

Communication Policy (continued)

The table below shows the availability of Fund publications along with their publication frequency and review periods.

Communication Material	Paper Based	Electronic Form	Intranet for staff	When Published	When reviewed
Pension Scheme Guide	√	√	√	Constantly available	Quarterly
Purchase of Additional Membership	√	X	√	Constantly available	Quarterly
Annual Benefit Statement	√	X	√	Annually	Annually
Statutory Notifications	√	X	X	On Joining & ABS	Annually
Pensions Updates	√	√	√	As required	After each Publication
Annual Pension Fund report	√	X	√	Annually	Annually
Early Leaver Information	√	√	√	Sent with Deferred benefits statement	Annually
Retirement Information	√	√	√	Sent with retirement details	Annually
Pensions Increase Letters	√	X	X	Annually	Annually
Actuarial Valuation Report	√	X	X	Tri-annually	Tri-annually
Pension Fund Committee	√	√	√	Quarterly	Quarterly
Communication Policy	√	√	√	Upon request	Quarterly
Governance Policy	√	√	√	Upon Request	Quarterly

Communication Policy (continued)

FURTHER INFORMATION

If you need more information about the Scheme you should contact Surrey County Council at the following address:

SURREY COUNTY COUNCIL

Pension Services (WCC Team)

Surrey County Council

Room 243, County Hall

Penrhyn Road

Kingston upon Thames

Surrey KT1 2DN

Email: myhelpdeskpensions@surreycc.gov.uk

General enquiries and complaints:

Phone: 0300 200 1031

Funding Strategy Statement

This is the Funding Strategy Statement for the City of Westminster Pension Fund (the Fund). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 as amended (the Regulations) and describes Westminster City Council's strategy, in its capacity as administering authority, for the funding of the City of Westminster Pension Fund.

The Fund's employers and the Fund Actuary, Barnett Waddingham LLP, have been consulted on the contents of this statement.

This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS) and has been prepared with regard to the guidance (Preparing and Maintaining a funding strategy statement in the LGPS 2016 edition) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1. PURPOSE OF THE FUNDING STRATEGY STATEMENT

1.1 The purpose of this Funding Strategy Statement (FSS) is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as required by Regulation 62(6) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way

that ensures the solvency and long-term cost efficiency of the Fund are met; and

- Take a prudent longer-term view of funding those liabilities.

2. AIMS AND PURPOSE OF THE FUND

2.1 The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike; and
- Seek returns on investment within reasonable risk parameters.

2.2 The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits to Scheme members as provided for under the Regulations;
- Meet the costs associated in administering the Fund; and

- Receive and invest contributions, transfer values and investment income.

3. FUNDING OBJECTIVES

3.1 Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

3.2 The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

3.3 In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service

Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations are set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme so far as relating to the pension Fund. The review also looks at compliance and consistency of the actuarial valuations.

4. RESPONSIBILITIES OF KEY PARTIES

4.1 The key parties involved in the funding process and their responsibilities are set out below.

The Administering Authority

4.2 The administering authority for the Fund is Westminster City Council. The main responsibilities of the administering authority are to:

- Operate the Fund in accordance with the LGPS Regulations;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets in accordance with the Fund's Investment Strategy Statement;
- Pay the benefits due to Scheme members as stipulated in the Regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;

- Prepare and maintain this FSS and also the ISS after consultation with other interested parties;
- Monitor all aspects of the Fund's performance;
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme employer; and
- Enable the Local Pension Board to review the valuation process as they see fit.

Scheme Employers

4.3 In addition to the administering authority, a number of other Scheme employers participate in the Fund. The responsibilities of each employer that participates in the Fund, including the administering authority, are to:

- Collect employee contributions and pay these together with their own employer contributions, as certified by the Fund Actuary, to the administering authority within the statutory timescales;
- Notify the administering authority of any new Scheme members and any other membership changes promptly;
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- Pay any exit payments due on ceasing participation in the Fund.

Scheme Members

4.4 Active Scheme members are required to make contributions into the Fund as set by the Ministry of Housing, Communities and Local Government (MHCLG).

The Fund Actuary

4.5 The Fund Actuary for the Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill-health retirement costs, compensatory added years costs, etc;
- Provide advice and valuations on the exiting of employers from the Fund;
- Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to their role in advising the Fund; and

- Advise on other actuarial matters affecting the financial position of the Fund.

5. FUNDING STRATEGY

- 5.1 The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.
- 5.2 The most recent valuation of the Fund was as at 31 March 2019.
- 5.3 The individual employer contribution rates are set out in the Rates and Adjustments Certificate which forms part of the Fund's 2019 valuation report.
- 5.4 The actuarial valuation involves a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. A summary of the methods and assumptions adopted is set out in the sections below.

6. FUNDING METHOD

- 6.1 The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution rates to meet that target over an agreed period.
- 6.2 The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund.
- 6.3 For all employers, the method adopted is to consider separately the benefits accrued before the valuation date (past service) and benefits

expected to be accrued after the valuation date (future service). These are evaluated as follows:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay and pensions. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
 - The future service funding rate (also referred to as the primary rate as defined in Regulation 62(5) of the Regulations) is the level of contributions required from the individual employers which, in combination with employee contributions is expected to cover the cost of benefits accruing in future.
- 6.4 The adjustment required to the primary rate to calculate an employer's total contribution rate is referred to as the secondary rate, as defined in Regulation 62(7). Further details of how the secondary rate is calculated for employers is given below in the Deficit recovery/surplus amortisation periods section.
- 6.5 The approach to the primary rate will depend on specific employer circumstances and in particular may depend on whether an employer is an "open" employer – one which allows new recruits access to the Fund, or a "closed" employer – one which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the total contribution rate.
- 6.6 For open employers, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in

assessing the future service cost, the primary rate represents the cost of one year's benefit accrual only.

- 6.7 For closed employers, the actuarial funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.
- 6.8 The approach by employer may vary to reflect an employer's specific circumstance, however, in general the closed employers in the Fund are admission bodies who have joined the Fund as part of an outsourcing contract and therefore the Attained Age Method is used in setting their contributions. All other employers (for example the Council, higher education bodies and academies) are generally open employers and therefore the Projected Unit Method is used. The administering authority holds details of the open or closed status of each employer.

7. VALUATION ASSUMPTIONS AND FUNDING MODEL

- 7.1 In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as price inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.
- 7.2 The assumptions adopted at the valuation can therefore be considered as:
- The demographic (or statistical) assumptions which are essentially estimates of the

likelihood or timing of benefits and contributions being paid, and

- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current (or present) value.

Financial Assumptions: Future Price Inflation

7.3 The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20 year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20 year point on the curve is used as this is consistent with the average duration of an LGPS Fund.

Financial Assumptions: Future Pension Increases

7.4 Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. A deduction of 1.0% p.a. is therefore made from the RPI assumption to derive the CPI assumption.

Financial Assumptions: Future Pay Increases

7.5 As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2019 was CPI plus 1.0% p.a. which includes allowance for promotional increases.

Financial Assumptions: Future Investment Returns/Discount Rate

7.6 To determine the value of accrued liabilities and derive future contribution requirements, it is necessary to discount future payments to and from the Fund to present day values.

7.7 The discount rate that is adopted will depend on the funding target adopted for each Scheme employer.

7.8 The discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the Fund's long-term investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the "ongoing" discount rate.

7.9 It may be appropriate for an alternative discount rate approach to be taken to reflect an individual employer's situation. This may be, for example, to reflect an employer targeting a cessation event or to reflect the administering authority's views on the level of risk that an employer poses to the Fund. The Fund Actuary will incorporate any such adjustments after consultation with the administering authority.

7.10 A summary of the financial assumptions adopted for the 2019 valuation is set out in the table below:

Financial assumptions as at 31 March 2019

RPI Inflation	3.6% p.a.
CPI Inflation	2.6% p.a.

Financial assumptions as at 31 March 2019

Pension/deferred pension increases and CARE revaluation	In line with CPI inflation
Pay Increases	CPI inflation + 1.0% p.a.
Discount rate – Scheduled bodies	4.8% p.a.
Discount Rate – Admitted bodies	3.3% p.a.

Admitted Bodies

7.11 A more prudent discount rate is adopted for admitted bodies in the Fund, resulting in a higher level of contributions being required from these bodies. This is in recognition of the fact that such employers may typically be expected to participate in the Fund for a limited period of time and so the aim is to increase the likelihood of sufficient assets being available to fund their employees' past service benefits by the time they cease participation in the Fund. In this way, the risk of deficits arising after the termination date and thus needing to be met by other employers in the Fund is reduced. Some admitted bodies may also be deemed to have a weaker covenant than other employers and so a higher contribution requirement reflects the increased risk that these employers present to the Fund.

Asset valuation

7.12 For the purpose of the valuation, the asset value used is the market value of the accumulated fund at the valuation date, adjusted to reflect average market conditions during the six months straddling

the valuation date. This is referred to as the smoothed asset value and is calculated in a consistent way to the valuation of the liabilities.

7.13 The Fund's assets are allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received and benefits paid).

Demographic Assumptions

7.14 The demographic assumptions incorporated into the valuation are based on Fund-specific experience and national statistics, adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers. Further details of the assumptions adopted are included in the Fund's 2019 valuation report.

McCloud/Sargeant Judgements

7.15 The McCloud/Sargeant judgements were in relation to two employment tribunal cases which were brought against the government in relation to possible age and gender discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. These judgements were not directly in relation to the LGPS, however, do have implications for the LGPS.

7.16 In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounted to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service

schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS. Further details of this can be found below in the Regulatory risks section.

7.17 At the time of drafting this FSS, it is still unclear how this will affect current and future LGPS benefits. As part of the Fund's 2019 valuation, in order to mitigate the risk of member benefits being uplifted and becoming more expensive, the potential impact of McCloud was covered by the prudence allowance in the discount rate assumption. As the remedy is still to be agreed the cost cannot be calculated with certainty, however, the Fund Actuary expects it is likely to be less than, the impact of reducing the discount rate assumption by 0.05%.

Guaranteed Minimum Pension (GMP) Indexation and Equalisation

7.18 As part of the restructuring of the state pension provision, the government needs to consider how public service pension payments should be increased in future for members who accrued a Guaranteed Minimum Pension (GMP) from their public service pension scheme and expect to reach State Pension Age (SPA) post-December 2018. In addition, a resulting potential inequality in the payment of public service pensions between men and women needs to be addressed.

7.19 On 22 January 2018, the government published the outcome to its Indexation and equalisation of GMP in public service pension schemes consultation, concluding that the requirement for public service pension schemes to fully protect the

GMP element of individuals' public service pension would be extended to those individuals reaching SPA before 6 April 2021. HMT published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016.

7.20 The 2019 valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, it is assumed that the Fund will be required to pay the entire inflationary increase.

8. DEFICIT RECOVERY/SURPLUS AMORTISATION PERIODS

8.1 Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. This theory applies down to an individual employer level; each employer in the Fund has their own share of deficit or surplus attributable to their section of the Fund.

8.2 Where the valuation for an employer discloses a deficit then the level of required employer contributions includes an adjustment to fund the deficit over a maximum period of 19 years. The adjustment will usually be set as a fixed monetary amount.

8.3 Where the valuation for an employer discloses a surplus then the level of required employer

contribution may include an adjustment to amortise a proportion of the surplus.

8.4 The deficit recovery period or amortisation period that is adopted, and the proportion of any deficit/surplus that is recovered/amortised, for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer (including any security in place) and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

9. POOLING OF INDIVIDUAL EMPLOYERS

9.1 The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances. Pooling of individual employers may be considered in exceptional circumstances if deemed appropriate by the administering authority and Fund Actuary.

10. NEW EMPLOYERS JOINING THE FUND

10.1 When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

ADMISSION BODIES

10.2 New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

Funding at Start of Contract

10.3 Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

10.4 However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

Contribution Rate

10.5 The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

10.6 Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

Security

10.7 To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

10.8 If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the administering authority.

NEW ACADEMIES

10.9 When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

Funding at Start

10.10 On conversion to academy status, the new academy will be allocated assets based on the active cover of the relevant local authority at the conversion date. The active cover approach is based on the funding level of the local authority's active liabilities, after fully funding the local authority's deferred and pensioner liabilities.

Contribution Rate

10.11 The total contribution rate for new academies will be chosen to meet both the costs of benefits accruing to the existing active members in the future, and to try to restore the funding level to 100% over the Fund's maximum deficit recovery period.

11. CESSATION VALUATIONS

11.1 When a Scheme employer exits the Fund and becomes an exiting employer, as required under the Regulations, the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund Actuary is also required to determine the exit payment due from the exiting employer to the Fund or the exit credit payable from the Fund to the exiting employer.

11.2 Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless it is agreed by the administering authority and the other parties involved that an alternative approach is permissible. For example:

- It may be agreed with the administering authority that the exit payment can be spread over some agreed period;

- the assets and liabilities relating to the employer may transfer within the Fund to another participating employer; or
- the employer's exit may be deferred subject to agreement with the administering authority, for example if it intends to offer Scheme membership to a new employee within the following three years.

11.3 Amendments to the LGPS Regulations which came into effect from May 2018 allow flexibility over the payment of exit credits to employers where there is a surplus at the exit date. Given that the Fund will retain the long term risks associated with the residual liabilities of ceasing employers, it is possible that adverse future experience may lead to a deficit arising at some point after the date of exit and this would need to be funded by the other employers in the Fund. Therefore, in order to protect the Fund and the remaining active employers, the policy of the Fund is that no exit credit shall be paid to an employer on exit where a surplus is calculated as part of the cessation valuation and the employer's exit payment in this scenario shall be certified as nil.

11.4 In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing approaches depending on the employer and the specific details surrounding the employer's cessation scenario.

11.5 For example, if there is no guarantor in the Fund willing to accept responsibility for the residual liabilities of the exiting employer, then those liabilities are likely to be assessed on a "minimum risk" basis leading to a higher exit payment being required from the employer, in order to extinguish their liabilities to the Fund and to reduce the risk of

these liabilities needing to be met by other participating employers in future.

11.6 If it is agreed that another employer in the Fund will accept responsibility for the residual liabilities, then the assumptions adopted will be consistent with the current ongoing funding position.

12. BULK TRANSFERS

12.1 Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

12.2 The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).

12.3 A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

13. LINKS WITH THE INVESTMENT STRATEGY STATEMENT (ISS)

13.1 The main link between the Funding Strategy Statement (FSS) and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the long-term investment strategy as set out in the ISS.

