



<b>Report for:</b>	Pensions Committee 10 <sup>th</sup> September 2015	<b>Item number</b>	
<b>Title:</b>	London Collective Investment Vehicle		
<b>Report authorised by :</b>	Assistant Director – Finance		
<b>Lead Officer:</b>	George Bruce, Head of Finance – Treasury & Pensions george.bruce@haringey.gov.uk 020 8489 3726		
<b>Ward(s) affected:</b> N/A	<b>Report for Key /Non Key Decision</b> N/A		

## **1. Describe the issue under consideration**

1.1 The London CIV has been established to facilitate the collective management of London LGPS investments. Almost all the London Boroughs, including Haringey, have contributed £50,000 towards the set up costs. This note updates the Committee on progress to make the CIV operational, including share capital requirements and future options to utilise the CIV.

## **2. Cabinet Member Introduction**

2.1 Not applicable.

## **3. Recommendations**

3.1 That the Committee:

- (a) note the progress in establishing the London CIV, and
- (b) delegate authority to the Chief Financial Officer in consultation with the Chair of the Pensions Committee to purchase share capital of the



London CIV to meet the requirements for FCA (Financial Conduct Authority) authorisation up to a maximum of £150,000.

#### **4. Other options considered**

- 4.1 At this stage no decision to invest through the CIV is required. The Committee will subsequently be able to opt to use the CIV to manage part of the Fund's investments. The impact of not providing share capital is discussed below.

#### **5. Background information**

- 5.1 The Committee has previously agreed (September 2013 & November 2014) to support the establishment of a London collective Investment Vehicle ("CIV") that will take on, where a London Fund specifically delegates this function, responsibility for the identification of investment managers and the negotiation of fees. 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 Funds will assume the role of appointing and monitoring investment managers if the Committee decides to delegate these functions to the CIV. The aims of the CIV are to save fees through scale discounts and to improve appointments for those funds that retain active management. All but one or two London boroughs have supported the CIV to date. The boroughs have each agreed to pay £75,000 towards set up costs, of which £50,000 has been called.
- 5.2 Over the last nine months the CIV has made significant progress with its governance arrangements. An interim Board and a CEO have been appointed. Service providers have also been appointed and applications made to Regulatory authorities (FCA) to acquire the right to manage investments. The Committee Chair will be representing Haringey at future CIV meetings.
- 5.5 The CIV has also been in discussion with fund managers on fee levels and has concluded that initially it will be in a position to take on assets managed by four investment managers - Legal & General, BlackRock, Allianz (active equity) and Baillie Gifford (DGF). The choice of managers has been based on the number of London appointments and the ability to negotiate reduced fees. It is anticipated that the CIV will be able to assume the management of assets from late 2015.
- 5.6 There are two decisions that the Committee will have to make. These are (1) does the Committee wish to use the CIV to manage Haringey's investments, and (2) are we willing to advance share capital. These are separate decisions.



## Haringey Council

- 5.7 The decision to use the CIV to manage assets will not be a once only choice. Initially, one of the Fund's managers, L&G will be available through the CIV, but possibly only for passive equities, which represent 60% of our investments. Other fund managers and asset classes will be made available at a later date.
- 5.8 The Committee has just agreed reduce fees with L&G and transferred BlackRock's assets to L&G. Although the CIV has not disclosed the fee levels it has negotiated, it is believed that these are higher than the new Haringey rates. For this reason we are not seeking any immediate authority to use the CIV until there is clarity of fees and management arrangements e.g. impact on reporting and manager meetings.
- 5.9 The CIV has requested that each borough pass a resolution delegating decisions to use the CIV to an officer in discussion with the Chair of the Committee. In light of Haringey circumstances (the proportion of the Fund's assets held by L&G and the low likelihood of initial fee savings), we are not seeking a delegation and prefer that any transfer is first discussed by the Committee.

### Share Capital

- 5.10 As the CIV nears the time that it will obtain regulatory approval from the FCA there is a requirement for regulatory capital to be placed in the CIV, without which the CIV would not receive authorisation. This is likely to be in the region of £150,000 for each London Borough that participates in the CIV. However, it needs to be emphasised that this is not a cost in the same way as the previous sums to set up the CIV, instead this will be treated as an investment. However, there will be restrictions on withdrawing the capital and should the CIV incur losses (as with any corporate) the capital will be reduced. It is recommended that the Committee approve the provision of share capital to the London CIV and delegate the final decision to purchase share capital to the Chief Financial Officer acting after consultation with the Chair of the Pensions Committee. The Statement of Investment Principles will be amended to make reference to the CIV investment.
- 5.11 If the Committee decide not to provide share capital this may impact on our ability to utilise the CIV in future. If a number of funds do not invest, the viability of the CIV may be questionable. We will ensure that sufficient capital has been pledged to the CIV before completing any share capital purchase.

### Budget Announcement



- 5.12 The Government previously consulted (summer 2013) on ways to reduce LGPS costs at a time when consultation of funds was being advocated. In the summer 2015 Budget, the Chancellor announced that the Government “will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance”.
- 5.13 It is anticipated that each local authority will be required to demonstrate the actions it is taking to reduce costs with strong encouragement or coercion to pool assets. Haringey will be able to demonstrate its equity fee savings but will also have to consider ways to reduce costs for the other asset classes. Depending on the language of the consultations (expected in the autumn), the Committee may have little option but to use the London CIV or a similar alternative.

## **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 Providing share capital to the London CIV retains the option of future use, and possible fee savings and responses to Government directions.

## **7. Assistant Director of Corporate Governance and Legal Implications**



- 7.1 The Council has the power as administering authority to the Haringey Pension Fund to invest fund monies as set out in Local Government Pension Scheme (Management and Investment Funds) Regulations 2009 and a duty to review the performance of its investment managers and the investments made.
- 7.2 All investments must comply with the Council's published investment policy and the asset allocation must be in accordance with the investment strategy.
- 7.3 Members are being asked to authorise the purchase of shares in the CIV up to a sum of £150,000. Depending on the type of vehicle that is set up, the Fund potential liability and loss may be limited to the number of shares acquired and the value of those shares. Before acquiring the shares there are a number of issues that will need to be address including (but not limited to) what kind of vehicle it would be, control, decision making, what interest this Council would have, its relationship with this Council, the policies under which the CIV will operate, how the Council will review the performance, the costs and risks.

## **8. Comments of the Independent Advisor**

- 8.1 The London CIV offers potential, though not yet proven, opportunities for the Fund to reduce fees and delegate the day to day monitoring of some of the Fund's investments.
- 8.2 Following the Chancellor's announcement in the July 2015 Budget that the Government "will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance" there is no real doubt that LGPS Funds will, in the future, be required to work together collectively in terms of investment.
- 8.3 The comments in 8.1 and particularly in 8.2 above support the recommendations made by the Officers in this report.
- 8.4 It must however be emphasised that purchasing share capital in the London CIV does not oblige the Fund to utilise any particular service or product offered by the London CIV.
- 8.5 It should also be noted that there are other LGPS collaborative vehicles presently under development/ under possible consideration which the Haringey Fund could potentially utilise in future to manage some or all of its investments.

## **9. Equalities and Community Cohesion Comments**



**Haringey** Council

- 9.1 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 None

## **12. Local Government (Access to Information) Act 1985**

- 12.1 Not applicable.