Pensions CIV Sectoral Joint Committee

4 November 2015: 10:30am – 12:30pm

Conference Suite (1st Floor)

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

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

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***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

The Chairman to move the removal of the press and public since the following items are exempt from the Access to Information Regulations. Local Government Act 1972 Schedule 12(a) (as amended) Section 3 Information relating to the financial or business affairs of any particular person (including the authority holding that information).

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Pensions CIV Sectoral Joint Committee (PSJC) Annual General Meeting - 21 July 2015

AGM Minutes of a meeting of the Pensions CIV Sectoral Joint Committee held on Tuesday 21 July 2015 at 10:30am in the Conference Suite, London Councils, 59½ Southwark Street, London SE1 0AL

Present:

City of London	Mark Boleat (Chair)
Barking and Dagenham	-
Barnet	Cllr Mark Shooter
Bexley	Cllr John Waters
Brent	Cllr George Crane
Camden	Cllr Rishi Madlani
Croydon	-
Ealing	Cllr Yvonne Johnson
Enfield	Cllr Toby Simon
Greenwich	-
Hackney	Cllr Roger Chapman
Hammersmith and Fulham	Cllr Iain Cassidy
Haringey	-
Harrow	Cllr Bharat Thakker (Deputy)
Hounslow	Cllr Mukesh Malhotra
Islington	Cllr Richard Greening
Kensington and Chelsea	-
Kingston Upon Thames	-
Lambeth	Cllr Adrian Garden
Lewisham	Cllr Mark Ingleby
Merton	-
Newham	-
Redbridge	Cllr Ross Hatfull (Deputy)
Richmond Upon Thames	Cllr Thomas O'Malley
Southwark	Cllr Fiona Colley
Sutton	Cllr Sunita Gorden
Tower Hamlets	-
Waltham Forest	-
Wandsworth	Cllr Maurice Heaster
City of Westminster	-

Apologies:

Greenwich	Cllr Don Austen
Harrow	Cllr Adam Swersky
Kingston	Cllr Eric Humphrey
Kensington & Chelsea	Cllr Quentin Marshall
Newham	Cllr Forhad Hussain
Redbridge	Cllr Elaine Norman
Westminster	Cllr Suhail Rahuja

Officers of London Councils were in attendance as was Mr Chris Buss (Chair of the Technical Sub-Group).

1. Announcement of Deputies

1.1. Apologies for absence and deputies were 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. Councillor Heaster nominated Mark Boleat to be Chair of the Pensions CIV Sectoral Joint Committee. Councillor. Councillor Yvonne Johnson seconded the nomination. Mark Boleat was elected as Chair of the Pensions Sectoral Joint Committee.

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

4.1. Councillor Yvonne Johnson and Councillor Maurice Heaster were nominated as the vice chairs of the Pensions CIV Sectoral Joint Committee. Councillor Yvonne Johnson and Councillor Maurice Heaster were duly elected as the vice chairs of the Pensions CIV Sectoral Joint Committee.

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

5.1. The membership of the Pensions CIV Sectoral Joint Committee was noted.

The meeting finished at 12.10pm

Pensions CIV Sectoral Joint Committee (PSJC)
21 July 2015

Minutes of a meeting of the Pensions CIV Sectoral Joint Committee held on Tuesday 21 July 2015 at 10:30am in the Conference Suite, London Councils, 59½ Southwark Street, London SE1 0AL

Present:

City of London	Mark Boleat (Chair)
Barking and Dagenham	-
Barnet	Cllr Mark Shooter
Bexley	Cllr John Waters
Brent	Cllr George Crane
Camden	Cllr Rishi Madlani
Croydon	-
Ealing	Cllr Yvonne Johnson
Enfield	Cllr Toby Simon
Greenwich	-
Hackney	Cllr Roger Chapman
Hammersmith and Fulham	Cllr Iain Cassidy
Haringey	-
Harrow	Cllr Bharat Thakker (Deputy)
Hounslow	Cllr Mukesh Malhotra
Islington	Cllr Richard Greening
Kensington and Chelsea	-
Kingston Upon Thames	-
Lambeth	Cllr Adrian Garden
Lewisham	Cllr Mark Ingleby
Merton	-
Newham	-
Redbridge	Cllr Ross Hatfull (Deputy)
Richmond Upon Thames	Cllr Thomas O'Malley
Southwark	Cllr Fiona Colley
Sutton	Cllr Sunita Gorden
Tower Hamlets	-
Waltham Forest	-
Wandsworth	Cllr Maurice Heaster
City of Westminster	-

Apologies:

Greenwich	Cllr Don Austen
Harrow	Cllr Adam Swersky
Kingston	Cllr Eric Humphrey
Kensington & Chelsea	Cllr Quentin Marshall
Newham	Cllr Forhad Hussain
Redbridge	Cllr Elaine Norman
Westminster	Cllr Suhail Rahuja

Officers of London Councils were in attendance as was Mr Chris Buss (Chair of the Technical Sub-Group).

1. Announcement of Deputies

1.1. Apologies for absence and deputies were listed above.

2. Declarations of Interest

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

3. Minutes of the PSJC Meeting held on 27 May 2015

3.1. The minutes of the PSJC meeting held on 27 May 2015 were agreed as an accurate record.

4. Programme Overview and Risk Register

4.1. The CEO introduced the report that provided members with an update on progress against the overall implementation programme plan and the high level programme risk register.

4.2. The CEO confirmed that the submission of the Operator Regulatory Application to the FCA went in two weeks later than originally scheduled. This had a knock-on effect on the business plan and a number of items had shifted down the plan as a consequence. The revised timetable was deliverable.

4.3. Councillor Heaster voiced concern that London Councils had still not been able to issued invoices to the boroughs for the 2015/16 tranche of £25,000. The CEO said that a number of discussions had taken place on this matter and a specification had now gone out for an external company to provide finance and accounting services which, once implemented, would facilitate the issuing of the relevant invoices.

4.4. The CEO said that he was confident in being able to deliver the revised timetable, bar any unforeseen issues that might arise in the future. He confirmed that there were no cost implications caused by the delay to the project.

4.5. The CEO emphasised the importance in taking the time to get the CIV right. The Chair felt that the original timetable was probably over ambitious in the first place

4.6. The CEO informed members that there were three changes to the risk register:

i. a reduced risk level to risk number 6 regarding Government action – a meeting had taken place with officers at the DCLG and the Treasury, who were positive about the CIV;

ii. The addition of new risk 7 – ‘Not delivering savings’;

iii. The addition of new risk 8 – ‘Unexpected costs’.

4.7. Councillor Greening said that there would be a number of boroughs that would not achieve any savings initially, and this needed to be reflected in the description of risk 7. The CEO undertook to make the necessary amendments.

4.8. The Chair noted that savings would be forthcoming to all boroughs once the CIV was up and running

4.9. **The Committee:**

- Noted the contents of the report, and
- Noted that the CEO would amend risk 7 as necessary

5. Regulatory Capital Requirements

5.1. The CEO introduced the report that informed members of the requirement for the operator of the ACS to have a sufficient level of regulatory capital (ie "own funds") in place at all times.

5.2. Councillor Johnson said that option 3 – "leave RC as the responsibility of the boroughs to cover as the owners of the company", would be the preferred choice. Councillor Heaster said that he also supported this option.

5.3. The CEO noted that the regulatory capital would be invested to generate a return which would become part of the company's surplus.

5.4. **The Committee:**

- Considered the issues raised in the report
- Agreed to the proposals outlined in paragraph 16 of the report, and
- Agreed that option 3 – "leave RC as the responsibility of the boroughs to cover as the owners of the company" would be the preferred approach.

6. Constitutional Matters

6.1. The CEO said that the process was underway to procure an internal auditor fr the company, and external auditor and one for the fund. London Councils would also be procuring a new auditor.

6.2. **The Committee** agreed to the proposed amendments to London Councils' Standing Orders, as detailed in Appendix 1 of the report.

The meeting finished at 12.10pm

Pensions CIV Sectoral Joint Committee

Item no: 4

Potential changes to the LGPS

Report by:	Hugh Grover	**Job title:**	Chief Executive, London LGPS CIV Ltd.
Date:	04 November 2015		
Contact Officer:			
Telephone:	020 7934 9942	**Email:**	hugh.grover@londoncouncils.gov.uk

Summary

This report informs Committee members of potential changes that could affect the LGPS. The changes being

i. The Chancellors Budget Update/Conservative Conference Speech;

ii. Separation of the Pension Fund form the Host Authority; and

iii. The impact of Markets in Financial Instruments Directive (MiFID II) and its implementation in the UK.