13.2 As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the long-term investment strategy. This ensures consistency between the funding strategy and investment strategy.

14. RISKS AND COUNTER MEASURES

14.1 Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

14.2 The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

FINANCIAL RISKS

14.3 The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

14.4 The valuation results are most sensitive to the real discount rate (i.e. the difference between the discount rate assumption and the price inflation assumption). Broadly speaking an increase/decrease of 0.1% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by around 2%, and decrease/increase the

required employer contribution by around 0.7% of payroll p.a.

14.5 However, the Investment and Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

14.6 The Committee may also seek advice from the Fund Actuary on valuation related matters.

14.7 In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

DEMOGRAPHIC RISKS

14.8 Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase in the long-term rate of mortality improvement of 0.25% p.a. will increase the liabilities by around 1%.

14.9 The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review. For the past two funding valuations, the Fund has commissioned a bespoke longevity analysis by Barnett Waddingham's specialist longevity team in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

14.10 The liabilities of the Fund can also increase by more than has been planned as a result of the

additional financial costs of early retirements and ill-health retirements. However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

14.11 The administering authority is currently implementing an ill-health self-insurance pool within the Fund whereby a portion of all employers' contributions into the Fund are allocated to a segregated ill-health section of the Fund. When an ill-health retirement occurs, a funding strain (i.e. the difference between the value of the benefits payable to the ill-health member and the value that was assumed as part of the actuarial valuation) is generated in the employer's section of the Fund. As part of the self-insurance policy, assets equal to the funding strain are transferred from the segregated ill-health assets section of the Fund to the employer's section of the Fund to cover the funding strain.

MATURITY RISKS

14.12 The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

14.13 The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner

members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meet its benefit payments. The Fund may carry out cash flow modelling to assess if, when and in what circumstances the Fund will become cash flow negative and options to address this.

14.14 The government has published a consultation (Local government pension scheme: changes to the local valuation cycle and management of employer risk) which may affect the Fund's exposure to maturity risk. More information on this can be found in the Regulatory risks section below.

REGULATORY RISKS

14.15 The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by the government. The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme. However, the administering authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

14.16 There are a number of general risks to the Fund and the LGPS, including:

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.

- The potential effects of GMP equalisation between males and females, if implemented, are not yet known.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.
- The State Pension Age is due to be reviewed by the government in the next few years.

14.17 At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgements, the cost cap mechanism and the timing of future funding valuations consultation. These are discussed in the sections below.

McCloud/Sargeant Judgements and Cost Cap

14.18 The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

4.19 The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to

enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the Scheme Advisory Board (SAB) in place and HMT allowed SAB to put together a package of proposed benefit changes in order for the LGPS to no longer breach the HMT cost cap. These benefit changes were due to be consulted on with all stakeholders and implemented from 1 April 2019.

4.20 However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

4.21 The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful

discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS. At the time of drafting this FSS, it is not yet known what the effect on the current and future LGPS benefits will be.

Consultation: Local Government Pension Scheme: Changes to the Local Valuation Cycle and Management of Employer Risk

14.22 On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

- amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and
- proposals for changes to the employers required to offer LGPS membership.

14.23 The consultation is currently ongoing: the consultation was closed to responses on 31 July 2019. A partial government response was issued in February 2020 concerning flexibility around the payment of exit credits only, which has been reflected in this FSS and discussed in the "Cessation

valuations" section above. We await the outcome of the consultation regarding the other proposals.

Timing of Future Actuarial Valuations

14.24 LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. This results of the national Scheme valuation are used to test the cost control cap mechanism and HMT believed that all public sector scheme should have the cost cap test happen at the same time with the next quadrennial valuation in 2020 and then 2024.

Changes to Employers Required to offer LGPS Membership

14.25 At the time of drafting this FSS, under the current Regulations further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

14.26 With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. This could impact on the level of maturity and the cashflow profile for these employers. As described earlier this may increase the risk of contribution income being insufficient to meet

benefit outgo, if not in the short term then in the long term as the payroll in respect of these types of employers decreases with fewer active members participating in the Fund.

14.27 This also brings an increased risk to the Fund in relation to these employers becoming exiting employers in the Fund. Should they decide not to admit new members to the Fund, the active membership attributable to the employers will gradually reduce to zero, triggering an exit under the Regulations and a potential significant exit payment. This has the associated risk of the employer not being able to meet the exit payment and thus the exit payment falling to the other employers in the Fund.

14.28 There are very few employers of this type currently participating in the Fund and so the risks are considered relatively low at present.

EMPLOYER RISKS

14.29 Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; and
- An employer ceasing to exist without having fully funded their pension liabilities.

14.30 However, the administering authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required. In particular, the Fund regularly commissions an employer risk review

from the Fund Actuary to help identify the employers in the Fund that might be considered as high risk. In the case of admitted bodies, the Fund has a policy of requiring some form of security from the employer, in the form of a guarantee or a bond, in case of employer default where the risk falls to the Fund. Where the risk of default falls on the liabilities of an original letting authority, the Fund provides advice to the letting authority to enable them to make a decision on whether a guarantee, some other form of security or a bond should be required.

14.31 In addition, the administering authority keeps in close touch with all individual employers participating in the Fund to ensure that, as administering authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

GOVERNANCE RISKS

14.32 Accurate data is necessary to ensure that members ultimately receive their correct benefits. The administering authority is responsible for keeping data up to date and results of the actuarial valuation depend on accurate data. If incorrect data is valued then there is a risk that the contributions paid are not adequate to cover the cost of the benefits accrued.

MONITORING AND REVIEW

14.33 This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

14.34 The most recent valuation was carried out as at 31 March 2019, certifying the contribution rates

payable by each employer in the Fund for the period from 1 April 2020 to 31 March 2023.

14.35 The timing of the next funding valuation is due to be confirmed as part of the government's Local government pension scheme: changes to the local valuation cycle and management of employer risk consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next funding valuation will be due as at 31 March 2022 but the period for which contributions will be certified remains unconfirmed.

14.36 The administering authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

City of Westminster Pension Fund Investment Strategy Statement 2021/22

1. Introduction

1.1 This is the Investment Strategy Statement (ISS) adopted by the City of Westminster Pension Fund (“the Fund”), which is administered by Westminster City Council (“the Administering Authority”).

Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the Fund is required to publish this ISS. The Regulations require administering authorities to outline how they meet each of 6 objectives aimed at improving the investment and governance of the Fund.

1.2 This Statement addresses each of the objectives included in the 2016 Regulations:

- a) A requirement to invest fund money in a wide range of instruments;
- b) The authority’s assessment of the suitability of particular investments and types of investment;
- c) The authority’s approach to risk, including the ways in which risks are to be measured and managed;
- d) The authority’s approach to pooling investments, including the use of collective investment vehicles;
- e) The authority’s policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- f) The authority’s policy on the exercise of rights (including voting rights) attaching to investments.

We deal with each of these in turn below.

1.3 The Pension Fund Committee (the “Committee”) of the City of Westminster Pension Fund oversees the management of the Fund’s assets. Although not trustees, the Members of the Committee owe a fiduciary duty similar to that of trustees to the council-tax payers and guarantors of other scheme employers, who would ultimately have to meet any shortfall in the assets of the Fund, as well as to the contributors and beneficiaries of the Fund.

1.4 The relevant terms of reference for the Committee within the Council’s Constitution are:

The Pension Fund Committee’s responsibilities are set out in their terms of reference and are to have responsibility for all aspects of the investment and other management activity of the Council’s Pension Fund, including, but not limited to, the following matters:

- To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the Investment Consultant.
- To monitor performance of the Superannuation Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable;
- To determine the Fund management arrangements, including the appointment and termination of the appointment of the fund managers, Actuary, Custodians and Fund Advisers.
- To agree the Statement of Investment Principles, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and the

Governance Compliance Statement and to ensure compliance with these.

- To approve the final accounts and balance sheet of the Superannuation Fund and to approve the Annual Report.
- To receive actuarial valuations of the Superannuation Fund regarding the level of employers’ contributions necessary to balance the Superannuation Fund.
- To oversee and approve any changes to the administration arrangements, material contracts and policies and procedures of the Council for the payment of pensions, compensation payments and allowances to beneficiaries.
- To make and review an admission policy relating to admission agreements generally with any admission body.
- To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
- To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
- To receive and consider the Auditor’s report on the governance of the Pension Fund.
- To determine the compensation policy on termination of employment and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
- To determine policy on the award of additional membership of the pension fund and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).

- To determine policy on the award of additional pension and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
- To determine policy on retirement before the age of 60 and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
- To determine a policy on flexible retirement and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
- To determine questions and disputes pursuant to the Internal Disputes Resolution Procedures.
- To determine any other investment or pension policies that may be required from time to time so as to comply with Government regulations and to make any decisions in accordance with those policies other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).

The Committee has responsibility for:

- Determining an overall investment strategy and strategic asset allocation, with regard to diversification and the suitability of asset classes
- Appointing the investment managers, an independent custodian, the actuary, the

investment advisor(s) and any other external consultants considered necessary

- Reviewing on a regular basis the investment managers' performance against benchmarks, portfolio risk and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls
- Monitoring compliance with the ISS & Funding Strategy Statement (FSS) and reviewing its contents
- Reviewing policy on social, environmental and ethical considerations, and on the exercise of voting rights

The Executive Director of Finance and Resources, the Tri-Borough Director of Treasury and Pensions and the appointed consultants and actuaries support the Pension Fund Committee. The day-to-day management of the Fund's assets is delegated to investment managers.

1.5 This ISS will be reviewed at least once a year, or more frequently as required - in particular following valuations, future asset/liability studies and performance reviews, which may indicate a need to change investment policy, or significant changes to the FSS.

1.6 Under the previous Regulations the Statement of Investment Principles required to state how it complies with the revised six investment principles as outlined within the CIPFA Pensions Panel Principles. Although not formally required under the 2016 Regulations this information is given in Appendix A. In addition, Appendix B includes a disclosure of the Fund's policy on how the Committee discharge their stewardship responsibilities.

1.7 Governing all investment decisions are the Committee's core investment beliefs they have been

established based on the views of the members and are listed below:

1 Investment Governance

- a) The Fund has access to the necessary skills, expertise and resources to manage the whole Fund, as well as internally managing a small proportion of the Fund's assets, such as cash management.
- b) Investment consultants, independent advisors and officers are a source of expertise and research to inform and assist the Committee's decisions.
- c) The ultimate aim of the Fund's investments is to pay pension liabilities when they become due. The Committee will therefore take account of liquidity and the long-term ability of the Fund to meet these obligations.
- d) The Fund is continuously improving its governance structure through bespoke training to implement tactical views more promptly, but acknowledges that it is not possible to achieve optimum market timing.

2 Long Term Approach

- a) The strength of the employers' covenant allows the Fund to take a longer term view of investment strategy than most investors.
- b) The most important aspect of risk is not the volatility of returns, but the risk of absolute loss over the medium and long term. This would in turn impact the ability of the employers to make adequate contributions to meet the Fund's liabilities.

- c) Illiquidity and volatility are shorter term risks which offer potential sources of additional compensation to the long term investor. Moreover, it is important to avoid being a forced seller in short term market setbacks.
- d) Over the long term, equities are expected to outperform other liquid assets, particularly government bonds and cash.

3 Environmental, Social and Governance (ESG) factors

- a) Certain ESG factors are financially material and may therefore influence the risk and return characteristics of the Fund's investments and the likelihood that the Fund's objectives will be achieved.
- b) Well governed companies that manage their business in a responsible manner are less vulnerable to downside risk and may therefore produce higher returns over the long term.
- c) In order to improve corporate governance, investment managers should exercise the voting rights attached to the shares they own, as well as engage with management of the companies they invest in.
- d) Environmental considerations should reflect a growing recognition in the Committee of the urgency required in its decision-making processes when making investment allocations.
- e) If an investment manager fails to adequately consider ESG issues, the Committee is prepared to disinvest assets from that manager.

4 Asset allocation

- a) Allocations to asset classes other than equities and government bonds (e.g.,

corporate bonds, private markets and property) offer the Fund other forms of risk premia (e.g., additional solvency risk/illiquidity risk).

- b) Diversification across asset classes and asset types that have low correlation with each other will tend to reduce the volatility of the overall Fund return.
- c) In general, allocations to bonds and alternatives are made to achieve additional diversification. As the funding level improves, the Committee may look to certain lower risk strategies to mitigate liability risks and thus dampen the volatility of the Fund's actuarial funding level.

5 Management Strategies

- a) A well-balanced portfolio has an appropriate mix of passive and active investments.
- b) Passive, index-tracker style management provides low cost exposure to equities and bonds, and is especially attractive in efficient markets.
- c) Active management will typically incur higher investment management fees but can provide additional return. Fees should be aligned to the interests of the Fund.
- d) Active management performance should be monitored over multi-year rolling cycles and assessed to confirm that the original investment process on appointment is being delivered and that continued appointment is appropriate.
- e) Employing a range of management styles can reduce the volatility of overall Fund returns but can also reduce long term outperformance.

2. Objective 7.2 (a): A requirement to invest fund money in a wide range of instruments

2.1 Funding and investment risk is discussed in more detail later in this ISS. However, at this stage it is important to state that the Committee is aware of the risks it runs within the Fund and the consequences of these risks.

2.2 In order to control risk the Committee recognises that the Fund should have an investment strategy that has:

- Exposure to a diverse range of sources of return, such as market, manager skill and through the use of less liquid holdings.
- Diversity in the asset classes used.
- Diversity in the approaches to the management of the underlying assets.
- Adaptability to be able to maintain liquidity for the Fund.

2.3 This approach to diversification has seen the fund dividing its assets into four broad categories global equities, Fixed Income, Property and Alternatives. The size of the assets invested in each category will vary depending on investment conditions, the strategic asset allocation can be found within appendix E. However, it is important to note that each category is itself diversified. A consequence of this approach is that the Fund's assets are invested in a wide range of instruments.

2.4 The main risk the Committee are concerned with is to ensure the long-term ability of the fund to meet pension, and other benefit obligations, as they fall due is met. As a result, the Committee place a high degree of importance on ensuring the expected return on the assets is sufficient to do so and does not have to rely on a level of risk which the Committee considers excessive. The Fund currently has a negative cash flow position. The Committee is mindful that this position

may change in future and keeps the liquidity within the Fund monitored. At all times the Committee seeks to ensure that their investment decisions, including those involving diversification, are the best long-term interest of Fund beneficiaries and seeks appropriate advice from investment advisors.

