Public Document Pack

PENSION POLICY & INVESTMENT COMMITTEE
Thursday, 23 July 2020 at 9.30 am
Please use links on the AGENDA FRONT SHEET to join the virtual meeting

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ADDITIONAL TO FOLLOW PAPERS

AGENDA – PART 1

8. LONDON COLLECTIVE INVESTMENT VEHICLE (LCIV) QUARTERLY UPDATE (5 MINS) (Pages 1 - 22)

To receive a report from Bola Tobun.

9. LOCAL GOVERNMENT PENSION SCHEME LATEST DEVELOPMENTS AND UPDATE (5 MINS) (Pages 23 - 30)

To receive an update from Bola Tobun.

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Agenda Item 8

London Borough of Enfield

PENSION POLICY AND INVESTMENT COMMITTEE

Meeting Date: 23 July 2020

Subject: London Collective Investment Vehicle (CIV) Update

Cabinet Member: Cllr Maguire

Executive Director: Fay Hammond

Key Decision: [ ]

Purpose of Report

1. This report provides a summary of London Collective Investment Vehicle (CIV) an update of the Company's first Annual Review and the statutory Report and Financial Statements for the year to 31 March 2020.

2. **Proposal(s)**

3. Pension Policy and Investments Committee are recommended to note the contents of this report.

Reason for Proposal(s)

4. The Pension Fund Regulations require that the Council establishes arrangements for monitoring the investments of the Fund. Hence It considers the going concern and activities of the London CIV and ensures that proper advice is obtained on investment issues of this organisation.

5. 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.

6. **Relevance to the Council's Corporate Plan**

7. Good homes in well-connected neighbourhoods.

8. Build our Economy to create a thriving place.

9. Sustain Strong and healthy Communities.

Background

Annual Review and statutory audited Report and Financial Statements

10. The Annual Review includes a foreword by the Chair, business review from the CEO, investment review including responsible investment provided by the Chief Investment Officer and financial review from the Chief Operating Officer. It concludes with a review of the corporate governance framework and committee activities, including the corporate governance progress review. There will be a presentation of the Annual Review, including investment and financial matters at the meeting by the Chair and Executive Directors. Non-Executive Directors will also be present to answer questions.

11. Approval of the audited report and financial statements is the responsibility of the Board of Directors under the Companies Acts. They were approved by the Board and authorised for signature and filing at Companies House on 18 June on the recommendation of the Compliance, Audit and Risk Committee (CARCO). The Shareholder Agreement also provides for London CIV shareholders to approve the accounts, rather than simply receive the accounts as is usual for a Company. Shareholders are also requested to adopt the Annual Review which is a non-statutory document.

12. The Annual Review replaces the Chair and CEO's report and Governance Report provided at previous AGMs. The statutory report and financial statements are contained on pages 31 – 44 of the Annual Review (attached as Appendix 1 of this report) and the covering report to the statutory financial statements is replaced by the financial review section of the Annual Review.

13. The non-statutory Annual Review was received and adopted and the statutory Annual Report and Financial Statements were received and approved. (These have already been approved by the Board in accordance with Company Law.) ESG/Responsible Investment and the diversity of the staff team and the Board were key themes discussed. The presentation included an opportunity to ask questions of committee chairs. This is the first year an Annual Review has been published. It is available as a separate document on the client portal under Document Centre>Company>Annual Report

Regulatory Capital Statement

14. The Company is required to maintain a minimum level of regulatory capital in accordance with the FCA requirements for a full scope Alternative Investment Fund Manager ('AIFM').

Regulatory Capital Statement as of 31st March 2020

Tier 1 Regulatory Capital	£5,191k
Own Funds Requirement	£1,595k
Surplus Capital	£3,596k

15. The Regulatory Capital Statement has been reviewed by the Compliance Audit and Risk Committee (CARCO) of the Company and by the Board before submission to the FCA.

Business Review

16. Mike O'Donnell started the review by reporting that they have made substantial progress in achieving some long-standing goals as well as the goals they set for the year.

17. However, they are not complacent and there is still a significant amount of work to do to deliver a more effective collaboration with Client Funds and the open and transparent client engagement they aspire to. Only then can they achieve their purpose which is to be the LGPS pool for London to enable their Client Funds to achieve their pooling requirements.

18. At their September 2019 shareholder ESG and strategy event they described 2019/20 as a year of consolidation and transition, and that has been the case, despite the turbulence in the external operating context with which they have had to contend. Most notably they have undertaken an ESG stocktake review, resulting in a 6-point action plan; launched 2 funds with others in progress; and undertaken a governance progress review.

Funds

19. The LCIV Infrastructure Fund has committed Funds of £399m and 6 investors at first close on 31 October 2019 and we expect further interest in the future. The LCIV Sustainable Equity Exclusion Fund launched on 11 March 2020 with £200m. We also obtained approval for the LCIV Global Equity Core Fund which is open for investment. In June we launched the LCIV Inflation Plus Fund with commitments of £107m.

20. They were unable to launch the LCIV Private Debt Fund last year because their investment manager partner decided not to proceed with the fund due its uneconomic size at launch and this meant they were also unable to launch the planned LCIV Liquid Loans Fund. They are currently reviewing options for a similar product offering.

21. Throughout the year they have been working to put a robust fund launch process in place. The governance progress review feedback emphasised the importance of more engagement at mandate design stage and working with seed investors.

22. LCIV have introduced the use of mandate design and seed investor groups in developing the LCIV renewables fund and will do so for other new funds. They expect that this will assist in increasing the number of committed investors at fund launch which is essential for Client Funds to get real benefit from pooling and deliver on London CIV's value proposition.

AUM and strategic asset allocation trends and funding model review

23. During the year they revised their view of a realistic AUM forecast following the MHCLG survey in September 2019 with a target of 75% by 2023 as agreed by the Board and Shareholders in the 2020/21 budget and MTFS.

They are now working to review their detailed asset pooling plan, informed by updated client strategic asset allocations following triennial allocations.

24. There has been a significant shift towards investment in passive funds which has impacted on our funding model and priorities in respect of the fund launch development programme. They anticipate that the recent turbulent market conditions may lead Client Funds to review their plans again. Establishing priorities and expectations in the next few months will be critical to ensuring that London CIV can deliver what clients need and is successful and sustainable financially. They have already committed to review their funding model during the year and will use the Cost Transparency Working Group (CTWG) to assist them in this work.

25. London CIV aims to provide cost savings to Client Funds through collective purchasing power. They will ensure that the operating costs involved in running a regulated pooling company are managed in a cost effective way. London CIVs operating model makes use of third-party fund managers to manage funds that reflect the investment objectives of their Client Funds.

26. Savings made by individual members depend on the scale of the investments they have made, and the length of time invested. Following the 2019 governance progress review LCIV have re-defined the scope of the Cost Transparency Working Group (CTWG) and appointed a s151 officer (Treasurer) as Chair to involve Client Funds more closely in their cost transparency work. The CTWG will also be involved in their planned cost benchmarking review and the review of their funding model.

Responsible investment

27. The ESG stocktake review is fundamental to the consolidation and transition work LCIV have been undertaking. All of London CIV's clients have either declared a climate emergency or made carbon reduction commitments. Responsible Investment and Stewardship in the broadest sense is a key issue for London as a capital city and for all our stakeholders. This emphasis is reflected in the update to their vision statement which now reads to be the best in class asset pool delivering value for Londoners through long term sustainable investment strategies.

28. LCIV value proposition includes providing a broad range of investment opportunities for Client Funds. They have developed a product range which includes equities, multi asset, fixed income, and real assets with their commitment to sustainable investment in mind.

29. LCIV are now giving added emphasis to developing our sustainable product range having launched the LCIV Sustainable Equity Fund in April 2018. They launched the LCIV Sustainable Equity Exclusion Fund in March 2020 and are now working on a Renewables Fund to complement our existing LCIV Infrastructure Fund which includes sustainable investment opportunities.

30. LCIV are also collaborating with the London Pensions Partnership (LPP) and London Pension Fund Authority to develop a London Fund which will be a

double bottom line impact fund providing investment opportunities in the Greater London area as well as providing good investment returns by deploying capital in areas such as local housing and infrastructure with a positive social and environmental impact.

31. The CEO reported that there is still more to do in 2020/21 and beyond to fully integrate Responsible Investment and Stewardship into all their activities and implement the 6-point action plan in the 2019 report. You can read more in the Responsible Investment section.

