

	<h2 style="margin: 0;">Pension Fund Committee</h2> <h3 style="margin: 0;">22 October 2015</h3>
Title	Update Report London Collective Investment Vehicle
Report of	Chief Operating Officer
Wards	All
Status	Public Report with exempt appendices – not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 as amended
Urgent	No
Key	No
Enclosures	Exempt Appendix 1: London’s Collective Investment Vehicle Articles of Association Exempt Appendix 2: London’s Collective Investment Vehicle Shareholders Agreement
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<h2 style="margin: 0;">Summary</h2>
<p>This report updates the Pension Fund Committee and summarises progress made in setting up the London Local Government Pension Scheme Collective Investment Vehicle (CIV). This report proposes delegating authority to the Chief Operating Officer in consultation with the Chairman of the Pension Fund Committee to settle any contracts concerned with the CIV on behalf of the Council and pension fund where it is his opinion that the evidence indicates that it is likely to result in long-term financial benefit for the Council or Pension Fund.</p> <p>The process of the CIV reaching “live operation” is nearing completion and will in due course require the Committee to assess the merits for the Fund to transfer assets or invest directly into funds held on the CIV, where this is deemed as beneficial for the Fund to do so. The report also outlines the need for the Fund to invest £150,000 into the CIV to be held as regulatory capital.</p>

Recommendations

That the Pension Fund Committee

- 1. note the progress update on starting up the CIV.**
- 2. agree that the Chief Operating Officer sign the Shareholders' Agreement on behalf of the Council and the resolutions approving the Articles of Association of the CIV and the reclassification of shares in the CIV as set out in exempt Appendices 1 and 2.**
- 3. delegate authority to the Chief Operating Officer in consultation with the Chairman of the Pensions Fund Committee to invest sums required for regulatory capital to the London CIV to meet the requirements for Financial Conduct Authority (FCA) authorisation. The anticipated level of investment £150,000.**
- 4. agree that where circumstances arise and the Committee is not available for consultation, to delegate to the Chief Operating Officer, in consultation with the Chairman of the Pensions Fund Committee, the decision to agree to the transition of Pension Fund assets to the London CIV where the Fund has a pre-existing relationship with the investment manager and where the transfer of such assets is financially advantageous to the Pension Fund.**

1. WHY THIS REPORT IS NEEDED

- 1.1 To enable the Pension Fund's participation and investment in the London CIV.

2. REASONS FOR RECOMMENDATIONS

- 2.1 To ensure that the Pension Fund has access to a wider range of asset classes through the CIV to reduce costs and to improve fund performance.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1 The alternative to further funding would be to withdraw support and retain independent mandates. The CIV has estimated that the additional costs would be recoverable from first years fee savings should the Pension Fund delegate any investment decisions to the CIV at a future date.

4. POST DECISION IMPLEMENTATION

- 4.1 Officers to sign the Shareholders' Agreement on behalf of the Council and the resolutions approving the Articles of Association of the CIV and the reclassification of shares in the CIV.

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 in order to achieve the required funding level. Participating in collective working and cost sharing will provide support towards the Council's corporate priorities.

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

5.2.1 The CIV has made significant progress in 2015. The Pensions Joint Committee has met four times and considered:

- The establishment of the operating company (London LGPS CIV Ltd.) and its governance arrangements;
- The appointment of Northern Trust as the Asset Servicer for the CIV. This will include services such as Depository, Custodian, Fund Accountant, Transfer Agency and Tax reclaims;
- The Joint Committee's role as also acting as a forum of shareholders of the CIV.

5.2.2 The interim Directors of the CIV company (comprising London Councils' Chairman and Vice Chairmen, two borough Treasurers, the Chamberlain of the City of London, and London Councils' Chief Executive) have met and considered/ratified decisions concerning:

- Procurement activity, including engaging a recruitment consultant to assist with recruiting the permanent executive and non-executive Board members, Eversheds and Deloitte as legal and technical advisors to the company, and an advisor for an asset servicer procurement.
- The appointment of Northern Trust as the Asset Servicer for the CIV.
- The company programmes, risk registers and procedures.
- The recruitment process for senior executives and future board members.

