

LONDON BOROUGH OF CROYDON

REPORT:	PENSION COMMITTEE	
DATE OF DECISION	11 June 2024	
REPORT TITLE:	Pooling background and briefing by the London Collective Investment Vehicle	
CORPORATE DIRECTOR / DIRECTOR:	Jane West, Corporate Director of Resources (Section 151 Officer)	
LEAD OFFICER:	Matthew Hallett – Acting Head of Pensions and Treasury	
CONTAINS EXEMPT INFORMATION?	NO	
WARDS AFFECTED:	N/A	

1. SUMMARY OF REPORT

- 1.1 This report summarises the background to pooling and the Fund’s response to various issues arising therefrom. It also includes and introduces a presentation to be made by the London Collective Investment Vehicle (the London CIV) as a briefing for London local authority elected members on the ongoing development of the London CIV.

2. RECOMMENDATION

The Pension Committee is recommended:

- 2.1 To note the contents of this report and the attached briefing provided and presented by the London Collective Investment Vehicle.

3. REASON FOR RECOMMENDATION

- 3.1 It is best practice for the Pension Committee to be advised of important matters concerning the management and investment of the Fund’s assets.

4. BACKGROUND AND DETAILS

Background

- 4.1 In 2015 the then Department of Housing, Communities and 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
- 4.2 At the time of the Guidance, as a founder member, the Croydon Fund had already voluntarily joined an asset pooling arrangement known as the 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 Financial Conduct Authority (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.
- 4.3 Since its founding in 2014 the London CIV has developed its governance structure through a Corporate Governance and Controls framework. 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. Details of the full Governance structure can be accessed online via <https://londonciv.org.uk/governance>
- 4.4 The London CIV now looks after approximately 60% of the £46bn of assets held by client funds.
- 4.5 The Croydon Fund's formal involvement in the governance of the London CIV is through attendance at the twice-yearly Shareholder General Meeting. Officers are, however, in regular contact with the London CIV officers.
- 4.6 Attached to this report (Appendix A) is a briefing for London local authority elected members on the ongoing development of the London CIV which will be presented by some of their officers for the Committee's consideration.

Fund Investment Strategy

- 4.7 At their meeting on 19 September 2023 the Pension Committee agreed the updated Investment Strategy Statement for the Fund which included the following

Pooling of Assets

- *The Fund participates in the London Collective Investment Vehicle (CIV) as part of the Government's pooling agenda. Croydon is a shareholder, contributes regulatory capital and a subscription fee. The London CIV was launched in*

December 2015. It has launched a number of sub-funds comprising: UK, Global and Emerging Market equities, Multi-Asset and Fixed Interest Funds.

- *The Fund is monitoring developments and the opening of investment strategy fund openings on the London CIV platform. At present there are options for participating in pooling: including transitioning liquid assets across to the London CIV as soon as there are suitable sub-funds available to meet the Fund's investment strategy requirements; investing in sub-funds that meet the requirements of the Fund's investment strategy; and investing in assets that have been deemed part of the pooling strategy but which are assets that are not suitable for pooling in an ACS structure.*
- *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*
- *Therefore, the proportion of assets that will be invested through the pool will be circa 65%, depending on valuations. At year-end 2022/23 50% of the Pension Fund should be considered pooled. The Fund also formally agreed to transfer a further c.4% of assets to the pool*
- *In establishing the framework for asset pooling the government recognised that investing in illiquid assets like infrastructure, direct holdings in property and locally targeted investments might more appropriately sit outside the pooling arrangements. The alternative asset classes listed above, property, private equity and infrastructure, are included in this group.*

4.8 At 31 December 2023 the Fund had investments of £168.8m (9.5% of its investments) invested in sub-funds managed by the London CIV and a further £759.7m (42.6%) managed by Legal and General which is classified within the pooling umbrella. The arrangement with Legal and General was established in 2016 as a way of providing fee discounts to members without moving passive assets into the London CIV. Whilst the Fund is conscious that the proportion of its assets invested through the pool (52.1%) is below the target of 65%, investments will only be made in pool products when this is the optimum strategy. In April 2024, in accordance with the agreed investment strategy, £100m (approximately 6% of the Fund) was transferred from the Legal and General Fund to the LCIV MAC Fund, a multi-asset credit fund managed by CQS and PIMCO.

