

MUNICIPAL YEAR 2019/2020 REPORT NO.

MEETING TITLE AND DATE:

Pension Policy & Investment Committee
5th September 2019

REPORT OF:

Director of Finance

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Agenda – Part:	Item:
Subject: London Collective Investment Vehicle (CIV) Update	
Wards: All	
Key Decision No:	
Cabinet Member consulted:	

1. EXECUTIVE SUMMARY

1.1. This report provides background information on London CIV and also the pooling arrangements as mandated by the Government and an update on the latest developments in respect of the pool that Enfield Pension Fund is participating in, which is London CIV by covering:

- i) The new governance framework for the London CIV to replace the sectoral committee;
- ii) LCIV Recharge Agreement and City of London required Guarantee and Agreement for admitting LCIV into their Local Government Pension Scheme;
- iii) An update on existing and new fund developments; and
- iv) London CIV Remuneration Policy Review.

2. RECOMMENDATIONS

2.1. **Members are recommended to:**

- i) note the content of this report;
- ii) delegate to the Executive Director of Resources and 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
- iii) approve the agreements to be signed when recommendation (ii) above has been actioned in consultation with the Chair and Vice Chair of the Committee.

3. **BACKGROUND**

- 3.1. In the 2015 Summer Budget it was announced that the UK government would work with Local Government Pension Scheme (LGPS) administering authorities to reform how LGPS investments are managed.
- 3.2. The Government's plan was for LGPS funds to pool their assets into approximately six investment pools, in an effort to drive down investment costs and enable funds to develop the capacity and capability to become world leaders in infrastructure investment and help drive growth in the UK economy.
- 3.3. Across the LGPS in England and Wales the scheme holds £263bn of assets (2017/18 figure). These assets are currently held in eighty-nine local pension funds and are used to pay the pensions of former members of the Scheme and their dependants. The LGPS is one of the largest funded pension schemes in Europe
- 3.4. The Government commissioned research in 2015 which indicated that significant savings could be delivered by the creation of around six investment pools, each with assets of at least £25bn. Each LGPS administering authority was then obliged to join, or help create, an investment pool with other LGPS administering authorities.
- 3.5. Savings are to be achieved through economies of scale and increased bargaining power; investment costs will be reduced along with other costs for all types of investment used in the pool.
- 3.6. The Government would also like the LGPS to have the capacity and capability to be able to invest in infrastructure e.g. railway, road or other transport facilities or housing supply. Currently only a very small proportion of LGPS assets are invested in infrastructure, it is hoped that the creation of investment pools will make it easier for LGPS funds to invest in infrastructure due to their increased scale.
- 3.7. The UK's 89 Local Government Pension Schemes (LGPS) have finalised their asset-pooling plans by having eight regulated fund management entities to run almost all the LGPS assets, leaving individual funds to decide asset allocation and focus on other areas of pension scheme management.
- 3.8. The Eight entities/pools are:
 - a) **ACCESS (£40.8bn)** - LGPS funds: Cambridgeshire, East Sussex, Essex, Hampshire, Hertfordshire, Isle of Wight, Kent, Norfolk, Northamptonshire, Suffolk, West Sussex
 - b) **Border to Coast Pension Partnership (£43.7bn)** - LGPS funds: Bedfordshire, Cumbria, Durham, East Riding, Lincolnshire, North Yorkshire, Northumberland, South Yorkshire, Surrey, Teesside, Tyne & Wear, Warwickshire.
 - c) **Brunel Pension Partnership (£27.4bn)** - LGPS funds: Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, Wiltshire

