



Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	15 th September 2020		

Delete as appropriate	Exempt	Non-exempt
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Appendix 1 attached is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information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 June to August 2020

2. Recommendations

- 2.1 To note the progress and activities in the news briefing Collective Voice-August attached as Appendix 1 (private and confidential).
- 2.2 To note the Fee income funding model review and future consultations.

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 then global equity manager and Ealing and Wandsworth are the 2 other boroughs who held a similar mandate. The benefits of transfer included 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. This manager was terminated in July 2019.

3.5 **Update to August 2020**

3.5.1 **The LCIV Collective Voice**

The LCIV now publish a monthly news bulletin called the Collective Voice- a copy is attached for information as Appendix 1(private and confidential). Highlights include;the new fund launch, people , funding review, responsible investment, and events .

3.5.2 **Fee Income Funding Model Review**

In early July the LCIV began a review of how it is funded. This subsequently resulted in setting up of a Cost Transparency Working Group ("CTWG") formed of colleagues from Client Funds and London CIV to assist in this review. The CTWG is chaired by John Turnbull from Waltham Forest. As part of the process EY was engaged to assist and facilitate the discussions. Following dialogue with the CTWG, a questionnaire was sent to all Client Funds seeking feedback on the current funding model and suggestions on future funding model options.

In August two workshops moderated by EY were held with representatives from Client Funds to receive and discuss the feedback from the questionnaires. A number of funding model options were presented and debated. The status quo, fixed fees, variable fees and part fixed and part variable fees.

The next steps will be to present the feedback and funding model options to the Board and other key stakeholders such as the Shareholder Committee and SLT representatives. LCIV will then incorporate the preferred funding model option into the normal annual budget setting process which includes key stakeholder engagement in the latter part of this year, with formal approval of the annual budget being taken to shareholders at the General Meeting in January 2021.

3.5.3 **Responsible investment**

Following the responsible director Jacqueline Jackson commencement in June, The LCIV have become signatories of The Task Force on Climate Related Financial Disclosures ("TCFD"), ClimateAction100+ and Pensions for Purpose and are engaging with these initiatives to drive change and mitigate risk. Through a latest commitment to ClimateAction100+ the LCIV will work with Ceres and PRI to engage Pepsico, Rolls Royce and Martin Marietta Materials on issues including, water and health, conflict zones, transparency and climate change respectively .

The LCIV is also working and looks forward to sharing updated investment beliefs over the coming months. London CIV's Interim Statements on both our climate and stewardship policies t are aimed to be published this Autumn.

3.5.4 **Fund Launches and Pipeline**

The LCIV announced on 23 July that it had been agreed to appoint **a second MAC fund manager**. Discussions with all current MAC investors is planned for 3 September before a search commences. **LCIV Private debt** seeding investors group have agreed a fund structure and operational viability. The next process is to appoint an advisor to help with the procurement pprocess, the plan is to appoint a manger by Q1 2021. The renewable infrastructure fund is also progressing well and a manager appointment is expected around Q4 2020. Finally the **London Fund in collaboration with LPP** pool , is aiming to help in the establishment of a fund focused on investing primarily in the Greater London region, into three specific areas focusing on positive impact; Real Estate, for example Private Residential Sector ("PRS"); Infrastructure, for example electrical vehicle charging points; and Growth Capital i.e. investing in small/medium size companies whom display impact characteristics. Interest is being gathered from London authorities and further progress will be communicated.

3.5.6 **People**

Kevin Corrigan , the interim CIO has now left the LCIV . Kevin Cullen – client directos has also left and retired.

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.

In April 2020 annual service charge of 25k (+ VAT) and 8.6k for LGIM recharge.

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 and contribution to achieving a net zero carbon Islington by 2030:

4.3.1 None applicable to this report. Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is <https://www.islington.gov.uk/~media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughngtonpensionfundinvestmentstrategystatement.pdf>

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

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