

# Pensions CIV Sectoral Joint Committee Item no: 14

## Quarterly Client Engagement and Stakeholder Report

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

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**Recommendations:** The committee is recommended to note the report and provide feedback on the draft event schedule

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## Quarterly Client Engagement and Stakeholder Report

### Overview

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

### Investments in Sub-Funds

3. Two further sub-funds were launched in May, a UK equity (where Majedie is the delegated manager) and a further global equity strategy (delegated manager: Newton). The table below provides an update on the sub-funds and the number of investors as at 30th June 2017.

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

4. Members have previously requested that a full breakdown of the investing LLAs be provided for information to the Committee. This is attached as Annex A to this report and shows individual LLA holdings in the differing sub-funds. This shows 18 LLAs were directly invested through LCIV at the end of May 2017 with assets under management (AUM) of £4.9bn.
5. Passive Life Fund data for LLAs invested in LGIM is also shown in Annex A for information with AUM as at 30 April 2017 of £4.7bn. Whilst new rates have been agreed with another key passive provider BlackRock, confirmation from LLAs on signing up to the new arrangements is still awaited for two funds at the time of writing, hence their data is not being provided at this stage.
6. Taking into account LLAs directly investing through LCIV (18) plus additional LLAs investing through LGIM on LCIV negotiated fee rates over and above those in LCIV dedicated sub-funds adds a further 4 LLAs directly benefitting from the effects of pooling of investments. Once LLAs have finalised their decisions on the BlackRock negotiated fee savings this will bring in an additional 3 LLAs who will have benefitted either directly or indirectly through LCIV, taking the total up to 25 LLAs.
7. Further global equity sub-fund launches are scheduled to occur in July, with another sub-fund under the Commonality, Quantum and Conviction criteria, namely Longview. At this time, it is anticipated that 3 funds will be transitioning assets across and this will include another LLA for whom this will be their first LCIV investment, namely London Borough of Harrow.
8. The other sub-fund scheduled for launch in July will be the first of the initial 3 sub-funds which have come through the global equity procurement process, an emerging market strategy where the management of the sub-fund is being delegated to Henderson Global Investors, indications of interest in this sub-fund have already been received from 3 LLA's, one of whom will be a new investor through LCIV.

### Meetings with London Local Authorities

9. This section provides an update to the Committee on the attendance by LCIV officers at meetings with stakeholders over recent months. The focus has primarily been on meeting with local authority officers to develop a greater understanding of the forward looking investment strategies for the LLAs following the actuarial valuation of 2016.
10. The table below sets out the number of meetings that London CIV officers have attended both with Pension and Investment Committees and other forms of engagement:

London Local Authority Meetings April - June 2017	
	Number of Meetings
Pensions Committee Meetings	5
Local Authority Officer Meetings	15
Attendance at Pension Board	0
Attendance at Pension AGMs	0

11. LCIV officers have been working closely with LLA officers to review investment strategy following the actuarial valuation of 2016. Whilst a number of LLAs are still reviewing and

finalising their strategic asset allocation and setting new investment strategies, it has been possible to gain a high level overview of likely changes to asset allocation over the coming months.

12. The table below sets out at a high level the current proposals as far as they can be gathered at this time in terms of where the bulk of the asset allocation changes are likely to take place. Where possible we have used assets under management at 31st December 2016, where these were readily available in Committee reports or direct from the LLA. Approximately half of the LLAs have provided their forward looking strategies; the remainder are still working with their investment advisers to refine proposals to put before their relevant pension committees in the autumn. From the data available combined with some additional data received from the fixed income working group, there are some clear trends on likely shifts in asset allocation primarily out of risk assets, primarily equity (£1.8bn) and into income generating assets, a range of multi-asset income (£0.4bn), illiquid assets including private debt (£0.6bn), property (£0.6bn) and infrastructure (£0.6bn).

Asset Class	Total £m
<b>AUM 31/12/16</b>	<b>32,626</b>
UK Equities	-63
UK Passive	-745
Global Equities	-567
Passive Global Equities	-432
DGF	-154
Index Linked Gilts	112
Gilts and other FI	-199
Multi-asset credit	134
Multi-asset income	426
Corporate Bonds	55
Hedge Funds	-57
Illiquid Credit Inc Private Debt	624
Private Equity	147
Property	615
Infrastructure	591

13. Feedback from meetings with the LLAs would also indicate that a significant number are keen to transition assets across to LCIV, and are keen to understand the timeframe for sub-fund launches in order to build into their strategic decision making. With the opening of the additional global equity sub-funds over the next 3 months, plus additional funds at the end of the year, this is likely to provide sufficient choice and flexibility in global equities. Work is ongoing to determine the range of global equity sub-funds to be launched at the back end of the year. Within this, there are a number of LLAs who are keen to see a range of offerings in the fossil free / low carbon options. Whilst recognising that the range of global equity sub-funds will have expanded choice considerably and a

single UK equity fund, some comments have been received that a further option in active UK equity is required mean that for most LLAs with the addition of low carbon options should offer sufficient choice and flexibility to enable LLAs to transition equity portfolios over time. However, it is recognised that there is an increasingly diminishing (at this time) allocation to equities reflecting the increasing maturity of the LLA pension funds.

14. The largest demand for more immediate sub-funds is in the area of multi-asset income, multi-asset credit, corporate bonds and illiquid credit as can be seen from the table above with around £1.2bn being allocated to this area over the coming months. This only reflects the allocations of the LLAs where they have made decisions in respect of this asset class, with around a third of LLA's still to give any indication of plans in this area, although this may not be available until later this year. Typically allocations of between 5-10% are being made to these areas and this would appear to be backed up by conversations with the investment consultants. Within this, when questioned about requirements on a returns basis of 2-4%, 4-6% and 6-8%. There is limited interest in the 2-4% but possibly enough to justify a single approach, considerable interest in the 4-6% return space, but for a range of products, along with interest in the 6-8% return sleeve looking for a blended approach. A fixed income survey is currently also being compiled to seek LLA views on future requirements, although with a number still going through their asset allocation reviews, the survey may not deliver the definitive answers that LCIV might hope for. However, working with the fixed income working group who are perhaps more advanced in the decision making process are providing some reasonable steers in terms of requirements. From the meetings and conversations held, this area is the one where there is the most urgent need for LCIV to have sub-funds available to deliver to LLA strategic requirements. Whilst recognising that in the business plan these are not scheduled for launch until next spring, indications are that LLAs will need to take action prior to this in order to implement their strategic asset allocation decisions. Recognising that work is ongoing with the fixed income working group, which means that subject to fund launch programmes, it may be possible to deliver some initial options prior to the end of the calendar year, this should enable LCIV to receive a significant proportion of the allocation of assets in this space. LCIV officers have now begun the process of engaging Investment Consultants to assist with the search and selection of suitable products and it is hoped that an indicative product list and timeline can be provided to LLAs shortly to enable them to make decisions to allocate to LCIV as they approach their Committees in the autumn with strategic asset allocation reviews. This is a new asset class for LCIV and it is not possible to know what challenges might be encountered as things progress, the timeline will be kept under review and LLAs kept informed of any changes.
15. Growing demand for property and infrastructure as part of the need to access longer term stable cashflows is also becoming evident, with a number of LLA's looking to allocate to these areas. Whilst looking to make allocations in this area, the timeframe for doing so, at this point, would seem to be slightly longer and less of an issue if sub-funds aren't available until 2018/19. Where there are indications of demand in this area, at this time it is probably in the region of up to 5% initially.
16. Work will be ongoing over the next few months to liaise closely with LLAs as they continue to develop their strategic asset allocation with their investment consultants. Ongoing monitoring of Committee papers, surveys and 1-2-1s as well as working closely

with the Investment Advisory Committee to better understand future strategic investment requirements of the LLAs.

