

REPORT FOR: Pension Fund Committee

Date of Meeting: 6 September 2016

Subject: **Information Report** - Local Government Pension Scheme Pooling Arrangements Update

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards affected: All

Enclosures: Appendix 1 London CIV Pool Response

Section 1 – Summary

The report updates the Committee on the development of the pooling arrangements and the London CIV and, in particular, on the problems which have arisen in connection with the launch of the global equity indexed mandates.

FOR INFORMATION

Section 2 – Report

A. Introduction

1. At their last meeting on 21 June 2016 the Committee received an update on pooling arrangements specifically:
 - Collection of data
 - Completion of DCLG July return
 - Annual service charge
2. By the deadline of 17 July the CIV, on behalf of all its member funds, returned its submission to DCLG (attached as Appendix 1 with one annex attached). Officers have not been advised of the receipt of any substantive reply.
3. Developments of which the Committee have not yet been advised are discussed below as follows:
 - Sub-section B – Membership
 - Sub-section C – Sub-funds open and being considered
 - Sub-section D – Harrow strategy

B. Membership

4. On 4 July the London Borough of Bromley agreed to join the CIV which means that all 33 London local authorities are now members.

C. Sub-funds open and being considered

5. To date, the CIV has been following a three phase strategy as regards the launch of sub-funds as follows:
 - Phase I – the inclusion of mandates for historic reasons including two large providers of global equity indexed funds and a small number of active managers
 - Phase II – mandates allocated by at least three boroughs, with assets under management of over £200m each and a commitment to the managers by the boroughs
 - Phase III – subsequent to the appointment of investment advisers, the appointment of new managers and/or new asset classes
6. The annex attached to Appendix 1 provides an estimated timeline for the appointment of managers over the next four years.

7. Progress to date is as follows:

Sub - Funds currently available (with date of launch)

2 December 2015 – Allianz Global Equity Alpha Fund
15 February 2016 – Baillie Gifford Diversified Growth Fund
11 April 2016 – Baillie Gifford Global Alpha Growth Fund
17 June 2016 - Pyford Global Total Return Sub-fund
21 June 2016 – Ruffer Absolute Return Sub-fund

Sub - Funds being progressed (with estimated date of launch)

Autumn 2016 – Newton Investment Management – multi asset
Autumn 2016 – Majedie Asset Management – active UK equity
Early 2017 – Longview Partners – active global equity
Legal and General Investment Management Ltd – global equity indexed
BlackRock Investment Management Ltd – global equity indexed

8. Two investment advisers, Mercer Ltd and Redington Ltd have been appointed to advise on the further search for active global equity managers.
9. The CIV has advised that, to date, 14 boroughs have invested in the sub funds now open.

D. Harrow strategy

10. At their meeting on 21 June, so far as they were able the Committee considered a strategy for the transfer of assets to the CIV over the next few years. Since there are many uncertainties concerning the future, a fully-developed strategy is impossible to establish. Nevertheless up to now it has appeared feasible to envisage a substantial transfer of funds into the CIV in the next few months as follows:
 - Incorporation of the Longview active global equities mandate into the CIV
 - Availability of a global equity indexed sub-fund
11. Were the Council to make such transfers into these CIV sub-funds this is likely to involve over 45% of the Fund's assets which would represent substantial progress towards meeting the Government's aspirations.
12. At present it seems likely that a Longview sub-fund will become available but, notwithstanding the Phase I aspirations, it has become apparent that no global equity indexed sub-fund is likely to be available in the immediate future. To explain this the CIV has produced a note as follows:

Note to London Boroughs regarding passive management

This is to make boroughs aware that a number of options around the provision of passive management on the CIV are at this time being reconsidered, particularly in the light of the government's recently announced position on the holding of Life Funds (see below). Every effort has been made over the last six months to work with providers through a complex range of issues associated with converting Life Funds into structures that can be held in our ACS Fund, and we recognise and value the hard work and commitment that the managers have shown. However, some of the issues, in particular the issue of value for money, are likely to take longer to resolve than we had hoped or expected. In addition, it is only right and proper, following the government's announcement, that we evaluate options and look at the best interests of the Borough investors.

As a consequence, Boroughs which were looking to transition their passive assets in the relatively near future should be aware this will not be happening for the moment. We are working through the options as quickly as we can and will be coming out with revised proposals as soon as we can.

At this point we wanted to give you an update and to make you aware of the situation as soon as possible. We are of course very disappointed that developments have led to a delay in our plans, but hope that you will appreciate we have only taken this decision to postpone the launch of these sub-funds after considerable deliberation and with your best interest in mind.

We are confident that whichever option we come forwards with, boroughs will enjoy substantial savings on a net basis. We will walk you through the key issues as soon as is practicable, so that together we can come to an informed decision.

Government's position on holding of life funds

We recognise there are difficulties in moving life policies into a structured fund, including valuation, tax and legal uncertainties. Using a depositary as the insured party may risk the favourable tax treatment for pension funds.

Pools may therefore continue to hold existing life funds in the name of the current insured party but it is expected that the management and reporting regarding these life funds is done within the pool.

It is our understanding that the advantages of life funds within certain asset classes (principally current lower cost due to very large scale of life funds) will be eroded over a reasonably short period of time and therefore pools will be expected not to write any new life fund business after April 2018 without having gone through a detailed VFM process that demonstrates a clear financial case for doing so.

13. The Committee will be advised of further developments.

Financial Implications

14. Whilst the pooling initiatives will have a very significant impact on the costs and performance of the Fund there are no financial implications arising from this report.

Risk Management Implications

15. The risks arising from the management and investment of funds are included in the Pension Fund risk register.

Equalities implications

16. There are no direct equalities implications arising from this report.

Council Priorities

17. The financial health of the Pension Fund directly affects the level of employer contribution which then, in turn, affects the resources available for the Council's priorities.

Section 3 - Statutory Officer Clearance

Name Dawn Calvert Director of Finance

Date: 18 August 2016

Ward Councillors notified: NO

Section 4 - Contact Details

Contact: Ian Talbot, Treasury and Pension Fund Manager
0208 424 1450

Background Papers - None