

## Pensions CIV Sectoral Joint Committee Item no: 10

### Shareholder and Investor Reporting Framework and Progress Reporting to DCLG

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**Summary:** This report sets out a reporting framework for London CIV's reporting to its key stakeholders covering investment related reporting. In addition the report provides an update on reporting to government on pooling progress.

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**Recommendations:** The committee is recommended to:

- i. Consider and note the requirement to report to DCLG on Investment Pooling Progress.
- ii. Consider and note the reporting framework for shareholders and investors

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## **Background**

1. This report sets out a framework for reporting investment performance and key financial information to key stakeholders including shareholders and investors. It follows on from the aims and objectives set out in London CIV's Business Plan and Medium Term Financial Strategy (MTFS) provided to this Committee at its meeting in February and the update on the MTFS and progress reporting covered in another paper for this Committee.
2. In addition the report covers the reporting on progress on investment pooling which is required by DCLG for submission on 21 April 2017 with further progress required in October. It also encompasses further correspondence received from DCLG clarifying recent comments at the London CIV conference by the Minister on movement between funds and pools

## **Shareholder and Investor Reporting Framework**

3. In addition to the reporting being provided to this Committee on the MTFS and progress against key milestones included as another report on the agenda, the Committee are asked to consider the draft reporting framework set out in Annex A.
4. The Framework is intended to provide a high level overview of the reporting to key stakeholders including but not limited to this Committee, LLA Pension Funds and wider stakeholder groups. Timescales for reporting and in particular investment and financial reporting are included within the report in a table. Members are asked to review the draft reporting framework and comment as required. This framework has been drafted in conjunction with the reporting and transparency working group (formed from the Investment Advisory Committee; IAC) and reviewed by the IAC.
5. This framework is one element of a wider client and stakeholder engagement piece of work which is being progressed to include a communications policy statement for review at this Committee at a future meeting as well as the development work which is progressing well on the client portal, which will enable Funds easy access to a comprehensive reporting suite. It is hoped that this will be available for use by Funds over the summer.

## **DCLG Reporting**

6. Following the July 2016 submission on pooling from the London CIV and other LGPS pools around the Country, DCLG requires regular reporting on progress, with the first of those reports falling due on 21 April 2017. The London CIV received a letter from DCLG in mid March requiring it to provide an update on progress towards pooling in template format to be used by all LGPS Investment Pools (Annex A). The progress report follows the same structure as the July submission, i.e. the requirement to report against the four key criteria in the Investment Reform: Criteria and Guidance. At the time of writing, officers of LCIV are still compiling the response to the request. A copy of the response will be circulated to the PSJC for comment in advance of submission to DCLG.
7. Key points for the response:
  - Criterion A: Scale – This will cover progress on the opening of sub-funds and transfer of assets along with an update of the assets likely to remain outside of the CIV, certainly for the immediate future such as life funds. The update

on scale will be aligned with the business plan agreed with the Joint Committee at its meeting in February. LCIV will also be covering some of the risks to delivery, encompassing a range of factors including the ability to open the range of investment strategy sub-funds required by LLAs to meet their wide ranging investment strategies taking into account the legal and regulatory timescales for delivery.

- Criterion B: Governance – Members will be considering a report on the governance review at this meeting and an update on this will be provided to government. It will also include the work that the CIV is doing to collate and analyse the new Investment Strategy Statements and asset allocation decisions which are following on from the triennial actuarial valuation.
  - Criterion C: Reduced Costs and Value for Money – This will include an update on the savings achieved to date and again will reflect the recent financial estimates coming out of the MTFS on implementation and ongoing running costs of the CIV. The CIV is also required to provide narrative on how it will report on fees and net performance, some of which it is already doing to individual funds but also across the pool itself.
  - Criterion D: Infrastructure – The CIV is required to report on target allocations to infrastructure, however as this remains an asset allocation decision, we will be recording the allocations that LLAs are currently including in their Investment Strategy Statements. This will also cover an update on the preliminary work being undertaken by the CIV to review options for infrastructure.
8. Following the recent presentation by the Minister at the London CIV conference, a follow-up letter has been received clarifying the comments from the Minister on pooling in response to a query about the ability of Funds to access other Pools to gain access to a particular investment manager. This letter is included at Annex B for information.

