

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Briefing on a London LGPS Collective Investment Vehicle		
KEY DECISION	No	Item No:	
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	Date:	20 February 2014

1. SUMMARY

- 1.1 This report provides members with an update on the progress made in establishing a London Local Government Pension Scheme (LGPS) Collective Investment Vehicle (CIV).
- 1.2 The report comprises the following sections:
1. Recommendation
 2. Background
 3. Progress to Date
 4. Financial Implications
 5. Legal Implications
 6. Crime and disorder Implications
 7. Equalities Implications
 8. Environmental Implications

2. RECOMMENDATION

- 2.1 The Committee is recommended to note the contents of the report.

3. BACKGROUND

- 3.1 In June 2013, the Government issued a call for evidence on the future structure of the LGPS, and sought professional advice to consider either Collective Investment Vehicles or merger of funds as potential routes forward. This advice, provided by Hymans Robertson, and the Government consultation, are expected to be published shortly.
- 3.2 There has been a particular focus on London and whether this would be a suitable test case for merger of funds. Brandon Lewis, the Pensions Minister, made his views clear at the National Association of Pension Funds Conference in May 2013: 'If it takes a smaller number of funds to improve the efficiency and cost effectiveness of the scheme, I shall not shy away from pursuing that goal.'

- 3.3 London Councils Leaders Committee set up a small member/officer group, the Pensions Working Group (PWG), to work with London Councils to take forward further exploration of options for greater collaboration across London's 34 Pension Funds.
- 3.4 In response to this call for evidence, the PWG decided to look at options for setting up a Collective Investment Vehicle (CIV) which could deliver high level collaboration and savings without the need for merger.
- 3.5 According to Hymans Robertson; 'A CIV invests the capital supplied by its investors to produce an investment return. The subscribed capital is supplied by investors either as monetary amounts or by transferring existing assets into the vehicle. The CIV can be set up as a single pool of assets (including multiple asset categories) or as an umbrella arrangement which includes a number of sub-funds, each of which is usually specific to a particular asset class.'
- 3.6 The aim of setting up a CIV for London is to achieve similar financial gains to a merger, but without the disadvantages, such as loss of governance, and control.
- 3.7 Appendix 1 shows the level of interest generated amongst the London boroughs so far. Only one borough has decided not to engage at this point in time.

