PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	London LGPS Collective Investment Vehicle - update		
KEY DECISION	No	**Item No:**	
WARD	N/A		
CONTRIBUTORS	Head of Corporate Resources		
CLASS	Part 1	**Date:**	2 September 2015

1. SUMMARY

1.1 This report seeks members agreement to invest £150,000 required for regulatory capital for the London Local Government Pension Scheme Collective Investment Vehicle Ltd (London CIV) and to delegate authority for moving Pension assets into the London CIV to the Executive Director for Resources and Regeneration in consultation with the Chair of the Pension Investment Committee (PIC).

2. RECOMMENDATION

2.1 The Committee is recommended to:

1. Approve the payment of an annual service charge of £25,000 to support the operational costs of the London CIV while the Council remains an owner of the company.

2. Approve the payment of £150,000 to the London CIV for use as regulatory capital to meet the requirements for Financial Conduct Authority authorisation.

3. Approve, where circumstances arise and the PIC is not available for consultation, to delegate authority to the Executive Director of Resources and Regeneration in consultation with the Chair of PIC to authorise the transition of pension fund assets into the London CIV. This is subject to the necessary financial due diligence being performed by officers and relevant professional (financial and legal) advice being received.

3. BACKGROUND

3.1 The London Local Government Pension Scheme Collective Investment Vehicle (London CIV) was created by London Councils coming together in response to Government papers dating back to June 2013. Government Ministers have shown significant interest in the LGPS over the last two years and have been particularly keen to consider options for reform that might deliver cost savings and efficiencies.

3.2 Under the leadership of the London Councils, the London CIV has become a reality in the form of a limited company owned by the London Boroughs. The CIV is in the process of being reviewed for regulatory approval. Which, once granted, will enable it to begin to take on pension fund mandates from London Boroughs.

4. PROGRESS

4.1 On 17th July 2014 the London LGPS CIV Limited (trading as London CIV) was incorporated. Thirty London local authorities (including Lewisham) have become shareholders and active participants in the CIV programme and have each contributed £50,000.

4.2 The London CIV has made significant progress, some of which is briefed below:

- Appointment of Northern Trust as the Asset Servicer for the London CIV. This includes depositary, fund administration and custody services.
- Submission of the regulatory application for Company authorisation to the Financial Conduct Authority (FCA) on 26th June 2015.
- Appointment of Hugh Grover as interim Chief Executive of London CIV for a period of 18 months starting from 1 May 2015.
- The establishment of the Pensions CIV Joint Committee (first meeting December 2014).
- The formation of a new officer committee, the Investment Advisory Committee, under the leadership of the Society of London Treasurers.
- Commencement of the recruitment process for permanent Board members.
- Discussions with fund managers with similar mandates with more than one London Borough to explore the opportunities for consolidating these funds.

5. SERVICE CHARGE

5.1 The Pension Joint service committee have made the decision to put in place an annual service charge (currently set at £25,000). This will be a fixed fee and will not be dependent on the size of the fund, or whether you have decided to move Pension Fund assets into the CIV.

6. REGULATORY CAPITAL

6.1 It is a regulatory requirement for a Company managing and operating an Authorised Contractual Scheme (ACS) fund to have a minimum level of 'regulatory' capital (RC) that is separately identifiable and readily available (liquid). RC is required to ensure the ongoing viability of a Company faced with an unforeseen event that might otherwise cause its insolvency, and to cover the potential exposure of the Company to professional liability in respect of all its activities. Effectively it is a reserve designed to protect investors in the fund (not investors in the Company) by ensuring that the Company can continue trading if faced with an unplanned liability or event that might otherwise put it out of business. While it might be argued that the nature of the CIV and its relationship with its investors (who at the outset at least are all also owners of the Company) makes the need for such protection less necessary, there are no exceptions or exemptions under the regulations.

6.2 The proposal is that each participating borough should contribute equal amounts in the form of share capital. It is permissible to invest regulatory capital to generate a return (and this would be the intention for the CIV) but it must be in near-cash assets (e.g. gilts).

6.3 The amount of regulatory capital required at any point in time is dictated by a formula (broadly driven by the quantum of assets under management) up to a maximum of £10 million. It is proposed that the boroughs each contribute share capital of £150,000 at the outset which will effectively over-capitalise the Company but is estimated to address the regulatory capital issue at least through the first three years of the CIV's development.

6.4 It should be noted that the injection of RC by the participating boroughs should be seen effectively as an investment and not expenditure, as it will remain as an asset of the borough and will be invested by the Company in liquid assets which will generate a return.

