# Pensions CIV Sectoral Joint Committee Agenda

## 18th October 2016 – 2:00pm – 4:00pm

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 4 (1st Floor) | 1:30pm |
| (Political Adviser: 07977 401955) | | |
| **Conservative Group pre-meeting:** | Room 5 (1st Floor) | 1:30 pm |
| (Political Adviser: 07903 492195) | | |


**Contact Officer:** Alan Edwards

**Telephone and email:** 020 7934 9911 Alan.e@londoncouncils.gov.uk


## Agenda item

***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

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

| Exempt Agenda item | | Page |
|---|---|---|
| E1 | Apologies for Absence and Announcement of Deputies | |
| E2 | Declarations of Interest* | |
| E3 | Exempt part of the minutes of the Pensions CIV Sectoral Joint Committee on 14th June 2016 | |

# Pensions CIV Sectoral Joint Committee
# Annual General Meeting
# 14 June 2016

AGM Minutes of a meeting of the Pensions CIV Sectoral Joint Committee held on Tuesday 14 June 2016 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 | - |
| Bexley | Cllr Louie French |
| Brent | Cllr Sharfique Choudhary |
| Camden | Cllr James Yarde (new Deputy) |
| Croydon | Cllr Simon Hall |
| Ealing | Cllr Yvonne Johnson |
| Enfield | Cllr Derek Levy (Deputy) |
| Greenwich | - |
| Hackney | Cllr Roger Chapman |
| Hammersmith and Fulham | Cllr Iain Cassidy |
| Haringey | Cllr John Bevan (Deputy) |
| Havering | Cllr John Crowder |
| Harrow | Cllr Nitin Parekh |
| Hillingdon | Cllr Philip Corthorne |
| Hounslow | Cllr Mukesh Malhotra |
| Islington | Cllr Richard Greening |
| Kensington and Chelsea | - |
| Kingston Upon Thames | Cllr Eric Humphrey |
| Lambeth | - |
| Lewisham | Cllr Mark Ingleby |
| Merton | Cllr Imran Uddin |
| Newham | Cllr Forhad Hussain |
| Redbridge | Cllr Elaine Norman |
| Richmond Upon Thames | Cllr Thomas O'Malley |
| Southwark | Cllr Fiona Colley |
| Sutton | Cllr Sunita Gorden |
| Tower Hamlets | Cllr Clare Harrisson |
| Waltham Forest | Cllr Simon Miller |
| Wandsworth | Cllr Maurice Heaster |
| City of Westminster | - |

**Apologies:**

| | |
|---|---|
| Barnet | Cllr Mark Shooter |
| Camden | Cllr Rishi Madlani |
| Enfield | Cllr Toby Simon |
| Greenwich | Cllr Don Austen |
| Haringey | Cllr Clare Bull |
| Kensington & Chelsea | Cllr Quentin Marshall |
| Lambeth | Cllr Iain Simpson |

Officers of London Councils were in attendance as were the Board of Directors of the London LGPS CIV Ltd (Lord Bob Kerslake, Hugh Grover, Chris Bilsland, Carolan Dobson, Eric MacKay, Julian Pendock and Brian Lee)

**1. Announcement of Deputies**

1.1. Apologies for absence and deputies were listed above.

**2. Declarations of Interest**

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

**3. Election of the Chair of the Pensions CIV Sectoral Joint Committee**

3.1. Councillor Yvonne Johnson nominated Mark Boleat to be Chair of the Pensions CIV Sectoral Joint Committee. Councillor Maurice Heaster seconded the nomination. Mark Boleat was elected as Chair of the Pensions Sectoral Joint Committee.

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

4.1. Councillor Yvonne Johnson and Councillor Maurice Heaster were nominated by Councillor Robert Chapman to be the vice chairs of the Pensions CIV Sectoral Joint Committee. This was seconded by Councillor Sunita Gordon. Councillor Yvonne Johnson and Councillor Maurice Heaster were duly elected as the vice chairs of the Pensions CIV Sectoral Joint Committee.

