

## Pensions CIV Sectoral Joint Committee

Item no: 9

### CEO's Report

**Report by:** Hugh Grover      **Job title:** Chief Executive

**Date:** 12 July 2017

**Contact Officer:**

**Telephone:** 020 7934 9942      **Email:** [hugh.grover@londonciv.org.uk](mailto:hugh.grover@londonciv.org.uk)

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**Summary:** This report provides the Committee with an update on delivery against the 2017/18 business plan and MTFS and covers other matters not addressed elsewhere in the agenda.

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**Recommendations:** The committee is recommended to note and discuss the contents of this report.

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## MTFS Plan Progress Update

1. The first quarter of 2017/18 has been positive and we have achieved the majority of our quarterly KPI targets. We have launched two additional funds, taking AUM just short of £5Bn, on-boarded four additional staff, have an additional LLA invested directly with us (Bexley through the LCIV NW Global Equity Fund, managed on a delegated basis by Newton Investment Management Ltd.), and are on target to launch four further funds in the second quarter with two in July and two in September.
2. Costs are lower than plan at this stage, mainly due to lower staff and facilities costs. We are in discussion with a number of very good candidates and are optimistic that further staff will soon be joining the team; details of the recruitment process are below.
3. More detail covering fund launches, financials and client engagement is provided in separate reports to this meeting.
4. The below KPI summary includes a combination of actual and forecast figures for Q1 2017/18 and forward looking narrative for Q2.

## Q1 2017/18 KPI Status

KPI	Q1 Actual / Forecast <sup>1</sup>	Q1 MTFS Plan	Variance	Comments	Forward Looking Q2
<b>Number of funds</b>	8	9	-1	Longview launch postponed to July in order to bring forward the first Global Equity launch (Henderson, Emerging Markets) from Sept to July. More detail is given in the separate fund development report.	Expect to be on target to launch 4 further equity funds and achieve target of 12 funds by end Q2.
<b>AuM (£Mn)</b>	4,942	4,732	209	AuM is above target due to market movement, on-going subscriptions and dividend re-investments.	Expect to be above Q2 £5.28 Bn target by end September.
<b>Management Fee (£)</b>	319,433	255,538	63,895	Positive variance mainly due to passive fee income of £59,197 which was not agreed prior to or included in the MTFS.	Expect to be on target to achieve management fee forecast.
<b>Service Fee and DFC (£) (Exc. VAT)</b>	1,425,000	2,400,000	-975,000	£25K Service Fee and £50K DFC (66% of total £75K DFC) invoiced 1 April. As of end June, payment received from 19 LLAs.	Outstanding payments to be followed up via e-mail.

KPI	Q1 Actual / Forecast <sup>1</sup>	Q1 MTFS Plan	Variance	Comments	Forward Looking Q2
<b>Operating Cost (£)</b>	652,325	807,393	-155,068	Under spend mainly due to lower staff and facilities cost (£149,006) and adjustment for legal fees being charged to fund which was not agreed ahead of MTFS sign off (£30,000). Further detail is given in the separate finance report.	Hires of staff and consultants will continue to lag in Q2 so we expect under spending to continue.
<b>LLAs receiving benefits<sup>2</sup></b>	N/A	N/A	--	25 LLAs benefitting from direct sub-fund and indirect passive investments. This includes 18 LLAs invested in LCIV sub-funds, 14 invested in LGIM	Longview launch will add one additional LLA (Harrow) and Henderson launch may also have an additional LLA taking total of LLAs benefitting via direct investment or passive funds to 27.
<b>SLAs signed with LLAs<sup>2</sup></b>	N/A	N/A	--	SLA draft developed and feedback from review is being incorporated	SLA to be finalised in Q2 with aim to have all LLAs signed by end of Q3
<b>Staff on-boarded</b>	4	5	-1	Global Fixed Income Head, Chief Risk Officer, Client Relationship Executive, and Corporate Development Director (new role / 1 year contract / not in MTFS) appointed as of end June.  Offer accepted by Fund Accountant and interviews being arranged for Head of Global Equities.	Reviewing roles and responsibilities of Q2 planned hires against current roles and required skills/resources.
<b>Material Audit Points</b>	0	0	--	2016/17 audit complete. Nothing to report.	Nothing to note.
<b>Material Compliance Points</b>	0	0	--	No material compliance issues to report.	Nothing to note.

