

	<h2 style="margin: 0;">Pension Fund Committee</h2> <h3 style="margin: 0;">26 February 2018</h3>
<p style="text-align: right;">Title</p>	<p>Barnet Council Pension Fund – Pooling Update</p>
<p style="text-align: right;">Report of</p>	<p>Chief Financial 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 – Letter from LCIV Chairman Appendix 2 - LCIV consultation proposals Appendix 3 – Consultation questions</p>
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<h2 style="margin: 0;">Summary</h2>
<p>LB Barnet Pension Fund is a shareholder in the London CIV. This report provides an update on developments at the CIV and proposes that each of the existing investments is reviewed to ascertain future pooling plans. Approval is sought to pay an additional fee to the London CIV.</p>

<h2 style="margin: 0;">Recommendations</h2>
<ul style="list-style-type: none"> i. That the committee approves the payment of £25,000 development funding charge from the London CIV. ii. That the Committee note that a pooling plan for each investment will be presented for consideration at a future Committee meeting. iii. That the Committee delegate to the Head of Treasury and Pensions the approval of the response to the London CIV’s consultation questions (appendix 2)

1. WHY THIS REPORT IS NEEDED

- 1.1 The Pension Fund is a shareholder in the London CIV (LCIV) and has agreed to move towards collective appointment and monitoring of fund managers via the LCIV. This report covers three pooling issues:
- Additional cost contribution of £25,000.
 - Staff changes and governance review of the LCIV.
 - Revised client offering from the LCIV.

Background

- 1.2 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 LCIV for pooling. The timetable for completion of pooling is not stated although progress will be monitored and the Government has reserved powers should it believe that insufficient progress is being achieved on pooling.
- 1.3 At present, Barnet has transferred the holdings in Newton Real Return fund (market value £134 million) to the CIV. In addition, fees for the Legal and General investments 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.
- 1.4 In aggregate, £14bn of assets are under LCIVs oversight. 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.

Additional Cost Contribution

- 1.5 The LCIV has three forms of income. Two are billings to London Boroughs and the third a charge on pooled assets. Most of the CIV's income in the current financial year will derive from equal charges to each London Borough; £25,000 service charge and £75,000 development charge. In the current financial year, Barnet has paid charges of £75,000 with a further £25,000 billed and pending payment. The monitoring of the CIV's expenditure and income is carried out both by its Board and by representatives of the boroughs through the Pension CIV Sectoral Joint Committee (the Chairman is a member of this Committee). The invoicing of the final instalment of the development funding charge was approved at the December 2017 meeting of the LCIV's Joint Committee and approval to pay is sought from the Pension Fund Committee.
- 1.6 In addition to the charges discussed above, the LCIV adds a margin of 2.5 bps to the fees paid on assets managed through the LCIV. This will become the main source of funding for the CIV as assets under their control increase.

- 1.7 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, including the CIV add on charge [NB – this ignores the previous adjustment to Newton fees for under or over target performance].

Changes in Management and Governance Review

- 1.8 An increasing number of London Boroughs have expressed concern over the current governance arrangements at the CIV and the dialogue between the CIV and boroughs. Recently three senior staff have resigned from the LCIV – chief executive, chief investment officer and client relations director. The Chief Executive has been replaced on an interim basis and a new client relations director appointed.

- 1.9 As mentioned above, the LCIV has commenced a governance review. The purpose of the review is to:

“consider the governance structures associated with the Pooling arrangements for the London LGPS funds as currently undertaken through LCIV and recommend potential improvements to ensure that all shareholders have the necessary and appropriate level of engagement and influence, and that decision making is correctly positioned and defined. This should take into account the fiduciary, regulatory and statutory responsibilities of LCIV, its directors and officers, and the investing LGPS funds.”

