

# London LGPS

# Collective Investment Vehicle (CIV)

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# Background and Challenges (1)

- Pressure to reform to drive efficiency and VfM
- Deficit problems for some – “death spirals”
- Government scrutinising
- Consultation expected soon
- Change is inevitable, only question is what and how

# Background and Challenges (2)

- Options under consideration include:
  - Fund mergers
    - 89 down to possibly 5 or 6
  - Collective Investment Vehicles (CIV)
    - voluntary or forced

# Current Situation (1)

(data at end March 13)

- ❑ 33 London funds
- ❑ £22.9bn of funds under management
- ❑ £72.8m spent in fees in 2012-13
- ❑ Fees range from 3bps to 200bps
- ❑ Average fees across all asset classes was 32bps

# Current Situation (2)

(data at end March 13)

- ❑ 253 mandates using 87 Fund Managers
- ❑ 5 firms have 36% of the business
- ❑ 99 mandates changed between 2010 – 13
- ❑ Costing £7,480,654

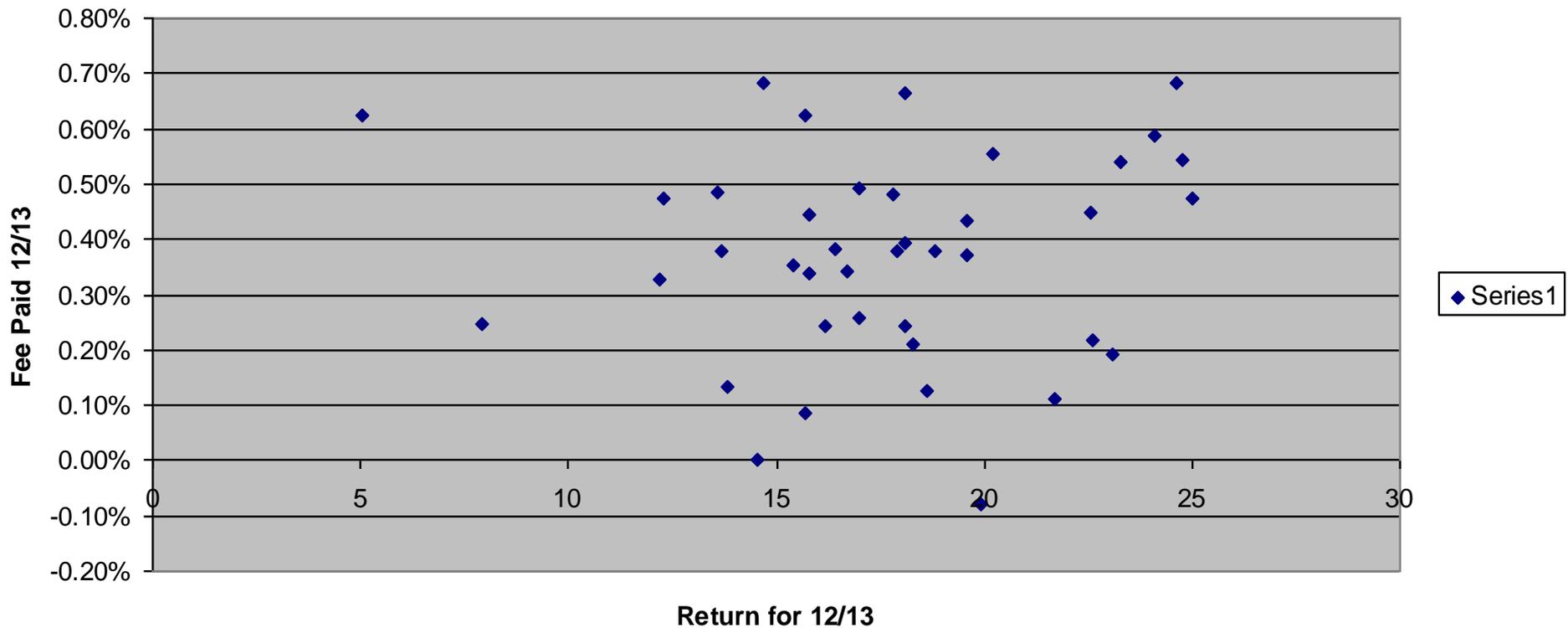
# Current Situation (3)

- ❑ 19.6 % of all funds invested in **passive equity**
  - Ranges from 0% up to 89% of individual Boroughs funds
  - Fees range from 3bps to 16bps
- ❑ 34.1% in **active equity**
  - Ranges from 0% to 82%
  - Fees range from 13bps to 68bps