### **Recommendations**

9. The committee is recommended to:
- i. Consider and note the contents of this report
  - ii. Comment as required on the Government's pooling progress review
  - iii. Comment as required on the reporting framework

### **Legal Implications**

10. There are no legal implications at this time.

### **Financial implications**

11. There are no financial implications at this time.

### **Equalities Implications**

12. There are no equalities implications at this time.

**Attachments**

Annex A – Shareholder and Investor Reporting Framework

Annex B – DCLG Investment Pooling Progress Review

Annex C – Correspondence from the Local Government Minister

## LONDON CIV EXTERNAL REPORTING FRAMEWORK FOR SHAREHOLDERS AND INVESTORS

### **Background:**

The purpose of this paper is to provide an overview of the reporting framework operated by London CIV (LCIV) setting out how reporting and transparency will be delivered to participating London Local Authority (LLAs) Pension Funds as both shareholders and investors, as well as other key stakeholders.

The Framework has been developed to set out for LLAs the level of reporting that LCIV aims to deliver in order to ensure that its shareholders and investors receive the information that they need to fulfil their regulatory responsibilities with regard to financial and broader reporting. In addition, it is designed to provide the LLA's with assurance on the robustness and transparency of LCIV reporting, and that they will receive the information they need to be able hold LCIV to account as shareholders. One of the key value propositions and aims of LCIV is to provide transparency to its shareholders and investors and this includes regular and transparent reporting :

**Transparency:** providing transparent reporting across investment performance, client reporting, risk management and client benefits

As a regulated entity LCIV has to ensure that information issued meets the true, fair and not misleading test and this requires reporting to be compliance checked before it can be issued to stakeholders. The reporting framework has been drawn up in conjunction with LCIV's stakeholders to ensure that it is meeting their needs for reporting.

### **London CIV Strategic Framework:**

LCIV's strategic framework outlines the core purpose of the organisation, its vision, and the value proposition to the LLAs.

**Purpose:** LCIV's purpose is to create a collective investment vehicle for London Local Authority (LLA) Pension Funds which delivers broader investment opportunities and enhanced cost efficiencies than LLAs can achieve individually and overall better risk-adjusted performance.

**Vision:** LCIV aims to be the vehicle of choice for Local Authority Pension Funds through successful collaboration and delivery of compelling performance

**Value Proposition:** The LCIV value proposition to the LLAs focuses on:

- Performance:** providing superior risk adjusted investment outcomes by leveraging scale economies and full-time resources focused purely on investment management
- Opportunity:** providing a broader range of investment opportunities than might be accessible by an LLA acting alone
- Efficiency:** providing cost effective investment products through leveraging the scale of LLA pooled assets and being an efficient organisation

**Transparency:** providing transparent reporting across investment performance, client reporting, risk management and client benefits

**LCIV Objectives:** Below are LCIV's Aims and 2017/18 Objectives and KPIs.

LCIV Aims
<b>Investments and Investment Oversight</b>
<ul style="list-style-type: none"><li>• Deliver cost effective investment solutions which enable the LLA Pension Funds to meet their investment objectives</li><li>• Demonstrate and deliver effective investment oversight appropriate for a large scale regulated investment vehicle</li></ul>
<b>Client Service</b>
<ul style="list-style-type: none"><li>• Provide excellent client service</li><li>• Deliver identified client cost savings benefits</li><li>• Deliver transparent, regular and effective reporting to clients and stakeholders</li></ul>
<b>Finance and Business Operations</b>
<ul style="list-style-type: none"><li>• Achieve target AUM levels and revenues</li><li>• Maximise operational and cost efficiencies</li><li>• Establish a high-performing learning organisation</li></ul>
<b>Governance, Risk and Compliance</b>
<ul style="list-style-type: none"><li>• Deliver LCIV's value proposition within an effective governance structure</li><li>• Remain an enterprise risk managed and compliant company</li></ul>

### **Key Stakeholders:**

LCIV recognises that there are a range of external stakeholders for the purposes of reporting:

- Shareholders – Pensions Sectoral Joint Committee
- London Local Authority Pension Funds
- Local Pension Boards
- Scheme members
- Wider Stakeholders including, but not limited to: Central Government; Scheme Advisory Board; FCA; Auditors

### **Reporting to Stakeholders:**

Reporting to stakeholders will primarily be in electronic format and increasingly be held within the client portal area of LCIV's website. In order to be as transparent as possible, documents will be available on the public site, but where information is considered to be sensitive or confidential this will be in the secure area for Members and officers to access.