Governance review

32. LCIV undertook a progress review of their governance framework, described in more detail in the governance section, in the autumn of 2019. The overall response was that the existing formal framework is satisfactory, subject to some minor changes and more (informal) opportunities for all shareholders to contribute their views.

33. The emphasis for improvement has been on Client Fund engagement in fund mandate design and fund manager oversight, including improved transparency and communication. LCIV also received feedback that there is scope for better communication about risk management, ESG reporting and manager performance.

34. In response LCIV began, at the turn of the financial year, to put in place fund mandate design and seed investor groups, a monthly Business Update meeting open to all Client Funds and “meet the manager” events for those invested in particular funds. LCIV are also establishing a Responsible Investment Reference Group and the CTWG as previously described.

35. They are also working to improve our partnership with other key stakeholders including investment managers, investment advisors to Client Fund members and communication with representatives of beneficiaries including trade union representatives.

People

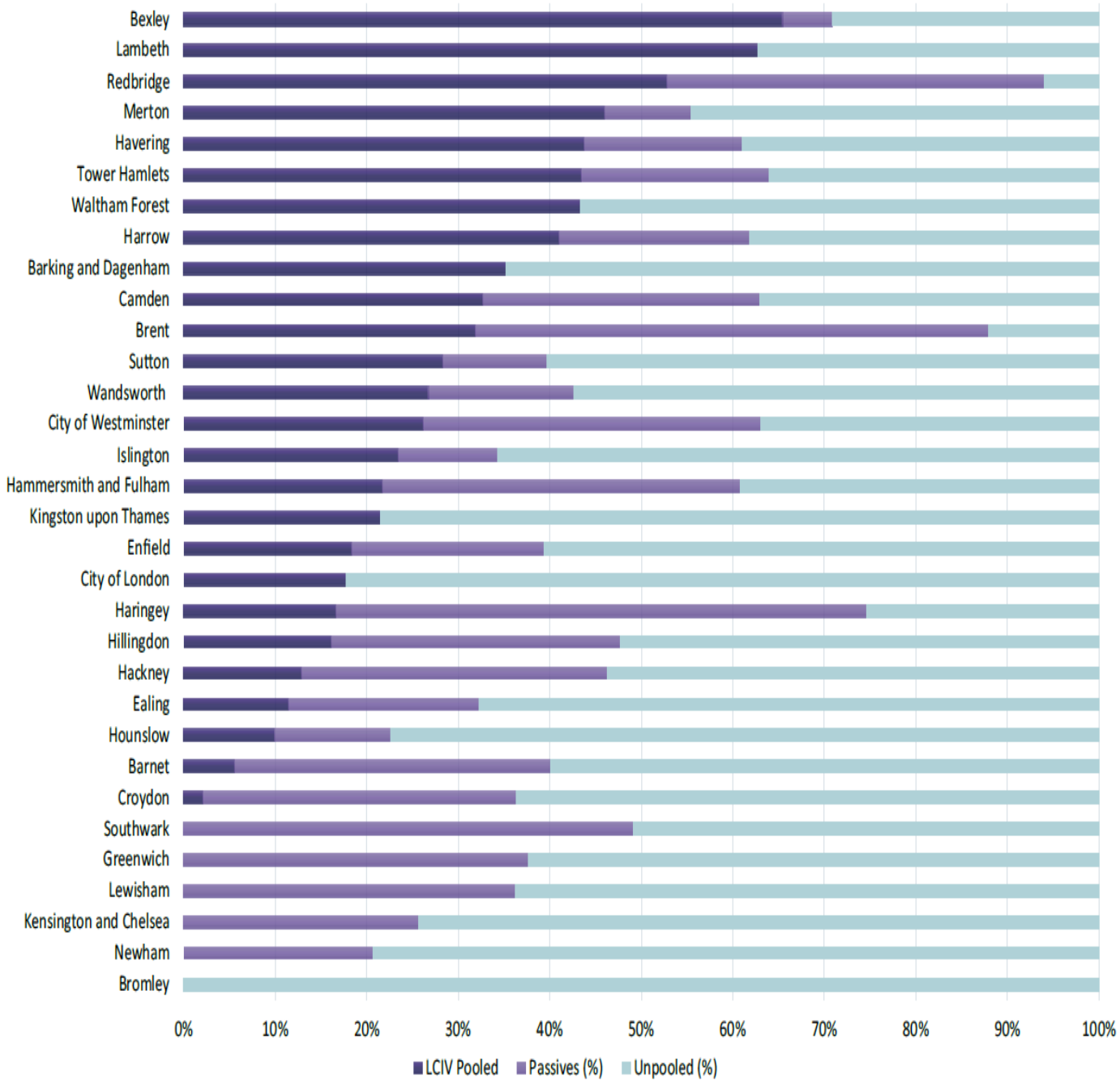
36. During the year LCIV undertook a review of their Remuneration Policy to ensure that they can attract and retain the staff we need. They have also enhanced their learning and development programme.

37. After consultation with shareholders LCIV also agreed to close the Company’s defined benefit Pension scheme to new staff. Shortly after the year-end LCIV finally achieved the signature by all shareholders on the pension guarantee agreements. This means that the Admission Agreement with the City of London has now been signed and the scheme closed to new entrants on 1 June 2020.

38. A talented team is key to delivering London CIV’s objectives and in addition to the permanent team they have been pleased to have had the support of interims and consultants in a number of areas, including at a senior level first

Mike Pratten and then Kevin Corrigan in the role of Interim Chief Investment Officer (CIO) and Stephen Burke in compliance and risk. In April 2020 Stephen Burke joined them on a permanent basis as Director Compliance and Risk. At the end of the year LCIV appointed Jason Fletcher as permanent CIO starting in July 2020 and Jacqueline Jackson as Head of Responsible Investment, starting in June 2020. LCIV also appointed Cameron McMullen to take over from Kevin Cullen as Client Relations Director on his retirement starting in April 2020.

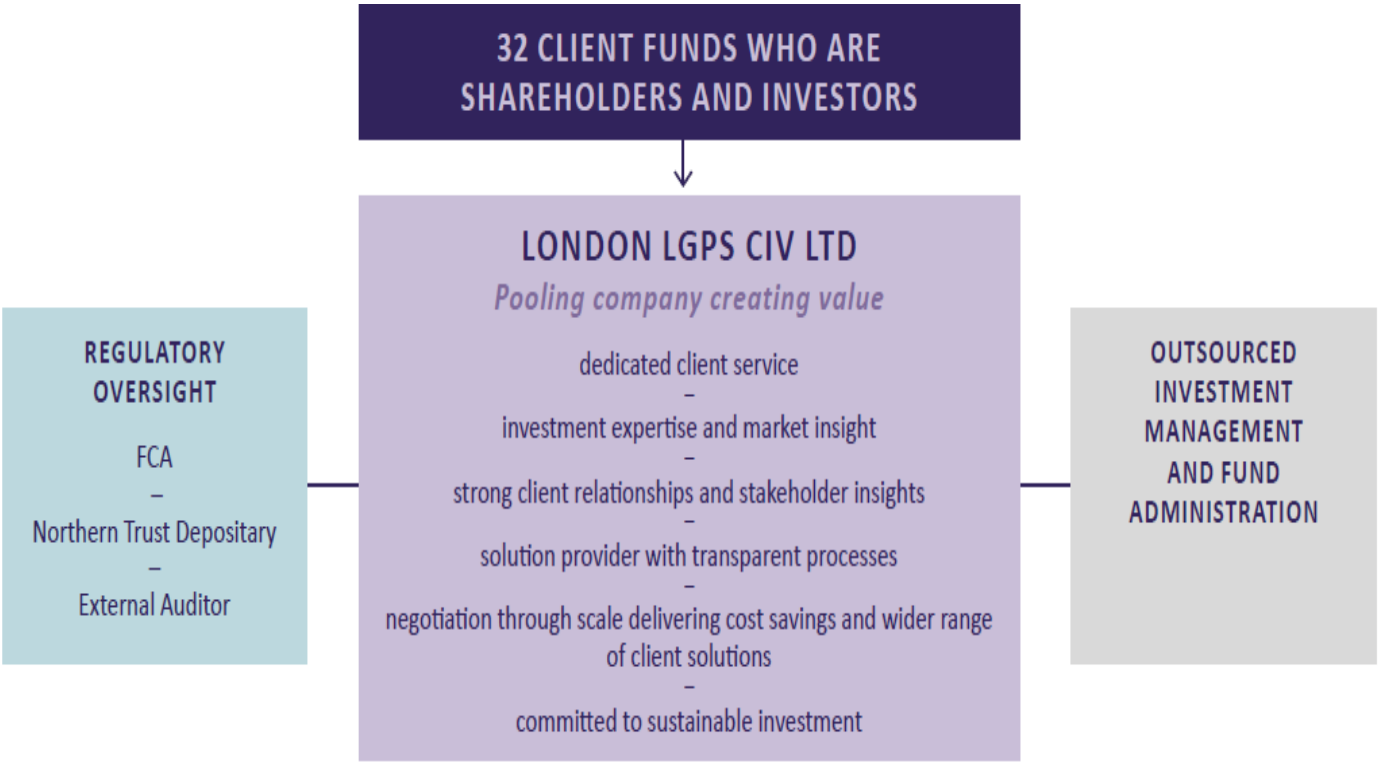
39. Assets invested by London Local Authorities (LLAs) Funds with London CIV or invested by LLAs Funds in passive funds managed by third parties at as 31 March 2020.