# Active Global Equity Notional Returns vs Fees

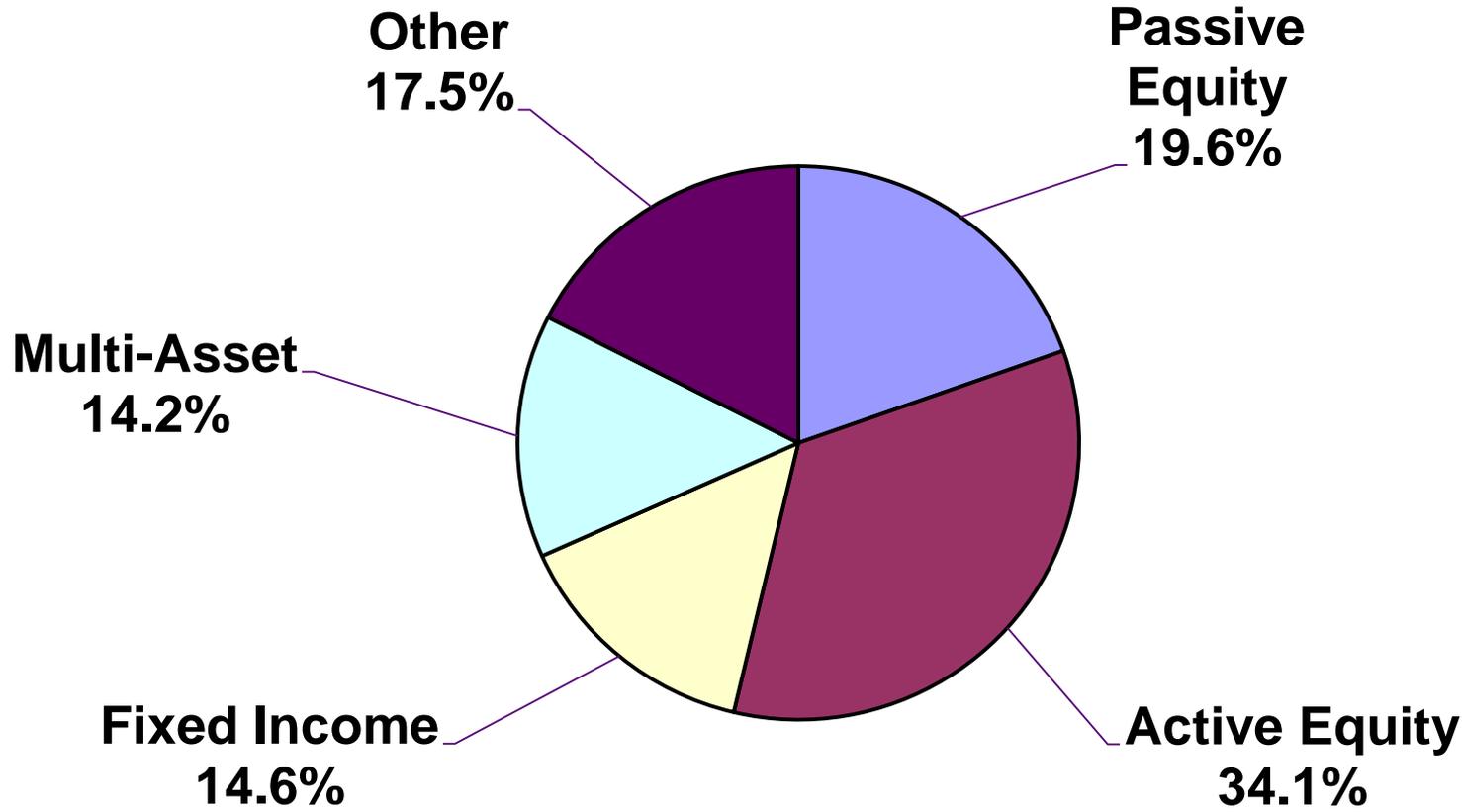
Notional Returns v Fees



# Current Situation (4)

- ❑ 14.6% in **fixed income**
  - Ranges from 13% to 30%
  - Fees range from 9bps to 51bps
  
- ❑ 14.2% in **multi-asset**
  - Ranges from 0% to 100%
  - Fees range from 7bps to 55bps
  
- ❑ 17.5% in **other asset** classes
  - Ranges from 0.9% to 26%
  - Fees range from 13bps to 200bps

# Asset Allocation (31.03.13)



# Where we are (1)

- ❑ Leaders' Committee formed a member/officer Pensions Working Group (PWG) to look at and advise on issues
- ❑ Technical sub-group
- ❑ Various reports up to 11 March
- ❑ Expert advisers on board
- ❑ 26 boroughs fully engaged (inc. £25k each)

# Guiding Principles (1)

- Investment in the ACS should be voluntary, both entry and withdrawal.
- Boroughs choose which asset classes to invest into, and how much.
- Boroughs should have sufficient control over the ACS Operator.
- ACS Operator will provide regular information to participating boroughs.

