, especially when the current 160% funding level was the second highest within the LGPS scheme. It was officers’ and Isio’s intention to provide advice on how to preserve the current, comfortable funding position.

8.9 Isio advised the Committee that it was not necessary to chase additional returns beyond those agreed during investment strategy and to protect the current funding level. Given market conditions and the limited ESG opportunities in private equity, Isio recommended against an allocation to this asset class until there is greater clarity from the LGPS consultation.

8.10 The Committee agreed to reconsider ESG Private Equity further into the future, once formal communication from the DLUHC on the LGPS consultation is received, and ESG integration within the market is more developed. Agreeing that allocating to private equity before this could result in costly restructuring later and the lack of need to take additional risks given the excellent funding level.

8.11 The Chair of the Pension Board was present at Committee, and asked if there was consideration to private equity opportunities in developing countries such as Malaysia. Andrew Singh, Investment Advisor - Isio, replied to the Chair of the Pension Board and said that the consensus is that emerging markets are set to grow strongly in the coming years but currently the bulk of the private equity market is in the developed world.

The Meeting ended at 8.33 pm

CHAIRMAN: ______________________ **DATE** ___________________

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Pension Fund Committee

Date:	**7 March 2024**
Classification:	**General Release**
Title:	**Pension Administration Update**
Report of:	**Sarah Hay, Pensions Officer People Services**
Wards Involved:	**All**
Policy Context:	**Service Delivery**
Financial Summary	**None**

1. Introduction

1.2 This report provides a summary of the performance of Hampshire Pension Services (HPS) with the Key Performance Indicators (KPIs) for the month of October 2023 through to January 2024.In Section 3 I update the Committee on the ongoing data work and on the fund employer scores that have been produced for the first time this year. Lastly, I update the Committee on fund Pension Administration Strategy (PAS) consultation. The draft PAS is attached as an appendix if required.

2.1 KPI Performance

2.2 The scope of the KPIs in this report have been agreed between WCC and HPS in our agreement.

2.3 This paper covers the period of October 2023 to January 2024.

2.4 KPI performance for each month is within each partnership report. HPS report 100% compliance within the agreed KPI in each month. The majority of our KPIs require cases to be completed within 15 days. HPS do provide a breakdown for each category that shows the number of cases processed in each 5-day block.

2.5 Below I have summarised the cases completed in each category in the month.

KPI	Target Days	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24
Active Retirement	15 days	11	9	7	4	5
Deferred Retirement	15 days	25	27	29	10	15
Estimates	15 days	57	23	29	33	41
Deferred Benefits	30 days	66	47	41	51	38
Transfers In & Out	15 days	2	4	10	6	4
Divorce	15 days	3	4	5	2	5
Refunds	15 days	5	10	17	24	8
Rejoiners	20 days	2	2	0	2	0
Interfunds	15 days	34	28	23	39	26
Death Benefits	15 days	8	15	20	6	12
Grand Total		**213**	**169**	**181**	**177**	**154**
		100%	**100%**	**100%**	**100%**	**100%**

2.6 The Pension Committee will want to note that the work on hold reported to us jumped from 207 cases at the end of November 2023 to 330 at the end of December 2023. This is not a true increase in cases that HPS are dealing with but rather they were under reporting work on hold previously. This came to light after I queried if all cases were included on the work on hold table as very few if any cases were listed as on hold for 31 days plus. This is not the reality for any administrative partner working on pension cases, as to progress work you are relying on responses from members and other organisations not all of whom reply in 31 days.

2.7 Cases not previously reported included, where a member had claimed previous LGPS service but where the previous fund had not provided information or where a death had occurred, but no beneficiary details had yet been provided were held on different processes. These processes were still monitored internally by HPS but did not feed into the SLA reports for partners. The processes have now been changed so that they are included in the outstanding SLA cases reported. This will now allow us to drill down into cases that have not moved for several months.

2.8 For information as at the end of January 2024, 225 cases are now reported as being 31 days plus in workflow and 163 of these are Interfund (transfers between LGPS Funds). I now have details of some of the older Interfund transfer cases that are part of this work on hold. I have managed to get two of the older cases cleared and I am chasing down responses on another two. I am personally reviewing to see if I can help to move additional cases into the next relevant phase or close them down if appropriate. This will take some time to progress, but I will keep you updated going forward with an aim to reduce the cases that are this old

2.9 The fund strategy working with HPS is to increase the interaction the fund has with members via the member portal. In the last Committee report I updated that at the end of September 2023 we had 40.19% of members signed up to the member portal. This has now increased to 42.22 % as at the end of September 2023 as broken down below. We are steadily increasing portal access; I am really pleased with the growth in portal access over the summer months. This I believe is particularly linked to the funds promotion to active members to review their annual benefit statement.

Portal	Opted IN
Active	52.44%
Deferred	32.26%
Pensioner	45.77%
TOTAL	42.22%

2.10 HPS received one compliment in October 2023, Two in November 2023 and four in January 2024 from our members as below;

"This fully answers my query and explains for me the rationale. Thank you so much to you and your colleagues. I've been so impressed with the responsiveness and patience of your service."

"Very helpful, very satisfied."

"Prompt Response".
"Dedication to my individual case from Guy and Heather to name two."

"Was helpful."

"You guys are the best … always so helpful throughout the whole process".

"Very helpful, polite, clearly speaking with 91 year old caller his name was Matt Trodd. Excellent, result from my questions and needs Thank you."

2.11 There were no complaints received within the period.

3. Data Work

3.1 The backlog project is down to the last cases. Of the 611 cases in scope, HPS have completed 607 with 4 remaining as of the at the end of January 2024 and work is continuing between us and HPS to iron out the final issues that are preventing the closure of these final cases.

3.2 The Fund received our data scores in November 2023 for our common and scheme specific data scores. Common data includes data that all schemes hold including name, address, date of birth etc. Scheme specific or conditional data includes data that only defined pension schemes need including for example CARE pay. The table below demonstrates how both our common and scheme specific data have improved since 2021 when we moved to HPS. The improvement is also a demonstration of the impact that the data work we have been doing as a Fund has had. We will be reviewing a breakdown of the errors we still have to see if further action is needed but it may not be feasible to make further improvement at a reasonable cost. For example, some errors don't impact member benefits and therefore it may not be prudent to spend money to clear them up. Also, we still have records without an address, but the Fund has spent money address tracing in the last few years and the majority of records where we did not have address would have been sent for tracing. I don't think another bulk address tracing exercise would be a good use of the Funds resources at the current time.

	21	22	23
Common Data Score	72%	82%	85%
Scheme Specific (Conditional Data Score)	87%	89%	92%

3.3 The employer performance letters went out in the Autumn for the first time since we joined HPS in November 2021. Essentially those letters are a measure of the employer's performance following the annual return submissions at the end of April 2023. There are three areas we measure, firstly, Timelines did the employer submit the return on time did they respond to any query without being chased. Second, Financial Control does the return match what was paid to the Fund in the year is the employer deducting and paying the correct contributions on time. Lastly, Data Quality how many errors are in the data, is there missing joiners and leavers identified through the return.

3.4 You can see the summary of the employer performance scores in 2022 and in 2023 below although we did not send out the 2022 scores as we concentrated on large scale data work and embedding HPS practice with employers. The main concern for me is that we had ten employers with failing data quality in 2023 and though there is a reduction from the prior year there is still work to be done by the Employers to improve that situation. I advise that all employers did engage to resolve their data queries in the end, and I am pleased to note the improvement to the responses in 2023.

Timeliness	2023			2022		
Return received	30 April or before	Between 1 and 31 May	1 June or after	30 April or before	Between 1 and 31 May	1 June or after
Rating	Green	Amber	Red	Green	Amber	Red
No. of employers	21	13	0	22	13	0
% represented	62%	38%	0%	63%	37%	0%
Financial Control	2023			2022		
	No reconciliation issues	Minor reconciliation issues/quickly resolved	Major reconciliation issues and/or slow/failed to respond	No reconciliation issues	Minor reconciliation issues/quickly resolved	Major reconciliation issues and/or slow/failed to respond
Rating	Green	Amber	Red	Green	Amber	Red
No. of employers	33	1	0	31	1	3
% represented	97%	3%	0%	89%	3%	8%
Data Quality	2023			2022		
	Data quality good	Minor data quality issues, quickly resolved	Major data quality issues and/or slow/failed to respond	Data quality good	Minor data quality issues, quickly resolved	Major data quality issues and/or slow/failed to respond
Rating	Green	Amber	Red	Green	Amber	Red
No. of employers	6	18	10	6	11	18
% represented	18%	53%	29%	17%	32%	51%

3.5 Timeliness is measuring if the employers submitted their returns by the deadline that is the 30th of April each year. You will note that there has not been much change in the percentage of employers submitting their returns by the deadline, but I can advise you that those that did send in their returns late generally did so early in May and we did not have to chase as much this year. No one is in the red failure zone for this measure.

3.6 Financial Control is measuring if the returns match what the employer paid us in the year and do the rates applied by the employers look correct. I am pleased that this year there were no significant reconciliation issues for us to clear up with fund employers.

3.7 Data Quality is measuring how good the data quality is and how quickly employers respond to queries raised by HPS. You will note a significant reduction in employers failing the data quality test although it looks like they have tended to move from red fail to the amber warning zone.

3.8 Employers who are in the red zone in 2023 for data quality have been asked to send in a data reconciliation exercise ahead of the 23/24 returns.

3.9 We are aiming to ensure that the 455 queries particularly in relation to joiners and leavers is significantly less in 23/24. Our first year with HPS 21/22 we had 775 queries.

4 Pension Administration Strategy (PAS) 2024 Update

4.1 At the last Pension Committee meeting I shared a proposed revised PAS that we would consult on with the Fund employers with the aim of adopting the revised PAS from the 1st of April 2024. The new PAS contains a broader range of potential PAS charges for employers and also increases the PAS charges for failure to provide the Fund with basic member data on joiners and leavers which was a major factor in the prior data issues that the Fund had previously.

4.2 All the employers were contacted about the revised PAS and chased to respond to the consultation. There was still only one response received from an employer contact who is also someone who sits on our Pension Board. I have included the initial comments in full below. Please note that we have sent the consultation around to payroll providers as well as employers with no additional responses.

"My concern lies with ensuring the various deadlines are met when employers are relying upon payroll providers to get the data to Westminster. I wonder if some of the deadlines might be too ambitious and the fines applied too soon, when we as employers can do little about it? From my perspective, as the business manager of a small employer, I do not have the level expertise with pensions to resolve a number of the issues we might be fined for, nor do I have staff in school that would know either, and I suspect our school is not the only one. I can badger the payroll provider but not much more than that really.

I wonder have any payroll providers working with Westminster academies or schools, been invited to respond to the draft consultation? I feel it might be worth asking if this isn't the case. It could be that they have concerns that we have not been made aware of. If you wish I could ask EPM which provide the payroll services for Grey Coat Hospital and Westminster City School to look at the document. If this has all been organised please feel free to ignore the above"

4.3 We have engaged with the respondent who understands that the Pension Fund has obligations to members to ensure that we can provide them with accurate pension information and to ultimately pay them a correct pension. The respondent did not suggest alternative PAS deadlines or charges but is emphasising how difficult it is for the schools in particular to manage the requirements of the PAS as they don't have direct access to the data sent to the Fund by their payroll provider or in many cases to the pension Fund data itself.

4.4 We have been met with HPS employer team and reviewed the data sent in by some of the pooled payroll employers for 23/24 to date and compared that to the data sent in for the whole of 22/23. Those checks indicate that it appears that the payroll providers are sending in the data we would expect. Of course, we cannot know for sure how many joiners and leavers the payroll provider has had so until the annual returns are sent in at the end of April we cannot know 100%.

4.5 We have also had a meeting with another school and HPS and following that meeting we are checking their joiners and leavers data for 23/24 against the pension system. That way we can confirm to them, and they can liaise with their payroll provider pre annual returns if there is missing data. We have also offered this service to the respondent above so we can check pre annual returns that their data looks good. We are in the process as I write this report of discussing with HPS is we can offer that check to all the WCC pooled schools and employers where they had data issues last year if they want that as a way to support them to get the data correct pre annual return. If we can resource this we will offer this additional check out to them but it will be their choice if they do this.

4.6 I confirm that we do engage regularly with the payroll providers and support them where we can improve. We have met regularly with EPM to clear up issues and now plan to carry on that support. We have recently had a meeting with HR Connect who have taken over the prospect pooled school payroll service and I have explained the proposed revised PAS and warned them that there are higher charges from failure to provide data. HR Connect are in the middle of reviewing data with the Fund in relation to joiners and leavers and we are offering meetings with HPS with a view again to clear up all the issues we can pre annual return. Strictly Education is the other main schools payroll provider who we have engaged reasonably well with in the last couple of years and their data has improved with our increased engagement. Strictly Education though will only provide us with limited responses, and I know that HPS are also engaging with them as administrators for the other Funds that they provide services for.

4.7 I also attended a meeting of the Schools Business Managers (SBM) at the end of January and did a joint prestation with the RBKC Pension Manager on the LGPS (Local Government Pension Scheme) and the responsibilities that they have in respect of the Fund. Contact details were provided, and feedback was positive so hopefully the schools do know who to approach if they have any issues.

4.8 I would ask the Pension Committee to approve the revised PAS effective from the 1st of April 2024 so that we can confirm this to the employers and hopefully this will encourage employers to seek support from us if they need it. The PAS is going to be an important tool for ensuring that the data improvements detailed above remain in our member data going forward and do not regress.

5. Summary

5.1 In Section 2, I covered the KPI data for the period October 2023 through to January 2024 is 100% within the agreed target.

5.2 I have updated the Committee that the work on hold numbers as reported has increased significantly due to prior reporting not picking up some categories where responses are not coming in. There is now a significant number of Interfund cases to review going forward to ensure that appropriate action is taking place.

5.3 I have updated the Committee in relation to several compliments received in the period.

5.4 In section 3, I update the Pension Committee on the good news that our backlog cases have reduced to 4 outstanding as at the end of January 2024.

5.5 I update the Pension Committee on the improved Specific and common data scores that the Fund now has.

5.6 In section 4 I update the Pension Committee on the response to the Pension Administration Strategy (PAS) consultation and I ask the Pension Committee to approve the PAS effective from the 1st of April 2024.

FAIRER WESTMINSTER

City of Westminster

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Pension Administration Strategy

City of Westminster Pension Fund

Effective from 1st April 2024

Contents

1. Introduction

This is the Pension Administration Strategy of the City of Westminster Pension Fund (COWPF "the Fund") about the Local Government Pension Scheme (LGPS) Fund.

The administration of the Fund has primarily been outsourced to Hampshire Pension Services (HPS) from the 8th of November 2021. It's important to note that whilst some administration documents and guides are in common with HPS, this PAS is specifically for COWPF. COWPF as an LGPS Administering Authority (AA) determines our PAS and its application.

This document:

- Confirms the purpose of the strategy and says what it is intended to achieve.
- Outlines the role of COWPF scheme employers and sets out their expected levels of performance.
- Outlines the role of COWPF and sets out its expected levels of performance.
- Explains how the performance of COWPF and its employers will be monitored.
- Explains what actions might be taken when employers do not meet the requirements.
- Confirms how COWPF will communicate with its employers.
- Details the resources and support that is available for employers to access the - Employer Hub Portal

The LGPS is a statutory scheme, established by an Act of Parliament. Regulation 59 of the LGPS Regulations outline the key responsibilities of administering authorities and fund employers. The regulations include specific provisions recommending the fund develops a Pensions Administration Strategy (PAS). The COWPF has had an agreed PAS for a number of years, and this is periodically reviewed by the Fund in consultation with the employers to ensure that the PAS remains fit for purpose.

The PAS includes a schedule of additional administrative costs under Regulation 70 of the LGPS Regulations 2013, which provides scope for pension funds to recover costs where additional costs are being incurred due to an employer's level of performance.

The PAS is linked to the following statutory documents of the Fund which are available on COWPF website www.wccpensionfund.co.uk

- Retention Policy and Full Privacy Notice
- Communications Policy
- Annual Report
- Statement of Investment Principles

Under no circumstances does the PAS override any provision or requirement of the LGPS regulations nor is it intended to replace the more extensive guide provided by the Employers' Guide available on the Hampshire Pension Services website Employer Administration Tools and Guidance | Hampshire County Council (hants.gov.uk) for day-to-day operations.

2. Purpose of the Pension Administration Strategy

The purpose of the PAS is to set out the relationship between the Fund and it's member employers so that together we can meet our statutory obligations for members and beyond that gives members comfort in their pension with us. The PAS is being amended from April 1, 2024, following excellent work by our fund employers and administrators to clean COWPF data since we moved to HPS in November 2021. The COWPF is now in a position to broaden the PAS and to ensure progress made by everyone is maintained. The purpose of the PAS Summary is below.

- Provides clarity on the key roles and responsibilities of COWPF and its employers.
- Sets expectations and confirms the targets that COWPF and its employers need to work to
- Helps all parties to achieve regulatory compliance by providing a framework that is clear and user-friendly.
- Assists COWPF and its scheme employers in adhering to the Pensions Regulator's Codes of Practice
- Complements procedures that help all parties to meet their data protection and data quality responsibilities.
- Helps to ensure all parties provide the best possible service to scheme members and other relevant stakeholders.
- Emphasises the importance of the shared role that COWPF and its scheme employers have in ensuring excellent service delivery to scheme members.
- Promotes efficient working practices, hand in hand partnership with transparency and a culture of continual improvement.

3. Roles and Responsibilities

The purpose of the strategy set out in Section 2 will be achieved by:

- Clearly defining the respective roles of Scheme Employers and the Administering Authority
- Setting clear and achievable standards of service levels for the functions carried out by Scheme Employers and the Administering Authority
- Setting out clear procedural guidance for the secure and effective exchange of information between Scheme Employers and the Administering Authority
- Monitoring service delivery, identifying poor performance and establishing a platform for the provision of support to improve performance where required.

- Continuous development of resources via the use of digital technology and staff training for both the Fund and its employers
- Applying charges where an employer consistently fails to meet deadlines to ensure the resulting additional administrative strain is not a burden on all employers.

3.1 The Employer's Roles and Responsibilities

The primary responsibilities for the employer are to:

- Communicate the entitlement to benefit from the LGPS to all eligible staff who can join the COWPF.
- Communicate to new members of the Fund the Pension Portal address and how they can access information on their pension.
- Communicate to new members of the scheme that transfer requests must be made within 12 months of joining the Fund.
- Apply the scheme via the collection and payment of the correct levels of pension contributions.
- Report information and data to the COWPF as set out in this strategy.
- Determine and publish relevant employer discretions as required in the LGPS Regulations.

3.2 The Administering Authority's Roles and Responsibilities

The City of Westminster is an Administering Authority (AA) responsible for the provision of our own Local Government Pension Scheme Fund. The COWPF is invested for the benefit of all members as instructed by the COWPF Committee. The Pension Fund Committee has the support of internal AA Officers and qualified external advisors to ensure that the Fund is able to meet all future pension promises. The Pension Fund Committee is also supported by a separate Pension Board that has both employer and member representatives.

COWPF is responsible for ensuring that our appointed administration partner HPS is performing to our agreed contractual standards and is providing a reliable pension administration service to our members. Internal administration officers will support both HPS as our administrators and the funds employers to meet our high standards for members and ensure their expectations are met and exceeded where possible.

COWPF will ensure that any other third party engaged on behalf of the Fund is properly monitored to ensure our Fund remains strong.

The key responsibilities for the Administering Authority are to:

- Administer the LGPS in respect of all scheme members (Active, Deferred and Pensioner members) in accordance with this Strategy and in line with the LGPS and other regulatory requirements.
- Maintain and review the Fund's Statements, Policies and Reports and all other matters relating to the Governance of the scheme.
- Communicate and engage with employers on LGPS matters.
- Provide support/training to scheme employers.
- Maintain and develop an effective web presence for the benefit of members and scheme employers.

HPS have invested in an Employer Hub Portal which links into the pensions administration system. This portal empowers employers to conveniently submit data online, facilitating the review and update of their members' individual records and the prompt notification of employment-related changes to the COWPF.

Employers can submit various notifications and requests online. These include new starters, transitioning to the 50/50 scheme, updates to addresses, changes in personal circumstances, adjustments in work hours and breaks in service, leavers, opt-outs within a three-month period, and submission of ill health certificates.

COWPF expects all employers to sign up and use the Employer Hub. HPS offers regular training on various pensions subjects and in using the Employer Hub. Employers can request support from the Employer Pension Team pensions.employer@hants.gov.uk

A summary of the main roles and responsibilities of employers in the Fund are set out in Appendix A with the applicable PAS charge the fund can apply in each case. The summary is not intended to set out every employer responsibility or to override any employer responsibility as set out within the LGPS regulations or other statute.

Appendix B sets out the main summary of duties for the Administering Authority, defining the main functions, which enable the Pension Fund to deliver an efficient, accurate and high-quality pension service to scheme members.

4. Performance Monitoring

The strategy recognises that there is a shared responsibility for ensuring compliance with the LGPS regulations and the PAS.

COWPF will monitor employer performance across the following key areas:

- The submission of monthly data returns
- The payment of contributions and other payments due
- The number of queries, along with the rate and quality of responses
- The number of complaints received and IDRP cases upheld against the employer and the COWPF where applicable.
- The annual return employer performance (A summary to Annual Return Employer Performance Benchmarking is set out in Appendix C)

The LGPS regulations grant pension funds the authority to recover administration costs incurred due to a scheme employer's underperformance from that employer. The COWPF has applied some PAS charges to employers following our move to HPS in November 2021 as we worked to remove a backlog of unprocessed leaver cases. The Fund has also applied PAS charges for the late submission of remittance and contribution data on a few occassions. The COWPF has centrally covered the administration costs of clearing administration backlogs to date and not recharged these directly to employers.

From April 2024 onwards any backlog of work that is directly related to any employer not fulfilling their duties and responsibilities as outlined in this PAS, will result in that employer specifically being PAS charged for the administration costs to deal with that backlog. The costs will be determined at the time of assessment of any backlog and advised to the employer at the time. This change is to ensure that fund employers who comply with the PAS are not contributing to the cost of dealing with any that do not.

If there were an administration backlog that was caused because of issues outside the control of an individual employer, the COWPF would cover those costs centrally.

COWPF, in partnership with our administration associate in HPS, will extend support to employers to fulfil our shared responsibilities to members. We appreciate and are open to feedback to improve services for both employers and members.

If you represent an employer struggling to meet the terms of this PAS, please contact us promptly so we can work together and avoid additional charges if we can resolve outstanding issues through mutual agreement between COWPF and the employer.

In cases of persistent employer failure to improve performance, we will take the following steps:

- The COWPF will engage with the employer to discuss areas of poor performance.
- An improvement plan with required changes and a timeline will be agreed upon if possible.
- If no improvement occurs within the agreed time frame, or if the employer fails to take action, a formal written notice will be issued, outlining identified issues and possible cost recovery.
- The Fund employer may be required to exit the COWPF for further accrual by their members. The COWPF would expect the employer to advise those members affected.
- Detailed calculations of losses or additional costs incurred in resolving poor performance will be provided.
- The COWPF may have to report the employer to The Pensions Regulator (TPR) for noncompliance with the TPR code. The COWPF will advise the employer if this action is being taken. The TPR may apply their own penalties separate to COWPF.

For more information about the work of The Pensions Regulator, you can visit the following link: https://www.thepensionsregulator.gov.uk/en

A schedule of charges is detailed in Appendix A.

5. Communication, Recourses and Available Support

The various channels of communication employed by the fund include:

1. The **City of Westminster Council Pension Fund** website is the main communication tool for both employers and scheme members.

- **Employers** – a dedicated and secure employer section where employers can access procedure guides, information on courses run by the Fund. All employers are required to provide data through the UPM - Civica Employer Hub Portal.
- **Scheme members** – access to up-to-date information about all aspects of the LGPS and the Member Self Service area where members can update personal details, review annual benefit statements, complete their own pensions estimates and access online tutorials.
- **Contact Details** – Westminster City Council Retained Payroll and Pension contact information are available on the website, together with contact details for the Hymans Robertson Team, Investment and Pension Fund Committee and Pension Board.

2. **Scheme members** who have chosen to opt out of the Member Self Service will continue to receive postal communication. They will still be able to access up-to-date information about all aspects of the LGPS via our website.

3. **Employer newsletter** are issued to scheme members and all employing authorities and published on the COWPF website.

4. **Pension surgeries** may be arranged to support individuals or groups of individuals who need support with particular pension issues. Employers can contact the WCCCPF administration team to discuss the needs of members.

5. **Regular feedback** sent directly to employer representatives to provide notification of any scheme / administrative updates and developments.

6. **Employer workshops** to review scheme developments, and/or to resolve any training needs that employers may have.

For further information regarding our methods of communication, please see our Communications Policy which is located on our website.

6. Feedback and Review Process

COWPF is also accountable for its performance, and we welcome feedback from our Employers regarding the performance of the Fund against the standards in this administration strategy, as set out in Section 3. Comments should be sent to the Strategic Pension Lead Sarah Hay shay@westminster.gov.uk . Any feedback received will be incorporated into the quarterly reports provided to the Pension Board.

You should send any questions about this Pension Administration Strategy to the Strategic Pension Lead Sarah Hay.

Sarah Hay
Strategic Pension Lead
Westminster City Council
11th Floor
64 Victoria Street
London
SW1E 6QP
E-mail: shay@westminster.gov.uk

Westminster City Council Pension Fund is not responsible for verifying the accuracy of any information provided by the employer for the purpose of calculating benefits under the provisions of the Local Government Pension Scheme. This responsibility rests with the employer.

Regulation 59 of the Local Government Pension Scheme (LGPS) Regulations 2013 is the regulation that allows COWPF to create this strategy.

Regulation 59 states that on creating or revising its strategy, the administrating authority must consult with its employers.

The COWPF Pensions Committee approved this strategy on xx/xx/xx Date.

It is effective from 1st April 2024 and we will keep it under review to ensure it remains up to date and meets the necessary regulatory requirements.

In preparing this pension administration strategy, we have consulted with our Fund employers and our third-party administrator. If we need to revise this strategy, we will notify our Fund employers and our third party administrator.

We will publish the current version of the strategy statement on our website at www.wccpensionfund.co.uk and will make paper copies available on request.

Appendix A	City of Westminster Pension Fund Employer Performance Targets and PAS Charges	
Administration Description	**Performance Targets**	**Non-Compliance Charge**
New Scheme Member		
Employer to send to the Administrating Authority the details of the new member.	Within 30 working days after the start of membership.	**£100**
Employers must enrol eligible staff into the LGPS when they reach their staging date or when members meet their eligible enrolment criteria	Advise COWPF of the new starter as per the standard fund process within 30 working days of the start of membership. Failure to comply with auto enrolment is a breach of the Pension Regulator code.	**£100**
Leavers		
Employer to send the Administrating Authority a completed leaver notification.	Within 30 working days after the end of membership. Except in retirement or death in service cases	**£100**
Refund contributions following opt out with less than 3 months scheme membership.	The employer's payroll should refund the member any LGPS contributions in the month the opt out is processed. The employer then has the standard 30 working days to update the fund of the leaver and provide a copy of the validated opt out election to the pensions administration team.	**£100**

Retirements and Death in Service		
Notification of retirement via online portal	No later than 10 working days after the member’s final payroll has run.	**£250**
Ill Health Retirement notification notify the Fund via Ill Health Retirement (medical certificate) form or via online portal	No later than 10 working days after the member’s final payroll has run.	**£250**
Ill-Health Retirement (Deferred members)	No later than 10 working days after the decision has been taken to grant ill health retirement.	**£250**
Death in Service	Provide an initial notification within 5 working days of the employer being informed of the death of the employee	No PAS charge determined.
Review payment of Tier 3 ill-health benefits	Within 3 months of being notified by the administrators to review.	No PAS charged determined but note failure to complete may result in the members pension being suspended until the review is complete.
Flexible retirement notification	No later than 10 working days after the member’s final payroll has run accompanied by confirmation of the number of hours per week to be worked in the continuing job role.	**£250**

Contracting Out of Services		
Notify COWPF of an Outsourcing of staff in the LGPS	COWPF should be advised of any contracting out prior to the award of any contract. The Fund requires notification no later than the day of transfer to a new employer.	PAS charge no less than **£250** from the 1st of April 2024. The COWPF reserves an entitlement to increase that charge should the transfer involve more then ten people or there be a delay in advising the fund exceeding three months.
Contributions and Other Payments Due		
Apply the applicable employee contribution rate to eligible members salary as determined by the LGPS Regulations and review at least annually and whenever their salary rate is adjusted.	Payment date - payment must credit the pension fund bank account on or before 19th of the month following the month to which deductions relate (or previous working day if 19th is a weekend or public holiday)	**£100** for receipt of late payment for each monthly payment. COWPF may seek recovery of under deducted LGPS employee contributions from an employer if the fund identifies an issue. The Fund may in exceptional circumstances PAS fine additionally employers to recover COWPF officer time to review complex contribution issues.

Remittances and schedules	Remittances - a copy of the monthly remittance and schedule must be sent 3 working days prior to the date that payments are credited to the fund, to the following email addresses: WCCIMSupport@westminster.gov.uk and PensionFund@westminster.gov.uk	**£100** per late remittance and **£100** per late schedule. The COWPF may also PAS charge an additional **£500** if there are three or more months in the prior 12 months where either payment, remittance or Schedule are late or inaccurate.
AVC	AVCs payments - should be paid monthly by 19th of the following month of deduction. AVC payments should be made directly to the COWPF AVC provider AEGON	Please note that if payment is made after the 19th day of the month following deduction, then the Fund may charge a PAS charge of **£100** per late payment. In addition, the Fund expects the employer to meet any lost return as a result of late payment and credit that to the members AVC pot. Also in addition, meet the costs from the AVC provider for calculating those additional returns and pay the provider invoice.
APC, ARC, Added Year Contributions	Deductions should be applied as applicable in the LGPS regulations and notified to the employer by the member or COWPF.	Payment should be received with the next contribution payment as above received by the 19th day of the month following deduction.
Make additional fund payments in relation to early payment of benefits from flexible retirement, redundancy or business efficiency retirement or where a member retires early with employer's consent, or the employer 'switches on' the 85 year rule, and a financial strain cost arises	Within 30 days of date of invoice from the Fund	The Fund will PAS Charge an additional **£250** per invoice received more than 60 days after the deadline.