London CIV's Operating Model

40. London CIV is authorised and regulated by the FCA and is owned by 32 shareholders, comprising the London Local Authorities including the Corporation of London.

41. It was established as a collective venture in 2015 to provide a more effective vehicle for managing the pooled pension fund assets of the London Local Authorities. The pool members and their pension fund beneficiaries are London CIV's key stakeholders and London CIV's purpose statement underlines the importance of adding value to London as a whole.



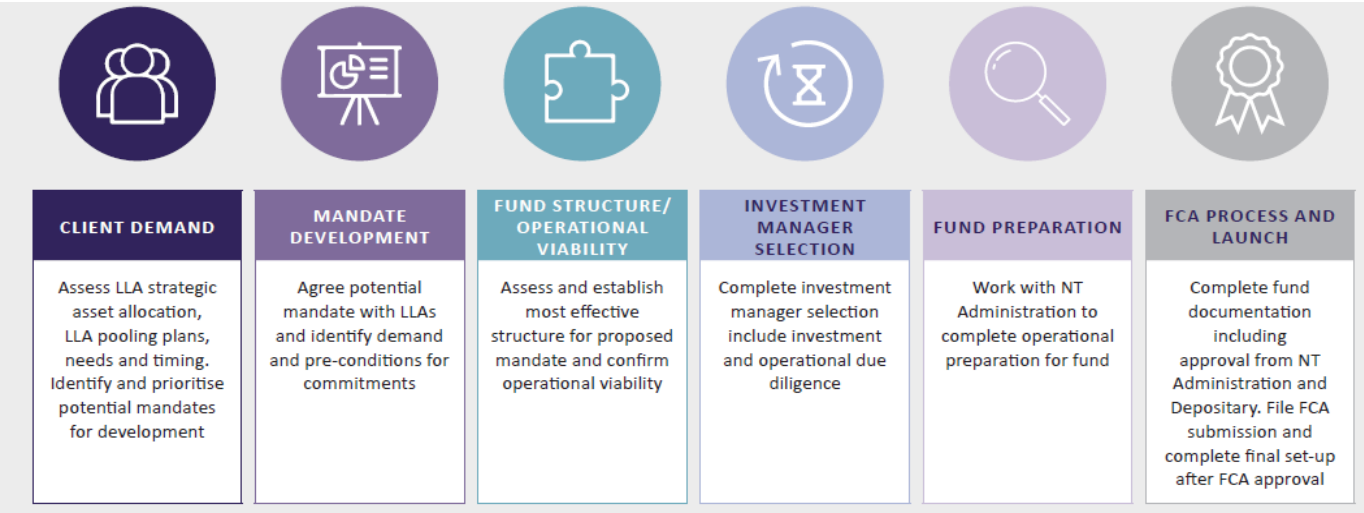
Fund Launch Process

42. A disciplined, transparent, and efficient fund launch process is a key component in delivering our purpose to pool Client Fund's pension assets. This fund launch process sets out the governance framework for fund launches including the fund launch stages, roles and responsibilities, approval points, required approval documentation, and client engagement at each stage for the London CIV fund launch process. The governance framework has been established to ensure London CIV is launching funds which meet Client Funds needs within a disciplined and risk-controlled manner.

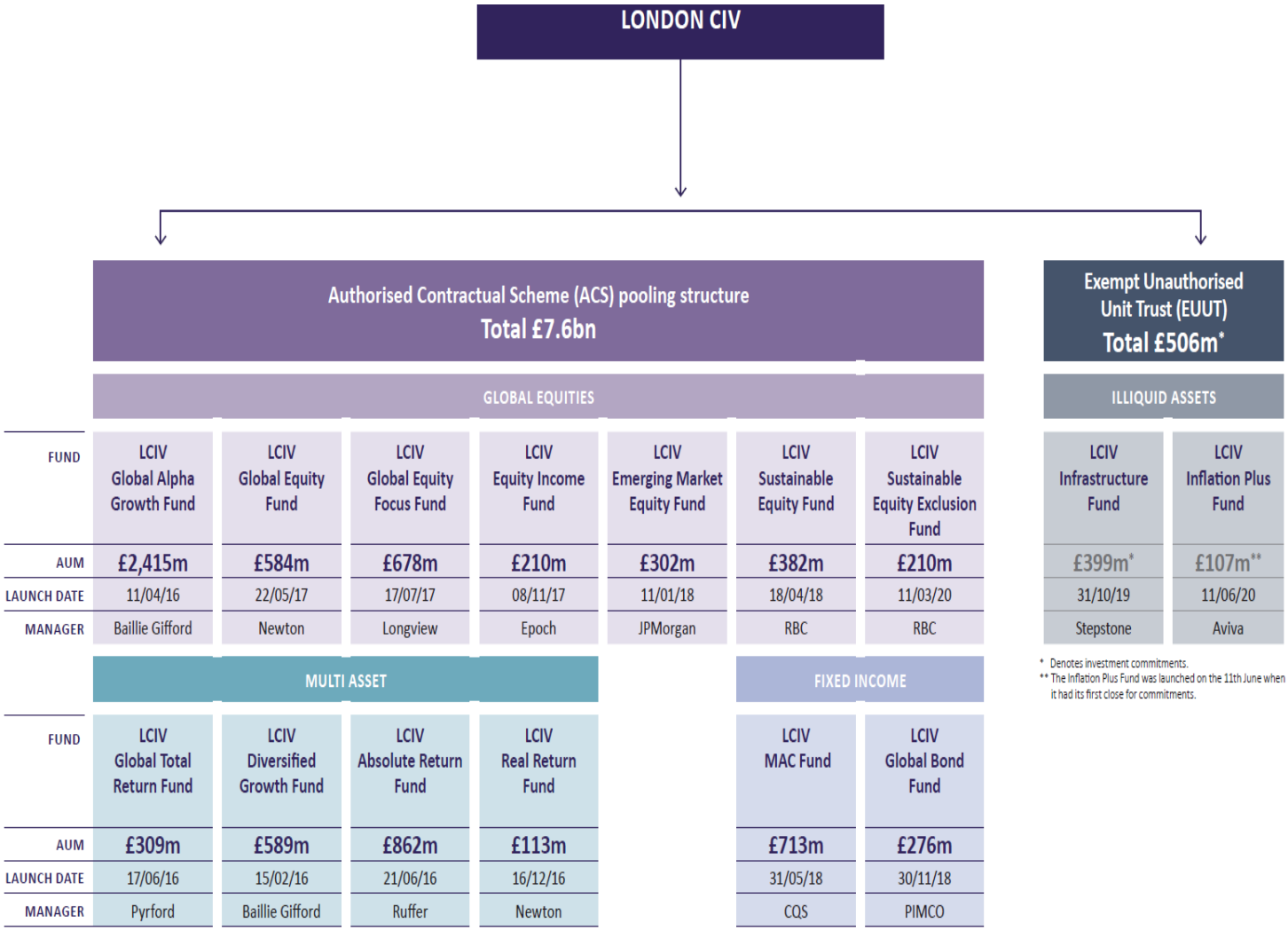
43. Client demand engagement includes the newly established principle of a Seed Investor Group for each fund launch which aims to ensure that:

- London CIV provides transparency to the process and works closely with Client Funds to define and agree the investment mandate and Client Funds support the launch of the fund;

- Our Client Funds understand where London CIV is in the launch process for each fund and is able to align timelines with Client Fund Committee dates and decision processes and policies.



