

Pensions CIV Sectoral Joint Committee AGM

Item no: 10

Annual Report From the Investment Advisory Committee

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Summary: The Investment Advisory Committee was formed last September to work closely with the London CIV and the Pensions Sectoral Joint Committee on investment matters. The Committee is formed of nominated Borough Treasurers and pension manager representatives. The Committee has met 6 times since September discussing a wide range of investment related issues. This paper sets out the work of that Committee.

Recommendations: The committee is recommended to:

- i. Note the contents of this report;

London CIV Investment Advisory Committee – Work Programme 2015/16

Introduction

1. The Investment Advisory Committee (IAC) was formed in September 2015 as a follow on from the Technical Sub-Group, which worked with the CIV as an advisory group on the establishment of the CIV. The IAC was formed from the nominated representatives of the London Local authorities with a mixture of Society of London Treasurers and the authority Pension Managers. Nominated representatives from 12 London authorities attended during the year with 6 meetings taking place.
2. Appendix A to this report provides the Joint Committee with an outline of the work that the IAC has undertaken during the year and the areas of investment which the IAC has focussed on as well as receiving feedback from the CIV on the progress that is being made. Working groups to focus on specific areas of interest were formed and these are continuing to work with the CIV on these areas.
3. The objectives of the IAC are as set out in the IAC Terms of Reference (attached at Appendix B) which are:
 - i. To support the Joint Committee in the investment decision making process
 - ii. To liaise with the Fund Operator of the CIV in defining Shareholders' investment needs.
4. The IAC has also been supporting the CIV to draft responses to the government consultation on the investment reform agenda and pooling for both the initial February submission and the more comprehensive July submission and has been instrumental in ensuring that data to support the July submission has been forthcoming from all the participating London authorities.

5. Members of the Joint Committee are therefore requested to note the report from the IAC.

Recommendations

6. The committee is recommended to:
 - i. Note the contents of this report

Financial implications

7. There are no financial implications for London Councils

Legal implications

8. There are no legal implications for London Councils.

Equalities implications

9. There are no equalities implications for London Councils

Annexes

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| Annex A | London CIV – Investment Advisory Committee Review 2015-2016 |
| Annex B | Investment Advisory Committee Terms of Reference |

LONDON CIV – INVESTMENT ADVISORY COMMITTEE

Review of Work Undertaken by Committee 2015/2016

1. The Investment Advisory Committee (IAC) was formed in September 2015 following the establishment of the London CIV company and followed on from the work undertaken by the Technical Support Group in helping to establish the London CIV. The objectives of the Investment Advisory Committee are twofold:
 - a. To support the Joint Committee in the investment decision making process
 - b. To liaise with the Fund Operator of the CIV in defining Shareholders' investment needs.
2. The first meeting of the Committee took place on 25th September 2015 with Chris Buss (Wandsworth) elected as Chair, Ian Williams (Hackney) as Vice Chair and Jill Davys (Hackney) as the Secretary. The terms of reference for the Committee were confirmed at the meeting and a copy is attached as an appendix to this report for reference. Nominees from a number of Boroughs were confirmed as members of the IAC, representatives included Wandsworth, Hackney, Barking & Dagenham, Islington, Croydon, Waltham Forest, Newham, Enfield, Ealing, Lambeth, Kingston and Tower Hamlets.
3. The Committee recognises the achievements that the London CIV has delivered over the year in obtaining FCA authorisation, opening the first 3rd party manager sub-fund in December 2015 and the progress made with opening further sub-funds and the pipeline of opportunities for the London Boroughs and the City of London. The Committee also recognises the complexities of this project where the original voluntary nature of the CIV has now moved on to the mandatory pooling required by Central Government and therefore the scale, complexity and the likely costs of delivering such a large scale fund management organisation has undoubtedly increased since inception. The government's investment reform and pooling agenda including the criteria and guidance issued last November has significantly shifted the goalposts for LGPS funds in England and Wales, meaning that all funds are now being forced to deliver LGPS investment pools and to set out clear timeframes for when assets will be transitioned to the new pools, the costs of doing so, the costs of running the pools and the savings that will be delivered over time by reduced fee savings and increased efficiency.
4. It is clear that the London CIV has been instrumental in helping to shape the government's latest agenda and a move away from merger of funds and