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

5.1. The membership of the Pensions CIV Sectoral Joint Committee was noted, including the new deputy for LB Camden, Councillor James Yarde, who had replaced Councillor Theo Blackwell

5.2. **It was agreed** that the Pensions CIV Sectoral Committee dates would be sent electronically to members' calendars

**6. Minutes of the Pensions CIV Sectoral Joint Committee AGM held on 21 July 2015**

6.1. Minutes of the Pensions CIV Sectoral Joint Committee AGM held on July 2015 were noted, as they had previously been agreed.

**7. Minutes of the Pensions CIV Sectoral Joint Committee held on 10 February 2016**

7.1. The minutes were agreed.

**8. Constitutional Matters**

8.1. The Constitutional matters were noted.

**9. London CIV Implementation Programme Closure Report**

9.1. The report was noted.

**10. Annual Report from the Investment Advisory Committee**

10.1. Councillor Johnson asked whether a paper would be forthcoming on social and environmental investment policy.

10.2. Councillor Ingleby asked whether the Board could send members these reports more frequently

10.3. Subject to the above comments being taken on board, the report was noted.

**11. Responsible Investing Policy**

11.1. The following issues were raised in discussion:

- Councillor Heaster asked for details of what happened regarding the failure to vote at the WPP AGM in line with the LAPFF recommendation.
- In response the CEO confirmed that he would be meeting Allianz Global Investors shortly to look into the details of the decision they took. The CEO said that efforts had been made for London CIV to become members of the LAPFF. However, as noted in the report, the LAPFF needs to change its constitution before this can happen. As a result London CIV was not on the LAPFF alert system at the time of the WPP vote. Following discussion with the LAPFF London CIV will now be receiving voting alerts as a courtesy ahead of becoming a full member. Internal systems and processes had also been reviewed to ensure that a similar situation does not arise again in the future.
- Councillor Greening said that he was a member of the LAPFF Executive and was keen for the CIV to become involved with the organisation, which was based on pension fund membership and not investment pool membership. He said that he would take back the issue of communications with the CIV to the LAPFF. He also noted that the issue regarding Allianz demonstrated the need for a greater level of involvement with CIV Joint Committee members.
- Councillor Malhotra said that the CIV needed to consider having an engagement position to look after borough interests with LAPFF.
- Councillor Johnson noted that she had some names to put forward for membership of the proposed Stewardship and Voting Sub-group which she would send to the CEO. Councillor Heaster confirmed that he also would be forwarding names.

11.2. The Committee:

(i) Noted the contents of the report; and

(ii) Agreed to the formation of a sub-group to consider and report back on the issue of stewardship and voting.

The meeting closed at 11.55pm

# Pensions CIV Sectoral Joint Committee

Item no: 4

## London CIV Business Planning

| | | | |
|---|---|---|---|
| **Report by:** | Hugh Grover | **Job title:** | Chief Executive, London LGPS CIV Ltd. |
| **Date:** | 18 October 2016 | | |
| **Contact Officer:** | | | |
| **Telephone:** | 020 7934 9942 | **Email:** | hugh.grover@londoncouncils.gov.uk |

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|---|---|
| **Summary** | It is a requirement of London CIV's Shareholders Agreement that an Annual Budget is prepared and presented to all shareholders for approval not later than 60 days before the commencement of the financial year to which they relate.<br><br>This report informs Committee members on the status of the London CIV business planning process and provides an overview of the key learnings in the first year of operation and future considerations which will be incorporated into the 2017/2019 business plan. |
| **Recommendations** | The committee is recommended to consider and note the contents of this report. |

