



Pensions Fund Sub-Committee
28 June 2016

**Report from the Chief Finance
Officer**

For Decision-Making

Wards affected:
ALL

LONDON CIV and Asset Transfers

1.0 Summary

- 1.1 The purpose of this report is to remind members on recent progress in developing the collective investment vehicle and implications for the pension fund as well as decisions they have to make regarding transferring investments to the Collective Investment Vehicle.

2.0 Recommendations

- 2.1 This report recommends that the Committee agrees the Legal & General Investment Transfer.
- 2.2 This report also recommends that the Committee delegates to the Chief Finance Officer permission to execute this transfer as appropriate.

3.0 Detail

- 3.1 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. Contributions, together with the returns on these investments are then used to pay pensions as they fall due and to provide funding for future liabilities. 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 through increases in the contribution rate, which is set on a triennial basis.

- 3.2 In London there are 33 local government pension schemes, administered by each London borough and by the City Corporation and 31 decided to establish a collective investment vehicle (CIV). The CIV would be able to obtain lower investment fees due to the economies of scale and manage risk more effectively and access a wider range of investment opportunities through the sheer scale of the pooled resources. However, the allocation of funds would be set locally due to different risk appetites, levels of under-funding and differing scheme participant profiles.
- 3.3 Participation in the CIV, agreement to become a shareholder, including a contribution of £1 as initial capital, was approved. The London boroughs created a new representative body called "Pension CIV Joint Committee", to provide the necessary governance oversight. Brent also agreed to delegate to the Chief Finance Officer to act for the council in exercising its rights as a shareholder.
- 3.4 The initial paper on regulatory capital requirements to meet liquidity needs as set out by the FCA. Brent Council, along with fellow members of CIV, was required to make an immediate upfront cash infusion of £150,000 to meet FCA capital regulatory requirements. This was paid by the Pension Fund and is recorded in the draft 2015/16 Pension Fund Accounts as an investment.
- 3.5 The London LGPS CIV Ltd was incorporated and a Pensions CIV Sectoral Joint Committee has been set up. This comprises elected members of participating local authorities whose role is to oversee the CIV, including the consideration of appropriate governance arrangements, as well as acting as a platform for shareholder meetings and decision-making.
- 3.6 The company (London LGPS CIV Ltd) set its governance arrangements and appointed Northern Trust as the asset servicer to act as depository, custodian, fund accountant, tax reclaims servicer and transfer agent.
- 3.7 Interim directors of the CIV (London Councils' Chair, Vice Chairs and chief executive, two borough treasurers, and the Chamberlain of the City of London) met and considered or ratified decisions concerning procurement activity, constitution of the board and recruitment process for the board and senior executives. 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.
- 3.8 A technical sub-group was set up and decided the choice of fund managers for the launch phase of the CIV, how to reduce fees and the scope of investment and the first procurements. They also determined the governance structure and how the CIV would interact with the Councils.
- 3.9 The FCA cleared the CIV to operate and to consolidate funds. Brent is now examining its funds and where appropriate to Brent's underlying strategy and providing clear financial benefit, would transfer them to the CIV. Where the CIV offers the materially same funds, with the exception of lower fees, this

advantage is clear to Brent to consolidate but this requires there to be such options available. For many of Brent's smaller fund allocations, this is not the case presently.

- 3.10 Following the success of the pooling of the Baillie-Gifford managed items, next up is Legal and General Investment Management (£287.6m as at 31 March 2016 Draft Accounts or 45% of Pension Fund Assets, as opposed to £254.3m or 40% of the 2014/15 Accounts). However, it is important to note that it is imperative that the transfer is done speedily to avoid the risk of delaying the launch of the CIV, thereby reducing the immediate benefits to Brent.
- 3.11 Ultimately, the Pension Liability is driven by the level of contributions, the level of investment performance, the management fees and overheads and the outgoing payments to fund members. Reducing the level of fees has a material impact on the Pension Fund total long-term performance and the inter-related deficit.
- 3.12 The existing fees for Legal & General are £228k and the future fees are estimated to be £146k, leading to a savings of £82k from the proposed transfer. There is also an additional £86k per annum savings, due to favourable tax withholding benefits. To achieve this, there is a one-off estimated £59k transition charge. However, all costs and savings are subject to the original caveat around speedy transfers by all participating boroughs.
- 3.13 The Council is being asked by the London CIV to confirm its intention to migrate across by the middle of July 15th.

4.0 Financial Implications

- 4.1 The Financial Implications in the Pension Fund are that Council should £86K of savings.

5.0 Legal Implications

- 5.1 Not Applicable

6.0 Diversity Implications

- 6.1 Not Applicable

7.0 Staffing/Accommodation Implications (if appropriate)

- 7.1

Background Papers

Contact Officers

Persons wishing to discuss the above should contact Conrad Hall, Chief Finance Officer, Investment and Pensions Section, Finance, on 020 8937 6528, conrad.hall@brent.gov.uk at Brent Civic Centre