To provide additional clarity and facilitate detailed discussion officials from the Financial Conduct Authority, HM Treasury and the Department for Communities and Local Government are expected to attend the meeting for this item.

Recommendations

The committee is recommended to:

i. Consider the issues raised in this report; and

ii. Take the opportunity presented by the attendance of the FCA, HM Treasury and DCLG to discuss the issues with officials.

Potential changes to the LGPS

Introduction

1. There are three areas of potential change for the LGPS that are being considered by the government and its advisors at this time:

    i. **Reform to the structure of the LGPS** to deliver greater collaboration in the area of investment, with the aim of delivering significant costs savings through greater efficiency;

    ii. A proposal being considered by the Scheme Advisory Board looking at **separating the Pension Fund from the Host Authority**; and

    iii. The implementation of the latest iteration of the Markets in Financial Instruments Directive from the EU (**MiFID II**).

2. The first of these has been discussed by the Committee at a number of its meetings, most recently at the last meeting (21 July 2015), the other two have not been to this Committee before but are considered to be of sufficient importance that Members may wish to have a collective discussion about the implications and to steer officers as to the actions that London Councils may take on behalf of its members.

3. This report now covers each issue in turn.

4. when it was noted that the 2015 Budget contained the following statement:

Reform to the structure of the LGPS

5. The Committee will be aware that the debate about potential reform to the structure of the LGPS has been ongoing for several years. In 2012 and 2013 the government made a number of announcements about how they thought the LGPS might be restructured and these were followed by a call for evidence that ran during the summer of 2013 and a subsequent consultation that was published in May 2014. No government response to the 2014 consultation has been published and no further official announcement had been made until the 2015 Budget which contained the following statement announcing potentially far reaching changes to the degree and flexibility that will be given to Funds in the future regarding local decision making and control in the management and allocation of LGPS pension fund investment assets:

"The government will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments." [Page 78, para 2.19]

6. It is noteworthy that the statement makes no mention of the debate concerning active versus passive investment, a mandatory passive approach or any prescriptive legislation involving passive investment at this time.

7. The Budget statement was further reinforced by the Chancellor in his speech to the Conservative Party conference when he said:

"…Second, we are going to find new ways to fund the British infrastructure that drives our productivity. At the moment, we have 89 different local government pension funds with 89 sets of fees and costs. It's expensive and they invest little or nothing in our infrastructure. So I can tell you today we're going to work with councils to create instead half a dozen British Wealth Funds spread across the country. It will save hundreds of millions in costs, and crucially they'll invest billions in the infrastructure of their regions."

8. This is a clear signal that there is a strong desire across government for the LGPS to invest more of its assets in UK infrastructure and the belief that collective investment may have the potential to unlock that investment.

9. The Chancellor also acknowledged Labour's role in proposing a National Infrastructure Commission, saying he was "delighted" Lord Adonis, policy chief in Tony Blair's government before becoming transport secretary under Gordon Brown, had agreed to lead it.

10. Officials of the London CIV have continued to be in close contact with government officials about the implications for London LGPS funds and the London CIV initiative. Informal reassurance has been given that the CIV is an acceptable response to the statements and direction of travel that the government wishes to see – subject of course to formal Ministerial decisions that will be taken in the early months of 2016.

11. Looking in detail at the Budget statement a number of areas of detail are apparent, each of which raises a number of potential questions:

- "…significantly reduce costs…"
    - o Does this apply across the LGPS, or for those Funds that are considered to be expensive or poor performing?
    - o Will a benchmark be set by Government?
- "…maintaining overall investment performance."
    - o Is this measured at the LGPS Fund average, or is it the aim to drive the lower performing funds to achieve above average performance?
    - o What consideration is to be given to individual funding levels and risk profile?
    - o Over what periods will the assessment be made?

[NB. It should be remembered that, by definition, not all funds will ever achieve the average performance.]

- "…will invite local authorities to come forward with their own proposals to meet common criteria…"
    - o How long are Funds to be given to develop these proposals?
    - o What are these common criteria and how will they be used?
    - o Will the common criteria be subject to consultation?
    - o How far advanced do a Fund's proposals need to be?

    - With regard to “common criteria”, will these include total pooled fund asset values, or will there be a basket of measures such as the key performance indicators (KPIs) currently being developed by the LGPS Scheme Advisory Board (SAB)?

- “…backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments.”
    - How ambitious is ‘sufficiently ambitious’?
    - How will the ambition be measured?
    - What will the legislation be and what is the implementation timescale?
    - Will this mean that only those funds that do not meet the criteria have to pool, or will it go further to announce that, in addition to pooling all funds, funds will be required to allocate certain proportions of assets to specific investment strategies and asset classes (passive management or allocations to UK infrastructure)?

12. The forthcoming consultation will set out a timeline which is expected to be along the lines set out below:

Government to commission and receive independent advice from “industry experts” to help set the “common criteria	Oct 2015
Consultation and the backstop enforcement regulations published	Early Nov 2015
Consultation response from all stakeholders (expectation is for 12-week response period)	Early Feb 2016
Draft Regulations published	March 2016
Effective date	April 2016
Creation of asset pools (phased in over three years)	April 2019
Transition of assets for those funds not meeting the ‘common criteria’	Unknown

13. The November Consultation is expected to include:

- Legislative changes circulated in draft to give the Secretary of State increased powers;
- Proposed changes in the investment regulations;
- Acceptable criteria for pooling;

- Back stop measures for recalcitrant schemes.

14. There are no plans to formally consult on the criteria for pooling. It is thought that the criteria for pooling (all asset classes) are likely to cover:

    - Scale (£25-£30bn target);
    - Cost Savings;
    - Governance.

15. In addition, it is anticipated that there will be a further statement in the Chancellor's 2016 Budget. The Government acknowledges that pooling will take at least three years, with some assets (Private Equity, etc.) taking longer. The consultation paper will outline 'common criteria' that will be used to assess the proposals brought forward by Funds, including the optimal scale and size of pooled investments and the role of passive management in a Fund's investment strategy.

16. The focus is now described to have changed from active/passive to an issue of scale and better governance. The government is not wedded to one type of pooling or another. They are not expected to be prescriptive, preferring to hear proposals direct from the LGPS. Overall scale has strong political appeal with the ultimate model being one in which strategic asset allocation is set locally by each Administrative Authority, with that allocation being implemented by investing through asset pools.

17. The Chancellor's announcement makes clear that government is targeting investment fee savings on the current annual LGPS £660m fee base (as identified in the original Hymans Robertson report). As such, the industry assumption is that a slice away from this fee base is the minimum benchmark upon which any proposals involving asset pooling will be measured. It has been acknowledged that, as well as cost savings, the maintenance of existing overall investment performance is necessary.

18. To date, it is still unclear whether this performance is to be measured at the average national level or individual fund level. The distinction is critical to top performing Funds who would not wish to see their performance being pulled down to the average. It should be noted that the achievement of a 100% funding level within a specific timeframe is not amongst the Government's objectives being targeted.

Separation of the Host Authority from the Pension Fund

19. Whilst the LGPS in England and Wales is one scheme, it is comprised of 89 different administering authorities. The size of the funds varies widely, as do the arrangements for its management. In some instances, pensions operations are integrated within the HR and Finance functions of the relevant administering authority; in others, discrete pensions units have been created to take on the task.

20. In practice decisions about pensions are delegated by the Administering Authority in accordance with Section 101 of the 1972 Act to:

    - Committees or sub-committees made up of councillors from all the political groups and will be politically balanced; or
    - Officers.

21. The delegation of pension functions varies from Administering Authority to Administering Authority depending on local circumstances. The Regulations require an Administering Authority's governance compliance statement to set out whether the Authority delegates its functions and the detail of the delegation given. In addition there are specific legal requirements (as well as precedent through case law and statutory guidance) for the Section 151 officer or the Chief Financial Officer relating to the LGPS.

22. Each Administering Authority (as defined in Part 1 of Schedule 3 of the LGPS Regulations 2013) is responsible for managing and administering the LGPS in relation to any person for which it is the appropriate administering authority under the Regulations. The Administering Authority is responsible for maintaining and investing its own Fund for the LGPS.

23. The majority of Administering Authorities are local authorities and therefore operate in accordance with local government law. However, some Administering Authorities are not local authorities such as the Environment Agency, the London Pensions Fund Authority and the South Yorkshire Pensions Authority. Such bodies operate in accordance with their own legal constitutions.

24. There are diverse approaches to how each LGPS Fund operates. In some instances, two or more Administering Authorities may share their administration function, for example through a shared service arrangement, or in other ways. However, where this happens each local authority still retains its own individual Administering Authority status and therefore legal responsibility for its own Fund.

