ISLINGTON

Finance Department
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Report of: **Corporate Director of Resources**

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	26 June 2018		

Delete as appropriate	Exempt	~~Non-exempt~~

Appendix A is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information relating to the financial or business affairs of any particular person (including the authority holding that information).

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, running of portfolios and reviewing governance and investment structure, over the period March to May 2018.

2. Recommendations

2.1 To note the progress and news to May 2018

2.2 To note and consider the Exempt Appendix A - letter from LCIV on the next phase of implementing the new governance structure, terms of reference and notice of dissolution of Pension CIV Sectoral Joint Committee.

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 **Update in June – following consultation on governance, client communication and investment structure**

3.5.1 The London CIV was formally established two and half years ago. Since then it has secured regulatory approval, established a team of 16 staff and by the end of this year will have brought £14bn of LLAs assets under LCIVs oversight. In the current year, there will be an annualised £6m of savings to the LLAs in management fees as a result of the work of the CIV. This puts the CIV some way ahead of the other pooled funds that are currently being established.

However the wider context has changed radically since London Councils took its decision to establish the CIV. In particular, the Government has decided that pooling should be mandatory across the country and have set an ambitious timetable for this to be progressed. The London CIV was very consciously set up as a voluntary scheme with the decisions on investment lying with the individual LLA pension funds.

3.5.2 In order to respond to this changed context and take stock of progress, a Governance review was undertaken last year jointly by LCIV, the Joint Committee (PSJC) overseeing the work of the CIV, and the LLA Treasurers. Willis Towers Watson was commissioned to lead the review and presented their final report to the Governance Review Steering Group in December.

The Towers Watson report pointed to the need to both clarify the purpose of the CIV and establish new governance arrangements that reflected this purpose. At present, the CIV is reporting to multiple different stakeholders in a complex way with the risk that none of them feel entirely satisfied with their ability to influence it. The report also recommended that the CIV strengthen its capacity to engage with individual LLAs.

3.5.3 **New Governance Structure**

The shareholder Governance of the London CIV will now move to the revised meeting structure of two General Meetings and Quarterly Shareholder Meetings in line with the Terms of Reference and this sectoral joint committee of London Councils is dissolved with the written agreement of all the participating local authorities all being shareholders in the London CIV.

3.5.4 A joint letter from LCIV and London Councils attached as Exempt Appendix A, updates you on the new governance framework for London CIV to be implemented from 12 July 2018 onwards. The letter seeks support in moving to the next phase of formally implementing the changes to the governance of the London CIV that have been previously discussed.

Key points to highlight are:

- confirmation of the new arrangements at the AGM on 12 July 2018 and the transition to new arrangements starting with the September Board and Shareholder Committee meetings and approval of the next financial and business plan at the January Shareholder General meeting.
- ratification of the appointment of two new Non-Executive Directors, a Treasurer Observer, and members of the Shareholder Committee at the 12 July 2018 AGM.
- signing of the written notice revoking the delegation to the joint sectoral committee (the Pensions CIV Sectoral Joint Committee)

At the next AGM of the London CIV the Chairs, Directors and members would be confirmed.

3.5.5 To complement the new shareholder governance arrangements set out in the letter, there will be an improved framework for client services, informed by shareholder consultation, including a Service Level Agreement and programme of events for clients collectively.

3.6 Members are asked to note the progress to date on review consultation and consider the implementation of the new governance structure.

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.
In a April 2018 annual service charge of 25k (+VAT) and 65k (split 43.3k and16.6k) development fund was invoiced to all members

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.
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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 and note and consider the current implementation of the new governance structure, and client communication

Background papers:
Final report clearance:

Signed by:

Corporate Director of Resources Date

Received by:

Head of Democratic Services Date

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