

Croydon Council

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| REPORT TO: | Pension Committee 11 October 2022 |
| SUBJECT: | The Collective Investment Vehicle for London Local Authorities Pension Funds: Compliance with pooling requirements, review of savings and governance structure. |
| LEAD OFFICER: | Matthew Hallett – Acting Head of Pensions and Treasury |

1. RECOMMENDATION

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

CORPORATE PRIORITY/POLICY CONTEXT:

Sound Financial Management: This report advises the Committee of relationships between the Pension Fund and the London Collective Investment Vehicle. These relationships are important components of governance and investment arrangements of the Fund.

FINANCIAL SUMMARY:

There are no direct financial implications associated with this report but it advises the Committee of existing financial arrangements which assist in the efficient management of the Fund and which could have an impact on the General Fund of the Council.

2. EXECUTIVE SUMMARY

2.1 This report advises the Committee of the extent to which the Fund is complying with the pooling requirements of Guidance issued by the, then, Department for Communities & Local Government (DCLG) in 2015, the savings made through pooling in 2021/22 and the governance structure of the London Collective Investment Vehicle (LCIV).

3. DETAIL

3.1 In 2015 the, then, DCLG 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 LCIV. LCIV'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 Financial Conduct Authority (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 LCIV has developed its governance structure through a Corporate Governance and Controls framework. 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. Details of the full Governance structure can be accessed online via <https://londonciv.org.uk/governance>

3.4 The Croydon Fund's formal involvement in the governance of LCIV is only through attendance at the twice yearly Shareholder General Meeting. Officers are, however, in regular contact with the LCIV officers.

3.5 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%

3.6 At 31 March 2022 the Fund had investments of £168.8m (9.8% of its investments) invested in sub-funds managed by the LCIV and a further £696.0m (40.2%) managed by Legal and General which is classified within the pooling umbrella. The arrangement with Legal and General was established in 2016 as a way of providing fee discounts to members without moving passive assets into the LCIV. Whilst the Fund is conscious that the proportion of its assets invested through the pool (50.01%) is below the target of 65%, investments will only be made in pool products when this is the optimum strategy.

3.7 A summary of the overall position of the Fund at 31 March 2022 is as follows:

| INVESTMENT | £m | % |
|----------------------------|----------------|--------------|
| CIV related | | |
| Legal and General Equities | 696.0 | 40.2 |
| RBC Equities | 84.4 | 4.9 |
| PIMCO Fixed interest bonds | 87.8 | 5.0 |
| CIV related total | 868.2 | 50.1 |
| Non CIV related total | 863.1 | 49.9 |
| TOTAL | 1,731.3 | 100.0 |

3.8 Estimated savings made against assumptions of standard fees and costs incurred from the pool investments during 2021/22 were as follows:

| | Assets under management at 31 March 2022 | Estimated gross fees savings | Management fees and development funding charge | Estimated net fees savings |
|---|---|-------------------------------------|---|-----------------------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Legal and General Equities | 695,982 | 403 | 34 | 369 |
| RBC Global Asset Management (UK) | 84,441 | 145 | 21 | 124 |
| PIMCO Fixed interest | 87,812 | 317 | 5 | 312 |
| CIV Development funding charge** | | | 110 | (110) |
| TOTAL | 868,235 | 865 | 170 | 695 |

* LCIV's fixed income stream contributing to the core costs of the Company payable equally by all shareholders

3.9 The Committee are invited to note this report.

4. CONSULTATION

4.1 The only consultation that has been taken place has been with LCIV.

5. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

5.1 There are no financial or risk assessment considerations arising from this report.

Approved by: Alan Layton on behalf of Jane West, Corporate Director of Resources (Section 151 Officer)

6. LEGAL CONSIDERATIONS

6.1 Burges Salmon LLP (a legal advisor appointed to the Fund) comments that there are no specific legal considerations raised in this report but that it is important that the Fund reviews and regularly considers investment and pooling obligations further to the Local Government Pension Scheme Regulations 2013, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, and the Guidance (which was produced further to the 2016 Regulations).

7. HUMAN RESOURCES IMPACT

7.1 There are no HR implications arising from the content of this report for council employees or staff.

Approved by: Gillian Bevan, Head of HR Resources and Assistant Chief Executives on behalf of Dean Shoesmith, Chief People Officer

8. EQUALITIES IMPACT

8.1 There are no equalities impacts arising from this report.

Approved by: Gavin Hanford, Director of Policy, Programmes & Performance

9. ENVIRONMENTAL IMPACT

9.1 There are no environmental impacts arising from this report.

10. CRIME AND DISORDER REDUCTION IMPACT

10.1 There are no crime and disorder impacts arising from this report.

11. DATA PROTECTION IMPLICATIONS

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

No.

Has a data protection impact assessment (DPIA) been completed?

No. This report relates to matters relating to the administration of the LGPS and the Croydon Pension Fund.

Approved by: Alan Layton on behalf of Jane West, Corporate Director of Resources (Section 151 Officer)

CONTACT OFFICER:

Matthew Hallett – Acting Head of Pensions and Treasury.

BACKGROUND DOCUMENTS:

None.

APPENDICES:

None