

Non-Executive Report of the: <b>PENSIONS COMMITTEE</b>  <b>18 September 2018</b>	
<b>Report of:</b> Zena Cooke, Corporate Director of Resources	<b>Classification:</b>
<b>London Collective Investment Vehicle (CIV) Update</b>	

<b>Originating Officer(s)</b>	Bola Tobun, Investment and Treasury Manager
<b>Wards affected</b>	All

### Introduction

This report provides an update on the latest developments in respect of London CIV. It covers:

- a) The new governance framework for the London CIV to replace the sectoral committee;
- b) An update on new fund developments; and
- c) LCIV Recharge Agreement and City of London required Guarantee Agreement for admitting LCIV into their Local Government Pension Scheme.

### Recommendations:

Members of the Pensions Committee are asked to:

- a) note the content of this report;
- b) approve the signing of the Notice of Dissolution of the Pensions CIV Joint Committee (PCSJC), issued by LCIV; and
- c) delegate to the Corporate Director, Resources and the Monitoring Officer to review and agree suitable terms of conditions for Tower Hamlets Pension Fund and the Council in regards to the LCIV Pension Cost Recharge Agreement and LCIV Pension Guarantee Agreement for the City of London; and
- d) approve the agreements to be sign when recommendation c above has been achieved in consultation with the Chair and Vice Chair of the Committee.

## **1. REASONS FOR THE DECISIONS**

- 1.1 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.
- .1.2 Future regular engagement with the London CIV is crucial to the Fund, ensuring that the Pool makes available the strategies and services that Tower Hamlets 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.

## **2. ALTERNATIVE OPTIONS**

- 2.1 To agree to the terms the agreements as they are.

## **3. DETAILS OF REPORT**

- 3.1 London CIV has 32 shareholders, which contrasts with under 10 shareholders in the case of most other pools. This number of shareholder clients makes the challenge of identifying common definitions of strategies and asset classes greater.
- 3.2 London CIV was launched as an operator with Financial Conduct Authority (FCA) and given permission to manage authorised Alternative Investment Funds (AIFM) through an Authorised Contractual Scheme (ACS). To meet Local London Authority (LLA) shareholders' evolving requirements it is clear that a wider range of permissions and services are necessary, and shareholders agreed to London CIV proposing a variation of its business activities to manage Unauthorised Alternative Investment Funds (UAIM) so that it can offer illiquid products such as Infrastructure Funds.
- 3.3 The Pensions CIV Joint Committee ("PCSJC") is a joint committee operating under the London Councils governance arrangements. Each London local authority which is a shareholder in the London LGPS CIV Limited ("London CIV") agreed to appoint a representative to the PCSJC.
- 3.4 Following consultation new governance arrangements for collective shareholder engagement in and with the London CIV have been agreed in principle by the London CIV shareholders.
- 3.5 The new governance arrangements provide for an Annual General Meeting and General Meeting and Shareholder Committee which together provide forums to approve the budget and forward plan of London CIV for shareholders to review its performance and consult on matters of interest.
- 3.6 To enable the new governance arrangements to properly take effect it is necessary for all the London local authorities, in accordance with their own

constitution and governance, to revoke the delegation of the joint exercise of functions to the PCSJC, and for each London local authorities to formally agree and adopt the new governance arrangements.

- 3.7 The revocation of the delegation of the joint exercise of functions by the PCSJC, and the dissolution of that sectoral joint committee, will take effect on the date that notice of the revocation is received by London Councils from every London local authority. As part of these arrangements, additional non-executive directors nominated via the collective political processes of London Councils will be made in accordance with the Articles of Association of the London.
- 3.8 The existing Shareholder Committee is comprised of 12 members from London Local Authorities made up of 8 Leaders (or Pension Chairs or equivalent) and 4 Treasurers, plus the Chair of the Board (the “Members”). The members of the Committee are 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.
- 3.9 Any Member, other than the Chair of the 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
- 3.10 The initial Members were ratified at the Annual General Meeting of the London CIV held in July 2018. The 8 members of the Shareholder Committee (Pension Committee Chairs or equivalent) nominated for appointment, 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
  3. Cllr Antonia Cox, City of Westminster
  4. Cllr Yvonne Johnson, Ealing
  5. Cllr Elaine Norman, Redbridge
  6. Cllr Keith Onslow, Bromley
  7. Cllr Mark Shooter, Barnet
  8. Cllr Jill White, Sutton

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).

