

# THIRD PARTY CONTROLS OVERSIGHT SUMMARY

## 31 March 2023

As of April 2023



## Introduction

The following report is prepared for client funds invested in the Authorised Contractual Scheme, the Exempt Unauthorised Trusts and the Scottish Limited Partnership managed by London LGPS CIV Limited ('London CIV') and explains the operational controls oversight activities performed by London CIV over third party vendors covering:

- Portfolio Management
- Fund Administration

We have also provided details of our corporate governance framework and this year to include details on our cyber security arrangements.

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## 1. Portfolio Management

London CIV completes initial Operational Due Diligence ('ODD') on potential new investment managers following a standard agenda and reporting structure. The report is then assessed by the London CIV investment team and any weaknesses or identified issues discussed with the manager. Any monitoring items identified in the ODD are discussed and resolved during quarterly investment oversight meetings. ODD is repeated on a triennial cycle unless investment oversight identifies an earlier requirement.

Key risk areas assessed as part of this process are summarised as follows:

- Fraud risk – the risk that poor internal controls over cash and assets results in misappropriation of assets.
- Operational risk – the risk that poor processes and weak internal controls result in an operational error which may include trade errors, incorrect allocations, failed trade or incorrect position keeping which leads to P&L loss and/or misstatement of NAV.
- Counterparty risk – the risk that deteriorating credit health of trading and or custody counterparties results in a financial loss.
- Regulatory risk – the risk that poor policies and procedures, lack of employee training, or insufficient resourcing leads to a regulatory action.
- Legal risk – the risk that the organization and fund structures are not set up appropriately for the activities conducted or that investment behaviour leads to litigation.
- Information and cyber security risk – the risk that the organization from a systems perspective does not effectively monitor and prevent unauthorized access to their systems which leads to a loss of sensitive data or business interruption.

The examples above seek to illustrate the types of risk events that could occur and are not exhaustive.

### Initial Due Diligence

Generally, initial due diligence begins when the investment team has identified a potential investment manager for a mandate that has been approved by the London CIV Investment Oversight Committee ('IOC'). On occasion, to aid in generating the investment manager short list, operational due diligence may be engaged to conduct a light due diligence to identify any high- risk areas.

An initial request list of documents is provided to the investment manager to perform a desktop review prior to the initial on-site meeting.

Guidance for discussion points and risks to consider within each section are included in the Operational Due Diligence Report Template. A framework for assessing each of the areas is also included.

On-site discussions are conducted with the functional heads of each of the key business areas as well as investment professionals (where relevant). The goal is to obtain and verify relevant information to assess the risk areas as well as assess their suitability for the role. The evaluation of the people designing, controlling, and performing the key functions within the organisation is integral to the process.

The number of on-site meetings and follow up phone calls is at the discretion of the operational due diligence function. Additional due diligence may be conducted on service providers including calling the outsourced middle office provider, administrator or depositary to confirm key details directly.

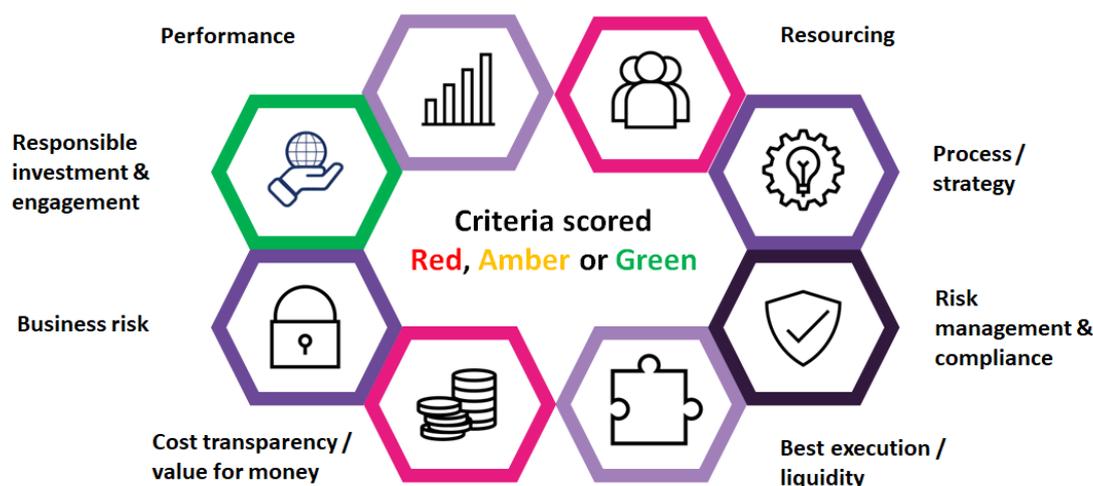
## IDD Summary

London CIV Sub-funds are monitored using the London CIV Fund Monitoring Framework. This Framework is described in the Investment Governance Document and associated policies which are shared with Client Fund investors.