## **Pooling Update**

17. In line with the LGPS Pooling Agenda, Investment Pools were required to supply DCLG with a progress report to 31<sup>st</sup> March 2017. Annex B sets out the response supplied on behalf of LCIV and the London Local Authorities. Six monthly progress reports are required with the next one due for the period to the 30<sup>th</sup> September 2017. Copies of the update report were distributed to the Board, Chairs of the PSJC and to LLA officers.
18. The CEO and CRD attend the monthly cross pool working group meetings with the other pools to collaborate more widely across the country. This has been a helpful group in terms of addressing issues which all pools face including MiFID II. The meetings are divided into an open session which includes representatives from LGA and Central Government (DCLG, Treasury and Cabinet Office) and closed with just the pool representatives.
19. Cllr Quinn, from the Greater Manchester Pension Fund and representative from the Scheme Advisory Board attended the most recent Cross Pools Working Group, suggesting that it would be beneficial to have councillors from each pool represented at Part A of the Cross Pool Collaboration Group (CPCG). This is now under consideration and it is anticipated that Administering Authorities will be contacted direct.
20. The Cross Pools Group has a number of working groups, namely infrastructure, responsible investment, MiFID II and a new one for dealing with tax related issues. Representatives from LCIV sit on the various working groups feeding into the discussions at a national level.

## **Events**

21. The quarter to end June has been relatively quiet in terms of events organised by LCIV reflecting both Pension Fund accounts closedown, but also the sudden calling of the election. As a consequence it was decided to defer the Low Carbon Workshop until later in the year. A global equity information day was held in May and attended by around 2/3rds of LLAs.
22. **May 2017 (Councillors, Officers and Advisers) – Global Equity Information Day (hosted by LCIV):** This event provided LLA's to meet with the managers of the new investment strategies which included the delegated managers: Longview, Epoch, RBC and Henderson. Overall the event received positive feedback with each session lasting an hour comprising a presentation and question and answer sessions. A copy of the feedback from the event is attached at Annex C for information. There were some good indications of future investments into the new sub-funds once available for investment.
23. Attendees were also asked about future demands and these are also covered by the survey results, with indicative demand for further global equity strategies covering low volatility, low carbon, core and value. LCIV officers are currently reviewing these strategies with further involvement of LLAs and it is anticipated that the next 2-3 sub-fund launches will be announced over the summer.

24. The feedback also sought to capture other areas of interest from the LLAs which showed allocations in favour of infrastructure and fixed income products which are now being worked on.
25. **Future Events 2017:** A series of seminars and workshops are being scheduled for the remainder of the year. As noted above the low carbon workshop has been moved to the autumn pushing and other events being rescheduled to reflect this. Work is currently underway to hold an information day covering LCIV's investment strategies in the DGF/ Total Return space to take place during August. Once the timing for these events has been agreed, save the date calendar notifications will be sent to Members and Officers. An updated proposed schedule of events is attached at Annex D for information.

### **Investment Advisory Committee and Working Groups**

26. The Investment Advisory Committee (IAC) is one of the key mechanisms for engaging with a wide range of LLA's (see separate report from the Chair of the IAC). Following an annual review of membership, the IAC is being expanded to include a greater number of LLAs.
27. The IAC has a number of smaller working groups focussed on specific areas such as global equities, fixed income/cashflow, infrastructure, reporting and stewardship. It also provides a useful sounding board for developing work streams and for gaining an understanding of the LLA strategic investment needs, although clearly these can on occasions be conflicting given the variety of strategies and advisers across the LLAs.
28. The Fixed Income Working Group is providing considerable support to LCIV as it starts refining the options being proposed for sub-fund launches and will be assisting LCIV with the procurement of fixed income advisers and managers over the coming months.
29. The Reporting and Transparency working Group is also providing invaluable assistance to LCIV as it works on developing its reporting framework agreeing a 3 phase approach which will see increased consistency in the reporting format over the next year to 18 months enabling LLAs to more clearly compare sub-funds within specific asset classes more easily. The group are also providing feedback on the development of the client portal to ensure it meets client needs once launched.

### **Website Development**

30. The dedicated client portal work has been ongoing over the quarter led by the Programme Director. A demonstration was provided to the Reporting and Transparency Working Group in June and received positive feedback, the group are now carrying out user acceptance testing and are due to feedback more formally over the next couple of weeks. Their feedback will then be taken into account before the portal is then presented to the full IAC at the end of July. It is proposed that a soft launch takes place over the summer with full access being given to LLAs in the early autumn. A demonstration of the site can be provided to the Committee at its next meeting if Members would find this helpful.

### **Recommendations**

31. The Committee is recommended to note the report and to provide feedback on the draft schedule of events.

## **Financial Implications**

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

## **Legal implications**

33. There are no legal implications.

## **Equalities implications**

34. There are no equalities implications.

## **ANNEXES**

Annex A	LLA Investments through LCIV, passive investments, etc.
Annex B	Pooling Update submitted to DCLG
Annex C	Global Equity Information Day Feedback
Annex D	Updated Draft Schedule of Events



## LONDON LOCAL AUTHORITY INVESTMENTS THROUGH LCIV

The table below sets out the investments by individual LLA into LCIV sub-funds, the funds invested in, the assets under management, and the investments as a percentage of total assets of the individual Pension Fund. Due to timing differences, the Fund AUM data is shown as at 31-12-16, the date for which there is broadly comparable data across Pension Funds publicly available. The LCIV sub-fund holdings are based on end May 2017 valuations. Whilst recognising that the percentage of AUM figure may well be over/under stated, this is the closest available data that reflects current holdings.

London Local Authority	Total Investment per LLA £m 31/05/17	LCIV Funds Invested in 31/05/17	LLA AUM as @ 31/12/16 £m	LLA LCIV Investments as % of total LLA AUM
BARNET	137	Newton RR	1,009	13.6
BARKING AND DAGENHAM	314	Baillie Gifford GE; Pyrford; Newton RR	882	35.6
BEXLEY	384	Newton GE	775	49.5
BRENT	127	Baillie Gifford DGF; Ruffer	777	16.4
CAMDEN	239	Baillie Gifford GE	1,453	16.4
EALING	367	Allianz	1,092	33.6
ENFIELD	48	Baillie Gifford GE	1,035	4.6
HAMMERSMITH AND FULHAM	236	Ruffer; Majedie	982	24.1
HAVERING	300	Baillie Gifford GE; Baillie Gifford DGF; Ruffer	648	46.3
HILLINGDON	105	Ruffer	931	11.3
ISLINGTON	294	Allianz; Newton GE	1,084	27.1
KINGSTON	81	Pyrford	760	10.6
LAMBETH	368	Baillie Gifford GE; Ruffer; Majedie	1,313	28.0
REDBRIDGE	265	Baillie Gifford GE; Newton RR	634	41.7
SUTTON	187	Baillie Gifford DGF; Pyrford; Newton GE	591	31.7
TOWER HAMLETS	421	Baillie Gifford DGF; Baillie Gifford GE; Ruffer	1,313	32.1
RICHMOND & WANDSWORTH	537	Allianz; Baillie Gifford DGF; Baillie Gifford GE	2,093	25.6
WESTMINSTER	559	Baillie Gifford GE; Majedie	1,212	46.1
<b>TOTAL</b>	<b>4,969</b>		<b>18,584</b>	<b>26.7</b>

Data Provided by Northern Trust

## LLA's with no direct exposure to LCIV sub-funds as at 31/05/17

London Local Authority	LLA AUM as @ 31/12/16 £m	Additional Comments
BROMLEY	894	No CQC mandates, strategy review may see assets transition by 2018
CITY OF LONDON	926	Options under review to transition existing mandates where CQC applies
CROYDON	1,021	Large allocation to passive outside of standard fee scales
GREENWICH	1,052	Will be exposed to BlackRock fee savings
HACKNEY	1,282	Strategy review underway - expect to see assets transition by 2018
HARINGEY	1,248	Strategy review underway - expect to see assets transition by 2019
HARROW	770	Will transition Longview assets
HOUNSLOW	933	Strategy review underway - expect to see initial investment shortly
RB KENSINGTON & CHELSEA	841	Exposure to LGIM fee savings
LEWISHAM	1,225	Strategy review underway - expect to see assets transition by 2018
MERTON	623	Strategy review underway - expect to see assets transition by 2018
NEWHAM	1,105	Options under consideration
SOUTHWARK	1,431	Largely passive, fee savings from LGIM and BlackRock
WALTHAM FOREST	800	Strategy review underway - expect to see initial investment shortly
<b>TOTAL</b>	<b>14,151</b>	LLAs with no current direct exposure to LCIV investments

## LGIM Passive Holdings applying LCIV negotiated fee schedules:

Data for the LGIM holdings is based on 30 April 2017 data, with LLA AUM based on end December valuations, the closest data for which there is publicly available information.