2.5 To mitigate these risks the Committee regularly reviews both the performance and expected returns from the Fund's investments to measure whether it has met and is likely to meet in future its return objective. In addition to keeping their investment strategy and policy under regular review the Committee will keep this ISS under review to ensure that it reflects the approaches being taken.

3. Objective 7.2(b): The authority's assessment of the suitability of particular investments and types of investment

3.1 Suitability is a critical test for whether or not a particular investment should be made. When assessing the suitability of investments, the Committee takes into account the following from its due diligence:

- Prospective return
- Risk
- Concentration
- Risk management qualities the asset has, when the portfolio as a whole is considered
- Geographic and currency exposures
- Whether the management of the asset meets the Fund's ESG criteria.

3.2 Each of the Fund's investments has an individual performance benchmark which their reported performance is measured against.

3.3 The policy on asset allocation is compatible with achieving the locally determined solvency target.

3.3 The Committee monitors the suitability of the Fund's assets on a quarterly basis. To that end they monitor the investment returns and the volatility of the individual investments together with the Fund level returns and risk. This latter point being to ensure the risks caused by interactions between investments within the portfolio is properly understood. Where comparative statistics are available the Committee will also compare the Fund asset performance with those of similar funds.

3.4 The Committee monitors the suitability of the Fund's assets on a quarterly basis. To that end they monitor the investment returns and the volatility of the individual investments together with the Fund level returns and risk. This latter point being to ensure the risks caused by interactions between investments within the portfolio is properly understood. Where comparative statistics are available the Committee will also compare the Fund asset performance with those of similar funds.

3.5 The Committee relies on external advice in relation to the collation of the statistics for review.

4. Objective 7.2(c): The authority's approach to risk, including ways in which risks are to be measured and managed

4.1 The Committee recognises that there are a number of risks involved in the investment of the assets of the Fund amongst which are the following:

4.2 Geopolitical and currency risks:

- are measured by the value of assets (the concentration risk), in any one market leading to the risk of an adverse influence on investment values arising from political intervention; and
- are managed by regular reviews of the actual investments relative to policy and

through regular assessment of the levels of diversification within the existing policy.

4.3 Manager risk:

- is measured by the expected deviation of the prospective risk and return as set out in the manager(s) investment objectives, relative to the investment policy; and
- is managed by monitoring the actual deviation of returns relative to the objective and factors inherent in the manager(s) investment process.

4.4 Solvency and mismatching risk:

- are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies; and
- are managed by assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

4.5 Liquidity risk:

- is measured by the level of cash flow required over a specified period; and
- managed by assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment cash policy

4.6 Custodial risk:

- is measured by assessing the creditworthiness of the global custodian and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.

4.7 Employer contributions are based upon financial and demographic assumptions determined by the

actuary. The main risks to the Fund are highlighted within the Funding Strategy Statement (FSS). The risks to the Fund are controlled in the following ways:

- The adoption and monitoring of asset allocation benchmarks, ranges and performance targets constrain the investment managers from deviating significantly from the intended approach while permitting the flexibility for managers to enhance returns
- The appointment of more than one manager with different mandates and approaches provides for the diversification of manager risk

4.8 The investment management agreements constrain the manager's actions in areas of particular risk and set out the respective responsibilities of both the manager and the Fund.

4.9 The Committee are aware investment risk is only one aspect of the risks facing the Fund. The other key risk they are aware of is the ability of the Fund to meet the future liabilities, support the investment risk (i.e. the level of volatility of investment returns) and underwrite actuarial risk, namely the volatility in the actuarial funding position and the impact this has on contributions.

4.10 The Committee are of the view that the diversification of the Fund assets is sufficiently broad to ensure the investment risk is low and will continue to be low. When putting in place the investment strategy the Committee carefully considered both the individual asset risk characteristics and those of the combined portfolio to ensure the risks were appropriate. Estimating the likely volatility of future investment returns is difficult as it relies on both estimates of individual asset class returns and the correlation between them. These can be based on historic asset class information for some of the listed

asset classes the Fund uses. However, for other private market and less liquid assets it is much more difficult. The Committee is also mindful that correlations change over time and at times of stress can be significantly different from when they are in more benign market conditions.

4.11 To help manage risk the Committee uses an external investment adviser to monitor the risk. In addition, when carrying out their investment strategy review the Committee also had different investment advisers' assess the level of risk involved.

4.12 The Fund targets a long-term return 4.8% as aligned with the latest triennial valuation from the Actuary. The investment strategy is considered to have a low degree of volatility.

4.13 When reviewing the investment strategy on a quarterly basis the Committee considers advice from their advisers and the need to take additional steps to protect the value of the assets that may arise or capitalise on opportunities if they are deemed suitable. In addition to this the risk registers are updated on a quarterly basis, appendix F.

4.14 At each review of the Investment Strategy Statement the assumptions on risk and return and their impact on asset allocation will be reviewed.

5 Objective 7.2(d): The authority's approach to pooling investments, including the use of collective investment vehicles

5.1 The Fund recognises the Government's requirement for LGPS funds to pool their investments and is committed to pursuing a pooling solution that ensures maximum cost effectiveness for the Fund, both in terms of return and management cost.

5.2 The Funds approach to pooling arrangements meet the criteria set out in the Local government pension scheme: investment reform criteria and guidance.

5.3 The Fund joined the London Collective Investment Vehicle (LCIV) as part of the Government's pooling agenda. The London CIV was launched in December 2015 by the 32 local authorities within London and has circa £23.6bn of assets under management, including £11bn under direct management, with 19 funds launched as of 2020/21.

5.4 The Fund has transitioned c. 50% of assets into the London CIV as of 31 March 2021. Going forward the Fund will look to transition further assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

5.5 The Fund is monitoring developments and the opening of investment strategy fund openings on the London CIV platform with a view to transitioning assets across to the London CIV as soon as there are appropriate sub-funds to meet the Fund's investment strategy requirements.

5.6 The Fund holds c. 23% of its assets within a passive equity fund and intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being. However, the Fund benefits from reduced management fees, with Legal & General Investment Management having reduced their fees to match those available through the London CIV. The Fund agrees for the London CIV to monitor the passive funds as part of the broader pool.

5.7 The remaining c. 27% of Fund is held within investment assets including property, bonds and infrastructure, and these will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the

Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision to disinvest.

5.8 The table below details the investment funds held by the Pension Fund and indicates whether this mandate is available on the LCIV platform and if the funds have been transferred.

City of Westminster Fund	Available on the LCIV	Transferred to LCIV
Listed Equities		
Passive Equities: LGIM	Yes	Yes
Global: Baillie Gifford	Yes	Yes
Global: Longview	Yes	No
Global: Morgan Stanley	Yes	Yes
Cash		
At Custody	No	
Fixed Income		
Multi Asset Credit: CQS	Yes	Yes
Global Bonds: Insight	No	
Infrastructure		
Infrastructure: Pantheon	No	
Renewable Infrastructure: Quinbrook	No	
Renewable Infrastructure: Macquarie	No	
Property		
Property: Aberdeen Standard	No	

5.9 The Pension Fund Committee is aware that certain assets held within the Fund have limited liquidity and moving them would come at a cost. Whilst it is the expectation to make use of the London CIV for the management of the majority of the Fund assets in the longer term, the Committee recognises that transitioning from the current structure to the London CIV will be a protracted exercise spread over a number of years to ensure unnecessary costs are not incurred.

5.10 At each review of the investment strategy, which will happen at least every three years, the investment of the above assets will be actively considered by the City of Westminster Pension Fund, and in particular whether a collective investment option is appropriate.

5.11 The London CIV is an FCA authorised company established by the London Local Authorities (LLAs) to provide a collaborative vehicle for pooling LGPS pension fund assets. London CIV shareholders approved a new Corporate Governance and Controls framework at the July 2018 Annual General Meeting (AGM). This framework details the governance arrangements for approving the London CIV's annual budget, business plan and objectives, governance structures and appointments, shareholder agreement and transparency of information and reporting. It was agreed to review the framework after one year of operation which provides an opportunity to assess how it can be improved further, in particular to improve its effectiveness in achieving collaboration and an effective working relation between London CIV and its 32 shareholders collectively.

5.12 The London CIV Company Board comprises of an independent Chairman, 7 non-executive Directors (NEDs), including 2 nominated by the LLAs, 3 executive Directors and the LCIV Treasurer. The Board has a duty to act in the best interests of the shareholders and has collective responsibility for:

- Strategy and Oversight
- Budget & forward plan
- Reviews performance
- Major contracts and significant decisions including in relation to funds
- Financial reporting & controls
- Compliance, risk and internal controls
- Key policies
- Governance

5.13 The London CIV has four Committees, responsible for investment oversight, audit and risk, remuneration and nominations and day to day operations of the company. These comprise of executive and non-executive members.

The role of the Investment Oversight Committee is to:

- determine, maintain and monitor the Company's investment strategy, investment performance and performance risks of the portfolios in accordance with the Company strategy and business plan.

The responsibilities of the Compliance, Audit & Risk Committee include:

- oversee compliance obligations;
- risk management framework; and
- integrity of financial statements and reporting

The responsibilities of the Remuneration & Nomination Committee include:

- remuneration policy;
- remuneration of key staff; and
- nominations and succession planning of key staff and Board members.

The Executive Directors acting collectively as the Executive Committee have a number of specific delegated responsibilities for the day-to-day operations of the company, supported by the wider executive leadership team. The role of the Executive Committee in summary is to:

- execute board-approved strategic objectives and business plan in line with risk appetite and financial limits;
- identify, discuss, and formulate effective solutions to address issues and opportunities facing the Company;
- ensure the day-to-day operations meet relevant legal requirements and compliance obligations of the Company; and
- ensure the Board & Board Committee members receive timely, accurate and transparent management information & reporting to fulfil their duties & responsibilities.

5.14 The London CIV Shareholder Committee is responsible for scrutinising the actions of the Board, reporting and transparency, consultation on the strategy and business plan, matters reserved to shareholders, responsible investment and emerging issues. The Committee meets on a quarterly basis and comprises of 12 members including Councillors and Treasurers from the LLAs.

5.15 The London CIV hosts an AGM on a semi-annual basis, to which all 32 members are invited. This allows members the opportunity to exercise shareholder power, approve the annual budget and hold the Board to account.

5.16 External independent oversight and assurance of the pool company is provided by the FCA, depositary, external auditors and the MHCLG.

5.17 More information on the London CIV and its operation is included in Appendix C of this statement.

6 Objective 7.2(e): How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

6.1 A review of the Fund's carbon exposure was undertaken by TruCost and reported to Committee in September 2019, whereby the Fund's equity and property portfolio carbon footprints were mapped. This exercise will be undertaken on an annual basis going forward. Following this, a responsible investment (RI) policy and ESG policy was drafted for the Fund to be adopted by the Committee for 2020/21 onwards. The RI Policy outlines the approach to the management of Environmental, Social and Governance (ESG) issues within the investment portfolio and can be found within appendix D.

The Present ESG Policy

Introduction

6.2 The City of Westminster (WCC) Pension Fund (the Pension Fund) is committed to being a responsible investor and a long-term steward of the assets in which it invests. The Fund has a fiduciary duty to act in the best interests of its beneficiaries and this extends to making a positive contribution to the long-term sustainability of the global environment.

6.3 The Pension Fund recognises that the neglect of corporate social responsibility and poor attention paid to environmental, social and governance (ESG) issues may lead to poor or reduced shareholder returns. This presents a significant responsibility for the Pension Fund Committee (the Committee). The ESG approach has become integral to the Fund's overall investment strategy.

6.4 The Fund maintains a policy of non-interference with the day-to-day decision making of the investment managers. The Committee believes that this is the most efficient approach whilst ensuring the implementation of policy by each manager is consistent with current best practice and the appropriate disclosure and reporting of actions.

6.5 There are a wide range of ESG issues, with none greater currently than climate change and carbon reduction. The Pension Fund recognises climate change as the biggest threat to global sustainability alongside its administering authority employer, Westminster City Council, which has committed itself to achieving carbon neutrality by 2030.

6.6 The Pension Fund Committee hold a fiduciary duty to act in the members' best interests and ensure that their pension benefits are fully honoured in retirement. That is why, as well as targeting investment returns that match the pension liabilities, the Committee is committed to managing the investment risks: the risks that pose a substantial threat to LGPS members' long-term future.

6.7 The Pension Fund's revised investment strategy should be governed by the following investment principles, which are set out below

6.8 Investment Principles

- The Pension Fund as a long-term investor, is committed to **investing to build a better future** through the integration of ESG issues at all stages of the investment decision-making process.
- Through active ownership, the Pension Fund **engages with the investment community** to help ensure a sustainable future for all its stakeholders. This includes demanding best practice

amongst its investment managers and challenging their investment outcomes where appropriate.

- The Pension Fund recognises that significant value can be achieved through **collaboration with other stakeholders**. The Pension Fund will work closely with its LGPS pool company (the London CIV), other LGPS funds and member groups such as the Local Authority Pension Fund Forum (LAPFF) to ensure corporate interests are aligned with the Pension Fund's values.
- The Pension Fund wants to **gain the confidence of members** in the governance process and the way in which in the Fund is invested on their behalf. It is important for the Pension Fund to be completely transparent and accountable to members and stakeholders.

6.9 Policy Implementation: investing to build a better future

The Pension Fund will continue to assess investment opportunities that have a positive impact on society as whole. These include but are not limited to, investments in fixed income (green bonds), property, low carbon assets, renewables and social impact opportunities. The Fund currently has a 6% allocation to renewable infrastructure, where the asset managers invest solely within renewables including solar, wind, transmission and storage. Alongside this, the Fund has transitioned c. £690m in equities into the LCIV Global Sustain Fund and LGIM Future World Fund. The Global Sustain Fund seeks to provide a concentrated high-quality global portfolio of companies, however, excludes tobacco, alcohol, adult entertainment, gambling, civilian weapons, fossil fuels, and gas or

electrical utilities. The LGIM Future World Fund tracks the L&G ESG Global Markets Index, whereby an Environmental, Social and Governance screening of companies takes place to remove those companies which do not meet the required ESG criteria.

The Pension Fund views engagement with companies as an essential activity and encourages companies to take position action towards reversing climate change. The Westminster Pension Fund is a responsible owner of companies and cannot exert that positive influence if it has completely divested from carbon intensive producing companies. The Pension Fund will continue to encourage positive change whilst officers will continue to engage with the investment managers on an ongoing basis to monitor overall investment performance, including carbon and other ESG considerations.

