

Pensions CIV Sectoral Joint Committee

25 March 2015: 3:00pm – 5:00pm

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 2 (1st Floor) 2:30pm

(Political Adviser: 07977 401955)

Conservative Group pre-meeting: Room 5 (1st Floor) 2:30pm

(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 item is exempt from the Access to Information Regulations under paragraph 3 of Schedule 12(a) of the Local Government Act 1972 (as amended). *Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

Exempt item

E1 Exempt section of the Minutes on 25th February 2015

1-4

Pensions CIV Sectoral Joint Committee (PSJC)

25 February 2015

Minutes of a meeting of the Pensions CIV Sectoral Joint Committee held on Wednesday 25 February 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	-
Brent	Cllr Shafique Choudhary
Camden	-
Croydon	Cllr Simon Hall
Ealing	Cllr Yvonne Johnson
Enfield	Cllr Toby Simon
Greenwich	-
Hackney	Cllr Roger Chapman
Hammersmith and Fulham	Cllr Iain Cassidy
Haringey	-
Harrow	-
Hounslow	Cllr Mukesh Malhotra
Islington	Cllr Richard Greening
Kensington and Chelsea	-
Kingston Upon Thames	Cllr Eric Humphrey
Lambeth	Cllr Adrian Garden
Lewisham	Cllr Mark Ingleby
Merton	Cllr Imran Uddin
Newham	Cllr Ted Sparrowhawk (Deputy)
Redbridge	Cllr Elaine Norman
Richmond Upon Thames	Cllr Thomas O'Malley
Southwark	-
Sutton	Cllr Sunita Gordon
Tower Hamlets	Cllr Clare Harrison
Waltham Forest	-
Wandsworth	Cllr Maurice Heaster
City of Westminster	-

Apologies:

Bexley	Cllr John Waters
Camden	Cllr Theo Blackwell
Greenwich	Cllr Don Austen
Kensington & Chelsea	Cllr Quentin Marshall
Newham	Cllr Forhad Hussain
Waltham Forest	Cllr Simon Miller
Westminster	Cllr Suhail Rahuya

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

1. Declaration of Interests

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

2. Apologies for Absence & Notification of Deputies

- 2.1. Apologies and deputies are listed above.

3. Appointment of Labour Group Vice Chair

- 3.1. Councillor Robert Chapman (LB Hackney) nominated Councillor Yvonne Johnson (LB Ealing) to be the Labour Group Vice Chair of the PSJC. Councillor Yvonne Johnson was appointed as the Labour Group Vice Chair of the PSJC

4. Minutes of the Meeting held on 17 December 2014

- 4.1. The minutes of the PSJC meeting held on 17 December 2014 were agreed as an accurate record.

5. Establishing the Operator for Authorisation (Presentation by Deloitte)

- 5.1. The Chair invited Tony Gaughan (Partner, Deloitte) to give a presentation on the Authorised Contractual Scheme (ACS):

- An “Operator” was a regulated entity and authorised by the Financial Conduct Authority, under the Financial Services and Markets Act 2000 (FSMA), to be a Fund Manager running a regulated Collective Investment Scheme;
- People fulfilling key roles (known as Controlled Functions) would need to be approved by the FCA;
- There were three key work-streams to create the ACS Operator:
 - i. *Defining the Operating Model*, which involved detailed operating procedures and due diligence processes to appoint Investment Managers;
 - ii. *Drafting the Regulatory Application*, which will be submitted to the FCA;
 - iii. *People*, which would focus on the staff that were required to fulfil key roles.
- The Operator build and authorisation would normally take between 6 to 7 months, although it was hoped that the FCA would expedite this application reducing the time needed for final authorisation.
- The key elements required to build an ACS Operator were:
 - i. An *Oversight model*, which included due diligence and an on-going programme of monitoring;
 - ii. A *Governance model*, including TORs, sub-committees, inspections from regulator and a strong audit trail;
 - iii. The selection of an *Operator partner* to support the fund for the first two years and manage regulatory requirements;

- iv. *Compliance processes*, which had a number of key requirements, including meeting the FUND, and COLL Sourcebook requirements and reporting regimes; and
 - v. *Company processes*, including HR policies such as payroll, JDs and disaster recovery (to ensure that the business could continue to operate in an emergency).
- Operator and fund authorisation were key elements in the Operator build. A regulatory business plan was a significant piece of work, as were the business, capital and technology models. The fund would be authorised after the firm. An engagement session with the FCA had taken place in December 2014 and had been very positive. The Approved Person process (approved by the FCA) was also key as was ensuring good consumer (the boroughs) outcomes.
 - Equivalent organisations had been looked at and a good benchmark for this organisation had been set. The three core skill areas identified were client management, investment and risk, and operations and regulations. The structure of the organisation, in order to deliver, required a strong Board of Directors (CF1), followed by a Chief Executive (CF1 & CF3), and then an Investment Oversight manager (CF30) and Chief Operating Officer/Chief Finance Officer (CF1, CF10, CF11, CF28). The COO would have a Compliance Manager and Operations Manager working under them.
 - An Approved person had to pass the FCA Fit and Proper Persons Test (FIT). The FIT comprised of three elements:
 - i. Honesty, integrity and reputation;
 - ii. Competence and capability; and
 - iii. Financial soundness.
 - The FCA had tightened-up the issue of competency and there was a threshold qualification. This was now the market norm.
 - The FCA needed to see key leadership roles in the application, and the CEO role needed to be in place first.