London Local Authority	LGIM Passive AUM per LLA 30/04/17 £m	LLA AUM as @ 31/12/16 £m	LGIM Investments as % of total LLA AUM
BARNET	403	1,009	39.9
BRENT	370	777	47.6
CAMDEN	484	1,453	33.3
HAMMERSMITH AND FULHAM	300	982	30.5
HARINGEY	821	1,248	65.8
HILLINGDON	289	931	31.0
ISLINGTON	96	1,084	8.9

<b>NEWHAM</b>	<b>344</b>	1,105	31.2
<b>RB KENSINGTON &amp; CHELSEA</b>	<b>358</b>	841	42.5
<b>SOUTHWARK</b>	<b>409</b>	1431	28.6
<b>SUTTON</b>	<b>71</b>	591	12.0
<b>TOWER HAMLETS</b>	<b>341</b>	1,313	26.0
<b>RICHMOND &amp; WANDSWORTH</b>	<b>316</b>	2,093	15.1
<b>WESTMINSTER</b>	<b>133</b>	1,212	11.0
<b>TOTAL</b>	<b>4,734</b>	<b>16,070</b>	<b>29.5</b>

**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:** London CIV

**Date:** April 2017

**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

**LCIV Response**

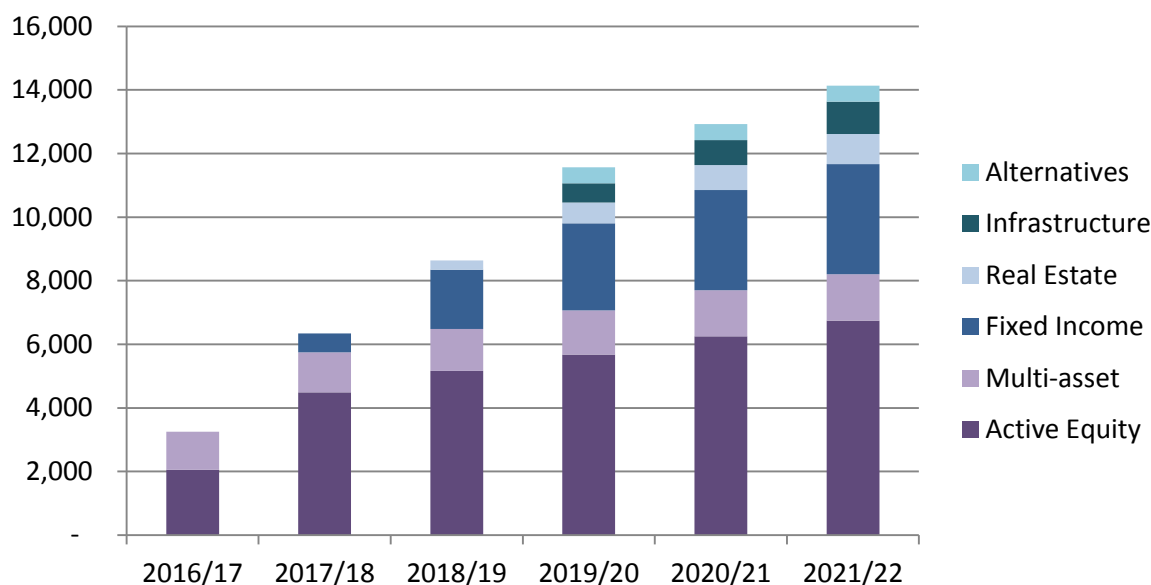
- As at 31/03/17 assets under management within London CIV were £3.5bn with 18 London Local Authorities (LLA) invested. LLA refers to the 32 London Boroughs and the City of London Corporation. Following the merger of the London Borough of Wandsworth and London Borough of Richmond Pension Funds, there are now a total of 32 LLA Pension Funds. Annex A shows the current sub-funds available to LLA's and the number of funds invested in each.
- An additional 3 sub-funds based on a commonality, quantum and conviction approach (i.e. existing LLA mandates) are in the process of being opened which will see the transition of a further estimated £1.6bn-£1.8bn AUM and will bring on board another 2-3 LLAs.
- Following a global equity procurement exercise undertaken in 2016, an initial 3 global equity managers have been selected for the next 3 sub-funds to be opened in July and September. The 3 investment strategy sub-funds comprise Emerging Markets (July), Global Equity Income and Sustainable Equities (September), these have been selected as a first stage following an assessment of LLA requirements for additional global equity options. A global equity information day is being held on 11<sup>th</sup> May following which, LCIV anticipates being able to update with further specific investment levels for each fund from the LLA's although it is recognised that it may

take some time for assets to be transitioned as LLA's continue with their strategic asset allocation evaluations.

- Over the summer, additional work will be undertaken with the LLAs to determine the level of demand for additional global equity investment strategies. Additional managers have been shortlisted to fulfil a range of investment strategies to make them available for sub-fund launches in December.
- In addition London CIV has successfully negotiated London wide CIV rate lower fee scales with 2 passive life fund providers which covers an additional £7.2bn AUM. At this time, life funds will remain outside the LCIV pool as per the government's asset exemptions:

“Pools may therefore continue to hold existing life funds in the name of the current insured party but it is expected that the management and reporting regarding these life funds is done within the pool.”

- LCIV is working closely with the passive life fund providers to fulfil the expectation that the pool will manage and monitor the life funds and is now receiving quarterly reporting from one of the managers where agreement on fees was reached in mid-2016. In addition, in recognition of the savings delivered and the additional monitoring required by LCIV, the Pensions Sectoral Joint Committee agreed at it's meeting in February proposals that LCIV could apply an asset under management based fee on passive assets where LCIV had negotiated and agreed London wide fee rates with passive life fund providers.
- At the time of the July 2016 submission, based on 31 March 2015 data, approximately 26% of LLA's assets were in passive life funds, whilst data to end March 2017 is not yet available for comparative purposes, LCIV believes that as a percentage of assets across London Funds, this is unlikely to have significantly changed and therefore will continue to remain outside of the Pool for the foreseeable future.
- Further, at the time of July 2016 submission assets to be held outside the pool in the medium term included assets such as private equity , property and Fund cash and amount to £4.5bn. This was in addition to the £7.5bn held in passive life funds. Consequently, approximately £12bn was likely to remain outside of the LCIV pool or just over 40% of the assets across the LLAs. At the time of writing, LCIV is currently working closely with the LLAs to assess their strategic asset allocations following the triennial actuarial valuation to better understand how asset allocations might change over the next 1-3 years in order to assess the potential impact on the level of assets to be held outside of LCIV.
- The February meeting of the Pensions Sectoral Joint Committee considered LCIV's updated business plan and medium term financial strategy <http://www.londoncouncils.gov.uk/node/31261> The business plan and MTFS set out the programme for launch of sub-funds and an estimate of the timeframe over which assets would transition across to LCIV. Based on the transition plans within the business plan, LCIV forecast £14.2bn assets under management by March 2022, and that under more optimistic assumptions assets under management by LCIV could increase to £19.4bn if LLA's transition at a faster pace than currently forecast in the base case. The table below shows the progression of asset transfer into LCIV:



- Based on the 2015 assets under management held across LLAs on which LCIV were required to submit proposals on, the table below provides the level of assets transferred in each asset class on the base scenario.

