

Croydon Council

REPORT TO:	Pension Board 14 January 2021
SUBJECT:	The Collective Investment Vehicle for London Local Authorities Pension Funds: Compliance with pooling requirements and review of savings
LEAD OFFICER:	Nigel Cook Head of Pensions Investment and Treasury

1. RECOMMENDATION

1.1 The Board are asked to note the contents of this report

2. EXECUTIVE SUMMARY

2.1 This report advises the Board of the extent to which the Fund is complying with the pooling requirements of Guidance issued by the, then, Department for Communities & Local Government in 2015 and of the savings made through pooling.

3. DETAIL

3.1 In 2015 the, then, Department for Communities & Local Government issued Guidance which set out how the Government expected funds to establish asset pooling arrangements. The stated objectives were to deliver:

- benefits of scale;
- strong governance and decision making;
- reduced costs and excellent value for money; and
- improved capacity and capability to invest in infrastructure.

3.2 By the time of the Guidance, as a founder member, Croydon had already voluntarily joined the London Collective Investment Vehicle (London CIV). The London CIV's stated objectives are to deliver broader investment opportunities and enhanced cost efficiencies than funds can achieve individually and overall better risk adjusted performance. It is FCA regulated and was the first of the eight asset pools in England and Wales to become established. All the London borough funds are members.

3.3 Since its founding in 2014 the London CIV has developed its governance structure with a new Corporate Governance and Controls framework being agreed at the Annual General Meeting in July 2018. The key components of the framework are the Shareholder Committee, comprising Leaders and Treasurers of twelve of the

London boroughs, and a Board made up of executive and non-executive directors all of whom must meet FCA fitness to serve requirements.

- 3.4 During the development of the pooling concept funds estimated how they could comply with its requirements in the context of their own asset allocation policies. The Council Fund's Investment Strategy Statement, as agreed on 18 September 2018, includes the following:

5.3 The Fund holds illiquid assets outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature. The Fund will continue to invest in illiquid assets outside of the London CIV pool, until suitable strategies are made available by the London CIV pool, in order to meet its asset allocation target.

5.4 Therefore, the proportion of assets that will be invested through the pool will be circa. 65%

- 3.5 At their meeting on 17 March 2020 the Pension Committee agreed a revised asset allocation with the combined equities and fixed interest allocations totalling 60% which became a more realistic target for pooling.
- 3.6 At 31 March 2020 the Fund had investments of £84.1m (7.1% of its investments) invested in sub-funds managed by the London CIV and a further £426.0m (35.9%) within the pooling umbrella but not managed by the London CIV.
- 3.7 During the first half of 2020/21 an investment of £55m was made in the London CIV Sustainable Equity Exclusion Fund managed by RBC Global Asset Management (UK) and a summary of the overall position of the Fund at 30 September 2020 is as follows:

INVESTMENT	£m	%
CIV related		
Legal and General Equities	531.9	37.9
RBC Equities	67.6	4.8
PIMCO Fixed interest bonds	92.4	6.6
CIV related total	691.9	49.3
Non CIV related total	710.3	50.7
TOTAL	1,402.2	100.0

- 3.8 The Committee are satisfied with the progress to date and consider that they continue to show a significant commitment to the pooling concept.
- 3.9 In January 2019 the Ministry of Housing, Communities & Local Government issued a consultation and draft guidance document on asset pooling setting out proposed

changes to the framework. Further consultation was promised with draft guidance to be in place in early 2020 but this has not yet been published.

3.10 Estimated savings made against assumptions of standard fees and costs incurred from the pool investments during 2019/20 were as follows:

	Assets under management at 31 March 2020	Estimated gross fees savings	Management fees and development funding charge	Estimated net fees savings
	£'000	£'000	£'000	£'000
Legal and General Equities	425,959	290	25	265
Janus Henderson Emerging Markets Equities		88	4	84
PIMCO Fixed interest	84,104	217	9	208
Development funding charge			90	(90)
TOTAL	510,063	595	128	467

3.11 Estimated savings made and costs incurred from the pool investments during the first half of 2020/21 were as follows:

	Assets under management at 30 September 2020	Estimated gross fees savings	Estimated management fees and development funding charge	Estimated net fees savings
	£'000	£'000	£'000	£'000
Legal and General Equities	531,921	150	15	135
RBC Equities	67,617	80	4	76
PIMCO Fixed interest	92,396	120	5	115
Development funding charge			45	(45)
TOTAL	691,934	350	69	281

3.12 The Board are invited to note this report

4 DATA PROTECTION IMPLICATIONS

4.1 Will the subject of the report involve the processing of 'personal data'?

No.

CONTACT OFFICER: Nigel Cook, Head of Pensions Investment and Treasury,
Finance, Investment and Risk
Resources Department, ext. 62552.

BACKGROUND DOCUMENTS: None

APPENDICES: None