



Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	26 November 2018		

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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, running of portfolios and reviewing governance and investment structure, over the period August to November 2018.

2. Recommendations

- 2.1 To note the progress and news to November 2018

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 **Update to October**

3.5.1 **Assets growth**- the third quarter saw asset under active management grow to £7.5bn through the ACS platform. Passive assets managed by LGIM and blackrock aided by strong flow to low carbon tracker strategies reached £9.7bn. This means in total 47% of London boroughs pension assets have now been pooled.

3.5.2 **Fund Launch**

a) The LCIV Multi asset credit launched in May and now has 6 London boroughs investing £500m.

b) The LCIV infrastructure forum was held on 8th November, and launch is planned for January 2019.

The main proposal being offered is as follows

Infrastructure Objectives:

Target net returns of 8% -10% p.a.

Target cash yield of 4% -6% p.a.

Model Portfolio:

80-100% Brownfield Investments

0-20% Greenfield Investments

50-70% Europe with a UK focus

30-50% Rest of the world

80-100% Primary & Secondary Partnerships

0-20% Co-Investment

0-20% Direct Investment

10-30 General Partners (manager diversification) + co-investment and direct holdings

3.5.3 **People**

Maggie Abrahams is back as Deputy Chief Operating Officer. Will MacBean joined the client relations team, and Umer Nazir and Pruthvi Odedra joined as investment analyst.

LCIV will be relocating to new offices from 19 November and the new address is 4th Floor, 22 Lavington St, SE1 0NX.

3.6 **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..

The transfer of our Allianz managed equities to the CIV in December 2015 was achieved at a transfer cost of £7,241. 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

All sub-funds investors 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.

In a April 2018 annual service charge of 25k (+VAT) and 65k (split 43.3k and 16.6k) development fund was invoiced to all members

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."

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 and note the progress to date.

Background papers:

Final report clearance:

Signed by:

Received by: Corporate Director of Resources Date

Head of Democratic Services Date

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