



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

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	13 June 2016		

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

### **NOT FOR PUBLICATION- Appendix 1, 2 and 3**

The Appendices 1, 2 and 3 are not for publication as they contain the following category of exempt information as specified in Paragraph 3 of Schedule 12A of the Local Government Act 1972 namely: "Information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 committee of the progress made at the London CIV in launching funds and running of portfolios over the period from March 2016 to 6 June 2016

### **2. Recommendations**

2.1 To note the progress made to 6 June 2016

2.2 To note that Islington Pension Fund is unlikely to join the London CIV LGIM phase because by the September launch we will have appointed an emerging markets active manager and transferred our LGIM assets to the new manager.

2.3 To note the LGIM CIV transfer cost and benefit analyses for Islington attached as Appendix1 (private and confidential)

2.4 To note London CIV budget forecast reported to the Joint Committee on 14 June attached as Appendix 2 (private and confidential)

2.5 To consider the draft completed 17 July submission from London CIV attached as Appendix 3 (private and confidential) The DCLG template is to be completed by each pool for the submission.

### **3. Background**

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

Islington is one of 32 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 Progress to Date**

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.'

3.2.1 A full time board made up of three Non-Executive Directors and the three Executive Directors of the company which include the Chief Executive (CEO), the Chief Operating Officer (COO) and the Investment Oversight Director (IOD). Hugh Grover (previously Programme Director of the CIV for London Councils) was appointed CEO. Three other posts have also been recruited into.

3.2.2 The company has procured a number of specialist advisors to help not only with the establishment of the ACS (both Operator and Fund) but also with the day to day running of the company for its first few years of trading. Northern Trust were appointed as the Asset Servicer to the ACS (fulfilling custody, depository and transfer agency roles) in December 2014. Eversheds and Deloitte were both appointed in the Spring of 2014 to help establish the vehicle from both a legal and tax perspective.

3.2.3 As an FCA authorised entity, both the Operator and the Fund are required to go through the FCA authorisation process. The Operator application for authorisation went to the FCA in July and the Fund application is planned to be submitted in September. The London CIV received its ACS authorisation in November.

#### **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.

### 3.3.2 The Sub Funds identified are:

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	£1,372,958,854	£1,024,597,553	£168,189,926	£937,417,764	£571,324,102	£155,341,753	£1,113,921,440	£319,823,905	£525,004,960	£6,188,580,257

- 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 The next phase where Islington could be involved is Legal and General (LGIM) which the CIV is planning to launch in September 2016. Our current Legal and General investment is mainly in Emerging markets and RAFI Emerging index valued at £70million in total. A copy of the CIV transfer cost and benefit analyses is attached for information as Appendix 1 (private and confidential). However we agreed to replace our passive investment in emerging markets with an active manager. Recruitment of an active manager has already started and is expected to be complete by September, so we may have already reallocated our LGIM assets by the time that the CIV launches its LGIM fund.
- 3.6 Members agreed to procure an active emerging and frontier market manager in November 2015 and this process has already commenced. Shortlisting and interviews are scheduled in July and if a suitable manager is appointed our current L&G portfolio will be used for its funding. It is therefore likely that we may have already reallocated our LGIM assets by the time that the CIV launches its LGIM fund and members should note that we will only join the CIV's LGIM pool if we still have assets invested in LGIM after the conclusion of our tendering and appointment of an active manager.
- 3.7 A London CIV Joint Committee meeting and AGM is due on 14 June and a report providing resources and budget forecast is attached as Appendix 2 (private and confidential)
- 3.8 **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.
- 3.9 **DCLG -pooling response due on 17 July**  
The investment regulations and pooling consultation response requested by DCLG was in two parts, an initial response due in March and detailed submission on pooling due in July. The DCLG/Treasury have provided a draft template to be completed by each Pool. The London CIV is leading on this submission and are happy to include all individual boroughs comments submitted as appendices to the main submission.  
The draft completed submission template is attached for information and comments as Appendix 3 (private and confidential). The final submission will be circulated to members before the 17 July deadline.

## 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 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.

### Appendices: 1 & 2 and 3 (private and confidential)

#### Background papers:

Final report clearance:

#### Signed by:

**Received by:** Corporate Director for Finance and 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