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| REPORT TO: | Pension Board 14 October 2021 |
| SUBJECT: | The Collective Investment Vehicle for London Local Authorities Pension Funds: Compliance with pooling requirements and review of savings |
| LEAD OFFICER: | Nigel Cook, Head of Pensions Investment and Treasury |
| <p>1. RECOMMENDATION</p> <p>1.1 The Board are asked to note the contents of this report</p> | |

2. EXECUTIVE SUMMARY

2.1 This report advises the Board of the extent to which the Fund is complying with the pooling requirements of Guidance issued by the, then, Department for Communities & Local Government in 2015 and of the savings made through pooling.

3. DETAIL

3.1 In 2015 the, then, Department for Communities & Local Government issued Guidance which set out how the Government expected funds to establish asset pooling arrangements. The stated objectives were to deliver:

- benefits of scale;
- strong governance and decision making;
- reduced costs and excellent value for money; and
- improved capacity and capability to invest in infrastructure.

3.2 By the time of the Guidance, as a founder member, Croydon had already voluntarily joined the London Collective Investment Vehicle (London CIV). The London CIV's stated objectives are to deliver broader investment opportunities and enhanced cost efficiencies than funds can achieve individually and overall better risk adjusted performance. It is FCA regulated and was the first of the eight asset pools in England and Wales to become established. All the London borough funds are members.

- 3.3 Since it was founded in 2014 the London CIV has developed its governance structure with a new Corporate Governance and Controls framework being agreed at the Annual General Meeting in July 2018. The key components of the framework are the Shareholder Committee, comprising Leaders and Treasurers of twelve of the London boroughs, and a Board made up of executive and non-executive directors all of whom must meet FCA fitness to serve requirements.
- 3.4 During the development of the pooling concept funds estimated how they could comply with its requirements in the context of their own asset allocation policies. The Council Fund's Investment Strategy Statement, as agreed on 18 September 2018, includes the following:
- 5.3 *The Fund holds illiquid assets outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature. The Fund will continue to invest in illiquid assets outside of the London CIV pool, until suitable strategies are made available by the London CIV pool, in order to meet its asset allocation target.*
- 5.4 *Therefore, the proportion of assets that will be invested through the pool will be circa. 65%*
- 3.5 At their meeting on 17 March 2020 the Pension Committee agreed a revised asset allocation with the combined equities and fixed interest allocations totalling 60% which became a more realistic target for pooling.
- 3.6 At 31 March 2021 the Fund had investments of £168.8m (12.2% of its investments) invested in sub-funds managed by the London CIV and a further £617.1m (40.8%) within the pooling umbrella but not managed by the London CIV.

3.7 The table below shows a significant increase within the pooled umbrella between 31 March 2020 and 31 March 2021. This was mainly due to an investment of £55m in the London CIV Sustainable Equity Exclusion Fund managed by RBC Global Asset Management (UK) and the fact that during 2020/21 equities substantially outperformed most other asset classes.

| INVESTMENT | 31 March 2020 | 31 March 2020 | 31 March 2021 | 31 March 2021 |
|------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | £m | % | £m | % |
| CIV related | | | | |
| Legal and General Equities | 426.0 | 36.0 | 617.1 | 40.8 |
| RBC Equities | | | 76.7 | 5.1 |
| PIMCO Fixed interest bonds | 84.1 | 7.1 | 92.1 | 6.1 |
| CIV related total | 510.1 | 43.1 | 785.9 | 52.0 |
| Non CIV related total | 675.1 | 56.9 | 727.0 | 48.0 |
| TOTAL | 1,185.2 | 100.0 | 1,512.9 | 100.0 |

3.8 The Committee are satisfied with the progress to date and consider that they continue to show a significant commitment to the pooling concept.

3.9 In January 2019 the Ministry of Housing, Communities & Local Government issued a consultation and draft guidance document on asset pooling setting out proposed changes to the framework. Further consultation was promised with draft guidance to be in place in early 2020 but this has not yet been published.

3.10 Estimated savings made against assumptions of standard fees and costs incurred from the pool investments during 2020/21 were as follows:

| | Assets under management at 31 March 2020 | Estimated gross fees savings | Management fees and development funding charge | Estimated net fees savings |
|-----------------------------------|---|-------------------------------------|---|-----------------------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Legal and General Equities | 617,105 | 321 | 21 | 300 |
| RBC Equities | 76,675 | 92 | 20 | 72 |
| PIMCO Fixed interest | 92,084 | 216 | 7 | 209 |
| Development funding charge | | | 110 | (110) |
| TOTAL | 785,864 | 629 | 158 | 471 |

3.11 The Board are invited to note this report

4 DATA PROTECTION IMPLICATIONS

4.1 Will the subject of the report involve the processing of 'personal data'?

NO.

4.2 Approved by: Nigel Cook on behalf of Richard Ennis, Interim Corporate Director of Resources and Section 151 Officer.

CONTACT OFFICER:

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

BACKGROUND DOCUMENTS:

None.

APPENDIX:

Appendix A - Croydon Pension Fund: Medium Term Business Plan 2021-24