

Croydon Council

REPORT TO:	PENSION COMMITTEE 8 July 2014
AGENDA ITEM:	10
SUBJECT:	Update on the London Collective Investment Vehicle Project
LEAD OFFICER:	Director of Finance and Assets (Section 151 Officer)
CABINET MEMBER	Councillor Simon Hall Cabinet Member for Finance and Treasury
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: the Pensions Committee plays a critical role in the governance of the Pension Fund. Part of this role is looking at achieving best value for money in selecting investment funds.	
FINANCIAL SUMMARY: This initiative has the potential to deliver significant cost savings for the selection and continuing management of investments for the Pension Fund.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1 RECOMMENDATIONS

The Committee is asked to note progress on this project.

2. EXECUTIVE SUMMARY

2.1 This report summarises progress to date on the establishment of a London Collective Investment Vehicle.

3. DETAIL

- 3.1 Intuitively there are two ways of improving the return on investments within the Pension Fund: reducing leakages, including fees paid to investment managers, and accessing best in class fund managers. One method of achieving these twin goals is by aggregating the resources of two or more funds. Most fund managers apply a tiered structure to management fees; thus if they recognise combined fees in aggregate the overall fee per unit invested will fall. By unitising investments in a range of select fund managers' products it should be possible to switch between fund managers more swiftly and with fewer incidental costs than is the case at present. These savings are, of course, predicated on the adoption of an optimised investment strategy.
- 3.2 This premise has guided the work initiated by the Society of London Treasurers to establish a platform to allow Local Government Pension Scheme administering authorities to co-invest, drive down costs and improve performance. The London Councils Leaders' Committee approved a detailed business case and a governance structure for such an entity. They have also approved that a London Local Government Pension Scheme (LGPS) Collective Investment Vehicle (CIV), in the form of a UK based, Financial Conduct Authority (FCA) approved, Authorised Contractual Scheme (ACS) be set up.
- 3.3 At their meeting on 11 February 2014, London Councils Leaders' Committee further recommended to the London boroughs that they proceed to establish an Authorised Contractual Scheme (ACS) and the ACS Operator (which is the company that would manage the ACS). For this to occur, London boroughs would need to agree to become shareholders in the ACS Operator and delegate oversight of the company to a Joint Committee hosted by London Councils. This Council has made that commitment. At the time of writing sufficient London Boroughs had formally adopted the proposal to make the project viable. Further, the majority of Councils had contributed to a project budget to allow the practical and technical work to proceed.
- 3.4 It should be noted that, participation is voluntary by boroughs, and even if a borough decides to participate each borough will make separate decisions to invest, disinvest or not invest at all for each asset mandate in the same way that Pensions Committees do currently. It is expected that the decision as to whether to invest in the ACS would be made by the remaining uncommitted individual boroughs later in the year.
- 3.5 The business case considered by London Councils analysed the savings, benefits and costs for a variety of different levels of collective assets under management: £24 billion, £10 billion and £5 billion, producing estimated annual net savings of £112.2 million, £44.9 million and £20.9 million respectively. It is considered that a reasonable minimum target size of assets under management for the ACS is in the range of £5 billion. This is based on analysis of existing investments held by London borough funds and also takes into account that initially the majority of investment mandates are likely to be passive mandates. Over time, it is expected

that actively managed mandates and investments into alternatives such as property and infrastructure assets may be added to the range of investments offered by the ACS. This aligns with the revised investment strategy for the Croydon Pension Fund.

3.6 The London Councils Leaders Report set out the likely Governance structures and key principles. The principles include:

- Investment in the ACS should be voluntary;
- Ability to choose how much to invest in individual asset classes;
- Boroughs should have sufficient control over the ACS Operator;
- The ACS Operator would provide regular information to participating boroughs; and
- Authorities seeking to invest in the ACS will also take a shareholding interest in the Operator (and have membership of the Pensions CIV Joint Committee).

3.7 There are a number of work streams allocated to the officers technical group that are progressing in parallel. Earlier in April this year the London Councils representatives on the working group met with Cabinet Office officials to discuss the outline and objectives of the project. The group has commissioned legal advice in support of the project and the work streams to procure a custody advisor and compliance consultants are underway. Lawyers and consultants are working with the group to prepare the ground for setting up the ACS. Further a series of engagement meetings have been set up to keep various stake-holders informed about the objectives and progress of the project. These stake-holders include investment advisors and fund managers.

3.8 This is a complex project with significant implications for the future management of the LGPS. Issues relating to governance, administration and the long-term objectives of the project have profound consequences for stake-holders including those charged with responsibility for the administration of the Scheme and Elected Members with a role relating to providing guidance to assist in that management of the Fund and overall governance and stewardship. Chief Finance Officers across the London Boroughs and the City and Corporation of London have been invited to recent briefings to disseminate information about the progress of work and to invite their input into setting the direction of the project. A further round of briefings has been set up for CFOs and for the Chairs of Pensions Committees. These briefings have been set up to allow detailed discussions of the complex issues surrounding this project and are considered the best way of communicating fluid and evolving matters.

3.9 Croydon Council is engaged with a number of significant projects that, in aggregate, will represent a significant step forward towards improving the efficacy of the Fund. These include:

- Phasing in passive management as a strategy to most effectively benefit from movements in global equity markets;
- Explore Collective procurement and administration of investments to drive down costs and access best in class fund managers; and

- ◆ Exploit national and local Framework Agreements to drive down the cost of professional support services.

Progress towards establishing a London CIV sits within the structure of this strategy.

4. FINANCIAL CONSIDERATIONS

- 4.1 There are not specific financial considerations within this report. However the CIV project is predicated on achieving significant savings across the LGPS a proportion of which would accrue to this authority.

5. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

- 5.1 The Council Solicitor comments there are no specific legal comments arising from this report

(**Approved by:** Gabriel MacGregor, Head of Corporate Law on behalf of the Council solicitor and Monitoring Officer)

6. OTHER CONSIDERATIONS

- 6.1 There are no Human Resources, Customer Focus, Equalities, Environment and Design, Crime and Disorder, Human Rights, Freedom of Information or Data Protection considerations arising from this report.

CONTACT OFFICER:

Nigel Cook - Head of Pensions and Treasury Management
Chief Executives Directorate, ext. 62552

BACKGROUND DOCUMENTS: none