

Pensions CIV Sectoral Joint Committee

Item no: 6

Executive and Non-Executive Director Recruitment

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Summary	This report informs the committee of the processes being adopted to appoint permanent executive and non-executive directors to the board of the CIV's operating company, London LGPS CIV Ltd.
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Recommendations	The committee is recommended to note the contents of this report.
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Executive and Non-Executive Director Recruitment

Introduction

1. The committee will be aware that it is proposed that the CIV operator (London LGPS CIV Ltd.) will have three senior officers (Chief Executive Officer (CEO), Chief Operating/Finance Officer (COO/CFO) and Investment Oversight Director (IOD)) and a number of non-executive directors (one of which will be the Chair of the Board) making up its board and senior management team.
2. This report provides the committee with an overview of the processes that are being adopted to recruit the necessary people.

Discussion

3. At its meeting of 25 February 2015 the committee received a presentation from Anthony Gaughan (Deloitte) about the work that is underway to take the operator through to FCA authorisation. In the presentation it was highlighted that having executive directors in place would be key to the authorisation process, and that it would be necessary to have a named CEO in place for the FCA authorisation application (target for submission is currently mid-May); other executive directors could be named later in the process, and NEDs could follow later still. With that in mind the current interim directors have decided to initiate a CEO recruitment process now and to recruit the other two executive directors and the non-executive directors through a separate process.

CEO recruitment

4. At its meeting of 3 March 2015 the interim board agreed the recommendations made in a report from John O'Brien (London Councils Chief Executive and current interim director of the operator) which discussed an approach to recruiting a CEO that would balance a number of factors, namely:
 - The need to make progress towards FCA authorisation – which would need a Chief Executive to be in place;
 - Waiting until the recruitment of a permanent Chief Executive to seek authorisation would cause a significant delay in this overall process;
 - A more focused, restricted competition for an interim Chief Executive was considered to be the right direction of travel by Directors;
 - A candidate should be sought that brought experience and expertise from the type of organisation reflecting the membership of the CIV;
 - A recognition that there would need to be a balance of skills and experience across the senior leadership team, encompassing familiarity with the issues and concerns of members of the CIV, investment management experience and strong operational management experience of an enterprise of this type;
 - If choices had to be made about the balance of strengths and experience of respective members of the senior team, the Chief Executive should, Directors felt, be most obviously a strong relationship manager with boroughs and their officers.

- This balance could be considered again in the context of a long-term, permanent appointment after the Company gains authorisation from the FCA.
5. The recommendations of John O'Brien's report therefore included that:
 - Progress is made with the recruitment of an interim Chief Executive for the London LGPS CIV Limited Company.
 - The interim recruitment be targeted primarily at people with skills and experience of organisations represented by the member boroughs of the CIV.
 - Any appointment be conditional on the individual obtaining the relevant, FCA recognised, threshold competency qualification within three months of appointment.
 6. Officers of London Councils are facilitating this recruitment.
 7. An advertisement has been placed in *Public Finance* (magazine and online) with 7 April 2015 as the closing date for applications. It is planned that interviews will be in late April.
 8. The role has been advertised at a salary of c. £130k and an expectation that the successful candidate will be appointed under London Councils terms and conditions and using its standard contract for Chief Officers. It is anticipated that the appointment will be for a period of up to 18 months after anticipated company authorisation.
 9. The interview panel will be comprised of:
 - Mayor Jules Pipe (Leader, LB Hackney)
 - Cllr Teresa O'Neill (Leader, LB Bexley)
 - Cllr Ruth Dombey (Leader, LB Sutton)
 - Mr Chris Buss (Director of Finance, LB Wandsworth)

In addition Anthony Gaughan will advise the panel and John O'Brien will act as an observer.
 10. Attached at Annex A is the job description and person specification.
 11. Members of this committee will be notified of the outcome of this process ahead of any public announcement.

COO/CFO, IOD and NED recruitment

12. As noted in the factors to be considered that were outlined in John O'Brien's report (paragraph 4 above), the company's permanent board needs to have a balance of skills and experience across the executive and non-executive directors, and that balance must satisfy the requirements of the FCA.
13. Draft job descriptions for the COO/CFO and IOD are attached at Annex B for information. They are subject to change as the company's operating model becomes finalised and the full scope of responsibilities for the roles is defined.
14. NED job descriptions have not yet been drafted, but are likely to reflect the core responsibilities of the operator to bring additional oversight and robustness to the running of the company and its deliver of its responsibilities as an authorised entity. It is likely that there will be three NEDs, one of which will be Chair of the board.

15. For resource reasons, and to ensure a good field of candidates the interim directors have agreed that a recruitment consultant should be engaged to assist with the recruitment of these roles. Procurement of such a consultant is underway with a view to appointing and beginning the recruitment process as quickly as possible.

Conflict of Interest

16. At its meeting of 25 February 2015 the committee asked for advice about whether shareholders could become NEDs if they pass the FCA's "FIT" test.
17. In outline, a director of a company owes certain duties to that company, and those duties are principally set out in the Companies Act 2006. The duties apply to all directors of a company, regardless of whether they are executive or non-executive directors. In the current context, particular concerns relating to conflicts of interest could arise if a member of the committee is also appointed a director of the ACS Operator. In particular directors have the following duties (amongst others):
- Duty to promote the success of a company for the benefit of its members as a whole. The duty applies to all decisions made by a director and not merely to formal board decisions and, amongst other things, a director must act fairly between the members of a company – the latter point being more of a concern where the relevant director is also a councillor of a borough (ie a shareholder).
 - Duty to exercise independent judgement. Again this highlights the need, in circumstances where a director is also a councillor of a borough, to maintain independence although note that the duty is not infringed by a director acting in accordance with an agreement entered into by the company that restricts the future exercise of the director's discretion or in a way authorised by the company's constitution.
 - Duty to avoid conflicts of interest. Under this duty, a director must avoid a situation in which he has or can have a direct or indirect interest that conflicts with, or may conflict with, the company's interests. This applies, in particular, to the exploitation of property, information or opportunity (whether or not the company could take advantage of it). Once again, in the context of a director who is also a councillor of a borough, this highlights the need for that director to be careful as to how information about the company (ie the ACS Operator) is used by a director. The duty continues to apply after a person ceases to be a director so it is an ongoing duty. Note though that this duty will not be infringed if authorisation is given by the other directors.
 - Duty to declare interest in proposed transaction or arrangement with the company. Under this duty, the director must declare to the other directors the nature and extent of any interest, direct or indirect, in a proposed transaction with the company. Note that the director needs not be a party to the transaction for the duty to apply.
18. In the event of a breach of any of these duties, the company (i.e. the ACS Operator) can bring an enforcement action although in certain circumstances, shareholders may also be able to bring a derivative action on behalf of the company. However, it is possible for breaches of duty to be ratified by the company if approved by the members.

19. For the reasons set out in paragraphs 17 and 18 above and specifically the potential for there to be a conflict between the role of director of the ACS Operator and an elected councillor of a borough, it is advisable that directors of the ACS Operator should not also be a councillor or other representative of one of the boroughs.

Approved Persons Regime

20. At its meeting of 25 February 2015 the committee asked for further information about the Approved Persons Regime and more detail about the 'controlled functions' requirement, this is provided at Annex C.

Recommendations

21. The committee is recommended to note the contents of this report.

Financial implications

22. Each of the 29 participating boroughs and the City of London have contributed £25,000 and invoices have been raised for a further £25,000 contribution, to a dedicated fund held by London Councils for the purposes of establishing the London LGPS CIV. Invoices will be raised for a third tranche of £25,000 at the beginning of the next financial year. The implementation budget presented to the committee at its 17 December 2014 meeting showed an allowance to cover senior officer remuneration through to launch and an estimated amount to cover the cost of a recruitment consultant. Remuneration beyond launch will be covered by the operating budget presented to the committee at its 25 February 2015 meeting, which for the first six months would be supported by any remaining surplus from the implementation budget. As such there are sufficient funds in the dedicated fund to support appointments covered by this report until such time as funds begin to flow through the 'business as usual' model.

Legal implications

23. Relevant legal implications for London Councils are contained in the body of this report.

Equalities implications

24. There are no additional legal implications for London Councils.

Annexes

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| Annex A | Interim Chief Executive Officer, job description and person specification. |
| Annex B | Chief Operating/Finance Officer & Investment Oversight Director job descriptions |
| Annex C | The Approved Persons Regime |

London LGPS CIV Ltd. Interim Chief Executive Officer

Reports to: London LGPS CIV Ltd. Chair, and London Councils CEX

Purpose: This is a high profile role which requires exceptional qualities of leadership and communication.

The Chief Executive Officer is responsible for all activities, including the management, operations and development of London LGPS CIV Ltd., to support the strategic objectives. Work closely with the board of directors, leading members, London local government Treasurers, and all other stakeholders (including across local and central government, the finance and investment industry, the Financial Conduct Authority, and the media), the Chief Executive Officer will ensure that the London LGPS CIV programme delivers on its vision of establishing a Collective Investment Vehicle (in the form of a UK regulated Authorised Contractual Scheme) through which the London LGPS funds can collaborate to drive down investment costs, increase efficiency and improve investment returns.