25. The options being considered by the Scheme Advisory Board and set out below, each seek to improve the governance of pension funds by increasing the degree of separation between the scheme manager function (the management and administration of the scheme and the local fund) and the host authority:

    - **Option One:** Stronger role for a separate Section 151 Officer within a distinct entity of the LA, Separation of financial statements and audit arrangements. Pension fund-specific annual governance statement. Specific delegations that require a senior officer to lead the function. Group the responsibility for all LGPS related activities within one function.
        - Under this option each host authority would be required to group all LGPS related activities within one discrete organisational unit. Currently the arrangement of how LGPS activities are managed is determined by individual administering authorities.
    - **Option Two:** Joint Committee of two or more administering authorities. Delegation of full scheme manager function and all decision making to a section 102(5) joint committee. Employment of staff and contractual issues dealt with through lead authority or wholly owned company. Ownership of assets unchanged. Consideration be given to enshrining the structure in legislation in the form of a combined authority.
        - Under this option each of the LGPS administering authorities involved would delegate the function of scheme manager in its entirety to a joint committee under Section 102(5) of the Local Government Act 1972 (Part 2 paragraph 5). The joint committee will then be responsible for all decisions relating to the management and administration of the scheme including asset allocation,

manager selection, administering authority discretions, provision of administration services, appointment of advisors and procurement of related services (e.g. actuarial, legal and custodial). The constitution of the joint committee would need to be contained in a formal agreement entered into by the authorities. The joint committee as constituted would not be a separate legal entity therefore it cannot own assets, have liabilities, raise taxes, enter into contracts or employ staff. The ownership of assets (administering authority) and responsibility for meeting liabilities (employers) would not change. Employment of staff, entering into contacts and other operational matters would be delivered via a lead authority using a LG Act 1972 Section 113 agreement or an arrangement under the Good and Services Act 1970. Alternatively the authorities could create a jointly owned and controlled company to perform this function.

- **Option Three:** Complete separation of the pension fund from the host authority. DCLG or Treasury to create single purpose Pensions Bodies. Remove decision making from elected members. This option seeks to remove the potential for conflict of interest between the host authority (sponsor) and the pension fund (institution) by removing the fund and placing it in a separate body with its own duties and interests that are solely aligned with those of the beneficiaries. Elected members of a current host authority may well be on the board of the new body but as employer representatives with no more or less say in the direction of investment policy than any other board member.
    - o The option aims to remove any possibility of the host authority from taking decisions on investments which prefer its interests over the interests of the members of the LGPS or other employers in the fund.

26. KPMG have been appointed by the Scheme Advisory Board (SAB) to look into the above three options and come up with their findings, summarised as follows:

- **Option One:** Ring fencing of a new S151 officer for the Pension Fund - but conflicted to an extent as this officer will still be part of the Local Authority (same CEO). However, this can be managed through clear guidance, investment strategies, and separate audit opinion for the Pension Fund. A separate SLA and AGS will be needed. To facilitate this, changes to legislation will be needed i.e. CIPFA (cost accounting), Secondary (separate audit opinion). The anticipated cost is between £100-150k.

- **Option Two:** Joint Committees - There are some serious questions to be asked under this option a) how many funds to be serviced? Three, four, ten members! Size becomes an issue. b) Investment strategy - dictatorship no separate investment strategy. So more work needs to be done. However, there are fewer conflicts of interest as the Joint Committee will be separate to that of the participating Local Authorities. It needs to be a standalone body. Engagement with employers becomes more of an issue due to resourcing issues. The anticipated costs are at £300k.

- **Option Three:** Full separation from the Local Authority and the Pension Fund – The question around the Crown Guarantee and if it will still be a LGPS Fund becomes a major question/issue that needs to be answered. However, this is the only option where there is clear separation between the Fund and Local Authority; this therefore leads to better transparency. This option is very much private sector so best practice to an extent will be followed, but we can still do this in option one. Further legislation will be needed. More set-up costs £300k set up, plus additional resourcing £500k.

27. It is important to note, that KPMG have not been asked to come up with a recommendation and no timeline has been given in relation to when this is to be brought in.

MiFID II

28. MiFID II is the European Union's second Markets in Financial Instruments Directive. There many stories about poor investment decisions by local authorities across Europe and the new legislation seeks to 'protect' such authorities from riskier investment options available in the markets by reclassify all local authorities to 'Retail' clients from their current 'Professional' status.

29. This would mean that all financial services firms like banks, brokers, advisers and fund managers will have to treat local authorities in the same as they do individuals and small businesses. That includes ensuring that investment products are suitable for the customer's needs (potentially closing the option for the LGPS to invest in certain products), and that all the risks and features have been fully explained. This involves significantly more paperwork for both the firm and the client, to prove to the regulator that all the steps have been taken, and as evidence in case of alleged mis-selling.

30. MiFID includes an option for certain retail clients to opt for professional status ("Elective Professional Client" status). To achieve this a local authority will have to meet the following two criteria as set out in COBS 3.5.3 of the FCA Handbook (https://www.handbook.fca.org.uk/handbook/COBS/3/5.html):

- "(1) the firm undertakes an adequate assessment of the expertise, experience and knowledge of the client that gives 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 (the "qualitative test");
- (2) in relation to MiFID or equivalent third country business in the course of that assessment, at least two of the following criteria are satisfied:
    - (a) the client has carried out transactions, in significant size, on the relevant market at an average frequency of 10 per quarter over the previous four quarters;
    - (b) the size of the client's financial instrument portfolio, defined as including cash deposits and financial instruments, exceeds EUR 500,000;
    - (c) the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged;

    (the "quantitative test");

31. In most cases it would seem likely that a local authority would be eligible to 'elect up', but this should not be taken as automatic, each individual fund manager (of which the London CIV would be one) would have to take the necessary steps to be reassured that the 'client' fully qualifies for elective professional status.

32. MiFID II will be implemented from January 2017.

33. It may be that existing arrangements with fund managers could continue under the “grandfathering” rules, with current service providers continuing to treat authorities as professional clients. However, even if this is possible, new business relationships after January 2017 will fall under the gamut of MiFID II.

34.

Recommendations

35. The committee is recommended to:

    i. Consider the issues raised in this report; and

    ii. Take the opportunity presented by the attendance of the FCA, HM Treasury and DCLG to discuss the issues with officials.

Financial implications

36. There are no financial implications for London Councils.

Legal implications

37. There are no legal implications for London Councils.

Equalities implications

38. There are no equalities implications for London Councils.

Pensions CIV Sectoral Joint Committee

Item no: 5

Progress update and risk register

Report by:	Hugh Grover	**Job title:**	Chief Executive, London LGPS CIV Ltd.
Date:	04 November 2015		
Contact Officer:			
Telephone:	020 7934 9942	**Email:**	hugh.grover@londoncouncils.gov.uk

Summary

This report provides the Committee with updates covering programme implementation and the high-level programme risk register for consideration.

Recommendations

The committee is recommended to:

i. Consider and note the contents of this report.

Progress update and risk register

Introduction

1. Since the last update provided to the Committee at its 21 July 2015 meeting significant progress has been made in implementing the London CIV. This report provides an update to Members for consideration.

Progress

2. Major items to note are:

   - **Company authorisation:** the Financial Conduct Authority (FCA) authorised the company as an Alternative Investment Fund Manager on 15 October 2015. The Company's entry in the FCA register can be found here:

     https://register.fca.org.uk/ShPo_FirmDetailsPage?id=001b000000sD6OtAAK

   - **Fund authorisation:** the application for Fund authorisation was submitted to the FCA on 15 October and it is hoped to have the authorisation confirmed by the middle of November. The FCA is treating the application as a priority and, while no promises will be made, they have indicated that best efforts will be made to meet the desired timetable.

   - **Fund launch:** if the FCA authorise the Fund in line with the ideal timeline it should be possible to launch the CIV's first sub-fund before the end of the year. This will be a relatively small active global equities fund with three boroughs currently invested with the Fund Manager. Final work is in hand to prepare this fund for launch including liaising with the relevant boroughs to prepare the necessary documentation.

     On the assumption that the first fund will be launched as planned the aim is to open the remaining eight sub-funds in the first quarter of 2016. Detailed fund information has been sent to all the boroughs that are invested in the same or similar mandates with the relevant Fund Managers and each borough has been asked to give feedback about their intention to transition to the CIV or not. If all boroughs do transition the CIV will have in excess of £6bn under management by the end of this financial year.

   - **Revised Articles of Association and Shareholders Agreement:** as noted at the Committees last meeting the Company's Articles of Association have been revised and a Shareholders Agreement has been drafted. Both documents were circulated to all participating boroughs for adoption. The Articles of Association have been adopted by special written resolution and all but one borough has now signed and sealed the Shareholders Agreement.