The Sub-funds are assessed against the eight criteria summarised below. The criteria are reviewed on a quarterly basis through analysis of performance and risk metrics, portfolio characteristics, transaction activity and interviews with investment managers.

On an annual basis, or more frequently if required, we conduct an in-depth review of each Sub-fund. These reviews require in-depth engagement with research, portfolio management, risk management, trading and other personnel at investment management firms. This is supplemented by detailed analysis of portfolios and trends in performance and risk measures.

### London CIV Fund Monitoring Framework



Each of the criteria is scored 'red', 'amber' or 'green'. The characteristics of 'green' scores are summarised below – this 'key' is used to ensure consistency in the assessment of the criteria.

## Monitoring: What Does Green Look Like?

Performance	Resourcing	Process/strategy	Responsible Investment and engagement	Business risk	Risk management and compliance	Cost transparency/ value for money	Best execution /liquidity /deployment
<ul style="list-style-type: none"> <li>Outperforming relevant benchmark over medium (3 years) and long-term (5 years+)</li> <li>Keeping pace with peers</li> <li>Pattern of returns and risk profile in line with expectations</li> </ul>	<ul style="list-style-type: none"> <li>Resource level remains adequate.</li> <li>Skillset remains aligned to requirements</li> <li>Decision makers benefit from strong support (inc. tools and systems)</li> <li>Teams stable</li> </ul>	<ul style="list-style-type: none"> <li>Process remains fit for purpose and is applied consistently</li> <li>Manager regularly reappraises approach</li> </ul>	<ul style="list-style-type: none"> <li>Strong commitment to best practice evidenced in decision-making processes and remuneration, committed to continuous improvement.</li> <li>Trend in key metrics (PRI score, carbon footprint, adherence to Stewardship Code etc) positive or stable.</li> </ul>	<ul style="list-style-type: none"> <li>Business stable, key decision-makers well supported</li> <li>Incentives aligned to client objectives</li> <li>Ownership stable.</li> </ul>	<ul style="list-style-type: none"> <li>Comprehensive risk management process overseen by independent team remains in place.</li> <li>Key decision-makers continue to exhibit strong awareness of risks.</li> <li>Suitable risk monitoring system in place, sources of risk aligned to expectations.</li> <li>Strong record of compliance.</li> </ul>	<ul style="list-style-type: none"> <li>Full transparency provided</li> <li>Fees and other costs in line with or lower than median for comparable strategies</li> <li>Strategy delivers value net of costs.</li> </ul>	<ul style="list-style-type: none"> <li>Turnover (pace of deployment) in line with expectations.</li> <li>Strong execution function</li> <li>All relevant trading / sourcing channels covered.</li> <li>No evidence of slippage in implementation of buy and sell ideas.</li> <li>Liquidity profile aligned to expectations</li> <li>Capacity is managed carefully.</li> </ul>

Sub-funds are then assigned a Monitoring Status of Normal, Enhanced or On Watch. Ultimately, the Monitoring Status reflects London CIV's assessment of the ability of the investment managers to achieve Sub-fund objectives over the medium to long-term.

Normal	Enhanced	Watch
		
<ul style="list-style-type: none"> <li>Performance &amp; risk in line with expectations</li> <li>No major concerns with resourcing or execution of key processes</li> <li>Best practice in RI &amp; engagement</li> <li>Cost transparent and adds value net of costs</li> </ul>	<ul style="list-style-type: none"> <li>Performance &amp; risk not consistently aligned to expectations</li> <li>Concerns that issues with resourcing, business risk or execution of key processes are affecting achievement of objectives</li> <li>Commitment to RI falters</li> <li>Cost transparent but does not consistently add value</li> </ul>	<ul style="list-style-type: none"> <li>Persistent variances in performance or risk profile relative to expectations</li> <li>Evidence that objectives will not be achieved because of shortcomings in resourcing or execution of key processes</li> <li>Commitment to RI lags peers</li> <li>Strategy fails to deliver value net of fees</li> </ul>

Criteria scores and the recommended Monitoring Status are presented to the Investment Panel, chaired by the Chief Investment Officer (CIO), for ratification. The Investment Panel meets monthly. Recommendations to place a fund on Watch must be ratified by the Executive Committee on the recommendation of the CIO.