<sup>1</sup> Management Fee and Operating Cost KPI data includes end May actuals/June forecast; all other KPI data is as of end June

<sup>2</sup> No quarterly targets set for number of LLAs receiving benefits or agreeing/signing SLAs. 2017/18 full year target is 32 LLAs.

## Q1 2017 Sub-Fund AuM Status

Q1 2017 AuM Status (£Mn)			
FUNDS	30 June Value	MTFS Plan	Variance
London LGPS CIV Global Equity Alpha (Allianz)	691	602	89
London LGPS CIV Global Alpha Growth Fund (Baillie Gifford)	1,674	1,455	219
Lodnon LGPS CIV Diversified Growth Fund (Baillie Gifford)	362	336	26
LCIV PY Gloval Total Return Fund (Pyrford)	225	199	26
LCIV RF Absolute Return Fund (Ruffer)	473	330	143
LCIV NW Real Return Fund (Newton)	346	330	16
LCIV NW Global Equity Fund (Newton 22 May launch)	659	500	159
LCIV MJ UK Equity Fund (Majedie 18 May Launch)	510	530	-20
Longview (to launch in July)	0	450	-450
	4,941	4,732	209

## Resourcing Plan

- The Executive Directors discuss the company's resourcing plans on a weekly basis, this is both to ensure that the necessary priority is being given to this aspect of the business plan delivery and to consider what opportunities come from the skill sets of new staff that might either change the recruiting priorities and/or allow resources to be deployed differently and more efficiently. To date in 2017/18 we have hired the following:
  - Chief Risk Officer; this role will cover both risk and performance reporting and we are, therefore, reviewing the role requirement for the AD Investment Oversight & Performance.
  - Head of Fixed Income & Alternatives; brought forward Q2 as this asset class has taken a higher degree of urgency and prioritisation.
  - Client Relations Executive.
  - Corporate Development Director (New role / 1 year fixed term contract); new role added to structure, but contained within budget envelope, to bring support to the Executive team in delivering key organisational development projects, for example supporting the governance review, client reporting and operating model development.
- We are currently reviewing the roles and requirements of the Q2 planned hires and will revise plans as required. The table below provides a summary status against the Business Plan.

MTFS Plan Hire Dates	Resource	Job Posted	Interviews Initiated	Offer Made	Hire On- Boarded
Q1	Head of Global Equities <sup>1</sup>	✓	✓		
	AD Investment Oversight/Performance <sup>2</sup>				
	Client Relationship Assistant (retitled Client Relations Executive)	✓	✓	✓	✓
	Fund Accountant	✓	✓	✓	September
	Systems/Data Manager <sup>3</sup>	✓			
Q2	Head of Fixed Income/Alternatives	✓	✓	✓	✓
	Management Accountant				
	Operations Assistant <sup>4</sup>				
	Project Manager <sup>4</sup>				
Q3	Head of Real Estate/Infrastructure <sup>5</sup>				
	Risk Officer (retitled Chief Risk Officer)	✓	✓	✓	✓
Q4	Client Relationship Assistant (retitled Client Relations Executive)				
	Administrative Assistant				

1. Engagement delayed as offer made to initial candidate was eventually turned down
2. Role and requirements under review due to integrating performance reporting into Chief Risk Officer role
3. Role on hold pending wider IT infrastructure and system decisions
4. Role and requirements under review
5. Role being brought forward in plans in light of client demand for products in this areas

### Recruitment of Non-Executive Directors

7. The process for recruiting two additional NEDs has been completed and we have are going through the process to sign contracts and on-board the two successful candidates, Linda Selman and Paul Niven, for a three year term. Their CVs are attached for information, from which it can be seen that both bring extensive knowledge and experience of investment and fund management and will add additional strength to the Board.

### Governance Review

8. At the time of drafting; following the pre-market engagement stage a full Invitation to Tender was released to three potential providers. Responses have been received from two of the three, the third dropped out due to resource constraints and other commitments. Having reviewed the submissions the process for engaging with an independent provider to carry out the review is nearing completion. The Project Steering

Committee will review the submissions and, if content, award the contract at its meeting on 12 July. For information the final specification is attached as are the Terms of Reference for the Steering Committee which are to be reviewed for approval at the project Steering Committee meeting to be held prior to the PSJC on 12<sup>th</sup> July,.

