

Non-Executive Report of the: PENSIONS COMMITTEE 20 June 2019	 TOWER HAMLETS
Report of: Neville Murton, Corporate Director of Resources	Classification:
London Collective Investment Vehicle (CIV) Update	

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

Introduction

This report provides the Committee with some update and background information into the Pooling arrangements and also London CIV Pool.

Recommendations:

Members of the Pensions Committee are asked to:

- note the contents of this report; and
- approve London CIV variation of business activity to manage Unauthorised Alternative Investment Funds (UAIM) so that it can offer illiquid products such as Infrastructure Funds attached as appendix 1 to this report.

REASONS FOR URGENCY

The report was not published five clear days in advance of the meeting. Therefore, before this item can be considered at this meeting, the Chair of the Committee would need to be satisfied that it is necessary to consider the update on the London Collective Investment Vehicle (CIV) at this meeting, the Committee may also take the view that it is important that there should not be an extended period without any member oversight on the London CIV.

1. REASONS FOR THE DECISIONS

- 1.1 For effective and efficient management of the Fund.
- 1.2 There is a requirement for Members of the Pension Committee to be kept up to date with legislative developments as part of their decision making role.

2. ALTERNATIVE OPTIONS

- 2.1 No alternative.

3. DETAILS OF REPORT

- 3.1 In the 2015 Summer Budget it was announced that the UK government would work with Local Government Pension Scheme (LGPS) administering authorities to reform how LGPS investments are managed.
- 3.2 The government's plan was for LGPS funds to pool their assets into approximately six investment pools, in an effort to drive down investment costs and enable funds to develop the capacity and capability to become world leaders in infrastructure investment and help drive growth in the UK economy.
- 3.3 Across the LGPS in England and Wales the scheme holds £263bn of assets (2017/18 figure). These assets are currently held in ninety one local pension funds and are used to pay the pensions of former members of the Scheme and their dependants. The LGPS is one of the largest funded pension schemes in Europe
- 3.4 The Government commissioned research in 2015 which indicated that significant savings can be delivered by the creation of around six investment pools, each with assets of at least £25bn. Each LGPS administering authority was then obliged to join, or help create, an investment pool with other LGPS administering authorities.
- 3.5 Savings to be achieved through economies of scale and increased bargaining power; investment costs will be reduced along with other costs for all types of investment used in the pool.
- 3.6 The Government would also like the LGPS to have the capacity and capability to be able to invest in infrastructure e.g. railway, road or other transport facilities or housing supply. Currently only a very small proportion of LGPS assets are invested in infrastructure, it is hoped that the creation of investment pools will make it easier for LGPS funds to invest in infrastructure due to their increased scale.
- 3.7 The UK's 89 Local Government Pension Schemes (LGPS) have finalised their asset-pooling plans by having eight regulated fund management entities to run almost all of the LGPS assets, leaving individual funds to decide asset allocation and focus on other areas of pension scheme management.

3.8 The Eight entities/pools are:

1) **ACCESS - £40.8bn**

- LGPS funds: Cambridgeshire, East Sussex, Essex, Hampshire, Hertfordshire, Isle of Wight, Kent, Norfolk, Northamptonshire, Suffolk, West Sussex

2) **Border to Coast Pension Partnership - £43.7bn**

- LGPS funds: Bedfordshire, Cumbria, Durham, East Riding, Lincolnshire, North Yorkshire, Northumberland, South Yorkshire, Surrey, Teesside, Tyne & Wear, Warwickshire

3) Brunel Pension Partnership - £27.4bn

- LGPS funds: Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, Wiltshire

4) LGPS Central - £41.9bn

- LGPS funds: Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands, West Midlands Transport, Worcestershire

5) London Collective Investment Vehicle (CIV) - £34.5bn

- LGPS funds: 32 London borough pension funds including the City of London Corporation

6) Local Pensions Partnership - £14.5bn

- LGPS funds: London Pensions Fund Authority, Lancashire, Berkshire

7) Northern Pool - £42.1bn

- LGPS funds: Greater Manchester, Merseyside, West Yorkshire

8) Wales Pensions Partnership - £16bn

- LGPS funds: Cardiff, Clwyd, Dyfed, Greater Gwent, Gwynedd, Powys, Rhondda Cynon Taf, Swansea