# London CIV Business Planning

**Introduction**

1. London CIV has been in development for 2 years and received FCA authorisation in November 2015. Since authorisation, 5 funds have been launched and 14 London authorities are invested in CIV funds with £2.5 billion Assets under management (AuM), delivering just under £1m net of annualised fee savings.
2. Beyond that, London CIV has had a positive impact in negotiating significant fee savings (estimated to be around £1.8 million) on over £3.5 billion of passive equity investments through life funds that will continue to be held outside of the London CIV ACS Fund. In addition, subject to no unforeseen difficulties, by the end of this financial year it is anticipated that London CIV will have had a positive impact, in terms of fee savings, on around £7.7 billion (or a third) of London authority assets (both inside and outside of the ACS) which will deliver an estimated £4.4 million of net annualised fee savings for 23 separate investing authorities.
3. In completing the first full year of operations, a pivotal point has been reached in establishing the right foundations for London CIV's operations and developing the structure, processes and system capabilities to effectively meet LGPS investor needs and deliver optimum benefits of scale and access to investment opportunities.
4. It is now clear that the task that was anticipated and used to structure initial business plans is more challenging than had been envisioned, both in terms of speed of development and complexity of delivery, and will require more up front resources and spending than earlier anticipated.
5. A short term resourcing requirements and request for accelerated hiring was reviewed by the London CIV Board in February and a proposal to move from 6 to 12 resources by end 2016/2017 was provided to and agreed by the Committee in March 2016. Since that time there has been considerable success in recruiting additional people and London CIV currently has expanded to a team of 11.
6. Work continues to develop the fund and London CIV aims to complete fund launches from the Commonality, Quality and Conviction (QCQ) phase, encompassing Equities and Multi-Asset funds, in Q1 2017. The Investment Team have commenced a procurement for additional Global Equities funds, which will open during 2017, and will be moving into new asset classes including Fixed Income, Property, Infrastructure and Alternatives in the next phase of our business plan.
7. It will be critical that the front and back office knowledge, skills and capabilities are in place to support these new sub-funds and asset classes prior to structuring the products, selecting managers and launching the funds.
8. With increased understanding of the fund launch process and operational requirements after the first year of operation, the London CIV Executive team and Board have been through an intense business plan review over the summer. This work has led to the establishment of an agreed baseline and approach for the 2017/2019 business plan which is currently being refined and finalised in consultation with representative Treasurers (i.e. those Treasurers that sit as members of the Investment Advisory Committee).

9. This report provides an update to the Committee on the key learnings from the first year of operation, the forward looking considerations, and timeline to providing the Committee a three-year medium term financial strategy (MTFS) incorporating both the learnings from the past year and considerations for forward looking plans.

**First Year in Operation: Key Learning**

10. The sub-fund launch process is both resource and time intensive. The process requires iterative discussions with Investment Managers and the investing authorities to agree terms and ensure London CIV achieves the optimum level of benefits for investors. The process also requires engagement with and planning for three key external parties including the custodian, legal counsel and the regulator.

11. The timing of a fund launch and asset transfer may differ from plan as it is highly dependent on internal factors and decision making processes of the investors. Each investor has their own decision making processes and timing for asset allocation and identifying which funds/strategies and asset classes to buy and when to buy them. London CIV is partnering with colleagues in each authority to ensure efforts are aligned; however, it has become clear that timelines often shift given the complexity of the decision processes.

12. The passive equity funds, which make up some £7.5 billion of the total London authority assets, have a number of complexities which have impacted the ability to transfer these assets into the London CIV structure at the current time. However, London CIV has been able to negotiate substantial fee reductions for those authorities with assets held in both the Legal and General and Blackrock passive funds. London CIV will return to the question of providing passive equities through the CIV at a later date.

13. It is now clear that the systems, processes and resources required to support the full scope of expected asset classes and the volume of planned sub-funds is greater than first anticipated. Data and the supporting systems are critical components in the process of investment oversight, risk management and client reporting. London CIV is currently reviewing the requirements to ensure this is adequately represented in the business plan.

14. It is also now clear that managing and overseeing outsourced service providers calls on more time and resource than expected. This has been particularly evident in this first year of operating with additional time being needed to ensure each Service Level Agreement (SLA) is both aligned with London CIV's needs and being effectively delivered.

