

# **Pension Board** TABLED DOCUMENTS

**DATE:** **Tuesday 12 September 2017**

**10. LONDON COLLECTIVE INVESTMENT VEHICLE UPDATE (Pages 3 - 42)**

Tabled presentation on pooling arrangements from representatives of London Collective Investment Vehicle attached

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# LONDON CIV



## **HARROW PENSIONS BOARD 12/09/2017**

# Agenda



- **CIV Update**
- **Stewardship & RI**

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## Attendees

- Jill Davys – Client Relations Director, LCIV

# CIV Update



- LCIV AUM £5.6bn – transitions of existing managers (as at 31 August 2107) under Commonality, Quantum and Conviction (CQC) with some individual fund subscriptions
- Harrow Transitioned £90m into Longview (first transaction with LCIV in August)
- Global Equity Procurement – 3 sub-fund launches, assess additional requirements with further launches to follow

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## Current funds available:

- 4 global equity funds:
  - LCIV Global Equity Alpha (management delegated to Allianz)
  - LCIV Global Alpha Growth (management delegated to Baillie Gifford)
  - LCIV NW Global Equity (management delegated to Newton)
  - LCIV LV Global Equity (management delegated to Longview)
- 1 UK equity:
  - LCIV MJ UK Equity (management delegated to Majedie)

## Current funds available:

- 4 multi-asset/total return funds:
  - LCIV BG DGF (direct investment into the Baillie Gifford Diversified Growth Fund)
  - LCIV NWT RR (direct investment into Newton Real Return Fund)
  - LCIV PY TR (direct investment into Pymford Real Return Fund)
  - LCIV RF AR (direct investment into Ruffer Absolute Return Fund)

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# CIV Update



## London CIV Sub-Funds as at 31/06/17 – Opened on CQC Basis

FUND (Underlying Manager)	PRICE (Pence)	FUND SIZE £M	Q2	YTD	1 year	SINCE INCEPTION	INCEPTION DATE	Number of Investors
<b>UK Equity Sub-Fund</b>								
<b>LCIV MJ UK Equity (Majedie)</b> <i>Benchmark: FTSE All Share Index</i> <b>Performance Against Benchmark</b>	97.4	£510	N/A	-2.60% -1.28% -1.32%	N/A	-2.60% -1.28% -1.32%	18/05/17	3
<b>Global Equity Sub-Funds</b>								
<b>LCIV Global Equity Alpha (Allianz Global Investors)</b> <i>Benchmark: MSCI World Net GBP Index</i> <b>Performance Against Benchmark</b>	133.3	£691	3.89% 0.14% 3.75%	10.95% 5.27% 5.68%	25.12% 21.64% 3.48%	35.95% 34.31% 1.64%	02/12/15	3
<b>LCIV BG Global Alpha Growth (Baillie Gifford)</b> <i>Benchmark: MSCI All Countries World Gross Index</i> <b>Performance Against Benchmark</b>	140.1	£1,674	4.62% 0.71% 3.91%	12.56% 6.12% 6.44%	31.13% 21.81% 9.32%	41.23% 33.53% 7.70%	11/04/16	9
<b>LCIV NW Global Equity (Newton)</b> <i>Benchmark: MSCI All Countries World Gross Index</i> <b>Performance Against Benchmark</b>	100.7	£659	N/A	0.70% 1.11% -0.41%	N/A	0.70% 1.11% -0.41%	22/05/17	3
<b>DGF/Total Return Sub-Funds</b>								
<b>LCIV PY Total Return (Pyrford)</b>	109.3	£225	0.18%	1.86%	5.60%	9.30%	17/06/16	3
<b>LCIV Diversified Growth (Baillie Gifford)</b>	116.2	£362	1.75%	4.63%	11.74%	16.77%	15/02/16	5
<b>LCIV RF Absolute Return (Ruffer)</b>	110.7	£473	-0.45%	-0.45%	8.61%	11.00%	21/06/16	5
<b>LCIV NW Real Return (Newton)</b>	104.6	£346	1.16%	3.16%	N/A	4.60%	16/12/16	3
<b>Total LCIV Assets Under Management</b>		<b>£4,940</b>						<b>18</b>

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Source: Bloomberg



Additional global equity sub-fund launches following procurement:

