

## Pensions CIV Sectoral Joint Committee

Item no: 6

## Investment Advisory Committee Update

**Report by:** Ian Williams      **Job title:** Chair of Investment Advisory Committee

**Date:** 12 April 2017

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**Summary:** The Investment Advisory Committee (IAC) continues to work closely with the London CIV on a wide range of investment related projects.

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**Recommendations:** The committee is recommended to note the contents of this report;

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## **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 February and March.
3. Key areas for discussion for the meetings have cover the working groups which feed into the IAC:

## **Global Equities**

4. Whilst the working group hasn't met, the IAC have been provided with an update on the global equity procurement process. Confirmation was received of the first 3 global equity mandates, coming out of the recent procurement exercise and that a date had been set for the new managers to present to London Local Authorities. The IAC were provided with an insight into the level of due diligence that is undertaken once agreement has been reached on the individual managers.
5. It was agreed that further work should be undertaken to understand further global equity strategies required as LLAs had been carrying out strategic asset allocations and this might affect the levels of demand for particular future global equity strategies to be targeted for launch. The IAC have asked for further updates once analysis has been completed by the CIV of the overall strategic direction of London Funds. The IAC are keen to assist in this understanding and encourage Funds to liaise closely on changes of strategy and any likely procurement exercises to see if these can be co-ordinated in advance of any move to the CIV.

## **Fixed Income / Cashflow Products**

6. The Fixed Income Working Group met in February to consider options that are being developed for fixed income / cashflow generating products that are under review for implementation by the London CIV. The IAC received a presentation on the work which the CIV has been doing in this area, which looks at a range of building blocks which could encompass traditional fixed income products, multi-asset credit, private debt and infrastructure but with an asset allocator overlaying the selection process to achieve specific risk and return profiles, e.g. 2-4%, 4-6%, etc. In principle the IAC were positive about the draft solutions being put forwards, but wanted greater clarity on the cost of such products.
7. A recent survey undertaken with the LLAs had indicated that there was significant demand for multi-asset credit funds and following recent meetings with individual Authorities and their advisers, the CIV has indicative demand that Funds have appetite for private debt funds.
8. The CIV confirmed that under the current business plan the indicative timeframe for fixed income products was the launch of two sub-funds in the current financial year, four the following year (2018/19) and a further two in 2019/20.

## **Stewardship and ESG**

9. The feedback from the Stewardship Conference held on 1<sup>st</sup> February was considered in some detail, noting that low carbon was increasingly becoming an area that was attracting increased interest. With this in mind a small group of funds had met with the CIV to explore what the likely demand for products was likely to be in the low carbon space and what options there might be, if any, for the CIV to bring forward products in this area. The group has now met twice to explore current positions and strategic objectives for Funds in the low carbon space to gain greater clarity on whether funds are looking for low carbon and/or fossil free options and whether this is passive or active mandates. Work is still underway to gain greater clarity on this, but it is clear that there is a requirement amongst a number of Funds that there is a desire for products in this area. In addition it was noted that a low carbon workshop was being proposed for June in the events calendar and that close collaboration with the CIV should take place to develop the agenda.
10. Consideration was also being given to the level of reporting that is likely to be required of the underlying investment managers in respect of reporting on stewardship and voting and that draft wording was being considered for inclusion in the IMA. It was noted that the CIV were liaising with legal advisers on this and the IAC look forward to receiving a further update on this.

## **Infrastructure / Housing**

11. Whilst recognising that there is some appetite for infrastructure related products, given other key projects underway at the CIV, further clarity is required on the likely demand for infrastructure investments in terms of actual allocations coming out of the strategic asset allocation reviews before progressing. However, it was recognised that for some individual Funds this would be one of their priorities. Once there is greater visibility from LLAs on requirements, this could be further progressed.

## **Additional Items**

12. **MiFID II** – Concerns over MiFID II continue to be raised at the IAC, not just in relation to the Pension Fund but also in respect of the Treasury Management activities of LLAs. The IAC were kept updated of ongoing discussions with the FCA via the cross pool working group and also following receipt of the letter from the Minister which provided some reassurance that progress was being made and that it was hoped that a satisfactory solution could be found.
13. **Reporting and Transparency** – The IAC working group has met and is working closely with the CIV to develop reporting and has fed into both the reporting framework and also an information pack being proposed for investors. In addition the group has agreed to be the client test group for the development of the client website portal being developed. A further meeting of the group is being set up to review the website and also to work closely on the report formats being provided to LLAs on performance.
14. **Quarterly CIV Update** – As Chair of the IAC and a member of SLT, I worked closely with officers of London CIV to develop a CIV update for presenting at SLT as LLA's not involved with the IAC had raised a number of additional questions. This report was reviewed by the IAC and well received. It has been agreed that a CIV quarterly update

will be provided going forwards but that it should be jointly issued by the CEO of the London CIV and myself as Chair of the IAC.

15. **Passive Management** – It was noted that the passive fee proposals had been agreed by the Joint Committee at its meeting on 8<sup>th</sup> February and that these would now apply to passive funds where London wide fee rates had been negotiated and agreed by London CIV.
16. **Academies** – Whilst recognising that academy issues per se aren't the within the remit of the CIV or the IAC, it is recognised that this is an important issue which could ultimately impact on both LLAs and the CIV depending on any decisions taken with respect to the position of academies in the LGPS.
17. **Actuarial Valuation** – Final survey results for LLAs actuarial valuation had been collated and these were reviewed by the IAC recognising however, that the standardised valuation basis being conducted by the Scheme Advisory Board might well show different results to those in the published valuations.
18. **Governance Review of the London CIV** – It was noted that Gerald Almeroth and Ian Williams would be sitting on the Governance Review Board to evaluate the governance review being commissioned and that it was hoped this would report in June/July but could be pushed back to September.
19. **National Frameworks** – The IAC were updated with the National LGPS procurement frameworks. The Investment Performance and Cost Monitoring Reporting framework was in the process of being finalised, but it was noted that 5 providers had been selected for Lot 1 covering investment performance for Funds and Pools, a single provider, PIRC for Lot 2 covering a Local Authority Universe and a single provider for Cost Monitoring and Reporting, Lot 3. It was also noted that the London CIV had agreed to become a founder member of the Transition Management Framework which was commencing shortly and would enable Funds to call off the framework when undertaking investment transitions.
20. **Conference Feedback** – The IAC were presented with the feedback from the annual conference of the CIV which took place on 1<sup>st</sup> March and it was generally agreed that the event had been well received. Plans were underway for the next conference but that this was unlikely to take place until June 2018, reflecting the fact that local elections were due to take place in May 2018 which could impact on the makeup of the Pensions Committees.
21. **Future work** – The IAC were provided with an outline schedule of suggested CIV events and how these would fit in with other events already tabled with feedback generally supportive of such events. In addition the IAC have been presented with a draft outline of agendas for the rest of the calendar year and work was underway to identify the level of support that might be required from Funds and in particular working groups in taking forward the work programme of the CIV.

## **Recommendations**

22. The committee is recommended to note the contents of this report

## **Financial implications**

23. There are no financial implications for London Councils

**Legal implications**

24. There are no legal implications for London Councils.

**Equalities implications**

25. There are no equalities implications for London Councils