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Share of LLA Assets	Mar-17	Mar-18	Mar-19	Mar-20	March 21	March 22
Active Equities	21%	46%	53%	59%	64%	70%
Passive Equities	0%	0%	0%	0%	0%	0%
Multi Asset	45%	48%	50%	52%	55%	55%
Fixed Income	0%	12%	38%	55%	64%	70%
Property	0%	0%	14%	32%	38%	45%
Infrastructure	0%	0%	0%	306%	398%	517%
Alternative Assets	0%	0%	0%	36%	36%	36%
Total share of LLA Assets transferred	11%	22%	30%	40%	44%	49%

## **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

## **LCIV Response**

- There have at the time of responding to this progress report been no changes to the governance structure. London CIV is currently commissioning a governance review to ensure that the structures and decision making processes in place are robust and effective. Government will recognise that London CIV pool has been operational for some time and was established in advance of the Government's Criteria and Guidance requirements.

- An update on the progress of the governance review will be provided in the October report
- Government will be aware that the LCIV Pool is in some ways more complex than the other pools, despite commencing pooling at an earlier stage; due to the larger number of participating local authorities, at over 2½x the next largest pool for authorities and having started very much on a voluntary basis. Collating and understanding the 32 strategic investment plans is and will continue to be a resource intensive process, particularly given the typically lower level of resources internally at the local authorities dedicated to managing the pension funds.
- LCIV is currently working closely with the participating authorities to develop a fuller picture of the changes which are likely to be effective following the 2016 actuarial valuation as this is likely to impact on future requirements and it may be necessary to adopt a more flexible approach to the business plan if LCIV is going to be able to more effectively offer solutions for LLA Pension Funds to be able to implement their updated asset allocations.
- It should also be recognised that the strategic asset allocation requirements across London Funds, by the very nature of the number of Funds are also in very different places from a funding and cashflow perspective giving rise to significant variations in requirements from the perspective of strategy. Of all the Pools, London undoubtedly has the widest dispersion in terms of funding levels and cashflow requirements. As can be seen from the published results from the actuarial valuations, funding levels vary between less than 60% to over 100% and cashflows before investment income vary considerably, with an increasing proportion of Funds being cashflow negative, but with others remaining strongly cashflow positive. This leads to very different strategic investment requirements and asset allocations.
- Given the regulated structure under which LCIV currently operates as an AIFMD and in particular the ACS structure, it has to be recognised that implementation takes time to achieve once decisions on sub-funds have been agreed. Legal, regulatory and operational clearance takes time and LCIV are cognoscente of the fact that as other pools become operational and pressures on external suppliers intensify to meet deadlines for other pools this could further slowdown the ability of LCIV to potentially meet the deadlines set out in its business plan and MTFS.
- Like a number of other Pools, LCIV has signed up to be a founder member of the National LGPS Transition Manager Frameworks, this will enable competitive pricing and swifter access to transition managers as and when required for LLAs looking to move assets across to LCIV.
- With regards to the responsible investment strategy of LLA's, the regulations make it clear that it is for the Fund to determine its individual approach to ESG matters and voting and is required to set out their policy in the Investment Strategy Statement for the Fund. LCIV are currently reviewing all the ISS across the LLA's to assess requirements. However, working groups at both Member and officer level have been established to look at the whole area of Stewardship and how this can best be approached by LCIV. LCIV worked closely with these groups to agree an approach for LCIV to meet the requirements of the FRC Stewardship Code and the LCIV Compliance Statement and the FRC has confirmed that the Statement meets the requirements of a Tier One as an asset owner, the Statement can be found: <https://www.frc.org.uk/FRC-Documents/Corporate-Governance/Stewardship-Code/London-CIV.pdf>
- LCIV recognises that across the 32 LLAs Pension Funds, very different views and policies on ESG and voting are in place and that it is unlikely to be able to meet all these requirements, but is keen to work closely with authorities to reach some areas of common ground hence the importance of the Stewardship working groups.



## **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.

### **LCIV Response**

- Estimated annualised savings from the sub-funds which are already open amount to £1.38m, with further estimated annualised savings of £2.16m to come through from the additional 3 sub-funds being opened on the basis of existing funds being transitioned to the LCIV platform.
- Estimated annualised net savings from passive fees negotiations and implemented amount to £1.76m. Further annualised fee savings from passive life funds are expected as a second mainstream provider has now agreed terms for London CIV funds which will deliver further annualised savings of just under £1m on the basis of current assets under management.
- Increasingly as the CIV moves forwards, direct comparisons on fee savings will become more difficult as new managers are procured rather than directly transitioned from existing mandates. However, as part of the global equity procurement exercise, managers were asked to evidence in their tender submissions the fee scales for standard institutional mandates versus the fees that would be charged on the new CIV mandates should the provider be successful in their tender submission. Whilst potential fees savings did vary considerably across the different strategies and structures, significant discounts on standard fees were offered across the board. As assets transfer to the new sub-funds, the notional savings on investments will be calculated as assets move across on to the CIV platform to provide evidence on the benefits of scale moving forwards.
- Taking into account the assets under management on the CIV platform and those due to transition across in the next 3 months along with life funds where fee negotiations have been agreed, assets under management or in passive on the CIV platform amount to around £12bn or just over 42% of assets that were reflected in the July submission relating to AUM at 31/03/15. Annualised fee savings including those due to transition shortly and in passive life funds amount to an annualised savings of around £6.3m. At the time of the July submission fee savings were estimated to be in a range of £11.58m (low) to £27.68m (high). Estimated annualised fee savings based on current plans amount to between 54% (low estimate) or 22% (high estimate) of those projected in the July submission, i.e. within the range indicated at the time of submission reflecting the current AUM.
- As noted earlier in this document, LCIV business plan and MTFS sets out the plans for fund launches over the next 3 years and will continue to target fee savings as part of that plan, but as noted earlier strict comparisons become more difficult to evidence as we move away from transitioning existing mandates and procure new strategies. Further as we commented on in our July submission, we want to reinforce the message that as Funds for strategic asset allocation reasons target more complex investment structures, including infrastructure, then actual savings may not be feasible when set against the current investment strategies, although it may be



possible to evidence savings versus what might have been paid by Funds without having the benefits that come from scale of assets.

- We would also like to highlight some of the risks surrounding the delivery plans for pooling, particularly given the experience to date that the LCIV has had in establishing and transitioning assets:
  - Experience in transitioning common mandates – whilst on the surface Funds may appear to be investing with the same manager and mandate, below the surface the mandates can be very different and it can take considerable time and skill to reach a truly common position.
  - Local Authority Pension Investment strategies are not static and this can have an impact on implementation as Authorities adapt asset allocation for strategic reasons, this is particularly the case in pools with larger numbers of moving parts such as the LCIV.
  - Operating in a highly regulated structure with FCA, whilst adding protection for investors can also result in longer timeframes for implementation given the necessary legal and regulatory steps before funds can be launched in the new ACS structures, compared to standard Pension Fund investments or procurement exercises. The impact of MIFID II has yet to be fully understood as the details are still at consultation stage,
  - LCIV has to date been transitioning existing assets largely in-specie on a 'lift and shift' basis for common mandates. Increasingly as LLAs make decisions to transition from existing mandates and into completely new strategies, transition risks come into play. Whilst undoubtedly there are a range of very experienced transition managers available to call on, transitioning large quantities of assets will pose additional risks and could result in significant additional costs if the transitions are not managed very carefully and will need to be monitored closely when undertaken.
- As a Pool already operational, LCIV is already reporting to investors providing net of fee performance data. Investors are also provided with a fee schedule on a quarterly basis with a full breakdown of all charges that are applied to the management of the assets. We have established a reporting and transparency working group to help deliver further enhancements to reporting and to ensure that Funds have access to the data that they need for reporting purposes.
- Information on all sub-funds including pricing is available to all Funds within the LCIV Pool, not just those invested in particular strategies. LCIV are currently working on a secure client portal to facilitate easier access to all LCIV information and data for shareholders and investors.

