

<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> 20 September 2023
<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:	
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<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>11/09/2023</b> .....

## **1. INTRODUCTION**

- 1.1. All Local Government Pension Scheme (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 Collective Investment Vehicle (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. In October 2021 our Pension Committee chair, Cllr Madlani, was appointed chair of the Shareholder Committee.

### **General Meeting**

- 1.4. The CIV held its General Meeting on 18 July 2023 which was Chaired by Cllr Madlani. The [Annual Review](#) was presented which provided an overview of the activities of the CIV, including a business review by the Chief Executive, investment review (including responsible investment) from the Chief Investment Officer and financial review from the Chief Financial Officer.
- 1.5. It also included a corporate governance report and a pay and people section (including information on the gender and ethnicity profile of the staff team, board composition and director pay, and the staff gender pay ratio), enterprise risk review and information on client engagement activity.
- 1.6. All resolutions were agreed at the meeting including approval of their accounts and annual report, re-appointment of their auditors, approval of their regulatory capital statement and nominations to the board.
- 1.7. Damon Cook (Greenwich Director of Finance) has been nominated by the Society of London Treasurers to be the Treasurer Observer replacing Ian Williams from Hackney.

### **Fund Portfolio**

- 1.1. As of 31 July 2023, the total assets deemed pooled by Client Funds stood at £28 billion, of which £13.8 billion are public markets funds (Authorised Contractual Scheme (ACS)), and £12.9 billion in passive equity funds and £1.4 billion has been drawn in respect of Private Market funds, with a further £2.5 billion committed.

## **2. FUND ACTIVITY**

### **Short-Term**

- 2.1. The fund has launched the LCIV Long/Short Duration Buy & Maintain Credit Fund with seed investors on 24 August. The Absolute Return Fund modification has been approved by the Financial Conduct Authority (FCA), with its transition

expected at the end of August. There has been a fee reduction on Global Alpha Growth (GAG), Global Alpha Growth Paris Aligned (GAGPA), and Absolute Return funds (we are invested in the Paris-aligned fund). Alongside these modifications and launches, a second manager has been selected for the LCIV Affordable Housing Fund (which this Fund is exploring as part of our Investment Strategy review). and Natural Capital Advisor procurement has been launched in August 2023. There is more detail on these funds later in the report.

### **Mid-Term**

- 2.2. Strategic Business Reviews (SBRs) are projects commissioned by the CIV Chief Executive and focus on improving the value proposition by reducing management and other fees and improving the quality of reporting and other services. The Investment cost review and fund range review were completed and have fed into the launch and modifications plan and funding model with Cost Transparency Working Group (CTWG). The Responsible Investment Reference Group (RIRG) has been renamed Sustainable Working Group with new Terms of Reference and revised membership.
- 2.3. SBR workstreams are set to increase focus on relevance and maturity and the Corporate London CIV Net Zero working group will be formed as part of the mid-term activity, this will be an internal cross-team initiative. LCIV are also exploring an Impact Investing Working Group and are continuing work with Commercial Property Planning.

### **Fund Monitoring**

- 2.4. As at August 2023, there are no funds on the **Watch** list for LCIV. 3 funds are undergoing **Enhanced Monitoring**, Global Equity Focus Fund (Longview), Global Total Return Fund (Pyrford) and the Diversified Growth Fund (DGF) (Baillie Gifford which we are invested in). The next review for the DGF is scheduled for December 2023.
- 2.5. The other 13 LCIV funds are undergoing **Normal Monitoring**. Reviews were completed in July and August 2023 on 5 CIV funds including the Global Alpha Growth Paris Aligned Fund (Baillie Gifford) which we are invested in.
- 2.6. **LCIV Absolute Return Fund:** This fund is transitioning to the LF Thames Absolute Return Fund, a new sub-fund on Ruffer's Asperior Investment Funds platform. The investment objective for the LCIV Sub-fund will not change. Ruffer will continue to invest as they do now: targeting a broad opportunity set and investing dynamically. Substantial management fee reductions have been negotiated with Ruffer which will come into effect when the transition is complete. The sub-fund will benefit from greater flexibility to request changes to the investment and Economic Social and Governance (ESG) parameters applied by the investment manager. LCIV are on track to complete the transition by 31 August 2023.