44. London CIV's Fund Range and Assets under Management as at 31 March 2020



Financial review

45. Each year the Company agrees an Annual Budget which is approved by the Board and its Shareholders in the January prior to the next financial the Board and its Shareholders in the January prior to the next financial year which begins in April. This formal process for agreeing the annual budget is set out in the Shareholder Agreement and once agreed the Executive team at London CIV report to the Board and the Shareholder Committee on a quarterly basis to report on progress against the approved budget.

46. When the Annual Budget for the year 2020/21 was approved by the Board and Shareholders in January 2020, it was agreed that a funding model review would take place during the course of the current financial year. The funding model review will consider options as to how the Company could be funded in the future given the current operating framework with regards to asset pooling and the resources required by the Company to operate as a standalone FCA regulated business.

47. Working with the Cost Transparency Working Group, which is covered in more detail later in this review, and the Board, the funding model review will be progressed over the coming months including engagement with key stakeholders to gather views as to potential future funding options. This work will provide input into the annual budget cycle for the next financial year 2021/22.

Income statement

48. The operating loss for the year is £380k and is less than the budgeted loss in the Annual Budget for the year approved by the Board and Shareholders. Income is lower than the budget due to the lower levels of assets under management and expenses have been managed to remain within budget.

	Actual March 2019 £k	Actual March 2020 £k	Budget March 2020 £k
Turnover	5,074	5,364	5,792
Expenses	(4,756)	(5,744)	(6,269)
Operating Profit/(Loss)	318	(380)	(477)

Income

49. The income for the year comprises fixed income elements relating to the service charge and the development funding charge ('DFC') and ad valorem fees, relating to management fees of the Authorised Contractual Scheme and the Exempt Unauthorised Unit Trusts and passive assets fees. Income for the year was £5.3m of which £2.9m relates to the fixed fees.

Income	Actual March 2019 £'000s	Actual March 2020 £'000s	Budget March 2020 £'000s
Service charge	800	800	800
Development Funding charge ('DFC')	2,080	2,080	2,080
Passive Assets fees	470	506	500
Management Fees	1,724	1,978	2,412
Total	**5,074**	**5,364**	**5,792**

Operating Expenses

50. The operating expenses of the Company fall into four main categories namely, staff costs, facilities, professional fees, technology and data costs and a smaller cost category comprising miscellaneous expenses.

Expenses	Actual March 2019 £k	Actual March 2020 £k	Annual Plan March 2020 £k
Staff costs	2,695	3,815	3,869
Facilities	460	666	702
Professional	1,200	637	724
Technology and Data	357	571	924
Miscellaneous	44	55	50
Total Operating Expenses	4,756	5,744	6,269

51. Full time staffing levels have been lower than budget and the Company has resourced the shortfall through the use of contractors which are included in the staffing number table below. The table below shows the additional human resources employed by the Company since March 2018 and the approved rise in staffing levels is reflected in the increase in staff costs from £2.7m in year ending March 2019 to £3.8m in year ending March 2020.

	Actual March 2018	Actual March 2019	Actual March 2020	Budget March 2020
Staff numbers (including contractors)	15	25	27	29

52. The increase in facilities expenditure between the financial years ending March 2018 and March 2020 reflects the full year impact of the Company relocating to new premises in November 2018.

Assets Under Management

53. The Company launched its first sub fund on the Authorised Contractual Scheme ('ACS') in December 2015, since when it has launched a further 12 sub funds on the ACS and one fund as an Exempt Unauthorised Unit Trust ('EUUT'). The Company also closed two funds to subscriptions during the

year due to lack of investor demand. These two sub funds are in the process of being liquidated and were managed by Allianz and Majedie respectively. These two closed sub funds are not reflected in the total of 14 funds on the ACS and EUUT at March 2020.

54. The management fee rates that the Company receives from the sub funds on the ACS range from 0.5bp on the Global Bond Fund, 1bp for the MAC fund and 2.5bps which applies to the rest of the sub funds.

55. The table below shows how the Assets Under Management ('AUM') have increased since 2015. The fall in AUM for the year ending March 2020 was due to the market volatility caused by COVID-19 in the first quarter of 2020. The Company saw its AUM fall from £8.6bn to £7.6bn in March 2020 but had recovered to £8.5bn by the 20th May 2020.

	March 2016 £bn	March 2017 £bn	March 2018 £bn	March 2019 £bn	March 2020 £bn
AUM on the ACS and EUUT	0.8	3.6	6.2	8.2	7.6
Funds	2	7	11	14	14

56. The Company launched two funds on the EUUT one in October 2019 which was the LCIV Infrastructure Fund which received commitments totalling £399m from six Client Funds and in June 2020 the Inflation Plus Fund with commitments of £107m from two Client Funds. The EUUT was chosen as the pooling structure as the exempt unit trust format is more suited to less liquid asset classes such as infrastructure and real estate. The Company receives a management fee of 5 bps based on invested assets in the Infrastructure Fund.

57. In addition to the income items noted above, the Company also receives a fee in respect of passive investments managed by Legal and General Investment Management and Blackrock. This fee arrangement goes back to 2016/17 when it was agreed by the Pensions Sectoral Joint Committee ('PSJC') and the Board that the Company should receive a fee of 0.5bp in respect of fee negotiations the Company conducted on behalf of Client Funds. The Company does not provide any regulated service in connection with the passive investments.

58. The value of passive investments in respect of which the Company receives a fee is shown in the table below.

	March 2016 £bn	March 2017 £bn	March 2018 £bn	March 2019 £bn	March 2020 £bn
Passive investments	0	7	8.4	9.7	9.1

Pension Scheme

59. Following a period of lengthy consultation with the Company's shareholders and other stakeholders, the Company has agreed to close its defined benefit scheme to new entrants with effect from the 1st June 2020. The Company continues to offer pension provision for eligible staff through defined contribution arrangements. As part of the agreement to close the defined benefit scheme to new entrants, the shareholders of the Company have agreed to provide a guarantee to the City of London Corporation Pension Fund. The guarantee would be called in the event that the Company was unable to meet its obligations to the Fund in respect of its defined benefit pension scheme liabilities relating to the Company's employees.

Going Concern

60. The coronavirus disease (COVID-19) pandemic has, and will likely continue to, impact the global economy, resulting in continuing volatility in the global financial markets. The duration and impact are uncertain. If the pandemic is prolonged or the actions of governments both in the UK and overseas and central banks are unsuccessful, the adverse economic and financial impact on the global economy could deepen. If this were to occur, the assets managed on behalf of our investors and financial condition of the Company could be adversely affected further.

61. Since the emergence of the pandemic the Company has initiated home working for all staff and is following UK Government advice on how to operate safely in the current environment with the health and welfare of staff, investors and business outsource partners remaining paramount.

62. The Company also monitors guidance from its regulator, the FCA to ensure that the Company is following recommended practice. The Company continues to monitor the impact of the pandemic on its business including its key outsource business partners such as investment managers and administrators. In respect of the Company's financial condition, the Company has prepared and continues to update its financial stress tests to ensure that the Company is able to meet its financial obligations over the foreseeable future with as much reasonable certainty as it possible in the circumstances.

63. The major business risks associated with the uncertain market and economic conditions continue to be actively monitored and managed by the Company. These risks include retaining sufficient capital and liquidity to withstand market and operating environment pressures.

64. In particular, the Company's regulatory capital and liquidity is deemed sufficient to exceed regulatory capital requirements under both a normal and in a stressed market environment.

65. The Directors have assessed the going concern status of the Company in the light of normal operating conditions and further impacts of COVID-19. In doing so the Directors have reviewed the financial results for the year ended 31 March 2020, and financial forecasts for the next 12 months including income and expenses, capital expenditure, regulatory capital and the cashflow requirements of the business. The Directors are of the opinion that the

Company has sufficient financial resources to meet its ongoing obligations as they fall due over the next 12 months from date of signing the financial statements and will continue to monitor the situation in respect of COVID-19.

Stakeholders and the 2019 Governance Progress Review

66. An effective governance framework is key to London CIV's operation, long term success and sustainability and to our legal and regulatory requirements. The Board has invested time and effort in collaboration with shareholders, in a review of the governance framework put in place in 2018.

