CITY OF WESTMINSTER

MINUTES

Pension Fund Committee

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Fund Committee** held on **Wednesday 29th November, 2023**, Room 18.07 - 18.08, 18th Floor, 64 Victoria Street, London, SW1E 6QP and via Microsoft Teams.

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

Also Present:
Phil Triggs (Tri-Borough Director of Treasury and Pensions)
Billie Emery (FM Pensions)
Sarah Hay (Strategic Pension Lead)
Ruby Vuong (Pension Fund Manager, Pensions)
Diana McDonnell-Pascoe (Pension Project and Governance Lead)
Jonny Moore (Investment Advisor – Isio)
Andrew Singh (Investment Advisor – Isio)
Christopher Smith (Chair of the Pension Board)
Jack Robinson-Young (Cabinet and Councillor Coordinator)
Steve Clarke (Committee and Councillor Coordinator)

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 19th October 2023.

RESOLVED:

3.2 That the minutes of the meeting held on Thursday the 19th of October be signed as a correct record of proceedings.

4 PENSION ADMINISTRATION STRATEGY

4.1 Sarah Hay, Pensions Officer People Services, introduced the report noting that there was no general administration update for Members due to the Committee’s previous update having been received only a month prior; instead, the report focussed on the wider Pension Administration Strategy (PAS). It was highlighted that officers had undertaken a significant amount of work since administration of the fund had moved to Hampshire Pension Services (HPS) in November 2021. It was noted that the PAS was last updated upon the move to HPS, at which time fines for instances where employers failed to supply data within agreed timeframes were introduced. Officers had revised and updated the PAS, including the prospective fines that could be issued to employers for the slow issuance of data, a draft of which was attached to the officer’s report. The Committee were asked to consider the updated PAS and agree to officers consulting with the employers on the new PAS, with a view to having it take effect from April 2024.

4.2 Officers highlighted that the primary updates to the proposed PAS were increases in related charges. Under the current PAS, there was a standard £50 non-compliance charge when employers did not provide leaver or starter information in a timely manner, under the new PAS, this would increase to £100. Additionally, for retirements and leavers where the member was immediately entitled to payment of their benefits, the PAS charge would be increased to £250. Officers also noted that they spent a significant amount of time engaging with employers regarding inaccurate remittance data, it was highlighted that, where these issues were repeatedly emerging with individual employers, a £500 charge was proposed.

4.3 Officers drew Members attention to the HPS Employer Benchmarking System scores for the Fund’s employers, detailed within the officer’s report. It was noted that there had been a marked improvement between 2022 and 2023 with the number of employers showing major data quality issues, with 18 in 2022 falling to 10 in 2023. Although this showed a positive trend, officers highlighted that the revision of the potential PAS non-compliance charges was attributed to the need to ensure employers were providing good quality data in a timely manner which would mitigate the incidence of incurring additional costs to the Fund.

4.4 Members noted that they were generally happy with the updated PAS and supported officers consulting with the employers on the revised Strategy ahead of the prospective April 2024 implementation date. The Committee sought clarity on how the revised charges compared to other fund’s non-compliance charges. Officers noted that they had not extensively analysed the charges imposed by other funds but highlighted that the Royal Borough of Kensington and Chelsea charged a flat £50 non-compliance fee. It was clarified that, although the charges were deemed not to be significant considering the impact felt to the fund by absent and delayed data, the charges were to act as a deterrent to employers which would promote the issuance of quality data, minimise delays in receiving the required data and prompt employers to engage.

4.5 Members were supportive of the new PAS charges, although sought confirmation from officers that there would be some level of reasonableness, flexibility and cooperation should an employer be in a difficult position. Officers confirmed that there was support available from officers in helping employers resolve their data issues, and that there was flexibility with the administering of PAS charges, highlighting an example whereby an agreement had been made with a school in which the school had initially been charged for a lack of response in providing joiners and leavers information. It had been agreed that, as an incentive to improve their data quality and timeliness, the school would receive 50% of the charged money back if they managed to provide on time and quality data the following year. This was seen as an example of PAS charges working in terms of engaging employers, in addition to officers' regular reminders and the support offered to employers.

RESOLVED:

4.6 That the Pension Fund Committee noted the draft revised Pension Administration Strategy and agreed for the revised PAS to go out to consultation with the Fund's employers.

