
Meeting	Pension Fund Committee
Date	9 September 2013
Subject	Establishment of London Collective Investment Vehicle
Report of	Chief Operating Officer
Summary	<p>This report updates the Pension Fund Committee on the discussions on greater collaboration between local authority pension funds and recommends the Pension Fund Committee to consider participation in the establishment of a London wide collective investment vehicle and to consider contributing towards funding up to £25k from the Pension Fund towards the legal and set up costs of the collective investment vehicle.</p>

Officer Contributors	John Hooton, Deputy Chief Operating Officer Iain Millar, Head of Treasury
Status (public or exempt)	Public
Wards Affected	Not applicable
Key Decision	Not applicable
Reason for urgency / exemption from call-in	Not applicable
Function of	Council
Enclosures	
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1. RECOMMENDATIONS

- 1.1 That the Pension Fund Committee note the recent public debate regarding the potential for fund merger within the Local Government Pension Scheme.**
- 1.2 That the Pension Fund Committee expresses an interest in exploring the options for collaborative working including, subject to agreement to the business case, participation in a London wide collaborative investment vehicle (CIV).**
- 1.3 That the Pension Fund Committee authorises the Chief Operating Officer to carry out further due diligence on the establishment of a CIV including contributing up to £25,000 from the Pension Fund towards the legal and setting up costs of the CIV.**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 None

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 To ensure that the pension fund is being invested prudently and to the best advantage in order to achieve the required funding level. Participating in collective working and cost sharing will provide support towards the Council's corporate priorities.

4. RISK MANAGEMENT ISSUES

- 4.1 There is a risk that the Government may change the Local Government Pension Scheme (LGPS) regulations to force through pension fund mergers for administration, investment and governance. By participating in a collaborative project the Council may retain autonomy over its Pension Fund and benefit from reduced procurement costs and reduced investment management fees.

5. EQUALITIES AND DIVERSITY ISSUES

- 5.1 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.
- 5.2 The rules governing admission to and participation in the Pension Fund are in keeping with this public sector equality duty. Good governance arrangements

and monitoring of the pension fund managers will benefit everyone who contributes to the Fund.

6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)

- 6.1 In recent months there has been some discussion on whether there should be consolidation or merger of Local Government Pension Funds into a smaller number of funds and whether this would lead to cost reduction and better investment return. The Government is currently consulting on some form of the consolidation of the LGPS, either on a voluntary or forced basis.
- 6.2 There is some evidence that the economies of scale associated with larger funds could lead to lower unit costs in relation to administration and actuarial advice for example. The position on investment performance is much less clear. There is no correlation between fund size and investment return. Investment returns are driven primarily by strategic asset allocation. Relative performance by asset class is linked to manager selection. Consequently there are both large and small funds whose performance is either below or above average.
- 6.3 To date collaboration has focused on administrative functions rather than on investment activity, the national procurement framework being one example. While a merger on a forced basis would not be in the Council's financial interest, it is clear that the status quo is not viable. London Councils and the Society of London Treasurers are exploring an alternative method for collaboration for between London pension funds in the form of a collective investment vehicle (CIV).

Collective Investment Vehicle

- 6.4.1 London Councils commissioned the Society of London Treasurers to gauge interest in establishing a CIV and received significant interest in the creation of such a vehicle. The CIV would operate by maintaining a best of breed selection of fund managers for each asset class and would be managed by a lead authority.
- 6.4.2 Under this model each Fund would continue to be managed separately with its own governance arrangements using the advisors the Panel considered appropriate. At each triennial actuarial valuation, every fund would review and agree its own updated Funding Strategy and Strategic Asset Allocation and Statement of Investment Principles.
- 6.4.3 The CIV would be a way of managing the investment process with the aim of securing higher investment performance and reduced fees, the latter being achieved through the volume of funds being invested.
- 6.4.4 The CIV would be managed by a lead authority with initial funding coming from participating boroughs. Once appointed, the lead borough would procure an investment adviser to support the manager selection process, transition manager and investment funds/fund managers within each asset class: equities and bonds, and also alternative asset classes including property and infrastructure.

