



Report of: Corporate Director Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	13 March 2017		

Delete as appropriate	Exempt	Non-exempt
-----------------------	--------	------------

**Appendix 1 attached** is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information relating to the financial or business affairs of any particular person (including the authority holding that information).

## SUBJECT: The London CIV Update

### 1. Synopsis

- 1.1 This is a report informing the Sub-Committee of the progress made at the London CIV in launching funds and running of portfolios over the period November 2016 to February 2017

### 2. Recommendations

- 2.1 To note the progress made to February 2017
- 2.2 To note the additional charges due from the London CIV for 2017/18
- 2.3 To consider the saving schedule attached as Appendix 1 (private and confidential)
- 2.4 To agree to transfer our Newton global equity assets to the London CIV platform in the 2 quarter of the year

### 3. Background

#### 3.1 Setting up of the London CIV Fund

Islington is one of 33 London local authorities who have become active participants in the CIV programme. The CIV has been constructed as a FCA regulated UK Authorised Contractual Scheme (ACS). The ACS is composed of two parts: the Operator and the Fund.

3.2 A limited liability company (London LGPS CIV Ltd) has been established, with each participating borough holding a nominal £1 share. The company is based in London Councils' building in Southwark Street. A branding exercise has taken place and the decision was taken to brand the company as 'London CIV.' The London CIV received its ACS authorisation in November 2015.

### 3.3 **Launching of the CIV**

It was noted that a pragmatic starting point was to analyse which Investment Managers (IM) boroughs were currently invested through, to look for commonality (i.e. more than one borough invested with the same IM in a largely similar mandate), and to discuss with boroughs and IMs which of these 'common' mandates would be most appropriate to transition to the ACS fund for launch. Each mandate would become a separate, ring-fenced, sub-fund within the overall ACS fund. Boroughs would be able to move from one sub-fund to another relatively easily, but ring-fencing would prevent cross contamination between sub-funds.

3.3.1 Further discussions have been held with managers, focussing specifically on what would be achievable for launch, taking into account timing and transition complexities. Four managers have now been identified as offering potential opportunities for the launch of the CIV. These managers would provide the CIV with 9 sub-funds, covering just over £6bn of Borough assets and providing early opportunity to 20 boroughs. The sub-funds will consist of 6 'passive' equity sub-funds covering £4.2bn of assets, 2 Active Global Equity mandates covering £1.6bn and 1 Diversified Growth (or multi-asset) Fund covering just over £300m. Those boroughs that do not have an exact match across for launch are able to invest in these sub-funds from the outset at the reduced AMC rate that the CIV has negotiated with managers.

3.4 The Phase 1 launch was with Allianz our global equity manager and Ealing and Wandsworth are the 2 other boroughs who hold a similar mandate. The benefits of transfer include a reduction in basic fees and possible tax benefits because of the vehicle used. Members agreed to transfer our Allianz portfolio in Phase 1 launch that went ahead on 2 December.

### 3.5 **Progress to October 2016**

The London CIV has also had further success with developing the Fund, opening the LCIV PY Global Total Return Fund investing into the Pyford Global Total Return sub-fund on 17 June and the LCIV RF Absolute Return Fund investing into the Ruffer Absolute Return sub-fund on 21 June. These two funds bring their assets under management up to around £2.4 billion, with 14 boroughs invested across the five sub-funds and some £1.6 million of fund manager fee savings being delivered a year. They working towards opening the three sub-funds previously trailed with Newton and Majedie acting as sub-managers in the autumn and hope to get the Longview sub-managed fund opened towards the end of this year or early in 2017.

#### 3.5.1 Legal and General pooled passive funds

The CIV negotiated a reduction of fees for the passive equities held by London Boroughs of around £7.5bn, but this structure sits outside the CIV platform. Participating Funds have agreed to move their portfolios into the On Fund Costs(OFC) fund. These new funds have costs such as custody , license fee, valuations automatically taken from the fund whilst the previous structure included these cost in the invoiced fee. The projected savings for this external pooling for Islington is projected at around 100k per year effective from 1 July 2016. This does not affect the decision to appoint an active emerging market manager

3.5.2 The Investment Advisory Committee was renewed in July 2016 and now comprises of 9 London Treasurers and 15 Pension Managers  
Working groups have been established to cover:

- i. Global Equities – This group has met to consider the current procurement exercise and has had significant input into the development of the tender documentation.
- ii. Fixed Income and Cashflow – This group met to provide input into the development of the fixed income work that the CIV will be undertaking over the coming months.

- iii. Responsible Investing and ESG – The group met to consider a wide range of topics including, the CIV’s approach to voting, the Stewardship Code and appetite for sustainable equity funds as part of the broader global equities procurement.
- iv. Infrastructure – Whilst recognising that this was a key area in the government pooling submission, work in other areas has taken precedence and this group is yet to formally meet
- v. Housing – As with the infrastructure group, other priorities for the CIV have taken precedence although it is hoped that this group will meet shortly to start work in this key project area.

