City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**7 March 2024**
Classification:	**Public (Appendices 1, 2 and 4 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 31 December 2023, together with an update on the London CIV and funding level.

1.2 The Fund returned 6.5% net of fees over the quarter to 31 December 2023, outperforming the benchmark by 0.8%.

2. RECOMMENDATION

2.1 The Committee is asked to:

- Note the performance of the investments and the updated funding level as at 31 December 2023.

- Approve that Appendices 1, 2 and 4 to this report are not for publication on the basis that they contain information relating to the financial or business affairs of any particular person (including the authority holding that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 31 December 2023. The investment performance report (Appendix 1) has been prepared by Isio, the Fund's investment advisor.

3.2 The market value of investments increased by £112m to £1.907bn over the quarter to 31 December 2023, with the Fund returning 6.5% net of fees. The Fund outperformed the benchmark by 0.8% net of fees, with Quinbrook Renewable Infrastructure, London CIV Global MAC and Insight Buy and Maintain Bonds being the main contributors to outperformance. The Abrdn Long Lease Property and Man Group Community Housing funds underperformed their respective benchmarks by 12.4% and 1.2% net of fees.

3.3 Over the 12-month period to 31 December 2023, the Fund underperformed its benchmark net of fees by 1.1% returning 11.9%. This underperformance can be largely attributed to the Abrdn Long Lease Property, which underperformed its benchmark by 17.8%, owing to the detraction in long-dated property over the year. The CVC Credit Private Debt mandate performed well over the one-year period, returning 12.9% net of fees, outperforming the benchmark by 8.1%.

3.4 Over the longer three-year period to 31 December 2023, the Westminster Fund underperformed the benchmark net of fees by 2.0%, returning 3.1% net of fees. The main driver of this underperformance was the Baillie Gifford equity mandate, which returned -1.1% net of fees, in comparison to the MSCI World which generated returns of 8.2%.

3.5 It should be noted that Isio continues to rate the fund managers favourably.

3.6 As per Committee request at the last meeting, Isio have liaised with the Local Authority Pension Fund Forum (LAPFF) regarding the Rio Tinto Resolution. LAPFF raised the issue of water impacts at Rio Tinto mining sites and encouraged investors to co-file a shareholder resolution requesting that the company undertake independent water impact assessments. Isio were advised that the investment managers would need to co-file this resolution on our behalf, as the legal owners of the company shares.

3.7 Since the last meeting, Baillie Gifford have advised that they have sold their Rio Tinto shareholdings. However, the Fund does have exposure within the LGIM Future World fund, totalling circa £161k. LGIM have advised that they will share their vote publicly, after the meeting takes place.