- d) **LGPS Central (£41.9bn)** - LGPS funds: Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands, West Midlands Transport, Worcestershire
- e) **London Collective Investment Vehicle (CIV) (£34.5bn)** - LGPS funds: 32 London borough pension funds including the City of London Corporation
- f) **Local Pensions Partnership (£14.5bn)** - LGPS funds: London Pensions Fund Authority, Lancashire, Berkshire
- g) **Northern Pool (£42.1bn)** - LGPS funds: Greater Manchester, Merseyside, West Yorkshire
- h) **Wales Pensions Partnership £16bn)** - LGPS funds: Cardiff, Clwyd, Dyfed, Greater Gwent, Gwynedd, Powys, Rhondda Cynon Taf, Swansea

London Collective Investment Vehicle (CIV)

- 3.9. 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.
- 3.10. London CIV was launched as an operator with Financial Conduct Authority (FCA) permission to manage authorised Alternative Investment Funds (AIFM) through an Authorised Contractual Scheme (ACS). To meet LLA shareholders' evolving requirements it is clear that a wider range of permissions and services are necessary, and shareholders agreed to London CIV variation of business activity to manage Unauthorised Alternative Investment Funds (UAIM) so that it can offer illiquid products such as Infrastructure Funds.
- 3.11. The Pensions CIV Joint Committee ("PCSJC") is a sectoral joint committee operating under the London Councils' governance arrangements (further to an agreement entered by all the London local authorities (LLA). Each London local authority which a shareholder in the London LGPS CIV Limited is ("London CIV") agreed to appoint a representative to the PCSJC.
- 3.12. To enable the new governance arrangements to properly take effect it was necessary for all the London local authorities (LLAs) to revoke the delegation of the joint exercise of functions to the PCSJC, and each London local authorities (LLA) then formally agreed and adopt the new governance arrangements.
- 3.13. The dissolution of the PCSJC was sought by end of 31 July 2018 to allow the new Shareholder Committee appointments to take effect from August 2018 and the first meeting of the new Shareholder Committee took place in September 2018. As part of these arrangements, additional non-executive directors nominated via the collective political

processes of London Councils were made in accordance with the Articles of Association of the London.

- 3.14. The Shareholder Committee comprised of 12 members from London Local Authorities (LLAs) made up of 8 Leaders (or Pension Chairs or equivalent) and 4 Treasurers, plus the Chair of the (LCIV) Board (the "Members"). The members of the Committee were agreed by the Shareholders acting collectively and nominated for appointment by the collective political processes of London Councils or in the case of the Treasurers by the Society of London Treasurers.
- 3.15. Any Member of the Shareholder Committee, other than the Chair of the (LCIV) Board, must also be a Shareholder of the Company in good standing. No more than one Leader (or equivalent) and one Treasurer can be from a London Local Authority without direct investments in the London LGPS CIV Authorised Contractual Scheme or other pooling structure established by the Company from time to time. London Local Authorities which have Directors on the Board may not be Members.
- 3.16. The current Members were ratified at the Annual General Meeting of the London CIV held in July 2019. The 8 members of the Shareholder Committee (Pension Committee Chairs or equivalent) appointed via the collective political processes of the London Councils are set out below, providing political, geographical and gender diversity:
 1. Cllr Yvonne Johnson, Ealing (Chair of the Shareholder Committee)
 2. Cllr Robert Chapman, Hackney (Labour)
 3. Cllr Antonia Cox, Westminster, (Conservative)
 4. Nick Bensted-Smith CC, (City)
 5. Cllr Elaine Norman, Redbridge (Labour)
 6. Cllr Keith Onslow, Bromley, (Conservative)
 7. Cllr Mark Shooter, Barnet, (Conservative)
 8. Cllr Jill Whitehead, Sutton (Lib Dem Councillors)

The 4 treasurers nominated via the Society of London Treasurers, the individuals to be first appointed are:

1. Caroline Holland (Merton);
2. Ian Williams (Hackney);
3. Gerald Almeroth (Sutton); and
4. Duncan Whitfield (Southwark).