Job description

1. To provide dynamic leadership and set the strategic direction for the London LGPS CIV programme.
2. Lead and manage a team of senior executives.
3. To build and maintain productive relationships with all key stakeholders, including ensuring that a comprehensive communication strategy is delivered.
4. To manage the financial and other resources of the programme.
5. To be a leading ambassador for the organisation and London local government with a range of audiences.
6. Execute responsibilities in accordance with all legal and regulatory requirements and in line with public sector ethical standards and ensure the culture of the organisation meets expectations of the Regulator.
7. Manage both the strategic direction of the London LGPS CIV Ltd. And ensure smooth day-to-day running of the operation.

Person Specification

Essential:

- An understanding of the machinery of central and local government.
- An understanding of the LGPS and the challenges faced by London local government in maintaining a robust scheme in the current social and economic environment.
- Strong leadership and team building capability, providing visible and supportive leadership fostering a high performing and customer orientated culture throughout the organisation. Managing and monitoring individual performance effectively, setting clear objectives for the review of individual and service level performance.
- Demonstrable experience of managing complex projects and programmes in high profile political environments.
- Highly developed political management skills, demonstrating political judgement and sensitivity.
- Excellent stakeholder management skills balancing both short-term and long- term needs in environments covering:
 - Central and local government politicians and senior officers
 - Private sector
 - Media
- Proven ability to lead, change & influence multiple stakeholders.
- Personal commitment to high personal and professional standards including equality and diversity in both employment and service delivery and demonstrating personal leadership in valuing diversity in all areas. Subscribe to the Nolan Principles appropriate to public life.
- Excellent communication skills both verbal and written, with a proven capability to simplify complex messages.
- Gravitas and maturity.

Desirable

- Degree level educated, preferably gained in business, finance and/or investments.
- Strong influencing skills able to relate to a wide range of stakeholders such as: Council Members, Government, other agencies, the public and employees, and command their respect, trust and confidence, combined with an understanding of delivering to multiple stakeholders.
- Understands the importance of managing a regulated entity and is able to ensure regulatory obligations are being met.
- Highly developed networking, advocacy, oral, written and presentation skills that are persuasive and influential with others.

Investment Oversight Director

Purpose

The Investment Oversight Director is responsible for directing the London ACS Operator's investment programme by developing, recommending and implementing the policies, strategies and initiatives for the investment programme. The Investment Oversight Director is a member of the London ACS Operator's senior leadership team and serves as an organisational contact with internal/external clients.

The ideal candidate will have 8+ years of investment management experience, in an investment organisation with broad asset class experience. Corporate or public pension scheme experience is desirable.

Responsibilities

- Reviews and monitors investment performance.
- Works with local pension managers to develop investment policies and strategies for the funds.
- Reviews and monitors portfolio risk characteristics and compliance with investment guidelines.
- Where appropriate, monitors asset allocation and re-balance of portfolios in accordance with the investment policy, consulting with the London boroughs investment teams when necessary.
- Reports to the board and the Investment and Risk Committee.
- Conducts manager reviews on a periodic basis and due diligence of managers when required.

Person Specification

Essential

- 8+ years' relevant investment expertise, including management or oversight of an investment programme.
- Previously worked in a pension organisation, asset manager or insurance company.
- Demonstrable ability to understand investments, including knowledge of multiple investment classes.
- Demonstrable experience of risk management is applied to investing.
- Experience of undertaking manager selection, due diligence and oversight.
- Credibility with investment managers.
- Credibility with borough pension managers.
- An undergraduate degree, or an appropriate investment qualification.
- Analytical and numerical skills.
- To be authorised by the FCA as an approved person in due course in the CF30 function.

Desirable

- A post graduate degree and and/or an equivalent professional investment qualification.
- Sound decision maker sought out by others for advice and solutions.

- Understands the constraints of working in a regulated fund environment.
- Understands derivatives and complex instruments.
- Able to work in small organisations and teams.
- Public sector ethos.
- Hands on.

Chief Operating Officer/Chief Finance Officer

Purpose

The Chief Operating Officer/Chief Finance Officer (COO/CFO) directs day to day operations of the London ACS Operator.

The role holder has responsibility for all operational matters and also acts as the firm's Chief Financial Officer. In addition, the COO has responsibility in ensuring that the Operator and Fund meets their regulatory responsibility and holds key regulatory control functions (CF10, CF11, CF28).