### 3.6. Update to February 2017

- 3.6.1 In December the Chair and CEO of LCIV, accompanied by leading Members from the London Councils Pensions CIV Sectoral Joint Committee, and a representative Treasurer met with the Minister for Local Government (Marcus Jones MP) to discuss progress and plans for LGPS pooling across London. He was supportive of what has been achieved and the general direction of travel, but pressed for faster transition of assets
- 3.6.2

3.6.3 The CIV held its first Fixed Income seminar on the 19th January where a number of fund managers presented on a wide range of fixed income and cashflow related topics. Feedback from attendees (both London Funds and consultants) was positive. In addition the CIV conducted a survey of London Funds to assess fixed income and cashflow requirements and this will be fed into the work being undertaken by the CIV and the Fixed Income sub-group as they look to develop investment opportunities in this area for Funds .

There was a Joint Committees and Leaders meeting in February 2017, and items discussed included proposed MTFS Budget 2017/18 to 2022 and Governance.

#### Headlines from the budget included:

- Open more sub-funds through 2017/18 with the aim of having at least £6.3 billion of AUM by the end of the year, and plans to continue opening funds with a target of at least £14.1 billion AUM by the end of the MTFS period;
- Increasing headcount from the current base of 11 to 25 over the period;
- Introducing a £75,000 development funding charge for 2017/18, which will reduce in future years as AUM grows and more income is generated from fees linked to sub-funds. This charge will allow LCIV to continue to develop without being completely reliant on AUM in the short term;
- Develop systems and processes to better support engagement with and reporting to the LLAs.

#### Governance Review

In broad terms the aim of such a review will be to ensure that the overall governance structure is fit for purpose, and structured to ensure the right levels of control, decision making, and oversight. A report of the review is expected in the summer of 2017.

- 3.6.4 Members are asked to consider and agree to pay the following charges as agreed at the Joint Committee:

. In April the London CIV will raise the invoice for the £25k (+ VAT) service charge and 50k (+VAT) development funding charge the balance of £25k will be raised in December once the Joint Committee has reviewed the in-year budget at that stage and decided on the final amount.

- Members agreed to the 0.5bps of AUM option for charging fees on the LGIM passive funds that are held outside of the CIV and agreed that (depending on the outcome of discussions) the same will be applied to BlackRock passive funds. The detailed mechanics is being worked so that everything will in place from 1 April. In March next year notice of what the charge will be (subject to final figures from March) will be given so that an April invoice can be raised.

### 3.7 **CIV Financial Implications- Implementation and running cost**

A total of 75,000 was contributed by, each London Borough, including Islington, towards the setting up and receiving FCA authorisation to operate between 2013 to 2015. All participating boroughs also agreed to pay £150,000 to the London CIV to subscribe for 150,000 non-voting redeemable shares of £1 each as the capital of the Company . After the legal formation of the London CIV in October 2015 , there is an agreed annual £25,000 running cost invoice for each financial year .. The transfer of our Allianz managed equities to the CIV in December 2015 was achieved at a transfer cost of £7,241.

### 3.8 **Transfer of current global equity manager Newton to the London CIV platform**

Newton is the fund's other global equity manager with an inception date of 1 December 2008. The London CIV is proposing to transfer Newton's global equity assets to their platform if all three boroughs currently investing are in agreement. A comparison of current and the new proposed fees and estimated savings are listed on Appendix 1 (private and confidential.)

3.8.1 Members are asked to consider the proposals and agree if acceptable to transfer assets to the London CIV platform.

3.8.2 The Corporate Director Resources, together with Legal, will consider and agree the terms and conditions to the transfer.

## 4. **Implications**

### 4.1 **Financial implications:**

4.1.1 Fund management and administration fees are charged directly to the pension fund.

### 4.2 **Legal Implications:**

4.2.1 The Council, as the administering authority for the pension fund may appoint investment managers to manage and invest an equity portfolio on its behalf (Regulation 8(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

4.2.2 The Council is able to invest fund money in a London CIV fund asset without undertaking a competitive procurement exercise because of the exemption for public contracts between entities in the public sector (regulation 12 of the Public Contracts Regulations 2015). The conditions for the application of this exemption are satisfied as the London authorities exercise control over the CIV similar to that exercised over their own departments and CIV carries out the essential part of its activities (over 80%) with the controlling London boroughs.

### 4.3 **Environmental Implications:**

4.3.1 None specific to this report

### 4.4 **Resident Impact Assessment:**

4.4.1 The Council must, in carrying out its functions, have due regard to the need to eliminate unlawful discrimination and harassment and to promote equality of opportunity in relation to disability, race and gender and the need to take steps to take account of disabilities, even where that involves treating the disabled more favourably than others (section 49A Disability Discrimination Act 1995; section 71 Race Relations Act 1976; section 76A Sex Discrimination Act 1975."

A resident impact assessment has not been conducted because this report is updating members on the implementation of a fund structure by external managers. There are therefore no specific equality

implications arising from this report.

## 5. Conclusion and reasons for recommendations

- 5.1 The Council is a shareholder of the London CIV and has agreed in principle to pool assets when it is in line with its Fund strategy and will be beneficial to fund members and council tax payers. This is a report to allow Members to review progress at the London CIV. Members are asked to agree to the new funding request from the London CIV and consider the saving schedule proposed and if in agreement agree to transfer our assets with Newton to the CIV platform

### Background papers:

Final report clearance:

### Signed by:

**Received by:** Corporate Director Resources Date

Head of Democratic Services Date

Report Author: Joana Marfoh  
Tel: 0207-527-2382  
Fax: 0207-527-2056  
Email: joana.marfoh@islington.gov.uk