General Information		
Move members between the main scheme and the 50 50 scheme.	The employer is expected to move members into the relevant section of the scheme following receipt of the relevant certified election form. The administrator must then be advised within working 30 days of that change with a copy of the relevant election form.	No PAS charge determined. Compliance will help ensure data quality.
Methods of data exchange	All employers should use the Employer Hub transfer system, UPM, to submit data every month. All forms should be submitted using a secure method of data transfer via online portal. Additional information can also be supplied by email. However, employers must consider data protection when sending information by email and take appropriate steps to ensure data breaches do not occur.	No PAS charge determined but note employers will need to ensure that the administrator does have relevant data sent via other methods or PAS charges could be applied to missing data.
Control of System Access	Each employer must provide COWPF and our admin with a completed employer contact form. That form will provide and administration contact or contacts for day-to-day administration queries. A nominated payroll contact who will provide the authorised payroll users list and a finance contact responsible for the submission of monthly postings and coordination of the exception's reports. The employer or relevant representative must advise the administration team within 5 working days that a nominated contact who would have access to the employer hub has left the employer. This is to help maintain correct control of the system.	PAS Charge **£100** if notified after 5 working days.

Additional responsibilities (optional) of those using an external payroll provider.	Any COWPF Employer that moves or outsources their payroll provider must advise the administration team of the change of payroll at the earliest opportunity and no later than the day prior to the change of payroll service. The employers existing and new payroll providers will be expected to provide relevant data to ensure that the fund can account for all members.	PAS fine of **£250** if advised of the transfer after the move to a new payroll provider. The existing payroll provider has 30 working days from the end of their last payroll period to provide their data and the new payroll provider has 30 working days from the last day of their first payroll period to provide the administrator with relevant data to complete the reconciliation exercise. Failure to comply would result in a PAS fine of £100 per member up to a maximum £500.
End of Year Data Return	The deadline for submitting the end of year return is the 30th of April every year or the last working day in April prior to the 30th	PAS fine of **£100** if received after the deadline but before the 31st of May. PAS fine of **£250** if received from the 1st of June.
Employer Performance Scoring Data Quality	Less than 2% of queries on active membership following the annual return processing with responses received to any queries raised by our administrators within 30 working days. More information on the Annual Performance Scoring is included in Appendix C.	PAS fine of **£1000** is being introduced from the 1st of April 2024 for any employer that has had reported to them poor data quality for three years in a row going back to the performance year 22/23 moving forward. Poor data quality is defined as having queries on 5% of active membership or more and being slow to respond to administrator queries.

Governance		
Employers must nominate an adjudicator to deal with appeals at stage one of the IDRP where the dispute is against a decision the employer has made or is responsible for making. Employers are responsible for providing details of the IDRP and the adjudicator in writing to members when informing them of decisions they have made	Within 20 days of change or becoming a scheme employer.	No PAS fine determined.
The employer is responsible for exercising the discretionary powers given to employers by the regulations. The employer is also responsible for compiling, reviewing and publishing its policy in respect of the key discretions as required by the regulations to its employees.	A copy of the policy document is to be submitted to the Fund within 20 days of the change in policy	No PAS fine determined.
Distribute any information provided by the Fund to scheme members/potential scheme members (e.g. scheme benefits or benefit statement production)	In a timely manner as required	No PAS fine determined.

Appendix B	City of Westminster Pension Fund Administering Authority Roles and Responsibilities	
Administration Description	**Performance Targets**	**KPI Target**
New Scheme Member		
Member to be set up on the UPM Pensions software	Within 15 days after the receipt of completed information from the employer	**100%**
Leavers		
Retirements to be Processed from both active and deferred status.	Within 15 days after receipt of all relevant information. This includes employer leaver information if retiring from active status at a fund employer.	**100%**
This includes all types of retirement, ill health, voluntary, redundancy and flexible retirement.	Members also need to complete the retirement declaration form which can be located on the member portal.	**100%**
Deferred Benefits	30 days from receipt of all relevant information from the employer.	**100%**

Reviews, Estimates and Transfers		
Tier 3 Ill Health Review	Reminder to be sent to the employer three months before review is due. Upon receipt of notification to suspend a tier 3 pension enact in the next payroll period. Upon notification to amend a Tier 3 ill health retirement to a tier 2, enact within 15 days as per the original retirement. Suspend pension if no response from employer three months after the review date.	**100%**
Employer Estimate Requests	20 days from receipt of all relevant information from the employer. Employers can request 2 estimates per individual in any 12-month period within our agreed costs. Additional estimates must be paid for and we ask employers to only request multiple estimates if there is a significant change in leaving date or member pay.	**100%**
Member Estimate Requests	20 days from receipt of all relevant information from the employer/ member. Most members can run accurate retirement estimates by accessing the facility on the member portal which is user friendly and the Annual Benefit Statement (ABS) available on the portal will provide an estimate of pension each year. Members can request 1 estimate per year by completing a request form available from our administrators Hampshire Pension Services (HPS). If active members of staff the employer will need to confirm the members pay before submitting to HPS to complete and return.	**100%**
Cash Equivalent Transfer Value (CETV) Request	CETV requests within 20 days although these could soon be run on the member portal. Where the member is still actively contributing to the scheme, the employer will need to confirm the salary details. A CETV specifically for divorce proceedings has to be run by the pensions administration team.	**100%**

Death in Service	Provide an initial notification to the next of kin within 5 working days of the employer advising the administrator of the death and providing the relevant final pay and contact information. Payment of any dependent pension benefits due will be processed within 5 days of receipt of relevant forms with payment in the next available pension payroll run.	**100%**
Death from deferred status	Initial contact will be made within 5 days of notification with the next of kin or appointed representative if known to the Fund.	**100%**
Death of a member in receipt of pension.	Initial contact will be made within 5 days of notification with the next of kin or appointed representative if known to the Fund.	**100%**
Payments		
Payment of Pension Lump Sums	Pension Lump Sums will be processed for payment within the 15 days retirement processing deadline with payment processing via BACS to normally take no more than 5 working days.	**100%**
Contribution Requirements	The COWPF will hold a pension fund valuation every three years to determine each employer's contribution rate. The Fund will consult with employers on their rate. The Fund aims to be more than 100% funded for all employers.	
Other Payments	The COWPF will pay other payments due on behalf of members within the agreed timescale for that payment type. This includes payments to HMRC.	**100%**

Contracts and Governance		
Appoint and monitor third party Contactors	The COWPF will appoint and monitor the performance off all relevant third-party contractors operating on behalf of the Fund. This includes the administrator Hampshire Pension Services and the Pension Fund Auditors	100%
Data Quality	The COWPF will constantly measure and monitor the quality of members data to ensure the fund is able to provide accurate information to members and pay members benefits as per our agreed timescales when due. Where an area for improvement is identified the Fund will take all reasonable steps to improve that data with consideration to the benefit from improvement and the cost.	
Reports to the The Pension Regulator and other Returns	The COWPF will complete any statutory return on behalf of the Fund. This includes the Pension Regulator	
Discretions	Will publish a policy outline its Administering Authority Discretions COWPF will maintain links to these discretions on WCC website https://www.wccpensionfund.co.uk	
Policies	Arrange for the reports and policies to be provided to all employers requiring such a information. COWPF regularly review the Fund's policies: • Retention Policy and Full Privacy Notice • Communications Policy • Annual Report • Statement of Investment Principles COWPF will maintain links to these policies on WCC website https://www.wccpensionfund.co.uk	

Security		
Cyber and Data security	Will be working with our administration partners and our Fund employers to ensure maximum security for our members data. This includes regular cyber security updates on the pension software and monitoring access via the employer hub.	
Employer and Member Support		
HPS Telephone Helpline	HPS will provide a helpline open between 8 am and 4.30pm Monday to Friday Telephone: 01962 845588	
HPS Email	E - mail: pensions.employer@hants.gov.uk Employers have a dedicated employer team to help them with any pension issue related to the LGPS	
Regular Training	Regular Training is offered by HPS to Westminster Pension Fund employers on a variety of areas. This training will be promoted throughout the year to employers but can be located per this link https://www.hants.gov.uk/hampshire-services/pensions/local-government/employers/training	

Appendix C

Employer Performance Benchmarking Guide

When we transitioned our pension administration service to Hampshire Pension Services (HPS) in November 2021, it was agreed to incorporate employer performance benchmarking into the annual returns process.

Hampshire Pension Services assesses Scheme Employers for timeliness, financial control, and data quality.

Timelines - The deadline for submitting a complete and accurate annual return to Hampshire Pension Services is April 30th.

Financial control - The pension contributions from both employees and employers, as outlined in the annual return, should align with the contributions received by the COWPF, which are reported during the monthly reconciliation process. In the event of genuine reasons for any discrepancies, these reasons should be documented in the return to facilitate the reconciliation of contributions.

Data quality - The data provided in the annual return should align with the member records maintained by Hampshire Pension Services for the respective employer. This includes details regarding new starters, leavers, and any modifications to the records.

The benchmarking scores are provided in the following section:

	Timeliness	**Financial control**	**Data quality**
No issue	Return received before 30 April	No reconciliation issues	No or very minor data quality issues (below 2% of active membership)
Minor concern	Return received between 1 May and 31 May	Minor reconciliation issues and quickly resolved	Some data quality issues (between 2 and 5% of active membership
Significant Concern	Return received more than a month late	Major reconciliation issues and/or slow/failed to respond	Major data quality issues (more than 5 queries or 5% of membership, whichever is higher) and/or slow/failed to respond

In our continuous commitment to upholding the utmost data quality standards for our COWPF members, we conduct an evaluation of Scheme Employer performance as a part of the annual return process.

For the financial year 2022-2023, we initiated the distribution of our first round of employer performance letters. During the previous financial year 2021-2022, COWPF assessed employer and payroll provider data and responses. However, at that time, we refrained from sending letters to employers or schools as our focus was on resolving historical queries and ensuring that employers and payroll providers understood the various requirements inherited by Hampshire Pension Services from the previous administrator.

For the financial year 2023-2024, we will be process of dispatching our second round of employer performance letters.

Looking ahead to the financial year 2024-2025, we will be introducing a **£1000** charge to employers for insufficient data quality, provided they have experienced issues for three years in a row. This fee will serve to offset some of the costs that the COWPF will have incurred to help deal with the data issues in order to maintain the data quality for the fund members involved.

As part of these initiatives, all scheme employers rated "red" in one or more areas during annual return benchmarking will receive a letter, requesting a review of their processes to improve future performance.

Employers with "red" ratings for data quality will undergo a data validation exercise to update information and ensure timely notifications for starters and leavers from the prior 1st of April. Employers who have failing data quality are required to complete this exercise.

Hampshire Pension Services will collaborate with payroll providers and employers to enhance their understanding of returns and address identified reporting issues.

Pensions Matters will raise employer awareness about the importance of notifying opt-outs and scheme section changes, particularly during re-enrolment.

Additionally, employer training for annual returns will be reviewed to highlight key checks before submission, and awareness and promotion of using Employer Forms and document uploads in the Employer Hub will be encouraged. Consideration will be given to potential charges for scheme employers who fail to provide necessary notifications, changes, or respond to queries.

Pension Fund Committee

Date:	**7 March 2024**
Classification:	**GENERAL**
Title:	**LGPS Projects & Governance Update**
Report of:	**Diana McDonnell-Pascoe** Pension Project and Governance Lead, People Services
Wards Involved:	**All**
Policy Context:	**Service Delivery**
Financial Summary:	**None**

1. Introduction

The purpose of this paper is to update the Pension Fund Committee on the various projects and governance activities being undertaken by the Pensions and Payroll Team to improve the administration of the City of Westminster Pension Fund (COWPF) Local Government Pension Scheme (LGPS).

2. Summary

The focus for FY24/25 will be on reviewing and improving our administration governance (and compliance with the new TPR general code of practice) with a view to working with the Head of Internal Audit to draw up a formal audit that we can benchmark against and measure our governance performance. We are close to a resolution on the decision for the Guaranteed Minimum Pension Project and once the Committee makes their decision, we will be implementing the GMP rectification fully. The McCloud project is continuing, and we are supporting Hampshire Pension

Services with ongoing work to get all the returns uploaded. The Pension Dashboard Programme has been reset and Civica are working with the internet service provider (ISP) to ensure connections can be made on time. The Pension Website Project has also been reset briefly as we need a content management strategy before we can move into user design however, we still intend to complete this project before the contract with Hymans Robertson expires in October / November 2024.

3. Projects

3.1. Guaranteed Minimum Pension Project

We have commenced the process of paying arrears to the fifty-one members who had been underpaid. The letters went out at the beginning of February and so far, we have had three queries which are being dealt with. I will update on any queries further, if needs be, at the next Pension Committee meeting.

I can tell the Committee that the legal advice we have received from our solicitor, Eversheds Sutherland (International) LLC, indicates that we may not withhold PI without the member's agreement and that the correct course of action is to correct the member records without mitigation.

I can also tell the Committee that after speaking with various officers from different pension funds at the LGPS Governance Conference in January 2024, several funds have gone with Option 4 which is to correct the members' records without mitigation. I am pleased to tell the Committee that we have had some modest collaboration with Shropshire Pension Fund and Nottinghamshire Pension Fund Officers during and post the Governance Conference which has informed our insight for this paper.

Therefore, my recommendation to Committee is that we proceed with the unmitigated record correction (Option 4) and in the event of a complaint or a appeal of hardship, we investigate each member's case as they present, and we discuss with them Option 3 which is to withhold PI with their consent. Each case will be evaluated on its own merit which will allow us to be thorough in our investigation, deliberation, decision, and reply.

3.2. McCloud

Hampshire Pension Services (HPS) are no longer pro-actively chasing employers and have referred outstanding returns to the Fund to obtain. Of the employers with outstanding returns, there are nine outstanding returns for each of the two pay periods and there are some unusable returns.

In the absence of data being received, they will look to estimate service based on pay held on the record.

HPS have fully uploaded:

- 2014-21 data – 22 returns (out of 37), five of which are the Funds largest employers.
- 2021-22 data – 20 returns (out of 36), two of which are for the Funds largest employers.

This is an ongoing project, and we will support HPS to complete it.

3.3. Pensions Dashboards Programme (PDP)

In a recent update from Civica, they explained that they are resuming work on their Internet Service Provider (ISP) solution following the PDP's reset. Initially they need to demonstrate their solution meets all the necessary standards and requirements, as set out by the PDP, and once this work is complete, they can then deliver the ISP software to Hampshire Pension Services.

3.4. Pension Website

The Pension Website has mostly completed the "Discovery" phase of the project. The outstanding task (which may take place at user design is to do with getting the views of young people). The reason behind the discovery phase taking a long time is simply that this is the first time the Fund has focused on how we disseminate and provide information for users to use i.e., focused on a communications strategy. Because of this, we focused intensely on the user research phase to ensure we "discovered" as much as possible before going into design.

Although we commenced the design phase, it became obvious that we were going too detailed too quickly and that we needed a content management strategy first.

Therefore, we are now going to focus on getting some product management support from Digital and Innovation and content manager support from the user design team so that we can evaluate our content for retention, disposal, creation, or rewrite. Once that is complete, we can move into User Design and then website production. I will update further at the next Committee meeting.

3.5. LGPS Governance Conference 2024

Sarah Hay (Strategic Pension Lead) and I attended the LGPS Governance Conference in January, and it was a worthwhile experience as we were able to network with other Funds and hear from experts in the pensions sphere and other pensions-adjacent topics. We heard from the Pensions Ombudsman amongst others and had a very timely update on Cyber Security which was held by a government official in closed session effectively. We also heard legal advice/opinion (not binding) on the new Pension Regulator general code of practice and how it might affect Funds. There were also interesting panel discussions including one on governance with respect to Academies. Sarah and I intend that in FY24/25 we will focus heavily on reviewing and improving administration governance including risk management.

3.6. The Pensions Regulator (TPR) General Code of Practice 2024

On 10th January 2024, TPR laid a new general code of practice before parliament. The new code will replace ten of the existing codes of practice. These deal with the governance and administration of pension schemes. As part of our governance review in FY24/25 we will review compliance with the code.

3.7. External Audit

No update.

3.8. Internal Audit

The final Q4 internal audit meeting with Moira Mackie, Head of Internal Audit, took place on 22nd February 2024. At that meeting I discussed the new general code of practice and plans for improving governance in FY24/25. I will update the Committee at the next meeting on those plans.

After a comprehensive discussion, Moira indicated she was satisfied with our plans to improve governance and oversight and has requested we start with contract performance monitoring as there is a new framework in place within the Council that we will be using. Using this framework will allow Internal Audit to “score” us on our contract governance which is the start of us moving to score-based auditing as is planned for the future of auditing for the pension administration. It is my intention that the overall outcome for our internal auditing is that we can present score-based audit results to Committee and Board in the future.

Additionally, Mohibur Rahman, Head of Strategy and Performance, has agreed to mentor me to ensure we use best practice methods when setting up / improving our governance. As Mohibur works frequently with Moira, this is a good partnership for us to have.

We intend to have four quarterly internal audit reviews in FY24/25. Q1 in May, Q2 in July, Q3 in November and Q4 in February.

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Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**7 March 2024**
Classification:	**Public**
Title:	**Fund Financial Management**
Wards Affected:	**All**
Policy Context:	**Effective control over council activities**
Financial Summary:	**There are no immediate financial implications arising from this report.**
Report of:	**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 2023 for the Pension Fund bank account and cash held at custody (Northern Trust). The bank/cashflow position continues to be stable.

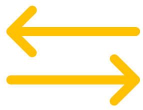
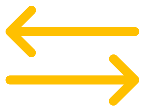
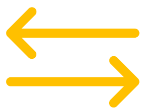
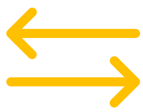
2. Recommendations

2.1 The Committee is asked to note the top five risks for the Pension Fund.

2.2 The Committee is asked to note the cashflow position for the Pension Fund bank account and cash held at custody, the rolling twelve-month forecast and the three-year forecast.

3. Risk Register Monitoring

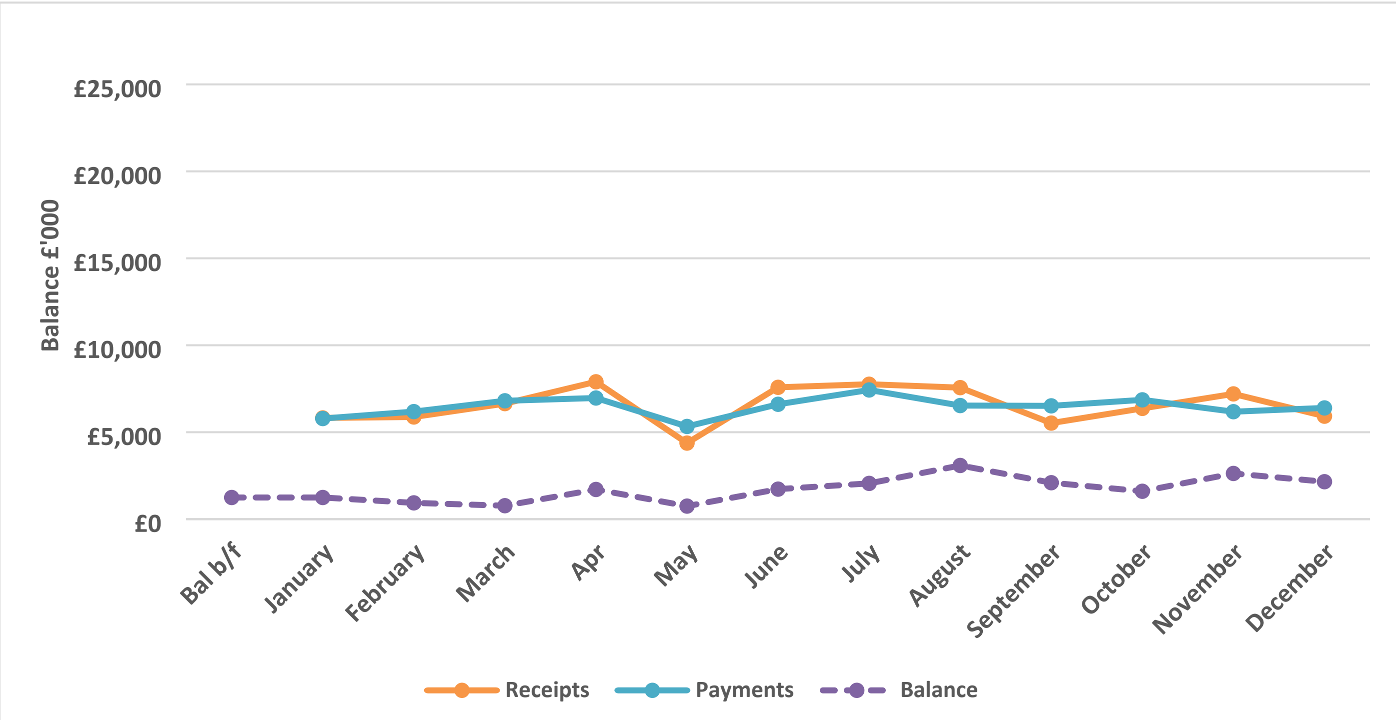
3.1 The risk register is divided into two sections: investment and pensions administration. The risk groups have been updated to reflect the CIPFA guidance on risk categories. The current top five risks to the Pension Fund, as updated in February 2024, are highlighted in the table below:

CIPFA Risk Group	Risk Rank	Risk Description	Trending
Asset and Investment Risk	1st/42	Significant volatility and negative sentiment in global investment markets following disruptive geopolitical and economic uncertainty, including the conflict between Russia and Ukraine, and Israel and Gaza. Increased risk to global economic stability, with the collapse of a number of banks during 2023. Outlook deteriorates in advanced economies because of heightened uncertainty and setbacks to growth and confidence, with volatility in oil and commodity prices, as well as the weakening of the pound. Leading to tightened financial conditions, reduced risk appetite and raised credit risks.	
Liability Risk	2nd/42	Price inflation is significantly more than anticipated in the actuarial assumptions. Inflation continues to remain in the UK and globally due to labour shortages, supply chain issues, and the ongoing Russia-Ukraine conflict, as well as the conflict in the middle East. CPI inflation was 5.1% as at January 2024, down from the peak of 11.1% in October 2022.	
Asset and Investment Risk	3rd/42	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 £1.9m. The Fund returned 11.9% net of fees in the year to 31 December 2023, underperforming the benchmark by 1.1% net of fees.	
Regulatory and Compliance Risk	4th/42	The Department for Levelling Up, Housing and Communities' (DLUHC's) has proposed new regulations for Local Government Pension Scheme (LGPS) administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD). The first reporting year is now expected to be the financial year 2025/26, with the regulations now delayed. Therefore, the first reports will be required by December 2026.	
Liability Risk	5th/42	Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others. Current economic conditions will cause strain on smaller employers.	

4. Cashflow Monitoring and Forecasted Cashflows

4.1 The balance on the Pension Fund's Lloyds bank account as at 31 December 2023 was £2.2m. This account is the Fund's main account for day-to-day transactions, including member contributions and pension payments. Payments from the bank account will continue to exceed receipts on an annual basis. During the year, withdrawals from cash at custody are expected to take place to maintain a positive cash balance.

4.2 The graph shows changes in the bank balance from 1 January 2023 to 31 December 2023.



4.3 Payments and receipts have remained stable over the last 12 months. Officers continue to keep the cash balance under review and take action to maintain necessary liquidity. During the quarter, the Fund withdrew £4.0m from cash at custody to maintain a positive cash balance.

4.4 The Pension Fund held £27m in cash with Northern Trust as at 31 December 2023. Fund manager distributions and proceeds/withdrawals from the sale of assets and purchases of assets take place within the Fund's custody account at Northern Trust. The following table shows the cash inflows and outflows within cash at custody for the three-month period from 1 October 2023 to 31 December 2023.

Cash at Custody	Oct	Nov	Dec
	£000	£000	£000
	Actual	Actual	Actual
Balance b/f	**40,533**	**46,365**	**45,732**
Distributions	902	1,230	2,292
Sale of assets	20,506	0	12,981
Interest	1,774	113	135
Cash withdraw	(2,000)	(2,000)	0
Foreign Exchange Gains/Losses	1	1	(6)
Purchase of Assets	(15,357)	(1)	(34,052)
Miscellaneous	0	(6)	6
Management fees	6	30	(62)
Balance c/f	**46,365**	**45,732**	**27,026**

4.5 During the quarter, an equalisation took place within the Quinbrook renewable infrastructure fund, as well as further capital calls within the Macquarie Renewable Infrastructure, Quinbrook Renewables, CVC Credit Private Debt and London CIV UK Housing funds. The Fund also received distributions of £4.4m from asset managers over the quarter to 31 December 2023.

4.6 The total cash balance, including the Pension Fund Lloyds bank account and cash at custody, is shown below for the period from 1 October 2023 to 31 December 2023. The total cash balance as at 31 December 2023 was £29.2m.

Cash at Custody & Bank account	Oct	Nov	Dec
	£000	£000	£000
	Actual	Actual	Actual
Balance b/f	**42,628**	**47,969**	**48,359**
Cash outflows	(22,217)	(6,186)	(40,516)
Cash inflows	27,558	6,576	21,335
(Withdraw)/Deposit from custody to bank account	(2,000)	(2,000)	0
(Withdraw)/Deposit from bank account to custody	2,000	2,000	0
Balance c/f	**47,969**	**48,359**	**29,178**

4.7 The following table illustrates the rolling cashflow for the 12-month period from 1 April 2023 to 31 March 2024 for the Pension Fund Lloyds bank account. Forecast cashflows are estimated using the previous year's actual cashflows, which are inflated and then divided equally over the 12 months.

Current Account Cashflows for period April 2023 - March 2024:

	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	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	**774**	**1,707**	**751**	**1,726**	**2,056**	**3,087**	**2,095**	**1,603**	**2,627**	**2,153**	**2,315**	**1,477**	**£000s**
Contributions	6,298	993	3,970	3,810	3,795	4,050	3,849	4,120	4,314	3,759	3,759	3,759	46,478
Various Receipts[1]	601	380	611	948	767	1,473	519	1,083	1,606	872	872	872	10,606
Pensions	(3,813)	(3,923)	(3,913)	(3,977)	(3,964)	(3,956)	(3,992)	(3,994)	(3,987)	(4,023)	(4,023)	(4,023)	(47,588)
HMRC Tax Payments	(744)	(795)	(916)	(890)	(853)	(1,192)	(927)	(887)	(852)	(681)	(681)	(681)	(10,097)
Transfers out, lump sums, death grants, refunds & misc. payments	(2,164)	(455)	(1,744)	(2,552)	(1,530)	(1,349)	(1,764)	(1,266)	(1,540)	(1,572)	(1,572)	(1,572)	(19,080)
Expenses	(245)	(157)	(32)	(9)	(185)	(18)	(176)	(32)	(17)	(194)	(194)	(194)	(1,454)
Net cash in/(out) in month	**(67)**	**(3,956)**	**(2,024)**	**(2,670)**	**(1,969)**	**(991)**	**(2,492)**	**(976)**	**(475)**	**(1,838)**	**(1,838)**	**(1,838)**	**(21,135)**
Withdrawal/(deposit) from custody	1,000	3,000	3,000	3,000	3,000	0	2,000	2,000	0	2,000	1,000	2,000	22,000
Balance c/f	**1,707**	**751**	**1,726**	**2,056**	**3,087**	**2,095**	**1,603**	**2,627**	**2,153**	**2,315**	**1,477**	**1,639**	

4.8 The three-year cashflow forecast for 2023/24 to 2025/26 for the Pension Fund's Lloyds bank account is shown below. The 2023/24 forecasted cashflows are linked to the rolling cashflow. The following years forecasts' are calculated using the previous year's cashflows which are then inflated, with pensions payable linked to CPI-inflation.

Three Year Cashflow Forecast for 2023/24 to 2025/26

	2023/24	2024/25	2025/26
	£000	**£000**	**£000**
	F'cast	**F'cast**	**F'cast**
Balance b/f	**774**	**1,639**	**844**
Contributions	46,478	47,408	48,356
Transfers in, overpayments, VAT reclaim, recharges & misc. receipts	10,606	10,818	11,034
Pensions	(47,588)	(50,777)	(51,792)
HMRC Tax	(10,097)	(10,299)	(10,505)
Transfers out, lump sums, death grants, refunds & misc. payments	(19,080)	(19,462)	(19,851)
Expenses	(1,454)	(1,483)	(1,512)
Net cash in/(out) in year	**(21,135)**	**(23,795)**	**(24,270)**
Withdrawal/(deposit) from custody cash	22,000	23,000	25,000
Deficit Recovery Contributions	0	0	0
Balance c/f	**1,639**	**844**	**1,574**

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

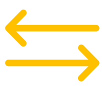
BACKGROUND PAPERS: None.

APPENDICES:
Appendix 1: Tri-Borough Risk Management Scoring Matrix
Appendix 2: Pension Fund Risk Register Review at February 2024

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

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

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.

