



Report of: **Corporate Director of Resources**

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	21 November 2017		

Delete as appropriate	Exempt	Non-exempt

SUBJECT: **The London CIV Update**

1. **Synopsis**

1.1 This is a report informing the committee of the progress made at the London CIV in launching funds and running of portfolios over the period July 2017 to October 2017.

2. **Recommendations**

2.1 To note the progress and news to October 2017 .

3. **Background**

3.1 **Setting up of the London CIV Fund**

Islington is one of 33 London local authorities who have become active participants in the CIV programme. The CIV has been constructed as a FCA regulated UK Authorised Contractual Scheme (ACS). The ACS is composed of two parts: the Operator and the Fund.

3.2 A limited liability company (London LGPS CIV Ltd) has been established, with each participating borough holding a nominal £1 share. The company is based in London Councils' building in Southwark Street. A branding exercise has taken place and the decision was taken to brand the company as 'London CIV.' The London CIV received its ACS authorisation in November 2015.

3.3 **Launching of the CIV**

It was noted that a pragmatic starting point was to analyse which Investment Managers (IM) boroughs were currently invested through, to look for commonality (i.e. more than one borough invested with the same IM in a largely similar mandate), and to discuss with boroughs and IMs which of these 'common'

mandates would be most appropriate to transition to the ACS fund for launch. Each mandate would become a separate, ring-fenced, sub-fund within the overall ACS fund. Boroughs would be able to move from one sub-fund to another relatively easily, but ring-fencing would prevent cross contamination between sub-funds.

- 3.3.1 Further discussions have been held with managers, focussing specifically on what would be achievable for launch, taking into account timing and transition complexities. Four managers have now been identified as offering potential opportunities for the launch of the CIV. These managers would provide the CIV with 9 sub-funds, covering just over £6bn of Borough assets and providing early opportunity to 20 boroughs. The sub-funds will consist of 6 'passive' equity sub-funds covering £4.2bn of assets, 2 Active Global Equity mandates covering £1.6bn and 1 Diversified Growth (or multi-asset) Fund covering just over £300m. Those boroughs that do not have an exact match across for launch are able to invest in these sub-funds from the outset at the reduced AMC rate that the CIV has negotiated with managers.
- 3.4 The Phase 1 launch was with Allianz our global equity manager and Ealing and Wandsworth are the 2 other boroughs who hold a similar mandate. The benefits of transfer include a reduction in basic fees and possible tax benefits because of the vehicle used. Members agreed to transfer our Allianz portfolio in Phase 1 launch that went ahead on 2 December.
- 3.5 **News in November**
- 3.5.1 **i) The Chief Executive Hugh Grover has stepped down and** Mr Hyde-Harrison has been appointed interim CEO. He was the chair of the National Association of Pension Funds (now the Pensions and Lifetime Savings Association) from 2011 to 2013. He was Head of Defined Contribution Strategy at consultancy Willis Towers Watson from 2013 to 2015. Prior to this he was with, the Barclays UK Retirement Fund, as Chief Investment Officer from 2002 to 2007, and Chief Executive from 2007 to 2012.
- ii)** Kevin Cullen has been appointed as the Clients Relationship Director (replacement to Jill Davys). His previous roles have been at UBS, State Street and most recently Insight.
- 3.6 Progress to October 2017 is highlighted below. The much detailed minutes and performance reports are available to Members if required and can be emailed directly.



LCIV QUARTERLY UPDATE – October 2017

1. This note is the latest quarterly update covering the progress and activity of London CIV. It has been drafted for SLT and Pension Manager colleagues and can be used, in whole or part, for inclusion in Committee papers if required. Key items this quarter are:

Investment Advisory Committee

2. The IAC has continued to meet on a monthly basis under the Chairmanship of Ian Williams. Minutes of the July, August and September meetings are attached for information, please contact Ian (ian.williams@hackney.gov.uk) with any queries.

Sub-funds available within the London CIV

Global equity funds:

- LCIV Global Equity Alpha (management delegated to Allianz)
- LCIV Global Alpha Growth (management delegated to Baillie Gifford)
- LCIV NW Global Equity (management delegated to Newton)
- LCIV LV Global Equity (management delegated to Longview)

UK equity fund:

- LCIV MJ UK Equity (management delegated to Majedie)

Multi-asset/ Total Return funds:

