Leaders' Committee

London CIV: Progress report and proposed next steps towards a London LGPS CIV

Item no: 7

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Date:	14 July 2015		
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Summary

1. Leaders' Committee last received an update an update on progress towards the establishment of a collective investment vehicle (CIV) at its meeting of 15 July 2014. Since then detailed work has continued to establish the CIV as a vehicle for London local government to use as a route to greater collaboration and efficiency in the investment of their pension funds.
2. This report provides an update on that detailed work highlighting a number of significant milestones that have been achieved and setting out current plans to take the CIV to launch and beyond.

Recommendations

Leaders' Committee is asked to:

i) Note the progress update and next steps provided in this report.

London CIV:
Progress report and proposed next steps towards a London LGPS CIV

Background

1. The question of whether and if so how the Local Government Pension Schemes (LGPS) across London might work more closely together has been the subject of a number of reports to London Councils' Leaders' Committee and Executive since March 2012 (see 'Background Papers' below for a complete list of all reports). To provide leadership and direction to this consideration, Leaders' Committee resolved to establish a Pensions Working Group (PWG) constituted of the then three London Councils' Party Group Leaders (Mayor Jules Pipe and Cllrs. Teresa O'Neill and Ruth Dombey) and three representatives from the Society of London Treasurers, supported by the then Director of Fair Funding, Performance & Procurement.

2. In response to a Pensions Working Group (PWG) update to its December 2013 meeting, Leaders' Committee resolved that London Councils should establish a designated fund with contributions from those boroughs interested in further exploration of proposals for the establishment of a London LGPS Collective Investment Vehicle (CIV) and that the funds collected should be used to pay for the professional costs associated with that exploration.

3. At its February 2014 meeting, Leaders' Committee considered a report from the PWG, which presented a more detailed business case and proposals in respect of establishing a CIV with the underlying structure of a UK Authorised Contractual Scheme (ACS).

4. Leaders' Committee agreed the recommendations of the PWG, and resolved to endorse and recommend to each local authority which decides to participate that, in addition to matters connected to the establishment of an ACS operating Company, a representative body, in the form of a new Sectoral Joint Committee (the "Pensions CIV Joint Committee" (PCJC)), be established (pursuant to the existing London Councils Governing Agreement, dated 13 December 2001 (as amended)).

5. Since those meetings, 30 London local authorities have become active participants in the CIV programme and have each contributed £50,000 to the designated fund. Three boroughs have decided not to participate at this time.

6. The fund is being used to commission specialist expert professional advice associated with the development of the CIV. At this point £470,000 of the fund has been committed

to cover the costs of expert advisors (Eversheds, Deloitte, Northern Trust (on a short contract leading to the February 2014 report to Leaders' Committee), and Mercer), and the engagement of a Programme Manager on a fixed-term contract.

7. The CIV has made considerable progress in recent months including the incorporation of London LGPS CIV Limited (which is the ACS operating Company), engaging Northern Trust as the Asset Servicer (covering depositary, fund administration and custody), and submission of the regulatory application for Company authorisation to the Financial Conduct Authority (FCA) on 26 June 2015. More detail on each of these is given below.

8. The CIV project has continued to receive significant support and input from the Technical Sub-Group (TSG) formed of representative borough pensions experts and Chaired by Mr Chris Buss (Finance Director LB Wandsworth and one of the current directors of the CIV operating Company.)

London LGPS CIV Ltd.

9. The July 2014 report to Leaders' Committee noted that the incorporation of the operating Company was in progress. Actual incorporation of London LGPS CIV Limited (trading as London CIV) happened on 17 July 2014. In line with recommendations made to the February 2014 meeting of Leaders' Committee the Company was incorporated with interim directors, namely Mayor Pipe, Cllrs. O'Neill and Dombey (as member representatives), Mr Chris Buss, Mr Ian Williams and Mr Peter Kane (as Treasurer representatives) and Mr John O'Brien (Chief Executive of London Councils).

10. The Company Board has met five times since then to consider and give guidance on a range of issues including:

    - The programme plan and risk register;
    - Procurement of the Asset Servicer and eventual appointment of Northern Trust to the role;
    - Recruitment of permanent Board members;
    - Governance structures; and
    - Progress around structuring the fund for launch.