9. As noted at this Committee's last meeting the Project Steering Committee will be comprised of:
  - Mark Boleat (Chair)
  - Lord Kerslake (Vice Chair)
  - Eric Mackay (LCIV NED)
  - Cllrs Johnson and Heaster (PSJC Party Group Chairs)
  - Ian Williams and Gerald Almeroth (SLT representatives)
10. It is planned that research will happen through July and August. The draft report and recommendations will be considered by the Steering Committee, this Joint Committee, and the Board, before being presented to London Councils' Leaders' Committee as a final report for adoption at its meeting of 10 October.

**Paul Niven**

Since leaving the University of Strathclyde with a BA (Hons) in Accounting and Economics and an MPhil in Accounting and Finance, Paul has had a 20 year career in fund management. His roles to date have been:

1996-1999	Royal & Sun Alliance Investments Assistant Fund Manager, Pacific Basin Equities
1999-2002	Royal & Sun Alliance Investments Director, Investment Strategist
2002-2004	ISIS Asset Management Director; Head of Strategy
2004-present	BMO Global Asset Management Fund Manager, Foreign & Colonial Investment Trust (since July 2014) Director, Head of Multi-Asset Investments Director, Head of Asset Allocation

Paul is a past Exam Board Member of the Institute of Investment Management & Research and is currently an Independent Investment Advisor to the Trustee CEO Team at the BP Pension Fund.

**Linda Selman**

After 40 years in the fund management industry Linda retired in 2016. Her roles were:

1978-2001	Scottish Provident Institution Actuarial Trainee, and a variety of other roles leading to: Group Investment Manager
2001-2007	Baillie Gifford Client Director
2008-2016	Hymans Robertson LLP Partner and Senior Investment Consultant

Linda has a BSc (Hons 1st Class) in mathematics and statistics from the University of Edinburgh, is a Fellow of the Faculty of Actuaries, and in 2008 successfully passed the PGDE (Mathematics) at the University of Edinburgh.

## **London CIV Governance Review Project**

### **Steering Committee Terms of Reference**

#### **1. Objective**

The Steering Committee has been established to scope, resource, and oversee the delivery of the London CIV Governance Review project and ensure the project is aligned with stakeholder needs and meets the overall objectives of the review. The Steering Committee will also be the leadership group reviewing the draft final report and recommendations and providing any necessary clarifications to finalise the report.

#### **2. Responsibilities of the Steering Committee**

The Steering Committee is responsible for:

- Ensuring the project is aligned with all stakeholder needs;
- Establishing the project scope, deliverables and timelines;
- Agreeing the approach for selecting the service provider to complete the governance review;
- Overseeing delivery of the project;
- Resolving any strategic issues or potential scope, timeline or budget changes to the project;
- Reviewing and approving final project deliverables;
- Reviewing recommendations and making proposals for action to the Board, the Pensions CIV Joint Committee and London Councils Leaders' Committee;
- Establishing an effective plan to communicate findings, recommendations and action points to broader stakeholder groups.

#### **3. Membership**

<b>Name</b>	<b>Title</b>	<b>Organisation</b>	<b>Steering Committee Role</b>
<b>Mark Boleat (City of London)</b>	Chair	Pensions CIV Sectoral Joint Committee	Chair
<b>Lord Bob Kerslake</b>	Chair	London CIV	Vice Chair
<b>Cllr Yvonne Johnson (LB Ealing)</b>	Vice Chair	Pensions CIV Sectoral Joint Committee	Member
<b>Cllr Maurice Heaster (LB Wandsworth)</b>	Vice Chair	Pensions CIV Sectoral Joint Committee	Member
<b>Ian Williams (LB Hackney)</b>	Chair	Investment Advisory Committee and SLT	Member
<b>Gerald Almeroth (LB Sutton)</b>	Member	Investment Advisory Committee and SLT	Member
<b>Eric Mackay</b>	Non-Executive Director	London CIV	Member



#### **4. Quorum and Decision-Making**

A minimum number of 4 Steering Committee members are required for decision-making purposes. The quorum must include one or both of the Chair and Vice Chair and at least one member from each of the stakeholder groups represented by the membership (i.e. the Pensions CIV Sectoral Joint Committee, the Investment Advisory Committee, and London CIV).