- LCIV BG DGF (direct investment into the Baillie Gifford Diversified Growth Fund)
 - LCIV NW RR (direct investment into Newton Real Return Fund)
 - LCIV PY TR (direct investment into Pyrford Real Return Fund)
 - LCIV RF AR (direct investment into Ruffer Absolute Return Fund)
3. All the funds are open for new subscriptions (except LCIV LV Global Equity) and LGPS Funds interested in making an investment should contact Monica Bell (monica.bell@londonciv.org.uk) in the first instance.
 4. Attached is a high level overview of the sub-funds in terms of size and performance to 30 September 2017.
 5. Quarterly oversight and monitoring reports for Q3 2017/18 are being prepared and will be circulated to Funds shortly. Once received, any queries against the reports should be directed to Chloe Crouch (chloe.crouch@londonciv.org.uk) who will ensure that the query is handled by the appropriate member of the LCIV team. Please note that the reports are confidential and should not be placed in public papers.
 6. Fund information sheets are available for the currently open funds through LCIV's new secure Client Portal, and on request for those funds not yet launched.

Sub-Fund Launches

7. Having launched the Longview fund there are three further equity sub-funds in the process of opening:
 - Henderson Emerging Markets: this fund has been awaiting 'market opening' in India, this has now been received and the fund is awaiting its seed investment (anticipated to be from LB Lambeth), after which the fund will be fully open and ready to receive further subscriptions.
 - Epoch Global Equity Income: this fund will open in November with LB Hillingdon as the seed investor.
 - RBC Sustainable Equity: this fund will open in December with LB Hackney as the seed investor.

Equity Strategies

8. A second global equity information day was held on 13 September (invitations were sent to Pensions Sectoral Joint Committee (PSJC) Members, Treasurers and Pension Managers). This provided Funds with a further opportunity to meet with Henderson, Epoch and RBC. Attendance was disappointingly low, which is perhaps an indication that September is not a good month for such events, although feedback was overall very positive.
9. With Rob Hall now on-board as LCIV's Head of Equities, further consideration is being given to the final range of equity sub-funds that will be available through LCIV. This will be discussed with colleagues in the Equity Working Group and the Investment Advisory Committee (IAC) before being put to the PSJC and disseminated more widely. Current indications are that there is significant appetite for core and low carbon funds, and LCIV is finalising plans for opening suitable sub-funds.

Fixed Income and Cashflow Strategies

10. Larissa Benbow (LCIV's Head of Fixed Income) is continuing to work on Fixed Income (FI) and will be discussing (1) investment fund design based on LLA priorities established during 1-2-1 meetings and (2) preferred manager list with the FI Working Group and the IAC. It is hoped that the FIWG will have a presentation from the short listed Liquid managers in the first week of December with the Board to sign off the final selection the following week.
11. It is planned to get the first (more liquid) FI products open early in the New Year with more to follow as soon as possible thereafter. These funds will include; Global Bonds, Liquid Loans and Multi Asset Credit (Liquid).
12. The more illiquid Fixed Income products require LCIV to go to the FCA for an extension of permissions, which in turn requires the agreement of all shareholders. The proposal for this has been sent to all Shareholder Representatives (nominated Member from each authority). It is important to receive the agreement as soon as possible as the FCA takes up to three months to process the application.

Infrastructure

13. LCIV now have an internal resource dedicated to building infrastructure products to be offered on the pool; Ryan Smart, Investment Analyst at LCIV is running with the project and will set out the medium-term strategy in the coming months. Ryan, since taking on the role six weeks ago, has been gathering intelligence by meeting with a range of fund managers, placement agents, advisors and other institutional investors within the asset class.
14. LCIV hosted the first Infrastructure working group at the end of September at which several boroughs looking to get immediate exposure to the asset class were in attendance. From the meeting it was agreed that the LCIV would look to launch a global, unlisted, income focused fund that concentrated on core/core-plus assets. As a result the LCIV are now scoping out the universe and will report back with their findings to the group.

London CIV Budget and Medium Term Financial Strategy

15. Regular reporting on progress against the budget and targets in the Medium Term Financial Strategy is being provided to the PSJC and a copy of the report that went to the September meeting can be found here: <http://www.londoncouncils.gov.uk/node/32241>.

Recruitment

16. Since the last quarterly update Rob Hall and Charlotte Hamilton have joined the LCIV team as Head of Equities and Fund Accountant respectively. In addition Tony Lambert has been engaged as Interim Director of HR to finalise LCIV's HR systems and processes and to support the recruiting programme.
17. LCIV continues to be actively recruiting to a number of roles across the organisation including Chief Risk Officer, Clients Relations Director, and Investment Team Assistant.