**Forward Looking: Planning Considerations**

15. The Committee will be aware that London CIV generates revenue from an annual service charge (£25,000 for the last three financial years) and fees based on AuM in each sub-fund. In the current financial year fees from the sub-fund AuM is significantly down, both because it has taken longer to open some sub-funds that anticipated and because significant assets are now remaining outside of London CIV due to the change in position of passive equity investments.

16. There remains uncertainty as to the impact which the on-going triennial valuation may have on the strategic asset allocation and investment needs of the London LGPS

Funds. London CIV's fund launch plans and resulting AuM and revenue forecasts which will be included in the MTFS are being reviewed against potential changes to investor's strategic asset allocation and investment needs.

17. In addition, while London CIV can open sub-funds to provide investment opportunities the final decision to invest in those funds rests with each individual investor. As such it is not possible for London CIV to accurately forecast AuM growth. In developing the MTFS it is now recognised that making prudent forecasts is the logical approach, but this in turn leads to lower fee income from AuM with the potential that the service charge will need to increase in the short-term while AuM grows.

18. London CIV will be embarking on the next phase of its development and procuring and opening new equity and fixed income funds in 2017/2018, with additional asset classes to follow in subsequent years. This phase will introduce requirements for new processes, procedures and system requirements which were not required for launching the funds that have been opened through the CQC phase where investors were already investing with the relevant Fund Manager. The new asset classes may also require different legal structures and advice is being taken from external advisors to assess the most effective and efficient structures for each asset class.

**Budget and Business Plan: Timing**

19. As noted above London CIV is currently developing the 2017/2019 MTFS and incorporating the lessons learned in the first year of operation and the forward looking considerations into the budget and target deliverables.

20. The MTFS will be presented to the Committee at its 13th December meeting.

**Recommendations**

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

**Legal Implications**

22. There are no legal implications for London Councils.

**Financial implications**

23. There are no financial implications for London Councils.

**Equalities Implications**

24. There are no equalities implications for London Councils

# Pensions CIV Sectoral Joint Committee

Item no: 5

## Investment Report and Fund Update

| | | | |
|---|---|---|---|
| **Report by:** | Julian Pendock | **Job title:** | Chief Investment Officer |
| **Date:** | Date 18th October 2016 | | |
| **Contact Officer:** | Julian Pendock | | |
| **Telephone:** | 020 7934 9887 | **Email:** | julian.pendock@londonciv.org.uk |

**Summary:** This report provides the Joint Committee with an update on the economic and investment background and outlook, a fund updated including performance of the London CIV sub-funds and voting and engagement activities

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

i. Note the contents of this report;

# Investment Report and Fund Update

**Investment Report, covering 1st January 2016 to 30th September 2016**

1. Apart from Brexit, the performance of markets during the period was largely driven by Central Banks (CBs), although in recent months, there has been some more encouraging data out of the US. In terms of equity markets (in local currency terms, with Bloomberg as the data source), in the US, the Dow and S&P rose by 5.22% and 5.92% respectively (year to date), whilst the NASDAQ rose 6.45%. Closer to home, the FTSE 100 rose by 13.65% whilst in Germany the DAX fell by 1.11% and in France the CAC fell by 3.01%. In Japan, the Nikkei 225 index fell by 11.42%, on the back of continued fears over the economy, allied to perceived policy missteps by the Bank of Japan (BoJ).

2. In the UK, the news was dominated by the Brexit vote. The surprise outcome of the referendum hastened the decline in 10-year gilt yields, declining to a low of 0.52% in August, before rebounding in recent weeks. This move to record low yields is a source of deep concern for pension funds globally, and will have profound investment implications. The Brexit vote triggered a fall in the value of sterling against the USD, which helped to cushion the FTSE 100, as the value of overseas earnings in the constituent companies rose in GBP terms. The index reached rallied to a record high of 6,941 in August. The drop in GBP gained headlines but many economists have argued that the currency is overvalued, and a weaker exchange rate is one way of addressing the 7% current account deficit. For now, Brexit appears to have been the catalyst, rather than the cause, of asset price movements, but this could change.

