



Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	25 March 2019		

Delete as appropriate	Exempt	Non-exempt
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Appendix 2 attached is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information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 December to March 2019.

2. Recommendations

- 2.1 To note the progress and news to March 2019 including minutes from the shareholder meeting held in January Appendix 1 and the new briefing Collective Voice attached as Appendix 2 (private and confidential)

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 to March 2019**

3.5.1 The Annual Shareholder meeting was held on 31 January 2019 and minutes are attached as Appendix 1 some of the major resolutions agreed were:

The Resolution 4

a) That the General Meeting approve the change in the definition of the purpose of the Company set out in Clause 2.1 of the Shareholder Agreement from the Current wording " The business of the Company shall (unless and until otherwise determined in accordance with this Agreement) be confined to acting as the FCA authorised operator of an ACS to provide a collaborative platform through which the Administering Authorities of the LGPS funds can aggregate their pension monies and other investments.

The Company will be branded as "London CIV" to the

Proposed wording " The business of the Company shall (unless and until otherwise determined in accordance with this Agreement) be confined to acting as the FCA1 authorised company to provide a collaborative platform through which the Administering Authorities of the LGPS funds can aggregate their pension monies and other investments. The Company will be branded as "London CIV".and approves the small amendments to the "Definitions" section

3.5.2 The MTFs (medium term financial strategy) was agreed and the Objectives and KPI's are listed below:

2019-2020 Objectives and KPIs

Objectives	KPIs
Work in partnership with our shareholders to achieve the company's purpose and vision	Shareholder support of MTFs and change in business purpose
Generate value for LLAs through pooling of their	Generate value for LLAs through pooling of their

pension assets in line with the value proposition	pension assets <ul style="list-style-type: none"> • Increase gross / net savings year on year • £21.1bn AUM (£11.1bn in LCIV funds and £10bn in passives)
Provide a product portfolio and pooling structure which enable LLAs to meet their investment needs and pooling requirements	<ul style="list-style-type: none"> • Deliver fund launch plan • Expand pooling structures • 32 LLA pooling plans obtained and incorporated into LCIV 2020 MTFS
Establish a transparent and trust-based relationship with our clients and work jointly to deliver LLA pooling plans	<ul style="list-style-type: none"> • SLAs agreed with 32 LLAs • Quarterly meetings held with 32 clients • Improved client satisfaction survey results
Maintain effective financial controls; ensure financial stability securing the company's capital base to meet regulatory capital requirements and ability to offer a broad range of products and pooling structures	Sufficient Regulatory Capital
Maintain a robust governance framework and a regulatory compliant and risk-controlled operating environment ensuring current and new regulation, laws and standards are adhered to	No material regulatory, audit or depositary findings
Establish and maintain a cost-effective operating model ensuring data integrity, scalable systems and cost efficiencies	Deliver on budget
Build a client and shareholder focused, collaborative work environment supported by a remuneration policy which attracts, retains and develops talented individuals	32 Staff by March 2020

3.5.3 The LCIV now publish a monthly news bulletin called the Collective Voice- a copy attached for information as Appendix 2 (private and confidential). Highlights include; the investment forum agenda for London Local authorities scheduled on 8th March, proposed fund launch plan, investment funds and people news.

3.6 **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..

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

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 and 16.6k) 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.

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 the progress to date.

Background papers:

Final report clearance:

Signed by:

Received by: Corporate Director of Resources Date

Head of Democratic Services Date

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