5.2. Discussion

- Councillor Malhotra (LB Hounslow) asked if an explanation of the “controlled function” (CF) codes could be given. Tony Gaughan agreed to provide this.
- Councillor Malhotra asked who would manage the accreditation regarding the financial soundness of Approved persons. Tony Gaughan said that a firm could be used to do this work or a professional body. Councillor Malhotra asked whether the PSJC would be advised on what bodies would be used for this. Tony Gaughan confirmed that they would be notified
- Councillor Shooter (LB Barnet) asked when the FCA application would be ready for submission. Tony Gaughan confirmed that the intention was to have the first iteration of the application ready for submission in April, there would then be a gap until authorisation was completed.

- Councillor Greening (LB Islington) asked what stage of development the “models” were at. Tony Gaughan confirmed that the governance model had already been developed and the capital model was currently being discussed. The business model was in progress.
- Councillor Malhotra asked what the expectations of the skill sets would be for the technology model. Tony Gaughan confirmed that Northern Trust would be providing most of the software associated with managing the fund. In addition it might be necessary to procure some other third party tools, for instance Bloomberg. It was noted that the disaster recovery requirement was also a key technology element.

5.3. **The Committee** discussed and noted the presentation by Deloitte on Establishing the Operator for Authorisation

6. **Introduction to the Role of the Asset Servicer (Presentation by Northern Trust)**

6.1. The Chair invited Alastair Hay and Karen Rouse (Northern Trust) to introduce this item and deliver a presentation on the role of the Asset Servicer:

- One of the key functions that Northern Trust would deliver was the Depositary, which had responsibilities as the protector of the investors’ interests.
- There were three main parties to an ACS fund, namely the investors, the Operator and the Depositary. The Depositary had to be independent of the Operator. The Depositary did not oversee performance, but could be seen as the ‘policeman’ overseeing the Operator and its delegates (suppliers (e.g. Custodian)) on behalf of the investors.
- The Depositary was a combination of desk-based monitoring and annual diligence visits. Audit reports would be produced for the Operator to ensure that any recommendations were implemented.
- The Depositary would be a joint signatory to the application for fund authorisation at the outset and to any applications for authorisation of fund changes.
- Northern Trust would be the Custodian, Fund Accountant and Transfer Agency for the CIV.
- As the CIV is a ‘Tax Transparent Fund’ there were additional tax responsibilities and Northern Trust, in conjunction with the CIV’s tax advisor, would be responsible for maintaining the tax transparency of the fund. As part of this role there would be a requirement for the participating boroughs to complete a number of tax documents in order that tax reclaims could be properly administered across different jurisdictions.
- In its Fund Administrator role Northern Trust would provide a full array of services, including investor and agent servicing, the monitoring of fund expense ratios and the production of annual reports.

6.2. Discussion

- Councillor Malhotra asked whether the annual diligence visit was a physical visit by Northern Trust employees. Alastair Hay confirmed that it was.

- Councillor O'Malley (LB Richmond) asked whether Northern Trust performed due diligence on itself. Alastair Hay confirmed the Depositary would perform monitoring and diligence on other areas of Northern Trust acting as delegates of the Operator. This is a standard industry model and recognising the potential conflict of interest, the regulator and the industry generally, expects high degrees of independence on the part of the Depositary. Northern Trust has established the depositary business with reporting lines separate to those for fund accounting, transfer agency and other services, extending to having its own Depositary relationship team, its own operations team, compliance monitoring team and system, legal team etc.- effectively operating as an independent entity. As part of the FCA's authorisation of the Depositary business unit, the FCA reviewed the Depositary's independence arrangements in detail, resulting in successful authorisation.
- Councillor Simon asked how voting rights would be exercised through the CIV. Karen Rouse said that effectively the CIV would be the shareholder exercising voting rights on behalf of the investors.
- Hugh Grover confirmed that a report would be brought to a future PSJC meeting setting out proposals and options for agreeing a voting policy for the CIV.

