Non-Executive Report of the: **PENSIONS COMMITTEE** **14 March 2018**	
Report of: Zena Cooke, Corporate Director of Resources	**Classification: Exempt**
London Collective Investment Vehicle (CIV) Latest Development and Update	

Originating Officer(s)	Bola Tobun, Investment and Treasury Manager
Wards affected	All

Introduction

This report provides the Committee with an update on general developments and the progress of the London Collective Investment Vehicle (CIV).

Recommendations:

Members are asked to note:

a) the outcome of the governance review of the London CIV undertaken by Willis Towers Watson;
b) a number of issues that currently exist within the LCIV;
c) a number of recommendations for change and improvement to LCIV's current governance arrangements;
d) London CIV consultation process and
e) Fund launches progress.

1. REASONS FOR THE DECISIONS

1.1 This is a noting report that assists the effective and efficient management of the Pension Fund.

2. ALTERNATIVE OPTIONS

2.1 No alternative as this is a noting report.

3. DETAILS OF REPORT

The Governance Review

3.1 The Governance Review of the London CIV that was commissioned from Willis Towers Watson by the London Local Authorities (LLAs) and the London CIV was presented at the Pensions CIV Sectoral Joint Committee (PSJC) in December 2017. The Review feedback from the consultants specified that shareholders indicated a need for the London CIV to change its Governance arrangements and clarify its purpose and future strategy.

The Willis Towers Watson summarised their review as follows:

3.2 Three years after its incorporation, LCIV finds itself in an unpleasant position, in an attempt on delivering a complex and challenging task of under-resourced and underfunded, while juggling the competing interests of multiple stakeholders, not all of whom are fully engaged and who seem to be growing increasingly disgruntled. Compounding pressure on it, has been the recent departures of a number of key staff. In the absence of some circuit-breaking change it is not at all apparent that it will be able to deliver on the original intention of its 32 local authority shareholders to bring their collective c.£25bn under a common pooling vehicle.

3.3 In our review we have set out to identify whether there are structural issues that are impeding LCIV's progress and damaging its relationships with its local government stakeholders. Having identified those issues we also aim to identify the circuit breakers that might allow all parties to move forward with more confidence.

3.4 It is important that we note here that while LCIV must assume responsibility for the genesis of many of the issues identified – and the potential solutions to them – it does not bear this responsibility alone. The 32 constituent stakeholders in LCIV must all shoulder some collective responsibility. For a structure such as LCIV to succeed stakeholders must be willing to accept trade-offs – not everyone is going to get everything they want. Our discussions with stakeholders identified that it is much easier to identify challenges than it is to propose constructive solutions.

3.5 As we have worked through the governance issues surrounding LCIV we have settled on five key topics under which to organise our thoughts. These are: clarity of purpose; engagement and representation; transparency and trust;

resourcing and the cost model; and, accountability and key performance indicators.

3.6 The core recommendations made by Willis Towers Watson are:

a) Establish and agree a more concise and narrowly defined set of statements of purpose – for LCIV, the PSJC and the Investment Advisory Committee (IAC) in particular. This is an absolute priority. Consistent and focused communication, with clear linkages with business planning and strategy, of this set of purposes is vital for them to be effectively embedded in practice.

b) The committee meeting cycle should be reviewed, reducing the number of full committee meetings and making greater use of subcommittees and working groups. Each committee should be focussed on a clearly defined set of objectives within accompanying measures. The Terms of Reference of the stakeholder committees (PSJC and IAC or replacement equivalents) require concurrent redrafting.

c) A well-resourced Secretariat function is required to support the various committees and governance bodies. This should likely come from LCIV, recognising that this needs to be appropriately funded.

d) There needs to be recognition of the importance of transparency and cultivating trust, and a clear cultural and strategic shift to embedding this at the heart of LCIV pooling arrangements. LCIV and its stakeholders should take this opportunity to reset their relationship. The client portal offers an excellent mechanism for efficient, open and comprehensive information sharing – it should be set up as a 'one-stop shop' to distribute LCIV information to stakeholders, and in turn fully utilised by stakeholders to gather the information they require.

e) An independent resourcing and cost model review is required to give further clarity and recommendations on the appropriate levels of each, including how these develop over time.