67. The key message from the 2019/20 governance progress review was that whilst in general, formal arrangements were working satisfactorily, the business model needed to be characterised by visibly higher levels of Client Fund engagement. London CIV is therefore implementing enhancements to the governance framework, in particular in respect of arrangements for Client Fund engagement in fund decision-making and Client Fund oversight. As part of their ongoing work on Board and Committee effectiveness, LCIV will work to make the Shareholder Committee as effective as possible and improve the opportunities for engagement with those not on the Committee and the flow of information between the Committee and other shareholders.

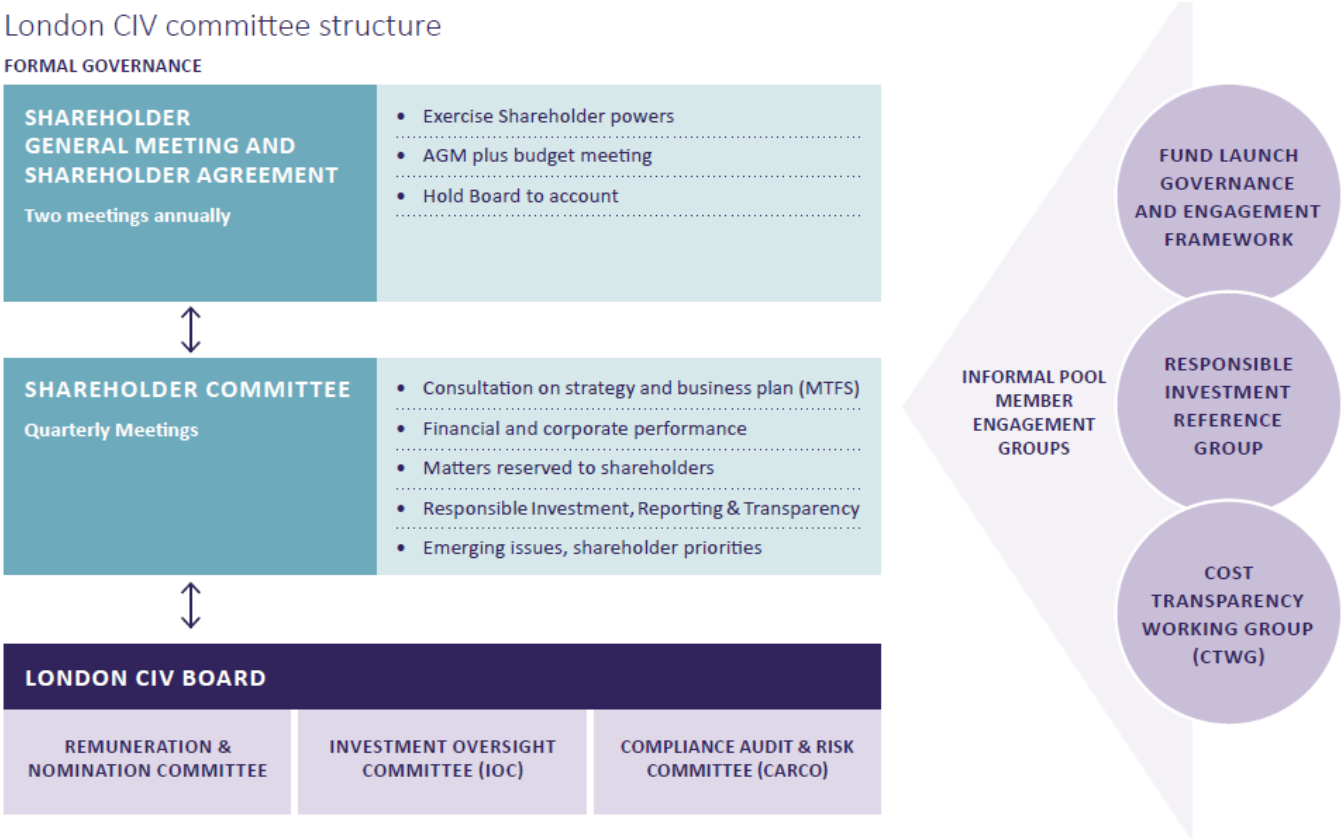
68. Changes include the creation of a Responsible Investment Reference Group and a Cost Transparency Working Group (CTWG) together with enhanced arrangements for the involvement of Client Funds in the development of LCIV funds including mandate seed investor groups.

69. There is now a monthly "Meet the Manager "event to improve fund manager oversight involvement and a regular London CIV update.

70. They are amending the Shareholder Committee Terms of Reference (ToR) so that the Trade Union Observer, who provides insight on the stakeholder interests of beneficiaries, is a voting member.

71. They will also put in place a Disputes and Deadlock procedure.

72. LCIV aim to ensure these, and other informal events, provide all shareholders with the opportunity to inform the development of their statement of strategic priorities, expectations and objectives which are reviewed by the Shareholder Committee and formally approved by all shareholders at the January General Meeting.



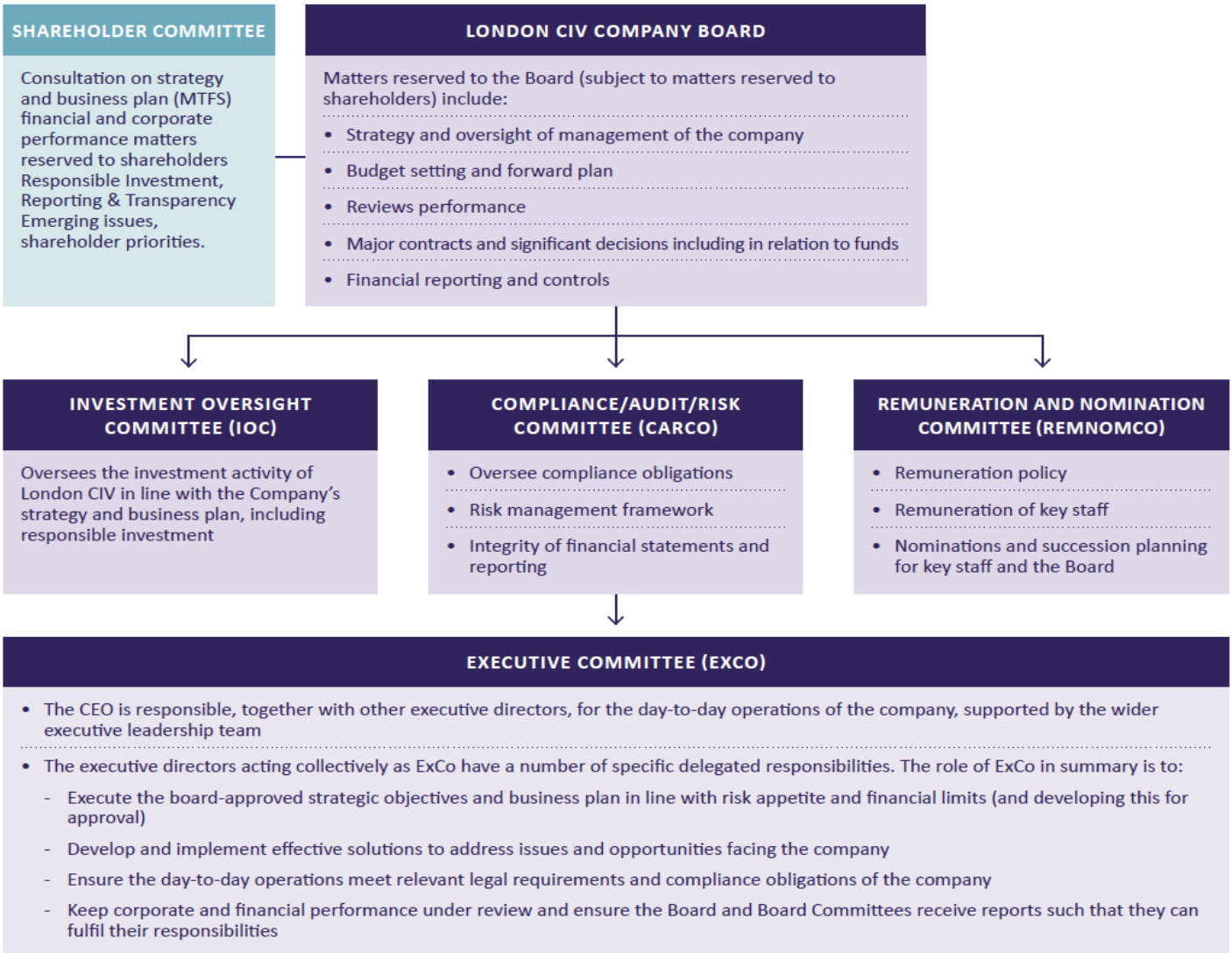
London CIV Governance Framework

73. Major decisions, including approval of the budget, strategic objectives and business plan are reserved to shareholders in General Meeting as set out in a Shareholder Agreement.