11. Following a recruitment process involving the Board and an interview panel consisting of Mayor Jules Pipe, and Cllrs. Teresa O'Neill and Ruth Dombey Hugh Grover was appointed as interim Chief Executive of London CIV for a period of 18 months starting

from 1 May 2015. This appointment being subject to the FCA granting *Approved Person* status.

Pensions CIV Sectoral Joint Committee

12. In accordance with the recommendations of the February 2014 report to Leaders' Committee and the subsequent resolutions of the participating boroughs, a new representative body has been established, in the form of a Sectoral Joint Committee (the "Pensions CIV Joint Committee" (PCJC)), pursuant to the existing London Councils Governing Agreement, dated 13 December 2001 (as amended). That committee met for the first time on 17 December 2014 and resolved that Mr Mark Boleat (City of London Corporation) would be the Chair.

13. Members of the PCJC have been nominated by their respective boroughs and have been delegated authority to act and take decisions on behalf of their borough, both as members of the Joint Committee when considering 'day-to-day' issues concerning the borough as a potential investor in the CIV, and as shareholder representatives exercising the powers given to shareholders in the Articles of Association.

14. Since its inaugural meeting the committee has convened three further times to consider and give guidance on issues including:

    - Stewardship and voting through the CIV;
    - Governance and structures;
    - Articles of Association and Shareholders Agreement; and
    - Progress around structuring the fund for launch.

15. The committee has also received briefings on the role of the Asset Servicer and the responsibilities of a member acting as a shareholder.

Structuring the fund

16. Under the ACS structure, the ACS Fund is seen as separate from the Operator and is separately authorised by the FCA.

17. The structure of the Fund for launch has been the subject of detailed discussion by the TSG and has involved engagement with a number of participating boroughs and with third-party Fund Managers. Although there remain a few points to finalise, the structure is now crystallising. The strategy for structuring the fund has focussed on analysis of data covering which Fund Managers (FM) boroughs are currently invested through, to

look for commonality of mandates (i.e. more than one borough invested with the same FM in a largely similar mandate), and to discuss with boroughs and FMs which mandates would be most appropriate to transition to the ACS Fund for launch.

18. Each mandate would become a separate, ring-fenced, sub-fund within the overall ACS Fund with each sub-fund being managed by one FM. Boroughs will be able to move into a sub-fund without the need for procurement (under the Teckal exemption) and from one sub-fund to another relatively easily, but ring-fencing will prevent cross contamination between sub-funds.

19. The launch strategy has led to final negotiations with four separate FMs who between them will manage between 9 and 15 sub funds (subject to final agreement on the construction of passive equities for the CIV.) In terms of the nature of the sub-funds at launch the following is anticipated:

- Manager 1: 3 to 6 Passive Equity sub funds.
- Manager 2: 3 to 6 Passive Equity sub funds.
- Manager 3: 1 Active Global Equity sub fund.
  1 Diversified Growth sub fund.
- Manager 4: 1 Active Global Equity sub fund.

20. Depending on decisions to be taken by the boroughs in the autumn about transitioning from their current mandates into mandates on the Fund, this mix of sub-funds would lead to more than £5bn of assets being under management in the CIV by the end of the launch phase.

21. Through aggregation of the borough's investments it is possible to generate significant fee savings of around £2.6 million per annum. It is should be noted that these are savings on predominately passive investments, where it is recognised that there is less room for fee reductions, thereby demonstrating the scale that could be achieved once phase 2 (fund development) begins and the focus shifts more onto active and alternative style of investments. In basis point (bps) terms this equates to savings of circa 5 bps on Passive (50% reduction) and circa 8 bps on Active (20% reduction).

22. Under the leadership of the Society of London Treasurers a new officer committee is being formed, the Investment Advisory Committee (IAC). The IAC will provide borough oversight of the Fund and advice to the PCJC about how members might wish to ask the Operator to develop the Fund over time. Matters that it will consider will include Fund

performance, whether individual sub-funds are still required, and what new sub-funds and asset types might be desirable (e.g. infrastructure opportunities).

Articles of Association and Shareholders Agreement

23. The Company was incorporated with ‘model’ Articles of Association with minimal adjustment. It was accepted that further amendment would be needed to make them fully fit for purpose for the operator of an ACS. Additionally it is necessary to have a Shareholder Agreement formalising the relationships and responsibilities across the participating boroughs. Both documents are being drafted and will be put to the Company Board and the shareholders for adoption and signature.