A Trade Union Observer to be confirmed for this Committee.

- 3.11 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:

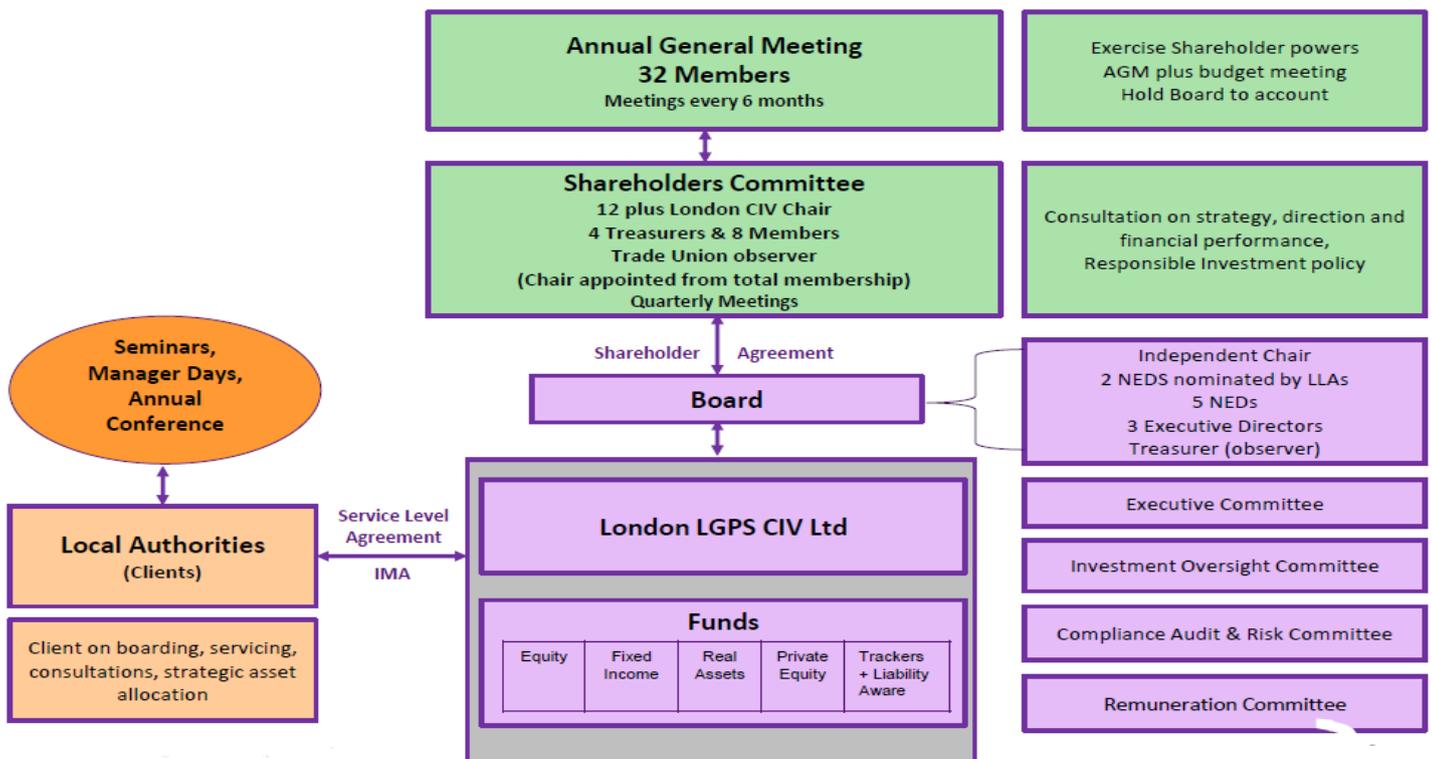
- Cllr Stephen Alambritis, Leader Merton Council (Labour)
- Cllr Ravi Govindia CBE, Leader Wandsworth Council (Conservative)

3.12 The Society of London Treasurers (“SLT”) is a group made up of London section 151 officers and the treasurer observer to the LCIV Board, would be nominated and confirmed through this group.