London Collective Investment Vehicle (CIV)

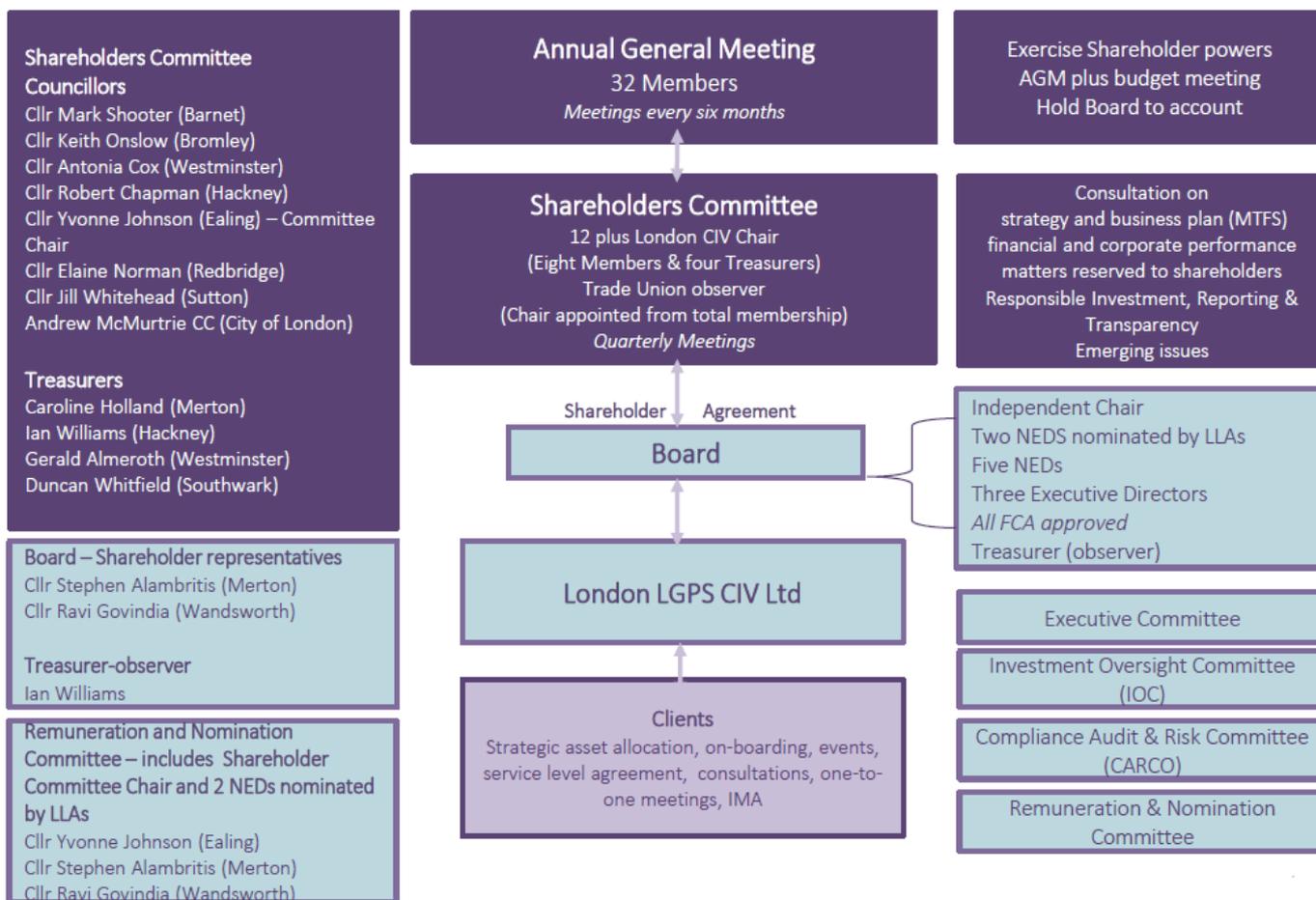
3.9 The London CIV was formed as a voluntary collaborative venture by London Local Authorities in 2014 and has led the way in pooling of investments in the Local Government Pension Scheme (LGPS). The London CIV aims to be the investment vehicle of choice for London Local Authority (LLA) Pension Funds through successful collaboration and delivery of compelling performance.

