

<b>LONDON BOROUGH OF CAMDEN</b>	<b>WARD:</b> All
<b>REPORT TITLE:</b> London Collective Investment Vehicle Progress Report	
<b>REPORT OF:</b> Executive Director Corporate Services	
<b>FOR SUBMISSION TO:</b> Pension Committee	<b>DATE:</b> 3 March 2020
<b>SUMMARY OF REPORT:</b>  This report provides a quarterly update on developments at the London Collective Investment Vehicle (CIV) in creating sub-funds for the spectrum of asset classes, on-boarding of assets and development of the CIV's staff resource. Progress with the London CIV contributes to the Government's pooling agenda and drive to reduce costs in the Local Government Pension Scheme (LGPS).	
<b>Local Government Act 1972 – Access to Information</b> No documents requiring to be listed were used in the preparation of this report:  <b>Contact Officer:</b> Nigel Mascarenhas Head of Treasury and Financial Services Finance & Procurement Corporate Services Dennis Geffen Annexe Camley Street N1C 4DG  <b>Telephone</b> 0207 974 1904 <b>Email</b> <a href="mailto:nigel.mascarenhas@camden.gov.uk">nigel.mascarenhas@camden.gov.uk</a>	
<b>RECOMMENDATIONS:</b>  The Committee is asked to note the contents of the report and feedback any comments on progress to the Chair and officers.	
<b>Signed by</b>  Director of Finance ..... <b>Agreed...</b>  Date <b>20.02.2020</b>	

## **1. INTRODUCTION**

- 1.1. All LGPS Pension Funds in England and Wales are participating in the Government's pooling agenda aimed at reducing investment costs, gaining economies of scale, improving governance and investing in infrastructure in the LGPS. There are eight pools for LGPS funds and the Government has agreed that these should all be established and regulated.
- 1.2. In London all 32 of the London Borough Funds have joined the London CIV (LCIV) including this Fund. Committee receives quarterly reports on the establishment and progress of the London CIV and transfer of assets into it. This report covers establishment and procurement of new sub-classes, launches of new sub-funds, assets under management and resource build-out at the CIV.
- 1.3. This will assist the Committee in its responsibility of asset allocation whilst future procurement of funds and day to day management is now the responsibility of the London CIV.

## **2. LONDON CIV UPDATE**

- 2.1. The value of the London CIV's assets directly invested stood at £8.6bn as at December 2019. The CIV also oversaw £11.4bn in passive assets.
- 2.2. In December 2019, at the CIV Shareholder Committee meeting, the importance of getting better clarity about pooling plans and product strategy was discussed, in order to grow the assets under management (AUM), as the growth has been less than projected. For instance, six LLAs have still to commit any funds to the LCIV platform. The late launch of funds and the lack of fund range, particularly in relation to passive funds, were also cited as factors behind the flat growth of AUM. By March 2020, 52% of total London LGPS assets (active £8.1bn and passive £11bn) is forecast to be on the CIV platform: almost unchanged from last year and short of the £2.6bn growth forecast in AUM. This has prompted the CIV to increase fees by £20k per London Local Authority (LLA) from £90k to £110k. The London CIV aims to achieve a pooling level close to 70% by 31 March 2023
- 2.3. The CIV is on track to make a £525k adjusted loss this year and will not make a profit until 2024, they forecast. Their projected cash flow balances still seem stable and large however, which is reassuring, given the Camden Pension Fund has £150k of shares in CIV. They also meet their capital adequacy requirements. One key sensitivity is if the appetite for passive funds increases over active funds: every £1bn of assets switched to passives is a fee reduction of £200k per annum for the CIV.
- 2.4. Kevin Corrigan joined in November as their Interim CIO and is leading the Investment team. His work includes focusing on delivering future fund launches and tackling some of the CIV's major challenges. A permanent CIO, a Head of Responsible Investment, and a Client Relations Director will be recruited in 2020. The total number of staff at the CIV has grown from 23 to 29 and is projected to increase to 39 over the Medium Term Financial Statement (MTFS) period.
- 2.5. There has been discussion this quarter around varying CIV's regulatory permissions, bringing it more in line with many other pool companies (like the

Brunel Pensions Partnership). This would require all LLAs to sign a letter recently distributed, agreeing to a change in business purpose. However, it has so far proven difficult to get all 32 LLAs to do this. If agreed, this would enable the LCIV to offer wider ranging services such as the oversight of passive funds, transition management (via third parties), services to simplify the administration involved (requiring the use of Investment Management Agreements) and enabling the LCIV to offer arm's-length regulatory services. There is also talk of the CIV offering treasury services via a company of the Greater London Authority (GLA) – the CIV's role being to provide a regulatory structure for public sector entities to go through.

