

# Croydon Council

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| <b>REPORT TO:</b>                                                                                                                                                                                                      | <b>Pension Committee</b><br><b>19 September 2017</b>                                                                                           |
| <b>AGENDA ITEM:</b>                                                                                                                                                                                                    | <b>13</b>                                                                                                                                      |
| <b>SUBJECT:</b>                                                                                                                                                                                                        | <b>Local Government Pension Scheme Investment Pooling:<br/>Spring 2017 Progress Review and London Collective<br/>Investment Vehicle update</b> |
| <b>LEAD OFFICER:</b>                                                                                                                                                                                                   | <b>Nigel Cook Head of Pensions and Treasury</b>                                                                                                |
| <b>CABINET MEMBER</b>                                                                                                                                                                                                  | <b>Councillor Simon Hall</b><br><b>Cabinet Member for Finance and Treasury</b>                                                                 |
| <b>WARDS:</b>                                                                                                                                                                                                          | <b>All</b>                                                                                                                                     |
| <b>CORPORATE PRIORITY/POLICY CONTEXT:</b><br>Sound Financial Management: This report suggests a response to the Spring Review of progress on the Local Government Pension Scheme investment pooling project in London. |                                                                                                                                                |
| <b>FINANCIAL SUMMARY:</b><br>The Local Government Pension Scheme investment pooling is designed to achieve savings for the Scheme.                                                                                     |                                                                                                                                                |
| <b>FORWARD PLAN KEY DECISION REFERENCE NO.: N/A</b>                                                                                                                                                                    |                                                                                                                                                |

## 1. RECOMMENDATIONS

- 1.1 The Committee is asked to note this report.

## 2. EXECUTIVE SUMMARY

- 2.1 .This report relates to the contents of a letter from the Minister for Local Government addressed to all Pension Funds and investment pools. The report then then provides an update on the London Collective Investment Vehicle's (CIV) plans to open additional sub-funds.

## 3 DETAIL

- 3.1 In August the Department for Communities and Local Government wrote to the Chairs of each Local Government Pension Scheme (LGPS) Pension Funds and investment pools. That letter was signed by Elizabeth Truss, Chief Secretary to the Treasury, Marcus Jones, Minister for Local Government, and Caroline Nokes, Parliamentary Secretary, Minister for Government Resilience and Efficiency at the Cabinet Office. A copy of this correspondence is at Appendix A.

3.2 The letter acknowledges progress made following submission of reports by pools on progress in March 2017. However, the letter expresses concern that, *‘in some areas we have not yet received the assurance we require.’* The correspondence goes on to express the view that in order to achieve the maximum savings, funds must invest through the pools, with minimal exceptions where there is a value for money case, and they must delegate manager selection to the operator. The correspondence makes clear the intention to continue to engage with funds and pools where there are outstanding issues however it makes clear that failure to ensure that there is *‘a clear path and timetable for delivery’* would trigger a consultation on further action, including the DCLG making use of the Secretary of State’s reserve powers. These reserve powers allow the Secretary of State to direct a fund to make changes to its investment strategy, force it to invest in specific assets and transfer the investment functions of the administering authority to the secretary of state or a nominated person. As the letter is addressed to all funds and pools it is difficult to know the focus of these concerns. At the time of writing it is understood that all funds have signed up to one of the pooling arrangements and only one pool, the Local Pensions Partnership, comprising the Lancashire County Pension Fund, the London Pensions Fund Authority and the Royal County of Berkshire Pension Fund, does not meet the criteria for size.

3.3 Before stating their continued commitment to what is described as *‘this vital long term change programme’* DCLG sets out that they expect:

- A further progress report from the pools in October;
- Further details of savings achieved and planned;
- Plans for reporting, including on fees and net performance by asset class; and
- Plans to increase infrastructure investment.

**London CIV:**

3.4 Further to this point above about reporting and fees, for the London CIV reporting will be facilitated through an internet based portal which is currently being piloted. This will provide investing funds with the same level of detail as is expected from other fund managers about performance, risk, fees and so forth.

