Pensions CIV Sectoral Joint Committee

27 May 2015: 10:30am – 12:30pm

Conference Suite (1st Floor)

At London Councils offices, 59½ Southwark St., London SE1 0AL
Refreshments will be provided
London Councils offices are wheelchair accessible

Labour Group pre-meeting:	Room 4 (1st Floor)	10:00 am
(Political Adviser: 07977 401955)		
Conservative Group pre-meeting:	Room 5 (1st Floor)	10:00am
(Political Adviser: 07903 492195)		

Contact Officer: Alan Edwards

Telephone and email: 020 7934 9911 Alan.e@londoncouncils.gov.uk

***Declarations of Interests**

If you are present at a meeting of London Councils' or any of its associated joint committees or their sub-committees and you have a disclosable pecuniary interest* relating to any business that is or will be considered at the meeting you must not:

- participate in any discussion of the business at the meeting, or if you become aware of your disclosable pecuniary interest during the meeting, participate further in any discussion of the business, or
- participate in any vote taken on the matter at the meeting.

These prohibitions apply to any form of participation, including speaking as a member of the public.

It is a matter for each member to decide whether they should leave the room while an item that they have an interest in is being discussed. In arriving at a decision as to whether to leave the room they may wish to have regard to their home authority's code of conduct and/or the Seven (Nolan) Principles of Public Life.

*as defined by the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012

Pensions CIV Sectoral Joint Committee (PSJC)
25 March 2015

Minutes of a meeting of the Pensions CIV Sectoral Joint Committee held on Wednesday 25 March 2015 at 3:00pm in the Conference Suite, London Councils, 59½ Southwark Street, London SE1 0AL

Present:

City of London	Mark Boleat (Chair)
Barking and Dagenham	-
Barnet	Cllr Mark Shooter
Bexley	-
Brent	Cllr Shafique Choudhary
Camden	Cllr Rishi Madlani
Croydon	-
Ealing	-
Enfield	-
Greenwich	-
Hackney	-
Hammersmith and Fulham	Cllr Iain Cassidy
Haringey	-
Harrow	Cllr Bharat Thakker (Deputy)
Hounslow	-
Islington	Cllr Richard Greening
Kensington and Chelsea	-
Kingston Upon Thames	Cllr Eric Humphrey
Lambeth	Cllr Adrian Garden
Lewisham	Cllr Mark Ingleby
Merton	Cllr Imran Uddin
Newham	Cllr Ted Sparrowhawk (Deputy)
Redbridge	Cllr Elaine Norman
Richmond Upon Thames	-
Southwark	Cllr Fiona Colley
Sutton	Cllr Sunita Gordon
Tower Hamlets	Cllr Clare Harrisson
Waltham Forest	-
Wandsworth	Cllr Maurice Heaster
City of Westminster	-

Apologies:

Bexley	Cllr John Waters
Ealing	Cllr Yvonne Johnson
Hackney	Cllr Roger Chapman
Haringey	Cllr Jason Arthur
Harrow	Cllr Keith Ferry
Hounslow	Cllr Mukesh Malhotra
Kensington & Chelsea	Cllr Quentin Marshall
Newham	Cllr Forhad Hussain
Richmond-upon-Thames	Cllr Thomas O'Malley
City of Westminster	Cllr Suhail Rahuja

Officers of London Councils were in attendance as was Mr Ian Williams (Director of London LGPS CIV Ltd)

1. Declaration of Interests

1.1. There were no declarations of interest that were of relevance to this meeting.

2. Apologies for Absence & Notification of Deputies

2.1. Apologies and deputies are listed above.

3. Minutes and Matters Arising from the Meeting held on 25 February 2015

3.1. It was noted that Cllr Harrisson's name had been spelt incorrectly on the minutes (attendance list) and agreed that this would be corrected, subject to which the minutes of the PSJC meeting held on the 25 February 2015 were agreed as an accurate record.

3.2. It was noted that any further borough contributions to the CIV would be brought before this Sectoral Committee

3.3. In respect of item 8; there being no substantive comments to the draft Heads of Terms it was noted that the Programme Director would commission the lawyers to draw up revised Articles of Association and a draft Shareholders Agreement and bring these to a future meeting for agreement/adoption.

3.4. It was noted that a paper on voting would be brought to the next meeting for discussion.

3(i) Programme Update (added as an additional item by request of the Chair and unanimous agreement of the Committee)

3.5. The Chair invited the Hugh Grover (Programme Director London LGPS CIV) to provide a brief update on the current status and progress of the programme, the following points were noted:

- Work was well underway to prepare the operating company for FCA authorisation, including the drafting of a substantial document forming authorisation application. Current plans were for the application to be submitted by the middle of May 2015.

