


Non-Executive Report of the: PENSIONS COMMITTEE 25 November 2015	
Report of: Zena Cooke, Corporate Director of Resources	Classification: Unrestricted
Collaboration Work Update – (London CIV and National LGPS Framework)	

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

Summary

This report provides the Committee with an update on the progress of the Collective Investment Vehicle (CIV) being set up by local government funds in London in collaboration with London Councils. It also provides an update on the progress of the National LGPS Frameworks, in which the Fund is involved.

Recommendations:

Members of the Pensions Committee are asked to:

- Note the contents of the report.

1. REASONS FOR THE DECISIONS

1.1 No decision required

2. ALTERNATIVE OPTIONS

2.1 No alternative as this is for information and update.

3. DETAILS OF REPORT **London CIV**

3.1 Committee members have received a number of reports and presentations which have covered both the calls for structural reform emanating from CLG and the work that has been going on in London to consider ways of working more collaboratively with other funds and more specifically to consider options for the establishment of a collective investment vehicle in London.

3.2 Following a Board meeting of the London CIV on 8th September, the interim Board has now been replaced by a permanent Board. The Chair of the Board is Lord Kerlake with non-executive director appointments of Chris Bilsland and Lisa Arnold with a further non-executive director expected to be appointed during the next few months. The new Investment Advisory Committee has been established which replaces the Technical Sub-Group which had helped in the establishment of the CIV. An officer from the Council, the Investment & Treasury Manager has been appointed to the new Investment Advisory Committee.

3.4 Negotiations and contractual arrangements have been ongoing with fund managers to ensure that the initial range of managers to be transitioned across to the London CIV is ready once approval has been given by the FCA.

3.5 The London CIV continues to make progress and the Financial Conduct Authority (FCA) authorised the company as an Alternative Investment Fund Manager on 15 October 2015. The Company's entry in the FCA register can be found here:

https://register.fca.org.uk/ShPo_FirmDetailsPage?id=001b000000sD6OtAAK

3.6 The application for Fund authorisation was submitted to the FCA on 15 October and authorisation was granted 13 November 2015 as the FCA treated the application as a priority. As the FCA authorised the Fund in line with the London CIV timetable, it is now possible to launch the CIV's first sub-fund before the end of the year. On the assumption that the first fund will be launched as planned the aim is to open the remaining eight sub-funds in the first quarter of 2016. Detailed fund information has been sent to all the boroughs that are invested in the same or similar mandates with the relevant Fund Managers and each borough has been asked to give feedback about their intention to transition to the CIV or not. If all boroughs do transition the CIV will have in excess of £6bn under management by the end of this financial year.

3.7 Regulatory Capital: with the adoption of the revised Articles and the signing of the Shareholders Agreement it has been possible to issue share subscription letters to each borough for the B shares that will generate the required

regulatory capital. The London Borough of Tower Hamlets Pension Fund in accordance with the Committee's decision (23 July 2015) will pay the regulatory capital to the London CIV by 30 November 2015.

- 3.8 The Investment Advisory Committee (IAC) has now been established and is working on a range of options for consideration by the Sectoral Joint Committee with papers at the recent meeting on Infrastructure.
- 3.9 Working groups have been established to come forward with proposals on ethical tracker funds, options for fixed interest, further work on infrastructure, private rented sector and social housing. The initial managers have been selected, these are not publicly available at this stage. In addition, further work is being undertaken over the coming months by the investment committee and the CIV to identify new areas for the CIV to consider in particular in the alternative investment field and fixed income.
- 3.10 As the London Collective Investment Vehicle (CIV) enters its final implementation phase, the Fund has been asked to make the final investment decision to invest in sub-funds proposed for the CIV launch in November 2015.
- 3.11 Four managers have now been identified as offering potential opportunities for the launch of the CIV. These managers will 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.
- 3.12 20 boroughs are currently invested in one or more of these mandates and LBTH is one of them. 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 Asset Management Company (AMC) rate that the CIV has negotiated with managers.
- 3.13 There are a number of other managers with whom discussions are still ongoing, but these are currently being viewed as 'post-launch' (phase 2, spring 2016) opportunities.
- 3.14 LBTH Pension Fund is one of the London LGPS Funds with direct links to the launch sub-funds. An indication was given to London CIV by the s151 officer having consulted with the Chair and Vice Chair of the Pensions Committee, that the Fund would transfer the current holdings with one of the two global equity managers to the CIV and to hold on transferring the UK Equity mandate to the CIV pending more desirable negotiation entry terms for this mandate.

National LGPS Frameworks

- 3.15 The Fund Officer is now working closely with a number of other authorities to develop national procurement frameworks, with the work of the group being recognised at the recent LGC Investment Awards.
- 3.16 Current frameworks under development include the re-letting of the actuarial and investment consultancy frameworks as they are nearing the end of the 4 year framework lifespan for the original frameworks. In addition the

Environmental, Social and Governance (ESG) Framework is currently being developed and it is anticipated that this framework will be available for call off by early summer 2016. This is likely to offer a number of lots, which funds will be able to call off including voting services, governance overlay and research work.

- 3.17 It is anticipated that work will also commence shortly on the formation of a framework for third party administration services. Consideration is also being given by the National Frameworks for the establishment of a passive fund manager framework and a transition manager framework.
- 3.18 The Fund has been a keen proponent of collaborative working believing that this will deliver benefits to the Fund not just in terms of financial savings but also delivering wider governance benefits.
- 3.19 it is important to recognise that the work that the Fund and others, particularly in London have been doing to work collaboratively means that the Fund is in a reasonable position to respond to any consultation on pooling of investments with the establishment of the London CIV appearing to be recognised as an important part of those pooling arrangements which have already commenced. The indications from government are that we could expect to see a consultation which seeks to deliver between 5-6 LGPS investment pools across England and Wales of around £30bn each to deliver efficiency savings across the LGPS. Full participation by London Boroughs in the London CIV would deliver a pool of investments close to this magnitude.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 The comments of the Corporate Director of Resources are incorporated in the report.

5. LEGAL COMMENTS

There are no immediate legal implications arising from this report. However due consideration will need to be given to the issues that will arise from:

the proposed pooling of pension fund investments once the consultation is underway;

When deciding whether or not to proceed with a 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).

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 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 To have an efficient, cost reduction platform for investment management of the fund by pooling and collaborating is considered to be a good decision which can result in greater cost savings to 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 The rigorous robust management of LBTH Pension Fund results in better quicker and more effective decision making which can lead to better Fund performance and reduction in the contribution required from the Council towards the Fund. The monitoring arrangement for the Pension Fund and the work of the Pensions Committee should ensure that the Fund optimises the use of its resources in achieving the best returns for the Council and members of the Fund.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

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