



City of Westminster

# Audit and Performance Committee Report

**Date:** 2 May 2019

**Classification:** General Release

**Title:** Pensions Investment and Administration Update

**Wards Affected:** All

**Financial Summary:** There are no immediate financial implications arising from this report.

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## 1. Executive Summary

- 1.1 This report presents an annual update on Pensions Investment and Administration, including the internal control processes in place, together with an update on the performance of the Pension Fund's investments, strategic asset allocation, investment manager arrangements and funding position to 31 March 2019.
- 1.2 The fund marginally underperformed the benchmark net of fees by 0.1% over the year to December 2018 and the estimated funding level as at 31 December 2018 was 94.5%. Therefore, the funding position remains currently stable subject to market volatility.
- 1.3 The total value of the Fund as at 31 March 2019 was £1,403m with an asset allocation of 9% within property, 1% in infrastructure, 69% invested in equities and 21% in fixed income.

## 2. Recommendations

- 2.1 The Committee is asked to note:
  - the pension fund's internal control processes;
  - the performance of the investments, and funding position;
  - the progress achieved with regard to recent manager appointment and by the Fund's pooling entity, the London Collective Investment Vehicle (LCIV);
  - the fund asset allocation and summary of changes over the last 12 months.

### **3. Internal Control Processes**

- 3.1 As part of its annual audit plan, Internal Audit undertakes reviews of the controls in place for pensions administration and pension investments. The most recent reviews for both functions have resulted in positive assurance reports with clear evidence that actions agreed by management have been implemented.

#### **Pensions Administration**

- 3.2 An internal audit review of the Pensions Administration Service was undertaken in 2018/19 and reported to the Audit and Performance Committee on 18 September 2018. The review included a follow up with successful outcomes on the implementation of recommendations made in the 2016/17 internal audit of this area.
- 3.3 People Services have worked with Hampshire County Council to ensure that there is an appropriate payroll interface to the pension administrator (Surrey County Council) from the SAP solution implemented in December 2018.

#### **Pension Investments**

- 3.4 An internal audit was undertaken in 2017/18 to provide the City Treasurer with assurance that internal controls in respect of pension investments are sufficiently robust following changes in personnel and accounting systems. The outcome of the review was reported to the Audit and Performance Committee on 23 April 2018.
- 3.5 Overall, the system controls were considered to be appropriate and internal audit identified that suitable internal controls were in place. A follow up review has recently been undertaken which is due to be reported to the next meeting of the Audit and Performance Committee.
- 3.6 The most recent review has confirmed that all previous recommendations have been implemented as follows:
- There are now comprehensive procedure notes now available including the fund manager versus custodian reconciliation.
  - Recent knowledge and skills assessments have been carried out for members involved with the Pension Fund, with training sessions hosted, including fixed income, equity protection strategies and infrastructure. A log is kept of all training sessions Council officers attend, with staff attending a variety of educational sessions. Individual training plans are discussed with each staff member at one-to-one meetings.
  - All investment management agreements are in place on the shared drive for Westminster Pension Fund managers where they exist, or the application forms where they are in place instead.

- Manager fees are checked before paying against the contracts (where invoices are paid direct) or are interrogated afterwards where fees are deducted at source.

### **Court Case**

- 3.7 A former manager in the Westminster City Council Treasury and Pensions team was found guilty of one charge of Fraud by Abuse of Position and one charge of concealing criminal property, and was sentenced to seven years in prison on 25 January 2019. The offences occurred in the financial year 2010/11.
- 3.8 The police investigation followed an internal audit investigation which identified payments of circa £1.1m had been transacted through the Pension Fund's global custodian account. The potential fraud was initially identified through accounting controls.
- 3.8 Following the identification and investigation of the fraud, a further review was undertaken, resulting in enhanced and tighter internal controls being put in place, especially in respect of the officer authorisation of transactions.

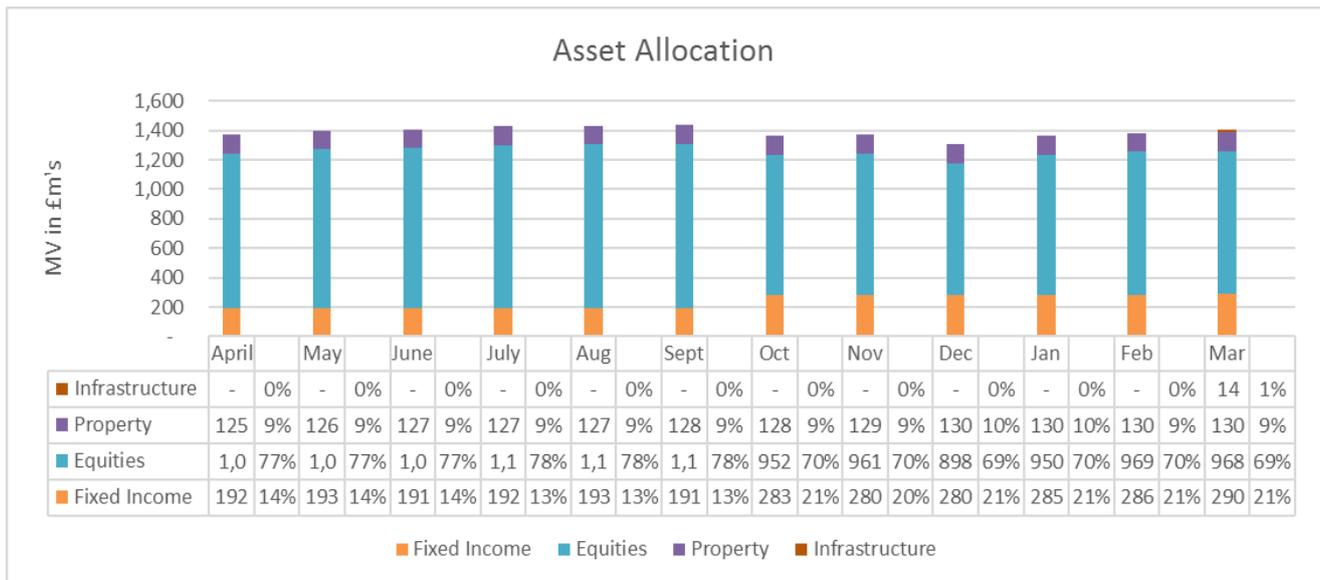
### **4. Pension Fund Investment Performance and Funding Level**