6.10 Policy Implementation: engaging with investment community

Institutional investors have the power to influence and change behaviour globally. The WCC Pension Fund believes that there is significant value in being able to actively engage with the companies we invest in and be part of the transition to a global, low carbon economy.

The Fund expects managers to integrate ESG factors into investment analysis and decision making. Monitoring these effectively can assist with resolving issues at early stages through effective engagement with companies and board members. The Fund expects asset managers where possible to engage and collaborate with other institutional investors, as permitted by relevant legal codes to ensure the greatest impact.

The measurement of ESG performance is still developing and benefitting from significant improvements. There are several performance

benchmarks and disclosure frameworks that exist to measure the different aspects of available ESG data which include carbon emissions and a variety of social impact scores.

- The Pension Fund carries out a carbon footprint exercise on its separate portfolios annually via a specialist firm. The outcome of this measurement exercise will be instrumental in ensuring that the fund is able to meet its decarbonisation goals through effective asset allocation.
- The Pension Fund will continue to work closely with its investment managers to measure the carbon impact of its investments. This will involve developing internal metrics and agreed targets which will be reviewed on a regular basis.

Increasingly, there is growing interest in the investment community to develop investment strategies that focus on sustainable investments. As well as the wider investment community, the Pension Fund will support and contribute to the work carried out by the London CIV in the development of sustainable investments.

6.11 Policy Implementation: collaboration with other stakeholders

The introduction of pooling across the Local Government Pension Scheme (LGPS) will impact how the Pension Fund's responsible investment policy is implemented. The WCC fund is committed to playing a key role as part of the LGPS London CIV pool, with circa 70% of assets pooled.

As asset owners, the Pension Fund, in line with its investment strategy, is responsible for deciding how its

assets are invested through its strategic asset allocation. In addition to engaging with the investment community, the Pension Fund will continue to work closely with other UK and London LGPS funds to find common solutions for ESG issues.

As more funds are onboarded into the London CIV, the Pension Fund expects to further increase its investment in the pool. This is expected to create economies of scale and increased synergies for the Pension Fund through a significant reduction in management fees and greater influence when engaging with external stakeholders. The London CIV will manage the Pension Fund's investments in line with the Fund's strategic objectives and those of the other London LGPS Funds.

The Pension Fund actively contributes to the engagement efforts of pressure groups, such as the Local Authority Pension Fund Forum (LAPFF) and requires investment managers to vote in accordance with the LAPFF's governance policies. In exceptional cases, investment managers will be required to explain their reason for not doing so, preferably in advance of the AGM. This will be monitored on a regular basis.

6.12 Policy Implementation: gaining our members confidence

WCC's LGPS members have spent at least part of their careers helping to deliver key services to their community. It is important for them to understand how their Pension Fund is managed and the contribution its investments make in securing a sustainable future. Members are encouraged to take an active interest in the governance processes of their Pension Fund and their views are represented within the work of the Local Pension Board.

The Pension Fund will aim to provide members with a variety of information which allows them to easily

understand the types of investments within the portfolio.

The Pension Fund reports on its overall performance annually through an annual report which is readily accessible to members on the fund's website.

Data within the annual report will include investment performance, an assessment of the key performance indicators (KPIs) of the Fund's administrative function and the Fund's assessment of its many risks.

The Pension Fund hosts an annual general meeting (AGM), following the end of the financial year, which all members and key stakeholders are invited to attend. This includes updates on the administration service, investment performance from our investment advisor, as well as a market update from an asset manager and a presentation from our actuary.

7 Objective 7.2(f): The exercise of rights (including voting rights) attaching to investments

7.1 The Committee has delegated the Fund's voting rights to the investment managers, who are required, where practical, to make considered use of voting in the interests of the Fund. The Committee expects the investment managers to vote in the best interests of the Fund. In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

7.2 The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests.

7.3 In addition the Fund:

- Is a member of the Pension and Lifetime Savings Association (PLSA) and the Local

Authority Pension Fund Forum (LAPFF) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners; and

- Joins wider lobbying activities where appropriate opportunities arise.

7.4 Ongoing voting and engagement is covered with the Funds Responsible Investment Policy (Appendix D).

7.5 The Committee expects any directly appointed asset managers and the pool company (London CIV) to comply with the Stewardship Code (2020) and this is monitored on an annual basis. See appendix B and C for further details on the Funds approach to stewardship.

8 Feedback on this statement

Any feedback on this Investment Strategy Statement is welcomed. If you have any comments or wish to discuss any issues, then please contact:

Tri-Borough Treasury and Pensions Team
PensionFund@westminster.gov.uk

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16th Floor City Hall
Tri-Borough Treasury and Pensions Team
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Investment Strategy Statement: Appendix A

Compliance with CIPFA Pensions Panel Principles for investment decision making in the local government pension scheme in United Kingdom

Decision Making

Regulation 12(3) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires an administering authority to report on its compliance with the six Myners' Principles, in accordance with guidance given by the Secretary of State. The guidance for the Local Government Pension Scheme is set out in the CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012",

The Fund aims to comply with all of the Myners' Principles, recognising it is in all parties' interests if the Fund operates to standards of investment decision-making and governance identified as best practice. It is also recognised as important to demonstrate how the Fund meets such principles and best practice.

The Secretary of State has previously highlighted the principle contained in *Roberts v. Hopwood* whose administering bodies exercise their duties and powers under regulations governing the investment and management of Funds:

"A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons the body stands somewhat in the position of trustees or managers of others".

The Myners' Principles are seen as supporting this approach. The principles, together with the Fund's position on compliance, are set out below:

Principle 1 - Effective decision-making

Administrating authorities should ensure that:

- **Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and**
- **Those persons or organizations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.**

Full Compliance

The Council has delegated the management and administration of the Fund to the Committee, which meets at least quarterly. The responsibilities of the Committee are described in paragraph 1.4 of the ISS. The Committee is made up of elected members of the Council who each have voting rights.

The Committee obtains and considers advice from and is supported by the Executive Director of Finance and Resources, Tri-Borough Director of Treasury & Pensions, and as necessary from the Fund's appointed actuary, investment managers and advisors.

The Committee has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the scheme's regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

Business plans are presented to the Committee annually.

Several of the Committee members have extensive experience of dealing with Investment matters and training is made available to new Committee members.

Principle 2 - Clear objectives

An overall investment objective(s) should be set for the Fund that takes account of the pension liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

Full Compliance

The aims and objectives of the Fund are set out within the FSS and within the ISS. The main fund objective is to meet the cost of pension liabilities and to enable employer contribution rates to be kept as nearly constant as possible at reasonable cost to the taxpayers and admitted bodies.

The investment strategy has been set with the objective of controlling the risk that the assets will not be sufficient to meet the liabilities of the Fund while achieving a good return on investment (see paragraphs 4 and 5 above). The approach taken reflects the Fund's liabilities and was decided upon without reference to any other funds. The Fund's performance is measured against the investment objective on a quarterly basis. The Fund's strategy is regularly reviewed.

Principle 3 – Risk and liabilities

In setting and reviewing their investment strategy, administrating authorities should take account of the form and structure of liabilities. These include the implications for local taxpayers, the strength of the

covenant for participating employers, the risk of their default and longevity risk.

Full Compliance

The Committee has, in conjunction with its advisers, agreed an investment strategy that is related to the Fund's liabilities. An actuarial valuation of the Fund takes place every three years, with the most recent triennial valuation taking place in 2019. The investment strategy is designed to give diversification and specialisation and achieve optimum return against acceptable risk.

The asset allocation of the Fund is set to maximise the potential to close the funding deficit over future years. The current asset allocation is outlined in appendix E.

Principle 4 – Performance Assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members

Full Compliance

The IAC has appointed investment managers with clear index strategic benchmarks (see paragraph 4.2 above) within an overall Investment objective which place maximum accountability for performance against that benchmark on the manager.

The managers are monitored at quarterly intervals against their agreed benchmarks, and independent detailed monitoring of the Fund's performance is carried out by Deloitte, the Fund's advisor and by Northern Trust, the Fund's custodian who provide the performance figures. Moreover, portfolio risk is measured on quarterly basis and the risk/return

implications of different strategic options are fully evaluated.

The advisor is assessed on the appropriateness of asset allocation recommendations and the quality of advice given.

The actuary is assessed on the quality and consistency of the actuarial advice received. Both the advisor and the actuary have fixed term contracts which when expired are tendered for under the OJEU procedures. The Committee monitors the investment decisions it has taken, including the effectiveness of these decisions. In addition, the Committee receives quarterly reports as to how the Fund has performed against their investment objective.

In order to comply with the CMA investment consultancy and Fiduciary Management Market Investigation Order 2019, The Fund's investment advisors are measured annually against an agreed set of criteria which was agreed by Committee at the 23 October 2019 meeting.

Principle 5 – Responsible Ownership

Administering authorities should:

- **Adopt, or ensure their investment managers adopt, the Institutional Shareholders Committee Statement of Principles on the responsibilities of shareholders and agents.**
- **Include a statement of their policy on responsible ownership in the statement of investment principles.**
- **Report periodically to scheme members on the discharge of such responsibilities.**

Full Compliance

The Fund is committed to making full use of its shareholder rights. The approach used is outlined in paragraph 8 of the ISS and in the Fund's Responsible Investment (RI) Policy (Appendix D). Authority has

been delegated to the investment managers to exercise voting rights on behalf of the Fund. The investment managers are required to report how they have voted in their quarterly reports.

The Fund believes in using its influence as a shareholder to promote corporate social responsibility and high standards of corporate governance in the companies in which it invests – the Fund's approach to this is outlined in paragraph 7 of the ISS and in the Fund's RI Policy (Appendix D).

Principle 6 – Transparency and reporting

Administering authorities should:

- **Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives.**
- **Provide regular communications to scheme members in the form they consider most appropriate.**

Full Compliance

Links to the Governance Compliance Statement, the ISS, the FSS, and the Communications Statement are all included in the Pensions Fund Annual Report which is published and is accessible to stakeholders of the Fund on the Council's web site, and a website developed specifically for the Fund.

All Committee meetings are open to members of the public and agendas and minutes are published on the Council's website and internal intranet.

Compliance with the Stewardship Code

The **Stewardship Code** is a set of principles or guidelines released in 2010 and updated in 2020 by the Financial Reporting Council (FRC) directed at institutional investors who hold voting rights in United Kingdom companies. Its principal aim is to make shareholders, who manage other people's money, be active and engage in corporate governance in the interests of their beneficiaries.

The Code applies to pension funds and adopts the same "comply or explain" approach used in the UK Corporate Governance Code. This means that it does not require compliance with principles but if fund managers and institutional investors do not comply with any of the principles set out, they must explain why they have not done so. The Committee has not formally adopted the latest version of the Stewardship code. However, it expects any directly appointed fund managers and the pool company (London CIV) to comply and this is monitored on an annual basis.

Information on London CIV

Stewardship Statement is attached – Other London CIV details are included in ISS main Statement

The London Collective Investment Vehicle (CIV) was formed as a voluntary collaborative venture by the London Local Authorities in 2014 to invest the assets of London Local Government Pension Scheme (LGPS). The London CIV and its London Local Authority investors recognise the importance of being long term stewards of capital and in so doing supports the UK Stewardship Code, which it recognises as best practice.

The London LGPS CIV Limited (“London CIV”) is fully authorised by the FCA as an Alternative Investment fund manager (AIFM) with permission to operate a UK based Authorised Contractual Scheme fund (ACS Fund). The London CIV in the management of its investments has appointed a number of external investment managers. We therefore see our role as setting the tone for the effective delivery of stewardship managers on our behalf and on behalf of our investing Funds. We are clear that we retain responsibility for this being done properly and fully in the interests of our own shareholders.

This Statement sets out how the London CIV implements the seven principles of the Code.

Principle 1

Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The London CIV on behalf of its London Local Authority Shareholders recognises its position as an investor on their behalf with ultimate responsibility to members and beneficiaries and recognises that effective stewardship can help protect and enhance the long-

term value of its investments to the ultimate benefit of all stakeholders in the LGPS.

As we do not invest directly in companies, we hold our fund managers accountable for the delivery of stewardship on our behalf in terms of day-to-day implementation of its stewardship activity. We require the appointed fund management teams to be responsible for holding to account the management and boards of companies in which they invest. The London CIV believes that this approach is compatible with its stewardship responsibilities as it is the most effective and efficient manner in which it can promote and carry out stewardship activities in respect of its investments and ensure the widest reach of these activities given the London CIV’s investment arrangements.

A key related area where stewardship is integrated into the wider process is in the selection and monitoring of external investment managers. When considering the appointment of external investment managers, the consideration of Environmental Social and Governance (ESG) integration and stewardship activity of each investment manager is part of the selection process.

The London CIV expects its equity investment managers to adhere to the principles within the UK Stewardship Code. This position is communicated to the Fund’s investment managers and forms the basis of the approach to monitoring the investment managers as outlined in this document. Whilst the Stewardship Code is primarily directed at UK equity investments, the London CIV encourages its investment managers to apply the principles of the Code to overseas equity holdings where possible.

The primary mechanisms for the application of effective stewardship for the London CIV are exercise of voting rights and engagement with investee companies. The London CIV expects its external equity

investment managers that invest directly in companies, to pursue both these mechanisms. We receive quarterly reporting from managers which includes their stewardship and voting activities where appropriate. We seek consistently to ensure that these stewardship activities are carried out actively and effectively in the furtherance of good long-term investment returns

We expect all of the London CIV’s equity managers to be signatories to the Code and have publicly disclosed their policy via their Statements on how they will discharge their stewardship responsibilities. We expect managers that invest in companies directly to discharge their responsibilities by:

- having extensive dialogue with the company’s management throughout the year on a range of topics such as governance, financial performance and strategy; and
- voting, either directly or via the services of voting agencies.

Principle 2

Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.

Day-to-day implementation of the Fund’s stewardship activity has been delegated to external investment managers. The London CIV expects its investment managers to document their approach to stewardship, which should include how they manage any conflicts of interest that arise to ensure that the interests of the London CIV’s Investors are prioritised.

The London CIV will review annually the conflicts of interest policy of its managers and how any conflicts have been managed during the year. The London CIV has policies in place to manage conflicts of interest that may arise for the Board and its officers when making

decisions on its behalf. The Conflicts of Interest policy is reviewed by the London CIV board on a regular basis. A Conflicts of Interest Register is maintained. Shareholders of the London CIV attending the Pensions Sectoral Joint Committee are required to declare any conflicts of interest at the start of any meeting.