### **Pensions Sectoral Joint Committee (PSJC)**

Key Reporting to PSJC:

- Annual and Interim Financial Statements
- Annual Budget and Medium Term Financial Strategy
- Quarterly Investment and Sub-Fund Performance Update
- Quarterly Investment Advisory Committee Update from the Chair of that Committee
- Additional reporting as required

Reporting to the PSJC takes place as a minimum on a quarterly basis and comprises a mix of financial, investment, quarterly performance and wider updates. Financial Reporting covers the

Financial Statements of London CIV along with the annual budget and medium term financial strategy (MTFS). The Shareholders Agreement requires an annual budget setting process that is submitted to shareholders for approval. Reporting on progress against the annual budget will be covered in subsequent financial updates to the Committee. The annual budget setting and MTFS will set out the budget for LCIV for the next financial year along with the longer term 4 year forecast for meeting the LLA Pension Fund needs. The budget and MTFS are highly dependent on a wide range of factors which include the number of sub-funds available, LLA investment through LCIV along with a range of external factors, not least of which is the performance of investment markets and the impact that this can have on LCIV's revenue projections.

The PSJC will also be provided with a financial report which covers progress against budget, but also the Annual Financial Report and Accounts along with the Interim Statements.

The Quarterly Investment and Performance Update on the Sub-Funds will encompass an update from the Chief Investment Officer (CIO) on the investment and economic backdrop and market outlook. The Sub-Fund performance update provides the PSJC with a high level overview of all the sub-funds on the CIV platform including both the quarterly and longer term performance of the sub-fund as appropriate. This will also cover a high level voting and stewardship overview.

The Investment Advisory Committee (IAC) is formed of a number of treasurers from the LLAs, pension managers and officers from LCIV. It meets regularly to review progress and to work jointly on a range of projects which are key to the development of the joint working relationship between LCIV and the LLAs. The Chair of the IAC will provide a report on the activity of the Committee along with progress updates from working groups established to cover specific projects. This ensures that LLAs are engaged at all levels of development.

#### **London Local Authorities (LLA):**

##### **Key Reporting to LLAs:**

- Valuation Statements and Transaction Schedules
- Fees and Charges Schedule
- Quarterly Investment and Sub-Fund Performance Update
- Manager Oversight Briefings
- Internal Controls Reporting
- Annual Voting and Engagement Reporting
- Annual and Interim Financial Statements
- Annual Budget and Medium Term Financial Strategy
- Ad-hoc reporting as required
- Attendance at local Committee meetings

As a matter of course, LCIV will arrange for monthly, quarterly and annual statements and transaction schedules to LLA's investing through its sub-funds. In addition LCIV will provide a breakdown at least annually of all fees and charges relating to those investments. More regular reporting of these can be arranged as required by the individual LLA.

Detailed quarterly reporting will be provided to investors providing an update on the investment and economic backdrop which will have impacted on investment markets over the quarter as well as a forward outlook. Quarterly reporting on the individual sub-funds will be provided covering the total value of the sub-fund, the quarterly performance of the sub-fund (against benchmarks where appropriate) and longer term performance where applicable. This will also include a commentary on performance including key factors influencing performance and how the underlying managers are being monitored. As part of the investment oversight process, the Investment Team at LCIV meet quarterly with the sub fund investment managers to review performance and provide challenge to

the manager on their performance. Manager oversight briefings will be distributed to investing funds, but may contain sensitive material and commentary on the underlying managers and should be treated as confidential by investors.

An annual report on voting and engagement will be provided as part of the reporting process, but it should be noted that this is also included in the individual quarterly reporting for some of the sub-funds.

Reviews of the internal controls reports of the external providers to LCIV will be reported on an annual basis to investors where these are available. It should however, be noted that at this time LCIV is not required to produce this, but will look to do so at a future date.

LCIV's ACS Fund interim and full year report and accounts as well as LCIV's Company annual report and accounts will be provided to all investors along with the annual budget and medium term financial strategy.

