

## London CIV General Meeting 31 January 2019

In the interests of good communication this note summarises the decisions made at the 31 January 2019 London CIV General Meeting, together with next steps. The draft minutes will be circulated in due course.

The London CIV Chair and the Shareholder Committee Chair who chaired the meeting both thanked shareholders for their support for London CIV during the last six months and this report is an opportunity to repeat those thanks.

### In summary

*There were two main items of business. The change to the legal definition of London CIV's business purpose was **agreed by a show of hands**. This now requires written approval from all London Local Authorities (LLAs) to become binding on shareholders. The annual budget which is set out in the Medium -Term Financial Strategy (MTFS) was also **approved**. The budget includes business objectives and prospective business for the year April 2019 to March 2020.*

*Mike O'Donnell has been appointed permanent CEO, subject to FCA approval starting in early March. Mark Hyde-Harrison stays until the end of March to ensure a smooth handover. Lord Kerlake took the opportunity of the meeting to express his gratitude to Mark for his contribution to London CIV, moving it forward to a better place including a new governance framework, a clear strategic framework, and working with the team to deliver some challenging objectives.*

### CEO and Chair's report

The CEO and London CIV Chair reported on performance against the Medium- Term Financial Strategy and key issues facing London CIV to ensure that the product offer and services provided by London CIV meet borough's expectations.

Key highlights are:

- Ongoing **work to implement the new governance framework changes, including through the work of the Shareholder Committee** which has met twice with Cllr Yvonne Johnson as Chair. A report is circulated to all Shareholders following each meeting. The effectiveness of the new governance framework will be reviewed in the Autumn of 2019, taking account of the new MHCLG guidance.
- We are working to strengthen our **client relationship engagement**, including regular meetings with individual LLAs, and events for LLAs collectively. We expect to finalise the Service Level Agreement (SLA) such that LLAs sign up to the agreement during 2019 and plan to undertake a client satisfaction survey during 2019.
- We **expect to hit most KPIs in the current budget year**. LLA decision-making and asset transfer timescales mean that the active AUM target is less certain. However, taking passive and active funds together the 50% assets pooled by 31 March 2019 milestone is potentially achievable. It was noted that the revised AUM target at the end of March 2019 of £8.6bn on the ACS may not be met due to a combination of market move and a slower rate of transitions.
- **Five fund launches**: the LCIV Global Bond Fund (PIMCO) launched on 30 November. Our LCIV Infrastructure and LCIV Private Debt Funds are due to launch in the first months of 2019. Our LCIV Global Equity fund and LCIV Inflation Plus Fund proposals will soon be circulated to LLAs for feedback prior to submission to the FCA for approval.
- Work is in progress to achieve signature of **Pension Recharge and Guarantee Agreements**.
- Ongoing work to develop the **Responsible Investment** programme of activity and implement the Responsible Investment policy ratified in October 2018 following endorsement by the Shareholder Committee. The Responsible Investment annual report will be discussed at a Shareholder Committee Autumn 2019 meeting.

## Financial Performance Update

In the six months to end of September 2018 the Company delivered a profit before tax for the period of **£470k** compared to the MTFS of **£313k**. The updated forecast for the full year is a profit before tax of **£342k** vs the MTFS equivalent of **£468k**.

AUM on the ACS has risen from **£6.2bn to £7.6bn** in the period despite outflows of over £791m moving off the ACS (principally from the Allianz fund). However, the year-end AUM forecast to March 2019 has been revised down from **£9.8bn to £8.6bn** for assets on the ACS/EUUT. AUM as at 27 November 2018 was **£7.46bn**. Passive assets (LGIM/Blackrock) have increased over the period from **£8.4bn to £9.7bn**.

The forecast shortfall in AUM has resulted in a reduction in fee income of £349k. However, expenses are forecast to be lower than budgeted due to timing differences on hiring staff and the timing of the implementation of the investment and risk management system.

The capital adequacy position of the Company remains satisfactory at the end of the period and the forecast to the end of the year based on the existing business model. The balance of the DFC invoiced in January turned LCIV from a loss to a profit in the current financial year demonstrating how important the DFC remains for the company as an income source.

## Change in Business Purpose Definition

The General Meeting **agreed** to change the definition of business purpose in clause 2 of the Shareholder Agreement to read

*The business of the Company shall (unless and until otherwise determined in accordance with this Agreement) be confined to acting as the FCA 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".*

The words "the FCA authorised company" replace the phrase "the FCA authorised operator of an ACS".

The **next step** is for **all** LLAs to sign the letter agreeing to the change. Some have already done so, either on the day or in response to the letter circulated immediately after the meeting. It would be helpful to know the authorisation and signature arrangements for each LLA. We are compiling a summary which we hope will assist all LLAs in signing off approvals going forward.

## Annual Budget and Business Plan 2019/20 (and Medium-Term Financial Strategy)

The Annual Budget includes 8 key business objectives (each with one or more KPIs) and a summary of prospective business. It is set in the context of a rolling five- year Medium Term Financial Strategy (MTFS). Together with the financial plan the key objectives are the basis for in-year performance monitoring by the Board and reporting to the Shareholder Committee and General Meetings.

A key theme is the importance of partnership and collaboration between London CIV and its client shareholder LLAs; and between LLAs collectively in order to achieve the success and sustainability of London CIV as a joint undertaking.

The Annual Budget, including the business objectives and outline of business for the year 2019/20 was **approved, following approval by the Board**.

