

London's Collective Investment Vehicle

Hugh Grover
17 December 2014

Item 6.

Background and Progress Update

Where are we today?

- 33 London funds
- £24bn under management*
- £68m fees*
- 537,000 members*
- 253 mandates
- 87 fund managers
- 99 mandate changes 2010-2013

What's happened so far?

- 29 boro's and City of London participating
- Strategy developed, lots of detail to work through
- Operating company incorporated
 - *London LGPS CIV Ltd.*
- Major procurements underway for partner suppliers (e.g. Asset Servicer)
- In discussion with Investment Managers

Guiding principles

- Investment in the ACS should be **voluntary**, both entry and withdrawal.
- Boroughs **choose** which asset classes to invest into, and how much.
- Boroughs should have sufficient **control** over the ACS Operator.

Guiding principles (2)

- Investing authorities will take a **shareholding** interest in the Operator.
- Shareholders will have **membership** of the Pensions Joint committee.
- ACS Operator will provide regular **information** to participating boroughs
- ACS will **not increase** the overall investment **risk** faced by boroughs.

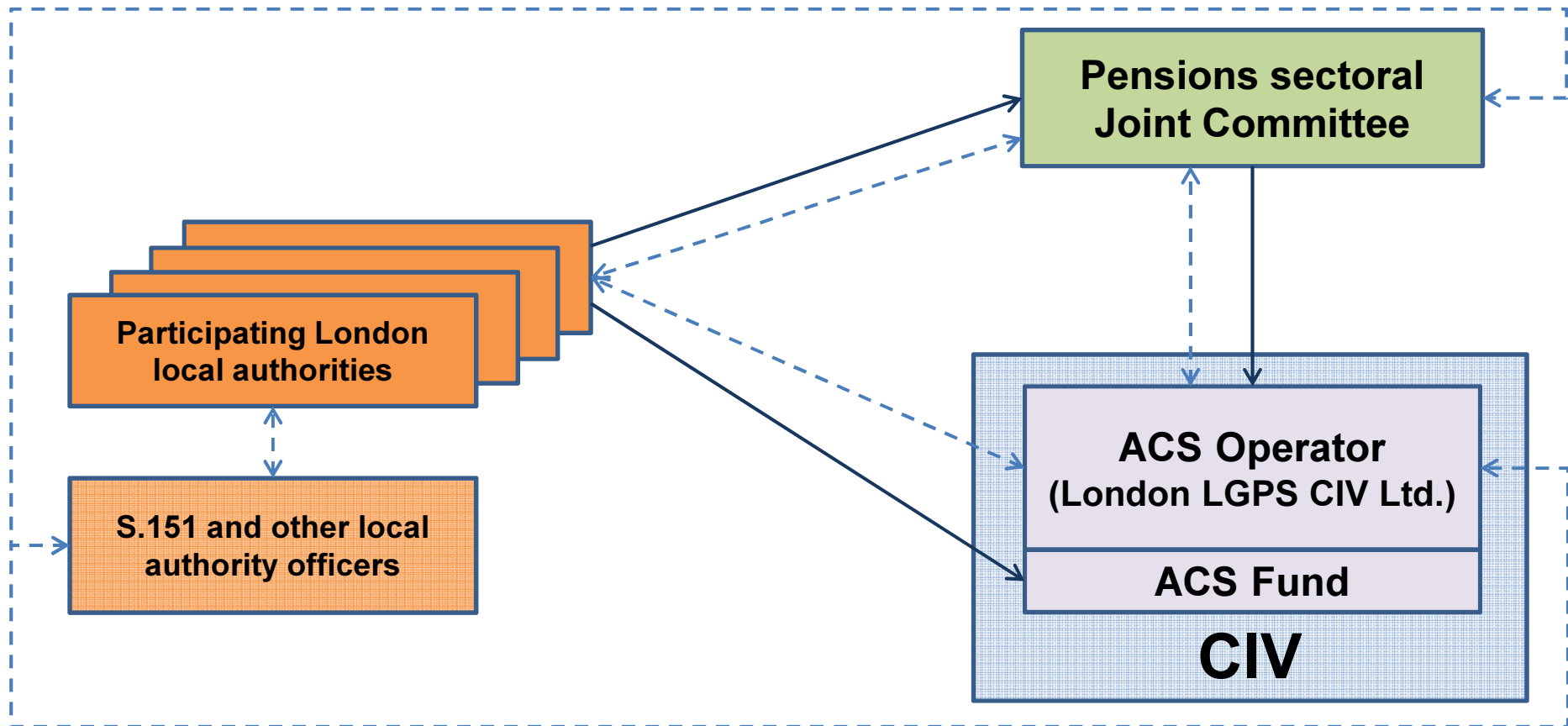
Programme overview

- P1 – set up the company as an employer
 - Finance and IT systems
 - HR, payroll etc.
 - Policies and procedures
- P2 – set up the company as a regulated operator
 - Operating model
 - FCA approval
 - Operating manuals
- P3 – set up the fund
 - Gather data
 - Propose fund structure and discuss with boroughs
 - Discuss opportunities with Investment Managers
 - FCA approval