5 PENSION PROJECTS & GOVERNANCE UPDATE

5.1 Diana McDonnell-Pascoe, Pension Project and Governance Lead, gave the Committee an overview of their report on the Guaranteed Minimum Pensions (GMP) rectification project. The Committee were notified that officers had received all of the required data from Mercer Ltd who had carried out a rectification exercise, correcting incorrect member records, resulting in an outline of members that required either an increase, a decrease, or no change to the GMP element of their pensions. Officers stated that it was their duty to not knowingly pay incorrect pensions and highlighted the need for the project to be implemented; however, it was for the Committee to decide upon the method by which the rectification project should be implemented. Members were also notified that the rectification data showed trends that the smallest pensions in payment would generally be subject to the most significant proportional reduction.

5.2 Officers elaborated on the four project implementation options available for the Committee to consider which were also outlined in the report, it was noted that there were implications associated with each option. It was also highlighted that the GMP project was a national issue concerning a multitude of Local Government Pension Scheme (LGPS) funds and that there was the possibility of garnering media attention which could lead to additional scrutiny of the decisions made with regard to implementation of the project. By way of information, it was noted that LGPS Scotland had legislated to implement the project but for funds to put in place a balancing shortfall payment which would ensure members continued to receive their payments as if nothing had changed, akin to option two in the officers' report.

5.3 The Committee sought to highlight that regardless of which option was chosen, they would not be recuperating historic overpayments because the erroneous pension payments were not due to any mistake made by the recipients. Officers confirmed that, universally, no funds were recuperating historic overpayments. With regard to option two, which incorporated balancing shortfall payments, it was clarified that should this option be chosen, the balancing payments would be born from the fund, not scheme members.

5.4 The Committee queried whether families of the deceased, who would be calculated as being owed money due to the rectification exercise, would receive the money. Officers confirmed that this would depend on any further analysis officers could make and the decision made by the Committee; it was highlighted that officer's analysis had concentrated on living members in receipt of their pension. Members noted that the rectification data showed that the vast majority of GMP elements would be reduced.

5.5 The Committee discussed the available implementation options, debating between the benefits of options three and four, whilst noting that it may be likely that a final decision would be made by the Committee at the following meeting. Members discussed the possibility of choosing option four with the caveat that those who made it known that they were in a difficult financial position could move to an option three scenario. There were concerns about the capability of scheme members, who would be affected by an option four scenario, in contacting the fund to express their need for an option three scenario. The Committee discussed a possible preference for option three as it resulted in no decrease to the amount received by scheme members whilst ceasing any future overpayment; however, it was understood that the final decision could be taken at the following meeting of the Committee.

5.6 It was noted that there was no clear option emerging from what other LGPS funds were doing and that officers had been informed by Hampshire Pension Services (HPS) that they had received legal advice that withholding pensions increases, akin to an option three scenario, may not be legally sound. HPS had paused their GMP rectification project and were continuing to pay incorrect payments at least until the next financial year. Members noted that some other funds had taken action but there was still time to analyse further and await the outcome of the Department for Levelling Up, Housing and Communities (DLUHC) consultation before making a decision. Officers confirmed that delaying the Committee’s decision to the next meeting was viable and gave an opportunity for further analysis to be carried out. The Committee were minded to delay the decision, so more cost analysis could be done around options three and four; additionally giving the Committee a more comprehensive background to the legality and practicality of options three and four. Officers also mentioned that Members could contact officers in the coming weeks should they require any specific analysis that could be incorporated into the following meeting's report.

RESOLVED:

5.7 That the Pension Fund Committee deferred their decision on the implementation of the Guaranteed Minimum Pension rectification project to the following meeting.

6 FUND FINANCIAL MANAGEMENT

6.1 Ruby Vuong, Pension Fund Manager, introduced the report which outlined the risk register, categorised into investment and pensions administration, aligned with CIPFA guidance. The Committee were informed that the top five risks as of November 2023 are:

6.1.1 Liability Risk: Elevated price inflation due to global factors, including conflicts and supply chain issues, poses a threat. Current CPI inflation is 4.6% as of October 2023.

6.1.2 Asset and Investment Risk: Geopolitical and economic uncertainties, such as the Russia-Ukraine conflict and bank collapses, contributing to global market volatility and economic instability.