6.3. The Committee:

- Discussed and noted the presentation by Northern Trust on the roles of the Asset Servicer, and
- Agreed that a paper would be brought to a future PSJC meeting, setting out proposals for a voting schedule at shareholder AGMs

7. Responsibilities of a Member Acting as a Shareholder and the Key Duties and Responsibilities of the Operating Company (Eversheds)

7.1. The Chair invited Pamela Thompson and Richard Lewis (Eversheds) to introduce this item and deliver a presentation:

- Pamela Thompson said that she would be the lead Partner advising on setting up the CIV fund, whereas her colleague Richard Lewis would be advising on company law and shareholder matters.
- Although it was anticipated that many of the day-to-day duties of the Operator would be delegated, its legal and regulatory responsibilities to the investors and the FCA remain with it.
- The "core duties" were the "engine" of the ACS and included:
 - Investment Management
 - Administration; covering:
 - 'Middle office' functions (e.g. portfolio accounting, data management, client reporting);
 - 'Back office' functions (e.g. settlement management and reconciliations, income and tax reclaim collection).
 - Dealing; covering:
 - Dealing services;
 - Registration services;

- Fund distribution;
- In-specie transfers.
- Risk and Compliance
- Governance
- Fund Maintenance; covering:
 - Fund design;
 - Obtaining and maintaining fund authorisation;
 - Creating and maintaining key documents
 - Regulatory compliance.
- A number of documents would need to be submitted to the FCA (e.g. deed of constitution, prospectus) and all documents (e.g. tax documentation, Depositary Agreement) would need to be completed prior to the launch.

7.2. Richard Lewis made the following comments:

- This committee would be fulfilling two roles:
 - i. As a committee to consider matters covering fund design and overall CIV performance;
 - ii. As the forum for shareholder representatives through which company meetings (AGMs and General Meetings) would be convened.
- There would be at least one shareholder meeting each year, that being the AGM.
- The Articles of Association were between the Company and each of the shareholders. The shareholder agreement was a private agreement negotiated among the boroughs. Heads of Terms to inform the amendment of the current 'model' Articles and the drafting of a shareholder agreement were the subject of the next item on the agenda. Both documents would require the consent of all the shareholders.
- The process for holding formal shareholders' meetings would be different from the PSJC meetings. Shareholders would receive a minimum of 14 days' notice to attend a General Meeting. There would be a proxy form should a shareholder be unable to attend. The quorum for the meeting would be one-third of all shareholders.

7.3. Discussion

- Councillor Mark Ingleby (LB Lewisham) asked whether there would be a list of shareholders that included the remaining seven boroughs that had recently joined the CIV. It was noted that the list of shareholders had been updated at Companies House and that the revised Articles would reflect the full membership.

7.4. **The Committee** discussed and noted the presentation by Eversheds

8. Heads of Terms for Amending the Articles of Association and Drafting a Shareholder Agreement

- 8.1. This report covered draft Heads of Terms (HoT) which would be used to inform the drafting of revised Articles of Association and a Shareholders Agreement.

8.2. The Chair commented that he hoped that amendments to the HoT would be kept to a minimum. Boroughs were requested to provide any feedback to Hugh Grover before the next meeting (25 March 2014) or to bring issues to the next meeting for discussion. It was hoped that the HoT could be agreed at the next meeting, subject to any amendments, in order that Eversheds could begin the process of amending the Articles and drafting the Shareholder Agreement.

8.3. Discussion

- Councillor Greening asked for greater clarity about the remuneration that was being proposed for CIV personnel.
- Councillor Yvonne Johnson (LB Ealing) proposed that a small sub-group be set up to discuss the most immediate issues. The Chair said that he agreed with this proposal.
- Councillor Malhotra queried whether shareholders could be Non-Executive Directors (NED) if they passed the “FIT” test and asked for more detail about the requirements involved. It was noted that there could be issues concerning conflict of interest were a shareholder to become a NED.

8.4. **The Committee:**

- Agreed the proposed next steps and timetable
- Agreed that more detail would be provided to a future meeting about the FIT requirements and potential conflict of interest issues in respect of shareholders becoming NEDs.

9. **Any Other Business**

9.1. It was noted that the next meeting of the Pensions CIV Sectoral Joint Committee would be held 25 March 2015, and would start at 3:00pm (and not the usual 10:30am)

The meeting resolved to exclude members of the press and public to consider the Exempt item of the agenda (E1 Operating Budget & Benefits).

The meeting closed at 12.25pm

Pensions CIV Sectoral Joint Committee

Governance Overview

Report by: Hugh Grover **Job title:** Programme Director London LGPS CIV

Date: 25 March 2015

Contact Officer:

Telephone: 020 7934 9942 **Email:** hugh.grover@londoncouncils.gov.uk

Summary

Tony Gaughan (Deloitte) will present to the committee the current proposal on the Fund Operator governance arrangements and will give an overview of each board and committee, including roles, responsibilities and membership. The ACS Operator is a regulated entity with significant oversight provided by the FCA, and thus a high level of reassurance about the quality and robustness of the systems, processes and people.

Governance is an important issue for which the Operator must demonstrate that it is appropriately governing those regulated activities for which it is authorised. Governance arrangements must be effective and auditable, showing clearly that even for those activities that are delegated the board is held accountable.

Hard copies of the presentation will be available at the meeting.

Recommendations

The committee is recommended to note and discuss the content of the presentation.

