.

London Borough of Enfield

**PENSION BOARD**

**Meeting Date: 2 December 2020**

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**Subject: London Collective Investment Vehicle (CIV) Update**

**Cabinet Member: Cllr Maguire**

**Executive Director: Fay Hammond**

**Key Decision: [ ]**

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**Purpose of Report**

1. This report provides a summary of London Collective Investment Vehicle (CIV) updates on investment, new products and governance arrangements.

**Proposal(s)**

2. The Pension Board are recommended to note the content of this report;

**Reason for Proposal(s)**

3. This report provides an update on LCIV governance arrangements, Fund launches, ESG and Fixed Income.

4. For effective and efficient management of the Fund as regular engagement with the London CIV is crucial to the Fund, to ensure that the Pool makes available the strategies and services that Enfield Pension Fund and other London funds require. Successful delivery of these objectives will be crucial in ensuring that the anticipated longer term investment manager fee savings can be delivered.

**Relevance to the Council's Corporate Plan**

5. Good homes in well-connected neighbourhoods.

6. Build our Economy to create a thriving place.

7. Sustain Strong and healthy Communities.

**Background**

8. London CIV was established in 2015 as a collaborative vehicle to pool LGPS pension fund assets for a more effective investment and value adding operation. The purpose of the company is **"*to be the LGPS pool for London***

***to enable the London Local Authorities (LLAs) to achieve their pooling requirements".***

9. Pool members are both shareholders and investors. Beyond the practical purpose to deliver pooling, LCIV aspires to be "***a best in class asset pool delivering value for Londoners through long term sustainable investment strategies."*** This statement has been updated to emphasise their commitment to responsible investment and stewardship.

10. It is worth noting that the challenge for LCIV in achieving a shared pooled strategy across London are not limited to the following:
    - Moving forward at a pace which delivers for the large majority of the 32 pool members given that others are more cautious about pooling
    - Uncertainty about government policy in a climate where a Pensions Commission has been proposed
    - The importance of attracting, motivating and retaining quality staff

11. Since LCIV inception, the pooling context has evolved, and they continue to work in partnership to address these changes and jointly deliver the purpose of the organisation.

12. The forward-looking plans have been developed against the backdrop of Brexit, increasing ESG and climate change concerns and emerging outcomes of triennial valuations that are expected to show higher funding levels which will influence asset allocation strategies and pooling activities.

13. The pace of pooling by the LLAs has a direct relationship with London CIV's AUM based management fees and is one of the key challenges they face. The rate of AUM growth has slowed and will be flat in 2020-2021 versus the £2.6b AUM growth forecast in last year's MTFS.

14. LCIV recognised that a number of items are impacting the pace of pooling including a pause in pool member decision-making pending the outcome of strategic asset allocation reviews.

15. LCIV is committed to reviewing the funding model in the coming year to consider the overall balance between the core costs of London CIV being covered by a fixed management fee versus the variable income from individual LLAs based assets invested and, therefore the relationship with actual use of LCIV services.

