

Pensions CIV Sectoral Joint Committee

Item no: 7

Investment Advisory Committee Update

Report by: Ian Williams **Job title:** Chair

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Contact Officer:

Telephone: 020 7934 9968 **Email:** Jill.davys@londoncouncils.gov.uk

Summary

The Investment Advisory Committee was re-formed in July with new members. The Committee continues to work closely with the London CIV to consider a range of investment opportunities. A number of working groups have worked alongside the Investment Team to progress global equity procurement, responsible investment and fixed income.

Recommendations

The committee is recommended to:

- i. Note the contents of this report;
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London CIV Investment Advisory Committee – Update July – September 2016

Introduction

1. The Investment Advisory Committee (IAC) was formed in September 2015 with the remit to:
 - i. To support the Joint Committee in the investment decision making process
 - ii. To liaise with the Fund Operator of the CIV in defining Shareholders' investment needs.
2. Membership of the IAC was renewed in July with London Treasurers being asked to nominate themselves or their officers with 24 nominations being received. Whilst this was greater than allowed for under the Terms of Reference, after consideration, it was agreed that the full complement of nominations should be included in the Committee. This was to ensure at a time of rapid development for the London CIV, as many Pension Funds could be engaged fully in the process and that this would also enable a wide range of pension managers to work closely alongside officers of the CIV. The new Committee comprised 9 London Treasurers and 15 Pension Managers.
3. In addition to expanding the Committee, it was also felt appropriate to meet more frequently, again to provide support and challenge to the CIV at a time of change with the result that the IAC now meets monthly. Consequently the IAC has met 3 times over the summer months.
4. The IAC has considered wider investment strategy with presentations from the CIO of the CIV covering global equities and fixed income and in particular Funds search for income in a world of low interest rates and negative cashflow. Consequently, the CIV was asked to bring work forwards in this area.
5. Consideration was also given to the level of resourcing for the CIV, with the IAC questioning whether there were sufficient resources to deliver the work required by Funds to meet their future needs. The IAC was informed that business plans were subject to review and that future meetings would cover updated business and resourcing plans, although it was acknowledged that an increase in the service charge was likely over the next 1-2 years to ensure that the CIV was properly resourced to meet its regulatory and investor requirements.
6. The IAC were provided with updates on passive management where it was agreed that these assets could remain outside of the CIV following government guidance on life funds. The IAC was also kept updated on progress of fund openings and the ongoing negotiations with managers still being considered under the CQC criteria (Commonality of mandates, Quantum of assets and Conviction of Funds in the manager).
7. Other items considered were options for the CIV to work with funds on procurement for a pan-London transition manager, but it was agreed that it was not necessary for this work to be led by the CIV at this time. A draft allocations policy was considered by the IAC alongside a fee policy where it was agreed to proceed with deducting fees at fund level

as long as funds provided with a complete breakdown of all the fees and that they will have full transparency over costs, particularly to meet the new accounting requirements for CIPFA.

8. Working groups have been established to cover:

- i. Global Equities – This group has met to consider the current procurement exercise and has had significant input into the development of the tender documentation. Representatives of the group have also attended the manager shortlisting meetings with consultants and have agreed the managers to be taken forward for interviews. Representatives will also be attending the clarification interviews with the shortlisted managers to assist the Investment Team at the CIV.
- ii. Fixed Income and Cashflow – This group met to provide input into the development of the fixed income work that the CIV will be undertaking over the coming months. The analysis previously carried out indicated that there was a lack of commonality in fixed income mandates across the London Funds. In addition with Funds currently reviewing the outcome of their triennial valuations and facing increasing pressure on cashflow for the funds at a time when income from investments was falling means that this area of work is likely to grow in importance as Funds consider their Investment Strategy Statements over the coming months. A seminar for officers has been arranged to air some early thoughts in this area.
- iii. Responsible Investing and ESG – The group met to consider a wide range of topics including, the CIV's approach to voting, the Stewardship Code and appetite for sustainable equity funds as part of the broader global equities procurement. In addition, the group is considering agenda items for a Stewardship and Responsible Investment seminar in January. It was noted that the guidance and the new Investment Regulations required Funds to set out how they will meet their stewardship and voting responsibilities and it was agreed that the group should look at developing some standard wording in this area to assist funds with developing their own approach to include in their new Investment Strategy Statement which replaces the Statement of Investment Principles.
- iv. Infrastructure – Whilst recognising that this was a key area in the government pooling submission, work in other areas has taken precedence and this group is yet to formally meet.
- v. Housing – As with the infrastructure group, other priorities for the CIV have taken precedence although it is hoped that this group will meet shortly to start work in this key project area.

9. Future work for the IAC will include consideration of the final selection of global equity managers following on from the procurement exercise, the shape of the fixed income mandates and income producing assets that the CIV will look to introduce. The IAC will also work closely with the CIV in considering the business plan and any need for additional resourcing.

Recommendations

10. The committee is recommended to:

- i. Note the contents of this report

Financial implications

11. There are no financial implications for London Councils

Legal implications

12. There are no legal implications for London Councils.

Equalities implications

13. There are no equalities implications for London Councils