#### **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

#### **LCIV Response**

- We refer to our July 2016 response to Government, as noted the allocations to infrastructure across London remain relatively low at less than 1%. Where funds had

indicated an interest in allocating to infrastructure then their target allocations were between 3-10%, but as government is aware this is a local asset allocation decision. As noted earlier in this response, we are working closely with our 32 London Pension Funds to better understand their future strategic asset allocation, anecdotally it would seem that a number are now including infrastructure as part of their allocation requirements going forwards, but until a full assessment of requirements has been completed, we are unable to provide further detail on target allocations going forwards. LCIV however, are very focused on looking to meet local strategic asset allocation decisions and where there is increased demand for investment opportunities in infrastructure, we will aim to provide these in a timely manner.

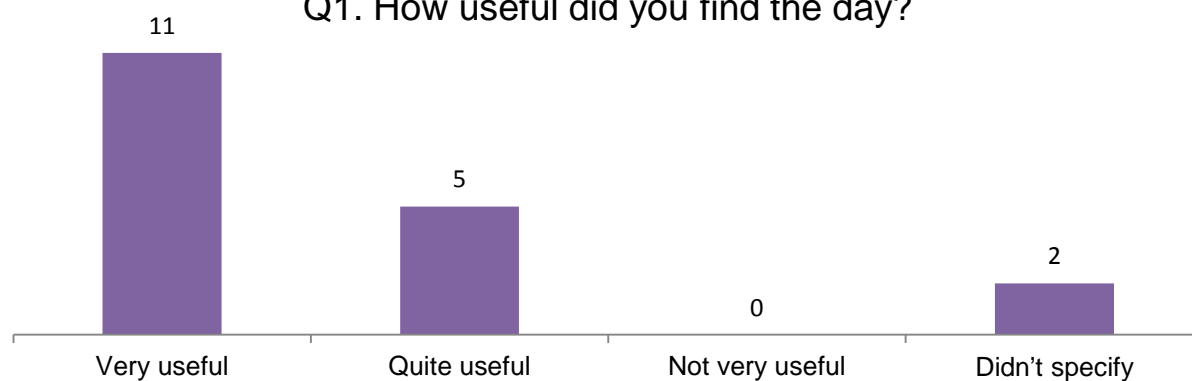
- LCIV continues to have discussions with a range of external infrastructure managers to ensure that essential background research has been completed and is available for investment at such time as the London Funds are ready to invest in infrastructure platforms.
- Where demand for specific asset classes is relatively low or in early stages of development on the CIV platform, LCIV will work with individual funds or small groups of funds to facilitate work and procurement exercises to look for outcomes which could be 'CIVable' at a future date when resources or increased demand for specific products is identified, this is particularly the case in assets such as infrastructure and private markets.
- As part of a broader training and events schedule, LCIV are arranging an infrastructure seminar in the autumn open to Pension Committee Members and Local Authority officers. The agenda for this event is currently under consideration but will include both a training element and the opportunity to meet with a wide range of providers of infrastructure investments.
- LCIV CIO continues to be an active member of the Cross Pools Infrastructure Group and exploring opportunities for collaborative working in this area.
- The business plan agreed with the Pensions Sectoral Joint Committee and the Board of LCIV includes the opening of 2 infrastructure specific funds in the summer of 2019, (business plan and medium term financial strategy agreed February 2017: <http://www.londoncouncils.gov.uk/node/31261> ). However it is recognised that the business plan needs to remain flexible and that investment options are subject to changes in the underlying London Local Authority investment needs to fulfil their strategic asset allocations.

## Global Equity Information Day Feedback Results

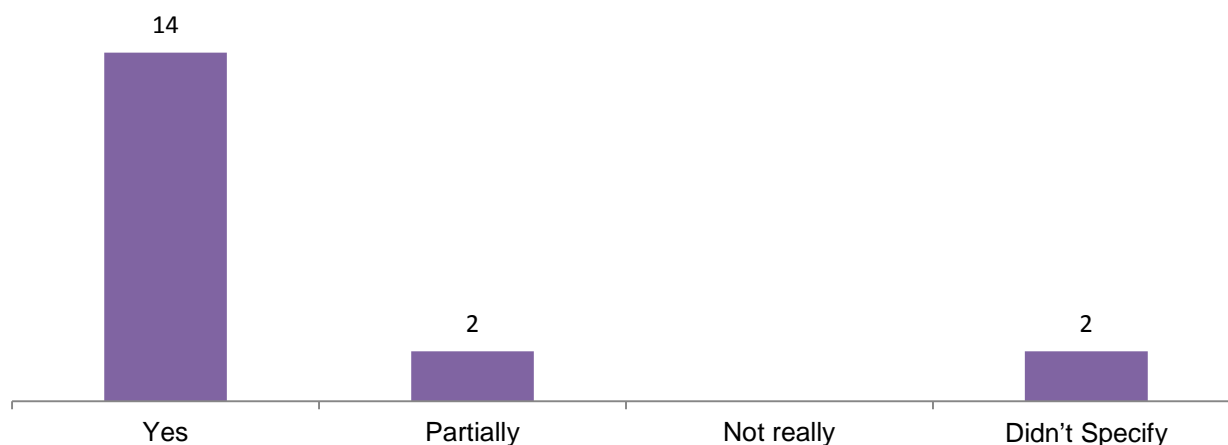
11<sup>th</sup> May 2017

18 people completed our survey regarding our Global Equity Information Day on Thursday 11<sup>th</sup> May, the findings were as follows:

### Q1. How useful did you find the day?



### Q2. Did the event cover all your expectations?



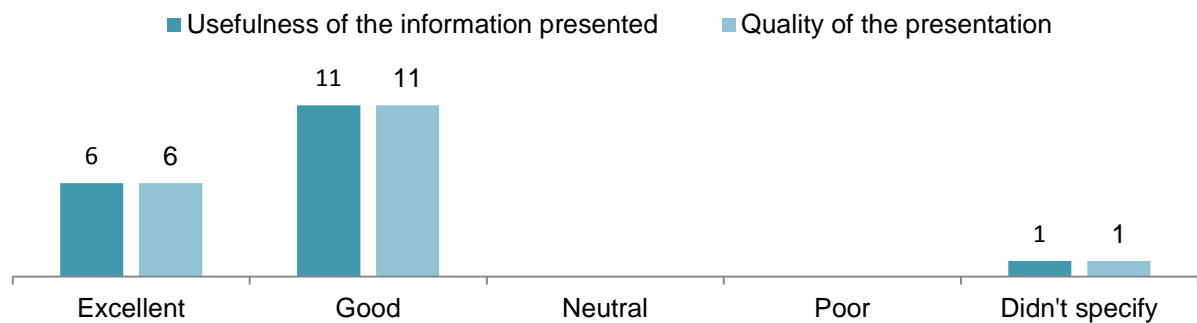
### Further comments:

- Our fund is not actively considering a new global equity manager currently, however it was useful to hear more about the CIV options in this area should our asset allocation change in the future.
- Proposed Summary sheets v useful.
- 1 hour per manager was just right with 30-35 mins presentation & rest for questions. Always interesting to hear what other CIV members think.