- 6.4.5 The CIV would maintain a 'best in class' selection of investment funds or fund managers. These would be well-defined generally segregated mandates with the CIV using its buying power to secure lower investments manager fees.
- 6.4.6 The CIV would be responsible for day to day governance, control and reconciliation in relation to each selected manager including in conjunction with the appointed investment advisor performing necessary due diligence for the selected fund managers. This would include quarterly meetings with managers ,providing quarterly reports for the Pension Fund Committee summarising CIV performance and any other relevant matters. The CIV would also be responsible for manager deselection.
- 6.4.7 In time the CIV could also be used to provide any other officer related investment decisions that Funds voluntarily wished to delegate. This could include drafting investment related reports for the Pension Fund Committee or using a common custodian
- 6.4.8 Each Pension Fund Committee could choose whether or not to use a fund manager from the CIV. It could for example retain its current managers or use a hybrid model retaining its own managers and use the CIV to diversify into alternative asset classes such as infrastructure and property and achieve economies of scale through the CIV that would not otherwise be possible for a smaller fund.
- 6.4.9 Each fund would retain its own custodian's control over asset allocation and accounting responsibilities although manager related information would be supplied by the CIV.
- 6.5 The costs of setting up the CIV would be recoverable from participating boroughs. The initial set up costs would include legal fees and other professional costs. Participating funds would be asked to contribute to these costs which are currently estimated to be a maximum of £25,000 per fund. It is anticipated that the contribution costs will be offset by the potential reduction in future investment management fees achievable through the CIV.
- 6.6 The proposal for a CIV is being reported to a future London Council's meeting. The London Borough of Wandsworth has volunteered to take the lead borough role.
- 6.7 While there are considerable benefits from participating in a CIV in terms of the potential for cost –saving and resource pooling, there will be a perception of loss of control and autonomy at a borough level.
- 6.8 The Pension Fund Committee is asked whether it wishes to express an interest in participating in the CIV and in contributing to the set-up costs which would be financed from the Pension Fund.

7. LEGAL ISSUES

- 7.1 This report is based on the provisions of This report is based on the provisions of Local Government Pension Scheme (Management and Investment of

Funds) Regulations 2009) which have their basis in the Superannuation Act 1972

7.2 Other statutory provisions are referred to in the body of this report.

8. CONSTITUTIONAL POWERS

8.1 Constitution – Part 3 Responsibility for Functions – Section 3 – Responsibility for Council Functions delegated to the Pension Fund Committee, through the Pension Fund Governance Compliance Statement.

9 BACKGROUND INFORMATION

9.1 History

9.1.1 The Superannuation Act 1972 makes provision for local authorities to operate pension funds for their employees and employees of other employers who have either a statutory right or an admission agreement to participate in the funds.

9.2 Tax Status

9.2.1 The Fund is an exempt approved fund under the Finance Act 1970, and is therefore exempt from Capital Gains Tax on its investments. At present all Value Added Tax is recoverable, but the fund is not able to reclaim the tax on UK dividends.

9.3 Operation and Administration

9.3.1 The Fund is operated and administered by the London Borough of Barnet. Day to day investment management of the Fund's assets is delegated to expert investment advisors in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended). The Fund is managed on a balanced (excluding property and cash) basis. The current fund managers are Schroder Investment Management Ltd and Newton Investment Management Limited.

9.3.2 At the Pension Fund Committee meeting held on the 4 February 2010, the Committee agreed to implement a 70/30 diversified growth and bonds portfolio using the existing managers. Implementation of the new investment strategy commenced on 19 November 2010 and is now fully completed.

9.3.3 Actuarial services are provided by Barnett Waddingham and the fund receives investment advice from JLT Investment Consulting.

9.4 Scheme Governance

9.4.1 The Council is statutorily responsible for the management of the Fund and for making strategic decisions that govern the way the Fund is invested. In this respect, the Council delegates responsibility for making investment decisions and monitoring arrangements to the Pension Fund Committee. The Pension Fund Committee's responsibilities include reviewing and monitoring the Fund's investments; selecting and deselecting investment managers and other relevant

third parties; and establishing investment objectives and policies.

The Fund's investment objectives and policies are published in a Statement of Investment Principles. Details of this statement can be found on the Council's Web Site

http://www.barnet.gov.uk/statement_of_investment_principles_oct_2010.pdf.

9.5 Funding

- 9.5.1 The Fund is financed by employer and employee contributions and from income derived from investments. Every three years the Fund Actuary carries out a valuation, which determines the level of employer contributions. The latest triennial valuation took place as at 31 March 2013. The actuary's report is being prepared and will be reported to Pension Fund Committee later in the year.

10. LIST OF BACKGROUND PAPERS

- 10.1 None