6.1.3 Asset and Investment Risk: Concerns arise if investment managers fail to meet benchmark/outperformance targets, impacting the Fund's annual outcome. The Fund's return in the year to September 2023 was 7.5%, underperforming the benchmark by 2.7%.

6.1.4 Regulatory and Compliance Risk: Proposed regulations by the Department for Levelling Up, Housing and Communities for LGPS administering authorities to assess and report on climate-related risks. The first reporting year is expected in 2024/25, with reports required by December 2025.

6.1.5 Liability Risk: Economic challenges may strain smaller employers, potentially leading to unpaid liabilities in the Fund.

6.2 The Committee were updated on the Pension Fund's Lloyds bank account balance as of October 31, 2023, which was £1.6m, serving day-to-day transactions. Annual payments were expected to exceed receipts, with withdrawals from cash at custody to maintain a positive balance.

6.3 The Committee were informed that a withdrawal of £5.0m from cash at custody was made during the quarter, in order to maintain a positive balance. The Committee were informed that the Fund held £46.4m in cash with Northern Trust as of October 31, 2023. The Committee were informed of the Inflows and outflows within the custody account include manager distributions, asset sales, and purchase, cash inflows and outflows for the three-month period from August 1, 2023, to October 31, 2023.

6.4 The Committee were informed that during the quarter, equalisations occurred in the Quinbrook renewable infrastructure fund, along with capital calls in infrastructure funds. The Fund received £8.0m in distributions from asset managers, bringing the total cash balance to £48.0m as of October 31, 2023.

6.5 The Committee asked regarding the second risk, the liability of elevated price inflation from global pressures, what was being done to manage this. The Committee were replied to by Phil Triggs, Tri-Borough Director of Treasury and Pensions, that a note has been circulated detailing exposure to geopolitical events and the outcomes of potential events.

7 QUARTERLY PERFORMANCE REPORT

7.1 Ruby Vuong, Pension Fund Manager, introduced the report, outlining the Fund's market value which had decreased by £34.0m to £1.795bn in Q3 2023, resulting in a -1.5% net return. The Committee were informed that the underperformance against the benchmark by 1.9% net of fees was attributed to the Baillie Gifford Global Alpha Growth Paris Aligned Fund, countered by outperformance in Macquarie Renewable Infrastructure and Pantheon Global Infrastructure mandates.

7.2 The Committee were informed that over the past 12 months, the Fund underperformed by 2.7%, returning 7.5%, largely due to Abrdn Long Lease Property. The longer three-year period saw a 2.0% underperformance, returning 3.5%, with favourable ratings from Isio for fund managers.

7.3 Committee Members were informed that the London CIV had 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. It was also noted that the Pension Fund holds Rio Tinto within its Baillie Gifford Paris Aligned Equity Fund. With the company subject to engagement regarding water impacts at mining sites. Baillie Gifford has engaged with Rio Tinto on ESG practices, noting progress in decarbonisation but highlighting ongoing scrutiny. Officers also engaged on water company exposures, Abrdn performance, and Royal Dutch Shell's climate change risks. The Committee were informed that the Fund's estimated funding level remained stable at 160% at 30 September 2023.

7.4 The Committee were informed that the Fund's target asset allocation includes 55% in equities, 19% in fixed income, 11% in renewable infrastructure, 5% each in infrastructure and property, and 5% in affordable housing. Capital calls related to Quinbrook Renewables Impact mandate, Macquarie Renewable Infrastructure, and Pantheon Global Infrastructure. The Committee were informed that a 5% transition from equities to renewable infrastructure occurred in July 2023.

7.5 The Committee were informed that Westminster Pension Fund investments (managed by London CIV) as of 30 September 2023 were £786m, representing 44% of total assets. An additional £423m benefits from reduced fees through Legal and General's fee adjustment. London CIV's total assets under management were £27.4bn, with £14.8bn directly managed. All London CIV funds in which Westminster is invested were on normal monitoring at quarter end. The Committee were informed that during the quarter, London CIV conducted 70 meetings and engagements with Client Funds, including updates on investment consultants, pooling opportunities, and monthly business updates.