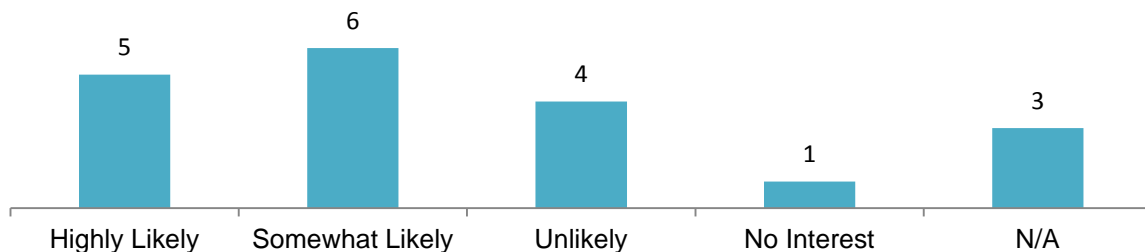
### Q3. Manager Feedback

## Longview

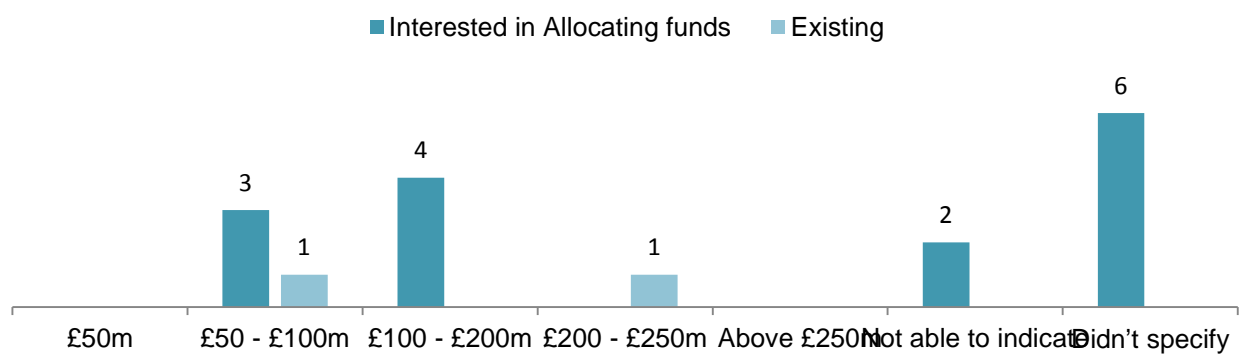
Please rate the quality and content of the presentation



After meeting this manager, how likely are you to invest into their LCIV strategy?



If you are interested in investing, would you be prepared to give an indicative amount?



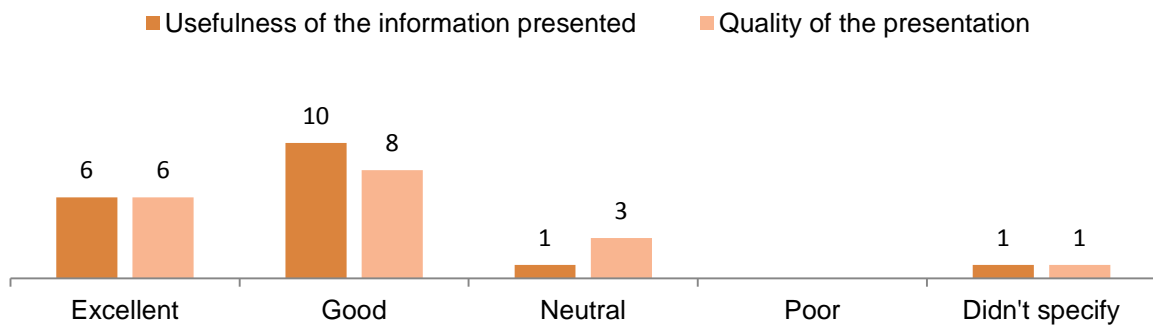
Further comments:

- Unlikely based on current strategy but was impressed with manager & would consider if strategy changes
- Harrow currently has a mandate with Longview and will transition to the CIV
- Not sure yet
- Good presentation, clear and understandable

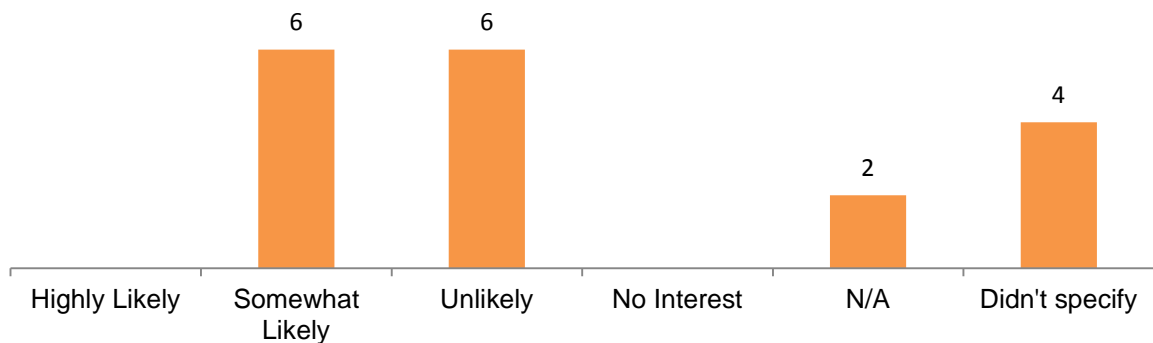
- As noted: existing investor (2010)
- Good presentation, very interesting philosophy & practice

## Epoch

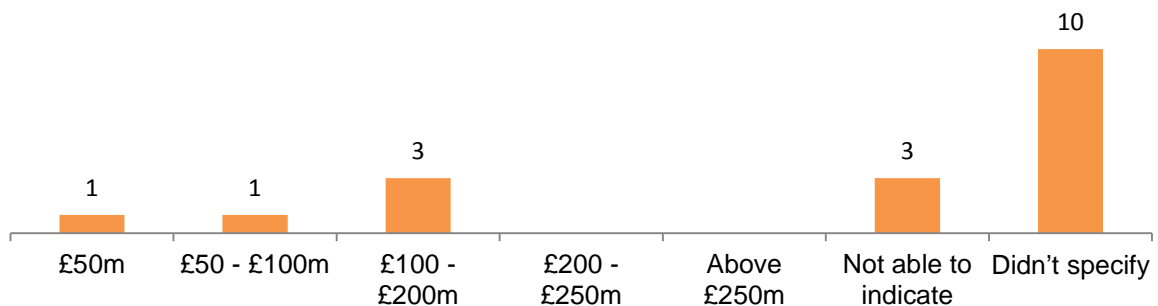
Please rate the quality and content of the presentation



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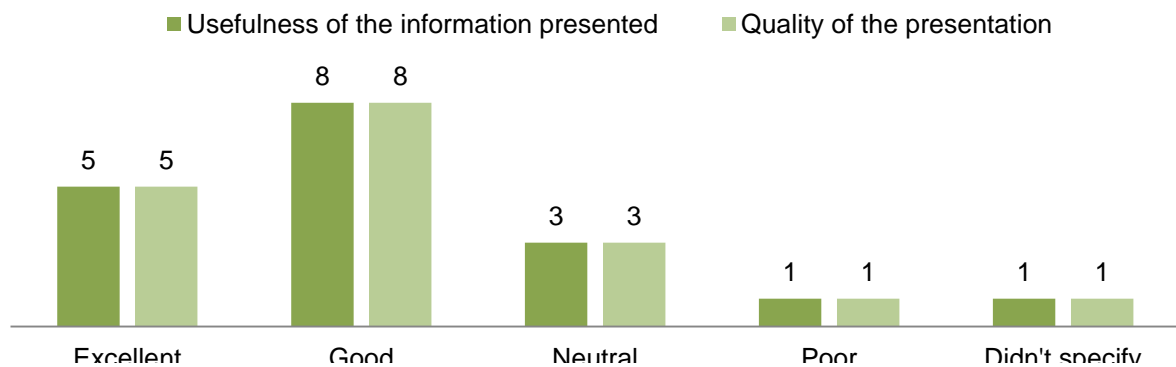