3.7 There were further supplementary recommendations made as follows

f) A useful mechanism for stakeholders to express clearly to LCIV their priorities, concerns and key measures of interest would be an annual 'Letter of expectations'. The PSJC (or similar replacement body) would be the most appropriate vehicle for delivering this.

g) The Terms of Reference for the key stakeholders committees and working groups are significantly below those of good practice investment organisations. There are issues over comprehensiveness as well as the over clarity of purpose and scope of responsibilities which need to be remedied.

h) LCIV needs to invest significantly in improving its database (quantitative knowledge) and understanding (qualitative knowledge) of the LLA funds –

this has systems and resourcing (particularly in the Client Relationships function) implications.

i) Reporting to stakeholders should be more streamlined and focussed, bringing out strategic KPIs and measures of success.

j) It seems appropriate at this stage to move away from the London Councils' governance model, with its associated constraints (including some political separations).

PSJC January meeting

3.8 Following the outcome of the Governance Review, an exempt report was presented to the PSJC of the LCIV in January to consult with key stakeholders, to clarify the purpose of the London CIV and set out the direction of its future strategy. The report proposed vision of how the London CIV should operate. London CIV advised that it does not purport to be a fully formed proposal and as such they welcome constructive engagement and feedback.

3.9 The design of the London CIV was intended to provide London Local Authorities (LLAs) with an investment organisation to undertake Voluntary Pooling. Difficulties in executing this vision and the Central Government policy of mandated pooling mean that it is now appropriate to revisit the design of the London CIV.

3.10 The need to clarify the vision and strategic direction of the London CIV has been recognised by both LLAs and the London CIV and there is now an appetite to find an effective and sustainable way forward to deliver Pooling alongside the benefits originally envisaged when the London CIV was established.

3.11 It was recognised that the concerns raised need to be addressed by revisiting how the LCIV will operate and engage with LLAs going forward. The Board of the LCIV advised the PSJC that they wish to consult on three key areas: **Governance, Client and Investment**.

3.12 The creation of effective supervisory arrangements to improve the channels of communication between LCIV and LLAs Pooling– a **Shareholder** perspective.

3.13 The needs of Local Authority Pension Funds to achieve their individual pooling objectives – a **Client** perspective.

3.14 That in operating the Pool investment, efficiencies are maximised wherever possible so that the benefits of fee savings and enhanced performance amounting to 50 bp p.a. are realised – an **Investment** perspective.

3.15 It was highlighted that the LCIV budget for 2018 remains unchanged as the LCIV Board believes that the changes outlined in their report to PSJC can be achieved in 2018 within the existing financial framework.

3.16 The London CIV advised of their priority to consult with LLAs throughout the first quarter 2018 (this consultation has started and the deadline for the initial

consultation is 5th March 2018) to develop a sustainable pooling vehicle for London and is initially proposing the following:

3.17 **Governance – Clearer Roles**

a) Host two General Meetings a year with all shareholders and disband the PSJC under the London Councils framework.

b) Form a small consultative shareholder group of 12 Treasurers and Pension Chairs.

c) Invite the Chair of the General Meeting onto the Board of the London CIV and a Treasurer as an observer.

3.18 **Client – More Personalised Engagement**

a) A general service level agreement with the London CIV will be agreed. This would set out how the London CIV would service and consult with LLAs.

b) The London CIV would agree with each LLA individually:

c) The level of investment discretion delegated to the London CIV from three choices of Investment Mandate. This would allow the level of delegation to the London CIV to be personalised for each LLA.

d) A transition plan to agree a match of the strategic asset allocation of each LLA to the London CIV investment offering. The timing of the transition would be agreed to allow LLAs to either be early adopters or late adopters of Pooling.

e) A Responsible Investment Policy framework would be proposed by the London CIV and agreed by shareholders.

