

# Committee Report

<b>Decision Maker:</b>	<b>PENSION FUND COMMITTEE</b>
<b>Date:</b>	<b>20 June 2019</b>
<b>Classification:</b>	<b>General Release</b>
<b>Title:</b>	<b>Performance of the Council's Pension Fund</b>
<b>Wards Affected:</b>	<b>All</b>
<b>Policy Context:</b>	<b>Effective control over council activities</b>
<b>Financial Summary:</b>	<b>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.</b>
<b>Report of:</b>	<b>Phil Triggs</b> <b><i>Tri-Borough Director of Treasury and Pensions</i></b> <a href="mailto:ptriggs@westminster.gov.uk">ptriggs@westminster.gov.uk</a> <b>020 7641 4136</b>

## 1. Executive Summary

- 1.1 This report presents the performance of the Pension Fund's investments to 31 March 2019, together with an update of the funding position as at 31 December 2018.
- 1.2 The Fund underperformed the benchmark net of fees by 0.6% over the year to 31 March 2019 and the estimated funding level as at 31 December 2018 was 94.5%. Therefore, the funding position remains stable subject to market volatility. An updated funding level will be provided once the triennial actuarial valuation has taken place.

## 2. Recommendation

- 2.1 The Committee is asked to note the performance of the investments, and funding position.

## 3. Background

- 3.1 The terms of reference of the Pension Fund Committee require the committee to monitor the performance of the Pension Fund, individual Fund Managers, and other service providers to ensure that they remain suitable.
- 3.2 This report presents a summary of the Pension Fund's performance to 31 March 2019 and estimated funding level to 31 December 2018. The investment performance report (Appendix 1) has been prepared by Deloitte, the Fund's investment adviser.
- 3.3 The Investment Performance Report shows that over the quarter to 31 March 2019 the market value of the assets increased by £98.1m to £1,409m, largely as a result of a resurgence in equity markets. Over the year to 31 March 2019, the market value of the assets increased by £78m to a value of £1,409m (£1,331m at 31 March 2018). The Fund marginally outperformed the benchmark net of fees by 0.6% over the 12-month period. This is mainly attributable to underperformance within the Majedie and Baillie Gifford mandates. However, this has been partly offset by strong performance from Longview, who outperformed their benchmark net of fees by 4.0% over the year.
- 3.4 Over the longer three-year period to 31 March 2019, the Fund outperformed the benchmark net of fees by 0.7%, with Aberdeen Standard and Baillie Gifford being the major contributors. Both Majedie and Longview underperformed their benchmarks net of fees by 2.2% and 0.2% respectively during this period.
- 3.5 The advisors continue to rate the fund managers favourably, with the exception of Longview and the retirement of the Chief Executive, Ramzi Rishani in December 2018 still a major concern. In the first quarter of 2019, Marina Lund was appointed as the sole CEO following her role as Co-CEO since 2014.
- 3.6 Advisors have also expressed ongoing concern about resignations and vacancies at senior management level within the London Collective Investment Vehicle (LCIV). During the first quarter of 2019, Mike O'Donnell was appointed as the LCIV's Chief Executive Officer, followed by the appointment of Mark Thompson as permanent CIO. Mark will start in September 2019 and brings with him over thirty years of experience in the financial services industry. Mark has held the position of CIO at HSBC Bank UK Pension Scheme for over eight years and worked for over twenty years at Prudential/M&G Investments in a variety of senior investment positions.
- 3.7 Majedie is currently looking to hire a UK Small Cap manager, following the decision to replace Richard Staveley in January 2019. At company level, LGIM announced that Michelle Scrimgeour will replace outgoing Mark Zinkula as CEO of LGIM (UK), subject to regulatory approval, and