- Work had been completed on analysing current borough investments and negotiations were underway with those Investment Managers that had common mandates across more than one borough. It was anticipated that proposals for the fund structure for launch would come to the committee and then to all participating boroughs in the summer.

- It would be necessary for each borough to convene pension committee (or equivalent) meetings at an appropriate point to align decision making with the FCA process for fund authorisation. The programme team would liaise with colleagues across the boroughs to agree the timing and make the necessary arrangements.

- In summary, the current programme plan targets company authorisation to be in July 2015 and fund authorisation in September 2015, with significant assets to be under management by end of the year (subject to decisions of the boroughs). The FCA process required the operator to be authorised first, followed by the fund.

3.6. It was agreed that a programme progress update would be added to all future agendas as a standing item.

4. Governance Overview

4.1. The Chair invited Anthony Gaughan (Partner, Deloitte) to introduce this item and give a presentation on the ACS Operator Governance Model:

- Current proposals would lead to the ACS Operator having a number of committees making up its governance structure:

  i. *Board of Directors*; would play a critical role, and each director would be individually approved by the FCA as being fit and proper to perform relevant controlled functions. The Board would be the ultimate decision making body for the Operator.

     The Board would be constituted of a balance of 3 Executive Directors (CEO, Chief Operating Officer (COO) and Investment Oversight Director (IOD)) and 3 Non-Executive Directors (NEDs), of which one NED would be the Chair.

     Board meetings would convene formally quarterly. The Executive Team would meet formally monthly, with the meetings being minuted, but would undoubtedly meet more frequently for day-to-day operational matters.

     Job descriptions for the NEDs were still being considered, but it seemed likely that the Chair would be from a financial background (possibly an ex-borough Treasurer). Of the other two NEDs might be a financial services professional with investment experience and the other might be an operations professional with experience in third party outsourcing and management of outsourced contracts.

  ii. *Investment & Risk Committee;* would be responsible for ensuring that the operator fulfils its obligations in meeting the agreed investment guidelines. The committee would have oversight of investment decision making and will ensure the operator is following the agreed investment strategies.

     The committee would be constituted of the CEO, IOD, Chair of the Investment Advisory Committee (borough officer committee) and the appropriate NED.

     Formal meetings would be convened monthly with ad-hoc meetings as required.

  iii. *Operational Risk Committee*; would be responsible for the oversight of operational risks arising from the current and proposed activities of the CIV and would be tasked with ensuring that the company is managing operational risks in line with regulatory requirements.

The committee would be constituted of COO, IOD, Compliance Officer and the appropriate NED.

Formal meetings would be convened quarterly with ad-hoc meetings as required.

iv. *Compliance Oversight Committee*; would be responsible for ensuring the Operator meets its compliance responsibilities for both itself and the fund.

The committee would be constituted of COO, Compliance Officer and the appropriate NED.

Formal meetings would be convened monthly with ad-hoc meetings as required.

v. *Valuation and Pricing Committee*; would be responsible for ensuring the integrity of the NAV sign-off process and fair valuations of fund assets at the manager level. In conjunction with the Depositary it would have oversight of the NAV creation process carried out by the outsourced provider.

The committee would be constituted of the CEO, COO, IOD, Operations Manager, with NEDs having the right of attendance.

Formal meetings would be convened quarterly with ad-hoc meetings as required.

vi. *Audit Committee*; would be responsible for appointing and monitoring the external auditor and reviewing the integrity of the financial statements and the financial controls. It would oversee both company and fund audits. This Committee would also review the systems and controls in place for the prevention of fraud and anti-bribery.

The committee would be constituted of the NED Chair, and both other NEDs, with the COO having the right of attendance.

Formal meetings would be convened bi-annually with ad-hoc meetings as required.

4.2. **The Committee** discussed the presentation noting the following points:

- The Chair asked to what extent the committee structure was “set in stone”. He voiced concern that the proposals could result in an unnecessarily complex structure. Mr Gaughan noted that there might be some scope for simplification but that the FCA had stringent requirements for governance and oversight and may not authorise a company where they had concerns about the robustness of the arrangements. The Chair proposed that some of the committees could be merged, especially where the membership was similar.

- Councillor Heaster said that a remuneration committee was missing from the Governance structure.

- Councillor Greening proposed that efforts should be made to try and dilute the “parings” between Executives and NEDs to ensure the ongoing independence of NEDs.

4.3. **The Committee** agreed that officers would come back with proposals regarding NEDs, a remuneration committee or requirement to consult the Committee on remuneration. The Programme Director would take legal advice regarding these matters.