Programme partners

- Pensions Working Group
 - now Interim Directors
- Technical Sub-Group
 - Borough pensions experts
- Expert Advisors
 - Eversheds
 - Deloitte
 - Mercer

Governance



Key —————> Decision making - - - - -> Information flows

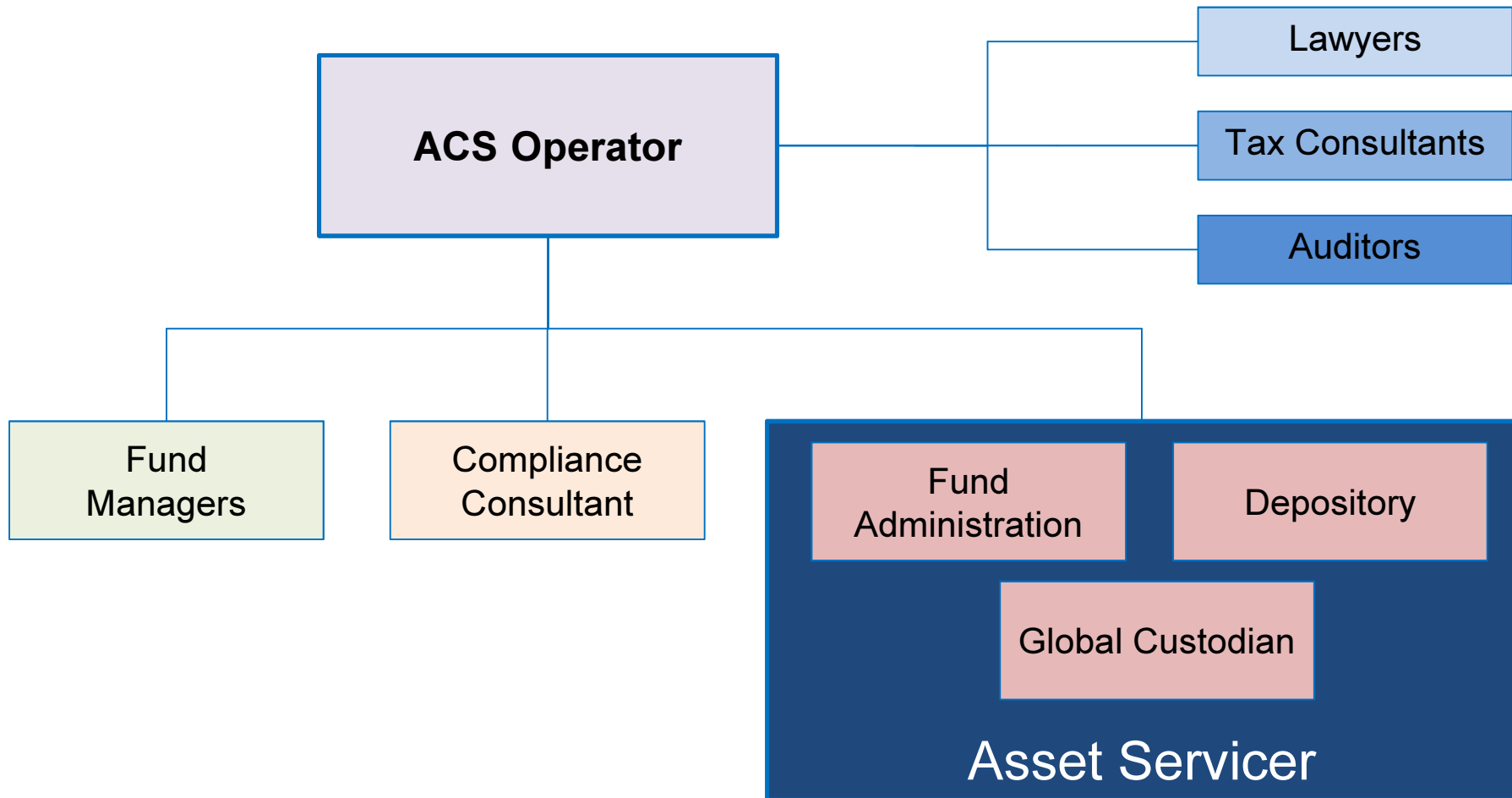
Why the ACS structure?