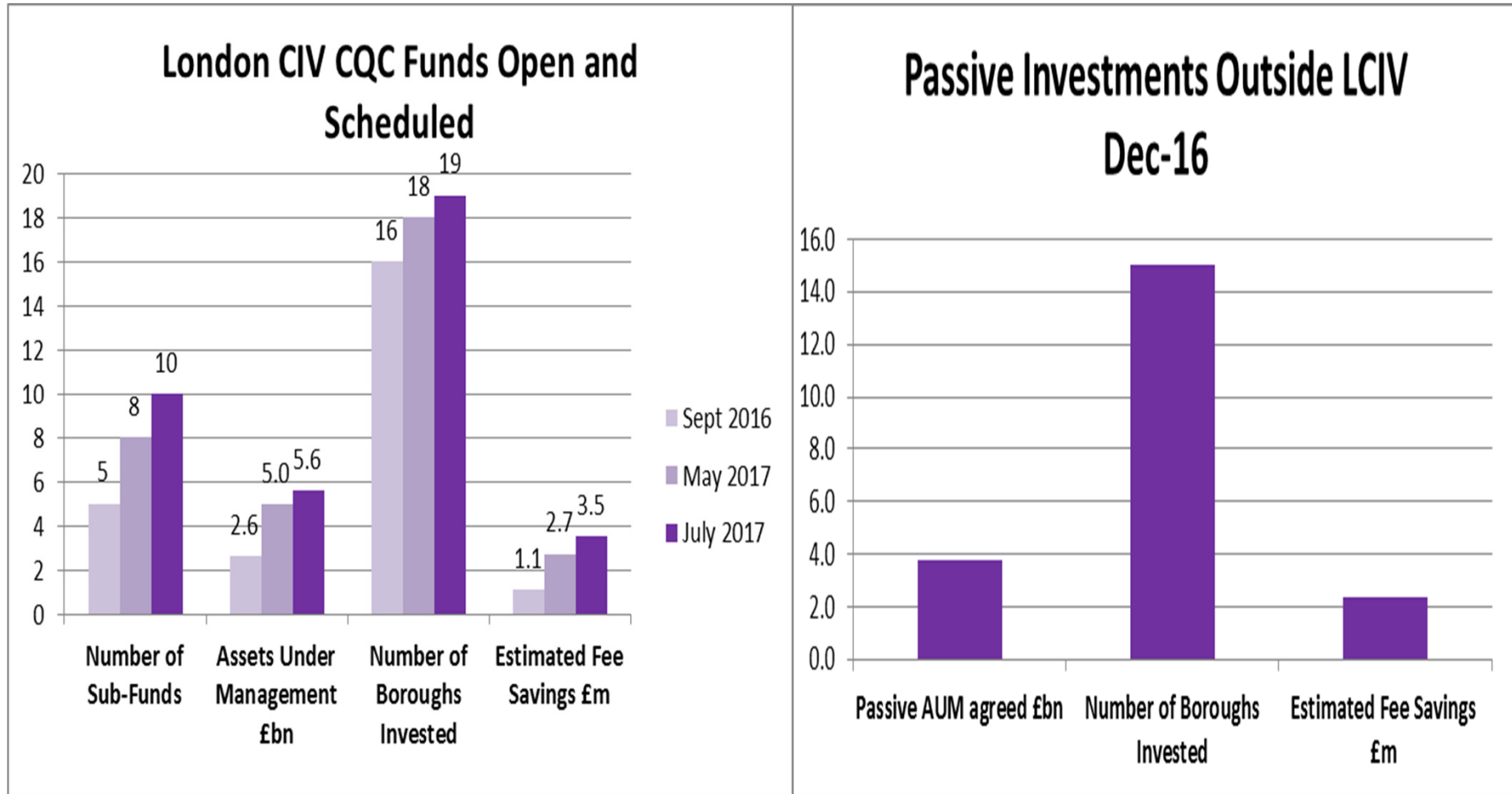
- Henderson Emerging Markets (17-07-17)\*
- Epoch Global Equity Income (21/09/17)
- RBC Sustainable Equity (21/09/17)
  
- Assessing options for further 2-3 sub-funds for December launch

\* Awaiting opening of Indian markets before accepting subscriptions

# CIV Update



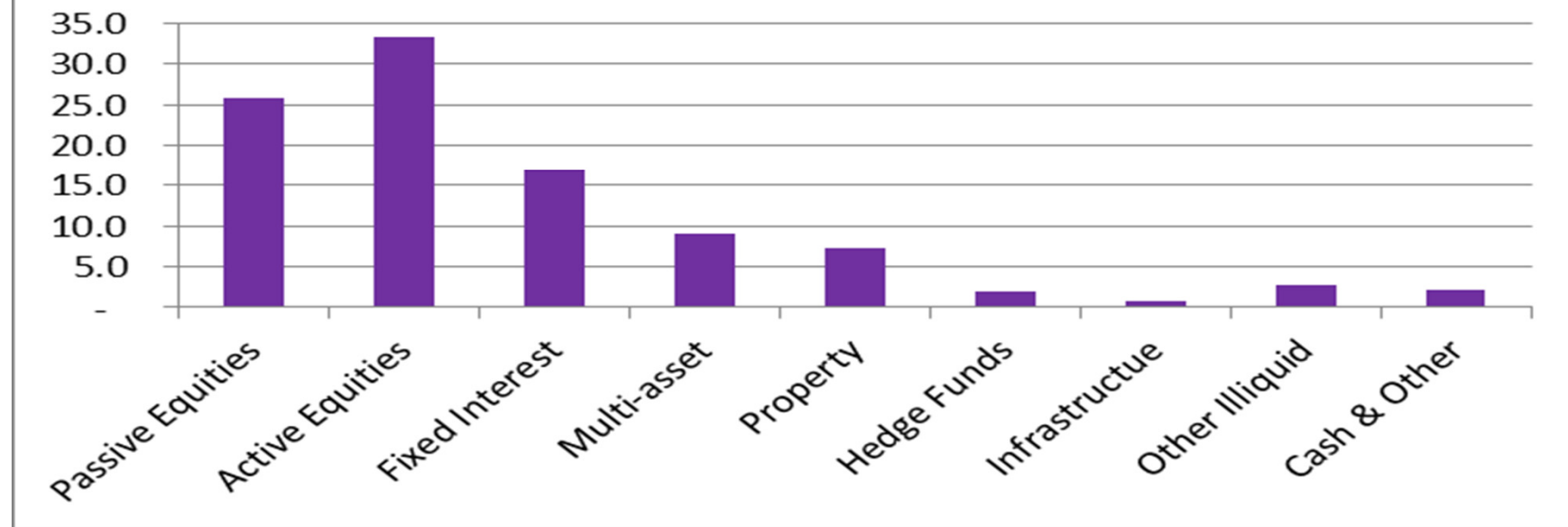
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**NB. Henderson Fund launched 17/07/17 – open for subscriptions later in the summer**

Where London Funds were invested at outset of Pooling:

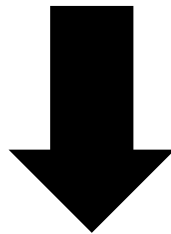
**London Funds Asset Allocation  
31/03/15 (%)**



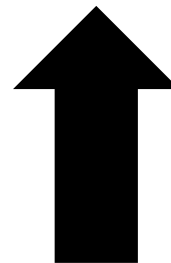
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## Changes to Strategic Asset Allocation

