Croydon Council

REPORT TO:	**Local Pension Board** **20 April 2017**
AGENDA ITEM:	**8**
SUBJECT:	**Update on London CIV**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Treasury**
WARDS:	**All**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report provides an update on the London CIV which is the Croydon Pension Fund regional pool.	
FINANCIAL SUMMARY: In addition to being a requirement of the DCLG the London CIV should generate reduced costs for the Croydon Local Government Pension Scheme.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

1.1 The Board is asked to note the progress achieved by the London CIV.

2. EXECUTIVE SUMMARY

2.1 This report provides a narrative of the development of the London Collective Investment Vehicle (the London CIV) to date. Six sub-funds have been established and three more are about to be launched. The CIV has a medium-term strategy and will need to levy charges in addition to fees already agreed to continue to operate.

3 DETAIL

3.1 In 2012 the London Councils' Leaders' Committee established a London LGPS Collective Investment Vehicle (CIV) which was set up in the form of an Authorised Contractual Scheme fund (ACS). A new company, wholly owned by the participating authorities (all of the London Boroughs plus the Corporation of the City of London), was established to act as operator of the CIV. The fundamental principles underpinning the CIV are that participation of the separate London LGPS funds should be entirely voluntary, with responsibility for investment strategy and asset allocation staying at the local level, while responsibility for the appointment and management of external fund managers and the general management, performance and oversight of the ACS fund would rest with the operator.

3.2 In November 2015 the Government published a document *'LGPS: Investment Reform Criteria and Guidance*' setting out a policy for all LGPS funds across England and Wales to develop pools along similar lines to London CIV. The funds were instructed to submit "ambitious proposals" for the establishment of a small number of investment pools based on the requirement that every fund must join with a pool and invest the majority of its assets through that pool over a period of time. This direction from Government effectively changed the environment for London funds and London CIV from being engaged in an entirely voluntary collaboration to a more mandatory position.

3.3 It is within this changing regional and national policy framework that London CIV has been established and now operates.

3.4 Since FCA authorisation in October 2015, the London CIV has launched 6 sub-funds with £3.1 billion assets under management (AUM) across 14 boroughs (as of 31 December 2016). These sub-funds are:

- Global Equity Alpha
- Diversified Growth
- Global Alpha Growth
- Global Total Return Fund
- Absolute Return
- Real Return Fund

3.5 The London CIV resources have been expanded from three to eleven members of staff, including recruitment of the Executive Management team. Management fees are levied by the CIV for investing in any sub-fund.

3.6 The CIV has now drafted and published a medium term strategic plan. The plan includes a broadening of asset classes during 2017 - 2021 with the launch of Global Equities and Fixed Income funds in 2017/2018 and 2018/2019, Real Estate in 2018/2019 and 2019/2020, and Infrastructure and Alternatives in 2019/2020. Overall, as a result of this expansion the number of sub-funds is likely to increase from 6 to 28 under current assumptions, leading to a forecast increase in AUM from £3.1 billion in March 2017 to £14.1 billion by March 2022. This is equal to 49% of the £29.2 billion total London Local Authority assets (as of March 2015). Based on the projected AUM growth and other current assumptions, management fees are forecast to grow from £640,000 at the end of 2016/2017 to £3.9 million by the end of 2021/2022.

3.7 In order to cover the cash flow imbalance between annual revenues and annual costs, the CIV has introduced a development funding charge (DFC) to be charged each year until the CIV generates sufficient management fee income to cover its annual operating costs. The DFC would be in addition to the annual service charge, of £25,000 per annum and will decline year on year starting at £75,000 in 2017/2018 and reducing to £10,000 in 2021/2022 as AUM and management fees rise over the five years.

3.8 As mentioned in paragraph 3.6 above, the CIV plans to appoint three global equity managers this year. Work on further managers is being finalised, but awaiting some additional input from a greater understanding of LLA requirements to match demand for particular strategies. The CIV appointed two advisers to assist in the procurement, Mercer and Redington and submissions were received from around 200 fund managers with extensive interviews being conducted with 57 managers. The CIV worked very closely with a number of London administering authority officers who formed the global equity sub-group and were a key part of the process. The evaluation of the shortlisted managers took place with reports being presented to the CIV's Investment Advisory Committee for information and the final decision on the appointment of the first three global equity sub-funds being taken by the CIV's Investment Oversight Committee at its meeting in February and ratified by the CIV Board in March. The decision to invest has therefore been agreed subject to full investment, compliance and operational due diligence that the first three sub-funds will be launched by the end of September 2017.

3.9 The early sub-funds being launched were based on the CQC principle (Commonality, Quantum and Conviction) and comprised existing investment managers across a number of London authorities. Given that there was limited scope for further global equity sub-funds under the CQC basis and that active equities represented the largest asset class for the pooling Boroughs the decision was taken by the CIV to seek a range of global equity products to complement the existing managers on the CIV platform. A range of possible equity strategies were identified and the tender process commenced with the appointment of the two advisers. Three strategies were identified:

i. Global Equity Income
ii. Sustainable Equities
iii. Emerging Markets

Three managers are being assessed with a view to entering into management agreements with the three global equity funds targeted to launch in September.

3.10 Finally, the CIV has decided to charge 0.5 bps (that is to say 1/200 of 1%) of AUM on the LGIM passive funds that are held outside of the CIV. This is in recognition that the fee discounts offered by LGIM are at least in part prompted by the activities of the CIV even though these funds cannot be transferred as a sub-fund of the CIV. This does not currently apply to the Croydon investment portfolio.

4. RECOMMENDATIONS

4.1 The Board is asked to note the progress achieved by the London CIV.

5 FINANCIAL CONSIDERATIONS

5.1 There are no further financial considerations flowing from this report.

6. OTHER CONSIDERATIONS

6.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

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