7. DELEGATION OF AUTHORITY TO TRANSFER FUNDS

7.1 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.

7.2 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 by Autumn 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.

7.3 Accordingly, in order that the Council can start to receive CIV fee reduction benefits as soon as possible it is proposed to delegate authority to the Executive Director for Resources and Regeneration 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 Executive Director for Resources and Regeneration will be in consultation with the Chair of PIC, and having regard to the necessary financial due diligence being performed by officers and relevant professional (financial and legal) advice being received.

7.4 The necessary due diligence will include, but not be limited to, assessing the potential benefits from transitioning into common mandates at the same time as other boroughs, the cost of transition, the tax and crossing risks of the structures to be operated by the CIV compared to current arrangements, the difference in management fee, and any impact on the balance of the Council's overall fund structure and assets held in line with the agreed investment strategy.

8. FINANCIAL IMPLICATIONS

8.1 The payment of £150,000 will be considered as an investment and not a contribution. This means that if Lewisham was to withdrawn the equity, the money will be refunded after a one year notice period. While invested, the Joint Pension Committee of the London CIV will decide what will happen to the return gained from this shareholding.

8.2 If Local Authorities outside of London decide to invest in the London CIV, then there is the potential that the regulatory capital will need to be increased, and this will mean more contributions from the Shareholders. The Joint Pension Committee has decided that this class of shareholding, as with the voting shares, should be restricted to the London Boroughs.

9. LEGAL IMPLICATIONS

9.1 Paragraph 4 of this Report updates the Committee with the progress of the CIV. It has yet to be approved by the FCA for trading but is at an advanced state of preparation.

9.2 As set out in the body of the Report, the CIV will require operating capital to enable it to meet all of the expenses of running the company. This is proposed to be met by a service charge of £25,000 from each Council so long as it has an ownership stake in the company. This is not an unreasonable requirement if the company is to be well run for the interests of its shareholders.

9.3 It is recommended that the Committee also agree to an initial investment of £150,000 as a contribution to the CIV's regulatory capital as required by law and explained at paragraph 6 of this Report. Again, the Council, as Administering Authority for its Pension Fund and a shareholder in the CIV, (which is wholly owned by the 30 London Councils) must ensure that that the capital required by the company is sufficient to meets its legal obligations to investors in the fund and any professional liability in relation to the same.

9.4 The Pensions Investment Committee has been delegated with the responsibility of exercising all functions of the Council in relation to local government pensions under the Superannuation Act 1972 and all other relevant pensions legislation including the overall investment strategy and policies of the fund. It is therefore the appropriate body to make the decision whether to invest in the CIV.

9.5 If the Committee 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.

9.6 The recommendation to delegate authority to the Executive Director of Resources and Regeneration in consultation with the Chair of PIC to authorise the transition of pension fund assets into the London CIV is permissible under the Schedule of Delegation to officers in relation to the functions of the Pensions Investment Committee under the Council's Constitution. As stated in the Recommendation, this is subject to the necessary financial due diligence being performed by the Executive Director of Resources and Regeneration and relevant professional (financial and legal) advice being received. Any decision taken by the Executive Director would have to be reported back to the Committee.

10. CRIME AND DISORDER IMPLICATIONS

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

11. EQUALITIES IMPLICATIONS

11.1 The Equality Act 2010 became law in October 2010. The Act aims to streamline all previous anti-discrimination laws within a Single Act. The new public sector

Equality Duty, which is part of the Equality Act 2010, came into effect on the 5 April 2011.

11.2 The Council's Comprehensive Equality Scheme for 2012-16 provides an overarching framework and focus for the Council's work on equalities and helps ensure compliance with the Equality Act 2010. No direct equalities implications have been identified, in terms of adverse impact, with respect to the Council's obligations under the Equality Act 2010.

12. ENVIRONMENTAL IMPLICATIONS

12.1 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:

David Austin on 020 8314 9114, or Adeola Odeneye Principal Accountant Strategic Finance on 020 8314 6147

Background Documents

London LGPS Collective Investment Vehicle	26 Jun 2014	http://councilmeetings.lewisham.gov.uk/documents/s29590/item%208%20Collective%20Investment.pdf
Briefing on a London LGPS Collective Investment Vehicle	20 Feb 2014	http://councilmeetings.lewisham.gov.uk/documents/s27484/Collective%20Investment%20Vehicle%20Brieifing%20for%20PIC.pdf
Update on the Local Government Pension Scheme reforms	2 Sep 2013	http://councilmeetings.lewisham.gov.uk/documents/s24288/Item%206%20-%20LGPS%20Reform%20-%20PIC0200913.pdf