

# Committee Report

<b>Decision Maker:</b>	<b>PENSION FUND COMMITTEE</b>
<b>Date:</b>	<b>20 September 2016</b>
<b>Classification:</b>	<b>Public</b>
<b>Title:</b>	<b>Asset Pooling and London CIV Update</b>
<b>Wards Affected:</b>	<b>All</b>
<b>Policy Context:</b>	<b>Effective control over Council Activities</b>
<b>Financial Summary:</b>	Savings of approximately £170k per annum are expected from the fee reduction negotiated by the London CIV in discussions with Legal & General Investment Management. There are potential savings from the fee reductions proposed by Majedie and discussions are currently ongoing.
<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 This report provides an update on asset pooling with the London CIV and details the fee proposals offered by Legal & General and Majedie.
- 1.2 The paper also discussed the soon to expire Insight bond mandate and the options should it not be possible to further extend the contract until end 2017.

## 2. RECOMMENDATIONS

- 2.1 That the Committee note the contents of this paper.
- 2.2 The Committee agree to the transfer of the Majedie portfolio to the London CIV retaining a combined AuM (assets under management) and performance related fee subject to clarification on the impact of the termination of the current performance period.

- 2.3 The Committee agree to extend the current Insight mandate by a further 12 months to end 2017. If this is not possible within Westminster's procurement rules then to transfer both the Corporate and gilt mandates to the Insight UK Corporates All Maturities Bond Fund.

### **3. BACKGROUND**

- 4.1 The Committee received reports at its previous meetings explaining progress in establishing the London CIV; noting publication of the Government's Criteria for Pooling; and Westminster's responses to both the February and July criteria.
- 4.2 The last remaining London fund has now joined the London CIV from July and therefore all 33 London authorities are on board.

### **4. London CIV Joint Response to Investment Pooling**

- 4.1 The London CIV submitted the joint response to the DCLG in respect of pooling of investments, plus annexes by the 19 July 2016 deadline. These papers can be found at the following link:
- <http://londonciv.org.uk/2016/07/27/engaging-with-the-boroughs/>
- 4.2 The London CIV response addressed the governance structures, terms of reference, decision-making processes and implementation timetable. The key highlights of the response is summarised below:-
- It is anticipated that the pool will be fully operational by 2033 when all the funds would have transferred to the pool.
  - In the medium term it is expecting around 12.6% of the London LGPS investments will be illiquid and therefore held outside the pool. These assets types include private equities, infrastructure, property and hedge funds.

### **5. Take on of Assets By London CIV**

- 5.1 The mandates that have been transferred to the London CIV to date are:
- Baillie Gifford Global Alpha equities
  - Allianz Global equities
  - Pyrford International Ltd
  - Ruffer LLP
- 5.2 Mandates that are expected to pool in the next six months are:
- Newton
  - Majedie
  - BlackRock passive equities

- Longview

5.3 Three of the above mandates are held within the Westminster portfolio, namely Baillie Gifford, Majedie and Longview. No proposal is made in connection with Longview pending the conclusion of on-going fee negotiations.

#### Passive Equity Mandate – Legal & General Investment Management

5.4 The London CIV has negotiated a reduced fee scale with Legal & General passive mandate which would result into fee savings of approximately £170k for the Westminster portfolio. This is a significant reduction of around 75% and is backdated to 1<sup>st</sup> July 2016.

5.5 The City of Westminster Pension Fund invests over 20% (£243 million) of the fund in passive equities with LGIM. It was reported to the Committee at its last meeting in May, the transfer of passive equities to the CIV is less contentious, with costs being the main consideration.

5.6 There will be no requirement to transfer these assets to the CIV and the direct link with Legal & General will be maintained. Due to legal complexities around the life wrapper, the Government agreed that these structures could remain outside pooling provided fees were agreed centrally and there was an element of central monitoring.

#### Majedie Fee Proposals

5.7 Majedie has agreed a fee basis with London CIV and there will be an opportunity to move assets during quarter 4, 2016. Details of the fee proposals are included in Appendix 1 (exempt).

### **6. Insight Investment Contract**

6.1 At the November 2015 meeting, the Committee agreed to continue with the existing Insight Investment mandate and extend the contract until the end of 2016, by when it was hoped there would be more opportunities offered by the London CIV. This contract is again nearing its end date.

6.2 Ideally the Insight contract will be extended until the CIV's fixed income offering are known, which is anticipated by end 2017. If the Committee are satisfied with this option, discussions will be held with Procurement to agree a 12 month contract extension.

6.3 Initial discussions with Procurement indicate difficulties in achieving a contract extension due to the value of the contract. Undertaking a full tender exercise is likely to be recommended. This is not an attractive option in the time available and might result in a shorted lived mandate should the selected manager not be available on the CIV platform.

- 6.4 A better option than a full tender will be to transfer the existing Insight mandate from direct holdings to units in an Insight fund, the same structure as used in all the other investment portfolios. Acquiring units in a fund is an investment and not a procurement decision and therefore is not required to meet procurement rules.
- 6.5 The current Insight mandate is split as follows:
- |                                                                    |              |
|--------------------------------------------------------------------|--------------|
| Corporate Bonds (benchmark iBoxx Sterling Non Gilt 1-15 yrs Index) | £163 million |
| UK Government Bonds                                                | £19 million  |
- 6.6 Should it not be possible to extend the current contract, it is recommended that the gilt element is rolled up into the corporate bond allocation due to its small scale having no meaningful impact on the overall fund performance.
- 6.7 Insight does not have a fund with exactly the same benchmark as the current corporate bond holdings. Their fund offering, the UK Corporate All Maturities Bond Fund, is benchmarked against the iBoxx Sterling Non-Gilt All Maturities Index. There is 65% overlap between the existing holdings and this fund. The main difference is the extended average duration of the fund, 8.3 years v 5.7 years for the existing portfolio.
- 6.8 Transferring to the Insight fund will incur trading costs equivalent to the 0.2% of the fund value. These costs have been minimised as 69% of the current portfolio will transfer in-specie to the fund. Transaction costs associated with a new manager appointment will be considerably higher.
- 6.9 Insight has agreed to maintain the existing fee rates should Westminster transfer to the fund. The normal fee rates are higher as the fund has a higher performance target (1% p.a. over benchmark) than Westminster's current 0.9% over benchmark. Westminster will save on custody costs from moving from direct to pooled holdings. Both funds are managed the same team at Insight. A factsheet about the UK Corporate All Maturities Bond Fund is attached as Appendix 2.
- 6.10 Moving to the fund is not the preferred option, but is a better alternative than a full tender with unknown outcomes that might have a short life.

## 7. Conclusion

- 7.1 Local authorities continue to work towards meeting the Government's pooling criteria, in particular, to form pools of £25 billion.
- 7.2 Feedback from the Government to the July response is awaited.

- 7.3 Westminster will continue to transition 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, as per the delegation approved by the Committee at the March 2016 meeting.

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

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**BACKGROUND PAPERS:** None

**APPENDICES:**

Appendix 1 – EXEMPT – Majedie Fee Proposals

Appendix 2 – Insight UK Corporate All Maturities Factsheet