Where a Sub-fund is on Enhanced Monitoring or Watch we share our concerns with investment managers and agree an action plan and timeline to address the issues identified. The Monitoring Status of Sub-funds, and action plans, are shared with investors in the Sub-funds.

## Ongoing Monitoring

Ongoing monitoring is a key aspect of the operational due diligence process to both reaffirm the initial recommendation and follow up on the areas of interest and concern. As part of the investment management's team ongoing monitoring, high level questions are asked regarding material changes to assets under management, key personnel, and performance. If there are unexpected changes in any of those areas, operational due diligence may be asked to perform more frequent monitoring. Otherwise, on-site operational due diligence will generally be undertaken on a Tri-annual basis.

The latest ODD performed on each manager is set out in the table below:

Investment Manager	London CIV Fund or Sub-fund	Last ODD on-site
Baillie Gifford & Co Limited	LCIV Diversified Growth Fund	August 2020
Baillie Gifford & Co Limited	LCIV Global Alpha Growth Fund	
Baillie Gifford & Co Limited	LCIV Global Alpha Growth Paris Aligned Fund	
CQS	LCIV MAC Fund	April 2022
JPMorgan Asset Management	LCIV Emerging Market Equity Fund	February 2023
Newton Investment Management Limited	LCIV Global Equity Fund LCIV Real Return Fund	July 2022
Morgan Stanley Investment Management ('MSIM')	LCIV Global Equity Core Fund	June 2020
Longview Partners LLP	LCIV Global Equity Focus Fund	August 2022
PIMCO Europe Ltd	LCIV Global Bond Fund LCIV MAC Fund	February 2022
Pyrford International Ltd	LCIV Global Total Return Fund	July 2020
RBC Global Asset Management (UK) Limited ('RBC')	LCIV Global Sustainable Equity Fund	September 2020
RBC Global Asset Management (UK) Limited ('RBC')	LCIV Global Sustainable Equity Exclusion Fund	
Ruffer LLP	LCIV Absolute Return Fund	August 2020
State Street Global Advisers	LCIV Passive Equity Progressive Paris Aligned Fund	August 2021
Aviva Investors Global Services Limited	LCIV Inflation Plus Fund	November 2022
BlackRock Financial Management Inc	LCIV Renewable Infrastructure Fund	September 2021
Foresight Group LLP	LCIV Renewable Infrastructure Fund	March 2021

<b>Investment Manager</b>	<b>London CIV Fund or Sub-fund</b>	<b>Last ODD on-site</b>
Stonepeak Global Renewables Advisor LLC	LCIV Renewable Infrastructure Fund	March 2021
Quinbrook	LCIV Renewable Infrastructure Fund	April 2021
Macquarie	LCIV Renewable Infrastructure Fund	March 2023
Pemberton Capital Advisors LLP*	LCIV Private Debt Fund I	August 2022
Churchill Asset Management LLC	LCIV Private Debt Fund I	February 2021
Local Pension Partnership Investment Ltd	The London Fund	November 2020
StepStone Real Assets LP	LCIV Infrastructure Fund	November 2021
CBRE	LCIV UK housing Fund	March 2023

\* The Investment Manager does not prepare an internal controls report

## Portfolio Managers Internal Control Reports

Throughout the year, London CIV collect and track the internal controls reports of the investment managers listed above. Each of the reports is reviewed and any identified control issues are discussed with the investment managers as part of the investment oversight process. Bridging letter requests are sent to all the investment managers seeking confirmation up to 31 March 2022 where possible.

Based on the review of the internal control reports listed below there are no issues that London CIV would like to bring to the attention of the client funds as the internal control reports are unqualified. As of the report date, the following is a summary of internal controls reports reviewed:

