Pensions CIV Sectoral Joint Committee Agenda

13 September 2017 – 10:30 – 12:30

Conference Suite (1st Floor)
At London Councils offices, 59½ Southwark St., London SE1 0AL
Refreshments will be provided
London Councils offices are wheelchair accessible

Labour Group pre-meeting:	Room 1 (1st Floor)	10.00
(Political Adviser: 07977 401955)		
Conservative Group pre-meeting:	Room 5 (1st Floor)	10:00
(Political Adviser: 07903 492195)		

Contact Officer: Alan Edwards

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

Lunch will be provided in Room 1

***Declarations of Interests**

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

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

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

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

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

Pensions CIV Sectoral Joint Committee (PSJC)
12 July 2017

Minutes of a meeting of the Pensions CIV Sectoral Joint Committee held on Wednesday 12 July 2017 at 3:30pm in the Conference Suite, London Councils, 59½ Southwark Street, London SE1 0AL

Present:

City of London	Sir Mark Boleat (Chair)
Barking and Dagenham	-
Barnet	Cllr Mark Shooter
Bexley	Cllr Louie French
Brent	Cllr Sharfique Choudhary
Bromley	Cllr Keith Onslow
Camden	Cllr Rishi Madlani
Croydon	Cllr Simon Hall
Ealing	Cllr Yvonne Johnson
Enfield	Cllr Toby Simon
Greenwich	-
Hackney	Cllr Robert Chapman
Hammersmith and Fulham	Cllr Iain Cassidy
Haringey	-
Havering	-
Harrow	Cllr Nitin Parekh
Hillingdon	Cllr Philip Corthorne
Hounslow	Cllr Mukesh Malhotra
Islington	Cllr Richard Greening
Kensington and Chelsea	-
Kingston Upon Thames	Cllr Andrew Day
Lambeth	-
Lewisham	Cllr Mark Ingleby
Merton	-
Newham	Cllr Forhad Hussain
Redbridge	Cllr Elaine Norman
Richmond Upon Thames	-
Southwark	Cllr Fiona Colley
Sutton	Cllr Simon Wales (Deputy)
Tower Hamlets	-
Waltham Forest	-
Wandsworth	Cllr Maurice Heaster
City of Westminster	-

Apologies:

Greenwich	Cllr Don Austen
Havering	Cllr John Crowder
Kensington & Chelsea	Cllr Malcolm Spalding
Richmond Upon Thames	Cllr Thomas O’Malley
Sutton	Cllr Sunita Gordon
Tower Hamlets	Cllr Clare Harrisson
Waltham Forest	Cllr Peter Barnett
Westminster	Cllr Suhail Rahuja

Officers of London Councils were in attendance as were Lord Kerslake (Chair, London CIV), Hugh Grover (CEO, London CIV), Julian Pendock (CIO, London CIV), Brian Lee (COO, London CIV), Christopher Bilsland (NED, London CIV), Eric Mackay (NED, London CIV) and Jill Davys (Client Relations Director (CRD), London CIV)

Hugh Grover Chaired the meeting for Items 1, 2 and 3, before handing the meeting to Sir Mark Boleat as the elected Chair.

1. Announcement of Deputies

1.1. Apologies for absence and deputies were as listed above.

2. Declarations of Interest

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

3. Election of the Chair of the Pensions CIV Sectoral Joint Committee

3.1. The Chair called for nominations.

3.2. Cllr Yvonne Johnson nominated Sir Mark Boleat, Cllr Maurice Heaster seconded the nomination.

3.3. Following a unanimous vote, Sir Mark Boleat was elected as the Chair of the Pensions CIV Sectoral Joint Committee for 2017/18

3.4. Sir Mark Boleat thanked the Committee and took the Chair.

4. Election of the Vice-Chairs of the Pensions CIV Sectoral Joint Committee

4.1. Cllr Yvonne Johnson and Cllr Maurice Heaster were elected to be the vice chairs of the Pensions CIV Sectoral Joint Committee for 2017/18.

5. Note the Membership of the Pensions CIV Sectoral Joint Committee and Dates

5.1. It was noted that the deputy for LB Hounslow was Cllr Surinder Purewal and not Cllr Shantanu Rajawat.

5.2. It was also noted that the deputy for LB Hammersmith & Fulham, Cllr Mike Adam, was a Conservative councillor and not a Labour councillor.

5.3. The following new PSJC members were introduced: Councillor Keith Onslow (LB Bromley), Councillor Malcolm Spalding (RB Kensington & Chelsea), Councillor Andrew Day (RB Kingston upon Thames), Councillor Philip Jones (LB Merton) and Councillor Peter Barnett (LB Waltham Forest).

6. Minutes of the Pensions CIV Sectoral Joint Committee (PSJC) AGM on 14 June 2016 (for noting as already agreed)

6.1. The minutes of the Pensions CIV Sectoral Joint Committee AGM on 14 June 2016 were noted.

7. Minutes of the Pensions CIV Sectoral Joint Committee held on 12 April 2017

7.1. It was noted that Jill Davy's name had been misspelt in the minutes and this would be corrected.

7.2. The minutes of the Pension CIV Sectoral Joint Committee held on 12 April 2017 were agreed.

8. Constitutional Matters

8.1. The Committee noted the changes to the London Councils' constitutional documents that had already been agreed by Leaders' Committee on 11 July 2017.

9. CEO's Report

9.1. The CEO introduced the report and noted that:

- The full quarter's results could not be given as not all the data was available.
- The dates for next year's PSJC would be reviewed and re-issued shortly to ensure that full and complete quarterly reporting could be provided.
  - It was agreed to change the 18 June 2018 Committee meeting to a date in July 2018, owing to the local elections being held in May 2018 and time being needed to confirm committee appointments.
- The KPIs were on track and progress was being made on the recruitment of new staff.
- Two additional NEDs had just been recruited: Linda Selman and Paul Niven, for a three-year term.
- An update on progress covering the LCIV Governance Review had been provided.
  - The Chair noted that tenders had gone out to recruit consultants, although costs for this had increased from £30,000 to a maximum £60,000.
  - The Chair emphasised the need to get the Governance Review right.
  - Councillor Johnson noted that the Labour Group had discussed the review and the details would be fed through Maggie Abrahams.
  - Councillor Malhotra queried why £60,000 was being spent on consultants when there was already a Governance framework in place. Lord Kerslake said that the CIV had moved from a voluntary to a mandatory set-up, and there was a need to look at the issue of Governance again to ensure that arrangements were still fit for purpose. The procurement process had shown that this could not be undertaken for £30,000.
  - Councillor Madlani said that a Governance Review was needed and had been agreed by London Councils' Leaders Committee. The Chair said that efforts had been made to keep the costs to a minimum, but the CIV was now required to press ahead with this.

- o Councillor French asked what efforts were being made to ensure that boroughs were paying service fees. The CEO said that boroughs had 30 days in which to pay the service fees. After this time, a statement would be sent out to any unpaid boroughs. The non-payment of service fees could normally be attributed to some form of administrative error. Councillor French proposed that something needed to be in the Governance structure regarding the non-payment of fees. The CEO confirmed that there was some drafting regarding this in the Shareholders' Agreement. He said that, ultimately, a member could be voted out of the arrangement should they not pay the fees.
- o Councillor Malhotra asked how the funding of Wandsworth and Richmond was being dealt with, now that they had merged. The CEO said that the payment details were still being considered and a report would come to a future Shareholders meeting.

9.2. The Committee noted the report.

10. Finance Report

10.1. The COO introduced the report and made the following comments:

- First quarter - there had been a positive variance in the first quarter.
- Looking at the next quarter, the trend was consistent (i.e. favourable).
- It was anticipated that underspend in the first quarter would be offset by cost that would be incurred later in the year and therefore It was not was not currently anticipated that a profit would be made in the current year.
- Fees (0.5bps) were accruing for the passive investments with LGIM held outside of the ACS, but benefiting from reduced fees negotiated by LCIV. Boroughs would be invoiced for the accrued fee at the end of the year.

10.2. The Committee:

- Asked for more detail to be provided in future reports to aid clarity and understanding.
- Noted the report.

11. Fund Performance

11.1. The CIO introduced the report, noting that:

- The performance data for each sub-fund could be found at page 83 of the report (Quarter 2 – April to June 2017).
- Julian Pendock confirmed that ESG performance was not in the performance stats as it was still being finalised.

11.2. The Committee noted the report

12. Fund Launch Progress

12.1. The COO introduced the report. He informed members that the Longview Global Equity and Henderson Emerging Market Equity would be launched week commencing 17 July 2017. The EPOCH and RBC Sustainable Equity were on track to be launched in September 2017.

12.2. Julian Pendock made the following comments:

- The wording had been changed to "lower" carbon for the proposed RBC Equities Fund. Further details would be provided at the next PSJC meeting in September 2017.
- Two Fixed Income funds to be launched by March 2018, as per MTFS plan. Tenders have gone out for investment consultant procurement.
- Looking at members from the IAC to join the Infrastructure Working Group – a briefing paper from Hermes had previously been circulated to the IAC.
- Infrastructure/Housing – the issue of social housing was quite challenging, especially getting the scale and returns.
- Looking at more liquid assets for CIV (infrastructure).

12.3. Councillor Madlani asked what lessons had been learned, and whether the CIV had now got over any initial teething problems. He also asked about the boroughs of Newham and Kensington and Chelsea being outside the CIV. The CEO said that a great deal had been learnt in the past 18 months. There had been delays, which were unique to the CIV. The CEO said that the boroughs of Newham and Kensington and Chelsea were not present at this meeting, and it would be best if they themselves responded to the Committee.

12.4. Lord Kerslake said that challenges of "lift and shift" were coming to an end. He suggested taking stock at the end of the year to see where the CIV was. The CIO noted that the lift and shift process had presented unexpected challenges, but that going forward with other asset classes presented different challenges and it was hoped that these would run more smoothly.

12.5. The Committee noted the report.

13. Investment Advisory Committee Update

13.1 The CRD was present to take questions in the absence of Ian Williams (Chair of the IAC).

13.2. Councillor Colley queried the viability of "low carbon". The CIO said that the term "lower" carbon allowed the company to have a benchmark tracking a lower exposure to carbon.. Councillor Colley said that she would have difficulty committing to this without understanding what this entailed. The CEO said that work was still being undertaken on this.

13.3. Councillor Malhotra asked about the timeline for academies (page 137) and what funds would be impacted. Julian Pendock confirmed that a report by the PWC had been sent to the Scheme Advisory Board (SAB) regarding academies. Further papers would be presented to the SAB and it was expected that academies would remain in the LGPS.

13.4. Councillor Malhotra asked if funding was being provided for the establishment of providing academies. Jill Davys confirmed that funding would not be provided. She said that academies that were not successful would be underwritten.

13.5 Councillor Madlani suggested having a cross-party brief to look at low carbon solutions (paragraph 11, page 136). A full range of options could be looked at over the summer. Jill Davys said that there was a “low carbon working group” which was in the process of being refined. Councillor Madlani said that it would be useful to have member input on this working group.

13.6. Councillor Malhotra, with reference to the new Data Protection Act, asked whether the GDPR would be put on the CIV risk register. He said that a report needed to come back to the PSJC on accountability. Lord Kerslake said that he would come back to the PSJC regarding this matter.

13.7. Councillor Onslow also felt that it would be beneficial to have member involvement in the low carbon working group, and to come up with answers in order to keep the costs down. Councillor Johnson said that there was a low carbon workshop taking place on 19 September 2017. She said that members were keen to have a low carbon option. Jill Davys said that she would follow this up and also send some information to the boroughs regarding this.

13.8. Councillor Colley said that some boroughs were looking at reducing carbon exposure in their funds. She said that it would be beneficial if lead members could get together and discuss these issues. Councillor Chapman said that he fully supported coming up with a clear strategy on this, and having a fund in which to invest. The Chair thanked members for the helpful contributions on this.

13.9 The Committee:

- Agreed to come back to a future PSJC on the issue of GDPR; and
- Noted the report.

14. Client and Stakeholder Engagement

14.1. Jill Davys was present to answer any questions on the report, no specific questions were raised.

14.2. The report was noted

15. Stewardship

15.1. Jill Davys introduced the report. She said that the alerts issued by LAPFF were forwarded to LCIV’s external managers and asked to vote. She said that not all fund managers followed through with this.

15.2 The following comments were made:

- Councillor Greening said that adopting the alerts was a suitable compromise, although some managers were ignoring this and not casting votes. Jill Davys said that Allianz voted as a “block”. She said there may be a need to have a separate voting provision, although there would be costs associated to this. Jill Davys suggested going back to the Stewardship Group and look at this in more detail.

- Councillor French said that a mechanism needed to be in place to allow managers to vote on their own. He said that officer dialogue was now needed on how this would take place.
- Councillor Johnson said that it was agreed to follow the LAPFF voting rights, although some companies were choosing to ignore the alerts.
- Councillor Madlani said that there was a technological issue regarding the voting and this needed to be made easier.
- Councillor Crowder said that the agreed policy was not being implemented through some fund managers, and this issue needed to go back to the Stewardship Working Group for discussion. The CEO agreed that this issue should be taken to the Stewardship Working Group.
- The Chair said that there was a policy on this, but it needed to be looked at again and come back to the PSJC at a later date.

15.3. The Committee:

- Agreed to look at the voting policy again and to take this back to a Stewardship Working Group meeting; and
- Noted that the report.

Members of the press and public were asked to leave the meeting while the exempt part of the minutes from 12 April 2017 were agreed.

The meeting closed at 3.50pm

Pensions CIV Sectoral Joint Committee

Item no: 4

CEO's Report

Report by:	Hugh Grover	**Job title:**	Chief Executive
Date:	13 September 2017		
Contact Officer:			
Telephone:	020 7934 9942	**Email:**	hugh.grover@londonciv.org.uk
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.		
Recommendations:	The committee is recommended to note and discuss the contents of this report.		

MTFS Plan Progress Update

1. Performance to end July 2017/18 has been positive and we are making progress to achieve the Q2 quarterly KPI targets.

2. Since end Q1, we have:

    - launched an additional sub-fund, Longview, and Henderson Emerging Markets sub-fund will be open to accept assets once the India market opens (expected to be end September). Two additional sub-funds, RBC and EPOCH, are on track to launch in September. AuM as of end July was £5,263Bn, £531Mn ahead of target.

    - recruited a Head of Global Equities and an October start date has been agreed

    - had lower than planned expenses due to lower staff, facilities, consulting and IT costs, and fund opening expenses being charged to individual sub-funds.

3. More detail covering fund launches, financials and client engagement is provided in separate reports to this meeting.

4. Below is a performance summary based on end July figures and narrative on Forward Looking performance.

Q1 2017/18 KPI Status

KPI	End July Forecast[1]	End July Actual	Variance	Comments	Forward Looking
Number of funds	9	9	0	Longview launched 17 July and Henderson Emerging Markets will be open to transfer assets end September.	RBC Sustainable Equity and EPOCH Equity Income are on track to launch at end September. We are proposing to progress the development of a Low Carbon Equity fund and a further equities fund in the autumn.
AuM (£Mn)	4,732 Mn	5,263 Mn	£531 Mn	AuM above end July target by £531 Mn mainly due to new subscriptions and market movements. We had an AuM shortfall with the Longview launch of due to not all LLAs assets being transitioned as forecast.	Current working with LLAs to gain firm commitments for September launch of RBC and EPOCH funds.

KPI	End July Forecast[1]	End July Actual	Variance	Comments	Forward Looking
Management Fee (£)	354,118	455,121	101,003	Positive variance of £101,003 due to mainly to passive fee income (£83,119) which was not agreed prior to or included in the MTFS and market values of the multi-asset and active equity funds at end July.	Expect to be on target to achieve management fee forecast.
Service Fee and DFC (£) (Exc. VAT)	2,400,000	1,680,000	720,000	The Service Charge (£25,000) and Development Funding Charge (£75,000) was invoiced in April and we have not yet received full payment across the LLAs	We will continue to follow up on outstanding payments of the first invoice. In addition, we are assessing whether to invoice the remaining DCF and, if so, at what level given the current level of lower operating costs
Operating Cost (£)	931,311	1,203,071	271,760	Under spend mainly due to lower staff, facilities and IT costs and adjustment for legal fees being charged to fund which was not agreed ahead of MTFS sign off.	Staff, consultants, and IT spend will continue to be below forecast in Q2 and we expect under spend to continue for the financial year. We are reviewing what level of the remaining DFC balance (33%) is to be invoiced in December and the Board will make a proposal to the Committee at its December meeting.
LLAs receiving benefits[1]	N/A	N/A	--	18 LLAs have transferred assets to LCIV sub. When passive funds outside of LCIV are included, 25 LLAs are receiving benefits.	One LLA transitioned assets in August. Two LLAs have made formal decision to invest in LCIV sub-funds and expect to fund in Q3 taking those with direct LCIV investments to 21 and increases LLA's receiving benefits to 27 by end Q3.
SLAs signed with LLAs[1]	N/A	N/A	--	SLA targets set and agreed for client reporting, Client SLA for providing information to be finalised with Working Group	SLA to be finalised in Q2 with aim to have all LLAs signed by end of Q3 (December)

KPI	End July Forecast[1]	End July Actual	Variance	Comments	Forward Looking
Staff on-boarded	9	4	-5	Fund Accountant to join at end September and Head of Global Equities to start in October.	Job search initiated to replace Chief Risk Officer and Client Relations Director who will both be leaving by end Q2 Reviewing roles and responsibilities of planned hires against current roles and required skills/resources.
Material Audit Points	0	0	--	2016/17 audit complete. Nothing to report.	Nothing to note.
Material Compliance Points	0	0	--	No material compliance issues to report.	Nothing to note.

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

Resourcing Plan

5. Recruiting continues to be a major focus and call on resources, both to recruit to new roles and to replace members of the team that are leaving. As previously reported the Executive team continues to monitor the resourcing plan to ensure that efficient use is being made of the full range of skill sets being brought to the team by new staff. It is becoming clear that LCIV is able to attract high quality, multi-skilled candidates that deliver opportunities to pay higher salaries for one individual balanced against savings from not recruiting others. A revised organisational structure and recruiting plan is being developed as part of the 2018/19 business planning process and will be presented to the Committee at its December meeting.
6. Below is a summary of the hiring plan status:

2017/18 RESOURCING PLAN STATUS / AS OF 31 JULY 2017					
MTFS PLAN DATES	RESOURCE	Job Description Posted	Interviews Initiated	Offer	On-board Date
Q1	Global Equities Manager	✓	✓	✓	October
	AD Investment Oversight/ Performance [1]				
	Client management Assistant	✓	✓	✓	✓
	Fund Accountant	✓	✓		Sept
	Systems/Data Manager [2]	✓			
Q2	Fixed Income/Alts Manager	✓	✓	✓	June
	Management Accountant	✓	✓		
	Operations Assistant [3]				
	Project Manager [3]				
Q3	Real Estate/Infrastructure Manager	✓			
	Chief Risk Officer	✓	✓		
	Non-Executive Director	✓	✓	✓	Sept
	Non-Executive Director	✓	✓	✓	Sept
Q4	Client Management Assistant				
	Administrative Assistant	✓			

[1] *Role and requirements under review due to intergrating performance reporting into Chief Risk Officer role*

[2] *On-hold until while we consider the IT infrastructure needs of the company going forward as this will inevitably influence the skills and experience re*

[3] *Roles on hold until requirements are clarified*

7. Since the Committee's last meeting in July the following developments can be reported:

- **Head of Global Equities:** interviews were held in late July for this role and an offer was made to Robert Hall who will join the team in early October.
- **Fund Accountant:** Charlotte Hamilton will join the team in late September to fill this role.
- **Financial Accountant:** recruiting is ongoing for this role with the aim of interviewing and appointing by the end of Q2 leading to a start date in Q3
- **Systems & Data Manager:** the job description for this role is under review to ensure that it aligns with the company's overall IT and systems needs.
- **Investment Team Assistant:** with the growth of the investment team and the nature of the work involved it has become clear that an assistant is needed in this area to cover administrative duties such as diary management, meeting organisation and general office tasks. The role will report to the Office Manager to ensure efficient use of the resource beyond the investment team when workload allows. Candidates are being sourced for his role now.
- **HR Director:** although not in the original resourcing plan it has become clear that the Executive team need dedicated support to assist with the recruitment programme and to ensure that the company has robust HR systems and processes in place as the team grows. This is initially a three month appointment and will deliver knowledge transfer into the team and an understanding of what HR support is required in the longer term.
- **Client Relations Director:** Sadly, Jill Davys, the current CRD has decided to leave the LCIV and she will be departing by the end of September. Jill has been a key contributor to the development of LCIV from the very beginning and she will be greatly missed. The Board and Team are grateful to Jill for all her hard work and dedication.

