

Pensions CIV Sectoral Joint Committee

Item no: 6

London CIV's response to the government's pooling criteria and guidance and Investment Regulations consultation

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

Date: 10 February 2016

Contact Officer:

Telephone: 020 7934 9942 **Email:** hugh.grover@londonciv.org.uk

Summary

In November 2015 the government published its "criteria and guidance" setting out how the LGPS funds of England and Wales should pool assets into "... six British Wealth Funds" of £25 billion each. This report presents the Committee with the four criteria which the government believes should steer the formation of pools and a draft response to the criteria for consideration ahead of it being submitted to government on or before 19 February 2015.

Recommendations

The committee is recommended to:

- i. Note the contents of this report; and
 - ii. Decide whether the response to government at Annex B should be from London CIV only or jointly on behalf of London CIV and all the participating boroughs.
-

London CIV's response to the government's pooling criteria and guidance and Investment Regulations consultation

Introduction

1. The Committee will be aware that the government published its pooling criteria and guidance in November 2015 (attached at Annex A for reference). Responses are invited from individual LGPS Funds and/or as collective responses on behalf of a potential pool.
2. There are two rounds of responses required; the first initial proposals are to be submitted by 19 February, with "refined and completed" submissions due by 15 July.
3. At this stage submissions should include "a commitment to pooling and a description of their progress towards formalising their arrangements with [participating] authorities." The July submission is to be refined and completed, fully addressing the criteria set out in the government's document, including governance structures, decision-making processes and implementation timetable.
4. The government has committed to providing feedback to the February submissions.
5. Attached at Annex B is a draft February submission. It will be seen that this draft goes beyond the minimum requirements at this stage, but allows scope for further detail to be included in the July response (especially in light of the London CIV business strategy development that is being undertaken by the Board).
6. This draft has been developed in collaboration with the Investment Advisory Committee and has been shared in earlier draft with the Chair and Vice-Chairs of the Pensions Sectoral Joint Committee (PSJC). It has also been reviewed by the Board of London CIV and has been shared with borough Treasurers and Pension Fund Managers for them to comment on and use in formulating their own responses if they so wish.
7. The Committee will wish to consider whether the attached response should be submitted from London CIV only or whether it should be a joint response on behalf of London CIV and all the participating boroughs.

Pooling criteria and guidance

8. The government is of the view that the LGPS should establish up to six "British Wealth Funds", each with assets of at least £25 billion and which are able to invest in infrastructure and drive local growth.
9. Four criteria have been published setting out "...how administering authorities can deliver against the Government's expectations of pooling assets." However, it has been left to authorities to propose how pooling arrangements will be constituted and will operate.
10. The four criteria, and extracts of the government's support narrative, are:
 - A. Asset pool(s) that achieve the benefits of scale:** "The 90 administering authorities in England and Wales should collaborate to establish, and invest through asset pools, each with at least £25bn of Scheme assets. The proposals should describe these pools, explain how each administering authority's assets will be allocated among the pools, describe the scale benefits that these arrangements are expected to deliver and explain how those benefits will be realised, measured and reported."

B. Strong governance and decision making: “The proposed governance structure for the pools should:

- i. At the local level, provide authorities with assurance that their investments are being managed appropriately by the pool, in line with their stated investment strategy and in the long-term interests of their members;
- ii. At the pool level, ensure that risk is adequately assessed and managed, investment implementation decisions are made with a long-term view, and a culture of continuous improvement is adopted.

Authorities should also revisit their internal processes to ensure efficient and effective decision making and risk management, while maintaining appropriate democratic accountability.”

C. Reduced costs and excellent value for money: “In addition to the fees paid for investment, there are further hidden costs that are difficult to ascertain and so are rarely reported in most pension fund accounts. To identify savings, authorities are expected to take the lead in this area and report the costs they incur more transparently. Proposals should explain how the pool(s) will deliver substantial savings in investment fees, both in the near term and over the next 15 years, while at least maintaining overall investment performance.”

D. An improved capacity to invest in infrastructure: “Only a very small proportion of Local Government Pension Scheme assets are currently invested in infrastructure; pooling of assets may facilitate greater investment in this area. Proposals should explain how infrastructure will feature in authorities’ investment strategies and how the pooling arrangements can improve the capacity and capability to invest in this asset class.”

11. No specific timetable has been set out for assets to be transferred, simply that it should be “... as soon as practicable.” The government believes that supporting structures could be established with 18 months and has stated an expectation that liquid assets will be transferred into pools “... over a relatively short timeframe, beginning from April 2018.” It is also recognised that illiquid assets are likely to transition over a longer period of time, and that investments with high penalty costs for early exit should not be wound up early on account of the pooling arrangements, but should be transferred across as soon as practicable, taking into account value for money considerations.
12. There is no doubt that the London CIV is well placed to respond to all of the criteria and is well ahead of the rest of the LGPS. Nonetheless, reaching the £25 billion threshold for scale will require significant commitment from participating boroughs over the next few years.

Investment Regulations consultation

13. In tandem with the publishing of the above criteria and guidance the government also published *Local Government Pension Scheme: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009*. Most of the proposed regulatory changes impact at the borough level rather than directly on London CIV and as such the response to the proposals in Annex B focuses on high-level principles and those aspects that have direct implications for London CIV.

14. The government is consulting on “backstop” legislation that would give the Secretary of State wide ranging power to intervene in the investment function of an administering authority where it has not shown sufficient regard to guidance published by the Secretary of State. While the use of this power could be triggered by an array of situations the government makes specific reference to using it to require those administering authorities who do not come forward with sufficiently ambitious proposals to pool their assets with others.
15. As a principle London Councils (and London CIV) is supportive of deregulation and more power for local authorities to make their own decisions. However, London Councils does not support wide ranging powers of intervention for the Secretary of State.
16. In addition, London CIV is specifically concerned that the Regulations do not cater for the existence of recognised LGPS pools which could lead to unintended consequences going forward.

Recommendations

17. The committee is recommended to:
 - i. Note the contents of this report; and
 - ii. Decide whether the response to government at Annex B should be from London CIV only or jointly on behalf of London CIV and all the participating boroughs.

Financial implications

18. There are no financial implications for London Councils

Legal implications

19. There are no legal implications for London Councils

Equalities implications

20. There are no equalities implications for London Councils

Annexes

- | | |
|---------|---|
| Annex A | Local Government Pension Scheme: Investment Reform Criteria and Guidance, DCLG, November 2015 |
| Annex B | Draft London CIV submission |



Department for
Communities and
Local Government

Local Government Pension Scheme: Investment Reform Criteria and Guidance



© Crown copyright, 2015

Copyright in the typographical arrangement rests with the Crown.

You may re-use this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, <http://www.nationalarchives.gov.uk/doc/open-government-licence/version/3/> or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk.

This document/publication is also available on our website at www.gov.uk/dclg

If you have any enquiries regarding this document/publication, complete the form at <http://forms.communities.gov.uk/> or write to us at:

Department for Communities and Local Government
Fry Building
2 Marsham Street
London
SW1P 4DF
Telephone: 030 3444 0000

For all our latest news and updates follow us on Twitter: <https://twitter.com/CommunitiesUK>

November 2015

ISBN: 978-1-4098-4734-2

Contents

Local Government Pension Scheme: Investment Reform Criteria and Guidance Error!
Bookmark not defined.

Contents	3
Ministerial Foreword	4
Criteria	5
Addressing the criteria	8
Requirements and Timetable	8
Legislative context	9
Supporting guidance	10
A. Asset pool(s) that achieve the benefits of scale	10
B. Strong governance and decision making.....	15
C. Reduced costs and excellent value for money	20
D. An improved capacity and capability to invest in infrastructure	24

Ministerial Foreword

At the summer Budget 2015, the Chancellor announced our intention to invite administering authorities to bring forward proposals for pooling Local Government Pension Scheme investments, to deliver significantly reduced costs while maintaining overall investment performance.

We have been clear for some time that the existing arrangements for investment by the Local Government Pension Scheme are in need of reform, and the announcement made plain our expectation that authorities would be ambitious when developing their proposals. The publication of these criteria and their supporting guidance marks a significant milestone on the road to reform, placing authorities in a strong position to take the initiative and drive efficiencies in the Scheme, and ultimately deliver savings for local taxpayers.

The Scheme is currently organised through 89 separate local government administering authorities and a closed Environment Agency scheme, which each manage and invest their assets largely independently. Recognising the potential for greater efficiency in this system, the coalition government first began to consider the opportunity for collaboration in 2013 with a call for evidence. Since then, we have been exploring the opportunities to improve; gathering evidence, testing proposals, and listening to the views of administering authorities and the fund management industry.

The Chancellor's announcement draws on this earlier work and in particular the consultation, *Opportunities for collaboration, cost savings and efficiencies*, published in May 2014 by the coalition government. More than 200 consultation responses and papers were received and analysed, leading to the development of a framework for reform that has administering authorities at its centre. The criteria published today make clear the Government's expectation for ambitious proposals for pooling, and invite authorities to lead the design and implementation of their own pools. The criteria have been shaped and informed by earlier consultations, as well as several conversations with administering authorities and the fund management industry which took place over the summer.

Working together, authorities have a real opportunity to realise the benefits of scale that should be available to one of Europe's largest funded pension schemes. The creation of up to six British Wealth Funds, each with at least £25bn of Scheme assets, will not only drive down investment costs but also enable the authorities to develop the capacity and capability to become a world leader in infrastructure investment and help drive growth. I know that many authorities have already started to consider who they will work with and how best to achieve the benefits of scale. These early discussions place those authorities on a strong footing to deliver against our criteria, and I look forward to seeing their proposals develop over the coming months.

Marcus Jones

Criteria

1.1 In the July Budget 2015, the Chancellor announced the Government's intention to work with Local Government Pension Scheme (the Scheme) administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance. Authorities are now invited to submit proposals for pooling which the Government will assess against the criteria in this document. The Chancellor has announced that the pools should take the form of up to six British Wealth Funds, each with assets of at least £25bn, which are able to invest in infrastructure and drive local growth.

1.2 The following criteria set out how administering authorities can deliver against the Government's expectations of pooling assets.