Symbol Key	
Trending upwards	 Risk is assessed to be generally trending upwards
Trending downwards	 Risk is assessed to be generally trending downwards
No change	 Risk is assessed to be generally staying the same

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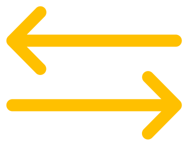
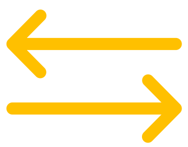
Pension Fund Risk Register - Administration Risk													
Risk Group	Risk Ref.	Trending	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score	Reviewed
				Fund	Employers	Reputation	Total						
Administrative and Communicative Risk	1		Structural 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 part of the actuarial valuation, which took place on 31 March 2022. 6) Monitoring of gilt yields for assessment of pensions deficit on a termination basis.	2	**18**	02/02/2024
Administrative and Communicative Risk	2		The increase in online hacking poses a continual risk to members personal data, as well as potential disruption issues for members accessing the online pension portal. In these instances, Hampshire Pension Services would need to take the portal offline to ensure the system and data is secure.	2	2	3	7	3	**21**	**TREAT:** 1) The Hampshire Pension Portal has several layers of security in place to ensure the security of member data and access to the portal. 2) HPS undertake penetration testing on a regular basis (at least twice a year), in conjunction with Civica to ensure any risks/weaknesses in the systems security is identified and rectified. 3) Civica undertake upgrades and maintenance to the pension portal on a continual basis.	2	**14**	02/02/2024
Resource and Skill Risk	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**	02/02/2024
Administrative and Communicative Risk	4		Failure of securely sent sensitive data and any unidentified data flows being sent insecurely.	4	3	5	12	2	**24**	**TREAT:** 1) Active member data is sent on secure platforms between all parties 2) Including "Encrypted" in email subject allows schools and academies to send data to pension admin team securely. 3) Data sent to the actuary using secure portal. 4) The employer portal used by HPS should offer increased security for member data from all employers.	1	**12**	02/02/2024
Administrative and Communicative Risk	5		Failure of cyber security measures, including information technology systems and processes, leading to loss, disruption or damage to the scheme or its members.	4	2	5	11	2	**22**	**TREAT:** 1) Council has a data recovery plan in place, with files uploaded to the cloud every night. 2) . As a Council we are continuing to invest in technologies to block and filter phishing emails as well as ensuring our systems are up to date to protect us and our devices against these threats. 3) The IT team continuously review and update the cyber security policies, including the Information Security policy, Acceptable Use policy, Email and Internet policy, Social Media policy, Password Management policy and Data Disposal policy. All of which can be found on the Wire.	1	**11**	02/02/2024
Administrative and Communicative Risk	6		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 pension admin strategy to assure employer reporting compliance.	1	**11**	02/02/2024
Administrative and Communicative Risk	7		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 undertaken during 2022/23 showed substantial assurance with only two recommendations, which have since been fully/partially implemented.	1	**10**	02/02/2024
Administrative and Communicative Risk	8		Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	1	4	3	8	3	**24**	**TREAT:** 1) The pensions administration service provided by Hampshire CC since 8 November 2021. 2) Officers will continue to support the admin team with regular meetings and conversation on cases. 3) Ongoing monitoring of contract and KPIs.	1	**8**	02/02/2024
Administrative and Communicative Risk	9		Failure of financial system leading to benefits 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) Officers undertaking additional testing and reconciliation work to verify accounting transactions.	1	**8**	02/02/2024

Administrative and Communicative Risk	10		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 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**	02/02/2024
Administrative and Communicative Risk	11		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.	2	**8**	02/02/2024
Administrative and Communicative Risk	12		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. HPS have their own COWPF Bank Account which is reconciled. COWPF transferred to HPS on the 8th of November 2021 there have never been any issues in running the pension payroll or paying the pensions on time.	1	**7**	02/02/2024
Administrative and Communicative Risk	13		Possibility of members opting out of the pension scheme, following concerns around inflation and the cost of living crisis.	2	3	1	6	2	**12**	TREAT: 1) Auto-enrolment of the pension scheme takes place every 3 years. 2) The Fund offers members the flexibility to pay half their normal contribution rate and build up half their normal pension. This is designed as a short term option and employees are automatically transferred back into the main scheme every 3 years. Members keep their full life and ill-health cover they join the 50/50 section.	1	**6**	02/02/2024
Administrative and Communicative Risk	14		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 Hampshire 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**	02/02/2024
Administrative and Communicative Risk	15		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**	02/02/2024
Administrative and Communicative Risk	16		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**	02/02/2024
Administrative and Communicative Risk	17		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 Hampshire County Council, with minimal effect on the Fund.	1	**4**	02/02/2024

Pension Fund Risk Register - Investment Risk

Risk Group	Risk Ref.	Trending	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score	Reviewed
				Fund	Employers	Reputation	Total						
Asset and Investment Risk	1		Significant volatility and negative sentiment in global investment markets following disruptive geopolitical and economic uncertainty, including the conflict between Russia and Ukraine, and Israel and Gaza. Increased risk to global economic stability, with the collapse of a number of banks during 2023. Outlook deteriorates in advanced economies because of heightened uncertainty and setbacks to growth and confidence, with volatility in oil and commodity prices, as well as the weakening of the pound. Leading to tightened financial conditions, reduced risk appetite and raised credit risks.	4	4	3	11	4	**44**	**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) The Fund alongside its investment consultant continually reviews its investment strategy in different asset classes. 4) The City of Westminster Pension Fund can report that as at February 2024, the value of investments to Russia or Ukraine within the Pension Fund's asset classes is valued at zero. 5) Currency hedging takes place within the LGIM Future World Fund and LCIV Absolute Return Fund, this will offer some protection against the weakening of the pound. 6) Officers have assessed any exposures to SVB, with minimal direct exposure within the Fund. 7) Having reached out to the investment managers underlying the Pension Fund investment portfolio, we have ascertained that there is relatively low overall exposure to the Israel and Gaza regions.	3	**33**	02/02/2024
Liability Risk	2		Price inflation is significantly more than anticipated in the actuarial assumptions. Inflation continues to remain in the UK and globally due to labour shortages, supply chain issues, and the ongoing Russia-Ukraine conflict, as well as the conflict in the middle East. CPI inflation was 5.1% as at January 2024, down from the peak of 11.1% in October 2022.	5	3	3	11	4	**44**	**TREAT:** 1) The Fund holds investments in bonds, inflation linked long lease property, private debt and infrastructure to mitigate CPI risk. Moreover, equities will also provide a degree of inflation protection. 2) The Pension Fund has increased its holdings within infrastructure and has started to drawdown into the LCIV UK housing fund during. 3) Officers continue to monitor the increases in CPI inflation on an ongoing basis. 4) Short term inflation is expected due to a number of reasons on current course.	3	**33**	19/02/2024
Asset and Investment Risk	3		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 £1.9m. The Fund returned 11.9% net of fees in the year to 31 December 2023, underperforming the benchmark by 1.1% net of fees.	5	3	3	11	4	**44**	**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.	3	**33**	02/02/2024

Regulatory and Compliance Risk	4		The Department for Levelling Up, Housing and Communities' (DLUHC's) has proposed new regulations for Local Government Pension Scheme (LGPS) administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD). The first reporting year is now expected to be the financial year 2025/26, with the regulations now delayed. Therefore, the first reports will be required by December 2026.	3	1	4	8	4	**32**	**TREAT:** 1) The Pension Fund's investment consultant has already started work on identifying the climate risks to the Fund, and how these can be assessed and reported on. 2) The Pension Fund already collects and reports on carbon emission data, which will form part of the TCFD metrics and targets. This data can currently be found in the Responsible Investment Statement. 3) Officers attend training sessions and conferences on TCFD reporting, including London Pension Fund Officers Forum, where there is an open arena for discussions. 4) The City of Westminster Pension Fund has submitted a response to the DLUHC consultation on the proposed climate reporting regulations, with the regulations still outstanding.	3	**24**	02/02/2024
Liability Risk	5		Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others. Current economic conditions will cause strain on smaller employers.	5	3	3	11	3	**33**	**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.	2	**22**	02/02/2024
Liability Risk	6		Scheme members live longer than expected leading to higher than expected liabilities.	5	5	1	11	2	**22**	**TOLERATE:** 1) 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**	02/02/2024
Asset and Investment Risk	7		Increased scrutiny on environmental, social and governance (ESG) issues, leading to reputational damage. The Council declared a climate emergency in September 2019.	3	1	3	7	4	**28**	**TREAT:** 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) and Pensions and Lifetime Savings Association (PLSA), which raises awareness of ESG issues and facilitates engagement with fund managers and corporate company directors. 4) The Pension Fund has committed 6% towards renewables and 5% to affordable and social supported housing, alongside moving equities into ESG-tilted mandates. 5) An ESG and RI Policy was drafted for the Pension Fund as part of the ISS and a Responsible Investment Statement has been drafted. 6) Officers regularly attend training events on ESG and TCFD regulations to ensure stay up to date with latest guidance.	3	**21**	02/02/2024

Asset and Investment Risk	8		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	3	**30**	**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.	2	**20**	02/02/2024
Liability Risk	9		Employee pay increases are significantly more than anticipated for employers within the Fund. Persistently high inflation will potentially lead to unexpectedly high pay awards.	4	4	2	10	3	**30**	**TREAT** 1) Fund employers should monitor own experience. 2) 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. 3) 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). 4) Employee pay rises currently remain below inflation.	2	**20**	02/02/2024
Asset and Investment Risk	10		That the London Collective Investment Vehicle (LCIV) fails to produce proposals/solutions deemed sufficiently ambitious.	4	3	3	10	2	**20**	**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. 2) Member presence on Shareholder Committee and officer groups. 3)Fund representation on key officer groups. 4) Ongoing Shareholder Issue remains a threat.	2	**20**	02/02/2024
Resource and Skill Risk	11		Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	4	3	2	9	3	**27**	**TREAT:** 1) External professional advice is sought where required. Knowledge and skills policy in place (subject to Committee Approval) 2) Comprehensive training packages will be offered to members. 3) The DLUHC may introduce regulations to mandate Committee member training.	2	**18**	02/02/2024
Regulatory and Compliance Risk	12		Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within laid down timescales. Consultation on Next Steps on Investments released during Summer 2023, the Fund has submitted a response.	3	2	1	6	3	**18**	**TOLERATE:** 1) Officers consult and engage with the Department for Levelling Up, Housing and Communities (DLUHC), 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 DLUHC pooling guidance, expected sometime during 2024, following consultation.	3	**18**	02/02/2024

Resource and Skill Risk	13		The Stewardship Code is a set of principles set out by the Financial Reporting Council. To become a signatory of the Code, applicants must submit a Stewardship Report to the FRC demonstrating how the principles of the Code have been applied during the previous 12 months. Once accepted onto the signatories list, organisations must reapply annually. Due to the significant work required in this area this may pose a challenge for submission annually, without any additional resource, and the risk of subsequent submissions being rejected.	3	1	4	8	3	**24**	**TREAT: 1)** Use of asset manager and pool company resources in the annual review and update of the stewardship submissions. **2)** Officers attending training events and conferences on ESG reporting. **3)** Consider appointment of a Tri-Borough Responsible Investment (RI) officer to cover ESG and RI areas, including stewardship and TCFD reporting.	2	**16**	02/02/2024
Asset and Investment Risk	14		Volatility in investment markets caused by government decisions.	4	2	2	8	3	**24**	**TREAT: 1**) The Fund's investment management structure is highly diversified, which lessens the impact of market risk compared with less diversified structures. 2) Portfolio rebalancing is considered on a regular basis by the Pension Fund Committee. 3) The City of Westminster Pension Fund's strategic asset allocation was reviewed during 2023.	2	**16**	02/02/2024
Asset and Investment Risk	15		The global outbreak of COVID-19 poses economic uncertainty across the global investment markets.	4	3	1	8	3	**24**	**TREAT:** 1) Officers will continue to monitor the impact lockdown measures have had on the fund's underlying investments and the wider economic environment. 2) The Fund holds a diversified portfolio, which should reduce the impact of stock market movements. 3) Asset allocation was reviewed during 2023, a new strategy was agreed to reduce equities by 5% and move into renewable infrastructure. 4) Pension Fund Officers in frequent contact with Fund Managers and the Funds investment advisor.	2	**16**	02/02/2024
Asset and Investment Risk	16		Volatility caused by uncertainty regarding the withdrawal of the UK from the European Union. Supply chain shortages disrupting the economy. Uncertainty remains regarding the Northern Ireland Protocol.	4	3	1	8	3	**24**	**TREAT:** 1) Officers to consult and engage with advisors and investment managers. 2) Possibility of hedging currency and equity index movements. LGIM and LCIV Absolute Return mandates are currently GBP hedged. 3) The UK has exited the EU and the transition period has come to an end. There is still the potential for volatility implementing some of the post-Brexit agreements.	2	**16**	02/02/2024

Asset and Investment Risk	17		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**	**TREAT:** 1) Member presence on 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) Officers continue to monitor the ongoing staffing issues and the quality of the performance reporting provided by the London CIV.	2	**16**	02/02/2024
Liability Risk	18		Impact of economic and political decisions on the Pension Fund's employer workforce. Government funding level affecting the Councils spending decisions.	5	2	1	8	3	**24**	**TREAT:** 1) Actuary 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, next valuation to take place at 31 March 2025.	2	**16**	02/02/2024
Resource and Skill Risk	19		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.	3	**15**	02/02/2024
Liability Risk	20		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:** 1) 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**	02/02/2024
Liability Risk	21		Impact of increases to employer contributions following the actuarial valuation, next valuation to take place on 31 March 2025.	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**	02/02/2024
Liability Risk	22		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. The Fund currently has £100m in cash held within a short duration bond fund and LCIV Absolute Return Fund, which allows access at short notice.	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, Fund is expected to be c.£25m cashflow negative per annum. However, going forward income distributions are expected to offset this.	1	**12**	02/02/2024
Regulatory and Compliance Risk	23		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**	02/02/2024

Regulatory and Compliance Risk	24		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. 4) Pension administration transition project team in place.	1	**11**	02/02/2024
Liability Risk	25		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 affordable/social housing. 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**	02/02/2024
Reputational Risk	26		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**	02/02/2024
Reputational Risk	27		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**	02/02/2024
Asset and Investment Risk	28		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**	02/02/2024
Liability Risk	29		Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	4	4	2	10	2	**20**	**TREAT:** 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 2023/24 of members transferring out to DC schemes.	1	**10**	02/02/2024
Liability Risk	30		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**	02/02/2024
Asset and Investment Risk	31		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**	02/02/2024
Asset and Investment Risk	32		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**	02/02/2024

Asset and Investment Risk	33		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**	02/02/2024
Resource and Skill Risk	34		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**	02/02/2024
Regulatory and Compliance Risk	35		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**	02/02/2024
Reputational Risk	36		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**	02/02/2024
Liability Risk	37		Changes to LGPS Scheme moving from Defined Benefit to Defined Contribution	5	3	2	10	1	**10**	**TOLERATE:** 1) Political power required to effect the change.	1	**10**	02/02/2024
Liability Risk	38		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**	02/02/2024
Regulatory and Compliance Risk	39		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**	02/02/2024

Regulatory and Compliance Risk	40		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**	02/02/2024
Regulatory and Compliance Risk	41		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. 2) Pooled funds are not subject to OJEU rules.	1	**7**	02/02/2024
Regulatory and Compliance Risk	42		Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	4	2	1	7	2	**14**	**TREAT:** 1) Maintain links with central government and national bodies to keep abreast of national issues. 2) Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	1	**7**	02/02/2024

Committee Report

City of Westminster

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**7 March 2024**
Classification:	**Public (Appendices 1, 2 and 4 Exempt)**
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 2023, together with an update on the London CIV and funding level.

1.2 The Fund returned 6.5% net of fees over the quarter to 31 December 2023, outperforming the benchmark by 0.8%.

2. RECOMMENDATION

2.1 The Committee is asked to:

- Note the performance of the investments and the updated funding level as at 31 December 2023.

- Approve that Appendices 1, 2 and 4 to this report are not for publication on the basis that they contain information relating to the financial or business affairs of any particular person (including the authority holding that information) as set out in paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).

3. BACKGROUND

3.1 This report presents a summary of the Pension Fund's performance to 31 December 2023. The investment performance report (Appendix 1) has been prepared by Isio, the Fund's investment advisor.

3.2 The market value of investments increased by £112m to £1.907bn over the quarter to 31 December 2023, with the Fund returning 6.5% net of fees. The Fund outperformed the benchmark by 0.8% net of fees, with Quinbrook Renewable Infrastructure, London CIV Global MAC and Insight Buy and Maintain Bonds being the main contributors to outperformance. The Abrdn Long Lease Property and Man Group Community Housing funds underperformed their respective benchmarks by 12.4% and 1.2% net of fees.

3.3 Over the 12-month period to 31 December 2023, the Fund underperformed its benchmark net of fees by 1.1% returning 11.9%. This underperformance can be largely attributed to the Abrdn Long Lease Property, which underperformed its benchmark by 17.8%, owing to the detraction in long-dated property over the year. The CVC Credit Private Debt mandate performed well over the one-year period, returning 12.9% net of fees, outperforming the benchmark by 8.1%.

3.4 Over the longer three-year period to 31 December 2023, the Westminster Fund underperformed the benchmark net of fees by 2.0%, returning 3.1% net of fees. The main driver of this underperformance was the Baillie Gifford equity mandate, which returned -1.1% net of fees, in comparison to the MSCI World which generated returns of 8.2%.

3.5 It should be noted that Isio continues to rate the fund managers favourably.

3.6 As per Committee request at the last meeting, Isio have liaised with the Local Authority Pension Fund Forum (LAPFF) regarding the Rio Tinto Resolution. LAPFF raised the issue of water impacts at Rio Tinto mining sites and encouraged investors to co-file a shareholder resolution requesting that the company undertake independent water impact assessments. Isio were advised that the investment managers would need to co-file this resolution on our behalf, as the legal owners of the company shares.

3.7 Since the last meeting, Baillie Gifford have advised that they have sold their Rio Tinto shareholdings. However, the Fund does have exposure within the LGIM Future World fund, totalling circa £161k. LGIM have advised that they will share their vote publicly, after the meeting takes place.

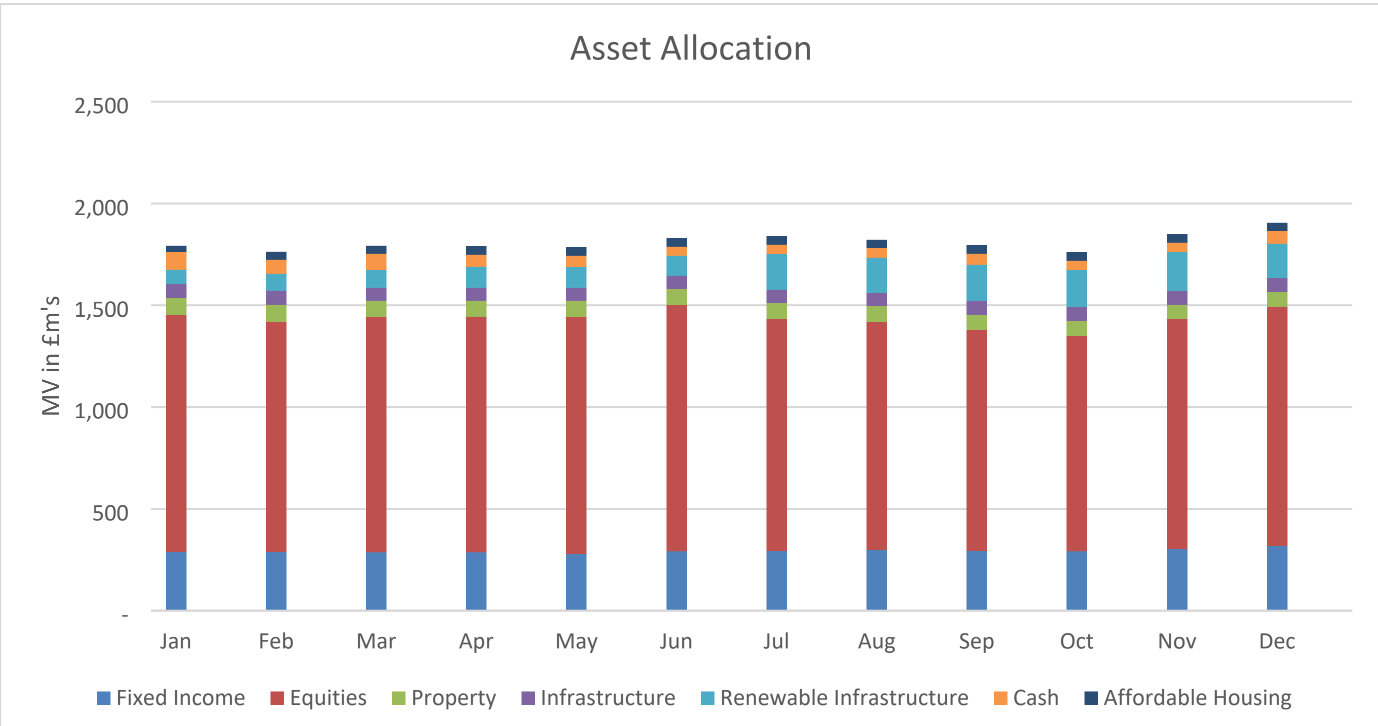
3.8 At the last meeting on 29 November 2023, Officers also updated the Committee on the ongoing engagement between the London CIV, investment managers and Royal Dutch Shell. Whilst disappointing that LCIV were unable to gain meaningful action from the company on climate related issues, as of 31 December 2023 the Fund has no exposure to Shell through the London CIV.

3.9 Officers are pleased to report that the City of Westminster Pension Fund was successful in retaining its accreditation to the UK Stewardship Code. The UK Stewardship Code 2020 sets high stewardship standards for asset owners and asset managers, and for service providers that support them. As per the most recent update to the signatories, the Westminster Pension Fund is amongst only a handful of LGPS funds in London to achieve signatory status. Please see attached the Stewardship Report for 2024 at appendix 5.

3.10 The estimated funding level for the Westminster Pension Fund has decreased slightly to 156% at 31 December 2023 (160% at 30 September 2023). Please see Appendix 3 for the actuary funding level report.

4. ASSET ALLOCATION AND SUMMARY OF CHANGES

4.1 The following chart shows the changes in asset allocation of the Fund from 1 January 2023 to 31 December 2023. Please note asset allocations may vary due to changes in market value.



*Fixed Income includes bonds, multi asset credit (MAC) and private debt
**Cash includes the NT ESG Ultra Short Bond Fund and Ruffer (LCIV) Absolute Return Fund

4.2 The current Westminster Pension Fund target asset allocation is 55% of assets within equities, 19% in fixed income, 11% in renewable infrastructure, 5% within infrastructure, 5% within property and 5% to affordable and socially supported housing.

4.3 Over the quarter to 31 December 2023, capital calls relating to the Macquarie Renewable Infrastructure, Quinbrook Renewables, CVC Credit Private Debt and London CIV UK Housing funds took place. As well as this, there was an equalisation within the Quinbrook renewable infrastructure fund.

4.4 The Fund placed a £30m redemption with the Legal and General Future World fund during February 2024, with proceeds to be used to fund capital calls within the illiquid mandates. As at 31 January 2024, the Fund was c.4.6% overweight to passive equities. As per the investment strategy statement, these overweight balances are to be used to fund those underweight strategies and capital calls as they fall due. Please note, cash is held at the custodian, Northern Trust, within Short-Term Low Volatility Money Market Fund's (LVNAVs) at a current interest rate of circa 5%.

5. LONDON CIV UPDATE

5.1 The value of Westminster Pension Fund investments directly managed by the London CIV as at 31 December 2023 was £839m, representing 44% of Westminster's investment assets. A further £463m continues to benefit from reduced management fees, through Legal and General having reduced its fees to match those available through the LCIV.

5.2 As at 31 December 2023, the London CIV had £29.4bn of assets under management of which £15.9bn are directly managed by the London CIV. All London CIV funds, that Westminster are invested in, were on normal monitoring at quarter end.

5.3 During the quarter, Aoiffin Devitt joined the London CIV as the new Chief Investment Officer, with more than 15 years' experience working within the LGPS network. Aoiffin has extensive experience in senior investment roles including as head of investment for Ireland at Hermes Fund Managers, and CIO for the Policemen's Annuity and Benefit Fund of Chicago. Recent experience also includes independent adviser roles to four local authority pension funds in the UK, as well as other investment committee positions.

5.4 Please see the London CIV quarterly investment report as at 31 December 2023, attached at Appendix 4.

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

Billie Emery pensionfund@westminster.gov.uk

Background Papers: None.

Appendices:

Appendix 1: Isio Investment Report, Quarter Ending 31 December 2023 (exempt)
Appendix 2: Isio Investment Report, Fee Benchmarking (exempt)
Appendix 3: Hymans Robertson Funding update report at 31 December 2023
Appendix 4: London CIV Quarterly ACS Investment Report at 31 December 2023 (exempt)
Appendix 5: Stewardship Report 2024

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City of Westminster Pension Fund

Funding update report at 31 December 2023

This report is addressed to the Administering Authority of the City of Westminster Pension Fund. This document should be read in conjunction with the fund's current Funding Strategy Statement.

The purpose of this report is to provide the funding position of the City of Westminster Pension Fund as at 31 December 2023 and show how it has changed since the previous valuation at 31 March 2022. This report has not been prepared for use for any other purpose and should not be so used. The report should not be disclosed to any third party except as required by law or regulatory obligation or with our prior written consent. Hymans Robertson LLP accept no liability where the report is used by or disclosed to a third party unless such liability has been expressly accepted in writing. Where permitted, the report may only be released or otherwise disclosed in a complete form which fully discloses the advice and the basis on which it is given.

The figures presented in this report are prepared only for the purposes of providing an illustrative funding position and have no validity in other circumstances. In particular, they are not designed to meet regulatory requirements for valuations.

This report also contains the data and assumptions underlying the results and the reliances and limitations which apply to them.

1 Results

1.1 Funding position update

The table below shows the estimated funding position at 31 March 2022 and 31 December 2023.

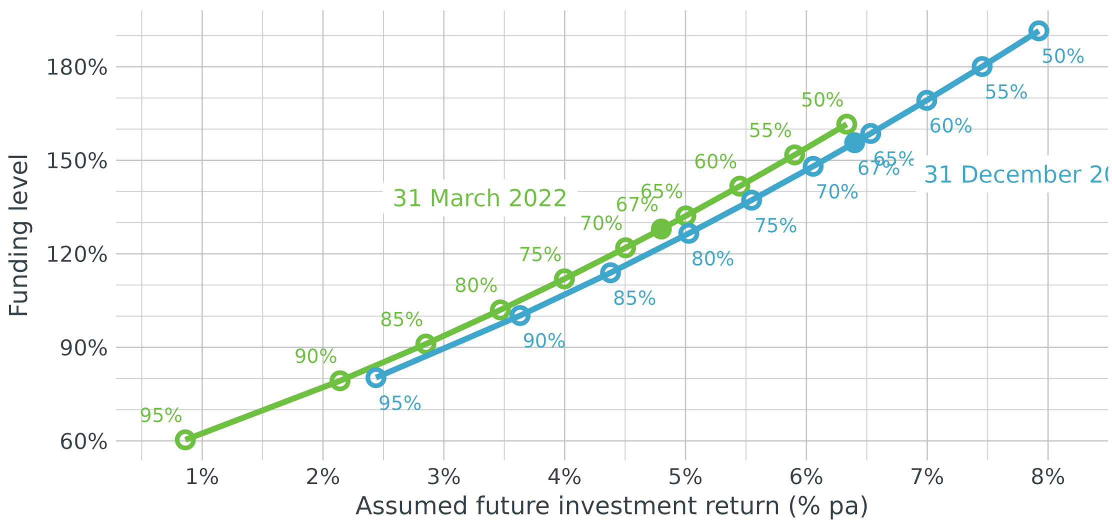
Please note that the asset value at 31 December 2023 shown in this report may differ to the actual asset value at that date because it is an estimate based on estimated cashflows (see section 3.2). However, the estimated value is consistent with the liabilities and therefore gives a more reliable estimate of the funding position than the actual asset value at the same date.

The table also shows what assumed investment return would be required at each date for the deficit to be exactly zero, along with the likelihood of the investment strategy achieving this return. An increase in this likelihood corresponds to an improvement in the funding position.

Monetary amounts in £bn	Ongoing basis	
	31 March 2022	31 December 2023
Assets	1.88	1.91
Liabilities		
– Active members	0.36	0.31
– Deferred pensioners	0.38	0.29
– Pensioners	0.73	0.63
Total liabilities	1.47	1.23
Surplus/(deficit)	0.41	0.68
Funding level	128%	156%
Required return assumption (% pa) for funding level to be 100%	3.4%	3.6%
Likelihood of assets achieving this return	81%	90%

1.2 Funding level range chart

The chart below shows how the funding level varies with the assumed rate of future investment returns, comparing the position at 31 March 2022 with the updated position at 31 December 2023 . The percentages next to each point show the likelihood of the investment strategy achieving that return (for further details see section 3.4). The solid coloured point indicates the assumed future investment return and funding level on the Ongoing basis.



1.3 Funding level progression

The chart below shows the estimated funding level (ratio of assets to liabilities) over time between 31 March 2022 and 31 December 2023. It allows for changes in market conditions and other factors described in Appendix A. If the fund has moved to a different basis since 31 March 2022 this may give rise to step changes in the funding level on the date of the change.

2 Next steps

2.1 Understanding the results

The results at 31 December 2023 in this report are estimates based on rolling forward the fund's funding position from 31 March 2022. You should understand the methodology and limitations of this approach described in appendices A and B.

Decisions should not be based solely on these results and your Hymans Robertson LLP consultant should be contacted to discuss any appropriate action before any is taken. Please also bear in mind that the information is estimated and consider other factors beyond the funding level or surplus/deficit. These could include, but are not limited to, changes to investment strategy, membership profile and covenant strength (where relevant).

Please get in touch with your usual Hymans Robertson contact if you wish to discuss the results in this report further.

3 Data and assumptions

3.1 Membership data

The membership data underlying the figures in this report was supplied by the fund for the purpose of the valuation at 31 March 2022 and is summarised below:

31 March 2022	Number	Average age	Accrued benefit (£k pa)	Payroll (£k pa)
Active members	3,930	53.5	24,900	148,947
Deferred pensioners	8,732	53.5	22,453	
Pensioners and dependants	6,517	69.4	48,427	

The membership is assumed to evolve over time in line with the demographic assumptions described in the Funding Strategy Statement. Please see Appendix A for details of the rollforward methodology which includes the estimated changes in membership data which have been allowed for.

3.2 Cashflows since the valuation at 31 March 2022

We have allowed for the following cashflows in estimating the assets and liabilities at 31 December 2023. Cashflows are assumed to be paid daily. Contributions are based on the estimated payroll, certified employer contributions (including any lump sum contributions) and the average employee contribution rate at 31 March 2022. Benefits paid are projections based on the membership at 31 March 2022.

Estimated cashflows (£k)	31 March 2022 to 31 December 2023
Employer contributions	48,435
Employee contributions	21,529
Benefits paid	107,985
Transfers in/(out)	0

3.3 Investment returns since the valuation at 31 March 2022

Investment returns are based on actual returns where available and index returns otherwise.