   - **Regulatory Capital:** with the adoption of the revised Articles and the signing of the Shareholders Agreement it has been possible to issue share subscription letters to each borough for the B shares that will generate the required regulatory capital.

   - **Board appointments:** it can now be reported that all Board appointments have been made with the following people appointed as Executive and Non-executive directors:

     Lord Bob Kerslake Chair (Non-executive)

Hugh Grover	CEO (Executive)
Julian Pendock	Investment Oversight Director (Executive)
Brain Lee	Chief Operating Officer (Executive)
Lisa Arnold	Non-executive
Chris Bilsland	Non-executive
Eric Mackay	Non-executive

All interview panels included at least one of London Councils' party group leaders except the executive panels where it was not possible to align diaries.

- **Finance and accounting systems:** Members will be aware that it has taken some time to put finance and accounting systems in place. This has now been achieved through a contract with PWC utilising their 'My Financepartner' solution. The system is live and will provide both operational finance support and the relevant management information and financial reporting outputs. It has now been possible to invoice each of the participating boroughs for the £25,000 for f/y 2016-16 to cover the balance of implementation costs and initial operating overheads.

Risk register

3. The current implementation risk register is attached at Annex A for consideration, significant updates are:

    - **Risk 1:** this risk is now entirely focused on the Fund authorisation process as Company authorisation has been achieved.
    - **Risk 2:** this risk is now closed as key positions have now been filled.
    - **Risk 4:** the 'Likelihood' factor for this risk with controls in place has been reduced to 1, reducing the 'Outcome' rating to 2, as all the indications from the boroughs are positive and necessary action is being taken to ensure delegations are in place.
    - **Risk 6:** the 'Likelihood' rating before controls has been reduced to 1 as it now appears unlikely that the government will take action undermine the London CIV.

Recommendations

4. The committee is recommended to:

    i. Consider and note the contents of this report.

Financial implications

5. There are no financial implications for London Councils.

Legal implications

6. There are no legal implications for London Councils.

Equalities implications

7. There are no equalities implications for London Councils.

Annexes

Annex A Programme risk register

Risk Register

Responsibility	**London CIV Programme Office**
Date last reviewed	**26/10/2015**
Reviewed by	**Hugh Grover**

No	Risk	Risk Type	Risk description	Risk Rating without control (1-4)			Controls in place	Responsible Officer	Risk rating with control (1-4)		
				L	I	O			L	I	O
1.	FCA Authorisation	External; & Reputational	1a) Risk that FCA will delay the CIV application	2	3	6	- Expert advisors engaged for application. - Meetings with FCA to discuss proposal.	Hugh Grover	2	2	4
			1b) Risk that FCA will reject the CIV application	1	4	4	- Expert advisors engaged for application. - Meetings with FCA to discuss proposal.	Hugh Grover	1	3	3
~~2.~~	~~Recruitment~~	~~Operational~~	~~Risk that key company positions will not be filled in line with FCA application authorisation timeline~~	~~2~~	4	~~8~~	~~- Senior positions now filled and Approved Persons applications with FCA.~~ ~~- Junior roles can be filled on an interim basis if necessary.~~ ~~- Fall-back position would be to recruit locums, but this would increase cost.~~	~~Hugh Grover~~	~~2~~	~~3~~	~~6~~
3.	Borough engagement	External; & Reputational	Risk that any serious delays in the CIVs launch will result in some of the boroughs withdrawing their support	2	2	4	- Frequent communications with senior borough officers and SLT. - Engagement with members through the PCJC and other communications.	Hugh Grover	1	2	2
4.	Borough investment decision making	Project	Risk that the borough committees will not take the decision to invest through the CIV and delay sub fund launches.	3	2	6	- communicate critical timeframes to boroughs. - understand and respond to individual borough needs. - Boroughs being encouraged to seek delegated decision making powers for the s.151 (Finance Director).	Hugh Grover	~~2~~ 1	2	2

Annex A

5.	Company infrastructure	Operational	Risk that infrastructure is not established within launch timeline	**2**	**3**	**6**	- Project plans in place to deliver infrastructure within timeframe.	Hugh Grover	**1**	**2**	**2**
6.	Government action	Project	Risk that government may decide to take its own actions to reform the LGPS and that the CIV may not be part of those reforms	**~~2~~ 1**	**4**	**~~8~~ 4**	- maintain regular contact with Ministers and civil servants. - maintain high profile of the CIV.	Hugh Grover	**1**	**4**	**4**
7.	Not delivering savings	Financial & reputational	Risk that the CIV will not deliver savings to the participating boroughs	**1**	**4**	**4**	- Ensure focus on delivering savings.	Hugh Grover	**1**	**3**	**3**
8.	Unexpected costs	Financial & project	Risk that programme implementation costs will exceed budget due to unexpected costs	**1**	**2**	**2**	- Robust financial system and regular budget review. - Ensure VFM is gained from every 3rd party contract.	Hugh Grover	**1**	**2**	**2**

Item no: 6

Pensions CIV Sectoral Joint Committee

Investing in Infrastructure

Report by:	Julian Pendock	**Job title:**	Investment Oversight Director London LGPS CIV Ltd.
Date:	04 November 2015		
Contact Officer:			
Telephone:	020 7934 9887	**Email:**	julian.pendock@londonciv.org.uk

Summary	This report lays out the case to the Joint Committee of investing in infrastructure, and some of the options that will be open to the CIV. It should be noted that for the purposes of this paper, infrastructure does not include housing, which is being covered in a separate work stream. However, it should also be noted that the rationale for investing in housing, and the return profiles and attributes of that asset class, are the same as those of the broader infrastructure sector.
Recommendations	The committee is recommended to consider the issues raised in this report and to allow further exploratory work to be completed, in order to move forward with investment in infrastructure

Investing in Infrastructure

Infrastructure: where supply side policies meet demand side

1. There is a renewed and increasingly urgent requirement for increased expenditure on infrastructure if mature cities and economies are to remain competitive. London is a noteable example of a city which many fear will become a victim of its own success, if infrastructure upgrades (including property) cannot keep pace with the demand generated by the increase in population.

2. Governments have become increasingly concerned that the economic trajectory of advanced economies has flattened in recent years. There is a growing weight of opinion that economies are suffering from a deficiency in aggregate demand, for a variety of reasons. This is not currently an issue for the UK, and particularly not an issue in the Greater London area. Nonetheless, governments are increasingly viewing the challenge of retooling national infrastructure as an opportunity to inject new vigour into the economy, and in that sense the challenge of upgrading infrastructure is a demand side opportunity as well as a supply side necessity.

Infrastructure: Bridging the Funding Gap

3. Infrastructure has rapidly morphed from being a peripheral asset class into a mainstream strategy for pension funds and Sovereign Wealth Funds. The dramatic increase in the need for infrastructure expenditure has coincided with a similar increase in investor appetite for infrastructure assets.

4. The structural challenges facing the global economy are legion, and on the current trajectory, pension funds globally must continue to grapple with low interest rates, which create large funding gaps via the material reduction in discount rates. Equity markets are expensive, and traditional fixed income investments are too expensive to deliver a meaningful yield, on top of which, market valuations are rich. The combination of high prices, rising levels of volatility and lowered expectations of returns in public markets in the context of a slower-growing world, have led investors to seek investments which are more favourable from a risk / reward profile. Infrastructure can deliver attractive returns, combined with lower volatility than publicly-traded instruments. This involves a trade-off of low levels of liquidity, but pension funds with a long investment horizon stand to benefit from the “illiquidity premium” (i.e. higher returns in exchange for lower liquidity).

Size matters

5. The confluence of these factors is leading many pension funds globally to revisit their allocation to infrastructure, and “alternatives” in general; the categorisation is becoming something of a misnomer, as the “alternative” asset class becomes increasingly mainstream.