5. Structuring the Investment Advisory Committee (IAC)

5.1. The Chair invited Hugh Grover to introduce this item.

5.2. It was noted that the IAC (previously referred to as the “Investment Committee”) would be made-up of borough officers, who would deal with the technical work associated with overseeing the fund and making recommendations about how it might be developed over time. This work would be used to inform the consideration and decisions of this committee (the PSJC). The report presented a draft set of Terms of Reference for members to consider. Borough treasurers would be invited to comment on the proposals.

5.3. **The Committee** discussed the report noting the following points:

- Councillor Ingleby asked whether there could be some elected member involvement in the IAC, and not just officers. It was noted that the IAC was proposed to be made up of officers who would be engaging in detailed technical work that would come to the PSJC for consideration and decision making in a similar way to borough officers informing the deliberations of borough pension committees. The IAC would act as an officer advisory body.
- For clarity it was confirmed that ultimate ‘decisions’ would always be made by the operator as a regulated body, but that the PSJC would decide how it would like the operator to develop the fund and those decisions would be acted upon other than in circumstances where due diligence or some other technical reason prevented it.
- The wording on page 15 of the report (“this Committee” etc.) should be looked at again and redrafted if necessary.
- Councillor Greening proposed that there needed to be member involvement in reviewing the performance of fund managers. He said that a small group needed to be convened to perform this work on behalf of members. A mechanism needed to be in place to be able to do this. it was confirmed that the Technical Sub Group was looking into the issue of Fund Manager review meetings and proposals would be coming to a future meeting of the committee.

6. Executive and Non-Executive Director Recruitment

6.1. The Chair invited Hugh Grover to introduce this item.

6.2. It was noted that the report informed the Committee about the processes being adopted to appoint permanent executive and non-executive directors to the

Board of the CIV operating company (London LGPS CIV Ltd.) to replace the current interim directors

6.3. **The Committee** noted the contents of the report.

7. Any Other Business

7.1. There was no other business.

The meeting resolved to exclude members of the press and public to consider the Exempt item of the agenda (E1 Exempt section of the minutes on 25 February 2015).

The meeting closed at 16:10pm

Pensions CIV Sectoral Joint Committee

Item no: 4

Programme Overview and Risk Register

Report by:	Hugh Grover	**Job title:**	Chief Executive, London LGPS CIV Ltd.
Date:	27 May 2015		
Contact Officer:			
Telephone:	020 7934 9942	**Email:**	hugh.grover@londoncouncils.gov.uk

Summary

This report presents the Board with the current version of the CIV implementation programme plan and risk register.

Recommendations

The committee is recommended to:

i. Consider and provide guidance on the content of this report; and

ii. Discuss the attached programme plan and risk register.

Programme Overview and Risk Register

Introduction

2. Attached as Annexes A and B are the current overarching programme plan and high-level risk register for the committee's consideration and comment.

3. The Chief Executive and Programme Manager review both documents on a regular cycle with the programme plan being reviewed on a weekly basis and the risk register being reviewed fortnightly. The Board of London LGPS CIV Ltd. also reviews both items at each of its meetings.

4. The programme plan and risk register will be added as standing items to all future committee meetings and a commentary will be provided when necessary.

Programme Plan

5. The programme plan is timed to deliver operator (company) authorisation by the middle of August and fund authorisation by the end of September.

6. There are four underlying projects each with a series of workstreams beneath:

   i. Company Establishment; this project is the overall responsibility of London Councils' CIV Programme Office and covers the underlying infrastructure necessary for the company to operate. Good progress is being made, but recruitment of senior roles is currently at amber to reflect the delayed start to the recruitment process and its criticality to the company authorisation process. Finance Systems is also amber reflecting the need for a finance system to be established soon to enable the company to raise invoices to the boroughs for the final £25,000 contribution to the implementation costs and the initial operating costs.

   ii. Operator Set-up; this project is being managed by Deloitte and covers the work necessary to take the company through to FCA authorisation. The Regulatory Application workstream is currently amber to reflect that we had aspired to submit the application by the end of the third week of May, but that there are still some significant sections of the application to flesh out (e.g. client money considerations), which are being resolved but are likely to cause delay.

   iii. Fund Establishment; this project is being led by Northern Trust, but requires input from fund managers, the lawyers and ultimately the boroughs. The Project Initiation workstream is shown as amber reflecting that the contractual paperwork is still to be finalised, this is all in hand but is complex and time-consuming. There is no expectation that the necessary documentation will not be completed on time, but nonetheless it is still an issue to be resolved at this point.

   iv. Legal Documentation; this project falls under the remit of Eversheds to lead. All the workstreams are currently green, but going forward there will be significant amounts of drafting and clearance to go through which could lead to delay.

Risk Register

7. In the context of a highly complex programme, the risk register is seen as representing a pragmatic approach to management of the significant risks to the overall programme.