## Guiding Principles (2)

- Investing authorities will take a shareholding interest in the Operator.
- Shareholders will have membership of the Pensions Joint committee.
- ACS will not increase the overall investment risk faced by boroughs.

## Where we are (2)

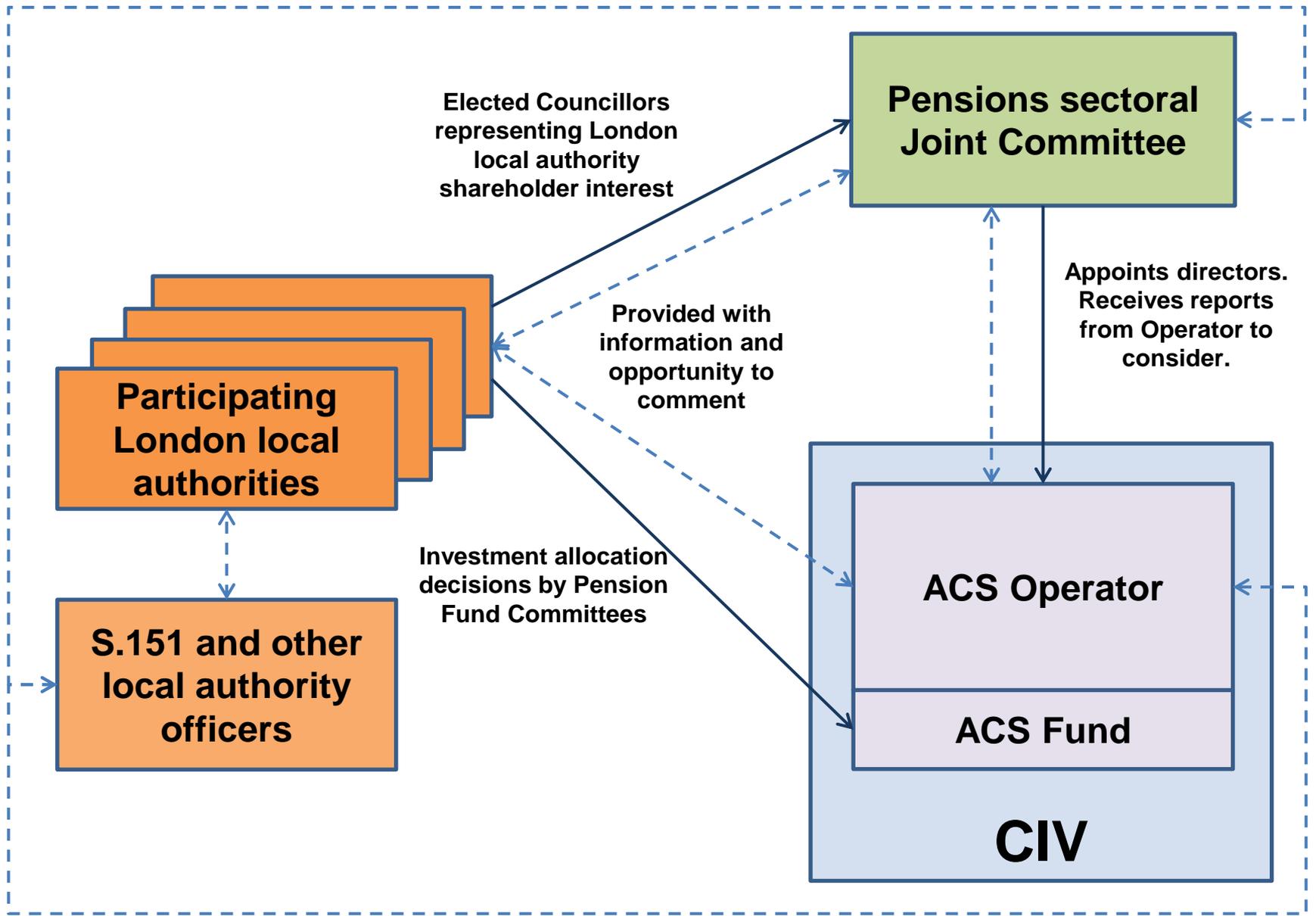
- Recommendations being considered by each borough:
  - Limited company to be established?
  - Borough to become a £1 shareholder?
  - Interim directors?
  - Establish a new sectoral joint committee?
  - Nominate an elected member to sit on JC and exercise shareholder rights?