Recruiting a replacement is underway with some good candidates already coming forward.

- **Chief Risk Officer:** Dominique Kobler has also resigned and left the organisation. Again, recruitment for this role is underway and the committee will be kept in touch with progress.

Business Planning

8. The Board will commence the 2018/19 business planning & MTFS update process at a strategy day to be held on 11 September. Treasurers from the IAC have been invited to a session on the day to provide input to the process and this Committee will be kept in touch with progress through the Chair and Vice Chairs.
9. The draft business plan will be presented to the Committee at its December meeting to allow for discussion and finalisation ahead of final sign off in the New Year.

Ministerial Letter

10. In response to Pool updates to DCLG in April, a generic response from government has been received. This was circulated to the Committee Members as well as LLA officers. A copy of the response is attached for reference.
11. Significantly the response on this occasion has come from Treasury (signed by the Chief Secretary), DCLG and DWP. It reiterates the government's continued commitment to its pooling policy; that all LGPS funds are expected to fully participate in a Pool (with fund manager selection delegated to the pool); and that plans for increasing exposure to infrastructure should be delivered. A further progress update (to the end of September) has been commissioned by DCLG with a deadline for submission of 20 October

Governance Review

12. The Governance Review Steering Committee (GRSC), which comprises the PSJC Chair and Vice Chairs, Treasurers from the IAC and the Chair and a Non-Executive Director form London CIV, has selected Willis Towers Watson to complete the Governance Review.
13. The project has been initiated and a kick-off meeting has been scheduled with the GRSC for 6th September. There will be wide stakeholders engagement for the Governance Review including:

- Pre-survey interviews with the GRSC, London CIV Board, and Eversheds
- Survey sign off by the GRSC
- Survey distribution to stakeholders
- Post survey workshop(s) with stakeholders to discuss and clarify key items identified in the survey
- Summary conclusions and recommendation discussions with the Investment Advisory Committee (IAC; borough Treasurers and Officers), the PSJC, the London CIV Board and London Councils Leaders' Committee
- GRSC is comprised of the PSJC Chair and Vice Chairs, Treasurers from the IAC and the Chair and a Non-Executive Director from London CIV Board

Recommendations

14. The Committee is recommended to note and discuss the contents of this report.

Financial Implications

15. The financial implications are contained within the body of the report.

Legal implications

16. There are no legal implications for the Committee that have not been considered in the report.

Legal implications

17. There are no equalities implications for the Committee that have not been considered in the report.

Department for Communities and Local Government

Marcus Jones MP
Minister for Local Government

Department for Communities and Local Government
4th Floor, Fry Building
2 Marsham Street
London SW1P 4DF

Tel: 0303 444 3460
Fax: 020 7828 4903
E-Mail: marcus.jones@communities.gsi.gov.uk

www.gov.uk/dclg

Chairs of LGPS pension funds
Chairs of LGPS investment pools

2 2 AUG 2017

LOCAL GOVERNMENT PENSION SCHEME (LGPS) INVESTMENT POOLING: SPRING 2017 PROGRESS REVIEW

Thank you for your reports on progress to 31 March and updates to our officials on developments since then. We have been pleased to see that most pools in development have been moving at pace towards becoming operational, including launching procurements for pool operators and, where new operators are being established, making key senior appointments and preparing applications for Financial Conduct Authority (FCA) authorisation. We have also been pleased to note progress in some pools towards your ambitions on infrastructure investment, with some significant new funding committed this year. We are well aware of the substantial demands on your staff and resources required to deliver the progress already made and the challenges still to be overcome in order to deliver, and we are grateful to all those involved.

However in some areas we have not yet received the assurance we require. We have made clear that all funds must fully participate in a pool and all pools must have an FCA authorised operator. In order to achieve the maximum savings, funds must invest through the pools, with minimal exceptions where there is a value for money case, and they must delegate manager selection to the operator. Our officials will of course continue to engage with funds and pools where there are outstanding issues over the summer. But if we are not satisfied that there is a clear path and timetable for delivery, the Department for Communities and Local Government will consult on further action, including use of the powers available.

We will expect a further report on progress to 30 September from all pools in October. At that time we will want to see further details of savings achieved and planned, as well as plans for reporting, including on fees and net performance by asset class, and for increasing your infrastructure investment in line with your ambition.

We remain committed to this vital long term change programme in order to deliver improved net investment performance and capacity to invest in infrastructure, and to protect the sustainability of the LGPS for the benefit of its members. We look forward to working with you to bring the first stage of the reform to a successful conclusion with the establishment of pools across the LGPS.

CHIEF SECRETARY TO THE TREASURY **MARCUS JONES MP** **CAROLINE NOKES MP**

Pensions CIV Sectoral Joint Committee

Item no: 5

Finance Report

Report by: Brian Lee **Job title:** Chief Operating Officer

Date: 13 September 2017

Contact Officer:

Telephone: 020 7934 9818 **Email:** Brian.lee@londonciv.org.uk

Summary:	This report provides the Committee with a finance update on delivery against the 2017/18 business plan and MTFS.
Recommendations:	The committee is recommended to note and discuss the contents of this report.

Section 1. Financial Report for the four months to 31st July 2017

1. The profit before tax is £591k compared to the MTFS budget of £222k, showing a positive variance of £369k.

Actual Results for the four months to July 2017 INCOME	YTD July Actual	MTFS to July	Variance
Service Charge	266,667	266,667	-0
Development Funding Charge	800,000	800,000	0
	1,066,667	1,066,667	-0
Management Fee by Fund			
Active Equity	258,234	254,517	3,717
Multi-Asset	113,689	99,601	14,088
LGIM Passive	83,199	0	83,199
Total Management Fee	455,121	354,118	101,003
Total Income	1,521,788	1,420,785	101,003
EXPENSE			
Staff Costs	513,502	668,824	155,322
Facilities	102,309	119,752	17,443
Legal and Professional	253,660	315,758	62,097
Travel, marketing and general expenses	12,618	17,924	5,306
Technology costs	12,067	44,229	32,162
Data Feeds and other information services	37,154	36,585	-569
Total Operating Expenses	931,311	1,203,071	271,760
Operating Profit	590,477	217,713	372,764
Depreciation	720	613	106
Interest Income	2,038	5,000	-2,962
Profit before tax	591,796	222,100	369,696

2. The principle reasons for the variance are:

    i. As noted at the July meeting, LCIV's agreed fee for negotiating lower fees with LGIM was not included in the MTFS and continues to be a positive variance,

    ii. Timing differences arising on staff recruitment which were budgeted to start at the beginning of the financial year,

    iii. Professional fees in respect of fund launches being charged to funds with effect from 1st April 2017 rather than being expensed in the management company and

    iv. Technology costs not yet incurred as the work on the operating model and systems development has yet to commence.

Income

3. The details of income variances are highlighted as follows:

   i. The service charge and DFC are in line with the MTFS. The service charge is billed annually in advance and recorded on an accruals basis.

   ii. The variance in active equity management fees arises from the increase in asset values over and above the MTFS (£4.7bn MTFS, £5.2bn actual) despite the small delays in the launch of Longview, Majedie and Newton which were budgeted for the beginning of April launch but transitioned at the end of May.

   iii. The positive variance on passive equity management fees relates to the LGIM fees which were not included in the MTFS as the fee charging arrangement had not been agreed at the time of the sign-off of the MTFS.

Expenses

4. The details of expense variances are highlighted below:

   i. **Staff expenses** – the MTFS had assumed a number of hires (5) effective the beginning of Q1 and a further four hires in Q2. The actual hiring was four so that staff recruitment was five under budget. The financial impact of the variation of timing in hiring has resulted in a cost saving of £150k.

   ii. **Facilities** – the arrangement with London Councils is that facilities costs (effectively rent, utilities, service charges) are based on headcount. As mentioned above as staffing levels are below MTFS, there is a positive cost variance.

   iii. **Legal and Professional** – these costs are below MTFS as third party fund launch costs primarily legal and investment consulting are now being charged to the funds when launched. It is important to note that although fund launch costs are to be charged to funds, the expenses are funded by LCIV and so there is a cash outflow from LCIV that will require careful treasury management.

5. In respect of service fees, the following amounts are outstanding from 8 boroughs as of 5th September :-

London Borough of Barnet (GBP)	**90,000**
London Borough of Camden (GBP)	**90,000**
London Borough of Croydon (GBP)	**90,000**
London Borough of Ealing (GBP)	**90,000**
Royal Borough of Greenwich (GBP)	**90,000**
Royal Borough of Kensington & Chelsea (GBP)	**90,000**
London Borough of Newham (GBP)	**90,000**
Wandsworth London Borough Council (GBP)	**90,000**
	720,000

Quarterly MTFS

6. The MTFS by quarter is set out in the table below. The Committee is asked to note that it reflects the incidence of costs increasing quarter on quarter as headcount rises together with the increasing use of third party costs as the operating model and systems are built out.

7. Fund launches were scheduled as follows:

- Global Equity I - September £550m
- Global Equity II – December £300m
- Fixed Income - March £600m

2017/18 BUDGET - BY QUARTER	Q1	Q2	Q3	Q4	2017/18
INCOME					MTFS
Service Charge	200,000	200,000	200,000	200,000	800,000
Development Funding Charge	600,000	600,000	600,000	600,000	2,400,000
Management Fee	255,538	295,738	340,276	359,026	1,250,576
Total Income	1,055,538	1,095,738	1,140,276	1,159,026	4,450,576
EXPENSE					
Staff costs	484,621	575,271	629,164	629,164	2,318,220
Facilities	89,814	89,814	89,814	89,814	359,256
Legal and Professional	176,500	351,500	351,500	351,500	1,231,000
Total Travel and Sub/Prof Fees	16,844	16,844	16,844	16,844	67,375
Total Technology	12,115	98,781	98,781	98,781	308,458
Total Data Feed Costs	27,500	27,500	27,500	27,500	110,000
Total Operating Expenses	807,393	1,159,710	1,213,603	1,213,603	4,394,309
Operating Profit	248,144	-63,972	-73,327	-54,577	56,267
Depreciation	460	460	460	460	1,842
Interest Income	3,750	3,750	3,750	3,750	15,000
Net Profit	251,434	-60,683	-70,038	-51,288	69,425

8. The Committee will recall that it was agreed in the MTFS that the Development Funding Charge was set at £75,000 for the financial year 2017/18, and that this was to be billed in two tranches, £50,000 in April 2017 and the balance of £25,000 to be billed in December 2017, subject to the financial position and the business requirements of LCIV at that time. The rationale for splitting the DFC into two billing cycles was to ensure that LCIV raised invoices only to cover anticipated costs in the current financial year and not to generate a large financial surplus. It would be possible to carry the surplus forward to future financial periods, but as LCIV is subject to Corporation Tax any profit in the financial period would therefore be charged to Corporation Tax. However, as a consequence of the operating losses incurred in 2016/2017, much of the potential Corporation Tax would be reduced.

9. As explained above LCIV has a surplus of £592k compared to the MTFS of £222k for the four months to July and it is possible that the incidence of costs in the remainder of

the year may take place later than scheduled in the MTFS. If this situation occurs a larger surplus may arise based on the scheduled billing

10. The Committee is asked to note that a revised forecast for the year will be presented to the next Committee meeting in December where a recommendation will be made as to whether the balance of the DFC should be billed based on the actual and anticipated costs experience.

Recommendation

11. The committee is recommended to note and discuss the contents of this report.

Section 2. An update to the Committee on the LCIV staff pension scheme

12. At the Committee meeting in July, members were advised as to the status and operation of the LCIV pension scheme that is being administered through the City of London pension fund.

13. Following the completion of the financial statements of LCIV for year end March 2017, it was agreed that LCIV staff pension scheme arrangements should be reviewed in light of the funding requirements of the scheme, the accounting impact of FRS102 and the potential impact on the capital adequacy calculations of LCIV.

14. Meetings have been held with both Barnett Waddingham, the Scheme's Actuary, and Deloitte, LCIV's Auditor, to discuss the operation of the pensions scheme and options available. Barnett Waddingham are now finalising a report, which includes an assessment of potential options, and this will be presented to the LCIV board on 22nd September following which an updated proposal on pension arrangements will be presented to this Committee for discussion at its next meeting in December.

15. The analysis below is intended to provide additional information to the Committee which will form the basis of the report to the Board.

Background

16. The London CIV became an employer in the LGPS in September 2015. At outset therefore it had zero assets and liabilities but started to accrue liabilities and corresponding assets as staff joined the organisation and became members of the LGPS. Some staff members had accrued pensions in previous employments and some transferred these benefits into the LGPS, increasing both the assets and liabilities for the London CIV in the City of London Fund.

17. Scheme members only have the option of transferring in previous pension benefits in the first 12 months of joining the LGPS. The terms of converting the transfer value into LGPS benefits is set nationally by the Government Actuary across all LGPS Funds. The assumptions underlying the conversion terms are different to both funding valuation and accounting valuation assumptions. However they are much closer to the funding valuation assumptions than accounting assumptions.

18. Thus when an LGPS Fund receives a transfer value which is then converted into additional LGPS pension benefits, the resulting value of the additional liabilities in the LGPS Fund and the assets received should, as a broad rule of thumb, be relatively close to what would be valued on the funding basis and so no additional funding deficit

arises. This is a broad generalisation and depends on the age of the individual and other factors. However on an accounting basis the additional liabilities are almost certainly going to be higher than the additional assets received and so each transfer in will increase the accounting deficit.

19. However, there is one aspect which is particular relevance to staff who are transferring in benefits from a previous LGPS Fund with benefits earned before 31 March 2014. There some very complicated rules but broadly speaking they get day for day service in the new LGPS Fund. The transfer value paid by the former Fund will be based on final pay in that Fund whereas the benefits that are awarded in the new Fund will be based on their new pay.

20. So, for example, if the individual's new pay is say 10% higher than they pay in their former employment then they are awarded benefits that cost 10% more than the transfer value received. This only applies to benefits earned before 1 April 2014. CARE benefits earned after 31 March 2014 transfer across at face value.

Accounting entries

21. The following tables are lifted from Barnett Waddingham's accounting valuation report as at 31 March 2017 for the LCIV. The first table shows the changes in liabilities and the second table shows the change assets for accounting purposes.

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	Year to 31 Mar 2017 £000s	Period to 31 Mar 2016 £000s
Opening defined benefit obligation	**203**	**-**
Current service cost	162	43
Interest cost	29	2
Change in financial assumptions	436	5
Change in demographic assumptions	-	-
Experience loss/(gain) on defined benefit obligation	412	24
Liabilities assumed / (extinguished) on settlements	-	-
Estimated benefits paid net of transfers in	685	114
Past service costs, including curtailments	-	-
Contributions by Scheme participants and other employers	75	15
Unfunded pension payments	-	-
Closing defined benefit obligation	**2,002**	**203**

Reconciliation of opening & closing balances of the fair value of Fund assets	Year to 31 Mar 2017 £000s	Period to 31 Mar 2016 £000s
Opening fair value of Fund assets	**159**	**-**
Interest on assets	22	2
Return on assets less interest	97	2
Other actuarial gains/(losses)	-	-
Administration expenses	-	-
Contributions by employer including unfunded	133	26
Contributions by Scheme participants and other employers	75	15
Estimated benefits paid plus unfunded net of transfers in	685	114
Settlement prices received / (paid)	-	-
Closing Fair value of Fund assets	**1,171**	**159**

22. The key numbers to focus on are the "Estimated benefits paid net of transfers in" in both tables – this is the cash received in respect of transfers in. The "Experience loss (gain) on defined benefit obligation" in the first table is the additional liability due to the benefits awarded from those transfers in being given a higher value on the accounting basis than the transfer basis. The relatively higher number for 2016/17 reflects the much lower discount rates at March 2017 compared to March 2016.

23. Another point worthy of note is how the Current Service Cost in the first table for 2015/16 (£43k) compares with the employer contributions in the second table (£26k). If the accounting basis was the same as the funding basis then these numbers would be the same. However the lower discount rates underlying the accounting basis puts a higher value on the employer's share of the extra accrual of benefits during the year than the funding basis and so adds to the deficit. This is not unusual and is what happens in just about all LGPS employer accounting reports. The gap increases for 2016/17.

24. In the long term and assuming asset returns exceed corporate bond yields as expected, both these contributions to the accounting deficit should be offset by positive "Return on assets less interest" numbers. However this could take several years to materialise and of course is not guaranteed.

Recommendation

25. The Committee is asked to note the above progress report and that a final report will be presented at the next PSJC meeting.

Section 3. Regulatory Capital

26. As a FCA regulated entity, the Company is required to maintain sufficient regulatory capital as determined for a full scope Alternative Investment Fund Manager ('AIFM'). The amount of capital required is determined by the higher of one quarter of annual expenditure or a certain percentage of actual assets under management (0.02% in excess of Euro250,000). A formal calculation is submitted to the FCA on a quarterly basis and a summary of the Regulatory Capital Statement as at 30th June 2017 is given below.

27. Regulatory Capital Statement as of 30th June 2017

Tier 1 Regulatory Capital	£3,479k
Own Funds Requirement	£1,053k
Surplus Capital	£2,426k

Recommendations

28. The Committee is recommended to note the regulatory capital position as at 30 June 2017

Financial Implications

29. The financial implications are contained within the body of the report.

Legal implications

30. There are no legal implications for the Committee that have not been considered in the report.

Equalities implications

31. There are no equalities implications for the committee.

Item 6

Pensions CIV Sectoral Joint Committee

Fund Performance Report

Report by:	Julian Pendock	**Job title:**	Chief Investment Officer
Date:	13th September 2017		
Contact Officer:	Freddie Fuller		
Telephone:	020 7934 9887	**Email:**	julian.pendock@londonciv.org.uk

Summary: This report updates the Committee on the performance of the LCIV sub-funds.

1. Summary

Since the last minuted Executive committee, sub-fund compliance reporting has moved to the CARCO. Accordingly this report has been shortened to only address the performance of the LCIV sub-funds in both the short and long term as well as providing the committee with the latest Manager Review Meeting (MRM) write ups.

Sub-fund performance

The performance of all sub-funds across both asset classes remains satisfactory with regard to broader market conditions.

The performance of the Global Equity funds has been extremely strong in absolute and relative terms during on a twelve month basis.

It should be noted that the LCIV Global Equity Alpha fund continued its strong outperformance after an extended run of poor performance against its benchmark towards the end of 2016 and as of 30th August it is now outperforming its benchmark by 3.48% since inception.

Pyrford and Ruffer have both found 2017 fairly sticky in performance terms, but both managers (although very different in their portfolio construction) are very defensively positioned. Performance will be reviewed at the next round of MR meetings in October.

Incidents and points to note

There were no incidents recorded during the quarter.

Three additional delegated sub-funds have been launched since the last ExCo meeting which are the:

- LCIV NW Global Equity Fund
- LCIV MJ UK Equity Fund
- LCIV LV Global Equity Fund

The first two opened on the 22nd and the 18th May respectively and accordingly do not have long term performance figures.

