

# Croydon Council

<b>REPORT TO:</b>	<b>Pension Board</b> <b>29 March 2018</b>
<b>SUBJECT:</b>	<b>London CIV Progress Report</b>
<b>LEAD OFFICER:</b>	<b>Nigel Cook Head of Pensions and Treasury</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b> Sound Financial Management: The London CIV will form a component of the Pension Fund's investment strategy going forward so it is important to engage with this review of governance arrangements.	
<b>FINANCIAL SUMMARY:</b> The performance of any funds managed by the London CIV will have a direct impact on the level of contributions levied from the Council and other Scheme employers. .	
<b>FORWARD PLAN KEY DECISION REFERENCE NO.:</b> N/A	

## 1. RECOMMENDATIONS

- 1.1 To note the response submitted to this consultation.

## 2. EXECUTIVE SUMMARY

- 2.1 This report describes the context for the consultation on the future governance arrangements for the London CIV. It also provides an update on establishing sub-funds to allow the pooling of resources from all London Borough administering authorities.

## 3. DETAIL

- 3.1 The London CIV (Collective Investment Vehicle) was established as a response to the Government's requirement for all Local Government Pension Schemes to pool their assets. Pooling was seen as a way to reduce fees by aggregating assets; allow for greater flexibility in investing assets; and enable local authorities to invest in infrastructure. The CIV has now 16 staff and its activities are authorised by the FCA. Assets under management are circa £14 billion, around half the target set by the Government. All London LGPS administering authorities are shareholders of the CIV. However, following recent changes in key personnel, including the Chief Executive and Chief Investment Officer, the CIV Board agreed to undertake a Governance review.
- 3.2 The Governance review was undertaken last year jointly by the London CIV, the Joint Committee (PSJC) overseeing the work of the CIV, and the London authorities' Chief Finance Officers. Willis Towers Watson was commissioned to

lead the review and presented their final report to the Governance Review Steering Group in December 2017. The Towers Watson report pointed to the need to both clarify the purpose of the CIV and establish new governance arrangements that reflected this purpose. At present, the CIV is reporting to multiple different stakeholders in a complex way with the risk that none of them feel entirely satisfied with their ability to influence it. This report also recommended that the CIV strengthen its capacity to engage with individual local authorities.

- 3.3 To take this forward the CIV has asked stakeholders to respond to a consultation in the form of a report on the future direction for the CIV. This report aims to initiate a consultation with key stakeholders to clarify the purpose of the London CIV and set out the direction of its future strategy. Although the report proposes a considered vision of how the London CIV should operate, it does not purport to be a fully formed proposal.
- 3.4 Croydon's response to this consultation is attached to this report as Appendix A.
- 3.5 Three new equity funds are now, or soon will be, funded on the LCIV platform. The LCIV EP Income Equity Fund was seeded back in November and another Borough will be investing shortly. The Fund's manager, Epoch, invests in companies that aim to generate growing free cash flow to distribute to investors in the form of dividends, share buybacks or debt reductions. Two Boroughs have indicated their intention to invest in the LCIV RBC Global Sustainable Equities Fund. This fund offers a pragmatic approach to ESG (Environmental, Social and Governance) investing, looking at each company from a bottom-up perspective. The third fund is the LCIV Henderson Emerging Market Equity Fund which was seeded in January. Henderson's is a bottom-up strategy, investing in quality companies over the long term. The fund can invest in developed market companies, as long as over half of the revenues emanate from emerging market economies, as well as frontier markets. Three other Boroughs have confirmed their intention to invest in this strategy. At its most recent meeting the Croydon Pension Committee confirmed that it would also make a commitment to this fund.
- 3.6 The CIV is moving forward with the launch of a range of Fixed Income funds. These are subject to the completion of legal and operational due diligence and details will be available as soon as this work has been completed. In line with new regulatory changes, the London CIV requires written soft commitments before it can submit prospectuses to the Financial Conduct Authority and begin work towards the launch of these funds.
- 3.7 The CIV has received numerous expressions of interest from Boroughs in the area of carbon free or low carbon investments. Both of the LCIV's index managers, LGIM and Blackrock, offer products that track the MSCI World Low Carbon Targets Index. These 'passive' investment approaches are designed to provide a simple, efficient and low-cost way to gain exposure to low or lower carbon strategies.
- 3.8 This table shows the progress in establishing investment sub-funds to the end of February, 2018. Assets under management total £6.194 billion.

