



City of Westminster

Committee Report

Decision Maker: PENSION FUND COMMITTEE

Date: 21 March 2017

Classification: Public

Title: Feedback from Annual Fund Manager Monitoring Day

Wards Affected: All

Policy Context: Effective control over Council Activities

Financial Summary: There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.

Report of: Steven Mair
City Treasurer
smair@westminster.gov.uk
020 7641 2904

1. Executive Summary

1.1 The first annual fund manager monitoring day took place on 16th December 2016, with 7 fund managers attending to brief the Committee on their performance and outlook for the future.

2. Recommendation

2.1 That the report is noted

3. Background

3.1 At the Committee's meeting on 20 September 2016 it was agreed that members would meet with the fund managers managing the Fund's investments on an annual basis. It was agreed that this would take place during one day, where each active manager would have 30 minutes to give a refresher of their mandate and updates on their people, processes and performance.

3.2 The monitoring day took place on 16th December 2016 at Deloitte offices and the following managers attended:

- 8.30am London CIV – Asset Pool Operator
- 9.30am Baillie Gifford/London CIV – Pooled Global Equities
- 10.30am Majedie – Pooled UK Equities
- 11.30am Longview – Pooled Global Equities
- 1.15pm Insight – Segregated Bonds
- 2.15pm Hermes – Pooled Property
- 3.15pm Standard Life – Pooled Long Lease Property

3.3 Attached at Appendix 1 are the notes of the meetings which summarises the key points that were discussed. No fund manager specific issues were identified. The managers were vigorously challenged by the Committee members on the level of fees being proposed for joining the London CIV. The main issue arising was a strategic matter relating to the negative outlook for equity markets and likely future returns, expressed by several of the managers. This will input into the investment strategy review to commence once the actuarial valuation results are known.

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

Nikki Parsons nparsons@westminster.gov.uk or 020 7641 6925

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 – Notes of meeting with fund managers 16th December 2016

**City of Westminster Pension Fund
Fund Manager monitoring meetings – 16th December 2016**

Attendees:

Committee Members

Cllr Rahuja
Cllr Rowley
Cllr Cox

Officers

Pete Carpenter
Nikki Parsons

Advisers

Alistair Sutherland, Deloitte
Kevin Humpherson, Deloitte

1 London CIV – represented by Jill Davys and Julian Pendock

People & Business

- Westminster Pension Fund has one fund manager, Baillie Gifford, which transitioned to the London CIV in April 2016
- A complex search for equity managers is underway which has involved meetings with 57 fund managers. Sub-funds for income, emerging markets and sustainable equities may be available in the summer of 2017 with £1bn committed to these three areas
- Infrastructure is an area where the London CIV believe they can build value and a number of Boroughs are pushing for this
- The Investment Advisory Committee are looking into Fixed Income options, which will be of particular interest to Westminster
- Additional Internal resourcing is required to deliver the work planned and the Committee are happy to help support this

Process

- The London CIV will continue to facilitate direct meetings between funds and the Boroughs although the relationship is with the CIV

Performance

- Performance for Baillie Gifford sub-fund is provided in the next section
- Fee savings have already been achieved via the London CIV for the passive equities mandate managed by Legal and General. Discussions are on-going with other equity fund managers

2 Baillie Gifford – represented by Tom Wright and Fiona McCloud (Facilitated by Jill Davys, London CIV)

People & Business

- No changes to report

Process

- Will continue with their underlying philosophy

Performance

- Turnover is 13% which indicates holding periods of 7 years. This is significantly different from the Active Share Comparator
- Performance is 15.1% against 14.3% benchmark so are not achieving the 2-3% target currently.
- Since inception 10 years ago, they have delivered 2.5%
- The Committee challenged Baillie Gifford on the fee structure offered on the London CIV platform and the lack of savings for Westminster

Outlook

- Baillie Gifford has a research agenda which has generated around 50 ideas across emerging quality growth, technology platforms and energy & industrials markets. This should drive the future returns of the portfolio
- Politics across the world is a huge short term theme.

3 Majedie – represented by James de Uphaug and James Mowat

People & business

- All employees have a stake in the business.
- Still aiming to keep a small firm (£283m is a large mandate for them)

Process

- Have a distinctive investment process with strong returns.

Performance

- Since 2006 returned 10.4% per annum against 4.4% benchmark
- For 12 of the 14 years, have been well above the benchmark.

Outlook

- Inflation appears to be returning so the portfolio will have to change. Baillie Gifford has already taken steps to take account of this.
- Staples will be at risk if inflation rises
- There is a move towards passive, particularly in the USA
- Banks are still coming through as negative in the portfolio but this is starting to turnaround
- In the medium term, oil prices look to be on an upward trend

4 Longview – represented by Jessica Cameron and Stephen Burgess

People & business

- Longview has £16.5bn of sterling assets. Are now raising new assets and trying to slightly diversify their client base
- Northill own 55% of the stake since 2014
- Nigel Masding, research analyst, was asked to leave Longview earlier in the year
- There is no fund manager – they are all generalists

Process

- Global portfolio on 30-35 stocks selected bottom-up.
- Are index agnostic although they make sure there is diversification
- Three key criterion – quality, fundamentals and valuation. If any of these fail, the stocks are sold
- No energy or commodities stocks held as they are too unpredictable

Performance

- Brexit has affected the portfolio with lower interest rates and forecasts of growth.
- Were overweight in terms of sterling based equities

Outlook

- The top two detractors supply car components but in the medium and long term they will rise again
- Strongly noted by the Committee that Longview are very late in discussions for joining the London CIV

5 Insight – represented by Gary Wilkinson and April Larusse

People & business

- No changes

Process

- Have a five arrow process for fixed income to get additional value

Performance

- Non-gilts have returned around 23bps after fees
- High yield market has performed well
- Companies are more leveraged and using the bond market, but because interest rates are low it is not a massive problem
- ECB and other central banks with QE has given significantly more strength to Corporate Bonds so bonds are scarce
- Asset backed Securities are still showing insufficient supply for the demand

Outlook

- View is that interest rates will not be changed over the next year and the lever will be a fiscal stimulus like tax cuts
- Sterling bond market is getting smaller which is getting a bigger problem
- Main way of adding value is through security selection

6 Hermes – represented by Gareth Davies and Chris Matthew

People & business

- The total assets under management is £28bn.
- Were almost fully invested at the end of September 2016
- Potential interest from new investors

Process

- Have £1.3bn of directly owned stock and 89 assets with no debt.
- Their philosophy is that it is better to own and have control
- No upper target but only looking at 90-100 assets

Performance

- Are performing ahead of balanced fund indicator
- Overweight in the City and the West End
- Have not lost any rental transactions because of Brexit and no redemptions
- Property is a return of around 3% over 10 year gilts

Outlook

- Uncertainty would mean would not buy office property in the City but overall things are not over-valued
- Always better to buy the right property, even if it is in the wrong sector
- Hermes were encouraged by the Committee to go and talk to the London CIV

7 Standard Life – represented by Euan Baird and Richard Marshall

People & business

- Number of units has not changed but value has increased by £10m
- All holdings are UK based
- Fund is only available to institutional investors

Process

- Have a flexible approach
- Have reduced weighting from 32% to 22% on supermarkets over the last 2 years

Performance

- Expected yearly returns is in the 8% range
- Currently have a lot of university based accommodation
- Most leases being signed up are for shorter terms

Outlook

- Things are slowing but still huge uncertainties so cautious through to 2018
- Long term yield gap is 200bps – it is 630bps currently
- The distribution sector is growing