Pensions CIV Sectoral Joint Committee

Item no: 5

Structuring the Investment Advisory Committee

Report by: Hugh Grover **Job title:** Programme Director London LGPS CIV

Date: 25 March 2015

Contact Officer:

Telephone: 020 7934 9942 **Email:** hugh.grover@londoncouncils.gov.uk

Summary	This report provides the committee with the latest thinking and detail about the Investment Advisory Committee (previously referred to as the 'Investment Committee') and provides members with the opportunity to consider the draft Terms of Reference provided at Annex A.
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Recommendations	<p>The committee is recommended to:</p> <ul style="list-style-type: none">i. Note the contents of this report;ii. Consider and comment on the draft Terms of Reference for the IAC provided at Annex A.
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Structuring the Investment Advisory Committee

Introduction

1. At its meeting of 17 December 2014 the committee considered a report from the Programme Director London LGPS CIV covering the background and progress towards establishing the London CIV. Paragraphs 20 to 26 of that report covered the topic 'Structuring the ACS Fund' and the associated Figure 2 described the current (at that time) thinking about how the fund would be structured for launch and how the participating boroughs would be involved in the development of the fund over time.
2. The committee will recall that a key element in the structure and processes described was an 'Investment Committee' constituted of borough officers, which would sit alongside the Pensions CIV Sectoral Joint Committee providing Members with advice and recommendations about how the CIV operator (London LGPS CIV Ltd.) might be steered to develop the fund.
3. In the context of developing the operator's operating model, further thought has been given to this arrangement. This report provides members with the opportunity to review the latest thinking and to provide advice and guidance to ensure the proposed structures and processes meet the needs of the participating boroughs.

Discussion

4. The long term development of the fund and its alignment to the wants and needs of the participating boroughs will be critical to the success of the CIV. To ensure that alignment it is important that there are systems, processes and structures in place that provide conduits for the boroughs to input their views to the CIV operator. Key to that will be the Investment Advisory Committee (IAC (formerly described as the 'Investment Committee')).
5. For the committee's consideration, draft 'Terms of Reference' for the IAC are provided at Annex A.
6. In summary, it is proposed that the IAC be established to support the Pensions CIV Sectoral Joint Committee in defining the boroughs' investment requirements. The IAC will consist of officers of the London local authorities.

Recommendations

7. The committee is recommended to:
 - i. Note the contents of this report;
 - ii. Consider and comment on the draft Terms of Reference for the IAC provided at Annex A.

Financial implications

8. There are no financial implications for London Councils.

Legal implications

9. There are no legal implications for London Councils.

Equalities implications

10. There are no equalities implications for London Councils.

Annexes

Annex A Investment Advisory Committee draft Terms of Reference

Background papers

17 December 2014, Pensions CIV Sectoral Joint Committee meeting, item 6:

http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=5831

Investment Advisory Committee

Terms of Reference

Background

The London local authorities (thirty two London local authorities and the City of London Corporation) currently manage their individual pension fund assets directly. They are sponsoring the creation of a Collective Investment Vehicle (CIV) as a mechanism to collaborate in the future. The London local authorities will continue to set their own investment and asset allocation strategies and may choose to invest some or all of their pension assets into the CIV. In practice, the London local authorities will be both shareholders and investors in the CIV.

The Pensions CIV Sectoral Joint Committee (PCSJC) is a representative body of the London local authorities who are shareholders in the Authorised Contractual Scheme (ACS) Operator, established for the purposes of managing the CIV. The committee is a forum for the participating authorities to consider and provide guidance to the ACS Operator on the direction and performance of the CIV.

The Investment Advisory Committee (IAC) has been established to support the PCSJC in defining their investment requirements. The IAC will consist of officers of the London local authorities.

The Fund Operator of the CIV is a regulated entity that needs to demonstrably be responsible for the activities within its auspices. This includes, but is not limited to, the selection of delegated investment managers, oversight of investment management in the fund, oversight of third party providers and management of conflicts of interest.

Of equal importance, is the requirement for the London local authorities pension schemes to remain sovereign in their decision making. In practical terms, this means the decisions to invest into the fund and redeem from the fund.

This document is the terms of reference for the Investment Advisory Committee. This document does not cover the Pensions CIV Sectoral Joint Committee, nor does it cover the responsibility of the Fund Operator.

Objective

The objective of the Investment Advisory Committee is twofold:

1. To support the PCSJC in the investment decision making process
2. To liaise with the Fund Operator of the CIV in defining Shareholders' investment needs.

Scope

The IAC will be involved in the following activities;

- Review the needs of the London local authorities in terms of investment strategies and mandates for the CIV and liaise with the Fund Operator.
- From a client perspective participate in the review of existing fund managers in the CIV.
- 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.
- The IAC will receive and review regular reports and information from the ACS Operator (at least quarterly, unless particular circumstances indicated otherwise). These reports

can include performance information, transactions reports and fund manager investment operations SLA's.