1.3 It will be for authorities to suggest how their pooling arrangements will be constituted and will operate. In developing proposals, they should have regard to each of the four criteria, which are designed to be read in conjunction with the supporting guidance that follows. Their submissions should describe:

A. Asset pool(s) that achieve the benefits of scale: The 90 administering authorities in England and Wales should collaborate to establish, and invest through asset pools, each with at least £25bn of Scheme assets. The proposals should describe these pools, explain how each administering authority's assets will be allocated among the pools, describe the scale benefits that these arrangements are expected to deliver and explain how those benefits will be realised, measured and reported. Authorities should explain:

- The size of their pool(s) once fully operational.
- In keeping with the supporting guidance, any assets they propose to hold outside the pool(s), and the rationale for doing so.
- The type of pool(s) they are participating in, including the legal structure if relevant.
- How the pool(s) will operate, the work to be carried out internally and services to be hired from outside.
- The timetable for establishing the pool(s) and moving their assets into the pool(s). Authorities should explain how they will transparently report progress against that timetable.

B. Strong governance and decision making: The proposed governance structure for the pools should:

- i. At the local level, provide authorities with assurance that their investments are being managed appropriately by the pool, in line with their stated investment strategy and in the long-term interests of their members;
- ii. At the pool level, ensure that risk is adequately assessed and managed, investment implementation decisions are made with a long-term view, and a culture of continuous improvement is adopted.

Authorities should also revisit their internal processes to ensure efficient and effective decision making and risk management, while maintaining appropriate democratic accountability. Authorities should explain:

- The governance structure for their pool(s), including the accountability between the pool(s) and elected councillors, and how external scrutiny will be used.
- The mechanisms by which the authority can hold the pool(s) to account and secure assurance that their investment strategy is being implemented effectively and their investments are being well managed.
- Decision making procedures at all stages of investment, and the rationale underpinning this.
- The shared objectives for the pool(s), and any policies that are to be agreed between participants.
- The resources allocated to the running of the pool(s), including the governance budget, the number of staff needed and the skills and expertise required.
- How any environmental, social and corporate governance policies will be handled by the pool(s).
- How the authorities will act as responsible, long term investors through the pool(s), including how the pool(s) will determine and enact stewardship responsibilities.
- How the net performance of each asset class will be reported publically by the pool, to encourage the sharing of data and best practice.
- The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool(s), for example by undertaking the Scheme Advisory Board's key performance indicator assessment.

C. Reduced costs and excellent value for money: In addition to the fees paid for investment, there are further hidden costs that are difficult to ascertain and so are rarely reported in most pension fund accounts. To identify savings, authorities are expected to take the lead in this area and report the costs they incur more transparently. Proposals should explain how the pool(s) will deliver substantial savings in investment fees, both in the near term and over the next 15 years, while at least maintaining overall investment performance.

Active fund management should only be used where it can be shown to deliver value for money, and authorities should report how fees and net performance in each listed asset class compare to a passive index. In addition authorities should consider setting targets for active managers which are focused on achieving risk-adjusted returns over an appropriate long term time period, rather than solely focusing on short term performance comparisons.

As part of their proposals, authorities should provide:

- A fully transparent assessment of investment costs and fees as at 31 March 2013.
- A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison.
- A detailed estimate of savings over the next 15 years.

- A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool(s), and an explanation of how these costs will be met.
- A proposal for reporting transparently against their forecast transition costs and savings, as well as how they will report fees and net performance.

D. An improved capacity to invest in infrastructure: Only a very small proportion of Local Government Pension Scheme assets are currently invested in infrastructure; pooling of assets may facilitate greater investment in this area. Proposals should explain how infrastructure will feature in authorities' investment strategies and how the pooling arrangements can improve the capacity and capability to invest in this asset class. Authorities should explain:

- The proportion of their fund currently allocated to infrastructure, both directly and through funds, or "fund of funds".
- How they might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments directly through the pool(s), rather than existing fund, or "fund of funds" arrangements.
- The proportion of their fund they intend to invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at that amount.

Addressing the criteria

Requirements and Timetable

2.1 Authorities are asked to submit their initial proposals to the Government to LGPSReform@communities.gsi.gov.uk by 19 February 2016. Submissions should include a commitment to pooling and a description of their progress towards formalising their arrangements with other authorities. Authorities can choose whether to make individual or joint submissions, or both, at this first stage.

2.2 Refined and completed submissions are expected by 15 July 2016, which fully address the criteria in this document, and provide any further information that would be helpful in evaluating the proposals. At this second stage, the submissions should comprise:

- for each pool, a joint proposal from participating authorities setting out the pooling arrangement in detail. For example, this may cover the governance structures, decision-making processes and implementation timetable; and
- for each authority, an individual return detailing the authority's commitment to, and expectations of, the pool(s). This should include their profile of costs and savings, the transition profile for their assets, and the rationale for any assets they intend to hold outside of the pools in the long term.

Assessing the proposals against criteria

2.3 The Government will continue to engage with authorities as they develop their proposals for pooling assets over the coming months. The initial submissions will be evaluated against the criteria, with feedback provided to highlight areas that may fall outside of the criteria, or where additional evidence may be required.

2.4 Once submitted, the Government will assess the final proposals against the criteria. A brief report will be provided in response, setting out the extent to which the criteria have been met and highlighting any aspects of the guidance that the Government believes have not been adequately addressed. In the first instance, the Government will work with authorities who do not develop sufficiently ambitious proposals to help them deliver a more cost effective approach to investment that draws on the benefits of scale. Where this is not possible, the Government will consider how else it can drive value for money for taxpayers, including through the use of the "backstop" legislation, should this be in place following the outcome of the consultation described below.

Transitional arrangements

2.5 Plans should be made to transfer assets to the pools as soon as practicable. Analysis commissioned by the Government from PricewaterhouseCoopers (PwC) indicates that, even those pooling mechanisms requiring supporting infrastructure, such as collective investment vehicles, could be established within 18 months. It is expected that liquid assets are transferred into the pools over a relatively short timeframe, beginning from April 2018. It is recognised that illiquid assets are likely to transition over a longer period of time. For the avoidance of doubt, investments with high penalty costs for early

exit should not be wound up early on account of the pooling arrangements, but should be transferred across as soon as practicable, taking into account value for money considerations. Any assets that are held outside of the pool should be kept under review to ensure that arrangement continues to provide value for money.

2.6 While authorities will need to be mindful of their developing pooled approach, they should continue to manage both their investment strategies and manager appointments as they do now until the new arrangements are in place. In keeping with the investment regulations, they are still responsible for keeping both under regular review.

Support to develop proposals

2.7 To help authorities develop proposals quickly and efficiently, the Government has made available PwC's detailed technical analysis of the different collective investment vehicles and their tax arrangements at: <https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance>. This paper is provided for information only. It does not represent the view of Government, and authorities should seek professional advice as needed when developing their proposals. Authorities are also strongly encouraged to learn from those who have already begun to develop collective investment vehicles, such as the London Boroughs or Lancashire and the London Pension Fund Authority.

Legislative context

2.8 At the July Budget 2015, the Chancellor also announced the Government's intention to consult on "backstop" legislation that would require those administering authorities who do not come forward with sufficiently ambitious proposals to pool their assets with others. That consultation has now been published and is available on the Government's website at: <https://www.gov.uk/government/consultations/revoking-and-replacing-the-local-government-pension-scheme>.

2.9 The consultation proposes to introduce a power for the Secretary of State to intervene in the investment function of an administering authority where it has not had sufficient regard to guidance published by the Secretary of State. The intervention should be proportionate and subject to both consultation and review.

2.10 The draft regulations include a provision for the Secretary of State to issue guidance. Subject to the outcome of the consultation, authorities would then need to have regard to that guidance when producing their investment strategy. The Government proposes to issue this document as Secretary of State's guidance if the draft regulations come into effect. The guidance will be kept under review and may be updated, for example if the proposals for pooling that come forward are not sufficiently ambitious.

2.11 The consultation also proposes to replace and update the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 to make significant investment through pooled vehicles possible.

Supporting guidance

3.1 This guidance is to assist authorities in the design of ambitious proposals for pooling investments and to provide ongoing support as they seek to ensure value for money in the long term. It will be kept under review to ensure that it continues to represent best practice.

A. Asset pool(s) that achieve the benefits of scale

Headline criterion: The 90 administering authorities in England and Wales should collaborate to establish, and invest through asset pools, each with at least £25bn of Scheme assets. The proposals should describe these pools, explain how each administering authority's assets will be allocated among the pools, describe the scale benefits that these arrangements are expected to deliver and explain how those benefits will be realised, measured and reported.

3.2 The consultation, *Opportunities for collaboration, cost savings and efficiencies*, set out strong evidence that demonstrated how using collective investment vehicles and pooling investments can deliver substantial savings for the Local Government Pension Scheme without affecting investment performance. Additional advantages to pooling, which should further reduce costs and improve decision making in the long term, include:

- Increasing the range of asset classes to be invested in directly,
- Strengthening the governance arrangements and in-house expertise available to authorities,
- Improving transparency and long-term stewardship, and
- Facilitating better dissemination of best practice and performance data between authorities.

The case for collective investment

3.3 Published in May 2014, the analysis in the Hymans Robertson report evidenced that using collective investment vehicles could deliver savings. In the case of illiquid assets alone, they found that £240m a year could be saved if investments were channelled through a Scheme wide collective investment vehicle rather than the existing “fund of funds” approach.¹

3.4 A review of the academic analysis available also supports the case for larger investment pools. For example, Dyck and Pomorski's paper, *Is Bigger Better? Size and performance in pension fund management*, established that larger pension funds were able to operate at lower cost than their smaller counterparts, through a combination of

¹ Hymans Robertson report: *Local Government Pension Scheme structure analysis*, p.3
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/307926/Hymans_Robertson_report.pdf

improved negotiating power, greater use of in-house management, and more cost effective access to alternative assets like infrastructure.²

A third to a half of the benefits of size come through cost savings realized by larger plans, primarily via internal management. Up to two thirds of the economies come from substantial gains in both gross and net returns on alternatives.

3.5 A number of respondents to the May 2014 consultation also set out the case for larger funds being able to access lower cost investments. London Councils, for example, estimated that savings of £120m a year could be delivered if £24bn was invested through the London collective investment vehicle (CIV), as a result of reduced investment management fees, improved performance, and enhanced efficiency.