Principle 3

Institutional investors should monitor their investee companies.

We recognise that active and ongoing monitoring of companies is the foundation of good stewardship, reminding companies in which we invest that they have obligations to their shareholders to deliver returns over the appropriate long-term investment timeframe and, consistent with this, to manage any related environmental and social risks responsibly.

The London CIV requires its external investment managers to monitor investee companies. Issues to be monitored are likely to vary, however typically these might include a company's corporate strategy, financial performance, risk (including those from environmental and social factors), capital structure, leadership team and corporate governance. The London CIV encourages its investment managers to satisfy themselves that investee companies adhere to the spirit of the UK Corporate Governance Code.

The London CIV reviews investment managers in this area as part of their regular meetings. For equity investment managers this includes consideration of:

- who has overall responsibility for ESG risk analysis and integration;
- resources and experience of the team;
- at what stages of the process ESG risks are considered;
- exposures to environmental, social or governance risk within the portfolio; and

- the investment manager's willingness to become an insider and, if so, whether the manager has a policy setting out the mechanisms through which this is done.

Principle 4

Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

The London CIV recognises that constructive engagement with company management can help protect and enhance shareholder value. Typically, the London CIV expects its investment managers to intervene with investee companies when they view that there are material risks or issues that are not currently being adequately addressed.

The London CIV reviews investment managers in this area as part of their regular meeting. For equity investment managers that invest directly in Companies, this includes consideration of:

- whether voting activity has led to any changes in company practice;
 - whether the manager's policy specifies when and how they will escalate engagement activities;
 - overall engagement statistics (volume and areas of focus);
 - example of most intensive engagement activity discussed as part of the manager's annual review meeting; and
 - the estimated performance impact of engagement on the strategy in question.
- Given the range of fund managers and Fund investments, the London CIV carries out its monitoring at the manager level to identify:
- trends to ensure progress is being made in stewardship activities;
 - specific managers where progress or the rate of progress is not adequate; and
 - appropriate specific actions necessary.

Principle 5

Institutional investors should be willing to act collectively with other investors where appropriate.

As day-to-day management of the Fund's assets has been delegated to external investment managers, the London CIV expects its investment managers to get involved in collective engagement where this is an efficient means to protect and enhance long-term shareholder value.

In addition, the London CIV will work collectively with other investors including other LGPS Asset pools and the Local Authority Pension Fund Forum (LAPFF) to enhance the impact of their engagement activities

Principle 6

Institutional investors should have a clear policy on voting and disclosure of voting activity.

The London CIV has delegated its voting rights to the Fund's investment managers and requires them to vote, except where it is impractical to do so. The London CIV also monitors the voting alerts of the LAPFF and where these are issued, requires the investment managers to take account of these alerts as far as practical to do so. Where the investment manager does not vote in line with the LAPFF voting alerts, the London CIV will require detailed justification for non-compliance.

The London CIV reviews and monitors the voting policies and activities of its investment managers, this includes consideration of:

- the manager's voting policy and, what areas are covered;
- the level of voting activity
- whether the investment manager typically informs companies of their rationale when voting against or abstaining (and whether this is typically in advance of the vote or not);

- if securities lending takes place within a pooled fund for the strategy, whether the stock is recalled for all key votes for all stocks held in the portfolio; and
- whether a third-party proxy voting service provider is used and, if so, how.

Principle 7

Institutional investors should report periodically on their stewardship and voting activities.

The London CIV encourages transparency from its investment managers and expects its managers to report publicly on their voting in an appropriate manner.

In addition, the London CIV receives reviews and monitors quarterly the voting and stewardship engagement activities of its investment managers. The London CIV reports quarterly to its investors and will include information on voting and engagement activities from investment managers where appropriate including updates as required on updated stewardship and voting policies of managers. The London CIV also requires its managers to provide it with annual assurances on internal controls and compliance through recognised framework such as the AAF01/06 or equivalent.

Responsible Investment Policy

Introduction

- 1.1. Responsible Investment is defined by the United Nation’s ‘Principles for Responsible Investment’ document as an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and to generate sustainable, long term returns. The Pension Fund’s approach to responsible investment is aligned with the Fund’s investment beliefs and recognises ESG factors as central themes in measuring the sustainability and impact of its investments.
- 1.2. Failure to appropriately manage ESG factors is considered to be a key risk for the Pension Fund as this can have an adverse impact on the Fund’s overall investment performance, which ultimately affects the scheme members, employers and local council tax payers.
- 1.3. The United Nations has established 17 Sustainable Development Goals (SDGs) as a blueprint to achieving a better and more sustainable future for all. These goals aim to address the challenges of tackling climate change, supporting industry, innovation and infrastructure, and investing in companies that are focused on playing a key role in building that sustainable future.
- 1.4. The Pension Fund acknowledges that these goals form a vital part of acting as a responsible investor alongside its

administering authority employer, Westminster City Council, with the Council having recently committed itself to achieving carbon neutrality by the year 2030.

- 1.5. The Pension Fund maintains a policy of engagement with all its stakeholders, including those operating in the investment industry. It is broadly recognised that, in the foreseeable future, the global economy will transition from its reliance on fossil fuels to the widespread adoption of renewable energy as its main source. The impact of this transition on the sustainability of investment returns will be continually assessed by officers, advisors and investment managers.
- 1.6. The Pension Fund Committee is committed to playing an active role in the transition to a sustainable economic and societal environment. To that extent, the Pension Fund will continue to seek investments that match its pensions liability profile, whilst having a positive impact on overall society. Greater impact can be achieved through active ownership and lobbying for global companies to change and utilise their resources sustainably.
- 1.7. With these noble objectives at the forefront, it is important to note that the Pension Fund Committee has a vital, fiduciary duty to act in the best interests of the LGPS beneficiaries to ensure that their pension benefits are honoured in retirement.
- 1.8. The Pension Fund Committee delegates the individual investment selection decisions to

Policy Implementation: Selection Process

its investment managers. To that extent, the Pension Fund maintains a policy of non-interference with the day-to-day decision-making processes of the investment managers. However, as part of its investment manager appointment process, the Pension Fund Committee assesses the investment managers’ abilities to integrate ESG factors into their investment selection processes.

- 1.9. This includes, but is not limited to:
 - a) evidence of the existence of a Responsible Investment policy;
 - b) evidence of ESG integration in the investment process;
 - c) evidence of sign-up to the relevant responsible investment frameworks such as the United Nations Principles for Responsible Investment (PRI);
 - d) evidence of compliance with the Stewardship Code as published by the Financial Reporting Council (FRC);
 - e) a track record of actively engaging with global companies and stakeholders to influence best practice;
 - f) an ability to appropriately disclose, measure and report on the overall impact of ESG decisions made.
- 1.10. As part of its investment selection process, the Pension Fund Committee will obtain proper advice from the Fund’s internal and external advisors with the requisite knowledge and skills. Our investment advisor will assess ESG considerations as part of its due diligence process and assess investment managers against the following criteria:

- a) for active managers, the advisor will assess how ESG issues are integrated into investment selection, divestment and retention decisions;
 - b) for passive managers, the investment advisor is aware of the nature of the index construction in the investment selection process places and the proximity of ESG issues in comparison with an active portfolio, but still hold ESG issues in its responsible investment policy as the passive manager actively engages with global companies and stakeholders where appropriate;
 - c) consideration of whether managers are making most effective use of voting rights and if votes are exercised in a manner consistent with ESG considerations specified by the manager;
 - d) how significantly managers value ESG issues and whether any specialist teams and resources are dedicated to this area; and
 - e) how ESG risk assessment is integrated into the portfolio investment selection process and the value and effectiveness of these assessments.
- 1.11. Investment managers are expected to follow best practice and use their influence as major institutional investors and long-term stewards of capital to promote best practice in the

companies/projects in which they invest. Investee companies will be expected to comply with all applicable laws and regulations in their respective markets as a minimum.

Policy Implementation: Ongoing Engagement and Voting

- 1.12. Whilst it is still quite difficult to quantify the impact of the less tangible non-financial factors on the economic performance of an organisation, this is an area that continues to see significant improvement in the measurement of benchmarking and organisational progress. Several benchmarks and disclosure frameworks exist to measure the different aspects of available ESG data which include carbon emissions, diversity on company boards and social impact. It is apparent that poor scoring on these ESG factors can have an adverse impact on an organisation's financial performance. It is therefore important for the appointed investment managers to effectively assess the impact such factors may have on the underlying investment performance.
- 1.13. The Pension Fund views active engagement as an essential activity in ensuring long-term value and encourages investment managers to consider assessing a range of factors, such as the company's historical financial performance, governance structures, risk management approach, the degree to which strategic objectives have been met and environmental, governance and social issues.
- 1.14. Pension Fund officers will continue to engage with the investment managers on an ongoing

basis to monitor overall investment performance, including ESG considerations. This can be implemented in several forms which include, but are not limited to:

- a. Regular meetings with investment managers to assess investment performance and the progress made towards achieving ESG targets;
- b. reviewing reports issued by investment managers and challenging performance where appropriate;
- c. working with investment managers to establish appropriate ESG reporting and disclosures in line with the Pension Fund's objectives;
- d. contributing to various working groups that seek to positively influence the reporting of industry standards on ESG metrics;
- e. actively contributing to the efforts of engagement groups such as the Local Authority Pension Fund Forum (LAPFF), of which the fund is a member (currently 83 LGPS member funds).

1.15. The Pension Fund holds units in pooled equity funds, where our asset managers will have the opportunity to vote at company meetings on our behalf. Engagement with companies can have a direct impact on voting choices and fund manager voting and engagement reports are reviewed on a regular basis.

1.16. The Fund will continue to collaborate with the London CIV on maintaining a shared voting policy for the equity managers on the London

CIV platform and actively seek to align these policies with manager insights. Lobbying with other London CIV clients will give the Pension Fund greater control and impact over our voting choices and a centralised process will ensure our voting remains consistent and has the greatest impact.

integration into the pension fund's investment process.

- 1.17. The Pension Fund's officers will work closely with the London CIV pool, through which the Pension Fund will increasingly invest, in developing and monitoring its internal frameworks and policies on all ESG issues which could present a material financial risk to the long-term performance of the fund. This will include the London CIV's ESG frameworks and policies for investment analysis, decision making and responsible investment.
- 1.18. In preparing and reviewing its Investment Strategy Statement, the Pension Fund will consult with interested stakeholders including, but not limited to:
 - a. Pension Fund employers;
 - b. Local Pension Board;
 - c. advisors/consultants to the fund;
 - d. investment managers.

Policy Implementation: Training

- 1.19. The Pension Fund Committee and the Fund's officers will receive regular training on ESG issues and responsible investment. A review of training requirements and needs will be carried out at least once on annual basis. Training is intended to cover the latest updates in legislation and regulations, as well as best practice with regards to ESG

Investment Strategy Statement: Appendix E

Strategic Asset Allocation

The below table sets out the Fund's strategic asset allocation along with review range which would trigger a rebalancing exercise.

Strategic Asset Allocation	Target (%)	Review Range
Listed Equities	65.0%	+/-3.0%
Passive Equities	22.5%	
Global – Active	42.5%	
Cash	0.0%	+/-0.0%
Cash	0.0%	
Fixed Income	19.0%	+/-1.9%
Global Bonds	12.5%	
Multi Asset Credit	6.5%	
Alternatives	11.0%	+/-1.0%
Infrastructure	5.0%	
Renewable Infrastructure	6.0%	
Property	5.0%	+/-0.5%
Property	5.0%	
Total	100.0%	

Pension Fund Risk Register - Administration Risk													
Risk Group	Risk Ref.	Movement	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score	Reviewed
				Fund	Employers	Reputation	Total						
Administrative and Communicative Risk	1	NEW	Failure to successfully transition the pensions administration service to Hampshire County Council by 1 December 2021, following termination of Surrey contract. Alongside this the administration software is to be moved from Heywood's Altair to Civica.	3	3	3	9	5	45	TREAT 1) The Pension Fund is moving the pensions administration service to Hampshire CC following termination of the Surrey contract. 2) Officers maintain regular contact with Surrey CC and Hampshire CC administration team during this time. 3) Project manager to join Westminster City Council on 25 February 2021, to lead the pensions administration transfer project including administration software.	3	27	04/05/2021
Administrative and Communicative Risk	2	↔	Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints. There is a concern regarding the high level of senior management departures.	1	4	3	8	4	32	TREAT 1) Surrey CC administers pensions for Surrey, East Sussex, LB Hillingdon and the Tri-Borough. All Tri-Borough Pension Funds are transitioning their pensions administration from Surrey CC. 2) Officers will continue to monitor ongoing staffing changes at Surrey CC. 3) Ongoing monitoring of contract and KPIs.	3	24	04/05/2021
Administrative and Communicative Risk	3	↓	COVID-19 affecting the day to day functions of the Pensions Administration services including customer telephony service, payment of pensions, retirements, death benefits, transfers and refunds.	2	4	3	9	3	27	TREAT 1) The Pensions Administration team have shifted to working from home, with a process now embedded. 2) Revision of processes to enable electronic signatures and configure the telephone helpdesk system to work from home. 3) Maintain regular contact with the Surrey administration team.	2	18	04/05/2021
Administrative and Communicative Risk	4	↔	Structural changes in an employer's membership or an employer fully/partially closing the scheme. Employer bodies transferring out of the pension fund or employer bodies closing to new membership. An employer ceases to exist with insufficient funding or adequacy of bond placement.	5	3	1	9	3	27	TREAT 1) Administering Authority actively monitors prospective changes in membership. 2) Maintain knowledge of employer future plans. 3) Contributions rates and deficit recovery periods set to reflect the strength of the employer covenant. 4) Periodic reviews of the covenant strength of employers are undertaken and indemnity applied where appropriate. 5) Risk categorisation of employers part of 2019 actuarial valuation. 6) Monitoring of gilt yields for assessment of pensions deficit on a termination basis.	2	18	04/05/2021
Administrative and Communicative Risk	5	↔	Concentration of knowledge in a small number of officers and risk of departure of key staff.	2	2	3	7	3	21	TREAT 1) Practice notes in place. 2) Development of team members and succession planning improvements to be implemented. 3) Officers and members of the Pension Fund Committee will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs.	2	14	04/05/2021
Administrative and Communicative Risk	6	NEW	Failure of securely sent sensitive data and any unidentified data flows being sent insecurely.	4	3	5	12	2	24	TREAT 1) Active member data is sent on secure platforms between all parties 2) Including "Encrypted" in email subject allows schools and academies to send data to pension admin team securely. 3) Data sent to the actuary using secure webstream portal.	1	12	04/05/2021
Administrative and Communicative Risk	7	NEW	Failure of cyber security measures, including information technology systems and processes, leading to loss, disruption or damage to the scheme or its members.	4	2	5	11	2	22	TREAT 1) Council has a data recovery plan in place, with files uploaded to the cloud every night and transition of files from the j drive to SharePoint. 2) . As a Council we are continuing to invest in technologies to block and filter phishing emails as well as ensuring our systems are up to date to protect us and our devices against these threats. 3) The IT team continuously review and update the cyber security policies, including the Information Security policy, Acceptable Use policy, Email and Internet policy, Social Media policy, Password Management policy and Data Disposal policy. All of which can be found on the Wire.	1	11	04/05/2021
Administrative and Communicative Risk	8	↔	Incorrect data due to employer error, user error or historic error leads to service disruption, inefficiency and conservative actuarial assumptions.	4	4	3	11	2	22	TREAT 1) Update and enforce admin strategy to assure employer reporting compliance. 2) Implementation and monitoring of a Data Improvement Plan as part of the Service Specification between the Fund and Orbis.	1	11	04/05/2021
Administrative and Communicative Risk	9	↔	Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	3	2	5	10	2	20	TREAT 1) Third parties regulated by the FCA and separation of duties and independent reconciliation processes are in place. 2) Review of third party internal control reports. 3) Regular reconciliations of pensions payments undertaken by Pension Finance Team. 4) Periodic internal audits of Pensions Finance and HR Teams. 5) Internal Audits last undertaken during 2018/19 showed satisfactory assurance with recommendations implemented during the year.	1	10	04/05/2021

