



Report for:	Pensions Committee 20 th November 2014	Item number	4
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Title:	Pension Fund: London Collective Investment Vehicle
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Report authorised by :	Assistant Director – Finance (CFO)
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Lead Officer:	George Bruce, Head of Finance – Treasury & Pensions george.bruce@haringey.gov.uk 020 8489 3726
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Ward(s) affected: N/A	Report for Key /Non Key Decision N/A
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1. Describe the issue under consideration

- 1.1 The Corporate Committee agreed at the September 2013 meeting to contribute up to £25,000 towards the costs of establishing a Collective Investment Vehicle (“CIV”) for London LGPS that aimed to assume responsibility for the appointment of fund managers. The establishment of a CIV is designed to reduce investment management fees and also to improve performance for those funds that select active fund management. A further funding request has been received and authority is requested to pay an additional £50,000.

2. Cabinet Member Introduction

- 2.1 Not applicable.

3. Recommendations

- 3.1 That the Committee approve the additional payment of £50,000 towards the cost of establishing the London Collective Investment Vehicle.



4. Other options considered

- 4.1 The alternative to continuing to support the CIV is to withdraw and retain independent investment mandates. The CIV has argued that the additional costs will be more than recovered from the 1st year's fee savings. Although the scope to save fees is uncertain, the additional cost equates to ½ basis point of assets, which is well within the possible annual fee savings. Thus it appears reasonable to continue to support the CIV.
- 4.2 Providing the additional contribution does not prevent discussions with fund managers to see if more favourable fee levels can be negotiated outside of the CIV.

5. Background information

- 5.1 The Committee has previously agreed (September 2013) to support the establishment of a London collective Investment Vehicle ("CIV") that will take on, where a Fund specifically delegates this function, responsibility for the identification of fund managers and the negotiation of fees for London funds. The CIV will not be involved in strategy or the design of mandates i.e. active v passive, but once these decisions are made by individual schemes will assume the role of appointing and monitoring fund managers if the Fund decides to delegate these functions to the CIV. The goal being to save fees through scale discounts and to improve appointments for those funds that retain active management. All but two or three London boroughs have supported the CIV to date.
- 5.2 Attached (appendix 1) is a letter from the CIV explaining progress to date. Included in the letter is an estimate of £1.7 million for the cost of establishing and running the CIV until the point when it starts to function and is able to fund itself through charges from managing assets. The CIV is seeking a further cost contribution of £50,000 from each Council.
- 5.5 If all Councils pay the additional contribution, the CIV will raise £2.25 million and have a surplus of £536,000 (appendix 2). This appendix also contains additional comments from Chris Buss, of Wandsworth Council.
- 5.6 The proposal is to pay the additional contribution, and following the outcome of the strategy discussion at the December meeting to enter into a dialogue with fund managers to see if the current fee arrangements can be improved on a stand alone basis.



6. Comments of the Chief Financial Officer and financial Implications

- 6.1. London Councils have considered in detail the business case for the establishment of a CIV and the potential for cost savings for Pension Funds across London. The proposals have received wide spread support from London Boroughs being prepared to commit funds to see the CIV established.
- 6.2. There is the potential to see significant financial benefits from greater collaboration amongst pension funds and the formation of a CIV will enable these to be delivered without the need for merger which itself could prove to significantly increase costs in the short term. It has been estimated that cost savings across London under a CIV could be as high as £120m and it is anticipated would help to deliver some of the savings that CLG are seeking from LGPS funds. The benefits of the CIV are that it will enable the cost savings to be delivered whilst continuing to enshrine the key objectives of maintaining local accountability and decision making for individual local authority pension funds. A collaborative approach provides opportunities to potentially invest in types of assets that smaller individual funds may not be able to easily access, for instance direct investment in appropriate infrastructure projects, which is also a particular focus for the current government.
- 6.3 There are clearly risks attached to the project given that funds need to be committed to establish the CIV, £75,000 if the proposal within the paper is accepted, however these are relatively minor in the context of a £900 million pension fund and would clearly be offset by the cost savings which can be potentially delivered going forwards. The risks of inaction or non-participation in this collaborative venture are seen as far more significant, particularly if the outcome were to be a merger of funds which could see decisions being taken by external bodies and resulting in loss of accountability and potential to increase costs to local taxpayers.

7. Assistant Director of Corporate Governance and Legal Implications

- 7.1 This report asks the Pension Committee to authorise the further sum total of £50,000 on top of the £25,000 contribution already made and to note the progress on the establishment of a London Collective Investment Vehicle.
- 7.2 Members should note the risk involved here of budgetary escalation and the lack of specific deadlines for achieving the objectives set in the letter from Chris Buss attached to the report.

8. Comments of the Independent Advisor



Haringey Council

8.1 I concur with the comments made by the Officers in this report. In particular I would draw to the attention of Members the comments of the Chief Financial Officer at sections 6.2 and 6.3 of the report.

8.2 I would also emphasise that providing further financial funding to establish the London CIV, which I support, does not commit the Pensions Committee to delegate any functions to the CIV at a future date. Once established the CIV will only perform such functions for an individual London Borough as that borough specifically delegates to the CIV.

9. Equalities and Community Cohesion Comments

8.1 The Local Government Pension Scheme is a defined benefit open scheme enabling all employees of the Local Authority to participate. There are no impacts in terms of equality from the recommendations contained within this report.

10. Head of Procurement Comments

9.1 Not applicable

11. Use of Appendices

11.1 Appendix 1 – Letter from Mayor Jules Pipe

11.2 Appendix 2 - CIV budget and comments from Chris Buss

12. Local Government (Access to Information) Act 1985

12.1 Not applicable.