2. Performance of LCIV Sub-funds

LONDON CIV – QUARTERLY PERFORMANCE STATISTICS

To 30/08/2017

FUND (Underlying Manager)	PRICE (Pence)	FUND SIZE £M	Q2	YTD	1 year	SINCE INCEPTION	INCEPTION DATE	Number of Investors
UK Equity Sub-Fund								
LCIV MJ UK Equity (Majedie) *Benchmark: FTSE All Share Index* **Performance Against Benchmark**	99.86	£523	N/A	-0.20% *-0.35%* **--0.14%**	N/A	0.20% *-0.35%* **--0.14%**	18/05/17	3
Global Equity Sub-Funds								
LCIV Global Equity Alpha (Allianz Global Investors) *Benchmark: MSCI World Net GBP Index* **Performance Against Benchmark**	137.5	£712	3.89% *0.14%* **3.75%**	15.12% *7.83%* **7.29%**	19.47% *16.76%* **2.71%**	41.05% *37.57%* **3.48%**	02/12/15	3
LCIV BG Global Alpha Growth (Baillie Gifford) *Benchmark: MSCI All Countries World Gross Index* **Performance Against Benchmark**	146.3	£1,748	4.62% *0.71%* **3.91%**	17.84% *9.61%* **8.24%**	26.13% *18.15%* **7.98%**	47.86% *37.93%* **9.92%**	11/04/16	9
LCIV NW Global Equity (Newton) *Benchmark: MSCI All Countries World Gross Index* **Performance Against Benchmark**	102.4	£670	N/A	2.61% *4.38%* **-1.77%**	N/A	2.61% *4.38%* **-1.77%**	22/05/17	3
DGF/Total Return Sub-Funds								
LCIV PY Total Return (Pyrford)	109.3	£224	0.18%	1.86%	2.82%	9.30%	17/06/16	3
LCIV Diversified Growth (Baillie Gifford)	115.3	£429	1.75%	5.13%	7.54%	17.32%	15/02/16	5
LCIV RF Absolute Return (Ruffer)	109.7	£539	-0.45%	-0.80%	8.61%	10.61%	21/06/16	5
LCIV NW Real Return (Newton)	103.5	£342	1.16%	3.07%	N/A	4.51%	16/12/16	3
Total LCIV Assets Under Management		**£5,565**						**18**

Data taken from Bloomberg as at 30/08/2017
All performance reported Net of fees and charges with dividends reinvested

3. Manager Review Meeting Write Ups

(Please Note: the meeting notes will follow in correspondence on: the LCIV MJ UK Equity sub-fund, run by Majedie, plus the LCIV Global Equity Alpha sub-fund, run by Allianz Global Investors).

LCIV Global Alpha Growth Fund (Baillie Gifford) Q2 Manager Review

25th July 2017

CIV Investment Team

LCIV Global Alpha Growth (Baillie Gifford) Fund

Inception date	11/04/2016
Fund Size	£1,674 m (as at 30/06/2017)
Number of holdings	99 (as at 30/06/2017)
Benchmark	MSCI All Country World Index

Investment objective

The objective of the Sub-fund is to exceed the rate of return of the MSCI All Country World Index by 2-3% per annum on a gross fee basis over rolling five year periods.

Agenda

1. Review the second quarter performance and any significant contributors since the fund's inception.
2. Discuss any portfolio activity relating to the second quarter.
3. Explain the rationale for the thematic positioning of the fund and how market developments may impact any allocations.

	Global Alpha Growth	MSCI AC World Index
Q2 2017	4.62%	0.71%
Since LCIV Inception	41.23%	33.53%

Source: Bloomberg, as at 30/06/2017. Net of fees with dividends re-invested.

Executive summary

In the second quarter of 2017 the fund posted a positive return of 4.62%, outperforming the benchmark by 3.91%. Strong selection effect (especially in the technology and consumer discretionary sectors) helped the fund to continue its good performance throughout the first half of the year (now 12.56% since 31/12/2016.)

After relatively few changes to the portfolio in the first quarter, the manager took the opportunity to make a number of new purchases and additions as well as taking some profit from both Amazon and First Republic Bank.

The Baillie Gifford team remain of the view that there is an expanding universe of global opportunities, which can be seen in the increased portfolio activity. The team view the tailwind of improved 1st quarter earnings reports as encouraging but will be keeping a watchful eye on whether this can be continued during the second half of the year.

Q2 Performance review

Since the inception of the fund in April of 2016, the Global Alpha Growth strategy (GAG) has achieved a positive return of 41.23%. The current AUM has now grown to £1,674 million. The fund delivered another strong return of 4.62%, outperforming the benchmark by 3.91% as equity markets continued their positive start in Q1.

The strongest contributors to return were Ryanair (+0.4%) and Alibaba (+0.4%) which between them make up 3.5% of the total portfolio. Detractors included Seattle Genetics (-0.2%) which announced that it had decided to discontinue a late stage trial of one of its new drugs. BG retain their confidence in the expansion of the current patient base of its existing treatment however.

Portfolio activity:

In the recent quarter the Baillie Gifford ('BG') team made a number of changes to the portfolio following stronger reported earnings for Q1 and wider equity markets continued their rise.

Significant transactions:

Purchases:

- **Advanced Micro Devices (AMD) –** the BG team are looking to exploit the long-term structural growth possibilities across the gaming and auto industries by initiating a position in this graphics processing semi-conductor firm. As the company begins to benefit by increasing scale, BG believe that further growth can be achieved through margin expansion.
- **AP Moller Maersk B –** the largest container-shipping business in the world, BG are looking to exploit what they view as a consolidation led turn around in the sector as well as strong capital allocation discipline within the companies energy division. With the energy division likely to be disposed of in the medium term, they believe this result will result a far stronger balance sheet.

Sales

- **Ferrari** – Whilst BG continue to view the company as high-quality, they believe that the current valuation is close to their internal view of fair value and that growth from here may be limited. For that reason, they have completely sold out of the position.

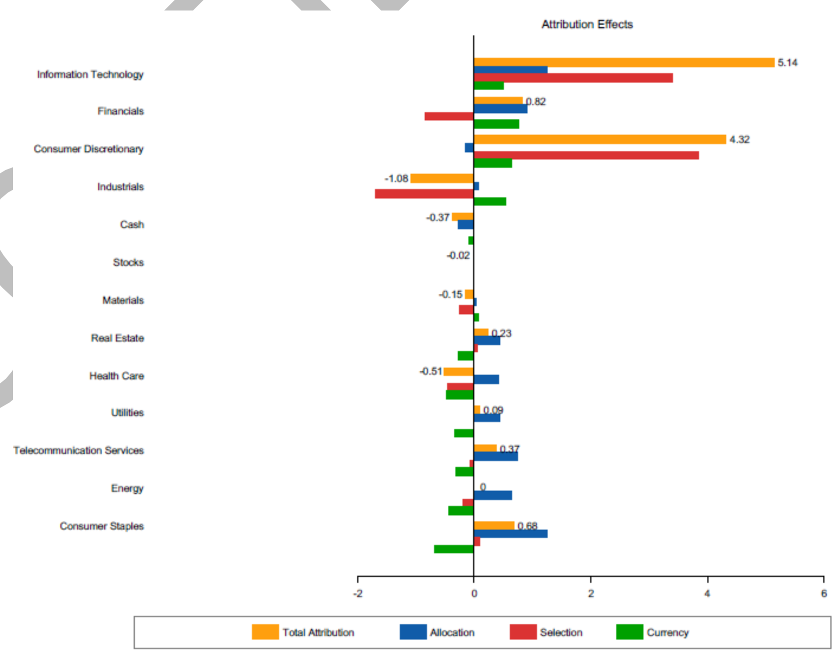
- **Monsanto** – After the acceptance by shareholders of a takeover bid by Bayer, shares have continued to trade at a discount to the offer price. Now that this spread has narrowed, BG's view that there is a reduced chance for growth in its core business has led to an exiting of the position.

Reductions

- **Amazon** – After an extraordinarily strong performance (not just for Amazon but for many tech stocks) BG have decided to reduce the position in order to fund other ideas in the portfolio. It remains however, one of the largest holdings and the team remain of the view that there is still growth opportunity in the stock.

Portfolio discussion:

The portfolio's performance has been extremely strong both in the short term and since inception, in absolute terms and relative to the wider market. It is interesting to note that attribution analysis undertaken by the LCIV investment team shows that of an active return of 9.53, the two greatest contributors (IT and Consumer discretionary) add up to 9.46 (the two greatest detractors being Health Care and Industrials at -0.51 and -1.08.)[1]



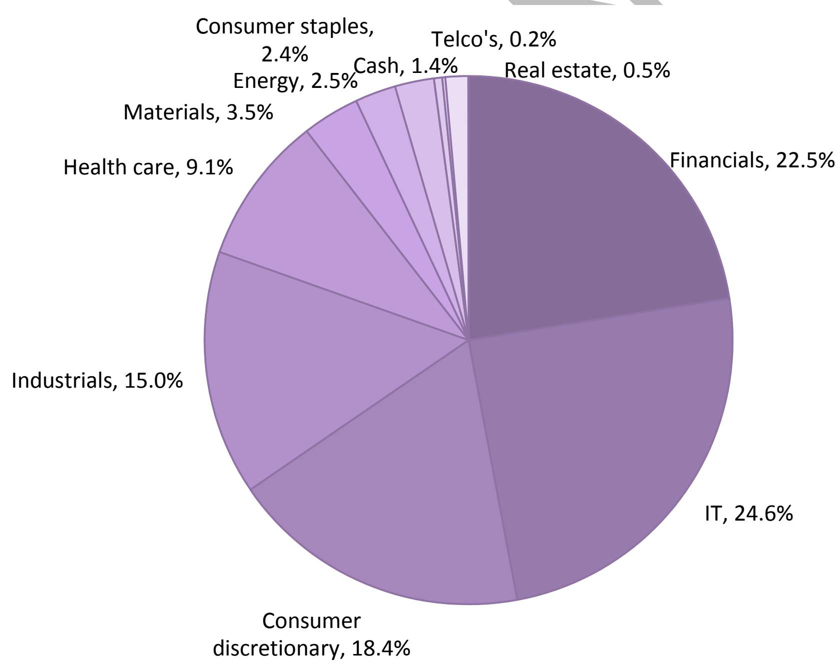
[1] Data - performance attribution sourced from Bloomberg, gross of all fees and expenses.

The impact of technology stocks on the positive returns generated on numerous stock markets (but especially the S&P 500) has been noticed by the markets (leading to a short dip during June that has since reversed.) As at 30th June, 30% of the year's gains by the S&P 500 had come from Apple, Facebook, Amazon and Alphabet.

BG were questioned on this, and whilst agreeing that the share prices of the aforementioned had grown at an extraordinary rate, analysis suggests that they had simply reached these heady heights too soon, rather than being inherently overinflated.

In response, the portfolio's holding in Amazon was reduced, but still remains a significant holding. BG (like a number of other managers) view these companies on their innovation just as much as their current cashflow.

The best companies are those that are always searching for new profit pools (Amazon's mantra that it is 'the best company in the world to fail at' sheds some light on how they go about searching for these pools) and BG remain of the view that companies such as Amazon, Facebook and Alphabet are succeeding in this.



BG are also focussing more on culture when performing analysis on companies. Uber remains one of the 'odd ones out' when compared with other well-touted tech stocks and BG stated that aside from the difficult investment case considering that although valued at $68bn after its last funding round, its underlying pre-tax losses were over $3bn last year, they had spotted the now well publicised culture issues that lead to the resignation of Travis Kalanick.

The fund's increased holding in Alibaba now brings it into the top ten positions in the portfolio. Queries were raised with the manager about social and governance concerns that are inherent in investing in China.

The manager agreed that there are a number of issues prevalent at the moment (the treatment of minority shareholders by management at Alibaba being one of them) but that there is nothing within the culture of the company that would suggest its extremely strong fundamentals should be ignored (the manipulation and use of data in such areas as AliPay potentially opening up new avenues of revenue to the company.)

The fine levied on Alphabet by the EU Commission was raised by the LCIV CIO as an example of the increasing scrutiny and power that is being more openly wielded by authorities across the developed world and may well be most concerning when investors are looking at how companies pay their taxes.

The BG team acknowledged the potential contingent liabilities that multinationals may suffer once domicility and tax arrangements finally come to the fore, may well hurt investors and that they continue to encourage companies to look very carefully at whether they could (and should) be paying more tax in certain jurisdictions.

CIO conclusion:

The Global Alpha Growth strategy continues to deliver good returns, outperforming the benchmark over the medium term. The BG team are confident that there are opportunities within the available universe and that even considering the (at times) unnerving valuations across some developed equity markets, there remains value in certain companies to be unearthed. LCIV officers will continue to monitor the strategy to ensure that alpha is delivered with sufficient risk analysis to accompany it and that returns do not become too concentrated in certain sectors or industries.

Meeting Attendees

Team CIV:
Julian Pendock; CIO
Frederick Fuller; Head of IO

Baillie Gifford:
Chris Davies; Investment Analyst
Tom Wright; Client RM

LCIV NW Global Equity Fund Q2 Manager Review

July 20th 2017

CIV Investment Team

Newton Global Equity Fund

Inception date	22/5/2017
Fund Size	£658m (as at 30/6/2017)
Number of holdings	64
Benchmark	MSCI All Country World Index Total Return

Investment objective

The Sub-fund's objective is to achieve capital growth by outperforming the MSCI All Country World Index Total Return (Gross) by at least 1.5% per annum net of fees over rolling three year periods.

Investment policy

The ACS Manager aims to achieve the investment objective by investing primarily in global equities.

Agenda

1. Review the second quarter performance of the fund.
2. Explain any portfolio activity relating to the quarter.
3. Introduce the market views of the Newton Global equity team.

	LCIV Newton Global Equity	MSCI AC World TR Index
Q2 2017	N/A*	N/A*
Since LCIV Inception	0.7%	1.1%

Source: Bloomberg, as at 30/6/2017. Net of fees with dividends re-invested. *The fund was introduced in May and does not therefore offer a full Q2 track reocrd.

Executive summary

In the brief performance period since the May inception the Sub-fund has delivered a 0.7% return, 0.4% less than the benchmark MSC AC World Index. The marginal underperformance of the Sub-fund should not be taken out of context given the extremely short time frame in question. Positions in healthcare and financials were some of the largest contributors. Allocations to industrials proved disappointing.

The team made several changes to the portfolio, but perhaps most noteworthy were the purchase of Allied Irish Bank and Newell Brands. Newton also sold their stake in Bayer.

This quarter's discussion was focused around three main areas: macro views, China, and developments in the music industry.

Q2 performance review[1]:

In the brief performance period since the May inception the fund has delivered a 0.7% return, marginally short of the 1.1% return delivered by the MSCI AC World Index. Pleasing performance at the stock level in healthcare and financials was offset by disappointing contributions from a number of sectors, particularly industrials.

Rising bond yields have been a strong tailwind for financials, and central bank rhetoric suggesting the withdrawal of monetary stimulus, or tapering, has started to remove part of the downward pressure on bond yields. Despite a significant underweight to financials the fund's stock selection to names such as Citigroup, Allied Irish Banks, and Intact Financial helped to contribute positively.

Additionally, stock selection in health care boosted fund returns; with regards to Teva Pharmaceutical (the second best performing relative stock this quarter), positive news emerged as Mylan's CEO indicated that approval for its generic Copaxone may be delayed in the US. Given Copaxone generates around $800m a quarter for Teva, investors welcomed the announcement.

A number of industrial stocks weighed on the portfolio's performance. Wolseley, the building materials distributor, experienced a disappointing quarter amid investor concern of a slowing growth rate in the company's core market, the US. Similarly, Wolters Kluwer also trended downwards over the reporting period.

Within consumer discretionary, TripAdvisor has frustrated due to a lack of consistent progress with its business transition. In spite of this, Newton still believe in the relevance of its Instant Book product, although it is costing more and taking longer to gain traction than initially expected.

Portfolio activity[2]:

Significant transactions:

Purchases:

- **Allied Irish Banks (AIB):** AIB continues to benefit from Ireland's macroeconomic tailwinds, and, following eight years of balance-sheet reduction under state ownership,

[1] Source: Newton Global equity quarterly investment report Q2 2017.
[2] Commentary relates to the views of the Newton Global Equity team, not the London CIV. Some transactions may relate to investments made prior to the inception of the London CIV fund.

looks set to return to growth by the end of this year. AIB is a straightforward retail and commercial bank and is the market leader in a concentrated industry structure that should allow for attractive margins. Capital return also formed part of the investment case, given AIB's excess capital position.

- **Informa:** Newton also initiated a position in Informa, the provider of business intelligence and academic publishing services, at an undemanding valuation. The stock could achieve a rerating given its ability to grow, cash conversion and attractive reinvestment possibilities, while carrying an attractive dividend yield of around 3%.

- **Newell Brands:** Newton purchased Newell Brands, a diversified consumer products group. The global equity team are confident that the company can reapply the successful strategy implemented in its legacy business to the acquired Jarden portfolio of brands. Newton think cost savings can drive significant earnings growth and, as the largest player in fragmented product categories, there is scope for market-share gains which should be enough to sustain a strong cash flow growth profile in the medium term, leaving the shares attractively valued.

Additions:

- **CitiGroup:** Having lagged year to date, and with the valuation still attractive, Newton increased the holding in Citigroup. They believe the market continues to underappreciate the progress that management has made in improving operational performance and de-risking the bank.

Sales:

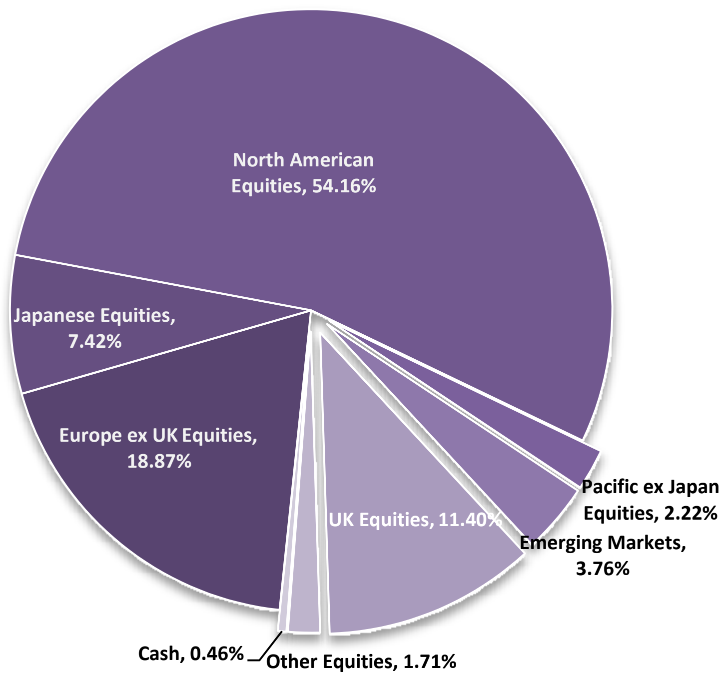
- **Bayer:** Newton opted to sell the holding in chemical and pharmaceutical company Bayer after a strong run. The stock had recovered well after its approach to Monsanto, with the proposed merger being viewed negatively by the market owing to the changing composition of the group and the level of financing required. As these fears subsided, aided by recovering agricultural end markets, the stock rose.

Reductions:

- **Microsoft:** Although not outright sales, Newton made numerous reductions in the technology sector. Given the strength of Microsoft's performance, the team decided to reduce the holding. The long-term opportunity, as the business moves towards more recurring revenues, remains attractive. The company retains its strong competitive position and can capitalise on the migration to hybrid cloud models

- **Alphabet.** Having performed similarly well (to Microsoft) over the first part of the year Newton chose to reduce the holding. The Global equity team continue to believe that the company has strong operational momentum and a clear competitive advantage in both scale and technology. In addition, there is potentially significant optionality from investment assets outside of (the core) Google.

Positioning at June 30th 2017



Portfolio discussion

The discussion between the Newton Global equity team and the London CIV was focused around three main areas; macro views, China, and developments in the music industry.

From a macroeconomic standpoint the views of the global equity team closely resemble those of the Newton real return team, a fund the LCIV recently put onto the platform. Newton's teams work closely together to develop opinions on the general market climate and investment themes; a fountain of ideas from which each fund can cherry pick according to their mandate.

On the macroeconomic front the global equity team are concerned by the financial distortions that central banks have cast over markets as a result of nearly a decade of experimental monetary policy. They believe that the encouragement (and crystallization) of leverage by central banks through financial repression has lead the global economy back down the unsustainable path that gave rise to the recent global financial crisis. In the team's own words: ''It hardly seems credible that we can solve a problem of too much debt by encouraging a further giant credit expansion. Indeed, in tandem with some of the world's stock markets, global debt levels continue to make new highs, recently reaching $217 trillion or 327% of GDP. This was largely owing to an increase of $3 trillion (to $56 trillion) in debt levels across the developing world over the last year[3].'' Given the leveraged instability that raising interest rates could create the team do not expect rates to be raised to previous 'normal' levels. Demographic woes, including rapidly growing dependency ratios in developed economies may also weigh down on (longer term) rates across global yield curves assuming the negative impact on growth outweighs that on inflation.

The Newton team were explicit about the lack of interesting investment opportunities relative to previous points in the economic cycle. They're increasingly finding that companies that exhibit organic growth are trading at significant premium to market. Global equities are not immune from the yield compression experienced across the asset classes and income stocks are have also been bid up as a result.