It is recognised that LLAs will have a requirement for additional reporting from time to time and this is likely to cover FOIA (Freedom of Information Act) requests (for which there is a dedicated email: [foirequests@londonciv.org.uk](mailto:foirequests@londonciv.org.uk) ) and other additional reporting, LCIV will endeavour to cover such requests in a timely and transparent manner.

LCIV will always endeavour to attend local Committee meetings when requested to provide information on sub-funds, their performance and updates on LCIV progress.

**Local Pension Boards:**

No specific reporting is currently available to Local Pension Boards, but it is recognised that Pension Boards have an important role in the governance of the Local Authority Pension Funds. Information on LCIV funds and performance will be made available as required. In addition, officers from LCIV will always endeavour to attend Pension Board meetings when requested.

**Scheme Members:**

LCIV fully recognises that scheme members are key stakeholders in Pension Funds as beneficiaries of the pension scheme. Whilst there are currently no plans to provide information direct to scheme members, as far as possible all key information will be publicly available on LCIV's website. Where Pension Fund AGM's are held and LCIV are invited to attend to provide an update, all endeavours will be made to provide representation from LCIV.

**Wider Stakeholders including, but not limited to: Central Government; Scheme Advisory Board; FCA; Auditors:**

LCIV will work closely with other stakeholders to provide reporting to Central Government, the LGPS Scheme Advisory, FCA and other external bodies as required. In addition it is recognised that each LLA will have both internal and external auditors and will work closely with the LLA Pension Funds to provide information required to respond to audit queries.



External Reporting Framework				
Frequency	Nature of Reporting	Recipients	Provided By / Overseen By	Target Timeframe
<b>Monthly</b>	Monthly Valuation Statements (including transactions)	Individual Fund Investors	Northern Trust / Operations Manager	3 Business Days from month end
<b>Quarterly</b>	Dividend Statements	Individual Fund Investors	Northern Trust / Operations Manager	3 Business Days from quarter end
	Fees & Charges Schedule	Individual Fund Investors	Northern Trust / Operations Manager	10 Business Days from quarter end
	Summary Fund Performance Data	Individual Fund Investors	LCIV Investment Team	5 Business Days from quarter end
	Investment and Fund Report	All Investors / PSJC	LCIV Investment Team	20 Business Days from quarter end
	Manager Oversight Briefings	All Investors / PSJC	LCIV Investment Team	35 Business Days from quarter end
<b>Six Monthly</b>	LCIV ACS Fund Interim Report & Accounts	All Investors / PSJC	LCIV Operations Team	End August
	Interim Investment and Transaction Statement	Individual Fund Investors	Northern Trust / Operations Manager	20 Business Days from Half-Year end
<b>Annual 1st April - 31st March</b>	Annual Transaction Summary (subscriptions & redemptions)	Individual Fund Investors	Northern Trust / Operations Manager	10 Business Days from year end
	Annual Fees and Charges Schedule	Individual Fund Investors	Northern Trust / Operations Manager	10 Business Days from year end
	Third Party Internal Controls Reports Review	All Investors	Third Party Providers to LCNV / Reviewed by LCIV	30 Business Days from Year End
	LCIV ACS Fund Annual Report and Accounts to 31/12	All Investors / PSJC	LCIV Operations and Team	End April
	LCIV Company Report & Accounts to 31/03	All Investors / PSJC	LCIV Operations and Team	End June
	Annual Investment and Fund Review to 31/03	All Investors / PSJC	LCIV Investment Team	25 Business Days from year end
	Voting and Engagement Report	All Investors / PSJC	LCIV Investment Team	30 Business Days from Year End
<b>Ad-Hoc</b>	FOI Requests received from LLAs	Individual Fund Investors	LCIV	5 Business Days from request
	Audit Requirement Responses	Individual Fund Investors	LCIV	3 Business Days from request
	Additional Reporting as Required	Individual Fund Investors	LCIV	According to requirements



Department for  
Communities and  
Local Government

Chairs of LGPS pension funds  
Chairs of LGPS investment pools

**Marcus Jones MP**  
*Minister for Local Government*

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Dear Chairs,

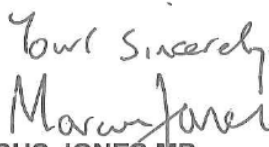
15 MAR 2017

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

As you know I will be reviewing the progress of all the pools in spring and autumn 2017. For pools which are not yet operational I will need to see your plans for becoming operational by the deadline of April 2018, including your progress in establishing a core team and securing Financial Conduct Authority authorisation. For all pools I will expect to see details of your current progress and plans for delivering savings, for increasing your infrastructure investment in line with your ambition, and for reporting, including on fees and net performance by asset class.