Administrative and Communicative Risk	10		Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place.	5	2	2	9	2	18	TREAT 1) Contract monitoring in place with all providers. 2) Procurement team send alerts whenever credit scoring for any provider changes for follow up action. 3) Take advice from the investment advisor on manager ratings to inform decisions on asset managers.	1	9	04/05/2021
Administrative and Communicative Risk	11		Non-compliance with regulation changes relating to the pension scheme or data protection leads to fines, penalties and damage to reputation.	3	3	2	8	2	16	TREAT 1) The Fund has generally good internal controls with regard to the management of the Fund. These controls are assessed on an annual basis by internal and external audit as well as council officers. 2) Through strong governance arrangements and the active reporting of issues, the Fund will seek to report all breaches as soon as they occur in order to allow mitigating actions to take place to limit the impact of any breaches. 3) Staff have had more time to work on the implementation of GDPR.	1	8	04/05/2021
Administrative and Communicative Risk	12		Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible.	1	3	4	8	2	16	TREAT 1) Contract in place with HCC to provide service, enabling smooth processing of supplier payments. 2) Process in place for Surrey CC to generate lump sum payments to members as they are due. 3) Officers undertaking additional testing and reconciliation work to verify accounting transactions.	1	8	04/05/2021
Administrative and Communicative Risk	13		Inability to respond to a significant event leads to prolonged service disruption and damage to reputation.	1	2	5	8	2	16	TREAT 1) Disaster recovery plan in place as part of the Service Specification between the Fund and Surrey County Council 2) Ensure system security and data security is in place 3) Business continuity plans regularly reviewed, communicated and tested 4) Internal control mechanisms ensure safe custody and security of LGPS assets. 5) Gain assurance from the Fund's custodian, Northern Trust, regarding their cyber security compliance.	1	8	04/05/2021
Administrative and Communicative Risk	14		Poor reconciliation process leads to incorrect contributions.	2	1	1	4	3	12	TREAT 1) Ensure reconciliation process notes are understood by Pension Fund team. 2) Ensure that the Pension Fund team is adequately resourced to manage the reconciliation process. 3) Contributions reconciliation is undertaken by the pensions team.	2	8	04/05/2021
Administrative and Communicative Risk	15		Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	1	2	4	7	2	14	TREAT 1) In the event of a pension payroll failure, we would consider submitting the previous months BACS file to pay pensioners a second time if a file could not be recovered by the pension administrators and our software suppliers.	1	7	04/05/2021
Administrative and Communicative Risk	16		Failure to detect material errors in the bank reconciliation process.	2	2	2	6	3	18	TREAT 1) Bank reconciliation carried out in-house by the pensions team, alongside the WCC income management team.	1	6	04/05/2021
Administrative and Communicative Risk	17		Failure to pay pension benefits accurately leading to under or over payments.	2	2	2	6	2	12	TREAT 1) There are occasional circumstances where under/over payments are identified. Where underpayments occur, arrears are paid as soon as possible, usually in the next monthly pension payment. Where an overpayment occurs, the member is contacted and the pension corrected in the next month. Repayment is requested and sometimes we collect this over a number of months.	1	6	04/05/2021
Administrative and Communicative Risk	18		Unstructured training leads to under developed workforce resulting in inefficiency.	2	2	2	6	2	12	TREAT 1) Implementation and monitoring of a Staff Training and Competency Plan as part of the Service Specification between the Fund and Surrey County Council. 2) Officers regularly attend training events and conferences. 3) Officer in place to record and organise training sessions for officers and members.	1	6	04/05/2021
Administrative and Communicative Risk	19		Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	1	1	1	3	3	9	TREAT 1) Pension administration records are stored on the Surrey CC servers who have a disaster recovery system in place and records should be restored within 24 hours of any issue, All files are backed up daily.	2	6	04/05/2021
Administrative and Communicative Risk	20		Lack of guidance and process notes leads to inefficiency and errors.	2	2	1	5	2	10	TREAT 1) Ensure process notes are compiled and circulated in Pension Fund and Administration teams.	1	5	04/05/2021
Administrative and Communicative Risk	21		Lack of productivity leads to impaired performance.	2	2	1	5	2	10	TREAT 1) Regular appraisals with focused objectives for pension fund and admin staff.	1	5	04/05/2021
Administrative and Communicative Risk	22		Rise in ill health retirements impact employer organisations.	2	2	1	5	2	10	TREAT 1) Engage with actuary re assumptions in contribution rates.	1	5	04/05/2021

Administrative and Communicative Risk	23		Rise in discretionary ill-health retirements claims adversely affecting self-insurance costs.	2	2	1	5	2	10	TREAT 1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations.	1	5	04/05/2021
Administrative and Communicative Risk	24		Failure to identify GMP liability leads to ongoing costs for the pension fund.	1	2	1	4	1	4	TREAT 1) GMP identified as a Project as part of the Service Specification between the Fund and Surrey County Council, with minimal effect on the Fund.	1	4	04/05/2021

Pension Fund Risk Register - Investment Risk

Risk Group	Risk Ref.	Movement	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk	Reviewed
				Fund	Employers	Reputation	Total						
Asset and Investment Risk	1		The global outbreak of COVID-19 poses economic uncertainty across the global investment markets.	5	4	2	11	4	44	TREAT - 1) Officers will continue to monitor the impact lockdown measures have on the fund's underlying investments and the wider economic environment. 2) The Fund holds a diversified portfolio, which should reduce the impact of stock market movements. 3) Asset allocation was reviewed during June 2020, a new strategy was agreed in light of COVID-19 with ESG focused equity and renewable infrastructure mandates agreed. 4) Pension Fund Officers in frequent contact with Fund Managers and the Funds investment advisor.	3	33	04/05/2021
Asset and Investment Risk	2		Significant volatility and negative sentiment in global investment markets following disruptive geo-political uncertainty. Increased risk to global economic stability.	5	4	1	10	4	40	TREAT- 1) Continued dialogue with investment managers re management of political risk in global developed markets. 2) Investment strategy involving portfolio diversification and risk control. 3) Investment strategy review took place during June 2020 and a new strategic asset allocation was agreed.	3	30	04/05/2021
Asset and Investment Risk	3		Investment managers fail to achieve benchmark/ outperformance targets over the longer term: a shortfall of 0.1% on the investment target will result in an annual impact of £1.7m. Following COVID-19, there was some concern around Fund Managers outperforming their benchmarks.	5	3	3	11	3	33	TREAT- 1) The Investment Management Agreements (IMAs) clearly state WCC's expectations in terms of investment performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Pension Fund Committee should be positioned to move quickly if it is felt that targets will not be achieved. 4) Portfolio rebalancing is considered on a regular basis by the Pension Fund Committee. 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk compared with less diversified structures.	2	22	04/05/2021
Liability Risk	4		Scheme members live longer than expected leading to higher than expected liabilities.	5	5	1	11	2	22	TOLERATE - 1) The scheme's liability is reviewed at each triennial valuation and the actuary's assumptions are challenged as required. The actuary's most recent longevity analysis has shown that the rate of increase in life expectancy is slowing down.	2	22	04/05/2021

Liability Risk	5		Price inflation is significantly more than anticipated in the actuarial assumptions: an increase in CPI inflation by 0.1% over the assumed rate will increase the liability valuation by upwards of 0.47%.	5	3	2	10	3	30	TREAT- 1) Actuarial valuation results show an increase in the CPI assumption of 0.2% from the 2016 valuation. 2) The fund holds investment in index-linked bonds RPI protection which is higher than CPI and other real assets to mitigate CPI risk. Moreover, equities will also provide a degree of inflation protection.	2	20	04/05/2021
Liability Risk	6		Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	4	4	2	10	2	20	1) Monitor numbers and values of transfers out being processed. If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values. 2) No evidence in 2020/21 of members transferring out to DC schemes.	2	20	04/05/2021
Liability Risk	7		Employee pay increases are significantly more than anticipated for employers within the Fund.	4	4	2	10	2	20	TOLERATE - 1) Actuarial valuation assumptions show a decrease in salary increases by 0.3% from 2016. 2) Fund employers should monitor own experience. 3) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) should be long term assumptions. Any employer	2	20	04/05/2021
Liability Risk	8		Changes to LGPS Scheme moving from Defined Benefit to Defined Contribution	5	3	2	10	2	20	TOLERATE - 1) Political power required to effect the change.	2	20	04/05/2021
Resource and Skill Risk	9		That the London Collective Investment Vehicle (LCIV) fails to produce proposals/solutions deemed sufficiently ambitious.	4	3	3	10	2	20	TOLERATE - 1) Partners for the pool have similar expertise and like-mindedness of the officers and members involved with the fund, ensuring compliance with the pooling requirements. Ensure that ongoing fund and pool proposals are comprehensive and meet government objectives. 2) Member presence on Shareholder Committee and officer groups. 3) Fund representation on key officer groups.	2	20	04/05/2021
Asset and Investment Risk	10		Volatility caused by uncertainty with regard to the withdrawal of the UK from the European Union and the economic aftereffects.	4	4	1	9	3	27	TOLERATE/TREAT - 1) Officers to consult and engage with advisors and investment managers. 2) The Fund transitioned out of UK equities during November 2019, moving funds into the LGIM global passive. 3) Possibility of hedging currency and equity index movements. 4) The UK struck a trade deal with the EU in	2	18	04/05/2021

Asset and Investment Risk	11		Insufficient attention paid to environmental, social and governance (ESG) issues, leading to reputational damage. The Council declared a climate emergency in September 2019, how this will effect the Pension Fund going forward is currently unknown.	3	2	4	9	3	27	1) Review ISS in relation to published best practice (e.g. Stewardship Code) 2) Ensure fund managers are encouraged to engage and to follow the requirements of the published ISS. 3) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and Pensions and Lifetime Savings Association (PLSA), which raises awareness of ESG issues and facilitates engagement with fund managers and corporate company directors. 4) Following the strategic asset allocation review in June 2020, the Pension Fund has committed 6% towards renewables and 20% to the LCIV Global Sustain Fund, as well as moving the LGIM passive mandate into the LGIM Future World Fund. 5) An ESG and RI Policy was drafted for the Pension Fund and a Responsible Investment Statement was drafted during late 2020.	2	18	04/05/2021
Regulatory and Compliance Risk	12		Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within laid down timescales.	3	2	1	6	3	18	1) Officers consult and engage with MHCLG, LGPS Scheme Advisory Board, advisors, consultants, peers, various seminars and conferences. 2) Officers engage in early planning for implementation against agreed deadlines. 3) Uncertainty surrounding new MHCLG pooling guidance.	3	18	04/05/2021
Resource and Skill Risk	13		London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	3	3	2	8	3	24	1) Pension Fund Committee Chair is a member of the shareholder Committee responsible for the oversight of the CIV and can monitor and challenge the level of resources through that forum. Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work of the London CIV. 2) Officers continue to monitor the ongoing staffing issues and the quality of the performance reporting provided by the London CIV.	2	16	04/05/2021
Asset and Investment Risk	14		Impact of economic and political decisions on the Pension Fund's employer workforce.	5	2	1	8	2	16	1) Barnet Waddingham uses prudent assumptions on future of employees within workforce. Employer responsibility to flag up potential for major bulk transfers outside of the Westminster Fund. The potential for a significant reduction in the workforce as a result of the public sector financial pressures may have a future impact on the Fund. 2) Need to make prudent assumptions about diminishing workforce when carrying out the triennial actuarial valuation.	2	16	04/05/2021
Liability Risk	15		Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	4	2	1	7	2	14	TOLERATE: Review "budgets" at each triennial valuation and challenge actuary as required. Charge capital cost of ill health retirements to admitted bodies at the time of occurring. Occupational health services provided by the Council and other large employers to address potential ill health issues early.	2	14	04/05/2021
Liability Risk	16		Impact of increases to employer contributions following the actuarial valuation	5	5	3	13	2	26	TREAT- 1) Officers to consult and engage with employer organisations in conjunction with the actuary. 2) Actuary will assist where appropriate with stabilisation and phasing in processes.	1	13	04/05/2021