Taking the above into context, the Sub- fund has a quality tilt, with a far higher return on equity, and lower levels of debt-to-equity than the MSCI AC world Index. The team are happy to pay up for quality, but only in cases here valuations can be warranted. This more cautious stance is also evident in the sector allocations; the portfolio is predominantly overweight consumer staples, IT and health care, and is underweight the more value centric areas of the market such as financials, materials and energy.

On the topic of China, the global equity team, alike their internal (real return) counterparts, are cautious in the region given the 12+% domestic annual credit growth, which is around 6% above that of nominal GDP growth. If history is anything to go by the global equity team are right to be concerned by the rapid build up of leverage across the Chinese economy given the experience of other developing economies at this point in their industrialization. That said, the global equity team do not necessarily expect a Minsky style credit collapse, but do anticipate some sort of

[3] Source: Newton Global equity quarterly investment report Q2 2017.

correction (or reset) as growth slows, at the very least. Newton will be willing to look at Chinese assets more seriously over time should such an event take place.

The global equity team are aware that China will become the dominant economic force in years ahead so it would be foolish to ignore the region in its entirety. Instead Newton keep in mind companies and sectors that they may look to invest in as particular events fall into place, be it macroeconomic, or idiosyncratic in nature. A good example would be the regular conversations that the team have with global pharmaceutical companies that are trying to penetrate the Chinese healthcare market. Newton appreciate the potential in this sector given the tailwinds from demographics and the emergence of the middle class but await the increased protection rights over intellectual property before they can feel comfortable investing.

Newton are growing increasingly excited by developments in the music industry. The global equity team see increasing evidence of people moving away from online pirating to the subscription model. The prices of the large music producers have fallen to the extent that consumers are now far more likely to pay for services such as Spotify or Soundcloud than was the case just a decade ago.

Moreover, the quality and simplicity of these subscriptions, as well as many of the value-add services make such a decision relatively easy for the purchaser. To take advantage of this theme Newton own the European multinational media conglomerate, Vivendi. Newton feel that there is a huge opportunity for media creators to take advantage of content production in Europe and believe that Vivendi are best place to do so, and expect the company to cement their strength through acquisition, as they have done in recent years.

Newton also discussed their holding of Sony, a position that was entered earlier this year. The rationale behind the holding is two fold. Firstly, Sony own an 8% stake in Spotify, allowing the group to take advantage of the music subscription theme already discussed. Secondly, Sony, through it's ownership of the PlayStation brand, are extremely well placed through their (joint) market leading position to take advantage of the emerging virtual reality (VR) theme. Whilst 'VR' is still in its infancy game developers are beginning to invest heavily into the next generation of gaming.

Though Newton are not typically fond of investing in Japanese stocks, Sony, given their strong brand, ample resource, extensive relationship with game developers, and the quality of their previous consoles, are expected to do well in this space. The team have also noticed that Sony's management have started to focus on shareholder returns through a steady 300-400 basis point expansion in operating margins. They believe that further value can be created if Sony disaggregate and strip out weaker areas of the business such as the telecommunication electronics.

CIO conclusion:

The Newton global equity team's nervousness around the general macroeconomic backdrop has resulted in a significant tilt towards quality. In risk-on environments this may somewhat hold the portfolio back relative to the benchmark, but the London CIV feel this degree of prudence is appropriate given the startling valuations in many of the major global equity markets. Newton are working hard to find interesting idiosyncratic opportunities such as Vivendi where new themes are emerging that markets are starting to re-price. In future meetings the London CIV would like to build a greater understanding of the team's views relating to Europe and Emerging markets given that these regions offer some of the best opportunities on a relative basis.

Meeting Attendees

Team CIV:
Julian Pendock; CIO
Frederick Fuller; Head of IO
Ryan Smart; Investment analyst

Newton:
Jeff Munroe; Portfolio manager
Terry Coles; Portfolio manager
James Mitchell; Client RM

LCIV Diversified Growth Fund (Baillie Gifford) Q2 Manager Review

25th July 2017

CIV Investment Team

LONDON CIV

LCIV Diversified Growth Fund (Baillie Gifford)

Inception date	15/2/2016
Fund Size	£361m (as at 30/06/2017)
Number of holdings	505
Benchmark	N/A

Investment objective

The objective is to achieve long term capital growth at lower risk than equity markets.

Agenda

1. Review the second quarter performance and the significant contributors across the various sub-asset classes.
2. Discuss any portfolio activity relating to the quarter.
3. Explain the general macroeconomic views of the team and how positioning aligns to such.

	LCIV BG Diversified Growth
Q2 2017	1.75%
Since Inception	16.77 %

Source: Bloomberg, as at 30/06/2017. Net of fees with dividends re-invested.

Executive summary

The fund delivered a 1.6% return against a backdrop of benign financial markets in the second quarter. Risk assets continued to trend higher with equity markets reaching new highs. The fund also benefitted from solid returns in investment grade, high yield, emerging market and government bonds, private equity, property and hedge funds. The only loss making asset class was commodities. This was driven from a holding in platinum which has since been exited.

The Baillie Gifford ('BG') team have become slightly more risk-on in Q2. The main asset allocation move is out of traditional investment grade and high yield bonds and into emerging market debt although they have also increased allocations to equity. The team retain a 10% allocation to cash which has been around their average liquid holding over the past 3 years for opportunistic investing.

Q2 performance review:

Since the inception of the fund in February of 2016 the BG Diversified Growth strategy has delivered 16.77%, helping AUM to grow to £361m.

The fund delivered a 1.75% return ahead of global equity markets which were up 0.32% and the UK market which was up 1.42%. Global Corporate and Development Market government bonds generally were also lower over the quarter given increases in yields. The BG Diversified Growth fund returns came mainly from corporate credit and listed equities which delivered 3.4% and 3.2% respectively although all asset classes positively contributed to performance with the lone exception of commodities.

Macro discussion:

In the second quarter of 2017 Baillie Gifford made some changes to holdings as markets returned to more buoyant conditions post French elections. BG seems to be moving against the swathe of scepticism and defensiveness that the LCIV team has increasingly seen embraced global investment managers and analysts over the last 12 months. BG is optimistic that growth will continue to rise according to recent trends. They stated that "robust global growth (was) an improving picture and strengthening earnings trends are helping to offer good prospective returns". As such they have positioned their portfolio in growth asset classes which will perform well should their thesis play out but it does leave them very over exposed to a market sell-off. LCIV team concedes that both Q1 and Q2 earnings have been positive but in an environment of softening economic technical factors, debt at pre-crisis highs (in autos and credit cards) as well as a declining savings rate and no wage inflation, it is difficult to believe that the growth that BG says will continue has any support behind it. Whilst it is clear that Q1 and Q2 earnings were upward trending, it is also worth noting that the market is seeing the most rapid cuts to outlooks and downward revisions to future earnings for the third quarter than observed for many years. When challenged on this BG responded that their positioning had taken on a more barbell approach where they were investing in both more aggressive risk-on positions as well as more defensive positions. There was however very little to indicate much movement into defensive positions.

BG outlined that their global growth expectation is 3%. They believe that there are sufficient structural balances to sustain this level of growth. They discussed that Chinese consumption had picked up and this would help global growth. BG stated that they were hedging some of these growth positions through a short on South Korean won. They discussed if they were wrong about inflation the US Breakeven holdings should provide protection for this and with respect their long equity holdings they could also engage in index futures to protect against downside moves. BG conceded that this was certainly more momentum reactive trading rather than trying to position ahead of a market event.

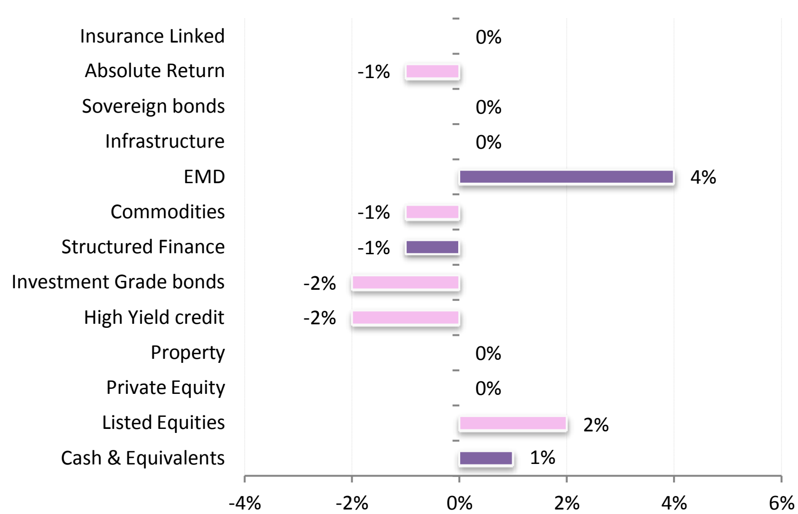
Portfolio activity:

Significant transactions:

- Government Bonds:

The team maintains positions in US inflation linked government bonds (TIPs) after originally adding these to the portfolio 12 months ago. BGs view on increasing inflation leads them believe that TIPs provide a better rate of interest than cash and conventional treasuries particularly in short duration issues. BG also continues to believe that using Euro-Bobl futures in order to short European interest rates, is offsetting some of the credit risk inherent in the portfolio. Whilst BG discussed these holdings as providing protection to the portfolio the overall sizing of the holdings (circa 7.6%) would appear to be a little too small to adequately protect the portfolio in any material way.

Quarterly allocation changes



- Emerging Market Bonds:

As discussed earlier BG became more optimistic during Q2 subsequently moving into more risk-on assets including emerging market bonds. The team believes that the attractive yields are supportive of a returning growth environment. Whilst LCIV agree that this is optimism is supported by the structural reforms sweeping governments and central banks in EM nations that the growth underpinning this is still vulnerable particularly in commodity driven economies. BM is particularly supportive EM debt in Argentina, India and Indonesia and has topped up allocations to these geographies above and beyond the limitations of their internally managed EM Bond Fund holding within the fund. In line with this risk-on view the BG team have also switched out of hard currency EM debt preferring the higher risk local currency debt believing that the latter offer more attractive return prospects.

- Corporate Credit:

The investment grade bond and high yield allocation of the fund **currently** sits at 3% and 8% respectively at the lower end of average holdings for these asset types. BG believes that spreads have tightened to the extent that relative returns look better elsewhere in the portfolio. During the quarter they trimmed back the both exposures by another 2% although they did comment that in the event of further dislocations potentially driven by softening oil price again that they would buy back in to the market although they would be likely to avoid oil and gas holdings and just seek to capitalise on broader market sell-offs. They discussed that US auto in High Yield was a particular concern for them.

Of the 8% in High Yield they discussed that actually 7% of that exposure was in loans rather than bonds given lower expected default rates. A reasonable proportion of the loans were in closed loan funds which offers a premium but does limit liquidity.

- Listed equities:

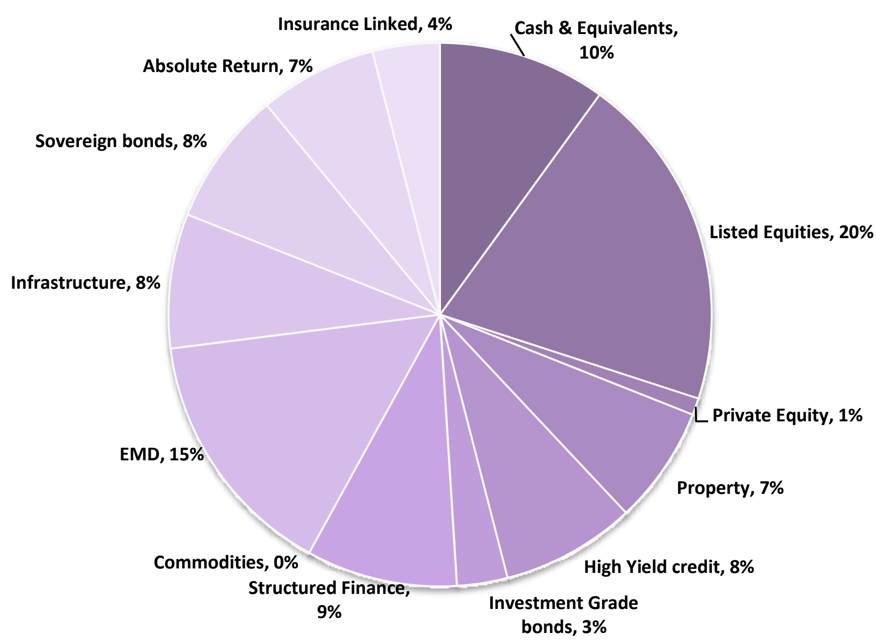
The team increased equity allocations by 2% over the quarter as part of their risk-on move into growth assets. BG discussed that US equity exposure was fully hedged given their view that the US dollar was currently overvalued but they discussed that they were more optimistic on European equities after the French elections and that they believed that EU stock valuations looked reasonable.

- Commodities:

As discussed earlier BG outlined that they were now completely liquidated from commodity holdings having sold their final position (which was loss making) in platinum over the quarter. The LCIV team queried BG about their outlook for gold given the defensive qualities which are frequently attributed to the asset class. BG discussed that whilst holding gold was a topic debated in-house, ultimately it was determined that US real yield positions (in TIPs) provided greater protection for the portfolio.

- Hedge Funds:

BG outlined how they are using cheap momentum funds to help gain protection to markets through trend following strategies. These funds have been performing exceedingly well and whilst we agree that they do provide some defensive protection to the BG fund overall it is probably also worth noting that imbedded in these funds is considerable (synthetic) leverage which does increase the volatility and risk of the holdings relative to their size.



CIO Conclusion:

The fund continues to materially outperform other DGFs in the market. It would however be naïve to believe that these returns were not being achieved through taking relatively more risk than their competitors, particularly at what appear to be an inflection point in the market. The momentum strategy which they are currently adopting to position for growth markets may be working well in the current environment but with 10% of the fund in non-daily traded funds (and further underlying holdings in the daily traded funds having less liquid holdings) their liquidity may challenge how dynamically BG will be able to rotate the portfolio into defensive positioning should a downturn occur. Further to this, there is clearly imbedded leverage in some of these underlying sub funds such as private equity and CLOs which again are likely to underperform in a sell off. In short BG should continue to perform well if markets muddle through in flat or upward trending markets but investors should be cautious that the fund may face headwinds in more challenging downward markets.

Meeting Attendees

Team CIV:
Julian Pendock; CIO
Freddie Fuller; Head of IO
Larissa Benbow; Head of Fixed Income

Baillie Gifford:
David McIntyre; Investment Manager
Tom Wright; Client RM

LCIV NW Real Return Fund
Q2 Manager Review
July 20th 2017

CIV Investment Team

Newton Real Return Fund

Inception date	16/12/2016
Fund Size	£346m (as at 30/06/2017)
Number of holdings	N/A
Benchmark	1month Libor +3% per annum over 5 years (Net)

Investment objective

The sub-fund's objective is to achieve real rates of return in Sterling terms. The Sub-fund seeks a minimum return of cash (1 month GBP LIBOR) +3% per annum over 5 years net of fees.

Investment Policy

The sub-fund invests 100% in the Newton Real Return Fund to achieve its objective. Reference to Newton or the portfolio refers to the Newton Real Return fund.

Agenda

1. Review the second quarter performance of the fund and any significant drivers of returns.
2. Discuss any portfolio activity relating to the quarter.
3. Offer an overview of the macroeconomic views of the real return team.

	LCIV Newton Real Return	1month Libor +3% (annualised)
Q2 2017	1.16%	1.00%
Since LCIV Inception	4.60%	1.88%

Source: Bloomberg, as at 30/06/2017. Net of fees with dividends re-invested. Libor is shown on an annualised basis since inception.

Executive summary

The LCIV NW Real Return Fund delivered a 1.16% net return for the second quarter, and a 4.60% return since its December 2016 inception.

The Newton strategy comprises a return seeking core with a layer of stabilizing assets and hedging positions. The quarter resulted in little fundamental change to the portfolio as a whole, with the manager tweaking elements of the equity and credit allocations, with some profit taking across a select few equity names.

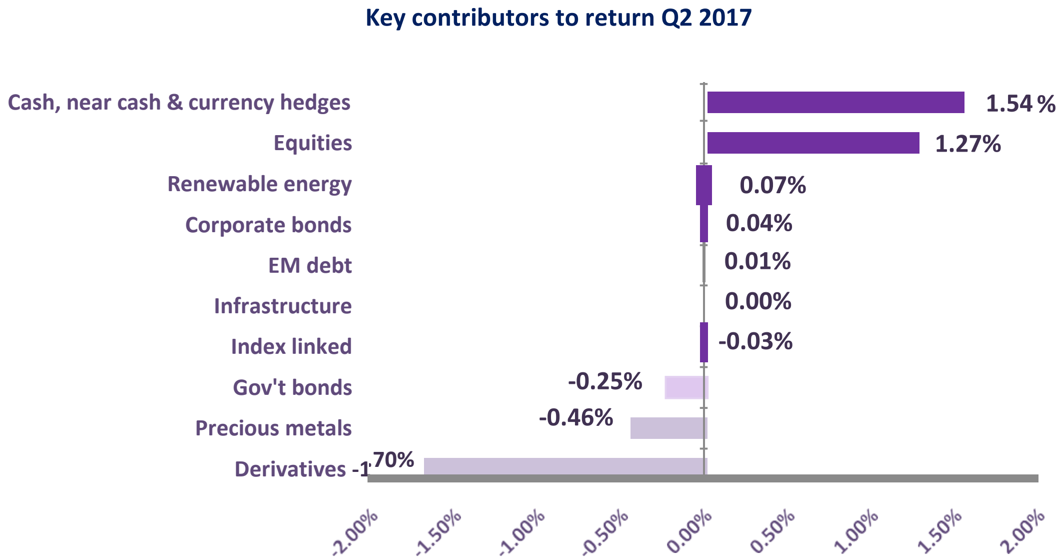
The manager's fundamental outlook on the markets has not shifted, resulting in a further reduction in portfolio duration and an increased cash level for the quarter, although overall the return seeking core of the portfolio increased to 33.2% and equity protection was reduced by 2.9%.

Q2 performance review[1]:

The LCIV NW Real Return Fund delivered a 1.16% net return during the second quarter, a 0.16% outperformance relative to the benchmark, 1 month Libor+3%. Since the inception of the fund in December this outperformance has grown to 2.72% helping AUM of the fund to reach £346m.

Continuing the trend of 2017, equity holdings drove much of the quarter's performance at 1.27% with the rest being drawn from currency hedging, corporate bonds and renewable energy. Much like the previous quarter, this resulted in the derivative protection costing the fund 98 basis points in performance.

Infrastructure and Emerging Market Debt were largely flat during the quarter whilst precious metals dipped, costing the fund 46 basis points.



Portfolio activity[2]:

Although the net equity exposure of the fund did not radically shift, there was some activity in this part of the portfolio, primarily driven by some profit taking as well as the introduction of some new holdings which have increased the beta of the fund.

Two purchases of note were Allied Irish Banks (AIB) and Newell Brands. Newton have been increasingly encouraged by the tailwinds prevalent at the moment as well as the result of AIB's

[1] Source: Newton Investment Management & Pace. Data relates to Newton's direct fund holdings which does not perfectly correlate with the returns received by local London authorities but serves as a reasonable approximation.
[2] Source: Newton investment management Q2 2017 investment report.

aggressive balance sheet reduction since 2009. Due to its market leader status in a concentrated market, Newton purchased shares in its partial relisting. Newell Brands (a consumer-facing product owner) presents itself as a strong market consolidation and cost reduction play to the manager as well as strong credentials in its experienced management team.

Proctor and Gamble reached Newton's estimate of intrinsic value and therefore was sold in its entirety. Profits were also taken in Wolters Kluwer and Vivendi. Newton (like a number of others in the market) are bullish on the wider music publishing industry (Universal Music being owned by Vivendi) and view further profit growth as achievable, hence leaving some exposure within the portfolio.

Newton are still hedging equity risk on valuation grounds which has been increased since the beta in the equity portion of the fund has increased. The equity protection implemented within the portfolio is done so taking a geographically diversified approach. The large majority of this protection is written against the S&P 500, through short futures, with short futures also written against the Eurostoxx 50 index, as well as the FTSE 100. This protection is implemented to hedge a proportion of the equity beta within the portfolio, bringing the gross equity exposure down from 46%, to a net figure of 22%. These short futures are rolled on a quarterly basis.

