ISLINGTON

Finance Department
7 Newington Barrow Way
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Report of: Corporate Director of Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	23rd March 2021		

Delete as appropriate	Exempt	Non-exempt

Appendices 1 and 1A attached are exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information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, reviewing governance and investment structure, over the period December 2020 to February 2021.

2. Recommendation

2.1 To note the progress and activities presented at the February business update session (exempt Appendix1) and news briefing Collective Voice-February attached as exempt Appendix 1A .

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 were held with managers, focussing specifically on what would be achievable for launch, taking into account timing and transition complexities. Four managers were identified as offering potential opportunities for the launch of the London CIV. These managers would provide the London CIV with 9 sub-funds, covering just over £6bn of Borough assets and providing early opportunity to 20 boroughs. The sub-funds consisted 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 did not have an exact match across for launch were able to invest in these sub-funds from the outset at the reduced AMC rate that the London 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 February 2021**

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 1A (confidential). Highlights include; appointment of non-executives, the new fund launch and timeline, people, funding review, responsible investment and events .

3.5.2 **The Business Update**

As part of improved communication strategy, the LCIV have been holding regular monthly business update meetings for shareholders and investment advisors and consultants. The presentation pack is attached as exempt Appendix 1. It covers in more detail investment updates, people and governance. The sessions include opportunities to ask questions. Some of the topics discussed are summarised below.

3.5.3 **Responsible Investment**

Recent collaboration undertaken by the LCIV include, joining the City of Westminster Pension Fund Committee in the ShareAction initiative: Healthy Markets Coalition. In light of the inequalities exposed by Covid-19, human rights and health have become key themes of our engagement activities and they are committed to supporting this agenda. London CIV also joined CCLA and many others from the investment community in engaging with Compass Group on improving nutritional standards in schools. To further improve our engagement approach and outcomes, they are conducting a procurement process for Voting & Engagement services which will conclude in the first quarter of 2021.

3.5.4 **Fund Launches and Pipeline**

London CIV has continued to make progress in several key areas. This progress has been supported by a multitude of meetings and engagement opportunities, and three Seed Investor Groups (SIG) focusing on mandates for Private Debt, Renewable Infrastructure and The London Fund. All these sessions are well attended and gather important feedback from a range of key stakeholders.

The London Fund a partnership with the Local Pensions Patnership, London Pensions Fund Authority and LCIV was launched in December2020 with in initial commitment of £100m.

The four managers proposed by the LCIV for **The Renewable Energy Infrastructure Fund** are now subject to oversight due diligence and commercials, with a fund launch by March 2021. The **Private debt** mandate is aslo now subject to oversight due diligence and commercials for the two managers proposed, and LCIV are targeting a March 2021 launch.

3.5.5 **People**

The LCIV are recruiting two further positions to the team and additionally a Chair, to replace Lord Bob Kerslake, whose term comes to an end in September 2021. The two posotions are an Investment Manager to lead and manage the development of Equity products and drive the related procurement and selection process of managers in this space; and an Assistant Accountant to support the Operations Team in producing financial and management reporting and accounts.

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 charge 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 0.050% of AUM to the London CIV in addition to a 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 April 2018 an annual service charge of £25k (+VAT) and £65k (split £43.3k and £21.6k) development fund was invoiced to all members.
In April 2019 an annual service charge of £25k (+VAT) and £65k (split £43.3k and £21.6k) was invoiced.
In April 2020 an annual service charge of £25k (+ VAT) and £8.6k for LGIM recharge was invoiced and a final installment development charge of £84k (+VAT) was received in January 2021.

4. Implications

4.1 **Financial implications:**

4.1.1 Fund management and administration fees are charged directly to the pension fund. This paper discusses specific financial implications which are relevant.

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/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.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 recommendation

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. Exempt Appendices 1 and 1A are attached for information.

Final report clearance:

Signed by:

Corporate Director of Resources Date 15 March 2021

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