3.10 The LCIV was launched in December 2015, as a fully authorised and regulated investment management company. The founding members are the London boroughs including the City of London Corporation. The LCIV has been established as a collective investment vehicle for their Local Government Pension Scheme funds. The current regulatory permission allows the London CIV to operate an Authorised Contractual Scheme Fund (the UK's version of a Tax Transparent Fund). The London CIV currently manages four investment portfolios for Tower Hamlets (TH) pension fund.

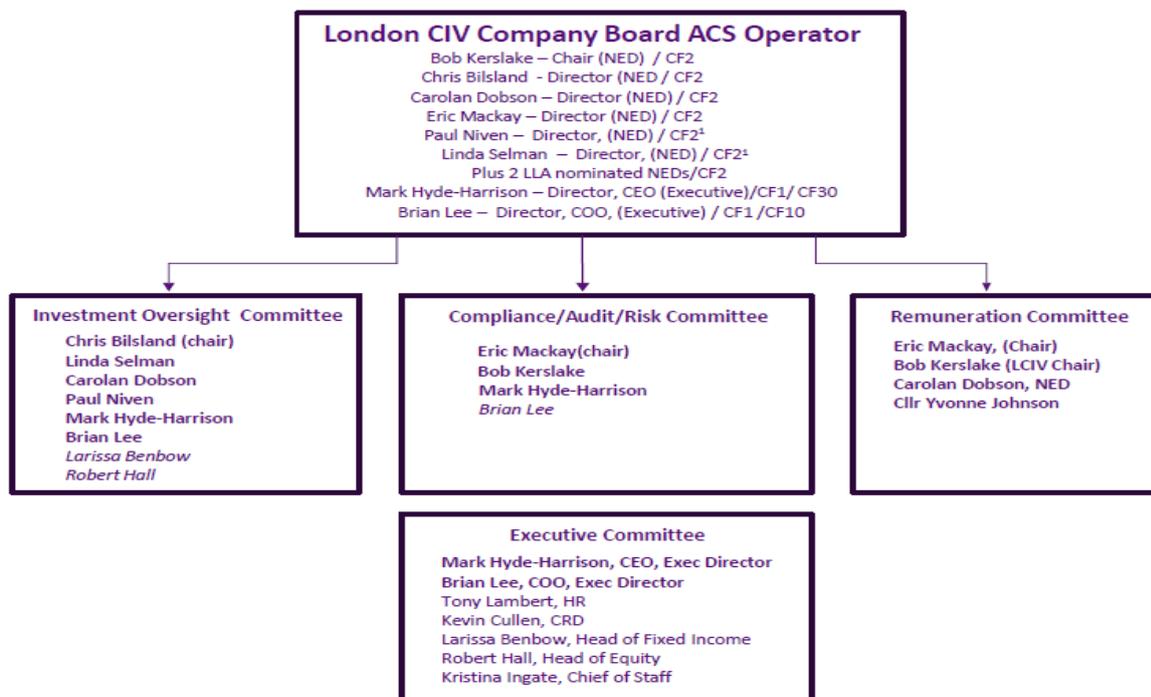
- 3.11 The London CIV has 32 shareholders, which is in contrast with other pools, in most cases with less than 10 shareholders. This number of shareholder clients makes the challenge of identifying common definitions of strategies and asset classes greater.
- 3.12 When London CIV was launched, the concept of pooling was narrower and the purpose was defined in terms of an Authorised Contractual Scheme (“ACS”) operator with Financial Conduct Authority (FCA) hence permission was granted to manage authorised Alternative Investment Funds (AIFM).
- 3.13 The CIV sought agreement from shareholders to extend the scope of the Company’s business activities, in order to reflect the broader understanding of pooling it was now proposed to define the purpose of the Company as an FCA company rather than the FCA authorised operator of an ACS. This would mean that the scope of the Company’s business would be consistent with the evolving expectations of a LGPS pooling company and allow it to be sufficiently flexible to add value and meet pooling objectives.
- 3.14 This change requires all the shareholders’ approval in writing and London CIV sent the proposed change letter to all shareholders. The legal officer for the Council has examined this letter and proposed it can be signed by the Fund officer once approval has been sought from the Pensions Committee. Attached to this report as Appendix 1 – LCIV Change to Business Scope Letter.
- 3.15 The Pensions Sectoral Joint Committee (“PSJC”) was established under the governing arrangements of London Councils. Each London local authority which is a shareholder in the London LGPS CIV Limited (“London CIV”) agreed to appoint a representative to the PCSJC.
- 3.16 The PSJC effectively fulfils two roles, one was as a mechanism for convening elected Member representation from each borough (generally the borough’s Pension Committee Chair), and the other was as the route to convening the Authorities as shareholders in London CIV. This Committee will provide scrutiny and oversight of the CIV for the Authorities, with each Borough represented on the Committee with voting rights.
- 3.17 Borough Pension Committees – In most instances the Chair of the Pensions Committee at a Borough level will be the delegated representative on the PSJC and will be able to provide an overview back to the individual Committee on the work of the London CIV and its effectiveness from attending the PSJC. In addition the London CIV will provide regular updates to Authorities through its written reports and will also attend Committee meetings
- 3.18 To enable the new governance arrangements to properly take effect it was necessary for all the London local authorities (LLAs) to revoke the delegation of the joint exercise of functions to the PCSJC, and each London local authorities then formally agreed and adopt the new governance arrangements.

