Non-Executive Report of the: **Pensions Board** **28 July 2015**	TOWER HAMLETS
Report of: Chris Holme, Acting Corporate Director of Resources	**Classification:** [Unrestricted]
Investment in London LGPS Collective Investment Vehicle (CIV)	

Originating Officer(s)	Bola Tobun, Investment & Treasury Manager
Wards affected	All wards

Summary

This report informs the Committee on the progress of setting up the London Collective Investment Vehicle (CIV), and the work that is currently underway. The process of the CIV being operational and will in due course require the Committee to assess the merits for the Fund to transfer assets or invest directly into funds held on the CIV, where this is deemed as beneficial for the Fund to do so. The report also outlines the need for the Fund to invest a relatively small sum of money into the CIV to be held as regulatory capital.

Recommendations:

Members are recommended:

1. Note the update on progress in setting up the CIV
2. Delegate authority to the Corporate Director of Resources in consultation with the Chair of Pensions Committee to settle any contracts concerned with the CIV on behalf of the Council and Pension Fund
3. Delegate authority to the Corporate Director of Resources in consultation with the Chair of Pensions Committee to invest sums required for regulatory capital to the London CIV to meet the requirements for FCA (Financial Conduct Authority) registration. Anticipated level of investment £160,000.
4. Agree that where circumstances arise and the Committee is not available for consultation, delegate to the Corporate Director of Resources in consultation with the Chair of Pensions Committee the decision to agree to the transition of Pension Fund assets to the London CIV where the Fund has a pre-existing relationship with the investment manager and where the transfer of such assets is financially advantageous to the Pension Fund.

1. REASONS FOR THE DECISIONS

1.1 Members are being asked to agree that the Council continues to participate into the CIV scheme as it is expected that the improved bargaining power of the larger scheme will mean management fees for CIV investments will be significantly lower for the Council's pension scheme than at present. All but three London Boroughs have agreed to participate in the scheme. The three Boroughs that are not participating yet may join at a later date. The current CIV members would need to decide if late investors would be asked to pay a fee for late investing.

1.2 Members should be aware that this development in London is being closely watched both by Central Government and other funds and the success of this venture may well impact the long term future of the LGPS. Given the benefits that will accrue to this Fund and others in London over the longer term, both in terms of savings, efficiency gains and wider benefits including new opportunities for investment, from closer collaboration, the Committee's support should continue to be forthcoming to ensure a successful delivery of the London CIV. It should be recognised that delays to some of these key developments will lead to a delay in London funds securing the benefits of the CIV for which so many fund have worked collaboratively to ensure its delivery and could mean real savings and benefits are delayed, hence the request for more delegations to be put in place than would ordinarily be the case.

2. ALTERNATIVE OPTIONS

2.1 The theory of the CIV is that fund managers will charge a lower management fee on pooled investments managed. If the CIV investment proves to be a popular fund, then if the Tower Hamlets fund was outside the scheme it would not have the potential to benefit from economies of scale.

3. DETAILS OF REPORT

3.1 Members have received a number of papers which have covered both the calls for structural reform coming from CLG and the work that has been going on in London to consider ways of working more collaboratively and efficiently with other funds and more specifically to consider options for the establishment of a collective investment vehicle in London. Members have also previously agreed to commit £75,000 towards the setting up of the London CIV.

3.2 The London CIV has made progress in 2015, as follows:

a) The Pensions Joint Committee has met three times and considered:
   - The appointment of Northern Trust providing functions including a depositary, Custodian, Fund Accountant, Transfer Agency and Tax reclaims;
   - Procuring the Authorised Contractual Scheme Operator;
   - Their role of acting as a forum of shareholders of the CIV; and
   - The governance structures of the CIV

b) The Interim Directors of the CIV company have met and considered/ratified decisions concerning:

- The appointment of Northern Trust providing functions including a depositary, Custodian, Fund Accountant, Transfer Agency and Tax reclaims;
- A number of procurements, including a Recruitment consultant, Advisors to the company and an advisor for an Asset servicer procurement;
- The company programmes, risk registers and procedures; and
- The recruitment process for senior executives and future Board members

c) The Technical Sub Group have met and considered:
   - The fund managers that the boroughs currently invest in and the process by which they may come onto the CIV;
   - The process of narrowing down those managers for phase 1 of the CIV and the proposals those managers have put forward including fee reductions and scope of investment;
   - The initial structures and governance modelling of the CIV and the methods by which the boroughs will interact with the vehicle;
   - A number of procurements including the reviewing and ratification of candidate responses; and
   - An initial paper on working capital requirements to meet the liquidity needs as set out by the FCA.

