



Pension Board

City of Westminster

Date:	9 July 2019
Classification:	General Release
Title:	Investment Strategy Consideration
Wards Affected:	All
Policy Context:	Effective control over council activities
Financial Summary:	There are no immediate financial implications arising from this report.
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1. Executive Summary

1.1 During 2019/20 and future years, the Pension Fund could receive a substantial sum in forward deficit recovery receipts. This report summarises the current strategic asset allocation and discusses the future investment strategy of the Fund, taking into consideration these potential receipts and the current triennial valuation outcome.

2. Recommendation

2.1 The Board is asked to note:

- the strategy consideration paper prepared by our investment advisor, Deloitte.
- the investment strategy, for the forward funding receipt, approved by the Pension Fund Committee on 20 June 2019.

3. Current Strategic Asset Allocation

3.1 During 2018/19, the benchmark strategic asset allocation of the Fund was: 65% equities, 20% fixed income, 10% property and 5% infrastructure. As at 31 March 2019, the actual asset allocation was: 69%

equities, 21% fixed income, 9% property and 1% infrastructure across seven fund managers.

- 3.2 The Fund will reach 5% asset allocation to infrastructure as the Pantheon fund draws down the allocation over the coming years, due to be transitioned from the Fund's Longview equities portfolio. The estimated median return of the current allocation is 5.4% p.a., with a standard deviation of 12.0% p.a.
- 3.3 The Fund has historically allocated a high proportion of equities due to the larger potential returns. However, the Fund has borne a higher level of risk as a result.

4. Future Strategy Considerations

- 4.1 The estimated funding level for the Westminster City Council Fund as assessed by the actuary at 31 December 2018 was 94.5%, with a £79m deficit. Future forward receipts could bring a full funding position. It is expected a review of the Investment Strategy Statement will take place following the triennial valuation but, in the meantime, the Pension Fund Committee should consider how to allocate these funds.
- 4.2 The investment advisor has set out the following options for consideration:
 - Invest the funds across the current strategic asset allocation - this would maintain a high level of equity risk.
 - De-risk the Fund by investing in fixed income - additional funds could be placed within the LCIV Multi Asset Credit (MAC) fund and Insight Buy and Maintain mandate given that both are relatively liquid. It is estimated that if the funds were allocated two-thirds to buy and maintain and one-third to MAC, the expected return would be 5.2% p.a. with a standard deviation of 11.3%, 0.7% lower than the current strategic allocation.
 - De-risk the Fund by investing in buy and maintain credit - the forward funding capital could be invested solely in the buy and maintain credit mandate, this would give an expected return of 5.1% p.a. and a lower standard deviation of 11.1%.

5. Pension Fund Committee Outcome

- 5.1 Following the Pension Fund Committee on 20 June 2019, the Committee opted to de-risk the Fund by investing in buy and maintain credit.

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 Strategy Consideration Report