

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Pensions Investment Committee – Pensions Update		
KEY DECISION	No	Item No:	6
WARD	N/A		
CONTRIBUTORS	Head of Corporate Resources		
CLASS	Part 1	Date:	22 June 2017

1. PURPOSE

- 1.1. This paper provides members with an update on several pension related matters in the last period.

2. RECOMMENDATIONS

- 2.1. Members are asked to agree to the following recommendations:

- As per section 4.11, option A:
To maintain the current life fund structure within the BlackRock mandate and take advantage of the fee reduction backdated to January 2017.
- As per section 4.13, to ask officers to approach UBS with a view to discussing similar arrangements to the BlackRock offer for a fee reduction.
- Agree the revision to the Investment Strategy Statement for rebalancing as set out in the table at 4.15.

- 2.2. Members are asked to note the remainder of the report.

3. BACKGROUND

- 3.1. This briefing will provide a summary of current topics relating to pensions and address standing items on the agenda, following on from actions requested in previous meetings.

4. CURRENT CONSIDERATIONS

Pension Board

- 4.1. The Pension Board has not met in the last quarter. Efforts are now being made to contact existing Board members to confirm their continued interest in serving, before any forthcoming meetings can be scheduled. Further developments will be reported on at the next meeting of the PIC.

London Collective Investment Vehicle (CIV) – General Update

- 4.2. The Pensions Sectoral Joint Committee (PSJC) continue to meet, with the Chair of PIC representing Lewisham Pension Fund's interests. The Head of Corporate Resources and Principal Accountant are also in regular contact with the CIV.
- 4.3. To date, none of the funds launched by the CIV have been funds Lewisham are invested in or planning to invest in. The CIV currently offers two global equity and four multi-asset funds; by September 2017 it will have launched a further six funds; one UK Equity and an additional five global equity funds.
- 4.4. The CIV is preparing to procure and launch a range of fixed income funds, including multi-asset income funds with targeted returns (e.g. 4-6% and 6-8%). This was originally scheduled for March 2018 but has been brought forward. The CIV is now working to have these fixed income funds available by December 2017.
- 4.5. The inaugural CIV annual conference was held in March 2017 and included opportunities to meet the managers of the funds on the CIV platform. Next year's meeting will be held in June 2018
- 4.6. The Training schedule in Appendix 2 includes CIV seminars and events suitable for members currently planned to take place this year. Further information on these events can be obtained by emailing jill.davys@londonciv.org.uk.

CIV – Transition to BlackRock ACS Structure

- 4.7. BlackRock have launched a new World ex-UK Authorised Contractual Scheme (ACS) equity fund for CIV members with opening assets of £2.1bn and are seeking to obtain final decisions from London Boroughs regarding their intentions on switching into the fund. This would be a two-step process, moving from the current life funds (from 2018 LGPS will not be able to open new life funds) to the ACS World ex-UK structure, before transitioning from BlackRock to the CIV platform.
- 4.8. The CIV is structured as an ACS so, under current regulations, cannot take on life funds. ACS are likely to grow and become the more common structure in the industry as they are being marketed to a range of investors besides pension funds. The ACS fund is slightly more tax efficient than life structures, and is no more complicated from an administrative point of view.
- 4.9. BlackRock have proposed a reduced fee structure for those Funds transitioning to the ACS mandate backdated to January 2017, but have also offered the same reduced fees for those Funds choosing to remain in their current state. At present the Government has accepted that life fund assets can remain outside of the CIV, although they may enforce the change to ACS at a later date.
- 4.10. If Lewisham opted to convert the current life fund structure there would be a transition cost incurred to move to the ACS mandate. Based on the fund value at the end of February 2017 this was quoted as 0.04% of the total value of BlackRock equity holdings (or approximately £150,000). Relative to the current fee structure this would represent an approximate nine month payback period.

- 4.11. The options available to members are as follows:
- A. Maintain the current life fund structure within the BlackRock mandate and take advantage of the fee reduction backdated to January 2017.
 - B. Move to the new ACS structure now and take advantage of the backdated fee reduction, with a view to transitioning to the CIV platform in 2018.
- 4.12. The advantages of both options are access to the offered fee savings from BlackRock. In both cases a levy as a proportion of the fee reduction will be paid to the London CIV by Lewisham. The disadvantage of option A is that it defers the decision to move to the emerging common industry ACS structure with the risk that the cost of change may be more expensive in the future. The disadvantage of option B is that it incurs cost now without a guarantee that the transition will be needed or whether this is a mandate that will move to the CIV.
- 4.13. The recommendation from the Fund's advisors Hymans Robertson is to pursue option A. Officers believe this option is also consistent with the majority of other London Pension Funds faced with the same choice.
- 4.14. Given the BlackRock proposals for fee reductions, there is a possibility that UBS would also consider fee reductions for the similar mandate Lewisham holds with them. Officers recommend approaching UBS to discuss fee arrangements.