- UK domiciled
- FCA regulated = high level of assurance
- Tax efficient
 - e.g. withholding tax advantages
- Data transparent

Borough and wider LGPS relationship to the Operator

- Borough relationship is 'Teckal' compliant
- Wider LGPS is not
- Public Procurement r.6(2)(h) being considered to cover all

Operator structure



Implementation budget

- Estimated at £1.7m
- £75k per borough
 - inc. some contingency / contribution to first year running costs
- BAU budget being worked on
 - Operating model and procurements vital to informing

Government position

- Consulting on options
 - CIVs being favoured, but merger not off the table
 - Expected to publish response in the New Year
 - Push towards passive is possible
 - London Councils in contact with key Civil Servants
 - Leading Members and officers have met with Ministers

Launch

- Targeting summer 2015

BUT

- FCA approval
- Recruiting
- The unknown unknown

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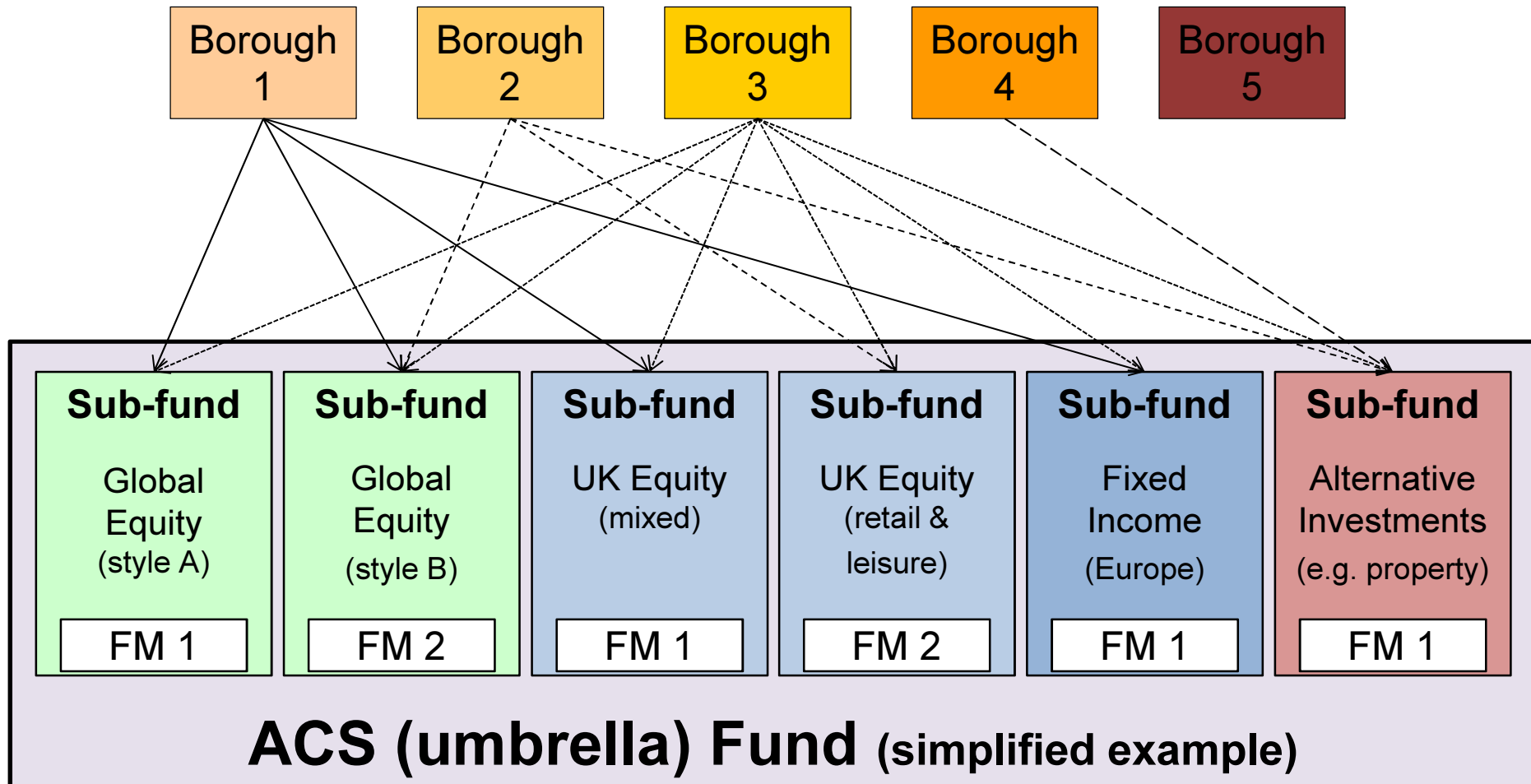
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Fund Manager Analysis