And the Trade Union Observer: Chris Cooper

Alternates /Substitutes

- Cllr Corthorne, Hillingdon (Conservative)
Cllr Senior, Wandsworth (Conservative)
Cllr Simon Hall, Croydon (Labour)

Cllr Nitin Parekh, Harrow (Labour)
Cllr Doug Taylor, Enfield (Labour)
Cllr Mark Beynon, Kingston (LibDem)
Henry Colthurst CC

Trade Union Observer and Treasurer Substitutes have yet to be appointed.

- 3.17. London CIV is regulated by the FCA. All Board Directors are formally appointed by the Board of the Company, subject to the approval of the FCA. The names of the two additional Non-Executive Directors nominated via the collective political processes of the London Councils to improve shareholder and stakeholder are:

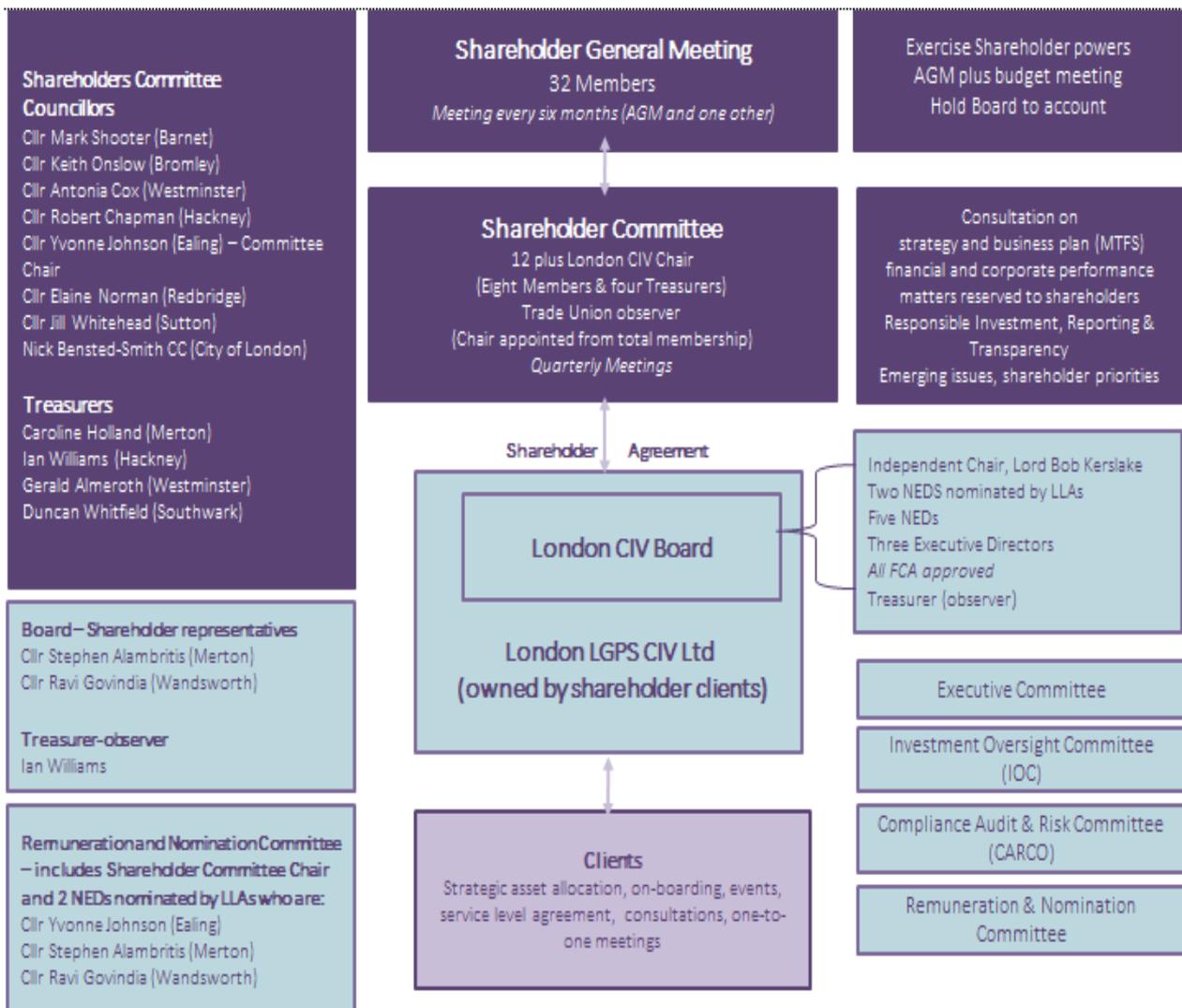
Cllr Stephen Alambritis, Leader Merton Council (Labour)
Cllr Ravi Govindia CBE Leader Wandsworth Council (Conservative)