The weekly review of the programme plan is used as an opportunity to consider and mitigate the more immediate, day-to-day, risks and issues that arise and need to be addressed.

8. In constructing the risk register London Councils' Risk Management Strategy and Framework has been adopted. Annex C presents the Board with an extract from the Strategy and Framework ('Criteria for Risks') which defines and categorises types of risk and provides an assessment and scoring methodology.

Recommendations

9. The committee is recommended to:

    i. Consider and provide guidance on the content of this report; and

    ii. Discuss the attached programme plan and risk register.

Financial implications

10. There are no financial implications for London Councils.

Legal implications

11. There are no legal implications for London Councils.

Equalities implications

12. There are no equalities implications for London Councils.

Annexes

Annex A Programme Plan

Annex B Risk Register

Annex C Criteria for Risks (extract from London Councils' Risk Management Strategy and Framework

London LGPS CIV - Establishment

ID	Projects and Workstreams	Owner	RAG	Start	End	April	May	June	July	August	September
1.0	**Company establishment (as company)**	**London Councils**									
1.1	Articles of Association			01/04	29/05						
1.2	Recruitment of senior roles			01/04	31/07						
1.3	Recruitment of junior roles			18/05	07/09						
1.4	Procurements			01/05	07/09						
1.5	Finance Systems			01/04	31/07						
1.6	Policies and Procedures			01/05	26/06						
2.0	**Operator Set-Up (as FCA reg.)**	**Deloitte**									
2.1	Define Detailed Operating Model			01/04	29/05						
2.2	Regulatory Application			01/04	15/06						
2.3	ACS Operating partner procurement			14/04	22/05						
2.4	Compliance Manual			14/04	25/05						
2.5	Operations Manual			01/06	31/07						
2.6	BCP/Testing/IT			01/06	16/09						
2.7	Operator authorisation			15/06	21/08						
3.0	**Fund Establishment**	**Northern Trust**									
3.1	Project initiation			01/04	30/06						
3.2	Legal Agreements			01/04	15/06						
3.3	Tax Opinions and Rulings			15/05	02/09						
3.4	Operational Set Up (SLA, Custody, TA)			15/05	15/09						
3.5	Fund construction			15/06	16/09						
3.6	Fund launch			21/09	25/09						
4.0	**Legal Documentation**	**Eversheds**									
4.1	Prospectus			01/04	30/06						
4.2	Contractual Scheme Deed			01/04	30/06						
4.3	FCA Application form (Fund)			01/06	02/07						
4.4	Asset Servicer Agreement			01/05	19/06						
4.5	Investment Manager Agreements			01/05	17/07						

Item 4 – Annex B

Risk Register	
Responsibility	**CIV Programme Office**
Date last reviewed	**05/05/2015**
Reviewed by	**Hugh Grover**

No	Risk	Risk Type	Risk description	Risk Rating without control (1-4)			Controls in place	Responsible Officer	Risk rating with control (1-4)		
				L	I	O			L	I	O
1	FCA Authorisation	External; and Reputational	1a) Risk that FCA will delay the CIV application	2	3	6	- Expert advisors engaged for application - meetings with FCA to discuss proposal	Hugh Grover	2	2	4
			1b) Risk that FCA will reject the CIV application	1	4	4	- Expert advisors engaged for application - meetings with FCA to discuss proposal	Hugh Grover	1	3	3
2	Recruitment	Operational	Risk that key company positions will not be filled in line with FCA application authorisation timeline	3	4	12	- consultant engaged and aware of urgency required	Hugh Grover	2	3	6
3	Borough engagement	External; and Reputational	Risk that any serious delays in the CIVs launch will result in some of the boroughs withdrawing their support	2	2	4	- frequent communications with senior borough officers and SLT - engagement with members through the PCJC and other communications	Hugh Grover	1	2	2
4	Borough investment decision making	Project	Risk that the borough committees will not take the decision to invest through the CIV and delay sub fund launches	3	2	6	- communicate critical timeframes to boroughs - understand and respond to individual borough needs	Freddie Fuller	2	2	4
5	Company infrastructure	Operational	Risk that infrastructure is not established within launch timeline	2	3	6	- project plans in place to deliver infrastructure within timeframe	Hugh Grover	1	2	2
2	Government action	Project	Risk that government may decide to take its own actions to reform the LGPS and that the CIV may not be part of those reforms	3	4	12	- maintain regular contact with Ministers and civil servants - maintain high profile of the CIV	Hugh Grover	2	4	8

Annex C

Criteria for risks within London Councils

(Extract from London Councils Risk Management Strategy & Framework, approved March 2012)

Types of risks

The main types of risk that London Councils is likely to encounter are:

Risk	Definition
Compliance	Risk of failing to comply with statutory requirements.
External	Risks from changing public or government attitudes.
Financial	Risks arising from insufficient funding, losing monetary resources, spending, fraud or impropriety, or incurring unacceptable liabilities
Operational	Risks associated with the delivery of services to the public and boroughs arising, for example, from recruitment difficulties, diversion of staff to other duties, or IT failures, loss or inaccuracy of data systems or reported information
Project	Risks of specific projects missing deadlines or failing to meet stakeholder expectations.
Reputation	Risks from damage to the organisation's credibility and reputation.
London	Risks to our stakeholders that need to be taken into account in our planning and service provision
Strategic	Risks arising from policy decisions or major decisions affecting organisational priorities; risks arising from senior-level decisions on priorities.
Contractual Risks	Risks related to the management of service contracts
Internal	Risks that relate to HR/People risks associated with employees, management and organisational development

Assessing and scoring risks

To assess risks adequately London Councils will identify the *consequences* of a risk occurring and give each risk a score or *risk rating*.

A means of comparing risks is needed so that efforts can be concentrated on addressing those that are most important. Each risk will be given a score, depending on its likelihood and its impact, as shown below. A risk may meet some, or all, of a description of likelihood or impact. These descriptions provide guidance rather than a prescriptive formula for determining risk ratings. Scoring a risk is a judgement call based on knowledge, understanding and informed guesswork.

Any risks which are both very likely to occur and will have a high impact are the ones that demand immediate attention.

Risk assessment			
Rating	**Likelihood**	**Impact**	**Rating**
Very High 4	**70% chance of occurrence** Almost certain (the risk is likely to occur within 6 months or at a frequent intervals). The event is expected to occur as there is a history of regular occurrence.	Huge financial loss; key deadlines missed or priorities unmet; very serious legal concerns (e.g. high risk of successful legal challenge, with substantial implications for London Councils); major impact on Boroughs or Londoners; loss of stakeholder public confidence.	*Very High 4*
High 3	**40% - 70% chance of occurrence** Probable, the risk is likely to occur more than once in the next 12 months. A reasonable possibility the event will occur as there is a history of frequent occurrence.	Major financial loss; need to renegotiate business plan priorities; changes to some organisational practices due to legislative amendments; potentially serious legal implications (e.g. risk of successful legal challenge); significant impact on the Boroughs or Londoners; longer-term damage to reputation.	*High 3*
Medium 2	**20% - 39% chance of occurrence** Possible, the risk may occur in the next 18 months. Not expected but there's a possibility it may occur as there is a history of casual occurrence.	Medium financial losses; reprioritising of services required; minor legal concerns raised; minor impact on the Boroughs or Londoners; short-term reputation damage.	*Medium 2*
Low 1	**<20% chance of occurrence** Rare, the risk may occur in exceptional circumstances.	Minimal financial losses; service delivery unaffected; no legal implications; unlikely to affect the Boroughs or Londoners; unlikely to damage reputation.	*Low 1*

Risk scores

Risk Assessment

Very High (4)	4	8	12	16
High (3)	3	6	9	12
Medium (2)	2	4	6	8
Low (1)	1	2	3	4
	Low (1)	**Medium (2)**	**High (3)**	**Very High (4)**

Impact

It is recognised that the scores at different levels of the register (project/team, directorate/ divisional, corporate) will reflect the importance of the risk in the context of the level of the register. For example, an individual officer's project register may reflect a high impact score on the project if an element is delivered late, but this will not necessarily correspond to a high impact on the organisation as a whole. This incremental approach to impact allows risks to be appropriately scored at each level to enable effective prioritisation of management and mitigation actions.

Mitigating risks
In addressing risks, a proportionate response will be adopted – reducing risks to 'As Low a Level as is Reasonably Practicable' in the particular circumstances (known as the ALARP approach).

In identifying actions to address a risk, at least one of the 4 T's; treat, transfer, tolerate or terminate should apply.

Treat – treating the risk is the most common response, taking action to lessen the likelihood of the risk occurring. Treatment can also mean planning what you will do if the risk occurs, therefore minimising the impact. The purpose of 'treatment' is not necessarily to terminate the risk but, more likely, to establish a planned series of mitigating actions to contain the risk to an acceptable level.

Transfer – transferring the risk might include paying a third party to take it on or having an insurance policy in place. Contracting out a service might mitigate the risk but create new risks to be managed.

Tolerate – the ability to take effective action against some risks may be limited, or the cost of taking action may be disproportionate to the potential benefit gained. In this instance, the only management action required is to 'watch' the risk to ensure that its likelihood or impact does not change. This is an acceptable response as long as the risk has been properly identified and toleration is agreed to be the best option. If new management options arise, it may become appropriate to treat this risk in the future. London Councils may choose to tolerate a high residual risk if the activity involves presents a significant, yet risky, opportunity for the organisation. This should be explained in the description of the countermeasures.