Investment strategy	Actual/index	From	To	Return
Whole fund	Actual	1 April 2022	31 December 2023	3.84%

The total investment return for the whole period is 3.84%.

3.4 Financial assumptions

The financial assumptions used to calculate the liabilities are detailed below. For further details please see the Funding Strategy Statement.

Assumption	31 March 2022	31 December 2023
Funding basis	Ongoing	Ongoing
Discount rate methodology	Expected returns on the Main Fund strategy over 20 years with a 67% likelihood	Expected returns on the Main Fund strategy over 20 years with a 67% likelihood
Discount rate (% pa)	4.8%	6.4%
Pension increase methodology	Expected CPI inflation over 20 years with a 50% likelihood	Expected CPI inflation over 20 years with a 50% likelihood
Pension increases (% pa)	2.7%	2.2%

Salary increases are assumed to be 1.0% pa above pension increases, plus an additional promotional salary scale.

3.5 Demographic assumptions

Demographic assumptions are set out in the Funding Strategy Statement. All demographic assumptions, including longevity assumptions, are the same as at the most recent valuation at 31 March 2022.

Life expectancies from age 65, based on the fund's membership data at 31 March 2022, are as follows. Non-pensioners are assumed to be aged 45 at that date.

	Ongoing basis	
Life expectancy from age 65 (years)	**Male**	**Female**
Pensioners	22.3	24.7
Non-pensioners	23.6	26.2

Appendix A - Technical information

A.1 Funding update methodology

The last formal valuation of the fund was carried out as at 31 March 2022. The results in this report are based on projecting the results of this valuation forward to 31 December 2023 using approximate methods. The rollforward allows for

- estimated cashflows over the period as described in section 3.2;
- investment returns over the period (estimated where appropriate) as described in section 3.3;
- changes in financial assumptions as described in section 3.4;
- estimated additional benefit accrual.

The CARE, deferred and pensioner liabilities at 31 December 2023 include a total adjustment of 11.4% to reflect the difference between actual September CPI inflation values (up to 30 September 2023) and the assumption made at 31 March 2022. The adjustment for each year's actual inflation is applied from 31 October that year, cumulative with prior years' adjustments, which may lead to step changes in the funding level progression chart.

In preparing the updated funding position at 31 December 2023 no allowance has been made for the effect of changes in the membership profile since 31 March 2022. The principal reason for this is that insufficient information is available to allow me to make any such adjustment. Significant membership movements, or any material difference between estimated inputs and actual ones, may affect the reliability of the results.The fund should consider whether any such factors mean that the rollforward approach may not be appropriate.

No allowance has been made for any early retirements or bulk transfers since 31 March 2022. There is also no allowance for any changes to Local Government Pension Scheme (LGPS) benefits except where noted in the formal valuation report or Funding Strategy Statement.

A.2 Sensitivity of results to assumptions

The results are particularly sensitive to the real discount rate assumption (the discount rate net of pension increases) and the assumptions made for future longevity.

If the real discount rate used to value the accrued liabilities was lower then the value placed on those liabilities would increase. For example, if the real discount rate at 31 December 2023 was 1.0% pa lower then the liabilities on the Ongoing basis at that date would increase by 17.2%.

In addition, the results are sensitive to unexpected changes in the rate of future longevity improvements. If life expectancies improve at a faster rate than allowed for in the assumptions then, again, a higher value would be placed on the liabilities. An increase in life expectancy of 1 year would increase the accrued liabilities by around 3-5%.

Appendix B - Reliances and limitations

The last formal valuation of the fund was carried out as at 31 March 2022 and these calculations rely upon the results of that valuation. The reliances and limitations that applied to that valuation apply equally to these results. The results of the valuation have been projected forward using approximate methods. The margin of error in these approximate methods increases as time goes by. The method may not be appropriate if there have been significant data changes since the previous formal valuation (for example redundancy exercises, significant unreduced early retirements, ill health retirements and bulk transfers). The methodology assumes that actual experience since the valuation at 31 March 2022 has been in line with our expectations.

The data used in this exercise is summarised in section 3. Data provided for the purposes of the formal valuation at 31 March 2022 was checked at the time for reasonableness and consistency with other sources. Data provided since then (eg actual investment returns) has been used as-is. The data is the responsibility of the Administering Authority and the results rely on the data.

The results in this schedule are based on calculations run on 29 January 2024 using the data set out in section 3. Any other factors coming to light after this report was prepared have not been allowed for and could affect the results. If any data has materially changed since 29 January 2024 the results could be materially different if they were recalculated.

Some financial assumptions may be based on projections from our Economic Scenario Service (ESS) model which is only calibrated at each monthend. Results between monthends use the latest available calibration, adjusted in line with the movement in market conditions. This adjustment is approximate and there may be step changes at monthend dates when a new ESS calibration is factored in.

The methodology underlying these calculations mean that the results should be treated as indicative only. The nature of the fund's investments means that the surplus or deficit identified in this report can vary significantly over short periods of time. This means that the results set out should not be taken as being applicable at any date other than the date shown.

As with all modelling, the results are dependent on the model itself, the calibration of the underlying model and the various approximations and estimations used. These processes involve an element of subjectivity and may be material depending on the context. No inferences should be drawn from these results other than those confirmed separately in writing by a consultant of Hymans Robertson LLP.

Decisions should not be based solely on these results and your Hymans Robertson LLP consultant should be contacted to discuss any appropriate action before any is taken. Hymans Robertson LLP accepts no liability if any decisions are based solely on these results or if any action is taken based solely on such results.

This report complies with the relevant Technical Actuarial Standards.

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Westminster City Council Pension Fund

Stewardship Report • 2024

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Introduction

The Stewardship Code is a set of principles released in 2010 and updated in 2020 by the Financial Reporting Council, directed at institutional investors who hold voting rights in United Kingdom companies. Its principal aim is to make shareholders, who manage other people's money, be active and engage in corporate governance in the interests of their beneficiaries.

The UK Stewardship Code 2020 sets high stewardship standards for asset owners and asset managers, and for service providers that support them. 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.

To become a signatory of the Code, applicants must submit a Stewardship Report to the FRC demonstrating how the principles of the Code have been applied during the previous 12 months. The FRC reviews applications to assess whether they meet its expected reporting standards, and successful organisations are listed as a signatory to the Code. Once accepted onto the signatories list, organisations must reapply annually.

The Stewardship Code requires asset owners and managers to comply with 12 principles, supported by detailed reporting including activities and outcomes. The 12 principles are listed as follows:

Principles for Asset Owners and Asset Managers

Category	Principle
Purpose and Governance	Principle 1 – Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
	Principle 2 – Signatories' governance, resources and incentives support stewardship.
	Principle 3 – Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.
	Principle 4 – Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.
	Principle 5 – Signatories review their policies, assure their processes and assess the effectiveness of their activities.
Investment approach	Principle 6 – Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.
	Principle 7 – Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.
	Principle 8 – Signatories monitor and hold to account managers and/or service providers.
Engagement	Principle 9 – Signatories engage with issuers to maintain or enhance the value of assets.

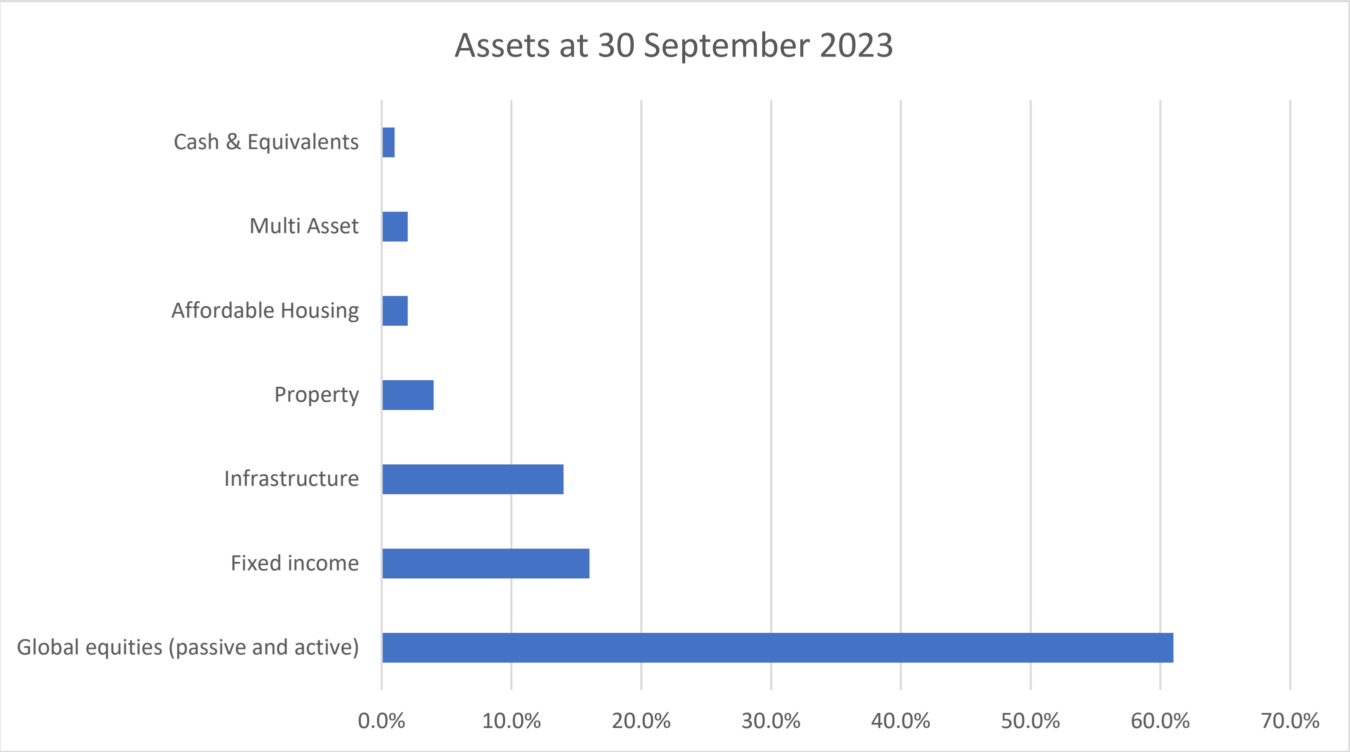
	Principle 10 – Signatories, where necessary, participate in collaborative engagement to influence issuers.
	Principle 11 – Signatories, where necessary, escalate stewardship activities to influence issuers.
Exercising rights and responsibilities	Principle 12 – Signatories actively exercise their rights and responsibilities.

About the City of Westminster Pension Fund

The Westminster Pension Fund is part of the national Local Government Pension Scheme (LGPS), administered by Westminster City Council. It is a contributory defined benefit pension scheme established under statute, which provides for the payment of benefits to employees and former employees of the Westminster City Council and the admitted and scheduled bodies in the Fund.

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and returns from the Fund's investments. Contribution rates for employees and employers are set by the Fund's actuary at the actuarial valuation which is carried out every three years. The most recent revaluation, carried out as at 31 March 2022, was used to set contribution rates with effect from 1 April 2023 through to April 2026. In the period from 2019 to 2022, the Pension Fund has increased its overall funding level from 99% to 128%. The main drivers for this improvement are the strong investment returns and significant additional deficit recovery payments received from the Council.

As at 30 September 2023, the market value of the Pension Fund was £1.795bn. The Fund invests in a diverse range of assets including; equities, property, infrastructure, affordable housing, fixed income and absolute return. The Fund's assets are managed by 14 individual fund managers who specialise in that asset class.



Principle 1: Purpose, Strategy & Culture

- **Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, environment, and society.**

The Westminster Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS), and its mission is to provide an efficient and equitable pensions solution for all employees, deferred members and pensioners of all eligible employers in Westminster, in accordance with the requirements of the current legislation for the LGPS. It is a contributory defined benefit pension scheme, established under statute, which provides for the payment of benefits to former and existing members.

To ensure future pension liabilities are met for our existing and future members, the Fund's primary objective is to create a sustainable Fund that delivers long term returns. The Fund uses an integrated approach that encompasses environmental, social and governance (ESG) factors, as the Fund believes this will provide the best opportunity to deliver on ESG requirements and return objectives, which are integral for the long-term sustainability of the Fund.

Underpinning the Pension Fund's vision and culture is the Council's strategy: Fairer Westminster. The Fairer Westminster strategy outlines five pillars, which guide the work of the City Council and the Pension Fund:

- Fairer Environment: the Council has pledged to become net zero by 2030, with the city net zero by 2040.
- Fairer Housing: provision of greener and more affordable housing, as well as reducing homelessness.
- Fairer Economy: supporting small business, alongside the world renowned Oxford Street and West End shopping outlets.
- Fairer Council: a more transparent decision-making process and integration of an ethical procurement model.
- Fairer Communities: reducing poverty and inequality across Westminster, providing excellent public health and social care services, and physical activity opportunities.

The strategy has ambitions to put residents at the heart of key decisions and build an inclusive and diverse culture and community within the city. The pillars can be aligned with the Pension Fund's investment strategy, with the Fund's commitment towards affordable and socially supported housing, investment in renewable energy infrastructure and transitioning assets into funds, which take account of social and environmental impacts.

The Fund promotes a strong sense of accountability and transparency across the organisation, especially with its beneficiaries. Operating under public sector regulations dictates that the Pension Fund must regularly respond to Freedom of Information (FoI) requests, which requires the Fund to act fairly and be held accountable for key decision making.

Alongside this, the Fund publishes an annual Responsible Investment Policy, ESG policy and Responsible Investment Statement, with the aim of promoting visibility and clarity of the Fund's investments, and to highlight the progress the Fund has made in terms of ESG factors, e.g., decarbonisation and the driving of further responsible investing. 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 and can pose reputational risk, which may adversely affect the scheme members, employers and local council taxpayers.

The Pension Fund has a commitment to being a responsible investor and a long-term steward of the assets in which it invests. Therefore, this requires a consistent approach and set of values to assist members in their decision making process. Members are bound by their overall fiduciary duty to act in the best interests of the beneficiaries, and this extends to making a positive contribution to the long-term sustainability of the global environment.

Within the Fund's Investment Strategy Statement (ISS), there is a commitment to investing to build a better future through the integration of ESG issues at all stages of the investment decision-making process. The Fund has key investment principles that embody the strategy and culture that the Fund desires to achieve. These include:

- Through active ownership, the 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 Fund recognises that significant value can be achieved through collaboration with other stakeholders. The Pension Fund works closely with its LGPS pooling company (the London CIV), other LGPS funds and member groups such as the Local Authority Pension Fund Forum (LAPFF) to ensure corporate interests are closely aligned with the Fund's values.
- The Pension Fund works to gain the confidence of its 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.

Westminster City Council has delegated the management of the Pension Fund to the Pension Fund Committee (the Committee) who decide on the investment policy most suitable to meet the future liabilities of the scheme and ultimate responsibility for the investment strategy lies with the Committee. The Committee has appointed Isio as its independent advisor on investment strategy and to oversee and scrutinise the activities of the investment managers.

As outlined in the Investment Strategy Statement (ISS), Westminster has created its own core set of investment beliefs alongside the investment principles that govern all investment decisions for the Fund. It is intended that these beliefs will help create alignment and consistency in the investment decision-making process, as well as embodying the thought process behind the evolution of the Fund and helping to improve stewardship and governance. The Fund has defined the following investment beliefs:

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 governance decisions.

c. The aim of the Fund's funding and investment strategies 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.

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.

e. Over the long term, the Fund believes that investments with negative externalities will perform worse than investments with positive externalities.

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 form a part of the Committee's decision-making process when making investment allocations.

e. If an investment manager fails to consider ESG issues, the Committee is prepared to disinvest assets from that manager.

f. The Fund's Responsible Investment Statement governs the approach to ESG in more detail.

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.

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.

f. The Fund manages currency risk through a sterling hedge overlay on its passive equity portfolio.

Activity

The Pension Fund Committee is made up of four elected members of the Council (three from the majority party and one minority party representative) who meet at least four times a year. All members have full voting rights. The Fund ensures effective stewardship through regular monitoring and reporting on the Fund's performance, including ESG outcomes. Quarterly Pension Fund committee meetings allow the committee to actively steward and protect the Fund's assets by assessing policies, performance and strategy.

The Pension Fund Committee's oversight role includes:

- Reviewing policies and strategies on an annual basis, such as our Responsible Investment Policy and Statement, Business Plan and outcomes report, Investment Strategy Statement and Pension Administration Strategy;
- Quarterly review of the risk registers to ensure that the Fund prioritises the key issues that impact the Pension Fund and how these can be mitigated in the best interests of members;
- Approving and selecting suitable asset strategies and investment managers to meet the required outcomes;
- Review and respond to national/local government consultations and changes to legislation and regulations; and
- Review quarterly performance reports as provided by the investment consultant and take action on any advice in regard to the asset managers.

All decisions taken by the committee should be made with full consideration of the Fund's approved policies including the RI Policy, RI Statement, Investment Strategy Statement, alongside the Fund's Investment Beliefs. Officers and the committee are committed to following the investment beliefs and strategies approved to govern the Fund in an effective manner.

As part of continuing good practice and due diligence, the Local Pension Board reviews all key decisions taken by the committee and assumes a governance oversight responsibility. The purpose of the Local Pension Board is to provide oversight and scrutiny of the committee. The Board comprises six members: three from the Council representing employers and three employee representatives. The Chair is elected by the Board. The Pension Board, where necessary, will recommend strategy amendments and action to improve governance of the Fund and ensure effective stewardship of the Fund. The Board has representatives from both the employers and scheme members to further beneficiaries' views and the governance process.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a collection of 86 local authority pension funds and seven asset pooling companies, with assets under management of over £350bn, promoting the highest standard of governance with the aim of protecting the long-term value of LGPS pension funds. The LAPFF engages directly with companies, on behalf of all asset owners and pension fund trustee members, on issues such as executive pay, reliable accounting and a transition to a net carbon zero economy. The Fund actively contributes to the engagement efforts of pressure groups and requires investment managers to vote in accordance with the LAPPF's governance policies.

As a member of the London CIV (LCIV) pooling company, it is expected that the LCIV will uphold our commitment to long-term value for clients and beneficiaries through sustainable benefits for the economy, the environment and society. Within their Stewardship Policy, the London CIV outlines its key objectives, as follows:

1. London CIV will review ESG priorities on an annual basis and update its Stewardship Policy accordingly.

2. LCIV will engage with the top ten contributors of their global greenhouse gas emissions footprint as part of their climate change risk mitigation strategy.

3. London CIV will set a minimum criterion for diversity standards and engage with the top ten highest risk holdings on diversity and inclusion.

The integrated approach taken by the Fund, as outlined above, as well as the active membership undertaken in the London CIV and LAPFF have guided investment decisions with greater focus on ESG outcomes integral to the long-term sustainability of the Fund.

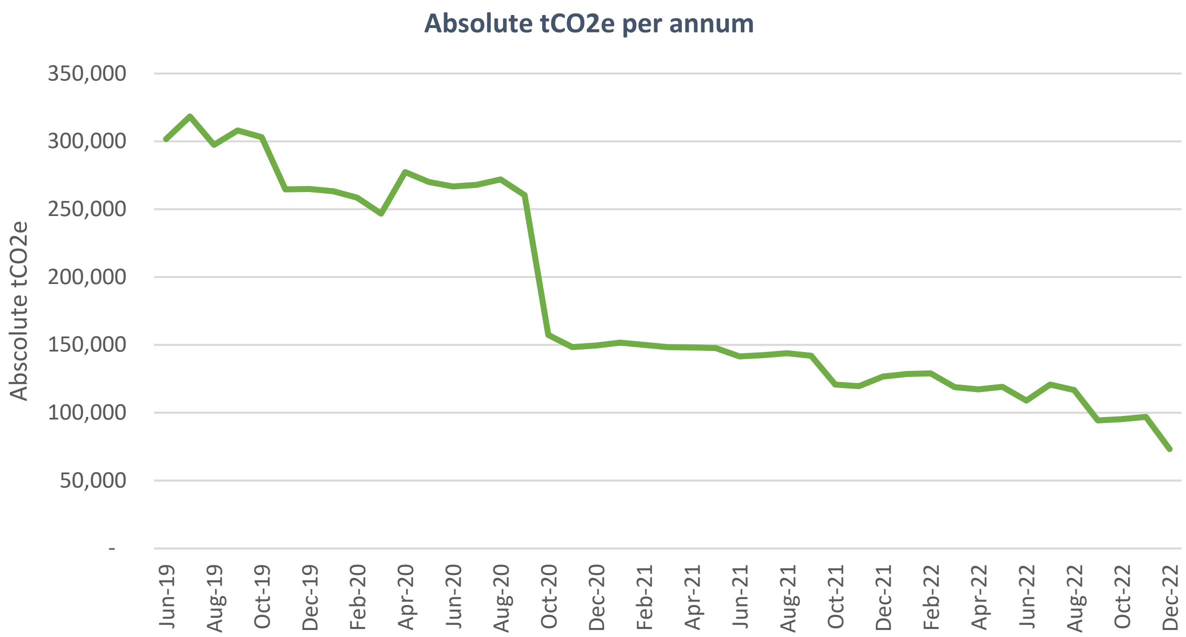
Outcome

The committee approves the Investment Strategy Statement, Responsible Investment Statement, and the Annual Accounts of the Pension Fund, on an annual basis. All key policies and strategies are reviewed on a regular basis to ensure that the Fund is in the best position to oversee the long-term interests of the beneficiaries and ensure best practice is being implemented. As shown in Westminster's most recent strategy statements published by the Fund, and ratified by the committee and board, there is a shared view across Westminster that ESG factors will be integral to the long-term sustainability of the Fund and future returns.

As a result, ESG factors are having an increasing impact on investment decisions and the Fund is committed to being a responsible investor and a long-term steward of the assets in which it invests. There is a consistent approach and set of values to assist members in the making of investment decisions on the Fund. Members are bound by their fiduciary duty to act in the best interests of the beneficiaries, and this extends to making a positive contribution to the long-term sustainability of the global environment.

As detailed within the 2023 Responsible Investment Statement, the Fund tracks the carbon impact of the Fund's investments, as well as the carbon reduction that the Fund has achieved over time. The weighted average carbon to value invested of the Fund has fallen by circa 80% since June 2019.

The following chart plots the absolute tonnes of CO2 emissions of the Fund from 30 June 2019 to 31 December 2022. It is estimated that the Fund has reduced its CO2 emissions by circa 76% over this period. The Greenhouse Gas (GHG) emissions of the Pension Fund are reported in tonnes of CO2 (tCO2e).



The Fund committed 6% (circa £110m) to renewable energy infrastructure during 2021, with Macquarie and Quinbrook each selected to manage a 3% allocation. During 2023, the Pension Fund committed an additional 5% to renewable infrastructure to take the total allocation to 11%. As at 30 September 2023, the Fund had approximately c.£149m of capital drawn down, with assets targeted to solar power, onshore and offshore wind, alongside supporting infrastructure such as battery storage and connection assets. It is estimated that, once fully drawn, these assets will offset 46,000 tonnes of CO2 per annum for Westminster's allocation, and power up to circa 21,000 homes annually.

During 2023, the Pension Fund allocated 2.5% to the London CIV UK Housing Fund, with a total allocation to affordable housing at 5%. The allocation has a long-term goal of providing 13,000 new homes that cost no more than 35% of an average household's gross income and across sectors, including children's services housing, specialised supported housing and older person supported housing within the supported living market.

In addition to this, during late 2022 the Pension Fund Committee elected to transition the Pension Fund's holdings in the Baillie Gifford Global Alpha Growth mandate into the BG Paris Aligned version. The Paris Aligned Fund has a quantitative assessment process to screen out companies with particular levels of exposure to the fossil fuels industry, plus a qualitative one to screen out companies that will not play a role in the future transition to a low carbon environment.

This approach therefore demonstrates that the Fund's investment decisions are not solely driven by investment returns, but by the Fund's existing and future members interests. In recent years, members have expressed a greater desire for responsible investment. Alongside this, the Fund's belief that investment in sustainable benefits for the economy and environment has shown significant progress with a significant reduction in carbon emissions.

The Pension Fund's objectives in the coming years will increase commitment to sustainability of the Fund, as further drawdowns are made within the renewable energy infrastructure mandates. Although, the Fund is committed to reducing its impact on climate change, the Fund believes that blanket disinvestment from fossil fuel companies is not the most appropriate action to allow a transition to a low carbon economy. The Pension Fund continues to be transparent with members by publishing annual carbon footprint data of our investments, which illustrates a steady reduction since July 2019.

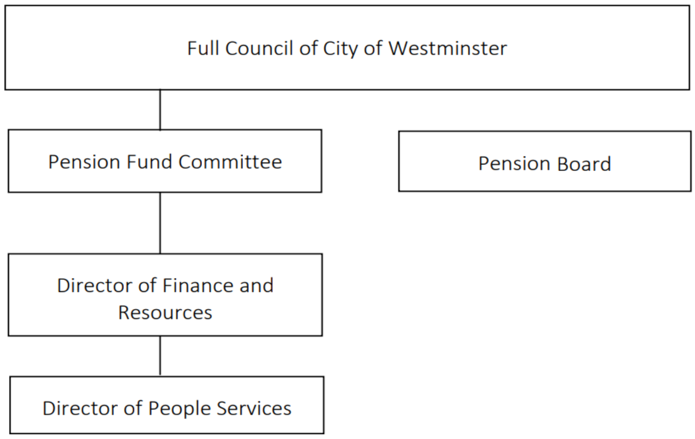
Principle 2: Governance, resources & incentives

- **Signatories' governance, resources, and incentives support stewardship**

<u>Context</u>

The Fund promotes strong governance to fulfil its duties of stewardship and to safeguard its assets for our members. Westminster City Council has delegated responsibility for pension matters to the committee.

The governance structure of the Pension Fund is shown below.



The committee is responsible for the governance and management of the Fund. The Committee oversees the appointment and ongoing scrutiny of external investment managers, to whom the day-to-day responsibility for implementing stewardship is delegated. The committee is made up of four elected members of the Council, all members have full voting rights. The Fund's performance is reported on a quarterly basis to ensure that the Committee is in a strong position to act quickly within the economic/investment climate at that time.

The purpose of the Pension Board is to provide oversight and scrutiny for the committee. The Board does not have a decision-making role in relation to the governance and management of the Fund but is able to make recommendations to the committee. The board is independent and separate from the committee to facilitate good governance for the Fund and to enable greater scrutiny and effective stewardship for its members.

The Executive Director of Finance and Resources and its officers provide advice and support to the committee and ensure the implementation of the asset strategy and the day-to day management of the Pension Fund. The Tri-Borough Treasury and Pensions team at Westminster employs 12 staff, led by the Tri-Borough Director of Treasury and Pensions. The team serves the Pension Fund Committee and works on all issues of governance, finance and investment. The Tri-Borough Director has over 26+ years' of LGPS experience, with the Strategic Investment Manager holding 18 years' experience to complement the rest of the team. The team consists of qualified public sector accountants with numerous years of experience working in local government. The majority of the team has been recruited from the Finance Sector and has longstanding pension expertise.

By having this experienced governance structure in place, the Fund can fulfil its duties of safeguarding the assets of the Fund. Within the Annual Report, the Fund outlines in detail all the policies that govern the Pension Fund. The policies are reviewed regularly including:

- Governance Compliance Statement
- Communication Policy
- Funding Strategy Statement
- Investment Strategy Statement
- Responsible Investment Statement
- Pensions Administration Strategy

The governance policies act as a singular point for members to understand how the decision making process takes place within the Fund. The Pension Fund believe that the Committee and Board, alongside the wealth of knowledge from elected members and advisors, allow consistent and correct decisions to be made for the long-term sustainability of the Fund.

Activity

The Fund views active engagement as an essential activity in ensuring long-term value and encourages investment managers to consider assessing a wide range of assets. Officers engage with the investment managers on an ongoing basis to monitor investment performance, including ESG factors and considerations. Officers implement the Fund's active approach through:

- regular meetings with investment managers to assess investment performance and the progress made towards achieving ESG targets;
- reviewing reports issued by investment managers and challenging performance where appropriate;
- working with investment managers to establish appropriate ESG reporting and disclosures in line with the Pension Fund's objectives;
- contributing to various working groups that seek to positively influence the reporting of industry standards on ESG metrics; and
- actively contributing to the efforts of engagement groups such as the LAPFF.

All monitoring activity is reported back to the committee on a quarterly basis for review and comment.

Through the committee and officers and advisors, there is sufficient resource and capacity to monitor and support stewardship activities. The Fund has appointed an external independent consultant, Isio, to provide expertise to assist the committee in investment decisions. The external advisor is reviewed on an annual basis, as per the requirements of the Competition and Markets Authority (CMA), to ensure the highest quality service and advice is being given to the committee. During 2023, the Fund will review the objectives set against the investment consultant, to ensure they remain appropriate and fit for purpose.

The committee and board provide a wide ranging variety of backgrounds and experience, with diversity present among our committee and board key to offering different perspectives and to ensure that decisions are in the best interests for all. For compliance, all key stakeholders are afforded the opportunity to be represented within the main or secondary Committee structure. These include:

- employing authorities (including non-scheme employers, e.g., admitted bodies);
- scheme members (including deferred members and pensioner scheme members);
- where appropriate, independent professional observers; and
- expert advisors (on an ad hoc basis).

Representatives of the employers and scheme members are board members, rather than members of the committee.

To ensure that the members of the committee and board have the required knowledge and skills to fulfil their role, they undertake an annual training programme based on requirements identified from CIPFA's Knowledge and Skills framework. This includes training on responsible investment, risk management, ESG factors, climate change and risk. Officers arrange at least three training sessions a year for committee and board members. Such training ensures that the committee and board are well informed in order to make careful and precise decisions for the continued success of the Fund. The committee and board have most recently received training from external investment managers, Hymans Robertson, economic experts and Isio.

Officers are also required to be sufficiently experienced and qualified to advise and to manage day-to-day management of the Fund. Therefore, staff are encouraged to be CIPFA qualified, alongside any further investment qualifications to improve the team's performance and support the committee. Moreover, officers regularly attend training events and conferences to maintain their continuing professional development (CPD) requirements.

