

# Pensions CIV Sectoral Joint Committee

## Fund Manager Analysis Update

Item no: 7

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**Summary**      This report provides the committee with an update on progress made by the Technical Sub-Group in analysing borough investments with Investment Managers and the consideration they have given to a proposed strategy for structuring the CIV fund for launch.

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**Recommendations**      The committee is recommended to:

- i.      Note and provide any guidance on the content of this report, especially on the subject of infrastructure investment.

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# Fund Manager Analysis Update

## Background

1. Earlier in the summer the Technical Sub-Group ((TSG) the officer group made up of pensions experts from across the boroughs supporting the CIV programme) approached all the participating London boroughs and asked for each to provide data covering their investment profile (which Investment Managers (IM), scale of assets invested, and the type of investment mandate). From analysis of this data it was possible for the TSG to get a picture of which mandate types were held by each borough and with which IMs.
2. Having considered the data the TSG were of the view that adopting a strategy based on bringing 'common' mandates (i.e. mandates with two or more boroughs invested in them) onto the fund for launch could be a pragmatic approach, which could deliver scale efficiencies and opportunities for most boroughs without the need for boroughs to change from one IM to another. Data suggested that 28 boroughs would have the potential for between £5bn and £9bn of assets to transition. The majority of these assets would be listed equities and fixed income, with the 'alternative' investments (such as private equity and property) being viewed as 'phase two' (i.e. after launch).
3. Based on that strategy it was initially recognised that focussing on the top nine Investment Managers by quantum of assets under management, and adding a tenth smaller manager could deliver a viable outcome to launch the fund – subject to borough decisions about investment in the CIV that would follow later.
4. This report provides the committee with an update about work that has progressed over the summer.

## Progress

5. Since the analysis over the summer based on borough data, every participating borough has given London Councils written permission to engage with the IMs to both request detailed data and to meet with them to discuss what opportunities, based on the TSG's proposed strategy, might be available for the fund for launch. This data has brought the total number of IMs being engaged with to fourteen. These managers collectively manage over £14.5 billion of Borough assets, which accounts for over half of the total assets under management across all the borough pension funds.
6. Initial discussions with the IMs focussed upon listed equities and fixed income. However, managers have been quick to point out that there are other areas that may also prove easier than anticipated to bring onto the CIV at launch, such as some of the multi-asset

funds (many of these referred to as Diversified Growth Funds) and a number of the more straightforward property mandates.

7. Subsequent analysis suggests that of the £14.5 billion of assets, £8.4 - £9.9 billion could potentially be brought onto the CIV for launch through eleven separate managers. Whether or not the full amount will be brought on for day one is subject to further analysis, cost considerations, discussions with the Asset Servicer when procured, and possibly some pragmatism about what can be realistically achieved.
8. Although fee reductions only make up a small part of the CIV's overall benefit to the boroughs, they are arguably the most immediate and tangible benefit. For this reason managers have been asked to provide initial un-negotiated estimates of potential fee savings.
9. Between the eleven managers with mandates that might be collectivised for launch, nine have provided estimates of fee savings, totalling £2.8 million per annum, with an average reduction of 20% per manager. It should be noted that these fees are un-negotiated and therefore will be subject to change. These savings vary considerably from manager to manager and are inevitably not spread evenly across the boroughs (some will gain more in savings than others).
10. There are a number of reasons for this spread of savings across the boroughs. Broadly, based on the strategy being proposed, some boroughs:
  - Have greater commonality in their choice of mandates and managers than others and therefore could have significantly greater amounts of assets moving to the CIV at the point of launch;
  - Have an investment strategy that is focussed primarily on passive investment where generally potential fee savings are lower as fees are already low. However, as some of these passive mandates have large amounts of borough assets in aggregate, and the fees are generally based on ad valorem scales, the process of collectivisation leads to some boroughs saving substantial amounts of money through more assets accruing fees at a lower point in the scale;
  - Might have the opportunity to collectivise their active mandates and as the fees for these investments are generally significantly higher than for passive mandates the potential for substantial fee reductions is much greater.

11. Conversations will continue with a small number of managers who have yet to meet for discussions with London Councils.

### **Next Steps and Strategy**

12. The strategy of the TSG thus far has been to concentrate on those managers which currently have mandates shared by two or more boroughs.
13. Of those managers with common mandates, the TSG has focussed upon those that cover both quantum of assets and as many of the boroughs that are participating in the CIV as possible. This strategy has the benefit of narrowing down the number of managers efficiently and also quickly obtains the critical mass needed for the CIV in terms of quantum of assets.
14. Based on the current strategy and analysis so far, this approach leaves one of the participating boroughs with no common mandates currently in line to come onto the CIV for launch because of their current pattern of asset allocation. However, boroughs will continue to review their current asset allocation decisions and it may be that this position will change before launch.
15. In addition, it may be that when the fund structure is finally defined and shown to the boroughs some might decide to move a current mandate to an alternative on the CIV to gain advantage from the lower fees that can follow.
16. Further analysis is due to take place on the remaining borough assets, and savings calculated accordingly. More formal negotiations with fund managers are likely to start in the New Year, with members of the TSG performing this function. It has been suggested to London Councils that this and the process of drawing up agreements with IMs, could both take some time, hence the need to progress quickly with the decision of how the fund is likely to be made up and the more formal negotiations with those managers involved.
17. Once these more formal negotiations have happened it will be possible to provide each participating borough with an outline of what mandates might be brought onto the fund for launch and what level of saving would accrue.
18. Further reports will come to the committee as this work progresses, including a more detailed strategy for engaging with the boroughs and particularly the process for requesting borough investment decisions from their Pensions Committees.

### **Infrastructure investments**

19. The strategy proposed by the TSG would not encompass infrastructure at this time (primarily because there is no commonality in this asset class across the boroughs), however the officers of the TSG are very conscious that members will be interested in the opportunities that the CIV might present in this area.
20. The committee is invited to discuss their views on infrastructure investment to provide guidance to the TSG so that further work can be done on this asset class with a view to a report coming to a future meeting.

### **Recommendations**

21. The board is recommended to:
- i. Note and provide any guidance on the content of this report, especially on the subject of infrastructure investment.

### **Financial implications**

22. There are no financial implications for London Councils.

### **Legal implications**

23. There are no legal implications for London Councils.

### **Equalities implications**

24. There are no equalities implications for London Councils.