



City of Westminster

Committee Report

Decision Maker:	PENSION FUND COMMITTEE
Date:	16 December 2021
Classification:	Public (Appendix 2 is exempt)
Title:	London CIV Absolute Return Fund
Wards Affected:	None
Policy Context:	Effective control over Council Activities
Financial Summary:	There are no immediate financial implications arising from this report.
Report of:	Phil Triggs <i>Tri-Borough Director of Treasury and Pensions</i> pdriggs@westminster.gov.uk 020 7641 4136

1 EXECUTIVE SUMMARY

- 1.1 This paper provides the Pension Fund Committee with a summary of the London CIV Absolute Return Fund, with recommendations for the effective management of cash/equivalents and delivering returns in excess of inflation.

2 RECOMMENDATION

- 2.1 The Pension Fund Committee is requested to:
- note the key details of the London CIV Absolute Return Fund (see Appendix 1 for the fund fact sheet); and
 - approve a £50m allocation to be funded by the sale of the Longview Equity mandate.

3 BACKGROUND

- 3.1 The Pension Fund currently has £25m in cash held with the global custodian, Northern Trust, and £50m sitting within the Northern Trust ESG Ultra Short Duration Bond Fund.

- 3.2 Cash deposits at custody currently attract a nominal interest rate of 0.0% on sterling balances, and it is worthwhile noting that the Fund is expecting another £30.5m in deficit recovery lump sums before 31 March 2022.
- 3.3 It is estimated that circa £105m will be needed to finance future capital calls within the infrastructure mandates, depending on currency movements, and a further circa £100m is earmarked for the new allocation to affordable and social supported housing. It should be acknowledged that capital call timings can be difficult to estimate. However, it is anticipated that the infrastructure funds will be fully drawn by 2024.
- 3.4 Therefore, it is expected that redemptions within the overweight allocation to equities will need to be executed in the near future. Given that Longview is no longer on Deloitte’s list of rated managers, and the decision to sell down this mandate has already been taken, it is recommended that this strategy (£77m) be transitioned to cash/equivalents.
- 3.5 The Consumer Prices Index (CPI) rose by 4.2% in the 12 months to October 2021, up from 3.1% in September 2021. To hedge against this high inflation risk it is proposed that the Committee explores the London CIV Absolute Return offering.

4 PROPOSAL

- 4.1 The London CIV Absolute Return Fund is managed by Ruffer and is a multi-asset fund which aims to deliver returns in excess of inflation with low volatility, and to not lose investor money under any market conditions. The fund employs a broad range of asset classes, as well as the use of derivatives to hedge against specific risks. In general, the fund is expected to outperform during periods of market decline and underperform when markets are performing strongly.
- 4.2 As at 30 June 2021, the fund had a 38.7% allocation to equities, including exposures to emerging markets, 41.4% with government fixed deposits and 19.9% within alternatives. These alternatives include an allocation to cash and gold of 8.2% and 6.5% respectively, as well as exposure to hedge funds and stock options. The beta of the fund as at 30 June 2021 was 0.26, this indicates a significantly lower volatility than the market.
- 4.3 The table below details the key features of London CIV Absolute Return Fund.

London CIV Absolute Return Fund	
Fund Size	£1.1bn
Launch Date	June 2016
Fees (exempt)	Please see appendix 2
Investment Dealing Cut-off	5pm on T-1
Settlement Details	T+4

- 4.4 The fund is benchmarked against 1m LIBOR + 3% and has returned 6.7% since inception in June 2016, outperforming the benchmark by 3.3%. Over the quarter to 30 June 2021 the fund returned 0.7% and 14.3% over the one-year period, outperforming the benchmark by 11.2%.
- 4.5 The London CIV Absolute Return Fund offers liquidity of trade plus four working days and should allow sufficient time to meet requirements for emergency payments and short notice capital calls. Dealing takes place each working Wednesday and the last business day of each month. In the event that a Wednesday is not a business day for the Absolute Return Fund, such other day shall be agreed.

5 RECOMMENDED NEXT STEPS

- 5.1 The Committee is recommended to approve the sale of the residual £77m held within the Longview Global Equity mandate, given that the manager is no longer favourably rated by the investment advisor, Deloitte. It should, however, be recognised that the mandate has performed well over the last twelve months to 30 September 2021 returning 27.6% net of fees, so it would be an optimal time to cash in on the gains made.
- 5.2 In addition, it is recommended that the Committee approve a £50m allocation to the London CIV Absolute Return Fund to be held for a period of one year. This will allow the Fund to still have sufficient liquidity in cash assets to meet capital call obligations, asset rebalancing and also hedge against inflation for capital calls expected towards Q4 2022 and Q1 2023.

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: London CIV Absolute Return Fund Fact Sheet
Appendix 2: London CIV Absolute Return Fund Fees (exempt)