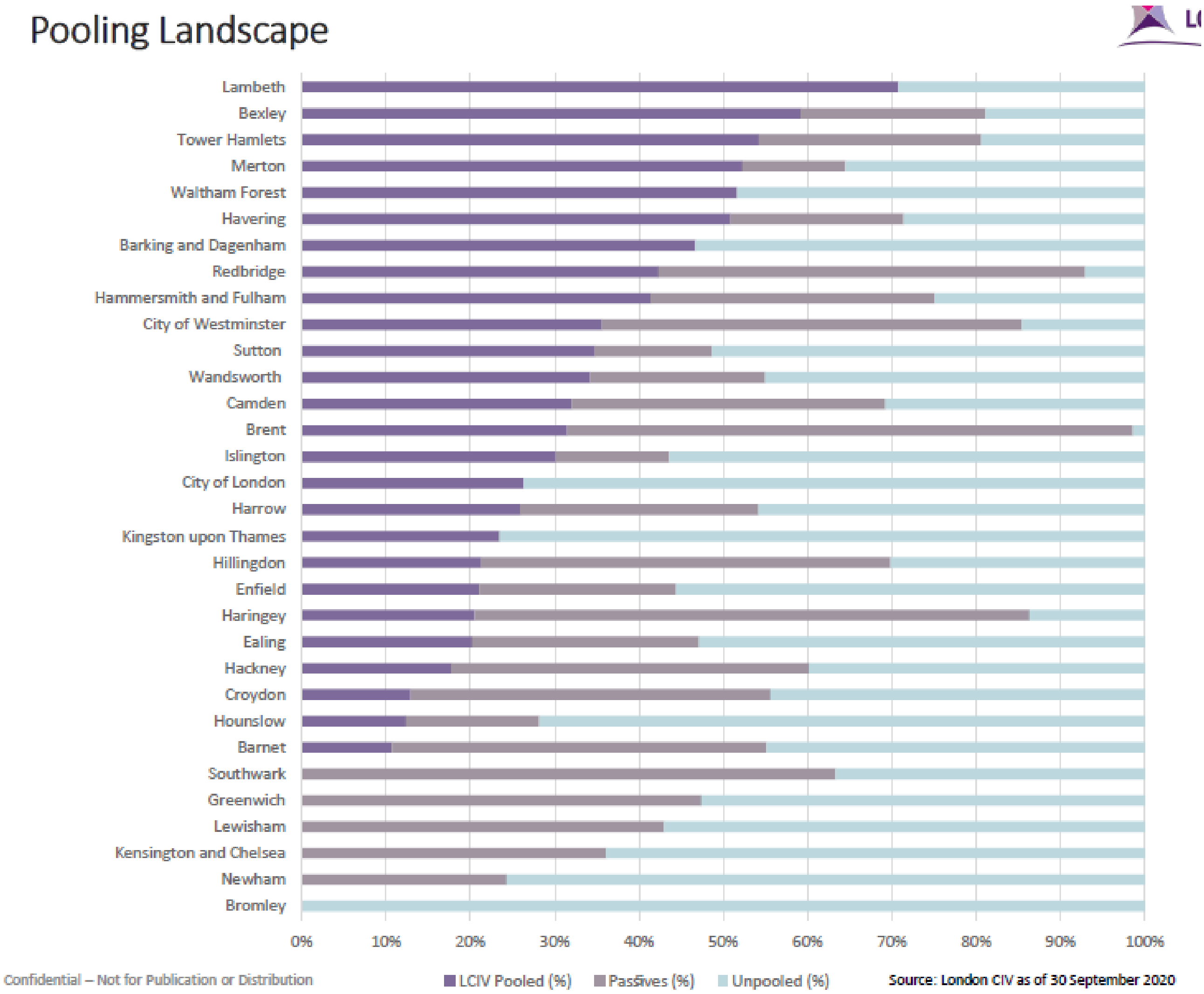
16. LCIV completed a peer cost benchmarking exercise ahead of the last MTFS and stated this confirmed that the London CIV was lightly resourced compared to other similar pools. However, they will complete a cost benchmarking exercise in the coming financial year to ensure their cost base continues to be in line with their peers and provides the necessary resources to support their fiduciary and regulatory obligations to all stakeholders.

17. London CIV exists to deliver a more effective pension scheme asset management. To achieve this, they need to establish an effective working

relationship with 32 pool members and achieve a consensus way of working. For some matters this means obtaining formal approval from all 32 pool members which from time to time proves difficult and can be an impediment to moving forward at the pace London CIV would hope for in order to deliver an effective and efficient outcome that pool members are expecting.