3.3 The London CIV has now reached the position to apply for formal registration to the FCA, a key milestone, without which the CIV is unable to operate. Formal approval is expected to be given to the London CIV as both operator and fund over the summer, it is therefore anticipated that it will be ready to open with funds in early autumn. As part of the authorisation process, the CIV is required to have sufficient regulatory capital in place to ensure that it is able to meet commitments in the event of a short term crisis. Whilst it is possible to argue that the structure of the CIV and the support of Local Authorities and the fact that these will be its only investors, means that the CIV is a much more secure organisation than others and therefore this requirement for regulatory capital feels like an unnecessary additional burden, however as this is a requirement for authorisation, it will be necessary for the CIV to hold sufficient regulatory capital. To ensure that the amount held is sufficient to cover the CIV for a reasonable period of time as it grows assets under management, it has been agreed that each London Borough should be asked to provide this as an investment. An assessment of the requirement means that funds will be asked to invest between £150- £160k.

3.4 It should be recognised that this is different to £75k contributed so far, in that this amount was required to actually fund the establishment of the CIV and would be classified as expenditure. However this additional sum of £150-£160k represents share capital and will be held as an investment and will be recognised as such within the Pension Fund report and accounts as part of the assets of the Fund. The Committee are therefore asked to delegate authority to the Corporate Director of Resources in conjunction with the Chair of the Committee to agree to this investment in the CIV when this is required.

3.5 The FCA rules classify the CIV as an externally managed Collective Portfolio Management firm and accordingly, the Operator of the CIV would need to retain working capital in accordance with FCA rules and regulations, hence the requirement for this regulatory capital to be held by the CIV in advance of the formal authorisation by the FCA being given. The Regulatory Capital held by the CIV will be invested in liquid assets by the company in the form of cash or near cash investments. It is anticipated that the regulatory capital being put in by the Funds will be sufficient to ensure that this will cover any growth in the assets under management.

3.6 The Committee is also being asked to authorise the delegation of sorting contractual arrangements with the CIV to ensure that the Fund is able to participate fully in the CIV when the opportunity arises. This does not commit the Fund in any way to investing through the CIV, the decision on whether to do so, how much and in what asset classes remains very much the decision of this Committee. However, given the timescales for some of these decisions, particularly in the early days and the gaps between Committee meetings, it may be necessary for the Fund to consider a transition of assets into the CIV should the opportunity arise between one Committee meeting and the next one. Whilst every effort will be made to contact and seek approval from individual Committee Members, it may be necessary for the Corporate Director of Resources in conjunction with the Chair of Pensions Committee to make a decision in the absence of a formal Committee meeting. The circumstances under which such a decision would be required would only be where the transition of assets relates to a pre-existing fund manager for the Pension Fund and where the financial benefits of the transition would be clear for the Fund.

3.7 Although the final details of the individual sub-funds on the CIV are yet to be finalised, it is anticipated that the initial sub-funds on the CIV will be a combination of passive and multi-asset funds. Due to commercial confidentiality it is not possible to disclose the level of anticipated savings from this, but it is clear that the benefits across London funds will be significant and that these are only likely to grow as the range of sub-funds and opportunities for investment increase.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 The comments of the Corporate Director Resources have been incorporated into the report.

5. LEGAL COMMENTS

5.1 Regulation 11(3) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires the Council, as an administering authority, to invest fund money that is not needed immediately to make payments from the Pensions Fund.

5.2 It is desirable for the Council to take steps to reduce the costs of administering its pension fund. The Collective Investment Vehicle appears to be viable way to achieve savings.

5.3 When deciding whether or not to proceed with the project, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don’t (the public sector duty). The Committee may take the view that investing in the Collective Investment Vehicle will support compliance with the Council's statutory duties in respect of proper management of the Pension Fund.

6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance or reduction in management fees will reduce the contribution and increase the funds available for other corporate priorities.

6.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

7. BEST VALUE (BV) IMPLICATIONS

7.1 The Committee may take the view that investing in the Collective Investment Vehicle will optimises the use of its resources in achieving the best returns for the Council and members of the Fund.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

8.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

9. RISK MANAGEMENT IMPLICATIONS

9.1 Any form of investment inevitably involves a degree of risk.

9.2 To minimise risk the Pensions Committee attempts to achieve a diversified portfolio. Diversification relates to asset classes and management styles.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 There are no crime and disorder reduction implications arising from this report.

Linked Reports, Appendices and Background Documents
Linked Report

- NONE

Appendices

- NONE

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report

- NONE

Officer contact details for documents:

- Bola Tobun - Investment &Treasury Manager x4733
- Mulberry House, 5 Clove Crescent E14 2BG