wholesale passive investments and the fact that the CIV was making considerable progress in developing the appropriate governance structures and obtaining FCA authorisation as well as getting buy-in from nearly all London funds in the early days. It is recognised that this has resulted in London leading the way in LGPS pooling developments, but other pools are now making significant progress from a standing start and will undoubtedly reach milestones much quicker than the CIV was able to do so, simply due to the path having already been forged.

5. The progress that has been made is a remarkable achievement and testimony to the collaboration that has taken place in London. It is expected that by the end of this financial year, the CIV will have assets under management in place of £7-8bn, with around 80% of London Funds having at least some of their investments through the London CIV. Fees savings by then are expected to be in the region of £4m per annum with undoubtedly more to come.
6. After a year of the IAC therefore it is important to reflect that whilst a lot has been achieved, a lot of work is still to be done if we are to deliver the objectives of being the investment pool of choice in London that is high performing and efficient, it has to have the necessary resources and expertise to follow through on those objectives and the IAC is committed to supporting the London CIV to deliver on this.
7. The Committee met 6 times during the year:
 - 25th September 2015
 - 23rd November 2015
 - 13th January 2016
 - 17th February 2016
 - 8th April 2016
 - 25th May 2016
8. The Committee has been provided with regular updates from the Directors of the London CIV, setting out the progress obtaining FCA authorisation and setting up manager sub-funds once authorised. The IAC affirmed support for the managers being chosen for the first funds and the proposed opening timescales for the new funds being opened. The IAC have also been provided with regular investment updates on the outlook for the markets and economy from the Chief Investment Officer.
9. Working groups covering a range of key areas were established by the IAC comprising a small number of officers to work in support of the Chief Investment Officer to develop investment opportunities for the CIV going forwards. The sub-groups comprised:

- **Fixed Interest:** The working group reviewed the current position of London Boroughs for opportunities to consider the same approach as was being developed with some of the early sub-funds, namely commonality of mandates with quantum of assets invested and high levels of conviction amongst the boroughs. However, it quickly became clear that there was very little of either commonality or quantum amongst the existing mandates, therefore consideration had to be given to how best to approach this asset class going forwards. This has resulted in a wider review of fixed interest with the need to consider how Boroughs might need to approach this asset class going forwards and in particular how the forthcoming actuarial valuation might impact on the requirements for funds. An initial paper setting out preliminary views was prepared by the CIO and reviewed by both the sub-group and the full IAC before being presented to the Pensions Sectoral Joint Committee (PSJC) at its meeting in February. It was agreed that further work should be undertaken to look at bespoke options going forwards which would be available to funds to meet potential cashflow challenges going forwards and that over the course of the next year to 18 months manager selections should take place to provide pension funds for opportunities in fixed income.
- **Infrastructure:** This has clearly been an area of focus for the IAC given the emphasis that has been placed on this asset class by the wider discussion on pooling of investments. Within London, there has to date been little by way of allocation to infrastructure, in part reflecting the relatively small size of funds, but also the lack of opportunity for meaningful risk/return opportunities to convince funds of the need to invest. The larger scale that pooling will afford in future should provide the CIV with opportunities to consider options in this area going forwards. An initial paper on infrastructure by the CIO was considered by the IAC, with further work underway on this area with a further paper due for consideration at a future meeting of the IAC. The IAC has been kept updated on wider discussions on infrastructure including work being done at a national level by a cross pools working group and this is likely to involve a greater degree of collaboration in this area to ensure that any opportunities for infrastructure investment are not competed away if pools were to bid against each other for those investments. It is recognised that at this stage London funds have as a group very low allocations to this area at the moment, and that going forwards it will still be very much up to each fund to decide when and how much it wants to allocate to this space, taking into account the risk/return profiles for each individual fund.
- **Responsible Investment and ESG:** The working group undertook a survey of London borough officers to review approaches to ESG related issues, receiving 26 responses. The main findings of the survey were a desire for the CIV to participate actively in engagement with the managers that it employs and fulfils a Stewardship Role. Boroughs were also keen for the CIV to adopt the Stewardship Code. The ESG sub-group has engaged with both index

