



City of Westminster

Pension Board

Date:	27 November 2019
Classification:	General Release
Title:	Performance of the Council's Pension Fund
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:	Phil Triggs <i>Tri-Borough Director of Treasury and Pensions</i> pdriggs@westminster.gov.uk 020 7641 4136

1. Executive Summary

- 1.1 This report presents the performance of the Pension Fund's investments to 30 September 2019, together with an update of the funding position post actuarial valuation.
- 1.2 The Fund underperformed the benchmark net of fees by 0.6% over the quarter to 30 September 2019 and the estimated funding level following the triennial actuarial valuation has risen to 100% from the 80% level in 2016.

2. Recommendation

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

3. Background

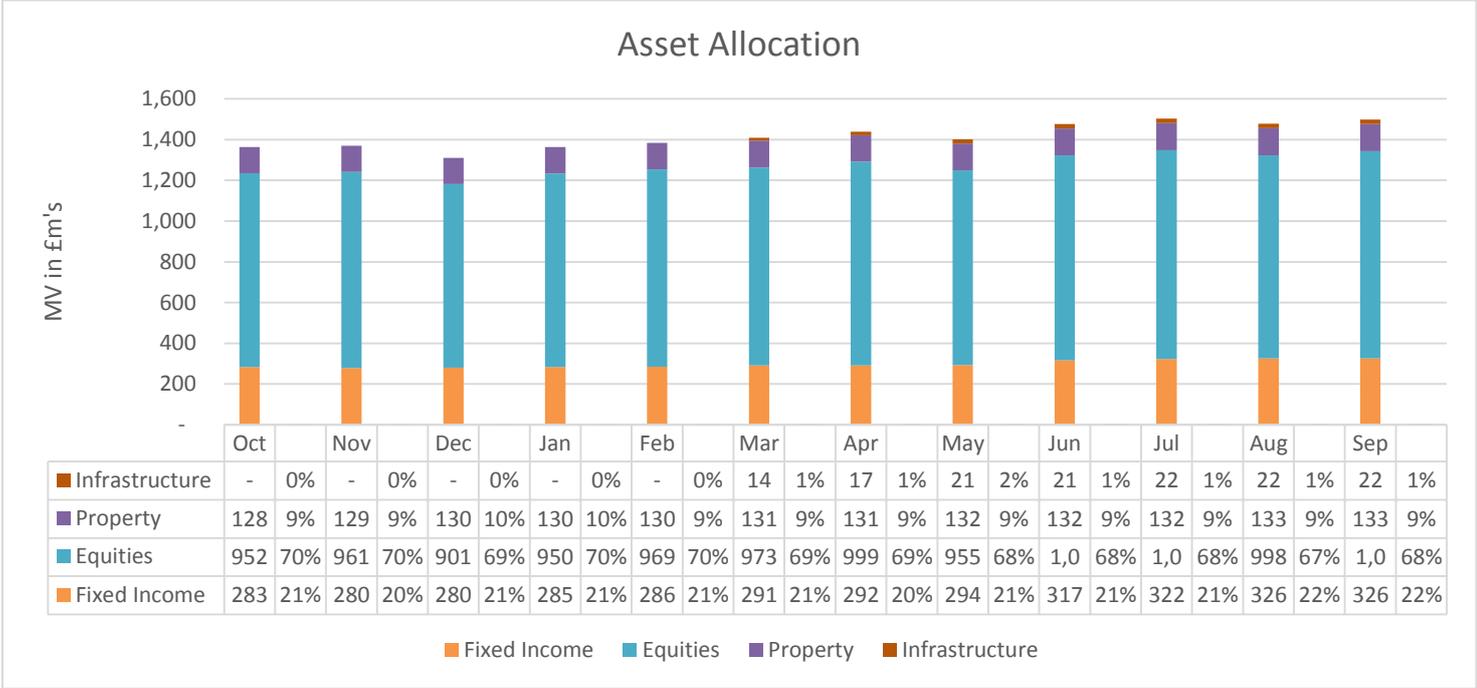
- 3.1 This report presents a summary of the Pension Fund's performance to 30 September 2019 and estimated funding level following the actuarial valuation. The investment performance report (Appendix 1) has been prepared by Deloitte, the Fund's investment adviser.
- 3.1 The investment performance report shows that over the quarter to 30 September 2019, the market value of the assets increased by £22m to £1,498m. The Fund marginally underperformed the benchmark net of fees by 0.6% over the quarter. All mandates provided a positive return during the quarter, although Majedie, Baillie Gifford, CQS, Hermes and Aberdeen Standard underperformed their benchmarks net of fees. Insight, Pantheon and Longview outperformed their benchmarks net of fees by 1.4%, 1.0% and 0.5% respectively over the three-month period.
- 3.2 Over the year the Fund underperformed its benchmark net of fees by 2.1%, largely as a result of negative performance within the Majedie portfolio and underperformance within the Standard Aberdeen mandate. It should be noted that the Standard Aberdeen Long Lease Property Fund is benchmarked against FTSE Gilts All Stocks +2.0% and over the year provided a positive contribution of 5.0% net of fees. Over the longer three-year period to 30 September 2019, the Fund outperformed the benchmark net of fees by 0.3%, with Aberdeen Standard and Baillie Gifford being the major contributors. Majedie underperformed their benchmarks net of fees by 2.7% during this period.
- 3.3 The advisors continue to rate the fund managers favourably, with the exception of Longview and Majedie. In Longview's case, the retirement of the Chief Executive in December 2018 is still a major concern. In addition, the advisors have also removed the Majedie UK Equity strategy from their rated manager list, following poor performance and changes to key management personnel.
- 3.4 Advisors have also expressed ongoing concern about resignations and vacancies at senior management level within the London Collective Investment Vehicle (LCIV). At the end of the quarter, following the commencement of his role as CIO during September 2019, Mark Thompson has announced his resignation from the position, citing that he could not commit to the overwhelming demands of the role. In the interim, Mike Pratten who was previously appointed as temporary CIO will return to the LCIV on a part time basis. It should also be noted that the London CIV placed asset manager CQS on watch during the quarter, Deloitte however continue to rate the manager favourably.
- 3.5 During the quarter Majedie announced the appointment of John King, who has previously worked at AXA, as the Lead Manager for the Majedie UK Smaller Companies. LGIM launched a number of new funds during the third quarter including regional index funds which track a range of ESG focused alternative indices. At company level, LGIM

