

London Local Authority Response to London CIV Consultation on Strategy

Completed by on behalf of Havering:

Please note our comments are made at this time on the basis of current circumstances and we reserve the right to vary or withdraw our comments which are not full and final in nature

Councillor John Crowder, Chairman of Pensions Committee

Do you believe the Strategy Proposal from the London CIV is:

Yes No

Broadly appropriate subject to clarifications and further detail

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Needs revisions and/or a different direction

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Overall Strategy Comments

Overall we are supportive of a clearer vision for the aims and objectives of the LCIV. Havering is one of the leading LLAs for the proportion of AUM that have transferred to the LCIV which demonstrates the commitment that Havering have already made to the LCIV.

We are generally supportive of the more streamlined governance structure subject to improving communication and engagement with Funds. The LCIV board should strictly adhere to good practice on Corporate Governance and set clear KPIs so that they can be held to account accordingly.

However, we do have major concerns over the three investment mandate options proposed. The options are not sufficiently granular to allow funds to implement their strategic asset allocations. It goes beyond what we have seen in other pools and while some provide advice on strategic issues we are not aware of others that have discretionary asset allocation powers. We believe this is particular an area where it would be difficult for LCIV to demonstrate their ability to add value and starts to conflict with the ability of the Fund to determine and set their strategic asset allocation which is a Government core principle. We would favour the fourth option proposed by SLT and broader set of core fund options each with a clear strategic objective.

We believe that these proposals should be delayed until the LCIV has built confidence and trust with all London Boroughs and has a more experienced team in place.

This authority is currently undertaking searches in asset classes not presently available in the LCIV in collaboration with other London LLAs and we would need to see how this will feature in the LCIV investment proposals.

The risks associated with the LCIV investment proposals are too great for Havering taxpayers and pensioners and we need to have greater confidence in the LCIV's ability to deliver our objectives.

Governance

Do you agree with the proposals to:

Yes No

Have two meetings a year with all shareholders and disband the PSJC under the London Councils framework.

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Form a small consultative shareholder group of 12 Treasurers and Pension Chairs.

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Invite the Chair of the main Shareholder Group onto the Board of the London CIV and a Treasurer as an observer.

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☐

The Chair of the main Shareholder group should be:

	Tick
Political leader	<input type="checkbox"/>
Elected from the Shareholders	<input checked="" type="checkbox"/>
Independent	<input type="checkbox"/>

The Chair of the Shareholder consultative group should be:

	Tick
The Chair of the shareholder group	<input type="checkbox"/>
The Chair of the London CIV	<input checked="" type="checkbox"/>
Elected by all Shareholders	<input type="checkbox"/>

The London CIV Board should be expanded by:

	Tick
The Chair of the main shareholder group	<input type="checkbox"/>
A Shareholder nominated by all shareholders	<input checked="" type="checkbox"/>

Yes No

It is proposed that the IAC becomes a forum to share ideas and consult with LLA's, when appropriate. Do you agree? See note below	<input type="checkbox"/>	<input type="checkbox"/>
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Additional comments:

The Governance review raised concerns about the balance of the LCIV board and it was felt that giving Funds greater influence in the decision making process would help to build trust with the LCIV. The IAC should be reduced in size and meet on a more formal schedule e.g. every 2-3 months. Effective work with both Treasurers and Pension Managers is key to restoring trust in the LCIV and the IAC could be a valuable forum for sharing ideas. The LCIV needs to do more to capitalise on the expertise of that group. The exact nature of this group need to be developed as the Governance review evolves.

Client

Do you agree that the relationship between each London Local Authority and the London CIV should be formalised by:

	Yes	No
A service level agreement which would set out how the London CIV would service and consult with LLAs.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
A Responsible Investment Policy framework for the London CIV which is proposed by the London CIV and agreed by shareholders (See below)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
This Responsible Investment Policy should be agreed by what % of Shareholders:	50% <input type="checkbox"/>	66% <input type="checkbox"/>
	75% <input checked="" type="checkbox"/>	Other <input type="checkbox"/>

	Yes	No
Do you believe that the proposed investment approach of the London CIV can fulfil your Strategic Asset Allocation.	<input type="checkbox"/>	<input checked="" type="checkbox"/>

	Yes	No
Do you agree with the proposal that each LLA would have an individual investment consultation with the London CIV. This would enable LLAs to choose earlier or later pooling.	<input checked="" type="checkbox"/>	<input type="checkbox"/>

<p><i>Additional comments:</i></p> <p><i>It is proposed that an overarching RI policy can be agreed for the LCIV, representing a shared minimum requirement for all parties. Over and above this, a degree of choice and flexibility should be offered by LCIV to enable funds to tailor their investments in accordance with their own RI approaches. As set out in the LGA principles, it is not the role of the LCIV to restrict choice based on its view of effective investment; it therefore appears reasonable for the pool to provide a certain degree of choice in this matter.</i></p>
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Investment

Which Statement do you believe best represents your view of the London CIV revised strategy:	Tick
The revised strategy proposed by the London CIV of a high quality efficient pool will improve the Investment returns of my Borough's Pension Fund as it will enable the Pension Committee to clearly delegate manager selection and related investment decisions to the London CIV in a more efficient manner.	<input type="checkbox"/>
The revised strategy of the London CIV will not improve the investment returns of my Borough's Pension Fund as it will no longer enable the Pension Committee to make tactical asset allocations and manager selections.	<input checked="" type="checkbox"/>

Additional comments:

Although we accept that we will no longer be responsible for manager selection, the inability to make tactical asset allocation decisions remains a significant issue. Simple blended buckets across core asset class will not permit our Fund to make decisions around issues such as geographic restrictions, cash flow requirements and RI. Moreover we are concerned that a single, multi manager 'bucket' for each core class is likely to result in the creation of a passive proxy, with active management fees. Havering would prefer to have a range of options available, with varying risk/return profiles and returns net of fees to allow us to make choices tailored to our own targeted risk/return profiles.

We agree that change is needed and that the LCIV needs to take full responsibility for manager hiring/firing, However the LCIV's current cost saving and outperformance targets of 15bps and 35bps respectively, are insufficiently ambitious as we currently achieve in excess of 50bs weighted outperformance across our investment portfolio. At this level we will have difficulty transferring further assets to the LCIV while meeting the actuary's assumption on investment growth and this shortfall in performance will lead to a direct increase in costs to the public purse.

We recommend a fourth mandate option to compliment the three currently offered. This fourth option will be offered for Funds wishing to retain greater strategic and tactical asset allocation responsibilities to help fulfil their investment strategy. This could be on the lines suggested by the Society Of London Treasurers. The LCIV should look at how the number of collaborative approaches to investment that already exist between LLAs could be leveraged into the pool to facilitate choice

even if they exist outside the ACS structure.

Any other comments

Please send your response to [Chloe Crouch](#) by 28th February 2018