Terminate – by doing things differently, you remove the risk.

Item no: 5

Pensions CIV Sectoral Joint Committee

Stewardship and Voting

Report by:	Hugh Grover	**Job title:**	Chief Executive, London LGPS CIV Ltd
Date:	27 May 2015		
Contact Officer:	Hugh Grover		
Telephone:	020 7934 9942	**Email:**	hugh.grover@londoncouncils.gov.uk

Summary This report provides the committee with the latest thinking and detail about the possible voting policies that the CIV may employ at launch.

Recommendations The committee is recommended to:

i. Note the contents of this report;

ii. Provide feedback on the possible options for voting as laid out in the report.

Stewardship and Voting

Introduction

1. The question of how share voting will be handled on the CIV was raised at the Pensions Sectoral Joint Committee meeting of 17th December 2014. Due to the stage that the CIV project was at during December, the options for voting were not particularly transparent.
2. As the launch of the vehicle approaches and discussions have been held with boroughs and managers as to the mechanisms available through the structure, the options have become clearer, but greater understanding on the variety of Borough approaches and requirements is needed.
3. This report discusses some of the issues surrounding voting and suggests some of the options that the CIV could adopt on behalf of its investors.

Discussion

4. The judicious use of shareholders' voting rights is a key part of the role of responsible investors as stewards of capital. Research suggests that in most cases Pension Funds have delegated responsibility to fund managers to vote shares on their behalf, although it is recognised that a minority of funds also employ voting agencies to undertake this function on their behalf. Most fund managers, both active and passive, now have governance departments which work closely with companies, and take their voting responsibilities and corporate governance seriously. There is a recognition that good corporate governance in companies should over the longer term deliver more sustainable returns for its investors. Fund managers should also strive to ensure that management do not act in ways which are detrimental to shareholders' interests or contravene the underlying investors' principles.
5. Furthermore, there are regulatory requirements for the LGPS. Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 Regulation 12 requires Administering Authorities to publish their voting policy where they have one in the Statement of Investment Principles (SIP):

   > (g) the exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy;

6. In addition Regulation 12 (3) requires Pension Funds to include a statement on the extent to which the investment fund complies with guidance given by the Secretary of State and in the case of the LGPS, this is with reference to the CIPFA Guidance on the Myners Principles which includes the extent to which they meet requirements for Responsible Ownership:

> ### Responsible Ownership
> Administering Authorities should:
> - Adopt or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents,
> - Include a statement of their policy on responsible ownership in the Statement of Investment Principles; and
> - Report periodically to scheme members on the discharge of such responsibilities.

7. Whilst the CIV is not required to have a Statement of Investment Principles, it is recognised that the underlying Pension Funds are required to do so and to publish voting policies. It is therefore appropriate that the CIV considers what options are open to the underlying Pension Funds as they invest through the CIV and what might be appropriate for the CIV to undertake.

8. Where sub-funds are investing in pooled funds such as index trackers, there is limited scope to differentiate voting policy for Borough Pension Funds, unless it is a dedicated CIV pooled fund. Therefore, whilst funds might want to apply pressure to their index managers to vote in a certain way, the reality is that shares tend to be voted on bloc and investment funds are therefore reliant on the investment manager themselves have a proactive approach to good corporate governance. For segregated funds, there is clearly scope to direct voting with managers, although again this may not be as easy where the managers themselves have outsourced this function to an external voting agency such as ISS.

9. As noted above, research suggests that currently many boroughs delegate voting responsibility to the fund managers, and clearly this would be one **option** for the CIV to consider.

10. Of the London Pension Funds who have signed up to the CIV, 19 of them are members of the Local Authority Pension Fund Forum (LAPFF) http://www.lapfforum.org/ which represents the interests of local authority pension funds and collective engagement with companies, effectively acting as a local authority pressure group and is increasingly acting with other large shareholders to apply pressure on companies to improve not only corporate governance but also adopt a more responsible approach to the way they conduct business.

11. As an organisation, LAPFF represents the interests of approximately £160bn worth of local authority assets giving the group leverage with company managements. LAPFF are advised by PIRC and regularly send recommendations to funds on company voting, which many will then request/direct their managers to vote in accordance with the recommendations provided by LAPFF.

12. A second **option** to consider would be whether the CIV should also become a member of LAPFF (assuming it is able to do so) representing the interests of all Pension Funds' assets within the CIV and where feasible to vote shares in accordance with LAPFF recommendations or to seek explanations from the underlying investment managers why they have not followed their recommendations. Voting could also be incorporated as part

of the reporting package to Pension Funds on a quarterly basis. Taking up membership of the LAPFF could provide the CIV with a relatively low cost effective mechanism to demonstrate its commitment to shareholder engagement and voting.