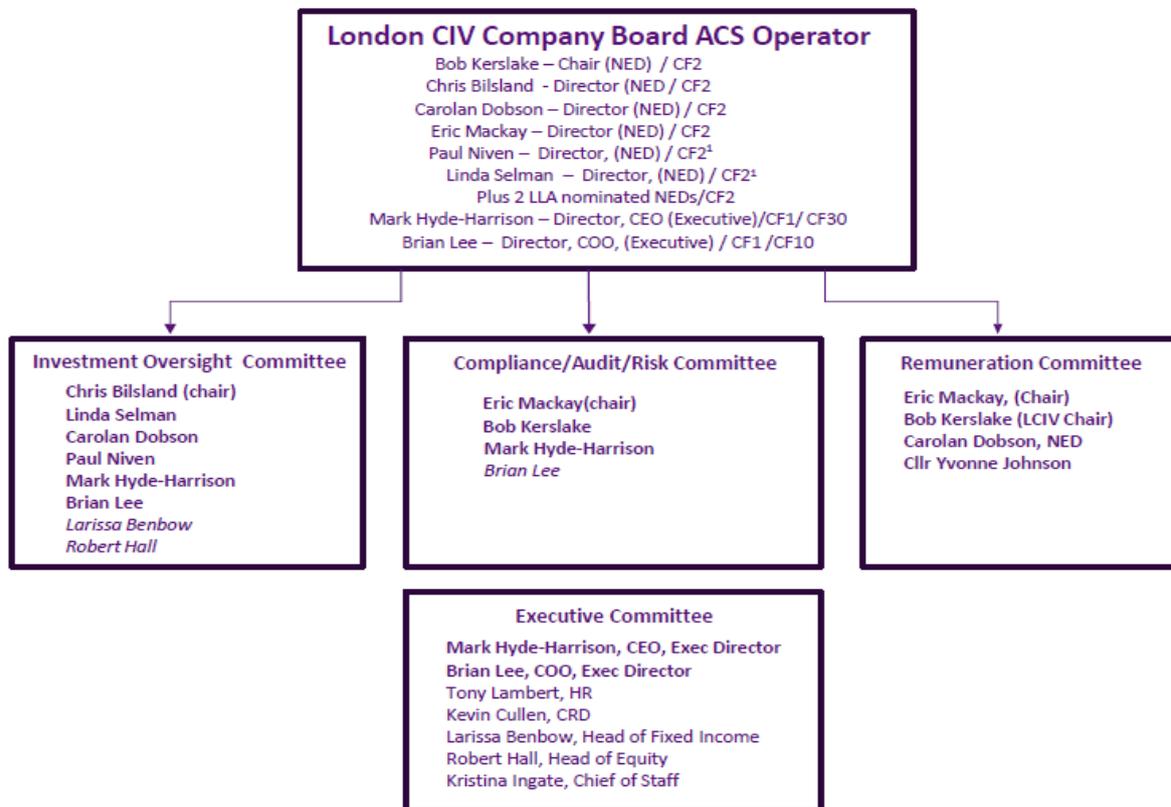
**Existing LCIV board directors:**

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)

3.13 The new governance structure of London CIV is as shown below:



## London CIV Governance



### 3.14 Fund Offering and Launch Progress

3.14.1 The current Fund offering is shown below:

Fund Name	Latest AUM	Launch Date
<b>UK Equities (1)</b>		
LCIV UK Equity Fund	£534m	18 May 2017
<b>Global Equities (6)</b>		
LCIV Income Equity Fund	£234m	08 November 2017
LCIV Global Equity Focus Fund	£553m	17 July 2017
LCIV Global Equity Fund	£607m	22 May 2017
LCIV Sustainable Equity Fund	£282m	18 April 2018
LCIV Global Alpha Growth Fund	£2.3bn	11 April 2016
LCIV Global Equity Alpha Fund	£119m	02 December 2015
<b>Emerging Market Equities (1)</b>		
LCIV Emerging Market Equity Fund	£108m	11 January 2018
<b>Multi-Asset (4)</b>		
LCIV Real Return Fund	£193m	16 December 2016
LCIV Global Total Return Fund	£316m	17 June 2016
LCIV Absolute Return Fund	£906m	21 June 2016
LCIV Diversified Growth Fund	£640m	15 February 2016
<b>Fixed Income (2)</b>		
LCIV MAC Fund	£488m	31 May 2018
LCIV Global Bond Fund	£0	Available, pending capital