## Further comments

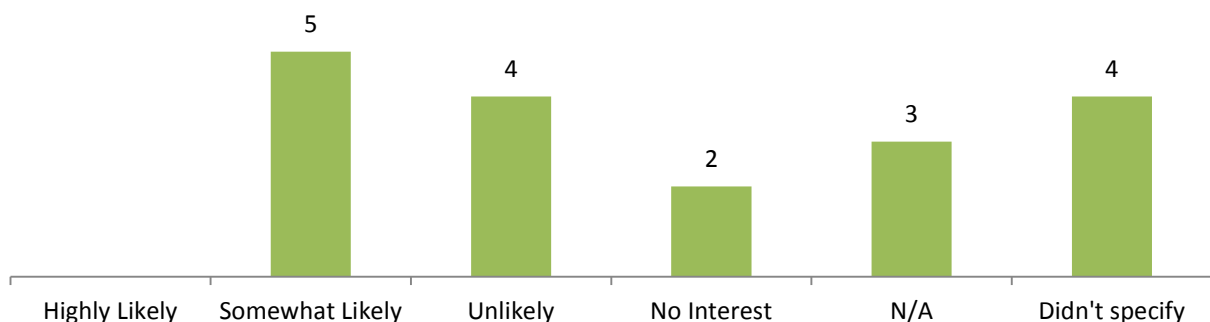
- I believe the “default” preference of WBCFC is toward income-oriented strategies (for cash flow)
- Could be a useful addition to our pension fund to produce reliable income & Cash Flow
- Note sure
- Approx £130m currently invested in income. Concern is this will cost us more than current manager
- Presentation not very inspiring & answers regarding ESG were poor.
- We do not currently have equity income as part of our investment strategy. However, we are reviewing the strategy and it may become part of it.
- Subject to asset allocation & strategy review – June 2017

## RBC

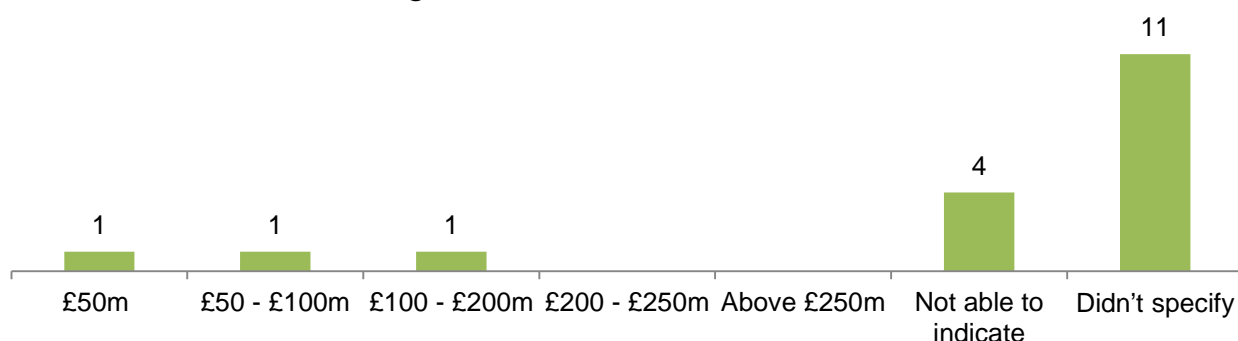
Please rate the quality and content of the presentation



After meeting this manager, how likely are you to invest into their LCIV strategy?



If you are interested in investing, would you be prepared to give an indicative amount?

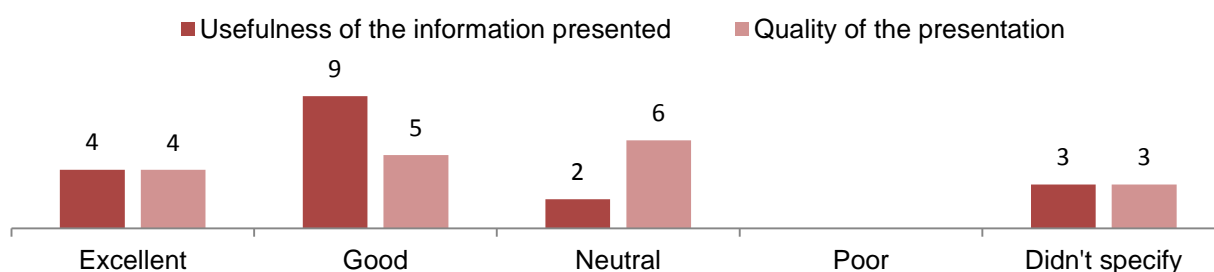


#### Further comments

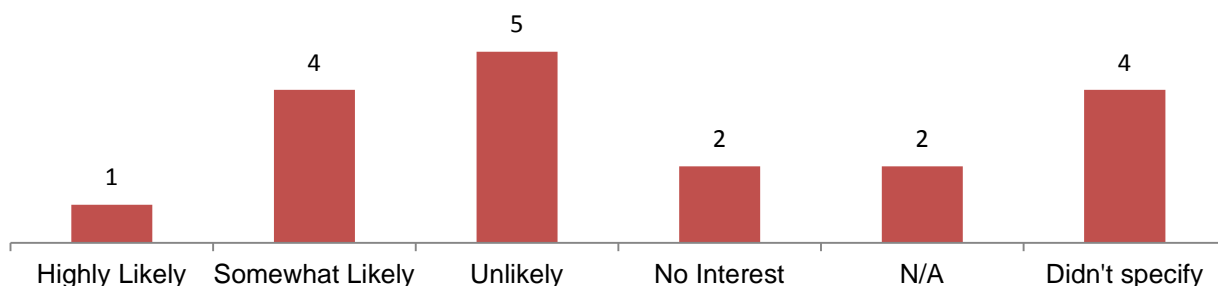
- Subject to asset allocation and investment strategy renew – June 2017
- We do not currently have equity income as part of our investment strategy. However, we are reviewing the strategy and it may become part of it.
- Not confirmed
- Presentation eventually got going. Good answers to questions asked.
- Very good presentation & if we were looking for main stream stock selection manager, would consider. Currently outside our strategy
- More focused on HR/People
- I didn't hear anything about how its performed
- Very little on Risk
- How historically they've done.
- Not sure

## Henderson

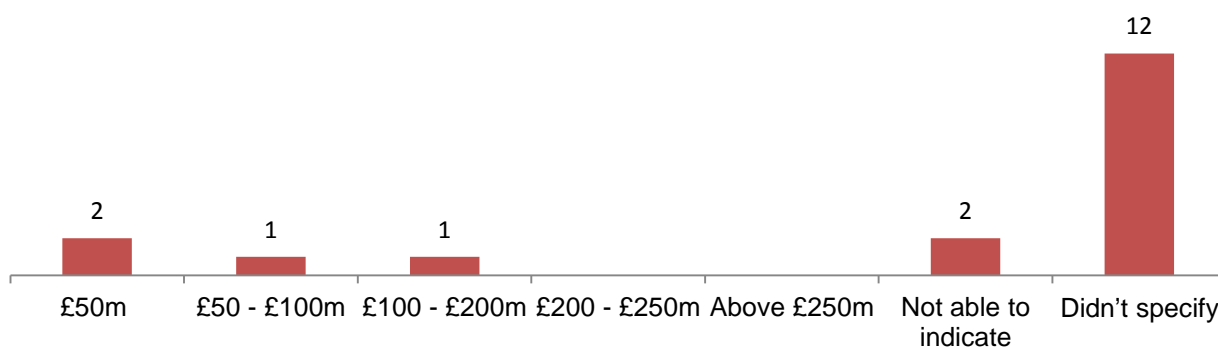
Please rate the quality and content of the presentation