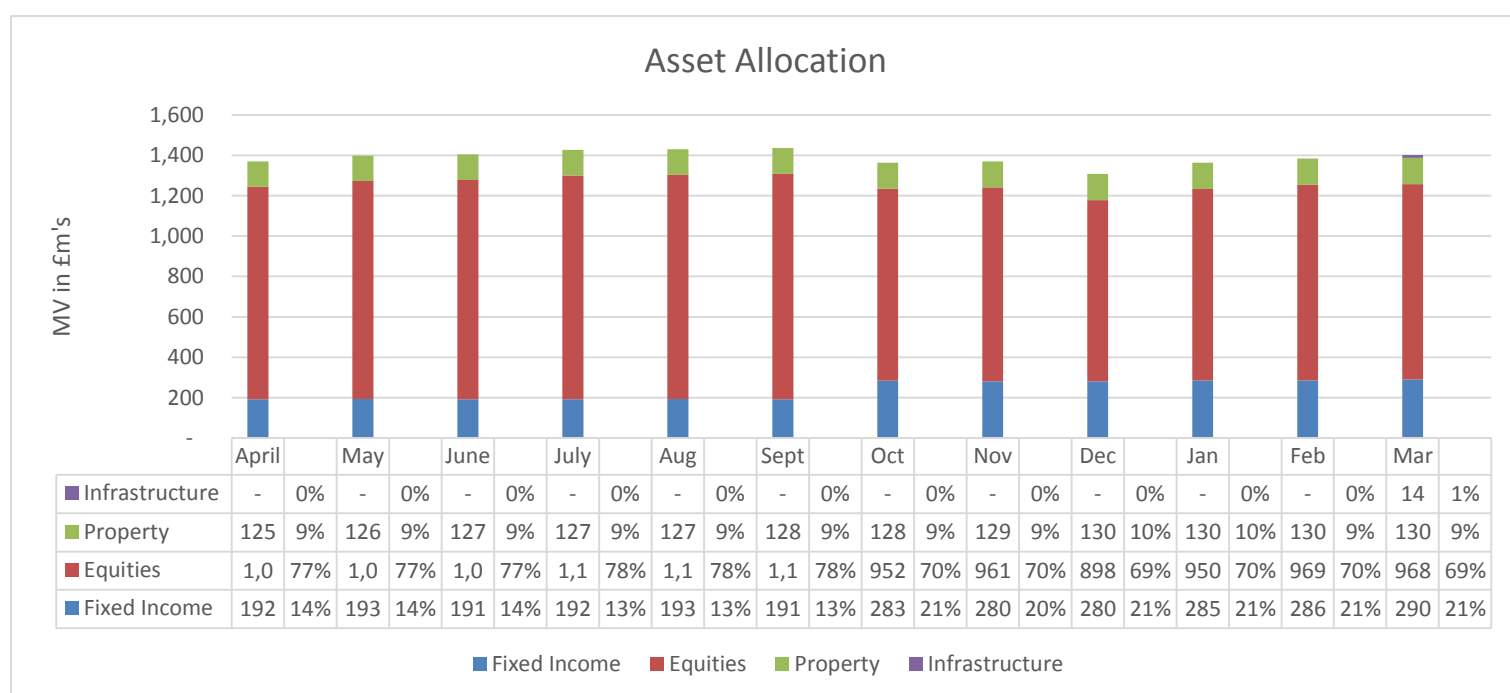
will work closely with Mark over the coming months until he leaves the business in August.

3.8 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 at 31 December 2018 was 94.5% (95.8% at 30 September 2018), a decrease of 1.3%. This was mainly due to a fall in equity markets up to 31 December 2018.

3.9 However, the position is an improvement on the 31 March 2018 of funding level of 92.2% and is also up 15.8% on the funding level of 80% that was calculated at the triennial valuation of 31 March 2016. An up-to-date funding level will be provided by the actuary once they have completed the triennial review as the actuarial assumptions and membership data will be updated.

#### 4. Asset Allocation and Summary of Changes for 2018/19

4.1 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

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

4.3 On 6 April 2018, the 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 manager selection process held by the Pension Fund Committee during November 2017.

- 4.4 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 gradually selling down its holdings in the Longview mandate, with the intention of transferring the portfolio into fixed income (multi asset credit) and infrastructure asset classes.
- 4.5 During August 2018, the Pension Fund Committee elected to further diversify the Fund in to a Multi Asset Credit (MAC) portfolio by selecting CQS as a fixed income manager via the London CIV platform. The LCIV CQS MAC fund offers diversification in a wide variety of different fixed income securities that are resilient at different stages of the economic cycle. A £91m transfer of assets from Longview to the CQS MAC portfolio took place on 30 October 2018.
- 4.6 In December 2018, following a manager selection process, the Pension Fund Committee selected Pantheon Asset Management as the Fund's Infrastructure Manager. The remainder of the portfolio held with Longview will be sold and £70m transitioned in to the Pantheon Global Infrastructure Fund III. The first drawdown took place on 20 March 2019, with £14m in cash held within the global custodian transferred to Pantheon.
- 4.7 The value of pension fund investments transferred to the LCIV at 31 March 2019 was £669 million. This represents 47% of Westminster's investment assets. A further £326 million continues to benefit from reduced management fees, Legal and General having reduced their fees to match those available through the LCIV.

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

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**BACKGROUND PAPERS:** None

**APPENDICES:**

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

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