Recruiting

24. As noted above, the Company Board has recruited an interim Chief Executive and recruitment of permanent Board members is underway covering:

    - Non-executive Chair
    - Non-executive directors x3
    - Chief Operating Officer
    - Investment Oversight Director

25. It is necessary to have these roles filled (along with the Head of Compliance role) before the FCA will give final authorisation to the Company.

26. When the permanent directors are in place the current interim directors will step down.

27. Oversight of the recruitment process has been given by both the interim Board and the PCJC.

FCA authorisation

28. The regulatory application for Company authorisation was submitted to the FCA on 26 June. Following meetings with the FCA ahead of submission it is known that the application will be given swift attention and it is hoped that authorisation will be given by the end of August/early September. This is dependent on successful recruitment of key staff and the necessary regulatory capital being in place (see below).

Benefits

29. The CIV will deliver significant benefits to the participating boroughs. Some are ‘cashable’ benefits that will increase efficiency and reduce costs, while others are ‘softer’

benefits such as increased efficiency and quality, and the power of collectivisation and collaboration. The major benefits are set out in Annex A grouped into cashable and softer. Where it is possible to give an indication of the scale of the cashable benefits that has been done. However, it should be recognised that many relate to the final construction and on-going development of the fund, and vary according to decisions about investments that boroughs will be making later, and are therefore impossible to quantify with any degree of accuracy at this stage. In other words as the fund grows and boroughs make decisions to transition to the fund, the benefits will grow.

Regulatory capital

30. It is a regulatory requirement for a Company managing and operating an Authorised Contractual Scheme (ACS) fund to have a minimum level of 'regulatory' capital (RC) that is separately identifiable and readily available (liquid) to ensure the ongoing viability of a Company faced with an unforeseen event that might otherwise cause its insolvency and to cover the potential exposure of the Company to professional liability in respect of all its activities, including the management of funds under delegated mandates. Effectively it is a reserve designed to protect investors in the fund (not investors in the Company) by ensuring that the Company can continue trading if faced with an unplanned liability or event that might otherwise put it out of business. While it might be argued that the nature of the CIV and its relationship with its investors (who at the outset at least are all also owners of the Company) makes the need for such protection less necessary, there are no exceptions or exemptions under the regulations.

31. While there are some options around how the capital is raised by the Company, the current proposal is that each participating borough should contribute equal amounts in the form of share capital. It is permissible to invest regulatory capital to generate a return (and this would be the intention for the CIV) but it must be in near-cash assets (e.g. gilts).

32. The amount of regulatory capital required at any point in time is dictated by a formula (broadly driven by the quantum of assets under management) up to a maximum of €10 million. It is proposed that the boroughs each contribute share capital of £150,000 at the outset which will effectively over-capitalise the Company but is estimated to address the regulatory capital issue at least through the first three years of the fund development.

33. It should be noted that the injection of RC by the participating boroughs should be seen effectively as an investment and not expenditure, as it will remain as an asset of the

borough and will be invested by the Company in liquid assets which will generate a return.

Stakeholder engagement

34. Considerable effort has been put into engaging with the many different stakeholders with an interest in the project. This has included:

    - Group Leaders meeting twice with the Local Government Minister, with another meeting in the planning stages;
    - Regular updates and consultation with the Society of London Treasurers and pensions officers across the boroughs, including focussed briefing sessions allowing for more in-depth discussion and debate;
    - Regular updates to the PCJC and individual borough briefings where they have been requested;
    - Speaking at a range of conferences and seminars to explain the proposals to both the finance industry and local government;
    - Media briefings; and
    - Discussions with a broad range of Investment Managers and Investment Advisors.

35. Stakeholder engagement will continue to be a major focus for the project going forward.

Next steps

36. As noted above the regulatory application for Company authorisation has been submitted to the FCA and will be processed over the summer, ideally leading to authorisation in the early autumn. Other major steps over the next weeks and months include:

    - Finalising the design of the Fund for launch, discussing the proposals with the participating boroughs and submitting an application for Fund authorisation;
    - Designing the transition (on-boarding) process to move borough assets from their current mandates to sub-funds in the CIV Fund;
    - Recruiting key staff and (where required) putting them through the FCA Approved Persons process;
    - Designing the detailed day-to-day operating and compliance procedures; and

- Procuring remaining service providers such as tax consultants, legal advisors, and auditors (internal and external for the Fund and the Company.