- 2.6. Cllr Johnson and the Head of Treasury and Financial Services attended the CIV's General Meeting on 30 January. The Chair of the CIV reported that a major focus is to work more effectively with client shareholders to ensure pooling continues and deliver the funds we want to invest in.
  - 2.7. As part of this they are working to make sure ESG is integral to London CIV, with climate change goals in particular in mind.
  - 2.8. The CIV summarises key issues as:
    - a shortfall in assets under management. This has been flagged from the returns to MHCLG.
    - Developing their ESG strategy underpinned by the Dawn Turner review.
    - Continuing to build out the CIV's structure including ESG capabilities
    - Improving transparency and communication
  - 2.9. The CIV expects to hit most objectives in its MTF5 apart from the funds under management target.
  - 2.10. The CIV Board decided to close the LGPS Pension scheme to joiners and this was dependent on all 32 boroughs signing the pension guarantee and recharge agreements. Currently only 19 funds have signed this.
  - 2.11. There will be a Governance workshop on this on 24 Feb 2020. The key message from the review is that there is scope for improvement in particular for more investor engagement, communication and transparency.
  - 2.12. This includes the involvement of the wider stakeholder group beyond the Shareholder Committee, including elected members, s151 officers and Pension Managers. In particular there is an urgent need to improve how London CIV and pool members work collaboratively to achieve pooling, involvement in mandate design, engagement of investors through the fund launch process and ensuring pool members are confident about the oversight of fund managers.
- 3. ENVIRONMENT SOCIAL AND GOVERNANCE (ESG)**
- 3.1. At the ESG and Strategy Forum it was noted that 23 of the 32 LLAs have now signed the Climate Emergency Declaration and following the Forum, the CIV's vision statement now reads: "to be the best in class asset pool delivering value for Londoners through long term sustainable investment strategies"
  - 3.2. On 5 February the CIV held an ESG workshop. They presented two sub funds they are working on launching. The first is the Renewables fund which is 100%

focussed on renewables. The return expectation is net returns of 5-9%. We are already invested in the Infrastructure sub Fund managed by StepStone which targets net returns of 8-10% and includes 25% renewables.

- 3.3. In fact the CIV Infrastructure fund's first investment has been in the Macquarie GIG renewable energy fund 2 which is 100% focussed on renewable energy with the majority focussed on wind and solar assets. The first investment will be in the Gwynt y Mor Offshore wind fund located off the North coast of Wales and the fifth largest wind farm in the world. This investment alone represents c16% of fund commitments.
- 3.4. The CIV also introduced a new collaboration between the London CIV and the Local Pensions Partnership (LPP) pool. This is an impact fund aiming to invest in infrastructure in London. It's target will be CPI + 3%. On the face of it this target seems quite low with our own Fund manager Partners offering an impact fund with a target return of 7-11% net. The LPFA will invest £150m in the Fund alongside interested London Pension Funds. The fund will aim to invest into areas such as local housing and infrastructure.
- 3.5. The "ESG stocktake report" – commissioned by Dawn Turner previously from Brunel Pensions Partnership – was completed. It concluded positively on the LCIV's engagement on ESG matters. Discussions surrounding the report mentioned that the LCIV does not have a resource dedicated to ESG and when a resource is in place, care must be taken not to duplicate efforts elsewhere. Their MTFs does include two ESG posts, to be funded from existing resources. The report also makes specific recommendations about stewardship, a common approach to carbon foot printing, reporting and voting. Even though engagement is preferred to divestment, exclusion versions of LCIV equity products could still be an option in the future.
- 3.6. On the topic of voting, there was mention of going beyond LAPPF recommendations, using a proxy voting agency. The current situation is that whilst London CIV managers voted in most instances in line with the LAPPF's voting alerts, very exceptionally fund managers were able to request a deviation from this (on a 'comply or explain' basis).

#### **4. LCIV FUNDS**

- 4.1. This quarter saw the launch of the LCIV Infrastructure Fund, with Stepstone as managers who will support investment selection, portfolio construction and reporting services. Initial commitments total £399m with the Camden Pension Fund having committed £106m. The fund made its first investment, totalling €75m into the Macquarie GIG Renewable Energy Fund 2 ("MGREF2") for a 576-megawatt offshore windfarm located off the coast of North Wales: the fifth largest operating offshore windfarm in the world. The Infrastructure Fund has a particular ESG focus and investments will always be in renewable technologies, mostly wind and solar assets, with a focus on Europe. For more information about the Infrastructure Fund, please see the Pension Committee Report on 27 February 2019
- 4.2. The LCIV Equity Income Fund has had a reduction in its annual management charge from 0.4% to 0.35% with manager Epoch. Also, the LCIV Sustainable Equity Fund won both the LAPF Active Manager of the Year 2019 and the

Professional Pensions Sustainable Equity Manager of the Year 2019, proving that sustainability does not have to come at the expense of performance.