3.5 The London CIV reported on savings in April 2017. That position statement is summarized here:

| <b>Saving (estimated)</b>        | <b>£ millions</b> |
|----------------------------------|-------------------|
| Sub-funds opened by April 2017   | 1.38              |
| Forecast for rest of the year    | 2.16              |
| Passive fee negotiations         | 1.76              |
| Further passive fee negotiations | 1.0               |
| <b>Total</b>                     | <b>6.3</b>        |

The CIV reviewed these forecasts recently; by July fee savings were estimated to be in a range of £11.58m (low) to £27.68m (high). Estimated annualised fee savings based on current plans for opening sub-funds amount to between 54% (low estimate) or 22% (high estimate) of those projected in the July position statement.

3.6 The London CIV's policy on infrastructure is as follows:

- The policy notes that allocations to infrastructure across London remain relatively low at less than 1%.
- Where funds had indicated an interest in allocating to infrastructure then their target allocations are between 3-10%; this is a local asset allocation decision.
- The CIV is trying to better understand London funds' future strategic asset allocation, and where there is increased demand for investment opportunities in infrastructure, it will aim to provide these in a timely manner.
- LCIV continues to have discussions with a range of external infrastructure managers to ensure that essential background research has been completed and is available for investment at such time as the London Funds are ready to invest in infrastructure platforms.
- The London CIV continues to engage with the Cross Pools Infrastructure Group and to explore opportunities for collaborative working.
- Their business plan includes opening two infrastructure specific funds in the summer of 2019.

3.7 The CIV's Investment Advisory Committee has a number of working groups, looking at: Fixed Income and Cashflow; Global Equities; Stewardship; Low Carbon; Reporting and Transparency; and Infrastructure. The policy relating to infrastructure is sketched out above. The work on Fixed Income is complex and quite specialised. The policy relating to sub-funds is summarised below. Appendix B provides a flavour of the activities currently in train.

| <b>Strategy</b>                     | <b>Expected Launch</b> |
|-------------------------------------|------------------------|
| <b><i>Global Bonds</i></b>          |                        |
| Buy and Maintain                    | December 2017          |
| Active                              | June 2018              |
| Credit Cash-flow Driven Investment  | To be confirmed        |
| <b><i>Sovereign Debt</i></b>        |                        |
| Rates and foreign exchange          | To be confirmed        |
| <b><i>Emerging Market Debt</i></b>  |                        |
| Blended Emerging Market             | April 2018             |
| Hard Currency Emerging Market Debt  | To be confirmed        |
| Local Currency Emerging Market Debt | To be confirmed        |
| <b><i>UK Government</i></b>         |                        |
| Liability Driven Investment         | April 2018             |
| <b><i>Private Debt</i></b>          |                        |
| Liquid Loans                        | December 2017          |
| Illiquid Direct Lending             | May 2018               |
| <b><i>Multi Asset Credit</i></b>    |                        |

Liquid Multi Asset Credit

December 2017

Illiquid Multi Asset Credit

May 2018

Until more detail is available it is difficult to see how this structure maps onto Croydon's investment strategy.

#### **4 FINANCIAL CONSIDERATIONS**

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

#### **5. OTHER CONSIDERATIONS**

5.1 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

#### **6. COMMENTS OF THE SOLICITOR TO THE COUNCIL**

6.1 The Solicitor to the Council comments that there are no direct legal considerations arising from the recommendations within this report.

6.2 (Approved for and on behalf of Jacqueline Harris-Baker, Director of Law and Monitoring Officer.)

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#### **CONTACT OFFICER:**

Nigel Cook, Head of Pensions Investment and Treasury,  
Resources department, ext. 62552.

#### **BACKGROUND DOCUMENTS:**

None

#### **Appendices**

Appendix A: Letter from the DCLG, 22<sup>nd</sup> August, 2017

Appendix B: Investment Advisory Committee Action Log - 2017