

REPORT FOR: Pension Fund Committee

Date of Meeting:	22 November 2016
Subject:	Information Report - Local Government Pension Scheme Pooling Arrangements Update
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	None

Section 1 – Summary

The report updates the Committee on the development of the pooling arrangements and the London CIV and, in particular, on the progress in the global equity procurement and concerns over the revenue stream of the CIV.

Section 2 – Report

A. Introduction

1. At their last meeting on 6 September 2016 the Committee received an update on pooling arrangements specifically:
 - Membership of the CIV
 - Sub-funds open and being considered

2. Since that meeting of the Committee there has been a meeting of the Member-level Sectoral Joint Committee on 18 October and the officer-level seminar the next day.
3. Developments of which the Committee have not yet been advised are discussed below as follows:
 - Sub-section B – Update on funds “in the pipeline”
 - Sub-section C – Global equity procurement
 - Sub-section D – Harrow strategy
 - Sub-section E – CIV business plan

B. Update on funds “in the pipeline”

4. Sub-funds expected to be launched in the next six months are as follows:
 - Autumn 2016 – Newton Real Return
 - Autumn 2016 – Newton Global Equity
 - Autumn 2016 – Majedie Asset Management – active UK equity
 - Early 2017 – Longview Global Equity
5. Due to “operational issues” including re-balancing, fee policy and asset type compatibility passive equity mandates are now outside the CIV. However, the CIV has negotiated fee savings on behalf of the boroughs with mandates with Legal and General and are in discussion with other providers.

C. Global equity procurement

6. Active global equity is the largest single asset class across the London boroughs and the CIV is carrying out a most extensive procurement exercise. The current position is summarised as follows:

Lot	Strategy	Consultant	Number of submissions	Number to be interviewed
1	Core	Redington	44	7
1	Income	Mercer	15	6
1	Low volatility	Redington	21	6
1	Quality	Mercer	23	6
1	Trend growth	Mercer	6	4
1	Value	Redington	14	7
2	Emerging markets	Mercer	47	9
3	Sustainable	Redington	27	8
4	Incubator	Mercer / Redington	10	5

7. A timeline has been prepared for the sub-funds to become available in three blocks of three throughout 2017.

D. Harrow strategy

8. 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 was impossible to establish. Nevertheless it had 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
9. 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.
10. At present it seems likely that a Longview sub-fund will become available in the next few months but it has become apparent that no global equity indexed sub-fund is likely to be available in the immediate future.
11. In view of the Fund's current strategy, with 33% of its investments in active global mandates, the results of the procurement process as described in paragraph 6 above will be of considerable interest. As submissions covering many different strategies are being considered it is unlikely that any further consideration can be given until the particular managers are selected.

E. CIV Business Plan

12. The CIV is currently updating its Business Plan but it appears that one of the most important issues will be a shortfall in its revenue stream.
13. The business model assumes two major revenue streams – management fees on assets under management and borough service fees. Current experience is that, since the CIV is receiving no income from passive equity funds and there has been slower than anticipated fund opening, there is a significant shortfall in income.
14. In its review of the Business Plan the CIV is obviously considering its revenue requirements and this could well involve a substantial increase in the borough service fees next year.

Financial Implications

15. 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

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

Equalities implications

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

Council Priorities

18. 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: 11 November 2016

Ward Councillors notified: NO

Section 4 - Contact Details

Contact: Ian Talbot, Treasury and Pension Fund Manager
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Background Papers - None