

Croydon Council

REPORT TO:	PENSION COMMITTEE 5 March 2013
AGENDA ITEM:	7
SUBJECT:	A collective investment vehicle for London Pension Funds
LEAD OFFICER:	Executive Director of Corporate Resources and Customer Services
CABINET MEMBER	Deputy Leader (Statutory) and Cabinet Member for Housing, Finance and Asset Management
WARDS:	All
<p>CORPORATE PRIORITY/POLICY CONTEXT:</p> <p>Sound Financial Management: the Pensions Committee provides guidance for the management of the Pension Fund to secure optimum investment performance and value for money.</p>	
<p>FINANCIAL SUMMARY:</p> <p>There are financial consequences for the Pension Fund relating to the recommendations contained within this report. Depending on take up, significant fee reductions from investment managers can be expected.</p>	
<p>FORWARD PLAN KEY DECISION REFERENCE NO.: N/A</p>	

RECOMMENDATIONS

The Committee is recommended to:

- (a) Agree that the Council become a shareholder in a private company limited by shares which will be incorporated to be the Authorised Contractual Scheme Operator (the "ACS Operator") of the Common Investment Vehicle;
- (b) Contribute £1 to the ACS Operator as initial capital;
- (c) Delegate to the Director of Finance and Assets, in consultation with the Chairman of the Pensions Committee, authority to take such further steps as are necessary to implement the Council's participation in the Common Investment Vehicle and to act for the Council in exercising its rights as a shareholder of the ACS Operator; and
- (d) Recommend to Full Council that the Council agree to join the London Boroughs "Pensions CIV Joint Committee", to be formed under section 102 of the Local Government Act 1972 and to delegate to such Joint Committee those functions necessary for the proper functioning of the ACS Operator, including the effective oversight of the ACS Operator and the appointment of Directors.

2. EXECUTIVE SUMMARY

- 2.1 This report provides background and details the proposal by London Councils to establish a collective investment vehicle. It recommends that this authority commit to being a founder member of this vehicle by participating in a new London Councils Joint Committee.

3. DETAIL

- 3.1 This Pension Committee has, for several years, actively engaged with fund managers in order to drive down investment costs. However there is a limit on the savings that individual authorities can achieve because of the size of single investments, either direct or into pooled funds. Although there is no compelling evidence to suggest that larger pension funds consistently generate any better results than small or medium-sized funds, larger funds are able to allocate more resources to the investment process and clearly they are able to access more favourable fee structures. Recognising these factors DCLG launched a call for evidence on the future structure of the Local Government Pension Scheme, to which this authority responded as part of a group of London boroughs. One way forward has been to explore the potential of some sort of Collective Investment Vehicle (CIV), a legal structure currently utilised by international or grouped businesses to allow the different components of a large entity to pool pension investments. Members have been briefed on the progress of this initiative, which has been lead and directed by London Councils. London Councils Leaders' Committee approved the formation of the CIV on 11th February, so it is necessary for the Council to formally consider now whether to join the CIV company and participate in a new Joint Committee.
- 3.2 London Councils Leaders' Committee has considered the issue of collective investments for London Pension Funds throughout 2012, and 2013. They have concluded that more collaboration between boroughs that wished to collectively invest some or all of their pension funds would be likely to produce significant savings. The London Councils Leaders' Committee has approved the detailed business case and a proposed governance structure. They have also approved that a London Local Government Pension Scheme (LGPS) Collective Investment Vehicle (CIV), in the form of a UK based, Financial Conduct Authority (FCA) approved, Authorised Contractual Scheme (ACS) be set up. This report details the action that the Council needs to take to enable participation.
- 3.3 At their meeting on 11 February 2014, London Councils Leaders' Committee approved that they should recommend to the London boroughs that they proceed to establish an Authorised Contractual Scheme (ACS) and the ACS Operator (which is the company that would manage the ACS). For this to occur, London boroughs would need to agree to become shareholders in the ACS Operator and delegate oversight of the company to a Joint Committee hosted by London Councils. A copy of the paper submitted to London Councils Leaders Committee is at appendix A to this report.
- 3.4 It should be noted that, participation is voluntary by boroughs, and even if a borough decides to participate each borough will make separate decisions to invest, disinvest or not invest at all for each asset mandate in the same way that Pensions Committees do currently. It is expected that the decision as to whether to

invest in the ACS would be made by individual boroughs later in the year.

