

<b>Committee:</b> Pensions Committee	<b>Dated:</b> 11 July 2022
<b>Subject:</b> Asset Pooling in the LGPS	<b>Public</b>
<b>Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?</b>	<b>All</b>
<b>Does this proposal require extra revenue and/or capital spending?</b>	<b>No</b>
<b>If so, how much?</b>	<b>£N/A</b>
<b>What is the source of Funding?</b>	<b>N/A</b>
<b>Has this Funding Source been agreed with the Chamberlain's Department?</b>	<b>N/A</b>
<b>Report of:</b> The Chamberlain	<b>For Information</b>
<b>Report author:</b> James Graham, Chamberlain's	

### Summary

This report provides background on asset pooling in the LGPS, and the London LGPS Collective Investment Vehicle (LCIV) – the asset pool of which the City of London Corporation Pension Fund is a member. The report also provides a status update on the LCIV and the Pension Fund's current pooling position.

### Recommendation

Members are asked to note this report.

### Main Report

## BACKGROUND

### ASSET POOLING IN THE LGPS

1. In 2015, the UK Government initiated a major reform of the Local Government Pension Scheme (LGPS) when it invited administering authorities in England and Wales to develop asset pools for investment.
2. The Government set out its original ambitions through the publication of [guidance](#) on pooling, specifying that the new asset pools should achieve four specific criteria, namely:
  - a) achieve the benefits of scale;
  - b) strong governance and decision making;
  - c) reduced costs and excellent value for money; and
  - d) improve the LGPS' capacity to invest in infrastructure.<sup>1</sup>
3. Subsequent to this announcement pooling was given a statutory footing via the [LGPS Investment Regulations 2016](#), which stipulated that within their investment strategies LGPS funds in England and Wales must include their approach to pooling

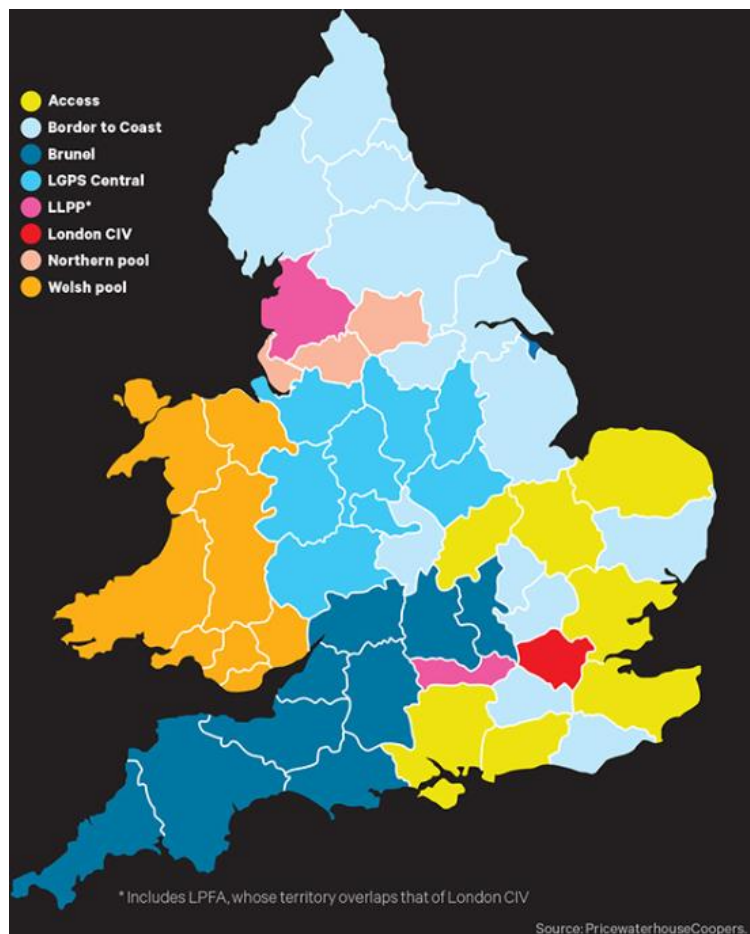
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<sup>1</sup> London Government Pension Scheme: Investment Reform Criteria and Guidance (2015)

investments, including the use of collective investment vehicles and shared services.<sup>2</sup>

4. Aside from the four criteria listed above, one of the most significant implications of the pooling regime for LGPS funds is that while administering authorities continue to retain authority over all strategic asset allocation decisions, pools are now responsible for fund manager selection and appointment.
5. Eight asset pools have now been established (largely on a regional basis) across England and Wales as shown in figure 1.