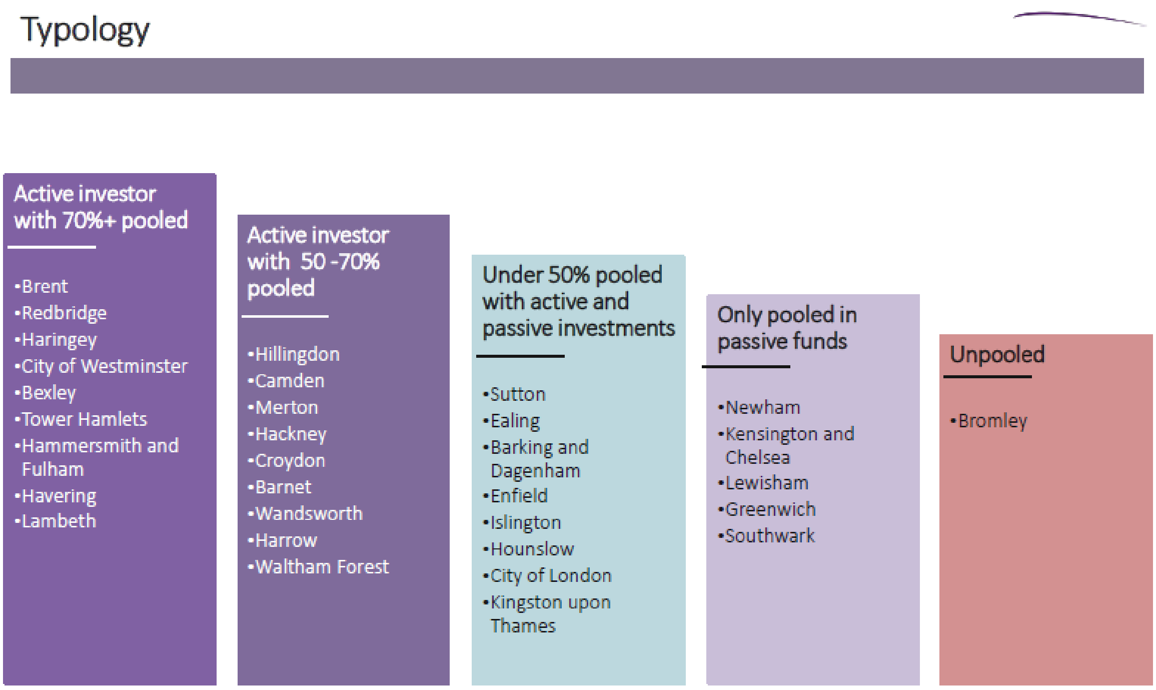
18. LCIV recognised pool member focus on responsible investment and stewardship issues, in particular the need to fully reflect risks arising from climate change, has increased significantly over the last 12 months. LCIV stated that around 23 pool members have made climate change declarations and are now considering a more detailed response to these issues, including how this relates to pension fund investments.

**LONDON CIV current level of asset pooling across London as at 30 September 2020 (source London CIV)**




19. The current level of asset pooling across London has not changed meaningfully over the last six months. Pooling activity has been slow with little activity with most LLAs. There remain one LLA that have yet to commit any funds on the LCIV platform.

20. Passive assets, managed by LGIM and Blackrock and which are, for the time being at least, classified as pooled, have grown as the result of continued flows into lower carbon tracker funds and LGIM's Future World Fund. By the end of September 2020, it is expected assets on the LCIV platform to be around the £8.1 billion, while passive assets will be around £11 billion (LGIM £8 billion, Blackrock £3 billion). This £19 billion combined figure puts LCIV just near the 50% 'pooled' mark in respect of London's circa £38 billion total assets under management.




**Cost Savings**

21. London CIV reported actual net savings for the twelve months from April 2019 to March 2020 were £12.06m. This actual annual savings figure is £3.1m less than the annualised net savings forecast of £15.4m included in the annual LLA savings summary in the budget for 2019/20 budget.

22. Savings including Gross savings which exclude the LCIV management fee and Net savings have been calculated taking into account all costs of the LLAs including the LCIV management fee, annual service charge and DFC. These savings do not include transition costs and LCIV are working with LLAs to develop a process to calculate and include transition costs as part of the Transparency and Reporting Working Group. Detailed information on the savings per LLA is included below in the below chart.