37. The target is to have the Fund operational with assets under management in the autumn, but the complete launch phase is likely to take several weeks to work through.

Government position

38. Government Ministers have shown significant interest in the LGPS over the last two years and have been particularly keen to consider options for reform that might deliver cost savings and efficiencies.

39. On 2 May 2014, the Government released a consultation titled '*Local Government Pensions Scheme: Opportunities for collaboration, cost savings and efficiencies*', which drew on cost-benefit analysis of proposals for reform that had been commissioned from Hymans Robertson LLP. This consultation followed an earlier call for evidence on the future structure of the LGPS, which ran through the summer of 2013.

40. The package of proposals set out in consultation included:

    - Establishing common investment vehicles to provide funds with a mechanism to access economies of scale, helping them to invest more efficiently in listed and alternative assets and to reduce investment costs;
    - Significantly reducing investment fees and other costs of investment by using passive management for listed assets, since the aggregate fund performance has been shown to replicate the market;
    - Keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to help identify the true cost of investment and drive further efficiencies in the Scheme; and
    - A proposal not to pursue fund mergers 'at this time'.

41. The Government posed a number of questions in the consultation based on those proposals

42. The consultation closed on 11 July 2014, and by agreement of Leaders' Committee, London Councils submitted a response on behalf of its members which in summary said:

    - London Councils endorses the Government's decision not to pursue fund mergers at this time.

- London Councils believes that Collective Investment Vehicles (CIVs) can offer significant savings and the opportunity for improved investment returns through economies of scale and access to alternative investments.

- London Councils strongly endorses the proposal to keep asset allocation decisions with the local fund authorities.

- London Councils has no firm view on the number of CIVs that should be set up, but does believe that a single CIV for the entire LGPS would generate dis-economies of scale and potential disruption to the investment market.

- London Councils believes that an FCA regulated ACS is the most suitable form of CIV for the London boroughs, and proposes a governance structure that allows the boroughs strong oversight and control within the regulatory framework.

- London Councils believes that passive management should not be enforced at any level and that individual fund authorities should have the ability to use active management as part of their investment strategies. London Councils also believes that the London CIV could enhance governance and could act as a catalyst to deliver the benefits of active management for individual pension funds.

43. London Councils' officers have continued to engage closely with their counterparts in Government and, while no response to the consultation has been published by the Government and ultimate decisions are still to be made by Ministers, there has been no indication that the Government thinks the boroughs should stop their plans to establish a CIV. Indeed, the fact that the Government's consultation clearly shows that Ministers have developed their thinking away from LGPS fund mergers (although not to the point of abandoning the potential for mergers altogether), towards encouraging the development of CIVs, and that the Local Government Minister met with Mayor Jules Pipe and Cllr Teresa O'Neill following the consultation, could both be taken as positive signs of encouragement.

Recommendations

44. Leaders' Committee is asked to:

    i) Note the progress update and next steps provided in this report;

Legal implications

45. Leaders' Committee has considered legal issues relating to participation in a joint committee and establishment and FCA authorisation of a company to be an ACS Operator. Leaders' Committee has identified that these actions would be within the

powers of the London borough councils. It has also identified the need for each council that decides to participate in these arrangements to exercise its powers reasonably and to ensure that it has a decision to enter into the arrangements from a body with the authority to do so. Leaders' Committee needs to be satisfied that the London boroughs that have decided to contribute to the fund and to participate in the arrangements have taken valid decisions. This report explains how the London borough councils have developed a governance structure for joint working (through the establishment of the Pensions CIV Sectoral Joint Committee and appropriate terms in the Articles of the Company which will act as the ACS Operator) in compliance will all relevant legal obligations.

Financial implications

46. The 29 participating boroughs and the City of London have each contributed £50,000 (£25,000 in f/y 2013/14 & 2014/15) to a dedicated fund established in London Councils to pay for implementation costs associated with establishing the London CIV. A further £25,000 is due to be invoiced to each participant shortly, but decisions are being made as to whether this will be invoiced by London Councils or the Company. Of this total amount of £2,250,000 approximately £500,000 is projected to remain after implementation to cover the early operating costs of the Company.

47. The implementation budget was reviewed by the PCJC at its meeting of 17 December 2014, and expenditure has been incurred of £540,000 to 31 May 2015.

