



Pension Fund Sub-Committee
17 November 2015

Report from the Chief Finance Officer

For Information

Wards Affected:
ALL

**London Local Government Pension Scheme
Collective Investment Vehicle**

INTRODUCTION

The purpose of this briefing note is to update members on recent progress in developing the collective investment vehicle and implications for the pension fund.

BACKGROUND INFORMATION

1. The Local Government Pensions Scheme (LGPS) is distinct from other main public sector schemes in that it is funded. This means that contributions from employers and employees are placed in a fund that is then invested in assets such as equities, property and government bonds. A good return on investment is therefore crucial to the sustainability of the pension fund as any deficit is met from the council's revenue budget.
2. In London there are 33 local government pension schemes, administered by each London borough and by the City Corporation. Partly in response to the government's review in summer 2014 of the LGPS, which considered opportunities for collaboration, cost savings and efficiencies, work has been under way to identify ways in which pension schemes can operate together to achieve financial benefits and economies of scale. One option identified is the establishment of a collective investment vehicle (CIV) and in February 2014 the London Councils Leaders' Committee agreed to recommend to all boroughs the establishment of a CIV.
3. Participation in the CIV and agreement to become a shareholder, including a contribution of £1 as initial capital, was approved and formed the London boroughs "Pension CIV Joint Committee", a new representative body to be established for those local authorities agreeing to participate and also agreed to delegate to the director of finance to act for the council in exercising its rights as a shareholder. The report noted that in addition to set up costs, share capital which was then estimated at £100,000 would be needed to achieve regulatory clearance from the Financial Conduct Authority (FCA) to enable it to trade.
4. Since then, a company, the London LGPS CIV Ltd, has been incorporated and a Pensions CIV Sectoral Joint Committee has been set up. This comprises elected members of participating local authorities whose role is to over see the CIV, including the consideration of appropriate governance arrangements, and to act as a platform for shareholder meetings and decision making. Further progress in 2015 is set out in the paragraphs below.

RECENT PROGRESS

5. Progress made in 2015 in relation to the establishment of the CIV has been significant. Thirty one London boroughs have agreed to participate . Key matters considered have been:
 - The establishment of the operating company (London LGPS CIV Ltd) and its governance arrangements
 - The appointment of an asset servicer, Northern Trust, for the CIV. Its role is the provision of depositary, custodian, fund accountant, transfer agency and tax reclaims services
 - Its role as a forum for shareholders in the CIV.
6. Interim directors of the CIV (London Councils' Chair, Vice Chairs and chief executive, two borough treasurers, and the Chamberlain of the City of London) have met and considered or ratified decisions concerning:
 - Procurement activity, including the recruitment of permanent executive and non-executive members of the board, and legal and technical advisers
 - The appointment of Northern Trust as asset servicer
 - The recruitment process for senior executives and future board members.
7. A technical sub-group has been set up and has considered:
 - The process by which fund managers with whom boroughs currently invest might come on to the CIV
 - The process of narrowing down those managers for the launch phase of the CIV and proposals put forward by those managers for reducing fees and for the scope of investment
 - The initial structures and governance modelling of the CIV and methods by which the borough will interact with it
 - Procurements including the reviewing and ratification of candidate responses
 - An initial paper on regulatory capital requirements to meet liquidity needs as set out by the FCA.
8. Although the government has not yet published its response to the 2014 LGPS review, working together through a CIV is in line with the reform proposals outlined in the consultation document.
9. Articles of association and a shareholders' agreement were agreed at the Pensions Joint Committee's meeting on 23 September 2015 for final adoption, and in the case of the shareholders' agreement, signature.
10. Paragraph 3 above noted the requirement for regulatory capital, needed to satisfy the FCA that the company would be able to discharge its financial obligations in the event of failure. This is now estimated to be in the region of £150,000 for each participating borough.
11. Fund managers with multiple mandates across London have provided offers for fees for inclusion in the CIV and it is expected that boroughs which currently invest with those managers will be asked in the near future if they would wish to transfer existing funds with that manager to the CIV under the CIV fee schedule. Those boroughs that wish to do this will need to sign contracts and transfer funds once the FCA has cleared the CIV to operate. It is imperative that this can be done speedily to avoid the risk of delaying the launch of the CIV, thereby reducing the immediate benefits to the boroughs.

12. The council does currently invest with managers who have provided fees for inclusion in the CIV and the option of transferring funds to the CIV will therefore be available in the near future. In the event that there are financial benefits from transferring funds to the CIV, the council may take decisions to transfer pension fund assets to the CIV and enter into the appropriate contractual arrangements needed to achieve this.

IMPLICATIONS FOR THE BRENT PENSION FUND

13. The mandates included in the launch phase of the CIV will facilitate the Brent fund investing all passive global equities Legal and General Investment Management (£245.6m as at 30 October 2015).

14. CONTACT OFFICERS

- 14.1 Persons wishing to discuss the above should contact the Investment and Pensions Section, Governance and Corporate Services, on 020 8937 1472 at Brent Civic Centre.

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