3.6 Formal mechanisms of pooling, such as collective investment vehicles, offer additional benefits to alternative arrangements such as procurement frameworks. For example, Hymans Robertson explained that larger asset pools would increase the opportunities for buy and sell transactions to be carried out within the Scheme, reducing the need to go to the market and so minimising transaction costs. Their analysis found that this could reduce transaction costs, which erode the value of assets invested, by £190m a year.³

3.7 Pooling investments will also create an opportunity to improve transparency and information sharing amongst authorities. By having a single entity responsible for negotiating with fund managers and reporting performance, authorities can see what they are paying and generating in returns and how it compares with other authorities. Similarly, Lancashire County Pension Fund and the London Pension Fund Authority, who are developing a pool for assets and liabilities, anticipate economies of scale driving improved performance. They have recently estimated that by pooling they can achieve enhanced investment outcomes of £20-£30m a year from their current levels.⁴

Achieving appropriate scale

3.8 The Government expects all administering authorities to pool their investments to achieve economies of scale and the wider benefits of sharing best practice.

3.9 A move to larger asset pools would also be in keeping with international experience. For example, in Ontario, smaller public sector pension funds are being required to come together to form pools of around \$50bn Canadian (approximately £30bn at the time the proposal was made). Similarly, Australian pension funds have been consolidating in recent years, where a formal review in 2010 recommended that each MySuper pension fund be required to consider annually whether they have sufficient scale and membership to continue as a separate pension fund.⁵

² Dyck and Pomorski, *Is bigger better? Size and Performance in Pension Plan Management*, pp.14-15

³ Hymans Robertson report, pp.14-15

⁴ Sir Merrick Cockell, writing in the *Pensions Expert* on 30 September 2015

⁵ Government Response to the Review into the Governance, Efficiency, Structure and Operation of Australia's Superannuation System, Recommendation 1.6,

3.10 The May 2014 consultation sought views on the number of collective investment vehicles to be established. Respondents stressed the importance of balancing the need for scale with local input and practical governance arrangements. It was also argued that while larger asset pools would deliver greater savings, the potential difficulties of successfully investing large volumes of assets in a single asset class, particularly active strategies for listed assets, should also be taken into account. However, while individual managers may restrict the value of assets they are prepared to accept or are able to invest, the selection of a few managers for each asset class would help to mitigate this risk.

3.11 Having reflected on the views expressed in response to the consultation and the experience of pension funds internationally, the Government believes that in almost all cases, fewer, larger assets pools will create the conditions for lower costs and reduce the likelihood of activity being duplicated across the Scheme, for example by minimising pooled vehicle set-up and running costs. It therefore expects authorities to collaborate and invest through no more than six large asset pools, each with at least £25bn of Local Government Pension Scheme assets under management once fully operational.

3.12 However, the Government recognises that there may be a limited number of bespoke circumstances where an alternative arrangement may be more appropriate for a particular asset class or specific investment. As set out below, this may include pooling to invest in illiquid assets like infrastructure, direct holdings in property and locally targeted investments.

Investment in infrastructure and other illiquid or alternative assets

3.13 The Hymans Robertson report highlighted illiquid or alternative assets as an area for significant savings for the Scheme. They found that in 2012-2013, illiquid asset classes like private equity, hedge funds and infrastructure represented just 10% of investments made, but 40% of investment fees. They also demonstrated that changing the way these investments are made, moving away from “fund of funds” to a collective investment vehicle, could save £240m a year.⁶

3.14 The Government expects the pooling of assets to remove some of the obstacles to investing in these asset classes in a cost effective way. A separate criterion has been included on infrastructure, although similar benefits exist for other alternative or illiquid assets, such as private equity, venture capital, debt funds and new forms of alternative business finance. In light of this, authorities should consider how best to access these asset classes in a more cost-effective way. Regionally based pools, such as the London boroughs’ collective investment vehicle, would allow authorities to make best use of existing relationships, while a single national pool for infrastructure or illiquid assets would deliver even greater scale and opportunity for efficiency.

3.15 A considerable shift in asset allocation would be needed to develop a pool of £25bn for investment in infrastructure and other illiquid or alternative assets, such as private equity or venture capital. The Government recognises that such a significant movement in

http://strongersuper.treasury.gov.au/content/Content.aspx?doc=publications/government_response/recommendation_response_chapter_1.htm

⁶ Hymans Robertson report, p.24

asset allocation is unlikely in the near term. As such, should authorities elect to develop a single asset pool for illiquid investments or infrastructure, the Government recognises that a value of assets under management less than £25bn might be appropriate.

Investments outside of the pools

3.16 The Government's presumption is that all investments should be made through the pool, but we recognise that there may be a limited number of existing investments that might be less suitable to pooled arrangements, such as local initiatives or products tailored to specific liabilities. Authorities may therefore wish to explore whether to retain a small proportion of their existing investments outside of the pool, where this can demonstrate clear value for money. Any exemptions should be minimal and must be set out in the pooling proposal, alongside a supporting rationale.

Property

3.17 As of the 31 March 2014, authorities reported that they were investing around 2.5% of their assets in directly held property, with a further 4.1% invested through property investment vehicles.⁷ However, the amount invested varies considerably between authorities, with some targeting investment of around 10% of their assets in direct holdings, for example.

3.18 A number of consultation responses stressed the importance of retaining direct ownership of property outside of any pooled arrangement, a view echoed in our discussions with interested parties over the summer. Directly held property is used by some authorities to match a particular part of an authority's liabilities, or to generate regular income. If these assets were then pooled, while the authority would receive the benefits of the pooled properties, there is a risk that this would not match the liability or cash-flow requirements that had underpinned the decision to invest in a particular property.

3.19 In light of the arguments brought forward by authorities and the fund management industry, the Government is prepared to accept that some existing property assets might be more effectively managed directly and not through a pool at present. However, pools should be used if new allocations are made to property, taking advantage of the opportunity to share the costs associated with the identification and management of suitable investments.

3.20 Where authorities invest more than the reported Scheme average of 2.5% in property directly, they should make this clear in their pooling submission.

Addressing the criterion

3.21 When developing their proposals for pooling, authorities should set out:

- The size of their pool(s) once fully operational.
- In keeping with the supporting guidance, any assets they propose to hold outside the pool(s), and the rationale for doing so.

⁷ Scheme Advisory Board, Annual Report <http://www.lgpsboard.org/index.php/investment-performance-2014>

- The type of pool(s) they are participating in, including the legal structure if relevant.
- How the pool(s) will operate, the work to be carried out internally and services to be hired from outside.
- The timetable for establishing the pool(s) and moving their assets into the pool(s). Authorities should explain how they will transparently report progress against that timetable.

B. Strong governance and decision making

Headline criterion: The proposed governance structure for the pools should:

- i. At the local level, provide authorities with assurance that their investments are being managed appropriately by the pool, in line with their stated investment strategy and in the long-term interests of their members;
- ii. At the pool level, ensure that risk is adequately assessed and managed, investment implementation decisions are made with a long-term view, and a culture of continuous improvement is adopted.

Authorities should also revisit their internal processes to ensure efficient and effective decision making and risk management, while maintaining appropriate democratic accountability.

3.22 A number of consultation responses stressed the importance of establishing strong governance arrangements for pools. Securing the right balance between local input and timely, effective decision making was viewed as essential, but also a significant challenge. The management and governance arrangements of each pool will inevitably be defined by the needs of those participating. However, there are some underlying principles that the Government believes should be incorporated.

Maintaining democratic accountability

3.23 The May 2014 consultation was underpinned by the principle that asset allocation should remain with the administering authorities. Consultation respondents were strongly in favour of retaining local asset allocation, noting that each fund has a unique set of participating employers, liabilities, membership and cash-flow profiles, which need to be addressed by an investment strategy tailored to those particular circumstances.

3.24 Respondents also highlighted the transparency and accountability benefits offered by local asset allocation. If councillors are responsible for setting the investment strategy, then local taxpayers, who in part fund the Scheme through employer contributions, have an opportunity to hold their decisions directly to account through local elections. As one consultation response explained:

The accountability of Members of the employing authorities playing a part in deciding locally how the assets of the Pension Fund are allocated is important. Employer contributions are paid, in the main, by local council tax payers who in turn vote for their local councillors. Those councillors should have the autonomy to make decisions relating to the investment strategy of that Pension Fund.

3.25 The Government agrees that this democratic link is important to the effective running of the Scheme and should not be wholly removed by the pooling of investments. As set out below, determining the investment strategy and setting the strategic asset allocation should remain with individual authorities. When developing a pool, authorities should ensure that there remains a clear link through the governance structure adopted, between the pool and the pensions committee. For example, this might take the form of a shareholding in the pool for the authority, which is exercised by a member of the pension committee.

Strategic asset allocation

3.26 Establishing the right investment strategy and strategic asset allocation is crucial to optimising performance. It is increasingly accepted that strategic asset allocation is one of the main drivers of investment returns, having far greater an impact than implementation decisions such as manager selection.

3.27 The majority of respondents to the May 2014 consultation supported local asset allocation, but discussions with interested parties over the summer have highlighted a lack of consensus as to what constitutes strategic asset allocation. Definitions have ranged from selecting high level asset classes such as the proportions in bonds, equities and property; to developing a detailed strategy setting out the extent and types of investments in each of the different equity or bond markets.

3.28 Informed by these discussions with fund managers and administering authorities, the Government believes that pension committees should continue to set the balance between investment in bonds and equities, recognising their authority's specific liability and cash-flow forecasts. Beyond this, it will be for each pool to determine which aspects of asset allocation are undertaken by the pool and which by the administering authority, having considered how best to structure decision making in order to deliver value for money. Authorities will need to consider the additional benefits of centralising decision making to better exploit synergies with other participating authorities' allocations and further drive economies of scale. When setting out their asset allocation authorities should be as transparent as possible, for example making clear the underlying asset class sought when using pooled funds.

Effective and timely decision making

3.29 Authorities should draw a distinction between locally setting the strategic asset allocation and centrally determining how that strategy is implemented. The Government expects that implementation of the investment strategy will be delegated to officers or the pool, in order to make the most of the benefits of scale and react efficiently to changing market conditions. As one consultation response suggested:

We believe that high-level decisions about Fund objectives, strategy and allocation are best made by individual Funds considering their better knowledge of their liabilities, risk and return objectives and cash flow requirements. More detailed asset allocation decisions should however be centralised to achieve better economies of scale, and to allow more specialist management.

3.30 Authorities will need to revisit and review their decision-making processes as part of their move towards pools. For example, in order to maximise savings, manager selection will need to be undertaken at the pool level. Centralising manager selection would allow the pool to rationalise the number of managers used for a particular asset class. The resulting larger mandates should then allow the pool to negotiate lower investment fees. This approach would also give local councillors more time to dedicate to the fundamental issue of setting the overarching strategy.

