



CITY OF WESTMINSTER

# MINUTES

## **Pension Fund Committee** **MINUTES OF PROCEEDINGS**

Minutes of a hybrid meeting of the **Pension Fund Committee** held on **Thursday the 19<sup>th</sup> of October 2023**, Room 18.01 - 18.03, 18th Floor, 64 Victoria Street, London, SW1E 6QP and via Microsoft Teams.

**Members Present:** Councillors Robert Eagleton (Chair), Maggie Carman, Ryan Jude, Ed Pitt Ford.

**Also Present:** Mathew Dawson (Strategic Investment Manager), Billie Emery (FM Pensions), Sarah Hay (Strategic Pension Lead), Diana McDonnell-Pascoe (Pension Project and Governance Lead), Emily McGuire (Head of Investment Services - Isio), Jonny Moore (Investment Advisor - Isio), Jack Robinson-Young (Cabinet and Councillor Coordinator), Patrick Rowe (SFM Treasury & Pensions), Phil Triggs (Tri-Borough Director of Treasury and Pensions)

### **1 MEMBERSHIP**

1.1 There were no changes to the membership.

### **2 DECLARATIONS OF INTEREST**

2.1 There were no declarations of interest.

### **3 MINUTES**

3.1 The Committee approved the minutes of its meeting on 29th June 2023 with the following amendment from Councillor Pitt Ford with regards to item 12 Asset Allocation Review:

*On request of the Committee, Isio agreed to put together a position paper on investing 5% into ESG specific Private Equity Funds.*

3.2 RESOLVED:

That the minutes of the meeting held on Thursday the 29<sup>th</sup> of June be signed as a correct record of proceedings.

## **4 PENSION ADMINISTRATION UPDATE**

4.1 Sarah Hay, the Pensions Officer People Services, introduced her report covering the key performance indicators (KPIs) for each month. The Pensions Officer People Services informed Members present that the Hampshire Pension Services (HPS) report indicated 100% compliance with the agreed KPIs each month and the majority of our KPIs required cases to be completed within 15 days, with HPS providing a breakdown for each category, showcasing the number of cases processed in each 5-day block.

4.2 The Pensions Officer People Services was pleased to announce that business as usual work had progressed well, and there were no general concerns. The Committee were informed that at the end of September, there were 182 business-as-usual cases pending action, a number the Pensions Officer People Services was comfortable with in the workflow. The Committee were informed that the positive working relationship with HPS, established since November 2021, led us to schedule meetings with their management on a bimonthly basis from April 2023 onwards, instead of monthly. Despite this change, Members were informed that the Fund would still receive a comprehensive monthly partnership report, and meetings could be arranged if necessary. With the service in a robust position, the Pensions Officer People Services believed time could be more productively spent than in monthly meetings.

4.3 The Pensions Officer People Services informed the Committee there had been steady progress made in clearing the remaining backlog cases, reducing the number from 43 to 22 since the last update to the Pension Fund Committee. The Pensions Officer People Services anticipated this number would further decrease in the upcoming weeks. The Pensions Officer People Services said that clearing these remaining backlog cases had proved challenging, partly due to employers lacking the correct data and sometimes knowledge to provide the Fund with the required information. Additionally, some cases were pending data from other funds for transfers before completing a deferment. Engagements with employers had taken place, and efforts to reach out to other funds had been extended. The Pensions Officer People Services was pleased to inform Members present that there was a total of 455 queries from this year's annual returns, most of which have been resolved. The few remaining queries were primarily linked to one employer, and efforts were underway to address them swiftly, enabling the excellent Annual Benefit Statement (ABS) rates.

4.4 The Pensions Officer People Services informed the Committee that the internal team had attended a couple of events in 2023, organised by the Westminster Women's network to support members in understanding their pensions.

The first event was held on the 18th of May 2023, focusing on the Pensions Journey. This was then followed by a subsequent event on the 5th of September 2023, where members gained insights into their annual benefit statements and had their queries addressed on various Local Government Pension Scheme issues. The Pensions Officer People Services expressed hope that as key projects are delivered in the coming months, more personalised support to Fund members across all employers could be given.

4.5 The Committee asked where the backlog had come from, and in reply the Pensions Officer People Services informed Members that it had built up over a number of years during the move from Surrey Pension Services into Hampshire Pension Services.

4.6 The Committee asked the Pensions Officer People Services what more could be done to advertise the pensions portal to Council Officers and other members of the Fund. In reply, Sarah Hay said that it is already widely advertised including featuring in the Employee Benefits Programme and all new starters are emailed information during their onboarding. The Committee noted that there had been positive progress, with a 5% increase in members using the portal.