13. Another **option** would be for the CIV to consider whether to engage the services of an external voting agency direct such as PIRC or Manifest. This would enable, where feasible, shares to be voted directly on behalf of assets held by the CIV. The costs of such a service would need to be established, but would undoubtedly be higher than the cost of membership of LAPFF (which already takes advice from PIRC). Voting services carry with them a cost that the boroughs will be required to bear through the CIV.

14. This cost will be subject to the volume of voting and the pricing structure agreed with the voting agency. However, this may enable a greater level of direct voting than is possible with just using LAPFF as they would vote on behalf of the underlying shareholders according to a set of guidelines which could be drafted by shareholders of the CIV. The advantage of using a voting agency is that the investors will know exactly how their votes will be cast on all ESG matters. However, investment managers argue that removing the votes from “their” shares carries with it a real cost, as the fund managers effectively lose leverage over, and perhaps a degree of access to, management.

15. Most of the existing investment managers used by London authorities are signatories of the UK’s Stewardship Code and many are also signatories of the UNPRI (United Nations Principles for Responsible Investment). As responsible investors the CIV could also seek to ensure that the managers who are appointed to the CIV are signatories of one of the Stewardship Codes. Whilst larger investment managers with a wide spread of asset classes under management are almost certainly likely to be signatories to one or both Codes, smaller or more alternative type mangers are less likely to be so.

16. Therefore to restrict entry to the CIV for managers unless they are signatories could have the effect of severely limiting the CIV’s access to a wider range of investment managers and possibly impact on performance over the longer term. Indeed some would argue, (particularly hedge funds and other alternative asset managers) that as they are not necessarily long term shareholders of underlying companies, they do not need to be signatories to such codes.

17. In the same way that the boroughs vote at the moment, there will be a difference between voting on pooled funds and segregated accounts. If a particular sub-fund is invested in pooled funds, the voting will continue to be managed by the fund manager, possibly with guidance from the borough, or a request that an investment manager refer to the boroughs voting principles.

18. In a segregated account, voting decisions will remain with those boroughs invested into the sub-fund. The question of splitting the share voting on these segregated assets has been raised with investment managers, and although they have demonstrated reservations about vote splitting, they have indicated that it is a method that can be adopted in certain circumstances. Again this is very much subject to the views of those boroughs invested in the sub-fund, and the decision taken by the CIV towards segregated account voting, but in principle split voting would seem to go against the principles of collaboration that underlie the CIV.

19. The boroughs will need to decide whether they wish to make voting decisions on a sub-fund by sub-fund basis or whether the CIV adopts policies that will be utilised across the sub-funds, whether by an external provider (such as PIRC or ISS) or by the managers under instruction by the CIV.

Recommendations

20. The committee is recommended to:

    i. Note the contents of this report;

    ii. Provide feedback on the following possible options for voting:

        a) Draw up and adopt a set of 'CIV' voting principles and leave voting in the hands of the fund managers

        b) Hire a voting consultant to handle the voting on behalf of the CIV

        c) Adopt the voting principles of the LAPFF and consider membership for the CIV

Financial implications

21. There are no financial implications for London Councils.

Legal implications

22. There are no legal implications for London Councils.

Equalities implications

23. There are no equalities implications for London Councils.

Pensions CIV Sectoral Joint Committee

Item no: 6

London LGPS CIV Ltd. Governance Structures

Report by:	Hugh Grover	**Job title:**	Chief Executive, London LGPS CIV Ltd.
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Summary

This report updates the committee on progress towards finalising the governance structures of the CIV.

Recommendations

The committee is recommended to:

i. Consider and discuss the issues raised in this report;

ii. Agree to the proposed governance structures included in this report being adopted by the company subject to any feedback the FCA might give as part of the company authorisation process.

London LGPS CIV Ltd. Governance Structures

Introduction

1. At its meeting of 25 March 2015 the committee received a presentation from Anthony Gaughan (Partner, Deloitte) on the proposed governance structures for London LGPS CIV Ltd. The committee provided feedback on the proposed structures and that feedback informed further consideration that was used to present refined proposals to the Board of the company at its meeting of 12 May 2015.
2. This report provides the committee with final proposals for consideration with a view to including them in the regulatory application that will be presented to the Financial Conduct Authority for authorisation.
3. It should be noted that this committee, when sitting formally as shareholder representatives will retain the full range of shareholder responsibilities and powers as defined in the company's Articles of Association.