3.31 A number of authorities have already delegated hiring and dismissing managers to a sub-committee comprised predominantly of officers. This has allowed these authorities to

react more quickly to changes in the market, taking advantage of opportunities as they arise. Similarly, delegating implementation decisions to the pool will allow the participating authorities to benefit not only from more streamlined decision making, but also from effecting those decisions at scale.

3.32 The creation of pools will necessarily lead to a review of decision making within each authority. The Government expects to see greater consolidation where possible. However, as a minimum, we would expect to see the selection of external fund managers and the implementation of the investment strategy to be carried out at the pooled level.

Responsible investment and effective stewardship

3.33 In June 2011, the Government invited Professor John Kay to conduct a review into UK equity markets and long-term decision making. The Kay Review considered how well equity markets were achieving their core purposes: to enhance the performance of UK companies and to enable savers to benefit from the activity of these businesses through returns to direct and indirect ownership of shares in UK companies. The review identified that short-termism is a problem in UK equity markets.⁸

3.34 Professor Kay recommended that Company directors, asset managers and asset holders adopt measures to promote both stewardship and long-term decision making. In particular, he stressed that ‘asset managers can contribute more to the performance of British business (and in consequence to overall returns to their savers) through greater involvement with the companies in which they invest.’⁹ He concludes that adopting such responsible investment practices will prove beneficial for investors and markets alike.

3.35 In practice, responsible investment could involve making investment decisions based on the long term, as well as playing an active role in corporate governance by exercising shareholder voting rights. Administering authorities will want to consider the findings of the Kay Review when developing their proposals, including what governance procedures and mechanisms would be needed to facilitate long term responsible investing and stewardship through a pool. The UK Stewardship Code, published by the Financial Reporting Council, also provides authorities with guidance on good practice in terms of monitoring, and engaging with, the companies in which they invest.

Enacting an environmental, social and corporate governance policy

3.36 The investment regulations currently require authorities to set out within the statement of investment principles the extent to which social, environmental or corporate governance considerations are taken into account in the selection, retention and realisation of investments. The draft regulations published alongside this document do not propose to amend this principle.

3.37 These policies should be developed in the context of the liability profile of the Scheme, and should enhance the authority’s ability to manage down any funding deficit and ensure that pensions can be paid when due. Indeed, environmental, social and

⁸ *The Kay Review of UK Equity Markets and Long-Term Decision Making*, pp. 9-10
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/253454/bis-12-917-kay-review-of-equity-markets-final-report.pdf

⁹ The Kay Review, p.12

corporate governance policies provide a useful tool in managing financial risk, as they ensure that the wider risks associated with the viability of an investment are fully recognised.

3.38 As the Law Commission emphasised in its 2014 report on the fiduciary duty of financial intermediaries, the law generally is clear that schemes should consider any factors financially material to the performance of their investments, including social, environmental and corporate governance factors, and over the long-term, dependent on the time horizon over which their liabilities arise.

3.39 The Law Commission also clarified that, although schemes should make the pursuit of a financial return their predominant concern, they may take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.

3.40 The Government's intention is to issue guidance to authorities to clarify that such considerations should not result in policies which pursue municipal boycotts, divestments and sanctions, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government. Investment policies should not be used to give effect to municipal foreign or munitions policies that run contrary to Government policy.

3.41 Authorities will need to determine how their individual investment policies will be reflected in the pool. They should also consider how pooling could facilitate implementation of their environmental, social and corporate governance policy, for example by sharing best practice, collaborating on social investments to reduce cost or diversify risk, or using their scale to improve capability in this area.

Addressing the criterion

3.42 When developing their proposals for pooling, authorities will need to set out:

- The governance structure for their pool(s), including the accountability between the pool(s) and elected councillors, and how external scrutiny will be used.
- The mechanisms by which the authority can hold the pool(s) to account and secure assurance that their investment strategy is being implemented effectively and their investments are being well managed.
- Decision making procedures at all stages of investment, and the rationale underpinning this.
- The shared objectives for the pool(s), and any policies that are to be agreed between participants.
- The resources allocated to the running of the pool(s), including the governance budget, the number of staff needed and the skills and expertise required.
- How any ethical, social and corporate governance policies will be handled by the pool(s).
- How the authorities will act as responsible, long term investors through the pool(s), including how the pool(s) will determine and enact stewardship responsibilities.

- How the net performance of each asset class will be reported publically by the pool, to encourage the sharing of data and best practice.
- The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool(s), for example by undertaking the Scheme Advisory Board's key performance indicator assessment.

C. Reduced costs and excellent value for money

Headline criterion: In addition to the fees paid for investment, there are further hidden costs that are difficult to ascertain and so rarely reported in most pension fund accounts. To identify savings, authorities are expected to take the lead in this area and report the costs they incur more transparently. Proposals should explain how the pool(s) will deliver substantial savings in investment fees, both in the near term and over the next 15 years, while maintaining overall investment performance.

Active fund management should only be used where it can be shown to deliver value for money, and authorities should report how fees and net performance in each listed asset class compare to a passive index. In addition authorities should consider setting targets for active managers which are focused on achieving risk-adjusted returns over an appropriate long term time period, rather than solely focusing on short term performance comparisons.

3.43 As set out in the July Budget 2015 announcement, the Government wants to see authorities bring forward proposals to reform the way their pension scheme investments are made to deliver long-term savings for local taxpayers. Authorities are invited to consider how they might best deliver value for money, minimising fees while maximising overall investment returns.

Scope for savings

3.44 Pooling investments offers an opportunity to share knowledge and reduce external investment management fees, as the fund manager is able to treat the authorities as a single client. There is already a considerable body of evidence in the public domain to support authorities in developing their proposals for investment reform and this continues to grow with new initiatives emerging from local authorities:

- **Passive management:** Hymans Robertson showed that annual fee savings of £230m could be found by moving from active to passive management of listed assets like bonds and equities, without affecting the Scheme's overall return.¹⁰
- Their analysis suggested that since passive management typically results in fewer shares being traded, turnover costs, which are a drag on the performance achieved through active management, might be reduced by £190m a year.¹¹
- **Collective investment:** Hymans Robertson also demonstrated that £240m a year could be saved by using a collective investment vehicle instead of "fund of funds" for illiquid assets like infrastructure, hedge funds and private equity.¹²
- Similarly, the London Pension Fund Authority has estimated that they have reduced their external manager fees by 75% by bringing equity investments in-house, and hope to expand this considerably as part of their collective investment vehicle with Lancashire County Pension Fund.¹³

¹⁰ Hymans Robertson report, p. 12

¹¹ Hymans Robertson report, pp. 14-15

¹² Hymans Robertson report, p. 3

¹³ Chris Rule, LPFA Chief Investment Officer, reported in *Pension Expert* on 1 October 2015

- **Sharing services and procurement costs:** The National Procurement Framework has also helped authorities to address some of the other costs associated with investment, such as legal and custodian fees, reporting measurable savings of £16m so far.¹⁴

3.45 As Hymans Robertson's analysis shows, just tackling the use of "fund of funds" for illiquid assets like infrastructure could save around £240m a year, with clear opportunities to go further. It is in this context that the Government is encouraging authorities to bring forward their proposals for collaboration and cost savings. Although a particular savings target has not been set, the Government does expect authorities to be ambitious in their pursuit of economies of scale and value for money.

In-house management

3.46 Some authorities manage all or the majority of their assets internally and so can already show very low management costs. In these cases, a move to a collective investment vehicle with external fund managers is unlikely to deliver cost savings from investment fees alone. However, there are wider benefits of collaboration which authorities with in-house teams should consider when developing their proposals for pooling. A pool of internally managed assets could lead to further reductions in costs, for example by sharing staff, research and due diligence checks; it may improve access to staff with stronger expertise in particular asset classes; and could introduce greater resilience in staff recruitment, retention and succession planning. Alternatively, newly created pools might wish to work with existing in-house teams to build up expertise and take advantage of their lower running costs.

Active and passive management

3.47 The May 2014 consultation considered the use of active and passive management by the Local Government Pension Scheme. Active management attempts to select fund managers who actively choose a portfolio of assets in order to deliver a return against a specific investment target. In practice, this is often used to try and outperform a benchmark, for that class of assets over a specific period. In contrast, passive management tracks a market and aims to deliver a return in line with that market.

3.48 The consultation demonstrated that when considered in aggregate, the Scheme had been achieving a market return over the last ten years in each of the main equity markets. This suggested that collectively the Scheme could have delivered savings by using less costly passive management for listed assets like bonds and equities, without affecting overall performance. While the majority of consultation responses agreed that there was a role for passive management in a balanced portfolio, most also argued that authorities should retain the use of active management where they felt it would deliver higher net returns.

3.49 In response to that consultation, the Government has now invited authorities to bring forward proposals for pooling investments to deliver economies of scale. The extent to which passive management is used will remain a decision for each authority or pool,

¹⁴ National LGPS Frameworks website, <http://www.nationallgpsframeworks.org/national-lgps-frameworks-win-lgc-investment-award>

based on their investment strategy, ongoing performance and ability to negotiate lower fees with fund managers. However, in light of the evidence set out in the Hymans Robertson report and the May 2014 consultation, authorities are encouraged to keep their balance of active and passive management under review to ensure they are delivering value for money. For example, should their net returns compare poorly against the index in a particular asset class over the longer term, authorities should consider whether they are still securing value for money for taxpayers and Scheme members.

3.50 When determining how to measure performance, authorities are encouraged to consider setting targets for active managers that are focused on achieving risk-adjusted returns over an appropriate long term time period, rather than solely focusing on short term performance comparisons.

Improving the transparency of costs

3.51 In addition to the fees paid to asset managers, there are considerable hidden costs of investment that are difficult to identify and so often go unreported by investors. In the case of the Local Government Pension Scheme, Hymans Robertson showed that investment costs in 2012-13 were at least £790m a year, in contrast to the £409m reported by the authorities.¹⁵ Even the £790m understated the total investment costs as it excluded performance fees on alternative assets such as private equity and hedge funds (it included performance fees on traditional assets) and turnover costs (investment performance figures include the impact of turnover costs).

3.52 To really drive savings within the Scheme, it is essential that these hidden costs are better understood and reported as transparently as possible. Although many of these costs are not paid out in cash, they do erode the value of the assets available for investment and so should also be scrutinised and the opportunities for savings explored.