74. Certain decisions require approval from all (or a majority of) shareholders. There are 2 meetings each year of all shareholders and quarterly meetings of a Shareholder Committee representative of shareholders. The Committee considers all reserved matters, emerging issues and corporate and financial performance. In addition, there are two shareholder nominated directors who are Leaders of London Local Authorities and a Treasurer Observer (s151 officer) on the Board.

75. The overall strategic direction, management and general policy of London CIV is vested in the Board, which is responsible for major decisions unless reserved to shareholders. The Executive Directors, led by the Chief Executive, are responsible for the day to day management of the company and there is an Executive Committee which is attended by other senior managers in the firm.

76. The Board Committees are an Investment Oversight Committee (IOC); a Compliance, Audit, and Risk Committee (CARCO); and a Remuneration and Nomination Committee (RemNomCo) which includes the Chair of the Shareholder Committee amongst its membership. The Shareholder Committee is a consultative committee to the Board.



London CIV Board and Committees

77. Key issues discussed by the Board during the year were:

- Corporate performance, including Assets Under Management (AUM), the investment pipeline, performance against MTFS objectives, client feedback and communication
- Financial performance, including regulatory capital requirements and related issues such as the Pension Guarantee and Recharge agreements
- Medium Term Financial Strategy (MTFS), annual budget, business plan and objectives
- Governance progress review
- Regular update on governance and shareholder matters
- Responsible Investment

- Transparency and Reporting Framework
- Strategic priorities and “Big Questions”
- Strategic challenges and risks
- Remuneration and appointment matters
- Year-end financial report

78. During the year the Board undertook a review of its collective effectiveness identifying desirable changes to improve its working practice and assist directors in developing their knowledge and skills, including in respect of the regulatory environment.

79. As part of the Board Effectiveness review, the Board also identified a number of key issues for discussion as part of the forward programme and in setting the strategy for London CIV, specifically: whether the Company is delivering client stakeholder needs and improving feedback from Client Funds collectively

- whether business proposals are aligned with the strategy
- risks to delivering the strategy and to specific proposals
- ensuring that London CIV’s culture is such that it delivers good outcomes
- improving understanding of how strategic and operational decisions impact on shareholder clients
- a commitment to give more attention to how environmental and social issues might impact the business.

Board Membership

80. All directors must meet FCA fitness to serve requirements and are specifically approved by the FCA where required by the SM&CR regime.

81. The Executive directors and Chair of the Board hold designated Senior Manager Functions (SMF) under the FCA’s Senior Management & Certification Regime (SM&CR).

82. Two Non-Executive Directors, Cllr Stephen Alambritis (LB of Merton) and Cllr Ravi Govindia (LB of Wandsworth) are nominated by Shareholders and Ian Williams is the Treasurer Observer.

83. Key changes to membership of the Board that took place during (or just before the start and at the end of) the year were:

- Mike O’Donnell joined London CIV as CEO on 4 March 2019.

- Michael Pratten was appointed as interim Chief Investment Officer (CIO) from 7 May 2019 and as a member of the Board from 15 May 2019 resigning on 2 September 2019. Kevin Corrigan was appointed as interim CIO in November 2019 and joined the Board on 11 February 2020.

- Lord Kerslake was re-appointed by the Board, on the recommendation of RemNomCo, to serve as Chair of the London CIV Board, for a further term of two years from September 2019.

- Carolan Dobson resigned from the Board effective her last day of service being 31 March 2020.

- Linda Selman and Paul Niven come to the end of their three-year term of office in September 2020 and are eligible to serve for a further three-year term.

- The Board has commenced a search with the aim of making two new non-executive director appointments.

Shareholder Committee

84. The committee Chaired by Cllr Yvonne Johnson (LB Ealing Pension Fund Panel) is consulted on:

85. London CIV's strategy, budget and business plan (MTFS); financial and corporate performance; all matters reserved to shareholders; emerging issues and shareholder priorities; Responsible Investment and Reporting & Transparency. This role means that the Shareholder Committee plays an important role in identifying emerging issues and realistic solutions which will ensure that London CIV can deliver pooling to meet the needs of London. It has a key role in reviewing the budget and other matters reserved to shareholders before the Board makes a recommendation to all shareholders.

86. Key issues discussed by the Committee in the last year were:

- Corporate and financial performance

- Strategic priorities

- Medium Term Financial Strategy (MTFS), annual budget, business plan and objectives prior to decision by the January 2020 General Meeting of all Shareholders

- Responsible Investment review report and implementation plan

- Governance Progress Review Report, also discussed by all shareholders at the January 2020 General Meeting

- Governance and shareholders' matters

- Transparency and Reporting governance framework, focusing on non-financial information

The role of our shareholders

SHAREHOLDER ROLE

- London CIV's shareholders are the Client Funds
- Shareholders have rights set out in company law (Companies Act 2006)
- London CIV Shareholder rights are set out in the Articles of Association and Shareholder Agreement

SHAREHOLDER GENERAL MEETINGS

- 32 Members
- Meeting every six months (AGM and one other)
- Approves annual budget, business plan and objectives
- Approves membership of the Shareholder Committee
- Attended by all Shareholder Representatives

SHAREHOLDER AGREEMENT

- Sets out requirement for all shareholders to appoint a named "shareholder representative" (usually the Pension Committee Chair or equivalent)
- Reserves certain decisions to all or a majority of shareholders in general meeting or in writing

SHAREHOLDER COMMITTEE ROLE

- Corporate and financial performance review
- Consulted on any matters reserved for shareholder approval including Annual Budget, business plan and objectives
- Identifies emerging issues for the Board and Executive to consider
- Consulted on Responsible Investment and Transparency and Reporting Policy

Safeguarding Implications

87. None.

Public Health Implications

88. The Enfield Pension Fund indirectly contributes to the delivery of Public Health priorities in the borough.

Equalities Impact of the Proposal

89. The Council is committed to Fairness for All to apply throughout all work and decisions made. The Council serves the whole borough fairly, tackling inequality through the provision of excellent services for all, targeted to meet the needs of each area. The Council will listen to and understand the needs of all its communities.

Environmental and Climate Change Considerations

90. There are no environmental and climate change considerations arising from this report.

Risks that may arise if the proposed decision and related work is not taken

91. 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.

92. The monitoring arrangement for the Pension Fund and the work of the Pension Board should ensure that the Fund optimises the use of its resources in achieving the best returns for the Council and members of the Fund.

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

93. Not adhering to the overriding legal requirements could impact on meeting the ongoing objectives of the Enfield Pension Fund.

Financial Implications

94. This change could have significant and immediate financial consequences for investors in RPI-linked assets such as index-linked gilts. The Fund's assets are linked to RPI while its liabilities are linked to CPI. The Fund's investment adviser Mercer is of the opinion that following a RPI reform consultation, RPI is expected to fall while CPI will remain unchanged, which could lead to a possible deterioration of the Funding level.

Legal Implications

95. 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.

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

Workforce Implications

97. The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will allow the Council to meet this obligation easily and could also make resources available for other corporate priorities.

Property Implications

98. None

Other Implications

99. None

Options Considered

100. No alternative options considered.

Conclusions

101. Summarised below are the decisions on the resolutions put to the AGM on 16 July 2020.

102. Minutes of the 30 January General Meeting: were received and adopted.

103. The non-statutory Annual Review was received and adopted, and the statutory Annual Report and Financial Statements were received and approved. (These have already been approved by the Board in accordance with Company Law.) ESG/Responsible Investment and the diversity of the staff team and the Board were key themes discussed. The presentation included an opportunity to ask questions of committee chairs. This is the first year an Annual Review has been published. It is available as a separate document on the client portal under Document Centre>Company>Annual Report

104. The Regulatory Capital Statement was approved

105. Deloitte LLP were re-appointed as London CIV's external auditor for the year ending 31 March 2021.

106. Governance Progress Review: the paper includes an action plan together with progress against that plan. The AGM:

    i) noted the Governance Progress Review and confirmed that the arrangements introduced and in the progress of being implemented address concerns about the need for increased levels of shareholder engagement, including the fund launch process, responsible investment and engagement about cost transparency

    ii) approved the revised Shareholder Committee Terms of Reference (ToR) with immediate effect

    iii) approved the Disputes and Deadlock Procedure. All shareholders will be requested to confirm that they undertake to be bound by decisions made using the procedure.