	Name of Manager	Fund	Date of Report	auditors' sign off date	Qualified?	Auditor
1	CQS	LCIV MAC FUND LCIV ALTERNATIVE CREDIT FUND	30/09/2022	30/01/2023	No	RSM
2	Pimco	LCIV MAC FUND LCIV GLOBAL BOND FUND	30/09/2022	01/03/2023	No	PwC
3	Baillie Gifford & Co	LCIV GLOBAL ALPHA GROWTH FUND LCIV DIVERSIFIED GROWTH FUND LCIV GLOBAL ALPHA GROWTH PARIS ALIGNED FUND	30/04/2022	07/06/2022	No	PwC
4	Newton	LCIV GLOBAL EQUITY FUND LCIV REAL RETURN FUND	30/09/2021	27/05/2022	No	KPMG
5	Longview	LCIV GLOBAL EQUITY FOCUS FUND	31/12/2022	23/03/2023	No	EY
6	RBC	LCIV SUSTAINABLE EQUITY FUND LCIV SUSTAINABLE EQUITY EXCLUSION FUND	30/04/2022	04/08/2022	No	PwC
7	JPM	LCIV EMERGING MARKET EQUITY FUND	31/12/2022	26/04/2023	No	PwC
8	Pyrford	LCIV GLOBAL TOTAL RETURN FUND	31/10/2022	14/12/2022	No	PwC
9	MSIM	LCIV GLOBAL EQUITY QUALITY	30/06/2022	22/12/2022	No	Deloitte
10	Ruffer	LCIV ABSOLUTE RETURN FUND	31/03/2022	08/07/2022	No	EY
11	State Street	LCIV PASSIVE EQUITY PROGRESSIVE PARIS ALIGNED FUND	30/09/2022	08/11/2022	No	EY
12	Churchill	LCIV Private Debt Fund	30/09/2022	18/11/2022	No	EY
13	Pemberton	LCIV Private Debt Fund	n/a	n/a	n/a	n/a
14	Aviva	LCIV Real Estate Long Income Fund	30/09/2022	25/01/2023	No	PwC
15	Stepstone	LCIV Infrastructure Fund	30/06/2022	16/09/2022	No	EY
16	Blackrock	LCIV Renewable Infrastructure Fund	31/10/2022	23/12/2022	No	EY
17	Foresight	LCIV Renewable	31/03/2022	12/07/2022	No	BDO

	Name of Manager	Fund	Date of Report	auditors' sign off date	Qualified?	Auditor
		Infrastructure Fund				
18	Quinbrook	LCIV Renewable Infrastructure Fund	30/09/2021	24/02/2022	No	BDO
19	Stonepeak	LCIV Renewable Infrastructure Fund	30/09/2022	Nov 2022	No	EY
20	LPPI	The London Fund LP	31/10/2022	17/03/2023	No	PwC

## 2. Fund Administrator - Northern Trust ("NT") Due Diligence

NT provides fund administration, custody and transfer agency services. A series of service monitoring measures including regular contact with all relevant business groups in NT and more structured service feedback channels exist. A summary of this is as follows:

- For each service, there is a Service Level Description (SLD) agreement which is reviewed on an annual basis and NT assigns a relationship manager to each operational area.
- KPI from each SLD form the criteria to rate NT/s service on a monthly basis. Monthly service review meetings are held between London CIV operation team and all service managers from NT to review management information of the past month
- Weekly depository meetings are held between London CIV senior managers and the depository.
- Bimonthly meetings are held between the London CIV fund accounting team and the NT relationship manager
- Quarterly tax service review meetings take place to discuss and track withholding tax related matters
- On a biannual basis London CIV review the audited SOC I control report from NT. The latest report review was as follows:

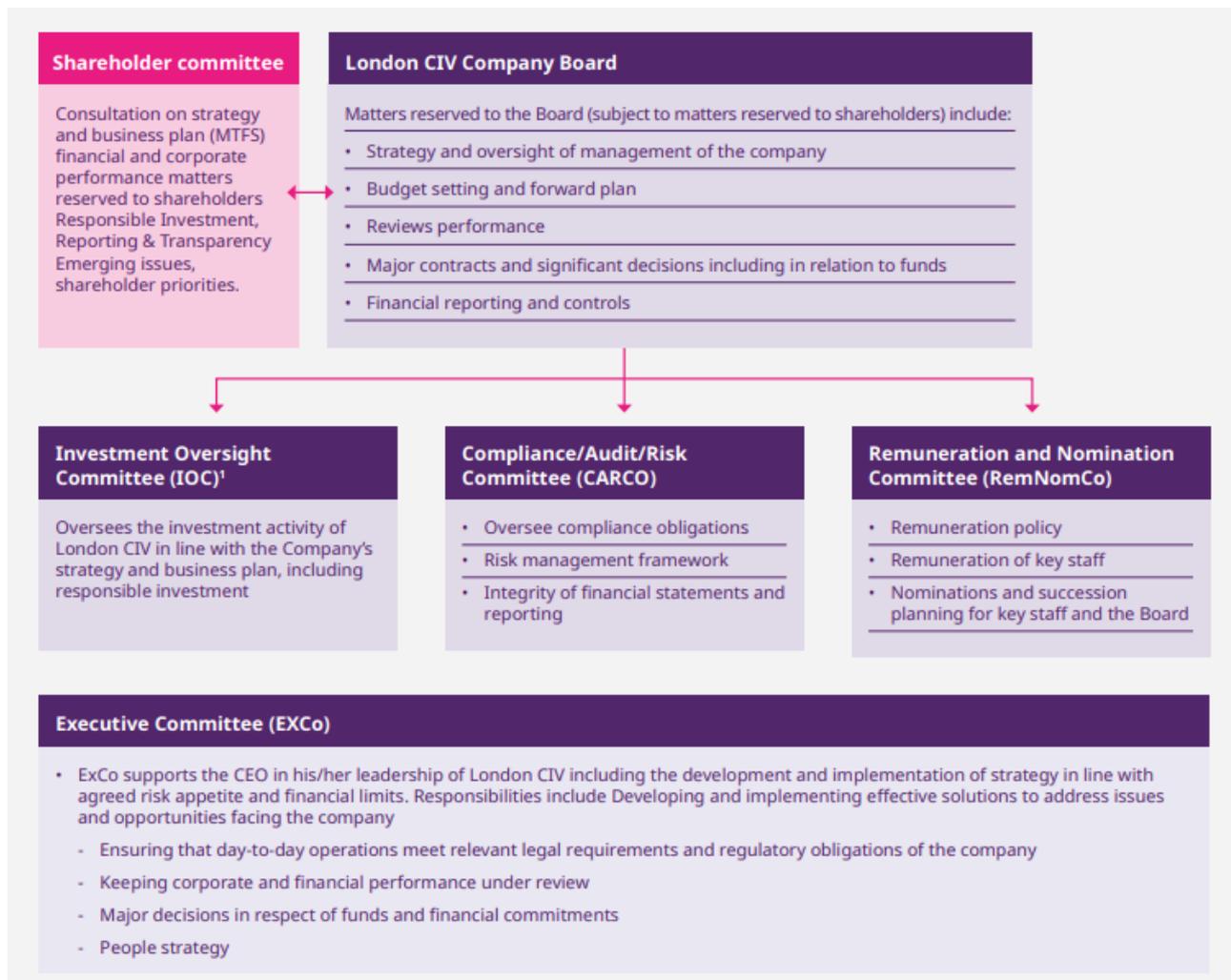
Report	Report date	Sign off date	Qualified?	Auditor
SOC 1	30/09/2022	18/11/2022	No	KPMG

- On an annual basis, NT will share with London CIV Cyber Security report see the cyber security section below for further details.
- On an annual basis, the operations team complete an annual due diligence of the Fund Administrator covering the general company updates, Risk Management, Fund Accounting, Transfer Agent and Custody activities to understand the latest controls and procedures including any changes in the year.

## 3. London CIV Corporate Governance Framework

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. 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. Please see below a diagram for the current London CIV committee structure.



The Executive Committee meets once a month whereas the Investment Oversight Committee (IOC) and Compliance, Audit and Risk Committee (CARCO) meet quarterly and on an exception basis to the Board.

Any errors or incidents that impact the funds operations follow internal risk management procedures and events are entered onto the compliance risk log. For all logged events a report is produced reviewed by a senior manager or director of London CIV and presented to CARCO.

## 4. Information and Cyber Security

### Introduction

London CIV continues to improve its cyber security posture, in 2022 we achieved CyberEssentials accreditation and we are now further enhancing our policies and processes in alignment with ISO27001. We have expanded the scope of our Penetration Testing to cover a wider range of threat vectors and remediate any high risk items raised.

### Internal cyber and IT security reviews

In conjunction with our managed IT service provider, we have conducted a full review of our IT infrastructure, this is in addition to our ongoing monthly service review meetings. The infrastructure review has led to our developing an enhancement programme which will be delivered during 2023.

Other services are provided via secure cloud portals. These include:

- Microsoft 365 for Office and Email
- Mimecast for advanced email security and business continuity
- Dual Factor Authentication Controls
- Endpoint protection software
- Next Generation Firewalls

External suppliers are assessed as to their cyber security preparedness as part of the London CIV due diligence process.

## 5. Limitations on distribution

This summary report has been prepared for the investors in the Authorised Contractual Scheme, Exempt Unauthorised Unit Trusts and The London Fund. London LGPS CIV Limited is the Alternative Investment Fund Manager for all these funds and is authorised and regulated by the Financial Conduct Authority.

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