5.2.3 The Technical Sub Group have met and considered:

- The fund managers that the boroughs currently invest in and the process by which they may come onto the CIV
- The process of narrowing down those managers for the launch phase of the CIV and the proposals those managers have put forward including fee reductions and scope of investment.
- The initial structures and governance modelling of the CIV and the methods by which the boroughs will interact with the vehicle.
- A number of procurements including the reviewing and ratification of candidate responses.
- An initial paper on regulatory capital requirements to meet the liquidity needs as set out by the FCA.

5.2.4 An initial investment of £75,000 towards the cost of establishing the CIV has already been approved by the Pension Fund Committee. As the London CIV is obtaining regulatory approval from the FCA, there is a requirement for regulatory capital to be placed in the CIV, without which the London CIV would not receive authorisation. This is likely to be in the region of £150k for each London Borough that participates in the CIV. However, it needs to be emphasised that this is not a cost in the same way as the previous sums to set up the CIV, instead this will be share capital and should be seen as an

investment in the CIV and will be recognised as such in the Pension Fund accounts.

- 5.2.5 Each London Borough who is a shareholder of the Company (each, a “**Shareholder**”) has been sent final drafts of the shareholders’ agreement relating to the Company, to be entered into by each Shareholder and the Company (the “**Shareholders’ Agreement**”), and the Articles of Association of the Company (the “**Articles**”) to be adopted by the Shareholders by way of written resolution. The Shareholders’ Agreement will be a contractual arrangement between the Shareholders and the Company governing the relationship between the Shareholders and the Company and the management of the Company. The Articles will be the constitutional governing document of the Company and will underpin the matters set out in the Shareholders’ Agreement. It is proposed that the authorisation to sign the CIV Articles of Association, the Shareholders Agreement and subsequent deeds of agreement is agreed and delegated to the Chief Operating Officer in consultation with the Chair of the Pension Fund Committee.
- 5.2.6 The CIV has now reached a stage where managers with multiple mandates across London have provided their best and final offers on fees for inclusion in the CIV. Each borough which currently invests with that manager will be asked in the near future whether they wish to transfer existing funds with that manager to the CIV under the CIV fee schedule.
- 5.2.7 Once those indications are received contracts will need to be signed and funds transferred. This can only be undertaken once the FCA have authorised the CIV Operator and Fund for trading. This authority is expected autumn of 2015. For the CIV to launch on schedule it is imperative that boroughs are able to sign off on the transition of current mandates into the CIV and associated capital. Otherwise there is the real possibility that the CIV launch will be delayed, thereby reducing the immediate benefits to the boroughs.
- 5.2.8 In order that the participating London Local Government Pension Scheme (LGPS) funds can start to receive CIV fee reduction benefits as soon as possible it is proposed to delegate authority to the Chief Operating Officer following consultation with the Chairman of the Pension Fund Committee to settle any contracts concerned with the CIV on behalf of the Council and Pension Fund. This is likely to include signing contracts, transferring funds, and supplying capital for investment as regulatory capital. In exercising this discretion, the Chief Operating Officer following consultation with the Chairman of the Pensions Fund Committee must be satisfied that in his opinion, it is likely to result in long-term financial benefit for the Council or Pension Fund.

5.3 Social Value

5.3.1 Not applicable

5.4 Legal and Constitutional References

5.4.1 This report is based on the provisions of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009) which have their basis in the Superannuation Act 1972.

5.4.2 The Council's Constitution – Annex A – Responsibility for Functions, details the responsibilities of the Pension Fund Committee including to determine the appropriate course of action on any matter not specifically listed above that pertains to the leadership and/or strategic management of the Pension Fund, in particular any matter which could materially affect its financial performance or long-term standing.

5.5 Risk Management

5.5.1 A key risk is that of poor investment performance. The performance of Fund managers is monitored by the committee every quarter with reference to reports from Hymans Robertson, the Pension Fund investment adviser, and the WM Company Ltd, a company that measures the performance of pension funds. If fund manager performance is considered inadequate, the fund manager can be replaced.

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.

5.7 Consultation and Engagement

5.7.1 Not applicable.

5.8 Insight

5.8.1 Not applicable

6. BACKGROUND PAPERS

- 6.1 Previous report to Pension Fund Committee 2 March 2015
<http://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=191&MId=7805&Ver=4>
- 6.2 Report to Council 8 April 2015
<http://barnet.moderngov.co.uk/documents/s14284/Report%20of%20the%20Head%20of%20Governance.pdf>