- The IAC will be expected to contribute to the discussion on a regular basis on the future requirements of the London Local Authorities so that the CIV can continue to meet their needs.
- The IAC will liaise with their peers in the other Local Authorities to ensure their needs are being considered.
- The IAC will review annually the effectiveness of the Committee including:
 - The extent to which the Committee has discharged all the responsibilities detailed in its Terms of Reference (ToR).
 - The extent to which these responsibilities and the operation of the Committee have been effectively executed.

Structure

- The IAC members will be elected by a sub-committee of the Society of London Treasurers. The committee also reserves the right to invite external advisors to committee meetings.
- The IAC will have eleven representative officers each sitting for a term of three years. To avoid the committee changing all at once, at inception there will be a staggered term. Further details to be provided.
- The IAC will meet on a quarterly basis and on an ad-hoc basis as necessary.

13/03/2015

Pensions CIV Sectoral Joint Committee

Item no: 6

Executive and Non-Executive Director Recruitment

Report by: Hugh Grover **Job title:** Programme Director London LGPS CIV

Date: 25 March 2015

Contact Officer:

Telephone: 020 7934 9942 **Email:** hugh.grover@londoncouncils.gov.uk

Summary	This report informs the committee of the processes being adopted to appoint permanent executive and non-executive directors to the board of the CIV's operating company, London LGPS CIV Ltd.
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Recommendations	The committee is recommended to note the contents of this report.
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Executive and Non-Executive Director Recruitment

Introduction

1. The committee will be aware that it is proposed that the CIV operator (London LGPS CIV Ltd.) will have three senior officers (Chief Executive Officer (CEO), Chief Operating/Finance Officer (COO/CFO) and Investment Oversight Director (IOD)) and a number of non-executive directors (one of which will be the Chair of the Board) making up its board and senior management team.
2. This report provides the committee with an overview of the processes that are being adopted to recruit the necessary people.

Discussion

3. At its meeting of 25 February 2015 the committee received a presentation from Anthony Gaughan (Deloitte) about the work that is underway to take the operator through to FCA authorisation. In the presentation it was highlighted that having executive directors in place would be key to the authorisation process, and that it would be necessary to have a named CEO in place for the FCA authorisation application (target for submission is currently mid-May); other executive directors could be named later in the process, and NEDs could follow later still. With that in mind the current interim directors have decided to initiate a CEO recruitment process now and to recruit the other two executive directors and the non-executive directors through a separate process.

CEO recruitment

4. At its meeting of 3 March 2015 the interim board agreed the recommendations made in a report from John O'Brien (London Councils Chief Executive and current interim director of the operator) which discussed an approach to recruiting a CEO that would balance a number of factors, namely:
 - The need to make progress towards FCA authorisation – which would need a Chief Executive to be in place;
 - Waiting until the recruitment of a permanent Chief Executive to seek authorisation would cause a significant delay in this overall process;
 - A more focused, restricted competition for an interim Chief Executive was considered to be the right direction of travel by Directors;
 - A candidate should be sought that brought experience and expertise from the type of organisation reflecting the membership of the CIV;
 - A recognition that there would need to be a balance of skills and experience across the senior leadership team, encompassing familiarity with the issues and concerns of members of the CIV, investment management experience and strong operational management experience of an enterprise of this type;
 - If choices had to be made about the balance of strengths and experience of respective members of the senior team, the Chief Executive should, Directors felt, be most obviously a strong relationship manager with boroughs and their officers.

- This balance could be considered again in the context of a long-term, permanent appointment after the Company gains authorisation from the FCA.
5. The recommendations of John O'Brien's report therefore included that:
 - Progress is made with the recruitment of an interim Chief Executive for the London LGPS CIV Limited Company.
 - The interim recruitment be targeted primarily at people with skills and experience of organisations represented by the member boroughs of the CIV.
 - Any appointment be conditional on the individual obtaining the relevant, FCA recognised, threshold competency qualification within three months of appointment.
 6. Officers of London Councils are facilitating this recruitment.
 7. An advertisement has been placed in *Public Finance* (magazine and online) with 7 April 2015 as the closing date for applications. It is planned that interviews will be in late April.
 8. The role has been advertised at a salary of c. £130k and an expectation that the successful candidate will be appointed under London Councils terms and conditions and using its standard contract for Chief Officers. It is anticipated that the appointment will be for a period of up to 18 months after anticipated company authorisation.
 9. The interview panel will be comprised of:
 - Mayor Jules Pipe (Leader, LB Hackney)
 - Cllr Teresa O'Neill (Leader, LB Bexley)
 - Cllr Ruth Dombey (Leader, LB Sutton)
 - Mr Chris Buss (Director of Finance, LB Wandsworth)

In addition Anthony Gaughan will advise the panel and John O'Brien will act as an observer.
 10. Attached at Annex A is the job description and person specification.
 11. Members of this committee will be notified of the outcome of this process ahead of any public announcement.