- 3.18. The treasurer observer to the LCIV Board, nominated via the Society of London Treasurers to be confirmed. The Society of London Treasurers ("SLT") is a group made up of London section 151 officers.

LCIV board directors:

1. Lord Robert (Bob) Kerslake (Chair, NED) from Sept 2015
2. Chris Bilsland (Chair Investment Oversight Committee, NED) from Sept 2015
3. Carolan Dobson (NED) from March 2016
4. Eric Mackay (Chair Audit, Risk and Compliance Committee, NED) from Nov 2015
5. Paul Niven (NED) from 1 Sept 2017
6. Linda Selman (NED) from 1 Sept 2017
7. Mark Hyde-Harrison (Chief Executive Officer)
8. Brian Lee (Chief Operating Officer with responsibilities as Chief Finance Officer and Chief Compliance Officer)

- 3.19. The new governance structure of London CIV is as shown below:



Independent oversight

Board

Board has collective responsibility. Comprised of three executive and seven independent non-executive directors plus one independent chair. The Board act in interest of all shareholders

External independent oversight



FCA

Approved persons, permissions for business, approval of prospectus

Depository

Independent oversight of assets to protect investors' interests

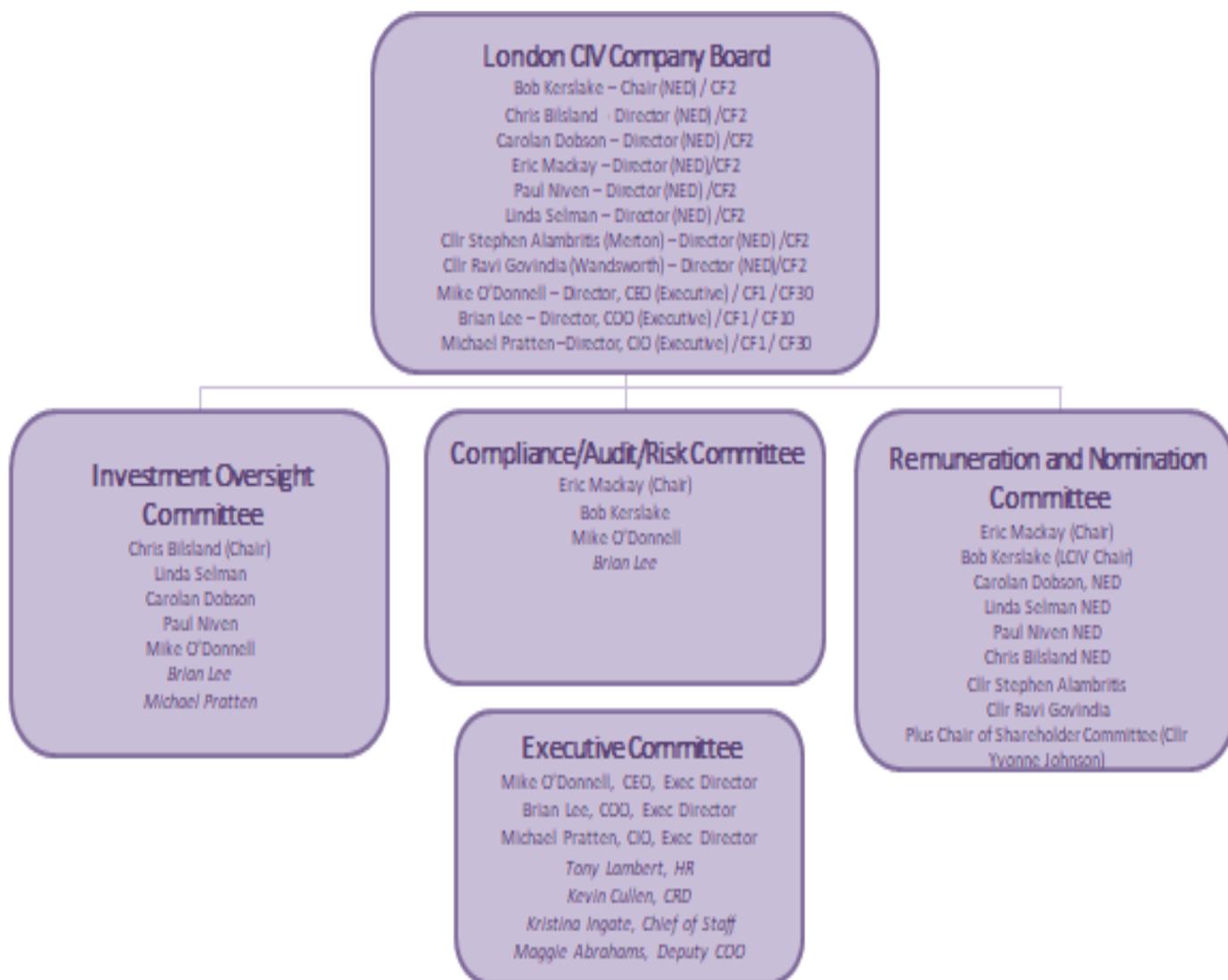
Auditors

Auditing of LCIV (company) and ACS (pooling vehicle)