- 3.19 The dissolution of the PCSJC was sought by end of 31 July 2018 to allow the new Shareholder Committee appointments to take effect in August 2018 and the first meeting of the new Shareholder Committee to take place in September 2018. As part of these arrangements, additional non-executive directors nominated via the collective political processes of London Councils were made in accordance with the Articles of Association of the London
- 3.20 The Shareholder Committee comprised of 12 members from London Local Authorities made up of 8 Leaders (or Pension Chairs or equivalent) and 4 Treasurers, plus the Chair of the (LCIV) Board (the “Members”). The members of the Committee were agreed by the Shareholders acting collectively and nominated for appointment by the collective political processes of London Councils or in the case of the Treasurers by the Society of London Treasurers.
- 3.21 Any Member of the Shareholder Committee, other than the Chair of the (LCIV) Board, must also be a Shareholder of the Company in good standing. No more than one Leader (or equivalent) and one Treasurer can be from a London Local Authority without direct investments in the London LGPS CIV Authorised Contractual Scheme or other pooling structure established by the Company from time to time. London Local Authorities which have Directors on the Board may not be Members. The next shareholder meeting is June 20th 2019 and the next general meeting is July 18th 2019.
- 3.22 London CIV is regulated by the FCA. All Board Directors are formally appointed by the Board of the Company, subject to the approval of the FCA. The names of the two additional Non-Executive Directors nominated via the collective political processes of the London Councils to improve shareholder and stakeholder are:
- Cllr Stephen Alambritis, Leader Merton Council (Labour)
 - Cllr Ravi Govindia CBE Leader Wandsworth Council (Conservative)
- 3.23 The treasurer observer to the LCIV Board, to be nominated via the Society of London Treasurers to be confirmed. The Society of London Treasurers (“SLT”) is a group made up of London section 151 officers.