COO/CFO, IOD and NED recruitment

12. As noted in the factors to be considered that were outlined in John O'Brien's report (paragraph 4 above), the company's permanent board needs to have a balance of skills and experience across the executive and non-executive directors, and that balance must satisfy the requirements of the FCA.
13. Draft job descriptions for the COO/CFO and IOD are attached at Annex B for information. They are subject to change as the company's operating model becomes finalised and the full scope of responsibilities for the roles is defined.
14. NED job descriptions have not yet been drafted, but are likely to reflect the core responsibilities of the operator to bring additional oversight and robustness to the running of the company and its deliver of its responsibilities as an authorised entity. It is likely that there will be three NEDs, one of which will be Chair of the board.

15. For resource reasons, and to ensure a good field of candidates the interim directors have agreed that a recruitment consultant should be engaged to assist with the recruitment of these roles. Procurement of such a consultant is underway with a view to appointing and beginning the recruitment process as quickly as possible.

Conflict of Interest

16. At its meeting of 25 February 2015 the committee asked for advice about whether shareholders could become NEDs if they pass the FCA's "FIT" test.
17. In outline, a director of a company owes certain duties to that company, and those duties are principally set out in the Companies Act 2006. The duties apply to all directors of a company, regardless of whether they are executive or non-executive directors. In the current context, particular concerns relating to conflicts of interest could arise if a member of the committee is also appointed a director of the ACS Operator. In particular directors have the following duties (amongst others):
- Duty to promote the success of a company for the benefit of its members as a whole. The duty applies to all decisions made by a director and not merely to formal board decisions and, amongst other things, a director must act fairly between the members of a company – the latter point being more of a concern where the relevant director is also a councillor of a borough (ie a shareholder).
 - Duty to exercise independent judgement. Again this highlights the need, in circumstances where a director is also a councillor of a borough, to maintain independence although note that the duty is not infringed by a director acting in accordance with an agreement entered into by the company that restricts the future exercise of the director's discretion or in a way authorised by the company's constitution.
 - Duty to avoid conflicts of interest. Under this duty, a director must avoid a situation in which he has or can have a direct or indirect interest that conflicts with, or may conflict with, the company's interests. This applies, in particular, to the exploitation of property, information or opportunity (whether or not the company could take advantage of it). Once again, in the context of a director who is also a councillor of a borough, this highlights the need for that director to be careful as to how information about the company (ie the ACS Operator) is used by a director. The duty continues to apply after a person ceases to be a director so it is an ongoing duty. Note though that this duty will not be infringed if authorisation is given by the other directors.
 - Duty to declare interest in proposed transaction or arrangement with the company. Under this duty, the director must declare to the other directors the nature and extent of any interest, direct or indirect, in a proposed transaction with the company. Note that the director needs not be a party to the transaction for the duty to apply.
18. In the event of a breach of any of these duties, the company (i.e. the ACS Operator) can bring an enforcement action although in certain circumstances, shareholders may also be able to bring a derivative action on behalf of the company. However, it is possible for breaches of duty to be ratified by the company if approved by the members.

19. For the reasons set out in paragraphs 17 and 18 above and specifically the potential for there to be a conflict between the role of director of the ACS Operator and an elected councillor of a borough, it is advisable that directors of the ACS Operator should not also be a councillor or other representative of one of the boroughs.

Approved Persons Regime

20. At its meeting of 25 February 2015 the committee asked for further information about the Approved Persons Regime and more detail about the 'controlled functions' requirement, this is provided at Annex C.

Recommendations

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

Financial implications

22. Each of the 29 participating boroughs and the City of London have contributed £25,000 and invoices have been raised for a further £25,000 contribution, to a dedicated fund held by London Councils for the purposes of establishing the London LGPS CIV. Invoices will be raised for a third tranche of £25,000 at the beginning of the next financial year. The implementation budget presented to the committee at its 17 December 2014 meeting showed an allowance to cover senior officer remuneration through to launch and an estimated amount to cover the cost of a recruitment consultant. Remuneration beyond launch will be covered by the operating budget presented to the committee at its 25 February 2015 meeting, which for the first six months would be supported by any remaining surplus from the implementation budget. As such there are sufficient funds in the dedicated fund to support appointments covered by this report until such time as funds begin to flow through the 'business as usual' model.

Legal implications

23. Relevant legal implications for London Councils are contained in the body of this report.

Equalities implications

24. There are no additional legal implications for London Councils.

Annexes

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| Annex A | Interim Chief Executive Officer, job description and person specification. |
| Annex B | Chief Operating/Finance Officer & Investment Oversight Director job descriptions |
| Annex C | The Approved Persons Regime |

London LGPS CIV Ltd. Interim Chief Executive Officer

Reports to: London LGPS CIV Ltd. Chair, and London Councils CEX

Purpose: This is a high profile role which requires exceptional qualities of leadership and communication.