Government oversight

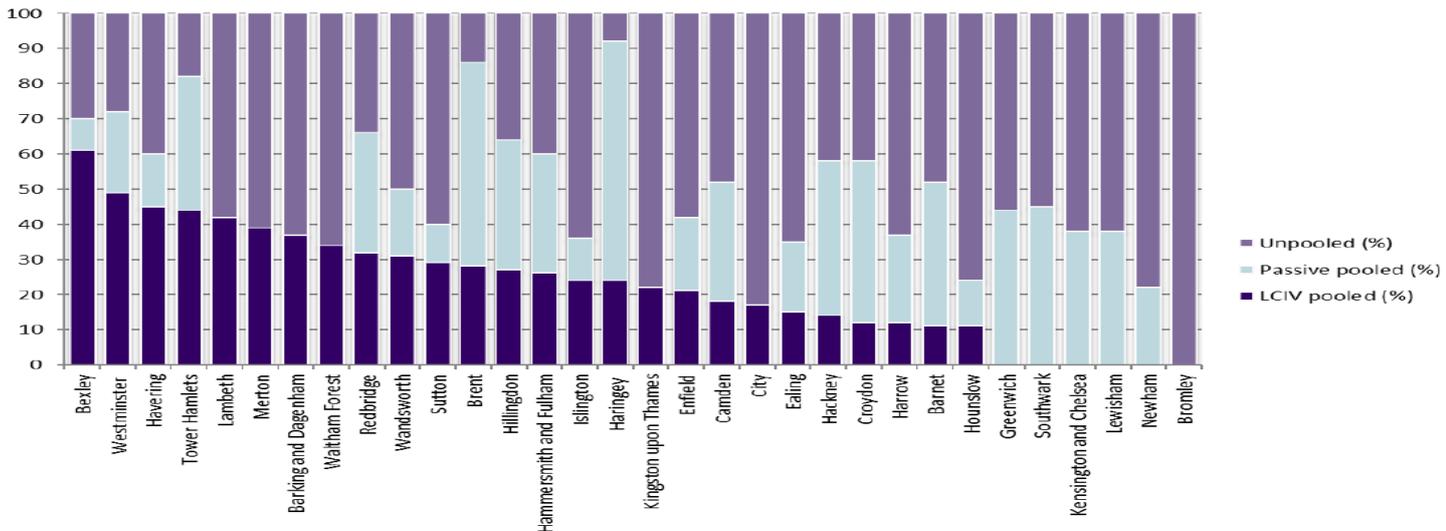
MHCLG

Progress against pooling criteria



- 3.20. London CIV implemented the new governance framework agreed at the AGM in July 2018. A review in Autumn 2019 will consider the effectiveness of the arrangements, with an emphasis on how they are building collaboration between London CIV and its shareholder clients.
- 3.21. 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.

London pooling landscape



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

	Size	Capacity*	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)	Inception Date	No. of Investors
UK Equity							
LCIV UK Equity Fund	£417m	£1,000m	0.44	(6.47)	(0.37)	18/05/2017	2
Benchmark: FTSE All Share Index			3.26	0.57	3.81		
Performance Against Benchmark			(2.82)	(7.04)	(4.18)		
Global Equity							
LCIV Global Equity Alpha Fund	£128m	Unlimited	8.03	12.16	16.18	02/12/2015	1
Benchmark: MSCI World Index Total Return (Net) in GBP			6.48	10.30	14.43		
Performance Against Benchmark			1.55	1.86	1.75		
LCIV Global Alpha Growth Fund	£2,689m	See note below	7.66	9.18	19.78	11/04/2016	13
Benchmark: MSCI All Country World Gross Index			6.24	10.50	16.16		
Performance Against Benchmark			1.42	(1.32)	3.62		
LCIV Global Equity Fund	£639m	Unlimited	6.37	12.10	10.08	22/05/2017	3
Benchmark: MSCI All Country World Index Total Return (Gross)			6.28	10.30	9.96		
Performance Against Benchmark			0.09	1.80	0.12		
LCIV Global Equity Focus Fund	£809m	£1,500m	4.17	11.69	10.19	17/07/2017	5