The Governance structure of London CIV



London CIV Governance



Fund Offering and Launch Progress

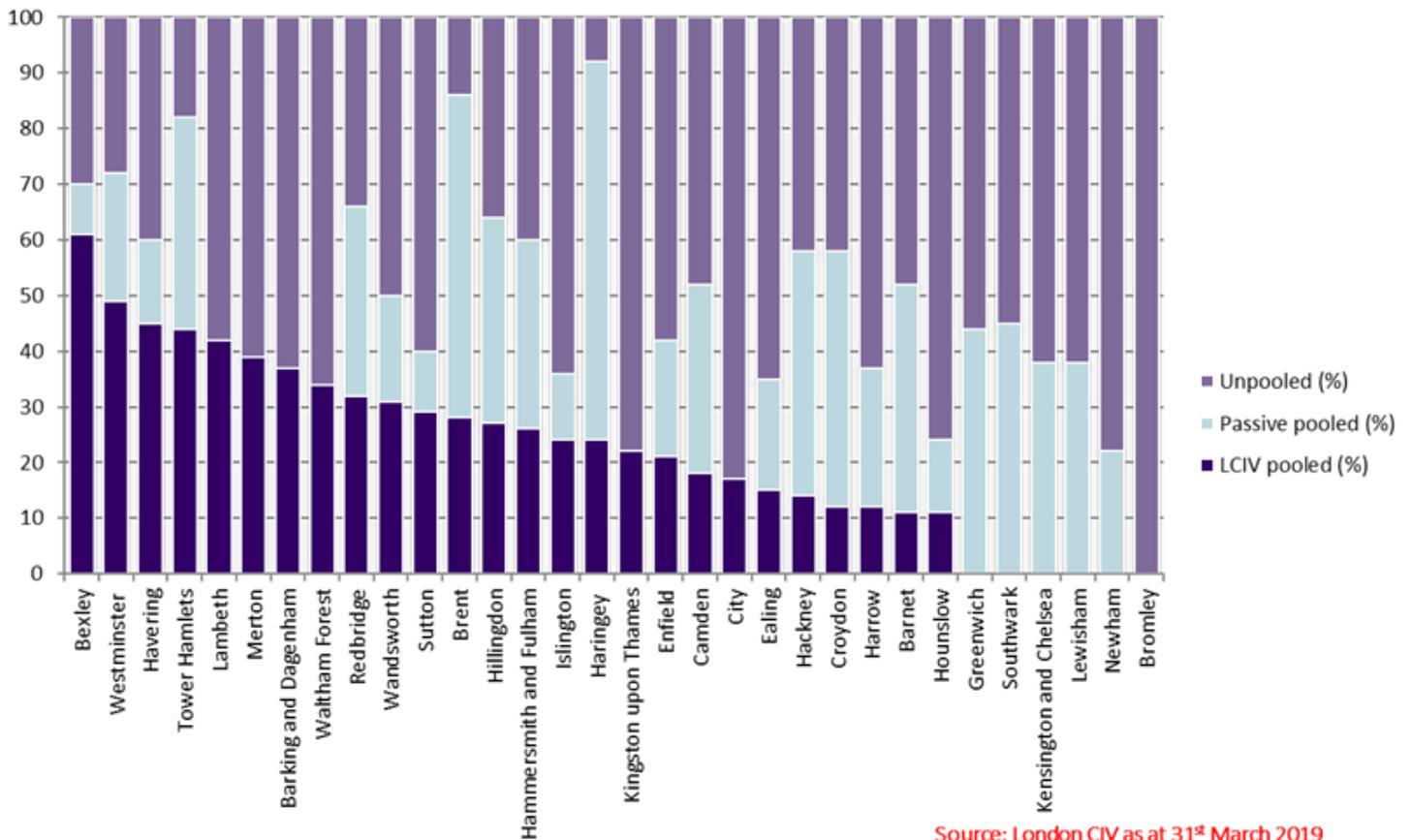
	Size	No. of Investors	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)	Inception Date
UK Equity						
LCIV UK Equity Fund	£418m	2	7.11	3.28	(0.66)	18/05/2017
Benchmark: FTSE All Share Index			9.41	6.36	2.56	
Performance Against Benchmark			(2.30)	(3.08)	(3.22)	
Global Equity						
LCIV Global Equity Alpha Fund	£119m	1	11.36	11.03	14.79	02/12/2015
Benchmark: MSCI World Index Total Return (Net) in GBP			9.94	11.98	13.43	
Performance Against Benchmark			1.42	(0.95)	1.36	
LCIV Global Alpha Growth Fund	£2,470m	13	12.42	8.77	18.62	11/04/2016
Benchmark: MSCI All Country World Gross Index			10.19	11.43	15.26	
Performance Against Benchmark			2.23	(2.66)	3.36	
LCIV Global Equity Fund	£606m	3	8.71	14.20	7.86	22/05/2017
Benchmark: MSCI All Country World Index Total Return (Gross)			9.79	11.06	7.78	
Performance Against Benchmark			(1.08)	3.14	0.08	
LCIV Global Equity Focus Fund	£751m	5	7.30	16.60	9.11	17/07/2017
Benchmark: MSCI World Index Total Return (Net) in GBP			9.94	11.98	6.87	
Performance Against Benchmark			(2.64)	4.62	2.24	
LCIV Equity Income Fund	£240m	2	8.02	13.42	2.77	08/11/2017
Benchmark: MSCI World Index Total Return (Net) in GBP			9.94	11.98	4.38	
Performance Against Benchmark			(1.92)	1.44	(1.61)	
LCIV Emerging Market Equity Fund	£381m	6	4.57	(3.31)	(7.10)	11/01/2018
Benchmark: MSCI Emerging Market Index (TR) Net			7.44	(0.32)	(4.65)	
Performance Against Benchmark			(2.87)	(2.99)	(2.45)	
LCIV Sustainable Equity Fund	£282m	2	13.40	n/a	12.74	18/04/2018
Benchmark: MSCI World Index Total Return (Net) in GBP			9.94	n/a	10.46	
Performance Against Benchmark			3.46	n/a	2.28	
Multi Asset						
LCIV Global Total Return Fund	£317m	5	2.70	3.42	3.55	17/06/2016
LCIV Diversified Growth Fund	£665m	8	6.20	0.30	6.15	15/02/2016
LCIV Absolute Return Fund	£889m	10	3.14	(0.56)	3.36	21/06/2016
LCIV Real Return Fund	£190m	2	4.30	7.15	3.65	16/12/2016
Fixed Income						
LCIV MAC Fund	£700m	10	2.62	n/a	1.98	31/05/2018
LCIV Global Bond Fund	£174m	2	4.76	n/a	5.16	30/11/2018
Index: Barclays Aggregate - Credit Index Hedged (GBP) Index			3.86	n/a	4.90	
Performance Against Index			0.90	n/a	0.26	
Total LCIV Assets Under Management	£8,203m					

