



City of Westminster

# Committee Report

<b>Decision Maker:</b>	<b>PENSION FUND COMMITTEE</b>
<b>Date:</b>	<b>22 March 2016</b>
<b>Classification:</b>	<b>General Release</b>
<b>Title:</b>	<b>Asset Pooling and the London Collective Investment Vehicle - Update</b>
<b>Wards Affected:</b>	<b>All</b>
<b>Policy Context:</b>	<b>Effective control over Council Activities</b>
<b>Financial Summary:</b>	<b>There are no immediate financial implications arising from this report.</b>
<b>Report of:</b>	<b>Steven Mair</b> <i>City Treasurer</i> <a href="mailto:smair@westminster.gov.uk">smair@westminster.gov.uk</a> <b>020 7641 2904</b>

## 1. Executive Summary

- 1.1 The Government consultation on the pooling of Local Government Pension Scheme (LGPS) assets states an intention for there to be six pools of assets of around £25bn nationally with a proposal to change the investment regulations to enforce the pooling. Westminster as shareholders of the London Collective Investment Vehicle (CIV), are signatories to the initial response to the Government from the London CIV.
- 1.2 The London CIV has achieved regulatory status and has already taken on some assets from London Pension Funds. It is proposed to transfer the assets managed by Bailie Gifford in late May / early June 2016. The transfer of the LGIM assets is currently expected to take place in June 2016.

## 2. Recommendation

- 2.1 That the Committee delegate to the City Treasurer, in consultation with the Chair of the Pension Fund Committee, the decision to agree to the transition of Pension Fund assets to the London CIV where the Fund

has a pre-existing relationship with the investment manager and where the transfer of such assets is financially advantageous to the Pension Fund.

### **3. Reasons for decision**

- 3.1 The agreement of this delegation will allow officers, in consultation with the Chair, to proceed with the transfer of assets to the London CIV between meetings and secure fee savings at the earliest opportunity.

### **4. Introduction and background**

- 4.1 On 7th April 2014 Cabinet agreed that Westminster City Council be a shareholder in the Authorised Contractual Scheme (ACS) Operator set up to run the London LGPS Collective Investment Vehicle (London CIV). It was also agreed that the Chair of the Pension Fund Committee be appointed to the Pensions Joint Committee of elected members responsible for overseeing the London CIV.
- 4.2 An update on progress with the London CIV was reported to the Pension Fund Committee on 8th September 2015. At that meeting it was agreed that the Fund would invest £150,000 in the CIV to meet regulatory capital requirements and this investment was made in October 2015. It was also agreed that a further £25,000 contribution be made to the set up costs, taking the total contribution to £175,000. This was paid in October 2015.
- 4.3 On 25th November 2015 the Government published two consultation documents in which it confirmed its intention to require LGPS funds in England and Wales to form pools of assets of approximately £25bn with the purpose of saving investment management costs, improving performance and facilitating a greater investment in infrastructure. A response was required by 19th February 2016 on initial plans for pooling either individually or collectively, with a more detailed plan to follow by 15th July 2016.
- 4.4 Alongside the consultation on pooling, the Government published draft revised investment regulations for consultation. The aim of the proposed regulations is to ensure the regulatory framework allows pooling to take place. The proposals give wide intervention powers to the Government to enforce the pooling of assets and also seek to update the previous regulations much of which date from 1999.

### **5. Proposal and issues**

#### **Government consultation**

- 5.1 Following the Chancellor's Autumn Statement on 25<sup>th</sup> November 2015, the Government published its proposals and timetable for requiring LGPS schemes to pool their assets. The consultation documents were

emailed to the Pension Fund Committee members on 26<sup>th</sup> November 2015 and are attached at Appendices 1 and 2 for reference.

- 5.2 The consultation proposes that LGPS investments should be managed via six pools, each with a minimum of £25bn, which could be used to invest in infrastructure and local growth. Responses to this consultation were expected to set out a proposal based around four key criteria:
- Benefits of scale i.e. at least £25bn
  - Strong governance and decision making
  - Reduced costs but based upon more transparent reporting of costs
  - Capacity to invest in infrastructure
- 5.3 Initial proposals were to be submitted to the Government by 19<sup>th</sup> February 2016 and it was clarified that a collective response from each pool would be appropriate. As shareholders of the London CIV, Westminster City Council is one of the signatories of the response from the London CIV attached at Appendix 3. Each Fund will be expected to respond by 15<sup>th</sup> July 2016 with a commitment to a particular asset pool, and a profile of current costs and anticipated savings. This will include expected transition costs and any assets likely to be held outside the pool and the rationale for doing so e.g. private equity closed funds.
- 5.4 The Government are also consulting on revisions to the LGPS (Management and Investment of Funds) Regulations 2009 which aim to complement the above consultation. This is seeking to implement a 'prudential' approach to replace the currently prescribed investment limits set out in Schedule 1 of the 2009 Regulations. This will place the responsibility for setting a suitable diversified investment strategy on individual funds. However, in relaxing the Regulations it is proposed to introduce safeguards in the form of reserve powers for the Secretary of State to intervene at individual fund level to enforce pooling and if investment strategies do not adhere to regulation and guidance.

## **LONDON CIV UPDATE**

- 5.5 The London CIV has now achieved regulated status and has commenced the process of taking on the management of assets from London pension funds. Assets in the Allianz diversified growth fund involving three London funds were transferred in December 2015 and a further seven funds are transferring assets invested in Baillie Gifford's global equity and diversified growth funds in late May/early June 2016.
- 5.7 The current expected date for Legal & General Investment Management (LGIM) transfer is June 2016. The Pension Fund Committee is asked to agree the proposed delegation set out in section 2 to allow officers to progress the transfer of the Baillie Gifford and LGIM assets as soon as it is possible.

## 6. Options

- 6.1 As the City of Westminster Pension Fund is already a shareholder in the London CIV and has contributed to the set up costs and invested regulatory capital, it is appropriate for the Fund to pool assets in the London CIV. Although there are seven other pools being suggested nationally at this stage, no other pool is as advanced in terms of being able to take on assets and achieve fee savings.
- 6.2 As a founding shareholder of the London CIV, Westminster has the opportunity to influence the future direction through the Joint Committee which the Chair of the Pension Fund Committee sits on. It is not clear that this influence would be possible outside the London CIV. Although developments will be monitored as the other pools develop, it is believed the London CIV is the best option for Westminster.

**If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:**

**Nikki Parsons [nparsons@westminster.gov.uk](mailto:nparsons@westminster.gov.uk) or 020 7641 6925**

**BACKGROUND PAPERS:** None

### **APPENDICES:**

- Appendix 1 – Department of Communities and Local Government – LGPS: Revoking and replacing the LGPS (Management and Investment of Funds) Regulations 2009 consultation
- Appendix 2 – Department of Communities and Local Government – LGPS: Investment Reform Criteria and Guidance
- Appendix 3 – London CIV and participating boroughs response to the Government consultation