

Pension Fund Committee (Special)

SUPPLEMENTAL AGENDA

DATE: Wednesday 10 May 2017

4. LOCAL GOVERNMENT PENSION SCHEME POOLING ARRANGEMENTS - PROPOSED TRANSITION OF LONGVIEW PARTNERS' MANDATE (Pages 3 - 8)

Revised Report of the Director of Finance.

AGENDA - PART II - Nil

Note: In accordance with the Local Government (Access to Information) Act 1985, the following agenda item has been admitted late to the agenda by virtue of the special circumstances and urgency detailed below:-

Agenda item

4. Revised Report - Local Government Pension Scheme Pooling Arrangements - Proposed Transition of Longview Partners' Mandate

Special Circumstances/Grounds for Urgency

A revised report is being circulated upon receipt of important additional information from external sources and which was not available at the time the original report and the main agenda were printed and circulated. Members are requested to consider the revised report, as a matter of urgency, in order to ensure that their decision is based on all relevant information.

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REPORT FOR: Pension Fund Committee

Date of Meeting:	10 May 2017
Subject:	Local Government Pension Scheme Pooling Arrangements – Proposed Transition of Longview Partners' Mandate
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	None

Section 1 – Summary and recommendations

Summary

The report advises of an agreement reached between the London CIV and Longview Partners to make available within the CIV a sub-fund managed by Longview Partners on the lines of the current mandate awarded to them by the Harrow Fund.

Recommendations

The Committee are recommended to agree that:

- (1) The Fund's current mandate with Longview Partners be transferred to the sub-fund of the London CIV in accordance with the fees and other arrangements as agreed between Longview and the CIV
- (2) The Fund enters into a one-off transition management agreement with Russell Investments to carry out the transition at nil cost.

Section 2 – Report

A. Background

1. At each of their recent meetings, the Committee have received an update on pooling arrangements most recently covering:
 - Funds “in the pipeline”
 - Global equity procurement
 - Harrow strategy
 - CIV business plan
2. At their meeting on 7 March 2017 the Committee were advised of a report considered by the Pensions CIV Sectoral Joint Committee entitled “Pensions CIV Sectoral Committee: London CIV 2017/18 Budget and MTFS.” This report provided an update of the main issues currently concerning the CIV.
3. The report to the Joint Committee confirmed Harrow’s understanding that the only one of the Council’s current mandates which was likely to be incorporated as a sub-fund of the CIV in the near future was the Global Equity Fund (Currency Hedged) managed by Longview Partners. As at 31 March 2017 the Fund’s investment was £86.2m.
4. Whilst the Committee have indicated to Government their commitment to the concept of pooling, to date they have only considered moving funds into the CIV should one of its current mandates be established as a sub-fund.
5. On 7 March the Committee were advised that the CIV “launch plan,” suggested that a sub-fund managed by Longview Partners would be launched in May 2017. It was understood informally that the fees would be reduced but that the nature of this fund may be different from the Harrow current investment being unhedged and not suitable for a full “in specie” transfer.
6. Officers have now been advised that agreement has been reached between the CIV and Longview Partners and that an indicative launch date of 28 June is proposed.

B. Offer from Longview Partners

7. The Harrow Fund is one of three London funds with similar mandates with Longview. The total investment of the three funds is approximately £500m of which the Fund’s portion is about 17%.

8. The Fund's current fees, based on the valuation at 31 March 2017 of £86.2m are:

	%	£
First £25m	0.75	187,500
Next £25m	0.65	162,500
Next £75m	0.60	217,000
Next £125m	0.50	
On-fund fee (custodian)	0.13	112,000
TOTAL	0.79	679,000