Equities  
Gilts



Multi-asset income  
Illiquid Credit  
Property  
Infrastructure



### Indicative Asset Allocation Movements

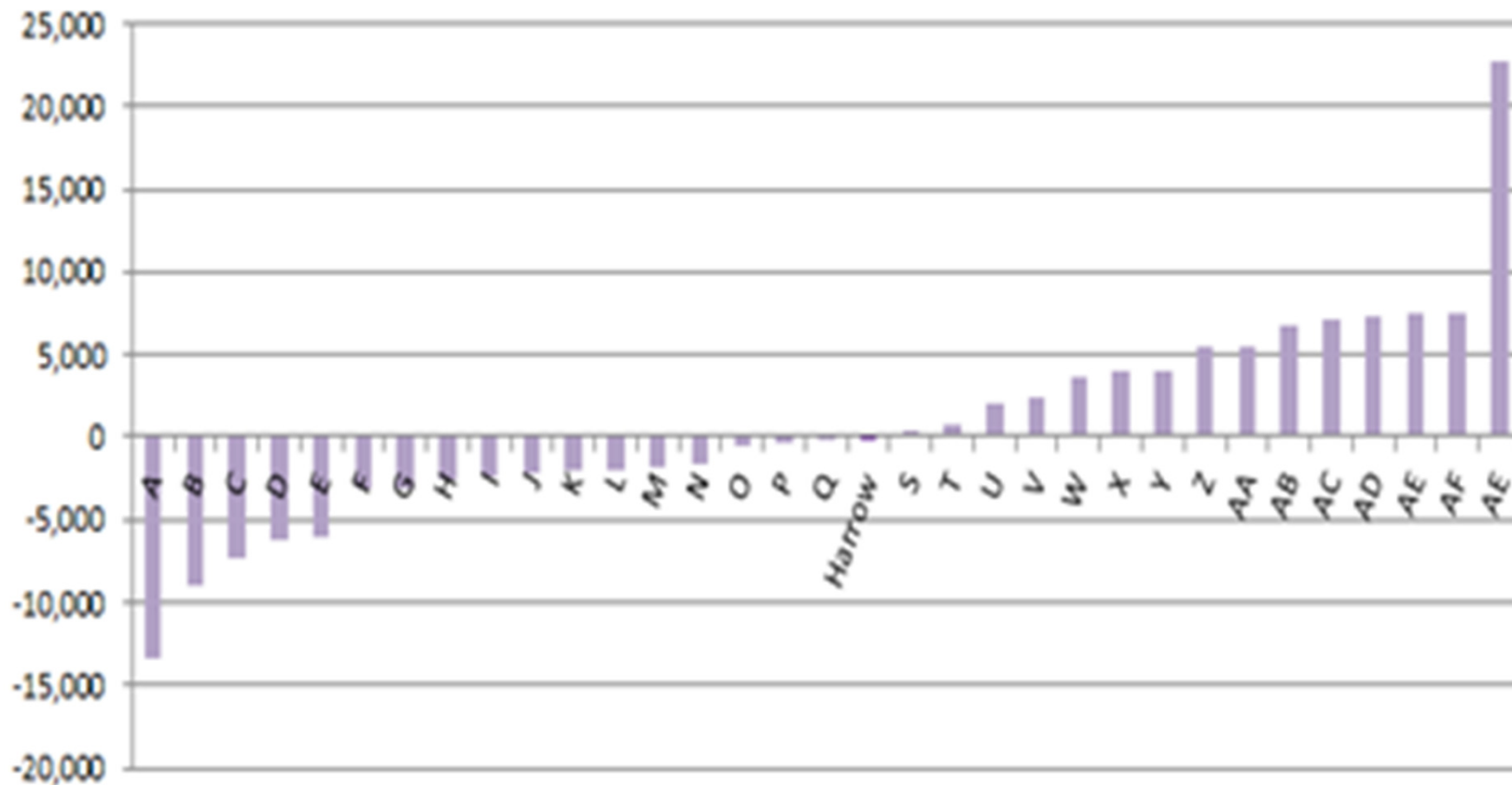
	Total £m
<b>AUM 31/12/16</b>	<b>32,626</b>
UK Equities	-63
UK Passive	-745
Global Equities	-567
Passive Global Equities	-432
DGF	-154
Index Linked Gilts	112
Gilts and other FI	-199
Multi-asset credit	134
Multi-asset income	426
Corporate Bonds	55
Hedge Funds	-57
Illiquid Credit Inc Private Debt	624
Private Equity	147
Property	615
Infrastructure	591

- LGPS Funds Pension Funds facing maturity as workforce shrinks leading to greater demand for assured cashflows
- Half of London funds cashflow negative before investment income (up from 1/3<sup>rd</sup>)
- Income sources scarce
- Building blocks with targeted returns

# CIV Update



## Cashflow Before Income (Pension Contributions less Benefits £-000) 31/03/16



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Given increased need for cashflow – LCIV focus now on Fixed Income

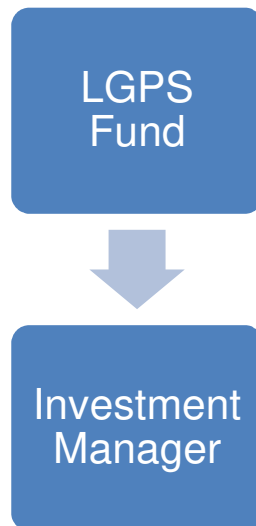
- Assessment of LLA Requirements
- Adviser Appointment
- Target sub-fund launches Q1 2018 (sooner if possible)
- Focus on areas of strongest demand – survey

