Report for: Pensions Committee and Board – 15 September 2021

Title: London Collective Investment Vehicle Multi Asset Credit Review

Report authorised by: Thomas Skeen, Assistant Director of Finance (Deputy Section 151 Officer)

Lead Officer: Tim Mpofu, Head of Pensions and Treasury, tim.mpofu@haringey.gov.uk

Ward(s) affected: N/A

Report for Key/ Non Key Decision: Not applicable

1. Describe the issue under consideration

1.1. The London Collective Investment Vehicle (LCIV) recently notified the Pension Fund of its intention to add a second manager to the existing LCIV Mult-Asset Credit (MAC) Fund after undertaking an investment manager selection process.

1.2. This report provides the Pensions Committee and Board (PCB) with an assessment of the suitability of the newly proposed LCIV 50/50 solution and outlines the considerations for the Pension Fund to remain invested in the updated strategy or opt for sole exposure to current manager.

2. Cabinet Member Introduction

2.1. Not applicable.

3. Recommendations

The Pensions Committee and Board is asked:

3.1. To note Mercer's London Collective Investment Vehicle Multi Asset Credit Review Paper, appended as Confidential Appendix 1, and the advice contain therein.

3.2. To agree to remain invested in the London Collective Investment Vehicle Multi Asset Credit Fund as this transitions to the new 50/50 weighted strategy.

3.3. If agreed, to delegate to the Assistant Director of Finance (Deputy S151 Officer) to update and republish the Fund's Investment Strategy Statement (ISS) to be consistent with this change.

4. Reason for Decision

4.1. The LCIV has requested for partner funds invested in the LCIV MAC Fund to decide on whether to remain invested in the updated strategy or opt for sole exposure to the current manager. The PCB's decision will inform the LCIV on how to manage the Multi-Asset Credit mandate on behalf of the Pension Fund going forward.

5. Other options considered

5.1. The Pension Fund could opt to maintain sole exposure to the current MAC manager. Should the Fund decide on this course of action, the LCIV will need to be notified and a further paper will need to be brought to the PCB outlining the next steps.

6. Background information

6.1. The Pension Fund has been invested in a Multi-Asset Credit (MAC) mandate managed by CQS since 2014, with a current strategic allocation of 10% of total fund assets (equating £158.5m as at 30 June 2021). In 2018, the LCIV appointed CQS to manage the LCIV MAC Fund and the Pension Fund's assets were transitioned into the fund in line with the pooling agenda.

6.2. The LCIV has recently reviewed their MAC strategy and has proposed to add a second fund manager improve the balance of the strategy. MAC strategies invest in a wide range of credit-based asset classes, generally in an opportunistic and unconstrained manner. Different strategies will have different biases, often based on the historical strengths of the firms. Combining multiple complementary strategies that can invest in a diversified opportunity set across the credit spectrum could result in an improved risk/return profile for a MAC fund.

6.3. With this in mind, the LCIV has undertaken a manager selection process aimed at selecting a manager that complements the existing investment manager in the LCIV MAC Fund, whilst aiming to reduce overall management fees and improve ESG credentials.

Implementation Considerations

6.4. The PCB should carefully consider the implications for the Pension Fund of the LCIV proposal. The table below summaries the key considerations for the PCB.

Table 1 – Summary of Implementation Considerations

Manager Selection Process	The LCIV compiled a long list of managers which was reduced through a series of quantitative screening and due diligence activities. The Pension Fund's investment consultant, Mercer is satisfied that the manager selection process undertaken by the LCIV was sufficiently robust.
Ongoing Level of Governance	This is the first example of the LCIV moving from a single manager to a multi-manager solution for liquid assets. Whilst this represents a change in approach for the pool, Mercer believe the

	LCIV has the appropriate depth of resources to provide appropriate ongoing monitoring successfully.
Risk Implications	Adding an additional manager to the existing strategy should achieve a broader and more diversified set of risk exposures. The LCIV has selected a second manager who has a bias to a different range of credit assets than the existing manager, which would be anticipated to improve the strategy's risk/return profile.
Fees	The proposed multi-manager solution is expected to reduce the ongoing management fees leading to cost savings to the Pension Fund. Further details on the fees are included in Confidential Appendix 1.
ESG Considerations	The proposed second manger has strong ESG credentials with dedicated internal resources to researching and reporting on climate change.

6.5. A detailed assessment of the implementation considerations is included in Confidential Appendix 1 to this paper.

7. Contribution to Strategic Outcomes

7.1. Not applicable

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

<u>Finance and Procurement</u>

8.1. The report of Mercer, attached as the confidential appendix, highlights that the recommended course of action would, if implemented, likely result in increased expected returns (based on historic performance) without a commensurate increase in overall risk in the Pension Fund's investment portfolio.

<u>Comments of the Head of Legal and Governance (Monitoring Officer)</u>

8.2. The Council as administering authority for the Haringey Pension Fund has the power to invest fund monies as set out in Local Government Pension Scheme (Management & Investment Funds) Regulations 2016.

8.3. The administering authority must also periodically review the suitability of its investment portfolio to ensure that returns, risk and volatility are all appropriately managed and are consistent with its overall investment strategy.

8.4. Regulation 7 sets out what the Investment Strategy should contain, and any revision must be published. The Fund must invest, in accordance with its Investment Strategy, any fund money that is not needed immediately to make payments from the fund. Members of the Committee should keep these obligations in mind when considering this report and take proper advice on the matter.

8.5. The administering authority must review and if necessary, revise its investment strategy from time to time, and at least every 3 years, and publish a statement of any revisions. The delegated authority will authorise the Assistant Director of Finance to carry out the revision required and published the revised statement

Equalities

8.6. None applicable.

9. Use of Appendices

9.1. Confidential Appendix 1: LCIV Multi-Asset Credit Review Paper

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.