- 1.10 The detailed engagement with London Boroughs was undertaken by Willis Towers Watson. The concerns raised during the engagement included:

- The multiple parties involved in the management of the LCIV, being

London Council and Leaders Committee
Pensions CIV Sectoral Joint Committee (PSJC)
Society of London Treasurers
The CIV's Board of Directors
The Investment Oversight Committee

- The purpose of the LCIV – sharing of responsibilities between boroughs and the LCIV.
- No shared vision / expectation at Borough level.
- The politicisation of the LCIV due to the London Council's governance model.
- The lack of clarity around future fund launches
- The capability of the LCIV to carry out its functions

- 1.11 Willis Tower Watsons observations and recommendations comprised:

- Greater clarity of purpose, including defining the roles of the various committees.
- Improved forums for shareholder engagement and representation.

- Lack of transparency on the current functioning of the LCIV e.g. the suspicion that some Boroughs have undue influence.
 - The funding model needs to be placed on a long term stable basis fairly recognising the LCIV's resource needs
 - Enhanced key performance indicators. Clarity as to the monitoring of fund managers between the LCIV and Boroughs.
- 1.12 The LCIV has unveiled a radical step forward in its approach to managing assets and a new governance structure. They will be consulting on this approach during Q1, 2018 with the Leaders Committee, PSJC, Treasurers and with Boroughs with the aim of implementing these changes during 2018. The proposals are summarised in appendix 2. Also attached is a letter from the Chairman of LCIV and the consultation questions (appendix 3).
- 1.13 The new governance arrangements are highlighted on slide 10 of appendix 2 and involve the PSJC being replaced by a shareholders committee of 12 treasurers and councillors.
- 1.14 The most significant change to the client offering is to base the pooling options around four multi-asset pools level rather than an "à la carte" choice of fund managers. This is illustrated on slides 19-23 of appendix 2. The LCIV expect this new approach will considerably speed up the pooling process. The LCIV and each Borough will have service level agreements and investment management agreements setting out the powers delegated to the LCIV. The implication for each borough is that there will be no choice of fund manager and significant restrictions on the design of strategy if substantially all assets are pooled.
- 1.15 The Chairman together with officers will meet the LCIV during the consultation phase to discuss these proposals.

Timetable and process for the transfer of assets to the LVIC

- 1.16 The government's plans for pooling are that all local authorities will delegate the selection and monitoring of all fund managers, with very limited exceptions, to a pool that the local authority has selected, this being the LCIV for Barnet.
- 1.17 As at 31st December 2017, Barnet had £578 million (52%) of assets 'managed' by the LCIV, being the Legal and General and Newton mandates.
- 1.18 The LCIV has currently eleven funded mandates; seven equity (Epoch, Baillie Gifford, Alliance, Henderson, Longview, Majedia and Newton) and four diversified growth funds (Baillie Gifford, Newton, Pyrford and Ruffer). In addition, the LCIV has agreed fees for passive funds managed by Legal and General and BlackRock.
- 1.19 Recently, five fixed income mandates have been appointed by the LCIV, these are:
- Global Bonds Fund (run by PIMCO)

Liquid Loans Fund (run by Ares)
Private Debt Fund (run by Ares)
Multi Asset Credit Fund – Long Only (run by CQS)
Multi Asset Credit Fund – Long/Short (run by MidOcean)

- 1.20 Barnet currently has seven managers with bond type mandates. None of these managers / mandates has been selected by the LCIV. This highlights the manager selection compromises required should all assets be pooled with the LCIV. To date, most London Boroughs have been happy to transfer assets to the LCIV provided no change of investment manager is involved. Some Boroughs have appointed new managers via the LCIV when they have been looking to exit an existing manager. Boroughs are now entering the phase when they will have to replace investment managers with whom they are entirely content with those that have been appointed by the LCIV to meet pooling expectations.
- 1.21 It is proposed that officers and the Chair in discussions with the LCIV review each current mandate and identify the pooling actions to be taken e.g. change fund manager or retain outside of pooling. The analysis will be reported back to the next committee meeting and will be kept under review as the LCIV appoints new managers and finalises its client offering.

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 Both the Chairman and officers (in particular the Chief Financial Officer) will be able to contribute to the LCIV consultation. Mandate 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 The additional LCIV charge of £25,000 will be met from within the Pension Fund and will have no direct financial implications for the Council's General Fund.

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.

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 The LCIV is consulting with all London Boroughs. This is an opportunity for the Pension Fund Committee to influence the future direction of the LCIV.

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