



City of Westminster

Committee Report

Decision Maker:	PENSION FUND COMMITTEE
Date:	18 October 2018
Classification:	General Release, Appendix 1 Not for Publication
Title:	Infrastructure Investment Strategy
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 <i>City Treasurer</i> smair@westminster.gov.uk 020 7641 2904

1. EXECUTIVE SUMMARY

1.1 This paper updates Members on:

- The different types of infrastructure investments.
- The proposed characteristics for the City of Westminster Pension Fund of an infrastructure investment.
- A proposed way forward for selection of an infrastructure manager.

2. RECOMMENDATIONS

2.1 That the Committee approves:

- Commencement of an Infrastructure manager search offering a product in line with the characteristics described in section 4.
- The value of this contract search to be 5% (circa £71.5m) of the total value of the City of Westminster Pension Fund.

3. INFRASTRUCTURE BACKGROUND

- 3.1 The Fund has long held a commitment to invest 5% of the investment portfolio in the infrastructure asset class, which has yet to be fulfilled.
- 3.2 The allocation to infrastructure was based around the following attractive characteristics:
- Diversification from other mainstream asset classes.
 - High CPI protected income yield.
 - Illiquidity premium that benefits longer term investors.
- 3.3 At the last Committee meeting on 20 August 2018, the decision was taken to further the investment in this area, with a special training session to be held on the asset class to ensure the Committee is fully briefed on all areas of infrastructure investing.
- 3.4 The Fund's investment consultant, Deloitte, will host this training on 16 October 2018.

4. WESTMINSTER INFRASTRUCTURE STRATEGY

- 4.1 The infrastructure investment universe is a very large one, with all the many different types set out in appendix 1 to this report.
- 4.2 To meet the Pension Fund's investment objectives, it is advised that the Infrastructure strategy pursued adopts the following three key areas:
- High income yield: The Fund is at a mature stage where it is in negative cash flow. Investment income yield is required to help bridge this gap.
 - Avoidance of "mega-cap projects": High valuations and intense competition over these assets make them a less attractive proposition.
 - Focus given to expected drawdown and speed of deployment: Avoidance of holding over fees and access to the market earlier highly desired.
- 4.3 The investment strategy will not prejudice either primary or secondary infrastructure investments, notwithstanding the complexity and scarcity of good value secondary infrastructure deals.
- 4.4 The strategy is also unbiased to types of assets and doesn't preclude green field investments necessarily, although they must fill the criteria of the three investment characteristics listed above.

5. INFRASTRUCTURE MANAGER PROCUREMENT

- 5.1 The procurement process is outside of the scope of the European Public Contract Regulations 2015 and the WCC internal Procurement Assurance

Board, provided the investment manager is selling units in a pooled fund, according to procurement and legal advice sought by Council officers. The Committee is therefore free to decide on how it wishes to conduct this process.

5.2 The proposal is as follows:

- Deloitte draws up the list of its highest rated infrastructure managers that meet the requirements above, ranking them accordingly to a set range of criteria.
- Council officers meet with Deloitte and agree a shortlisted three who should meet the Committee.
- The Committee will then be given a chance to question, challenge and clarify with individual managers, before making a selection in discussion with Deloitte and officers.
- The Committee should give regard to the London CIV's (LCIV) offering during this process, but it should be noted that no firm strategy is yet in place at the time of writing, only an outline proposal.

5.3 Deloitte have included two examples of highly rated infrastructure managers that meet the Fund's criteria, as well as a brief description of LCIV's proposed approach in appendix 1.

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

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BACKGROUND PAPERS: None

APPENDICES:

Appendix 1: Infrastructure investment paper (EXEMPT)