Westminster has its own diversity and inclusion group. Officers and the Committee are urged to consider diversity and inclusion at all times. The Council's initiative is to maintain a force for equality and diversity and this requires due diligence be undertaken with our service providers and investment managers. Such encouragement results in firmer and far reaching policies to be put in place to protect the diversity and inclusion values that the Fund strives to protect. This is evident within the diversity within the Treasury and Pensions Team and across the Council. This achievement is reflected within in the publication of the Council's Workforce profile 2023. The 2023 gender profile across the Westminster officers demonstrates that female representation is higher than the Westminster and London populations, which account for 49% and 51% respectively. There has also been a positive trend in ethnic diversity since 2018, over half (51%) of the workforce identified as either White British, White Other, White Eastern European or White Irish and 41% of people identified as Global Majority.

The Council has committed to closing the pay gap by 2025 and launched a 'closing the gap' event during 2023, as a space for staff to find out what work has been going on, next steps, how they can get involved, and offer feedback through the open Q&A sessions. Alongside this, at Westminster City Council, we have adopted the London Councils' anti-racist statement. Westminster is committed to achieving racial equality because we recognise that persistent racial inequalities are unacceptable and adversely affect everyone.

Throughout the year, the Council promoted a number of events to promote diversity and inclusion within the Council. These included Pride Month, Black History Month, South Asian Heritage Month, National Windrush Day, Eid celebrations, Men's Health Week, Easter Weekend, Stress Awareness Month, Women's History Month and International Women's Day.

The Council also hosted a number of training sessions for staff covering the following topics: leading an anti-racist organisation, parental leave coaching and cost of living advice.

The Fund appoints investment managers to invest on its behalf. The Fund integrates the process of stewardship and investment decision making through setting the investment strategy, manager appointment process and setting of the asset allocation.

The implementation of investment principles, beliefs and strategies is key for the integration of stewardship internally to ensure that the committee, board, officers and its advisors are aligned. This enables the Fund's governance structure to be utilised to assess the best interests for the Fund and to act quickly if these expectations are not met.

Outcome

The governance structure has supported effective stewardship by having a separate independent body of oversight from the decision making functions of the committee. This is reflected in the recommendations and advice from board to the committee, which ensure improved Fund governance.

The board has been a driving force of improvement within the pensions administration service, regularly inviting the administrator to the board meetings, as well as regular engagement regarding various admin issues. This has seen the Fund switch to a new pensions administrator, where outcomes have drastically improved and KPIs are consistently achieved. Alongside this, the committee and board receive training together, which allows a forum for free following communication and differing views to be enabled.

The Fund acknowledges improvements are still needed on the measurement of ESG performance and reporting to improve the analysis and decisions made to improve responsible investment. Officers are working on improving metrics to help assist with the implementation of the expected TCFD financial disclosures implementation. With assistance from the Fund's investment advisor, the Fund has outlined initial climate risks for the Fund and explored how these can be measured and reduced. The Fund has made great strides in the current TCFD reporting process, with carbon reporting, renewable impact measurements, voting and engagement statistics and case studies found within the latest Responsible Investment Statement. However, this work is dependent on the release of the governance guidance, expected later this year.

The committee incentives stewardship in performance management, as stated above, in the appointment process of investment managers. In the Fund's Responsible Investment policy, the committee assesses the investment managers' abilities to integrate ESG factors into their investment selection processes. These include:

- evidence of a Responsible Investment policy;
- evidence of ESG integration in the investment process;
- evidence of sign-up to the relevant responsible investment frameworks such as the United Nations Principles for Responsible Investment (PRI);
- evidence of compliance with the Stewardship Code as published by the Financial Reporting Council (FRC);
- a track record of actively engaging with global companies and stakeholders to influence best practice; and

- an ability to appropriately disclose, measure and report on the overall impact of ESG decisions made.

Once appointed, the Fund incentivises managers to align the work they do for the Fund with the Fund's requirements and expectations in relation to stewardship through regular monitoring and evaluation of performance and engagement. If an investment manager fails to adequately consider ESG issues, the Committee is prepared to divest assets from that manager. This is evident in the investment decisions taken by the committee over the previous year, with active decisions taken to divest from a core property fund with the intention of investing within affordable and socially supported housing.

During 2023, the Committee took a number of decisions for the Pension Fund, including rebalancing the overweight and underweight allocations, de-risking by transitioning 5% from active equities into renewable infrastructure and appointing the London CIV as the new affordable housing manager.

Principle 3: Conflicts of interest

- **Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.**

Context

The Fund's approach to conflicts of interest in relation to stewardship forms part of the Fund's Investment Strategy Statement (ISS).

Conflicts of interest in relation to responsible investment and stewardship could arise when the ability to represent the interests of the Fund as a shareholder is hindered by other interests. These conflicts can arise within the Fund or within external service providers. Third party advisors and investment managers may perform roles other than which they are employed for and to that extent conflicts may arise. The Fund expects the investment managers and advisors it employs to have effective policies addressing potential conflicts of interest, and for these to be publicly available. These are discussed prior to the appointment of a manager/advisor and reviewed as part of the standard monitoring process.

The Fund's policy for elected members is to follow the Code of Conduct should any conflicts of interest be addressed.

Our Policy is set out below:

1. All members and officers make annual declarations of interest. Advisers also register their interests.
2. The register of interests is kept up-to-date and, within 28 days of becoming aware of any new interest, or of any change to a registered interest, a member/officer must notify the Monitoring Officer. On every agenda, there is an 'declaration of interest' for elected members to register disclosable pecuniary interests and to make declarations of interest prior to meetings which are documented in the minutes of each meeting.
3. Should elected members have a conflict of interest in Council business, they should withdraw from the room or chamber when the matter is discussed and decided in committee, unless dispensation has been obtained from the Council's Monitoring Officer.

Activity

The Pension Fund is governed by elected members acting as quasi trustees and the Code of Conduct for elected members sets out how any conflicts of interests should be addressed. The Code also contains rules about "disclosable pecuniary interests" and sets out the action an elected member must take when they have such an interests reference Council business, for example, withdrawing from the Committee room or chamber when the matter is discussed and decided in Committee. The Code also requires elected members to register disclosable pecuniary interests and to make declarations of interest prior to meetings which are documented in the minutes of each meeting.

Within the Pension Fund Annual Report and Accounts, the Fund discloses any interests in relation to the committee and senior management as part of the related parties notes. Declaration forms are distributed and completed for both management and Councillors, and the Fund can report there were no such conflicting interests disclosed at 31 March 2023.

Outcome

The Fund's approach to managing conflicts of interest has always operated as intended. On every agenda there is an 'declaration of interest' for elected members to register disclosable pecuniary interests and to make declarations of interest prior to meetings which are documented in the minutes of each meeting. At the Committee meeting on the 29 June 2023, a member of the Pension Fund Committee declared an interest in a potential asset manager and recused themselves from those manager selection discussions. The Councillor was not present for this agenda item discussion, and the remaining Councillors agreed on a manager appointment in their absence. This instance is clearly documented within the Pension Fund Committee meeting minutes.

As stated in Principle 2, the Fund make efforts at all levels to ensure that there is an alignment in the principles and objectives through the Fund's governance structure and the appointment process of managers. This ensures that they follow the Pension Fund's values and beliefs, in particular, relating to ESG outcomes that are evaluated in this process. This is a key implementation to ensure that conflicts of interests are minimised or completely mitigated in order to ensure that the best interests of beneficiaries are maintained.

The Fund's committee and officers monitor and evaluate investment manager performance on a quarterly basis: this includes activities of stewardship. Engagement is key with our managers and for concerns to be raised and managed effectively. If an investment manager fails to adequately consider ESG issues, the Committee is prepared to divest assets from that manager as part of the Council's wider commitment to net zero by 2030.

As a result of the Fund's commitment to ESG factors and climate change, the Fund transitioned its London CIV (LCIV) UK Equity allocation and Legal & General (LGIM) Global Passive Equities into the LCIV Global Sustain Fund and LGIM Future World Fund. The Global Sustain Fund seeks to provide a concentrated, high-quality global portfolio of companies, excluding tobacco, alcohol, gambling, weapons, fossil fuels, and gas or electrical utilities. The LGIM Future World Fund tracks the LGIM ESG Global Markets Index, whereby an ESG screening of companies takes place to remove those companies which do not meet the required ESG criteria. This demonstrates that committee is able to act effectively if managers are not performing in the best interests of the Fund for its beneficiaries, through use of policies and governance processes.

During late 2022, the Committee elected to transition the Fund's holdings within the London CIV Baillie Gifford Global Alpha Equity strategy into the Baillie Gifford Paris Aligned version. This has a quantitative assessment process to screen out companies with particular levels of exposure to the fossil fuels industry, plus a qualitative one to screen out companies that will not play a role in the future transition to a low carbon environment.

The Fund's Pool Company, London CIV, maintains a Conflicts of Interests policy, which outlines the circumstances in which a conflict of interest may arise and the procedures to identify, avoid, manage and disclose any conflicts. Conflicts of interest do not occur frequently at the London CIV, however the LCIV Board does have Non-Executive Directors (NEDs) who also work for investment managers. Therefore, there is potential for conflict of interest. The London CIV manages this through an Outside Business Register and procedures for specific decisions, which includes declarations of interests at meetings.

Principle 4: Promoting well-functioning markets

- **Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.**

<u>Activity</u>

The Fund's primary long-term risk is that its assets fall short of its liabilities, such that there are insufficient funds to pay the promised benefits to members. The investment objectives have been set with the aim of maximising investment returns over the long term within specified risk tolerances. This aims to optimise the likelihood that the promises made regarding members' pensions and other benefits will be fulfilled.

Therefore, the Pension Fund needs to ensure that the risks to its investments are effectively managed given ESG factors are fundamental considerations in driving the long-term value of our investment portfolio.

The Fund acknowledges the risks involved in any investment and risk appetite the Pension Fund wishes to maintain. For this basis, the committee meets regularly to ensure the Fund can act efficiently when necessary to market movements to safeguards its assets with the advice of the investment consultant.

Responsibility for the Fund's risk management strategy rests with the committee and is scrutinised by the board. Under the Fund's Investment Strategy Statement, the Committee recognises the wide-ranging risks that are posed to the Fund, among which are:

- **<u>Geopolitical and currency risks</u>**

To mitigate market risk, the Committee and its investment advisors undertake regular monitoring of market conditions and benchmark analysis. The 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.

Silicon Valley Bank (SVB), a US bank, collapsed on 10 March 2023, following losses arising from the rise in interest rates and the major downturn in growth of the US technology industry. The Pension Fund had direct exposure through its Legal & General passive equity mandate. This totalled 0.03% of the equity fund's value, with the asset manager subsequently writing the position down to zero value. Following this, Signature Bank, another US bank, was shut down on 12 March 2023, following large customer withdrawals off the back of the SVB collapse. Baillie Gifford had an exposure of 0.42% to Signature Bank, again valued to zero, and the position sold. Therefore, there is no expected impact on the market values as reported at 31 March 2023.

Overseas equities, fixed interest securities and futures, cash in foreign currencies, forward foreign exchange contracts and some elements of the pooled investment vehicles are exposed to currency risk. The Fund aims to mitigate currency risk through the use of hedging, which is applied to the LGIM equities mandate. The Committee recognises that a strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

- **Manager risk**

The Fund measures manager risk 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.

- **Solvency and mismatching risk**

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

- **Liquidity risk**

The Committee monitors cash flows on a quarterly basis and takes steps to ensure that there are adequate cash resources to meet its commitments. The Fund has immediate access to its cash holdings. The Fund defines liquid assets as assets that can be converted to cash within three months, subject to normal market conditions. As at 31 March 2023, liquid assets were £1,480m representing 83% of total fund assets (£1,648m at 31 March 2022 representing 89% of the Fund at that date). The majority of these investments can in fact be liquidated within a matter of days.

- **Custodial risk**

This 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.

- **Market-wide and Systemic risks**

The Pension Fund has a well-diversified portfolio of assets, broken down as follows:

- Equities: 55%
- Fixed Income: 19%
- Global and Renewable Infrastructure: 16%
- Affordable Housing: 5%
- Long Lease Property: 5%

This high level of diversification offers the Fund protection against market movements and the risk inherent within the financial markets, with negative correlations evident between many of the Fund’s asset classes. Alongside this, portfolio rebalancing is considered on a regular basis by the Pension Fund Committee, and the asset allocation is reviewed following each triennial valuation. As part of the asset allocation review, the Committee considers the level of volatility, value at risk and expected returns when determining a new asset strategy. The investment advisor, Isio, provides market updates to the Pension Fund Committee on a quarterly basis and this will cover any significant market events.

- **Share and derivative price risk**

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities represent a risk of loss of capital. The maximum risk resulting from financial instruments (with the exception of derivatives where the risk is currency related) is determined by the fair value of the financial instruments. The Fund's investment managers aim to mitigate this price risk through diversification and the selection of securities and other financial instruments.

The Fund's foremost mitigation against market-wide and systemic risk is a well-diversified investment strategy. Therefore, it is important the Committee receives the appropriate training and commissions the best advice to be able to select from and monitor a wide variety of investments. The Pension Fund commissions investment consultancy advice for its strategic asset allocation and, as a point of escalation, if it has any concern over the performance of an asset class or any its investment managers.

The Fund's approach to diversification has resulted in the Fund classifying its assets into four broad categories: global equities, fixed Income, property, and alternative investments. It is important to note that each category is itself well diversified. The size of the allocation within each asset category will vary depending on the investment conditions. The committee is of the view that the diversification of the Fund's assets should be sufficiently broad to ensure that the investment risk is low and will continue to be low.

It is important the committee receives the most appropriate training and commissions the best advice to be able to monitor a wide variety of investments. The Fund commissions investment consultancy advice for its strategic asset allocation and, as a point of escalation, if it has any concern over the performance of an asset class or any its investment managers.

To help mitigate future risks, the Committee uses an external investment advisor to monitor asset volatility. When reviewing the investment strategy on a quarterly basis, the committee considers advice from its 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.

Outcome

In order to identify and respond to market wide and systemic risk, the Fund uses a risk register that is reviewed quarterly. The Fund's approach to identify the type, the trend and to score the risk to allow the committee to make decisive decisions on current risks to the Pension Fund. As seen in the most recently published risk register, risks identified have been reduced through planned actions. The risk objective areas of risk have been updated to reflect the CIPFA risk classifications. The Risk Register is managed by the Tri-Borough Director of Treasury and Pensions.

Appendix 2 - Risk Register Governance.pdf (westminster.gov.uk)

For example, during 2023 the investment consultant undertook an asset allocation review, following the large increase in funding level to 128%. The committee has agreed to rebalance the allocation of the Fund to hedge against certain types of risk including systematic and market-wide risks. These include:

- De-risking: transitioning 5% from global equities into the Quinbrook Renewable Infrastructure Fund. This has potential to reduce the Value at Risk (VaR) by £11m and reduce volatility from 12.0% p.a. to 11.3% p.a.
- Rebalancing: rebalancing the overweight and underweight allocations within the equity mandates, Multi Asset Credit fund and Insight Buy and Maintain Bond fund. Any excess cash to be held for the purpose of illiquid fund draw down requests.
- Cash management: continuing to use cash held within temporary investments (Northern Trust Short Duration Bonds and London CIV Absolute Return) to fund

capital calls for illiquid mandates. Additionally, continuing to fund the CVC Credit private debt drawdowns from the Insight Buy and Maintain Bond fund.

- Affordable and socially supported housing: allocating 2.5% to the London CIV UK Housing Fund, which focuses on affordable housing.

The Council has outsourced the following functions of the Pension Fund:

- Investment management;
- Custodianship of assets;
- Pensions administration.

As these functions are outsourced, the Fund is exposed to third party risk. A range of investment managers are used to diversify manager risk. To mitigate the risks regarding investment management and custodianship of assets, the Fund obtains independent internal controls assurance reports from the reporting accountants to the relevant service providers. These independent reports are prepared in accordance with international standards. Any weaknesses in internal control highlighted by the controls assurance reports are reviewed and reported as necessary to the committee. The Council's internal audit service undertakes planned programmes of audits of all the Councils' financial systems on a phased basis, all payments and income/contributions are covered by this process as and when the internal audits take place.

The results of these internal control reviews are summarised below and cover 100% of investment holdings at 31 March 2023.

Fund manager	Type of assurance	Control framework	Compliance with controls	Reporting accountant
Abrdn	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Baillie Gifford (LCIV	ISAE3402	Reasonable assurance	Reasonable assurance	PwC LLP
CQS (LCIV)	ISAE3402	Reasonable assurance	Reasonable assurance	Deloitte
Man Group	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Insight	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
LGIM	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
PIMCO (LCIV)	ISAE3402	Reasonable assurance	Reasonable assurance	PwC LLP
Macquarie	ISAE3402	Reasonable assurance	Reasonable assurance	PwC LLP
Morgan Stanley (LCIV)	ISAE3402	Reasonable assurance	Reasonable assurance	Deloitte
Pantheon Ventures	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Quinbrook	ISAE3402	Reasonable assurance	Reasonable assurance	BDO LLP
Ruffer (LCIV)	ISAE3402	Reasonable assurance	Reasonable assurance	EY LLP

CVC Credit	ISAE3402	Reasonable assurance	Reasonable assurance	Deloitte
Custodian				
Northern Trust	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP

Within the Annual Report, the Fund discloses the performance of the Fund and asset allocation against the LGPS average as part of the Pensions and Investments Research Consultants (PIRC) statistics. This analysis helps to derive how the Fund is performing in the overall LGPS environment and the risk/return level achieved by the Pension Fund.

At the forefront of the Fund's values is to promote a well-functioning market and to drive for greater stewardship with stakeholders. The Fund has taken this step by being involved in many initiatives which address corporate governance, stewardship and climate change risks. These include:

- **Local Authority Pension Fund Forum**

The Local Authority Pension Fund Forum is a collection of 84 local authority pension funds and seven asset pooling companies, with assets under management of over £350bn, promoting the highest standard of governance with the aim of protecting the long-term value of pension funds. The LAPFF engage directly with companies, on behalf of all asset owners and pension fund trustee members, on issues such as executive pay, reliable accounting and a transition to a net carbon zero economy.

The LAPFF produce quarterly engagement reports, covering all ESG related issues from climate change, governance, human rights and cyber security.

Over the quarter to 30 September 2022, the LAPFF engaged with 35 companies, including BHP, Apple and the Royal Mail. During early September 2022, LAPFF Chairman, Doug McMurdo, spent three weeks in Brazil following the tailing dam collapses in Mariana and Brumadinho. This trip formed part of the LAPFF's work on human rights and mining.

During the trip, the Chair met with communities affected by the collapse and met with company executives from Vale, which own the Mariana dam. Air quality, water quality and availability of housing in resettlements remain major concerns for communities and LAPFF will continue to engage on these areas.

- **Pensions and Lifetime Savings Association**

The Fund is a member of the PLSA, who aims to raise industry standards, share best practice and support members. The Tri-Borough Director is a member of the PLSA Local Authority Committee. The PLSA works across a range of stakeholders including governments, regulators and parliament to help the implementation of sustainable policies and regulation. They represent pension schemes providing retirement income to more than 30m savers, with assets under management totalling £1.3tn, including those in the public and private sectors. The PLSA provides an important source for training, support and guidance on regulations and pension support services.

During October 2022, the PLSA published its response to two consultations with a view to new standards being adopted globally, requiring companies to report on sustainability. The PLSA welcomed the introduction of these standards, with the need for long-term targets for maturing schemes. The PLSA however reflected their concerns that the framework forces a standardised approach, which does not reflect the wide range of defined benefit (DB) schemes and should allow for a more flexible approach. PLSA noted that the proposals lacked a clear and measurable objective, with further concerns around the cost of implementation for smaller/mature schemes.

- **ShareAction**

ShareAction is a registered charity who promotes responsible investment, working with investors to help influence how companies operate their business on a range of Environmental, Social and Governance (ESG) factors. This includes areas such as climate change, gender diversity, living wages, decarbonisation, biomass and healthy markets.

Since 2019, ShareAction has been working on a Healthy Markets coalition group. The Healthy Market Initiative aims to make food retailers and manufactures take accountability for their role and impact on people's diets. The City of Westminster is a member of the Healthy Markets coalition and along with other members, represents over $2 trillion in assets under management.

As per ShareAction research, 1/3 children and 2/3 adults are classified as overweight or obese, with over one million hospitalisations during 2019/20 linked to obesity. During 2022, ShareAction filed a resolution with Unilever, asking the company to commit to a long-term nutrition strategy and disclosure metrics on their proportion of sales related to healthy products. Following this, Unilever have set a new benchmark within the industry, disclosing the healthiness of sales against the government model and their own internal model. They have also set an ambitious target to double the sale of healthy products by 2030.

Principle 5: Review and assurance

- **Signatories review their policies, assure their processes, and assess the effectiveness of their activities**

Activity

The committee is required to regularly review policies and processes to enable the Fund to have the best practices and to safeguard the assets of the Fund.

Good governance dictates the annual review of the ISS and Investment Beliefs, involving the scrutiny of investment governance, ESG factors, asset allocation and investment management strategies. The Committee agreed a set of core investment beliefs that governs all investment decisions for the Fund and envisioned that these beliefs would help create alignment and consistency when making investment decisions. In addition, to explaining the thought process behind the evolution of the Fund and improving the stewardship of the Fund.

In the risk register, the Fund has ‘regulatory’ and ‘compliance’ risks included. This ensures that the committee has oversight of any governance issues and is able to manage these accordingly to provide effective stewardship.

As part of the investment strategy review during 2023, the Committee recommended changes to the investment strategy to adapt to the changing economic environment. During the latest review, one such recommendation was to reduce the Fund’s exposure to equities: this follows the 2022 triennial valuation where the funding level increased to 128%. Following training sessions and discussions with the investment consultant, the Committee agreed a further 5% reduction in the equity allocation, to be used to finance a 5% holding in renewable energy infrastructure, as reflected in the Fund’s ESG Investment approach. For more information, please see the outcome of Principle 4.

In addition, the committee has undertaken numerous reviews, one of which was the recent review of the performance of the Fund’s investment consultant. A set of consultant objectives was drawn up for the Pension Fund investment consultant, Isio, and approved by committee on 23 October 2019. After conducting an extensive review into the pension fund consultancy and fiduciary management industry, the CMA produced a report, detailing a number of recommendations to improve pension fund governance, with a number of concerns expressed around fees and conflicts of interest.

In line with best practice, the committee has overseen the performance of the investment consultant against the objectives set. This will be reviewed on an annual basis and the objectives updated at least every three years or when there has been a material change in investment approach. Each objective is assessed individually and assigned a rating as follows: Excellent, Good, Satisfactory and Unsatisfactory. During 2023, the Fund will review the objectives set against the investment consultant, to ensure they remain appropriate and fit for purpose.

The Fund acknowledges that effective stewardship is integral to delivering upon its promises to its members. The governance structure and policies set out in the Fund are developed internally by officers and in conjunction with members of the Committee to achieve effective stewardship of its assets.

There are several ways in which assurance is sought in relation to the Fund’s stewardship, for example:

- The Council's Internal Audit function provides a level of assurance over the Fund's activities, including investment records, financial and performance reporting, pensions administration, systems and controls and organisational and management requirements. The most recent internal audit of the Pension Fund investment process took place during November 2022 with the final report issued during February 2023. The Fund was awarded a substantial audit opinion, which is the highest level of assurance possible.
- The Fund's Annual Report and Financial Statements are externally audited; the most recently audited accounts for 2022/23 received an unqualified audit opinion during October 2023, representing a "true and fair view" of the Fund's financial transactions to have taken place during the year and the year-end balance of assets and liabilities. The external audit is still subject to an internal review to be carried out by the external auditor, on its own practices.
- The London CIV also maintains its own assurance controls for the benefit of its clients; all published policies, procedures and reports are required to pass through a formal review and internal assurance process. External independent oversight and assurance of the pool company is provided by the FCA, depositary, external auditors and the DLUHC. 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. 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.

Outcome

The committee continually reviews policies and processes to ensure the Fund has the best practices for the long-term interests of the Fund. The committee is committed to the evolution of these practices and as shown below, there are good examples of the changes that have been made in recent reviews to improve the performance of the committee's governance of the Fund. Investment beliefs were incorporated into the Investment Strategy Statement for the first time during 2020. These were established by the committee to improve the investment and governance processes of the Fund by having a single point of reference to govern the beliefs, investment governance, long-term approach, ESG factors, asset allocation and management strategies.

The Fund reports on stewardship throughout the year with reports to the committee. The responsible investment statement is reviewed annually, whereby the Fund provides an update on its approach to responsible investing and the progress made to date. This review provides the Fund with a level of assurance in ensuring its policies and approach are effective and the appropriateness of the strategy is satisfactory. Incremental improvements and continuous changes are an indicator that processes are effective and constantly evolving. This makes use of both internal and external resources to ensure that the policies and practices in place are robust and effective. For example, the Fund tracks its carbon emissions output and offset from investment within renewable infrastructure. This has demonstrated that the Fund has been able to reduce its emissions by 76% over the last three years and anticipates that the Fund will be able to offset over half these remaining emissions.

The Fund's investment advisor, Isio, has highlighted its observations and recommendations to consider when devising/revising any new investment strategy. This particularly applies to asset allocation review. Recent reviews have resulted in an additional allocation of 5% to renewable infrastructure to be funded by a corresponding reduction in equities of 5%.

The results of the 2022 consultancy performance review highlighted that the consultant had performed well over the past year, meeting the vast majority of aims and objectives to an excellent standard. The Fund remains pleased with the work produced by the consultant and will to continue building on the good working relationship that has already been established.

The Fund is committed to reporting fairly and regularly, with policies being considered throughout the year. This ensures that they are kept up to date and continue to reflect the views of the committee on the direction of the Fund as part of stewardship activities. The committee is also kept abreast of any changes to legislation and consultations from central government departments. Most recently the DLUHC has issued a consultation on how LGPS schemes will assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD). An action plan has been taken to the Pension Fund Committee as follows:

- Await the LGPS consultation and resultant Scheme Advisory Board (SAB) guidance.
- Review the guidance and set out a roadmap for compliance.
- Build the new requirements into the Pension Fund Business Plan.
- Review the Investment Strategy and consider whether is likely to meet the future requirements on climate change and sustainability.

In the annual accounts, the Fund publishes the voting activity of investment manager's engagement and voting activity. This demonstrates assurance that the Fund is seeking for the stewardship activities undertaken on its behalf by the Fund's investment managers.

The Fund's equity manager proxy voting for 2022/23 is shown in the following table:

Asset Manager	Number of resolutions	For	Against	Other
Billie Gifford (LCIV)*	1,127	927	163	37
Baillie Gifford Paris Aligned (LCIV)**	98	80	16	2
Morgan Stanley (LCIV)	604	530	67	7
Legal & General	53,097	42,701	9,860	536
Ruffer (LCIV)	1,310	1,215	87	8
TOTAL	56,236	45,453	10,193	590

* to December 2022

** from December 2022

Principle 6: Client and beneficiary needs

- **Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.**

Activity

The Westminster Pension Fund is a part of the Local Government Pension Scheme (LGPS).

The LGPS is a statutory scheme and is regarded as very secure, given the pension benefits are defined in law. Members of the Fund include employees and ex-employees (deferred) of the Council. In addition, the Fund has a number of admitted bodies including academies, where certain employees can join the scheme.

Of the membership, the Fund currently has 4,744 active members; 7,197 deferred members; and 6,758 pensioners/beneficiaries (at 30 September 2023). The Fund aims to use the most appropriate communication method for the recipient audiences and to ensure that scheme members have access to all the Fund's policies, strategies, and performance. As seen in the communication policy, the Pension Fund has a website designed to communicate and promote the benefits of the LGPS and associated information and is regularly updated to ensure scheme members can find out more about the LGPS and individual member pension details.

Analysis of the Pension Fund membership as at 30 September 2023 is shown below.

Member Type	Total
Actives	4,744
Pensioners	5,855
Beneficiaries	903
Deferred	7,197
Frozen	1,497
TOTAL	**20,196**

This analysis demonstrates that the majority of the Pension Fund members are deferred, followed by those that are already in receipt of pension benefits. These statistics have been used to inform decisions regarding the member portal and encouraging members to sign up and keep their membership data up to date. For those members which have not provided email addresses, the Fund's administrator will send announcements and annual benefit statements as a paper copy. Further analysis has shown that the average age of our active and deferred members is 53.5 years, with female members accounting for over 65% of active membership. It is therefore estimated that the average time to retirement for active employees is circa 15 years.

The Fund is working with the administrator to increase the interaction the Fund has with members via the membership portal. All members have been invited to join the membership portal and receive regular updates from the administrator via email communications. As at 31 May 2023, the number of members signed up to the portal was 35.5%, with the breakdown shown below.

Portal	Opted in
Actives	41.60%
Pensioners	40.67%
Deferred	26.46%
TOTAL	35.50%

The strategic asset allocation is agreed by the committee as per advice taken from the officers and investment advisor. The committee is held accountable for its decisions on asset allocation within the Fund mandate. In order to follow the Myners Principles, fund managers are formally challenged on their tactical investment decisions.

The following table provides a breakdown of the Fund's target asset allocation. The current Fund target asset allocation is 55% of assets within equities, 19% in fixed income, 11% in renewable infrastructure, 5% within infrastructure, 5% within property and 5% to affordable and socially supported housing. While the property, affordable housing and renewable infrastructure mandates are UK focused, the Fund's other asset classes target a global portfolio.

