Pensions CIV Sectoral Joint Committee

Item no: 6

Investment Advisory Committee Update

Report by:	Ian Williams	**Job title:**	Chair of Investment Advisory Committee
Date:	13 December 2016		
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Summary	The Investment Advisory Committee (IAC) continues to work closely with the London CIV to consider a range of investment opportunities. In addition the treasurers from the IAC have been working closely with the management team from the CIV over the last quarter to consider the business plan and medium term financial strategy of the company.

Recommendations	The committee is recommended to: i. Note the contents of this report;

London CIV Investment Advisory Committee Update
October – December 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. Since the last Joint Committee meeting the IAC has formally met twice in October and November, however in addition, the Treasurers from the IAC have also met with the London CIV Management Team over the last 2 months to provide challenge and review the proposals for the London CIV financial plan and budget. The IAC Treasurers have provided commentary on the cost and revenue assumptions to ensure that they are robust and that further cash calls on Funds are minimised over and above what is included in the business plan. There has been recognition that the way costs are attributed need to be clearer and that it is likely that there will continue to be set up costs in interim period before the London CIV can be self-funding. Treasurers have also asked for a governance review to be undertaken by the CIV.

3. The main focus of the meetings, outside of the budget review, over the last couple of months has been to consider the global equity procurement, development of the fixed income and cashflow thought pieces and how this might progress and the timeline for the introduction of appropriate products.

4. The IAC have been kept informed of the work on the global equities procurement and the managers shortlisted for clarification meetings. The IAC global equities working group comprising 9 officers from the IAC alongside the London CIV Investment Team had met with the investment consultant to consider the 200+ submissions received in response to the tender notice, providing a good level of challenge to the shortlisting drawn up by the consultants, with a number of changes being made to those reaching the shortlist. The CIV team alongside representatives of the Global Equities sub-group conducted a total of 57 manager interviews during October and November. Preliminary discussions were held on each of the strategy meeting days to agree preferred managers with a meeting at the end of the process to agree a list of preferred managers to be taken forwards to the IAC and the Joint Committee. The list was presented at the November meeting of the IAC, but unfortunately with work still to be completed on a number of the individual manager detailed recommendations, the IAC have not yet been able to agree the final list. It was agreed that the format of the notes should be in the format of a Committee style report for the IAC to consider and that the London CIV team would work on these in advance of either the meeting in December or that an additional special meeting would be held. Further the IAC were keen to see the results of the global equity survey currently underway. The survey will help to determine those strategies selected for the first phase of sub-fund openings in 2017. The IAC ae keen to ensure that the

procurement process robust and individual Funds can be confident in the outcome of the selection process.

5. With regards to the Fixed Income and cashflow work, the IAC, having asked for this work to be brought forward, received a paper from the London CIV setting out the structural challenges facing both Funds and the current paucity of income from traditional fixed interest products. This is also tied in with the work of the triennial valuation currently underway for LGPS Funds. As Funds turn increasingly mature, i.e. with less active membership and less income from contributions into the Fund and increased payments out in terms of pension benefits, the Funds will increasingly need to access secure income streams to pay the pension benefits promise. This is at a time when interest rates on traditional products are at historical low levels meaning that these are unlikely to provide the level of income that Funds need. The London CIV is organising a seminar for Fund officers in January and the IAC has agreed the broad agenda for this seminar.

6. The IAC is also working closely with CIV officers to consider a range of other issues, including the introduction of MiFID II and the implications for both the CIV and Funds if current proposals were followed through. A response is being drafted for circulation and all Funds are being encouraged to put a response to the FCA consultation which closes on 4th January 2017. The new Investment Strategy Statements required of LGPS Funds to be in place by 1st April 2017, also includes statements on pooling, voting and ESG (Environmental, Social and Governance) approaches. The Stewardship working group of the IAC is currently working on some standard wording that might assist Funds with their statements to ensure that there is some consistency and avoid too many conflicting requirements that could make any standard approach at a Pool level too difficult to implement.

7. Reporting to Funds by the London CIV to ensure that their requirements are met both from an accounting perspective and for Pension Committee reporting, has meant that it has been agreed to establish a further working group of the IAC to work closely with the CIV to develop a reporting framework which meets the needs of London Funds.

8. Current IAC working groups are set out below**:**

    i. Global Equities

    ii. Fixed Income and Cashflow

    iii. Stewardship

    iv. Infrastructure

    v. Housing

    vi. Reporting

9. Future work: the IAC will continue to work closely with the CIV on key projects to help ensure that they are able to deliver the investment strategies that the Funds need to meet their requirements. This will include a further review of the preferred global equity managers, consideration of how the fixed income and cashflow piece should be addressed. The IAC will also review the Stewardship Code Statement proposed by the CIV and the target level of compliance being targeted.

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