Responsibilities

- Plans and directs all aspects of the London ACS Operator operational activity, including day to day operations.
- Responsible for financial management of the company.
- Responsible for all policies and procedures.
- Responsible for the creation and operation of the control environment.
- Coordinate legal due diligence, documentation reviews and contract management
- Ensure that all compliance and regulatory requirements for London ACS Operator and fund are met.
- In conjunction to the CEO, ensure that appropriate board reporting is undertaken.
- Run the capital management process, in conjunction with the CEO and board.
- Oversight of third party providers, including custodian, administrators and depository.
- Responsible for all regulatory reporting.
- Manage HR administrative process including employee benefits, recruiting and policies.
- Manage facilities infrastructure including office environment and administrative staff.
- Establish/Update financial management processes and infrastructure to enable scalability of operations.
- Develop reporting process and communication policies for all stakeholders.
- Participate actively in professional staff recruitment, training, development and evaluation.
- Advise on management and operation matters.
- Ensure day to day investment operations of the organisation, including outsourced functions.

Person Specification

Essential

- 10+ years' experience, in an operational environment within a regulated investment manager.
- Accountancy degree.
- Prior experience as either as a COO, CFO, head of operations within an appropriate organisation.
- Excellent organisational skills.
- Detailed oriented and a completer finisher.
- Ability to manage complex projects involving various stakeholders and multiple projects.
- Strong collaborative skills and ability to work in small teams within a matrix environment.
- Creative problem solving skills with the ability to manage small teams with limited resources.
- Relies on extensive experience and judgement to plan and accomplish goals.
- Numerate.
- To be authorised by the FCA as an approved person in due course in the CF1, CF10, CF11 and CF28 functions.
- Experience of oversight.

Desirable

- Good understanding of the pension market and the challenges.
- Action-oriented and flexible approach to operational management.
- Team oriented.

The Approved Persons Regime

1.0 Introduction

Under the financial markets act 2000 (FSMA), certain functions require an individual to be approved by the FCA before they can carry on these 'controlled' functions. Investment Management controlled functions are further broken down into Significant Influence Functions (SIFs), which are those critical to the management of the regulated activity and customer functions, which are those who deal with customers particularly in and advisory capacity.

1.1 Operator Obligation

The regulated firm is obligated to ensure that people are appointed to roles with appropriate skill. Furthermore, there is an obligation to monitor appropriateness on an ongoing basis. The London ACS Operator should take reasonable care in selecting those staff appointed to controlled functions. As part of selecting key personnel for management roles, the Operator should select people capable of obtaining authorisation, including demonstrating the appropriate care and due diligence has been exercised. This includes non-executive directors.

1.2 The Approved Persons Test

When considered appropriateness for someone to undertake a controlled function, the FCA considers three areas which are collectively known as The Fit and Proper test (FIT).

- Honesty, integrity and reputation;
- Competence and capability;
- Financial soundness.

1.3 Individuals obligations

As an approved person, the individual must comply with a number of areas, including the The Fit and Proper test for Approved Person ("FIT"), The Statements of Principle and the Code of Practice for Approved Persons (commonly referred to the section of the FCA handbook that it sits in, which is APER). They are also obliged to report to the London ACS Operator and FCA any matter that may have an impact on their ongoing fitness and propriety.

A further area of obligation is that Approved Persons must adhere to the code in their professional and personal lives. The regulator has recently made a number of high profile sanctions on Approved Persons for actions in their personal lives.

1.4 Statement of principles

The Statements of Principle and the Code of Practice for Approved Persons ("APER") are as follows

- Principle 1: Act with integrity in carrying out his accountable functions.
- Principle 2: Act with due skill, care and diligence in carrying out his accountable functions
- Principle 3: Must observe proper standards of market conduct in carrying out his accountable functions.
- Principle 4: Must deal with the FCA, the PRA and other regulators in an open and cooperative way and must disclose appropriately any information of which the FCA or the PRA would reasonably expect notice.

- Principle 5: Take reasonable steps to ensure that the business of the firm for which he is responsible in his accountable function is organised so that it can be controlled effectively.
- Principle 6: Exercise due skill, care and diligence in managing the business of the firm for which he is responsible in his accountable function.
- Principle 7: Take reasonable steps to ensure that the business of the firm for which he is responsible in his accountable function complies with the relevant requirements and standards of the regulatory system.

Individuals carrying out Significant influence functions, i.e. those exerting significant influence on the firm's conducts and affairs, are compiled to adhere to all seven statements of principles, whereas those undertaking customer functions only, will only have to comply with the first four.

1.5 List of Controlled Functions

CF 1	Director function
CF 2	Non-executive director function
CF 3	Chief executive function
CF 4	Partner function
CF 5	Directors of an unincorporated association
CF 6	Small friendly society function
CF 8	Apportionment and oversight function (Non-MiFID business only)
CF 10	Compliance oversight function
CF 10	CASS Oversight Operation Function
CF 11	Money laundering reporting function
CF 12	Actuarial function
CF 12	With-profits actuary function
CF 12	Lloyd's Actuary function
CF 28	System and controls function
CF 29	Significant management function
CF 30	Customer function
CF 40	Benchmark submission function
CF 50	Benchmark administration function