*Figure 1: LGPS asset pool map (source: PricewaterhouseCoopers)*



6. In January 2019, the then Ministry for Housing, Communities and Local Government (MHCLG) launched an informal consultation on revised pooling guidance. The proposed amendments to the guidance sought to capitalise on lessons learned during the process of asset pool formation but did not suggest a fundamental change in the Government’s ambitions for pooling, with a clear expectation that LGPS pension funds should seek to pool assets over a “relatively short period”. Although the consultation (in which the City of London participated) generated a healthy response, as yet the Government has not produced final guidance (partially due to the advent of the pandemic in 2020). Officers now understand that the Department for Levelling Up, Housing and Communities (DLUHC) intends to consult further on a range of issues affecting the LGPS, including asset pooling in the autumn of 2022. As at the time of writing, officers are unclear on the substance of

<sup>2</sup> Local Government Pension Scheme Investment Regulations 2016 para. 7(2)(d)

any potential future changes and therefore Members should note that there is some uncertainty over the future of the asset pooling framework at present.

#### THE LONDON LGPS COLLECTIVE INVESTMENT VEHICLE (LCIV)

7. The London LGPS Collective Investment Vehicle (LCIV) is the regional asset pool for the 32 London administering authorities (including the City of London). The LCIV was formally established in 2015 (prior to LGPS pooling being mandated) as a collaborative venture to enable the capital's LGPS pension funds to work closely together to deliver benefits of scale and efficiency savings to the participating authorities via a voluntary pooling arrangement.
8. The London CIV's governance structure has evolved over time but the current arrangements are characterised by the following key features:
  - a) The 32 London administering authorities are both shareholders and investor-clients of the LCIV. Shareholders exercise their powers over the LCIV Board (see c) below) via a shareholder agreement and general meetings that take place twice annually (an AGM and a budget meeting).
  - b) A shareholder committee composed of 8 pension committee chairs (including the City's representative) provides a consultative role on strategy and business plans, financial and corporate performance, responsible investment and emerging issues.
  - c) All major decisions not reserved to shareholders are a matter for the LCIV Board, which provides the overall strategic direction, management and general policy of the LCIV. The Board's activities are overseen internally by the Investment Oversight Committee; the Compliance/Audit/Risk Committee; and the Remuneration and Nomination Committee.
  - d) The Executive Committee is responsible for the day-to-day operations of the company.
9. Officers and Members from each of the London pension funds also participate informally via the client fund engagement process, which is broadly carried out via four mechanisms:
  - a) The fund launch governance and engagement framework. As part of its product development process, the LCIV has established seed investor groups (SIGs) for each new mandate comprised of pension fund officers and Members from interested clients.
  - b) The Responsible Investment Reference Group provides a sounding board to steer the development of the LCIV's responsible investment and stewardship activity.
  - c) The Cost Transparency Working Group supports the LCIV's work in reviewing its funding model and developing cost transparency.
  - d) The London CIV also hosts monthly business updates attended by officers.
10. Assets are managed by specialist external fund managers, appointed by the LCIV to mandates developed in concert with clients.
11. The Corporation has been a key enabler of the LCIV and has influenced its development. Prior to the establishment of the Pension Committee, the Chairman of the Financial Investment Board sat on the LCIV's Shareholder Committee (a role

which is now expected to be discharged by the Chair of the Pension Committee), whilst the Chamberlain belongs to the LCIV's Responsible Investment Reference Group and in the past officers have provided input to the Cost Transparency and Working Group. The LCIV is also an admitted body of the City of London Corporation Pension Fund.

## **CURRENT POSITION**

### The LCIV

12. Over the past seven years the London CIV has built out a platform of 21 sub-funds across various asset classes to enable its member funds to progress their pooling plans.
13. As at the 31 May 2022, the London CIV's total assets under management amount to £26.7bn. This consists of:
  - £12.5bn invested in the "Authorised Contractual Scheme" (ACS) which houses actively managed, liquid asset classes (listed equities, fixed income, and multi asset);
  - £2.2bn funded commitments within private markets (infrastructure, private debt and property); and
  - £12.0bn which is invested in passively managed mandates with LGIM and Blackrock and deemed pooled.

A full listing of current sub-funds (including performance information) is presented at Appendix 1.