6. Individual funds in the LGPS sector have accessed infrastructure, but the ways in which they have done so can no longer be viewed as optimal. Smaller LGPS funds have not had sufficient scale to invest directly in infrastructure, and have therefore tended to buy funds or funds of funds. There are two key factors which have led to a need to revisit the current ways of investing. Firstly, in a lower-return, lower growth world, the high fees levied by many of these funds render the net return to investors insufficient to meet the

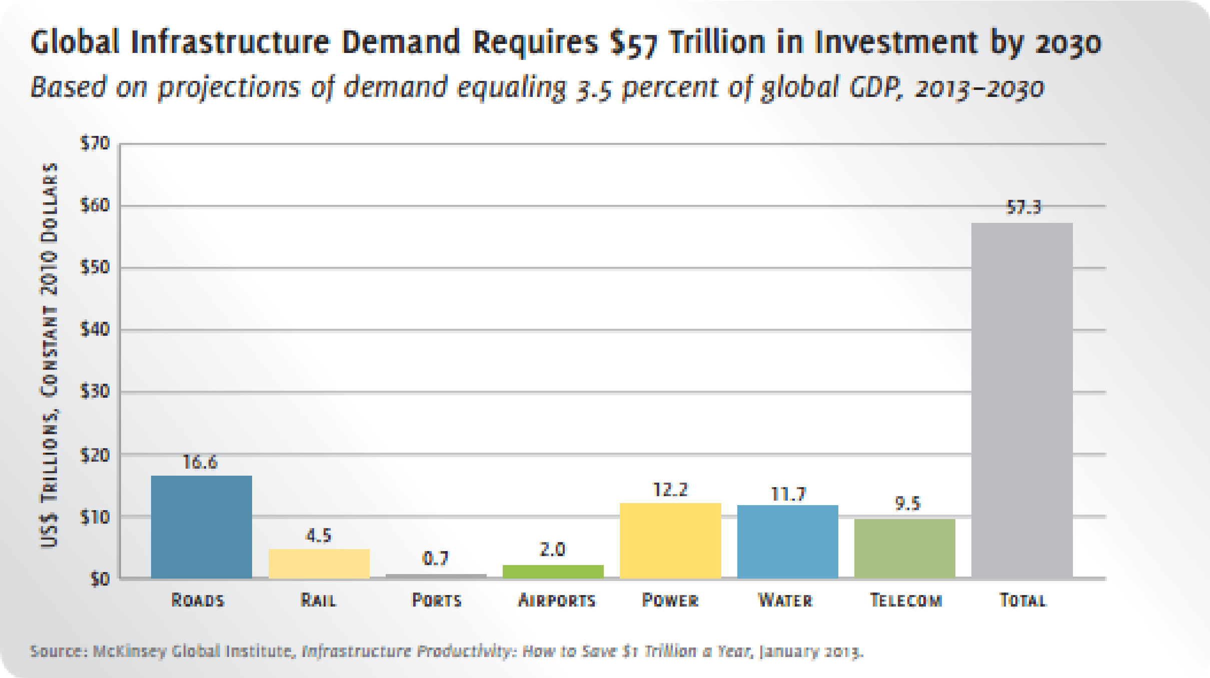
pension funds' return targets set by their actuaries. Secondly, the growing structural weight allocated to the asset class means that the importance given to these investments, and hence the cost of accessing these investments, has naturally come to the fore.

7. The economies of scale which are derived from the pooling of assets will deliver an opportunity for participating boroughs through the London CIV to access investments which will partially address the funding gap which many of the funds suffer, by enabling more direct access to infrastructure assets, and hence lower the costs of investing. Currently, the LGPS lags many of the world's "best of breed" pension funds in their allocation to infrastructure (excluding property), as can be seen below:

Investor	Country	Current Infrastructure allocation (% of AUM)
LGPS	UK	0.3%
Ontario Municipal	Canada	19.4%
Ontario Teachers	Canada	8.2%
Australian Super	Australia	10.0%
Future Fund	Australia	7.4%
Universities Super	UK	4.8%
Public Sector Pensions	Canada	6.3%

Global Infrastructure expenditure requirements are rising

8. McKinsey Global Institute published a seminal report in 2013, in which they argued that the world would need to spend US$57 trillion on infrastructure by 2030. A summary of their finding can be seen below:



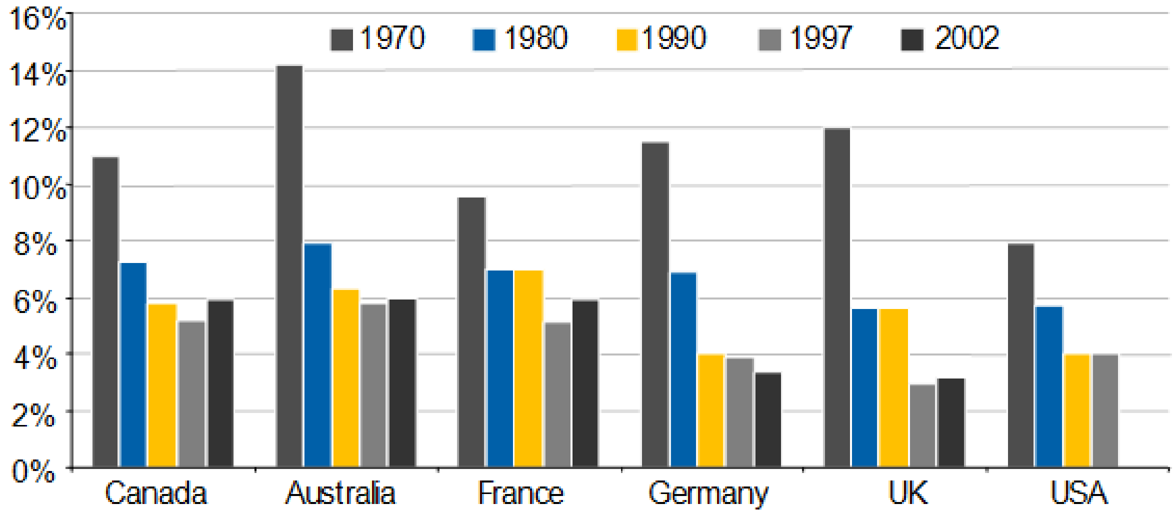
The need for private capital to fund infrastructure

9. The use of infrastructure spending to boost economies is not new. The renewed appetite by governments to explore the use of infrastructure as an economic policy is largely a result of the Global Financial Crisis but also comes at a time when, in many countries, there is a need for existing infrastructure to be overhauled (developed markets) and for new infrastructure (emerging markets). The drivers for non-governmental infrastructure expenditure can be broadly explained by the following factors:

Reduced government infrastructure expenditure in recent years

10. The world's major, mature economies' governments have dramatically reduced their infrastructure spend in recent decades. It should be noted that this does not mean that overall infrastructure expenditure has dropped (the UK, for example, led the way in attracting private capital to fund public infrastructure) but rather that many governments no longer have the fiscal wherewithal to fund new projects. As can be seen below, for the six countries shown, governments will need to find between 4% and 8% of GDP to return infrastructure expenditure to levels last seen in 1970, unless they tap the capital markets.

Government Infrastructure Expenditure



Ageing capital stock

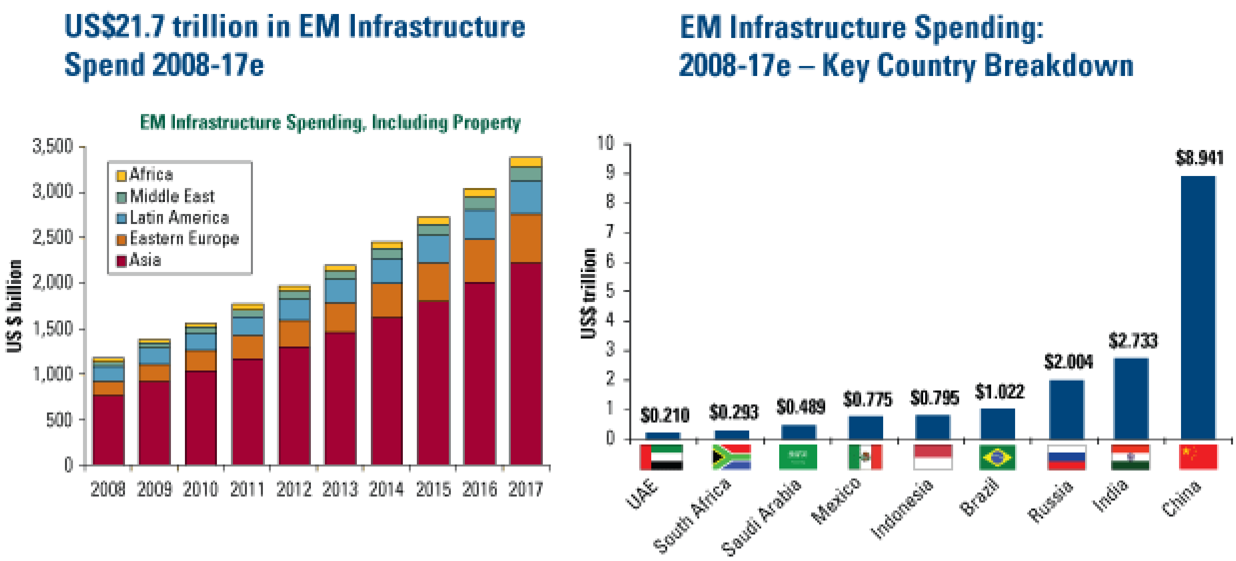
11. Mature economies are faced with the triple whammy of ageing infrastructure which needs to be replaced, new technologies and both changing (ageing) as well as growing populations, where urbanisation remains a theme.