# CIV Update

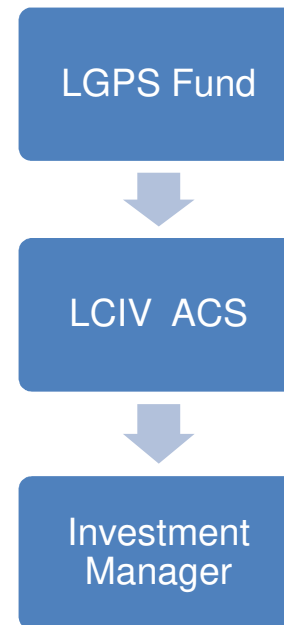


- Client Relationship Changes
- When you invest in the London CIV ACS your relationship with existing investment managers changes

## Previous / current relationships



## New relationships





## LCIV Oversight of Managers:

- Portfolio sits on the CIV - better governance, look-through
- Daily portfolio checks on CIV systems
- Quarterly Manager Review Meetings – robust challenge, write-ups sent to boroughs
- Managers monitored through CIV's regulated governance structure
- Boroughs contacted by CIV should any issues develop
- Opportunities to meet with the providers of all LCIV strategies
- Access to information on all investments, not just those invested with

# CIV Update



## LCIV Governance Review:

- Towers Watson appointed as advisers
- Review to take place over summer/autumn
- Report to Board, PSJC and Leaders Committee in autumn
- Review structures and roles & responsibilities
- Steering Committee:

Name	Title	Organisation	Steering Committee Role
<b>Mark Boleat (City of London)</b>	Chair	Pensions CIV Sectoral Joint Committee	Chair
<b>Lord Bob Kerslake</b>	Chair	London CIV	Vice Chair
<b>Cllr Yvonne Johnson (LB Ealing)</b>	Vice Chair	Pensions CIV Sectoral Joint Committee	Member
<b>Cllr Maurice Heaster (LB Wandsworth)</b>	Vice Chair	Pensions CIV Sectoral Joint Committee	Member
<b>Ian Williams (LB Hackney)</b>	Chair	Investment Advisory Committee and SLT	Member
<b>Gerald Almeroth (LB Sutton)</b>	Member	Investment Advisory Committee and SLT	Member
<b>Eric Mackay</b>	Non-Executive Director	London CIV	Member

## MiFID II

- All authorities retail on 3<sup>rd</sup> January
- Can opt up to professional (pensions and treasury separate processes)
- Lots of work with FCA to develop an understanding of LG and LGPS
- Qualitative test can be performed on the 'collective'
- Quantitative test now a tick box exercise (for pensions)
- Opt up can be for individual service or all products and services offered by the firm

## MiFID II

- Pool company will be professional or eligible counter party client
- LGPS Funds will need to opt up with pool company if it is providing an advice service for complex instruments
- LGPS Funds will need to opt up with each manager for complex instruments held outside of the pool
- LCIV will need to see opt-up paperwork asap to be able to assess London Boroughs

- Requirement for Funds – Investment Strategy Statement (ISS)
  - Regulation 7(2)(e) - How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments
  - Regulation 7(2)(f) - The exercise of rights (including voting rights) attaching to investments
- Good governance – integrated into the CIV process to hold managers to account for the monitoring of investments

# Stewardship & RI



## ► Fund ISS and ESG Statements & Voting

Borough	LAPFF	ESG Comments	Voting Comments	Stewardship Code	Stewardship Code Commitment
London Borough of Barking and Dagenham	Y	Restrict Direct Investments in Tobacco, but allow in pooled funds		N	Y
London Borough of Barnet	N			N	
London Borough of Bexley	N			Y - Tier 2	
London Borough of Brent	N			N	Y
London Borough of Bromley	N			N	
London Borough of Camden	Y		PIRC - voting provider	N	Y
City of London Corporation	Y			N	
London Borough of Croydon	Y	Largely passive in FTSE 4 Good Index		N	
London Borough of Ealing	Y			Y - Tier 2	
London Borough of Enfield	Y			N	Y
Royal Borough of Greenwich	Y			Y - Tier 2	
London Borough of Hackney	Y	Specific Targets on reducing exposure to fossil fuel		N	Y
London Borough of Hammersmith and Fulham	N			N	
London Borough of Haringey	Y	1/3rd of equity portfolio in passive tracking MSCI World Low Carbon	Committed to becoming a signatory of Stewardship Code	N	
London Borough of Harrow	Y			N	
London Borough of Havering	N			N	
London Borough of Hillingdon	N	Restrict Direct Investments in Tobacco, but allow in pooled funds		Y - Tier 2	
London Borough of Hounslow	Y		PIRC - voting provider	N	Y
London Borough of Islington	Y	Member of IIGCC, subsequently have invested in LGIM Low carbon fund	PIRC - voting provider	N	
Royal Borough of Kensington and Chelsea	N			N	
Kingston upon Thames	N			N	
London Borough of Lambeth	Y			N	
London Borough of Lewisham	Y			N	
London Borough of Merton	N			N	
London Borough of Newham	Y	Will consider excluding certain types of investment		N	
London Borough of Redbridge	Y			N	
London Borough of Southwark	Y	Committed to a long term process of cutting fossil fuel investments		N	Y
London Borough of Sutton	Y			N	
London Borough of Tower Hamlets	Y			N	
London Borough of Waltham Forest	Y			N	Y
London Borough of Wandsworth	Y			N	
Westminster City Council	N			N	
<b>LAPFF Members</b>					

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# Stewardship & RI



- Joint Committee –Policy Statement to adopt LAPFF guidelines for voting
- Joint Committee working group to consider whole area of Stewardship, Voting and ESG going forwards
- Officer Working Group on Stewardship
- Cross-Pool Working Group

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# Stewardship & RI



- Voting alerts and outcomes reported to PSJC
- Annual Voting report compiled
- Stewardship Code Compliance
  - <https://www.frc.org.uk/getattachment/0db5cb9c-78eb-4cd7-915f-9a9c9d2e5ad7/London-CIV-Stewardship-Code.pdf>
- Sustainable Equities as part of global equity procurement