The Chief Executive Officer is responsible for all activities, including the management, operations and development of London LGPS CIV Ltd., to support the strategic objectives. Work closely with the board of directors, leading members, London local government Treasurers, and all other stakeholders (including across local and central government, the finance and investment industry, the Financial Conduct Authority, and the media), the Chief Executive Officer will ensure that the London LGPS CIV programme delivers on its vision of establishing a Collective Investment Vehicle (in the form of a UK regulated Authorised Contractual Scheme) through which the London LGPS funds can collaborate to drive down investment costs, increase efficiency and improve investment returns.

Job description

1. To provide dynamic leadership and set the strategic direction for the London LGPS CIV programme.
2. Lead and manage a team of senior executives.
3. To build and maintain productive relationships with all key stakeholders, including ensuring that a comprehensive communication strategy is delivered.
4. To manage the financial and other resources of the programme.
5. To be a leading ambassador for the organisation and London local government with a range of audiences.
6. Execute responsibilities in accordance with all legal and regulatory requirements and in line with public sector ethical standards and ensure the culture of the organisation meets expectations of the Regulator.
7. Manage both the strategic direction of the London LGPS CIV Ltd. And ensure smooth day-to-day running of the operation.

Person Specification

Essential:

- An understanding of the machinery of central and local government.
- An understanding of the LGPS and the challenges faced by London local government in maintaining a robust scheme in the current social and economic environment.
- Strong leadership and team building capability, providing visible and supportive leadership fostering a high performing and customer orientated culture throughout the organisation. Managing and monitoring individual performance effectively, setting clear objectives for the review of individual and service level performance.
- Demonstrable experience of managing complex projects and programmes in high profile political environments.
- Highly developed political management skills, demonstrating political judgement and sensitivity.
- Excellent stakeholder management skills balancing both short-term and long- term needs in environments covering:
 - Central and local government politicians and senior officers
 - Private sector
 - Media
- Proven ability to lead, change & influence multiple stakeholders.
- Personal commitment to high personal and professional standards including equality and diversity in both employment and service delivery and demonstrating personal leadership in valuing diversity in all areas. Subscribe to the Nolan Principles appropriate to public life.
- Excellent communication skills both verbal and written, with a proven capability to simplify complex messages.
- Gravitas and maturity.

Desirable

- Degree level educated, preferably gained in business, finance and/or investments.
- Strong influencing skills able to relate to a wide range of stakeholders such as: Council Members, Government, other agencies, the public and employees, and command their respect, trust and confidence, combined with an understanding of delivering to multiple stakeholders.
- Understands the importance of managing a regulated entity and is able to ensure regulatory obligations are being met.
- Highly developed networking, advocacy, oral, written and presentation skills that are persuasive and influential with others.

Investment Oversight Director

Purpose

The Investment Oversight Director is responsible for directing the London ACS Operator's investment programme by developing, recommending and implementing the policies, strategies and initiatives for the investment programme. The Investment Oversight Director is a member of the London ACS Operator's senior leadership team and serves as an organisational contact with internal/external clients.

The ideal candidate will have 8+ years of investment management experience, in an investment organisation with broad asset class experience. Corporate or public pension scheme experience is desirable.

Responsibilities

- Reviews and monitors investment performance.
- Works with local pension managers to develop investment policies and strategies for the funds.
- Reviews and monitors portfolio risk characteristics and compliance with investment guidelines.
- Where appropriate, monitors asset allocation and re-balance of portfolios in accordance with the investment policy, consulting with the London boroughs investment teams when necessary.
- Reports to the board and the Investment and Risk Committee.
- Conducts manager reviews on a periodic basis and due diligence of managers when required.

Person Specification

Essential

- 8+ years' relevant investment expertise, including management or oversight of an investment programme.
- Previously worked in a pension organisation, asset manager or insurance company.
- Demonstrable ability to understand investments, including knowledge of multiple investment classes.
- Demonstrable experience of risk management is applied to investing.
- Experience of undertaking manager selection, due diligence and oversight.
- Credibility with investment managers.
- Credibility with borough pension managers.
- An undergraduate degree, or an appropriate investment qualification.
- Analytical and numerical skills.
- To be authorised by the FCA as an approved person in due course in the CF30 function.

Desirable

- A post graduate degree and and/or an equivalent professional investment qualification.
- Sound decision maker sought out by others for advice and solutions.

- Understands the constraints of working in a regulated fund environment.
- Understands derivatives and complex instruments.
- Able to work in small organisations and teams.
- Public sector ethos.
- Hands on.

Chief Operating Officer/Chief Finance Officer

Purpose

The Chief Operating Officer/Chief Finance Officer (COO/CFO) directs day to day operations of the London ACS Operator.

The role holder has responsibility for all operational matters and also acts as the firm's Chief Financial Officer. In addition, the COO has responsibility in ensuring that the Operator and Fund meets their regulatory responsibility and holds key regulatory control functions (CF10, CF11, CF28).

Responsibilities

- Plans and directs all aspects of the London ACS Operator operational activity, including day to day operations.
- Responsible for financial management of the company.
- Responsible for all policies and procedures.
- Responsible for the creation and operation of the control environment.
- Coordinate legal due diligence, documentation reviews and contract management
- Ensure that all compliance and regulatory requirements for London ACS Operator and fund are met.
- In conjunction to the CEO, ensure that appropriate board reporting is undertaken.
- Run the capital management process, in conjunction with the CEO and board.
- Oversight of third party providers, including custodian, administrators and depository.
- Responsible for all regulatory reporting.
- Manage HR administrative process including employee benefits, recruiting and policies.
- Manage facilities infrastructure including office environment and administrative staff.
- Establish/Update financial management processes and infrastructure to enable scalability of operations.
- Develop reporting process and communication policies for all stakeholders.
- Participate actively in professional staff recruitment, training, development and evaluation.
- Advise on management and operation matters.
- Ensure day to day investment operations of the organisation, including outsourced functions.

Person Specification

Essential

- 10+ years' experience, in an operational environment within a regulated investment manager.
- Accountancy degree.
- Prior experience as either as a COO, CFO, head of operations within an appropriate organisation.
- Excellent organisational skills.
- Detailed oriented and a completer finisher.
- Ability to manage complex projects involving various stakeholders and multiple projects.
- Strong collaborative skills and ability to work in small teams within a matrix environment.
- Creative problem solving skills with the ability to manage small teams with limited resources.
- Relies on extensive experience and judgement to plan and accomplish goals.
- Numerate.
- To be authorised by the FCA as an approved person in due course in the CF1, CF10, CF11 and CF28 functions.
- Experience of oversight.

Desirable

- Good understanding of the pension market and the challenges.
- Action-oriented and flexible approach to operational management.
- Team oriented.

The Approved Persons Regime

1.0 Introduction

Under the financial markets act 2000 (FSMA), certain functions require an individual to be approved by the FCA before they can carry on these 'controlled' functions. Investment Management controlled functions are further broken down into Significant Influence Functions (SIFs), which are those critical to the management of the regulated activity and customer functions, which are those who deal with customers particularly in and advisory capacity.

1.1 Operator Obligation

The regulated firm is obligated to ensure that people are appointed to roles with appropriate skill. Furthermore, there is an obligation to monitor appropriateness on an ongoing basis. The London ACS Operator should take reasonable care in selecting those staff appointed to controlled functions. As part of selecting key personnel for management roles, the Operator should select people capable of obtaining authorisation, including demonstrating the appropriate care and due diligence has been exercised. This includes non-executive directors.

1.2 The Approved Persons Test

When considered appropriateness for someone to undertake a controlled function, the FCA considers three areas which are collectively known as The Fit and Proper test (FIT).

- Honesty, integrity and reputation;
- Competence and capability;
- Financial soundness.

1.3 Individuals obligations

As an approved person, the individual must comply with a number of areas, including the The Fit and Proper test for Approved Person ("FIT"), The Statements of Principle and the Code of Practice for Approved Persons (commonly referred to the section of the FCA handbook that it sits in, which is APER). They are also obliged to report to the London ACS Operator and FCA any matter that may have an impact on their ongoing fitness and propriety.

A further area of obligation is that Approved Persons must adhere to the code in their professional and personal lives. The regulator has recently made a number of high profile sanctions on Approved Persons for actions in their personal lives.

1.4 Statement of principles

The Statements of Principle and the Code of Practice for Approved Persons ("APER") are as follows

- Principle 1: Act with integrity in carrying out his accountable functions.
- Principle 2: Act with due skill, care and diligence in carrying out his accountable functions
- Principle 3: Must observe proper standards of market conduct in carrying out his accountable functions.
- Principle 4: Must deal with the FCA, the PRA and other regulators in an open and cooperative way and must disclose appropriately any information of which the FCA or the PRA would reasonably expect notice.

- Principle 5: Take reasonable steps to ensure that the business of the firm for which he is responsible in his accountable function is organised so that it can be controlled effectively.
- Principle 6: Exercise due skill, care and diligence in managing the business of the firm for which he is responsible in his accountable function.
- Principle 7: Take reasonable steps to ensure that the business of the firm for which he is responsible in his accountable function complies with the relevant requirements and standards of the regulatory system.

Individuals carrying out Significant influence functions, i.e. those exerting significant influence on the firm's conducts and affairs, are compiled to adhere to all seven statements of principles, whereas those undertaking customer functions only, will only have to comply with the first four.

1.5 List of Controlled Functions

CF 1	Director function
CF 2	Non-executive director function
CF 3	Chief executive function
CF 4	Partner function
CF 5	Directors of an unincorporated association
CF 6	Small friendly society function
CF 8	Apportionment and oversight function (Non-MiFID business only)
CF 10	Compliance oversight function
CF 10	CASS Oversight Operation Function
CF 11	Money laundering reporting function
CF 12	Actuarial function
CF 12	With-profits actuary function
CF 12	Lloyd's Actuary function
CF 28	System and controls function
CF 29	Significant management function
CF 30	Customer function
CF 40	Benchmark submission function
CF 50	Benchmark administration function