Fund strategy for launch

1. Collect data from boroughs and Investment Managers
2. Look for commonality in existing borough mandates
3. TSG draw up proposed fund structure for launch
4. Boroughs decide which sub-funds they want on fund
5. Borough Pension Committees make decisions to invest
6. Negotiate final mandates and transition

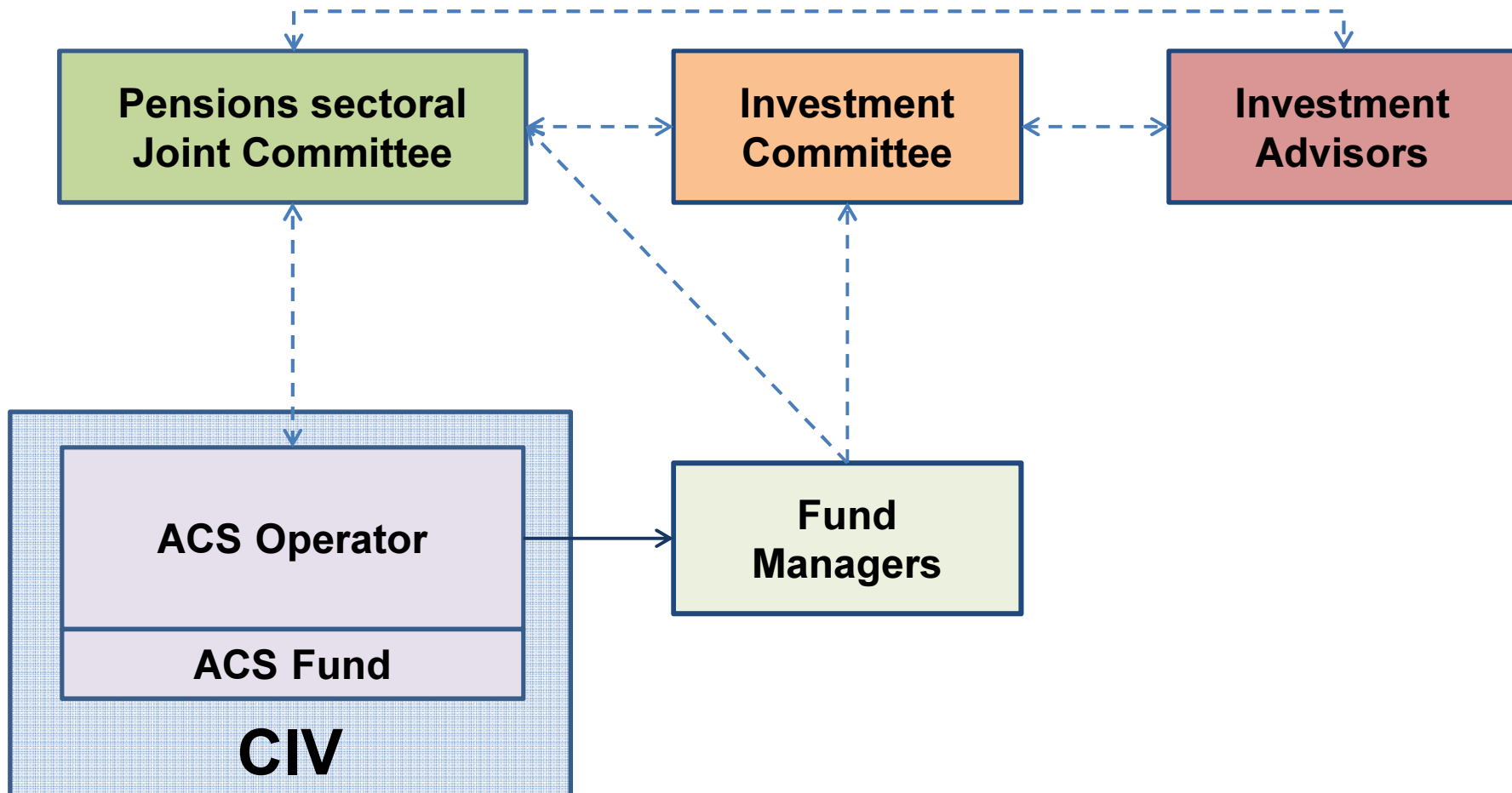
Fund structure



Current picture

- Potential for up to £10bn for launch
 - Need to be realistic about day one and recognise that transition will continue over time
- Fee savings could be in excess of £3m pa
 - Withholding tax and other benefits on top
- Benefits not evenly spread
- Benefits will grow over time

Fund decision making



Alternative Investments

- Infrastructure, co / direct investment etc.
 - TSG beginning to consider
 - Borough survey under way
 - Views of the committee would be helpful

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