## **5 PENSION PROJECTS & GOVERNANCE UPDATE**

5.1 The Pension Project and Governance Lead, Diana McDonnell-Pascoe, addressed the Committee and outlined her report. The Committee were informed that the Guaranteed Minimum Pension (GMP) project had progressed according to the planned timeline, with data and the accompanying report expected to be received in early October. Members were informed that a decision was made to descope a portion of the member records from the project, necessitating manual review by Westminster and HPS, which is planned for the following financial year. The Communication phase commenced on the 11th of September 2023, with a focus on tailoring communications for each category of members.

5.2 The Committee were informed that Westminster City Council had submitted the McCloud data sets on time to HPS, with some sets needing further review before submission. Westminster City Council had successfully obtained the required historic HR data from the legacy Oracle Software, resolving earlier concerns. The Committee were informed that the quality of the data enabled a swift review with Hampshire Pension Services, and the efficient collaboration with the IT team and an external consultant was acknowledged. The Pension Project and Governance Lead went on to say that the data return rate for August for all employers was approximately 64%,

with an expectation of improvement in September and that HPS would review all data sets for quality and utilise scheme guidance to manage poor data sets, to ensure the project's completion.

5.3 The Committee were reminded that the deadline for the Pensions Dashboard program had been extended to the 31st of October 2024, with HPS engaging Civica as the integrated service provider for the project. The Committee were updated on the fact that there had been no significant changes were reported, but that additional information was expected in September's partnership report.

5.4 The Committee were updated on the Pensions Website Project and how the timeline was extended for additional research purposes with no material impact on the overall project timeline. For research participation, invites were sent out to Westminster City Council and Scheme Employer staff, with 17 participants, exceeding the target. The Pension Project and Governance Lead informed Members that interviews were conducted with neurodiverse and visually impaired members of the Council's ABLE network, as well as staff from other non-Westminster Council Scheme Employers which ensured inclusivity in the research process.

5.5 The Pension Project and Governance Lead updated the Committee on governance and that the external audit conducted by Grant Thornton had progressed smoothly, with draft papers being prepared for internal review. Regular meetings between all parties had ensured timely resolution of any queries. The Committee were further informed that internal audits also continued, with the focus on specific areas, including contract management processes and controls.

## **6 ADMITTED BODY REQUEST**

6.1 Sarah Hay, the Pensions Officer People Services, introduced her report on a proposed admission into the Fund. The Pensions Officer People Services said it was her recommendation to the Pension Committee to not accept a new employer unless they fulfilled specific criteria, such as TUPE transferring of staff or being a scheduled body with entitlements to access the Fund. Despite not meeting these requirements, the London Diocesan Board of Schools (LDBS), operating in Westminster and supporting local schools, is regarded as a special case. The Committee were informed that the Executive Director of Bi-Borough Children's Services at Westminster City Council, Sarah Newman, supported the application into the Fund, acknowledging their contributions to educational needs in the Borough.

6.2 The Committee were informed that the LDBS provided membership data for 11 staff, which was reviewed by the Fund's actuary. The Pensions Officer People Services informed Members that initially, they had proposed an open admission agreement, allowing them to add new members continuously. However, due to the risks involved, an open admission agreement without a ceding employer to guarantee their liabilities was deemed unfavourable for the Fund. The Pensions Officer People Services informed the Committee that the actuary calculated an appropriate rate for LDBS potential admission based on a closed admission agreement and a cautious funding outcome strategy. LDBS would transfer staff from the Church of England defined benefit scheme by a specific date, with subsequent, new staff joining a different scheme. The actuary's assessment suggested an employer rate of 42.5%, significantly higher than the current contribution in the Church of England Pension scheme, assuming a 90% likelihood of their future funding success.

6.3 The Pensions Officer People Services said that, when considering the possibility of future financial issues, various measures were explored, including the potential requirement of a bond to cover insolvency risk. A credit report on LDBS was requested, and legal consultation was pending, awaiting the Pension Fund Committee's direction. The recent financial accounts shared by LDBS reflected a healthy balance sheet. The Pensions Officer People Services proposed that the Pension Committee should decide on allowing LDBS to join the Westminster City Council Pension Fund on a closed admission basis from 1 April 2024.

6.4 The Committee asked how many schools the LDBS dealt with and were informed by the Pensions People Officer that there was not a definitive figure, and some of their schools were located in the neighbouring borough of Kensington and Chelsea. The Pensions People Officer informed Members that the LDBS itself was located within Westminster, which is why the request was coming to this Pension Fund Committee for admittance.

