

Committee: Pension Fund Advisory Committee

Date: 3 December 2015

Agenda item: 7

Wards: All

Subject: UPDATE ON LONDON COLLECTIVE INVESTMENT VEHICLE (CIV)

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Councillor Imran Uddin

Forward Plan reference number: N/A

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Recommendations:

- a) Note the content of this report. The report is related to a separate report to this meeting titled "Update on Investment Adviser Procurement"

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to update the Committee on the progress of the London CIV since the last update to the Committee on 15 September 2015, information on the CIV's upcoming Fund launch and the current suite of fund managers and future plans to expand its offering.
- 1.2 London LGPS CIV Ltd received Financial Conduct Authority (FCA) authorisation on 15 October 2015 and its first fund was authorised by the FCA on 13 November 2015. The CIV is the first full scope Alternative Investment Fund Manager (AIFM) in local government and the first of its kind in the UK pensions industry to gain regulatory approval and paves the way for London LGPS funds to commence pooling their assets.
- 1.3 The CIV is inviting specific investment decisions from its 31 borough members to transfer their investments to the new fund for the launch of phase 1 in December 2015.

2. NEXT STEPS

- 2.1 The sub-funds proposed for the launch in phase 1 (December 2015 to March 2016) and the appointed fund managers are shown in the table below:

Manager	LGIM	LGIM	LGIM	Blackrock	Blackrock	Blackrock	Baillie Gifford	Baillie Gifford	Allianz	Total
Sub Fund(s)	World Devel. ex UK	UK Equity Index	World Emerging Markets Eq Index	World Devel. ex UK	UK Equity Index	World Emerging Markets Eq Index	Global Alpha Fund	Diversified Growth Fund	Global Equity High Alpha	9
AUM	£1,544,493,212	£1,101,658,699	£162,243,095	£652,663,901	£422,813,594	£155,341,753	£1,113,921,440	£319,823,905	£525,004,960	£5,997,964,559

Source: London CIV

- 2.2 The above arrangement would provide about 20 boroughs initial opportunity to pool investments across 9 sub-funds consisting of 6 passively managed equity funds with assets of about £4.2bn, 2 actively managed global equity portfolios of circa £1.6bn and a Diversified Growth Fund (DGF) valued in the region of £300m. The first of the 9 funds will launch with £510m from three boroughs including Wandsworth. The active global equity portfolio will be managed by Allianz Global Investors.
- 2.3 The CIV anticipates introducing additional mandates and fund managers for the next phase.
- 2.4 London CIV have advised that Counsel opinion states that participating boroughs will not need to conduct procurement to invest via the CIV by virtue of specific exemption in the public procurement regulations.
- 2.5 Ten boroughs (including Merton) do not currently have exposure to any of the sub-funds specified above in paragraph 2.1. However, the funds can be accessed immediately by all CIV members.

3. **ADVICE OF THE HEAD OF COMMERCIAL SERVICES**

- 3.1 Not applicable at this stage.

4. **LONDON BOROUGH OF MERTON'S PAYMENTS TO LONDON CIV**

- 4.1 Since 2014, L.B Merton has made payments to London CIV as follows:
- October 2015 £25,000
 - January 2015 £25,000
 - January 2014 £25,000

- 4.2 In November 2015, L.B Merton subscribed for 150,000 B Non-voting Shares of £1 each in the capital of the company (London LGPS CIV Limited) at a cost of £150,000.

5. CONSULTATION UNDERTAKEN OR PROPOSED

- 5.1 N/A

6. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

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

7. REGULATORY AND SPECIFIC LEGAL MATTERS

- 7.1 The Government published its long-awaited response to the consultation on Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies on 25 November 2015.
- 7.2 The Government supports the view of the majority of the respondents that asset allocation decision should remain with local administering authorities and that savings can be delivered through asset pooling, and in particular collective investment vehicles.
- 7.3 The Government is minded to pursue a localised approach to reform. Administering authorities are asked to determine the most efficient way to pool their assets and with whom to partner.
- 7.4 A consultation, Revoking and replacing the LGPS Management and Investment of Funds Regulations 2009 has been launched on draft regulations aimed at reforming the investment regulations and introduce a power of intervention to allow the Secretary of State to intervene in an administering authority's investment function if it failed to bring forward credible proposals for pooling. The consultation is open until 19 February 2016.

8. COMPLIANCE WITH COUNCIL POLICIES EXTRAENOUS TO PENSION PROVISION

- 8.1 Please see 7 above.

9. CRIME AND DISORDER IMPLICATIONS

- 9.1 N/A

10. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 10.1 The use of the CIV would enable a quicker, simpler process, but any delays in their ability to take investments could impinge on our ability to have the new allocations and fund managers in place by the end of the financial year.

11. APPENDICES

None

12. BACKGROUND PAPERS

1. London CIV Briefing Paper – November 2015
2. London Council's Press Release – 23 November 2015
3. London Pension Schemes to Pool £25bn – FT 23 November 2015
4. DCLG Consultation Response – 25 November 2015
5. Update on London CIV – Report to the Pension Fund Advisory Committee on 15 September 2015