Asset Class	Target Allocation %
Global Equities (active)	35.0
Global Equities (passive)	20.0
Fixed Income	19.0
Property	5.0
Affordable Housing	5.0
Infrastructure	16.0
TOTAL	100.0

As shown above, the Fund's global investments includes equities, fixed income with UK-based property portfolio as well as infrastructure. As at 31 August 2023, the investment portfolio is managed by 14 external managers with the geographical or sectorial breakdown of each fund:

- The UK property portfolio is managed by Abrdn Standard Life Long Lease Property, is solely investing in property within the UK with the aim to outperform the FT British Government All Stocks Index benchmark by 2% p.a. The UK sector allocation in the Long Lease Property Fund is as follows: offices (21.7%), Retail 15.7%, Industrial (23%), Other (39.6%).
- Private debt is managed by CVC Credit. The European Direct Lending III Fund has control over direct lending mandate with the aim of outperforming the 3-month Sterling SONIA benchmark by 5% p.a. The current geographical breakdown is 27% UK, 18% Italy, 15% Germany, 12% Netherlands, 8% France, 6% Sweden, 6% Finland and 8% other.
- Fixed income mandates are managed by CQS and PIMCO (Multi Asset Credit, via the London CIV), Insight (Bonds) and Northern Trust (short bonds);

- The Multi-Asset Credit Sub Fund is managed jointly by CQS and PIMCO. Its goal is to outperform the 3-month Sterling SONIA benchmark by 4% per annum. The geographical split of the fund includes 47.5% in the US, 14.3% in Europe, 11.1% in the UK, and 27.1% in other regions. Insight manages the 'buy and maintain' mandate for bonds. As of 31 March, the allocation of bonds is 51% in the UK, 21.6% in the Eurozone, 18.6% in the US, 4.8% in the rest of the world (ROW), and 4.4% in Europe other.
- The Multi-Asset portfolio is managed by Ruffer, known as the LCIV Absolute Return portfolio. Its allocation as of March 31st includes 29.7% in government bonds, 10% in cash, 9.1% in commodities, 4.7% in US equities, and 0.7% in South America equities.
- The Fund's affordable housing allocation is with the Man Group with all projects being in the UK. The number of homes to be built are circa 1,295.
- Alternatives are managed by Pantheon (Infrastructure), Macquarie (Renewable Infrastructure) and Quinbrook (Renewable Infrastructure);
- Pantheon manages the Pantheon Global Infrastructure Fund III, with a geographical allocation of 36% in Europe, 35% in APAC and ROW, and 29% in North America. Macquarie's "Renewable Energy Fund 2" is the Fund's allocation to global renewable infrastructure with 20% in the UK, 12% Brazil, 11% France, 7% US, 19% Other and 31% uncommitted. UK renewable infrastructure was mandated to Quinbrook. As of date, the fund has investments of £289.2m in projects across the UK.
- All equity portfolios within the Fund have a global focus and are managed by three firms: Baillie Gifford (active global, managed by the London CIV), Morgan Stanley (active global, managed by the London CIV), and Legal and General Investment Management (passive global).
- Morgan Stanley's active equity portfolio places a strong emphasis on sustainability and seeks to outperform the MSCI AC World Index. The key characteristics of this portfolio include investments in 41 holdings across 8 countries and exposure to 6 sectors.
- Similarly, Legal and General Investment Management (LGIM) manages a global equity portfolio with a passive ESG approach, aiming to replicate the performance of the Solactive L&G ESG Global Markets Index benchmark. The LGIM Future World Fund has a key focus on financials (18.0%) and information technology (23.3%) and healthcare (14.0%) making up near half of the fund's allocation.

The Pension Fund takes a long-term view with regards to its investment and funding strategies, given the long-term nature of the payments due to beneficiaries over a 50+ years' time horizon. The Fund's primary investment objective therefore is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due. The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2022. This valuation revealed that the Fund's assets, which on 31 March 2022 were valued at £1,876 million, were sufficient to meet 128% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date.

In the period from 2019 to 2022, the Pension Fund has increased its overall funding level from 99% to 128%. The main drivers for this improvement are the strong investment returns and significant additional deficit recovery payments received from the Council. The funding level for Westminster City Council (as a single employer) stands at 111%, improving from 86% previously. Specifically, the effect of strong asset returns and the significant secondary contributions have helped to improve the funding position.

Each employer has contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon as per the Funding Strategy Statement (FSS). Individual employers' contributions for the period 1 April 2023 to 31 March 2026 were set in accordance with the Fund's funding policy as set out in its FSS.

During the actuarial valuation process, the administration team host meetings with employers to discuss their results and agree on a suitable contribution rate to reflect their funding level.

The Fund's strategy to deliver long term sustainable funds has led to greater responsible investing and allocation to those companies that reflect effective integration of ESG issues, in the belief that they will deliver stronger returns in the years to come.

Communication and feedback from scheme members and employers is undertaken in a variety of ways:

- The Pension Fund hosts an Annual General Meeting, in which employers and members are invited;
- Consultation with employers on key policy documents and the actuarial valuation outcome;
- All committee and board meetings are open to members of the public and papers are published and available for review. Of note, are the quarterly performance reports that are presented to the committee detailing the Fund's overall performance, the portfolios currently invested in, asset allocation and recent activities of the committee and officers;
- The Fund publishes an Annual Report containing up-to-date details of investments and stewardship;
- Key policy documents are published on the Pension Fund website;
- Contact details for the Fund are also published for any comments from scheme members or employers; and
- Direct contact with scheme members and employers with regard to annual reporting.

To communicate and promote the benefits of the Local Government Pension Scheme, the Fund has its own member website that contains key information to help potential members understand the pension scheme, and a link for current members to access and view their individual records online and calculate their own benefits estimates. The link can be found below:

Home | Westminster City Council Pension Fund (wccpensionfund.co.uk)

The actions mentioned above are taken to ensure beneficiaries of the Fund can be well informed of the activities of the Fund and can monitor the ongoing performance. These steps are taken to ensure that beneficiaries can hold the officers and Committee to account reference actions and performance record.

The Pension Fund publishes all reports on the Fund's website for beneficiaries to view.

The most recent Pension Fund annual report discloses the following statements:

- Governance Compliance Statement
- Communication Policy
- Funding Strategy Statement
- Investment Strategy Statement (Page 118)
- Responsible Investment Strategy

- Pensions Administration Strategy
- Stewardship Report
- Voting activity and performance

[2021 to 2022 annual accounts]

Outcome

The Pension Fund administration team has undertaken work to review the Fund's current online resources and how our members use these websites. The review is currently focusing on the user research element of the project and have gained an experienced user researcher who has conducted interviews with selected users which we will then use to streamline the design of the website. The Fund has three main sources of information for members, pensioners, employers and interested parties i.e., a single webpage on the Council website dedicated to the Fund and two external websites that are dedicated to the LGPS. The intention is to combine the Pension Fund websites to have one source of information for scheme members.

Both scheme members and employer representatives form part of the Local Pension Board. This allows scheme to have their views and recommendations expressed on key issues such as Westminster's investment strategy and RI policy and statement. These recommendations are considered and discussed at the next Pension Fund Committee meeting.

During the year, the Board's work programme covered the following areas:

• The monitoring of quarterly fund investment performance and London CIV

Over the course of the financial year the Board reviewed the performance of the Pension Fund and its underlying investment managers. The Board acknowledged that there was a high level of volatility and uncertainty in markets following events in Ukraine and the strict lockdown measures in China. The Board assessed the underperformance of global equities manager, Baillie Gifford, and was pleased to note that the Committee was inviting underperforming managers to committee meetings. There was concern surrounding the value of the Pension Fund investments directly managed by the London CIV and the pooling of resources and staff turnover at the London CIV. However, the Pension Board was pleased to note that during the year, the London CIV had launched its UK Community Housing Fund with investments targeting affordable housing, specialist housing and transitional supported housing. The Pension Board remained pleased that the funding level of the Pension Fund remained healthy at well over 100%.

• Reports detailing the Fund's financial management, including cash flow and scrutiny of the fund risk register

During the year, the Pension Board undertook detailed discussions with officers regarding the Pension Fund's risk registers and those highlighted as the top risks to the Fund. The Board discussed the significant price inflation in the UK and the possible consequences of this being significantly more than anticipated, the continuation of economic instability following the Russian invasion of Ukraine and the implications of the proposed new TCFD regulations for Local Government Pension Schemes (LGPS) to assess, manage and report on climate-related risks. The Board noted the increased scrutiny on environmental, social and governance issues and recognised the need to pay particular attention to future investments. For the Fund's cash flows, the Board was interested to note the anticipated future cash flow and the impact of inflation.

• UK Stewardship Code

The Board was pleased to note that the Westminster Pension Fund had been accepted as a signatory to the UK Stewardship Code. The Pension Board commented on how impressive the document was and appreciated the amount of work to produce it, as well as discussing the importance of Fund Managers voting in line with the Pension Fund's principles.

• Pensions administration key performance indicators (KPIs)

The Board was pleased to note that that the Hampshire pensions administration partnership reports showed a 100% KPI completion record and that Hampshire had maintained a healthy position with no data backlogs. Officers advised the Board of the significant progress on the processing of leavers and member tracing, with an expected improvement in the Fund's data quality and the data scores reported annually to the pension regulator. Members were advised of suspicious activity on the members pension portal, which had resulted in the system being taken offline. The Board however noted that access to system had not actually been gained and HPS had appointed a provider to complete cyber security testing every six months.

• Pension Projects

Over the year, the Board were updated on a number of projects being undertaken within the Pension Fund, including the Fund website review, McCloud and the Guaranteed Minimum Pension (GMP) project. The Pension Board discussed the benefits of decommissioning the Pension Fund website and moving to the Council's own website and were pleased to note that the new website would contain specific functionality targeted towards the neurodiverse. It was acknowledged that the data collation in relation to the McCloud project is complex, with many employers. Therefore the Board requested details of the external costs of the different payroll systems. On the GMP project, the Board were disappointed that Mercer would be unable to meet the projection completion deadlines. The Board advised that Mercer should compensate the Council for the failure to deliver the project and noted that WCC legal team was reviewing the Council's options with this contract.

• Actuarial Valuation

During the year, the Board received the 2022 actuarial results and noted the increase in funding level from 99% in 2019 to 128% in 2022. The Board discussed the importance of maintaining the level of contributions and how the City of Westminster Pension Fund was a premium product.

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. Environmental considerations should reflect a growing recognition in the Committee of the urgency required in its decision-making processes when making investment allocations. The Pension Fund actively contributes to the engagement efforts of pressure groups, such as the 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.

The Fund remains satisfied that its investment managers are meeting their intended targets, through monitoring at quarterly intervals against their agreed benchmarks, and independent detailed monitoring of the Fund's performance is carried out by Isio, 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 the strategic options are fully evaluated.

The Fund's investment advisor, Isio, produces an in-depth review of each manager on a quarterly basis with a summary of Isio's ratings of the managers employed by the Fund and triggers against which managers should be reviewed. From the review of voting reports, the Fund believes that this process has mitigated issues with investment managers and managers have voted in line with the Fund’s policy and values.

Principle 7: Stewardship, investment and ESG integration

- **Principle 7 – Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.**

Context

The Fund has integrated ESG factors through an ESG Policy, and Investment Principles and Beliefs statement. There are a wide range of ESG issues, with none greater currently than climate change and the associated carbon reduction targets. The 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.

As mentioned in the investment principles, the Pension Fund, as a long-term investor, is committed to investing to build a better future through the integration of ESG factors at all stages of the investment decision-making process. Through active ownership with its partners, the Pension Fund engages with the investment community to help ensure a sustainable future for all its stakeholders.

As part of Fund's ISS, the Committee has set out five beliefs to govern investment decisions. One of those is environmental, social and governance factors. As set out in the belief:

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 consider ESG issues, the Committee is prepared to disinvest assets from that manager.

The Fund appoints investment managers that invest on our behalf. As part of its stewardship obligations, the committee considers the following key considerations as part of an investment manager appointment:

- 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; and

- f) an ability to appropriately disclose, measure and report on the overall impact of ESG decisions made.

By integrating stewardship at an early stage, the Fund believes it can best address any concerns before an appointment is made. Thus, the committee can be satisfied that an investment manager has been carefully selected for the best interests of the Fund, and most importantly, share the same core values as the Fund.

Once appointed, 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 the mandate is still appropriate. If an investment manager fails to adequately deliver stewardship at any time, the Committee is prepared to disinvest assets from that manager.

The Fund invests across a number of different asset classes to achieve diversification to lower the volatility of the overall return of the Fund. It is therefore important that stewardship is carried out across asset classes to ensure that each asset class or financial instrument has the attributes that the Fund desires to meet the Fund's investment strategy and to have a positive impact on the Fund's performance.

This approach to diversification has seen the Fund committed to assets in four broad categories global equities, fixed income, property and alternatives. As detailed in the table below.

Strategic Asset Allocation	Target (%)	Review Range
Listed Equities	**55.0%**	**+/-3.0%**
Passive Equities	20.0%	
Global – Active	35.0%	
Cash	**0.0%**	**+/-0.0%**
Cash	0.0%	
Fixed Income	**19.0%**	**+/-1.9%**
Global Bonds	7.0%	
Multi Asset Credit	6.0%	
Private Debt	6.0%	
Alternatives	**16.0%**	**+/-1.6%**
Infrastructure	5.0%	
Renewable Infrastructure	11.0%	
Property	**10.0%**	**+/-1.0%**
Affordable Housing	**5.0%**	
Property	5.0%	
Total	**100.0%**	

To ensure careful stewardship of the Fund, the asset allocation is reviewed annually, and rebalancing takes place when review ranges are triggered to ensure the Fund is best positioned in the current economic market.

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.

For example, the Fund commissioned a review of its property mandates with a view to investing a 5% allocation within social supported and affordable housing. The Fund has a long term goal of providing 13,000 new homes that cost no more than 35% of an average household's gross income and across sectors, including children's services housing, specialised supported housing and older person supported housing within the supported living market. Most recently the London CIV were appointed to manage 2.5% to affordable housing, alongside the Fund's existing manager Man Group.

The 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 11% allocation to renewable infrastructure, where the asset managers invest solely within renewable energy, including solar, wind, transmission, connection assets and battery storage.

As asset owners, the 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 Fund will continue to work closely with other UK and London LGPS funds to find common solutions for ESG issues.

The Fund targets affordable and socially supported housing in the UK and renewable infrastructure specifically in all regions on the UK and globally . The overriding principle is to generate investment returns; however, the Fund will closely consider investments with geographical significance if it can help deliver net zero and provide more sustainable infrastructure or social benefit within the UK.

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 Policy. Authority has been delegated to the investment managers to exercise voting rights on behalf of the Fund. The investment managers are required to report how they have voted in their quarterly reports. The Fund believes in using its influence as a shareholder to promote corporate social responsibility and high standards of corporate governance in the companies in which it invests.

Activity

The Fund has stringent appointment and investment processes to ensure that investments have ESG benefits, as well as challenging and engaging with investment managers to improve ESG outcomes.

This includes adherence to a Responsible Investment policy, ESG integration in the investment process, relevant responsible investment frameworks such as the United Nations Principles for Responsible Investment (PRI), evidence of compliance with the Stewardship Code as published by the Financial Reporting Council (FRC), and a track record of actively engaging with global companies and stakeholders to influence best practice though the LAPFF, along with a commitment to appropriately disclose, measure and report on the overall impact of ESG decisions made.

As part of its investment selection process, the committee will obtain proper advice from the Fund's internal and external advisors with the requisite knowledge and skills. The 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 relevant 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, with active engagements 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;

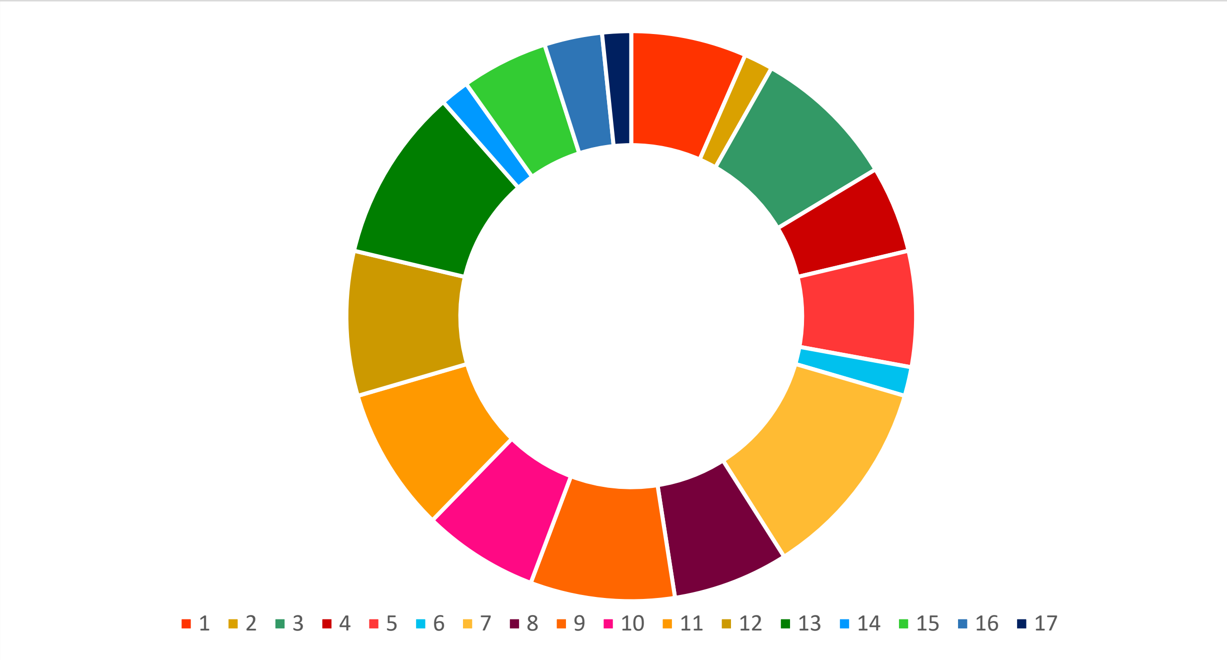
d. how significantly managers value ESG issues and whether any specialist teams and resources are dedicated to this area; and

e. how ESG risk assessment is integrated into the portfolio investment selection process and the value and effectiveness of these assessments.

UN Sustainable Development Goals

During 2015, all United Nations (UN) members adopted the 2030 Agenda for Sustainable Development, at the heart of this was the 17 Sustainable Development Goals (SDGs). These goals call for urgent action by all developed and developing countries, for ending poverty, global hunger, improving health and education, reducing inequality, tackling climate change and promoting global economic growth.

The Westminster Pension Fund's asset managers meet a number of the SDGs as set out by the United Nations. The chart below highlights the goals which the funds asset managers have been most successful in addressing. These include significant work towards addressing the gender pay gay, reducing deaths and illness from air pollution, developing reliable renewable infrastructure, efficient use of natural resources and improving impact on climate change mitigation.



Macquarie Case Study

The Fund's renewable infrastructure manager, Macquarie, holds a number of assets within its portfolio including onshore and offshore wind and solar. The manager meets a number of the UN SDGs, demonstrated as follows:

- **Goal 3: Good Health and Wellbeing**
  Reducing deaths and illnesses from air pollution, caused by pollutants such as nitrogen oxides, sulphur oxides and particulate matter. By using renewable energy and the avoidance of fossil fuel electricity generation it is forecast to reduce the annual emissions of harmful air pollutants.

- **Goal 7: Affordable and Clean Energy & Goal 9: Industry, Innovation and Infrastructure**
  Increase substantially the share of renewable energy in the global mix and develop quality, reliable, sustainable and resilient infrastructure. The renewables portfolio adds 950MW of aggregate renewable energy generation to local grids.

- **Goal 12: Responsible Consumption and Production**
  Achieve sustainable management and efficient use of natural resources. By avoiding fossil fuel electricity generation, it is forecast to avoid the equivalent consumption of 206kt of oil annually.

- **Goal 13: Climate Action**
  Improve human and institutional capacity on climate change mitigation by raising awareness on climate change and negative impact reduction. The portfolio is forecast to avoid 967 kt CO_2 greenhouse gas emissions annually.

Man Group Case Study

The Pension Fund's affordable housing manager, Man Group, has a long term goal of providing 13,000 new homes that cost no more than 35% of an average household's gross income. The asset manager has demonstrated achievement of a number of UN SDGs as follows:

- **Goal 1: No Poverty & Goal 10: Reduced Inequalities**
  Providing quality and environmentally sustainable homes to meet affordable housing needs including shared ownership and rented at a % of local median income.

- **Goal 3: Good Health and Well-being**
  Increasing the percentage of homes that meet the Decent Home standards, Building for Life 12 accreditation and Nationally Described Space Standard (NDSS).

- **Goal 7: Affordable and Clean Energy & Goal 11: Sustainable Cities and Communities**
  The portfolio provides environmentally sustainable homes, including the use of solar panels, electric charging points and a reduction in CO_2 emissions against the Target Emission Rate.

Quinbrook Case Study

The Pension Fund's second renewables manager, Quinbrook, invests solely in UK assets at both the development and operational stage. Target assets include solar PV and onshore wind, alongside supporting infrastructure such as battery storage and connection assets. Quinbrook works to quantify and support a number of the UN goals, as discussed below:

- **Goal 4: Quality Education**
  Supporting school programs in the adoption of renewable energy and working with universities to support improved education and access to greater diversity in the industry.

- **Goal 5: Gender Equality**
  Supporting gender equality through fair and non-discriminatory hiring and engagement policies.

- **Goal 7: Affordable and Clean Energy**
  Providing renewable energy, in particular in community settings and disadvantaged areas.

- **Goal 8: Decent Work and Economic Growth**
  Providing jobs and economic growth opportunities in regional and rural areas where assets are located and supporting job creation and training in areas of job displacement, due to accelerating energy transition.

- **Goal 9: Industry, Innovation and Infrastructure**
  Investing and partnering with business that are driving new energy innovation and infrastructure.

- **Goal 11: Sustainable Cities and Communities**

Building and maintain assets to support sustainable cities and communities and enabling a fairer transition to sustainable energy sources.

- **Goal 13: Climate Action**
  Creating new assets through project development and construction that help to avoid emissions and tackle climate change.

- **Goal 16: Peace, Justice and Strong Institutions**
  Strong institutions through improved governance and alignment with the United Nations Compact.

Abrdn Case Study

Abrdn manage the Fund's allocation to long lease property, which aims to provide long-term and inflation-linked income through UK property investments. The mandate meets a number of UN SDGs as follows:

- **Goal 1: No Poverty**
  Supporting the fair pay landscape, Abrdn were shortlisted for the Living Wage trailblazer award and supported the new Edinburgh Living Wage city application.

- **Goal 5: Gender Equality**
  Abrdn have pledged 40% of Board members to be female, 40% male and 20% any gender, as well as this they have pledged at least 50% of the workforce to be female.

- **Goal 7: Affordable and Clean Energy**
  99.5% of the electricity Abrdn procures is on a green tariff, with an aim to operate 100% of offices globally using renewable energy.

- **Goal 8: Decent Work and Economic Growth**
  Abrdn is ranked in the top 75 UK Social Mobility Employer Index and supports paying staff the living wage.

- **Goal 10: Reduced Inequalities**
  Abrdn has pledged to have at least 18% of the Board identify as ethnic minority.

- **Goal 12: Responsible Consumption and Production**
  Avoiding the use of single-use plastics within offices and sending zero waste to landfill sites.

- **Goal 13: Climate Action**
  Pledge to become net zero in operations across scope 1, 2 and 3 emissions and reduce those emissions by 50% and emissions of invested assets by 50%.

- **Goal 15: Life on Land**
  Improve biodiversity within UK real estate, including the implementation of wildflowers, ponds, hedgerows and shrubbery, bird boxes and bee/bug hotels.

Outcome

All investment management activity is delegated to external investment managers. Focus on how the Fund's investment managers have incorporated ESG factors gathered through their stewardship activities, into investment decisions, is a significant part of the monitoring and discussion with the Fund's investment managers.

Through strategy and culture, the Fund has designated ESG a key focus within Pension Fund investments and this is where the Fund has seen much progress. As shown in the 2022 Responsible Investment statement, from 30 June 2019 to 31 December 2022 the weighted average carbon to value invested of the Fund has fallen by circa 80%. It is also estimated that the Fund has reduced its absolute tonnes of CO_2 emissions by circa 76% over the same period.

Further examples of the Pension Fund's progress can be seen with greener and more sociably responsible investments for the long-term interests of the beneficiaries.

Environmental:

The Inti solar farms are held within the Pantheon Global Infrastructure fund, with the assets located across different regions of Italy. There is also a further pipeline for future solar farms across the globe.

The fund focuses exclusively on generating electricity from 100% clean energy sources. It targets a reduction of CO_2 emissions of over 2 million tons per year, thus helping achieve global climate mitigation targets. The asset manager will be heavily involved in the operation of new solar plants, thereby contributing to additional jobs in the countries it targets. As part of the project the manager has launched a charitable

Foundation, pledging 5% of annual profits towards alleviating poverty. Alongside this, the manager works with a specialist company to improve efficiency, including coating and tests to identify cell breakage and cracks.

Social:

The Pension Fund holds, Experian, within its LGIM Future World Equity portfolio. The company is a multinational data and credit rating company, with headquarters in Dublin. LGIM believes the company has a key role as a business responsible for the delivery of greater social and financial inclusion.

During 2021, LGIM engaged with Experian on several occasions, and were pleased to note improvements to the company's ESG strategy, new reporting targets, greater disclosure on societal impacts and community investment, and increased capital allocated to transforming financial livelihoods.

This includes the roll out of Experian Boost, which uses data on how consumers spend their money to allow them to improve their credit score. Alongside this, the company also launched Experian Go, targeted at those with no credit history, to help them build their financial identity. Experian have also launched the United for Financial Health project to help educate and drive action for the most financially vulnerable.

Governance:

Within the London CIV (Baillie Gifford) Global Alpha Equities portfolio, the Pension Fund has exposure to Rio Tinto, a multinational metal and mining corporation.

During 2020, Rio Tinto demolished a site of cultural significance within Western Australia, promoting widespread criticism and the resignation of the CEO. LCIV had serious concerns on the corporate governance failures that led to the devastating impact on the local communities. Baillie Gifford advised they had undertaken several engagements with the company and recommended the Board to make necessary changes to its working practices to safeguard the long-term success of the company. Notable improvements within Rio Tinto include; the sale of all thermal coal assets leaving no fossil fuel exposure, strengthening carbon reduction commitments, supporting an initiative to improve global mining safety and increased disclosures; and clarity regarding the director remuneration targets. Additionally, the company has most recently published a workplace culture report to highlight areas of failing.

Principle 8: Monitoring managers and service providers

- **Signatories monitor and hold to account managers and/or service providers.**

<u>Activity</u>

The committee meets at least four times a year. At each of these meetings the committee reviews investment performance, alongside advice from the independent advisor.

Committee members monitor the investment returns and the volatility of the individual investments, together with the funding level, returns and investment risk, the latter being to ensure the risks caused by interactions between investments within the portfolio are properly understood. Where comparative statistics are available, the committee will also compare the Fund's asset performance with those of similar funds.

On investments, the committee assesses the suitability of the investments in which the Fund partakes. The following due diligence takes place: prospective investment return; investment risk; concentration; risk management qualities the asset has; geographic and currency exposures and ESG criteria. Moreover, each asset category will have an individual performance benchmark against which performance is reported.

Alongside the committee is the Pension Board, whose role is to provide oversight and scrutiny of the Pension Fund Committee. The Board meets four times a year, which allows for a second review of performance of service providers.

<u>Outcome</u>

The Fund closely monitors all its investment managers and publishes all voting activity in the Annual Report. This ensures that members and the public can be fully aware of voting actions and to ensure that the Fund monitors to deliver and impact on change where needed.

The committee will continually monitor and engage with investment managers to ensure that investment managers are acting in the best interests of the Fund. Across all investments, the Fund works closely with managers to ensure that it can deliver improved outcomes and where the Fund sees the need for the long-term sustainability of the Fund using the collaborative approach to gain greater influence for positive impact and return.

To effectively hold our service providers to account, the committee is committed to reviewing the performance given by any service provider. During the year, the committee reviewed the performance of the investment consultant against the objectives that were set by the Fund. This has and will be reviewed on an annual basis and the objectives updated at least every three years or when there has been a material change in investment approach to ensure that are consultant is providing the best service and advice to the Fund. Each objective is assessed individually and assigned a rating as follows: Excellent, Good, Satisfactory and Unsatisfactory.

The Committee will engage with our service provider if any objective is deemed unsatisfactory and will make efforts to resolve any issues. If objectives are still not being met after engagement the Fund will consider a different service provider.

Please see link below for the latest investment consultant review, the consultant has performed well over the past year, meeting the majority of the aims and objectives to an excellent standard. The Fund remains pleased with the work produced by the consultant and aims to continue building on the good working relationship that has already been established.
[Investment Consultant Review 2022]

The Funds closely monitors all its investment managers and publishes voting activity in the Fund's Annual Report. This ensures that members and the public can be fully aware of voting actions and to ensure that the Fund monitors and delivers on change where needed. The Fund can also gain confidence that managers appointed are meeting expectations on key voting issues and on behalf of the Fund are using its vote to promote positive impact within our invested companies. The constant dialogue and investment manager profile received from the consultant, Isio, also ensures the Fund is able to make key investment decisions in relation to our holdings.

Please see the following link below for the latest quarterly review of our investment managers, as prepared by Isio.

The Committee also encourages any directly appointed asset managers and the pooling company (London CIV) to comply with the Stewardship Code (2020) and this is monitored on an annual basis. The Fund will continue to collaborate with the London CIV on maintaining a share voting policy for the equity managers on the London CIV platform and actively seeks to align these policies with investment manager insights. Lobbying with other London CIV clients will give the Fund greater control and impact over voting choices and a centralised process will ensure that voting remains consistent and has the greatest impact. Please see a review of the Fund's asset managers and their compliance with the Stewardship Code 2020, the Fund is engaging with those managers who are not currently signatories.

Fund Manager	Signatory?
Abrdn	Yes
CVC Credit*	No
Insight	Yes
LGIM	Yes
London CIV	Yes
Macquarie	Yes
Man Group	Yes
Northern Trust	Yes
Pantheon**	No
Quinbrook	Yes

* CVC Credit is not currently planning to become a signatory to the UK Stewardship Code, but this is something they will look into internally.

** Although not currently a signatory to the UK Stewardship Code, Pantheon have done a significant amount of work in this area and are actively working towards becoming a signatory in the future.

The committee will continually monitor and engage with investment managers to ensure that investment managers are acting in the best interests of the Fund. Across all investments, the Fund works closely with managers to ensure that it can deliver improved outcomes and where the Fund sees the need for the long-term sustainability of the Fund using the collaborative approach to gain greater influence for positive impact and return.