- ESG Integration – emphasis on the G
- Governance is a key factor in affecting returns to shareholders
- Incorporated into quarterly review meetings
- Reporting on voting
- Requirements included in tenders going forwards

- Dedicated Funds – Sustainable Equities Mandate – RBC
- Consideration of low carbon passive fund
- Key is to provide choice to meet borough needs
- There may be strategies with restrictions – only those funds that want access to such strategies will invest
- Priority – You decide
- ***Ultimate decision to invest in a strategy resides with sovereign Borough***

# Stewardship & RI



- Stewardship Seminar – February 1st
- Low Carbon Workshop – September 19<sup>th</sup>

# APPENDICES

- Government Pooling Agenda – July 2016 Submission

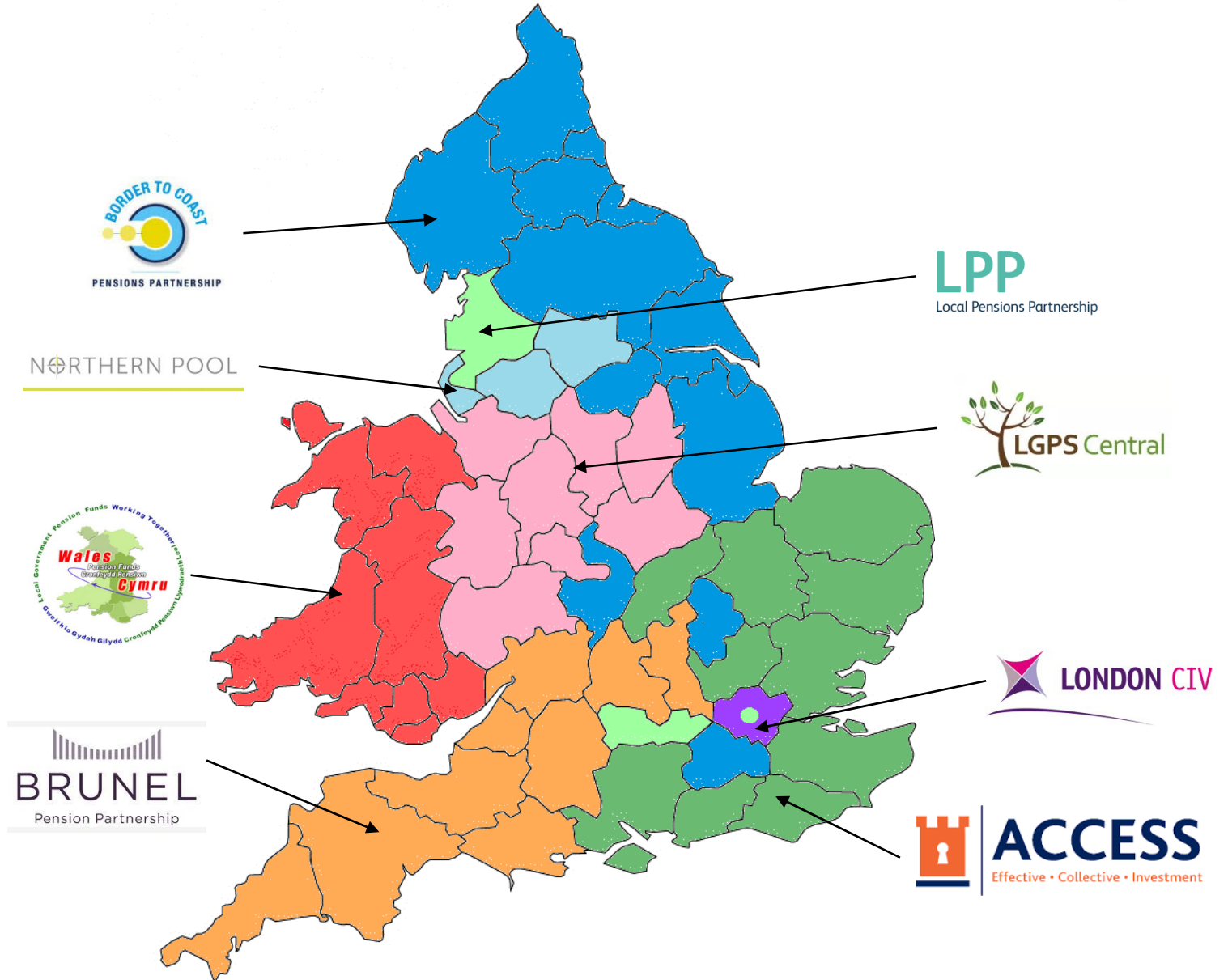
# Background - Pooling

- **Local Authorities Requirement to join a pool**  
(LGPS Management and Investment of Funds Regulations 2016 7(2)(d) – Statutory Guidance )
- **What are the options?**
  - 8 Pools
  - 2 operational and regulated – LCIV and LPP
  - 6 at various stages of development
- **London CIV Objective:**
  - London CIV aims to be the investment vehicle of choice for Local Authority Pension Funds through successful collaboration and delivery of compelling performance

