



CITY OF WESTMINSTER

# MINUTES

## Pension Fund Committee

### MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Fund Committee** held on **Thursday 24th June, 2021**, Rooms 18.01, 18.02 and 18.03, 18th Floor, 64 Victoria Street, London, SW1E 6QP.

**Members Present:** Councillors Eoghain Murphy (Chairman), Barbara Arzymanow, Angela Harvey and Patricia McAllister

#### 1 MEMBERSHIP

There were no changes to the membership.

#### 2 DECLARATIONS OF INTEREST

Councillor Eoghain Murphy declared that he is an employee of HSBC Global Asset Management, however, this did not directly involve any business for this meeting.

#### 3 MINUTES

##### RESOLVED:

That the minutes of the meetings held on 29 October 2020, 7 December 2020 and 11 March 2021 be signed by the Chairman as a correct record of proceedings.

#### 4 PENSION ADMINISTRATION UPDATE

Sarah Hay (Senior Pensions and Payroll Adviser) presented the report and advised that the key performance indicators were generally holding up, however there had been a drop in March 2021 due to a change in the location of the pension administration team, but figures were more positive from April 2021. There was concern raised about turnaround on retirement KPIs, but this was being closely monitored. Address tracing was reported as working well and a new system, Admin 2 Pay, was explained. Work will be required by the new Surrey team to ensure urgent cases are processed on time and WCC pension officers will monitor this progress closely.

The Committee sought clarification regarding the go-live date of the new team in Surrey and were reassured that this was being set up in readiness of a July start

date. The team was going to be run by personnel who had been working on the processes already and that the team were to be led by an experienced person.

The Committee queried whether there was correlation between delays in retirement cases and provision of data from employers. The officer advised, however, that she did not notice particular patterns in this regard, but cases should be escalated by the Surrey team to the Pension team at Westminster if employer responses are slow. Members noted the importance of ensuring pension payments were paid swiftly to ensure people's income is not adversely affected, especially in relation to benefit entitlements affected by pension payments.

## **RESOLVED**

The Committee noted and commended the report.

## **5 ANNUAL PENSION FUND ACCOUNTS AND ANNUAL REPORT**

Matt Hopson, Strategic Investment Manager, presented the report and highlighted the impressive performance of the Pension Fund accounts.

The Committee noted a significant increase in the value of the fund and requested some changes to the Annual Report, including adding thanks to the members of the Committee, the Local Pension Board and officers but agreed to feed back more detailed comments by the end of July 2021 to the team.

The Committee requested alternative photographs to the ones included in the report to represent the work carried out in Westminster, for example, with regards to social housing.

## **RESOLVED**

That the Pension Fund accounts for 2020/21 be noted. Further comments relating to the draft Pension Fund Annual Report for 2020/21 were to be provided by the end of July 2021 before the final document was completed and approved by the Tri-Borough Director of Treasury and Pensions.

## **6 ACTUARY CONTRACT**

### **PUBLIC MINUTES**

Phil Triggs, the Tri-Borough Director of Treasury and Pensions, presented the report on the procurement process for actuarial services.

## **RESOLVED**

The Committee noted the report but agreed to reconsider this item in the confidential part of the meeting due to the confidential nature of the appendix.

### **CONFIDENTIAL MINUTES**

Phil Triggs, the Tri-Borough Director of Treasury and Pensions, presented the report on the procurement process for actuarial services.

The Committee noted the report, alongside the confidential appendix and queried with officers, the technical aspects of the weighting and the accuracy of the scores. It was noted that the procurement weighting between pricing and qualitative factors was standard for Westminster City Council. Both Hymans Robertson LLP and Barnett Waddingham were acknowledged to be over the acceptable threshold on quality but that there was a significant difference between the two in terms of pricing.

## **RESOLVED**

To award the Actuarial Services contract to Hymans Robertson LLP.

## **7 ASSET ALLOCATION UPDATE AND RESIDENTIAL PROPERTY REVIEW**

Matt Hopson, Strategic Investment Manager, presented the report.

Kevin Humpherson, of Deloitte, was invited to speak to the Committee. Further to an earlier training session for the Committee, the concept behind different asset classes, such as affordable housing, was explained. Social supported housing was outlined including the attractive investment opportunity that this opens up for pension schemes and the significant benefit of these schemes for residents. The private rented sector was summarised, and this was noted to carry less regulatory risk than affordable and social supported housing. The Committee was made aware that the private rented sector did not carry the same social benefit and in some cases could be seen to be contributing to the problem of people not being able to buy their own home. It was noted that all three asset classes have similar returns but that the desired choices were affordable housing and social supported housing due to the supply/demand imbalance and the potential for future risks for the private rented sector.