107. Remuneration and Nomination Matters: the report included an update on the appointment of two new NEDs and on pay and pay disclosures (covered in the Annual Review). All appointments are subject to ongoing eligibility to serve in accordance with the ToR. The AGM

    i) Noted the membership of the Board of Directors and that Jason Fletcher will become a member of the Board on approval by the FCA.

    ii) Approved the re-appointment of elected members who are members of the shareholder committee

iii) Approved the appointment/re-appointment of alternate members of the shareholder committee

iv) Approved the appointment of the Treasurer members of the Shareholder Committee nominated by the Society of London Treasurers (SLT) who are usually the officers of SLT for the time being

v) Approved the appointment of the nominated Trade Union Representative.

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Date of report 16th July 2020

Appendices – To be sent electronically but not in the main pack.
Appendix 1 - LCIV AGM 16 July 2020 Meeting Pack

Background Papers – To be sent electronically but not in the main pack.
LCIV AGM 16 July 2020 Meeting Pack

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London Borough of Enfield

PENSION POLICY AND INVESTMENT COMMITTEE

Meeting Date: 23 July 2020

Subject: LGPS Latest Developments and Update

Cabinet Member: Cllr Maguire

Executive Director: Fay Hammond

Key Decision: [ ]

Purpose of Report

1. This report provides an update on several general developments affecting the Local Government Pensions Scheme. One of the functions of the Committee is to meet the Councils duties in respect of the efficient management of the pension fund.

2. The Committee's consideration of the information in the report contributes towards the achievement of the Council's statutory duties.

Proposal(s)

3. Pension Policy and Investments Committee are recommended to note the contents of this report.

Reason for Proposal(s)

4. For effective and efficient management of the Fund.

5. There is a requirement for the Committee to be kept up to date with current issues and legislative developments to support and effect the effective discharging of their role.

6. **Relevance to the Council's Corporate Plan**

7. Good homes in well-connected neighbourhoods.

8. Build our Economy to create a thriving place.

9. Sustain Strong and healthy Communities.

Background

McCloud consultation published for the LGPS

10. MHCLG has released a 12-week public consultation on proposals to amend the LGPS to remove the unlawful age-discrimination that arose from the protections associated with introduction of the 2014/2015 scheme reforms and which were successfully challenged in the McCloud case. The key proposals set out in the consultation are:

- A new final salary underpin will apply to service between 1 April 2014 and 31 March 2022
- The changes will affect active members of a public service scheme on 31 March 2012 who went on to have active membership in the LGPS on or after 1 April 2014
- Leavers since 1 April 2014 will fall into scope of the new underpin, meaning their benefits must be checked to see if the underpin applies retrospectively
- Because early and late retirement reductions will now be taken into account in the underpin comparison, the underpin check will need to take place on leaving active membership and on subsequent retirement
- Aggregations will be re-opened for a twelve-month period

11. The consultation can be accessed below: https://www.gov.uk/government/consultations/local-government-pension-scheme-amendments-to-the-statutory-underpin

12. The changes present a significant challenge to administering authorities and to employers, not least of which will be a major data collection exercise to enable the final salary underpin to be calculated. Whilst benefits accruing from 1 April 2022 will be career average for all members, the new underpin will require 2008 scheme pay to be recorded for some members for the next 40 years. As well as changes to ongoing administrative systems, processes and communications, the recalculation of leavers' benefits represents an enormous task, covering retirements, deferred leavers, deaths, transfers and trivial commutations. It is therefore vital that administering authorities, employers and other affected parties consider responding to the consultation.

Changes to the tapered Annual allowance from 6 April 2020

13. In the Budgets on 11th March, it was announced the tapered annual allowance will be amended such that it only applies to individuals with ‘adjusted income’ (broadly total taxable income from all sources plus the value of pension accrual) of over £240,000 (compared to the 2019/20 tax year where it's applied to individuals with adjusted income over £150,000). The minimum level to which the annual allowance can taper down will reduce from £10,000 to £4,000, which we only impact people with an adjusted income in

excess of £300,000 pounds. This means that the tapered annual allowance is expected to affect far fewer people than previously.

14. In addition, as set out in the current legislation the lifetime allowance (LTA) increased to £1,073,100 from 6 April 2020 (in line with the increase in CPI to September 2019 of 1.7%).

COVID-19 Impact and Consideration for Funds

15. The uncertainty surrounding COVID-19 has triggered the most significant fall in domestic and overseas equities since the global financial crisis of 2008. Since the outbreak, the FTSE100 price index has fallen by around 20%. Whilst some funds may have some form of protection in place (whether through their investment strategies or more directly e.g. equity protection), funding levels will still be impacted by the volatility that COVID-19 has produced.

16. The potential impact of COVID-19 is creating a lot of uncertainty in a number of areas for all LGPS funds. As well as falls in funding levels, it has the potential to affect a fund's operational arrangements and the affordability constraints of employers.

17. An update is being provided here on two important areas; firstly, from longevity perspective (i.e. expected life expectancy of members), and secondly in relation to cyber risk as more people work from home.

Longevity

18. The short term impact of the COVID-19 outbreak on UK deaths is unprecedented in past times. Deaths from COVID-19 peaked in the UK, but the rate of decline was slower than the initial rate of increase. Suggesting that whilst social distancing and lockdown has been an effective strategy for inhibiting the spread of COVID-19, initially at least it does not stop the spread altogether.

19. The outlook for the remainder of 2020 (and beyond) is still uncertain, but it is possible that there could be 100,000 more deaths than expected by the end of the year, compared with around 600,000 deaths in a typical year.

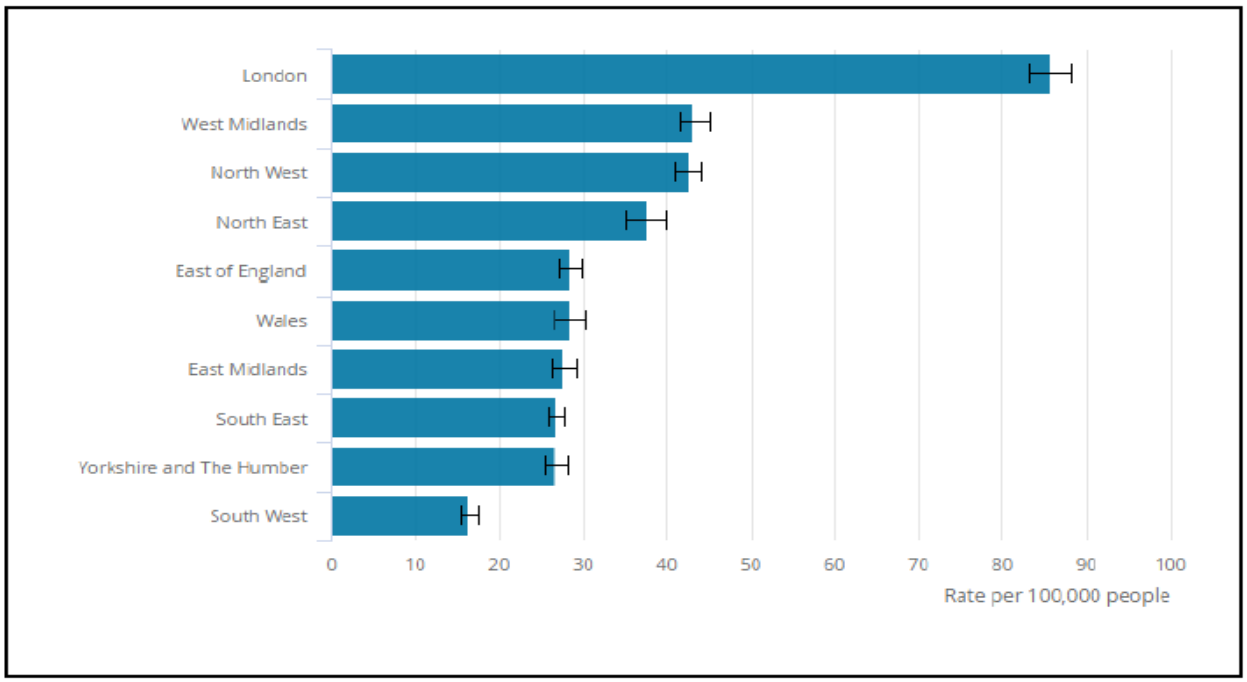
20. A lot of data has been published about the impact of COVID-19 at a national level, but the impact on pension funds could be very different and will be two fold:

    i) The impact of more member having died than would usually be expected; and

    ii) The outlook for longevity changing, for example depending on the health of the surviving population; and the economic, social and political consequences of tackling COVID-19.