Liability Risk	17		There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments.	5	4	3	12	2	24	TREAT: 1) Cashflow forecast maintained and monitored. 2) Cashflow position reported to committee quarterly. 3) Cashflow requirement is a factor in current investment strategy review.	1	12	04/05/2021
Asset and Investment Risk	18		Failure to take difficult decisions inhibits effective Fund management	5	3	4	12	2	24	TREAT-1) Officers ensure that governance process encourages decision making on objective empirical evidence rather than emotion. Officers ensure that the basis of decision making is grounded in the Investment Strategy Statement (ISS), Funding Strategy Statement (/FSS), Governance policy statement and Committee Terms of Reference and that appropriate advice from experts is sought.	1	12	04/05/2021
Regulatory and Compliance Risk	19		Changes to LGPS Regulations	3	2	1	6	3	18	TREAT - 1) Fundamental change to LGPS Regulations implemented from 1 April 2014 (change from final salary to CARE scheme). 2) Future impacts on employer contributions and cash flows will be considered during the 2016 actuarial valuation process. 3) Fund will respond to consultation processes. 4) Impact of LGPS (Management of Funds) Regulations 2016 to be monitored. Impact of Regulations 8 (compulsory pooling) to be monitored.	2	12	04/05/2021
Liability Risk	20		Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy.	5	3	3	11	2	22	TREAT - 1) Active investment strategy and asset allocation monitoring from Pension Fund Committee, officers and consultants. 2) Investment strategy review is currently underway with an approved switch from equities to fixed income. 3) Setting of Fund specific benchmark relevant to the current position of fund liabilities. 4) Fund manager targets set and based on market benchmarks or absolute return measures. Overall investment benchmark and out-performance target is fund specific.	1	11	04/05/2021
Reputational Risk	21		Financial loss of cash investments from fraudulent activity.	3	3	5	11	2	22	TREAT - 1) Policies and procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised. Strong governance arrangements and internal control are in place in respect of the Pension Fund. Internal Audit assist in the implementation of strong internal controls. Fund Managers have to provide annual SSAE16 and ISAE3402 or similar documentation (statement of internal controls).	1	11	04/05/2021
Regulatory and Compliance Risk	22		Failure to hold personal data securely in breach of General Data Protection Regulation (GDPR) legislation.	3	3	5	11	2	22	TREAT - 1) Data encryption technology is in place which allow the secure transmission of data to external service providers. 2)WCC IT data security policy adhered to. 3) Implementation of GDPR.	1	11	04/05/2021
Reputational Risk	23		Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	5	2	4	11	2	22	TREAT: 1) Officers maintain knowledge of legal framework for routine decisions. 2) Eversheds retained for consultation on non-routine matters.	1	11	04/05/2021

Liability Risk	24		Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	5	3	3	11	2	22	TREAT: 1) Transferee admission bodies required to have bonds or guarantees in place at time of signing the admission agreement. Regular monitoring of employers and follow up of expiring bonds.	1	11	04/05/2021
Asset and Investment Risk	25		A change in government may result in new wealth sharing policies which could negatively impact the value of the pension fund assets.	5	5	1	11	2	22	TREAT: 1) Maintain links with central government and national bodies to keep abreast of national issues. Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	1	11	04/05/2021
Resource and Skill Risk	26		Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding	2	2	1	5	4	20	TREAT - 1) Succession planning process in place. 2) Ongoing training of Pension Fund Committee members. 3) Pension Fund Committee new member induction programme. 4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework under designated officer.	2	10	04/05/2021
Liability Risk	27		Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	5	3	2	10	2	20	TREAT: 1) At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. Committee and officers scrutinise and challenge advice provided.	1	10	04/05/2021
Asset and Investment Risk	28		Financial failure of third party supplier results in service impairment and financial loss	5	4	1	10	2	20	TREAT - 1) Performance of third parties (other than fund managers) regularly monitored. 2) Regular meetings and conversations with global custodian (Northern Trust) take place. 3) Actuarial and investment consultancies are provided by two different providers.	1	10	04/05/2021
Asset and Investment Risk	29		Failure of global custodian or counterparty.	5	3	2	10	2	20	TREAT: 1) At time of appointment, ensure assets are separately registered and segregated by owner. 2) Review of internal control reports on an annual basis. 3) Credit rating kept under review.	1	10	04/05/2021
Asset and Investment Risk	30		Financial failure of a fund manager leads to value reduction, increased costs and impairment.	4	3	3	10	2	20	TREAT - 1) Fund is reliant upon current adequate contract management activity. 2) Fund is reliant upon alternative suppliers at similar price being found promptly. 3) Fund is reliant on LGIM as transition manager. 4) Fund has the services of the London Collective Investment Vehicle (LCIV).	1	10	04/05/2021
Asset and Investment Risk	31		Global investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers.	5	3	2	10	2	20	TREAT- 1) Proportion of total asset allocation made up of equities, bonds, property funds, infrastructure and fixed income, limiting exposure to one asset category. 2) The investment strategy is continuously monitored and periodically reviewed to ensure optimal risk asset allocation. 3) Actuarial valuation and strategy review take place every three years post the actuarial valuation. 4) IAS19 data is received annually and provides an early warning of any potential problems. 5) The actuarial assumption regarding asset outperformance is regarded as achievable over the long term when compared with historical data.	1	10	04/05/2021

Resource and Skill Risk	32		Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	4	3	3	10	2	20	TREAT: 1) Person specifications are used at recruitment to appoint officers with relevant skills and experience. 2) Training plans are in place for all officers as part of the performance appraisal arrangements. 3) Shared service nature of the pensions team provides resilience and sharing of knowledge. 4) Officers maintain their CPD by attending training events and conferences.	1	10	04/05/2021
Regulatory and Compliance Risk	33		Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests.	3	3	4	10	2	20	TREAT - 1) Publication of all documents on external website. 2) Managers expected to comply with ISS and investment manager agreements. 3) Local Pension Board is an independent scrutiny and assistance function. 4) Annual audit reviews.	1	10	04/05/2021
Reputational Risk	34		Inaccurate information in public domain leads to damage to reputation and loss of confidence.	1	1	3	5	3	15	Treat: 1) Ensure that all requests for information (Freedom of Information, member and public questions at Council, etc) are managed appropriately and that Part 2 Exempt items remain so. 2) Maintain constructive relationships with employer bodies to ensure that news is well managed. 3) Stage AGM every year.	2	10	04/05/2021
Liability Risk	35		Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	5	3	1	9	2	18	TREAT: 1) Review maturity of scheme at each triennial valuation. Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. 2) Cashflow position monitored monthly.	1	9	04/05/2021
Resource and Skill Risk	36		Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	4	3	2	9	2	18	TREAT: 1) External professional advice is sought where required. Knowledge and skills policy in place (subject to Committee Approval).	1	9	04/05/2021
Administrative and Communicative Risk	37		Failure to comply with recommendations from the Local Pension Board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator	1	3	5	9	2	18	TREAT - 1) Ensure that a cooperative, effective and transparent dialogue exists between the Pension Fund Committee and Local Pension Board.	1	9	04/05/2021
Regulatory and Compliance Risk	38		Loss of flexibility to engage with Fund Managers and loss of elective professional status with any or all of the existing Fund managers and counterparties resulting in reclassification. (The Fund is a retail client to counterparties unless opted up).	3	2	2	7	2	14	TREAT: 1) More reliance on investment advisor to keep Officers and Committee updated. Officers are considering other financial institution outside of the current mandates to 'opt up' with. 2) Maintaining up to date information about the fund on relevant platforms. 3) Fund can opt up with prospective clients. 4) Keep quantitative and qualitative requirements under review to ensure that they continue to meet the requirements. There is a training programme and log in place to ensure knowledge and understanding is kept up to date. 5) Existing and new Officer appointments subject to requirements for professional qualifications and CPD.	1	7	04/05/2021

Regulatory and Compliance Risk	39		Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non compliant process.	2	2	3	7	2	14	TREAT - 1) Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process.	1	7	04/05/2021
Liability Risk	40		The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	4	2	1	7	2	14	TREAT: 1) Review at each triennial valuation and challenge actuary as required. Growth assets and inflation linked assets in the portfolio should rise as inflation rises.	1	7	04/05/2021

Responsible Investment Statement

1. Introduction

2. Investment Horizon

3. Carbon Journey

- Administering Authority
- Employers

4. ESG Case Studies

- Environmental Case Study
- Social Case Study
- Governance Case Study

5. Fund Key Facts

6. Voting & Engagement

- Engagement Case Study

7. Connected Organisations

- Local Authority Pension Fund Forum
- Pensions and Lifetime Savings Association
- ShareAction

1. Introduction

Responsible Investment is defined by the United Nation's 'Principles for Responsible Investment' document as an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and to generate sustainable, long term returns.

The City of Westminster Pension Fund is committed to being a responsible investor and a long-term steward of the assets in which it invests. The Fund has a fiduciary duty to act in the best interests of its beneficiaries and this extends to making a positive contribution to the long-term sustainability of the global environment.

There are a wide range of ESG issues, with none greater currently than climate change and carbon reduction. The Pension Fund recognises climate change as the biggest threat to global sustainability alongside its administering authority employer, Westminster City Council, which has committed itself to achieving carbon neutrality by 2030.

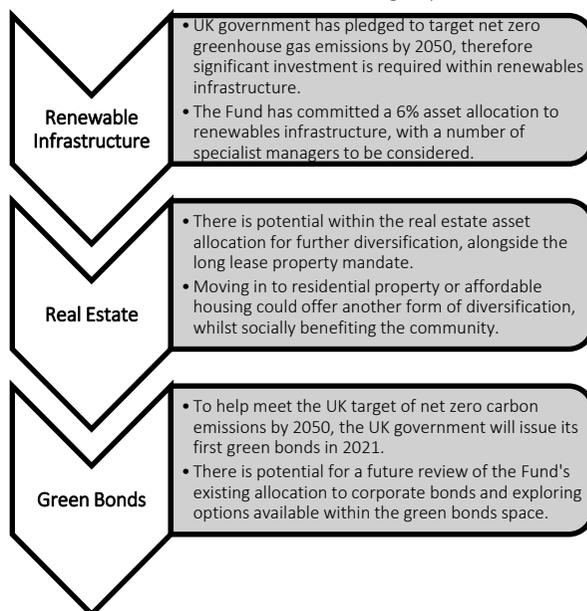
The Pension Fund acknowledges that the neglect of corporate social responsibility and poor attention paid to environmental, social and governance issues is more likely to lead to poor or reduced shareholder returns. Therefore, the ESG approach has become integral to the Fund's overall investment strategy and recognises ESG factors as central themes in measuring the sustainability and impact of the Fund's investments.

2. Investment Horizon

The City of Westminster Pension Fund Investment Strategy Statement (ISS) sets out the Fund's policy on investment, risk management, LGPS pooling and environmental, social and governance issues.

Alongside this the Fund's core investment beliefs set out the foundation of discussions, regarding the structure of the Fund, its strategic asset allocation and the selection of investment managers, incorporating ESG factors into this decision-making process.

The Fund's investment priorities over the coming years will be centred around the following topics:



3. Carbon Journey

The City of Westminster Pension Fund has committed to reducing its carbon emissions, alongside Westminster City Council. The Pension Fund appointed TruCost to undertake a carbon mapping of the Fund's equity and property investments as at 30 September 2019. This included metrics such as carbon intensity, carbon emissions, stranded assets and energy transition.

Since this mapping took place, the Fund has transitioned its London CIV (LCIV) UK Equity allocation

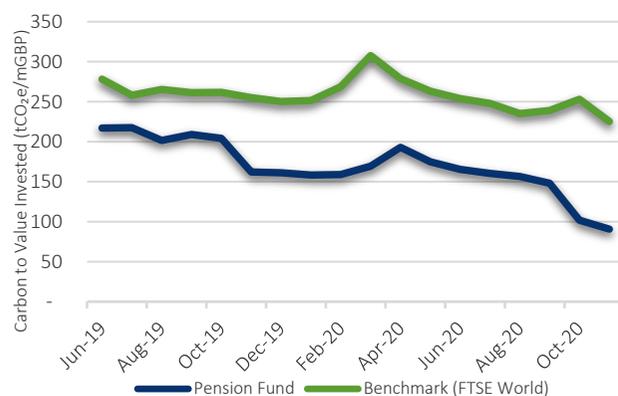
and Legal & General (LGIM) Global Passive Equities into the LCIV Global Sustain Fund and LGIM Future World Fund. The Global Sustain Fund seeks to provide a concentrated high-quality global portfolio of companies, however, excludes tobacco, alcohol, adult entertainment, gambling, civilian weapons, fossil fuels, and gas or electrical utilities. The LGIM Future World Fund tracks the L&G ESG Global Markets Index, whereby an Environmental, Social and Governance screening of companies takes place to remove those companies which do not meet the required ESG criteria.

Alongside this, a 6% commitment has been made towards investment within renewable infrastructure, with funds from the sale of the Hermes Property Fund. A fund manager selection process took place during December 2020, with Macquarie and Quinbrook each selected to manage a 3% allocation. The first drawdowns totalling c.£15m, took place during Q1 of 2021.

During November 2020, the Pension Fund commissioned TruCost to undertake a Carbon Review of the Fund following the transition into the ESG equity mandates, as at 31 October 2020.

The carbon to value invested metric is used by TruCost to reflect how efficient companies are at creating shareholder value, relative to the carbon emissions produced. The following graph depicts the Fund's carbon to value invested journey against the benchmark, within the equity allocation, from 30 June 2019 to 30 November 2020. The Pension Fund has been benchmarked against the FTSE World Index.

Weighted Average Carbon to Value Invested



4. ESG Case Studies

Environmental, Social and Governance factors are key indicators in measuring the sustainability and suitability of an investment. There is growing research which suggests, when integrated into business decisions and portfolio construction, these can offer stability in future returns.

The Fund expects managers to integrate ESG factors into investment analysis and decision making. Monitoring these effectively can assist with resolving issues at early stages through effective engagement with companies and board members. The Fund expects asset managers where possible to engage and collaborate with other institutional investors, as permitted by relevant legal codes to ensure the greatest impact.

The measurement of ESG performance is still developing and benefitting from significant improvements. There are several performance benchmarks and disclosure frameworks that exist to measure the different aspects of available ESG data

which include carbon emissions and a variety of social impact scores.

Environmental: Gwynt y Môr case study

Gwynt y Môr is a 576-megawatt wind farm located off the coast of North Wales, and it's held within our Macquarie Renewable Energy Fund.

The fund has a 10% stake in the windfarm and is the fifth largest operating offshore wind farm in the world. Macquarie manages an additional 10% exposure in Gwynt Y Môr through their existing renewable infrastructure funds and therefore is already familiar with the asset. Operational since 2015, Gwynt y Mor is comprised of 160 Siemens 3.6MW wind turbines spread across 80 square kilometres and provides enough clean electricity to power approximately 430,000 UK homes each year.

It is estimated that the windfarm cuts carbon emissions by around 2m tonnes a year, with the CO₂e avoided equivalent to taking 234,680 cars off the road.

