Pensions CIV Sectoral Joint Committee

Item no: 4

London CIV Business Planning

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Summary	It is a requirement of London CIV's Shareholders Agreement that an Annual Budget is prepared and presented to all shareholders for approval not later than 60 days before the commencement of the financial year to which they relate. This report informs Committee members on the status of the London CIV business planning process and provides an overview of the key learnings in the first year of operation and future considerations which will be incorporated into the 2017/2019 business plan.
Recommendations	The committee is recommended to consider and note the contents of this report.

London CIV Business Planning

Introduction

1. London CIV has been in development for 2 years and received FCA authorisation in November 2015. Since authorisation, 5 funds have been launched and 14 London authorities are invested in CIV funds with £2.5 billion Assets under management (AuM), delivering just under £1m net of annualised fee savings.
2. Beyond that, London CIV has had a positive impact in negotiating significant fee savings (estimated to be around £1.8 million) on over £3.5 billion of passive equity investments through life funds that will continue to be held outside of the London CIV ACS Fund. In addition, subject to no unforeseen difficulties, by the end of this financial year it is anticipated that London CIV will have had a positive impact, in terms of fee savings, on around £7.7 billion (or a third) of London authority assets (both inside and outside of the ACS) which will deliver an estimated £4.4 million of net annualised fee savings for 23 separate investing authorities.
3. In completing the first full year of operations, a pivotal point has been reached in establishing the right foundations for London CIV's operations and developing the structure, processes and system capabilities to effectively meet LGPS investor needs and deliver optimum benefits of scale and access to investment opportunities.
4. It is now clear that the task that was anticipated and used to structure initial business plans is more challenging than had been envisioned, both in terms of speed of development and complexity of delivery, and will require more up front resources and spending than earlier anticipated.
5. A short term resourcing requirements and request for accelerated hiring was reviewed by the London CIV Board in February and a proposal to move from 6 to 12 resources by end 2016/2017 was provided to and agreed by the Committee in March 2016. Since that time there has been considerable success in recruiting additional people and London CIV currently has expanded to a team of 11.
6. Work continues to develop the fund and London CIV aims to complete fund launches from the Commonality, Quality and Conviction (QCQ) phase, encompassing Equities and Multi-Asset funds, in Q1 2017. The Investment Team have commenced a procurement for additional Global Equities funds, which will open during 2017, and will be moving into new asset classes including Fixed Income, Property, Infrastructure and Alternatives in the next phase of our business plan.
7. It will be critical that the front and back office knowledge, skills and capabilities are in place to support these new sub-funds and asset classes prior to structuring the products, selecting managers and launching the funds.
8. With increased understanding of the fund launch process and operational requirements after the first year of operation, the London CIV Executive team and Board have been through an intense business plan review over the summer. This work has led to the establishment of an agreed baseline and approach for the 2017/2019 business plan which is currently being refined and finalised in consultation with representative Treasurers (i.e. those Treasurers that sit as members of the Investment Advisory Committee).

9. This report provides an update to the Committee on the key learnings from the first year of operation, the forward looking considerations, and timeline to providing the Committee a three-year medium term financial strategy (MTFS) incorporating both the learnings from the past year and considerations for forward looking plans.

First Year in Operation: Key Learning

10. The sub-fund launch process is both resource and time intensive. The process requires iterative discussions with Investment Managers and the investing authorities to agree terms and ensure London CIV achieves the optimum level of benefits for investors. The process also requires engagement with and planning for three key external parties including the custodian, legal counsel and the regulator.

11. The timing of a fund launch and asset transfer may differ from plan as it is highly dependent on internal factors and decision making processes of the investors. Each investor has their own decision making processes and timing for asset allocation and identifying which funds/strategies and asset classes to buy and when to buy them. London CIV is partnering with colleagues in each authority to ensure efforts are aligned; however, it has become clear that timelines often shift given the complexity of the decision processes.

12. The passive equity funds, which make up some £7.5 billion of the total London authority assets, have a number of complexities which have impacted the ability to transfer these assets into the London CIV structure at the current time. However, London CIV has been able to negotiate substantial fee reductions for those authorities with assets held in both the Legal and General and Blackrock passive funds. London CIV will return to the question of providing passive equities through the CIV at a later date.

13. It is now clear that the systems, processes and resources required to support the full scope of expected asset classes and the volume of planned sub-funds is greater than first anticipated. Data and the supporting systems are critical components in the process of investment oversight, risk management and client reporting. London CIV is currently reviewing the requirements to ensure this is adequately represented in the business plan.

14. It is also now clear that managing and overseeing outsourced service providers calls on more time and resource than expected. This has been particularly evident in this first year of operating with additional time being needed to ensure each Service Level Agreement (SLA) is both aligned with London CIV's needs and being effectively delivered.

Forward Looking: Planning Considerations

15. The Committee will be aware that London CIV generates revenue from an annual service charge (£25,000 for the last three financial years) and fees based on AuM in each sub-fund. In the current financial year fees from the sub-fund AuM is significantly down, both because it has taken longer to open some sub-funds that anticipated and because significant assets are now remaining outside of London CIV due to the change in position of passive equity investments.

16. There remains uncertainty as to the impact which the on-going triennial valuation may have on the strategic asset allocation and investment needs of the London LGPS

Funds. London CIV's fund launch plans and resulting AuM and revenue forecasts which will be included in the MTFS are being reviewed against potential changes to investor's strategic asset allocation and investment needs.

17. In addition, while London CIV can open sub-funds to provide investment opportunities the final decision to invest in those funds rests with each individual investor. As such it is not possible for London CIV to accurately forecast AuM growth. In developing the MTFS it is now recognised that making prudent forecasts is the logical approach, but this in turn leads to lower fee income from AuM with the potential that the service charge will need to increase in the short-term while AuM grows.

18. London CIV will be embarking on the next phase of its development and procuring and opening new equity and fixed income funds in 2017/2018, with additional asset classes to follow in subsequent years. This phase will introduce requirements for new processes, procedures and system requirements which were not required for launching the funds that have been opened through the CQC phase where investors were already investing with the relevant Fund Manager. The new asset classes may also require different legal structures and advice is being taken from external advisors to assess the most effective and efficient structures for each asset class.

Budget and Business Plan: Timing

19. As noted above London CIV is currently developing the 2017/2019 MTFS and incorporating the lessons learned in the first year of operation and the forward looking considerations into the budget and target deliverables.

20. The MTFS will be presented to the Committee at its 13th December meeting.

Recommendations

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

Legal Implications

22. There are no legal implications for London Councils.

Financial implications

23. There are no financial implications for London Councils.

Equalities Implications

24. There are no equalities implications for London Councils