

<b>PENSIONS INVESTMENT COMMITTEE</b>			
<b>REPORT TITLE</b>	Pensions Investment Committee – Pensions Update		
<b>KEY DECISION</b>	No	<b>Item No:</b>	
<b>WARD</b>	N/A		
<b>CONTRIBUTORS</b>	Head of Corporate Resources		
<b>CLASS</b>	Part 1	<b>Date:</b>	September 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:

- To note the potential impact on investment strategy of becoming a retail client, with effect from 3 January 2018, under MiFID II as per sections 4.1 to 4.8.
- To agree to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure that officers can continue to implement an effective investment strategy, as per section 4.7.
- In electing for professional client status, to acknowledge and agree to forgo the protections available to retail clients as per Appendix 1.
- To delegate responsibility to officers, specifically the Head of Corporate Resources and Principal Accountant for Pensions and Treasury, for the purposes of completing the applications and determining the basis of each application as either full or single service, as per section 4.8

- 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

### **Markets in Financial Instruments Directive (MiFID II)**

- 4.1. From from 3 January 2018 local authorities will no longer be automatically classified as “professional clients” in respect of business carried out within the

scope of MiFID and must instead be classified as “retail clients”, unless they are “opted up” by firms to an “elective professional client” status. The impact of this is that all financial services firms like banks, brokers, advisers and fund managers will have to treat local authorities the same way they do non-professional individuals and small businesses.

- 4.2. Retail client status offers a raft of protections ensuring that investment products are suitable for the customer’s needs, and that all the risks and features have been fully explained, providing a higher standard of protection for the client. It also involves more work and potential cost for both the firm and the client, for the purpose of proving to the regulator that all such requirements have been met.
- 4.3. Such protections would come at the price of local authorities not being able to access the wide range of assets needed to implement an effective, diversified investment strategy. Retail status would significantly restrict the range of financial institutions and instruments available to authorities. Many institutions currently servicing the LGPS are not authorised to deal with retail clients and may not wish to undergo the required changes to resources and permissions in order to do so; even if they did, the range of instruments they could offer would be limited and exclude many of the asset classes currently included in LGPS fund portfolios.
- 4.4. MiFID II allows for retail clients to “opt up” to professional status by complying with a set of quantitative and qualitative tests, which have been updated after successful lobbying from the Scheme Advisory Board (SAB) and the Local Government Association (LGA) to make them better suited to Local Authorities. The new quantitative test recognises the status of LGPS administering authorities as a providing a “pass”, whilst the qualitative tests now assess the knowledge and abilities of the authority as a collective rather than for any one individual.
- 4.5. Appendix 1 summarises the protections in place for a retail client which would be lost if a request to be treated as a professional client is agreed (and, as the Fund is currently treated as a professional investor, these protections are not currently applicable). Applications to institutions can be made in respect of all services offered by that institution (even if not already accessed) or a particular service only, and do not need to be renewed on a regular basis (although institutions must be notified of any change in circumstances which may affect classification, such as a loss of experience through a change of committee membership).
- 4.6. LGPS pools will be professional investors in their own right so will not need to opt up with the external institutions they use. Local authorities will however need to opt up with their LGPS pool in order to access the full range of services and sub-funds on offer.
- 4.7. The election to professional status must be completed with all financial institutions prior to the change of status on 3 January 2018, and should commence as soon as possible to ensure completion in good time. Failure to do so would result in a financial institution having to take “appropriate action” which could include a termination of the relationship at a significant financial risk to the authority. A standard opt up process with letter and template questionnaire has been developed by the SAB and LGA to enable a consistent approach for all authorities across all institutions.

- 4.8. Officers recommend that members grant the necessary delegation to make applications on the authority's behalf and to determine the nature of the application on either a full or single service basis.

### **London Collective Investment Vehicle (CIV) – General Update**

- 4.9. The Pensions Sectoral Joint Committee (PSJC) continue to meet, with the Chair of PIC representing Lewisham Pension Fund's interests; the next meeting is scheduled for the 13<sup>th</sup> September 2017. The Head of Corporate Resources and Principal Accountant are also in regular contact with the CIV.
- 4.10. 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 three global equity, one UK equity and four multi-asset funds; by the end of September 2017 it will have launched a further four global equity funds.
- 4.11. The CIV has begun its preparations to launch a range of fixed income products by the end of the calendar year and has undertaken a tender process to appoint an adviser to assist in the search of suitable managers.
- 4.12. The Training schedule in Appendix 2 includes CIV seminars and events suitable for members currently planned to take place later this year. Further information on these events can be obtained by emailing [chloe.crouch@londonciv.org.uk](mailto:chloe.crouch@londonciv.org.uk).

### **Pension Board**

- 4.13. The Pension Board has not met in the last quarter. Efforts are being made to re-establish the board and schedule a meeting in the next quarter. Further developments will be reported on at the next meeting of the PIC.

### **Pension Fund Accounts**

- 4.14. The external audit of the financial statements for 2016/17 has been largely completed, with the final findings report to be agreed and reported to Audit Panel later in September. Some non-material adjustments were identified during the audit which focus mainly on the content and format of certain disclosure notes, and officers have processed and updated the accounts accordingly. These will be brought to the November meeting of PIC together with the Annual Report.

### **Actions Arising From Previous Pension Investment Committee:**

- 4.15. BlackRock have been notified of the Committee's decision to remain in our current life fund structure and take advantage of a backdated fee reduction; they are in the process of amending their agreement to reflect this.
- 4.16. The second phase of the disinvestment from equities has been pushed back due to delays in completing the first phase. Additional rebalancing of the funds will take place later in the year and form part of the agenda at the next PIC meeting in November.
- 4.17. Members are reminded of the rescheduled infrastructure training session due to take place in early October 2017, the date to be confirmed. This will help inform decisions taken at Committee with regards to phase two of the rebalancing of the Fund.

## **Training**

- 4.18. A selection of conferences, workshops and seminars for the last quarter of 2017 has 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.
- 4.19. 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, Russell's Fiduciary Handbook – "A step-by-step guide to pension fund investment strategy" is available online at: <https://russellinvestments.com/-/media/files/emea/institutions/russell-investments-fiduciary-handbook-combined.pdf>.

## **5. FINANCIAL IMPLICATIONS**

- 5.1. The financial implications arising directly from this report relate to the impact on the Fund's investment strategy should the Committee decide not to opt up to professional client status under MiFID II. Not only would investment opportunities be limited in the future, but the Fund would have to take significant action to address restrictions placed on the asset types available to retail investors. This is explained in section 4 of the report, as well as the process for opting up to professional status.

## **6. LEGAL IMPLICATIONS**

- 6.1. Legal implications to follow.

## **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 – Summary of Protections Lost as a Retail Client

Appendix 2 – Training Programme Quarter 4 2017

## **FURTHER INFORMATION**

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

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