Equalities implications

48. There are no equalities implications for London Councils

Attachments

Annex A: Benefits

Background papers

13 March 2012, Leaders' Committee report:
http://www.londoncouncils.gov.uk/node/20992

13 November 2012, Leaders' Committee report:
http://www.londoncouncils.gov.uk/node/21721

11 December 2012, Leaders' Committee report:
http://www.londoncouncils.gov.uk/node/21816

14 May 2013, Leaders' Committee report:
http://www.londoncouncils.gov.uk/node/22122

19 September 2013, Executive report:
http://www.londoncouncils.gov.uk/node/22314

26 November 2013, Executive report:
http://www.londoncouncils.gov.uk/node/22652

10 December 2013, Leaders' Committee report
http://www.londoncouncils.gov.uk/node/22666

11 February 2014, Leaders' Committee report
http://www.londoncouncils.gov.uk/node/22825

11 March 2014, Leaders' Committee report
http://www.londoncouncils.gov.uk/node/22913

15 July 2014, Leaders' Committee report
http://www.londoncouncils.gov.uk/node/23092

ANNEX A

Benefits

Cashable Benefits

Investment manager fee reductions

3. From discussions with fourteen investment managers who collectively manage over £14.5 billion of borough assets, or 50 per cent of the total, seven managers have so far agreed to reduce fees on average by 20 per cent. Across the 17 mandates that have been looked at in detail to date, this equates to a total saving of approximately £2.6 million per annum.
4. These savings vary considerably from manager to manager depending on the nature of the mandates and the quantum of assets under management. Accordingly they are not spread evenly across the boroughs. Further savings are expected once the remaining managers have submitted their fee saving estimates, and formal negotiations with managers have begun so it would be reasonable to expect some of the fees to drop further.

Tax benefits

5. The borough pension schemes are entitled to a number of beneficial withholding tax rates currently, which apply when they invest directly into equities on a segregated basis. These benefits should continue to apply when these investments are made via the CIV.
6. There are however additional tax benefits available when investing through the CIV (which will be an Authorised Contractual Scheme) which may apply. The tax benefits for each borough will vary significantly depending on their current investment profile. For example, if a borough currently invests into a Luxembourg or Irish corporate fund, they are likely to be suffering 60 basis points of US withholding tax cost which they would not suffer if they invested directly in the equities via the CIV. On a £100m investment into US equities, this could cost a borough £600,000 per annum. There are also certain markets, such as France, where the CIV is entitled to a 0% rate of withholding tax, whereas a pension scheme would suffer 15% investing directly.
7. The below table summarises the potential tax costs, in basis point terms, of investing through different fund types, assuming a 2% dividend yield from the investment. This table is focussed on equities. Typically withholding tax is not suffered when investing into bonds. The position for different fund types can be complex and subject to change, however the below should provide a good indication of potential withholding tax savings compared to existing structures.

	LGPS direct investment	UK Life Company	UK OEIC	Irish ICVC	**CIV**
US equities	0 bps	0 bps	30 bps	60 bps	**0 bps**
European ex UK equities	14 bps	14 bps	18 bps	18 bps	**6 bps**
UK equities	0 bps	0 bps	0 bps	0 bps	**0 bps**

8. There are also tax efficiencies for the CIV regarding stamp taxes. For example, if UK equities are transferred into the CIV there should not be SDRT on transition. Similarly, a seeding relief has been proposed which would allow tax efficient contribution of UK real estate assets in the future.

<u>Procurement Savings (time and cost)</u>

9. Opinion from Counsel has clearly stated that participating boroughs will not need to go through procurement to invest through the CIV; there is a specific exemption in the public procurement regulations.

10. Analysis of data over the three years 2010 to 2013 shows that there were 99 mandate changes made by borough pension funds. On the assumption that generally a mandate change incurs procurement related costs of around £50,000 (or £4.9 million over the three year period) there is scope for significant savings over time as more investments are made directly into the CIV and less are procured by individual boroughs.

11. Based on a broad assumption about the number of procurements that will not be needed over time, it might be assumed that in the first 18 months the number could reduce by up to eleven. This would reduce the overall cost of procurement in this area from £1.6 million to £1.1 million, collectively saving the boroughs £500,000. On top of which there would also be a reduction in time (less time spent on procurement processes) and labour for the boroughs.

