



Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	10 September 2019		n/a

Delete as appropriate	Exempt	Non-exempt
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Appendix 1 is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information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: LISTED EQUITY PORTFOLIO – UPDATE ON TRANSITION OF ASSETS FROM LCIV ALLIANZ TO LCIV RBC SUSTAINABLE FUND

1. Synopsis

- 1.1 This report and exempt Appendix 1 provide updated information on implementation of members decision to transfer global equities on LCIV platform from Allianz to RBC Sustainable fund
- 1.2 MJ Hudsons, our independent investment advisors have also prepared a briefing note on transition process commenced on 23rd August and the withholding tax final position (attached as Exempt Appendix 1)

2. Recommendations

- 2.1 To note transition process of the units owned from LCIV Allianz to LCIV RBC and consider progress on the issue of withholding tax accrued to the Islington Fund
- 2.2 To note the withholding tax accrued final position and estimated receipt period.
- 2.3 To delegate to the Corporate Director of Resources, in consultation with the Assistant Chief Executive, Governance and HR, authority to negotiate and agree with the LCIV
 - Fair recourse to dealing with the withholding tax accrued

3. Background

Allianz

- 3.1 The Committee agreed to transfer our global equity assets with Allianz to the LCIV Allianz sub fund as part of the Phase 1 funding in December 2015. We were part of 3 boroughs who completed this transition at the time. As of the 2nd quarter of this year, the other 2 boroughs terminated their mandate with Allianz due to changes in asset allocation and requirements. On the point of termination, the fund ownership was 15% Islington, Ealing-53% and Wandsworth 32%.
- 3.2 The LCIV in April 2018 gave the fund assurances they will not terminate the Allianz sub fund because asset under management c £120m still makes it viable. In October 2017 all three Boroughs notified the LCIV of our intention to divest from the Allianz sub fund and assurances were given that no one fund will be penalised for leaving at different times and any termination cost will be shared between all the previous unit holders.
- 3.3 Members then agreed in November 2018 after a due diligence process to transfer our assets to LCIV RBC Sustainable fund and delegated authority to Director of Corporate Resources in consultation with the Assistant Chief Executive, Governance and HR, to agree terms with the LCIV and appoint a transition manager if required to implement the transfer.
- 3.4 **Update on progress on transfer of assets**
The LCIV, was notified after Members' decision in November to initiate the process and terms and conditions to be agreed. As part of the options provided by the LCIV to Islington for the transfer, the issue of accrued withholding tax of £1.5m was raised. This was accrued income for the whole fund not available to invest as the last fund to exit, whilst the other 2 boroughs had been prepaid on exit. The Corporate Director of Resources then agreed to engage an advisor from MJ Hudson Allenbridge to provide oversight and advice to ensure the transfer of assets achieve best value for the Islington Fund.
- 3.5 Members agreed at the March meeting that an assurance be sought from the LCIV that they will review their processes with regard to redemption of funds, to ensure that in those cases where only one or two funds are left in a fund they are not left to bear closure costs and the full withholding tax credit in the fund. The Sub-Committee wished to be reassured on this before making any future investments in the LCIV. Letters were exchanged and the LCIV agreed to amend wording in the SLA document, to notify the last 2 unitholders in a sub-fund if others were to seek redemption.
- 3.6 Members agreed at the June meeting to go ahead and transition to LCIV RBC fund. The sub-fund currently has 2 investors and Islington could face the same conundrum of being the last member to exit with a withholding tax accrual if the other investors exited before us. Members agreed to continue to negotiate a fair way forward with LCIV, on receiving withholding accrued tax as agreed in the region of £ 1.6m.

The Transition

- 3.7 MJ Hudson our advisors have prepared a detailed report on the transition process attached as Exempt Appendix 1.
An executive summary is as follows:

- £130m was transitioned from Allianz to RBC funds between 23rd July and 5th August.
- The fixed spread costs were £78k (6bps of subscription proceeds)
- All unit selling and buying was pre-invested in order to trade at the same point in time
- Trading was capped in each phase, so as not to impose additional Anti-Dilution Levies
- The transition was delayed from earlier in the year, in order for LCIV to make changes to the SLA
- The total saving achieved by the optimal versus standard transition approach was in excess of £1m.
- A retained value of £2.7m remains in the Allianz Fund, representing income due, fees and un-recovered WHT. £1.7m is WHT, £108k is accrued expenses, £886k is income withheld that will be refunded at the end of September.
- MJ Hudson's fee for advise on transition and WHT work with LCIV is £15.6k.

3.8 **The Withholding Tax Accrued Liability**

The most up to date schedule of withholding tax accrued amount and estimated year of receipt is shown below, even though the total figure has increased to £1.736m, due to currency fluctuations. The risks to note are that the amounts are only estimates, any changes in tax regulations could impact amounts, there is also currency risk as LCIV do not have a hedge in place.

Table - WHT recovery Schedule (August 2019)

Year	Estimated Recovery (£)
2019	466,091
2020	293,262
2021	518,306
2022	316,913
2023	70,361
Grand Total	1,664,934

The equivalent in local currencies is Euros- 431,082.89, Swiss Francs- 1,403,639.19 and Swedish Korona-1,758,244.39.

- 3.9 Members are asked to note the transition process, led by our advisors MJ Hudson, and cost incurred and the potential savings made through the units buying and selling process at the same time to minimise any out of market price fluctuations. There has been an opportunity cost to the fund on performance for the six months' delay before transition (moving to a better performing fund). The WHT liability is yet to be resolved as the figures are estimates and there are risks to a100% recovery. Members are therefore asked to give delegated authority to Officers to monitor the LCIV during this recovery period and take a fair recourse to protect the Funds interest.

4. **Implications**

4.1 **Financial implications**

- 4.1.1 The cost of providing independent investment advice and transition cost is part of fund management and administration fees charged to the pension fund.

4.2 **Legal Implications**

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

4.2.1 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.

4.2.2

The sub- committee must

- (i) reasonably believe that the recommended investment manager's ability in and practical experience of financial matters makes them suitably qualified to make investment decisions for the Council
- (ii) be satisfied that the fund (or relevant part of it) is managed by an adequate number of investment managers and that where there is more than one investment manager, the value of fund money to be managed by any one of them will not be disproportionate (in their view) in comparison with the value of fund money managed by other investment managers
- (iii) have proper regard to the advice of the Interim Corporate Director of Resources and its external advisers, in relation to the proposed appointment

In considering the recommendations in this report, members must take into account the information contained in the Exempt Appendix 1 and 2 to this report.

4.3 **Environmental Implications**

The environmental impacts were considered as part of the presentations where managers were asked to demonstrate how they took environmental and social governance issues in their portfolio construction. It was identified that the proposals in this report would have no adverse impacts.

4.4 **Resident Impact Assessment**

None applicable to this report. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

5. Conclusion and reasons for recommendations

- 5.1 Members are asked to note the transition report and cost and fee incurred to date, and agree the Director of Corporate Resources in consultation with the Assistant Chief Executive, Governance and HR, delegated authority to negotiate and agree with the LCIV any costs associated with the termination of the Allianz sub fund mandate and fair recourse to dealing with the withholding tax accrued.

Background papers:

None

Final report clearance:

Signed by:

Corporate Director of Resources

Date

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