Fund Launch Pipeline as at 30th April 2019

Product	Fund Launch Plan				
	Launch Priority	Client Demand	Mandate Development and Commercial Viability	Fund Structure, Op Viability, IM Selection	Fund Preparation and Launch
Infrastructure	1	Q1 2018	Q2 2018	Q3 2018 - Q4 2018	Q1 2019 - Q2 2019
Private Debt	1	Q3 2017	Q4 2017	Q4 2017 - Q4 2018	Q1 2019 - Q2 2019
Global Equity Core	1	Q2 2018	Q3 2018	Q4 2018 - Q1 2019	Q2 2019
Liquid Loans	2	Q3 2017	Q4 2017	Q4 2017 - Q4 2018	TBD
Inflation Plus	3	Q2 2018	Q3 2018	Q4 2018 - Q3 2019	TBD
Equity Value	4	Q2 2018 - Q3 2018	Q4 2018 - Q2 2019	TBD	TBD
Sustainable Equity (Exclusion)	4	Q2 2018	Q4 2018 - Q3 2019	TBD	TBD
UK Commercial Property	4	Q2 2018 - Q3 2018	Q4 2018 - Q2 2019	TBD	TBD
UK Residential Property	4	Q2 2018 - Q3 2018	Q4 2018 - Q2 2019	TBD	TBD
Global Property	4	Q2 2018	Q4 2018 - Q2 2019	TBD	TBD
Private Equity		Q2 2018			
Global Equity Blend		Q2 2018			
Active Credit Blend		Q2 2018			
UK Credit		Q2 2018			
Purple=Stage Completed; Black=Current Stage in Process Future Fund Launches Subject to Demand in Selected Strategy					

The below graph shows the investments of each London Local Authority with LCIV and it can be demonstrated that Tower Hamlets Pension Fund has the most investments with the pool, showing 18% of assets left to pool as at 31st March 2019.

London pooling landscape



Source: London CIV as at 31st March 2019

4. COMMENTS OF THE CHIEF FINANCE OFFICER

1.1 This report provides an update on progress to date as well as information with regards to future plans of London CIV. Regular engagement with the London CIV going forwards is crucial to the Fund, ensuring that the Pool makes available the strategies and services that Tower Hamlets Pension Fund and other London funds require. Successful delivery of these objectives will be crucial in ensuring that the anticipated longer term investment manager fee savings can be delivered.

1.2 There are no immediate financial implications arising from this report.

5. LEGAL COMMENTS

5.1 This report provides an update on developments affecting the London Pooling arrangements. As a member of the London CIV, the Council must ensure compliance with its statutory duty to ensure the proper and efficient management of the Fund. Regular engagement with the CIV should assist the Administering Authority to meet its statutory duties and ensure that it is able to transition assets over to the Pool in a timely and efficient manner.

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 management and 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 The effective and efficient management of Fund assets and achievement of performance targets are crucial to the achievement of the funding strategy objectives 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.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

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:

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