12. Additionally, the benefit in terms of speed to investment should not be underestimated. In other words, if a borough decides it wishes to invest into a particular asset class or type and that product is available through the CIV the borough will be able to invest into it immediately rather than going through the delay of lengthy procurement processes.

13. Beyond the savings in time and money set out above it is likely that the CIV will provide a platform for joint procurement and negotiation of other types of contracts, which again would save the boroughs money in terms of procurement processing costs and deliver cheaper prices based on scale.

<u>Transition costs reduced</u>

14. Transition costs are incurred as boroughs move from one investment mandate/manager to another. Although impossible to quantify at this point, these costs will be reduced through the CIV.

15. Primarily the benefit lies in the reduction of 'value leakage' as assets move from one place of ownership to another, the CIV will reduce this leakage in a number of ways:

    - The ability of boroughs to move across different funds on the CIV, often through in-specie movements with no or minimal transition costs;
    - Reduced cost of entering and exiting sub-funds and control of dilution levies and fees.
    - The use of a retained transition manager(s) on competitively negotiated fees based on the CIVs scale of assets;
    - Better oversight and management of transitions to ensure that they are efficient and optimised, minimising leakage as assets are sold and purchased;

Manager churn reduction

16. The CIV will strive to become a centre for excellence, whereby the best managers are on the platform, providing the boroughs with the choice of the best performance available in the market. It would be fair to assume that as the CIV progresses and the managers on the platform are optimised, the number of mandate and manager changes (or 'churn') will reduce, thereby reducing the cost that these changes incur for the boroughs.

Custody costs reduced

17. As boroughs increase the amount of assets they hold through the CIV, their custody costs will reduce. Due to the scale of the assets held in the CIV, it is likely the custody costs will be significantly preferential to the boroughs current custody costs. As with a number of the CIVs benefits, the more assets the boroughs invest through the CIV, the greater the benefit for individual boroughs.

Crossing (trades in pooled funds)

18. There is opportunity for boroughs to benefit from 'crossing' within the CIV's pooled sub-funds. Crossing trades internally is when two clients take opposite positions in a trade, thereby eliminating market impact and reducing execution costs. Benefits are subject to the size and type of sub-fund, and as yet figures cannot be estimated for borough savings.

Securities lending

19. Securities lending is a common activity for some asset managers. The lending delivers additional income on the securities being lent and generally some (occasionally all) of that income is fed back into the fund. Securities lending is not risk free.
20. Although not all asset managers engage in securities lending, there is still a significant amount of money made from lending stocks and shares (this is particularly relevant in passive management of equities.)
21. The CIV will deliver additional benefit from securities lending in two ways:
    - It will have scale and skills to be able to include the income derived from lending as part of the overall fee negotiation;
    - Where it holds segregated mandates it will be able to implement its own lending strategy/programme giving control over how and when securities are lent, thereby giving boroughs more financial benefit from the lending than they currently achieve.

Foreign exchange

22. In the same way as securities lending can generate additional profit, so too can the way FX is treated. The CIV will have the scale to implement detailed foreign exchange rate monitoring to ensure that boroughs are obtaining the best rates of exchange at the lowest commission possible. If a counterparty is not able to produce best execution at the best prices and lowest commissions then the provider can be changed. Some market

commentators estimate that the difference in these costs could be as high as 9 basis points.

23. To estimate savings we could look at a foreign equity portfolio that is worth £200 Million with a turnover of 20% of stocks each year (20% sell plus 20% buy = 40% with half of this amount being concurrent buys and sells in the same currency, therefore = 20% of fund value) this could save £200 Million x 20% = £40 Million x 0.09% = £36,000 per annum.

Brokerage costs reduced

24. Brokerage costs (for those managers who are not direct market participants) can add to the total costs the boroughs face when having their stocks bought or sold. Brokerage costs fall as the scale of assets increases, thereby reducing the overall cost the boroughs incur.

'Softer' Benefits

Data transparency and data access

1. One of the key aspects of the CIV is the transparency of manager data, performance and fees. Boroughs will be able to see data not only for those sub-funds in which they are invested, but also of every other sub-fund on the platform, thereby giving potentially greater overall transparency. This borough ability to compare managers and mandates will put the onus on managers not only to continue to perform well, but to make sure that their fees are competitive in comparison to those of their peers.
2. The CIV will provide boroughs with access to data in 'real' time through on-line reporting tools. As borough choose to put more of their assets into the CIV they will gain quicker and more efficient access to information that will allow timely decision making.