14. Aside from existing funds, the LCIV has an active development pipeline for future fund. At present there are two funds in the pipeline – the LCIV Sterling Credit Fund and the London CIV UK Housing Fund. These funds are in early stage development and the LCIV is currently assessing client demand.

### City of London Corporation Pension Fund

15. The Pension Fund's current policy is to pool investment assets as and when suitable products are available.<sup>3</sup>
16. As reported to the Pension Committee elsewhere in today's agenda, as at 31 March 2022, 21% of the Fund is pooled via the LCIV. £196m (12%) of the Fund is invested in the LCIV Global Alpha Growth Fund managed by Baillie Gifford and a further £120m (9%) of the Fund is invested in the LCIV ACF, currently managed by CQS.
17. As such, the Pension Fund currently holds 79% of assets outside of the pool. There are various underlying reasons why the Fund continues to hold assets outside of the pool including:
  - a) **Value for money** – The Corporation has long standing relationships with its current managers across its three major funds (Pension Fund, BHE and City's Cash) which have enabled favourable fee deals, including with managers shared with the LCIV (Ruffer and Pyrford)
  - b) **Product availability** – This can be further categorised as follows:
    - The Corporation has sought to achieve diversification through manager style in the listed equity allocation. Whilst the LCIV has growth, core and quality managers on its platform it does not provide a value style mandate.

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<sup>3</sup> City of London Corporation Investment Strategy Statement

However, the LCIV has recently indicated that it wishes to explore a product in this place and officers will participate in this process.

- In recent years the Pension Fund has initiated new investments in property because at the time this asset class was unavailable on the LCIV's platform.

**c) Cost of exiting existing investments** – The Fund's private equity investments as well as its real asset investments (property and infrastructure) are illiquid in nature and thus it is punitively expensive to exit these now. As these investments mature, the Corporation should expect to reinvest the proceeds via the pool (provided suitable products are available. At present private equity is yet to be built out).

**d) Strategy development** - The most recent investment strategy review (2020) did not recommend any major changes to the existing strategic asset allocation and the Corporation avoided making any major asset transitions (beyond rebalancing) whilst it was developing its climate action plans in 2021. Now that the transition pathway work has concluded, officers expect the next strategic asset allocation (SAA) review (following the 2022 Triennial Valuation and scheduled for late 2022/23) to serve as an opportunity to review this position and further progress pooling where possible. This will also allow the Committee to take advantage of the anticipated future guidance on pooling (as reference in paragraph 6 above) and the Corporation's climate action strategy as it applies to financial investments.

18. An illustrative "map" of the factors listed in paragraph 16 against the Pension Fund's current holdings is shown at Appendix 2. This presentation does not constitute a formal pooling plan, but is intended to aid discussion at today's meeting.

## CONCLUSION

19. This report provides background on asset pooling in the LGPS, and the London LGPS Collective Investment Vehicle (LCIV) – the asset pool of which the City of London Corporation Pension Fund is a member. The report also provides a status update on the LCIV and the Pension Fund's current pooling position.

## APPENDICES

- Appendix 1 – LCIV Current Fund Offering
- Appendix 2 – Pension Fund Indicative Pooling Status

## BACKGROUND PAPERS

- Local Government Pension Scheme: Investment Reform Criteria and Guidance 2015
- Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016
- City of London Corporation Pension Fund Investment Strategy Statement

### Kate Limna

Corporate Treasurer

T: 020 7332 3952

E: [Kate.limna@cityoflondon.gov.uk](mailto:Kate.limna@cityoflondon.gov.uk)

### James Graham

Group Accountant – Treasury & Investments

T: 020 7332 1137

E: [James.graham@cityoflondon.gov.uk](mailto:James.graham@cityoflondon.gov.uk)