Social: Teladoc case study

The Pension Fund holds, Teladoc, within its LCIV (Baillie Gifford) Growth Alpha Equity portfolio. The company is the largest telemedicine company in the US, providing remote access to services such as primary care appointments, expert second opinions, health support and chronic care management.

By providing healthcare services via video or phone consultants, this increases the accessibility to the services, helps to lower average healthcare costs and improves efficiency of the healthcare system.

In the first quarter of 2020, following the COVID-19 outbreak, Teladoc welcomed over a million new customers, ensuring the ability to continue to access

healthcare at a time when hospitals and clinics would otherwise be unavailable to them. Teladoc operates in over 175 countries, and the company claims in the US an average saving of \$472 per medical visit. Alongside this, in countries with nationalised healthcare, savings will benefit the government and therefore the public.

Governance: Cardinal Health case study

Cardinal Health is an American integrated pharmaceuticals company, providing medical products to hospitals, health systems, pharmacies, clinical laboratories and physician offices worldwide. The Pension Fund holds Cardinal Health within its LGIM Future World Fund.

During 2020, the company paid out an above target bonus to the CEO, in the same year which it recorded a pre-tax charge of \$5.63bn for opioid settlement costs. It was found the compensation committee excluded these costs when calculating the bonus, resulting in executive pay being boosted. Additionally, the CEO had been the global head of pharma during the worst years of the opioid crisis.

LGIM voted against the pay resolution and signalled concern over the bonus payment in the same year as the company recorded an expected settlement. LGIM continues to engage with US companies on their pay structures and has published specific pay principles for US companies.

5. Key Fund Facts

Aberdeen Standard Long Lease

- 77% of energy data collected
- 74% of water data collected
- 83% A-D Energy Performance Certificate Rating

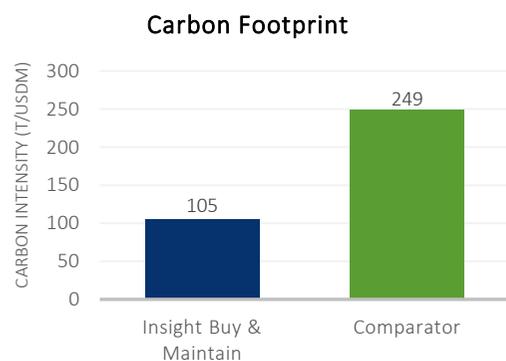
- 5 metric tonnes of carbon saved by solar installation

Pantheon Global Infrastructure

- 5% invested in solar
- 4% invested in wind power
- 43% of senior roles held by women
- 100% recycling rate

Insight Buy & Maintain

- The carbon intensity of the fund is 84 (t/USDm) lower than its comparators



LGIM Future World

- Companies failing to meet globally accepted business practices are excluded from the Future World Fund, based on any of the following criteria:
 - Involved in production of controversial weapons
 - Involved solely in the extraction of coal
 - Violators of the UN Global Compact initiative

LCIV Global Alpha

- 48% women employed
- 52% men employed
- 41.8% lower relative carbon footprint than the benchmark

LCIV Global Sustain

- The Global Sustain Fund avoids sectors such as alcohol, tobacco, weapons, gambling, fossil fuels and electric utilities and undertakes an engaged investment approach considering financial returns and ESG criteria.

6. Voting & Engagement

The Committee has delegated the Fund’s voting rights to the investment managers, who are required, where practical, to make considered use of voting in the interests of the Fund. The Committee expects the investment managers to vote in the best interests of the Fund. In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

The Fund will continue to collaborate with the London CIV on maintaining a shared voting policy for the equity managers on the London CIV platform and actively seek to align these policies with manager insights. Lobbying with other London CIV clients will give the Pension Fund greater control and impact over our voting choices and a centralised process will ensure our voting remains consistent and has the greatest impact.

The Pension Fund views engagement with companies as an essential activity and encourages companies to take positive action towards reversing climate change. The Westminster Pension Fund is a responsible owner

of companies and cannot exert that positive influence if it has completely divested from all carbon intensive producing companies. The Pension Fund will continue to encourage positive change whilst officers will continue to engage with the investment managers on an ongoing basis to monitor overall investment performance, including carbon and other ESG considerations.

Engagement: Microsoft case study

As part of the LCIV Global Sustain Fund, Morgan Stanley have engaged with Microsoft on a number of issues including carbon and diversity and inclusion.

Microsoft have pledged to become carbon-negative by 2030, Morgan Stanley have engaged with the company on these decarbonisation targets and how they can be achieved. This engagement has shown that Microsoft is increasingly focusing on decarbonising their supply chains, not just direct operations. To assist in understanding and reducing these supply chain emissions, Microsoft has started charging a carbon price on these activities and developed tools to incentivise suppliers to reduce these. Other Microsoft initiatives include \$1bn funding new carbon removal technologies, transition to renewable energy and establishing a net zero initiative with other large companies.

The company has disclosed that they include diversity as part of senior management remuneration and have set up recruitment campuses at universities with high levels of diversity.

7. Connected Organisations

The Pension Fund recognises that significant value can be achieved through collaboration with other stakeholders. The Pension Fund works closely with its LGPS pool company, other LGPS funds and member

groups such as the Local Authority Pension Fund Forum (LAPFF), Pensions and Lifetime Savings Association (PLSA) and ShareAction to ensure corporate interests are aligned with the Pension Fund's values.

The Pension Fund actively contributes to the engagement efforts of pressure groups, such as the Local Authority Pension Fund Forum (LAPFF) and requires investment managers to vote in accordance with the LAPFF's governance policies. In exceptional cases, investment managers will be required to explain their reason for not doing so, preferably in advance of the AGM.

Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum are a collection of over 83 local authority pension funds, with assets under management of over £300bn, promoting the highest standard of governance with the aim of protecting the long-term value of pension funds. The LAPFF engage directly with companies, on behalf of all asset owners and pension fund trustee members, on issues such as executive pay, reliable accounting and a transition to a net carbon zero economy.

LAPFF case study

The LAPFF produce quarterly engagement reports, covering all ESG related issues from climate change, governance, human rights and cyber security. Over the quarter to 30 September 2020, the LAPFF engaged with 27 companies, including Sainsbury, Tesco and the National Grid.

At the National Grid 2020 AGM, LAPFF asked the National Grid to commit to its delayed setting of scope 3 carbon emission reduction targets. The company published a response on its website, signifying that it

would provide information on scope 3 targets in October.

Alongside this, the company has set a target of aiming for a carbon-neutral grid by 2025, including the provision of electric vehicle charging stations.

Pensions and Lifetime Savings Association

The City of Westminster Pension Fund is a member of the PLSA, who aim to raise industry standards, share best practice and support members. The PLSA works across a range of stakeholders including governments, regulators and parliament to help the implementation of sustainable policies and regulation. They represent over 1,300 pension schemes totalling £1.3tn in assets under management, including those in the public and private sectors.

The PLSA provide an important source for training, support and guidance on regulations and pension support services.

PLSA case study

The PLSA published its response to the MHCLG proposals regarding the McCloud and Sargeant discrimination cases by, extending the underpin to younger scheme members with the underpin period applying from the 1st April 2014 to the 31st March 2022.

The PLSA conducted a survey of its members and consulted the Local Authority Committee on the proposals within the MHCLG consultation. On the whole the PLSA was supportive of the Government's plan to implement a two-stage underpin process, however they did express concerns about the impact these proposals would have on funds and pensions administrators given the significant resourcing requirements.

ShareAction

ShareAction is a registered charity who promotes responsible investment, working with investors to help influence how companies operate their business on a range of Environmental, Social and Governance (ESG) factors. This includes areas such as climate change, gender diversity, living wages, decarbonisation, biomass and healthy markets.

Most recently, ShareAction has been working on a Healthy Markets coalition group. The Healthy Market Initiative aims to make food retailers and manufactures take on accountability for their role and impact on people's diets. The City of Westminster is a member of the Healthy Markets coalition and along with other members, represents over \$1 trillion in assets under management. The Fund has actively engaged with ShareAction on this initiative, attending coalition meetings, as well as contacting our equity managers and the LAPFF on their behalf to see if they would be willing to engage.

ShareAction case study

In 2019 ShareAction partnered with the Access to Nutrition Initiative (ATNI) on its Healthy Markets Campaign. ATNI adapted the core methodology used for the Global Access to Nutrition Indexes to assess the disclosure of the UK food retail sector. In March 2020, the ATNI published its UK Supermarkets spotlight analysing the top 10 food retailers in the UK, scoring them against a number of indicators including governance, nutrient profiling, promotions and labelling. Whilst some retailers provide better transparency than others, all of them have the scope to explain more fully their commitments and action in all areas. Following the outcome of the report ATNI recommended that all 10 supermarket chains publish comprehensive strategies on diet, nutrition and health.

Pension Administration Strategy

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Charging

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1. Introduction

The delivery of a high quality, cost effective pensions administration service is not just the responsibility of the Administering Authority (Westminster City Council), it also depends upon collaborative working with all stakeholders to ensure that Scheme members, and other interested parties, receive the appropriate level of service and ensure that statutory requirements are met.

The aim of this Pension Administration Strategy (PAS) is to ensure that the Administering Authority along with their Admitted and Scheduled body employers are aware of their responsibilities under the Local Government Pension Scheme (LGPS).

This document also shows the relationship and details the split of responsibilities between the Administering Authority and the Admitted and Scheduled body employers (Employers).

For clarity Westminster acting as Administering Authority (WAA) for the pension fund will treat Westminster the main fund employer (WFE) exactly the same as all the other fund employers.

It should be noted that the Administering Authority is working with Surrey County Council (SCC) to provide the main pension administration service to all fund employers under a 101 shared service arrangement.

Throughout this document contractual and best practice levels of performance are referenced with the aim of incrementally improving the provision of timely accurate data and levels of pension administrative services.

Failure to comply with the standards shown in this document could result in charges being levied by the Administering Authority to Employers in accordance

with the terms set out in the schedule of charging in Section 6.

2. Pension Administration Strategy Statement

This statement sets out the aims and objectives of the PAS and references other documents which together make up the overall pensions administration management system.

Statutory background

Regulation 59 of the Local Government Pension Scheme Regulations 2013 (LGPS 2013) enables an Administering Authority to prepare a document detailing administrative standards, performance measurement, data flows and communication vehicles with Employers.

Regulation 70 of the LGPS 2013 allows an Administering Authority to recover costs from an Employer where costs have been incurred because of an Employer's non-compliant level of performance in carrying out its functions under the Regulations.

Aims & Objectives

In creating this strategy, the aim of the Administering Authority is to have in place a pension management system that meets the needs of the stakeholders by:

- clarifying the roles and responsibilities of all the major stakeholders
- ensuring the services provided by all the major stakeholders are accessible, equitable and transparent
- assisting Employers to provide the effective provision of timely and accurate data

To support these aims this PAS document introduces:

- the standard of expected service between the Administering Authority and Employers

- a schedule of charges that apply when standards of service fall below expectations
- a strategy in place to develop web enabled services for Employers and employees.

Other documents which make up the overall strategy

- Local Government Pension Scheme Communications Policy

3. Roles and responsibilities

Administering Authority

The responsibilities of the Administering Authority are:

1. To decide how any previous service or employment of an employee is to count for pension purposes, and whether such service is classed as a 'period of membership'.
2. To notify each member regarding the counting of membership in the scheme following notification from the member's employer of the relevant service details.
3. To set up and maintain a record for each member of the scheme which contains all the information necessary to produce an accurate benefit calculation following the employer providing useable and accurate financial data.
4. To calculate and pay the appropriate benefits at the correct time, based on membership details held the termination date and the final pay details provided by the employer when an employee ceases employment, or ceases membership of the Scheme.

5. To supply beneficiaries with details of their entitlements including the method of calculation.
6. To set up and maintain a record for each pensioner member.
7. To increase pensions periodically in accordance with the provisions of Pensions Increase Acts and Orders.
8. To pay benefits to the correct beneficiaries only and to take steps to reduce the possibility of fraud taking place.
9. To ensure that sufficient information is issued to satisfy the requirements of Regulation 61 of the LGPS 2013. This relates to fund communication more details are contained within section 4 of this document or alternatively see the communications policy which is also available on the Westminster Pension fund website.
10. To maintain an appointed person for the purposes of the scheme internal dispute resolution procedure (IDRP). The appointed person will in general be the Director of People Services or where the Director had previously been involved in the case an officer of equivalent level will be asked to make a determination. The appointed person will be able to access advice from the funds appointed legal advisors where necessary.
11. To appoint all necessary advisors to enable the appointed person to perform the duties required by the IDRP.
12. To appoint an actuary for the purposes of the triennial valuation of the Pension Fund and

provide periodical actuarial advice when required.

13. To arrange and manage the triennial valuation of the pension fund.
14. To ensure compliance with the Data Protection Act 1998.
15. The Administering Authority and its agents will respond to queries from employers external or internal auditors within 5 working days or advise when a full response can be sent if not possible within that time frame.
16. The Administering Authority and its agents will respond to relevant Freedom of Information requests within 14 working days if possible or advise when a full response can be sent if not possible within that time frame.
17. The Administering Authority will reply to any Pension Ombudsman query within 30 days of receipt or advise of reason for further delay.

Employers

The main duties of the Employer are:

1. To decide who is eligible to become a member of the Scheme. The employer must abide by any admission agreement entered into with the administering authority if applicable. If there is a closed admission agreement only the named employees can be entered into the LGPS.
2. To decide whether that person is employed in a full time, part time, variable time or casual capacity. If the employee is part time the employer must determine the proportion

which the employees' contractual hours relate to the hours of a comparable full time, employee.

3. To determine the pay of employees for the purposes of calculating the pension contributions.
4. To determine final pay for the purposes of calculating benefits due from the Scheme.
5. To issue a notification to any employees who cannot become members of the Scheme explaining the reason(s) why.
6. Where, after reasonable efforts, an employee fails to provide information relating to previous service, provide basic information to the Administering Authority.
7. At cessation of membership of the Scheme, to determine the reason for leaving and entitlement to benefit and notify the Administering Authority and the Scheme member of the decision.
8. To supply timely and accurate information to the Administering Authority to ensure the correct calculation of benefits payable from the Scheme.
9. To deduct Additional Voluntary Contributions (AVCs) from a member's pay and pay over to the provider within the statutory deadlines.
10. To be responsible for exercising the discretionary powers given to Employers by the regulations. These regulations also require the Employer to publish its policy in respect of these key discretions.