12. For example, much of the USA's infrastructure dates back to the era of the New Deal, and Germany is faced with increased concerns about the state of its roads, some of which date back to the same era.

New technologies (including environmental issues)

13. Examples of new technologies increasing demand for infrastructure would include the ever-increasing demands for the transmission and storage of data, and new/upgraded airports to meet the needs of increasing passenger volumes.

14. The combination of ageing capital stock and increasing concerns over the strain on the environment resulting from economic development together with the growing population has resulted in new technologies designed to improve the environment, particularly in the renewable energy space. In recent years, for example, the Chinese government has emphasised the need to balance environmental sustainability with the quest for economic growth. The country's need for ongoing investment in expenditure can be seen below:

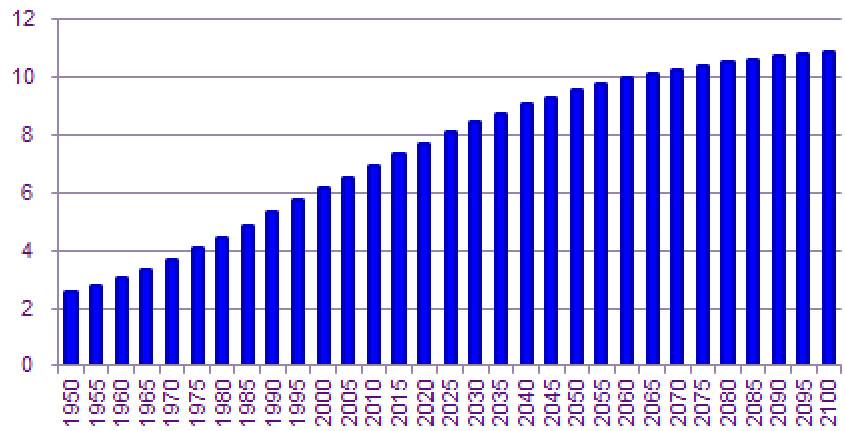


Source: Morgan Stanley Research, World Bank, Global Insight e=Morgan Stanley Research estimates

Population growth (emerging economies and migration)

15. Global population growth, when combined with the long terms trends of economic development and urbanisation, will likely put ever-greater strains on existing infrastructure, and require ever-increasing amounts of infrastructure, both brownfield and greenfield. Moreover, the increasing penetration of technology (internet, smartphones etc) and reduction in the price of travel could support the trend for global migration, thus putting new strains on existing infrastructure, as is clear in cities like London.

Global Population (bn)



The changing nature (and popularity) of UK assets

16. Broadly speaking, one can divide infrastructure assets into amortising assets, which will be written down to zero over the lifetime of the assets, and perpetual assets, for which there is no obviously finite lifetime.

17. There has been a broader trend globally as large pension schemes have come together as a result of consolidation (such as in Australia and Canada), and have actively searched for suitable acquisitions. Sovereign Wealth Funds, which together account for some US$ 7 trillion, have also scoured the globe in their quest for suitable targets. These buyers are far more likely to be looking for perpetual assets. As a result, attractive assets will come to the marketplace far less frequently, as buyers will not be looking for an exit, all things being equal. This means that the UK infrastructure landscape is changing, and so UK pension funds simply have to be of sufficient scale in order to be able to bid.

18. Given the implied infinite life span of these assets, the regulatory environment is of paramount importance. This makes UK assets particularly attractive, given not only the stable political climate and deeply entrenched rule of law (including property rights), but also the transparency and stability of the regulatory regime. The UK's track record of using private capital for public infrastructure dates back to the 1980s, which means that the UK is (in some cases) on its 5th or 6th regulatory cycle, whereas other countries are fairly new to the use of private capital for public infrastructure. Even in mature economies, having a relatively young regulatory environment leaves investors open to regulatory risk.

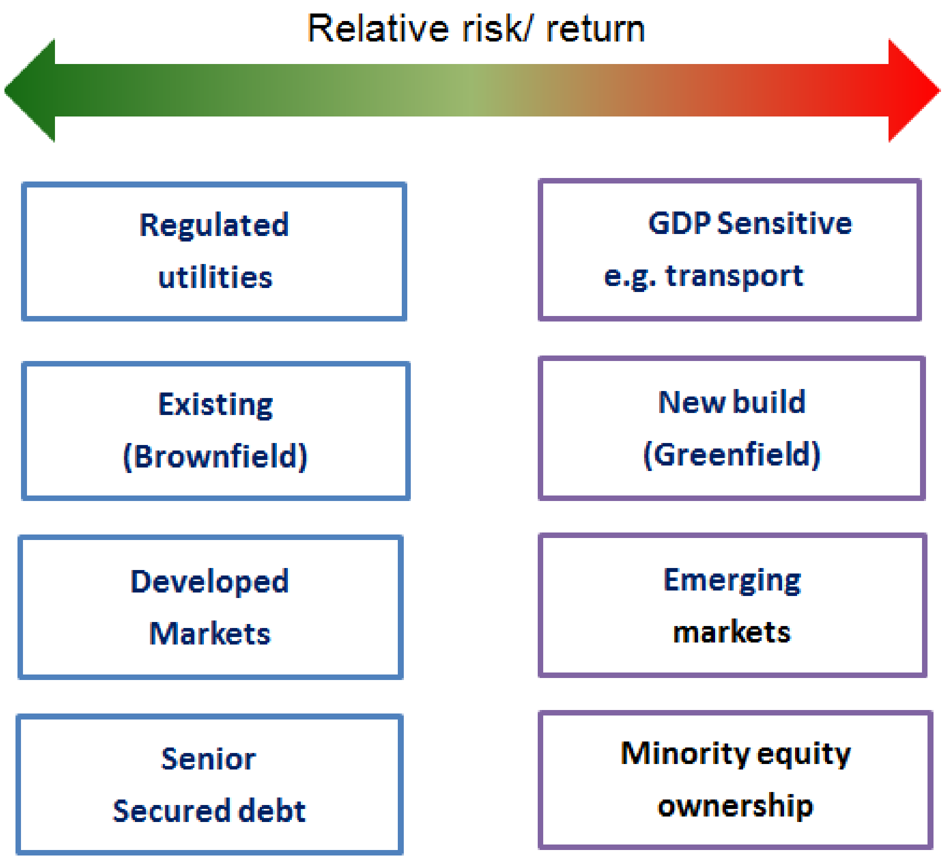
19. The attractiveness and increasing rarity of UK assets means prices are well bid, and therefore cash yields tend to compressed. Simply put, the premium which investors are willing to pay for assets within a safe legal and regulatory environment means that returns are likely to be lower. Many market participants complain that in the UK, there is strong demand from pools of capital from across the globe, combined with a shortage of large-scale, long term infrastructure assets. In short, there is too much money chasing too few sizable, high quality infrastructure assets and developments.

Building exposure to infrastructure: Investment Considerations

20. Investors need to consider key considerations in terms of risk appetite, the need for a certain return, the desire for diversification, and so forth when considering infrastructure investments.

21. Infrastructure is far from being a homogenous asset class. Investors must consider key variables including the differing characteristics of physical assets, and the varied funding requirements, capital structures, and regulatory and political environments.

22. Some of the key considerations can be seen below:



23. When assessing infrastructure exposure, key considerations include, but are not limited to:

   i. **Risk profile of asset:** As described in more detail below, these can be divided into Core, core-plus, value-add, opportunistic.

   ii. **Risk profile of market: DM vs EM.** Typically, Emerging Markets are seen as higher risk/reward, but the boundaries between these categories are in many cases becoming more blurred. As a result, the division between Developed Market and Emerging Market is not necessarily an accurate indicator of the relative predictability and transparency of the regulatory regimes.

   iii. **Access Route: Diversified funds vs co-investment.** Broadly speaking, established global infrastructure funds offer instant returns, and diversification across a range of geographies and assets, which means that the returns profiles are less volatile and more predictable. They also tend to be more liquid.

   On the other hand, a co-investment will tend to have a long lead time, have upfront costs, will likely have a J-Curve, and the time and financial commitment means that the portfolio will contain fewer assets and thus the returns are potentially more volatile.

