



City of Westminster

Committee Report

Decision Maker:	PENSION FUND COMMITTEE
Date:	29 November 2023
Classification:	Public (Appendices 1, 2, 4 and 5 Exempt)
Title:	Performance of the Council's Pension Fund
Wards Affected:	All
Policy Context:	Effective control over council activities
Financial Summary:	There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.
Report of:	Phil Triggs Tri-Borough Director of Treasury and Pensions ptriggs@westminster.gov.uk 020 7641 4136

1. EXECUTIVE SUMMARY

- 1.1 This report presents the performance of the Pension Fund's investments to 30 September 2023, together with an update on the London CIV and funding level.
- 1.2 The Fund returned -1.5% net of fees over the quarter to 30 September 2023, underperforming the benchmark by 1.9%.

2. RECOMMENDATION

- 2.1 The Committee is asked to:
 - Note the performance of the investments and the updated funding level as at 30 September 2023.

- Approve that Appendices 1, 2, 4 and 5 to this report are not for publication on the basis that they contain information relating to the financial or business affairs of any particular person (including the authority holding that information) as set out in paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).

3. BACKGROUND

- 3.1 This report presents a summary of the Pension Fund's performance to 30 September 2023. The investment performance report (Appendix 1) has been prepared by Isio, the Fund's investment advisor.
- 3.2 The market value of investments decreased by £34.0m to £1.795bn over the quarter to 30 September 2023, with the Fund returning -1.5% net of fees. The Fund underperformed the benchmark by 1.9% net of fees, with the Baillie Gifford Global Alpha Growth Paris Aligned Fund's growth orientated portfolio proving detrimental against a backdrop of macroeconomic uncertainty. The Fund's underperformance was partially offset by outperformance within the Macquarie Renewable Infrastructure and Pantheon Global Infrastructure mandates, which outperformed their benchmarks by 2.7% and 1.9% net of fees respectively.
- 3.3 Over the 12-month period to 30 September 2023, the Fund underperformed its benchmark net of fees by 2.7% returning 7.5%. This underperformance can be largely attributed to the Abrdn Long Lease Property, which underperformed its benchmark by 23.5%, due to the detraction in long-dated property performance over the year. Over the longer three-year period to 30 September 2023, the Westminster Fund underperformed the benchmark net of fees by 2.0%, returning 3.5% net of fees.
- 3.4 It should be noted that Isio continues to rate the fund managers favourably.
- 3.5 During the quarter, the London CIV transitioned the underlying sub fund of the London CIV Absolute Return Fund from the Ruffer Absolute Return Fund into the LF Ruffer Thames Absolute Return Fund. Isio is satisfied that this transition does not impact the investment objectives of the sub fund or the team managing the product. However, they will monitor as to whether the changes to the ESG and responsible investment parameters impact the underlying investment portfolio over the long term.
- 3.6 The Pension Fund holds Rio Tinto, within its Baillie Gifford Paris Aligned Equity mandate. The company is a British-Australian multinational metals and mining company. The Local Authority Pension Fund Forum (LAPFF) have raised the issue of water impacts at Rio Tinto mining sites, and are encouraging investors to co-file a shareholder resolution requesting that the company undertake independent water impact assessments.

- 3.7 Baillie Gifford has undertaken engagements with the company over the last couple of years to understand the company's ESG practices and how to best monitor going forward. From an environmental perspective, Baillie Gifford believe the company has made good progress in decarbonising its operations, with a 46% reduction in emissions since 2008. Baillie Gifford continues to engage and push the company to improve its environmental, social and governance practices, but highlights that the position is under scrutiny. Please see the investment report, attached at Appendix 1, for more detailed information on the Baillie Gifford position and LAPFF resolution.
- 3.8 Please see attached at Appendix 5, an update on the Man GPM RI UK Community Housing Fund. Please note any discussions in relation to this appendix will need to be held within the exempt part of the meeting.
- 3.9 During the quarter to 30 September 2023, the Fund's officers have engaged with asset managers and other related parties on a number of issues as follows:

