

Committee: Pension Fund Advisory Committee

Date: 29 June 2016

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

Contact officer: Paul Dale

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Recommendations:

- a) Note the content of this report. The report is related to a separate report to this meeting titled "LGPS: Investment Reform Criteria and Guidance (DCLG, November 2015) Consultation". Members should also note the links between this report and separate reports on the Pension Fund Business Plan 2016/17 and this Committee's Work Programme for the coming year to this meeting.
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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 3 December 2015, on the CIV's upcoming Fund launch, membership, current suite of fund managers and future plans to expand its offering.
- 1.2 Pooling LGPS assets is the focus of on-going and far-reaching Government reforms and the London CIV is the vehicle through which London boroughs seek to comply with regulatory requirement.

2. CIV UPDATE

- 2.1 The CIV is continuing to develop sub-funds across a range of asset classes that its active borough members need to implement their investment strategies. In the previous update to this Committee on 3 December 2015, it was reported that the CIV's first sub-fund (active global equity fund), managed by Allianz Global Investors, was seeded with £500m by three boroughs.
- 2.2 It is anticipated that a further £5.5billion will be transferred to the CIV by boroughs during 2016/17 when 8 sub-funds including active and passive equity funds are available. The CIV is aiming to attract circa £23billion of LGPS assets by 2020 and generate about £30m annual saving on fund management fees.

Accordingly, the CIV is pushing to introduce additional mandates and fund managers to broaden its appeal.

- 2.3 London Borough of Hillingdon has resolved to join the London CIV, meaning that 32 of the 33 London boroughs are now involved in developing the CIV.
- 2.4 London CIV is fully authorised as a fund manager by the Financial Conduct Authority. It will explore the potential to internalise fund management rather than the current delegated approach of using external fund managers for its pooled and segregated offering.
- 2.5 Members are asked to read L B Merton's initial response to DCLG in connection with the LGPS: Investment Reform Criteria and Guidance (DCLG, November 2015) Consultation contained in a separate report to this meeting in conjunction with this report. Also, the London CIV and the Government's on-going Consultation and pooling agenda are reflected in the draft Pension Fund Business Plan 2016/17 and draft PFAC Work Programme 2016/17 both the subjects of separate reports to this meeting.

3. ADVICE OF THE HEAD OF COMMERCIAL SERVICES

- 3.1 Not applicable at this stage.

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

- 4.1 As part of the proposed review of the Pension Fund investment strategy in 2016/17, PFAC will consider its approach to pooling some assets via the London CIV to demonstrate commitment to collaborating with other London boroughs to comply with the Government's reform of the LGPS.

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. LEGAL AND STATUTORY IMPLICATIONS

- 7.1 The Government has published its 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 which closed on 19 February 2016, will impact how LGPS funds including London boroughs’ manage and invest their assets and their relationship with investment pools.

8. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 8.1 N/A

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 Initial Response to LGPS: Investment Reform Criteria and Guidance (DCLG, November 2015) – February 2016
2. LB Merton Initial Response to LGPS: Investment Reform Criteria and Guidance (DCLG, November 2015) – February 2016
3. LGPS: Opportunities for collaboration, cost savings and efficiencies - DCLG Consultation Response – 25 November 2015
4. Update on London CIV – Report to the Pension Fund Advisory Committee on 3 December 2015

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