- 3.5 The business case considered by London Councils analysed the savings, benefits and costs for a variety of different levels of collective assets under management: £24 billion, £10 billion and £5 billion, producing estimated annual net savings of £112.2 million, £44.9 million and £20.9 million respectively. It is considered that a reasonable minimum target size of assets under management for the ACS is in the range of £5 billion. This is based on analysis of existing investments held by London borough funds and also takes into account that initially the majority of investment mandates are likely to be passive mandates. Over time, it is expected that actively managed mandates and investments into alternatives such as property and infrastructure assets may be added to the range of investments offered by the ACS. This aligns with the revised investment strategy for the Croydon Pension Fund.
- 3.6 The London Councils Leaders Report sets out the likely Governance structures and key principles. The principles include:
- investment in the ACS should be voluntary;
 - ability to choose how much to invest in individual asset classes;
 - boroughs should have sufficient control over the ACS Operator;
 - the ACS Operator would provide regular information to participating boroughs; and
 - Authorities seeking to invest in the ACS will also take a shareholding interest in the Operator (and have membership of the Pensions CIV Joint Committee).
- 3.7 This Joint Committee will be established under the existing London Councils arrangements to assist in the appointment of directors to the ACS Operator. The Pensions CIV Joint Committee will comprise elected Councillors nominated by participating boroughs as provided for under the existing London Councils Governing Agreement. It will allow the local authorities to streamline their decision making by delegating responsibility for decisions to the Joint Committee, rather than requiring decisions from the individual local authorities. Information will be provided regularly by the ACS and the ACS Operator to local authorities investing, and their Pension Committees and officers, and the Pensions CIV Joint Committee. Directors of Finance will provide advice to both the borough Pension Committees (as they do now) and to their authority's representative on the Pensions CIV Joint Committee. The London Council's report proposes that the Chairman of the Pensions Committee represents the Council as in the event that meetings are required to deal with specialist matters e.g. discussions on investment matters such as the setting of original investment mandates by the ACS Operator (which is an FCA responsibility of the ACS Operator), person with appropriate expertise e.g., for investor matters would be needed. In the event that all 33 boroughs decide to join then the CIV then the Leader could fulfil this role, through the existing London Councils Leaders Committee.
- 3.8 In order that the Council can participate in the CIV the Council will need to agree to join the Joint Committee, this requires a resolution of the full Council. In addition the Council will need to formally delegate powers to the Joint Committee in respect of pensions investments. This will be done by giving the Pensions Committee the ability to place funds with the CIV and to invest in one or more of the funds or fund managers selected by the CIV to manage various asset classes.

- 3.9 In broad terms, the proposed structure is that the boroughs will own all the share capital of the ACS Operator. Initially this will require minimal share capital (£1 per borough) but this capital requirement will increase once the operator is authorised and investments are made in the ACS.

Recommendation

- 3.10 To achieve the above arrangements it will be necessary to:
- (a) Become a shareholder in a private company limited by shares which will be incorporated to be the Authorised Contractual Scheme Operator (the “ACS Operator”) of the Common Investment Vehicle and Contribute £1 to the ACS Operator as initial capital;
 - (c) Delegate to the Director of Finance and Assets, in consultation with the Chairman of the Pensions Committee authority to take such further steps as are necessary to implement the Council’s participation in the Common Investment Vehicle and to act for the Council in exercising its rights as a shareholder of the ACS Operator, and ;
 - (d) Recommend to Full Council that the Council agree to join the London Boroughs “Pensions CIV Joint Committee”, to be formed under section 102 of the Local Government Act 1972 and to delegate to such Joint Committee those functions necessary for the proper functioning of the ACS Operator, including the effective oversight of the ACS Operator and the appointment of Directors.

4. CONSULTATION

- 4.1 Officers have consulted with investment advisors and committee members.

5. FINANCIAL CONSIDERATIONS

- 1.1 There are not specific financial considerations within this report.

6. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

- 6.1 The comments of the Council Solicitor are reserved to the Part B of this Committee’s agenda.

7. OTHER CONSIDERATIONS

- 7.1 There are no Human Resources, Customer Focus, Equalities, Environment and Design, Crime and Disorder, Human Rights, Freedom of Information or Data Protection considerations arising from this report.

CONTACT OFFICER:

Nigel Cook - Head of Pensions and Treasury Management
Corporate Resources and Customer Services Department, ext. 62552

BACKGROUND DOCUMENTS: