

Pensions CIV Sectoral Joint Committee Item no: 5

London CIV 2016/17 Financial Report

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Summary: This report sets out the financial position of the London CIV for the nine months to 31st December 2016, an updated forecast for the year to March 2017 and a capital adequacy statement as of 31st December 2016 as reported to the FCA.

Recommendations: The committee is recommended to note:

- i. the financial report for the nine months to December 2016
- ii. the updated forecast to March 2017
- iii. the capital adequacy position of LCIV as at December 2016

London CIV 2016/17 Financial Report

Summary

1. This report sets out the financial position of the London CIV for the nine months to 31st December 2016, an up dated forecast for the year to March 2017 and a capital adequacy statement as of 31st December 2016 as reported to the FCA.
2. As previously noted in the draft Medium Term Financial Strategy ('MTFS') which was circulated to the Committee in December, the London CIV is forecast to generate an operating loss of £800k.
3. As of the date of this report, the financial forecast for year ending March 2017 for the London CIV remains unchanged.
4. During 3Q, the operating loss was slightly lower than the MTFS forecast but this is largely due to timing differences on the expensing of certain costs which will reverse in the 4Q.

PROFIT AND LOSS							
	Forecast per MTFS				Updated Full Year Forecast as of Jan 2017	Full year Forecast per MTFS	Variance
	3Q YTD	for 3Q	Variance		£k	£k	£k
Operating Income	£k	£k	£k		£k	£k	£k
Service Charge	644	644	0		850	850	0
Management Fee	439	434	6		645	640	6
Total Operating Income	1,083	1,077	6		1,495	1,490	6
Expenses							
Staff	894	884	-10		1,196	1,186	-11
Facilities	165	152	-14		227	232	4
Legal and Professional	568	609	41		793	791	-2
Travel and General Expenses	19	17	-2		34	38	4
Technology	5	7	2		8	7	-1
Data feeds	27	25	-2		46	44	-2
Total Operating Expenses	1,678	1,693	15		2,305	2,298	-7
EBITDA	-595	-616	21		-810	-808	-2
Depreciation	1	1	0		2	1	-0
Interest Income	12	10	2		13	15	-2
PBT	-584	-607	23		-798	-794	-3

Income

5. The sixth sub fund of the ACS platform, investing in the Newton Real Return Fund (£326m), was launched in the quarter, with assets under management increasing to £3.3bn. Subscriptions totalling nearly £353m were also made in the quarter by a number of LLAs, Camden £205m, Enfield £41m, Hillingdon £5m, Redbridge £102m.
6. No further fund launches are forecast for the fourth quarter, but a number (Majedie, Newton and Longview) are in progress and due to launch in 1Q 2017.
7. It should be noted that the CIV is proposing a fee charging model in respect of the passive funds managed by LGIM to take effect from April 2017, but no income has been accrued in the current financial year.

8. Fund sizes as at 31 December are as follows:

LGPS CIV Global Equity Alpha fund	£625m
LGPS CIV Diversified Growth Fund	£346m
LGPS CIV Global Alpha Growth	£1,489m
LGPS CIV Pyrford Global Total Return Fund	£201m
LGPS CIV Ruffer Absolute Return Fund	£347m
LGPS CIV Newton Real Return Fund	£326m
	£3,335m

9. The profile of the AUM growth and other key statistics for the five years to March 2022 are given in the table below:

	FY 2016/17	FY 2016/17	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
	Updated Forecast	March 17	March 18	March 19	March 20	March 21	March 22
Assets under management (AUM) in £Mn	3,336	3,252	6,344	8,641	11,562	12,922	14,129
New Sub-funds per year	4	4	9	5	7	0	0
Total Sub funds	6	6	15	20	27	27	27
LCIV Staff (FY Year End)	11	11	24	25	25	25	25
LCIV Shareholders	33	32	32	32	32	32	32
Annual Service Charge	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Development Funding Charge (DFC)			75,000	65,000	50,000	20,000	10,000

Expenditure

- As mentioned above, the updated expenditure forecast for the full year is not expected to be materially different from the MTFS.
- Professional fees for the full year forecast (£793k) include £120k of consulting fees from Mercer and Redington. There has been discussion at the Board and amongst stakeholders as to whether these costs, together with other directly associated third party professional costs such as legal fees, should be charged to the funds – for the purposes of financial prudence these costs have been expensed in the current financial year.
- The contract with Capita who provided assistance with the LCIV's investment and operational processes and technical support expired at the end of November. A number of these functions have been brought in-house although certain activities continue to be outsourced until the LCIV has the necessary resourcing and systems. The current arrangement will generate a saving in excess of £100k in the next financial year.
- A detailed breakdown of professional fees for the full year will be presented at the next meeting of the PSJC.

Balance Sheet and Capital Adequacy

- The balance sheet for LCIV as at the end of December 2016 and the forecast balance sheet is detailed below:

BALANCE SHEET		
	December 16	March 17
Non-Current Assets		
PPE	6	6
Accumulated Depreciation	1	1
Total Non-Current Assets	5	4
Current Assets		
Other Assets	178	
Cash	4,928	4,068
Total Current Assets	5,107	4,068
Current Liabilities	679	
Total Assets	4,433	4,073
Capital and Reserves		
A Class Shares	0	0
B Class Shares	4,950	4,800
Retained Earnings	67	67
Profit/Loss in year	-584	-794
Total Capital and Reserves	4,433	4,073
Total Liability and Shareholder Capital	4,433	4,073

15. LCIV is required to file regulatory returns to the FCA on a quarterly basis. The calculation of the capital adequacy position at the end of December is detailed below:-
16. The reduction in regulatory capital surplus between December 2016 and March 2017 follows the pending merger of the Wandsworth and Richmond shareholdings which is likely to reduce the share capital by £150k.
17. The Committee is asked to note that the LCIV has a large regulatory capital surplus.

CAPITAL ADEQUACY	December 2016	March 17
AUM Assumptions 2017 / 2020 (£ Mn)	3,336	3,252
A = Initial Capital - Euro 125k	112	112
B = 0.02% of AUM in Excess of EUR 250 Mn	623	606
C = Quarter of Operating Expenses	576	574
D = Professional Negligence	25	25
Regulatory Capital Requirement	759	742
Share Capital	4,950	4,800
Retained Earnings	67	67
Current Year P&L	-795	-794
Total Reserves Carried Forward	4,222	4,073
Surplus/Deficit Regulatory Capital	3,463	3,330

Recommendations

18. The Committee is recommended to note:-
 - i. the financial report for the nine months to December 2016
 - ii. the updated forecast to March 2017
 - iii. the capital adequacy position of LCIV as at December 2016

Financial Implications

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

Legal implications

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

Equalities implications

21. There are no equalities implications for the Committee.