3.53 The Chartered Institute of Public Finance and Accountancy (CIPFA) has already made some changes to their guidance, Accounting for Local Government Pension Scheme management costs 2014, to encourage authorities to explore these costs and report some through a note to the accounts. For example, these include performance fees and management fees on pools deducted at source. Authorities should have regard to this guidance and ensure that they are reporting costs as transparently as possible.

3.54 In addition, the Scheme Advisory Board is commissioning advice to help authorities more accurately assess their transparent and hidden investment costs. Once available, authorities should take full advantage of this analysis when developing their proposals.

Addressing the criterion

3.55 As set out above, there is a clear opportunity for authorities to collaborate to deliver hundreds of millions in savings in the medium term. Although there is no overall savings target for the Scheme, the Government expects authorities to take full advantage of the benefits of pooling to reduce costs while maintaining performance.

¹⁵ Hymans Robertson report, pp.10-11

3.56 To support the delivery of savings authorities bringing forward proposals are asked to set out their current investment costs in detail, and demonstrate how these will be reduced over time and the savings forecast. Where possible, costs should be reported back to 2012-2013 so that any cost reductions already achieved as a result of procurement frameworks and early fee negotiations are transparently captured.

3.57 Authorities are encouraged to provide:

- A fully transparent assessment of investment costs and fees as at 31 March 2013.
- A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison.
- A detailed estimate of savings over the next 15 years.
- A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool(s), and an explanation of how these costs will be met.
- A proposal for reporting transparently against their forecast transition costs and savings, as well as how they will report fees and net performance.

D. An improved capacity and capability to invest in infrastructure

Headline criterion: Only a very small proportion of Local Government Pension Scheme assets are currently invested in infrastructure; pooling of assets may facilitate greater investment in this area. Proposals should explain how infrastructure will feature in authorities' investment strategies and how the pooling arrangements can improve the capacity and capability to invest in this asset class.

3.58 Investment in infrastructure is increasingly being seen as a suitable option for pension funds, particularly amongst larger organisations. This may in part be the result of the typically long term nature of these investments, which may offer a useful match to the long term liabilities held by pension funds.

International experience

3.59 Multiple large international pension funds are investing a significant proportion of their assets in infrastructure. A recent OECD report, which analysed a sample of global pension funds as at 2012, showed that some Canadian and Australian funds (with total assets of approximately £35-40bn in 2014 terms) were investing up to 10-15% in this asset class.¹⁶ The report also noted that those funds with the largest infrastructure allocations were investing directly, and that such investment was the result of the build up of sector-specific knowledge, expertise and resources.¹⁷ This experience might be demonstrated through an organisation's ability to manage large projects, as well as the associated risk.

3.60 Figures published by the Scheme Advisory Board for the 2013 Annual Report show that around £550m, or 0.3%, of the Scheme's total assets of £180bn was invested in infrastructure.¹⁸ This falls some way behind other large pension funds that have elected to invest in this area, such as those noted above and the Ontario Teachers Pension Plan which invested 6.1% according to the same 2014 report.

Creating the opportunity

3.61 The Scheme's current structure, where assets are locked into 90 separate funds, reduces scale and makes significant direct infrastructure investment more difficult for administering authorities. As a result, authorities may determine that they are unable to invest in infrastructure, or may invest indirectly, through the "fund of funds" structure. Such arrangements are expensive, as the Hymans Robertson report demonstrated and this paper sets out in paragraph 3.13.

3.62 Developing larger investment pools of at least £25bn will make it easier to develop or acquire improved capacity and capability to invest in infrastructure. In so doing, it should be possible to reduce the costs associated with investment in this area. This is likely to be the case particularly if authorities pool their infrastructure investment nationally, where the

¹⁶ OECD, *Annual Survey of Large Pension Funds: report on pension funds' long-term investments*, p.32, available at: <http://www.oecd.org/daf/fin/private-pensions/LargestPensionFunds2012Survey.pdf>

¹⁷ OECD report, p.14

¹⁸ Scheme Advisory Board annual report <http://www.lgpsboard.org/index.php/scheme-investments>

resultant scale may allow them to buy-in or build-up in-house expertise in relevant areas, such as project and risk management.

3.63 In considering such investment, administering authorities might want to reflect on the wide range of assets that might be explored, such as railway, road or other transport facilities; utilities services like water and gas infrastructure; health, educational, court or prison facilities, and housing supply. Authorities should also examine the benefits of both:

- Greenfield infrastructure – projects involving the construction of brand new infrastructure, such as a new road or motorway junction to unlock a housing development, or the recent investment of £25m by the Greater Manchester Pension Fund to unlock new sites and build 240 houses; and
- Brownfield infrastructure – investing in pre-existing infrastructure projects, such as taking over the running of (or the construction of a new terminal building at) an airport.

3.64 As set out above, investment in infrastructure represents a viable investment for pension funds, offering long term returns to match their liabilities. Authorities will need to make their investments based on an assessment of risk, return and fit with investment strategy. However, the creation of large pools will make greater investment in infrastructure a more realistic prospect, opening up new opportunities to develop or buy-in the capacity and capability required.

3.65 In developing their proposals for pooling, authorities should take the opportunity to review their asset allocation decisions and consider how they can be more ambitious in their infrastructure investment. The Government believes that authorities can play a leading role in UK infrastructure and driving local growth, and encourages authorities to compare themselves against the example set by the leading global pension fund investors in their approach to allocating assets in this area.

Addressing the criterion

3.66 Authorities should identify their current allocation to infrastructure, and consider how the creation of up to six pools might facilitate greater investment in this area. When developing proposals, authorities should explain:

- The proportion of their fund currently allocated to infrastructure, both directly and through fund, or “fund of funds”.
- How they might develop or acquire the capability and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments directly through the pool(s), rather than existing fund, or “fund of funds” arrangements.
- The proportion of their fund they intend to invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at that amount.

Local Government Pension Scheme: Investment Reform Criteria and Guidance (DCLG, November 2015)

1. This response to the above criteria and guidance is sent on behalf of London LGPS CIV Limited (the “**London CIV**”) and the 31 London local authorities (the “**boroughs**”, listed at Attachment 1 for reference) that are currently active participants in establishing the Collective Investment Vehicle arrangements (the “**CIV**”).
2. We note that the government requires all LGPS Administering Authorities to respond, collectively and/or individually, by 19 February 2016. We also note that this initial response should include a commitment to pooling and a description of the progress made towards that outcome. A refined and completed submission is required, and will be provided by London CIV, by 15 July 2016.
3. London Councils’ Leaders’ Committee had the foresight in 2012 to commission London Councils to facilitate work looking at what might be done to drive down the cost of pension’s investment through greater collaboration. Since then the boroughs and London Councils have been at the forefront of working through the detail and laying the ground for others that are now starting to follow in our footsteps.
4. The CIV has taken two years to implement (facilitated by London Councils, for and on behalf of the boroughs), but is now established and operational. London CIV is fully authorised by the FCA as an Alternative Investment Fund Manager (“**AIFM**”) with permission to operate a UK based Authorised Contractual Scheme fund (the “**ACS Fund**”). The ACS Fund, which is tax transparent in the UK and benefits from international tax treaties in other jurisdictions, will be structured as an umbrella fund with a range of sub-funds providing access, over time, to the full range of asset classes that the boroughs require to implement their investment strategies.
5. The first sub-fund has been opened, an active global equities fund, and three authorities are the initial seed investors with £500m of assets transferred in on 2 December 2015. A further eight sub-funds, comprising a mix of active and passive equity funds, are being opened over the next few months, by the end of which it is anticipated that around £6 billion of assets will have been migrated into the ACS Fund delivering fee savings for the investing boroughs of some £3 million.
6. London CIV’s ambition is to be...

the investment vehicle of choice for Local Authority Pension Funds, through successful collaboration and delivery of compelling performance.
7. In summary, the key achievements we aim to deliver between now and 2020 are:
 - **At least £23 billion of assets under management;**
 - **Annual fund management savings rising to more than £30 million per annum;**
 - **Greater access to and investment in infrastructure;**
 - **Increased fund management industry influence;**
 - **Wider benefits of collaboration and knowledge sharing;**
8. Turning to the specifics of the four criteria:

A. Asset pool(s) that achieve benefits of scale:

9. In consideration of the government's expectation that proposals will demonstrate commitment and be ambitious, it would seem clear that with 31 of the 33 London local authorities actively engaged in the development of the CIV such commitment and ambition is amply demonstrated.
10. The 31 boroughs participating at this time in the London CIV have assets under management, at 31 March 2015, totalling £27.6 billion. If all London LGPS funds were to participate, which it is hoped they will, total assets would increase to £29.1 billion. Clearly investment markets over the period since 31 March 2015 have been volatile and therefore assets may fall short of the above numbers. Nonetheless, if it is assumed that at least 90 per cent of borough assets will eventually be invested through the CIV (recognising that boroughs may wish to make the case for up to 10 per cent of their assets to remain outside of the CIV) then the government's threshold of each pool having assets of at least £25 billion will be met.
11. To date development of the CIV and the ACS Fund has been based on a three phase strategy as described below. This strategy reflects the principles that have been adopted to steer implementation (see Attachment 2) and the voluntary nature of participation, however it is recognised that the government's criteria and guidance have significantly changed the environment which has led to the strategy coming under review by London CIV's Board and the boroughs.
12. Despite this, London CIV and the boroughs still believe that individual boroughs should have the choice and flexibility to invest through the CIV or not, putting the onus on the CIV to demonstrate and prove its value through compelling performance, but allowing boroughs to maintain investments outside of the CIV where they have specific needs that are not available through the Fund.
13. It should be noted that, at this stage, sub-funds will either be invested into 3rd party pooled funds or will be segregated funds with fund management being delegated to 3rd party Investment Managers ("IM"). However, London CIV is fully authorised to operate in-house fund management and this option will be explored at a later stage to assess whether it would deliver additional efficiencies and performance.