4. PROGRESS TO DATE

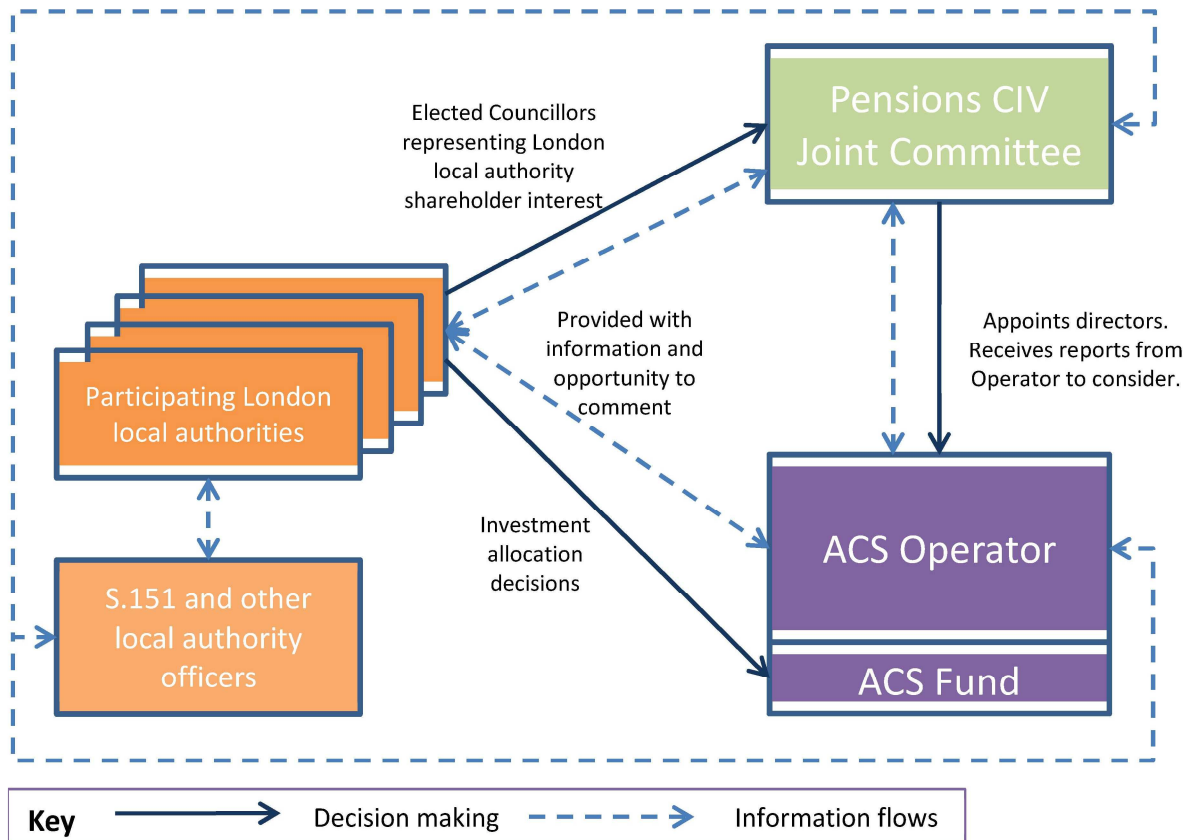
- 4.1 A progress report was presented to London Boroughs at a meeting held with the PWG and on the 5 February 2014. A summary of discussions is as follows:
- 4.2 A number of the local authorities agreed to contribute £25k-£50k towards exploring the proposal. This money is held in a designated fund by London Councils. Lewisham has yet to agree whether to make a contribution. These contributions will fund the professional costs associated with development of the proposed Authorised Contractual Scheme (ACS) and its Operator.
- 4.3 London Councils has engaged expert legal (Eversheds) and financial services advisors (Deloitte) to develop a robust business case and formal proposal to inform decisions for implementation of a London LGPS CIV, in the form of a UK based, Financial Conduct Authority (FCA) ACS.
- 4.4 In order that the arrangements can best meet the requirements of the participating boroughs, the following principles will underpin the business case:
- Investment in the ACS should be voluntary. A borough should be able to decide if it wishes to participate, or, to the extent it initially decided to participate, to choose to withdraw its investment.
 - If a borough chooses to invest, it will be able to choose which asset classes to invest into, and how much it might invest into each asset class.
 - The boroughs should have sufficient control over the ACS Operator, in order to be assured that it will be acting in their best interests.
 - The ACS Operator would provide regular information to participating boroughs regarding the performance of managers, investment options, and other areas, so that information continues to be available to the same extent it is currently in order for boroughs to make investment decisions.

- Authorities seeking to invest in the ACS will also take a shareholding interest in the Operator (and have membership of the Pensions CIV Joint Committee).
- The ACS will not increase the overall investment risk faced by boroughs.

4.5 It is proposed that a new ‘Pensions CIV Joint Committee’ will be established under the existing London Councils arrangements to assist in the appointment of directors to the ACS Operator. The Pensions CIV Joint Committee will comprise elected Councillors nominated by participating boroughs as provided for under the existing London Councils Governing Agreement. Information will be provided regularly by the ACS and the ACS Operator to local authorities investing, and their Pension Committees and officers, and the Pensions CIV Joint Committee. Borough treasurers will provide advice to both the borough Pension Committees (as they do now) and to their authority’s representative on the Pensions CIV Joint Committee.

4.6 The governance arrangements and lines of communication between various interested parties are illustrated in Figure 1 below.

