

Committee: Pension Fund Advisory Panel

Date: 6th December 2017

Agenda item: 5

Wards: All

Subject: UPDATE ON LONDON COLLECTIVE INVESTMENT VEHICLE (CIV)

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Councillor Philip Jones

Forward Plan reference number: N/A

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Recommendations:

- a) Note the content of this report. The report is related to the separate reports to this Panel titled “Update on Pension Fund Investment Strategy Implementation” and “Markets in Financial Instruments Directive (MiFID II)”.
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1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to update the Pension Fund Advisory Panel on the progress of the London CIV including its activity, key personnel, fund management arrangement and other developments since the last update to the Panel in March 2017.
- 1.2 Pooling LGPS assets is compulsory under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which came into force on 1st November 2016 and the London CIV is the vehicle through which London boroughs seek to comply with the regulatory requirement.
- 1.3 To date, the CIV has launched a range of Global Equity, UK Equity and Multi-Asset/Total Return products. All sub-funds are open for investment except for one Global Equity mandate managed by Longview which has already reached capacity (fully subscribed).

2. CIV UPDATE

- 2.1 London CIV is set to launch 3 new sub-funds; Henderson Emerging Markets, Epoch Global Equity Income and RBC Sustainable Equity before the end of December 2017. The proposed offering will be seeded by LB Lambeth, LB Hillingdon and LB Hackney respectively. The new sub-funds will be in addition to the aforementioned product managed by Longview.

- 2.2 The CIV believe there is significant appetite amongst Boroughs for core and low carbon investment sub-funds and will accelerate plans for delivering suitable products as soon as possible.
- 2.3 On 13th September 2017, the CIV held their second Global Equity Information Day and attendees met with Henderson, Epoch and RBC. Unfortunately, the event was not well attended.
- 2.4 The CIV is making some progress on Fixed Income and Cashflow Strategies with discussions and work on the investment fund design based on boroughs' priorities at an advanced stage. The Fixed Income Working Group (FIWG), in which LB Merton is actively involved, has been assessing the CIV's preferred fund manager list and presentations from the shortlisted Liquid managers are scheduled to take place on 1st and 4th December 2017 and it is anticipated that the final selection could be recommended to the Board for sign-off by mid-December.
- 2.5 The CIV is pushing to make available some Fixed Income products on the more liquid end of the spectrum early in 2018 with additional sub-funds developed as soon as possible thereafter. The offering will include; Global Bonds, Liquid Loans and Multi Asset Credit (Liquid).
- 2.6 The more illiquid Fixed Income products require the CIV to obtain the Financial Conduct Authority's (FCA) approval, which in turn requires the agreement of all London Boroughs as shareholders. The proposal for the FCA extension of permissions has been sent to all Shareholder Representatives. At the time of writing, it was understood that all Boroughs had consented to allow initial work on the FCA application process to commence. The CIV expect the FCA process will take three months.
- 2.7 In response to pressure from some Boroughs including Merton, the CIV are trying to dedicate internal resource to develop Infrastructure products. The CIV will seek to scope the project and unveil the medium-term strategy for addressing this asset class over the coming months. The first meeting of the Infrastructure Working Group (IWG) was held at the end of September 2017. The meeting involved Boroughs (including Merton) seeking immediate access to the asset class. There was consensus for global unlisted, income focussed products that concentrated on core/core-plus assets with open-ended and closed-ended options to cater for Boroughs' different approaches and financial circumstances.
- 2.8 The slow pace in developing products is of concern to many Boroughs seeking to implement their strategy via London CIV. Delay in launching sub-funds is the result of lack of resources (personnel and systems/processes) to support timely delivery of new products. To mitigate the risk of the CIV failing to deliver illiquid investment products, some Boroughs are seeking to collaborate on Private Debt and Infrastructure solutions (fund manager procurements) outside the CIV with LB Ealing and LB Merton leading respectively.

- 2.9 There have been significant changes in personnel in the last few months. Following the departure of the Clients Relations Director and the Chief Executive replacements have been hired, the latter on an interim basis. Other recent appointments include Head of Equities, Interim Director of HR and Fund Accountant. The CIV is also actively recruiting to a number of vacant roles in the organisation including Chief Risk Officer and Investment Team Assistant.
- 2.10 The process for London Boroughs opting-up as Professional clients with London CIV is in progress with almost all Boroughs already having submitted the necessary documentation to the CIV for assessment. The opt-up process must be completed before the 3rd January 2018 deadline.
- 2.11 Following a procurement exercise, Willis Towers Watson have been appointed to carry out a governance review. A survey has been sent to over 100 'stakeholders' and responses will inform the findings and recommendations to be discussed and finalised before the end of December 2017.

3. LONDON BOROUGH OF MERTON'S ACTIVITY WITH LONDON CIV

- 3.1 LB Merton is yet to transfer assets to London CIV. The outcome of on-going work with the CIV and other collaboration effort amongst Boroughs detailed above in this report will help the Panel to develop a pragmatic approach to pooling assets to ensure the right balance between maintaining a strong risk management, performance, cost and governance on the one hand and demonstrating commitment to pooling on the other.

4. CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1 N/A

5. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 5.1 The investment strategy chosen will affect the return on the Fund, its actuarial valuation and the cost to the Council.

6. LEGAL AND STATUTORY IMPLICATIONS

- 6.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force on 1st November 2016. The new Regulations clarify how LGPS funds should manage and invest their assets and their relationship with investment pools. The Regulations give the Secretary of State power of Direction to intervene in an administering authority's investment function if it failed to bring forward credible proposals for pooling

7. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 7.1 N/A

8. CRIME AND DISORDER IMPLICATIONS

- 8.1 N/A

9. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 9.1 The use of the CIV would enable a quicker, simpler process, but any delays in their ability to take investments could impinge on the Council's ability to have the new allocations and fund managers in place during 2017/18.

10. APPENDICES

None

11. BACKGROUND PAPERS

1. Notes from LB Merton/London CIV officers' meetings
2. London CIV communication