Phase 1 – Implementation and fund launch

14. Phase 1 is being delivered through what has become known as the "commonality" strategy. This broadly involves seeking to aggregate borough investments where two or more boroughs are invested with the same IM in the same or a very similar mandate, the aim being to increase efficiency and drive down cost.
15. While it would be true to say that this strategy will not deliver the most efficient or balanced fund at launch it has been accepted as a pragmatic approach that quickly delivers scale benefits for the boroughs and fee income for London CIV to cover operating costs.
16. Phase 1 is the prime focus of activity in terms of fund opening through the first half of 2016.
17. Implementation of the strategy began with the analysis of investment data gathered from across the boroughs in 2014, the aim of which was to discover which IMs the boroughs

were invested through, in what asset classes and the underlying mandate strategies. This analysis showed that the 33 funds had holdings with close to 90 IMs through around 250 separate mandates. It also showed that while there was significant commonality in some asset classes (e.g. passive equity) other classes (e.g. fixed income) showed a high degree of dispersion.

18. Early discussions were held with 14 IMs where commonality could be seen, but over time, as the detail was explored, all but four decided to drop out of the process or were discounted. There were several influencing factors for this, the most prevalent of which was capacity constraint, but also included an unwillingness to reduce fees, especially for those IMs that have a 'most favoured nation' clause in their mandates.
19. In summary, the launch phase will deliver nine sub-funds:
 - 2 x UK passive equity
 - 2 x World Developed ex UK passive equity
 - 2 x Emerging Markets passive equity
 - 1 x Diversified Growth Fund (hard closed but nonetheless delivering lower fees for the boroughs currently invested)
 - 2 x Global active equity
20. In aggregate, the Phase I sub-funds will account for £6.1bn, or around 23% of the boroughs' total assets under management and will involve 20 of the 31 participating authorities.
21. Total fee savings are estimated to be a minimum of £2.8 million per annum (simply through reduced IM Annual Management Charges) but could be £3 million or more per annum based on assumptions about additional benefit derived from the tax efficient nature of the ACS Fund structure. These fee savings will not be spread equally across all the boroughs and this is largely influenced by each borough's current fee position – some boroughs have negotiated better fees than others at this point.
22. It should be noted that since passively managed equities generally have low fee scales, the ratio of fee savings to assets under management ("**AUM**") will increase as the more 'alternative' investments such as property and private equity are brought onto the fund.
23. In addition to the fee charged by each IM the London CIV will also apply a fee to each sub-fund as part of the company's cost recovery. These charges are applied at a rate appropriate to the nature of each sub-fund and range from 0.005% for the UK passive equity funds to 0.025% for the active funds.

Phase 2 – Establishing London CIV and developing the ACS Fund

24. The strategy for Phase 2, which has already commenced but with implementation starting in 2016-17, falls into two categories:
 - i. Revisiting the Phase I 'commonality' strategy with those IMs that had early discussions but did not progress; and
 - ii. Beginning the process of developing the fund with new manager selections in new asset classes.

25. In addition, the original nine launch sub-funds will be opened to investment from 'new' investors enabling any of the 11 boroughs (and indeed any other LGPS Fund) not included in the launch phase to transition assets from their current holdings should they wish to.
26. Attachment 3 presents analysis of the boroughs' current allocation by asset class, and from this it can be seen that the major asset classes by AUM are equities (active and passive), fixed income (active and passive) and multi-asset.
27. Category (i) will essentially follow the same process as was described in Phase I and will be applied to four Multi-Asset managers and, subject to on-going discussions with IMs and potentially one further passive equity manager.
28. The Multi-Asset products are significantly heterogeneous, and therefore it is sensible to present a fairly wide range of choice to the boroughs so that they can select a strategy which fits their particular risk appetite and investment strategy.
29. Category (ii) is driven by analysis of the borough's current holdings and the need to build AUM to deliver fee income that supports London CIV's operating costs. By reference to Attachment 3 it is clear that the focus should be on targeting the remainder of the passive and active equity assets and opening initial opportunities for Fixed Income sub-funds.
30. Passive Fixed Income mandates will be targeted in 2Q 2016-17. Earlier data collected from the boroughs suggests that the Fixed Income asset class has little in the way of commonality and conviction, so on current projections there may be approximately £500 million being transitioned each for Active and Passive. However, the active fixed income mandates are likely to require more intensive search and selection, and therefore the bulk of the fixed income mandates will fall into the Phase 3 category (below).
31. It is anticipated that every participating borough will have opportunities to migrate to the CIV by March 2017.
32. As currently planned Phase 2 will conclude by March 2018. In terms of AUM, the end of Phase 2 will deliver an estimated £19 billion or 70 per cent of borough assets. However, the government should note that the opening of sub-funds is complex and time consuming and growth at that pace cannot be guaranteed.

Phase 3 – Business as Usual ("BAU")

33. BAU will be focussed initially on a continuation of developing the fund's offering and then its ongoing maintenance and enhancement. This phase will include:
 - i. Opening of new asset classes (e.g. infrastructure);
 - ii. The ongoing process of monitoring sub-funds, closing poor performers and opening new offerings; and
 - iii. Development of the CIV's role in 'thought leadership' and being seen as a trusted source of support and advice for the boroughs.
34. Phase 3 could be seen as starting from April 2018 (i.e. the end of Phase 2), but in reality the transition from Phase 2 to Phase 3 is unlikely to be linear and there will be an overlap.

35. The successful migration of the boroughs' fixed income mandates together with the other mandates as detailed above, will lead to the asset base of London CIV increasing to an estimated £23 billion, or 86 per cent of total borough assets, by the end of 2019-20. Growth to the £25 billion threshold would be expected to happen over the following two or three years as more alternative asset classes are addressed.
36. Based on the fact that we are seeing fund management costs dropping by as much as 50 per cent (and in some cases more), and that we expect to have more negotiating power as the Fund develops, we expect to be delivering in the region of £30 million of fund management savings by 2020 (based on current fund management costs of £109 million). In addition we will be delivering other savings and benefits through greater tax efficiency, reduced procurement costs and lower fees for, for example, custody and brokerage.
37. In considering the extent to which boroughs may hold assets outside of the CIV, it can be seen from Attachment 3 that around 10 per cent of assets are held in property, private equity and infrastructure and it is in these asset classes that one would expect to find long term investments that may take several years to mature before transition to the CIV. It is of course for individual boroughs to make the case to government for holding assets outside of the CIV.
38. London CIV is focussed on delivering value for money for the participating boroughs and as such resources are tight and many tasks and activities are outsourced to 3rd parties. London CIV's current organisational structure is shown at Attachment 4. This in-house resource is augmented by expertise provided by members of the IAC (see paragraph 38) and the use of 3rd party providers including the Custodian, the Depositary, the Operating Reporting Partner, and Investment Consultants and Advisors.
39. Over time the level of resource will increase and more activity will be brought in-house, which might include in-house fund management. The company's business strategy is being reviewed at this time and more detail will be provided in the July submission.

B. Strong Governance and decision making:

40. Attachment 4 provides a diagram of the core governance structures for the CIV. Strong governance and mechanisms to ensure that participating boroughs have the assurance that they need to be confident that their investments are being managed appropriately by the pool have been critical factors in the design of this structure.
41. Taking each of the core governance structures in turn; the participating local authorities (London boroughs and potentially other non-London funds) continue to be responsible for their investment strategy and the asset allocation decisions to deliver it. As the CIV's ACS Fund develops the expectation would be that more and more of the underlying investments would be made through the CIV. Each participating borough is an equal shareholder in London CIV and a signatory to the Shareholders Agreement that sets out the relationship between and the responsibilities of each shareholder.
42. Representing the borough level, a Sectoral Joint Committee ("PSJC") has been established under the governing arrangements of London Councils. The PSJC effectively fulfils two roles, one is as a mechanism for convening elected Member representation from each borough (generally the borough's Pension Committee Chair), and the other is as the route to convening the boroughs as shareholders in London CIV. The committee

meets most often in its first guise and has met five times since December 2014 to provide oversight and guidance as the CIV has been established. Going forward the PSJC will be the channel through which borough views about how the ACS Fund might be developed will be passed to London CIV and as a general reporting route for London CIV back to the boroughs. The committee's Terms of Reference are provided as Attachment 5. Agendas and minutes of the PSJC are published on London Councils' website and its meetings are held in public.

43. Alongside the PSJC an Investment Advisory Committee ("**IAC**") has been established. This committee is comprised of representative borough Treasurers and Pension Fund Managers, and provides Officer level input to the oversight and development of London CIV.
44. These two committees ensure that the links with local democratic accountability for the London CIV are maintained.
45. The CIV itself is comprised of two parts, the operating company (London LGPS CIV Limited) and the ACS Fund, this structure is described in brief at paragraph 4 above.
46. As government will be aware, London CIV already has dedicated resources working for the company with a Chief Executive, Investment Oversight Director, and Chief Operating Officer, as well as support staff. In addition the Company has a highly respected Non-Executive Board in place, meeting the requirements for strong governance arrangements to be in place.
47. As an AIFM London CIV must comply with the Alternative Investment Manager Directive ("**AIFMD**") and falls under the regulatory scrutiny and reporting regime of the Financial Conduct Authority ("**FCA**"). This includes the requirement for robust systems and processes and for these to be documented appropriately in policies and manuals. Risk management is a particular focus for the FCA and London CIV has developed a risk framework and risk register covering all areas of its operations, including fund management.
48. In addition to the oversight and scrutiny arrangements described above, it is a requirement for London CIV to engage a Depositary to provide oversight of the Fund Custodian and London CIV as the fund operator. Northern Trust have been contracted to provide this service, which is effectively there to provide additional assurance and protection to the boroughs as investors.
49. As described above the participating boroughs will be closely involved in the development of the ACS Fund, including in the decisions about what new sub-funds might be opened and in what asset class. The IAC is also expected to be involved in the search and selection process for IMs. However, the final due diligence consideration and appointment of IMs falls under the regulatory responsibilities of London CIV through its Investment Oversight Committee and Board. Boroughs will decide which of the sub-funds they wish to invest in to best deliver their investment strategy.
50. The processes for London CIV to report on fund performance to the investing boroughs are still being developed, but in broad terms will include regular written and verbal reports to the PSJC, the IAC and to individual borough Pension Committees as required. However, the development of final arrangements for reporting is likely to be an iterative process to ensure that they are efficient and fit for purpose for both the investors and for

London CIV. It is the intention that every borough will receive performance reporting across every sub-fund (regardless of whether they are invested in that sub-fund or not), in this way boroughs will be able to easily compare performance of sub-funds they are invested in with other similar sub-funds.