continued the CEO handover as Michelle Scrimgeour replaced Mark Zinkula as CEO of LGIM (UK) who retired from the business in August. Michelle has over 30 years' experience at asset management firms, including the CEO position at Columbia Threadneedle and the Chief Risk Officer role at M&G Investments. Additionally, within the Index Team there were three new starters including the appointment of Anupe Dhanday as Portfolio Manager.

- 3.6 Over the quarter, Chris Matthew, Fund Director at Hermes, decided not to return to his full-time role at the company following a period of ill health within his family and left the business on 31 October 2019. Hermes announced that it would conduct a search to find a new Fund Director, in consultation with the HPUT Appointments Committee and HPUT Investors. In the interim, Chris Darroch, Executive Director at Hermes, will act as Fund Director until an appointment has been made. During the quarter, Russell Black was appointed as the permanent Fund Manager, having worked within the property team for over 15 years.
- 3.7 During October 2019, Martin Gilbert announced his intention to step down from his current positions and retire from his roles on the boards within Standard Aberdeen at the next AGM in May 2020. Martin started with Aberdeen Asset Management over 30 years ago and currently holds the positions of Chairman at Aberdeen Standard Investments and Vice Chairman of the Standard Life Aberdeen group.
- 3.8 Following the 2019 triennial actuarial valuation, the estimated funding level for the City of Westminster Pension Fund has risen to 100% (80% in 2016). This can be attributed to excellent investment returns during this period with global equities performing particularly well. The funding level for Westminster City Council as an employer has risen by 16% to 86% in 2019 from 70% in 2016, this is in part due to the Council's deficit recovery payments made to the Pension Fund during this period.

4. Asset Allocation and Summary of Changes

4.1 The chart below shows the changes in asset allocation of the Fund from 1 October 2018 to 30 September 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% within property.
- 4.3 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.
- 4.4 On 16 April 2019 a further Pantheon drawdown took place, with £2.2m transitioned from the Longview equity fund in to the Pantheon Global Infrastructure fund. During May 2019, an additional £3.4m was transferred from the Longview portfolio to Pantheon following another capital call notice.
- 4.5 During June 2019 £22m in deficit recovery receipts was received, £20m of this was invested within the Insight Buy and Maintain bond fund.

- 4.6 On 24 July 2019 a negative capital call totalling £4.1m took place within the Pantheon Global Infrastructure Fund, this was as a result of an equalisation following new partners entering the strategy. Following this capital calls of £0.9m and £1m took place on 20 August 2019 and 18 September 2019, using the cash received from the capital equalisation.
- 4.7 The value of pension fund investments transferred to the LCIV as at 30 September 2019 was £699m. This represents 47% of Westminster's investment assets. A further £342m 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:

Billie Emery pensionfund@westminster.gov.uk or 0207 641 7062

Background Papers: None

Appendices:

Appendix 1: Deloitte Investment Report, Quarter Ending 30 September 2019