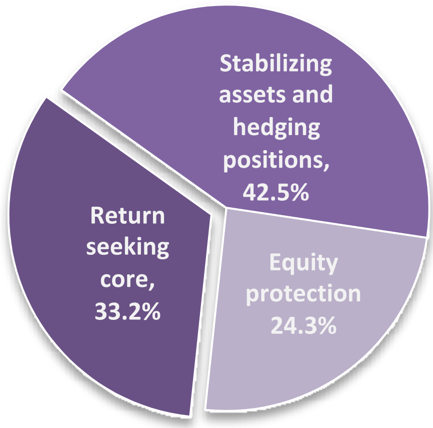
Duration sensitivity was reduced further during the quarter (through a reduction in US Treasury exposure) as the manager remains wary of the risk of a rise in yields in the short term. There have been some detailed discussions with the manager concerning the mechanisms for duration management within the portfolio. Further detail is shown below:

Bond derivative protection summary (% portfolio)			**Total protection**	
	US long bond future	Euro-Bund future	**Delta adj.**	**Notional**
Futures	-	-	**-**	**-**
Options	-3.0%	-2.8%	**-5.8%**	**-16.8%**
Total	-3.0%	-2.8%	**-5.8%**	**-16.8%**

Bond protection has been tactically implemented throughout the year, using put options with varying expiration dates. Typically this protection is implemented using one month options, with the decision to roll the protection taken at the time of expiration. Newton view this form of protection as a cost effective one and as tail protection against a spike in bond yields.

Finally, the manager has marginally increased the exposure to listed infrastructure, predominately as a diversification play for income streams (important when considering the rising cash exposure of the fund.)

Positioning at 30 June 2017

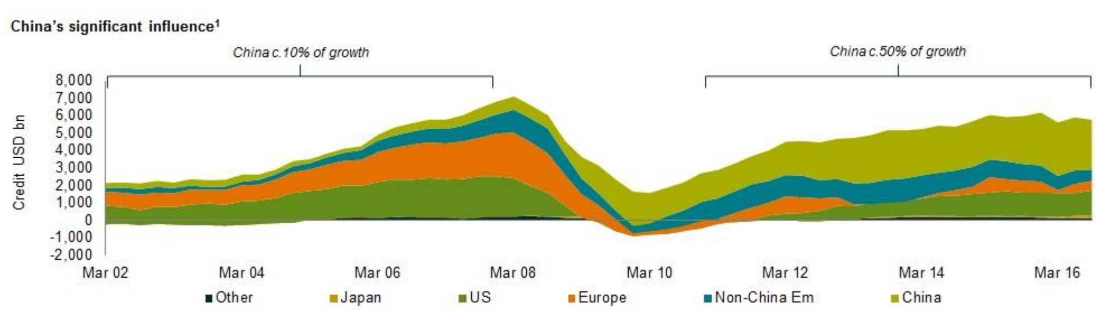


Macro discussion

Unlike previous meetings with the manager, focus had finally shifted away from frustration with the overly accommodating monetary policy across the developed world. Instead the normalisation narrative has come to the fore again (although it has arguably been lurking in the corners of global economic discussion over the last few years.) The Fed seems to be confident that the market's ability to absorb the two rate hikes in March and June of this year indicates that the time is right to begin setting out its plans for balance sheet reduction.

However Newton note that the question has arguably always been more about balance sheet reduction than interest rate rises, not just because of the lethargy and scantiness of these so far, but because of the impact on investor sentiment across the globe and the inherent issues with recalcitrant growth in part predicated on abnormally accommodative monetary policy.

Questions remain on how growth will be financed. As discussed in the last report China has been a worry for Newton for a while now. Beyond the PBoC's intervention in the Chinese economy and the vast sums pumped into the shadow banking system in recent years, of the $3 trillion in debt levels across the developing world over the last year, $2 trillion of this was attributable to China (a significant shift from the previous decade as shown below, including developed markets):



That being said, Newton remain of the view that if the 'China bubble' does eventually burst, it is unlikely to be the beginning of a global crash, but will certainly be heavily deflationary.

Policy makers and investors are now at a potential divergence. Whether or not central banks will begin to roll back the last decade of QE may well define whether the mix of heady valuations and nervous sentiment will end painfully or not at this stage of the cycle. Newton, like many managers across the spectrum, remain extremely wary of the impact on asset pricing as any changes in central bank policy come through during the next year or so. The fund remains defensively positioned and the manager remains of the view that there is the potential for a catalyst to spark a significant market event (discussions on both the US retail and autos sectors appear to be good examples of prospective pains to come, not helped by the increasing realisation that unemployment measured at 4.3% today would actually imply an 8% rate at 2009's participation rate.)

The performance of the fund on a one year basis has been disappointing in absolute terms. The manager is adamant however that there is no stone left unturned in the search for yield across asset classes and that their reticence to take on risk remains based upon the idea that as central bank policy forces investors further and further up the risk curve, so there is a requirement for careful and considered positioning across asset classes for when any misallocation of capital becomes apparent and an unwinding occurs. The fund's performance during the last six months is more encouraging however.

CIO conclusion:

The fund remains defensively positioned with the return seeking core at historic lows. The manager's view that the global backdrop remains deflationary is predicated on well thought through arguments and therefore the fact that the manager has delivered a return above their target during the first half of 2017 is encouraging. LCIV officers will continue to monitor the fund's trade-off between defending its absolute return mandate and short term performance closely during the second half of the year.

Meeting Attendees

Team CIV:
Julian Pendock; CIO
Frederick Fuller; Head of IO

Newton:
Iain Stewart; Portfolio manager
James Mitchell; Client RM

LCIV PY Global Total Return Fund
Q2 Manager Review
July 24th 2017

CIV Investment Team

LCIV PY Global Total Return Fund

Inception date	21/6/2016
Fund Size	£224m (as at 30/6/2017)
Number of holdings	N/A
Benchmark	N/A

Investment objective

The Sub-fund's objective is to provide a stable stream of real total returns over the long term with low absolute volatility and significant downside protection.

Investment Policy

The ACS Manager aims to achieve the objective by investing solely in the Pyrford Global Total Return (Sterling) Fund, a sub-fund of BMO Investments.

Agenda

1. Review the Q2 2017 performance of the fund.
2. Understand any changes made to the portfolio during the quarter
3. Discuss macroeconomic & political developments and how they relate to the portfolio.

	LCIV PY Global Total Return
Q2 2017	0.18%
Since LCIV Inception	9.30%

Source: Bloomberg, as at 30/6/2017. Net return with dividends re-invested.

Executive summary

In the second quarter of 2017 the fund delivered a 0.18% net return. In terms of contribution of returns, the fund's 30% allocation to equities contributed most to the total return with the overseas equities up 0.90%.

There were no asset allocation changes made to the portfolio, but the team did alter equity holdings by selling Sky, Syngenta and SCA and adding SGS, Imperial Brands, Essity and Taiwan Semiconductor Manufacturing.

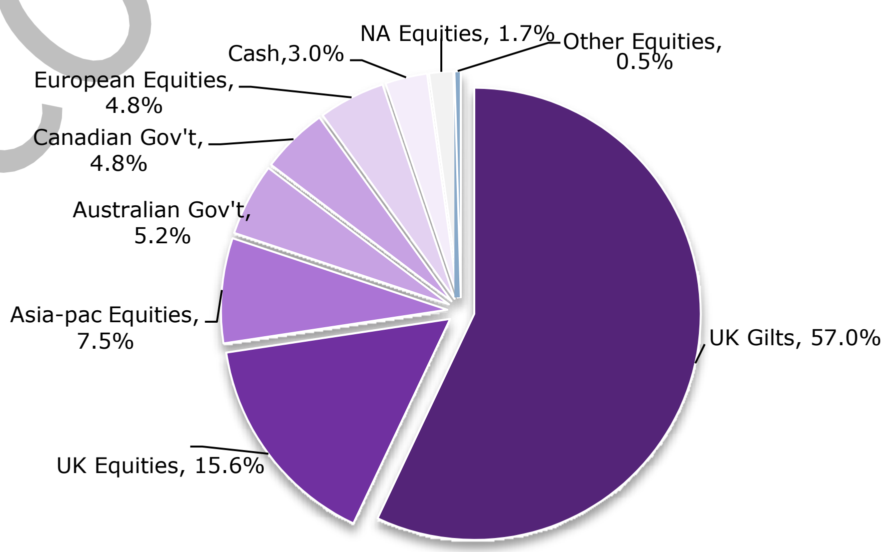
Macroeconomic views have not changed since the previous quarter. Pyrford remains as defensively positioned as it has been since inception, given concerns over the current valuation of global asset prices.

Q2 performance review:

Since the inception of the sub-fund in June of 2016 the Pyrford Global Total Return strategy has delivered 9.3%, helping AUM to reach £362m. In the second quarter of 2017 the fund delivered a 0.18% net return. The overseas equities book was up 0.90% for the quarter led by VTech Holdings and Nestle. VTech who acquired educational technology company Leapfrog last year has continued to return strongly as it capitalises on its strong market position. Holdings in Nestle took a material jump late in the quarter when Third Point an activist hedge fund took a sizable stake in the company. This move was on the back of talks that Nestle will again be the subject of takeover attempts from rival consumer staple companies. The largest negative detractor to the book was Australian petroleum company Woodside. This decline was driven by two factors; part was driven from a weaker Aussie dollar but also providing a headwind to performance was a decline in the oil price. The UK equity book was down -0.15% for the quarter whilst bond positions also detracted from the portfolio performance with rising yields leading prices lower.

Portfolio activity:

In the first quarter of 2017 there were no asset allocation changes made to the portfolio. The current portfolio allocation amounts to: 30% equities, 67% bonds (largely short-dated), and 3% cash. Pyrford continues to be concerned about both interest rate rises and the overvalued equity market. They believe that there is very little fundamental value left in markets and portfolio positioning should be in defensive positions which hold robust cash flows capable of holding up in challenging market conditions. This is expressed through key sector concentrations in oil, technology, tobacco and utilities.



Significant transactions[1]:

Purchases:

Equity:

- **Essity**- Svenska Cellulosa (SCA), an existing Pyrford position undertook a stock split into two separate entities which effectively spun Essity out of SCA. Pyrford felt that the value of the company was in the Essity side of the business and subsequently sold out of the SCA holdings and topped up the Essity holdings with the proceeds of this sale. The new company created focuses on hygiene products with one of their main brands being Tena, the world's leading brand for incontinence products. Brand power such as these gives Essity influence and bargaining power with retailers which should help to push earnings higher.

- **Imperial Brands**- This name was purchase as part of an extension on the tobacco theme in the portfolio. Pyrford believe that tobacco companies such as these have pricing power and cash flow margins in excess of 50% leaving them as "money machines" with robust and stable profits. The stock also has a historic attractive dividend yield which should continue as well as being quite resilient in market drawdowns.

- **SGS** – SGS is involved in a rather fragmented service market which tests, inspects and certifies goods and services across a range of industries. The industry is growing with regulation and control and has many opportunities to engage in further acquisitions to build and scale-up the size of operations. The balance sheet is strong, allowing for these transactions to occur should market opportunities present themselves. The business is defensive in nature given the services provided will be required even in low or no growth market environments.

- **Taiwan Semiconductor Manufacturing**- This company is a market leader in a broad range of technologies and services within the semiconductor industry. It has continued to invest in new technologies to maintain their position and command pricing power over their market, whilst working toward achieving greater efficiencies to cut operating costs. The company is consistently delivering steady profits and growth which has led to Pyrford adopting a 30bps holding within the portfolio.

[1] Transaction commentary sourced from Pyrford directly.

Sales:

Equity:

- **Sky**- The Pay TV provider, which has historically had a sizable market share in the UK, Italy and Germany, has come under pressure from new entrants such as Netflix and Amazon Prime. Such pressures challenge their traditional model format and, in particular, their pricing points. These internet based TV distributors are not only achieving traction with millennials, thus putting pressure on new subscriptions, the decreased pricing and original content now being generated by these platforms is attracting traditional Sky users, which in turn challenges their bottom line. The decision to sell Sky following the share price increase follows the takeover approach from 21st Century Fox.

- **Syngenta**- The agricultural chemicals company that provides crop protection solutions and seeds was the subject of a takeover by China National Chemical Corporation. Upon the deal being accepted by shareholders, Pyrford took profits and exited the position.

Macro discussion & portfolio positioning:

They feel that whilst the political uncertainty, particularly in Europe has begun to settle down following the French elections, there will continue to be uncertainty in the UK. Teresa May's position has been weakened post-election and a leadership challenge is likely imminent. This is also on the background of Brexit, which post-election, provides no greater clarity given the new coalition government.

Central bank policy was discussed, particularly in light of the US Fed advising that another two rate increases could occur this year, whilst also announcing an increase in its GDP growth forecast. No other central bank appears to be following this lead, although it was noted that 3 members of the UK Monetary Policy Committee indicated they would be in favour of an increase in rates. Pyrford however highlighted that this was on the back of weakening economic factors in the UK, and pointed to inflection points in the technical indicators that were beginning to come through in the US as a demonstration that growth is insufficient to justify current ratios in equity markets. Dividend payout ratios were still too high, whilst reinvestment ratios were too low and all this on a background of declining productivity and an aging population. Pyrford believe this demographic shift is already starting to come through, and to weigh on growth and the prospect of future growth.

In the Eurozone, it was discussed that Mario Draghi tested the markets by suggesting that future asset purchases may not be maintained. The volatility which immediately followed his speech in the market led to almost retracting messages coming out of the ECB to help calm markets.

Given the heavy weighting to oil, Pyrford discussed the improvements in the breakeven points of shale producers being able to extract oil for cheaper as impacting on an increase in supply in oil markets, thus leading to a lower cost. Since the selloff first started two years ago, Pyrford noted that there has been no capital expenditure from these producers and that future reserves would run out. This means that whilst supply had not fallen from shale yet, it was likely to in the future. The dividends are sustainable on current cash flows, however given the depleting oil fields this was only expected to last for a further 3-4 years. They discussed the strategic selling of assets to buyers who were accumulating scale.

The utility theme in the portfolio was also discussed as an example of Pyrford's defensive portfolio positioning to be invested in holdings with market resilient cash flows. They use National Grid and United Utilities as examples of where they felt that investors were "being paid to invest". They believe that the UK utilities model, which is based on very tight capacity utilisation, will continue to generate return over the market cycle.

The LCIV challenge to Pyrford was on those holdings most impacted by increasing regulations such as Zurich Insurance Group and Legal & General. On Zurich, Pyrford believe that the yields being achieved in the US insurance and reinsurance market were now delivering good value, particularly given how much work had been done to adjust the cost base and lower operational expenses. They also pointed out to being able to hold up margin despite reducing the leverage in the group. On Legal and General, Pyrford believes the conservatism that had been adopted in the mortality table, for their giant annuities book, was starting to be rewarded through their experienced payouts, and that this trend would likely continue. Whilst the argument here on the surface seems robust, the LCIV team were conscious that when asking about the regulatory cost and impact on the balance sheet of these organisations, today and in the future, these responses do not sufficiently answer these questions. Subsequently there was some concern that Pyrford may be underestimating the future cost of these regulations, and that this may weigh on the profit margins of these organisations in an already competitive market environment.

Pyrford continues to invest in short dated UK, Canadian and Australia bonds. The short gilt holdings are collectively the largest portfolio positioning at over 57%. Over the quarter, these detracted from performance by returning -0.27%. This is a defensive position, which will protect capital in a market sell off. The duration of the bond portfolio is 1.54 years. There has been no change in allocations over the last quarter with Canadian and Australian bond allocations continuing to represent 5% of portfolio holdings each. These are fully hedged positions and detracted -2.14% over the quarter as a result of strengthening in sterling. It should be noted that the CAD and AUD currency forwards generated a 1.16% and 3.3% respectively, which did offset these bond losses.

CIO conclusion:

Pyrford continues to maintain defensive positioning, which will weigh on relative returns compared to more risk-on DGF funds. In low growth markets their dividend focus on high quality names should help them to generate a low but positive return. In a heavy market sell off their prudence and fundamental positioning should help to better protect the portfolio.

Meeting Attendees

Team CIV:
Julian Pendock; CIO
Frederick Fuller; Head of IO
Larissa Benbow; Head of Fixed Income

Pyrford:
Tony Cousins; CEO/PM
Felim Glyn; Client RM

LCIV RF Absolute Return Fund
Q2 Manager Review
July 18th 2017

CIV Investment Team

LCIV RF Absolute Return Fund

Inception date	21 June 2016
Fund Size	£473m (as at 30/06/2017)
Number of holdings	N/A
Benchmark	Not applicable

Investment objective

To achieve low volatility and positive returns in all market conditions. Capital invested in the Sub-fund is at risk and there is no guarantee that a positive return will be delivered over any one or a number of twelve-month periods

Investment policy

The ACS Manager aims to achieve the objective by investing solely in the CF Ruffer Absolute Return Fund, and cash and near cash.

Agenda

1. Review the quarterly performance of the fund.
2. Explain any portfolio changes relating to the second quarter.
3. Briefly discuss the macroeconomic views of the Ruffer team.

	LCIV Ruffer Absolute Return Fund
Q2 2017	-0.45%
Since LCIV Inception	11.00%

Source: Bloomberg, as at 30/06/2017. Net of fees with dividends re-invested.

Executive summary

The Absolute Return fund produced a -0.45% loss in the second quarter, following the flat performance in the first quarter of the year. Less dovish central bank rhetoric, resulting in the increasing probability of developed market monetary tightening, unsettled bond markets and hurt the inflation linked holdings in the Absolute return portfolio.

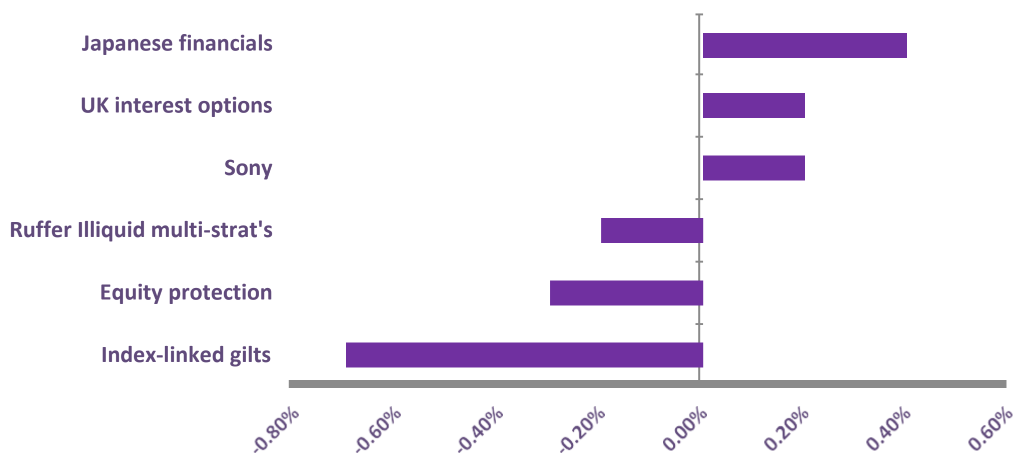
Ruffer added Vivendi to take advantage of the potential emerging power shift back towards music production at the expense of distributors.

The overarching macroeconomic views of the team have not changed but a growing confidence in a new era for fiscal policy is more evident. The strategy is designed to offset a variety of risks over different time periods whilst taking advantage of opportunities as they arise.

Q2 performance review[1]

Since the inception of the sub-fund in June of 2016 the Ruffer Absolute Return strategy has delivered an 11% return, helping, alongside subscriptions, the fund to grow to £473m. Whilst returns have been marginally negative in 2017, the fund performed extremely well in 2016 despite a host of political shocks including the UK's decision to leave the European Union, and the election of Donald Trump in the U.S. Since the beginning of 2017 it is the (equity) option protection that has cost the fund; as equity markets continue to make new highs, the Vix index, where much of the fund's equity protection resides, fell to its lowest level since 1993. Ruffer view this portfolio insurance as necessary and point to historic bouts of extreme short term volatility in the Vix, which should somewhat protect the fund in any significant market risk-off environment.