# Pooling Landscape



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# Background - Pooling

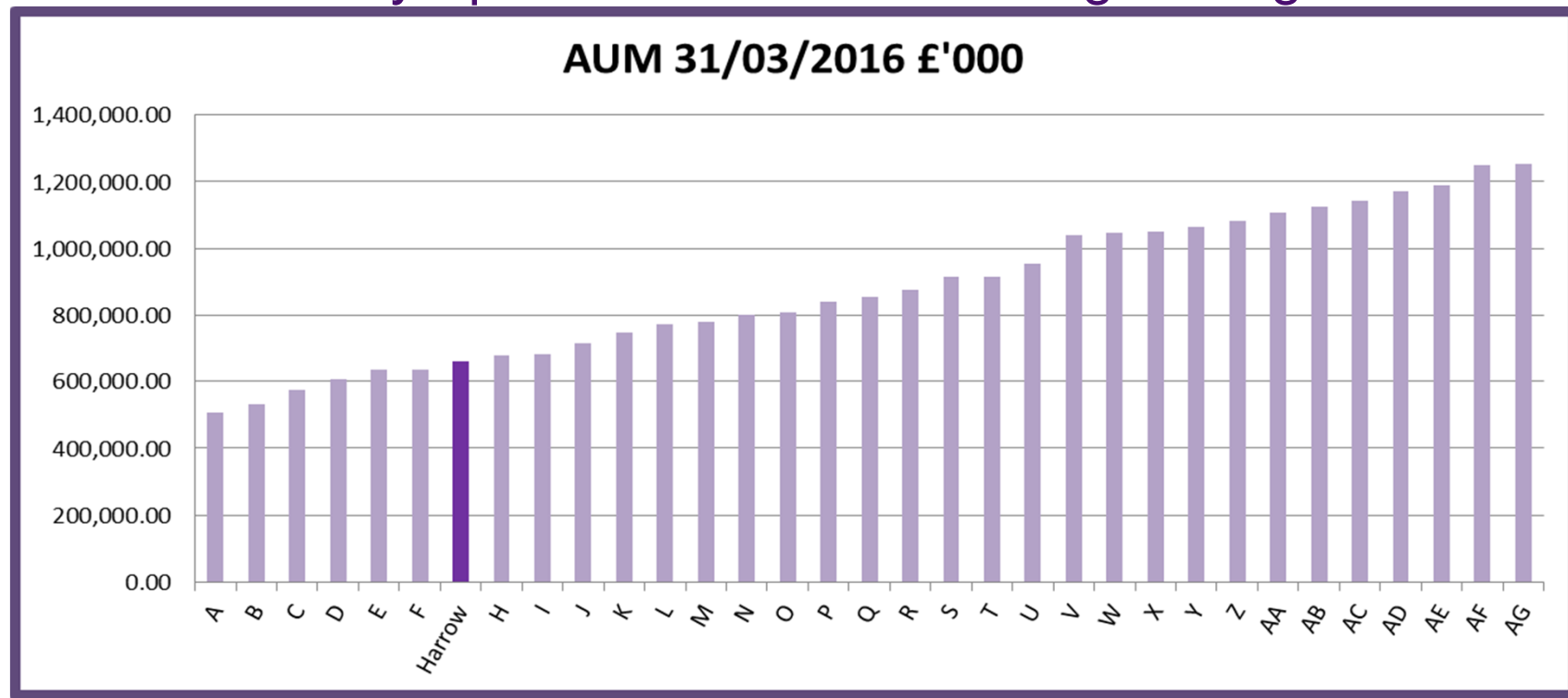
- November 2015 – Criteria & Guidance Published
  - Asset Pool(s) that achieve the Benefits of Scale
  - Strong Governance and Decision Making
  - Reduced Costs and Excellent Value for Money
  - An improved Capacity to Invest in Infrastructure

# Government Pooling Agenda Scale



- All 33 London local authorities
- £29.1bn total AUM at 31/03/15
- CIV already operational and delivering savings

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Source: LLA Report & Accounts 31/03/16