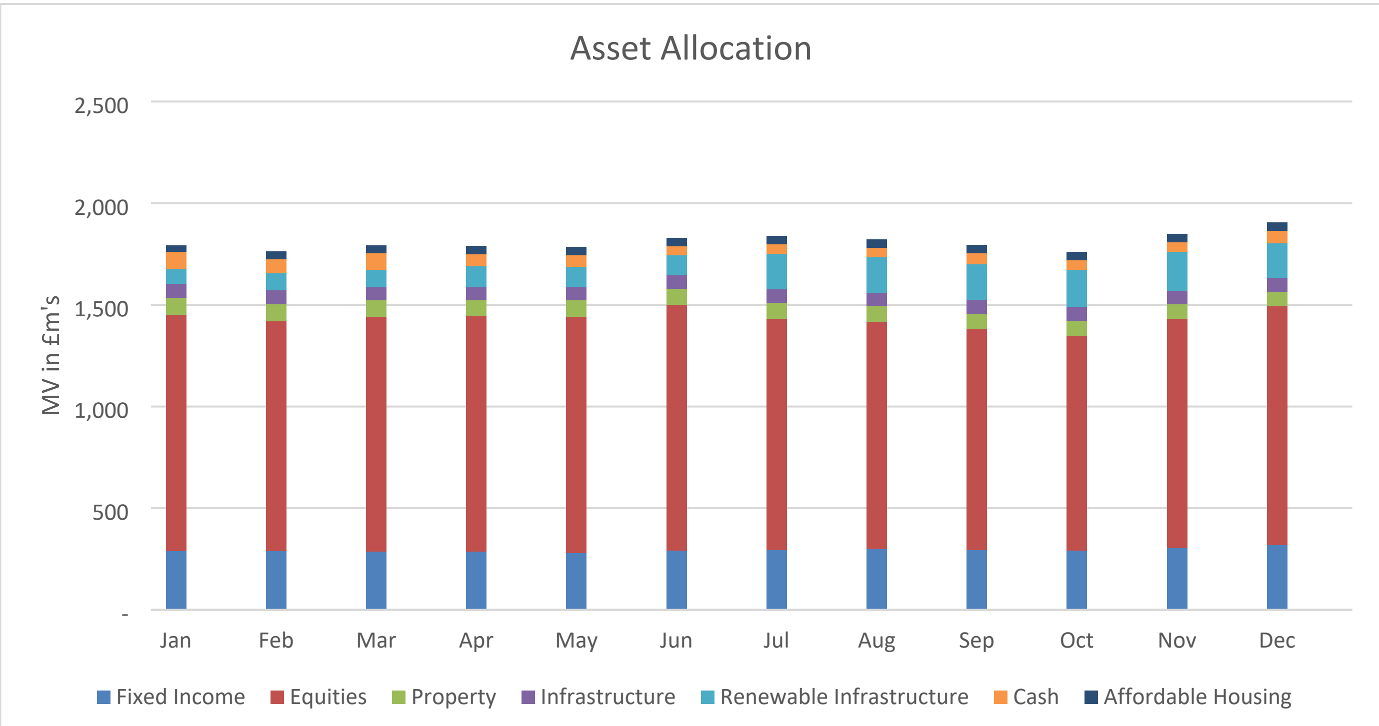
3.8 At the last meeting on 29 November 2023, Officers also updated the Committee on the ongoing engagement between the London CIV, investment managers and Royal Dutch Shell. Whilst disappointing that LCIV were unable to gain meaningful action from the company on climate related issues, as of 31 December 2023 the Fund has no exposure to Shell through the London CIV.

3.9 Officers are pleased to report that the City of Westminster Pension Fund was successful in retaining its accreditation to the UK Stewardship Code. The UK Stewardship Code 2020 sets high stewardship standards for asset owners and asset managers, and for service providers that support them. As per the most recent update to the signatories, the Westminster Pension Fund is amongst only a handful of LGPS funds in London to achieve signatory status. Please see attached the Stewardship Report for 2024 at appendix 5.

3.10 The estimated funding level for the Westminster Pension Fund has decreased slightly to 156% at 31 December 2023 (160% at 30 September 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 January 2023 to 31 December 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 31 December 2023, capital calls relating to the Macquarie Renewable Infrastructure, Quinbrook Renewables, CVC Credit Private Debt and London CIV UK Housing funds took place. As well as this, there was an equalisation within the Quinbrook renewable infrastructure fund.

4.4 The Fund placed a £30m redemption with the Legal and General Future World fund during February 2024, with proceeds to be used to fund capital calls within the illiquid mandates. As at 31 January 2024, the Fund was c.4.6% overweight to passive equities. As per the investment strategy statement, these overweight balances are to be used to fund those underweight strategies and capital calls as they fall due. Please note, cash is held at the custodian, Northern Trust, within Short-Term Low Volatility Money Market Fund's (LVNAVs) at a current interest rate of circa 5%.

5. LONDON CIV UPDATE

5.1 The value of Westminster Pension Fund investments directly managed by the London CIV as at 31 December 2023 was £839m, representing 44% of Westminster's investment assets. A further £463m 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 31 December 2023, the London CIV had £29.4bn of assets under management of which £15.9bn 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, Aoiffin Devitt joined the London CIV as the new Chief Investment Officer, with more than 15 years' experience working within the LGPS network. Aoiffin has extensive experience in senior investment roles including as head of investment for Ireland at Hermes Fund Managers, and CIO for the Policemen's Annuity and Benefit Fund of Chicago. Recent experience also includes independent adviser roles to four local authority pension funds in the UK, as well as other investment committee positions.

5.4 Please see the London CIV quarterly investment report as at 31 December 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 31 December 2023 (exempt)
Appendix 2: Isio Investment Report, Fee Benchmarking (exempt)
Appendix 3: Hymans Robertson Funding update report at 31 December 2023
Appendix 4: London CIV Quarterly ACS Investment Report at 31 December 2023 (exempt)
Appendix 5: Stewardship Report 2024