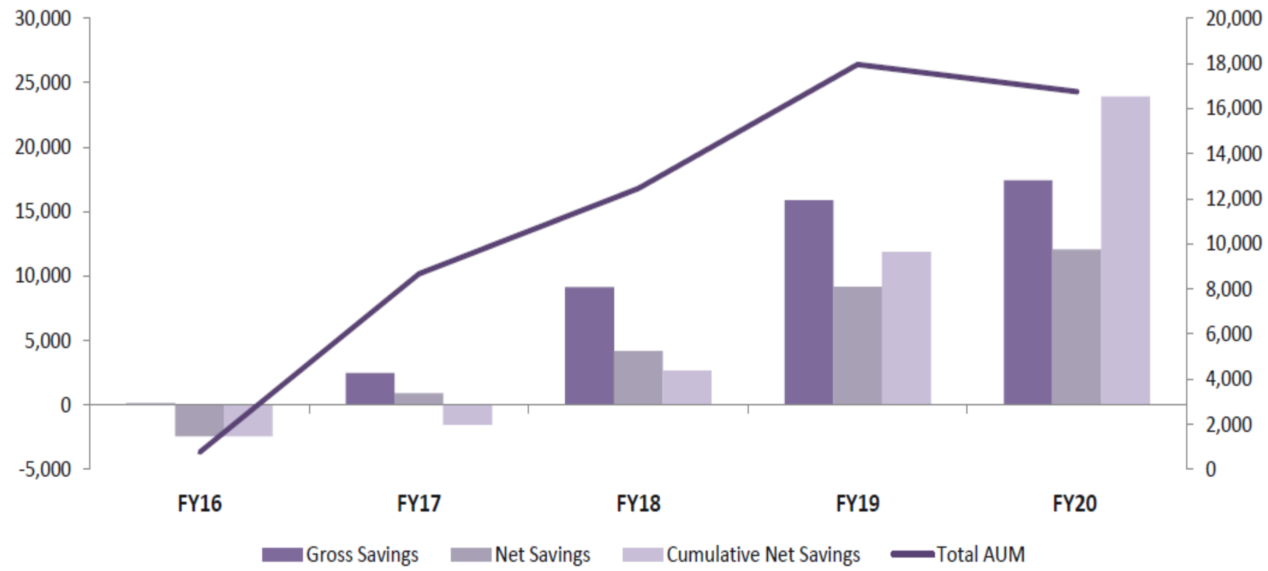
23. The Chair of the Cost Transparency Working Group (CTWG) is John Turnbull, Director of Finance of LB Waltham Forest. The CTWG comprises representatives from 8 LLAs (client funds) plus 2 representatives from London CIV Since June, the CTWG has met on three occasions.

24. The CTWG overseen the funding review conducted by EY including reviewing client fund funding questionnaire responses, attending funding workshops and reviewing the EY proposals arising from the funding review.

25. There were two workshops attended by over 40 representatives from client funds so good client engagement.

26. The outcome of their view was an agreement to change the funding model with a higher ratio of advalorem to fixed fee (target 70/30) but that a higher AUM was necessary to achieve this. Future focus would be on agreeing fee saving assumptions and CTI reporting for the year to March 2021.

## London CIV – cumulative net savings since inception




| | FY16 | FY17 | FY18 | FY19 | FY20 |
|---|---|---|---|---|---|
| | | | | | |
| AUM (£m) | Mar-16 | Mar-17 | Mar-18 | Mar-19 | Mar-20 |
| Total AUM | 761 | 8,678 | 12,455 | 17,952 | 16,748 |
| Savings (£k) | | | | | |
| Gross Savings | 117 | 2,486 | 9,140 | 15,872 | 17,418 |
| Net Savings | -2,431 | 916 | 4,201 | 9,186 | 12,056 |
| Cumulative Net Savings | -2,431 | -1,515 | 2,687 | 11,873 | 23,929 |

Source: London CIV. Data as of 31 March 2020. The assets under management include Client Fund investments in passive products managed by LGIM and BlackRock which do not form part of the LCIV Fund range

**LONDON CIV FUND OFFERING OVERVIEW - 30 September 2020**

27. The current LCIV portfolio includes 16 funds across equities, multi-asset, infrastructure and fixed income asset classes. The performance based on 30th September 2020 is shown below:

## CURRENT FUND OFFERING
ALL DATA AS AT 31 OCTOBER 2020

| Fund (ACS) | AUM (£ million) (31/10/2020) | Client Fund Investors | Inception Date |
|---|---|---|---|
| Global Equities | | | |
| LCIV Equity Income Fund | £205m | 2 | 08-Nov-17 |
| LCIV Global Equity Focus Fund | £752m | 5 | 17-Jul-17 |
| LCIV Global Equity Fund | £628m | 3 | 22-May-17 |
| LCIV Sustainable Equity Fund | £560m | 3 | 18-Apr-18 |
| LCIV Global Alpha Growth Fund | £3,263m | 13 | 11-Apr-16 |
| LCIV Global Equity Core Fund | £162m | 1 | 21-Aug-20 |
| LCIV Sustainable Equity Exclusion Fund | £346m | 2 | 11-Mar-20 |
| Emerging Market Equities | | | |
| LCIV Emerging Market Equity Fund | £441m | 6 | 11-Jan-18 |
| Multi Asset | | | |
| LCIV Real Return Fund | £116m | 2 | 16-Dec-16 |
| LCIV Global Total Return Fund | £261m | 4 | 17-Jun-16 |
| LCIV Absolute Return Fund | £855m | 8 | 21-Jun-16 |
| LCIV Diversified Growth Fund | £617m | 7 | 15-Feb-16 |
| Fixed Income | | | |
| LCIV MAC Fund | £1,045m | 12 | 31-May-18 |
| LCIV Global Bond Fund | £343m | 3 | 30-Nov-18 |
| Total AUM (ACS) | £9,594m | | |

| Fund (EUUT) | Commitments (£ million) | Client Fund Investors | Inception Date |
|---|---|---|---|
| Infrastructure | | | |
| LCIV Infrastructure Fund | £399** | 6 | 31-Oct-19 |
| Property | | | |
| LCIV Inflation Plus Fund | £107** | 2 | 11-Jun-20 |
| Total AUM including commitments | £10,100m | | |

### Fund Launch Pipeline

28. The table below summarises the new product focus and indicative estimates for AuM growth in the coming months, these are high-level estimates.

## FUND LAUNCH PIPELINE

| FUND | CURRENT STAGE | OWNER | EXPECTED LAUNCH DATE(S) | LATEST UPDATE | OVERALL RAG | EXPECTED DEMAND |
|---|---|---|---|---|---|---|
| London Fund | Stage 6 – FCA Process Fund Launch | Operations Team | 15 December 2020 | London Fund application has been sent to the FCA | On Track | 150m first close and ~£186 second close |
| Renewable | Stage 3 – Fund Structure Operational Viability | Operations Team | Q1 2021 (March) 1st Manager Selection early January 2021 | The advisor Redington have commenced GP selection process with first manager appointment anticipated for January 2021 | On Track | Client Funds: £230m |
| Private Debt | Stage 3 – Fund Structure Operational Viability | Operations Team | Q1 2021 (March) 1st Manager Selection Mid early January 2021 | The advisor ISIO (formerly KPMG) have commenced GP selection process with first manager appointment anticipated for January 2021 | On Track | Client Funds: £210m |

1 Client Demand → 2 Mandate Development → 3 Fund Structure Op Viability → 4 IM Selection → 5 Fund Preparation → 6 FCA Process Fund Launch

## FUND LAUNCH PIPELINE (CONTINUED)

| FUND | CURRENT STAGE | OWNER | EXPECTED LAUNCH DATE(S) | LATEST UPDATE | OVERALL RAG | EXPECTED DEMAND |
|---|---|---|---|---|---|---|
| Low Carbon Equity (Passive) | Stage 1 - Client Demand | Client Team & Investment Team | TBD | Client Fund demand being assessed with second SIG expected towards the end of November | On Track | TBD |
| Sterling Credit Fund | Stage 1 - Client Demand | Client Team & Investment Team | | Client Fund demand being assessed and survey to be issued towards the end of November | | Client Funds: £240m |
| Paris Aligned Global Equity | Stage 0 – Feasibility | Investment Team | | Client Fund demand is currently being assessed | | TBD |