3. Fears over China’s underlying economic health led to a sharp and prolonged period of market volatility at the start of 2016. China’s central bank, the People’s Bank of China (PBOC) had cut rates six times since 4Q 2014, but this had not been enough to prevent growth from slowing. The fears over China’s economy had global spill over effects, with commodity prices bearing the brunt of the impact, with far-reaching implications not just for commodity companies, but for oil-producing countries, notably the Middle East and Brazil. During the period, the price for Brent crude oil fell to below US$33 in January before rebounding towards US$50 per barrel at September end.

4. Beijing’s aggressive stimulus measures were estimated at some US$ 1 trillion, exceeding measures taken at the depth of the financial crisis. The hope is that these measures will buy time in order to carry out reforms. Whilst the economy has stabilised in recent months, it is likely that the issues will reappear as they are structural in nature, much like the deep-seated problems in the Eurozone. However for the moment, global markets (including commodities) are enjoying the positive side-effects of the monetary morphine. The “old” economy remains structurally mired in surplus capacity, and the banks’ balance sheets remain a cause for concern for some bodies such as the IMF. For now however there has been a rebound in profitability from a low base. Surplus liquidity is fuelling speculation in some housing markets.

5. Beijing was not alone in acting; coordinated CB actions once again saved the day, and global markets bottomed out in early February. The ECB’s Mario Draghi entered the fray in mid-March, with a raft of measures which included more QE and more controversially, buying corporate bonds. The ECB therefore is following the path of the Bank of Japan (BoJ), but has not followed the BoJ’s unfortunate flirtation with NIRP (Negative Interest

Rate Policy). The combined effect of these policies has been seen most keenly in fixed income markets. There is now approximately US$ 11 trillion of bonds globally which have a negative yield. Last month, two Eurozone corporate bonds were issued with a negative yield, marking a new milestone in the downward march of yields.

6. The combination of CB stimulus and uncertainty has led to the disquieting outcome of equities (traditionally viewed as a risk and growth asset) at all-time highs in the US, whilst sovereign bond prices are, in many countries, near record highs, something which would normally result from a “risk-off” environment.

7. The fundamentals of the global economy remain fragile. Corporate earnings have been very mixed. In the US, economic data provided ammunition for bulls and bears alike, with indicators such as job creation painting a rosy picture until one considers that the labour participation rate has dropped, and the fact that many of the new jobs created are low-paying and part-time. Inflation is at last picking up, but much of this has been fuelled by the increase in costs, such as healthcare. Globally, the feeling of economic insecurity is feeding into political populism.

8. Corporates have to navigate a shifting economic landscape, where the price of risk and capital has been distorted by the CBs. This has given rise to fears that malinvestments may abound. Further, the disruptive power of new technology is making itself felt as old certainties no longer apply, leading to a scarcity in sustainable profit growth (apart from in the US markets, where share buybacks have been a key driver in profit growth and corporate debt issuance). Companies which can show pricing power and growth command lofty prices and are therefore vulnerable to a change in sentiment and/or outlook. Nonetheless, industry disruptors and innovators will probably continue to be handsomely rewarded.

9. Emerging markets (EM) have for the most part stabilised, and have moved from being in an acute condition to a chronic one. A key driver of the improvement in fortunes was the stabilisation in the USD, as measured in the USD trade-weighted index (TWI). Typically the USD and commodity prices move in opposite directions. The USD rally led to problems in EM where corporates had issued debt in USD. The currency mismatch led to a scramble to pay down debt, forcing local currencies and assets lower, and the USD higher. As these forces have abated, investors are turning once again to EM debt as a higher-yielding alternative to developed market debt, and taking solace from the fact that apart from China, most EM have retained financially orthodox policies and could therefore ultimately enjoy a more sound financial position than many developed countries.

10. Overall, asset markets globally have been driven by CB policies, whether first-round effects seen in the prices of sovereign bonds, or in the prices of asset classes driven by the ubiquitous search for yield. Within equities, this is seen in the prices of “bond proxies” such as utilities and consumer stalwarts. Asset classes such as infrastructure have seen vertiginous price rises as investors bid aggressively for long-term, predictable cashflows. All told, many asset classes are being driven ever-higher, whilst the global economy remains fragile and dependent on stimulus, leading to fears that the current period of calm will not endure.