## APPENDIX 1 – LCIV CURRENT FUND OFFERING

ACS	Size	QTD	1 Year %	3 Years p.a. %	5 Years p.a. %	Since Inception p.a. %	Inception Date	No. of Investors
<b>GLOBAL EQUITIES</b>								
<b>LCIV Global Alpha Growth Fund</b>	<b>£1,965m</b>	<b>(8.59)</b>	<b>(15.78)</b>	<b>9.09</b>	<b>9.03</b>	<b>13.60</b>	<b>11/04/2016</b>	<b>9</b>
MSCI All Country World Gross Index (in GBP)+2%		(3.68)	7.51	14.51	12.21	15.65		
<b>Performance Against Investment Objective</b>		<b>(4.91)</b>	<b>(23.29)</b>	<b>(5.42)</b>	<b>(3.18)</b>	<b>(2.05)</b>		
MSCI All Country World Gross Index (in GBP)		(4.00)	5.40	12.26	10.01	13.38		
<b>Performance Against Benchmark</b>		<b>(4.59)</b>	<b>(21.18)</b>	<b>(3.17)</b>	<b>(0.98)</b>	<b>0.22</b>		
<b>LCIV Global Alpha Growth Paris Aligned Fund</b>	<b>£1,060m</b>	<b>(9.73)</b>	<b>(18.62)</b>	<b>n/a</b>	<b>n/a</b>	<b>(18.96)</b>	<b>13/04/2021</b>	<b>6</b>
MSCI All Country World Gross Index (in GBP)+2%		(3.68)	7.51	n/a	n/a	6.09		
<b>Performance Against Investment Objective</b>		<b>(6.05)</b>	<b>(26.13)</b>	<b>n/a</b>	<b>n/a</b>	<b>(25.05)</b>		
MSCI All Country World Gross Index (in GBP)		(4.00)	5.40	n/a	n/a	4.01		
<b>Performance Against Benchmark</b>		<b>(5.73)</b>	<b>(24.02)</b>	<b>n/a</b>	<b>n/a</b>	<b>(22.97)</b>		
<b>LCIV Global Equity Fund</b>	<b>£712m</b>	<b>(4.80)</b>	<b>3.19</b>	<b>11.40</b>	<b>9.75</b>	<b>10.04</b>	<b>22/05/2017</b>	<b>3</b>
MSCI All Country World Index Total Return (Gross)+1.5%		(3.43)	7.19	13.92	11.72	11.95		
<b>Performance Against Investment Objective</b>		<b>(1.37)</b>	<b>(4.00)</b>	<b>(2.52)</b>	<b>(1.97)</b>	<b>(1.91)</b>		
MSCI All Country World Index Total Return (Gross)		(3.67)	5.61	12.24	10.07	10.29		
<b>Performance Against Benchmark</b>		<b>(1.13)</b>	<b>(2.42)</b>	<b>(0.84)</b>	<b>(0.32)</b>	<b>(0.25)</b>		
<b>LCIV Global Equity Core Fund</b>	<b>£546m</b>	<b>(3.04)</b>	<b>5.38</b>	<b>n/a</b>	<b>n/a</b>	<b>6.15</b>	<b>21/08/2020</b>	<b>2</b>
MSCI All Country World Index (with net dividends reinvested)		(4.11)	4.93	n/a	n/a	11.74		
<b>Performance Against Benchmark</b>		<b>1.07</b>	<b>0.45</b>	<b>n/a</b>	<b>n/a</b>	<b>(5.59)</b>		
<b>LCIV Global Equity Focus Fund</b>	<b>£881m</b>	<b>(1.33)</b>	<b>6.88</b>	<b>11.10</b>	<b>n/a</b>	<b>9.70</b>	<b>17/07/2017</b>	<b>5</b>
MSCI World (GBP)(TRNet)+2.5%		(3.74)	10.04	15.47	n/a	13.10		
<b>Performance Against Target</b>		<b>2.41</b>	<b>(3.16)</b>	<b>(4.37)</b>	<b>n/a</b>	<b>(3.40)</b>		
MSCI World (GBP)(TRNet)		(4.14)	7.36	12.65	n/a	10.34		
<b>Performance Against Benchmark</b>		<b>2.81</b>	<b>(0.48)</b>	<b>(1.55)</b>	<b>n/a</b>	<b>(0.64)</b>		