Benchmark: MSCI World Index Total Return (Net) in GBP			6.48	10.30	9.44		
Performance Against Benchmark			(2.31)	1.39	0.75		
LCIV Equity Income Fund	£250m	£750m	3.94	10.85	4.78	08/11/2017	2
Benchmark: MSCI World Index Total Return (Net) in GBP			6.48	10.30	7.75		
Performance Against Benchmark			(2.54)	0.55	(2.97)		
LCIV Emerging Market Equity Fund	£402m	£1,000m	5.60	4.58	(2.36)	11/01/2018	6
Benchmark: MSCI Emerging Market Index (TR) Net			3.01	4.99	(1.91)		
Performance Against Benchmark			2.59	(0.41)	(0.45)		
LCIV Sustainable Equity Fund	£303m	£1,000m	7.37	12.77	17.27	18/04/2018	2
Benchmark: MSCI World Index Total Return (Net) in GBP			6.48	10.30	14.49		
Performance Against Benchmark			0.89	2.47	2.78		
Multi Asset							
LCIV Global Total Return Fund	£320m	Unlimited	1.09	2.50	3.62	17/06/2016	5
LCIV Diversified Growth Fund	£672m	See note below	0.97	2.37	5.99	15/02/2016	8
LCIV Absolute Return Fund	£869m	£1,500m	1.62	(1.21)	3.63	21/06/2016	10
LCIV Real Return Fund	£184m	Unlimited	4.28	9.18	5.01	16/12/2016	2
Fixed Income							
LCIV MAC Fund	£842m	Unlimited	1.74	3.93	3.46	31/05/2018	12
LCIV Global Bond Fund	£269m	Unlimited	3.78	n/a	9.13	30/11/2018	3
Index: Barclays Aggregate - Credit Index Hedged (GBP) Index			3.23	n/a	8.29		
Performance Against Benchmark			0.55	n/a	0.84		
Total LCIV Assets Under Management	£8,793m						

*Total fund capacity as at 30 June 2019. Capacities may change, for details on remaining current capacity available for further investment please contact the Client Service Team at clientservice@londonciv.org.uk.

