



**PENSION POLICY & INVESTMENT  
COMMITTEE**

Thursday, 21 November 2019 at 10.45 am  
Dugdale Centre Room 4

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## **PENSION POLICY & INVESTMENT COMMITTEE**

**Thursday, 21st November, 2019 at 10.45 am  
in the Dugdale Centre Room 4**

Dear All

### **To Follow Papers**

Please find attached the papers on the London Collective Investment Vehicle, marked as to follow on the agenda for the next meeting of the Pension, Policy and Investment Committee.

Appendices 3 and 4 available to members on request.

Yours faithfully

Penelope Williams

### **AGENDA – PART 1**

- 4. STANDING ITEMS (15 MINUTES) (Pages 1 - 48)**
  - 4.1 Risk Management Policy and Register
  - 4.2 Training and Policy Register
  - 4.3 London Collective Investment Vehicle (LCIV) (To Follow)
  - 4.4 Local Government Pension Scheme Update
  - 4.5 Employer Late Payments (To Follow)



## MUNICIPAL YEAR 2019/2020 REPORT NO. **155**

**MEETING TITLE AND DATE:**

Pension Policy & Investment Committee  
5<sup>th</sup> September 2019

**REPORT OF:**

Executive Director of Resources

Contact officer and telephone number:

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<b>Agenda – Part: 1</b>	<b>Item: 4c</b>
<b>Subject: London Collective Investment Vehicle (CIV) Update</b>	
<b>Wards: All</b>	
<b>Key Decision No:</b>	
<b>Cabinet Member consulted:</b>	

**1. EXECUTIVE SUMMARY**

- 1.1. This report provides an update and latest developments on London Collective Investment Vehicle (CIV) by covering:
- i) Governance Framework review;
  - ii) The Board's decisions about the London CIV staff pension scheme following the Remuneration Policy Review; and
  - iii) An update on existing and new fund developments.

**2. RECOMMENDATIONS****2.1. Members are recommended to:**

- i) note the content of this report;
- ii) consider and agree the Board's decisions about the London CIV staff pension scheme following the Remuneration Policy Review
- iii) delegate to the Executive Director of Resources, consulting with the Monitoring Officer, to review and agree suitable terms and conditions for the Enfield Pension Fund and the Council regarding the London CIV Remuneration Policy, London CIV Pension Cost Recharge Agreement and LCIV Pension Guarantee Agreement for the City of London; and
- iv) approve the agreements in part (iii) to be signed and forward to London CIV.

**3. BACKGROUND****Governance Review 2019**

- 3.1. The London CIV has 32 London borough pension funds including the City of London Corporation hence 32 shareholders, which is in contrast with other pools, in most cases with under 10 shareholders. This number of shareholder clients makes the challenge of identifying

common definitions of strategies and asset classes greater. Hence a new governance arrangement has been sought.

- 3.2. London CIV shareholders approved a new corporate governance framework at the July 2018 AGM. London CIV is an FCA authorised company established by the London Local Authorities to provide a collaborative vehicle for pooling LGPS pension fund assets.
- 3.3. It was agreed to review the framework after one year of operation which provides an opportunity to assess how it can be improved further, to improve its effectiveness in achieving collaboration and an effective working relation between London CIV and its 32 shareholders collectively.
- 3.4. The attached Appendix 1 to this report is the questionnaire of the London CIV Governance Review for us to complete by 30 November 2019. The questions being asked are informed by the scope agreed by the Shareholder Committee, the LCIV Board and feedback from the meeting for all shareholders on 16 October 2019.
- 3.5. London CIV aim to is kept each shareholder response anonymous and a report to consolidate all the replies will be anonymised.

#### **London CIV Staff Pension Scheme & Remuneration Policy Review**

- 3.6. This is to update you on the London CIV Board's decisions about the London CIV staff pension scheme following the Remuneration Policy Review. A report was brought to the last Committee meeting on this.
- 3.7. The City of London took on London CIV, Local Government Pension Scheme (LGPS) provision on the basis that LCIV secure a bond or guarantee and secretary of state approval. The LCIV were on boarded to the City pension scheme with about 4 people, though the establishment has grown considerably.
- 3.8. City of London has opted for a guarantee as the alternative route for LCIV to secure a bond proved to be more expensive. Most London Local Authorities (LLAs) questioned why the LCIV is providing the LGPS for all their staff, but this was an LCIV board decision, however the financial consequences of that decision have fallen on LLAs with little consultation.
- 3.9. The LCIV Board have agreed to close the LGPS Pension Scheme to new entrants from a date to be decided, this decision notice to LLAs is attached to this report as Appendix 2. This is contingent upon all 32 LLAs signing the Pension Guarantee Agreement and Pension Recharge Agreement, attached to this report as Appendix 3 and 4 respectively.
- 3.10. Until all 32 LLAs have signed both the Pension Guarantee and Pension Recharge Agreement the position will continue to be that all staff, except those on salaries of £120,000 and above or promoted to posts on salaries of £120,000 and above, will be eligible for the LGPS.
- 3.11. The Board have now agreed an updated Remuneration Policy which should be in-line with the board above decision. The Board stated that

all expressed views to date by Shareholders and responses to the consultation on this have been taken into account as at the date of the Board meeting and all but one of the responses received were in favour of closing the scheme to new entrants. However only about 50% of boroughs had expressed a view.

- 3.12. Once all LLAs have signed the Guarantee Agreement and the Admission Agreement is signed the Board will make a DC scheme available for new staff to replace the LGPS entitlement.

### **London CIV Progress Report to MHCLG**

- 3.13. At the request of the Ministry for Housing, Communities and Local Government (MHCLG), the London CIV (LCIV) has prepared a pooling progress report as at September 2019, detailing an indicative projection of shareholder member pooling intentions, transition costs and savings over the next four years.
- 3.14. As at 31 March 2019, the LCIV had achieved a 48% pooling level across London's total of £38bn assets under management, with a projected LCIV pooling level of 68% by 31 March 2023. Of the £18bn held in pooled assets, £8bn is invested directly through the LCIV and £10bn invested in passive. London Borough of Enfield Pension Fund had 41% of assets pooled as at 31 March 2019 and this is anticipated to reach 67% by 31 March 2023.
- 3.15. The LCIV's cumulative total costs including annual running costs, service provider fees, transition and set up costs is expected to reach £81m by 31 March 2023, with cumulative savings of £109m anticipated to be generated during this period. By 31 March 2023 the total savings generated by the LCIV net of costs is estimated to be £60m. For more details, please see Appendix 5 attached to this report.