3.19 **Investment – Greater Benefits (50bp p.a.)**

a) Develop blended investment mandates for core asset classes that have a number of managers in each fund.

b) Allow LLAs the option to grant investment discretion to the London CIV to gain greater efficiencies.

c) Offer Passive Trackers and a Liability Aware Fund as a low cost option.

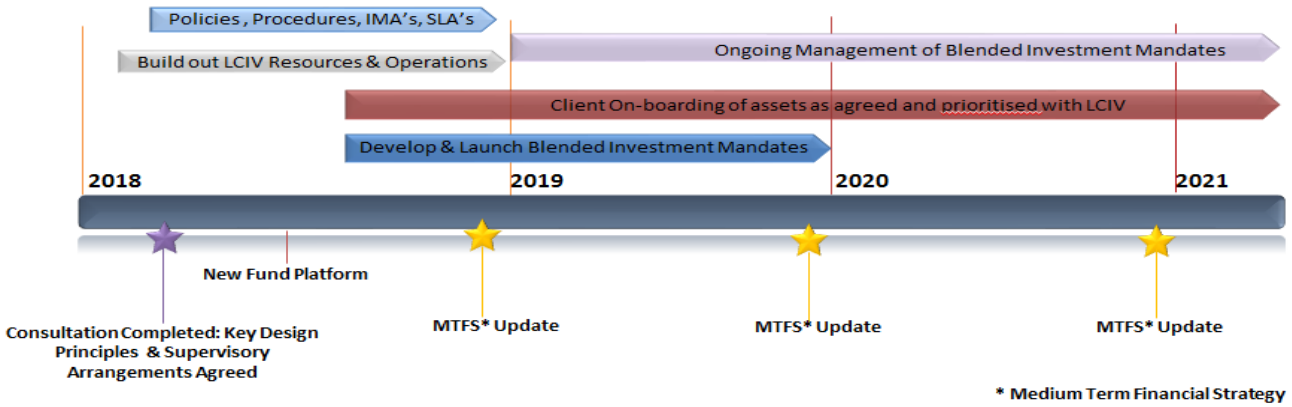
d) Existing funds continue to be managed as normal.

3.20 LCIV believes a consultation process is essential in ensuring appropriate proposals for LLAs. The key steps in the consultation process and the implementation of any agreed changes are set out in the below indicative timeline diagram and it is hoped that this can be concluded by the end of 2018. This would then allow the London CIV to start building for the future.

Indicative Timelines of LCIV Proposal

LONDON CIV

- Detailed planning has not occurred so timelines are only indicative. However, we would aim to have the new arrangements operating by end 2018.
- Key milestones:
  - Complete consultation in 1st quarter 2018
  - Build out LCIV resources and operations during 2018
  - LCIV develops blended investment funds with first funds launched in 2018.
  - First LLA fully transitioned into LCIV by end 2018.
  - The blended investment funds would be further developed over 2019.
  - The transition of all LLAs to the LCIV could exceed two years as we begin to transition LLAs and expect to improve the pace with experience.



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FUND LAUNCH PROGRESS

3.21 **Equity Fund Launch Update**

- Henderson Emerging Markets fund launched on the 11th January with £80m seed coming from Lambeth.
- RBC was operationally ready to open on September 21st. The fund will officially launch once we have subscriptions from the boroughs.

