

	<h2>Pension Fund Committee</h2> <h3>14 March 2017</h3>
<p style="text-align: right;">Title</p>	<p>London Collective Investment Vehicle Update and Local Government Pension Scheme Pooling Arrangements</p>
<p style="text-align: right;">Report of</p>	<p>Chief Executive Officer/Section 151 Officer</p>
<p style="text-align: right;">Wards</p>	<p>n/a</p>
<p style="text-align: right;">Status</p>	<p>Public</p>
<p style="text-align: right;">Urgent</p>	<p>No</p>
<p style="text-align: right;">Key</p>	<p>No</p>
<p style="text-align: right;">Enclosures</p>	<p>Appendix 1: LCIV Pensions Sectoral Committee 2017-2018 Budget and Medium Term Financial Strategy</p> <p>Appendix 2: Pooling letter from Minister for Local Government</p>
<p style="text-align: right;">Officer Contact Details</p>	<p>Iain Millar, Head of Treasury Services 0208 359 7126</p>

Summary

This report gives updates on the Local Government Pension Scheme pooling arrangements and on the London Collective Investment Vehicle (LCIV). LCIV has requested a budget contribution in 2017-18 of £100,000 to cover both the annual service charge and the development funding charge.

Recommendations

1. That the Pension Fund Committee note the progress update on investing in the LCIV.
2. That the Committee note the developments on Local Government Pension Scheme Pooling arrangements
3. That the Committee note the payment of £100,000: the Fund's contribution to the running costs of the LCIV and notes the LCIV budget proposals and passive fee charges for 2017-2018.

1. WHY THIS REPORT IS NEEDED

- 1.1 To update the Pension Fund Committee and to provide reassurance that the pension fund is being invested prudently and in accordance with the investment strategy. To request that the payments be made to the LCIV as requested.

2. REASONS FOR RECOMMENDATIONS

To notify Pension Fund Committee of LCIV contributions required for 2017-18

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1 The required budget contributions for 2017-18 was approved by the LCIV Joint Committee on 8th February 2017.

4. POST DECISION IMPLEMENTATION

- 4.1 Not relevant in the context of this report..

5. IMPLICATIONS OF DECISION

- 5.1 No direct implications in the context of this report.

5.2 UPDATE ON THE LCIV

5.2.3 The London CIV is fully authorised by the FCA Governance and decision making will remain with participating London Boroughs, the investment decision makers for funding strategy, asset allocation and investment strategy. The Pensions Sectoral Joint Committee (PSJC) made up of Elected Member representatives is the supervisory body with responsibility for oversight and scrutiny, policy decisions and strategic objectives of the London CIV. The PSJC is supported by the Investment Advisory Committee (representative officers who provide advice and guidance on investment mandates. All London Boroughs now participate in the London CIV.

5.2.4 6 sub –funds have been opened. Fourteen authorities transferred a total of £3.1 billion of assets. A further eight sub-funds will be opened over the coming months and these will be a mix of active and passive asset classes. On the 16th December 2017, the diversified growth funds held in the Newton Real Return Fund were transitioned into the London Collective Investment Vehicle (LCIV). In September 2016, the £415 million Legal and General Investment Management pooled funds moved to a reduced fee rate negotiated through LCIV 2016 with new fee scales backdated to 1 July 2016. Combined these represent fee reductions on over 54% of the externally managed fund investments and annual fee savings of over £330k.

5.2.5 LCIV is launching global equities and fixed income mandates later in 2017 and will be available to invest in.

5.2.6 At its meeting on 8th February 2017, LCIV Pensions CIV Joint Committee considered a report on the London CIV 2017/18 Budget and MTFs (see Appendix 1). This report sets out funding requirement for the LCIV. There has been a significant shortfall in the income due to slower than anticipated fund opening and no income received from passive equity funds. The Joint Committee and CIV Board agreed to charge a development funding charge of £75,000 to each borough in 2017-18. This will reduce to zero over the next 4-6 years. This is in addition to the £25,000 annual service charge.

5.2.7 It is recommended that Pension Fund Committee note the 2017-18 contribution to the LCIV of £100,000, to be funded from the Pension Fund

5.2.8 The Joint Committee also considered a report on a proposal to charge a fee on passive funds held outside of LCIV which have benefited from LCIV fee re-negotiations. This would be based on a basis point charge on assets under management. The fee charge would be effective from 1st April 2017 and would cost the Barnet Pension Fund circa £30,000 per annum.

GOVERNMENT RESPONSE ON LGPS INVESTMENT POOLING REFORM

5.2.9 The London CIV has been co-ordinating the response to the Government's investment pooling reform of the LGPS to deliver efficiencies through collective investment, the Government's expectation is that all investments should be made through a collective pool.

5.2.10 The pooling reform requires the development of a transition plan from individual LGPS funds to one of the national pools in three year time blocks from 2018. Liquid assets are to transfer. The following are exempted from pooling.

- Life Policies
- Directly held property
- Illiquid assets
- Local investment
- Buy-ins
- Hedging instruments
- Working capital/cash.

5.2.11 LCIV submitted a response on the pooling consultation on behalf of London Boroughs pools is required by the submission date in July 2016. The Minister for Local Government responded in a letter to Baron Kerslake, Chair of LCIV, dated 16 December 2016, (see Appendix 2). In this letter the Minister set out the Government's commitment to pooling and stressed the expectation that all assets should be placed in the pool unless there was a strong value for money case for delay. He stated that he expected London Boroughs to speed up the "unacceptably slow" forecast transition into the London CIV and that he would review progress in spring 2018.

5.3 Social Value

- 5.3.1 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 Regulation 4(5) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 allows that any costs, charges and expenses incurred administering a pension fund may be paid from it except for charges prescribed by regulations made under sections 23, 24 or 41 of the Welfare Reform and Pensions Act 1999 (charges in relation to pension sharing costs).

- 5.4.2 Part 15 – Annex A – the terms of reference of the Pension Fund Committee include:

To appoint Pension Fund Investment Managers.

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 The Pension Fund's asset allocation may not maximise potential investment return. This can be addressed by restructuring the fund portfolio to reflect changes in market conditions and expectations of future returns through asset classes and fund managers accessible through the London CIV.

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.

- 5.6.2 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.

5.7 Consultation and Engagement

- 5.7.1 Not applicable

5.8 Insight

5.8.1 Not applicable

6 BACKGROUND PAPERS

6.1 London Councils Pensions CIV Sectoral Joint Committee, 8th February 2017

<https://www.londoncouncils.gov.uk/node/31265>