- 3.22. At the end of June 2019 London CIV had an offering of 14 funds available to client shareholders as shown above. During 2018/19 LCIV launched two new funds, the LCIV MAC Fund in May 2018 and LCIV Global Fund in November 2018 having launched the LCIV Sustainable Equity Fund in April 2018. This is less than their MTFs goal of 9 funds - which would be a stretching goal for any pool.
- 3.23. 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.
- 3.24. The fact that funds were not launched to the timeline planned is one contributor to LCIV not meeting the AUM target. LLA decision making timelines prior to investment, and a lack of clear LLA commitments before fund launches are a further contributor.
- 3.25. The London CIV is addressing the new fund launch process issues in two ways, which includes:
- a. a clear client engagement framework and clear milestones; and
 - b. a greater focus on collaboration with LLAs to agree pooling priorities and ways to facilitate pooling.
- 3.26. The London CIV has developed a Service Level Agreement (SLA) and are currently consulting LLAs to ensure it is “fit for purpose” before signature.

Responsible Investment and Stewardship

- 3.27. In October 2018 the Board and Shareholder Committee approved the London CIV Responsible Investment Policy. London CIV is a UNPRI signatory. Following the appointment of Mike O'Donnell as CEO, LCIV began to consider how to do more to translate the policy into action. They began the “next steps” conversation at the April 2019 Shareholder Committee meeting and plan an interactive event with all Shareholders in September 2019. In addition to work about the implications for their fund range, immediate practical actions include enhanced ESG reporting in the Quarterly Client Information and more networking activity.

People

- 3.28. The London CIV achieved the 2018/19 MTFs objective of an increase in staff to 25. Mike O'Donnell was appointed as permanent CEO in March 2019, taking over from Mark Hyde-Harrison who had served as interim CEO for over a year and oversaw the implementation of the governance review. LCIV reported they are working hard to deliver improvements at a greater pace and the increase in staff is important to support this, as it is for the appointment of a permanent CEO and interim CIO (so they have three Executive Directors in place) early in 2019/20. Michael Pratten was appointed as interim Chief Investment Officer in May 2019 and Michael Thompson will join London CIV as

permanent CIO in September 2019. This is seen as an important step by the Depositary to ensure that the business is suitably resourced.

- 3.29. London CIV will take the opportunity during this financial year in developing the forthcoming MTF5 to consider whether they need a different staffing structure to support their future operating model and strategic plan. They also aim to find ways to collaborate with LLAs to recruit, exchange and develop staff to improve their capability to deliver pooling.

Operating and business model

- 3.30. London CIV was launched as an operator with Financial Conduct Authority (FCA) permission to manage authorised Alternative Investment Funds (AIF) through an Authorised Contractual Scheme (ACS). At the January 2019 General Meeting Shareholders agreed to amend the definition of business purpose in the Shareholder agreement so that it is wider than “the FCA Authorised Operator of an ACS” which is consistent with the evolving expectations of pooling companies. All but one Shareholder has now signed the necessary letter authorising the change to the Shareholder Agreement.
- 3.31. The business of London CIV will now be described as *acting as the Financial Conduct Authority (FCA) authorised company to provide a collaborative platform through which the Administering Authorities of the LGPS funds can aggregate their pension monies and other investments.*
- 3.32. The London CIV business model makes use of a streamlined core team and extensive use of third-party suppliers – investment managers and other services. This contrasts with the larger in-house staff teams of many other pools.

