



Pension Fund Committee

16 October 2018

Title	London CIV Pooling Update and allocation to European Private Debt Lending
Report of	Director of Finance
Wards	n/a
Status	Public
Urgent	No
Key	No
Enclosures	Appendix 1 – Matching of Barnet investments to LCIV offerings.
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Summary

LB Barnet Pension Fund is required by Government over an extended timescale to transfer its investments to oversight by the London CIV. This will involve disposing of investments that are not available on the LCIV platform. This paper considers the LCIV options for each of Barnet's existing investments.

Recommendations

- i. That the Committee consider a proposal in respect of the allocation to European Private Debt Lending.

1. WHY THIS REPORT IS NEEDED.

Background

- 1.1 The Government has published guidelines requiring all Local authority pension funds to delegate the appointment, monitoring and agreement of fees to a multi authority pooling entity. The Barnet Pension Fund has selected the London CIV (LCIV) for pooling and alongside all the other London local authorities is a shareholder in the LCIV. The timetable for completion of pooling is not stated although progress will be monitored and the Government has reserve powers should it believe that insufficient progress is being achieved on pooling.
- 1.2 At present, Barnet has transferred the holdings in Newton Real Return fund (market value £127 million) to the CIV. In addition, fees for the Legal and General investments (market value £463 million) were negotiated by the CIV and the Government has agreed that passive funds can remain outside of pooling if the mandates are monitored by the pools.
- 1.3 In aggregate, £16bn of assets are under LCIVs oversight from 31 London local authorities, representing 40% of London assets. In the current year, there will be an annualised £6m of savings in management fees for London Boroughs, which exceeds the cost of operating the CIV.
- 1.4 Pooling is primarily designed to (1) reduce fund manager costs, and (2) deliver improved manager selection decisions. Barnet is currently enjoying fee savings of £683,000 p.a. on Legal and General and Newton fees.
- 1.5 The LCIV in agreement with the London local authorities has restructured its governance arrangements, introducing a shareholder committee of twelve to be the main forum for dialogue with the London authorities. Councillor Shooter is a member of this Committee

Available Investment Funds

- 1.6 The LCIV currently has 14 funds available for investment. These cover equities, multi asset (diversified growth funds) and fixed income / bonds. Another four fixed income funds are due for launch / awaiting first client. These are discussed below. Also expected to follow shortly are three additional funds, one each for infrastructure, property and equity.
- 1.7 Pooling the Barnet investments entails transitioning the current investments into those funds that are under LCIV oversight. The two existing mandates with the LCIV (Legal & General and Newton) involved continuity of fund / manager. It is unlikely that many of the other funds appointed by Barnet will be available on the LCIV platform and therefore pooling will involve disposing of most / all of our current investments. There is no exact date as to when pooling is required although it is anticipated that Government monitoring of the pools will intensify over time with greater questioning of pooling plans. The immediate focus will be on new appointments but at some point Government will also look at existing investments.

- 1.8 A meeting was held with the LCIV in September and part of the discussion involved matching the current Barnet holdings with those on the LCIV platform. The 'matching' is summarised on appendix 1.
- 1.9 Barnet has seven credit mandates at present. The LCIV has matched three mandates each to their Multi Asset Credit Fund and the Private Debt Fund. Work is ongoing to determine the extent of the match and whether switching will involve a change in structure, risk / return expectation or quality of manager. Priority will be given to the Private Debt Fund. Barnet's current investment in the Alcentra Clareant European Direct Lending Fund has reached the end of its investment period and will commence distributing cash as the underlying investments are realised. Alcentra is raising a successor fund and to retain the current allocation to this asset class will require the Committee to make a new commitment to either Alcentra or the LCIV alternative. If the evaluation is completed prior to the Committee meeting a proposal as to which fund to invest will be made.

2. REASONS FOR RECOMMENDATIONS

- 2.1 The payment of LCIV fees is in line with arrangements agreed by all London Boroughs. The proposal to develop pooling plans at investment level recognises the Government's intention that substantially all assets will be pooled.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1 By developing pooling plans, the Committee will be in a better position to identify assets to be pooled, those to be excluded and review the future for each current investment appointment.

4. POST DECISION IMPLEMENTATION

- 4.1 Pooling proposals will be brought back to a future meeting of the Committee.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

- 5.1.1 To ensure that the Pension Fund is being invested prudently and to the best advantage to achieve the required funding level. Effective monitoring of the Pension Fund will ensure that long term investment targeted returns are achieved and will provide support towards the Council's corporate priorities (2015-2020).

5.2 Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 There are no direct resources issues for the council. Improved Pension Fund performance or reduced costs will in the lower term impact favourably on contributions paid by employers (including the Council) to the Pension Fund.

5.2.2 Pooling is intended to save costs and fees will be considered as part of the evaluation of the LCIV offerings.

5.3 Social Value

5.3.1 The Public Services (Social Value) Act came into force on 31 January 2013. It requires people who commission public services to think about how they can also secure wider social, economic and environmental benefits.

5.3.2 Before they start the procurement process, commissioners should think about whether the services they are going to buy, or the way they are going to buy them, could secure these benefits for their area or stakeholders.

5.3.3 The Act is a tool to help commissioners get more value for money out of procurement. It also encourages commissioners to talk to their local provider market or community to design better services, often finding new and innovative solutions to difficult problems.

5.3.4 There are no specific social value issues arising out of this report, however membership of the Pension Fund ensures the long term financial health of contributing employees on retirement.

5.4 Legal and Constitutional References

5.4.1 The Council's Constitution – Article 7, details the responsibilities of the Committee, including to the appointment of Pension Fund investment managers.

5.4.2 Regulation 9 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 permits the appointment of investment managers after taking into consideration proper advice. Regulation 8 provides powers of direction for the Secretary of State. The Local Government Pension Scheme: Investment Reform Criteria and Guidance issued by the Dept. for Communities and Local Government (November 2015) requires LGPS funds to pool their investment for manager selection and monitoring purposes.

5.5 Risk Management

5.5.1 Risk management is central to the Local Government Pension Scheme (LGPS). LGPS pension funds are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met.

5.5.2 One of the stated purposes of the LCIV is to improve governance relating to fund manager appointments and monitoring thereby reducing the risk of poor

investment performance to the Pension Fund and employers.

5.6 Equalities and Diversity

- 5.6.1 Pursuant to the Equalities Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation, marriage and civil partnership.
- 5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public sector equality duty. The Public Sector Equality Duty requires public authorities in carrying out their functions, to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements and monitoring of the Pension Fund's managers will benefit everyone who contributes to the fund.

5.7 Consultation and Engagement

- 5.7.1 N/A.

5.8 Insight

- 5.8.1 Not applicable

6. BACKGROUND PAPERS

- 6.1 Criteria and Guidance for Pooling

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479925/criteria_and_guidance_for_investment_reform.pdf