51. With regards to providing assurance on environmental, social and governance issues and how this will be handled by the CIV, this has already been the subject of consideration by the company and the PSJC with an agreement that the London CIV should be a separate member of the Local Authority Pension Fund Forum (the “LAPFF”) – a body which represents the majority of views of local authority pension funds on these matters. Discussions have commenced with the LAPFF to put this arrangement in place.
52. London CIV is also currently considering how it will meet the requirements of the Stewardship Code and anticipates being a signatory to this in due course.
53. The IAC has also established a working group to look at the whole issue of ESG matters and how funds can best access this through the London CIV and how to assist funds in acting as long term responsible shareholders.
54. For individual funds, they will of course need to maintain their own policies in respect of ESG matters and this will comprise part of their new Investment Strategy Statement which replaces the Statement of Investment Principles later this year.

C. Reduced costs and excellent value for money:

55. London CIV anticipates significant fee savings arising over time, from scale and increased negotiating power with managers. As described above, Phase 1 of the Fund development is expected to deliver around £3 million of savings p.a. for the 20 boroughs that will be invested. It should be recognised that the first phase represents relatively low cost asset classes with the majority being in passive asset classes, it is inevitable that as more complex and expensive assets are added then fee savings will significantly increase. To date London CIV has seen fee reductions of up to 50 per cent.
56. In addition to the anticipated fee savings, we also expect to accrue significant advantages from the tax transparent nature of the ACS structure and savings across the entire spectrum of investment costs, including reduced custodian fees, lower procurement costs etc. In 2012 the Society of London Treasurers had the foresight to commission a report from PWC that estimated that an additional £85 million could be derived in terms of improved investment returns by delivering superior performance. Whilst clearly this figure is open to some debate, it does give an indication of what might be achieved for funds through greater collaboration and delivering improved performance overall.
57. London CIV will be working with the participating boroughs to gather the data necessary to provide the requested assessment of investment costs and fees as at 31 March 2013, the current position and estimated savings over the next 15 years. This information will be provided in the July submission.
58. Transition costs are complex and extremely difficult to estimate in isolation from the case by case detail of each specific transition. Costs in this area can accrue from fees (e.g. transition managers, custodians and tax advisors) and transaction costs (e.g. the cost of buying and selling assets, including unavoidable tax in some jurisdictions). London CIV

is working hard to bear down on transition costs and will continue to do so. It is anticipated that more detail can be provided in the July submission.

59. In addition to reduced costs and fees the wider governance benefits from information sharing and improved access to expertise at all levels should not under estimated as significant advantages from collaboration.
60. LGPS funds clearly understand the need to look at the risk adjusted returns over the longer time frame and that it is the net value-add that impacts on the fund's ability to pay pensions over the longer term. It is clear that avoiding knee jerk reactions when managers experience periods of underperformance is an important factor and we are pleased to see the government has recognised this in asking for funds to consider what is achieved over an appropriate long term period, rather than solely focusing on short term performance comparisons. London CIV is firmly of the view that 'churn' of IMs will be reduced through the CIV as part of the enhanced governance arrangements and knowledge sharing that is being established.

D. An improved capacity to invest in infrastructure:

61. One of the big opportunities from creating the CIV is the potential to use the benefit of scale to enable the boroughs to access infrastructure as an asset class. London CIV and the boroughs have begun to consider infrastructure as an asset class and what different and innovative approaches might be taken to deliver benefits both in London and nationally. Detailed proposals are likely to fall towards the end of Phase 2 of our development. Early discussions have been had with a number of IMs in this area and also with the Pensions Infrastructure Platform.
62. As can be seen from Attachment 3, LGPS funds across London currently have little or no assets invested in infrastructure. Most boroughs have limited resources to dedicate to considering this complex asset class and experience shows that there is a general lack of suitable investments at the scale that the average borough would wish to invest and with the required risk/return profile. However, there appears to be no evidence that any London LGPS fund is strategically opposed to infrastructure investment as an asset class per se.
63. Nonetheless, pooling of each borough's allocation to infrastructure and opening the opportunity for those that currently have no allocation will generate a greater capacity to invest, enabling the CIV to look at opportunities either direct or as co-investments that would not have been open to individual funds, often simply because of the cost of entry.
64. Determining the proportion of assets to allocate to infrastructure will be a decision for each investor to take as part of their Asset Allocation strategy. These decisions will depend on the opportunities that can be made available and on the level of risk and reward generated from those opportunities when compared against risk/reward in other asset classes.

In conclusion

65. London CIV believes that the work that has been undertaken by those London Boroughs that have contributed to the development of the CIV demonstrates a clear commitment to the principles of collaboration and collectivisation. The creation of London CIV has been instrumental in driving forward the investment reform agenda in London. The scale of asset pooling that we anticipate will be achieved in London is sufficiently large for the

London CIV to meet the criteria for scale over the timescales being required. We believe that we have developed both the appropriate structure for London funds and that the governance structures in place mean that local accountability and decision making on asset allocation are retained.

66. Consequently we strongly believe given the willingness shown and progress made by the London funds over the last 2 years means that we are able to meet the criteria to be confirmed as one of the final pools of assets under the government's reform agenda.
67. We recognise that further work is required, but that London CIV and the participating boroughs are in a strong position to be able to come forward with comprehensive proposals to meet the government's criteria and guidance when submitting these in July 2016.

Local Government Pension Scheme: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the "Regulations")

1. It is recognised that in application the Regulations do not apply directly to London CIV but do determine the way that the boroughs manage and invest their funds and therefore have an influence over how London CIV and its investors will operate in the future. As such London CIV expects that each borough will respond to the consultation and this response only covers issues that relate, or could relate to London CIV specifically.
2. London CIV is broadly supportive of relaxing the regulatory framework for LGPS investments and the move to a 'prudent' basis, but as a principle does not support wide ranging powers for the Secretary of State to intervene. This concern about powers of intervention is especially true in circumstances where the guidance setting out how the power will be used has not been published.
3. In the context of LGPS Funds being required to invest through pooling arrangements (e.g. London CIV) it is not clear whether the Funds would be required to apply Section 9 of the Regulations when deciding to invest through a pool. London CIV is structured as a Private Limited Company (wholly owned by the participating authorities) and is authorised by the FCA as an AIFM with permission to operate an ACS, effectively this means that London CIV is an Investment Manager. London CIV believes that 'recognised' pools should be explicitly addressed in the regulations to avoid confusion, prevent unnecessary bureaucracy and to give reassurance to individual LGPS Funds – especially in this period of change.
4. In addition, London CIV is of the view that care should be taken over the wording of Section 7(4) which, as currently drafted, may have the effect of preventing LGPS Funds from investing in pools where Members or officers of the authority have decision making roles in those pools as a part owner of that pool. Again specific measures relating to recognised pools would provide clarity.
5. On the question of the use of derivatives; it should be recognised that derivatives can be used to control outcomes in many ways, it is not just about risk per se. Derivatives can be used to produce more certain outcomes, be more efficient as an instrument to use as an investment than an actual asset due to increased liquidity and visibility of pricing; be more liquid than some real assets might be; and allow investment managers to reflect

macro-economic views without having to churn large parts of the portfolio. Although controlling these outcomes is all about balancing risk and return it is not just risk management – there is a clear difference between the two and accordingly we would urge that the regulations should not be explicit that derivatives should only be used as a risk management tool.

London CIV would welcome the opportunity to discuss this submission in more detail with government officials and Ministers.

DRAFT

Attachment 1: Participating local authorities

City of London Corporation

London Borough of Barnet

London Borough of Barking and Dagenham

London Borough of Bexley

London Borough of Brent

London Borough of Camden

London Borough of Croydon

London Borough of Ealing

London Borough of Enfield

London Borough of Hackney

London Borough of Haringey

London Borough of Harrow

London Borough of Hammersmith and Fulham

London Borough of Havering

London Borough of Hounslow

London Borough of Islington

London Borough of Lambeth

London Borough of Lewisham

London Borough of Merton

London Borough of Newham

London Borough of Redbridge

London Borough of Southwark

London Borough of Sutton

London Borough of Tower Hamlets

London Borough of Waltham Forest

London Borough of Richmond upon Thames

Royal Borough of Greenwich

Royal Borough of Kensington and Chelsea

Royal Borough of Kingston upon Thames

Wandsworth London Borough Council

Westminster City Council

Attachment 2: London CIV guiding principles

1. Investment in the ACS should be voluntary, both entry and withdrawal.
2. Boroughs choose which asset classes to invest into, and how much.
3. Boroughs should have sufficient control over the ACS Operator.
4. Investing authorities will take a shareholding interest in the Operator.
5. Shareholders will have membership of the Pensions Joint committee.
6. ACS Operator will provide regular information to participating boroughs.
7. ACS will not increase the overall investment risk faced by boroughs.

DRAFT

Attachment 3: Analysis of current borough holdings

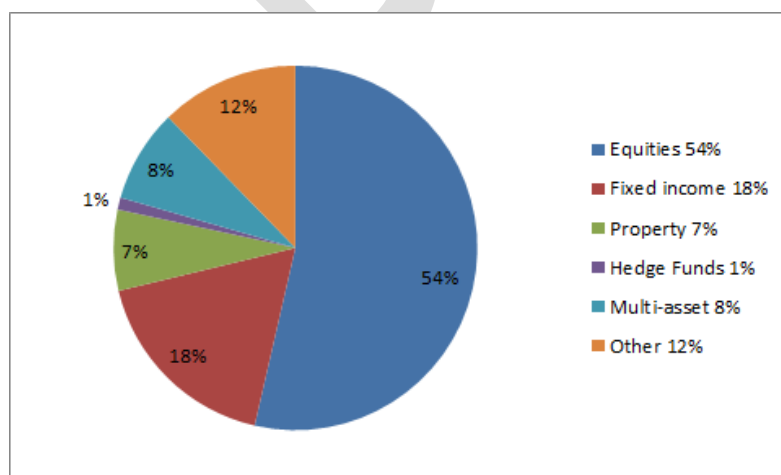
Current asset allocation

The breakdown of the pension fund assets as of 31 March 2015 for the 31 participating London boroughs can be seen below:

Table 1

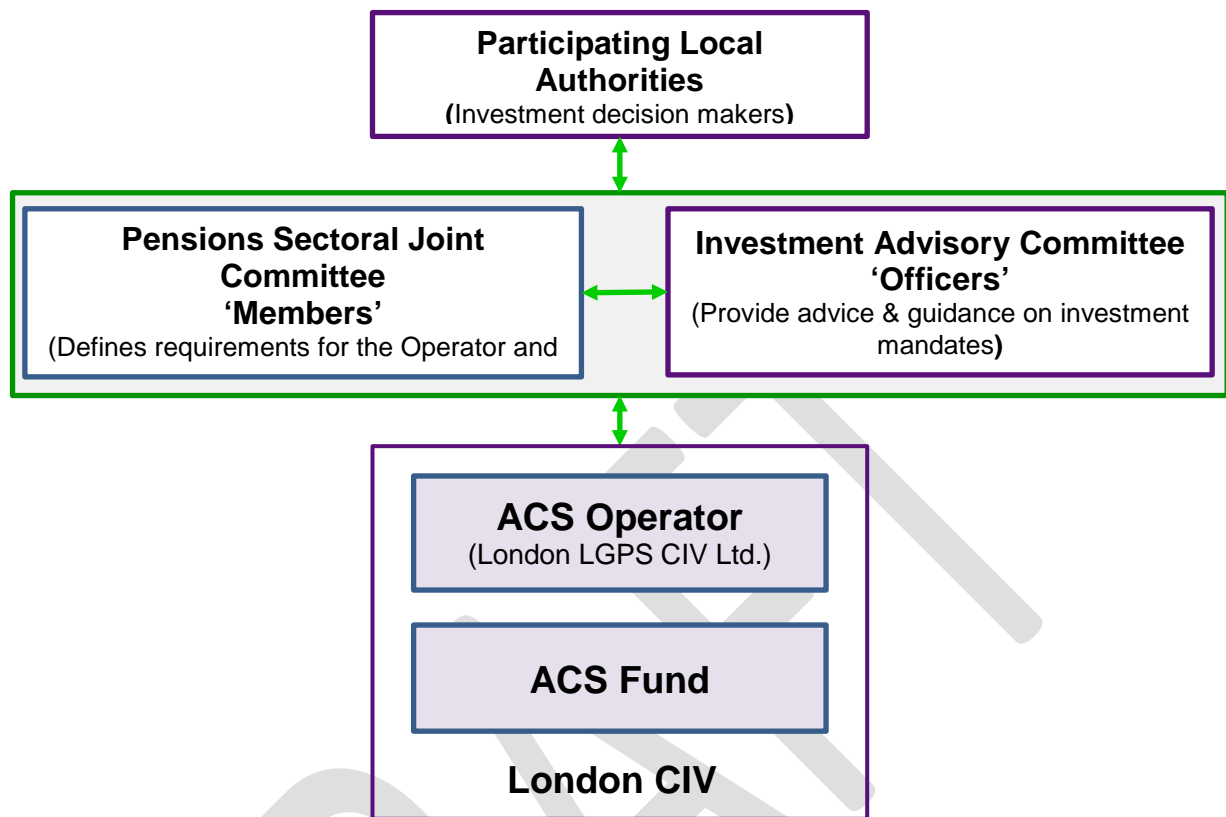
Allocation	£m, March 2015	Percentage
UK equities	5,077.39	18.9%
overseas equities	6,560.63	24.4%
unallocated	2,748.31	10.2%
total equities	14,386.33	53.6%
UK fixed interest	2,636.29	9.8%
overseas fixed interest	808.32	3.0%
unallocated	863.04	3.2%
total fixed interest	4,307.65	16.0%
UK index linked	312.52	1.2%
overseas index linked	30.01	0.1%
unallocated	80.43	0.3%
total index linked	422.96	1.6%
UK property	1,350.87	5.0%
overseas property	56.85	0.2%
unallocated	517.01	1.9%
total property	1,924.73	7.2%
UK hedge funds	32.40	0.1%
overseas hedge funds	-	0.0%
unallocated	256.56	1.0%
total hedge funds	288.96	1.1%
UK other	783.74	2.9%
overseas other	963.62	3.6%
Multi-asset	2,214.31	8.2%
Total unallocated	3,961.67	14.8%
infrastructure	193.53	0.7%
commodities	57.43	0.2%
private equity	525.05	2.0%
derivatives	-	0.0%
currency overlay	-	0.0%
cash	777.37	2.9%
Total investment assets	26,843.38	100.0%

NB the multi-asset allocation is done on a "best efforts basis" due to conflicting and out of date data.

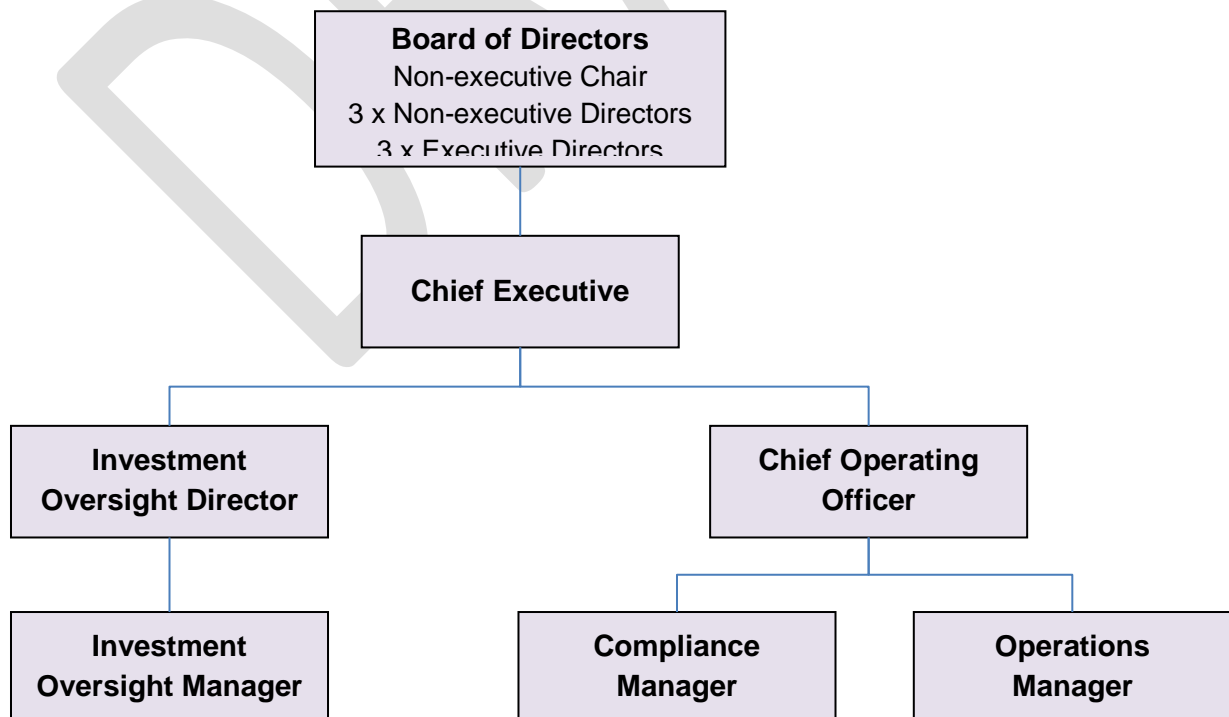


Attachment 4:

London CIV governance diagram



London CIV organisation chart



Attachment 5: Pensions Sectoral Joint Committee Terms of Reference

Constitution

- 1.a.1 The Pensions CIV Joint Committee is a sectoral joint committee operating under the London Councils governance arrangements.¹
- 1.a.2 Each London local authority participating in the arrangements shall appoint a representative to the Pensions CIV Joint Committee being either the Leader of the local authority or the elected mayor as applicable or a deputy appointed for these purposes.²
- 1.a.3 The Pensions CIV Joint Committee shall appoint a Chair and Vice-Chair.
- 1.a.4 The Pensions CIV Joint Committee shall meet at least once each year to act as a forum for the participating authorities to consider and provide guidance on the direction and performance of the CIV, In addition, members of the Pensions CIV Joint Committee shall meet at least once each year at an Annual General Meeting of the ACS Operator in their capacity as representing shareholders of the ACS Operator.
- 1.a.5 Subject to Clause 1.1.4 above, meetings of the Pensions CIV Joint Committee shall be called in accordance with London Councils' Standing Orders and the procedure to be adopted at such meetings shall be determined in accordance with those Standing Orders.
- 1.a.6 If the Pensions CIV Joint Committee is required to make decisions on specialist matters in which the members of the Pensions CIV Joint Committee do not have expertise the Pensions CIV Joint Committee shall arrange for an adviser(s) to attend the relevant meeting to provide specialist advice to members of the Pensions CIV Joint Committee.

Quorum

- 1.a.7 The requirements of the Standing Orders of London Councils regarding quorum and voting shall apply to meetings of the Pensions CIV Joint Committee.

¹ The London Councils' Governing Agreement dated 13 December 2001 (as amended), London Councils' Standing Orders, Financial Regulations and other policies and procedures as relevant.

² Clause 4.5 of the London Councils' Governing Agreement dated 13 December 2001 (as amended).

Membership

[As amended from time to time]

Terms of Reference

1.a.8 To act as a representative body for those London local authorities that have chosen to take a shareholding in the Authorised Contractual Scheme (ACS) Operator company established for the purposes of a London Pensions Common Investment Vehicle (CIV).

1.a.9 To exercise functions of the participating London local authorities involving the exercise of sections 1 and 4 of the Localism Act 2011 where that relates to the actions of the participating London local authorities as shareholders of the ACS Operator company.

To act as a forum for the participating authorities to consider and provide guidance on the direction and performance of the CIV and, in particular, to receive and consider reports and information from the ACS Operator particularly performance information and to provide comment and guidance in response (in so far as required and permitted by Companies Act 2006 requirements and FCA regulations).

1.a.10 In addition, members of the Pensions CIV Joint Committee will meet at least once each year at an Annual General Meeting of the ACS Operator to take decisions on behalf of the participating London local authorities in their capacity as shareholders exercising the shareholder rights in relation to the Pensions CIV Authorised Contractual Scheme operator (as provided in the Companies Act 2006 and the Articles of Association of the ACS Operator company) and to communicate these decisions to the Board of the ACS Operator company. These include:

1.a.10.1 the appointment of directors to the ACS Operator board of directors;

1.a.10.2 the appointment and removal of auditors of the company;

1.a.10.3 agreeing the Articles of Association of the company and consenting to any amendments to these;

1.a.10.4 receiving the Accounts and Annual Report of the company;

1.a.10.5 exercising rights to require the directors of the ACS Operator company to call a general meeting of the company;