LCIV Recharge Agreement and City of London Guarantee Agreement

- 3.33. The LCIV’s pension arrangements are provided through the City of London Pension Fund and LCIV and City of London have been working together to formalise these arrangements.
- 3.34. There have also been similar discussions with the Pensions Sectoral Joint Committee and at the PSJC meeting in March and July 2018; members agreed that the formal process for each Authority to progress the signing of the agreements could begin.
- 3.35. 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.
- 3.36. 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 LCIV board decision, however the financial consequences of that decision have fallen on LLAs with little consultation.

- 3.37. One of the agreements covers the guarantee in favour of the City of London (the agreement protects the City of London Pension Fund from any deficit arising from the LCIV's membership in the Fund) and the second agreement is covering the FRS102 accounting liability (this is an accounting calculation of the deficit of the accrued benefits of the members of the LCIV membership of the scheme). The following is a summary of the position: -
- i) Whilst recognising that LCIV has been participating in the City of London scheme since 2015 and that the guarantee was in place informally some time ago, the Recharge Agreements needs to be signed before the end of March 2018 to be effective in the financial year 2018/19. Although most LLAs have not signed this recharge agreements to date.
 - ii) The benefit of the Recharge Agreement is that it allows LCIV and ultimately its LLA shareholders to 'recover' the circa £2m capital hit caused by FRS102 defined benefit accounting rules. There is no extra financial cost to you as an LCIV shareholder in signing this agreement.
 - iii) The Recharge Agreement operates on an individual shareholder basis so there are 33 agreements, with each agreement 'on a several basis'.
 - iv) The Guarantee Agreement is an 'all shareholder' agreement which only becomes effective when the last shareholder signs.
 - v) Ultimately, if the Guarantee Agreement does not become effective then the City of London will expect the LCIV to provide a bond.
- 3.38. The London Local Authorities worked collectively to review these agreements and to have a collective legal review that enables them to all proceed with signing.

LCIV Remuneration Policy Review

- 3.39. The refusal of many LLAs to sign the LCIV Recharge Agreement and the City of London Guarantee Agreement brought about the Board of London CIV looking for alternative and hence proposing a way forward following the special shareholder committee of 18 July 2019 meeting. The Board made a commitment in the Budget approved at the 31 January General Meeting to review the Remuneration Policy. The review aims to ensure that London CIV is able to recruit, retain and develop the talented staff required to deliver its plans for the future, and to build a client and shareholder focused, collaborative work environment.
- 3.40. The review overseen by a sub-group of the Remuneration and Nominations Committee (now including Ian Williams the Treasurer Observer on the Board) began in March 2019 and makes a preliminary report to the working group on 26 June 2019, followed by a report to a special Board meeting and a special Shareholder Committee. It includes a review of options for the Pension Scheme. Final approval on the way forward is the responsibility of the board. This is subject to any

further approval of matters reserved to Shareholders for approval or consultation e.g. any amendments to the Pension Scheme require Shareholder approval.

3.41. The Board of London CIV recognised that continuing with the status quo is unlikely to be affordable and appropriate in the longer term. London CIV Board is therefore proposing the following to:

- i) keep the LGPS for existing staff and close it to new hires;
- ii) recognise that to make the package competitive to new hires (given their current remuneration package) they will need to offer higher salaries (or a combination of a DC scheme and higher salary);
- iii) explore the options for an appropriate DC scheme in more detail, bearing in mind that the current DC scheme is a “basic” NEST auto-enrolment scheme; and
- iv) complete the outstanding formal processes of setting up the LGPS scheme begun in 2015. This requires boroughs to sign the existing guarantee agreement so that the Admission Agreement can be signed. This must be done before the scheme can be closed to new entrants.

3.42. A response is expected from all LLAs by 16 September 2019 so that the London CIV Board can decide on the way forward. Officers are reviewing London CIV proposition to assess if the Enfield Fund and the Council are comfortable enough to sign the agreements as they are.

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 progress to date 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 £230m investments with London CIV sub-funds and £258m 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