ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	10 September 2019		

Delete as appropriate	Exempt	Non-exempt

Appendix 1 is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information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 June to August 2019.

2. Recommendations

2.1 To note the letter from LCIV on the remuneration policy review attached as Appendix 1(private and confidentional)

2.2 To note the progress and news to August 2019 in the news 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 August 2019**

3.5.1 **Fund launch timeline**

The LCIV Global Equity Core Fund and the LCIV Private Debt Fund have both been approved by the FCA and are now open for subscription. The LCIV Infrastructure Fund was submitted to the FCA last week and we expect it will be open for subscriptions in early September. This means their next steps involve moving forward with the LCIV Liquid Loans Fund and the LCIV Inflation Plus Fund.

3.5.2 **London CIV Remuneration Policy Review for Information**

This is an update on the Board's proposed way forward in respect of the London CIV staff pension scheme and seeks shareholders views before the Board formally agrees the way forward at its 2nd October meeting.

3.5.2.1 Progress to date

The Board committed to a review of London CIV's Remuneration Policy in the 2019/20 MTFS and budget. A Remuneration and Nomination Committee sub-group reported to the Board on 8 July and the Shareholder Committee provided its feedback on 18 July 2019 informed by a detailed report (available for circulation to members only if required)
The Remuneration Policy review recognises the challenges of recruiting and retaining specialist staff and also shareholder concerns about the liabilities represented by the pension scheme which were raised several times in the process of seeking signature of the pension guarantee agreements.

The Board's proposed way forward following the 8 July 2019 meeting in respect of the pension scheme was to:
• recognise that continuing with the status quo is unlikely to be appropriate in the longer term
• keep the LGPS for existing staff and close it to new hires
• recognise that to make the package competitive to new hires (given our current remuneration package) we will need to offer higher salaries (or a combination of a DC scheme and higher salary)
• explore the options for an appropriate DC scheme in more detail, bearing in mind that the current DC scheme is a "basic" NEST auto-enrolment scheme.
• complete the outstanding formal processes of setting up the LGPS scheme begun in 2015.This requires boroughs to sign the existing guarantee agreement so that the Admission Agreement can be signed. This must be done before the scheme can be closed to new entrants.

As regards the overall remuneration package the review showed that the policy needs updating to ensure that it provides a framework which is sufficiently competitive to meet its objectives of recruiting, retaining and developing the talented staff required to deliver London CIV's plans for the future. This includes providing the CEO with delegated authority to make targeted increases (within agreed budgets) where this is justified by roles and responsibilities, the benchmarking exercise and business requirements. Reponses to the questionnaire is expected by 16th September 2019.

3.5.4 A copy of the letter with a questionnaire is attached as Appendix 1(private and confidential) Members should note that officers will complete the questionnaire but will only sign the guarantee subject to the Admission Agreement being amended to reflect the review.

3.5.5 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 new fund launch, breadth of information on the recent happenings at LCIV, including a write up of the AGM's key discussions covering strategy.

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 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 and £21.6k) development fund was invoiced to all members.
In April 2019 annual service charge of£ 25k(+VAT) and£ 65k(split £43.3k and £21.6k) was invoiced

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 the progress to date.

Background papers:

Final report clearance:

Signed by:

Corporate Director of Resources Date

Received by:

Head of Democratic Services Date

Report Author: Joana Marfoh
Tel: 0207-527-2382
Fax: 0207-527-2056
Email: joana.marfoh@islington.gov.uk