The 2017/2018 governance review recommended that London CIV refresh its purpose and vision statements to provide a clear strategic framework, clarity of purpose and direction. The updated purpose and vision statements are:

*Our purpose for the company is “to be the LGPS pool for London to enable the London Local Authorities to achieve their pooling requirements”.*

*Beyond our practical purpose to deliver pooling London CIV aspires to be “a best in class asset pool that delivers value for Londoners”.*

The MTFS contains 8 key objectives for 2019-2020, each with one or more KPIs. Together with the financial plan these key objectives are the basis for in-year performance monitoring by the Board and reporting to the Shareholder Committee and General Meetings. Individual sections of the MTFS detail key operational deliverables which are monitored by ExCo and the Board with high level updates in the CEO report to the Shareholder Committee, which is available to all Shareholders

- We are working with LLAs to understand their pooling plans and how these can be delivered to achieve maximum pooling at the earliest date for the benefit of all LLAs. Delivering pooling is not **only** dependent on fund launches, but is also driven by strategic asset allocation changes, manager rotations and movement from off-LCIV to on London CIV Funds
- The MTFS includes a **provisional** fund programme which will be reviewed and prioritised on an iterative basis informed by feedback from LLAs about their Strategic Asset Allocations and specific fund proposals. The programme, prioritisation and timing of fund launches is based on ongoing quantitative and qualitative feedback from LLAs, together with LLA decisions such as seed-funding and off-pool investment.
- The business governance framework focuses on **ways of pooling, recognising that LLAs require flexibility**. Originally, London CIV provided a vehicle for collaboration using an ACS and structures appropriate to liquid funds. Subsequently this has been extended to include structures more appropriate to illiquid funds. The ability to use IMAs as a vehicle for pooling is key to achieving full pooling. It will enable us to offer transition management services, provide oversight of passives and other assets, and potentially offer other services.
- Recruiting **skilled staff** is essential to achieve our objectives and we aim to find ways to collaborate with LLAs to recruit, exchange and develop staff to improve our capability to deliver pooling. The 2018 Governance Review pointed to the need to improve resourcing “substantially below adequate levels”, recognising the tension inherent in funding a business at the development stage. The phased increase in staff resources to 36 has been sense checked by NEDs against other pools allowing for differences in operating models. It is pitched at a level to deliver the services of an FCA authorised LGPS pool investment oversight company, in the expectation that pools will be under MHCLG scrutiny and mindful of the challenge for all LLAs where investment is made against a backdrop of cost challenges. The Board is committed to a comprehensive review of the Remuneration Policy, including the Pension Scheme.

There was one vote against the budget at the meeting. Cllr Keith Onslow Shareholder Representative for Bromley expressed a number of concerns, including about the level of staff resources, and suggested that rather than approve the budget the incoming CEO should be requested to undertake a review.

The **next step** is to deliver the business plan and objectives agreed for 2019/20 within the agreed budget. This will be kept under review by the Board and the Shareholder Committee, through the quarterly CEO report which includes delivery against the key objectives measured by agreed KPIs. The plan also identifies key risks to be monitored and managed.

In response to the request at the meeting, we have subsequently asked the Depository if it would permit its annual due diligence reports to be shared with shareholders. as part of the suite of regular reporting to Shareholders. The Depository has not agreed to the request, but confirmed that LCIV could summarise any findings and report on this to shareholders. Additionally, if of assistance the Depository would be happy to present to a shareholder meeting to discuss its role and oversight duties.

In response to a question about the cost of data feeds in the budget it was explained that this budget line covered a number of investment oversight information requirements (more detailed information was provided outside the meeting and is available on request).

## Remuneration and Nomination Matters

This information report was **noted**.

The Board is committed to a **comprehensive review of the Remuneration Policy**, including the Pension Scheme arrangements in 2019/20.

London CIV's current AIFMD remuneration policy and annual remuneration statement is published in the annual Authorised Contractual Scheme Financial Statements. In late 2018, following a review of the Pension Scheme, access to the LGPS scheme was capped to those paid under £120,000. Any further changes to the pension scheme arrangements require the Pension Recharge agreement to be signed for financial stability reasons and to conclude the set-up of the LGPS scheme, including the Admission Agreement and Guarantee Agreement which would should have been finalised in 2015.

The current composition of the Board is shown at the end of this report. All directors are approved by the FCA. The Remuneration and Nomination Committee holds its next formal meeting in March 2019. The meeting cycle will include (re) appointments to the board for terms expiring in the period March to September 2019.

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### Current members of the Board

(biographical information available at [www.londonciv.org.uk](http://www.londonciv.org.uk))

Lord Robert (Bob) Kerslake (Chair, NED) from Sept 2015 (four-year term ends Sept 2019)

Cllr Stephen Alambritis from Sept 2018 (three-year term ends Sept 2021)

Chris Bilisland (Chair Investment Oversight Committee, NED) from Sept 2015 (second three-year term ends Sept 2021)

Carolan Dobson (NED) from March 2016 (three-year term ends March 2019)

Cllr Ravi Govindia CBE from Sept 2018 (three-year term ends Sept 2021)

Eric Mackay (Chair Audit, Risk and Compliance Committee, NED and Chair RemNomCo) from Nov 2015 second three-year terms ends Nov 2021)

Paul Niven (NED) from 1 Sept 2017 (three-year term ends Sept 2020)

Linda Selman (NED) from 1 Sept 2017 (three-year term ends Sept 2020)

Mark Hyde-Harrison (Chief Executive Officer)

Brian Lee (Chief Operating Officer with responsibilities as Chief Finance Officer and Chief Compliance Officer)

The Chief Investment Officer is expected to be a Board member

In addition, Ian Williams is appointed as Treasurer Observer but is not a Non-Executive Director.

All Directors are FCA approved.