7.6 The Committee asked Officers if they felt that asset manager benchmarks, such as Man Group, were ambitious enough. In reply, Officers said that while it can appear unambitious, this is largely because fund managers will adopt a careful view to setting performance targets.

7.7 The Committee asked that if at the start of this year, scenarios on high levels of inflation and interest rates had been modelled. The Committee were informed that this would have been done as part of the strategic asset allocation review, to allow for potential mitigations to be put in place to protect the Fund.

7.8 The Committee asked if Officers present had faith in the strategy being undertaken by Baillie Gifford. In reply, the Tri-Borough Director of Treasury and Pensions said that the vast majority of Funds that Isio work with will have exposure to Baillie Gifford. The Committee were further informed that due diligence had been refreshed and although immediate events had not been favourable, the longer-term strategy has delivered fruitfully.

8 ESG PRIVATE EQUITY

8.1 Following the Fund’s strategic investment review, the committee considered integrating ESG Private Equity into the Fund's strategic asset allocation. This included an overview of ESG Private Equity, its characteristics, risks, market conditions, and Isio’s perspective on its attractiveness.

8.2 Private Equity involves ownership of non-publicly listed companies. Its returns are variable, requiring specialized expertise for access. Investments can be direct or through pooled funds, including open-ended, closed-ended, listed funds, and funds of funds.

8.3 Private Equity presents higher risks but is expected to offer compensatory returns. Risks include illiquidity, small company volatility, equity exposure, and manager selection challenges. Isio emphasised the potential volatility in pricing due to the absence of a listed market.

8.4 Isio outlined integrating ESG into Private Equity with a focus on impact investment aligned with UN Sustainable Development Goals. However, Isio advised there is limited attractive ESG opportunities within the current market.

8.5 The Department for Levelling Up, Housing, and Communities released an LGPS Consultation proposing a 10% allocation to high-growth private equity schemes. The consultation outcome is pending, and proposals, including the 10% allocation, are expected to face significant opposition, especially in the face of many LGPS funds having achieved comfortable full funding status.

8.6 The Fund's actuarial valuation in March 2022 showed a funding level of 128%, rising to 160% by September 2023. Considering this strong funding position, the Fund has reduced overall risk, adjusted allocations, and refrained from including Private Equity in the strategic asset allocation due to its failure to meet risk reduction objectives.

8.7 Isio advised that market conditions reveal a softening of capital raised in private equity, cooling investor interest, elevated buy-out pricing, and increasing market share of smaller deals. The sector faces uncertainty with interest rate changes impacting debt financing costs, posing challenges for future returns.

8.8 The Tri-Borough Director of Treasury and Pensions emphasised to the Committee the long-term, hard work that had been undertaken by the Council to ensure the Pension Fund was fully funded. Moreover, the Council had deployed nearly £200m in deficit payments in the last six years, some of it from the council’s own cash reserves to pay off in full its own employer deficit at 31 March 2022. In response to Cllr Pitt Ford’s assertion that any surplus within the pension fund was money that the council could afford to lose, Mr Triggs strongly refuted that concept, stating that there was had been an opportunity cost to the use of those internal funds, and the council certainly could not afford to lose it in the quest for returns from higher risks assets, especially when the current 160% funding level was the second highest within the LGPS scheme. It was officers’ and Isio’s intention to provide advice on how to preserve the current, comfortable funding position.

8.9 Isio advised the Committee that it was not necessary to chase additional returns beyond those agreed during investment strategy and to protect the current funding level. Given market conditions and the limited ESG opportunities in private equity, Isio recommended against an allocation to this asset class until there is greater clarity from the LGPS consultation.

8.10 The Committee agreed to reconsider ESG Private Equity further into the future, once formal communication from the DLUHC on the LGPS consultation is received, and ESG integration within the market is more developed. Agreeing that allocating to private equity before this could result in costly restructuring later and the lack of need to take additional risks given the excellent funding level.

8.11 The Chair of the Pension Board was present at Committee, and asked if there was consideration to private equity opportunities in developing countries such as Malaysia. Andrew Singh, Investment Advisor - Isio, replied to the Chair of the Pension Board and said that the consensus is that emerging markets are set to grow strongly in the coming years but currently the bulk of the private equity market is in the developed world.

The Meeting ended at 8.33 pm

CHAIRMAN: ______________________ **DATE** ___________________