



## Pension Fund Committee

27 July 2020

<b>Title</b>	<b>LCIV update</b>
<b>Report of</b>	Director of Finance
<b>Wards</b>	N/A
<b>Status</b>	Public
<b>Urgent</b>	No
<b>Key</b>	No
<b>Enclosures</b>	Appendix 1 – Summary of pooled assets by London local authorities and fee savings.
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### Summary

The London CIV (LCIV) has been asked to attend the meeting and discuss recent developments at LCIV and the provide an overview of two new funds (London focus and renewables) that may be of interest to the Pension Fund Committee.

### Officers Recommendations

1. That the Pension Fund Committee notes progress on pooling the fund's investments with the London CIV.

## 1. WHY THIS REPORT IS NEEDED

- 1.1 Acting in its capacity as Administering Authority to the Barnet Pension Fund, it is the responsibility of London Borough of Barnet to ensure that the Pension Fund complies with legislation and effectively manages the Fund's financial affairs.
- 1.2 Pooling is a term introduced by Government in 2015 that requires Local Government Pension Funds to collectively appoint fund managers. The purpose of pooling is primarily to reduce costs, but the Government also expect improved investment decision making. The draft guidance issued by Government in 2019 requires each LGPS to:
- Appoint a company to implement investment strategy, including fund selection and terms. For Barnet this is the London CIV.
  - Regularly review the balance of active and passive investments and consider whether active management has added value.
  - Take a long-term approach to cost minimisation (another way of saying should disregard pooling setup costs).
  - Enable decisions on the distinction between strategic and implementation decisions to be made collectively by the pool.
  - Transition existing assets into the pool as quickly and cost effectively as possible. Transition of listed assets should take place over a relatively short period. The time period for illiquid assets should take into account transaction costs.
  - Only hold assets outside the pool on a temporary basis if transaction costs are high. A rationale should be provided for assets not pooled.
  - Review at least every three years pooling plans (LBB last review was undertaken Q4, 2018).
  - Make new investments outside the pool in only very limited circumstances e.g. local investments.
  - Set targets for infrastructure investments.
  - Report on assets pooled and investment costs annually.
- 1.3 LB Barnet has selected the London CIV as its pooled vehicle as have the other 32 local government bodies in London.
- 1.4 So far Barnet has two mandates actively managed via the London CIV – Newton diversified growth fund and JP Morgan Emerging Market Equities. The passive equities with Legal and General are also treated as pooled as the terms were agreed by the LCIV. Thus the majority of the Barnet assets are not pooled and most of the recent new mandates – CBRE, Aberdeen Standard long lease property and Adams Street private equity - were made outside the LCIV as no suitable pooling vehicles was available. Appendix 1 indicates that Barnet has a low proportion of pooled assets compared with other London local authorities. We did agree to invest with the LCIV private debt fund but unfortunately this fund was pulled due to low interest. So far Barnet has not been contacted by Government on its pooling plans. Our approach has been to look at LCIV opportunities when considering new appointments but not to make changes when satisfied with current managers. This approach may be subject to challenge unless we pool more assets. However, for the moment it is not suggested we change managers unless the LCIV has better alternatives.
- 1.5 The second table in appendix 1 indicates an estimated £266,000 fee saving to Barnet last year through pooling.

1.6 Representatives from LCIV will join the meeting to discuss recent developments at LCIV and also review two new funds – renewables and the London fund, that may be of interest to the Committee.

## **2. REASONS FOR RECOMMENDATIONS**

2.1 Government guidance requires an increasing use of the LCIV to manage investments.

## **3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED**

3.1 N/A – No investments recommendations are being made.

## **4. POST DECISION IMPLEMENTATION**

4.1 Not applicable at this stage.

## **5. IMPLICATIONS OF DECISION**

### **5.1 Corporate Priorities and Performance**

5.1.1 Good management of the Pension Fund will minimise the cost of providing benefits thus enabling funds to be directed to Council priorities.

### **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 2012 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 LGPS (Management and Investment of Funds) Regulations 2016 (Regulation 7(7)) requires the Committee to periodically (at least every three years) to review the investment strategy and publish a statement of any revisions made.
- 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 (then) Dept. for Communities and Local Government (November 2015) requires LGPS funds to pool their investment for manager selection and monitoring purposes
- 5.4.3 The Council's Constitution – Article 7 – includes within the responsibilities of the Pension Fund Committee, (1) the approval of the Investment Strategy Statement and (2) the appointment of investment managers.

## **5.5 Risk Management**

- 5.5.1 Risk management is central to the LGPS; which 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 Understanding the causes of sources and variabilities of scheme returns informs the management of investment and funding risk.

## **5.6 Equalities and Diversity**

- 5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to 1) eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; 2) advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and 3) 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. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to parts 2) and 3) (above) of the public-sector equality duty.

## **5.7 Corporate Parenting**

- 5.7.1 Not applicable in the context of this report.

## **5.8 Consultation and Engagement**

- 5.8.1 Not applicable.