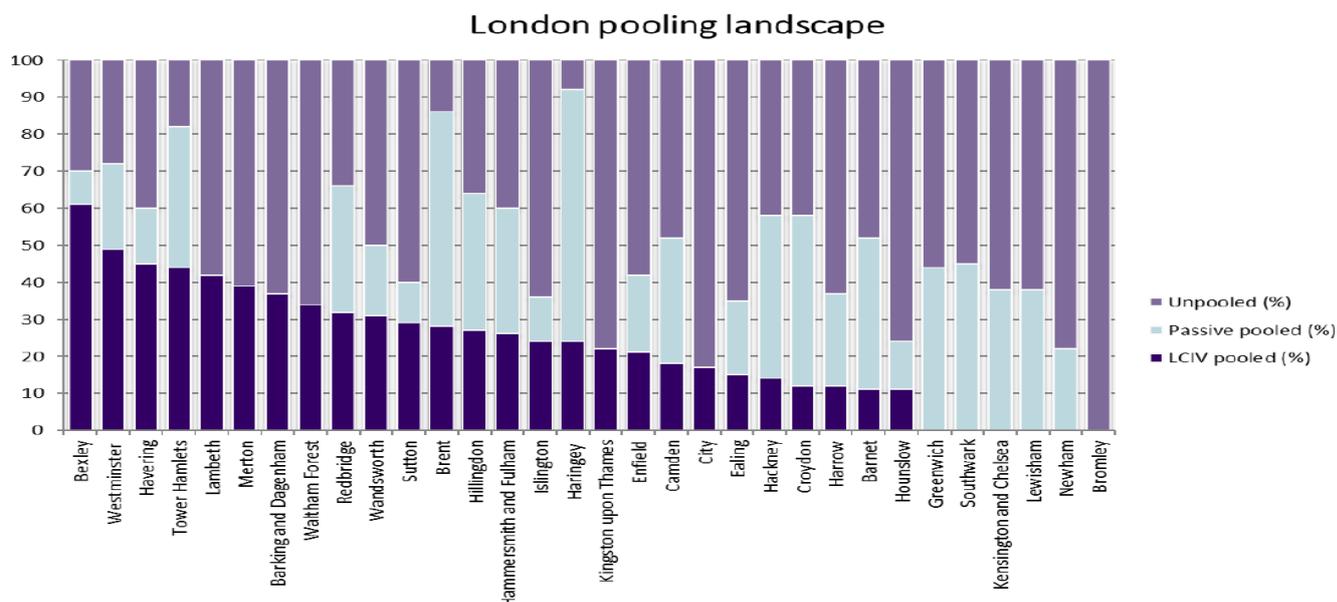
### **People**

- 3.16. London CIV CEO, Mike O'Donnell announced back in September 25<sup>th</sup>, that Mark Thompson has resigned from his role as Chief Investment Officer. Mark joined London CIV at the start of September but has decided that he could not commit to the demands of the role. Mark's resignation took effect immediately.
- 3.17. In announcing his resignation, Mark Thompson commented that after further personal reflection, that he was not ready for a return to a full-time and demanding role and that he cannot commit fully to the London CIV. He decided he intend to follow a path away from a full-time executive role in order to spend more time with my family.
- 3.18. Mike O'Donnell added that he and the Board are "focussing on future resourcing on both an interim and permanent basis and will be particularly keen to recruit somebody to lead on ESG work in advance of a new permanent CIO appointment."
- 3.19. London CIV has asked Michael Pratten who was previously appointed as interim Chief Investment Officer back in May 2019 to September 2019 to come back to cover the post until a new CIO is appointed to

join the London CIV as a permanent staff. Michael Pratten is currently available to work for LCIV, for only two days a week.

- 3.20. On the 15<sup>th</sup> October London CIV started a consultation to check the appetite of LLAs commitments to sustainable exclusion investments. To the date of writing this report eight LLAs had showed interest in this offering.
- 3.21. The current LCIV offering operates with an engagement mandate, which means that the manager can invest as they see fit and work with the companies on their ESG profile. Since LLAs have been under increasing pressure to divest from certain sectors hence LCIV is introducing this proposal to therefore cater for LLAs with exclusion approach.
- 3.22. From the discussions LCIV had with the LLAs who have expressed interest, the following is a list of sectors which may be excluded from the investment guidelines:
  - Adult Entertainment
  - Alcohol
  - Gambling
  - Weapons
  - Tobacco
  - The extraction, processing and transportation of fossil fuels (*Note: This is not a blanket ban on all fossil fuel-related companies, as these would exclude companies which are involved in the clean up of oil spills, for example, and other positive impact companies*).
- 3.23. London CIV had an ESG and Strategy Forum 16<sup>th</sup> October 2019, where we were advised that Dawn Turner former CEO of the LGPS pool company Brunel Pension Partnership Ltd, has been commissioned to conduct an ESG Stock Take of London CIV and shareholder funds.
- 3.24. The initial piece of work will culminate in recommendations to the London CIV Board in November and on to the Shareholders Committee in December / January of how London CIV can move forward with incorporating the Responsible Investment and Environmental, Social and Governance requirements of the 31 London borough funds and the City of London fund into LCIV products and service offerings.
- 3.25. To assist in establishing the priority of recommendations, Dawn has asked LLAs to complete a questionnaire/survey attached to this report as Appendix 6 with target return date of 13 November 2019. Officers in consultation with the Chair, responded to LCIV that we are unable to complete the survey in a meaningful way until at least after the PPIC workshop of 15<sup>th</sup> November or at best after 21<sup>st</sup> November, following the Committee meeting.