Rebalancing of the Fund

- 4.15. The first phase of disinvestment from equities for investment into the Invesco Global Targeted Returns Fund (GTRF) and the pending alternative credit mandate is currently in progress and should be completed by the end of June 2017.
- 4.16. Approximately £155m of equities are being sold from the UBS and BlackRock mandates, representing 12% of the total assets held by the Fund as at 31 May 2017. Half of this will be invested with Invesco, the other half temporarily retained as cash for future investment into new the alternative credit mandate. Table 1 shows asset allocations following the completion of this stage of the disinvestment against the updated medium term benchmark allocations.

Table 1 – Asset Allocation Following Completion of Phase One

Fund Manager	Asset Class	Asset Value at 31 May 17	Adjusted Asset Value (Following Completion of Phase One)	Movement in Fund	Actual Asset Allocation	Updated Medium Term Benchmark
		£m	£m		%	%
BlackRock	Equities	433.12	355.57	(6.00%)	27.51%	27.45%
UBS	Equities	426.11	348.56	(6.00%)	26.96%	27.45%
BlackRock	Bonds	126.14	126.14	-	9.76%	9.55%
UBS	Bonds	126.03	126.03	-	9.75%	9.55%
Harbourvest	Private Equity	50.80	50.80	-	3.93%	3.00%

Fund Manager	Asset Class	Asset Value at 31 May 17 £m	Adjusted Asset Value (Following Completion of Phase One) £m	Movement in Fund	Actual Asset Allocation %	Updated Medium Term Benchmark %
Schroders	Property	102.59	102.59	-	7.94%	10.00%
M&G	Alternative Credit	8.88	8.88	-	0.69%	1.00%
To be confirmed	Alternative Credit	-	77.55	6.00%	6.00%	6.00%
Invesco	Diversified Growth	-	77.55	6.00%	6.00%	6.00%
Northern Trust	Securities Lending	0.12	0.12	-	0.01%	-
	Cash Holdings	18.71	18.71	-	1.45%	-
	Total	1,292.50	1,292.50	-	100.00%	100.00%

4.17. The second phase of rebalancing will take place later in the year and will form part of the agenda at the next PIC meeting in September.

4.18. Consistent with the agreed Funding Strategy and Investment Strategy at the end of 2016/17, PIC are asked to agree the update to the fund allocations following this rebalancing and that the Investment Strategy Statement be updated to reflect this.

Government Policy Changes

4.19. No specific changes. There have been some minor developments with regards to the MiFID II legislation coming into force on 1 January 2018. Pressure has continued to be applied to the Financial Conduct Authority (FCA) to consider its position with regards to the classification of local authority pension funds and treasury operations. Whilst no formal response has been received, feedback from the LGA and a recent meeting of the All Parliamentary Party Group for LGPS suggest that the opt-up process from retail to professional status will be simplified from initial proposals. A recent survey from CIPFA revealed that they are developing an online portal, 'Public Sector Link', which will allow authorities to upload their key organisational data in a consistent format which can be transmitted to multiple financial institutions, allowing them to be elected up to professional status. Further updates will be provided at the next meeting of the PIC.

Work Programme

4.20. The 2017/18 work programme for the Committee can be found in Appendix 1 and is consistent with the PIC's Terms of Reference as per the Council's Constitution. The programme is subject to amendment as the year progresses.

Training

- 4.21. A selection of conferences, workshops and seminars for the last two quarters of 2017 have been listed in Appendix 2. Should members find any of the sessions of interest, or have identified other training they would like to attend, please can they keep the Governance Team or Principal Accountant for Treasury and Pensions informed.
- 4.22. Officers continue to recommend the excellent training tools available via the Pensions Regulator at: <http://www.thepensionsregulator.gov.uk/public-service-schemes/learn-about-managing-public-service-schemes.aspx>. In addition, as members have previously reported that this was a helpful resource, copies (or links) to Russell's Fiduciary Handbook are also available.

Other Matters

- 4.23. None to note.

5. FINANCIAL IMPLICATIONS

- 5.1. The financial implications arising directly from this report relate to the options for accepting a fee reduction on the BlackRock passive mandate. These are set out in section 4 of the report and will reduce the funds costs in 2017/18.

6. LEGAL IMPLICATIONS

- 6.1. It is within the powers of this committee to agree changes to the fund mandates. Proper independent advice must be taken.

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.

APPENDICES

Appendix 1 – Work Programme for PIC 2017/18

Appendix 2 – Training Programme Quarters 3 & 4 2017

FURTHER INFORMATION

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

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