3.14.2 The latest fund launched on 31<sup>st</sup> May 2018 was LCIV MAC Fund with six LLAs investors and asset under management (AUM) currently stood at £500m. Further planned fund launches are detailed below:

#### **Launched**

##### ➤ **LCIV MAC Fund**

Launched 31<sup>st</sup> May - 6 LLAs invested with £500m

##### ➤ **LCIV Global Bond Fund**

Open for investment

#### **Planned launches**

##### ➤ **LCIV Global Liquid Loans Fund**

Target launch date - 24<sup>th</sup> September

##### ➤ **LCIV Private Debt Fund**

Target launch date – 24<sup>th</sup> September

##### ➤ **LCIV Inflation Protection Fund**

Details to be provided in Q4 2018

##### ➤ **LCIV Long/Short MAC Fund**

Ready to proceed with launch as soon as commitments received

3.14.3 Other proposed fund launches in the next 12 months are:

#### a) **LCIV Infrastructure Fund**

Fund will have a 12 month offering period. Over the last 12 months LCIV have been working on structuring, tax and permissions to launch an infrastructure offering and are now in a position where they will be engaging with Boroughs on investment fund design and restrictions with the intention of launching the offering in Q4 2018. This will be via an outsourced manager for at least the initial 2-3 years. Shortlisting for this provider has been taking place in tandem to the Borough engagement on fund design and LCIV hope to communicate further information on the offering to Boroughs in September after it has been approved by the Investment Oversight Committee. More details of this fund is expected to be provided by LCIV in September 2018.

#### b) **LCIV Property Fund**

Similar to the Infrastructure Fund LCIV have been working on structuring, tax and permissions to launch a property offering. This is made complicated by the need to provide solutions for the transition or management of the transition of existing assets within London Local Authorities. More details of this fund to is expected be provided by LCIV in Q1 2019.

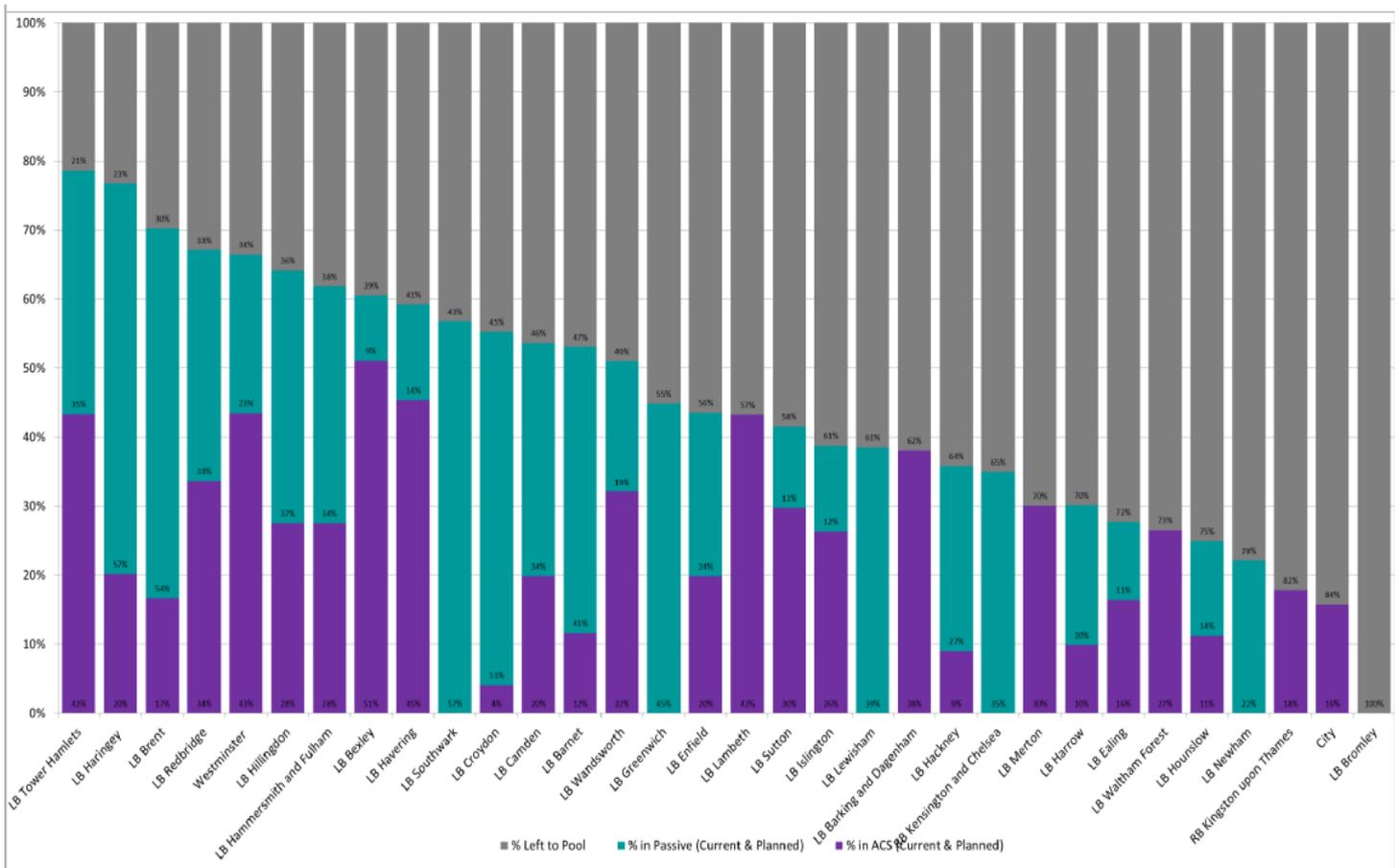
c) LCIV Global Equity Core Fund, details of the fund to be provided in Q4 2018.