### **Fund Launch – Investment Grade Credit**

- 2.7. LCIV are planning to launch two new funds in November 2023: LCIV Short Duration Buy & Maintain Credit Fund and LCIV Long Duration Buy & Maintain Credit Fund. The objectives of these funds are to provide certainty in cash flow terms whilst matching a pension scheme's liability profile. The funds will aim to

capitalise on the sharp increase in yields on investment grade debt, and to improve the utility of bonds as a diversifying source of returns.

- 2.8. LCIV expect that the implementation will earn good cash yields via diligent credit underwriting, limit reinvestment risk, deliver value for money (VFM), bring strong ESG and climate credentials, and provide the flexibility to achieve specific duration requirements.
- 2.9. LCIV have the expectation that strong credit selection focusing on avoidance of defaults and downgrades and selective trading activity will drive outperformance of the index, net of fees, over rolling three-year periods.
- 2.10. LCIV have applied the Fund Launch Framework to the manager selection process, focusing on aspects such as excellence in credit selection with global coverage, expertise in managing buy and maintain assets, best class integration of ESG, and Competitive Total Expense Ratio (TER).
- 2.11. Insight Investment Management has been selected as the Investment Manager of both sub-funds with their appointment subject to satisfactory completion of commercial negotiations and legal and operational due diligence.

### **Fund Launches**

- 2.12. The Buy and Maintain Fund mentioned above is currently in Stage 3 with the first launch for FCA Approval scheduled in October 2023, there has been a weekly dealing proposed with valuation point, notification period and settlement cycles under discussion.
- 2.13. The Global Equity Value Fund is in Stage 1 for a Q1 2024 first launch, with Seed Investment Groups (SIGs) in progress to define the mandate and client demand.
- 2.14. There have been discussions around the Natural Capital Fund (natural resources) and a request for proposal has been issued to select an advisor to assist with the design, fund structuring, portfolio construction and initial selection of fund investments.

### **Other Fund Activity**

- 2.15. LCIV Absolute Return Fund is moving to 'fund of one' to deliver fee savings with expected completion in Q3 2023. FCA approval was received on 10 August 2023 and the planned transition date is 31 August 2023.
- 2.16. The LCIV UK Housing Fund is undergoing second manager selection with due diligence in progress. This is expected to be completed in Q4 2023 (we are looking at a potential investment in this fund).
- 2.17. LCIV Real Return Fund is moving to a sustainable version which would be managed on a delegated/ segregated account basis by Newton. The expected completion for this is to be confirmed, but a review of the structuring options has now commenced.

## **3. COST TRANSPARENCY WORKING GROUP (CTWG) UPDATE**

- 3.1. The CTWG, chaired by Damon Cook (section 151 at Greenwich) comprising officers and members from across ten client funds, met on 16 August 2023. The outcomes of the meeting follow.

- 3.2. **Funding Model Principles:** to share fee reductions achieved between funds and LCIV to support the objective of achieving Development funding charge reductions. LCIV to maintain financial stability to support its shareholders/ investors. Passive fees form an integral part of LCIV funding and fixed fees should be retained in some form in the new funding model arrangements.
- 3.3. **Fee Saving Methodology:** to progress the assessment of vendors to assist in proposing an appropriate fee saving methodology to the next working group (week commencing 25 September 2023).

