Report No.
FSD18061

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**24th July 2018**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**TRANSFER OF BAILLIE GIFFORD GLOBAL EQUITIES INTO THE LONDON CIV**
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Chief Officer:	Director of Finance
Ward:	All

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1. Reason for report

1.1 This report requests consideration for transferring the Global Equities portfolio managed by Baillie Gifford into the equivalent portfolio within the London CIV.

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2. RECOMMENDATIONS

2.1 The Sub-Committee is asked to:

(a) Consider the transfer of the Baillie Gifford Global Equities portfolio into the London CIV.

Corporate Policy

1. Policy Status: Existing policy. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost Estimated at £118k to £285k

2. Ongoing costs: Recurring cost. Net savings of around £114k p.a.

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £38.3m expenditure (pensions, lump sums, etc); £41.9m income (contributions, investment income, etc); £970.7m total fund market value at 31st March 2018)

5. Source of funding: Contributions to Pension Fund

Staff

1. Number of staff (current and additional): 0.4 FTE

2. If from existing staff resources, number of staff hours: c 14 hours per week

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Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2013, LGPS (Management and Investment of Funds) Regulations 2016

2. Call-in: Call-in is not applicable.

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,198 current employees; 5,185 pensioners; 5,537 deferred pensioners as at 31st March 2018

Ward Councillor Views

1. Have Ward Councillors been asked for comments? No.

2. Summary of Ward Councillors comments: N/A

3. COMMMENTARY

3.1 As members will be aware, under the Government's pooling agenda, LGPS administering authorities are required to pool their assets into investment pools in order to deliver savings on management fees through benefits of scale and to increase capacity and capability for infrastructure investments. The expectation is that listed assets such as equities and bonds, which are easier to transfer or sell, will be pooled first.

3.2 Following the approval of Council in July 2016, the Pension Fund joined the other London Boroughs in the London LGPS Collective Investment Vehicle (LCIV) in October 2016. All participating funds pay an annual service charge (£25k), and a Development Funding Charge, (£65k for 2018/19), which is expected to reduce as more assets are invested in the LCIV.

3.3 The Fund currently has two segregated global equities mandates, managed by Baillie Gifford and MFS, with the rest of the assets held in pooled funds. The LCIV has appointed a global equities mandate to Baillie Gifford, which, barring a few insignificant differences relating to legal and tax requirements for investments in India and Taiwan, is the same as the portfolio they manage for the Fund. At the time of writing, this is the only portfolio in common between the Fund and the LCIV.

3.4 As a result of the higher level of assets under management in the LCIV mandate, the management fee paid by the LCIV (currently around 32.6bps) is less than that paid by the Fund (currently around 38.0bps) under the current arrangement. If the Fund transfers these assets into the LCIV then there would be an estimated gross saving of around £211k p.a. in management fees based on the portfolio size as at 30th April 2018 (£387.7m).

3.5 However, funds invested through the LCIV are subject to a 2.5bps management fee, which equates to around £97k p.a., so the net saving to the Fund would reduce to around £114k p.a. Note that this savings figure excludes the £90k charges referred to in paragraph 3.2, as these would be incurred irrespective of whether any assets are transferred.

3.6 In addition, there are some one-off costs which would be payable to the relevant tax authorities in the event of a transfer. Based on the current portfolio, these are estimated at £118k as follows:

- £17k in non-transferrable markets (currently Brazil), where assets would have to be sold and re-purchased
- £69k in transferrable markets (currently Hong Kong, Singapore, South Africa, Switzerland, Spain and Italy), where stamp or other duties are paid on delivery or receipt (or both)
- £32k in line switch costs where the Fund holds American and Global Depositary Receipts (ADRs and GDRs) in India and Taiwan, but the LCIV has direct local holdings.

3.7 There is also stamp duty payable on UK and Irish holdings, totalling £167k, although it is understood that this may be avoidable by discussions with the tax authorities, as has been achieved by another London Borough.

3.8 The costs of transfer would therefore be repaid in just over one year if UK and Irish stamp duty can be avoided, or two and a half years if not.

3.9 It should be noted that the pools report to Government on the progress of transferring investments into the pool, and that the Fund's Investment Strategy Statement must include the authority's approach to pooling investments. The 2016 LGPS investment regulations give the Secretary of State the powers to make a directions where he is satisfied that authorities are not complying with statutory guidance. These directions could require the Fund to invest in

specified assets, or that the Fund's investment functions be transferred to the Secretary of State or a person he nominates.

4. POLICY IMPLICATIONS

4.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2013, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

5. FINANCIAL IMPLICATIONS

5.1 These are contained within the body of the body of the report.

6. LEGAL IMPLICATIONS

6.1 The change leading to the establishment of Collective Investment Vehicles was driven by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2016/946).

6.2 They require the production and publication of an investment strategy in accordance with guidance issued by the Secretary of State:

Regulation 7 covers a range of investments which need to be considered including CIV options. – see regulation 7 (1) (d).

Regulation 8 includes wide powers for the Secretary of state to intervene where an authority isn`t complying with regulation 7 (and associated guidance) The explanatory memorandum to regulation 8 reads

"7.10 Regulation 8 provides the Secretary of State with the power to intervene in the Investment function of an administering authority if he is satisfied that the authority is failing to act in accordance with the regulations and guidance. The regulation also enables the Secretary of State to initiate enquiries if an intervention is warranted and must consult the authority concerned. The Secretary of State can intervene by directing the authority to undertake a broad range of actions to remedy the situation."

6.3 Guidance was published in September 2016 which states that administering authorities "must commit to a suitable pool to achieve benefits of scale":

6.4 The Secretary of State therefore has real powers to intervene where there isn't compliance although Regulation 8 does include a number of safeguards including full consultation with a relevant authority to ensure a power is used appropriately, proportionately and only where justified.

6.5 Given the clear wording of the guidance which we are required to comply with then it would be remarkable if there wasn't intervention if an authority took a deliberate decision not to comply and the Direction could include

a) To require an administering authority to make changes to its investment strategy in a given timescale;

b) To require an administering authority to invest assets as specified in the Direction;
c) To transfer the investment functions of an administering authority to the Secretary of State or a person nominated by the Secretary of State; and
d) To require an administering authority to comply with any instructions from either the Secretary of State or the appointed person in circumstances when the investment function has been transferred.

Non-Applicable Sections:	Personnel Implications, Impact on Vulnerable Adults and Children, Procurement Implications
Background Documents: (Access via Contact Officer)	LGPS Regulations 2013; LGPS (Management and Investment of Funds) Regulations 2016; Pooling Options – Council, 4th July 2016