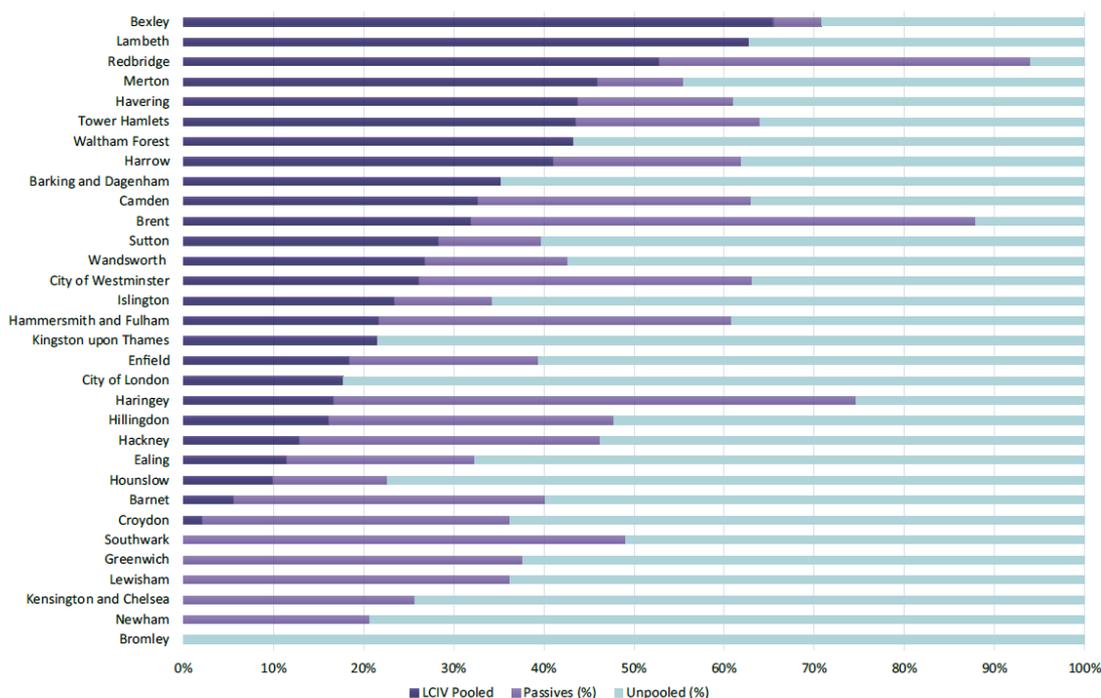
## **5.9 Insight**

5.9.1 Not applicable

**6. BACKGROUND PAPERS**

6.1 None.

## Assets invested by our Client Funds with London CIV or invested by our Client Funds in passive funds managed by third parties at as 31 March 2020



## Fee Savings from Pooling

Client Fund	AUM Figures in £Mn			Saving Figures in £000			LCIV Mgmt Fee	Service charge and DFC	Net Savings
	LCIV ACS AuM	Passive AuM	Total AuM	LCIV ACS Gross Savings	Passive Gross Savings	Total Gross Savings			
Barking and Dagenham	369	-	369	371	-	371	99	90	182
Barnet	79	395	474	123	280	403	47	90	266
Bexley	525	48	572	774	52	827	128	90	608
Brent	217	480	697	285	311	596	81	90	425
Bromley	-	-	-	-	-	-	-	90	- 90
Camden	376	502	879	369	350	719	124	90	505
City	177	-	177	193	-	193	39	90	64
Croydon	84	426	510	305	290	595	38	90	467
Ealing	175	262	437	221	160	381	65	90	226
Enfield	209	249	458	436	158	595	66	90	438
Greenwich	-	501	501	-	352	352	30	90	232
Hackney	198	517	715	399	355	754	86	90	578
Hammersmith and Fulham	229	411	641	605	258	863	78	90	695
Haringey	229	786	1,015	320	521	841	91	90	660
Harrow	173	178	350	270	125	395	47	90	258
Havering	314	124	438	448	86	534	92	90	352
Hillingdon	184	337	521	606	233	840	76	90	673
Hounslow	102	131	233	231	88	319	38	90	191
Islington	324	150	474	327	102	430	98	90	242
Kensington and Chelsea	-	304	304	-	205	205	17	90	98
Kingston	175	-	175	263	-	263	42	90	131
Lambeth	778	-	778	831	-	831	149	90	592
Lewisham	-	502	502	-	325	325	28	90	207
Merton	290	69	358	521	65	585	71	90	424
Newham	-	296	296	-	199	199	17	90	92
Redbridge	253	331	583	205	184	389	86	90	212
Southwark	-	805	805	-	534	534	45	90	398
Sutton	188	75	264	182	48	230	56	90	84
Tower Hamlets	673	320	993	557	219	775	190	90	496
Waltham Forest	345	-	345	683	-	683	99	90	494
Wandsworth	624	380	1,004	1,271	272	1,543	204	90	1,248
Westminster	355	523	879	594	255	848	153	90	605
<b>Total</b>	<b>7,645</b>	<b>9,103</b>	<b>16,748</b>	<b>11,390</b>	<b>6,028</b>	<b>17,418</b>	<b>2,482</b>	<b>2,880</b>	<b>12,056</b>