# Business Case

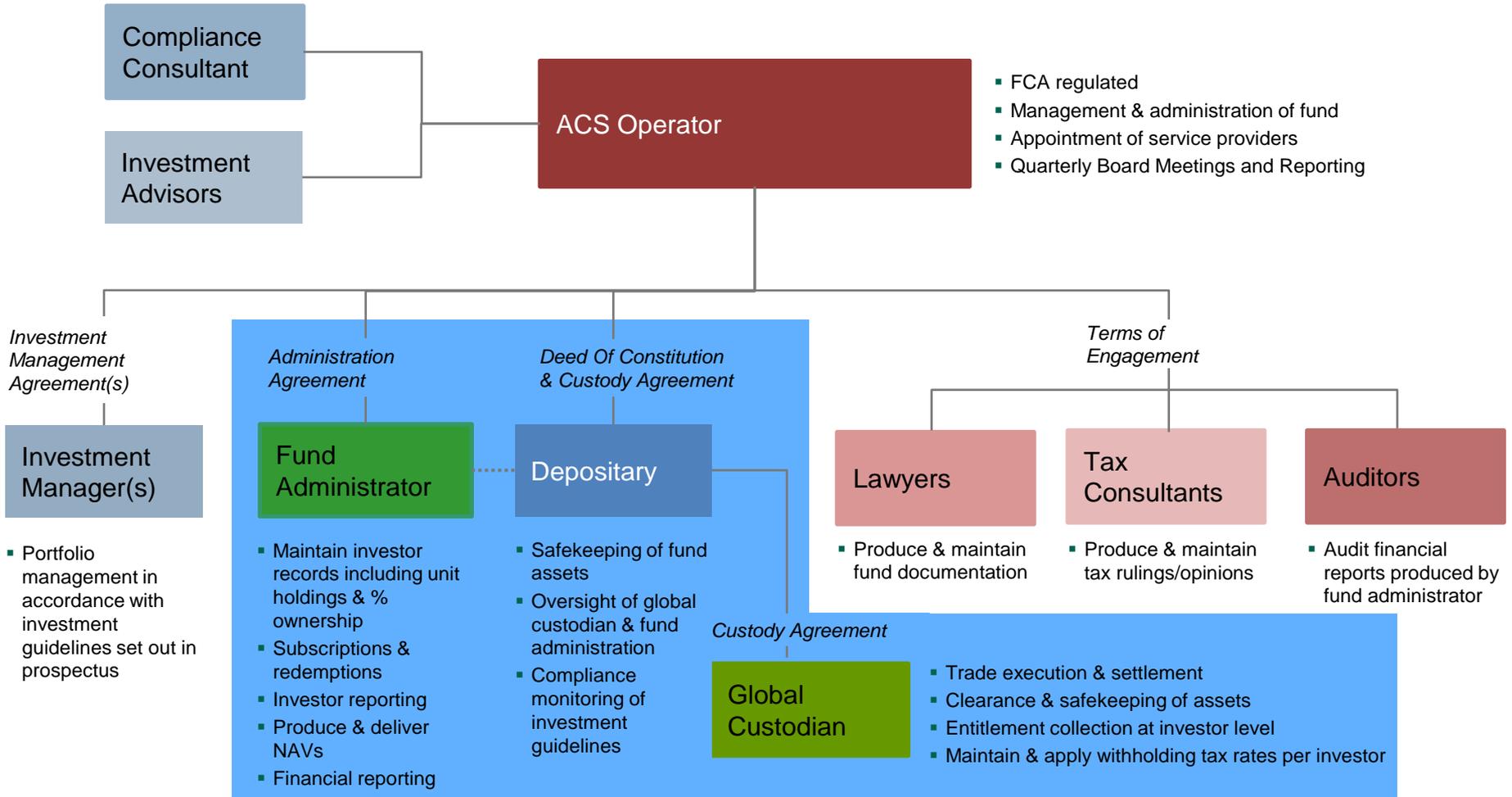
<b>Assets under management</b>	<b>£24bn</b>	<b>£10bn</b>	<b>£5bn</b>
	<b>£ 000's</b>	<b>£000's</b>	<b>£ 000's</b>
Expected savings per annum	120,000	50,000	25,000
On-going Costs per annum	(6,100)	(3,650)	(2,750)
Establishment Costs	(1,700)	(1,500)	(1,400)