11. There has been increasing talk of a new CB policy framework, as the limits of monetary policy are reached, and in the absence of any self-sustaining economic recovery. This

policy framework would involve injecting money directly into the economy without incurring a liability, and is popularly known as “helicopter money”. Such policies could have inflationary consequences, and have a negative impact on long-dated bonds, bond proxies and any long-dated cashflow-generating assets which do not have an in-built hedge. The investment environment is likely to remain challenging, and access to suitable investments will therefore involve greater cost and complexity than in the past, as many traditional “vanilla” asset classes are rendered unsuitable for pension funds.

**Fund Update**

12. Details of London CIV’s five sub-funds, including performance since inception, are given below:

**<u>Global Equity Sub-funds</u>**

I. **London LGPS CIV Global Equity Alpha Fund**

*Investment Manager:*

Allianz Global Investors GMBH

*Investment Objective:*

The Sub-fund aims to achieve capital growth by outperforming the MSCI World Index Total Return (Net) GBP by 2% p.a. net of fees.

*Investment Policy:*

The ACS Manager intends to achieve the objective by delegating portfolio management to Allianz who will be investing principally in equity securities of global companies selected from a cross section of both geographical areas and economic sectors.

The Sub-fund may participate in initial public offerings on any basis and private placements of securities in publically traded companies and issuers.

Net Asset Value: as at 30 June 2016 - **£559.84m.**

Number of Investors: 3

*Performance:*

| **Returns to 30 June 2016** | **SINCE INCEPTION*** |
|---|---|
| Sub-fund | 8.65% |
| Benchmark – MSCI World Index Net GBP | 10.41% |
| Relative Performance | -1.76% |

** Inception Date 2 December 2015*

*Portfolio returns net of fees*

**II. London LGPS CIV Global Alpha Growth Fund**

*Investment Manager:*

Baillie Gifford & Co

*Investment Objective:*

The objective of the Sub-fund is to exceed the rate of return of the MSCI All Country World Index (the “Index”) by 2-3% per annum on a gross fee basis over rolling five year periods.

*Investment Policy:*

The ACS Manager intends to achieve the objective delegating portfolio management to Baillie Gifford who will be investing the portfolio primarily in global equities and equity-like instruments including convertible securities, preference shares, warrants, rights, exchange traded funds and depositary receipts.

The Sub-fund may also invest in cash and near cash, deposits, money-market instruments and other collective investment schemes. The Sub-fund will ordinarily not hold a cash balance greater than 15% of the Sub-fund.

The Sub-fund may participate in initial public offerings on any basis and private placements of securities in publically traded companies and issuers.

Net Asset Value: as at 30 June 2016 - **£976.80m.**

Number of Investors: 6

*Performance:*

| **Returns to 30 June 2016** | **SINCE INCEPTION*** |
|---|---|
| Sub-fund (gross) | 6.10% |
| Benchmark – MSCI All Countries World Index | 7.75% |
| Relative Performance | -1.65% |

** Inception Date 11 April 2016*

*Portfolio return gross of fees*

**Multi-asset sub-funds:**

### I. London LGPS CIV Diversified Growth Fund

*Investment Manager:*

Baillie Gifford & Co

*Investment Objective:*

The Sub-fund's objective is to achieve long term capital growth at lower risk than equity markets.

*Investment Policy:*

The ACS Manager aims to achieve the objective by investing solely in the Baillie Gifford Diversified Growth Fund, a Sub-fund of Baillie Gifford Investment Funds ICVC, an FCA authorised open-ended investment company and cash and near cash.

The investment objective of the Baillie Gifford Diversified Growth Fund is set out below:

*Investment Objective:*

The objective is to achieve long term capital growth at lower risk than equity markets by investing in a diversified portfolio of assets. It may gain exposure to a broad range of traditional and alternative asset classes which may include but is not limited to equities, investment grade and high yield bonds, property, private equity, infrastructure, commodities and currencies.