It should be noted that the investment advisor, Isio, continues to rate the fund managers favourably. However, given the significant underperformance of the Baillie Gifford Global Alpha, Isio hosted a meeting with senior management at Baillie Gifford to discuss strategy during October 2022. Isio remain content that the manager continues to maintain its investment philosophy and will continue to monitor the performance of the fund.

At the Committee meeting on 27 October 2022, the Pension Fund Committee elected to transition the Fund's holdings within the London CIV (Baillie Gifford) Global Alpha Equity mandate into the BG Paris-Aligned version. The Paris Aligned version has a quantitative assessment process to screen out companies with particular levels of exposure to the fossil fuels industry, plus a qualitative one to screen out companies that will not play a role in the future transition to a low carbon environment. This transition took place as scheduled on 5 December 2022.

Man Group Community Housing Site Visit

During March 2022, the Pension Fund officers conducted a site visit of the Man Group Community Housing fund, the majority of which, will be made available for discounted rent or shared ownership. The visit was designed to provide an in-person experience of the types of assets within the portfolio, as well as, getting a better sense of the positive impact the portfolio is already having. The visit including two sites in East Sussex, one within Lewes and another in Saltdean.

The Lewes site consists of an apartment complex with 41 properties, with 39 units to be sold as shared ownership homes and 2 penthouses to be sold on the open market. The development is located on previously developed brownfield land, in a format to support delivery of both homes and jobs. In Lewes, home ownership is not affordable for the median household, as a result this development will have a material impact on the provision of good quality affordable housing in the area.

The Saltdean site is located on the footprint of a former dairy farm, in proximity to the South Downs National Park. The development comprises of 71 new homes; with 42% allocated to key worker rent, 23% to affordable rent, 18% in shared ownership and 17% for market sale. The provision of these properties will help towards the provision of affordable homes within the Brighton area, with median house prices 10 times average earnings. Alongside this, the scheme will promote substantial environmental gains, with the provision of solar panels for every home, air source heat pumps, electric car charging ports and carbon emissions 46% below the government benchmark.

Principle 9: Engagement

- **Signatories engage with issuers to maintain or enhance the value of assets.**

Activity

The committee 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.

The Fund has in place an Investment Strategy Statement that contains the Fund's investment beliefs, asset diversification strategy, assessment of investment suitability, investment types, approach to risk, approach to pooling investments, social, environmental, or corporate governance considerations, and retention and realisation of investments. These beliefs form the basis of investment decision making process and allow the committee to deliver a consistent approach to investment and therefore maintain and enhance the value of assets. The ISS is updated and reviewed yearly to ensure that the Fund has the most suitable strategy and practices in place.

The core expectations set for our assets managers, pooling company and pressure groups are to engage with companies on all matters to improve the Fund's overall sustainable long-term objectives without resorting to divestment, unless engagement has failed. 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 Pension Fund actively contributes to the engagement efforts of pressure groups, such as the 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 is monitored on a regular basis.

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. Subsequently, the Fund is strongly focused on ensuring that investee companies must become more sustainable by reducing carbon emissions and to help assist net zero targets. As stated, the Fund undergoes carbon reporting annually and can monitor the progress each manager has made during the year. These statistics are reviewed and analysed to see what progress can be made within our investments.

As mentioned previously, as part of the investment manager appointment process, the committee assesses the investment managers' abilities to integrate ESG factors into their investment selection processes. In addition, the investment advisor will assess ESG considerations as part of their due diligence process and assess investment managers as follows:

- Active managers, the advisor will assess how ESG issues are integrated into investment selection, divestment, and retention decisions; and
- Passive managers, the investment advisor places less focus on ESG issues in the investment selection process and considers ESG issues in its responsible investment policy and if the manager engages with global companies and stakeholders where appropriate.

The committee is furnished with quarterly performance reports on investments highlighting business activities, manager personnel updates and performances to track and enhance the governance of the Fund. This provides the committee and board with regular feedback on the Fund’s assets to make well informed decisive decisions for the future governance of the Fund.

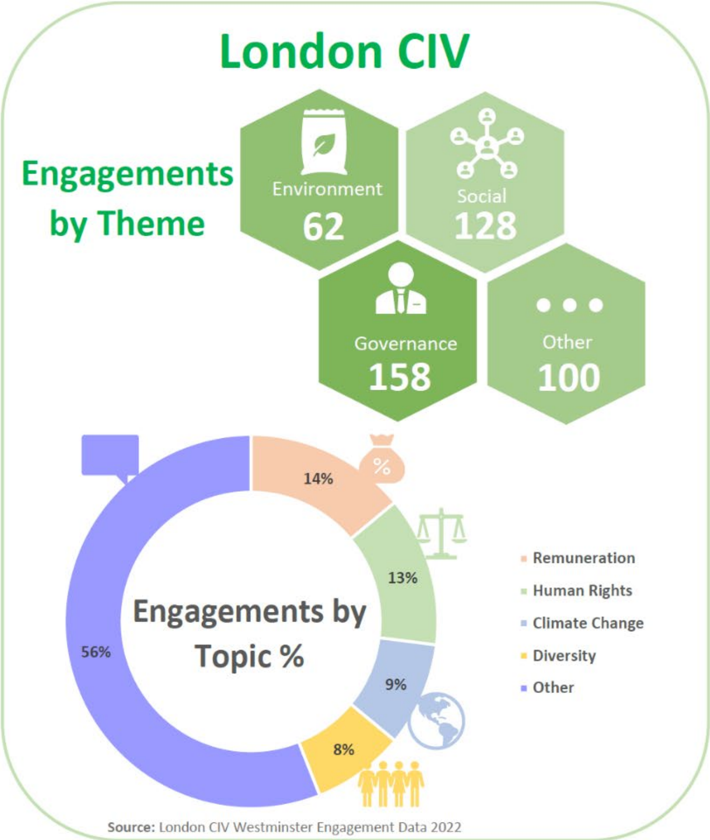
Outcome

All investment management activity is delegated to external investment managers. Engagement activities are a regular feature of the monitoring of the Fund’s investment managers by the committee. By carefully targeting and selecting funds in renewable infrastructure, the Fund has been able to reduce its net carbon emissions and to continually work towards a more sustainable Fund with the aim of improving shareholder returns.

For example, as at 30 June 2023, a total of £150m was committed to Quinbrook, with the Fund committing an additional £90m to Quinbrook. During 2021, Quinbrook completed the acquisition of Project Fortress, a consented 350MW solar and battery storage project, which is estimated to require circa £270m of capital to construct. Project Fortress aims to build the UK’s largest solar farm and battery storage facility. The site is located in Kent and commenced works during the first half of 2022. Once operational it is forecast that the site could power up to 100,000 UK homes and reduce emissions by 164,450 tonnes per year. The asset manager has also worked alongside Natural England, Kent Wildlife Trust, Royal Society for the Protection of Birds, and the Environment Agency to design an extensive landscape and biodiversity management plan for the site. This includes planting of more than 3.5km of native hedgerows across the site area and seeking to deliver a net gain of 65% in biodiversity.

Another example, the Pension Fund has exposure to EQT Corporation through its London CIV Multi Asset Credit portfolio with PIMCO. EQT are the largest natural gas producer in the United States, with the company working to tracking and reducing its methane emissions. The company has committed to the Oil & Gas Methane Partnership 2.0, with PIMCO believing they are well placed to meet new upcoming regulations issued by the US Environmental Protection Agency. PIMCO has engaged with EQT on methane reduction targets and disclosures, and on adopting an absolute emissions target alongside this. The engagement also included best practices on sustainably linked bonds and targets as a potential key performance indicator for coupon payments. During 2022, EQT became the largest producer of responsibly sourced natural gas, a distinction set by Equitable Origin, the world´s first independent environmental standards system. This effort indicates that EQT is committed to direct measurement and transparency of their methane emissions.

Please see following statistics which depict the engagement activities of the Fund's equity managers; London CIV and LGIM.



Alongside asset manager and pool company engagements, the City of Westminster Pension Fund officers engage with managers and relevant bodies on a number of issues. During 2023, these issues included:

- Exposure of assets within China
- Exposure to tobacco, alcohol and gambling companies
- Exposures to Silicon Valley Bank and Signature Bank
- Investments within water companies
- Carbon exposure levels within the London CIV MAC and Absolute Return Funds
- Engagement on the Fund's exposure to Royal Dutch Shell
- Levels of Nature Positivity & Restoration within the Fund
- Meetings with numerous food manufacturers including Tesco, Nestle, Unilever, Coca-Cola and Britvic to discuss healthy markets and setting targets.

Principle 10: Collaboration

- **Signatories, where necessary, participate in collaborative engagement to influence issuers.**

Activity

All investment management activity is delegated to external investment managers. Through active ownership, the pension fund engages with the investment community and encourages companies to take positive action towards reversing climate change. The Fund is a responsible owner of companies and cannot exert that positive influence if it has completely divested from carbon intensive producing companies. This approach includes being members of key pressure groups such as LAPFF, and an active participant in engagement with London CIV, and regular reporting from the investment managers.

The Pension Fund closely monitors voting behaviour to ensure that it in is in line with the Fund's policy and values. The independent advisor offers an update on business, personnel, and performance on a quarterly basis to ensure asset managers are reviewed on a regular basis and to work with investment managers to make improved ESG outcomes and investment returns.

The Fund delegates responsibility to asset managers, LAPFF and the pooling company to engage on our behalf. Please see LAPFF's engagement below as an example. The Fund actively engages across a wide range of companies that are invested in by our investment managers or pool companies. The Fund has a duty to its stakeholders to push for positive improvements within companies that are not performing as desired in key ESG areas, which may impact on long term suitability. If these key issues are not addressed, this could lead to the Fund not fulfilling its fiduciary duty to members, with investment returns forming only one part of that duty.

The Fund reviews the RI policies of LAPFF, LCIV and investment managers that engage on our behalf to ensure they promote the same values that are shared with the Fund. In this case, LAPFF and London CIV do hold similar values and polices to that of the City of Westminster Pension Fund. Therefore, we expect investment managers to vote in accordance with London CIV and LAPFF policies and for fund managers to comply with the stewardship code and this will also be reviewed on an annual basis. All of the London CIV's equity managers have to publicly disclose their policy via their statements on how they will discharge their stewardship responsibilities.

Furthermore, if there are concerns raised by Committee and Board members on particular engagement issues or concerns, officers will be well placed to express the views of members to the London CIV and LAPFF. Officers are also able to report back on any progress to both Committee and Board.

Outcome

Through active engagement, the Fund has been able to use multiple avenues to communicate with issuers, by being a member of LAPFF and communicating with investment managers and pool companies such as London CIV.

As shown in the Responsible Investment Statement, the Fund has seen encouraging commitments from companies across all the asset classes. The Fund's approach of collaboration and engagement has allowed the Fund to reduce its carbon impact significantly.

The Pension Fund monitors its investment managers engagement activities through regular reports and discussions and welcomes instances where it sees its investment managers working with other investors. Examples include:

- During early September 2022, LAPFF Chairman, Doug McMurdo, spent three weeks in Brazil following the tailing dam collapses in Mariana and Brumadinho. This trip formed part of the LAPFF's work on human rights and mining. During the trip, the Chair met with communities affected by the collapse and met with company executives from Vale, which own the Mariana dam. Air quality, water quality and availability of housing in resettlements remain major concerns for communities and LAPFF will continue to engage on these areas.
- Share Action, a registered charity who promotes responsible investment, has been working on a Healthy Markets coalition group. The Healthy Market Initiative aims to make food retailers and manufactures assume accountability for their role and impact on people's diets. The Westminster Pension Fund is a member of the Healthy Markets coalition and, along with other members, represents over $1 trillion in assets under management. During 2022, ShareAction filed a resolution with Unilever, asking the company to commit to a long-term nutrition strategy and disclosure metrics on their proportion of sales related to healthy products. Following this, Unilever have set a new benchmark within the industry, disclosing the healthiness of sales against the government model and their own internal model. They have also set an ambitious target to double the sale of healthy products by 2030.

Principle 11: Escalation

- **Signatories, where necessary, escalate stewardship activities to influence issuers.**

Activity

The Pension Fund expects its investment managers to take the appropriate action when operating on its behalf and engage in stewardship activities: this includes actions to escalate their approach when appropriate.

As part of the Responsible Investment policy, 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, while 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.

Therefore, the Fund expects investment managers to be actively engaging with companies to promote better ESG and investment outcomes for the Fund. The Local Pension Board monitors responsible investment by obtaining advice from officers and the independent advisor on assessing how ESG issues are integrated into investment selection, divestment, and retention decisions from active managers. This allows the Committee to escalate any issues with the investment managers if they feel that ESG factors are not being properly implemented into their decision-making process.

If an investment manager fails to consider ESG issues, the Committee is prepared to disinvest assets from that manager.

Outcome

The Pension Fund Committee monitors its investment managers engagement activities through regular reports and discussions and expects its investment managers to take the appropriate action when operating on its behalf engaging in stewardship activities.

The Pension Fund does not divest unless all resolutions have been fully exhausted, as it results in loss of influence over troubled companies and the opportunity for future dialogue. Therefore, escalation remains a key tool in our engagement strategy, where we utilise, when necessary, escalation strategies to trigger corporate reaction. These include voting where we instruct managers to vote against management on key resolutions. As well as, attending AGMs, to trigger more dialogue with boards and executives. Filing shareholder resolutions: supporting requests to improve board accountability and ESG disclosures. And lastly, divestment. However, as it removes some options for future interaction such as the use of the vote.

London CIV engages on the Fund's behalf and is a key asset that the Fund uses to engage and influence to encourage positive outcomes.

The Pension Fund holds Royal Dutch Shell within its Ruffer absolute return portfolio, as managed by the London CIV. As discussed in our Stewardship Report for 2023, Shell is one of the highest emitters in the portfolio and has faced criticisms of its transition plan. Ruffer and the London CIV has engaged with the company on a number of issues. At the 2022 AGM, the London CIV voted against approving Shell's energy transition resolutions, due to lack of disclosures and misalignment with the 1.5c Paris target. The London CIV also publicly supported Client Earth's litigation against Shell's board of directors regarding their climate risk mismanagement. In addition to this, the LCIV published a letter highlighting key concerns including:

- Scope 3 emission targets and their compliance with the order of the Hague District Court;
- Unrealistic emission offset proposals;
- Underinvestment in renewables and overinvestment in fossil fuels;
- Adverse impact on Shell's financial performance; and
- Alignment with Paris targets.

The London CIV will continue to monitor the progress and outcomes of the litigation and continue to engagement with the company.

Principle 12: Exercising rights and responsibilities

- **Signatories actively exercise their rights and responsibilities.**

The Pension Fund's RI policy and Responsible Investment Statement include the approach for exercising the rights attached to investments. The Committee expects any directly appointed asset managers and the pool company (London CIV) to comply with the Stewardship Code (2020) and to publicly disclosed their policy on how they will discharge their stewardship responsibilities. Stewardship is part of the responsibilities of share ownership, and therefore an integral part of the investment strategy.

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. Fund managers have the delegated authority to vote at shareholder meetings in accordance with their own guidelines, which have been discussed and agreed with the Pension Fund Committee. The officers keep under close review the various voting reports that it receives from fund managers. The Pension Fund's investment managers (both active and passive) are required to report to the Pension Fund on their engagement with company management and voting, highlighting any instances that they voted against company management or did not follow its policy.

Where investment managers were appointed directly by the Pension Fund to segregated mandates, the Pension Fund expected these managers to vote in line with its own voting policy or explain the rationale for doing otherwise. The Fund expects its managers to use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed, and to report to the Fund on their engagement with company management and their voting record.

The Fund's investments through the London CIV, include investments in equities and fixed income including multi asset credit and absolute return, and are covered by the voting guidelines of the CIV which have been agreed by the Shareholder Committee. The London CIV's investment managers are expected to vote on all proxies considering the impact of ESG factors to ensure shareholder value is maximised. 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.

As seen in the Responsible Investment Strategy the Fund receives internal and external advice on assessing investment managers. A key assessment of manager impact is 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 and how significantly the manager value ESG issues. These processes are integrated to reduce conflict in voting decisions and ensure investment managers and the committee share an aligned view.

For fixed income assets, the committee, with the support of their advisors, review the asset managers and conduct due diligence before appointing an investment manager. The committee delegates the stewardship responsibility to the investment managers and expects prudent measures to be taken in relation to terms and conditions within contracts. Furthermore, the committee expect managers to engage with credit issuers to drive improvements in relation to ESG risks. The committee reviews information on engagements from the investment managers on a regular basis and uses this to engage with them on key ESG issues.

In addition, the Fund actively contributes to the engagement efforts of pressure groups, such as the 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. By having regular engagement reports and reviews, the Fund can ensure that the investment managers are voting in accordance with Westminster's values and are able to ensure that managers are using votes for a positive impact.

The Fund through its participation in the London CIV works closely with other LGPS Funds in London to enhance the level of engagement, both with external managers and the underlying companies in which they invest. In addition, the Fund is a member of the Pension and Lifetime Savings Association (PLSA) and the LAPFF and, in this way, joins with other investors to magnify its voice and maximise the influence of investors as asset owners, joining wider lobbying activities where appropriate opportunities arise.

Activity

All proxy voting for the financial year is published in the Pension Fund Annual report. During 2022/23 there were 56,236 resolutions with manager voting as follows: For 45,453; Against 10,193 and Others 590.

Our equity manager proxy voting for 2022/23 is shown in the following table.

Asset Manager	Number of resolutions	For	Against	Other
Billie Gifford (LCIV)*	1,127	927	163	37
Baillie Gifford Paris Aligned (LCIV)**	98	80	16	2
Morgan Stanley (LCIV)	604	530	67	7
Legal & General	53,097	42,701	9,860	536
Ruffer (LCIV)	1,310	1,215	87	8
TOTAL	56,236	45,453	10,193	590

* to December 2022
** from December 2022

The pooling company expects asset managers to vote on all proxies considering the impact of ESG factors to ensure shareholder value is maximised. In addition, managers must be able to provide a rationale for all voting activity on a "comply or explain" basis. The investment managers are expected to vote on all proxies considering the impact of ESG factors to ensure shareholder value is maximised. Where applicable LAPFF guidance is used to instruct and inform voting directions. London CIV managers voted on 23,411 proposals during 2022, this represents a 96% voting execution up from 95% during 2021.

Outcome

The Pension Fund has seen progress when working collaboratively with its investment managers into delivering improved ESG outcomes for the WCC Pension fund.

As part of the Future World Fund, LGIM has been engaging with Amazon to discuss the company's approach and policies on various human capital topics. One of the key risks identified is employees' rights to form and join trade unions, with the US National Labour Relations Board declaring Amazon's interference with workers efforts to unionise as inappropriate and not in line with International Labour Organisation (ILO) standards. LGIM signed a letter during January 2022 requesting that Amazon adopt a neutral policy, commit to negotiate with unions and initiate dialogue with trade unions at a national and global level. Amazon countered that it does adhere to ILO standards on freedom of association. LGIM pre-declared their voting intentions prior to the Amazon AGM and supported many of the shareholder proposals at the AGM, including a report on Protecting the Rights of Freedom of Association and Collective Bargaining, which gained support of 38.5%. LGIM will continue to engage with Amazon on these issues and push for further transparency.

During the year, the London CIV's stewardship provider, Hermes EOS, engaged with Thermo Fisher Scientific. The company is held within our Baillie Gifford equity fund and is a supplier of medical equipment, instruments, consumables and software using in clinical laboratories. Thermo Fisher has faced criticism over alleged human rights abuses by selling equipment used for genetic surveillance of a minority group in Xinjiang, China. EOS informed that the company had ceased sales of the medical instrument in that region, however urged the company to establish a policy on human rights and to conduct a human rights impact assessment on the use of genetic sequencing equipment. Though the company did not directly address the specific human rights issues, Thermo did disclose a human rights policy that covered employment, child labour and freedom of association. As well as this, the company produced a statement on modern slavery and human trafficking addressing supply chain due diligence, conflict minerals, and risk assessment and management. EOS have also suggested that the company increase public disclosures on ongoing use of equipment and map out supply chain links to the Xinjiang region. Hermes EOS will continue to engage with the company on enhancing its human rights policy, improving disclosures and appointment of external human rights expertise on the board.

The Fund recognises that more needs to be done to develop its approach to exercising its rights and responsibilities, particularly with regards the reporting of voting and engagement for scrutiny by the Pension Fund Committee and Pension Board and the public disclosure of such information for its members' benefit. It will continue to work with its advisers, fund managers, the London CIV and LAPFF in 2023/24 to refine and improve its approach.

Cllr Robert Eagleton
Chair of the Pension Fund Committee

Phil Triggs
Tri-Borough Director of Treasury and Pensions

19 October 2023

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**7 March 2024**
Classification:	**Public**
Title:	**Responsible Investment Statement 2024**
Wards Affected:	**None**
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 In late 2019, the Local Government Pension Scheme (LGPS) Scheme Advisory Board (SAB) issued draft guidance on Responsible Investment in the LGPS. This guidance outlined the duties of investment decision makers in LGPS administering authorities.

1.2 This paper introduces the 2024 Responsible Investment Statement for the Westminster Pension Fund, which is attached as Appendix 1 to this paper.

2 Recommendation

2.1 The Pension Fund Committee is requested to:

- Note and comment on the Responsible Investment (RI) Statement;
- Delegate authority to the Tri-Borough Director of Treasury and Pensions to publish the RI Statement on the Council's website.

3 Background

3.1 The purpose of the Responsible Investment Statement is to make clear the Pension Fund's approach to investing responsibly. This includes the integration of environmental, social and governance (ESG) factors as part of the Pension Fund's investment strategy.

3.2 The aim of the Responsible Investment Statement is to demonstrate to scheme members the direction in which the Pension Fund is moving in terms of responsible investment, decarbonisation/climate change and other ESG related issues.

3.3 The statement covers in detail topics such as:

- **Investment journey:** since 2019 the Fund has made a number of conscious investment decisions to improve the ESG impact of the Fund's investments. This includes transitioning all equities into ESG-tilted mandates, investment within renewable infrastructure and commitments to affordable and socially support housing.

- **Carbon journey:** over the last three years, the Pension Fund has taken significant steps to reduce its carbon footprint. Since June 2019, the Fund's CO2 emissions have fallen by circa 59% to 31 December 2023.

- **United Nations (UN) Sustainable Development Goals (SDGs):** as adopted by UN members during 2016, the SDGs are goals that call for urgent action by all developed countries. The RI Statement sets out how the Pension Fund is helping to work towards achieving these goals through its investment assets.

- **Voting and engagement:** collaboration with key stakeholders in the investment community will be key in influencing companies to run their businesses more sustainably.

3.4 Several investment cases study examples have also been included in the RI statement to demonstrate how the Pension Fund has been implementing the policy.

3.5 This statement will be subject to regular, ongoing review.

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

Billie Emery bemery@westminster.gov.uk

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1: Responsible Investment Statement 2024

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Responsible Investment Statement

City of Westminster Pension Fund • 2024

UK STEWARDSHIP CODE

City of Westminster

Table of Contents

Introduction

Welcome to the City of Westminster Pension Fund's 2024 Responsible Investment Statement.

Responsible Investment is defined by the United Nation's 'Principles for Responsible Investment' as an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into the investment decision making process. This is beneficial for the Pension Fund as it helps us to better manage risks, generates more sustainable returns in the long term, diversifies from mainstream asset classes and supports the Councils target for net-zero emissions by 2030.

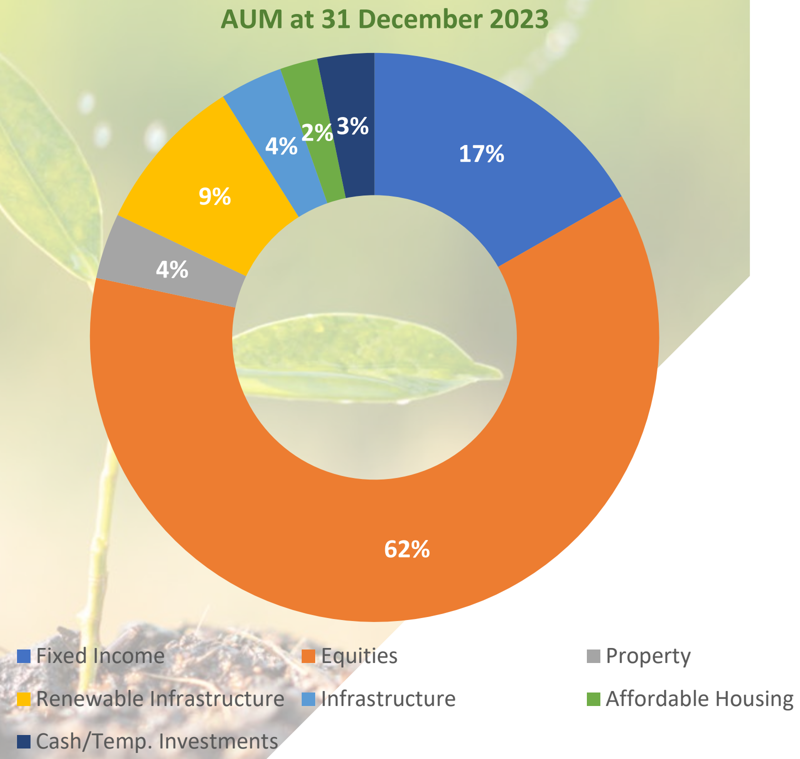
ESG refers to the three central factors, Environment, Social and Corporate Governance, in measuring the sustainability and societal impact of an investment. There are a wide range of ESG issues, with none greater currently than climate change and carbon reduction. The Pension Fund recognises climate change as the biggest threat to global sustainability alongside its administering authority employer, Westminster City Council.

The Westminster Pension Fund is part of the national Local Government Pension Scheme (LGPS), administered by Westminster City Council. It is a contributory defined benefit pension scheme established under statute, which provides for the payment of benefits to employees and former employees of the Westminster City Council and the admitted and scheduled bodies in the Fund.

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and returns from the Fund's investments. Contribution rates for employees and employers are set by the Fund's actuary at the actuarial valuation which is carried out every three years.

The most recent revaluation was carried out on 31 March 2022, with the Pension Fund's funding level increasing to 128% from 99% in 2019. The main drivers for this improvement were the strong investment returns and significant additional deficit recovery payments received from the Council.

As at 31 December 2023, the market value of the Pension Fund was £1.907bn. The Fund invests in a diverse range of assets including; equities, property, infrastructure, affordable housing, fixed income and absolute return. The Fund's assets are managed by individual fund managers who specialise in that asset class.



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Key Facts

£1.9bn

55%

ESG-tilted equities

11%

Renewable Energy

5%

Affordable Housing

93%

affordable homes

£60m

solar power assets

71%

ESG-tilted investments

59%

carbon reduction

£10m

windfarm assets

1,295

new homes built

Investment Beliefs

Governing all investment decisions are the Committee's core investment beliefs, which have been established based on the views of the members. The Fund's investment beliefs are high-level statements which direct our investment decisions. A summary of the beliefs can be found below, with a more detailed statement available within the Investment Strategy Statement.

Environmental, Social and Governance (ESG) factors

- ESG factors can be financially material and may influence the risk and return characteristics of the Fund's investments.
- Well governed companies that manage their business in a responsible manner are less vulnerable to downside risk.
- Asset managers should exercise the voting rights.
- Environmental considerations should reflect a growing urgency required in its decision-making processes.
- If an investment manager fails to adequately consider ESG issues, the Committee is prepared to disinvest assets from that manager.

Investment Governance

- The Fund has access to skills and resources to manage the Fund.
- Investment consultants and officers are a source of expertise to inform and assist the Committee's decisions.
- The ultimate aim of the Fund's investments is to pay pension liabilities when they become due.
- The Fund is continuously improving its governance structure through bespoke training, but acknowledges that it is not possible to achieve optimum market timing.

Asset Allocation

- Allocations to asset classes other than equities and government bonds offer the Fund other forms of risk premia.
- 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.
- 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.

Long Term Approach

- The strength of the employers' covenant allows the Fund to take a longer term view of investment strategy than most investors.
- The most important aspect of risk is not the volatility of returns, but the risk of absolute loss over the medium and long term.
- Illiquidity and volatility are shorter term risks which offer potential sources of additional compensation to the long term investor.
- Over the long term, equities are expected to outperform other liquid assets, particularly government bonds and cash.

Management Strategies

- A well-balanced portfolio has an appropriate mix of passive and active investments.
- Passive style management provides low cost exposure to equities and bonds, and is especially attractive in efficient markets.
- Active management will typically incur higher investment management fees but can provide additional return.
- Active management performance should be monitored over multi-year rolling cycles.
- Employing a range of management styles can reduce the volatility.

Investment Journey

The City of Westminster Pension Fund is committed to investing responsibly and incorporating environmental, social and governance (ESG) factors into the investment process. Since 2019, the Fund has made a number of conscious investment decisions to reduce the carbon impact of the Pension Fund, as well as, creating a positive impact for communities across the UK.

September 2019

Westminster City Council declared a climate emergency and Pension Fund starts capturing carbon emissions data for the Fund's equity managers.

November 2020

Transitioned into Global Quality Equity Fund, which seeks to provide a high-quality global portfolio of companies, however, excludes tobacco, alcohol, gambling, weapons, fossil fuels, and gas or electrical utilities.

November 2020

Transitioned into the LGIM Future World Equity Fund, whereby an Environmental, Social and Governance screening of companies takes place to remove those companies which do not meet the required ESG criteria.

December 2020

£110m committed to renewable infrastructure, selecting Macquarie and Quinbrook to manager, with assets targeted to solar power, windfarms, and supporting infrastructure such as battery storage and connection assets.

December 2021

£90m committed to affordable housing, selecting Man Group to manage £45m, with a long term goal of providing 13,000 new homes that cost no more than 35% of a households gross income.

December 2022

Baillie Gifford Global Equity transitioned into Paris Aligned fund, which screens out companies with exposure to the fossil fuels industry, and those that will not play a role in the future transition to a low carbon environment.

February 2023

The Pension Fund was successful in its application to become a signatory to the UK Stewardship Code 2020, amongst only a handful of LGPS Funds to achieve this status.

