LONDON BOROUGH OF CROYDON

REPORT:	**Pension Board**
DATE OF DECISION	**25 July 2024**
REPORT TITLE:	**The Collective Investment Vehicle for London Local Authorities Pension Funds: Compliance with pooling requirements, review of savings and governance structure**
CORPORATE DIRECTOR / DIRECTOR:	**Jane West, Corporate Director of Resources (Section 151 Officer)**
LEAD OFFICER:	**Matthew Hallett – Head of Pensions and Treasury**
CONTAINS EXEMPT INFORMATION?	**NO** **[Public]**
WARDS AFFECTED:	**N/A**

1. SUMMARY OF REPORT

1.1 This report advises the Board of the extent to which the Fund is complying with the pooling requirements of Guidance issued by the, then, Department for Communities & Local Government (DCLG) in 2015, subsequent statements from Government, the savings made through pooling in 2023/24 and the governance structure of the London Collective Investment Vehicle (London CIV).

2. RECOMMENDATIONS

The Board is recommended:

2.1 To note and comment on the contents of this report.

3. REASONS FOR RECOMMENDATION

3.1 It is useful practice for the Pension Board to be advised of important matters concerning the management and investment of the Fund's assets.

4. BACKGROUND AND DETAILS

4.1 In 2015 the, then, Department of Housing, Communities and Local Government issued Guidance which set out how the Government expected funds to establish asset pooling arrangements. The stated objectives were to deliver:

- Benefits of scale;
- Strong governance and decision making;

- reduced costs and excellent value for money; and
- improved capacity and capability to invest in infrastructure.

4.2 At the time of the Guidance, as a founder member, the Croydon Fund had already voluntarily joined an asset pooling arrangement known as the London CIV. The London CIV's stated objectives are to deliver broader investment opportunities and enhanced cost efficiencies than funds can achieve individually and, overall, better risk adjusted performance. It is Financial Conduct Authority (FCA) regulated and was the first of the eight asset pools in England and Wales to become established. All the London borough funds are members.

4.3 Since its founding in 2014 the London CIV has developed its governance structure through a Corporate Governance and Controls framework. The key components of the framework are the Shareholder Committee, comprising Leaders and Treasurers of twelve of the London boroughs, and a Board made up of executive and non-executive directors all of whom must meet FCA fitness to serve requirements. Details of the full Governance structure can be accessed online via https://londonciv.org.uk/governance

4.4 The London CIV now looks after approximately 60% of the £46bn of assets held by client funds.

4.5 Croydon Fund's formal involvement in the governance of the London CIV is through attendance at the twice-yearly Shareholder General Meeting. Officers are, however, in regular contact with the London CIV officers.

4.6 Attached to this report as Appendix A, is a briefing for London local authority elected members on the ongoing development of the London CIV which was be presented by some of their officers to the meeting of the Pension Committee on 11 June 2024.

Fund Investment Strategy

4.7 At their meeting on 19 September 2023 the Pension Committee agreed the updated Investment Strategy Statement for the Fund which included the following:

Pooling of Assets

- *The Fund participates in the London Collective Investment Vehicle (CIV) as part of the Government's pooling agenda. Croydon is a shareholder, contributes regulatory capital and a subscription fee. The London CIV was launched in December 2015. It has launched a number of sub-funds comprising: UK, Global and Emerging Market equities, Multi-Asset and Fixed Interest Funds.*

- *The Fund is monitoring developments and the opening of investment strategy fund openings on the London CIV platform. At present there are options for participating in pooling: including transitioning liquid assets across to the London CIV as soon as there are suitable sub-funds available to meet the Fund's investment strategy requirements; investing in sub-funds that meet the requirements of the Fund's investment strategy; and investing in assets that have been deemed part of the pooling strategy but which are assets that are not suitable for pooling in an ACS structure.*

- *The Fund holds illiquid assets outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature. The Fund will continue to invest in illiquid assets outside of the London CIV pool, until suitable strategies are made available by the London CIV pool, in order to meet its asset allocation target.*

- *Therefore, the proportion of assets that will be invested through the pool will be circa 65%, depending on valuations. At year-end 2022/23 50% of the Pension Fund should be considered pooled. The Fund also formally agreed to transfer a further c.4% of assets to the pool.*

- *In establishing the framework for asset pooling the government recognised that investing in illiquid assets like infrastructure, direct holdings in property and locally targeted investments might more appropriately sit outside the pooling arrangements. The alternative asset classes listed above, property, private equity and infrastructure, are included in this group.*

4.8 At 31 March 2024 the Fund had investments of £177.4m (9.5% of its investments) invested in sub-funds managed by the London CIV and a further £835.5m (45.0%) managed by Legal and General which is deemed within the pooling umbrella. The arrangement with Legal and General was established in 2016 as a way of providing fee discounts to members without moving passive assets into the London CIV. Whilst the Fund is conscious that the proportion of its assets invested through the pool (54.5%) is below the target of 65%, investments will only be made in pool products when this is the optimum strategy. In April 2024, in accordance with the agreed investment strategy, £100m (approximately 5.4% of the Fund) was transferred from the Legal and General Fund to the LCIV MAC Fund, a multi-asset credit fund managed by CQS and PIMCO. The Fund is aiming to have all its liquid assets deemed as being pooled by 31 March 2025.