## LONDON CIV FUND OFFER AND HIGH-LEVEL PERFORMANCE OVERVIEW at 30 September 2019 source London CIV



3.26. At the end of March 2019 London CIV reached the milestone of 50% (£18bn) of potential assets, (including active funds on the ACS and passive funds managed by Blackrock and LGIM), across the 32 London Local Authorities (LLAs). An increase from 40% last year. £8.2bn being LCIV pooled on the ACS is less than the target of £8.6bn. Six LLAs have yet to invest directly with LCIV, although five are passive pooled and one LLA is yet to invest as shown in the chart below of LLAs pooling landscape.

3.27. At the end of September 2019 London CIV had an offering of 13 funds available to client shareholders as shown below.

### Current Fund Offering As at 30<sup>th</sup> September 2019

Fund	Inception Date	AUM (£m) (30/09/2019)	# LLAs
<b>UK Equities</b>			
LCIV UK Equity Fund	18-May-17	£416m	2
<b>Global Equities</b>			
LCIV Equity Income Fund	08-Nov-17	£259m	2
LCIV Global Equity Focus Fund	17-Jul-17	£839m	5
LCIV Global Equity Fund	22-May-17	£655m	3
LCIV Sustainable Equity Fund	18-Apr-18	£432m	2
LCIV Global Alpha Growth Fund	11-Apr-16	£2,695m	13
<b>Emerging Market Equities</b>			
LCIV Emerging Market Equity Fund	11-Jan-18	£383m	6
<b>Multi Asset</b>			
LCIV Real Return Fund	16-Dec-16	£171m	2
LCIV Global Total Return Fund	17-Jun-16	£323m	5
LCIV Absolute Return Fund	21-Jun-16	£870m	10
LCIV Diversified Growth Fund	15-Feb-16	£675m	8
<b>Fixed Income</b>			
LCIV MAC Fund	31-May-18	£844m	12
LCIV Global Bond Fund	30-Nov-18	£274m	3
<b>Total AUM</b>		<b>£9bn</b>	

### Key Developments

- 3.28. Ares have recently communicated to LCIV that they are withdrawing from launching the Private Debt and Liquid Loans products with the pool. The decision by Ares was, in part, due to the limited commitments in terms of assets under management and the time it has taken to get to this point.
- 3.29. London CIV are disappointed by Ares' decision and felt that the two funds could have been successfully launched in the foreseeable future. Efforts were made by London CIV to encourage Ares to reconsider, however Ares communicated that they had made a final business decision and that this would not be reversed.
- 3.30. The Global Equity Core Fund has been filed with the FCA at the time of this report and the LCIV Private Debt and LCIV Infrastructure Funds are expected to launch in the first half of the 2019/20 financial year. The next two funds in the launch programme are LCIV Liquid Loans and LCIV Inflation Plus.
- 3.31. The London CIV have placed **CQS** on 'Watch', based on a number of concerns they have regarding underperformance relative to target, staff changes, and concerns over the strategy. CQS are currently the only **Multi-Asset Credit (MAC) manager** within the London CIV MAC Fund. The London CIV is currently consulting with the current investors to ascertain their need for this product. LCIV do have the ability to add / remove / blend the underlying managers. Aon remain supportive of the Pension Fund investing in a MAC style mandate in order to diversify the Fund's bond portfolio by extending the opportunity set.
- 3.32. Currently most LLAs do not support the addition of an additional manager and do not believe that the CIV has the authority to do so for this particular fund without full agreement of the underlying investors.
- 3.33. The issue of multi-manager funds (blended options) was discussed last year and SLT responded on behalf of the Pool stipulating that individual pension funds should not be compelled to have blended mandates. The MAC fund was set up on the basis that it will be a single manager fund and therefore the LCIV do not have authority to deviate from this. If the CIV wish to launch a subsequent Fund with multi-managers they need to set out their rationale for doing so and why this should have greater priority over other pre-existing items on their business plan.
- 3.34. Whilst there can be good use of multi-manager funds for certain asset classes (Property, Private Debt, Infrastructure, etc) to ensure there is effective diversification for other areas there is a risk that the blended route will result in a deviation from the required strategy and/or lead to a quasi-passive approach.
- 3.35. In addition if there were capacity constraints there could be an argument for appointing an additional manager if they could find one that had a very similar approach however, I do not believe there has been any justification put forward by LCIV to add additional managers to this mandate – the issue of whether or not CQS is following the strategy they