Events

18. Three events have been run in the last quarter; a MiFID II and Code of Transparency seminar for officer colleagues, a low carbon workshop open to officers and Members, and the global equities 'meet the manager' session mentioned above. All three were very successful and the feedback results for the first two are attached for information.
19. Forthcoming events include, an Infrastructure Seminar, and Property Seminar, both for officers and Members. Invitations to these events will be sent in due course, but feedback or suggestions for future topics are welcome; please email chloe.crouch@londonciv.org.uk with your thoughts.
20. On 31 October the first Low Carbon Members Working Group meeting will be held to further explore what products will be made available in this area.

MiFID II Opt-up Process

21. The process for opting-up Funds from Retail to Professional status ahead of the January deadline is well under way with 21 already having submitted the necessary paperwork for assessment.

22. It is vital that all London Funds have gone through the process, not just with LCIV but with all their managers, before the 3 January deadline or they will be classified as retail clients leading to significant restrictions in what fund managers are able to provide to authorities by way of investment products. Template paperwork can be found on the [Scheme Advisory Board website](http://www.lgpsboard.org/index.php/schemedata/mifidii) (<http://www.lgpsboard.org/index.php/schemedata/mifidii>).

Governance Review of the CIV

23. Following a procurement exercise Willis Towers Watson have been appointed to run the governance review. A survey has been sent to over 100 'stakeholders' and so far over 50 responses have been received.
24. Workshops and follow up discussion will be taking place over the next few weeks with a view to having findings and recommendations ready for review, discussion and finalisation before Christmas.

Future Updates on Progress

25. We hope this provides useful information on what both the CIV and the Investment Advisory Committee are working on, but if you have any comments or would like us to cover specific items in more detail, please contact either of us or email chloe.crouch@londonciv.org.uk

Ian Williams Chair, CIV Investment Advisory Committee

Hugh Grover, London CIV CEO

3.7 **CIV Financial Implications- Implementation and running cost**

A total of 75,000 was contributed by, each London Borough, including Islington, towards the setting up and receiving FCA authorisation to operate between 2013 to 2015. All participating boroughs also agreed to pay £150,000 to the London CIV to subscribe for 150,000 non-voting redeemable shares of £1 each as the capital of the Company. After the legal formation of the London CIV in October 2015, there is an agreed annual £25,000 running cost invoice for each financial year ..

The transfer of our Allianz managed equities to the CIV in December 2015 was achieved at a transfer cost of £7,241.

All sub-funds investors pay a management fee of .050% of AUM to the London CIV in addition to managers' fees.

In April 2017 a service charge of 50k (+VAT) development funding was invoiced and a balance of £25k will be raised in December once the Joint Committee has reviewed the in-year budget.

Members agreed to the 0.005% of AUM option for charging fees on the LGIM passive funds that are held outside of the CIV and agreed that (depending on the outcome of discussions) the same will be applied to BlackRock passive funds.

The Newton transition cost the council 32k.

4. **Implications**

4.1 **Financial implications:**

4.1.1 Fund management and administration fees are charged directly to the pension fund.

4.2 **Legal Implications:**

4.2.1 The Council, as the administering authority for the pension fund may appoint investment managers to manage and invest an equity portfolio on its behalf (Regulation 8(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended)).

4.2.2 The Council is able to invest fund money in a London CIV fund asset without undertaking a competitive procurement exercise because of the exemption for public contracts between entities in the public sector (regulation 12 of the Public Contracts Regulations 2015). The conditions for the application of this exemption are satisfied as the London authorities exercise control over the CIV similar to that exercised over their own departments and CIV carries out the essential part of its activities (over 80%) with the controlling London boroughs.

4.3 **Environmental Implications:**

4.3.1 None specific to this report

4.4 **Resident Impact Assessment:**

4.4.1 The Council must, in carrying out its functions, have due regard to the need to eliminate unlawful discrimination and harassment and to promote equality of opportunity in relation to disability, race and gender and the need to take steps to take account of disabilities, even where that involves treating the disabled more favourably than others (section 49A Disability Discrimination Act 1995; section 71 Race Relations Act 1976; section 76A Sex Discrimination Act 1975."

An equalities impact assessment has not been conducted because this report is updating members on the implementation of a fund structure by external managers. There are therefore no specific equality implications arising from this report.

5. **Conclusion and reasons for recommendations**

- 5.1 The Council is a shareholder of the London CIV and has agreed in principle to pool assets when it is in line with its Fund strategy and will be beneficial to fund members and council tax payers. This is a report to allow Members to review progress at the London CIV. Members are asked to note progress made to October 2017.

Background papers:

Final report clearance:

Signed by:

Received by: Corporate Director of Resources Date

Head of Democratic Services Date

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