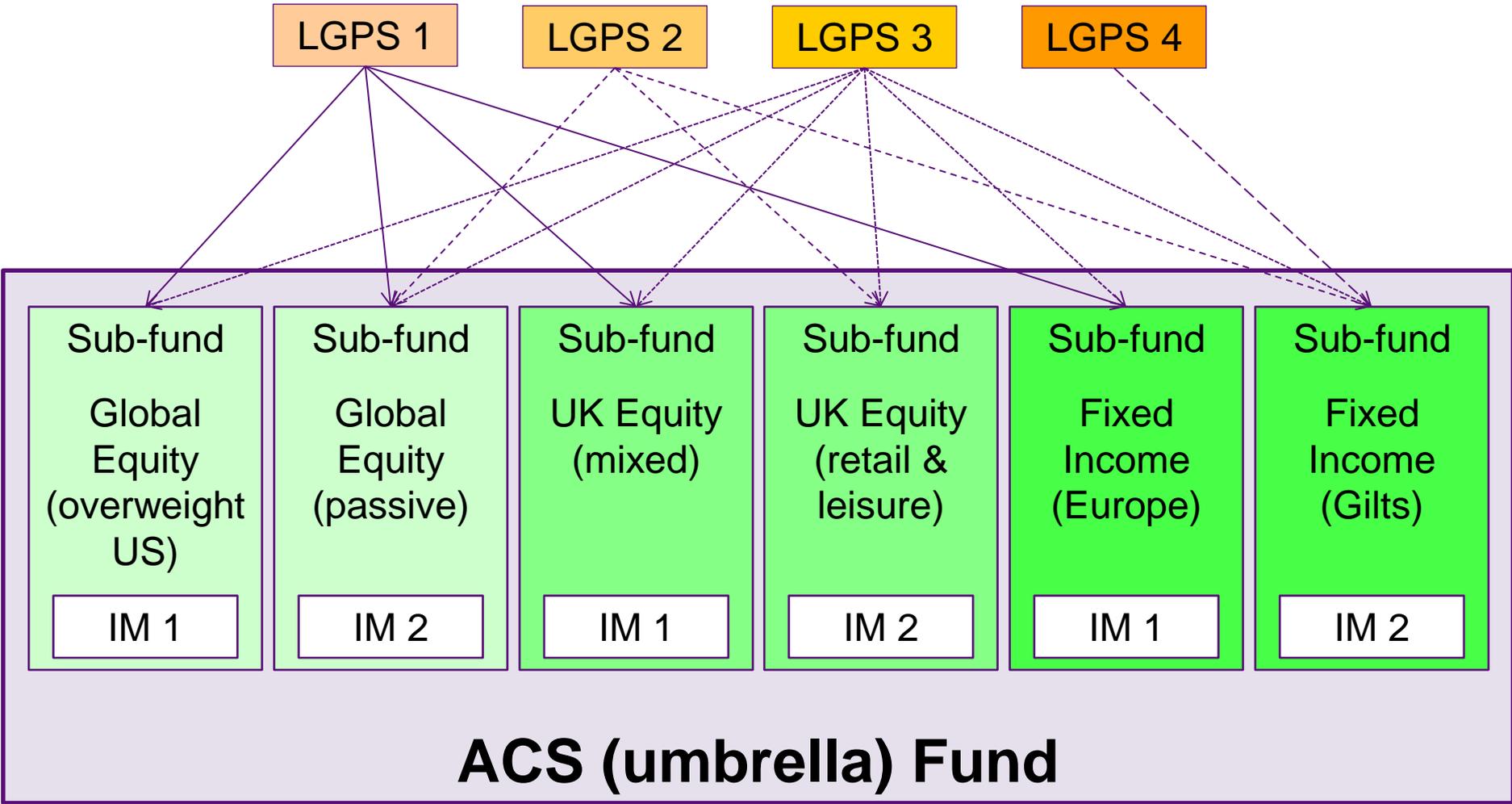
- actual savings and costs will depend on the number of participating boroughs, amount of assets under management and the mix of investments

# Governance & Structures



**Key**           **Decision making**           **Information flows**





# Next Steps (1)

- Receive borough decisions
- Establish company
- Establish Joint Committee
- Decide on initial mandates for the fund
- Procure outsourced partners

## Next Steps (2)

- Documentation
- Seek FCA approval
- Aim to be operational in 12 months
- Boroughs make investment decisions

# Current Issues

- Government consultation
- Sufficient borough sign-up to carry on
- Communications

# Questions?