After meeting this manager, how likely are you to invest into their LCIV strategy



If you are interested in investing, would you be prepared to give an indicative amount

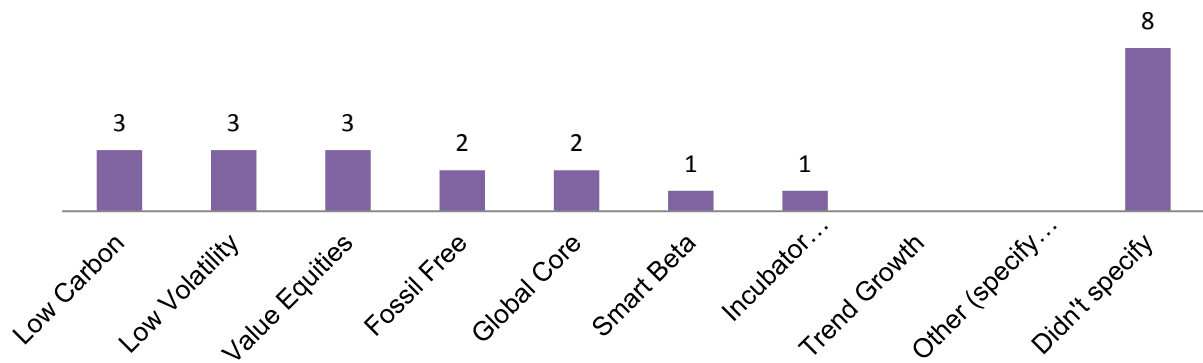


#### Further comments

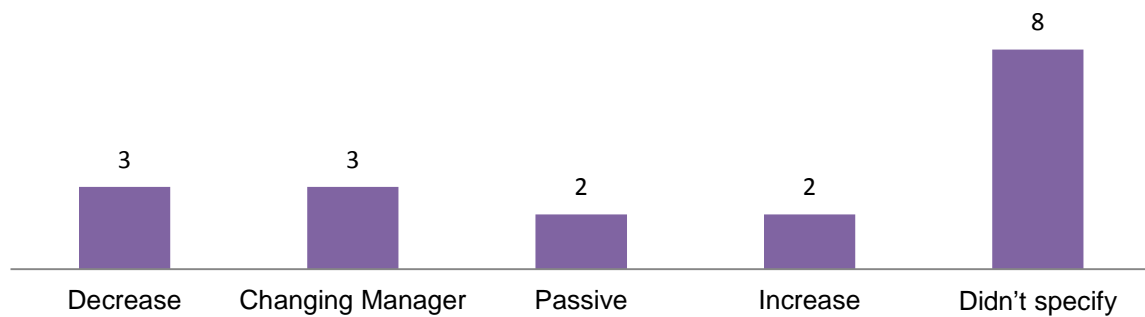
- The presentation was unstructured & muddled. This was because, when questions were asked during the presentation, they were answered in far too much detail & rambled off the point (although he did answer the points raised!)
- Not in strategy currently, liked approach with this strategy
- Subject to review of investment strategy – June 2017
- Depends on what we do with our new Investment Strategy and existing EM Manager
- Very disappointing presentation. Provided with a slide pack that (almost) wasn't used. Not convincing esp regarding the Funds performance.



Q4. What additional Global Equity Strategies would you like to see available on the CIV platform?



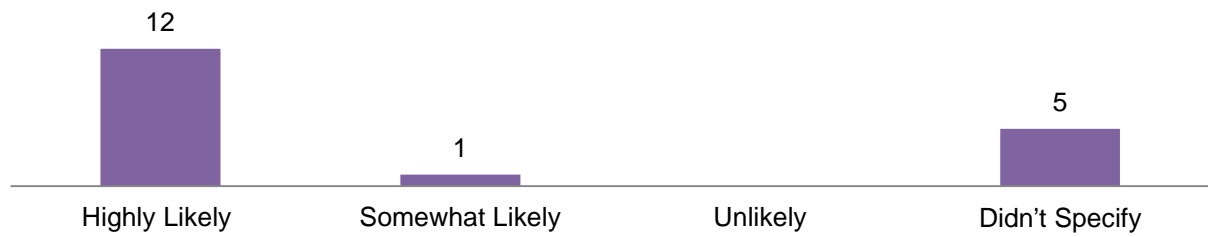
Q5. Are you considering changes to your global equity allocations?



Q6. Which other asset classes are you considering for investment?



Q7. Based on your experience at this information day, how likely are you to attend future CIV Investment Strategy events?



## DRAFT SCHEDULE OF EVENTS FOR 2017

## DRAFT LONDON CIV EVENT CALENDAR 2017

Spring	19th January	1st February	1st March	April
<b>Event</b>	Fixed Income / Cashflow Seminar	Stewardship Seminar	LCIV Conference	Easter
<b>Attendees</b>	Officers / Consultants	Councillors / Officers	Councillors / Officers / Advisers	
<b>Venue</b>	Russell Investments, Rex House, SW1Y 4PE	Guildhall, City of London	etc.venues, 43/44 Crutched Friars, EC3M 4AJ	

Summer	11th May	June	July	August (TBC)
<b>Event</b>	Global Equity Information Day			DGF/Total Return Information Day
<b>Attendees</b>	Councillors / Officers			Councillors / Officers
<b>Venue</b>	London Councils 59½ Southwark St			London Councils 59½ Southwark St

Autumn / Winter	19th September	10th October	7th November	12th December
<b>Event</b>	Low Carbon Workshop	Fixed Income / Cashflow Seminar	Global Equity Information Day Phase II	Infrastructure Seminar
<b>Attendees</b>	Councillors / Officers / Advisers	Councillors / Officers / Advisers	Councillors / Officers / Advisers	Councillors / Officers / Advisers
<b>Venue</b>	TBA	TBA	TBA	TBA

## DRAFT LONDON CIV MEETINGS SCHEDULE 2017

Spring	January	February	March	April
LCIV Board		9th (Informal)	24th	
Pensions Sectoral Joint Committee		8th		12th
LCIV IOC		28th		
IAC	26th	23rd	23rd	27th
LCIV Event	19th - Fixed Income	1st - Stewardship	1st - Conference	
External Events			2nd - 3rd LGC Carden Park	

Summer	May	June	July	August
LCIV Board	4th (Informal)	13th		2nd (Informal)
Pensions Sectoral Joint Committee			12 <sup>th</sup> July	
LCIV IOC		1st		
IAC		14th	26th	24th
LCIV Event	11th - Meet the GE Managers I			
External Events	15th - 17th May PLSA Cotswold Water Park	29th - 30th LGC Symposium / LGPC Trustees Conference	19 <sup>th</sup> - 20 <sup>th</sup> LAPFSIF	

Autumn / Winter	September	October	November	December
LCIV Board	11th (Away Day) 22nd		3rd (Informal)	13th
Pensions Sectoral Joint Committee	13th			11th
LCIV IOC	14th		29th	
IAC	21st	19th	16th	21st
LCIV Event	19th – Low Carbon Workshop	10th - Fixed Income / Cashflow Seminar	7th – Global Equity Information Day	Infrastructure Seminar
External Events	7th - 8th LGC Celtic Manor 16 <sup>th</sup> – 19 <sup>th</sup> Liberal Democrat Conference 24 <sup>th</sup> – 27 <sup>th</sup> Labour Party Conference	1 <sup>st</sup> – 4 <sup>th</sup> Conservative Party Conference		6th - 8th LAPFF Bournemouth