

LONDON PENSIONS COLLECTIVE INVESTMENT VEHICLE (CIV)

Reporting Officer: Corporate Director of Finance

SUMMARY

This report explains the background to pooling of investments of the Local Government pension Scheme and seeks approval from Council for the Hillingdon Fund to join the London Pensions Collective Investment Vehicle (CIV). The London CIV provides the opportunity to voluntarily pool Pension Fund Investments in advance of government compulsion and, based on analysis undertaken, would deliver financial benefits to the Fund, whilst allowing decisions on asset allocation to remain with Pensions Committee.

RECOMMENDATIONS: That Council:

- 1. Join the London Councils' Pensions CIV Sectoral Joint Committee, established under Regulation 11 of the Local Authorities (Arrangement for the Discharge of Functions) (England) Regulations 2012 (pursuant to the existing London Councils Governing Agreement dated 13 December 2001 (as amended)) to act as a representative body for those local authorities that resolve to participate in these arrangements (or in the alternative, should all 33 London authorities resolve to participate, that London Councils' Leaders' Committee exercise these functions and the Governing Agreement be varied accordingly);**
- 2. Delegate to the Joint Committee those functions necessary for the proper functioning of the Company, including the effective oversight of the ACS Operator;**
- 3. Appoint a Councillor to the Joint Committee who will also have power to act for the Council in exercising its rights as a shareholder at any General Meetings of the Company;**
- 4. Subscribe to one, £1.00 ordinary A share in the capital of the Company, having the rights set out in the Articles of Association and Shareholders Agreement; (both documents are available in the Group offices and on the Council website at <http://modgov.hillingdon.gov.uk/ieListDocuments.aspx?CId=117&MId=2272&Ver=4>)**
- 5. Contribute to the Company's Regulatory Capital requirements by way of a subscription to 150,000 £1 non-voting B shares in the capital of the Company, having the rights set out in the Articles of Association and Shareholders Agreement; and**
- 6. Contribute £75,000 to the start-up and early operating costs**

BACKGROUND

The question of how Local Government Pension Scheme (LGPS) Funds across the country could work closer together to deliver savings has been the subject of much debate over recent years. In his summer budget, the Chancellor of the Exchequer announced that Central Government will *'work with LGPS administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall*

investment performance'. A consultation on pooling proposals was published on 25 November 2015 along with details of the criteria and guidance on Investment Reform within the LGPS, for final implementation during 2016. The criteria administering authorities are being asked to deliver against the government's pooling expectations are:

- Asset pools that achieve benefits of scale;
- Strong governance and decision making;
- Reduced costs and excellent value for money; and
- Improved capacity to invest in infrastructure.

Central Government have made clear that their intention is that all LGPS funds should pool their assets into six large pools, with a view to reducing costs and increasing investment in infrastructure. They expect Administering Authorities to work collaboratively to create investment pools and all administering authorities have to respond to government with an outline of their proposals by 19 February 2016. In the first instance, government will work with authorities who they believe have not developed sufficiently ambitious proposals. Whilst continuing to manage their Funds assets, each authority must also make plans to transition their assets as soon as practicable and so each new investment decision must consider pooling implications. The Pension Committee will not be asked to make any decisions at their March meeting in light of this direction, until an approach to pooling has been agreed.

There are several pools being developed across the country, mainly on a regional basis, although a few of the larger Funds have agreed to work closely together. Smaller funds like those of London Boroughs would have greater influence if they joined pools of similar sized funds, hence the London CIV would seem the best option for Hillingdon.

London CIV

In December 2013, London Councils Leaders' Committee resolved that London Councils should establish a designated fund with contributions from those boroughs interested in further exploration of proposals for the establishment of a London LGPS Collective Investment Vehicle (CIV). Since that meeting 30 London boroughs and the Corporation of London have become active participants in the CIV programme, each having contributed £50k and the CIV has now been established as a UK Authorised Contractual Scheme (ACS).

