AGENDA ITEM: X

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**24 June 2021**
Classification:	**General Release (Appendices Exempt)**
Title:	**London CIV CQS Multi Asset Credit Solution**
Wards Affected:	**All**
Policy Context:	**Effective control over council activities**
Financial Summary:	**There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.**
Report of:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. EXECUTIVE SUMMARY

1.1 This report provides an update on developments within the London CIV (LCIV) CQS Multi Asset Credit (MAC) Fund, following an announcement by the LCIV of its intention to add an additional manager to the MAC fund. Attached at Appendix 1 is a paper from the London CIV on the second manager selection process.

1.2 Also attached is a report (Appendix 2) prepared by our investment advisor, Deloitte, following discussions with the Chairman of the Committee, regarding Deloitte's views on the LCIV Multi Asset Credit fund.

2. RECOMMENDATIONS

2.1 The Committee is recommended to:

- Note both the LCIV appendix and Deloitte report.
- maintain the current investment with the LCIV MAC mandate.
- Approve the LCIV's proposal of a second manager to be added on a 50/50 weighting.

3. BACKGROUND

3.1 The LCIV MAC Fund is currently invested via a single investment manager: CQS. The London CIV has shared concerns regarding manager performance, staff turnover and the investment opportunity set within the CQS portfolio being too restrictive to protect the sub fund adequately in all market events. LCIV believes a more diversified opportunity set across the credit spectrum would result in an improved risk/return profile for the fund.

3.2 Through a manager selection process, the LCIV has aimed to select a manager which complements the existing holdings and would result in the fund being better equipped to meet its objectives by investing in a broader range of credit asset classes. Alongside this, the LCIV has sought to select a strategy which would reduce management fees and improve ESG credentials.

4. MANAGER SELECTION PROCESS

4.1 As part of the manager selection process, the LCIV compiled a long list of managers, which was reduced through a series of quantitative screening, due diligence, questionnaires, interviews and clarification questions. Further details on the management selection process can be found within Appendix 1.

4.2 Following this process, LCIV has selected a second manager, as detailed in Appendix 1, with a focus on higher credit quality with key exposures to investment grade, high yield and emerging market debt. This second manager has historically achieved above the benchmark of LIBOR + 4-5%, but with 25% less volatility than the existing fund.

4.3 Each manager will be allocated a 50% holding within the fund, with rebalancing to be done on a mechanistic basis when a 10% deviation is triggered.

5 RECOMMENDATIONS AND NEXT STEPS

5.1 The London CIV will continue to engage with client funds and collate feedback by June 2021. Following this, the proposal will be taken to the Executive and Investment Committees for consideration. Final contract negotiations and updates to the LCIV ACS prospectus will take place before FCA approval.

5.2 The Committee is recommended to maintain its existing investment within the LCIV MAC sub fund, with the proposal of a second complementing manager to be approved.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

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BACKGROUND PAPERS:

None

APPENDICES:

Appendix 1 - LCIV Second Manager Selection Process (Exempt)
Appendix 2 - Deloitte CQS MAC Update (Exempt)