June 2023

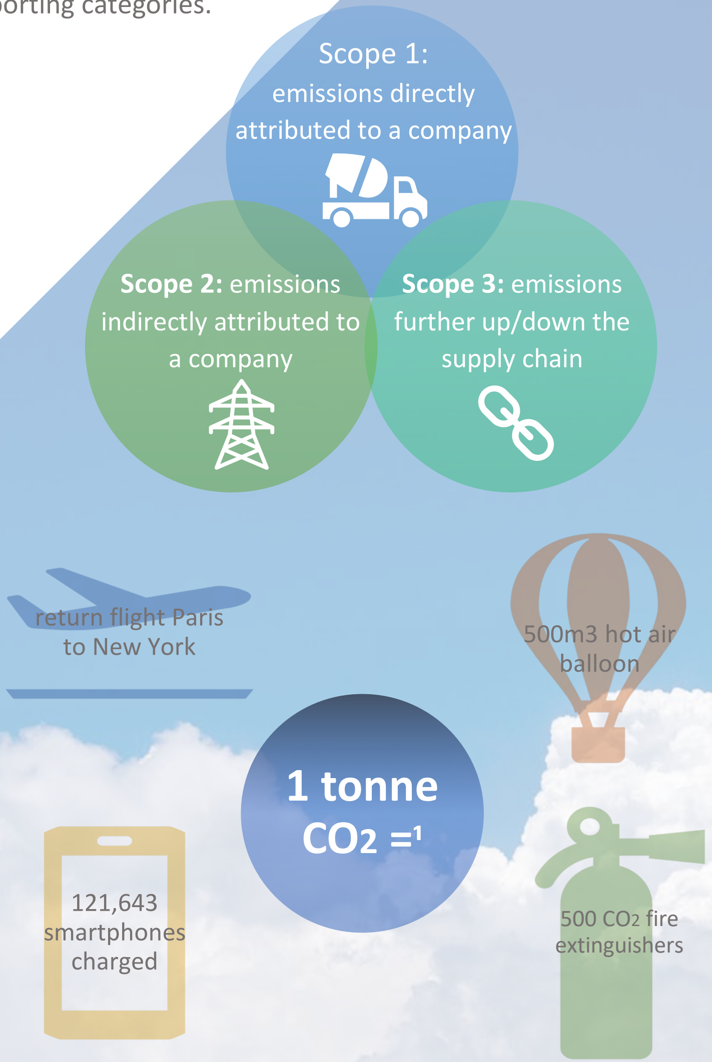
A further £90m committed to the Quinbrook Renewables Impact Fund, with funds to be transitioned from the active global equity managers.

June 2023

The London CIV were selected to manage the remaining allocation to affordable housing, including a focus on specialist and transitional supported housing.

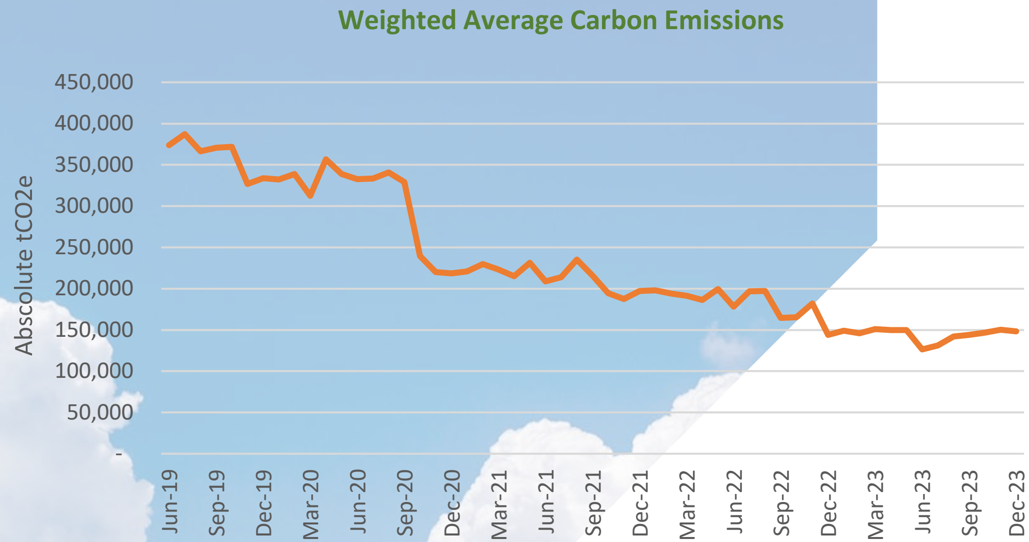
Carbon Emissions

The Greenhouse Gas (GHG) emissions of the Pension Fund are reported in tonnes of CO_2 (tCO_2e). Carbon emissions can be broken down into three reporting categories.



The following chart plots the absolute tonnes of CO_2 emissions of the Pension Fund from 30 June 2019 to 31 ember 2023. It is estimated that the Fund has reduced its CO_2 emissions by circa 59% over this period.

Where possible the Fund reports on scope 1, 2 and 3 emissions, however as this data can be difficult to collect, this may vary amongst the Fund's asset classes and managers.



Please note the London CIV UK Housing Fund and Man Group Community Housing Fund carbon emissions are not included within this graph. As data becomes available, this will be incorporated into the analysis.

1: https://www.crownoil.co.uk/news/1-tonne-of-co2-what-does-it-look-like/

Stewardship Code

The Stewardship Code is a set of principles released in 2010 and updated in 2020 by the Financial Reporting Council, directed at institutional investors who hold voting rights in United Kingdom companies. Its principal aim is to make shareholders, who manage other people's money, be active and engage in corporate governance in the interests of their beneficiaries.

The UK Stewardship Code 2020 sets high stewardship standards for asset owners and asset managers, and for service providers that support them. 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.

To become a signatory of the Code, applicants must submit a Stewardship Report to the FRC demonstrating how the principles of the Code have been applied during the previous 12 months. The FRC reviews applications to assess whether they meet its expected reporting standards, and successful organisations are listed as a signatory to the Code. Once accepted onto the signatories list, organisations must reapply annually.

Westminster City Council Pension Fund Stewardship Report 2023

The City of Westminster Pension Fund was accepted as a signatory to the UK Stewardship Code during February 2023. The Stewardship Report for 2023 can be located on the Pension Fund webpage.

As detailed in the report, the Pension Fund made great strides during the year in relation to responsible investment and stewardship of the Fund's assets. As at 30 September 2022, the Fund had c.£58m invested within renewable infrastructure with a further c.£52m to be drawn. Assets are targeted to solar power, onshore and offshore wind, alongside supporting infrastructure such as battery storage and connection assets.

In addition, the Fund commissioned a review of its property mandates with a view to investing within social supported and affordable housing. The Pension Fund made commitments to both affordable housing and socially supported housing totalling 5% of the Fund. The allocation has a long-term goal of providing 13,000 new homes that cost no more than 35% of an average household's gross income and across sectors.

Renewables Impact Modelling

c.**780,000** tCO_2 offset over assets lives

250 MWs of pipeline assets

offset equivalent of c.**3.2m** trees planted for 10 years

UK Solar power plant **65** MW capacity

6 assets; including 2 windfarms and 4 solar farms

Renden Solar power **1,147** MW capacity

Quinbrook Renewable Impact Fund

Macquarie Renewable Energy Fund

c.**25,415** homes powered per annum

822 regional jobs expected during fund lifetime

2,671 MV aggregate capacity

Ventos de Sao wind farm **456** MW capacity

c.£**23**m economic contribution to local communities

c.**25,834** tCO2 offset per annum

Based on a portfolio of 373MW solar, 666MWBESS, 410MVA Synchronous Condenser; the information is based on the model" May 2023 Quinbrook Renewables Impact Fund. Please note all figures have been estimated, so may not be a true reflection of actual impact.

Based on Westminster's commitment of EUR 55 million, circa 3.4% of total fund size, and includes CO_2 offset estimates based on the six assets currently held in the fund. Please note all figures have been estimated, so may not be a true reflection of actual impact.

United Nations Sustainable Development Goals

During 2016, all United Nations (UN) members adopted the 2030 Agenda for Sustainable Development, at the heart of this was the 17 Sustainable Development Goals (SDGs). These goals call for urgent action by all developed and developing countries, for ending poverty, global hunger, improving health and education, reducing inequality, tackling climate change and promoting global economic growth.[1]

The UN's 17 Sustainable Development Goals are set out below:

The City of Westminster Pension Fund's asset managers meet a number of the SDGs as set out by the United Nations. The chart below highlights the goals which the funds asset managers have been most successful in addressing. These include significant work towards addressing the gender pay gay, reducing deaths and illness from air pollution, developing reliable renewable infrastructure, efficient use of natural resources and improving impact on climate change mitigation.

Sources: 1: https://sdgs.un.org/goals 2:Chart includes data from Abrdn, London CIV, LGIM, Macquarie, Man Group, Pantheon and Quinbrook

SDG Case Studies

Macquarie Renewable Infrastructure

Goal 3: Reducing deaths and illnesses from air pollution, by avoiding harmful air pollutants due to renewable energy generation.

Goals 7 & 9: Increase sustainability of renewable energy, whilst developing quality and resilient infrastructure, with 2,671 MW of renewable energy generation to local grids.

Goal 12: Achieve sustainable management and efficient use of natural resources, by avoiding 942kt of oil consumption annually.

Goal 13: Improve human and institutional capacity on climate change mitigation by raising awareness on climate change, with a forecast to avoid 2,121 kt CO2 greenhouse gas emissions annually.

Man Group Community Housing

Goals 1 & 10: Increasing the number of quality and environmentally sustainable homes to meet affordable housing needs including shared ownership and rented at a % of local median income.

Goal 3: Increasing the percentage of homes that meet the Decent Home standards, Building for Life 12 accreditation and Nationally Described Space Standard (NDSS).

Goals 7 & 11 & 13: The portfolio provides environmentally sustainable homes with valid energy performance certificates, including the use of solar panels, electric charging points and a reduction in CO2 emissions against the Target Emission Rate.

Quinbrook Renewable Impact Fund

Goals 1 & 10: No poverty and reduced inequalities through fair work and diligence in human rights and processes against modern slavery.

Goal 3: Better environmental justice to avoid pollution and fossil fuel emissions for communities.

Goal 4: Supporting schools and universities in the adoption of renewable energy and support improved education.

Goal 5: Supporting gender equality through fair and non-discriminatory hiring and engagement policies.

Goal 7: Providing renewable energy, in particular in community settings and disadvantaged areas.

Goal 8: Providing jobs in rural areas where assets are located and training in areas of job displacement.

Goal 9: Investing and partnering with business that are driving new energy innovation and infrastructure.

Goals 11 & 12: Building assets to support sustainable cities and communities and enabling a fairer transition to sustainable energy sources.

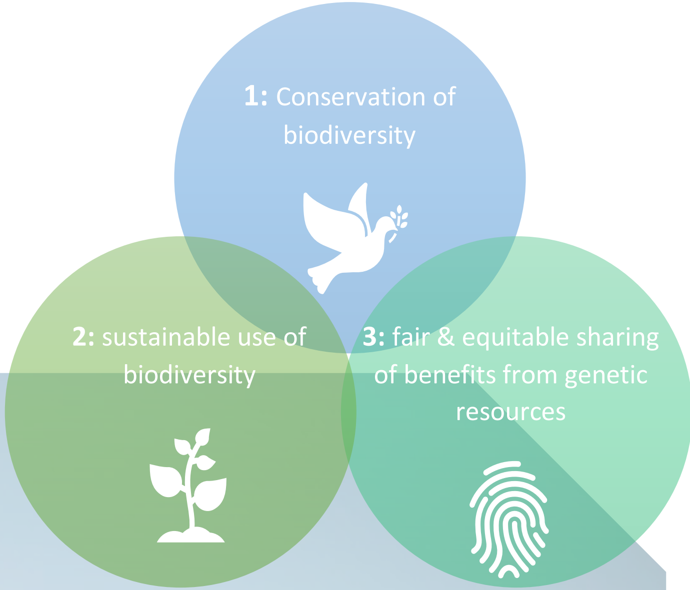
Goal 13: Creating new assets through project development and construction that help to avoid emissions and tackle climate change.

Goal 15: Initiates such as support of wildlife pollination programs and tortoise rehabilitation programs.

Goal 16: Strong institutions through improved governance and alignment with the United Nations Compact.

Nature Positivity & Restoration

Nature Positivity and restoration is the regeneration of the natural world, species and ecosystems, with a goal of halting further destruction of nature. The United Nations Convention on Biodiversity international treaty sets out three goals[1]. Under the Convention, governments are working towards a target of a nature positive world by 2030 and a recovery of nature by 2050[2].



Pantheon Global Infrastructure Fund

Within the Pantheon Global Infrastructure Fund, the Pension Fund has exposure to Viridor, a British recycling renewable energy and waste management company, as part of a co-investment deal. Viridor operates across the UK, providing waste collection, recycling and energy recovery services to businesses and local authorities.

Viridor focuses on transforming waste into resources, such as renewable energy through various technologies like anaerobic digestion and energy-from-waste facilities. The company aims to minimize waste sent to landfills and contribute to restoration of the natural world and promote biodiversity, actively closing a number of landfill sites across the UK.

Viridor holds eight biodiversity benchmark certificates for closed and restored landfill sites, with site management to create habitats, invasive species control and species monitoring surveys. Biodiversity baseline studies have been carried out to assess the potential of the sites to support key habitats and species in need of protection. With the study reflecting a range of habitats with high biodiversity value, with the possibility of development of habitats for rare species[3].

LGIM Deforestation Commitment

Legal & General Investment Management have signed the COP 26 Commitment on Eliminating Agricultural Commodity Driven Deforestation from Investment Portfolios. As a signatory, LGIM commits towards tackling commodity driven deforestation in its investment portfolio by 2025. This includes working towards the following milestones:

2022: Assess exposure to deforestation risk, establish investment policies addressing exposures and deepen engagement with highest risk holdings.

2023: Disclose deforestation risk and mitigation activities in portfolios, including due diligence and engagement.

2024: Publicly disclose progress on milestones to eliminate forest risk agricultural commodity-driven deforestation in the underlying holdings.

Sources: 1: https://www.cbd.int/undb/media/factsheets/undb-factsheets-en-web.pdf 2: https://www.cisl.cam.ac.uk/resources/nature-positive#:~:text=A%20global%20goal%20for%20nature&text=Under%20the%20UN%20Convention%20on,may%20fully%20recover%20by%202050 3: https://getnaturepositive.com/gnp-case-studies/viridor-tatchells-landfill-site/

ESG Case Studies

Environmental, Social and Governance factors are key indicators in measuring the sustainability and suitability of an investment. There is growing research which suggests, when integrated into business decisions and portfolio construction, these can offer stability in future returns.

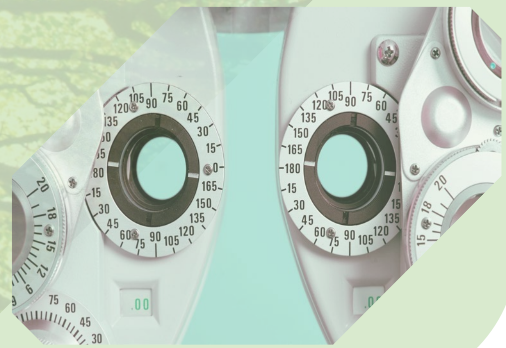
The Fund expects managers to integrate ESG factors into investment analysis and decision making. Monitoring these effectively can assist with resolving issues at early stages through effective engagement with companies and board members. The Fund expects asset managers where possible to engage and collaborate 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.

Rayner: *case study*

Rayner is a global ophthalmology business held within the CVC Credit Private Debt fund, the company specialises in ophthalmic medical products, including intraocular lenses and eye drops.

During 2022, CVC negotiated an ESG margin ratchet with Rayner's lenders to create a financial incentive for demonstrating material progress on ESG topics. Therefore, if there was an improvement in the company's ESG score, this would result in a reduction in the interest rate payable. This incentive resulted in a significant improvement in the company's ESG score, with Rayner receiving a silver EcoVadis medal and triggering a saving on their rate. The company is committed to prioritising sustainability, through supply chains, improving energy efficiencies, GHG emission reductions, efficient water usage and reduction in plastic packaging.



Source: CVC Credit Private Debt Fund

Toyota: *case study*

The Pension Fund holds the Toyota Motor Corporation within its Legal and General Future World Equity portfolio. LGIM have identified key issues around capital allocation decisions, and board independence, diversity and effectiveness.

During engagements, LGIM have raised the issue of climate change, board composition, cross shareholdings, lack of supervisory functions at board level, climate transition strategy and public policy engagements.

Following engagements on climate impact and alignment with 1.5C, Toyota have produced a climate public policy. Whilst this increased transparency is welcomed, LGIM will continue to engage in this area.

In addition, LGIM have had positive discussions with the outside directors on how they can add value and quality to the board. Going forward LGIM plan to continue engagement on corporate governance issues and push for better practices for governance and climate strategy.

Source: LGIM Active Ownership Report 2022

Thermo Fisher Scientific: *case study*

During the year, the London CIV's stewardship provider, Hermes EOS, engaged with Thermo Fisher Scientific. The company is held within our Baillie Gifford equity fund and is a supplier of medical equipment, instruments, consumables and software using in clinical laboratories.

Thermo Fisher has faced criticism over alleged human rights abuses by selling equipment used for genetic surveillance of a minority group in Xinjiang, China. EOS informed that the company had ceased sales of the medical instrument in that region, however urged the company to establish a policy on human rights and to conduct a human rights impact assessment on the use of genetic sequencing equipment. Though the company did not directly address the specific human rights issues, Thermo did disclose a human rights policy that covered employment, child labour and freedom of association. As well as this, the company produced a statement on modern slavery and human trafficking addressing supply chain due diligence, conflict minerals, and risk assessment and management.

EOS have also suggested that the company increase public disclosures on ongoing use of equipment and map out supply chain links to the Xinjiang region. Hermes EOS will continue to engage with the company on enhancing its human rights policy, improving disclosures and appointment of external human rights expertise on the board.

Source: London CIV Stewardship Outcomes Report 2022

Voting & Engagement

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.

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.

The Pension Fund views engagement with companies as an essential activity and encourages companies to take positive 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 all 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.

Voting: *Informa case study*

The Pension Fund holds Informa within its Legal and General Future World Equity portfolio. Informa is a leading international events, digital services and academic knowledge group.

Over many years LGIM have noted concerns about the company's remuneration practices. During 2022, LGIM voted against a number of resolutions in relation to director re-elections and remuneration policies. Informa's three prior remuneration policy votes each received high levels of dissent, with 60% votes cast against the 2021 remuneration report. At the same meeting the Remuneration Chair also closely avoided being unseated. Despite the significant shareholder dissent and the failed 2021 remuneration report, the company implemented pay wards and continued to make changes to the long term performance measures.

Since 2021, the Remuneration Chair has stepped down, however still continues to sit on the committee but with new committee members and a plan for a new renumeration policy. Although a positive change, the company's current requirements under the policy do not meet LGIM's minimum standards.

informa

Source: LGIM Voting Intentions 2022

Abrdn Long Lease Site Visit

During October 2023, the Pension Fund officers conducted a site visit of the Abrdn Long Lease Property fund, with assets focused on the commercial sectors including leisure, offices, recreation, warehouse distribution, supermarkets and healthcare. The visit was designed to provide an in-person experience of the types of assets within the portfolio, as well as gaining a better sense of the positive impact of the portfolio. The visit included locations across London including hotels, an office, a cancer hospital and a purpose-built pathology centre.

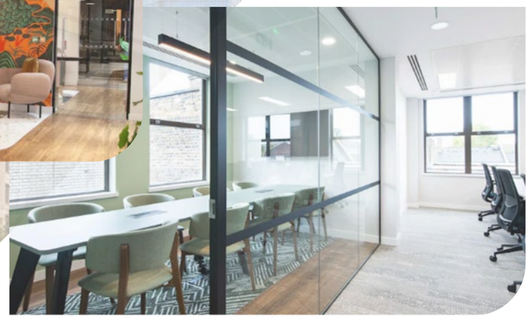
Friars Bridge Court Site

The Friars Bridge Court site is a medical facility in the process of being repurposed to provide centralised pathology services for Guy's and St Thomas' and Kings College Hospital NHS Foundation Trusts. This will release existing hospital laboratory floorspace allowing the partner Trusts to repurpose this space for other clinical or NHS services. Environmental considerations have been integral to the construction process – 83% of the previous fit has been recycled, the EPC rating is scheduled to improve from the present "B" to an "A" rating, and the BREAAM score is likely to be "Outstanding".

While two NHS Trusts will initially benefit from the shared pathology services, it is projected that many other hospitals, GP practices, community services, clinics and other healthcare organisations will take advantage of the industry leading expertise. The facility is expected to be the largest pathology testing site in Europe.

Bloomsbury Way Site

The Bloomsbury site is a flexible office space located within Holborn, London. A multi-million pound refurbishment of the site took place during late 2023, to improve the EPR rating to a minimum B rating. In addition, this included integration of ESG considerations, incorporating 100% renewable electricity, recycling, smart thermostats and occupancy sensors to reduce energy consumption.



Engagement Activity

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London CIV

Source: Abrdn Long Lease Property Fund

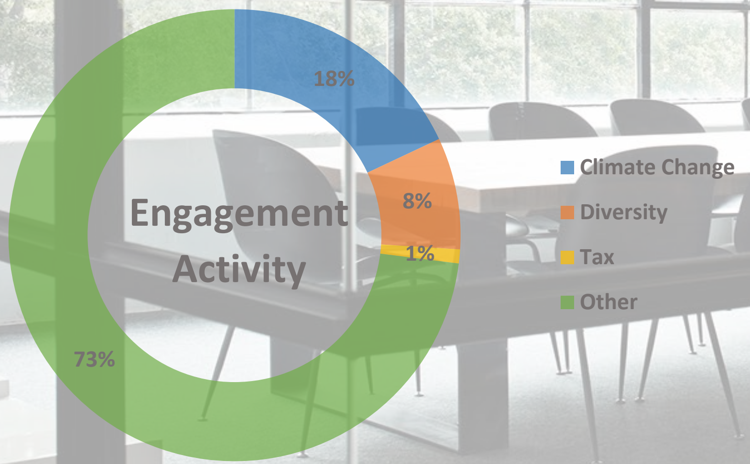
Engagements by Theme

Governance
420

Environment
344

Social
344

Other
166



Legal & General

Engagements by Theme

Governance
787

Environment
636

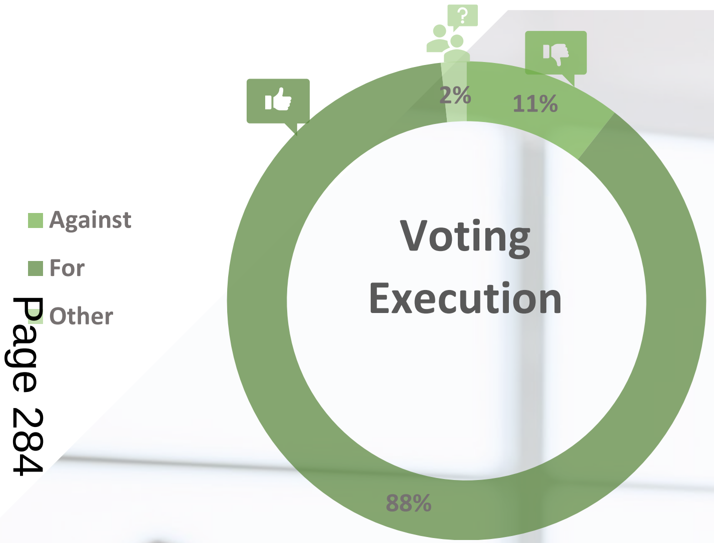
Social
271

Other
187

Sources: London CIV Responsible Investment and Stewardship Outcomes Report 2022 and LGIM Active Ownership 2023

Voting Activity

London CIV



Voting Themes

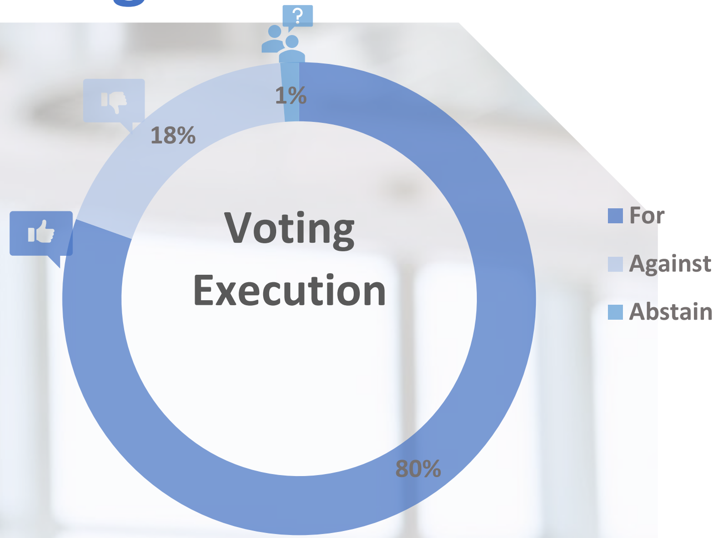
Director Related **1,750**

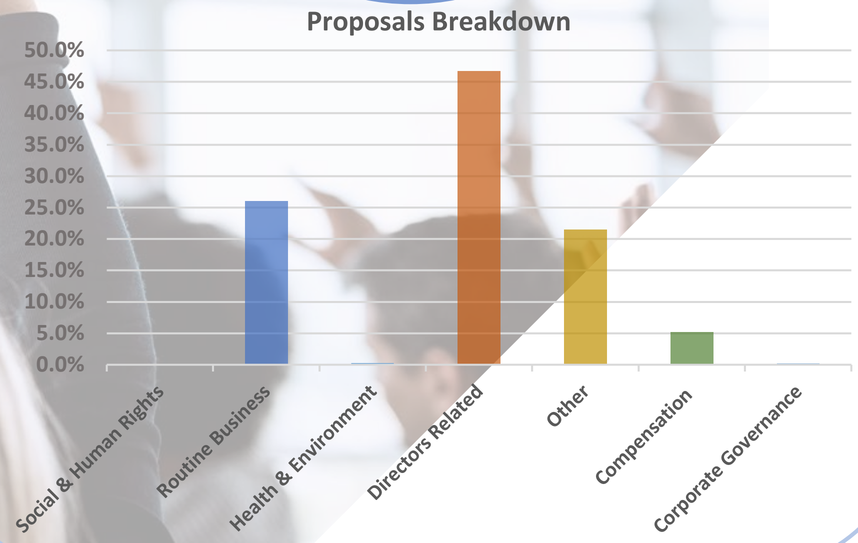
Compensation **347**

Human Rights **34**

Environment **32**

Legal & General





Source: London CIV Westminster Voting Data 2023 & LGIM Active Ownership 2023

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Connected Organisations

The Pension Fund recognises that significant value can be achieved through collaboration with other stakeholders. The Pension Fund works closely with its LGPS pool company, other LGPS funds and member groups such as the Local Authority Pension Fund Forum (LAPFF), Pensions and Lifetime Savings Association (PLSA) and ShareAction to ensure corporate interests are aligned with the Pension Fund's values.

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 LAPFF'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.

Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum are a collection of 84 local authority pension funds and 7 asset pool companies, with assets under management of over £350bn, promoting the highest standard of governance with the aim of protecting the long-term value of pension funds. The LAPFF engage directly with companies, on behalf of all asset owners and pension fund trustee members, on issues such as executive pay, reliable accounting and a transition to a net carbon zero economy.

LAPFF Case Study

The LAPFF produce quarterly engagement reports, covering all ESG related issues from climate change, governance, human rights and cyber security.

Over the quarter to 30 June 2023, the LAPFF engaged with 84 companies, including BP, Apple and the Rio Tinto. Following concerns around Shell's climate transition strategy under the previous CEO, LAPFF sought a meeting with the new CEO. Instead, Shell offered a meeting with the Chair, Sir Andrew Mackenzie. Although a challenging discussion initially, there was open conversation about the challenges of decarbonisation.

Given Sir Andrew is a new appointment, LAPFF recommended voting for his re-election and against the NEDs appointed prior to him. LAPFF noted at the AGM that Sir Andrew indicated that Shell would present a new Climate Transition Plan by 2024. Of particular interest is the extent of disclaimers in the Transition Plan itself and in the Annual Report's reference to the Transition Plan, which LAPFF believe is not reliable enough.

Source: LAPFF Quarterly Engagement Report 30 June 2023

Pensions and Lifetime Savings Association

The City of Westminster Pension Fund is a member of the PLSA, who aim to raise industry standards, share best practice and support members. The PLSA works across a range of stakeholders including governments, regulators and parliament to help the implementation of sustainable policies and regulation. They represent pension schemes providing retirement income to more than 30m savers, with assets under management totalling £1.3tn, including those in the public and private sectors.

The PLSA provide an important source for training, support and guidance on regulations and pension support services.

ShareAction

ShareAction is a registered charity who promotes responsible investment, working with investors to help influence how companies operate their business on a range of Environmental, Social and Governance (ESG) factors. This includes areas such as climate change, gender diversity, living wages, decarbonisation, biomass and healthy markets.

PLSA Case Study

During October 2023, the PLSA published a report looking at improving pensions adequacy, proposing 5 steps.

Whilst auto-enrolment has been successful in encouraging millions more to save for retirement, those enrolled are not saving enough. Therefore, the government has introduced reforms to the auto-enrolment scheme to target this shortfall, with more action needed.

Therefore, PLSA have proposed 5 steps for better pensions:

1.Set new goals for the pensions framework;
2.Maintain the triple lock on state pensions;
3.Increase contribution levels;
4.Additional help for the under pensioned groups;
5.Engagement with people on better pension outcomes.

Source: PLSA Five Steps to Better Pensions: Final Report

Healthy Markets Case Study

Since 2019, ShareAction has been working on a Healthy Markets coalition group. The Healthy Market Initiative aims to make food retailers and manufactures take accountability for their role and impact on people's diets. The City of Westminster is a member of the Healthy Markets coalition and along with 50 other members, represents over $8 trillion in assets under management.

During 2023, officers had the opportunity to attend meetings and ask questions with a number of large retailers and manufacturers, including Tesco, Unilever, Nestle and Coca-Cola.

Alongside this, the Fund co-signed a number of letters to companies asking for disclosures on healthiness of products, and further transparency, including; the proportion of healthy sales, nutrient profiling and commitment to targets.