The projected allocation in the report was outlined in more detail. Deloitte recommended that if an investment was to be made in residential property they would suggest that an allocation be taken from equity as the first option to consider due to high current valuations.

The Committee discussed the importance of investing in something with a strong social purpose, such as social supported housing, where the demand and need for this could rise. Overall, this would carry a financial, as well as a social, benefit to Westminster so was an attractive investment opportunity, despite some risk. The fact social housing initiatives is strongly regulated was highlighted.

Further to questions from the Committee, Deloitte noted that every investment made to social supported housing would contribute to an increased supply of socially supported homes and that the expected return from the asset classes is calculated from the net present value of the future rental income stream. Deloitte noted that it could be worth engaging with the LCIVs London Fund, focused on investing in local infrastructure and property opportunities.

The Committee noted that private equity could be considered alongside a residential property investment to diversify the fund and offset any risk.

## **RESOLVED**

To agree to a contribution of 2.5% to social supported housing alongside a further 2.5% contribution elsewhere to a slightly higher yielding investment, such as the LCIV London Fund, to be funded by a reduction in equities of 5%. Deloitte will feed back as part of their search.

The Committee agreed to consider a private equity investment for the future.

## **8 FUND FINANCIAL MANAGEMENT**

Matt Hopson, Strategic Investment Manager, presented the report.

The Committee felt that the administrative and communicative risk of COVID-19 outlined on the risk register could be lowered for the next update.

It was also noted that the asset and investment risk in relation to the global outbreak of COVID-19 was high, but due to the sensitivity of the markets and the uncertainty this should stay at this level.

The Committee requested a more detailed breakdown of miscellaneous payments (including transfers out, lump sums, death grants and refunds) for future updates.

## **RESOLVED**

- To note the risk registers for the Pension Fund.
- To note the cashflow position for the pension fund bank account and cash held at custody, the rolling 12-month forecast and the three-year forecast.
- That the Committee would be provided with a more detailed breakdown of miscellaneous payments (including transfers out, lump sums, death grants and refunds) for future updates and that the administrative and communicative risk of COVID-19 outlined on the risk register should be considered to be lowered for the next update.

## **9 FUND COST ANALYSIS**

Matt Hopson, Strategic Investment Manager, presented the report, and noted the increase in the level of detail provided in the cost analysis to increase transparency. The reasons behind the significant increase in administrative costs were explained and it was noted that these were transition costs caused by joining with Hampshire from Surrey and that these costs would reduce in future.

The Committee requested a more detailed breakdown of categories in relation to investment management costs. This would be circulated to the Committee.

## **RESOLVED**

To approve the current year's expenditure budget for 2021/22 with a request for further detail of categories in relation to investment management costs.

## **10 GOVERNMENT ACTUARY DEPARTMENT (GAD) REVIEW**

Phil Triggs, Tri-Borough Director of Treasury and Pensions, presented the report and noted the strong position of the City of Westminster Pension Fund.

The Committee commended the work of officers resulting in the positive outcome for the Pension Fund in terms of its Government Actuary Department position.

### **RESOLVED**

The Committee noted the Government Actuary Department (GAD) Review.

## **11 LCIV MULTI ASSET CREDIT UPDATE**

Phil Triggs, Tri Borough Director of Treasury and Pensions, presented the report.

Kevin Humpherson, of Deloitte, advised that they saw little drawback in the appointment of a second manager at LCIV to the Multi Asset Credit (MAC) Fund which reduced the risk of being over-reliant on one manager, which in turn would reduce the risk associated with the MAC Fund. However, this benefit comes through exposure to investment grade credit which typically is not seen in the MAC Fund. It was also noted that the Fund already has significant allocation to investment grade credit through the Insight investment.

Deloitte queried, on a wider note, whether MAC is still a suitable investment for the Pension Fund or whether the Committee wished to move to something that would reduce the volatility associated with the MAC Fund, such as private credit.

The Committee requested further detail regarding the performance of CQS organisationally and whether it had stabilised. Deloitte advised that there was no concern with the performance of the fund when considering the market as a whole and had confidence in the personnel in the relevant team, but this was being monitored.