4.9 One of the main arguments in favour of pooling was the ability for funds to access reduced costs and increased value for money. As discussed below this is a recurring theme of the various Government departments involved with the Local Government Pension Scheme over the last ten years. For the Fund estimated savings made against assumptions of standard fees and costs incurred from the pool investments during 2023/24 were as follows:

	Assets under management at 31 March 2024	Estimated gross fees savings	Management fees and development funding charge	Estimated net fees savings
	£'000	£'000	£'000	£'000
Legal and General Equities	835,459	434	37	397
RBC Global Asset Management (UK)	90,231	98	20	78
PIMCO Fixed interest	87,028	168	4	164
LCIV	150			
Development funding charge'*			101	(101)
TOTAL	1,012,868	700	162	538

'* LCIV's fixed income stream contributing to the core costs of the Company payable equally by all the shareholders.

Latest developments

4.10 On 22 November 2023 the Department for Levelling Up, Housing and Communities (DLUHC) issued the Government's response to its earlier consultation entitled "next steps on investments." In respect of pooling the announcement stated:

After having considered the responses, the government will now implement the proposals that we set out in the consultation to accelerate and expand pooling. We will:

- *set out in revised investment strategy statement guidance that funds should transfer all assets to their pool by 31 March 2025, and set out in their ISS assets which are pooled, under pool management and not pooled and the rationale, value for money and date for review if not pooled*
- *revise pooling guidance to set out a preferred model of pooling including delegation of manager selection and strategy implementation*
- *revise guidance on annual reports to include a standard asset allocation, proportion of assets pooled, a comparison between actual and strategic asset allocation, net savings from pooling and net returns for each asset class against their chosen benchmark*
- *make changes to LGPS official statistics to include a standard asset allocation and the proportion of assets pooled and the net savings of pooling*

4.11 DLUHC have followed up these announcements by issuing, in April 2024, guidance entitled "Preparing the Pension Fund Annual Report - Guidance for Local Government Pension Scheme Funds" including:

Pooling

- *This section of the annual report must also provide a commentary and data on how the fund has implemented the policy on pooling its assets in its chosen LGPS pool during the year as set out in its ISS and a narrative on the pace of pooling and an explanation for assets which have not been pooled;*
- *Throughout this guidance there are references to pools and pooling. These refer exclusively to the LGPS investment pools, which as at the date this guidance is issued are ACCESS, Border to Coast Pensions Partnership, Brunel Pension Partnership, LGPS Central, London LGPS CIV, Local Pensions Partnership, Northern LGPS and Wales Pension Partnership;*
- *Funds must report the costs incurred, gross savings achieved, and the net savings achieved as a result of pooling assets. These figures must be shown in relation to the accounting year in question, and in addition a cumulative total from the inception of pooling to the end of the accounting period must be shown. This must be done in line with the single methodology agreed by all LGPS pools;*
- *Funds must also report on their progress in pooling their assets in this section through the asset table and the supplementary table. In both tables, assets must be divided into "pooled", "under pool management" and "not pooled".*

4.12 On 15 May 2024, Simon Hoare MP, wrote to all Chier Executives and administering authority section 151 officers in England asking that they respond by July 19 setting out their responses to a number of questions. The questions relate to the completion of pension asset pooling by the March 2025 deadline, as well as to how funds ensure that they are run efficiently, with appropriate governance structures in place. Funds are specifically asked whether they could achieve long-term savings and efficiencies if they were to become part of a larger fund through merger or creation of a larger pensions authority. Funds' responses do not need to be more than two pages in length."

4.13 At the time of writing this report Officers are still working on the response to this letter. Discussions have been held with the Society of London Treasurers where broadly speaking London Boroughs are of a similar view. Our view is that we welcome discussions on benefits of scale, but the local fiduciary responsibility to members of pension schemes must be paramount. We currently support the pooling of Investments where benefits to the can be envisaged whilst managing the risk and also support collaboration with other local authorities in order to improve the efficiency of the running of Funds. We currently do not believe that full merger of Funds is the best solution.

4.14 The Board are asked to note and comment on this report.

5. CONSULTATION

5.1 No consultation outside the formal process is required.

6. IMPLICATIONS

6.1 There no implications other than those already mentioned in this report.

7. APPENDICES

7.1 A London CIV Briefing Report March 2024.

8. BACKGROUND DOCUMENTS

8.1 None