Board structure

2. The Board of the ACS Operator has ultimate responsibility for all aspects of management of the Company. The Board will at all times retain and exercise overall control. As a result, it is critical that the Board composition achieves a balance of skills, competencies and expertise to govern on behalf of the shareholders.
3. The ACS Operator must have a Board that is able to challenge the business, has a strong focus on oversight of both the company and its third parties, and understands its duties as a regulated company.
4. The Board members should have a mix of relevant investment, operational and financial experience having held senior roles at regulated entities, combined with a strong understanding of local government and the requirements of the company's shareholders and prime investors (the participating London local authorities). The governance practices will be commensurate with the business of the ACS Operator and the investment funds it manages.
5. It is proposed that the board will be comprised of six members both executive and non-executive with a range of skills, as illustrated in Figure 1 below:
6. The non-executive Chair and two non-executive directors will bring a mix of skills and experience covering such areas as local government, financial services, outsourcing and regulatory compliance, each will have in-depth understanding of their respective fields. The diagram proposes how the requisite skills and experience might be split across the three positions, but any of the three could take the role of Chair subject to the individual having the additional skills and experience to fulfil the role.
7. The executive team are responsible for the day-to-day operations of the business and setting the strategic direction of the Company. The non-executive directors will provide independent judgment and challenge to the board based on their respective experience.
8. It is proposed that the board will formally convene quarterly to review management information created internally and externally by third party service providers. The board will, notwithstanding any delegation of tasks, take all major strategic and operational decisions affecting the company and the investment funds it manages. The delegation of

a task does not release the board from its ultimate responsibility for the relevant management functions.

9. As well as carrying out its oversight responsibilities the board also retains a number of functions which it carries out as required in the process of each board meeting (see paragraph 10).

Figure 1: Proposed Operator Board of Directors

Executive Directors			Non-Executive Directors		
CEO	**Chief Operating Officer**	**Investment Oversight Director**	**Non-Executive Director**	**Non-Executive Director**	**Non-Executive Director**
Holds the role by virtue of being the Chief Executive Officer of the company.	Holds the role by virtue of being the Chief Operating Officer of the company.	Holds the role by virtue of being the Investment Oversight Director of the company.	Possesses significant local government and financial experience and knowledge of decision making processes. Ability to influence key stakeholders across local and central government.	A financial services investment professional with significant experience in the investment industry and oversight of investment managers. Likely to have previously held the position of CIO of a pension or investment fund.	Operations professional who has experience in Third Party outsourcing, compliance and risk in an authorised investment firm or pension fund.
			Board Chair drawn for the most appropriate of the three Non-Executive Directors.		

Functions of the Board

10. The Board will retain the following functions:

- Review the prospectus with each new investment mandate;
- Review and approval of financial accounts and investment fund documentation;
- Approval and periodic review of the business plan or programme of operations;
- Its own internal governance, including the appointment and retention of directors and any staff, the capacity of directors to fulfil their roles and conflict of interest policies;
- Appointment, oversight and removal of delegates (outsourced partners), including the basis on which delegates may further delegate tasks;
- Satisfying itself that arrangements are in place to enable compliance with applicable legal and regulatory requirements.

Board Sub committees and meetings

11. The proposed governance structure and procedures were presented to the committee at its meeting on 25 March. Feedback from members included concern that, in relation to

its size, the proposals were too complex with too many committees and meetings for the board, which would detract from the day to day running of the company. In the light of that feedback the number of committees and the frequency of their meetings have been reduced to produce the proposals set out in Figure 2 below:

Figure 2: Committee Structures

Committee	Focus of Role	Meeting Frequency
Executive Team	Managing the day-to-day running of the company	Monthly
Company Board of Directors	Strategic direction	Quarterly
Risk & Compliance	Risk & compliance oversight	Quarterly
Operations & Valuations	Operational risk, valuations & pricing oversight	Quarterly
Investment Oversight	Investment oversight	Quarterly
Audit	Company &fund audit oversight	Tri-annually
Remuneration	Remuneration policy and application oversight	Annually

12. Subsequent to the 25 March committee meeting a smaller group of members has convened (constituted of the Chair, the two Vice-Chairs and Cllr Toby Simon) to consider the company's estimated operating budget for its first three years. This group has expressed strong views that there should also be a remuneration committee added to the governance structures. The proposal would be for the remuneration committee to meet once a year (ahead of the company AGM) and to be comprised of this committee's Chair and Vice-Chairs and the Board Chair plus one other non-executive director.

Recommendations

13. The committee is recommended to:

    i. Consider and discuss the issues raised in this report;

    ii. Agree to the proposed governance structures included in this report being adopted by the company subject to any feedback the FCA might give as part of the company authorisation process.

Financial implications

14. There are no financial implications for London Councils

Legal implications

15. There are no legal implications for London Councils

Equalities implications

16. There are no equalities implications for London Councils