Key contributors to return - Q2 2017



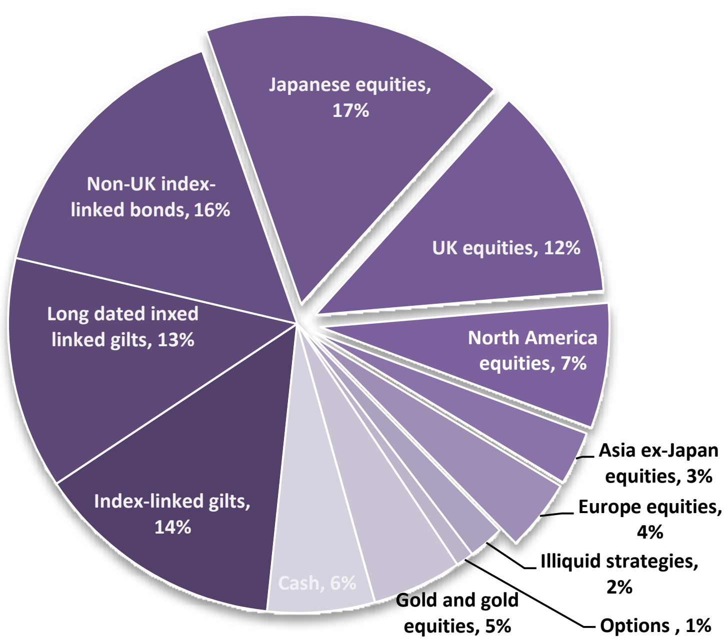
Factors that helped performance include Japanese financials, UK interest rate options and Sony. Domestic Japanese economic strength and resilient global trade helped Japan to catch-up with western markets after lagging in Q1. Sony led the way, boosted by a growing internal appreciation of shareholder value by management, and Japanese financials also made respectable gains. Ruffer, being aware of the risk of short-term concerns over higher interest rates, purchased interest rate calls that rose in value, offsetting some of the losses from the long dated index linked (I/L) gilts.

[1] Ruffer quarterly investment report. Views relate to those of Ruffer not the London CIV.

The I/L gilt holdings were by the far the greatest detractor of returns at -0.7%. According to Ruffer, despite some signs of weakness in the UK economy mixed signals over the need for higher rates unsettled bond markets. With Eurozone growth picking up and another 0.25% rate rise in the U.S., global bond yields moved higher at the end of the quarter. As inflation was little changed this caused I/L gilts to give back some of last year's gains.

Portfolio positioning

Ruffer made few changes to positioning in the second quarter, but they did explicitly discuss the addition of Vivendi in our recent meeting. Ruffer added Vivendi, the French media group, in part due to the European recovery story, but predominantly because of its universal music business. According to Ruffer ''in 2015 the music industry saw its first increase in revenues this century; for the first time in the online age it seems the content owners, like Universal, have wrested some control back from the distributors.'' The Absolute return team holds Sony which may benefit for similar reasons, alongside its ongoing re-structuring.



With equity valuations high, and the increasing likelihood of monetary tightening, particularly in the U.S., Equities remain less than 40% of the portfolio. However, according to Ruffer, the global relation remains in place, and they continue to hold exposure to banks and other companies geared into improving economic activity.

Macro discussion:

The discussion with the Absolute Return team was brief as very little had actually changed by way of long-term views. The portfolio is still unequivocally tilted towards global reflation with sizable allocations to inflation linked bonds and global equities. Ruffer did appear to have more conviction in their ‘fiscal policy to the rescue’ thesis. They believe that it is only a matter of time before a major regime shift takes place, a shift back to Keynesian/Minsky type policy. A decade of financial repression and austerity, as well as the negative externalities brought by globalisation, has only augmented the dissatisfaction of the masses, to which the recent populist outburst was the inevitable result.

The question becomes, what next? Ruffer anticipate that the burden will be shifted towards the wealthy in society. Debt monetization and inflation will be the means of redistribution amongst citizens. The absolute return team feel that the recent developed market populist movement will speed up this fiscal response, but the timing remains somewhat unclear; in the words of the team ‘’we spend our time trying to buy-time until these events play out.’’

Ruffer also explained their views on the path of Fed’ tapering. The Ruffer CIO worries about the effects that tapering could have on effects on much more illiquid markets, such as corporate bonds. The scale of the Fed’s balance sheet and their associated selling (likely roll-off than outright selling) could cause severe damage to the various microstructures. That said, the team believe Janet Yellen, Federal Reserve chair, will remain relatively dovish until the likely end of her term in the first quarter in 2018, giving Ruffer time to cement their thoughts on the impact of tapering across markets.

With central banks pondering higher interest rates on both sides of the Atlantic as labour markets tighten and inflation seeps through, the last thing Ruffer want is for their equities to correlate highly with their bonds. As a result, they’re invested in short duration equities against long-term bonds. In their opinion this is an effective offset and could help the fund return positively in vastly different environments.

With the Vix being the major detractor against performance year to date the LCIV team were keen to find out if this allocation is the most efficient vehicle for portfolio protection, particularly given the distorted use of the Vix by many, including ETF speculators betting on low volatility. Ruffer claim that it is exactly these distortions that could allow for a pronounced snap back in the event of a significant equity market downturn, allowing the fund to bank multiples of its investment. Moreover, the team have decided only to use the S&P Vix index and not those offered in UK or European markets due to the highly liquid nature of the former relative to the latter two.

CIO Conclusion:

The negative performance of the fund arrived late into the quarter as both Mario Draghi and Mark Carney made unexpectedly hawkish comments about the future path of interest rates in their respective currencies. The central banks of both governors went on to play down these comments and markets have since re-priced the prospect of monetary tightening across the yield curve(s). Whilst Ruffer could not have foreseen these events, it does beg the question of the impact of policy errors on absolute return mandates that are not geared towards higher (natural) real interest rates. With global growth and inflation rebounding the London CIV is interested in how the portfolio could perform in these environments. That said, the team at Ruffer team have shown admirable speed of thought to tactically adapt the portfolio in order to buy time, whilst retaining their core view of debt monetization and fiscal redistribution; we remain confident that the team will deliver despite the increasingly uncertain market environment.

Meeting Attendees

Team CIV:
Julian Pendock; CIO
Frederick Fuller; Head of IO
Ryan Smart; Investment Analyst
Larissa Benbow; Head of Fixed Income

Ruffer
Alex Lennard; Investment Director
David Balance; Investment Director

Important information
London CIV
59½ Southwark Street
London
SE1 0AL

Issued by London LGPS CIV Limited, which is authorised and regulated by the Financial Conduct Authority number 710618. London CIV is the trading name of London LGPS CIV Limited.

This material is for limited distribution and is issued by London CIV and no other person should rely upon the information contained within it. This document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution would be unlawful under the laws governing the offer of units in collective investment undertakings. Any distribution, by whatever means, of this document and related material to persons who are not eligible under the relevant laws governing the offer of units in collective investment undertakings is strictly prohibited. Any research or information in this document has been undertaken and may have been acted on by London CIV for its own purpose. The results of such research and information are being made available only incidentally. The data used may be derived from various sources, and assumed to be correct and reliable, but it has not been independently verified; its accuracy or completeness is not guaranteed and no liability is assumed for any direct or consequential losses arising from its use. The views expressed do not constitute investment or any other advice and are subject to change and no assurances are made as to their accuracy.

Past performance is not a guide to future performance. The value of investments and the income from them may go down as well as up and you may not get back the amount you invest. Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

Subject to the express requirements of any other agreement, we will not provide notice of any changes to our personnel, structure, policies, process, objectives or, without limitation, any other matter contained in this document.

London LGPS CIV Ltd. is a private limited company, registered in England and Wales, registered number 9136445.

Pensions CIV Sectoral Joint Committee

Item no: 7

Fund Launch Progress

Report by:	Brian Lee Julian Pendock	**Job title:**	Chief Operating Officer Chief Investment Officer
Date:	13 September 2017		
Contact Officer:			
Telephone:	020 7934 9818	**Email:**	Brian.lee@londonciv.org.uk

Summary: This report summarises the status of fund launches to ensure transparent and robust reporting of delivery against the Company's Business Plan and MTFS.

Recommendation: The Committee is recommended to note and discuss the content of this report

Fund Launch Progress

1. **Longview Global Equity:** launched on July 17th with AUM of £378m from Harrow & Wandsworth as initial investors. Three authorities have, for the moment, decided not to transition their Longview investments to the LCIV fund. The decisions of two of the three were anticipated ,and reflected in the Business Plan and MTFS; the third was not and has resulted in a shortfall of £120m in AUM and the resulting reduction in fee income.
2. **Henderson Emerging Market:** is operationally ready to launch and accept assets subject to the requisite paperwork and permissions being granted by the Indian authorities, so that the sub-fund may invest in the Indian market. Lambeth and Enfield have indicated their interest to invest with £80mil and £12mil respectively.
3. **RBC Sustainable Equity and EPOCH Equity Income:** are on track to launch in September. To date interest has been expressed in both funds by some boroughs, but there are no firm commitments to invest.
4. **Global Equities Phase 2:** The number of funds and timing of the launch for Global Equities Phase 2 is subject to a Borough needs assessment. At members' request, there is a Low Carbon Workshop on the 19th September, and Boroughs are currently being sounded out in terms of requirements for further equity strategies. Further details will be provided at the next PSJC meeting in December.
5. **Fixed Income:**. The Investment Manager procurement is underway and is targeted to finish in the Autumn. Two Fixed Income funds with £600mil in assets are projected to launch by March '18 as per the MTFS plan, however recent indications of interest have led to increases in the number of products and projected AUM. Further details to be provided once a project plan and time line have been completed.

Financial Implications

6. The financial implications are contained within the body of the report.

Legal implications

7. There are no legal implications for the Committee that have not been considered in the report.

Equalities implications

8. There are no equalities implications for the committee.

Fund Launch Pipeline August 2017

Plan Phase	Fund	Current Launch Date	MTFS Launch Date	£AUM (m)	MTFS £ AUM (m)	AUM vs. Plan and/or Commitments	Boroughs Indications of Interest / Comment
Lift & Shift (CQC) Phase: now ended	Longview Global Equity	July 17th	May	**£378**	**£450**		Shortfall in AUM due to Westminster not transitioning to CIV. Westminster, Newham & RBKC remain outside the CIV for Longview.
Global Equities Phase 1	Henderson Emerging Markets	July	Sep	£172	£150		£80m Lambeth/ £80m Waltham Forest /£12m Enfield indications of interest -Fund operationally ready once India's market is open (Aug/Sept)
	EPOCH Equity Income	Sep	Sep	£0	£200		No initial £AUM commitments
	RBC Sustainable	Sep	Sep	£100	£200		£100m Hackney indication of interest
Global Equities Phase 2	Strategy TBC	tbc	Dec	tbc	£150		Equity survey to be completed. Interest in low carbon and core products.
	Strategy TBC	tbc	Dec	tbc	£150		
Fixed Income	Global Bond	Dec	Mar '18	tbc	£600 / 2 Funds	N	Project plan in development with consideration being given to bring fund launch dates forward to December if possible. Procurements and governance approval process underway.
	Multi Asset/ Liquid	Dec	Mar '18	tbc		N	
	Private Debt: Liquid Loans	Dec	tbc	tbc		N	
	Multi Asset/ Illiquid	tbc	tbc	tbc		N	
	Private Debt: Direct Lending	tbc	tbc	tbc		N	

G on track to deliver **A** potential AUM issues **R** No firm AUM commitments / impact: delayed fund launches **N** Fund structure & plan to be developed

Pensions CIV Sectoral Joint Committee

Item no: 8

Investment Advisory Committee Update

Report by:	Ian Williams	**Job title:**	Chair of IAC
Date:	13 September 2017		
Contact Officer:	Jill Davys		
Telephone:	020 7934 9968	**Email:**	Jill.davys@londoncouncils.gov.uk

Summary: The Investment Advisory Committee (IAC) continues to work closely with the London CIV on a wide range of investment related projects.

Recommendations: The committee is recommended to note the contents of this report

Introduction

1. The Investment Advisory Committee (IAC) was formed in September 2015 with the remit to:

   i. To support the Joint Committee in the investment decision making process

   ii. To liaise with the Fund Operator of the CIV in defining Shareholders' investment needs.

2. Since the last Joint Committee meeting the IAC has formally met twice in July and August.

3. Following the annual nominations process for membership of the IAC, membership now includes 28 LLA officers (treasurers and pension managers) representing 29 LLAs. A list of IAC representatives is attached at annex A for information.

4. Membership of working groups has been updated and new members included with the infrastructure working group to hold its first meeting shortly.

5. Key areas for discussion for the meetings have covered the working groups which feed into the IAC:

Global Equities

6. The IAC have been provided with updates on the progress of the opening of the new global equity sub-funds including the first of the new sub-funds coming through via the global equity procurement process. It was noted that a further global equity information day would be held in September to showcase the new sub-funds, Equity Income (Epoch), Sustainable Equities (RBC) and Emerging Markets (Henderson) as well as the final CQC global equity mandate (Longview). It was noted that a number of LLAs attended a quarterly update session with the manager of the Global Alpha Growth sub-fund (Baillie Gifford) and found this a useful way to get an update on performance.

7. There was some discussion about how best to capture LLA views on additional requirements for further global equity products and whilst a survey was considered, CIO concerned whether this produced the best information in terms of deciding next requirements.

8. IAC were also notified that a new Head of Global Equities had been recruited and would be reviewing the best option for the second phase of the global equity launch. It was also noted that they would be responsible for private equity.

Fixed Income / Cashflow Products

9. The IAC received update notes on progress with fixed income mandates from the new Head of Fixed Income (Larissa Benbow) in July and August. She indicated that she had been meeting with a number of authorities to better understand individual LLA requirements in the fixed income area.

10. An update was provided in July regarding the search for an adviser to LCIV on fixed income and it was noted that Redington had been appointed and that meetings were due to take place to discuss scoping of the project. There was a broader discussion on the Fixed Income paper in August, noting that it was hoped that some options would be available for funds to invest in by end of the calendar year or early in 2018 including liquid direct lending funds.

Stewardship and ESG

11. The Stewardship Working Group met during August to consider a wide range of issues including reviewing the ESG and voting extracts from the LLA funds, showing some diversity of approaches.

12. In addition, the group considered draft additional Responsible Investment Guidance which had been reviewed by the Scheme Advisory Board (SAB), noting that it was still very much draft and only guidance. Rachel Cowburn (Hackney) and Jill Davys (LCIV) sit on the cross-pool working group which had reviewed the guidance in some depth and made recommended changes to the LGA to take forwards to the SAB.

13. It was also noted that the Low Carbon Workshop was due to take place on 19th September and a draft agenda considered. It was also noted that LAPFF had issued a low carbon investment policy framework for local authorities to consider along with guidance. It was noted that around 2/3rds of LLAs were members of LAPFF and that they are due to present at the Low Carbon Workshop.

Infrastructure / Housing

14. It was noted in the IAC update to the PSJC in July that work to consider LLA investment strategy changes showed an increased demand for infrastructure products and that funds were increasingly looking at this area to deliver income and returns. An infrastructure working group has now been formed to look at options more closely with a meeting set up for mid-September.

15. One key issue for infrastructure remains how to define this as it means different things to different funds and can include both greenfield and developed infrastructure as well as UK and overseas. The letter from DCLG received in August had also pressed funds on their allocations to infrastructure, although it was noted that this wasn't prescriptive that it should be UK infrastructure. It was noted that Julian Pendock (CIO, LCIV) sits on the cross pool infrastructure working group and is therefore liaising closely with other pools to consider options.

Reporting & Transparency

16. The reporting and transparency working group have been working very closely with LCIV officers to review the longer term reporting framework to meet the needs of LLAs. This has included a quarterly summary investment review, which LLAs are keen to see progressed, this was shared with the IAC and general feedback was positive on the structure and depth of information included.

17. The group has also been closely involved in the development of the client portal for the website, with feedback positive and constructive recommendations for improvements. Following these changes, the IAC received a presentation of the portal at its meeting in August with a soft launch for them to review the content and ease of use and feedback. Following a few further minor changes it is hoped to be able to open the client portal up to all LLAs in September.

18. It was also noted that CEM benchmarking were holding a separate seminar in August to provide LLAs with an overview of their services, a number of funds and pools outside of London have already agreed to use their services. The reporting and

transparency working group will be meeting separately with them to consider whether it is worth exploring further with the wider IAC.

Additional Items

19. **MiFID II:** The IAC have continued to review the requirements for MiFID II and opt-ups for Local Authorities to professional status. LCIV held a seminar for LLA officers to help them understand the opt-up process with presentations from Jeff Houston (LGA), CIPFA, LGIM, Arlingclose and LCIV's compliance manager, Ranulph Day. LCIV has been working closely with LGA and other pools to ensure that LLAs are aware of the requirements and it was noted that the Scheme Advisory Board had also held a meeting and that standard paperwork was available on their website. LLA's are being encouraged to ensure that they complete the opt-up paperwork as quickly as possible to allow investment managers, including LCIV, to undertake the assessments and complete the opt-up process. The IAC were encouraged to ensure that as far as possible reports were taken to September Pension Committee meetings to ensure that the appropriate delegations were in place to complete opt-ups for pension funds and for treasury services.

20. **Quarterly CIV Update:** The next quarterly update from me as Chair of the IAC and the CEO of the London CIV was reviewed by the IAC in advance of wider distribution to all SLT and Pension Managers across London. These are increasingly being used by funds to update pension committees with either the full report or extracts being included in Committee papers.

21. **Governance Review of the London CIV:** The IAC has been kept updated on the progress of the governance review with Gerald Almeroth (Sutton) and I sitting on the Steering Committee alongside the Chair and Vice Chairs of PSJC. At the September meeting it was noted that a provider had been chosen to conduct the review, Willis Towers Watson, following a procurement process. An initial survey would be conducted with a small group and this would then be widened out to include representation from all LLAs, the proposed list of contacts for the survey was currently being drawn up by LCIV ahead of the Steering Committee reviewing.

22. **National Frameworks:** The IAC were updated with a brief progress report on the transition manager framework, where a procurement process is currently underway. This will provide a framework of transition managers for both Funds and Pools to use when undertaking transitions to move assets across to the Pools. It is anticipated that this will be ready for use towards the end of the year.

Recommendations

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

Financial implications

24. There are no financial implications for London Councils

Legal implications

25. There are no legal implications for London Councils.

Equalities implications

26. There are no equalities implications for London Councils

Annex

IAC Membership

Annex

Nominations for IAC - July 2017 (updated List)

SLT Members	London Local Authority	Officers	London Local Authority		
Ian Williams (Chair)	Hackney	Rachel Cowburn	Hackney		
Gerald Almeroth	Sutton	Stephen Wild	Newham	Bexley	Havering
John Turnball	Waltham Forest	Debbie Drew	Waltham Forest		
Mike Curtis	Islington	Joana Marfoh	Islington		
Mark Maidment	Richmond & Wandsworth	Paul Guillotti	Richmond & Wandsworth		
Peter Turner	Bromley	Jeremy Randell	Kingston		
Duncan Whitfield	Southwark	Paul Reddaway	Enfield		
Clive Palfreyman	Hounslow	Peter Carpenter/Peter Worth	Westminster	K&C	H&F
Caroline Holland	Merton	Sian Kunert	Hillingdon		
		Nigel Mascarenhas	Camden		
		Bridget Uku	Ealing		
		Kate Limna	City of London		
		Nigel Cook	Croydon		
		David Dickenson	Barking & Dagenham		
		Thomas Skeen	Haringey		
		Hamant Bharadia	Lambeth		
		Bola Tobin	Tower Hamlets		
		Ravinder Jassar	Brent		
		Iain Millar	Harrow		

29 LLA represented
28 Attendees

Key

Existing Members

New Nominations

LCIV IAC Working Groups (as at August 2017)

FI & Cashflow	Global Equities	Stewardship	Low Carbon	Reporting & Transparency	Infrastructure
Stephen Wild	Debbie Drew	Peter Kane (CofL)	Ian Williams	Debbie Ford	Nigel Mascarehas
Andrien Myers	Paul Guillotti	Nigel Mascarehas	Duncan Whitfield	Nemashe Sivayogan	Paul Guillotti
Bridget Uku	Kate Limna	Debbie Drew	Mike Curtis	Lisa Doswell	David Dickenson
Sian Kunert	Rachel Cowburn (ESG)	Rachel Cowburn	John Turnball	Paul Reddaway	Joana Marfoh
Rachel Cowburn	Jeremy Randell	Bola Tobun	Peter Kane	Hilary Taylor	Iain Miller
Paul Guillotti	Paul Redaway	Paul Reddaway	Peter Carpenter	Malcolm Smith	
Jeremy Randell	Bola Tobin	Peter Worth	Nigel Mascarenhas		
Paul Audu	Sian Kunert		Rachel Cowburn		
Debbie Drew			Bola Tobun		
Peter Carpenter			Paul Reddaway		
			Debbie Drew		
			Thomas Skeen		

Key:
Non-IAC Working Group Members

Council Member Stewardship Working Group

Cllr Yvonne Johnson	Chair	Ealing
Cllr Maurice Heaster	Vice Chair	Wandsworth & Richmond
Cllr Robert Chapman		Hackney
Cllr Richard Greening		Islington
Cllr Thomas O'Mally		Wandsworth & Richmond
Cllr Toby Simon		Enfield

Pensions CIV Sectoral Joint Committee

Item no: 9

Quarterly Client Engagement and Stakeholder Report

Report by:	Jill Davys	**Job title:**	Client Relations Director, London CIV
Date:	13 September 2017		
Telephone:	020 7934 9968	**Email:**	Jill.davys@londonciv.gov.uk

Summary: This report provides the Committee with an update on the levels of engagement taking place with the London Local Authorities.