- **Water Company Exposure:** following a Pension Board member query, as at 30 June 2023, the Fund had £3.2m in exposure to water companies, including within the Insight Buy and Maintain Bond fund and the LGIM Future World Equity fund. These companies include Anglian Water, Severn Trent, Southern Water, Thames Water, Yorkshire Water, United Utilities Group and Pennon Group.
- **Abrdn Performance:** officers engaged with Abrdn, following the period of underperformance within the long lease property fund. With Abrdn provided the following commentary:

"The second half of 2023 saw a deterioration in real estate pricing as the weaker macroeconomic environment impacting public markets began to weigh on the real estate market. As a result, the Long Lease fund has been subject to capital decline across the portfolio over the last 12 months, Particularly during Q3 2023 as valuers revised their views across sectors sharply.

The industrial sector has been subject to the largest declines overall over the period. Industrial assets had been a key driver of the wider market performance over the previous two years but, due to the very low levels of yields that the sector had reached, as yields moved out this sector saw a greater impact and has seen the largest movement in yields.

The strength of our assets and the diversity of assets we hold, especially in the alternatives sector, will stand the fund in good stead going forward. The funds void rate remains low and over 90% of rental income has some form of inflation linkage (i.e. subject to CPI/RPI or fixed increases). We continue to focus on high-quality real estate assets with strong underlying credit and are focusing heavily on our

ESG efforts during 2023. Overall we believe the fund is well positioned to benefit as the market stabilises and we move into a recovery period.”

- **Royal Dutch Shell:** during September 2023, officers engaged with the London CIV in regard to the Fund’s exposure to Shell through the LCIV Absolute Return fund. The London CIV provided the following commentary:

“We have written our concerns and recommendations to Shell in a letter dated 21 October 2022, asking for a response if the Board intended to change course to reduce its impact on the climate. London CIV strongly believed that its recommendations would benefit Shell in the long-term. Regrettably, no response was received. Now the key concern is that it does not believe the Board has adopted a reasonable or effective strategy to manage the risks associated with climate change affecting Shell, which includes the Board’s approach to compliance with the order of the Hague District Court dated 26 May 2021.

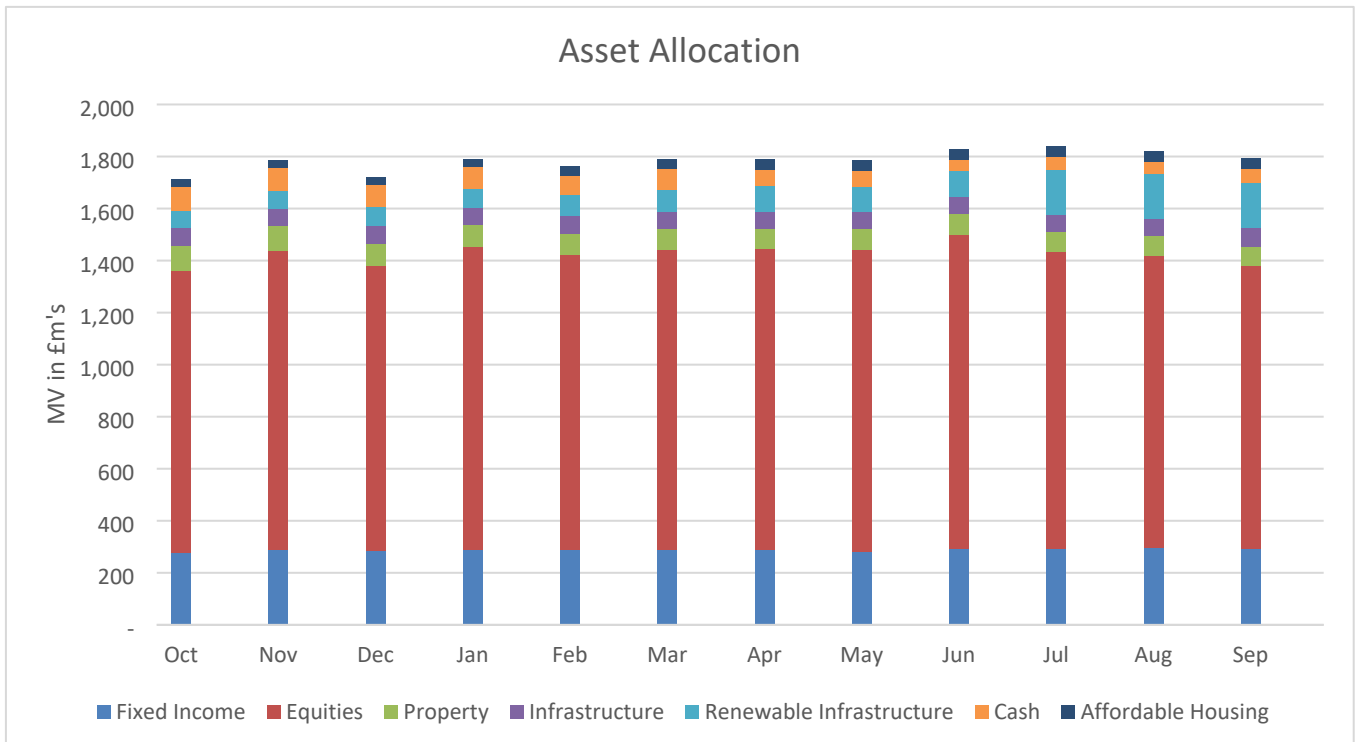
In January 2023, we wrote a [letter](#) to ClientEarth [backing their claim](#) against Shell regarding climate risk mismanagement.”