With regards to private credit investment opportunities and the wider interest in this, Deloitte advised that the manager chosen, and the size of loans, is key to deciding whether to invest in such opportunities and that it was important to stay disciplined in the mid-market range (earnings of between £25 and £75 million).

The Committee requested a paper with options for alternative investments to be considered at the next meeting of the Pension Fund Committee.

### **RESOLVED**

The Committee noted both the report and appendix and agreed to maintain the current LCIV MAC investment, but, prior to communicating a decision to the London CIV, requested a paper, to be presented at the next meeting of the Committee, with

specific options in order to decide whether to maintain the current investment with the LCIV MAC mandate moving forward or switch to another credit class.

## **12 NORTHERN TRUST ULTRA SHORT BOND FUND**

Matt Hopson, Strategic Investment Manager, presented the report and detailed the nature of ultra short bond funds, noting the extremely low-risk nature of such an investment and other benefits, such as a lack of entry and exit fees for this account.

The Committee discussed the positive nature of the investment and noted that it met all the requirements that the Committee had.

### **RESOLVED**

- To note the key details of the Northern Trust Ultra Short Bond fund
- To approve the account opening and use of Northern Trust as the main account for any future asset transitions involving cash receipts.

## **13 QUARTERLY PERFORMANCE REVIEW**

Phil Triggs, Tri Borough Director of Treasury and Pensions, presented the report.

The Committee noted the appointment of Mike Craston as Chair of the London CIV, subject to Financial Conduct Authority approval.

The Committee were pleased to see action on investment companies voting on important matters to improve governance.

### **RESOLVED**

- To note the performance of the investments and the funding position.
- To consider transitioning the Baillie Gifford Global Alpha Equity mandate into the Paris Aligned version of the fund at a future meeting of the Pension Fund Committee, with more detail being provided on transaction and transitional costs.

## **14 RESPONSIBLE INVESTMENT STATEMENT**

Matt Hopson, Strategic Investment Manager, presented the report.

The Committee requested an alternative photograph to replace the existing one on the front cover of the report. The Committee also requested alternative case studies, in relation to governance and other sections of the paper, which would be circulated to the Committee for comment prior to publication.

### **RESOLVED**

The Committee agreed to approve the publication of the Responsible Investment Statement, subject to pictorial amendments and the circulation to the Committee of alternative case studies to be included in the report.

## **15 S113 AGREEMENT REVIEW**

Phil Triggs, Tri Borough Director of Treasury and Pensions, presented the report and noted that the Royal Borough of Kensington and Chelsea and the London Borough of Hammersmith and Fulham were due to see this report in due course and it had been examined and approved by key officers from the three Boroughs.

With this approval in mind, the Committee were minded to approve the report.

### **RESOLVED**

To approve the S113 Tri Borough Treasury and Pensions agreement review and recommendations.

## **16 THE PENSIONS REGULATOR: SINGLE CODE**

Phil Triggs, Tri Borough Director of Treasury and Pensions, presented the report.

With regards to unregulated markets, it was noted that some current investments of the City of Westminster Pension Fund would fall under this category, if the proposed arbitrary limit of 20% is brought in by the Pensions Regulator.

### **RESOLVED**

To note the TPR single code of practice consultation and Westminster City Council's response, pending further updates for the Committee.

## **17 EXCLUSION OF PRESS AND PUBLIC**

**Adjournment:** At this stage of the proceedings, the Chairman adjourned the meeting and the Members retired to consider those items of business that were deemed to be exempt under the Access to Information regulations.

## **18 SURREY PENSION / HEYWOOD / HAMPSHIRE**

Diana McDonnell-Pascoe, Pension Project Manager, presented the report.

The Committee held a detailed discussion and noted the report detailing the transition from Surrey to Hampshire, noting the go-live date of 8 November 2021. The Committee wished the team well. A fraudulent case was discussed, and it was agreed that an update on the case would be circulated to the Committee by officers.

**RESOLVED:** To note the report.

## **19 CONFIDENTIAL MINUTES**

**RESOLVED:** That the confidential minutes of the Pension Fund Committee meetings held on 29 October, 7 December 2020 and 11 March 2021 be signed by the Chairman as a correct record of proceedings.

The public meeting closed at 21:25. The confidential meeting closed at 21:45.

**CHAIRMAN:** \_\_\_\_\_

**DATE** \_\_\_\_\_