providers and passive managers to look at options for index tracking funds, as well as looking at active funds with a responsible investment approach. The group does however; recognise that there are very different approaches across London to this area of investment. The IAC has been kept updated on wider discussions on Responsible Investment and Stewardship including work being done at a national level by a cross pools working group. Consideration by the CIV is now being given to holding a dedicated seminar on this area in the future which will look at both the risks of not fulfilling the stewardship role, in light of the fact that there will over time be in excess of £25bn assets under management, but also what opportunities there might be to target investment opportunities which target sustainable investments going forwards for those funds which want to target this area.

- Housing including Private Rental Sector: The IAC reviewed a paper considering investment in the private rental sector and whilst it was felt that there was some appetite for this investment across London, it was limited and that there were other key asset classes to address. The IAC has been mindful of the need to consider wider housing opportunities and in particular across London and this is likely to be an area for further investigation, particularly if this can be linked into the wider London housing and regeneration programme involving London Councils.
- Global equities: Whilst recognising that a number of sub-funds have been and will be opened covering global equities, the IAC are keen to explore new opportunities in this area and a sub-group will be working on this over the summer in conjunction with the CIV to review options and to undertake a procurement exercise which will provide a range of opportunities for funds to consider.

10. A key focus for the IAC has also been to consider how to respond to the Government's pooling agenda. This included reviewing the CIV's response for the February submission and also agreeing to support the use of the third party benchmarking service CEM to collate fee data across London. A draft response for the July submission was also considered at the IAC May meeting and an updated response will be provided to the PSJC. The IAC were also kept informed about the collaboration at the pools level with representatives from the CIV sitting on the cross pools working groups including feedback from DCLG and Treasury.
11. Membership of the IAC is on an annual basis and the request for nominations to sit on the IAC for 2016/17 is to be considered in early summer.
12. It has been agreed to schedule monthly meetings for the IAC for 2016/17 to reflect the speed of development for the CIV and the pooling agenda.

LONDON CIV – INVESTMENT ADVISORY COMMITTEE

TERMS of REFERENCE - SCOPE and OBJECTIVES. The Terms of Reference for the IAC have been agreed by the Joint committee and SLT and are as follows:-

Objectives

The objectives of the Investment Advisory Committee is twofold:

- a. To support the Joint Committee in the investment decision making process
- b. To liaise with the Fund Operator of the CIV in defining Shareholders' investment needs.

Scope

The IAC will be involved in the following activities;

- i. Review the needs of the London local authority Pension Funds in terms of investment strategies and mandates for the CIV and liaise with the Fund Operator.
- ii. From a client perspective participate in the review of existing fund managers in the CIV.
- iii. The IAC will receive and review the annual investment plan, including; the selection of fund managers, investment strategy and sub-fund product structure and performance benchmark.
- iv. The IAC will receive and review regular reports and information from the ACS Operator (at least quarterly, unless particular circumstances indicated otherwise). These reports can include performance information, transactions reports and fund manager investment operations SLA's.
- v. The IAC will be expected to contribute to the discussion on a regular basis on the future requirements of the London Local Authority Pension Funds so that the CIV can continue to meet their needs.
- vi. The IAC will liaise with their peers in the other London Local Authorities to ensure their needs are being considered.
- vii. The IAC will liaise with other Local Authorities to consider investment options where these might present opportunities for the CIV.
- viii. The IAC will keep under review opportunities for investment in existing asset classes in the CIV and for new asset classes
- ix. The IAC will review annually the effectiveness of the Committee including:

1. The extent to which the Committee has discharged all the responsibilities detailed in its Terms of Reference.
2. The extent to which these responsibilities and the operation of the Committee have been effectively executed.