21. The impact of COVID-19 has varied significantly between groups, for example depending on age, affluence and location (illustrated by the chart shown

below), so even within the LGPS the impact will differ between funds, and the long term effects could be either positive or negative.



Cyber Risks

22. The global COVID-19 pandemic has led to many employees working remotely, some for the first time; a development that has significantly increased organisations' cyber risks. Cyber criminals are aware of the opportunity that rapidly deployed, mass remote working offers, and are taking advantage of the vulnerabilities exposed by the new way of working. Hackers are targeting individuals through phishing attacks disguised as coronavirus-related notices, or by luring them to infected websites that appear to be legitimate sources of COVID-19 information.

RPI Consultation

23. HM Treasury on the UK Statistics Authority (UKSA) published the anticipated consultation on the reform of the retail prices index methodology on 11 March, the same day as the budget. There were no major surprises, the consultation confirmed that "from the implementation date (a date between 2025 and 2030 thirty subject to consultation) the RPI index will be calculated using the same methods and data sources as are used for CPIH2. Access to the document is: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/879860/RPI_Consultation_extension.pdf

24. The consultation made no mention of any compensation for holders of RPI linked gilts affected by the changes. There was no clear market reaction, although as the consultation was launched on the day of the budget (and amid markets uncertainty due to COVID-19) there was a significant amount of news for the market to digest at around the same time. The consultations runs until 22nd April.

25. In relation to the LGPS where pensions are CPI linked, the position remains that for funds holding index linked gilts (or other assets such as swaps that provide the hedge to our RPI), this change to RPI is potentially unfavourable.

26. The will so impact on the way many Funds determine their inflation assumption which typically has regard to index linked yields. There are also still some LGPS benefits that use RPI that will be affected by this consultation.

Supreme Court decision on LGPS

27. In September 2016 the Department for Communities and Local Governments DCLG (now MHCLG) issued guidance on Preparing and Maintaining an Investment Strategy Statement (ISS) ("the guidance"). Under the LGPS (Management and Investment of Funds) Regulations 2016 ("the regulations"), LGPS administering authorities in England and Wales are required to follow that guidance when formulating their ISS.

28. The guidance included two passages which prevented pension funds from engaging in boycotts and "ethical divestment" of companies and this have provoked a legal challenge led by the Palestine Solidarity Campaign Ltd.

29. Campaigners from the Palestine Solidarity Campaign (PSC) ask for the guidance to be ruled as legally flawed. In June 2017 the high courts ruled that the government had acted unlawfully in seeking restrict "ethical" boycotts on Israel and the guidance was reissued. This was appealed in the Court of Appeal and the Supreme Court.

30. On 29 April 2020, the Supreme Court found that the Secretary of State was able to provide guidance to administering authorities on how they should administer and manage the LGPS funds, on how, within the investment strategy they should take ethical considerations into account.

31. However, the court noted that the current legislation does not allow the Secretary of State to impose the Government's view on foreign and defence policy on administering authorities of LGPS funds, and reissued MHCLG statutory guidance from July 2017 remains valid.

32. Administration authorities when taking non financial considerations into account for investment decisions, should consider members' views as an intrinsic part of the investment decision making processes. Otherwise the judgement does not change the fundamental role or duties of LGPS administering authorities in relation to their investment or other powers and confirms that the administering authorities remain responsible for the investment decisions of their respective funds.

Exit Credits

33. A partial Government response on changes to the Local Valuation Cycle and the Management of Employer Risk covering Exit Credits has been published. The enabling Regulation changes (The Local Government Pension Scheme (Amendment) Regulations 2020) were laid on 27 February 2020 and came

into force on 20 March 2020. The response to the remaining part of the consultation e.g. moving through a four year valuation cycle are promised “in due course” and no time scale is given.

34. This change was intended to clarify the position on exit credits payable to employers exiting from a Fund where there are risk sharing arrangements between the employer and the original contracting authority and is backdated to apply from 14 May 2018 when Exit Credits were first introduced into the LGPS. Whilst the regulations undoubtedly provide the regulatory support to Funds when they determine their policies on payment of Exit Credits, whether they provide absolute clarity to Administering Authorities is perhaps debatable in terms of how the process is governed.

35. It is therefore paramount that Funds ensure their policy on payment of Exit Credits where there is a risk sharing arrangement is in place and the process require for the relevant parties to adhere to when making representation and/or disputing/appealing a decision.

Transfer warning letter for LGPS

36. In April 2020, TPR issued guidance on communicating with members during COVID-19. With an aim to provide clear and useful information such that members do not make rushed permanent decisions regarding their retirement options.

37. This included asking pension managers to send letters to all members who apply for a Cash Equivalent Transfer Value (CETV) quote, to help them on the stand the significance of changing their pension arrangements. The template for this letter provided members with information on what they should consider and where to access impartial advice.

38. The original letter published on 29 April 2020 was not suitable for use by the LGPS. An LGPS version of this letter as now be made available to administering authorities of the LGPS on 18 June 2020. Access to a version of this letter is here. http://lgpslibrary.org/assets/tpr/Covid19_CETV_letter.pdf

39. Pension managers have also been asked to monitor the number of requests for CETV quotes they receive from members and the corresponding advisors. This is an attempt to be wary of this consulting patterns that may emerge of which the FCA must be notified.

Safeguarding Implications

40. None.

Public Health Implications

41. The Enfield Pension Fund indirectly contributes to the delivery of Public Health priorities in the borough.

Equalities Impact of the Proposal

42. The Council is committed to Fairness for All to apply throughout all work and decisions made. The Council serves the whole borough fairly, tackling inequality through the provision of excellent services for all, targeted to meet the needs of each area. The Council will listen to and understand the needs of all its communities.

Environmental and Climate Change Considerations

43. There are no environmental and climate change considerations arising from this report.

Risks that may arise if the proposed decision and related work is not taken

44. 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.

45. The monitoring arrangement for the Pension Fund and the work of the Pension Board should ensure that the Fund optimises the use of its resources in achieving the best returns for the Council and members of the Fund.

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

46. Not adhering to the overriding legal requirements could impact on meeting the ongoing objectives of the Enfield Pension Fund.

Financial Implications

47. This change could have significant and immediate financial consequences for investors in RPI-linked assets such as index-linked gilts. The Fund's assets are linked to RPI while its liabilities are linked to CPI. The Fund's investment adviser Mercer is of the opinion that following a RPI reform consultation, RPI is expected to fall while CPI will remain unchanged, which could lead to a possible deterioration of the Funding level.

Legal Implications

48. This report provides an update on several general developments affecting the Local Government Pensions Scheme. One of the functions of the Pensions Board is to meet the Councils duties in respect of the efficient management of the pension fund. And so it is appropriate, having regard to these matters, for the Committee to receive information about general developments affecting the Local Government Pensions Scheme. The Committee's consideration of the information in the report contributes towards the achievement of the Council's statutory duties.

Workforce Implications

49. The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will allow the

Council to meet this obligation easily and could also make resources available for other corporate priorities.

Property Implications

50. None

Other Implications

51. None

Options Considered

52. No alternative options considered.

Conclusions

53. The UK Government is to undertake a consultation into the calculation and use of RPI with reference to Index Linked Gilts, the effect on public finances and the integrity for the statistical system.

54. The result could see RPI no longer used as a statistic used by Index Linked government bonds and the Consumer Prices Index including owner occupier housing costs (CPIH). Thereby reducing the future change in RPI by around 1% per annum. This could have a potentially major effect on the market and could cause a huge sell off in market.

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Date of report 16th July 2020

Appendices
None

Background Papers
None