**Funding Model Review – Key Findings**

29. As part of the Medium-Term Financial Strategy 2020-25 review the LCIV Board committed to reviewing the LCIV funding model. EY (who were appointed to support the project), have summarised the key findings as follows:

    a. Fees collected vs costs: The Service Charge, Development Funding Charge (DFC) and AdValorem Fee collected under the current funding model do not cover the LCIV's current costs and future investment needs.

    b. Pricing economics: The existing pricing structure is not based on a strong economic rationale and presents a challenge in the LCIV meeting its AIFM responsibility.

    c. Other LGPS pools: The AdValorem Fee rate charged by other LGPS pools is generally higher than that charged by the LCIV e.g. Local Pensions Partnership generally charges 10bps higher on its funds.

    d. Client Funds preferred model: Feedback provided by Client Funds via a questionnaire, workshops and the Cost Transparency Working Group indicates that a funding model that raises 70% of income from AdValorem Fees and 30% from Fixed Fees is preferred.

    e. The AuM challenge: The current fund pricing and level of pooled AuM is currently around £9.6bn, where as an AuM of £17.5bn is required for the 70%/30% split of AdValorem/Fixed Fee model to be implemented.

**Cost Benchmarking Exercise –Key Findings**

30. A cost benchmarking exercise comparing the LCIV to other LGPS pools has commenced and expected to be completed by the end of November 2020.

31. A high level comparison of operating costs across a selection of pools, plus an indication of the investment funds offered is included in Appendix A and B with the key findings summarised below:
    a. LCIV's operating costs are lower than other LGPS pools: LCIV's operating cost is £5.7m (as at 31 March 2020), compared to other pools' operating costs ranging from £8.5m to £12.6m (as at year-ends before Apr 2020).
    b. LCIV's resourcing is lower than other LGPS pools: LCIV has the lowest number of employees and staff costs compared to other LGPS pools.
    c. LCIV's servicing costs per active fund is lower than other LGPS pools.

**Conclusions and Next Steps**

32. New funding model to be implemented: The LCIV has taken on board the feedback provided by Client Funds and will be working on implementing a new funding model.

33. Based on the feedback provided, model evolution is more appropriate than revolution: The new model will be a refinement to the existing model by moving to a model that targets to raise 70% of income from AdValorem Fees and 30% from Fixed Fees in the long-term.

34. The AuM challenge: The LCIV's AuM will need to increase in order for the new funding model to reach the preferred 70%/30% split of AdValorem/Fixed.

35. Pricing economics to be revisited: The purpose of reviewing the funding pricing model is to ensure a fair, economic and sustainable pricing structure is adopted that continues to deliver on the LCIV's objective of providing long-term fee savings and value for money to the Client funds. This review is expected to commence in Q1 2021.

**Safeguarding Implications**

36. Poor corporate governance and unsustainable business practices can impact on share prices and increases the risk that the Fund may experience a loss of value in its investments in the future

37. **Public Health Implications**

38. The Enfield Pension Fund indirectly contributes to the delivery of Public Health priorities in the Borough.

**Equalities Impact of the Proposal**

39. The Council is committed to Fairness for All to apply throughout all work and decisions made. The Council serves the whole borough fairly, tackling inequality through the provision of excellent services for all, targeted to meet the needs of each area. The Council will listen to and understand the needs of all its communities.

**Environmental and Climate Change Considerations**

40. Environmental and climate change considerations are all over this report.

**Risks that may arise if the proposed decision and related work is not taken**

41. It is important to keep abreast on current issues to facilitate the rigorous and robust management of the Pension Fund for a better, quicker and more effective decision-making process which can lead to better Fund performance and reduction in the contribution required from the Council towards the Fund.

42. The monitoring arrangement for the Pension Fund and the work of the Board should ensure that the Fund optimises the use of its resources in achieving the best returns for the Council and members of the Fund.

**Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks**

43. This is a noting report.

**Financial Implications**

44. The Council has some £262m investments with London CIV sub-funds and £290m of passive pooled investments as in the below table.

Investment Summary

The table below shows the Sub-funds held by the London Borough of Enfield Pension Fund by asset class as at 30 September 2020 and how these have changed during the quarter.

| ACS | 30 June 2020 | Net Subscriptions / (Redemptions) | Cash Distributions Paid | Net Market Move | 30 September 2020 |
|---|---|---|---|---|---|
| **Active Investments** | £ | £ | £ | £ | £ |
| **Global Equities** | | | | | |
| LCIV Global Alpha Growth Fund | 95,159,230 | - | - | 7,205,139 | 102,364,369 |
| LCIV Global Equity Focus Fund | 76,876,242 | - | - | 1,242,330 | 78,118,572 |
| LCIV Emerging Market Equity Fund | 28,393,390 | - | - | 2,314,175 | 30,707,565 |
| **Fixed Income** | | | | | |
| LCIV MAC Fund | 49,235,216 | - | - | 1,673,718 | 50,908,934 |
| **Total** | **249,664,078** | **-** | **-** | **12,435,362** | **262,099,440** |

The table below outlines the valuation of investments held per passive manager at the beginning and end of the quarter. A listing of the individual funds held can be found at the end of the Funds section of this report.

| | 30 June 2020 | 30 September 2020 |
|---|---|---|
| **Passive Investments** † | £ | £ |
| Blackrock | 284,811,327 | 290,136,077 |

*† Passive investments are managed in investment funds for which London CIV has no management or advisory responsibility and are shown for information purposes only.*

45. This report provides an update on progress to date on LCIV new governance arrangement and Fund launches. Regular engagement with the London CIV going forwards is crucial to the Fund, ensuring that the Pool makes available the strategies and services that Enfield Pension Fund and other London funds require. Successful delivery of these objectives will be crucial in ensuring that the anticipated longer term investment manager fee savings can be delivered.

**Legal Implications**

46. This report provides an update on developments affecting the London Pooling arrangements. As a member of the London CIV, the Council must ensure compliance with its statutory duty to ensure the proper and efficient management of the Fund.

47. There are no immediate legal implications arising from this report.

**Workforce Implications**

48. The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will allow the Council to meet this obligation easily and could also make resources available for other corporate priorities.

**Property Implications**

49. None

**Other Implications**

50. None

**Options Considered**

51. There is no alternative option.

**Conclusions**

52. Climate change is a key financially material environmental risk. The Committee believe that, over the expected lifetime of Enfield Pension Fund, climate-related risks and opportunities will be financially material to the performance of the investment portfolio. As such, the Committee will consider climate change issues across Enfield Pension Fund and specifically in areas such as Strategic Asset Allocation, Investment Strategy and Risk Management with the aim of minimising adverse financial impacts and maximising the opportunities for long-term economic returns on Enfield Pension Fund's assets.

53. The Pension Fund will continue to assess investment opportunities that have a positive impact on society as whole. These include but are not limited to, investments in fixed income (green bonds), property, low carbon assets, renewables and social impact opportunities.

54. The Pension Fund views engagement with companies as an essential activity and encourages companies to take position action towards reversing climate change. The Enfield Pension Fund is a responsible owner of companies and cannot exert that positive influence if it has completely divested from carbon intensive producing companies. The Pension Fund will continue to encourage positive change whilst officers will continue to engage with the investment managers on an ongoing basis to monitor overall investment performance, including carbon and other ESG considerations.

55. The Fund expects the pool and the asset managers to integrate ESG factors into investment analysis and decision making. Monitoring these effectively can assist with resolving issues at early stages through effective engagement with companies and board members. The Fund expects asset managers where possible to engage and collaborate with other institutional investors, as permitted by relevant legal codes to ensure the greatest impact.

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Date of report 13th November 2020

**Appendices**
Appendix 1 – London CIV Business Update **(Private and Confidential)**

**Background Papers**
None