9. The fees agreed between the CIV and Longview in respect of indicative total mandates in the sub-fund are:

£500m

Longview	0.485%
CIV management charge	0.025%
CIV asset servicing costs	0.025%

£970m

Longview	0.450%
CIV management charge	0.025%
CIV asset servicing costs	0.025%

10. The costs to the Fund at these two levels of fees would be £461,000 and £431,000 representing savings of £218,000 and £248,000 respectively. Additionally, Longview have offered their lowest rate of 0.45% to all funds joining during 2017 for the period to January 2018.
11. The Harrow Fund is currently invested in a SICAV which is an acronym in French for a type of open-ended investment fund in which the amount of capital in the fund varies according to the number of investors. The fund is based in Euros and Longview carry out currency hedging. The proposed sub-fund will be a segregated mandate for the London CIV based in sterling for which hedging will not be required.
12. Whilst it is anticipated that Longview will initially hold the same stocks as in their existing portfolio the structural changes will be such that the transition process will need to be managed by a transition manager.

C. Transition Arrangements

13. The Fund currently has an agreement with State Street Bank Europe Limited whereby the Fund may, from time to time, appoint State Street as transition manager for the liquidation or restructuring of certain portfolios of securities and/or other assets. However, there is no obligation on the Fund to appoint State Street as its transition manager for all its restructuring. It has also recently been announced by State Street that in the next few months they will be closing their transition management operations in London with the team's duties being transferred to Boston, Sydney and Singapore.

14. The CIV has been investigating the options on behalf of investing boroughs to secure a best value transition proposition for all participating Funds.
15. As this transition will comprise simply moving existing investments to the CIV whilst retaining the same underlying manager the risk involved is relatively low. It will involve a re-registration of the assets rather than a wholesale change of assets and manager with significant market and investment risk and the costs of any transition should be small.
16. There are a limited number of transition managers available (possibly 4-6) and a National LGPS Framework for Transition Managers is currently under development. However, for this transition the CIV have approached Russell Investments with a view to providing estimated costs of this transition. Russell are one of the leading transition managers in the world and have advised that during 2016 they managed 748 transitions involving assets of £486bn. The service they offer appears to be that required by the Fund for the current transition.
17. Russell have offered to conduct the transition on a cost free basis given both the low risk of the transition and their wish to gain broader experience of working with an LGPS Pool.
18. Ordinarily the Fund might use the services of State Street or undertake a procurement exercise to obtain quotations from a number of providers. The structural changes taking place at State Street would suggest that using them could involve unnecessary complications and risk. As the service is to be provided by Russell at nil cost, any exercise to obtain additional quotes is unlikely to lead to any better outcome and would delay the realisation of the negotiated cost savings.
19. It is therefore recommended that the Fund enters into a one-off transition management arrangement with Russell Investments.
20. Longview advise that because the Fund's units in the SICAV need to be redeemed and individual shares bought to go into the sub-fund, commission and transaction tax costs will be incurred estimated as follows:

	£
Denmark	355
France	6,459
Germany	1,752
United Kingdom	38,832
United States	18,838
TOTAL	66,236

Financial Implications

21. As indicated in paragraph 8 the costs currently incurred by the Fund for the management of the Longview mandate are approximately £679,000 per year. As indicated in paragraphs 9 and 10, if the Committee agree to the transition of the mandate to the CIV the costs will reduce to approximately £431,000 – 461,000 per year. The savings realised in the first year would be reduced by the one off costs of approximately £66,000 as detailed in paragraph 20.
22. The saving would be realised initially within the Pension Fund but, ultimately, would result in a potential reduction in the long term in the employer's contribution met from the General Fund.

Risk Management Implications

23. The Pension Fund has its own risk register which includes risks arising from the security of its assets. The engagement of an experienced and well qualified transition manager will seek to mitigate the risks involved in establishing the new fund management arrangements.

Equalities implications

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

Council Priorities

25. Whilst the financial health of the Pension Fund directly affects the level of employer contribution which, in turn, affects the resources available for the Council's priorities there are no impacts arising directly from this report.

Section 3 - Statutory Officer Clearance

Name:	Dawn Calvert	<input checked="" type="checkbox"/>	Chief Financial Officer
Date:	9 May 2017		
Name:	Caroline Eccles	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date:	9 May 2017		

Ward Councillors notified:	Not applicable
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Section 4 - Contact Details

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

Background Papers - None