Figure 1 – CIV governance and communication lines



- 4.7 A proposal will be prepared for Leaders Committee to consider in the Autumn 2014 which will provide a clear timetable and costs for obtaining regulatory approval for the ACS Operator and the ACS, request a commitment for the initial capital of c. £100,000 from those authorities wishing to participate such that the ACS Operator can be authorised and request funding for establishing the initial staffing of the ACS Operator, and to meet any further establishment costs.
- 4.8 Initially, the ACS Operator will only require minimal share capital and, as such, it is recommended that each borough that wishes to proceed will acquire £1 of share capital in the company. Immediately before the ACS Operator receives regulatory approval (expected to be 4th quarter 2014 or 1st quarter 2015), it will require capital of c£100,000. It is proposed that this capital would be contributed by those boroughs who choose to move forward with the ACS in Autumn. For example; if 10 boroughs decided to proceed with the ACS in Autumn, this would require a capital contribution of £10k per borough.
- 4.9 Once the ACS starts receiving investments it will require additional capital. It is proposed that boroughs who invest pension assets in the ACS would contribute capital to the ACS Operator in proportion to the assets invested. This is expected to be circa two to three basis points of assets invested (e.g. for £5bn of assets invested in the ACS, the ACS Operator would require capital of £1m to £1.5m). It should be noted that this contribution is an investment rather than an expense as this capital would be invested in liquid assets such as gilts rather than being used to pay expenses.
- 4.10 It is not expected that this model should materially impact any return to the boroughs as the funds invested could be from existing pension assets which are currently invested in gilts or similar investments. As such the borough fund could retain exactly the same investment profile, except for a very small proportion of its assets invested via gilts and held indirectly through the ACS Operator rather than directly as at present.
- 4.11 It should be noted that boroughs who contribute the initial £1 of share capital will be under no obligation to make any further capital payments to the ACS operator.
- 4.12 Savings and costs have been analysed for assets under management of £24bn, £10bn and £5bn. It is considered that a reasonable minimum target size of assets under management for the ACS is in the range of £5bn. Expected savings per annum have been estimated at £25m, with ongoing costs of £2.75m and establishment costs of £1.4m.

5. FINANCIAL IMPLICATIONS

- 5.1 There are no financial implications arising directly from this report. A more detailed report with financial implications will be presented at the next PIC meeting in June once further progress on the CIV has developed.

6. LEGAL IMPLICATIONS

- 6.1. London Councils are taking external expert legal advice upon the relevant powers for London Councils to participate in a London LGPS Collective Investment Vehicle (CIV) and on the appropriate structure and governance arrangements for the ACS Operator to ensure compliance with each Administering Authority's Statutory duties in relation to the Fund. Any decision to enter into such an arrangement and the

checks and balances which will be required to protect the Fund will be considered in the light of such advice.

- 6.2. The ACS will be subject to the regulatory control of the Financial Conduct Authority.
- 6.3. If the Council does determine to invest in the CIV, then such investment will be subject to the Council's published Statement of Investment Principles, (which itself will need amending to reflect the establishment of the CIV) and the relevant investment thresholds prescribed in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, as amended which set limits on the percentage of the fund which can be invested in different types of investment.

7. CRIME AND DISORDER IMPLICATIONS

- 7.1 There are no crime and disorder implications directly arising from this report.

8. EQUALITIES IMPLICATIONS

- 8.1 There are no equalities implications directly arising from this report.