- 4.3. The full funds currently available and upcoming are shown in appendices A and B. They are targeting an FCA submission and fund launch for both the LCIV Inflation Plus Fund and the LCIV Sustainable Exclusion Fund in the first quarter of 2020. The LCIV Global Equity Core fund is available but still awaiting investors. As for property funds, they are aiming to offer three strategies, UK Commercial, UK Residential and Global Property. Discussions on mandate terms and structure have commenced with the initial focus on UK Commercial Property.

## **5. FINANCE COMMENTS OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES**

- 5.1. There are no finance comments to add.

## **6. LEGAL COMMENTS OF THE BOROUGH SOLICITOR**

- 6.1. The Local Government Pension Scheme (Management and Investment Funds) Regulations 2016 requires all Local Authorities to commit to a suitable pool in order to achieve benefits of scale. This report demonstrates the adherence to the Regulations by providing details of the approach to pooling, the structure and the governance arrangements and the mechanism by which the CIV can be held to account.

## **7. APPENDICES**

Appendix A – Q4 2019 CIV Fund range

Appendix B – PART II Fund Launch plan (**NOT FOR PUBLICATION**)

## APPENDIX A - LCIV FUND RANGE Q4

ACS	Size	Capacity*	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)	Inception Date	No. of Investors
<b>UK Equity</b>							
LCIV UK Equity Fund	£n/am	£1,000m	(0.91)	7.69	(0.26)	18/05/2017	0
<i>Benchmark: FTSE All Share Index</i>			4.16	19.17	5.19		
<b>Performance Against Benchmark</b>			(5.07)	(11.48)	(5.45)		
<b>Global Equity</b>							
LCIV Global Alpha Growth Fund	£2,782m	£650m additional	4.90	27.78	18.60	11/04/2016	13
<i>Benchmark: MSCI All Country World Gross Index</i>			1.07	22.34	15.19		
<b>Performance Against Benchmark</b>			3.83	5.44	3.41		
LCIV Global Equity Fund	£668m	Unlimited	1.12	20.82	9.88	22/05/2017	3
<i>Benchmark: MSCI All Country World Index Total Return (Gross)</i>			1.46	22.38	9.96		
<b>Performance Against Benchmark</b>			(0.34)	(1.56)	(0.08)		
LCIV Global Equity Focus Fund	£871m	£1,500m	2.90	20.44	11.35	17/07/2017	5
<i>Benchmark: MSCI World Index Total Return (Net) in GBP</i>			0.98	22.74	9.52		
<b>Performance Against Benchmark</b>			1.92	(2.30)	1.83		
LCIV Equity Income Fund	£260m	£750m	(0.85)	16.90	5.61	08/11/2017	2
<i>Benchmark: MSCI World Index Total Return (Net) in GBP</i>			0.98	22.74	8.24		
<b>Performance Against Benchmark</b>			(1.83)	(5.84)	(2.63)		
LCIV Emerging Market Equity Fund	£346m	£1,000m	0.20	5.45	(4.04)	11/01/2018	6
<i>Benchmark: MSCI Emerging Market Index (TR) Net</i>			4.03	13.86	0.01		
<b>Performance Against Benchmark</b>			(3.83)	(8.41)	(4.05)		
LCIV Sustainable Equity Fund	£448m	£1,000m	3.05	26.98	14.67	18/04/2018	3
<i>Benchmark: MSCI World Index Total Return (Net) in GBP</i>			0.98	22.74	13.10		
<b>Performance Against Benchmark</b>			2.07	4.24	1.57		
<b>Multi Asset</b>							
LCIV Global Total Return Fund	£325m	Unlimited	0.67	5.44	3.55	17/06/2016	5
LCIV Diversified Growth Fund	£726m	Underlying £9.5bn	2.79	12.63	6.53	15/02/2016	8
LCIV Absolute Return Fund	£898m	£1,500m	0.97	8.91	4.23	21/06/2016	10
LCIV Real Return Fund	£134m	Unlimited	1.61	12.37	5.28	16/12/2016	2

ACS	Size	Capacity*	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)	Inception Date	No. of Investors
<b>Fixed Income</b>							
LCIV MAC Fund	£858m	Unlimited	1.29	6.41	3.58	31/05/2018	12
LCIV Global Bond Fund	£295m	Unlimited	0.64	12.05	11.46	30/11/2018	3
<i>Benchmark: Barclays Aggregate - Credit Index Hedged (GBP) Index</i>			0.20	9.97	10.17		
<b>Performance Against Benchmark</b>			0.44	2.08	1.29		
<b>Total LCIV Assets Under Management</b>	£8,612m						

\*Total fund capacity as at 31 December 2019. Capacities may change, for details on remaining current capacity available for further investment please contact the Client Service Team at [clientservice@londonciv.org.uk](mailto:clientservice@londonciv.org.uk).

EUUT	31 December 2019 Total Commitment	Called to Date	Undrawn Commitments	Inception Date	No. of Investors
<b>Active Investments</b>	£	£	£		
LCIV Infrastructure Fund	399,000,000	598,500	398,401,500	31/10/2019	6