Latest Developments

4.9 On 22 November 2023 the Department for Levelling Up, Housing and Communities (DLUHC) issued the Government's response to its earlier consultation entitled "next steps on investments". In respect of pooling the announcement stated:

After having considered the responses, the government will now implement the proposals that we set out in the consultation to accelerate and expand pooling. We will:

- *set out in revised investment strategy statement guidance that funds should transfer all liquid assets to their pool by 31 March 2025, and set out in their ISS assets which are pooled, under pool management and not pooled and the rationale, value for money and date for review if not pooled*
- *revise pooling guidance to set out a preferred model of pooling including delegation of manager selection and strategy implementation*
- *revise guidance on annual reports to include a standard asset allocation, proportion of assets pooled, a comparison between actual and strategic asset allocation, net savings from pooling and net returns for each asset class against their chosen benchmark*
- *make changes to LGPS official statistics to include a standard asset allocation and the proportion of assets pooled and the net savings of pooling*

4.10 DLUHC have followed up these announcements by issuing, in April 2024, guidance entitled “Preparing the Pension Fund Annual Report - Guidance for Local Government Pension Scheme Funds” including:

Pooling

- *This section of the annual report **must** also provide a commentary and data on how the fund has implemented the policy on pooling its assets in its chosen LGPS pool during the year as set out in its ISS and a narrative on the pace of pooling and an explanation for assets which have not been pooled;*
- *Throughout this guidance there are references to pools and pooling. These refer exclusively to the LGPS investment pools, which as at the date this guidance is issued are ACCESS, Border to Coast Pensions Partnership, Brunel Pension Partnership, LGPS Central, London LGPS CIV, Local Pensions Partnership, Northern LGPS and Wales Pension Partnership;*
- *Funds **must** report the costs incurred, gross savings achieved, and the net savings achieved as a result of pooling assets. These figures **must** be shown in relation to the accounting year in question, and in addition a cumulative total from the inception of pooling to the end of the accounting period **must** be shown. This must be done in line with the single methodology agreed by all LGPS pools;*
- *Funds **must** also report on their progress in pooling their assets in this section through the asset table and the supplementary table. In both tables, assets **must** be divided into “pooled”, “under pool management” and “not pooled”.*

5. ALTERNATIVE OPTIONS CONSIDERED

5.1 N/A

6. CONSULTATION

6.1 No consultation outside the formal process is required.

7. CONTRIBUTION TO COUNCIL PRIORITIES

7.1 Ensuring regulatory compliance, good stewardship and best practise are applied to the

Council's Pension Fund.

8. IMPLICATIONS

8.1 FINANCIAL IMPLICATIONS FINANCIAL IMPLICATIONS

8.1.1. There are no direct financial implications arising from this report.

8.1.2. Comments approved by Andrew Lord, Interim Finance Consultant on behalf of Allister Bannin, the Director of Finance. (Date 28/5/2024)

8.2 LEGAL IMPLICATIONS

8.2.1. Burges Salmon LLP (a legal advisor appointed to the Pension Fund) note that, although the report includes information on proposed changes to the legal framework governing investment under the LGPS, there are no direct legal implications arising from the recommendations within this report.

8.2.2. Burges Salmon LLP commented that the Committee must continue to be mindful of their fiduciary duty (which rests at the Fund rather than pool level) to make investment decisions including in the best long-term interests of Pension Fund beneficiaries and taxpayers within the investment strategy and legal framework. Additionally, the Committee should continue to be updated in relation to possible future amendments to the LGPS (Management and Investment of Funds) Regulations 2016 and mandatory guidance, such as those proposed by the current Government as part of the proposed Mansion House Reforms, including the proposed acceleration and expanding of pooling as described in this report

8.2.3. Comments approved by Burges Salmon LLP (Date: 29/5/2024)

8.3 EQUALITIES IMPLICATIONS

8.3.1. Under the Public Sector Equality Duty of the Equality Act 2010, decision makers ,ust evidence consideration of any potential impacts of proposals on groups who share the protected characteristics, before decisions are taken. This includes any decisions relating to hoe authorities act as employers, how they develop, evaluate and review policies, how they design, deliver and evaluate services and also how they commission and procure services from others.

8.3.2. Section 149 of the Act requires public bodies to have due regard to the need to:

- eliminate unlawful discrimination, harassment, victimisation, and any other conduct prohibited by the Act
- advance equality of opportunity between people who share a protected characteristic and people who do not share it and
- foster good relations between people who share a protected characteristic and people who do not share it

- 8.3.3. There have been no negative impacts identified for protected groups within this report as noted in section 19 of the government consultation response
- 8.3.4. Comments approved by Ken Orlukwu, Senior Equalities Officer, on behalf of Helen Reeves, Head of Strategy & Policy. (Date: 30/5/2024)

8.4 HUMAN RESOURCES IMPLICATIONS HR IMPACTS

- 8.4.1. There are no immediate workforce implications arising from this report.
- 8.4.2. Comments approved by: Dean Shoesmith, Chief People Officer. (Date: 24/5/2024)

9. APPENDICES

- 9.1 Appendix A – London CIV Briefing Report March 2024

10. BACKGROUND DOCUMENTS

- 10.1 None