ACS	Size	QTD	1 Year %	3 Years p.a. %	5 Years p.a. %	Since Inception p.a. %	Inception Date	No. of Investors
<b>GLOBAL EQUITIES</b>								
<b>LCIV Emerging Market Equity Fund</b>	<b>£534m</b>	<b>(4.04)</b>	<b>(14.12)</b>	<b>2.35</b>	<b>n/a</b>	<b>0.09</b>	<b>11/01/2018</b>	<b>8</b>
MSCI Emerging Market Index (TR) Net+2.5%		(0.50)	(7.31)	7.63	n/a	4.09		
<b>Performance Against Investment Objective</b>		<b>(3.54)</b>	<b>(6.81)</b>	<b>(5.28)</b>	<b>n/a</b>	<b>(4.00)</b>		
MSCI Emerging Market Index (TR) Net		(0.91)	(9.57)	5.00	n/a	1.54		
<b>Performance Against Benchmark</b>		<b>(3.13)</b>	<b>(4.55)</b>	<b>(2.65)</b>	<b>n/a</b>	<b>(1.45)</b>		
<b>LCIV Sustainable Equity Fund</b>	<b>£1,263m</b>	<b>(5.99)</b>	<b>(2.87)</b>	<b>12.23</b>	<b>n/a</b>	<b>12.34</b>	<b>18/04/2018</b>	<b>8</b>
MSCI World Index Total Return (Net) in GBP+2%		(3.82)	9.51	14.91	n/a	14.21		
<b>Performance Against Investment Objective</b>		<b>(2.17)</b>	<b>(12.38)</b>	<b>(2.68)</b>	<b>n/a</b>	<b>(1.87)</b>		
MSCI World (GBP)(TRNet)		(4.14)	7.36	12.65	n/a	11.97		
<b>Performance Against Benchmark</b>		<b>(1.85)</b>	<b>(10.23)</b>	<b>(0.42)</b>	<b>n/a</b>	<b>0.37</b>		
<b>LCIV Sustainable Equity Exclusion Fund</b>	<b>£411m</b>	<b>(6.09)</b>	<b>(1.95)</b>	<b>n/a</b>	<b>n/a</b>	<b>24.58</b>	<b>11/03/2020</b>	<b>3</b>
MSCI World Index Total Return (Net) in GBP+2%		(3.82)	9.51	n/a	n/a	22.36		
<b>Performance Against Investment Objective</b>		<b>(2.27)</b>	<b>(11.46)</b>	<b>n/a</b>	<b>n/a</b>	<b>2.22</b>		
MSCI World (GBP)(TRNet)		(4.14)	7.36	n/a	n/a	19.96		
<b>Performance Against Benchmark</b>		<b>(1.95)</b>	<b>(9.31)</b>	<b>n/a</b>	<b>n/a</b>	<b>4.62</b>		
<b>LCIV Passive Equity Progressive Paris Aligned Fund</b>	<b>£526m</b>	<b>(5.63)</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>(8.44)</b>	<b>01/12/2021</b>	<b>2</b>
S&P Developed Ex-Korea LargeMidCap Net Zero 2050		(5.69)	n/a	n/a	n/a	(8.59)		
Paris-Aligned ESG Index (GBP)								
<b>Performance Against Index</b>		<b>0.06</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>0.15</b>		



ACS	Size	QTD	1 Year %	3 Years p.a. %	5 Years p.a. %	Since Inception p.a. %	Inception Date	No. of Investors
<b>MULTI ASSET</b>								
<b>LCIV Global Total Return Fund</b> RPI + 5%	<b>£227m</b>	<b>0.64</b> 5.35	<b>3.89</b> 16.37	<b>3.81</b> 10.23	<b>2.08</b> 9.47	<b>3.47</b> 9.40	<b>17/06/2016</b>	<b>3</b>
<b>Performance Against Target</b>		<b>(4.71)</b>	<b>(12.48)</b>	<b>(6.42)</b>	<b>(7.39)</b>	<b>(5.93)</b>		
<b>LCIV Diversified Growth Fund</b> UK Base Rate +3.5%	<b>£922m</b>	<b>(3.17)</b> 0.72	<b>(3.21)</b> 3.82	<b>2.56</b> 3.85	<b>2.05</b> 3.93	<b>4.21</b> 3.91	<b>15/02/2016</b>	<b>9</b>
<b>Performance Against Target</b>		<b>(3.89)</b>	<b>(7.03)</b>	<b>(1.29)</b>	<b>(1.88)</b>	<b>0.30</b>		
<b>LCIV Absolute Return Fund</b> SONIA (30 day compounded) +3% (from 1 January 2022, previously 1m LIBOR +3%)	<b>£1,203m</b>	<b>0.16</b> 0.63	<b>4.73</b> 3.28	<b>10.36</b> 3.31	<b>5.65</b> 3.40	<b>6.76</b> 3.39	<b>21/06/2016</b>	<b>10</b>
<b>Performance Against Target</b>		<b>(0.47)</b>	<b>1.45</b>	<b>7.05</b>	<b>2.25</b>	<b>3.37</b>		
<b>LCIV Real Return Fund</b> SONIA (30 day compounded) + 3% (from 1 October 2021, previously 1m LIBOR +3%)	<b>£177m</b>	<b>(1.22)</b> 0.63	<b>(2.43)</b> 3.27	<b>4.66</b> 3.31	<b>3.69</b> 3.40	<b>4.47</b> 3.39	<b>16/12/2016</b>	<b>2</b>
<b>Performance Against Investment Objective</b>		<b>(1.85)</b>	<b>(5.70)</b>	<b>1.35</b>	<b>0.29</b>	<b>1.08</b>		