#### **5. Decision Making**

Decisions should normally be reached on a consensus basis. In the event of a non-consensus, decisions on any matter can be reached on a majority basis, with one of the Co-Chairs having a casting vote in the event of a tie. A committee member who remains opposed to a proposal or recommendation after a vote can request for his/her dissent to be noted in the minutes. Any person invited to attend meetings, and who is not a member, is not entitled to vote on any matter before the committee

#### **6. Frequency of Meetings**

The Steering Committee will meet in person or via conference call, monthly and set additional meetings as required around the Project Milestones once the final project plan is approved. A schedule of Steering Committee meetings will be outlined and agreed with the final project plan.

#### **7. Agenda, Minutes and Decision Papers**

Members will be sent meeting materials three to five business days in advance of a Steering Committee meeting. This material will include the following as appropriate:

- Agenda for upcoming meeting

- Minutes of previous meeting

- A progress report for the project

- Decision papers

- Any other documents/information to be considered at the meeting.

## 8. SPECIFICATION

### 8.1. Purpose

The purpose of the review is to consider the governance structures associated with the Pooling arrangements for the London LGPS funds as currently undertaken through LCIV and recommend potential improvements to ensure that all stakeholders have the necessary and appropriate level of engagement and influence, and that decision making is correctly positioned and defined. This should take into account the fiduciary, regulatory and statutory responsibilities of LCIV, its directors and officers, and the investing LGPS funds.

Any proposals for change should recognise the stage of development that LCIV has reached (i.e. passing through start-up phase and heading towards business as usual) and should ensure that the existing and any proposed structures represent the most economic, efficient and effective use of scarce public sector resources.

Reference should also be made to the emerging structures in other LGPS pools with a view to identifying any points of best practice that should be considered for incorporation into any amended structure.

### 8.2. Scope

Review roles and responsibilities and provide comments and recommendations for the overall governance structure of LCIV in the context of its purpose as outlined in the London CIV's 2017-20 Business Plan, the requirements and needs of the investing LGPS funds, the government's policy on the pooling of LGPS funds, and the regulatory regime imposed by the FCA.

Review and provide comments and recommendations for LCIV's committee structures including roles and responsibilities, terms of reference and composition (including the requisite skills, knowledge and training programmes) for the:

- Board;
- Executive Committee;
- Investment Oversight Committee;
- Compliance, Audit & Risk Committee; and
- Remuneration Committee.

Review and provide comments and recommendations for the committee structures that sit outside of LCIV including roles and responsibilities, terms of reference and composition (including the requisite skills, knowledge and training programmes) for the:

- London Councils' Pensions CIV Sectoral Joint Committee;
- Investment Advisory Committee

As input to the above reviews, consider roles and responsibilities, as defined by regulations, of:

- London local authority pension Committees
- London local authority Treasurers
- London local authority Pension Boards

### 8.3. Stakeholders

The successful tenderer will be expected to engage with a range of stakeholders and other groups to gather views. It is not expected that all members of each stakeholder group will be engaged on an in-depth basis; however, it is expected that all stakeholders have the opportunity to voice their views either via the selected stakeholder members or via an alternative approach. Tenderers should outline how they intend to approach this requirement, the number of stakeholders that will be engaged and how they will be selected. The stakeholders and other groups to be engaged and the relevant number of individuals within each group are outlined below.

- London CIV directors (7)
- London Councils' Pensions CIV Sectoral Joint Committee (PSJC) Members (33). The PSJC will also represent the London Local Authority Pension Committees
- London local authority Treasurers (AKA Section 151 Officers or the Society of London Treasurers) (32)
- London local authority Pension Fund Officers (32)
- London Councils' legal advisor (Comptroller and City Solicitor, City of London Corporation) (2)
- London CIV's legal advisors (Eversheds Sutherland LLP) (2)

### 8.4. Reference Material

Key reference material includes, but is not limited to:

- DCLG, November 2015; Local government pension scheme: investment reform criteria and guidance
- DCLG, November 2015; Design of the structure and governance of efficient and effective collective investment vehicles for LGPS Funds
- CIPFA, Investment Pooling Governance Principles
- LGPS regulations
- Financial Services regulations and the FCA handbook
- London CIV Shareholders Agreement (to be provided in pdf format)
- London CIV Articles of Association (to be provided in pdf format)
- LCIV Business Plan 2017-20 (to be provided in pdf format)
- Relevant LCIV policies, including those for the appointment, oversight and management, and termination of 3rd party Fund Manager contacts (to be provided in pdf format)
- Terms of Reference for the LCIV Committee Structures and Committees outside London CIV as noted in Section 8.2 (to be provided in pdf format)