d) LCIV Sustainable Equity Fund (relaunch).

3.14.4 Tower Hamlets Pension Fund investments with London CIV total £713.76m as at 24<sup>th</sup> August 2018 and the sub-funds invested in are listed as follows:

- a) LCIV (BG) Global Alpha Growth Fund - £355.83m
- b) LCIV (BG) Diversified Growth Fund - £134.01m
- c) LCIV (RF) Absolute Return Fund - £133.47m
- d) LCIV (CQS) MAC Fund - £90.45m

3.14.5 The below graph shows the investments of each London Local Authority with London CIV, in order of the most to the least invested LLA and it can be seen that Tower Hamlets Pension Fund has the most investments with the pool. Currently we have 79% of our investments under pooling arrangements and 21% outside the Pool.



**LCIV Recharge Agreement and City of London Guarantee Agreement**

- 3.15 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.
- 3.16 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.

- 3.17 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.
- 3.18 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 has fallen on LLAs with little consultation.
- 3.19 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). An explanatory note from Eversheds, who have been advising both the City of London and LCIV on this matter, is available if required but the following is a summary of the position:-
- a) 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.
  - b) 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.
  - c) The Recharge Agreement operates on an individual shareholder basis so there are 33 agreements, with each agreement 'on a several basis'.
  - d) The Guarantee Agreement is an 'all shareholder' agreement which only becomes effective when the last shareholder signs.
  - e) Ultimately, if the Guarantee Agreement does not become effective then the City of London will expect the LCIV to provide a bond.
- 3.20 The London Local Authorities are working collectively to review these agreements and have a collective legal review that enables them to all proceed with signing.
- 3.21 Tower Hamlets Pension Fund has raised some concerns with LCIV and the Council's monitoring officer, s151 officer and her officers are reviewing LCIV response in order to assess if the Fund and the Council are comfortable enough to sign the agreements as they are.

#### **4. COMMENTS OF THE CHIEF FINANCE OFFICER**

- 4.1 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 Tower Hamlets 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.
- 4.2 The Council has £713.76m invested in London CIV, a breakdown of this is provided in section 3.14 above.
- 4.3 There are no immediate financial implications arising from this report.

#### **5. LEGAL COMMENTS**

- 5.1 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. Improvements to the governance arrangements in the London CIV as well as reviewing and agreeing the LCIV Pension Cost Recharge and LCIV Pension Guarantee Agreement for City of London 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 crucial to the achievement of the funding strategy objectives 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 overall objective of MiFID II is to reduce the risk of mis-selling by the investment industry. By classifying local authority clients as "retail" clients by default, thus requiring the elective professional opt up process, asset managers are required to assess the knowledge of the collective decision making group before taking them on as clients.
- 9.2 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.

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### **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

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

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