**Table 1: London CIV Funds as at 28th February 2018**

<b>Fund</b>	<b>Assets Under Management (AUM)</b>	<b>Investment Manager</b>	<b>Launch date</b>
LCIV Global Equity Alpha Fund <i>Equities</i>	£745m	Allianz Global Investors GMBH	02 Dec 2015
LCIV Diversified Growth Fund <i>Multi Asset</i>	£480m	Baillie Gifford & Co	15 Feb 2016
LCIV Global Alpha Growth Fund <i>Equities</i>	£1,877m	Baillie Gifford & Co	11 Apr 2016
LCIV PY Global Total Return Fund <i>Multi Asset</i>	£240m	Pyrford International Limited	17 Jun 2016
LCIV RF Absolute Return Fund <i>Multi Asset</i>	£815m	Ruffer LLP	21 Jun 2016
LCIV NW Real Return Fund <i>Multi Asset</i>	£331m	Newton Investment Management	16 Dec 2016
LCIV MJ UK Equity Fund <i>Equities</i>	£506m	Majedie Asset Management	18 May 2017
LCIV NW Global Equity Fund <i>Equities</i>	£545m	Newton Investment Management	22 May 2017
LCIV LV Global Equity Fund <i>Equities</i>	£445m	Longview Partners	17 Jul 2017
LCIV EP Income Equity Fund <i>Equities</i>	£132m	Epoch Investment Partners	08 Nov 2017
LCIV HN Emerging Market Equity Fund <i>Equities</i>	£78m	Henderson Global Investors Limited	11 Jan 2018

3.9 This table does not include the £8.4 billion of assets captured by the LCIV's

passive fee arrangements, which includes this Fund's investment in equities.

#### **4 FINANCIAL CONSIDERATIONS**

- 4.1 Croydon Council is a shareholder of the London CIV and the Pension Fund pays a contribution to its running costs. The viability of the pension scheme depends ultimately on the performance of the investment of the Pension Fund's assets.

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#### **CONTACT OFFICER:**

Nigel Cook, Head of Pensions Investment and Treasury,  
Resources department, ext. 62552.

#### **BACKGROUND DOCUMENTS:**

None.

#### **Appendices**

**Appendix A:** The Croydon Pension Fund Response to London CIV Consultation on Strategy

## The Croydon Pension Fund Response to London CIV Consultation on Strategy

Completed by on behalf of Croydon:

**Nigel Cook, Head of Pensions Investments**

Do you believe the Strategy Proposal from the London CIV is: Yes    No

Broadly appropriate subject to clarifications and further detail	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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Needs revisions and/or a different direction	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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### *Overall Strategy Comments*

Croydon supports the general direction of travel described by this strategy. Clearer roles and an emphasis on communication would be welcome. However, there are areas of concern, namely representation, costs, performance and ESG issues.

The recommendations made by this review should make it easier for the CIV to operate and mean a less bulky and unwieldy oversight structure but reduced representation will bring its own challenges and there is little detail on how a consensus would be reached.

In terms of representation, we would suggest that there be a formal Supervisory Board (which could well have the same make-up as the proposed consultative group) that would have a formal status. This could be modelled on the structures common in many financial institutions and also common (or even required in some cases) in quoted companies in many European countries.

In addition, we would like to see more clarity and transparency about director appointment & remuneration, i.e. that the Supervisory Board or a sub-committee of it would have a direct role in recruitment & remuneration.

Overall, the CIV needs to make sure that the cost-benefit analysis is clear and that the choice of products it develops and funds and sub-funds is based on active engagement with the local authorities.

ESG issues are very important to this authority and to state that 'the CIV will not be able to accommodate individual ESG policies for each LLA' is problematic and not acceptable. The CIV needs to understand clearly what the various LLAs' ESG requirements are. The CIV needs to move away from a 'lowest common denominator' approach. In particular, we would suggest that there be a qualified majority (rather than the current unanimity) for the overall approach and that, where necessary, there be a proactive approach of creating sub-products that address different LLAs' ESG requirements.