The CIV has been designed to enable London Boroughs to have sufficient control over the CIV, in order to be assured that it will be acting in their best interests. Authorities seeking to invest in the CIV will take a shareholding interest in the Operator and have membership of a Pensions CIV Joint Committee. It is made up of two parts, an Authorised Contractual Scheme (ACS) Operator, which is a new limited company, wholly owned by the participating London local authorities, and the ACS fund, which will be made up of a range of investment types for the participating funds to choose from. The Financial Conduct Authority regulates both parts. Lord Kerslake has been appointed Chairman of the Board of Directors. To oversee the CIV, and to provide a platform for shareholder decisions to be made, a new sectoral joint committee has been established under the governing agreement of London Councils. Each of the 31 participating authorities has nominated a Councillor to sit on the committee, and it works jointly on behalf of all the shareholders, making decisions such as the appointment of directors and receiving information from the CIV on which it may comment, but only in so far as allowed by the rules of the FCA. Should Hillingdon decide to join the CIV, then the administering authority will have a say on the future direction of the CIV.

The CIV has now entered its 'launch' phase with the first of nine launch sub-funds opened on 2 December 2015. The remaining eight are now being opened with completion of the launch phase expected by the end of April 2016. These sub-funds are comprised of a mix of active and passive equity mandates and will deliver estimated savings of between £2.8 and £3 million per annum for the 20 boroughs that are anticipated to be early investors.

Dialogue is continuing with investment managers to negotiate the opening of further sub-funds beyond launch. In the main these discussions are progressing well with IMs being generally keen to engage, especially in light of the Government's published criteria and guidance.

Investment in the ACS Collective Investment Vehicle

The CIV is launching with a range of nine equity based sub-funds, both active and passive, which will be managed by four Investment Managers (IM). Hillingdon Pension Fund doesn't currently invest with any of those four IMs, but nonetheless all the sub-funds would be open to the Council investing if the Pension Committee were to decide that any of the funds offered an attractive investment opportunity. The aim is to have all nine sub-funds opened by the end of April 2016.

Work is now underway by the CIV and the IAC to open up further sub-funds over the coming months, but it will take a few years of development before the Fund has a full range of sub-funds covering all the necessary asset classes. The collective nature of ACS investments means that the CIV will manage funds on behalf of all investors, transferring some current decision making powers to the CIV. However, if the Council's existing managers opt to take part in the ACS, then there may be potential to move the council's investments into the ACS to obtain lower fees with minimal cost and administrative work.

The scheme has appointed Northern Trust as its custodian to hold the investments. This is also the current custodian for the London Borough of Hillingdon Fund.

Though the council's investments will be combined with other council's investments to achieve volume savings, LBH's share of investments will need to be clearly identifiable. The Council will need to be able to see its investments when needed to pay pensions due. Before placing pension fund investments in the ACS, legal approval for this investment will be needed. The London Councils, and now the Operator, have been taking legal advice throughout the development stages.

Financial implications

London Boroughs already engaged with the CIV have each contributed £50k to the fund to establish a CIV. In addition there is a £25k annual administration charge to support the running costs of the investment management company. Were the Hillingdon Fund to join now then the initial revenue cost would be £75k and then an ongoing £25k annual charge. Finance officers have been tracking the progress of the CIV since its inception and have been analysing the fee savings being negotiated as a result of the economies of scale offered by the CIV. It is clear from this analysis that the savings generated through lower Investment Manager Fees would more than cover the costs of entry and the annual running costs and thus deliver ongoing cost reductions to the Pension Fund.

Legal Implications

There is an established structure that the London CIV has put into place in the form of a Sectoral Joint Committee together with an Investment Advisory Committee.

Full Council is being asked to agree that the Council should join the joint committee and to appoint an elected Councillor to it. The Borough Solicitor confirms that the statutory authority for these recommendations can be found in the Local Government Act 1972 and The Local Authorities [Arrangements for the Discharge of Functions] [England] Regulations 2012.

Section 102[1] [b] of the 1972 Act provides that two or more local authorities may appoint a joint committee of those authorities for the purpose of discharging their functions which in this case are non-executive. Section 102[2] of the Act provides that the number of members of the joint committee, their term of office and the area [if restricted] within which the joint committee is to exercise its authority are to be fixed. These provisions are endorsed in Regulation 11[5] of the 2012 Regulations.

The London CIV has established a company, London LGPS CIV Limited, with an Authorised Contractual Scheme structure, for the purpose of managing assets. The company was incorporated on 17 July 2014 and formally adopted by way of a written resolution passed on 9 October 2015.

The Council will, if it agrees the recommendations in this report, be required to subscribe to one £1 ordinary share in the capital of the company and on the basis that it does so, it will need to fully comply with the terms of the company's Articles of Association and a Shareholders Agreement. The Borough Solicitor has carefully perused these documents, which are in standard form, and advises that there is nothing to prevent the Council from being bound by them.

BACKGROUND PAPERS: None