#### 4. Annual Conference

- 4.1. The CIV held its annual conference on 4 and 5 September. This was well attended by member funds and included members and officers from client funds, managers of the sub-funds and CIV staff. Cllrs Madlani and Burrage as well as the Head of Treasury and Financial Services attended on behalf of Camden. The topics covered were wide ranging and included a session on Opportunities and threats, Equity allocations, Fixed income, Affordable Housing, risk and a lot of discussion about the current pooling consultation.
- 4.2. The second day focussed on Environmental, Social and Climate issues. Our Investment beliefs agreed at the July 2023 Committee already refer to several nature based Sustainable Development Goals: Climate action, life below water, life on land. At the London CIV conference delegates heard how
- 4.3. Society and business depend on the services nature provides. The acceleration of nature loss globally is an increasing source of risk to businesses and providers of financial capital.
- 4.4. Governments around the world are increasingly recognising the importance of halting and reversing this nature loss, with over 190 states committing to a set of ambitious goals and targets under the Global Biodiversity Framework (GBF) in December 2022. Biodiversity loss is also now recognised by the world's central banks as a source of systemic risk alongside climate change.
- 4.5. The **Taskforce on Nature-related Financial Disclosures (TNFD)** is a market-led, science-based and government supported initiative to help respond to this imperative. The Taskforce is nearing the end of its two-year framework design and development phase to provide market participants with a risk management and disclosure framework to identify, assess, respond and, where appropriate, disclose their nature-related issues. The TNFD framework, including TCFD-aligned recommended disclosures, will be published in September 2023 ready for market adoption. The Fund will need to think about how we respond to this.
- 4.6. The slides from the conference will be circulated to Members of the Committee.

#### 5. Consultation

- 5.1. On 11 July the Government published a [consultation](#) on pooling. It covers asset pooling, levelling up, opportunities in private equity, investment consultancy and investment definitions. The consultation closes on 2 October.
- 5.2. The consultation seeks views on proposals in 5 areas:
  - i. the government sets out proposals to accelerate and expand pooling, with administering authorities confirming how they are investing their funds and why. While pooling has delivered substantial benefits so far,

the Government believe that the pace of transition should accelerate to deliver further benefits which include improved net returns, more effective governance, increased savings and access to more asset classes. They propose a deadline for asset transition by March 2025, noting they will consider action if progress is not seen, including making use of existing powers to direct funds. Going forward, the Government want to see a transition towards fewer pools to maximise benefits of scale.

- ii. the Government proposes to require funds to have a plan to invest up to 5% of assets to support levelling up in the UK, as announced in the Levelling Up White Paper (LUWP). The consultation sets out in more detail how the Government proposes to implement this requirement and seeks views on its plans.
- iii. Third, the government is proposing an ambition to increase investment into high growth companies via unlisted equity, including venture capital and growth equity. The government believes there are real opportunities in this area for institutional investors with a long-term outlook, such as the LGPS.
- iv. Fourth, the government is seeking views about proposed amendments to the LGPS's regulations to implement requirements on pension funds that use investment consultants. These amendments are needed to implement the requirements of an order made by the Competition and Markets Authority (CMA) in respect of the LGPS.
- v. Finally, the government is proposing to make a technical change to the definition of investments within LGPS regulations.

5.3. Officers will draft a response and this will be shared with the Chair before submission. Members are invited to provide any thoughts on the consultation to officers who will consider these thoughts as part of our response.

## **6. RESPONSIBLE INVESTOR COMMENT**

6.1. The Fund's engagement with, and commitment to, the London CIV is an important part of how the Fund can act as a responsible investor. Pooling increases the leverage and influence that any individual LGPS fund may have with fund managers, creating more opportunities for RI to be both discussed and practised. The Fund will need to think carefully about how to incorporate TNFD requirements in the future.

## **7. ENVIRONMENTAL IMPLICATIONS**

7.1. This report covers several of the actions taken by the CIV towards responsible investment, in response to pressure from London Boroughs including Camden. TNFD requirements will ensure that nature based risks are captured in the Fund's investment approach.

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

8.1. There are no finance comments to add.

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

- 9.1. The Local Government Pension Scheme (Management and Investment Funds) Regulations 2016 requires all Local Authorities to commit to a suitable pool 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.