In addition, Ruffer also met with Shell’s Chair to discuss the company’s energy transition strategy, whether it would set absolute Scope 3 emissions targets and its capital allocation strategy, and then met with the company again in response to the letter sent to the CEO earlier in 2023.

- 3.10 The estimated funding level for the Westminster Pension Fund has remained stable at 160% at 30 September 2023 (161% at 30 June 2023). Please see Appendix 3 for the actuary funding level report.

4. ASSET ALLOCATION AND SUMMARY OF CHANGES

4.1 The following chart shows the changes in asset allocation of the Fund from 1 October 2023 to 30 September 2023. Please note asset allocations may vary due to changes in market value.



*Fixed Income includes bonds, multi asset credit (MAC) and private debt

**Cash includes the NT ESG Ultra Short Bond Fund and Ruffer (LCIV) Absolute Return Fund

4.2 The current Westminster Pension Fund target asset allocation is 55% of assets within equities, 19% in fixed income, 11% in renewable infrastructure, 5% within infrastructure, 5% within property and 5% to affordable and socially supported housing.

4.3 Over the quarter to 30 September 2023, capital calls relating to the Quinbrook Renewables Impact mandate, Macquarie Renewable Infrastructure and Pantheon Global Infrastructure. At the Committee meeting on 29 June 2023, the Committee elected to transition 5% from equities into renewable infrastructure. This transition took place during July 2023.

5. LONDON CIV UPDATE

5.1 The value of Westminster Pension Fund investments directly managed by the London CIV as at 30 September 2023 was £786m, representing 44% of Westminster's investment assets. A further £423m continues to benefit from reduced management fees, through Legal and General having reduced its fees to match those available through the LCIV.

5.2 As at 30 September 2023, the London CIV had £27.4bn of assets under management of which £14.8bn are directly managed by the London CIV. All London CIV funds, that Westminster are invested in, were on normal monitoring at quarter end.

- 5.3 During the quarter, the London CIV undertook 70 meetings/engagements with Client Funds, including seed investor groups, investment consultant updates, specific pooling opportunities and monthly business updates.
- 5.4 Please see the London CIV quarterly investment report as at 30 September 2023, attached at Appendix 4.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

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Background Papers: None.

Appendices:

Appendix 1: Isio Investment Report, Quarter Ending 30 September 2023 (exempt)

Appendix 2: Isio Investment Report, Fee Benchmarking (exempt)

Appendix 3: Hymans Robertson Funding update report at 30 September 2023

Appendix 4: London CIV Quarterly ACS Investment Report at 30 September 2023 (exempt)

Appendix 5: Isio Man GPM RI UK Community Housing Fund Update (exempt)