

Croydon Council

REPORT TO:	PENSION COMMITTEE 8 September 2015
AGENDA ITEM:	10
SUBJECT:	Latest Progress on the London Collective Investment Vehicle (CIV)
LEAD OFFICER:	Richard Simpson, Assistant Chief Executive (Corporate Resources and 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:

- 1.1 Note the update on progress in setting up the CIV.
- 1.2 Delegate authority to the Assistant Chief Executive (Corporate Resources and s.151 Officer), in consultation with the Pensions Committee Chair to settle any contracts concerned with the CIV on behalf of the Council and Pension Fund.
- 1.3 Delegate authority to the Assistant Chief Executive (Corporate Resources and s.151 Officer) in consultation with the Pensions Committee Chair to invest sums required for regulatory capital to the London CIV to meet the requirements for FCA (Financial Conduct Authority) authorisation. Anticipated level of investment £150,000.
- 1.4 Agree that where circumstances arise and the Committee is not available for consultation, delegate to the Assistant Chief Executive (Corporate Resources and s.151 Officer) in consultation with the Pensions Committee Chair, the

decision to agree to the transition of Pension Fund assets to the London CIV where the Fund has a pre-existing relationship with the investment manager and where the transfer of such assets is financially advantageous to the Pension Fund.

2. EXECUTIVE SUMMARY

- 2.1 This report summarises progress made in setting up CIV and proposes delegating authority to the Assistant Chief Executive (Corporate Resources and s.151 Officer) in consultation with the Pensions Committee Chair to settle any contracts concerned with the CIV on behalf of the borough and pension fund where it is his opinion that the evidence indicates that it is likely to result in long-term financial benefit for the Council or Pension Fund.
- 2.2 The process of the CIV reaching the point of “live operation” is nearing completion and will in due course require the Committee to assess the merits for the Fund to transfer assets or invest directly into funds held on the CIV, where this is deemed as beneficial for the Fund to do so. The report also outlines the need for the Fund to invest a relatively small sum of money into the CIV to be held as regulatory capital.

3. DETAIL

- 3.1 The CIV has made significant progress in 2015, as follows:
- (a) The Pensions Joint Committee has met four times and considered:
 - i. The establishment of the operating company (London LGPS CIV Ltd.) and its governance arrangements;
 - ii. The appointment of Northern Trust as the Asset Servicer for the CIV. This will include services such as Depository, Custodian, Fund Accountant, Transfer Agency and Tax reclaims; and
 - iii. The Joint Committee’s role as also acting as a forum of shareholders of the CIV.
 - (b) The interim Directors of the CIV company (comprising London Councils’ Chair and Vice Chairs, two borough Treasurers, the Chamberlain of the City of London, and London Councils’ Chief Executive) have met and considered/ratified decisions concerning:
 - i. Procurement activity, including engaging a recruitment consultant to assist with recruiting the permanent executive and non-executive Board members, Eversheds and Deloitte as legal and technical advisors to the company, and an advisor for an asset servicer procurement;
 - ii. The appointment of Northern Trust as the Asset Servicer for the CIV;
 - iii. The company programmes, risk registers and procedures;

- iv. The recruitment process for senior executives and future board members.

(c) The Technical Sub Group have met and considered:

- i. The fund managers that the boroughs currently invest in and the process by which they may come onto the CIV;
- ii. The process of narrowing down those managers for the launch phase of the CIV and the proposals those managers have put forward including fee reductions and scope of investment;
- iii. The initial structures and governance modelling of the CIV and the methods by which the boroughs will interact with the vehicle;
- iv. A number of procurements including the reviewing and ratification of candidate responses;
- v. An initial paper on regulatory capital requirements to meet the liquidity needs as set out by the FCA.

3.2 Members have been kept updated on the ongoing debate on structural reform and whilst there has been no formal response to the July 2014 consultation from DCLG, it is clear that the debate has not gone away and that it remains imperative that funds work closely to deliver savings and efficiency improvements in order to avoid some form of compulsion which may not be in the best interest of London LGPS funds.

3.3 An initial investment of £75,000 towards the cost of establishing the CIV has already been approved by the Pensions Committee. As the London CIV nears the time that it will obtain regulatory approval from the FCA, expected in the summer/early autumn of 2015, there is a requirement for regulatory capital to be placed in the CIV, without which the London 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 share capital and should be seen as an investment in the CIV and will be recognised as such in the Pension Fund accounts.

3.4 The CIV has now reached a stage where Fund managers with multiple mandates across London have provided their best and final offers on fees for inclusion in the CIV. Each borough which currently invests with that Fund manager will be asked in the near future whether they wish to transfer existing funds with that Fund manager to the CIV under the CIV fee schedule.

3.5 Once those indications are received contracts will need to be signed and funds transferred. This can only be undertaken once the FCA have authorised the CIV Operator and Fund for trading. This authority is expected during the summer/early autumn of 2015. For the CIV to launch on schedule it is imperative that boroughs are able to sign off on the transition of current mandates into the CIV and associated capital. Otherwise there is the real possibility that the CIV launch will be delayed, thereby reducing the immediate benefits to the boroughs.

3.6 Accordingly, in order that the participating London LGPS funds can start to receive CIV fee reduction benefits as soon as possible it is proposed to

delegate authority to the Assistant Chief Executive (Corporate Resources and s.151 Officer) in consultation with the Pensions Committee Chair, to settle any contracts concerned with the CIV on behalf of the Council and Pension Fund. This is likely to include signing contracts, transferring funds, and supplying capital for investment as regulatory capital. In exercising this discretion the Assistant Chief Executive (Corporate Resources and s.151 Officer) in consultation with the Pensions Committee Chair must be satisfied that in their opinion it is likely to result in long-term financial benefit for the Council or Pension Fund.

4. FINANCIAL CONSIDERATIONS

4.1 There are no specific financial considerations at this stage.

5. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

5.1 The Council Solicitor comments that there are no specific legal considerations arising from this report.

(Approved by: Gabriel MacGregor, Head of Corporate Law on behalf of the Council Solicitor & 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.

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BACKGROUND DOCUMENTS: