ISLINGTON

Finance Department
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Report of: Corporate Director of Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	23rd November 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Appendices 1 and 1A attached are exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information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 August to September 2021.

2. Recommendations

2.1 To note the progress and activities presented at the September business update session (exempt Appendix1) and news briefing Collective Voice-September 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 London CIV programme. The London 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 registered address is 4th Floor, 22 Lavington Street, London, SE1 0NZ. 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 September 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; the new fund launches, , monitoring and governance, timeline, people, responsible investment and events .

The Business Update

3.5.2 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, governance and responsible investment actions to date. The sessions include opportunities to ask questions. Some of the topics discussed are summarised below.

3.5.3 **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 Seed Investor Groups (SIG) focusing on mandates. Funds in the pipeline include a second MAC fund, and a Sterling Credit Fund. The Passive Equity Paris Aligned Global Equity Fund has now received FCA approval and was scheduled for launch by end of October with commitments from Havering and Lewisham boroughs.

3.5.4 **Net Zero Strategy**

The London CIV has made a commitment to become a Net-Zero company by 2040 in line with the Paris Agreement objectives to limit global temperature rise below 1.5°C. The interim targets set include reducing the carbon intensity of the Pool's investments by 35% by 2025 (relative to 2020), and 60% by 2030 across funds invested via the London CIV ACS, EUUT and SLP and become a Net-Zero company across operational and supply chain emissions by 2025.

3.3.5 **Operational and People**

London CIV have appointed a Head of Public markets; Rob Treich (ex Coal Pension Trustee, Mercers and Mellon Bank) joined the team on 6 September 2021. Vanessa Shia, Head of Private Markets returned from maternity leave. Jacqueline Jackson, Head of Responsible Investment, will be on maternity leave from November. A Head of Public Funds Accounting, commenced employment on 26 October 2021, and also a Senior Fund Accountant to focus specifically on Private Markets, commences employment on 1 November 2021. Two leavers are Paul Tenconi, Company Secretariat and Governance Manager and Jessica Amaro, client relations officer.

Regulatory Capital

3.3.6 The FCA have recently reviewed the London CIV as part of their application for additional regulatory permissions and raised the following observations ;

i) The FCA have indicated that the A and B shares as described in the Articles of Association and Shareholder Agreement do not meet their definition of regulatory capital
ii) In particular, the way the documents describe the mechanism to buy back (redeem) the B shares in the unlikely event that a shareholder wished to exit London CIV, do not meet the permanent capital requirement.
iii) Furthermore, the redemption characteristic means that under accounting standard FRS102 the shares have been classified as debt rather than equity in the LCIV accounts since 2016.

The required changes can be summarised as follows:

i) The changes seek to address the issues raised by the FCA and their view that the B shares do not meet the definition of regulatory capital. The changes achieve this by removing reference to the redemption ability of A and B shares in the documents.
ii) These changes will result in the A and B shares being treated as equity not debt as confirmed by Deloitte, LCIVs external auditors.
iii) The revised documents still allow shareholders to ask the company to buy back shares but do not give the company an obligation to do so.

iv) The documents emphasise shareholders rights to agree between themselves to buy/sell shares in order to facilitate a shareholder exit.

- The action required is for all Shareholders to agree amendements to the Shareholder Agreement, and Articles of Association as well as any changes to the rights attached to shares. A detailed report was prepared by Corporate Director of Resources and agreed in accordance with urgency provisions in the Constitution (Part 3, Paragraph 8.9).

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.
The April 2021 invoices received totalled annual service charge of £25k (+ VAT) and DFC charge of £57k(+VAT).

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

Final report clearance:

Signed by:

Corporate Director of Resources Date

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