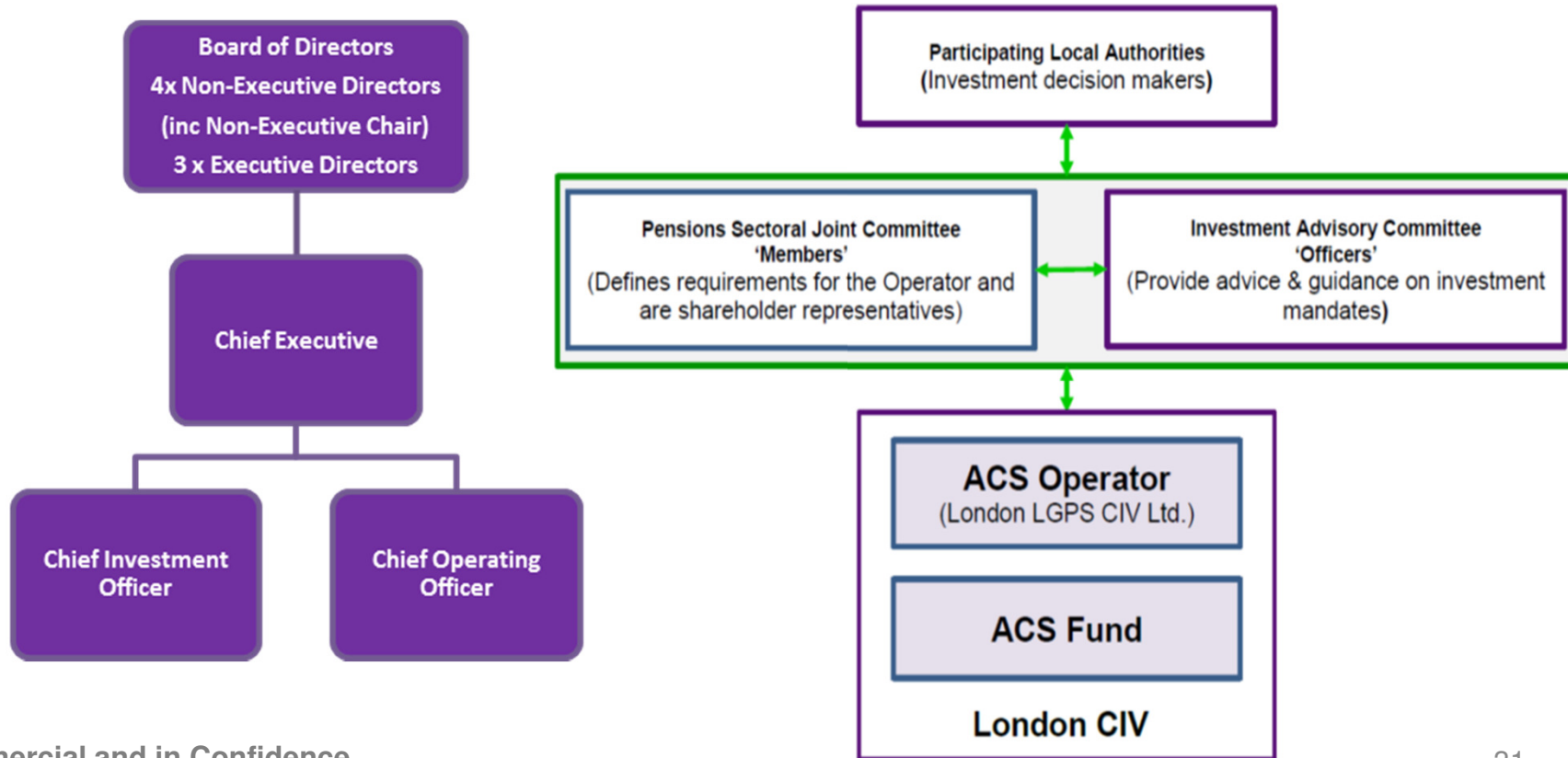


# Government Pooling Agenda – Governance



- Overall Governance Structure of London CIV
- Structures in place and operational

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# Governance & Decision Making



- Supervisory Body (PSJC)
  - Formal committee of London Councils
  - One elected Member per authority
  - Oversight and scrutiny of the pool as shareholders & investors
  - Recommending strategic objectives
- Investment Advisory Committee
  - 24 officers from participating authorities
  - Mix of Treasurers and Pension Fund Managers
  - Operates under the leadership of the Society of London Treasurers
  - Reports to the PSJC
  - Works with London CIV officers
  - Sub-groups covering e.g. global equity search and selection, RI & stewardship, and infrastructure

# Governance & Decision Making



- LGPS Pension Fund Level
  - Funding Strategy
  - Asset Allocation & Investment Strategy
  - Investment Strategy Statement
  - Appointment of Advisers
- London CIV Level
  - Appointment & removal of external 3<sup>rd</sup> party managers
  - Decisions on sub-fund structures and fund launches
  - All FCA Regulated Activities

# Costs & Savings

- Criterion C – Reduced costs and excellent value for money
  - Investment Management Costs as at 31/03/15

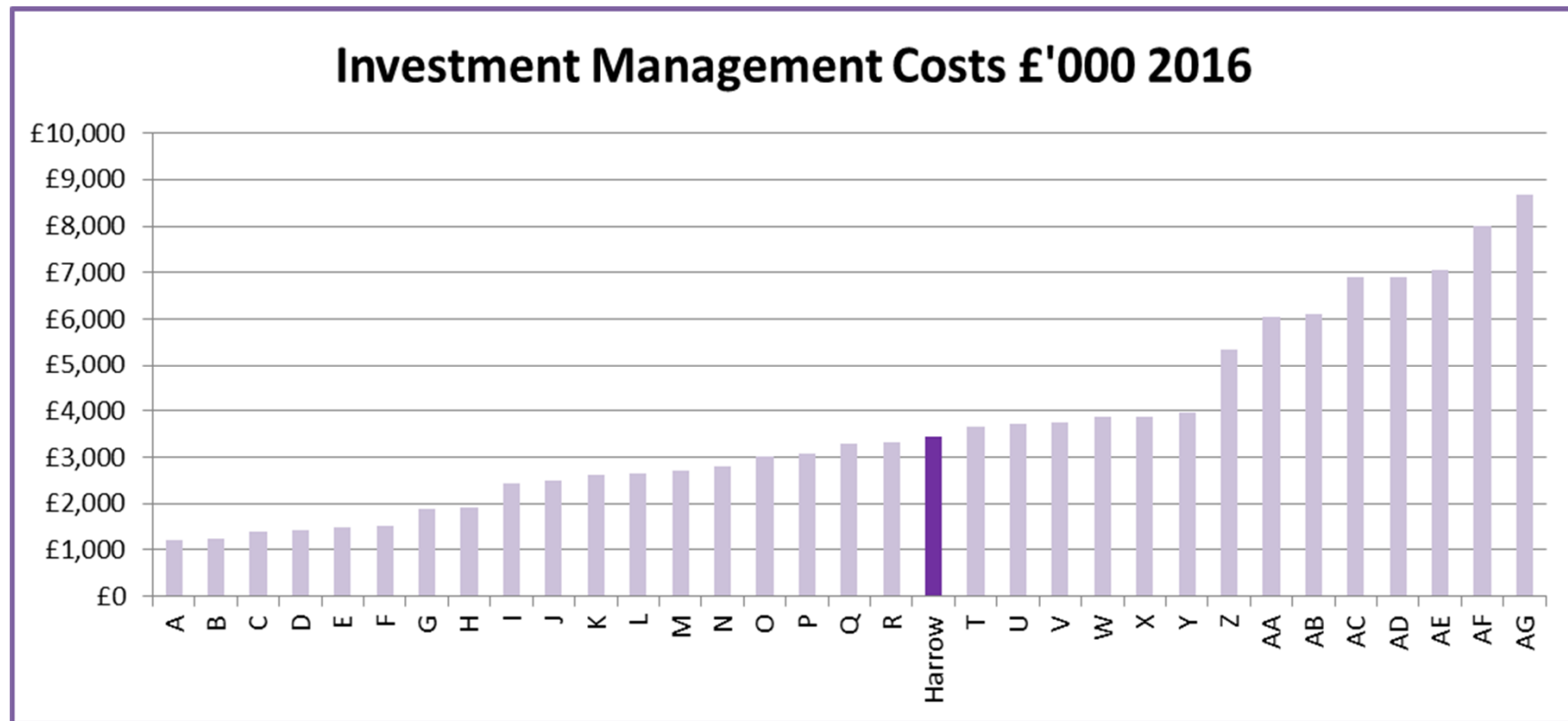
Investment Costs			
	AUM 2015 £'000	Inv Costs £'000	2015 bps
Reported Costs - all London Pension Funds	£29,097,214	£109,942	37.78