9. ENVIRONMENTAL IMPLICATIONS

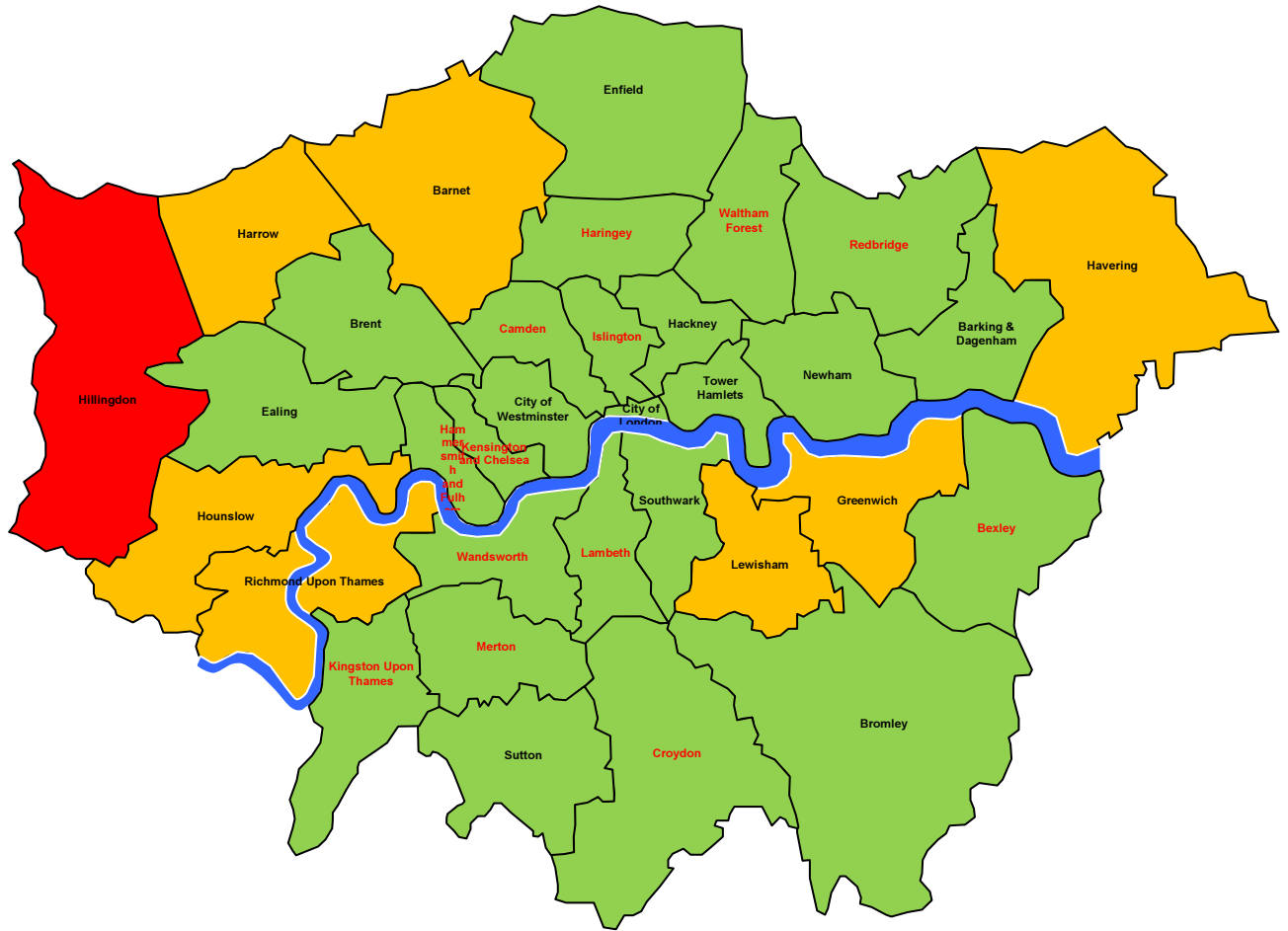
- 9.1 There are no environmental implications directly arising from this report.




FURTHER INFORMATION

If there are any queries on this report or you require further information, please contact:

Selwyn Thompson, Group Finance Manager, Strategic Finance on 020 8314 6932,
Shola Ojo, Principal Accountant Strategic, Finance on 020 8314 7778

Appendix 1: Participation of London Boroughs to date



-  Engaged and willing to provide funds for start up costs
-  No firm position, but not against, no commitment to provide funds for start up costs
-  Not engaging at this point