Finance Department
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Report of: **Corporate Director of Finance and Resources**

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	12 June 2017		

Delete as appropriate	Exempt	Non-exempt

SUBJECT: The London CIV Update

1. Synopsis

1.1 This is a report informing the committee of the progress made at the London CIV in launching funds and running of portfolios over the period March 2017 to May 2017

2. Recommendations

2.1 To note the progress made to May 2017 .

2.2 To note the transfer of Newton global equity assets went ahead on 25 May

2.3 To note the proposal offered by Newton regarding credit accrued from performance fee.

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 February 2017**

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 theirr 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 <u>Legal and General pooled passive funds</u>

The CIV negotiated a reduction of fees for the passive equities held by London Bouroghs 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.

3.5.3 A Joint Commitees and Leaders meeting in February 2017agreed MTFS Budget and 2017/18 to 2022 and governance review to be completed in 2017.

3.6. **Update to May 2017**

i) **Sub-funds available within the London CIV** – Current funds available – 2 global equity funds, 4 multi-asset/total return funds.

a. LCIV Global Equity Alpha (management delegated to Allianz)
b. LCIV Global Alpha Growth (management delegate to Baillie Gifford)
c. LCIV BG DGF (direct investment into the Baillie Gifford Diversified Growth Fund)
d. LCIV NWT RR (direct investment into Newton Real Return Fund)
e. LCIV PY TR (direct investment into Pyrford Real Return Fund)
f. LCIV RF AR (direct investment into Ruffer Absolute Return Fund)

ii) **Sub-Fund Launches May to September** – Over the next 5 months, a further 6 sub-funds are scheduled for launch on the CIV platform, 3 under the CQC (Commonality, Quantum and Conviction) mechanism and a further 3 that have come from the global equity procurement process.

The 3 sub-fund launches scheduled under the CQC basis are:
a. Majedie UK Equity (18/05/17)
b. Newton Global Equity (22-05-17)
c. Longview Global Equity (17-07-17)

Additional global equity sub-fund launches following global equity procurement, one in July and two in September:
a. Henderson Emerging Markets (17-07-17)
b. Epoch Global Equity Income (09/17)
c. RBC Sustainable Equity (09/17)

iii) A global equity information was held on 11th May . Thisl provided Funds the opportunity to meet with Longview, Henderson, Epoch and RBC. Both Newton and Majedie.

iv) **Fixed Income and Cashflow Strategies** – Work continues with the Fixed Income working group to consider options for the launch of dedicated funds in this area later in the 2017/18 financial year. The agreed business plan would suggest that two fixed income and cashflow generating sub-funds will be launched in the first quarter of 2018

v) Government Pooling Update – Following the approval for the London CIV, like other pools, the CIV has been asked to submit a semi-annual progress update on pooling and this was submitted to DCLG on Friday 21st April with a copy of the response sent to all Funds. It is copied here in Appendix 4 along with the DCLG request for information.

vii) Stewardship – Following agreement by the PSJC and Board of LCIV, the Compliance Statement for the Stewardship Code was submitted to the FRC for consideration and has now been approved as a Tier One for Asset Owners. A copy of the Statement can be found here: https://www.frc.org.uk/FRC-Documents/Corporate-Governance/Stewardship-Code/London-CIV.pdf

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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.
All sub-funds pay a management fee of .050% of AUM to the London CIV in addition to managers fees. In April 2017 a service charge of 50k (+VAT) development funding was invoiced and a balance of £25k will be raised in December once the Joint Committee has reviewed the in-year budget.
Members agreed to the 0.005% 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 Newton transition cost the council 32k.

3.8 **Newton's proposal credit post transfer to the London CIV platform**

Member's agreed to transfer to the London CIV platform in March 2017 and this was implemented on 25 May. As a result of this transfer the old agreement on performance fees was crystallized for all three participating boroughs. The side letter proposed by Newton is to net any credit calculated as at 22 May against future performance fee until spent or until the mandate is terminated. Islington's estimated credit is £1.3m. Members are asked to note this proposal.

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.

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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."

An equalities 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 note progress made to May 2017.

Background papers:

Final report clearance:

Signed by:

Corporate Director for Finance and Resources Date

Received by:

Head of Democratic Services Date

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