   The key difference, of course, is cost, and hence potential returns. A co-investment will tend to have far lower fees and thus the net return profile will likely be very different. Further, there is an element of control that is not possible to achieve by investing in large pooled funds, which to date has been the route which has lent itself to individual funds.

iv. **Capital Structure.** A key decision for investors is where to sit in the capital structure, i.e. to buy equity in a project, or debt; and whether the debt is senior and collateralised, or junior ("subordinate") and perhaps uncollateralised, thus offering a higher yield to compensate for the incremental risk. Typically, investors in infrastructure in mature economies favour equity investments, and owners of these assets will use leverage (i.e. debt) to boost returns. However, equity investors in brownfield projects in emerging markets will likely not look to use material leverage, as to do so may well push the project too far along the risk/reward curve.

Infrastructure: an attractive and varied asset class

24. It can be useful to break the sector into three categories, those being Core Infrastructure, Value Added and Opportunistic, the characteristics of each are described below:

<u>Core Infrastructure</u>

25. Core infrastructure assets include regulated utilities, i.e. water and electricity companies which have their ability to raise prices constrained by regulatory bodies, normally because of the asset's near-monopoly business model. Currently, in the UK, the target total annual return for core infrastructure would be in the range of 6-8%, with most or all of that coming from the cash yield. For pension funds, the key benefits for core infrastructure (i.e. mature) are as follows:

i. **Investments Matching Liabilities**

The long duration nature of the assets provides natural liability hedging, and is therefore an attractive way to match duration without having to lock in low returns, which is a risk with many Liability Driven Investment (LDI) strategies.

ii. **Strong cash yield**

Core infrastructure investments tend to be mature, highly regulated assets which deliver a predictable and attractive cash yield which can be materially superior to levels seen in more liquid instruments (and without the price volatility, all things being equal).

iii. **Inflation linkage**

Revenues tend to be linked to inflation, either explicitly through the formulae which regulators use for price setting, or indirectly through the ability of the asset operator / owner to raise prices.

iv. **Uncorrelated to GDP**

Investors can choose infrastructure assets which are uncorrelated to GDP, which means that attractive returns can be locked in independent of the overall economy's trajectory. This should also mean that infrastructure is uncorrelated to asset classes which are sensitive to economic growth.

Value added

26. Moving along the risk/reward spectrum, there are value added assets, which will typically include transport infrastructure, such as railways and airports. The expected total return is 9-11% (with cashflow yield expected to be 4-5%) . This sub-sector typically has the following characteristics:

    i. **Investments Matching Liabilities**

    The nature of the return profile means that value add assets are typically less frequently viewed as liability-matching assets.

    ii. **Strong cash yield, but less predictable**

    Value added infrastructure assets should deliver a strong cash yield, but sensitivities to overall economic growth will likely lead to more volatile cashflows.

    iii. **Exposure to economic growth rather than explicit inflation linkage**

    Revenues are likely to be indirectly linked to inflation, via the sensitivity to nominal GDP growth, rather than via an explicit pricing formula.

    iv. **Correlated to GDP**

    Value-add infrastructure assets tend to be sensitive to changes in economic conditions. Airports are a good example of this; passenger traffic figures tend to grow faster when the economy is buoyant; moreover, retail sales are key profit drivers in many airports and hence the asset class is sometimes viewed as an operationally leveraged play on the retail sector.

Opportunistic

27. Moving further along the risk/reward spectrum, there are “opportunistic” assets, which are higher risk but if successful, could deliver total annual returns of 15%+. Examples of such assets would include those with more exotic EM exposure; taking on construction risk; brownfield site issues; and so on. This sub-sector typically has the following characteristics:

    i. **Growth asset, rather than liability matching**

    The risk/reward profile of this asset class, plus the volatility of returns, would make this asset class unsuitable to seen as a way to match liabilities. Capital gains are a key component of total returns.

    ii. **Strong cash yield, less predictable**

    Value add infrastructure assets should deliver a strong cash yield, but sensitivities to overall economic growth will likely lead to more volatile cashflows.

    iii. **Asset specific drivers rather than explicit inflation linkage**

    Revenues are very unlikely to be directly linked to inflation, but instead will likely be driven by the nature of the specific asset, as well as exposure to overall exposure to the economy in which the asset operates.

iv. **Correlated to GDP**

As described above, opportunistic infrastructure assets tend to contain embedded company-specific or asset-specific risks, as well as showing sensitivity to changes in economic conditions. Further, there may be a "J Curve" effect as there may well be a longer lead-in time, and higher up-front expenses with brownfield projects (i.e. whilst the asset is constructed).

Risks and challenges of investing in infrastructure

28. As discussed, investing in infrastructure can address the current challenges faced by both governments and pension funds. However, no investment is ever entirely without risk, and investors need to take into account the following aforementioned considerations, which if not given due consideration, could represent risks:

- **The lack of liquidity and long duration of the investment:** The very nature of investing in infrastructure means that extra care needs to be taken when investing; if the project fails to deliver, there will be no quick and/or easy exit (unless the investor is willing to endure a substantial loss of capital in exchange for a rapid exit).

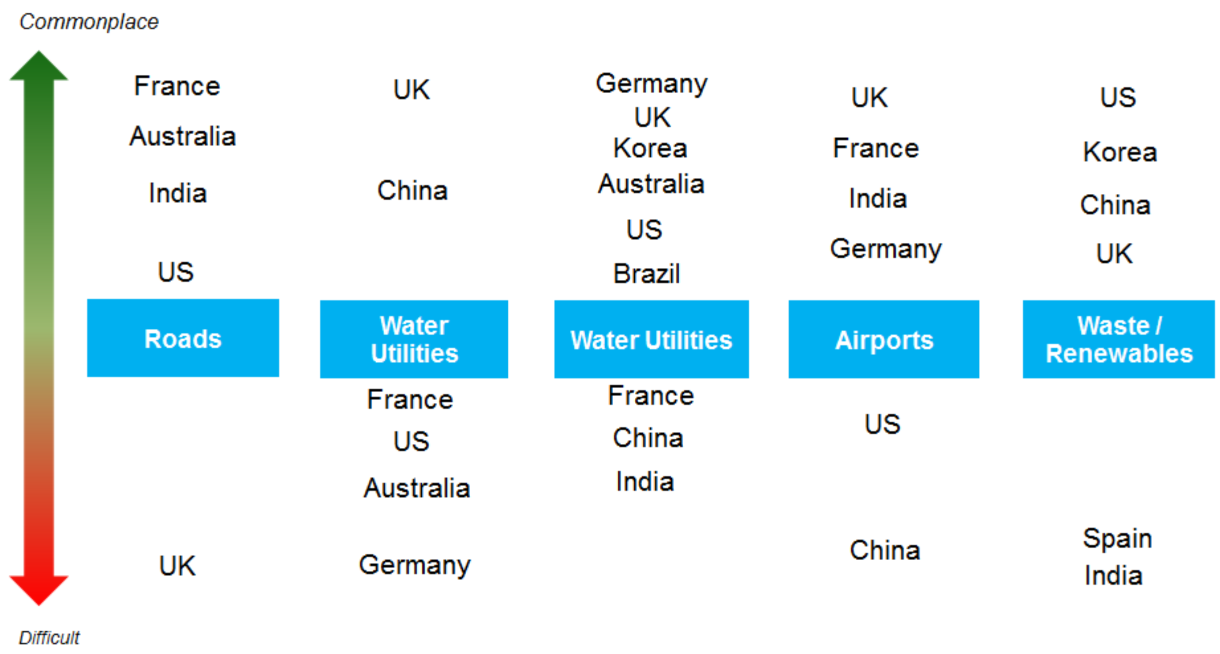
- **Financial leverage:** Whilst leverage can boost returns, it can also work against investors. There have been several high-profile examples of projects such as toll roads, where the models turned out to have been over-optimistic, and the shortfall in revenues was disastrously magnified by imprudent levels of financial leverage which investors had employed in a bid to boost returns.

- **Operating leverage:** High fixed costs means that profit is very sensitive to fluctuations in revenue. Airports are a fine example of this, as they have a high and fixed running cost. This should be considered alongside financial leverage.

- **Management quality:** This is a key part of due diligence. In all likelihood, even an excellent asset purchased at an attractive price will fail to perform if management quality is found to be lacking.

- **Regulatory / political exposure:** Investors must understand clearly the political and regulatory environment in which they are investing. Some variations are driven by factors unique to that country. For example, new airports in China have tended to be funded by central government and therefore have not required outside pools of capital, whereas projects which fall under the remit of fiscally-constrained local government have needed to tap outside investors.

  Some countries have gained a reputation for reneging on long-term infrastructure contracts, either because they can no longer honour their commitments (such as government subsidies to companies operating in the renewable energy space) or there is a change of government, and the new government takes a different view over the role of overseas, private capital. The investment climate for sub-sectors in select countries can be seen below.