As part of this process I will expect you to submit a short report on progress up to Friday 31 March, using the template attached. This should include an update on your progress in meeting my specific expectations for your pool as set out in my letter responding to your final proposals. The deadline for submission is Friday 21 April. My officials will follow up with individual pools as necessary with any further questions or concerns. A further report on progress to 30 September will be required in October.

I am grateful for your continuing commitment to delivering this vital and challenging reform programme and welcome your engagement with my officials.

Yours Sincerely,  
  
**MARCUS JONES MP**

## **Local Government Pension Scheme pooling: progress report**

Please report against each of the areas outlined below as at 31 March 2017, highlighting significant changes since your final proposal.

The deadline for submission is Friday 21 April 2017. We will follow up any questions or concerns with individual pools as necessary.

**Pool:** \_\_\_\_\_

**Date:** \_\_\_\_\_

### **Criterion A: Scale**

For pools in development

- Scale – please state the estimated total value of assets included in your transition plan for investment through the pool structure, with date of estimate
- Assets outside the pool - please state the estimated total value of assets to be invested outside of the pool structure by participating funds
- Progress towards go live by April 2018
  - please provide an updated high level project plan to achieve delivery by April 2018 including progress with operator procurement/build, design of sub funds, recruitment of core team, appointment of depository and FCA authorisation
  - please identify risks or issues which may delay delivery by April 2018, and any plans to mitigate risks and/or manage issues

For operational pools

- Structure and scale - please state the total value of assets to be invested via the pool together with the value of assets to be invested outside of the pool by participating funds
- Progress with transition - please state the value of assets within the pool and provide an updated high level transition plan

### **Criterion B: Governance**

For pools in development

- Progress with governance arrangements - please provide an updated high level project plan for the implementation of governance arrangements.

For operational pools

- Changes to governance since final proposal - briefly describe any changes to the governance structure, in particular please set out your plans for ensuring the pool can effectively implement the asset allocation and responsible investment strategy of each fund

### **Criterion C: Reduced costs and value for money**

For all pools

- Update on costs/savings estimates – please state current high level estimates for implementation costs and eventual annual savings
- Plans for delivering savings – please set out your high level plan and timescales for delivering the annual savings above
- Plans for reporting including on fees and net performance in each listed asset class against an index – In particular please set out how the pool will report fees to participating funds on a fully transparent basis and using comparative performance and/or cost data.

### **Criterion D: Infrastructure**

For all pools

- Progress on infrastructure investment – please state your target allocation for infrastructure and committed funds at the pool level and/or across pools. Please also set out your plans for the platform/product/and/or external manager arrangements to achieve that target
- Timetable to achieve stated ambition.- please provide a high level project plan for the implementation of the platform/product/and/or external manager arrangements described above



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Our Ref: 3178983

15 MAR 2017

Dear Lord Kerslake,

Thank you for your letter of 23 January, responding to my letter of 16 December about your final proposal for investment pooling. I welcome your assurance that the London CIV and member authorities are committed to the delivery of pooling. Please accept my apologies for the delay in responding.

You raise concerns on the new Markets in Financial Instruments Directive (MiFID II). As you say, MiFID II requires local authorities to be classified as retail clients but provides for an opt up process to professional client status. I am aware that the detailed proposals from the Financial Conduct Authority (FCA) for the process have created significant concern among local authorities and pools, as they do not appear to apply straightforwardly to local authority organisation and decision-making.

I therefore welcome the FCA's engagement with the sector on the opt-up process and other MiFID concerns, including recent meetings with the Cross Pool Collaboration Group and the Local Government Association. My officials and officials from the Treasury are also in discussion with the FCA and other parties, and I believe a satisfactory solution will be found.

As the question was raised again with me at your recent conference, I will take this opportunity to make clear that funds may not use multiple pools in order to access a preferred investment manager. To deliver and maintain the substantial savings I expect over the long term, very large asset pools are required with effective delegation of manager selection. The benefits of scale include lower costs for investment management, for access to alternatives, for transactions (through crossing) and for custody.

Yours sincerely,

MARCUS JONES MP