

# Croydon Council

<b>REPORT TO:</b>	<b>PENSION COMMITTEE</b> <b>4 December 2018</b>
<b>SUBJECT:</b>	<b>Transition to Emerging Markets Fund</b>
<b>LEAD OFFICER:</b>	<b>Richard Simpson, Executive Director of Resources</b>
<b>CABINET MEMBER</b>	<b>Councillor Simon Hall</b> <b>Cabinet Member for Finance and Resources</b>
<b>WARDS:</b>	<b>All</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b> Sound Financial Management: Reviewing and ensuring that the performance of the Council's Pension Fund investments is in line with their benchmark and within the assumptions made by the Actuary.	
<b>FINANCIAL SUMMARY:</b> This report details the transition of assets into the London CIV Emerging Markets sub-fund.	

## **1 RECOMMENDATIONS**

- 1.1 The Committee are asked to note the contents of this report.

## **1 EXECUTIVE SUMMARY**

- 1.1 This report summarises the cost implications of transitioning £55 million from the LGIM equity fund into the London CIV.

## **2 Background**

- 2.1 The Pensions Committee took a decision to invest part of the allocation to global equities (£55 million) into an Emerging Market Fund. After some discussion it was decided to invest this sum in a sub-fund within the London CIV managed by Janus Henderson.

### **Detail**

- 2.2 In order to ensure the integrity of this transaction and measure the costs involved, Inalytics, a consultancy specialising in transition oversight, were retained to ensure that the Council's objectives were being met and the sum involved was protected during the transition. They have drafted a note, appended to this report as Appendix A, summarising the costs relating to this exercise.
- 2.3 In summary, there are three components to the costs associated with this exercise: costs relating to LGIM, managers of the donor fund; opportunity costs arising from being out of the market; and costs relating to the receiving fund. These are summarised here:

**Table 1 Costs of Transition**

Custody Charges	£ 3,552.00
LGIM Fund Spreads	£ 32,865.41
Anti-Dilution Levy	£ 191,828.58
<b>Total</b>	<b>£228,245.99</b>

- 2.4 Custody costs arise from switching stock out of the Developed World ex. Tobacco Fund for units in the main index funds. This strategy was adopted because these larger index funds are considerably more liquid and see more cash inflows. This helped reduce transaction costs and increased the chance of crossing the outflow with another investor's inflow to reduce spread, which would not be possible in the smaller fund.
- 2.5 The second item in the table refers to the spreads paid for redeeming from the LGIM funds. The third item is the 35 basis point anti-dilution levy paid on the two investments into the LCIV fund.
- 2.6 The LGIM costs came in lower than the initial fee estimate. The dilution levy is as expected at 35 basis points.
- 2.7 Over the period of the transition the Fund was out of market for the second injection (of £27.5 million) between 2nd and 5th November. The emerging markets fell over that weekend (MSCI EM Index dropped c 50bps). This would have been to the Fund's advantage enabling assets to be purchased at lower prices.

### **3 CONSULTATION**

- 3.3 Officers have fully consulted with the Pension Fund's advisers in preparing this report.

### **4 FINANCIAL CONSIDERATIONS**

- 4.3 This report deals exclusively with the structure of the Council's Pension Fund.

### **5 COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER**

- 5.1 There are no additional legal implications arising from the recommendations within this report.

**Approved by:** Sandra Herbert, Head of Litigation and Corporate Law, for and on behalf of Jacqueline Harris-Baker, Director of Law and Governance and Monitoring Officer.

## **6 OTHER CONSIDERATIONS**

- 6.1 There are no Human Resource, Customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report.

## **7 FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS**

- 7.1 This report contains confidential information which could be of a sensitive nature, disclosure of which could prejudice the commercial interest of the companies involved and those of the Council's Pension Fund.

### **CONTACT OFFICER:**

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Corporate Resources Department, ext. 62552.

### **BACKGROUND DOCUMENTS:**

None

### **Appendices**

Appendix A: London Borough of Croydon Pension Fund Transition Cost Analysis