Do you agree with the proposals to:

Yes No

Have two meetings a year with all shareholders and disband the PSJC under the London Councils framework.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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Form a small consultative shareholder group of 12 Treasurers and Pension Chairs. ( <b>'Pension Chair' should be 'LLA Pension rep'</b> )	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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Invite the Chair of the main Shareholder Group onto the Board of the London CIV and a Treasurer as an observer.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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The Chair of the main Shareholder group should be:

	Tick
Political leader	<input type="checkbox"/>
Elected from the Shareholders	<input checked="" type="checkbox"/>
Independent	<input type="checkbox"/>

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The Chair of the Shareholder consultative group should be:

	Tick
The Chair of the shareholder group	<input checked="" type="checkbox"/>
The Chair of the London CIV	<input type="checkbox"/>
Elected by all Shareholders	<input type="checkbox"/>

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The London CIV Board should be expanded by:

	Tick
The Chair of the main shareholder group	<input checked="" type="checkbox"/>
A Shareholder nominated by all shareholders	<input checked="" type="checkbox"/>

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Yes No

<b>It is proposed that the IAC becomes a forum to share ideas and consult with LLA's, when appropriate. Do you agree?</b>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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*Additional comments:*

The proposal to address the unwieldiness of the current governance arrangements is sensible. The proposal is for a 12-person shareholder committee and a Treasurer observer on the board. Practical implementation might be more challenging though and questions of duration of tenure and the mechanics of reporting back to constituents are not explored.

The proposal needs to be clarified and worked through to make sure that all these issues and how officers' experience is captured are worked through.

## **Client**

**Do you agree that the relationship between each London Local Authority and the London CIV should be formalised by:**

	Yes	No
A service level agreement which would set out how the London CIV would service and consult with LLAs.	<input checked="" type="checkbox"/>	<input type="checkbox"/>

A Responsible Investment Policy framework for the London CIV which is proposed by the London CIV and agreed by shareholders.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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This Responsible Investment Policy should be agreed by what % of Shareholders:	50% <input type="checkbox"/>	66% <input checked="" type="checkbox"/>	75% <input type="checkbox"/>	Other <input type="checkbox"/>
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	Yes	No
<b>Do you believe that the proposed investment approach of the London CIV can fulfil your Strategic Asset Allocation.</b>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

	Yes	No
<b>Do you agree with the proposal that each LLA would have an individual investment consultation with the London CIV. This would enable LLAs to choose earlier or later pooling.</b>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

### *Additional comments:*

Clarification would be helpful as the strategy as it stands seems to imply that the local authority's investment strategy will be subordinated to the choices made by the CIV and the Pension Committee will have to be prepared to compromise. This runs counter to the Government guidance on drafting and adopting an Investment Strategy Statement (ISS) and the autonomy and statutory obligations of individual pension committees in respect of their individual authorities.

Secondly, as indicated above, it is difficult to see how the Shareholder Group will be able to draft an ESG policy that can be adopted by all 33 participating authorities.

There are also questions around the CIV's internal capacity to meet reporting and engagement deadlines for such a large number of stakeholders: committees, local pension boards and investment sub-committees.

## **Investment**

Which Statement do you believe best represents your view of the London CIV revised strategy:	Tick
The revised strategy proposed by the London CIV of a high quality efficient pool <b>will</b> improve the Investment returns of my Borough's Pension Fund as it will enable the Pension Committee to clearly delegate manager selection and related investment decisions to the London CIV in a more efficient manner.	<input checked="" type="checkbox"/>
The revised strategy of the London CIV <b>will not</b> improve the investment returns of my Borough's Pension Fund as it will no longer enable the Pension Committee to make tactical asset allocations and manager selections.	<input type="checkbox"/>

*Additional comments:*

Nothing in the new structures should be seen as undermining the autonomy and ultimate decision-making authority of individual pension committees.

*Any other comments*

There are four main concerns:

- this strategy does not address individual ESG policies. Croydon currently explicitly excludes tobacco stocks and is likely to exclude other sectors but other stakeholders might adopt contrary views.
- the governance arrangements need to bring in the right level of LLA involvement and accountability, as detailed in the comments above
- nothing should be taken as taking away the ultimate investment decision-making authority of individual pension committees.
- Products and sub-products need to recognise the various differing positions and priorities of individual LLAs

Please send your response to [Chloe Crouch](#) by 28<sup>th</sup> February 2018