ACS	Size	QTD	1 Year %	3 Years p.a. %	5 Years p.a. %	Since Inception p.a. %	Inception Date	No. of Investors
<b>FIXED INCOME</b>								
<b>LCIV Global Bond Fund</b>	<b>£610m</b>	<b>(4.46)</b>	<b>(10.21)</b>	<b>(0.63)</b>	<b>n/a</b>	<b>1.41</b>	<b>30/11/2018</b>	<b>7</b>
Bloomberg Global Aggregate Credit Index – GBP Hedged		(4.03)	(9.88)	(0.53)	n/a	1.32		
<b>Performance Against Benchmark</b>		<b>(0.43)</b>	<b>(0.33)</b>	<b>(0.10)</b>	<b>n/a</b>	<b>0.09</b>		
<b>LCIV MAC Fund</b>	<b>£1,075m</b>	<b>(2.94)</b>	<b>(2.05)</b>	<b>1.98</b>	<b>n/a</b>	<b>2.26</b>	<b>31/05/2018</b>	<b>11</b>
SONIA (30 day compounded) +4.5% (from 1 January 2022, previously 3m LIBOR +4.5%)		0.87	4.80	4.86	n/a	4.98		
<b>Performance Against Investment Objective</b>		<b>(3.81)</b>	<b>(6.85)</b>	<b>(2.88)</b>	<b>n/a</b>	<b>(2.72)</b>		
<b>LCIV Alternative Credit Fund</b>	<b>£377m</b>	<b>(3.54)</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>(4.72)</b>	<b>31/01/2022</b>	<b>3</b>
SONIA (30 day compounded) +4.5%		0.87	n/a	n/a	n/a	1.67		
<b>Performance Against Investment Objective</b>		<b>(4.41)</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>(6.39)</b>		
<b>Total LCIV ACS Assets Under Management</b>	<b>£12,490m</b>							

Source: London CIV data as at 31 May 2022.

Since inception p.a.% figures have been annualised where the fund has been live for more than a year. For periods under a year they are not annualised.

<b>Private Markets</b>	<b>31 May 2022 Total Commitment</b>	<b>Called to Date</b>	<b>% Invested</b>	<b>Undrawn Commitments</b>	<b>31 March 2022 Fund Value</b>	<b>% Committed</b>	<b>Inception Date</b>	<b>No. of Investors</b>
<b>EUUT</b>	<b>£'000</b>	<b>£'000</b>		<b>£'000</b>	<b>£'000</b>			
<b>LCIV Inflation Plus Fund</b>	<b>213,000</b>	<b>206,262</b>	<b>97%</b>	<b>6,738</b>	<b>202,070</b>	<b>100%</b>	<b>11/06/2020</b>	<b>3</b>
<b>LCIV Infrastructure Fund</b>	<b>399,000</b>	<b>168,261</b>	<b>42%</b>	<b>230,739</b>	<b>183,934</b>	<b>83%</b>	<b>31/10/2019</b>	<b>6</b>
<b>LCIV Private Debt Fund</b>	<b>540,000</b>	<b>228,104</b>	<b>42%</b>	<b>311,896</b>	<b>230,764</b>	<b>95%</b>	<b>29/03/2021</b>	<b>7</b>
<b>LCIV Renewable Infrastructure Fund</b>	<b>853,500</b>	<b>206,743</b>	<b>24%</b>	<b>475,757</b>	<b>200,289</b>	<b>92%</b>	<b>29/03/2021</b>	<b>10</b>
<b>SLP</b>	<b>£'000</b>	<b>£'000</b>		<b>£'000</b>	<b>£'000</b>			
<b>The London Fund</b>	<b>195,000</b>	<b>40,844</b>	<b>21%</b>	<b>154,156</b>	<b>24,268</b>	<b>52%</b>	<b>15/12/2020</b>	<b>2</b>
<b>Total</b>	<b>2,200,500</b>	<b>850,214</b>		<b>1,350,286</b>	<b>841,325</b>			

## APPENDIX 2 - PENSION FUND INDICATIVE POOLING STATUS

### City of London Pension Fund Pooling Status (31 March 2022)