Shared investment manager oversight

3. Through the structures of the CIV the participating boroughs will come together to collectively scrutinise investment managers. This facility to collaborate when reviewing a manager will add to the sum of knowledge available to inform the process and is likely to lead to better overall decision making, which in turn should drive up overall investment performance.

Regulatory scrutiny

4. The ACS operator and fund are both regulated entities with significant oversight provided by the FCA and thus a high level of reassurance about the quality and robustness of the systems, processes and people.
5. The FCA will ensure high standards of conduct and will intervene if they see unacceptable risks to the fair treatment of the customers (the participating boroughs) or integrity of the market. Boroughs can be confident that the operator of the fund will be placing the fair treatment of customers at the centre of its corporate culture both because of the close relationship of the Company to the boroughs (its owners and investors) and because of the FCA oversight.

6. All employees fulfilling a role with ‘significant influence’ over the running of the Company will require personal authorisation by the FCA. The FCA ensures candidates are ‘fit and proper’ to perform the controlled functions of the regulated firm. When considering a candidate’s fitness and propriety, the FCA considers:
   - Honesty, integrity and reputation;
   - Competence and capability;
   - Financial soundness.

Governance/ Shared training/ Shared knowledge

7. The CIV Sectoral Joint Committee provides the boroughs with the opportunity to share and gain a large amount of knowledge and information that previously had no real vehicle for dispersion. Training sessions facilitated by the CIV will provide the boroughs with expert, in depth knowledge, whilst also providing a trickle-down effect to provide the wider borough pension committees with benefit.
8. The expertise that the boroughs now hold can be shared speedily and with ease through the CIV which will help the overall performance of the funds over the longer term. This will especially be the case through the ‘Investment Committee’ which will bring together officers from across the participating boroughs on a regular basis and enhance the opportunities for collaboration across the boroughs.
9. In addition the CIV itself will develop into a centre of excellence over time with skills and expertise that will be readily available to every borough.

Access to ‘alternative’ investment

10. Investing in more alternative assets (such as private equity, infrastructure and hedge funds) has always been expensive and made more so by the relatively small size of many of the borough pension funds. The collectivisation of the boroughs assets will result not only in a reduction and sharing of fees but more importantly, the opportunity (at some point in the future and if the boroughs choose) to invest directly in certain alternatives such as infrastructure, thereby removing fund-of-fund structures and the often high fees associated with them.

Responding proactively to the wider LGPS efficiency agenda

11. The CIV is a proactive response to the government’s view that there is inefficiency across the LGPS and that change, possibly including mergers, is necessary to address that inefficiency. So far the CIV initiative has helped steer the agenda away from mergers with the potential that sovereignty and accountability will be left in borough hands. Meetings with DCLG over the past year have been encouraging and helpful, with government very interested in what the boroughs have achieved so far through their collaborative approach. If anything, the CIV at this point is demonstrating to government that intervention is not only unwelcome, but unnecessary.
12. The collective power of the CIV, when up and running, is the ability to further shape the LGPS agenda through its scale and influence.

Market management

13. With thirty boroughs participating in the CIV, the wider investment industry has reacted as a result. In some cases investment manager fees have reduced even before the CIV has negotiated new fees on behalf of the boroughs. This demonstrates the impact the prospect of borough collaboration has had upon the market, and points to the potential for further and stronger influence once the CIV has been launched.

More time at local level to focus of strategic issues

14. One important aspect of the CIV is removing some of the more time consuming aspects of the borough pension funds (such as protracted manager searches and OJEU procurements) which in turn frees up important borough resources and time to focus on each individual fund's overall strategic issues, further ensuring that the CIV is put to the best use for its shareholders.

Voting power

15. Boroughs voting collectively either in individual sub-funds or as a CIV as a whole, gives them much greater influence than if they were to vote individually or allow managers to vote on their behalf. The intricacies of how CIV voting would work needs further exploration, but there remains the potential for more influence to be wielded by the boroughs through the CIV.

Reputation

16. There is no doubt that the London boroughs have taken a high-profile and leading position in delivering innovation and efficiency for the LGPS. This has been delivered through a number of activities including:

- Leading members meeting with government ministers to discuss the proposals;
- Significant media coverage;
- Participation in speaking events throughout 2014; and
- Receiving a "Highly Commended" award at the 2014 LGC Investment Awards.