Croydon Council

REPORT TO:	Local Pension Board 10 January 2019
SUBJECT:	Update on the London CIV
LEAD OFFICER:	Nigel Cook Head of Pensions and Treasury

CORPORATE PRIORITY/POLICY CONTEXT:

Sound Financial Management: The Pension Committee is responsible for the investment strategy for the Pension Fund and ultimately for ensuring sufficient assets are available to meet the liabilities of the Local Government Pension Scheme.

FINANCIAL SUMMARY:

The governance arrangements in place for the London CIV potentially have significant implications for the Council and the Pension Fund.

1. RECOMMENDATIONS

1.1 To note the content of this report.

2. EXECUTIVE SUMMARY

2.1 This report provides the Board with an update on progress towards fulfilling the Pension Fund's commitment to invest through the London CIV as part of the regional pooling agenda.

3 DETAIL

3.1 The Pensions Committee have taken a decision to invest part of the Pension Fund allocation to global equities, currently 51% or £633.6 million at 30th September 2018, into an Emerging Market Fund. After some discussion it was decided to invest this sum in a sub-fund within the London CIV managed by Janus Henderson. The Committee had decided to transfer £55 million.

3.2 Subsequently, the Committee decided to transfer more of the equity overweight balance, some £80 million, from equities into the Global Bond Fund.

3.3 Earlier the equity component of the Fund, managed by LGIM, had been transferred into a fund that sits within the pooling umbrella but is not managed by the CIV.

This scores against the Council's commitment to the regional pooling agenda. Together with the two items mentioned above the Croydon Fund is effectively 51% pooled (as at 30th September valuations).

3.4 For the Emerging Market transition, in order to ensure the integrity of this transaction and measure the costs involved, Inalytics, a consultancy specialising in transition oversight, were retained. Their presence throughout the process ensured that the Council's objectives were being met and the sum involved was protected during the transition.

3.5 In summary, there are three components to the costs associated with this exercise: costs relating to LGIM, managers of the donor fund; opportunity costs arising from being out of the market; and costs relating to the receiving fund. These are summarised here:

Table 1 Costs of Transition

Custody Charges	£ 3,552.00
LGIM Fund Spreads	£ 32,865.41
Anti-Dilution Levy	£ 191,828.58
Total	**£228,245.99**

3.6 Custody costs arise from switching stock out of the Developed World ex. Tobacco Fund for units in the main index funds. This strategy was adopted because these larger index funds are considerably more liquid and see more cash inflows. This helped reduce transaction costs and increased the chance of crossing the outflow with another investor's inflow to reduce spread, which would not be possible in the smaller fund.

3.7 The second item in the table refers to the spreads paid for redeeming from the LGIM funds. The third item is the 35 basis point anti-dilution levy paid on the two investments into the LCIV fund.

3.8 The LGIM costs came in lower than the initial fee estimate. The dilution levy is as expected at 35 basis points.

3.9 Inalytics were also commissioned to provide oversight for the Equities to Global Bonds transition but at the time of drafting no information about fees and charges was available.

3.10 This transition was in two parts. The first, comprising £14 million, was funded by selling units in the LGIM equity fund, in order to launch the London CIV's Global Bond Fund. This fund is managed by PIMCO and was launched with a seed investment of £100 million, the balance being provided by London Borough of Bexley. The Fund was launched on 30th November 2018. The balance, an additional £66 million, was financing in the same manner.

3.11 The lack of a transitioning team within the London CIV was apparent throughout this process. Both transitions involved significant sums being held as cash for a number of days and therefore out of market. In the case of the Emerging Market

investment the market fell so more units were purchased. However the risk of being exposed to this level of volatility is significant and could be avoided by the use of derivatives to synthetically replicate investment positions. Cross-trading, another widely used transitioning option, was not available. Finally there may also be risks involved with co-mingling funds within the London CIV's bank account as opposed to using a separate custodian account.

4 FINANCIAL CONSIDERATIONS

4.1 The financial considerations are set out in detail, above, in this report.

5. OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

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BACKGROUND DOCUMENTS:

None