6.5 The Committee asked if it would be possible for a bond to be put in place and then reviewed at five-year intervals. In reply, the Pensions People Officer informed Members that this had not been done before but was technically possible.

6.6 The Tri-Borough Director of Treasury and Pensions informed Members present that the standard approach when evaluating an admission body into the Fund would be a 66.6% (2/3) chance of probability of success. Members were informed that this admission had been estimated at a 90% probability, a very prudent approach.

6.7 The Committee asked what other options would be open to the LDBS if they were not admitted, and if they could not afford the admission rate if they were to be admitted. The Pensions People Officer replied that she was unsure what other options would be available, or if there would be any at all. With regards to their contribution rate, Members were informed that if they could not meet this obligation, they could be denied entry to the Fund.

6.8 The Committee were postponed making a decision and asked for the Pensions People Officer to re-enter discussions with the London Diocesan Board of Schools, and to include the possibility of a bond with them.

## **7 FUND FINANCIAL MANAGEMENT**

7.1 The Tri-Borough Director of Treasury and Pensions addressed the Committee and outlined the top 5 risks for the fund:

7.1.1 *Liability Risk*: The Committee were informed that inflation in the UK and globally was exceeding actuarial assumptions, with the Consumer Price Index (CPI) at 6.7% in August 2023, albeit lower than the peak of 11.1% in October 2022. The Tri-Borough Director of Treasury and Pensions said that the persistently high inflation was attributed to various factors such as labour shortages, supply chain challenges, and the ongoing Russia-Ukraine conflict.

7.1.2 *Asset and Investment Risk*: The Committee were informed that despite efforts, investment managers had failed to meet the benchmark or outperformance targets over an extended period. A mere 0.1% shortfall in the investment target translated to an annual impact of £1.8m. The Fund's performance until August 31, 2023, yielded a net return of 3.21%, falling short of the benchmark by -2.50% net of fees.

7.1.3 *Asset and Investment Risk*: The Committee were informed that global economic stability faced heightened risks, evident from the collapse of multiple banks since March 2023. Advanced economies were experiencing a deteriorating outlook, marked by elevated uncertainty, setbacks in growth and confidence, increased volatility in oil and commodity prices, and the depreciation of the pound. These conditions have resulted in tightened financial situations, reduced risk appetite, and heightened credit risks.

7.1.4 *Regulatory and Compliance Risk*: The Committee were informed that the Department for Levelling Up, Housing and Communities (DLUHC) had introduced

proposed regulations for Local Government Pension Scheme (LGPS) administering authorities in England and Wales. These regulations aimed to assess, manage, and report climate-related risks as recommended by the Taskforce on Climate-Related Financial Disclosures (TCFD). The implementation of these regulations has been delayed, with the first reporting year now expected to be 2024/25 and the initial reports due by December 2025.

7.1.5 *Liability Risk*: The Committee were informed that there is a concern about the potential financial strain that may be imposed on the Fund due to the failure of certain bodies, which might result in unpaid liabilities that need to be covered by others. The Tri-Borough Director of Treasury and Pensions said that this risk is exacerbated by the current economic conditions, particularly impacting smaller employers.

7.2 The Committee were updated by the Tri-Borough Director of Treasury and Pensions on the Monitoring and Forecasted Cashflows as of 30 September 2023 which in the Pension Fund's Lloyds bank account balance amount to £2.1m, serving as the primary account for day-to-day transactions, including member contributions and pension payments. Despite stable payment and receipt patterns over the past year, Members were informed that the Fund is experiencing a persistent imbalance, with withdrawals likely from the cash at custody to maintain a positive cash balance. An amount of £6.0m was withdrawn from the cash at custody during the quarter.

7.3 The Committee were informed that the Fund's total cash balance, inclusive of the Lloyds bank account and the cash at custody, was £42.7m as of 30 September 2023. Additionally, a significant cash holding of £40.6m was reported with Northern Trust. The Committee were informed that the Fund conducts various financial activities, including manager distributions and asset transactions, within the Northern Trust custody account.

7.4 On 29 June 2023, the Committee decided to transition 5% of the Fund's equities into renewable infrastructure, a move that was executed in July 2023. The Committee were informed that officers remain vigilant in their monitoring of the cash balance and take necessary measures to ensure adequate liquidity is maintained.

## **8 STEWARDSHIP CODE**

8.1 The Committee were presented to by the Tri-Borough Director of Treasury and Pensions on the Stewardship Code, which was initially introduced in 2010 and updated in 2020 by the Financial Reporting Council. The Committee were informed that the Code was aimed at institutional investors in the UK, encouraging active engagement in corporate governance for the benefit of their beneficiaries.

8.2 The Committee were informed that the 2020 version of the UK Stewardship Code set rigorous standards for asset owners, managers, and related service providers, utilising a "comply or explain" approach, meaning non-compliance must be explained rather than strictly enforced. The Committee were informed that to become a signatory, applicants must submit a Stewardship Report showcasing adherence to the Code's principles over the previous year, with the FRC assessing applications for compliance before listing successful organisations as signatories and that annual reapplication is mandatory.

8.3 The Committee were updated that the Fund displayed significant progress in responsible investment, with substantial investment in renewable infrastructure, specifically in solar power, onshore and offshore wind, and related infrastructure, as detailed in Appendix 1 of the papers before Members.

8.4 The Committee were informed that during 2023, the Pension Fund allocated a portion of its assets to the London CIV UK Housing Fund, with a long-term goal of constructing 13,000 affordable homes across various sectors, aiming for affordable housing for different demographics.

8.5 The Committee were informed that the Pension Fund had transitioned its holdings in the Baillie Gifford Global Alpha Growth mandate to the BG Paris Aligned version, which incorporated a thorough screening process to exclude companies heavily reliant on fossil fuels and those not aligned with a low carbon future.

8.6 The Committee were informed that the Westminster Pension Fund recently became one of the few London LGPS funds to attain signatory status, with the next submission deadline set for October 31, 2023, and the decision on its latest possible success anticipated in March 2024.

8.7 The Committee asked how often people and organisations are removed from the Stewardship Code. The Tri-Borough Director of Treasury and Pensions explained that this is demonstrated on their website on a day-to-day basis, and removal from the Stewardship Code would likely come from a fund not submitting its latest annual Stewardship report.



## **9 LGPS CONSULTATION**

9.1 The Tri-Borough Director of Treasury and Pensions addressed Members present that the Department for Levelling Up, Housing and Communities had published a comprehensive consultation on the investment strategies of the LGPS, addressing five key areas, including accelerating and expanding pooling, promoting levelling up, and increasing investments in high-growth companies. The consultation included 15 specific questions for funds to respond to, and discussed issues such as investment deadlines, reporting requirements, and collaboration with entities such as the British Business Bank.

9.2 The Committee were informed that the Fund had submitted its response to the Department for Levelling Up, Housing and Communities on 29 September 2023, and expressed partial support for the government's proposals. However, the Fund emphasised the need for a cautious approach, advocated for longer timelines and the consideration of individual fund characteristics and risk factors, particularly concerning specific asset classes such as private equity.

## **10 INVESTMENT STRATEGY STATEMENT**

10.1 The Tri-Borough Director of Treasury and Pensions introduced his report to the Committee which outlined the Investment Strategy Statement (ISS) for the Westminster City Council's Pension Fund and outlined the Fund's compliance with LGPS legislation, the Pension Fund Committee's terms of reference, and the government guidance on preparing and maintaining an investment strategy statement.

10.2 The ISS highlighted six main objectives, including requirements for diversified investments, assessments of suitability, approaches to risk management and pooling, considerations of environmental, social, and governance (ESG) factors, and the exercise of investment rights and voting. Additionally, the ISS addressed compliance with the CIPFA Pensions Panel Principles, which covered effective decision-making, clear objectives, risk assessment, performance evaluation, responsible ownership, and transparency and reporting.

10.3 The Tri-Borough Director of Treasury and Pensions informed Members that the Fund's adherence to the Stewardship Code 2020 was detailed in the ISS, following the "comply or explain" approach similar to the UK Corporate Governance Code.

10.4 The Tri-Borough Director of Treasury and Pensions said that the strategic asset allocation, provided in Appendix E of the ISS, specified the target allocation for various assets and the review ranges and that rebalancing exercises were conducted when the review range for an asset was triggered to ensure compliance with the Fund's target allocation limits.

**RESOLVED:**

10.5 That the Committee approved the updated Investment Strategy Statement and delegated authority to the Tri-Borough Director of Treasury and Pensions to publish the final Investment Strategy Statement.

**11 INVESTMENT CONSULTANT OBJECTIVES REVIEW**

11.1 The Tri-Borough Director of Treasury and Pensions introduced the report which stated that the Pension Fund, in compliance with the directives of the Competition and Markets Authority (CMA), had established specific aims and objectives for its investment consultant. The Tri-Borough Director of Treasury and Pensions went on to say that the CMA, following an extensive review of the pension fund consultancy and fiduciary management industry, had issued a report with recommendations aimed at enhancing pension fund governance, particularly addressing concerns related to fees and conflicts of interest.

11.2 The Committee were also informed that the Pensions Regulator (tPR) endorsed the CMA's review and subsequently provided guidance on defining aims and objectives. The tPR considered it prudent for Pension Funds, including the LGPS, to have established clear aims and objectives for their investment consultants and advisors, fostering improved outcomes and the management of potential areas of underperformance.

11.3 The Committee were informed that there was initially formulated a set of consultant objectives for the investment advisor, which were approved on 23 October 2019. To ensure adherence to best practices, the performance of the investment consultant in relation to these objectives was reviewed annually, and the objectives are updated at least once every three years or when there are substantial alterations in the investment approach.

11.4 The Committee asked how the engagement of the Stewardship Code and the ESG was being managed. In reply, the Tri-Borough Director of Treasury and Pensions said that this can be added to the monitoring schedule.

**RESVOLVED:**

11.5 That the Committee commented and approved on the IMC aims and objectives for the Pension Fund Committee's investment consultant, Isio.

## **12 CVC CREDIT PAPER**

12.1 The Tri-Borough Director of Treasury and Pensions introduced the report to Committee and said that at the private debt strategies had provided loans directly to businesses requiring capital, primarily mid-market companies unable to raise debt through bond markets. The Tri-Borough Director of Treasury and Pensions informed Members that EDL III would begin to return capital to investors as the underlying assets were realized, leading to a reduction in the allocation, with CVC expecting to return all capital to investors by Q3 2028.

12.2 The Committee were informed that CVC Credit European Direct Lending Fund IV (EDL IV) broadly exhibited the same characteristics as EDL III, with a similar investment process. The fund had a six-year, close-ended structure, primarily investing within senior secured loans, including unitranche, and capped junior debt. As with the EDL III fund, CVC Credit confirmed that a co-investment vehicle would also be made available for EDL IV. The Committee were informed that this co-investment vehicle largely consisted of the same investments as the main fund but without the position concentration restriction and on a no-fee basis, thereby diluting the total management fees payable.

12.3 The Committee were informed that the CVC Credit had provided modelling to set out the expected drawdown and runoff timelines for both EDL III and EDL IV. As part of this analysis, Isio had proposed two scenarios: "*No Growth Assumption*" and "*5% p.a. Investment Portfolio Growth*." Isio had set out three potential commitment amounts to avoid being under or overexposed to the Fund's 6% allocation range over a long period of time. Under each of the proposed commitments, the combined allocation was expected to exceed the target allocation by mid-2025 for all scenarios.

12.4 The committee formally agreed with the recommendation to commit to EUDL IV (with a timeline consistent with achieving the early investor fee discount) and maintain the WCC Fund strategic exposure to both CVC Credit and the EUDL fund

range at £110m total: £85m to the main fund and £25m to the co-invest vehicle, subject to gaining a commitment that CVC is in a position to further consider becoming a signatory to the Stewardship and Cost Transparency Codes.

### **13 QUARTERLY PERFORMANCE REPORT**

13.1 The Tri-Borough Director of Treasury and Pensions introduced the report which presented a summary of the Pension Fund's performance to 30th June 2023. The Committee were informed that over the 12-month period to 30th June 2023, the Fund had underperformed its benchmark net of fees by -1.0%, returning 7.2%. Over the longer three-year period to 30th June 2023, the Westminster Fund had underperformed the benchmark net of fees by -1.1%. Isio continued to rate the fund managers favourably.

13.2 The Committee were informed that Isio Group had acquired Deloitte Total Reward and Benefits during May 2023, with the businesses fully integrated from 1st October 2023. The Committee were reassured that there had been no changes to the current terms and conditions of the existing agreement. However, all rights and obligations had transferred to Isio Group Limited. During September 2023, the Fund's longstanding investment advisor, Kevin Humpherson, had left Isio Group to join Ernest and Young. Kevin had been the Fund's primary investment consultant since 2015 and had been instrumental in the Pension Fund's funding level rising from 80% during 2016 to 161% at 30th June 2023.

13.3 Following Kevin's departure, Andrew Singh would be the Fund's main contact at Isio. The Committee were informed that the Fund's existing contract with Isio Group had expired on 30th September 2024, with an option to extend a further two years to 30th September 2026.

The meeting ended at 20:22

**CHAIR:** \_\_\_\_\_

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