

Date:	10 May 2016
Classification:	General Release
Title:	Update on London CIV
Report of:	Steven Mair <i>City Treasurer</i>
Wards Involved:	All
Policy Context:	Discuss the Pension Fund's involvement with the London CIV
Financial Summary:	There are no financial implications arising from this report

1. Executive Summary

- 1.1 This report discusses the Pension Fund's involvement with the London CIV and the likely future impact of the Government's Pooling Criteria.

2. Key Matters for the Board

- 2.1 The Board is invited to note the contents of this paper

3. Background

- 3.1 The London CIV ("CIV") is a company owned by 32 London Boroughs. The CIV was established in 2014 at a time when there was widespread discussion of merging the London pension funds and was seen as a way to obtain the cost saving benefits of larger asset pools while leaving individual funds in place with retained responsible for investment strategy.
- 3.2 The London CIV governance structure is based around a Joint Committee that has one representative from each shareholder borough. This Committee appoints a board of directors who then appoint the senior management. The Joint Committee also discuss and agree the CIV's future plans. The Pension Fund has contributed £150,000 of share capital in addition to £75,000 towards the CIV's

establishment costs. Funding thereafter will be based on an annual fee of £25,000 plus a charge on the assets under management.

- 3.3 The objective of the CIV is to facilitate joint investment thereby saving costs for London Boroughs and increasing opportunities through larger asset values. The CIV aims to operate in full consultation with each borough in appointing fund managers. The structure ensures that the important decisions on asset strategy i.e. how much to invest in equities, bonds etc, remain a Council decision. Also whether to invest actively or passively is also a local decision.
- 3.4 Subsequent to the establishment of the London CIV, the Government issued 'Pooling Criteria' asking each local authority to develop plans to participate with other LGPS in collective asset pools, each of at least £25 billion. The criteria require that decisions on manager selection are made at pool level, that there is significant cost savings / enhanced performance and that there is a greater opportunity to invest in infrastructure. The Government are also consulting on new powers that will enable them to force funds to pool assets.
- 3.5 The Government required the Council to submit initial plans for meeting the pooling criteria in February (see attached) and more detailed plans are required by July 2016.
- 3.6 In addition to the London CIV, a further seven pools are under discussion, mostly on a regional basis. The CIV is by far the most advanced in terms of development and operation.
- 3.7 The CIV has commenced the process of taking on assets from London Boroughs. The starting point was to identify managers who had multiple identical mandates across London funds from which fee savings could be achieved. No changes are made to the underlying investments. The only change is the introduction of the CIV in the ownership structure sitting between the borough and the fund manager.
- 3.8 To date, three investment mandates have transferred to the London CIV, one of which involved the transfer of £180 million of Westminster assets – Baillie Gifford Global Active equities. Further manager transfers will take place during 2016 to achieve fee savings, the next is likely to be the passive global equity mandate with Legal & General (£240 million).
- 3.9 At this time it seems unlikely that the Government will change its intention that implementation of investment strategy will be undertaken at pool level. This will result in challenges for the Pension Committee who retain ultimate responsibility

for the performance of the fund but will have restricted choice in fund manager appointments.

- 3.10 Officers have been discussing the CIV's long term strategy with its senior management. The CIV will not be able to bring on board all fund managers who currently have mandates with London Councils. We have impressed on the CIV the need for a long term vision, in particular a fund manager / mandate structure, and to ensure that it is properly resourced to manage £25 billion of assets.

**If you have any queries about this Report or wish to inspect any of the
Background Papers please contact:**

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BACKGROUND PAPERS:

None

APPENDIX 1:

The February 2016 response to the Government's Pooling Criteria.