Recommendations: The committee is recommended to note the report.

Quarterly Client Engagement and Stakeholder Report

Overview

1. This report provides the Joint Committee with an overview of the progress being made in developing client and wider stakeholder engagement.
2. The report sets out current investments on the CIV platform, current levels of engagement with the participating Local Authorities. It also provides the Committee with an overview of the scale of engagement in terms of the meetings taking place and the events schedule and feedback from the recent LCIV Annual Conference.

Investments in Sub-Funds

3. The quarterly performance table below provides an update on the sub-funds and the number of investors as at 30th June 2017. Since that time, LCIV have launched an additional global equity sub-fund with management delegated to Longview, which launched with one LLA (Wandsworth) with an investment of £285m, this was followed with a further transition of £85m from Harrow. The sub-fund has also seen a strong level of interest from other LLAs with a number meeting direct with the underlying manager and deciding to make allocations over the next few months.

FUND (Underlying Manager)	PRICE (Pence)	FUND SIZE £M	Q2	YTD	1 year	SINCE INCEPTION	INCEPTION DATE	Number of Investors
UK Equity Sub-Fund								
LCIV MJ UK Equity (Majedie) *Benchmark: FTSE All Share Index* **Performance Against Benchmark**	97.4	£510	N/A	-2.60% *-1.28%* **-1.32%**	N/A	-2.60% *-1.28%* **-1.32%**	18/05/17	3
Global Equity Sub-Funds								
LCIV Global Equity Alpha (Allianz Global Investors) *Benchmark: MSCI World Net GBP Index* **Performance Against Benchmark**	133.3	£691	3.89% *0.14%* **3.75%**	10.95% *5.27%* **5.68%**	25.12% *21.64%* **3.48%**	35.95% *34.31%* **1.64%**	02/12/15	3
LCIV BG Global Alpha Growth (Baillie Gifford) *Benchmark: MSCI All Countries World Gross Index* **Performance Against Benchmark**	140.1	£1,674	4.62% *0.71%* **3.91%**	12.56% *6.12%* **6.44%**	31.13% *21.81%* **9.32%**	41.23% *33.53%* **7.70%**	11/04/16	9
LCIV NW Global Equity (Newton) *Benchmark: MSCI All Countries World Gross Index* **Performance Against Benchmark**	100.7	£659	N/A	0.70% *1.11%* **-0.41%**	N/A	0.70% *1.11%* **-0.41%**	22/05/17	3
DGF/Total Return Sub-Funds								
LCIV PY Total Return (Pyrford)	109.3	£225	0.18%	1.86%	5.60%	9.30%	17/06/16	3
LCIV Diversified Growth (Baillie Gifford)	116.2	£362	1.75%	4.63%	11.74%	16.77%	15/02/16	5
LCIV RF Absolute Return (Ruffer)	110.7	£473	-0.45%	-0.45%	8.61%	11.00%	21/06/16	5
LCIV NW Real Return (Newton)	104.6	£346	1.16%	3.16%	N/A	4.60%	16/12/16	3
Total LCIV Assets Under Management		**£4,940**						**18**

4. Members have previously requested that a full breakdown of the investing LLAs be provided for information to the Committee. This is attached as Annex A to this report and shows individual LLA holdings in the differing sub-funds. This shows 18 LLAs were directly invested through LCIV at the end of July 2017, although with the transition of Harrow's Longview assets this increases to 19 LLAs invested with assets under management (AUM) of £5.3bn and this is included within the data.

5. Passive Life Fund data for LLAs invested in LGIM is also shown in Annex A for information with AUM as at 31 July 2017 of £4.9bn. Whilst new rates have been agreed with another key passive provider BlackRock, confirmation from LLAs on signing up to the new arrangements is still awaited for two funds at the time of writing, however data relating to holdings at 31 March 2017 has been included to show the additional LLAs covered by this passive manager..

6. Taking into account LLAs directly investing through LCIV (19) plus additional LLAs investing through LGIM and BlackRock on LCIV negotiated fee rates over and above those in LCIV dedicated sub-funds adds a further 7 LLAs directly benefitting from the effects of pooling of investments taking the total up to 26 LLAs.

7. Further global equity sub-fund launches include emerging markets, Henderson in July (launched but not yet available for investment, awaiting market opening in India) and global equity income, Epoch and sustainable equities, RBC, the latter two scheduled for launch later in September.

Meetings with London Local Authorities

8. This section provides an update to the Committee on the attendance by LCIV officers at meetings with stakeholders over recent months. The focus has continued to be primarily meeting with local authority officers to develop a greater understanding of the forward looking investment strategies for the LLAs following the actuarial valuation of 2016.

9. The table below sets out the number of meetings that London CIV officers have attended both with Pension and Investment Committees and other forms of engagement for the 2 months ended 31 August:

London Local Authority Meetings July - August 2017	Number of Meetings
Pensions Committee Meetings	1
Local Authority Officer Meetings	12
Attendance at Pension Board	0
Attendance at Pension AGMs	0

10. LCIV officers have been working closely with LLA officers to continue to review investment strategy, although recognising this is still ongoing in a number of LLAs. Work will be ongoing over the next few months to liaise closely with LLAs as they continue to develop their strategic asset allocation with their investment consultants. Ongoing monitoring of Committee papers, surveys and 1-2-1s as well as working closely with the Investment Advisory Committee to better understand future strategic investment requirements of the LLAs.

11. LCIV officers have also been working with LLAs and the underlying investment managers to help set up both individual meetings and information sessions for Committees. LCIV officers arranged for one of the delegated managers to present to both existing and potential investors to provide an update on performance and strategy and feedback was positive on this format.

Pooling Update

12. The CEO and CRD continue to attend the monthly cross pool working group meetings with the other pools to collaborate more widely across the country, with the next meeting scheduled shortly. The meetings are divided into an open session which includes representatives from LGA and Central Government (DCLG, Treasury and Cabinet Office) and closed with just the pool representatives.

13. The Cross Pools Group has a number of working groups, namely infrastructure, responsible investment, MiFID II and a new one for dealing with tax related issues. Representatives from LCIV sit on the various working groups feeding into the discussions at a national level.

Voting & Engagement

14. Members will recall that this Committee has agreed a voting policy which recognises the importance of collaborative working and will use as a basis for voting, the alerts issued by LAPFF in connection with voting. The alerts issued by LAPFF are forwarded to LCIV's external managers and asked to vote in accordance with the alert and for clear explanations to be provided where for wider investment or company reasons they have not followed the alert.

15. Since the end of June, LCIV has only received one voting alert in respect of Sports Direct and the outcome of the this is set out below:

LAPFF Voting Alerts												
		Equities						DGF/ TRF				Passive
Voting Alert	Date	Allianz	BG GAG	Majedie UK	Newton GE	Longview	Henderson	BG DGF	Pyrford	Ruffer	Newton TR	LGIM
Fund Inception Date		02/12/2015	11/04/2016	18/05/2017	22/05/2017	22/07/2017	22/07/2017	15/02/2016	17/06/2016	21/06/2016	16/12/2016	
Sports Direct - Oppose Annual Report; Oppose Re-election of directors	24/08/2017	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Vote in accordance with alert

16. Stewardship Code: Pyrford which had a level 2 status on the Stewardship Code has recently updated their statement of compliance and now achieves a level 1 compliance.

Events

17. **August 2017 (Officers only) – MiFID II (hosted by LCIV):** The workshop on MiFID II was designed to raise the awareness with officers about the MiFID II opt-up process, recognising that there is limited time to complete the necessary opt-up process in advance of the January 2018 deadline. Around 25 LLAs were represented at the workshop and feedback was extremely positive. A copy of the feedback can be found in Annex C.

18. Members will note that MiFID II is the subject of a separate paper being presented to this Committee.

19. **13 September 2017 New Global Equity Manager Session II (Open to Members, Officers and Advisers) – hosted by LCIV:** This is being held after the PSJC meeting on the 13 September to help promote the new sub-funds which have either been launched or are being launched over the summer and is a half-day with 4 managers presenting, namely RBC, Epoch, Henderson and Longview. It is recognised that the timing of the previous global equity information day clashed with political campaigning for the general election and also accounts closedown. The managers have been asked to provide attendees with an overview of the investment strategy and updated performance.

20. **19 September 2017 Low Carbon Workshop (Open to Members and Officers) – hosted by FTSE Russell:** This event has been organised as a workshop to enable funds to consider what/if climate change might have an impact on longer terms investment portfolios and gives funds the opportunity to hear from a wide range of speakers on what the potential risks might be as well as how some funds are responding and what you might need to consider. It also provides funds with the opportunity to discuss with other funds in London what they are doing and what expectations are or should be of LCIV. The agenda is currently being finalised and will be circulated shortly, but includes speakers from the Bank of England, Mercer, Squire Saunders, Environment Agency Pension Fund, FTSE and LAPFF.

Investment Advisory Committee and Working Groups

21. The Investment Advisory Committee (IAC) is one of the key mechanisms for engaging with a wide range of LLA's (see separate report from the Chair of the IAC) and following the nominations process the group has expanded to 28 members and represents 29 LLA pension funds.

22. The IAC continues to meet on a monthly basis and provides for 2 way feedback on progress on LCIV. The Committee has reviewed a quarterly update and been kept informed about thinking on the fixed income proposals. The Reporting & Transparency working group has been very active in helping LCIV refine its reporting proposals as well as the portal for the website. It is also reviewing requirements for the Transparency Code, which a number of LCIV managers have already signed up to and the additional information that funds will need from managers.

Website Development

23. The dedicated client portal has been reviewed by both the Reporting & Transparency group and also the IAC. Feedback on the ease of use of the portal and the potential for using as the main repository of LCIV fund information has been very positive. It is anticipated that the portal will shortly be opened up to all funds to access.

Recommendations

24. The Committee is recommended to note the report.

Financial Implications

25. The financial implications are limited in terms of the costs involved in the development of client and stakeholder relationships; however, there are significant financial implications for failure to provide the right level of engagement.

Legal implications

26. There are no legal implications.

Equalities implications

27. There are no equalities implications.

ANNEXES

Annex A	LLA Investments through LCIV, passive investments, etc.
Annex B	MiFID II Seminar Feedback

ANNEX A – LLA INVESTMENTS IN LCIV

	Total AUM 31/03/17^ £m	LCIV Assets 31/07/17 £m	% of LLA AUM	Funds Invested In	LGIM Passive Investments 31/07/17 £m	LGIM Passive % of LLA AUM	BlackRock Passive Investments 31/03/17 £m~	BlackRock Passive % of LLA AUM	Assets covered by LCIV negotiations
Barking & Dagenham	916	343.4	37.49	Baillie Gifford GE; Pyrford; Newton RR					**37.49**
Barnet	1,052	132.9	12.63	Newton RR	415.2	39.5			**52.10**
Bexley	804	372.1	46.28	Newton GE					**46.28**
Brent	804	124.8	15.53	Baillie Gifford DGF; Ruffer	382.0	47.5			**63.06**
Bromley	894	0.0	-						**-**
Camden	1,517	243.0	16.02	Baillie Gifford GE	500.0	33.0			**48.98**
City of London	926	0.0	-						**-**
Croydon	1,021	0.0	-						**-**
Ealing	1,092	371.5	34.02	Allianz					**34.02**
Enfield	1,077	48.7	4.52	Baillie Gifford GE			268.0	24.9	**29.40**
Greenwich	1,234	0	-				529.4	42.9	**42.90**
Hackney	1,282	0.0	-						**-**
H&F	982	231.9	23.61	Ruffer; Majedie	310.8	31.7			**55.27**
Haringey	1,248	0	-		849.4	68.1			**68.06**
Harrow*	770	85	11.04	Longview					**11.04**

Havering	648		298.5	46.07	Baillie Gifford GE; Baillie Gifford DGF; Ruffer					**46.07**
Hillingdon	931		102.7	11.03	Ruffer;	291.4	31.3			**42.32**
Hounslow	933		0	-				159.0	17.0	**17.04**
Islington	1,255		294.4	23.46	Allianz; Newton GE	169.3	13.5			**36.95**
K&C	1,047		0	-		366.6	35.0			**35.01**
Kingston	760		79.4	10.45	Pyrford					**10.45**
Lambeth	1,313		368.7	28.08	Baillie Gifford Ge; Ruffer; Majedie					**28.08**
Lewisham	1,225		0	-				549.0	44.8	**44.82**
Merton	623		0	-						**-**
Newham	1,335		0	-		291.5	21.8			**21.83**
Redbridge	743		262.2	35.27	Baillie Gifford GE; Newton RR					**35.27**
Southwark	1,431		0	-		415.1	29.0	415.0	29.0	**58.01**
Sutton	591		185.5	31.39	Baillie Gifford DGF; Pyrford; Newton GE	73.3	12.4			**43.78**
Tower Hamlets	1,368		423.7	30.97	Baillie Gifford DGF; Baillie Gifford GE; Ruffer	344.2	25.2			**56.13**
Waltham Forest	807		0	-						**-**
Wandsworth	2,093		823.0	39.32	Allianz; Baillie Gifford DGF; Baillie Gifford GE; Longview	366.2	17.5			**56.82**
Westminster	1,212		557.3	45.98	Baillie Gifford GE; Majedie	137.0	11.3			**57.28**
Total	**33,934**	**5,348.7**		**15.76**		**4,911.9**	**14.48**	**1,920.4**	**5.66**	**35.90**

^ AUM as at 31/03/17 where data available * Harrow transitioned Longview assets in August

~ BlackRock - LCIV rates negotiated, awaiting LLA decisions on whether to transition

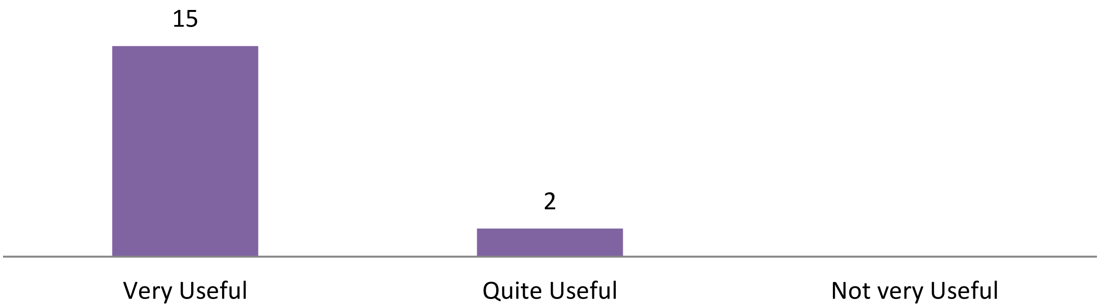
ANNEX B – MiFID II SEMINAR FEEDBACK

MiFID II Seminar Feedback Results

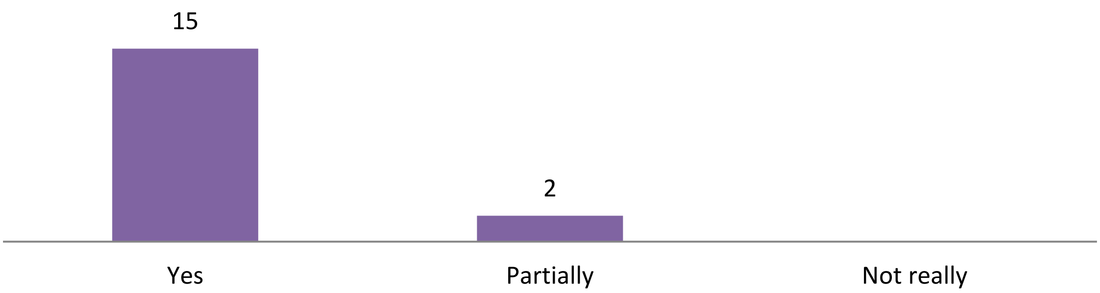
27th July 2017

Out of the 25 people that attended the event, 17 people completed the feedback form.
Results are as follows:

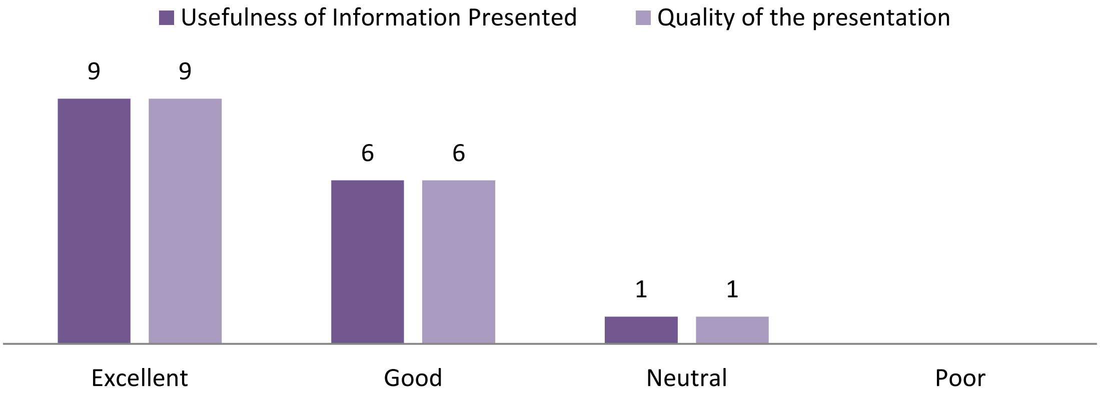
1. How useful did you find the seminar?

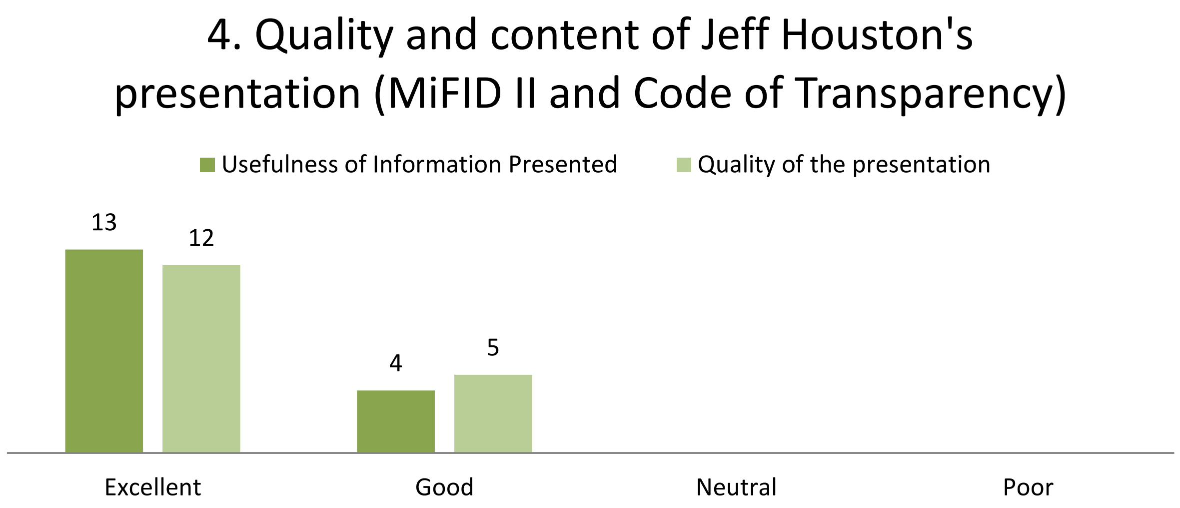


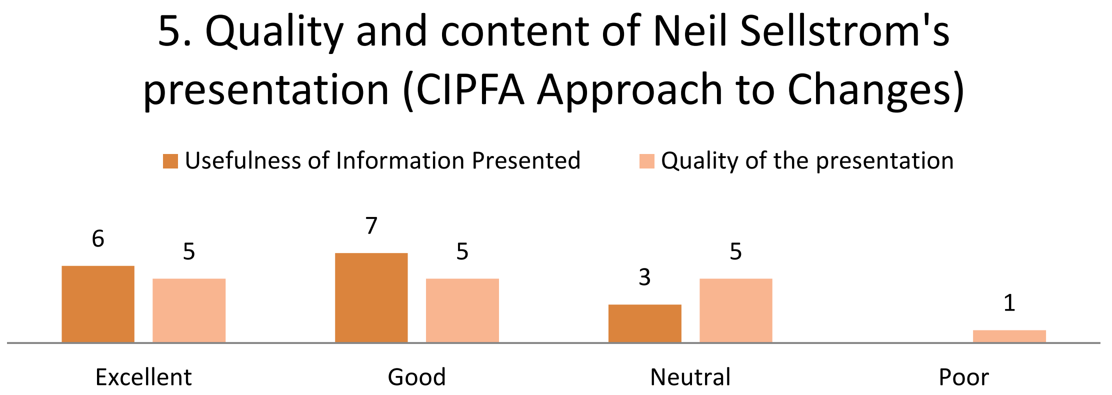
2. Did the event cover all your expectations?