originally put forward is a completely separate issue and should not be used as a reason to appoint a second manager for this fund.

- 3.36. The lead portfolio manager of the **Janus Henderson Emerging Market Equity strategy**, Glen Finegan resigned from Janus Henderson, along with a number of his team members. This strategy is the London CIV sub fund for Emerging Market Equity Fund and London CIV have now appointed JP Morgan as a replacement for Janus Henderson for managing this sub fund.
- 3.37. Janus Henderson, the incumbent manager of the LCIV Emerging Market Equity Fund, has successfully transitioned assets across to J.P Morgan.

#### 4. **ALTERNATIVE OPTIONS CONSIDERED**

- 4.1. There is no alternative unless the Committee on behalf of the Fund do agree to the terms the London CIV agreements and proposal as they are.

#### 5. **REASONS FOR RECOMMENDATIONS**

- 5.1. This report provides an update on LCIV new governance arrangements, Fund launches and LCIV Agreements. The Fund and the Council are obliged to be comfortable with the terms and conditions to inherit future share of unlimited or unquantifiable pension liabilities. As the Council is not certain on London CIV decisions and these could impact the level of future liabilities.
- 5.2. For effective and efficient management of the Fund as regular engagement with the London CIV is crucial to the Fund, to ensure that the Pool makes available the strategies and services that Enfield Pension Fund and other London funds require. Successful delivery of these objectives will be crucial in ensuring that the anticipated longer term investment manager fee savings can be delivered.

#### 6. **COMMENTS FROM OTHER DEPARTMENTS**

##### 6.1. **Financial Implications**

- a) This report provides an update on progress to date on LCIV new governance arrangement and Fund launches. Regular engagement with the London CIV going forwards is crucial to the Fund, ensuring that the Pool makes available the strategies and services that Enfield Pension Fund and other London funds require. Successful delivery of these objectives will be crucial in ensuring that the anticipated longer term investment manager fee savings can be delivered.
- b) The Council has some £246m investments with London CIV sub-funds and £278m of passive pooled investments.

##### 6.2. **Legal Implications**

- a) This report provides an update on developments affecting the London Pooling arrangements. As a member of the London CIV,

the Council must ensure compliance with its statutory duty to ensure the proper and efficient management of the Fund.

- b) Improvements to the governance arrangements in the London CIV as well as reviewing and agreeing the LCIV remuneration policy, the LCIV Pension Cost Recharge and LCIV Pension Guarantee Agreement for City of London should assist the Council to meet its statutory duties.

## 7. **KEY RISKS**

- a) It is important to keep abreast on current issues to facilitate the rigorous and robust management of the Pension Fund for a better, quicker and more effective decision-making process which can lead to better Fund performance and reduction in the contribution required from the Council towards the Fund.
- b) The monitoring arrangement for the Pension Fund and the work of the Pension Policy & Investment Committee should ensure that the Fund optimises the use of its resources in achieving the best returns for the Council and members of the Fund.

### **Background Papers**

None

**Appendices** – The below appendices are attached electronically but not in the main pack.

- Appendix 1 – London CIV Governance Review 2019
- Appendix 2 - The LCIV Pension Scheme Close Letter
- Appendix 3 – The LCIV Pension Guarantee Agreement
- Appendix 4 – The LCIV's Pension Recharge Agreement
- Appendix 5 - London CIV Progress Report to MHCLG
- Appendix 6 - ESG Stock Take Survey - Final Template

### **Officer contact details for documents:**

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