3.22 **Fixed Income Update**

The Board agreed to move forward with the appointment of the following fixed income funds pending the successful completion legal and operational due diligence. These new funds will include:

I. LCIV Global Bonds Fund (run by PIMCO)

II. LCIV Liquid Loans Fund (run by Ares)

III. LCIV Private Debt Fund (run by Ares)

IV. LCIV Multi Asset Credit Fund – Long Only (run by CQS)

V. LCIV Multi Asset Credit Fund – Long/Short (run by MidOcean)

3.23 Real Asset and Illiquid Asset Update

The FCA has notified LCIV that they have successfully approved the application to manage Unauthorised Alternative Investment Funds. This paves the way for LCIV to now launch illiquid asset funds such as investments in Private Debt, Infrastructure, Property and Private Equity. LCIV will now work towards the OJEU procurement of a fund administrator and depository to launch these new investments.

Fund Launch Status Report

2017/18 Fund Launch Status as of January 2018

LONDON CIV

Plan Phase	Vehicle Type/On-Off Platform	Fund	Current Launch Date	MTFS Launch Date	Launch Date RAG	Launch £AUM (m)	MTFS £ AUM (m)	AUM vs. Plan and/or Commitments	Current AUM	Boroughs Indications of Interest / Comment
Global Equities	Delegated/On Platform	Henderson Emerging Markets	Jan '18	Sep		£80	£150	-£70	£0	£80m Lambeth seed investor. Indications of interest: £20m Enfield
	Delegated/On Platform	RBC Sustainable	Mar '18	Sep		£180	£200	-£20	£0	Hackney £180mil seed investor
	Delegated/On Platform	RWC Core Equity	tbc	Dec		tbc	£150	-£150		
Fixed Income	Delegated/On Platform	Global Bond (PIMCO)	tbc*	Mar '18		tbc	£300 per fund (on avg)	N		* Contingent on written soft commitments being received from LLAs ^ Contingent on both written soft commitments being received from LLAs and completion of the OJEU process for the UAIF administrator and depository. Assuming commitments in the next 2 months this would be launched in July '18
	Delegated/On Platform	Liquid MAC (CQS)	Mar '18	Mar '18		tbc				
	Delegated/On Platform	Liquid MAC (MidOcean)	tbc*	Mar '18		tbc		N		
	Direct/On Platform	Private Debt: Liquid Loans (Ares)	tbc*	July '18		tbc		N		
	Direct/On Platform	Illiquid MAC	tbc^	July '18		tbc		N		
	Direct/On Platform	Private Debt: Illiquid Direct Lending (Ares)	tbc^	Oct '18		tbc		N		
Infrastructure	tbc	Infrastructure Fund	tbc	Dec '18		tbc	£300	N		
						MTFS Aum	£3.1bn			

G on track | A AUM commitments delayed | R No firm AUM commitments / impact: delayed fund launches | N Fund structure & plan to be developed

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 The Pension Fund has in excess of £590m invested directly with the London Collective Investment Vehicle (CIV) and consequently has vested interests in good governance arrangements within LCIV. There are no specific financial implications arising as a result of this report.

5. LEGAL COMMENTS

5.1 This report provides an update on general developments affecting the London Pooling arrangements. As a member of the London CIV, the Council must be

mindful of its statutory duty to ensure the proper and efficient management of the Fund. Improvements to the pooling arrangements for the Tower Hamlets pension fund in the London CIV should assist the Council to meet its statutory duties.

6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment management and performance will reduce the contribution and increase the funds available for other corporate priorities.

6.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

7. BEST VALUE (BV) IMPLICATIONS

7.1 The effective and efficient management of Fund assets and achievement of performance targets are essential to the achievement of the funding strategy objectives and this is considered to be a good decision which can result in greater cost savings to the fund.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

8.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

9. RISK MANAGEMENT IMPLICATIONS

9.1 The rigorous robust management of LBTH Pension Fund results in better quicker and more effective decision making which can lead to better Fund performance and reduction in the contribution required from the Council towards the Fund. The monitoring arrangement for the Pension Fund and the work of the Pensions 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.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 There are no crime and disorder reduction implications arising from this report.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report

- NONE

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