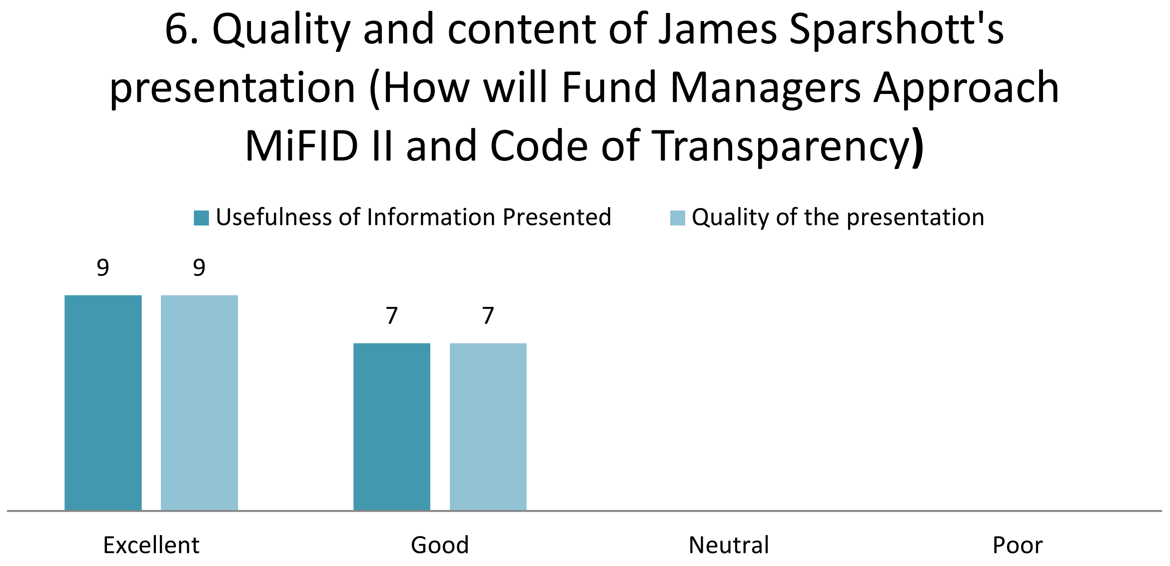


3. Quality and content of Hugh Grover's presentation (LCIV Update Feedback)

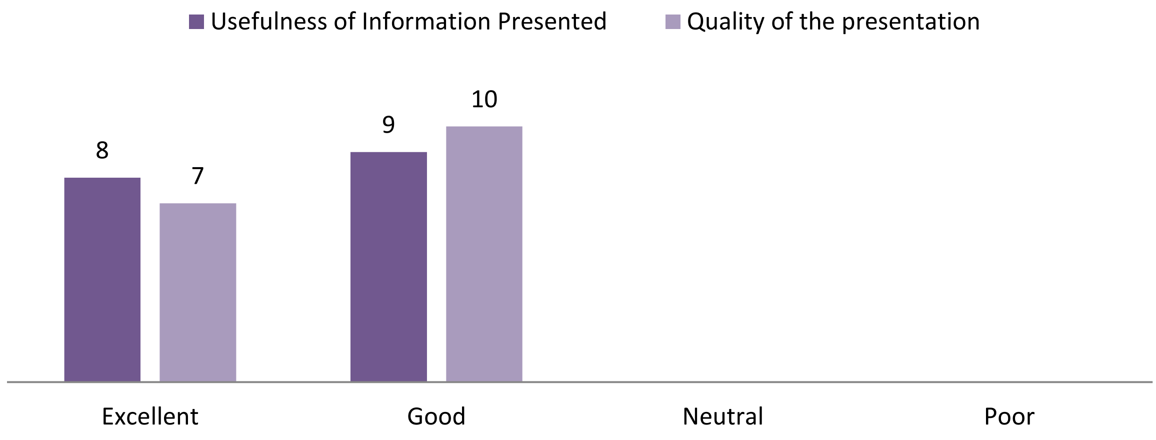



4. Quality and content of Jeff Houston's presentation (MiFID II and Code of Transparency)
Usefulness of Information Presented
Quality of the presentation
13
12
4
5
Excellent
Good
Neutral
Poor


5. Quality and content of Neil Sellstrom's presentation (CIPFA Approach to Changes)
Usefulness of Information Presented
Quality of the presentation
6
5
7
5
3
5
1
Excellent
Good
Neutral
Poor


6. Quality and content of James Sparshott's presentation (How will Fund Managers Approach MiFID II and Code of Transparency)
Usefulness of Information Presented
Quality of the presentation
9
9
7
7
Excellent
Good
Neutral
Poor

7. Quality and content of Ranulph Day's presentation (LCIV Next Steps)



8. Do you have any further suggestions or comments to help us to improve future events?

Great idea & timing, good speakers, thanks
Seminar for members of Pension Fund committees
Very useful day.
Thank you for running this!

Pensions CIV Sectoral Joint Committee

Item no: 10

MiFID II Update

Report by:	Ranulph Day	**Job title:**	Compliance Manager
Date:	13 September 2017		
Contact Officer:			
Telephone:	020 7934 9977	**Email:**	ranulph.day@londonciv.org.uk

Summary:	This report provides the Committee with an update on the current status of opting up LGPS from retail to professional clients pursuant to MiFID II.
Recommendations:	The committee is recommended to note and discuss the contents of this report.

MiFID II Final Rules for opting-up

1. As was noted in the report to the Committee by Mr Houston (LGA) in April, the FCA was proactively consulting on the criteria to facilitate LGPS funds opting up from Retail Investor to Elected Professional Investor status once MiFID II goes live in January 2018.

2. To opt-up an authority a Fund Manager (which includes London CIV) must assure itself that specified quantitative and qualitative criteria are met.

3. As discussed in previous reports to this Committee, the original three quantitative criteria were set in a manner which would have been impossible to meet for LGPS funds – the requirement being to 'pass' two out of the three.

4. In July, the FCA published a policy statement (PS 17/14 Markets in Financial Instruments Directive II Implementation – Policy Statement II) which recognised the need to adapt the criteria to better align with LGPS governance arrangements. To achieve this an additional fourth criteria has been added to the quantitative test. The FCA have introduced this with the following statement:

   "…our rules will add a fourth criterion that the client is subject to the LGPS Regulations for their pension administration business."

5. The requirement now being to 'pass' two out of the four criteria, which is achievable for all LGPS funds.

6. The qualitative test remains the same, requiring London CIV to make an *'adequate assessment of the* ***expertise, experience and knowledge*** *of the client to give reasonable assurance in light of the nature of the transactions or services envisaged, that the client is capable of making his own investment decisions and understanding the risks involved'*.

7. In recognition of the governance arrangements in place for the majority of LGPS funds (i.e. a committee based decision making structure) the FCA have clarified how a fund manager should apply the test, stating:

   "COBS 3.5.4 requires that the qualitative test should be carried out for the person authorised to carry out transactions on behalf of the legal entity. 'Person' in this context may be a single person or a group of persons. We understand that the persons within a local authority who invest on behalf of pension funds are elected officials acting as part of a pensions committee. In those circumstances, firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions. We also understand that typically the person(s) within local authorities who invest the treasury reserves of those authorities are likely to be officers of the authorities, who are delegated authority from elected members and act under an agreed budget and strategy.

   Given different governance arrangements, we cannot be prescriptive, but we would stress the importance of firms exercising judgement and ensuring that they understand the arrangements of the local authority and the clear purpose of this test. It remains a test of the individual, or respectively the individuals who are ultimately making the *investment decisions, but governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment.*

We agree that adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test."

London CIV and opting-up

8. The process for opting up to professional status requires each London Authority to request that they be treated as a professional client and voluntarily forego certain retail protections as set out in the SAB letter at Appendix A.

9. Were a LGPS fund to decide not to opt-up it will not be possible for London CIV (or any other Fund Manager) to offer the full range of investment strategies and asset classes that are currently utilised as these (in most cases) are not considered appropriate for retail clients.

10. In addition, the London CIV ACS fund is restricted to professional investors as a Qualified Investor Scheme.

The opt-up process

11. The LGPS Scheme Advisory Board ("SAB") has worked with industry to create a unified opt-up process which London CIV has decided to follow.

12. The SAB website provides a suite of resources to assist funds with the opt up process. these can be accessed at http://www.lgpsboard.org/index.php/mifidii-lgps, and include:

    - Pensions Committee template report approving the opt up;
    - Report on the retail protections which the LGPS fund will forego;
    - Opt-up request letter from the LGPS fund to its managers (including London CIV), attached at Appendix A;
    - Information template setting out how the LGPS fund satisfies the opt-up test.

13. London CIV has asked colleagues across London LGPS funds to complete and returned opt-up documentation by the 30 September. This will permit the London CIV to review the completed forms and revert with clarification issues, if necessary, during the autumn.

14. Where necessary the London CIV will engage with Members and Officers to assist in remediating any issues identified in demonstrating the capacity to satisfy the qualitative test.

Appendix A _-Retail Protections

Letter requesting categorisation as an elective professional client

[ON [AUTHORITY] HEADED PAPER]

[Manager name]

[Manager address]

[Date]

Dear **[●]**

Request to be treated as a professional investor

I am writing to you ahead of the implementation in the UK of the Markets in Financial Instruments Directive (2014/65/EU) (MiFID II). I have been authorised by NAME OF AUTHORITY (the "Local Authority") to inform you that, in its capacity as an administering authority of a local government pension scheme, it wishes to be treated as a professional client for the purpose of:

(a) any and all investment service(s) which it receives from you (the "Services"); and/or

(b) the promotion to us of, and investment in, any and all fund(s) managed or advised by you (the "Fund Promotions/Investments").

We understand you are required to categorise all of your clients as either professional clients or retail clients and that you currently categorise the Local Authority as a Professional Client ("Professional Client"). However as of 3 January 2018, under new rules deriving from MiFID II, you will be obliged to re-categorise the Local Authority as a Retail Client ("Retail Client") as regards receiving Services from you and/or as regards existing fund investments and any future Fund Promotions/Investments, unless you are satisfied you can otherwise treat the Local Authority as an elective Professional Client and opt-up the Local Authority to this particular client status.

I confirm and acknowledge that the Local Authority is aware that, being categorised as a Professional Client, it will not benefit from the protections and investor compensation rights set out in more detail in Schedule 1. In doing so, I confirm that the Local Authority has reviewed and considered the loss of these protections and rights very carefully and has, if it felt so appropriate, taken advice from legal, financial or other advisors.

I wish to inform you that the Local Authority wishes to be categorised as a Professional Client for the purposes of the Services and/or Fund Promotions/Investments, as applicable in its capacity as an administrating authority of the Local Government Pension Scheme.

Prior to re-categorising the Local Authority, as a Professional Client, I understand that you will be required to assess the Local Authority on certain quantitative and qualitative grounds. In order to facilitate this assessment, please find attached a completed questionnaire for your review and consideration.

Subject to you being reasonably assured that, as of 3 January 2018, the Local Authority satisfies the necessary quantitative and qualitative grounds and may be categorised as an elective Professional Client, the Local Authority confirms the following:

(a) its request to be categorised as a Professional Client, in its capacity as an administrating authority of the Local Government Pension Scheme, in relation to the Services and/or Fund Promotions/Investments.

(b) all information provided to you by us (for the purposes of facilitating your assessment of the Local Authority's request to be categorised as a Professional Client) is true, accurate and complete.

(c) the Local Authority understands the contents of Schedule 1 which contains summaries of the protections and investor compensation rights, if any, that the Local Authority will lose once it is categorised as a Professional Client. Please note that I can confirm that the Local Authority is fully aware of the consequences of losing such protections and still wishes to apply to be categorised as Professional Client in respect of the Services and/or Fund Promotions/Investments.

(d) the Local Authority has had sufficient time to consider the implications of categorisation as a Professional Client and has separately taken any legal, financial or other advice that it deems appropriate.

(e) the Local Authority will inform you of any change that could affect its categorisation as a Professional Client. I also confirm that the Local Authority understands its responsibility to ask you for a higher level of protection if it is unable to properly assess or manage the risks involved with the investments comprised within the portfolio management mandates which you have been appointed to manage.

(f) I acknowledge the Local Authority understands that you shall be permitted, in your sole discretion and without providing any reason, to re-categorise the client as a Retail client or cease to provide the Services or otherwise carry out any fund promotion to us or allow future investment in funds by us.

If you have any questions regarding this application please contact **[name]** on **[number]** or alternatively e-mail us at **[email address]**.

Yours sincerely,

………………………………………………

[insert name and position] [Authority]

Schedule 1

Warnings - loss of protections for the Local Authority if categorised as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This Schedule contains, for information purposes only, a summary of the protections lost when requesting and agreeing to be treated as a Professional Client.

Part 1 – Loss of protections as a Professional Client when receiving Services

1. **Communicating with clients, including financial promotions**

   As a Professional Client the simplicity and frequency in which firms communicate with you may be different to the way in which we would communicate with a Retail Client. Firms will ensure however that their communication remains fair, clear and not misleading.

2. **Information about the firm, its services and remuneration**

   The type of information that a firm provides to Retail Clients about itself, its services and products and how it is remunerated differs to what it provides to Professional Clients. In particular,

   (A) It is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients;

   (B) the information which it provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, it is required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and

   (C) when handling orders on behalf of Retail Clients, it has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

3. **Suitability**

   In the course of providing advice or in the course of providing portfolio management services, when assessing suitability for Professional Clients, a firm is entitled to assume that, in relation to the products, transactions and services for which Professional Clients have been so classified, that they have the necessary level of experience and knowledge to understand the risks involved in the management of their investments. Firms cannot make such an assumption in the case of Retail Clients and must assess this information separately. Firms would be required to provide Retail Clients with a suitability report, where they provide investment advice.

4. **Appropriateness**

   For transactions where a firm does not provide investment advice or portfolio management services (such as an execution-only trade), a firm may be required to assess whether the transaction is appropriate for the client in question. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, a firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. **Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in determining best execution.

6. **Reporting information to clients**

For transactions where a firm does not provide portfolio management services (such as an execution-only transactions), the timeframe for providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. **Client reporting**

Firms that manage a retail portfolio that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. **Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. **Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

10. **Exclusion of liability**

A firms' ability to exclude or restrict any duty of liability owed to clients is narrower under the FCA rules in the case of Retail Clients than in respect of Professional Clients.

11. **Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, a firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. **Transfer of financial collateral arrangements**

As a Professional Client, a firm may conclude title transfer financial collateral arrangements for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. **Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

Part 2 – Loss of protections for the Local Authority as a potential investor if categorised as a Professional Client for the purposes of Fund Promotions

1. **Fund promotion**

   It is generally not permitted for firms to market alternative investment funds (AIFs) to investors who are Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will (subject to complying with applicable marketing rules) be generally permitted to market shares or units in AIFs to you, without being subject to this restriction.

2. **Non-mainstream pooled investments**

   For the purposes of the UK regulatory regime, AIFs typically fall within the definition of an "unregulated collective investment scheme". The UK regulator considers unregulated collective investment schemes to be a high-risk investment, which are not generally suitable investments for Retail Clients. As such, firms are not permitted to promote investments in unregulated collective investment schemes to Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will be generally permitted to promote an investment in unregulated collective investment schemes to you, without being subject to this restriction (and without making any assessment of whether the investment would be suitable or appropriate for you).

3. **Communicating with clients, including financial promotions**

   Detailed rules govern generally the form and content of financial promotions which are issued to investors who are Retail Clients. However, these detailed form and content rules apply less rigorously where a promotion is issued only to investors who are Professional Clients. As a Professional Client, firms will be generally permitted to issue promotions to you which do not satisfy the detailed form and content rules for Retail Clients. Firms must ensure however that communications remains fair, clear and not misleading.

4. **Financial Ombudsman**

   The services of the Financial Ombudsman Service may not be available to you as a Professional Client

5. **Investor compensation**

   Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

Pensions CIV Sectoral Joint Committee

Item no: 11

Variation of Permissions

Report by:	Brian Lee	**Job title:**	COO
Date:	13 September 2017		
Contact Officer:			
Telephone:	020 7934 9818	**Email:**	Brian.Lee@londonciv.org.uk

Summary: This report provides the Committee with advanced notification that a written resolution will be circulated to all Shareholder Representatives shortly to seek agreement to LCIV applying to the FCA for a 'Variation of Permissions' to enable the Company to expand its activities to include the operation of Unauthorised Alternative Investment Funds.

Recommendations: The Committee is recommended to note the contents of this report and agree that LCIV:

i. proceed to prepare a resolution for shareholder approval to extend the activity of the Company to manage both authorised and unauthorised Alternative Investment Funds (AIFs).

Background

1. The current regulatory permissions of LCIV, as detailed in the Shareholder Agreement, limit the Company's business activities to "*acting as the FCA authorised operator of an ACS to provide a collaborative platform through which the Administering Authorities of the LGPS funds can aggregate their pension monies and other investments.*"

2. This permission relates to the management of an authorised Alternative Investment Fund (AIF) which is essentially a highly liquid collective investment scheme. Consequently, the current FCA permission does not naturally fit with some other asset classes such as private debt, private equity, real estate or infrastructure which by their inherent nature represent limited liquidity.

3. This current limitation means that LCIV must expand its range of permissions in order to be able to offer illiquid asset classes which are generally held in different legal structures such as partnerships.

4. In order to resolve this situation and provide illiquid pooled solutions, LCIV needs to obtain shareholder approval to extend the activities of the business. This approval will permit LCIV to apply for a variation of permissions with the FCA to run both unauthorised, as well as authorised, AIFs.

5. It is important that the extension of the business activity is approved as soon as possible so that LCIV can deliver on LLAs' immediate requests for Direct Credit (part of the fixed income fund offerings) and Infrastructure.

6. This report is intended to give the Committee advance warning that a written shareholder resolution will be circulated in the next few weeks and the reasons why this resolution is necessary.

Requisition a variation of permissions

7. The mechanics of the FCA variation of permissions (VoP) application process are straightforward and involve filling out an online form submission to the FCA. Eversheds has informed LCIV that the FCA typically takes 3 months to approve the variation of permissions although the FCA reserves the right to take 6 months. There is no FCA fee for this submission.

8. As this is a change to the business activities of the Company outlined in the Shareholder Agreement, this variation will need majority shareholder approval.

9. The Committee should note that there are no additional capital requirements for managing UAIFs and forms part of the normal capital adequacy calculations.

10. Prior to this report coming to the PSJC, this proposal has received LCIV Board approval.

11. It should be noted that other LGPS pools have already applied for this permission and been successfully approved.

Recommendation

12. The Committee is recommended to note and agree that LCIV:

    i. proceed to prepare a resolution for shareholder approval to extend the activity of the Company to manage unauthorised Alternative Investment Funds (AIFs);

Financial Implications

13. There are no financial implications for the Variation of Permission submission from the FCA. LCIV will request Eversheds to review the form prior to submission which will be charged on a time cost basis.

Equalities implications

14. There are no equalities implications for the committee.