- Harrow: £3.45m or 52.2bp (31/03/16) – towards the upper end due to higher levels of active management

Estimated Fee Savings following transition			
Assumes Asset Allocation Remains Constant from 31/03/15			
	AUM	Low Estimate	High Estimate
Total	29,097,214	11,573	27,674

# Costs & Savings

- Criterion C – Reduced costs and excellent value for money
- London Funds £'000 paid for investment management 2016

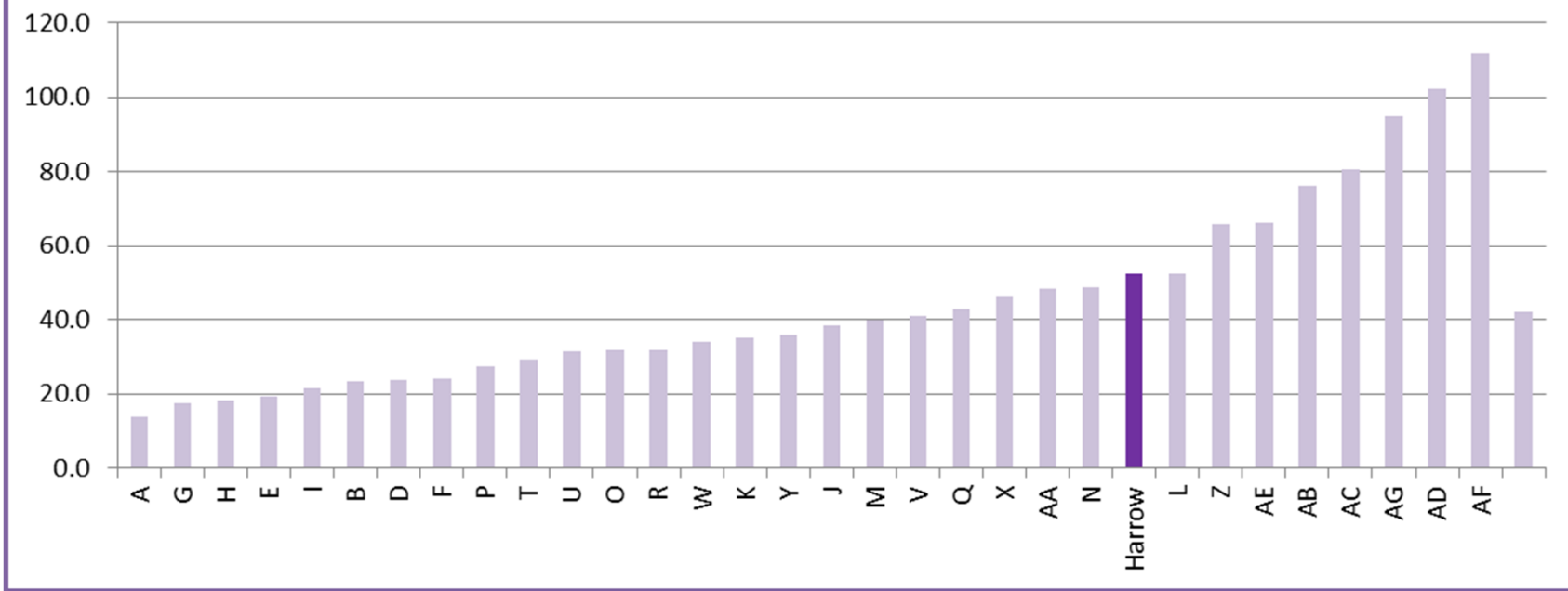


Source: LLA Report & Accounts 31/03/16

# Costs & Savings

- Criterion C – Reduced costs and excellent value for money
- London Funds – bps paid for investment management 2016

**Investment Management Costs basis points (bp) 2016**



Source: LLA Report & Accounts 31/03/16

## Infrastructure

- Criterion D – An improved capacity to invest in infrastructure
  - The London CIV is committed to working with other pools to develop both capability and capacity in infrastructure
  - Working with the Cross Pool Collaboration Infrastructure Group
  - Current allocation to infrastructure across London Funds <1% of AUM
  - Allocation to infrastructure is local decision – but improved capacity and capability at pool level will provide confidence to make those decisions

## Infrastructure

- Criterion D – An improved capacity to invest in infrastructure
  - London funds indicating 3%-10% allocation if risk/reward is right
  - What do we mean by infrastructure?
  - How to access?
  - Where – UK or Overseas?
  - Working with others?
  - How to allocate?



# LCIV Financial Arrangements

## LCIV costs/charges to LLAs

1. Annual Service Charge 2017 onwards £25k p.a. (invoiced)
2. Development Funding Charge introduced in 2017/18 £75k p.a. estimated to reduce to £10k p.a. in 2021/22 (invoiced)
3. Management Fees on AUM on CIV platform (included in TER of sub-fund)
  - 2.5bp on Equities and Fixed Income
  - 5bp on Real Estate, Infrastructure and Alternatives
  - Fund charges including custody and depository approx. 2.5bp
4. Passive Management Fees – CIV negotiated rates on AUM (outside of LCIV Pool) 0.5bp on AUM (invoiced)

# Disclaimer

## Important information

### London CIV

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