Infrastructure: the road to better returns

29. Investing in infrastructure is becoming more mainstream, on account of structural changes which affect both governments and pension funds globally. Scale is required to best harness the investment opportunities which the asset class produces, and to that end the formation of the London CIV is timely as it facilitates more direct routes to access infrastructure assets.

30. Given the likely scale and duration of the investment, execution is of paramount importance. To that end, great care must be taken, not only in the selection of an outside manager, but in terms of due diligence on the asset. This will likely entail up-front costs and patience, in order to avoid the pitfalls of being locked into a suboptimal asset for many years.

31. Nonetheless, the potential rewards of successfully investing in infrastructure projects are material and durable. Perhaps more than other asset classes therefore, infrastructure is an example of how best the local authorities which invest through the London CIV can benefit the most from pooling and deploying patient capital, in a bid to cut costs and enhance returns in a long duration asset class.

Recommendations

32. The committee is recommended to consider the issues raised in this report and to allow further exploratory work to be completed, in order to move forward with investment in infrastructure

Financial implications

33. There are no financial implications.

Legal implications

34. There are no legal implications.

Equalities implications

35. There are no implications for equality.

LONDON COUNCILS

Pensions CIV Sectoral Joint Committee

Item no: 7

Investment Advisory Committee

Report by:	Hugh Grover	**Job title:**	Chief Executive, London LGPS CIV Ltd.
Date:	04 November 2015		
Contact Officer:			
Telephone:	020 7934 9942	**Email:**	hugh.grover@londoncouncils.gov.uk

Summary	This report provides the Committee with revised Terms of Reference and list of membership for the Investment Advisory Committee.
Recommendations	The committee is recommended to: i. Note the contents of this report; and ii. Consider and agree on the revised Terms of Reference for the IAC provided at Annex A.

Investment Advisory Committee

Background

1. The Committee last considered the structure and remit of the Investment Advisory Committee (IAC) at its meeting of 25 March 2015. In response to Member guidance and in consultation with the Society of London Treasurers (SLT) further consideration has been given to the IAC and this report provides the Committee with the opportunity to review the current thinking and to agree the revised Terms of Reference provided at Annex A.

Discussion

2. The Committee will recall that the IAC is proposed to be constituted of borough officers, and will sit alongside the Pensions CIV Sectoral Joint Committee, providing elected Members with advice and recommendations about how the CIV operator (London LGPS CIV Ltd.) might be steered to develop the fund; as such it is a key conduit for borough input.
3. Following the Committee's 25 March meeting it was thought that the draft ToR needed further review and redrafting. Input to this process has been received from the SLT, which included a particular recommendation that the IAC membership should include a number of borough Treasurers one of which should be the Chair. The attached redrafted ToR reflects that input.
4. To ensure continued progress in establishing the governance structures the SLT has been through a selection process for membership of the IAC and the following officers are proposed to be appointed:
   - Treasurers:
     - Chris Buss, LB Wandsworth (Chair);
     - Ian Williams, LB Hackney (Deputy Chair);
     - Jonathan Bunt, LB Barking and Dagenham;
     - Mike Curtis, LB Islington;
     - Richard Simpson, LB Croydon.
   - Pension fund managers:
     - Jill Davys, LB Hackney (Secretary);
     - Bob Claxton, LB Wandsworth;
     - Debbie Drew, LB Waltham Forest;
     - Andrien Meyers, LB Lambeth;
     - Roy Nolan, LB Newham;
     - Jeremy Randall, RB Kingston;
     - Paul Reddaway, LB Enfield;
     - Bola Tobun, LB Tower Hamlets;
     - Bridget Uku, LB Ealing.

5. This membership exceeds the numbers set out in the ToR but it was considered that the IAC could benefit from additional members to provide sufficient resource to work with officers of London CIV in the research and selection of Fund Managers to develop the CIV fund in its early stages.

Recommendations

6. The committee is recommended to:

   i. Note the contents of this report; and

   ii. Consider and comment on the revised Terms of Reference for the IAC provided at Annex A.

Financial implications

7. There are no financial implications for London Councils.

Legal implications

8. There are no legal implications for London Councils.

Equalities implications

9. There are no equalities implications for London Councils.

Annexes

Annex A: Investment Advisory Committee, revised Terms of Reference

Background papers

25 March 2015 Committee meeting: Item 5 - Structuring the Investment Advisory Committee

http://www.londoncouncils.gov.uk/node/25952

Annex A

Investment Advisory Committee

Terms of Reference

The Terms of Reference for the IAC have been agreed by the London Councils' Pensions CIV Sectoral Joint committee (PCSJC) and the Society of London Treasurers (SLT) and are as shown below.

Objectives

The objective of the Investment Advisory Committee is twofold:

a. To support the London Councils' Pensions CIV Sectoral Joint Committee in defining how the committee might wish the London CIV Fund to be developed;

b. To act as a liaison between London CIV and Shareholders/investors in helping to interpret their investment needs, including potential new investment mandates, and how they might be reflected in London CIV's Fund.

Scope

The IAC will be involved in the following activities;

1. Review the needs of the London local authority Pension Funds in terms of investment strategies and mandates and liaise with London CIV to consider how these needs might be fulfilled through London CIV's Fund;
2. As appropriate, assist London CIV in the selection of new mandates and any advisory or other relevant contracts;
3. Review fund managers in the CIV on behalf of London local authorities;
4. The IAC will receive and review the annual investment plan, including; the selection of fund managers, investment strategy and sub-fund product structure and performance benchmark;
5. Review regular reports and information from the ACS Operator on behalf of London local authorities (at least quarterly, unless particular circumstances indicated otherwise). These reports can include performance information, transactions reports and fund manager investment operations SLA's;
6. Contribute to the discussion on the future requirements of the London local authorities so that London CIV can continue to meet their needs;
7. The IAC will liaise with their peers in the other London local authorities to ensure their needs are being considered;
8. Where requested by the CIV, provide input in respect of prospective new investment mandates and strategies together with any advisory or other relevant contracts with the Fund Operator. The IAC will liaise with other Local Authorities to consider investment options where these might present opportunities for the CIV;
9. The IAC will keep under review opportunities for additional investment in existing asset classes in the CIV and for opportunities in new asset classes;
10. The IAC will review annually the effectiveness of the Investment Advisory Committee including:
    i. The extent to which the Committee has discharged all the responsibilities detailed in its Terms of Reference.

ii. The extent to which these responsibilities and the operation of the Committee have been effectively executed.

Membership

Membership of the committee shall be comprised of three (3) members drawn from the SLT (to include the lead member(s) for LGPS policy) and nine (9) borough Pension Fund Managers (or their equivalent), or such number as seems appropriate to the committee Chair from time to time.

SLT members shall be self-nominated, and if more nominations are received than vacancies exist the SLT shall run an appropriate selection process.

Borough Pension Fund Managers shall be nominated by their borough Treasurer, and if more nominations are received than vacancies exist the SLT shall run an appropriate selection process.

Nominations for membership shall be sought in May of each year and reported to the July meeting of the SLT, with the new committee being in place by September each year.

Chair, Deputy Chair and Secretary

The Chair shall be the SLT member with lead responsibility for LGPS policy.

The Deputy Chair shall be nominated and elected by the members of the IAC from those amongst those members that are also members of the SLT.

A secretary shall be nominated and elected from within the IAC membership.

Work Programme

The committee will develop an annual work programme in consultation with officers of London CIV, which will be reported to the PCSJC for agreement.

Meetings

The committee shall have eight (8) meetings per annum timed to be sufficiently ahead of PCSJC meetings to consider reports being put to that committee and shortly after to consider input and guidance coming from the PCSJC.

Pensions CIV Sectoral Joint Committee

Item no: 8

Dates of Pensions CIV Sectoral Committee dates for 2016

Report by:	Alan Edwards	**Job title:**	
Date:	4 November 2015		
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Summary The purpose of this report is to set out the proposed meeting dates and times of the Pensions CIV Sectoral Committee for 2016

Recommendations That members' note and approve the proposed dates and times.

DATES OF PENSIONS CIV SECTORAL JOINT COMMITTEE MEETINGS FOR 2016

Proposed meeting date - all to start at 10:30
Wednesday 10th February
Wednesday 22nd June - AGM
Wednesday 28th September
Wednesday 7th December

Financial Implications for London Councils

There are no direct financial implications arising from this report.

Legal Implications for London Councils

There are no legal implications arising from this report

Equalities implications for London Councils

There are no direct equalities implications for London Councils as a result of this report.