- 4.1 This report presents a summary of the Pension Fund's performance and estimated funding level to 31 December 2018. The investment performance report (Appendix 1) has been prepared by Deloitte, the Fund's investment advisor.
- 4.2 The Investment Performance Report shows that the fund marginally underperformed the benchmark net of fees by 0.1%, with Aberdeen Standard and Longview being the major positive contributors, offsetting underperformance from Majedie and Baillie Gifford.
- 4.3 The advisors continue to rate the fund managers favourably, with the exception of Longview as a result of the retirement of the Chief Executive, Ramzi Rishani, in December 2018, and this remains a major concern. In January 2019, Marina Lund was appointed as the sole Chief Executive following her role as Co-Chief Executive since 2014. The Pension Fund Committee approved a phased disinvestment of the Longview portfolio, as outlined in Section 5 below.
- 4.4 Advisors have also expressed ongoing concern about the historical resignations and vacancies at senior management level within the Pension Fund's pooling entity, the London Collective Investment Vehicle (LCIV), and continue to monitor developments. Recent positive progress has been made. On 4 March 2019, ex LB Camden S151 Officer, Mike O'Donnell, commenced his role as LCIV's new Chief Executive, and this will allow the LCIV to move forward quickly with the recruitment of a replacement Chief Investment Officer.
- 4.5 The funding update (Appendix 2) has been prepared by the fund actuary, Barnett Waddingham. The estimated funding level for the Westminster City Council Fund as assessed by the actuary as at 31 December 2018 was 94.5% (89.8% at 31 December 2017), an increase of 4.7% over the year. The position

is an improvement on the 31 March 2018 of funding level of 92.2% and is also up 14.5% on the funding level of 80% that was calculated and reported at the outcome of the previous triennial valuation at 31 March 2016.

## 5. Asset Allocation and Summary of Changes

5.1 The chart below shows the changes in asset allocation of the fund from 1 April 2018 to 31 March 2019. Asset allocations may vary due to changes in market value.



\*Fixed Income includes bonds and Multi Asset Credit

5.2 The Westminster Pension Fund target asset allocation is 65% of assets allocated to equities, 20% to fixed income, 5% to infrastructure and 10% to property.

5.3 On 6 April 2018, the Pension Fund fund transitioned £174m of assets in to the Insight Asset Management Buy and Maintain Bonds portfolio from the Insight Gilt and Non-Gilt Funds, following a fixed income investment manager selection process implemented by the Pension Fund Committee during November 2017.

5.4 In June 2018, the Fund's investment advisor undertook a review of the Longview equity mandate with the Fund being 12% overweight against its policy asset allocation to equities. The Pension Fund Committee elected to rebalance the Fund's portfolio by selling down its entire holdings in the Longview mandate during 2018 and 2019, with the intention of transitioning the portfolio into multi asset credit and infrastructure asset classes.

5.5 During August 2018, the Pension Fund Committee appointed CQS Asset Management as its fixed income manager Multi Asset Credit (MAC) via the London CIV fixed income platform. The CQS MAC fund offers diversification in a wide variety of different fixed income securities that are resilient at different

stages in the economic cycle. A £91m transfer of assets from Longview to the CQS MAC portfolio took place on 30 October 2018.

- 5.6 In December 2018, following an investment manager selection process, the Pension Fund Committee appointed Pantheon Asset Management as the Fund's new Infrastructure Manager. The remaining part of the portfolio held with Longview will be sold and the remaining £70m transitioned in to the Pantheon Global Infrastructure Fund III over a phased period. The first drawdown took place on 20 March 2019, with £14m in cash held with the global custodian transferred to Pantheon.
- 5.7 The total value of Pension Fund investments transferred to the LCIV at 31 March 2019 was £989 million. With a total of 70% of the Westminster Pension Fund value held under the LCIV's jurisdiction at 31 March 2019, this takes the City of Westminster Pension Fund to the highest proportion of LB Borough pension funds invested with the LCIV.

**If you have any queries about this Report or wish to inspect any of the Background Papers please contact:**

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**BACKGROUND PAPERS:** None

**APPENDICES:**

Appendix 1: Deloitte Investment Report, Quarter Ending 31 December 2018

Appendix 2: Barnett Waddingham Funding Update as at 31 December 2018