In order to gain exposure to these asset classes the Sub-fund may invest in transferable securities, money market instruments, collective investment schemes, derivatives and deposits.

Up to 100% of the Baillie Gifford Diversified Growth Fund may be invested in other collective investment vehicles and the Sub-fund may use derivatives for both investment purposes and in the management of risk.

Net Asset Value: as at 30 June 2016 - **£324.31m.**

Number of Investors: 5

*Performance:*

| **Returns to 30 June 2016** | **SINCE INCEPTION*** |
|---|---|
| Sub-fund | 4.50% |

** Inception Date 15 February 2016*

*Portfolio returns net of fees*

## II. LCIV PY Global Total Return Fund

*Investment Manager:*

Pyrford International Limited

*Investment Objective:*

The Sub-fund's objective is to provide a stable stream of real total returns over the long term with low absolute volatility and significant downside protection. Capital invested in the Sub-fund is at risk and there is no guarantee that total returns will be delivered over any period.

*Investment Policy:*

The ACS Manager aims to achieve the objective by investing solely in the Pyrford Global Total Return (Sterling) Fund, a Sub-fund of BMO Investments (Ireland) plc, an authorised open-ended investment company authorised by the Central Bank of Ireland as a UCITS, and cash and near cash.

The investment objective and policy of the Pyrford Global Total Return (Sterling) Fund is set out below:

*Investment Objective:*

To provide a stable stream of real total returns over the long term with low absolute volatility and significant downside protection

The Pyrford Global Total Return Fund will seek to achieve its investment objective and will focus on capital preservation to achieve real total returns. By investing in asset classes and securities which offer sound fundamental value and avoiding asset classes and securities which offer poor fundamental value, the Pyrford Global Total Return Fund will seek to achieve real total returns.

A key factor in generating real total returns is utilising an investment approach designed to avoid negative returns when markets fall through both strategic asset allocation between equities, sovereign Debt Securities and cash and investment selection on a global basis.

Investment decisions will be determined through fundamental analysis on the basis of the long-term value offered by equities, sovereign Debt Securities and cash.

The Pyrford Global Total Return Fund will seek to achieve significant downside protection by avoiding equities which are perceived to be high risk on the basis of established fundamental value metrics (such as dividend yields, return on equity and P/E ratios).

Net Asset Value: as at 30 June 2016 - **£194.13m.**

Number of Investors: 3

*Performance:*

| Returns to 30 June 2016 | SINCE INCEPTION* |
|---|---|
| Sub-fund | 3.50% |

** Inception Date 17 June 2016*

*Portfolio returns net of fees*

**III. LCIV RF Absolute Return Fund**

*Investment Manager:*

Ruffer LLP

*Investment Objective:*

The Sub-fund's objective is to achieve low volatility and positive returns in all market conditions. Capital invested in the Sub-fund is at risk and there is no guarantee that a positive return will be delivered over any one or a number of twelve-month periods.

*Investment Policy:*

The ACS Manager aims to achieve the objective by investing solely in the CF Ruffer Absolute Return Fund, a Sub-fund of Asperior Investment Funds, an FCA authorised open-ended investment company, and cash and near cash.

The investment objective of the Ruffer Absolute Return Fund is set out below:

*Investment Objective:*

To achieve low volatility and positive returns in all market conditions from an actively managed portfolio of equities or equity related securities (including convertibles), corporate and government bonds and currencies.

The Ruffer Absolute Return Fund may also invest in collective investment schemes, cash, money market instruments and derivatives and forward transactions.

Pervading this objective is a fundamental philosophy of capital preservation. In selecting investments the Ruffer Absolute Return Fund will adopt a stock picking approach and will not adopt any investment weightings by reference to any benchmark.

Net Asset Value: as at 30 June 2016 - **£309.08m.**

Number of Investors: 4

*Performance:*

| Returns to 30 June 2016 | SINCE INCEPTION* |
|---|---|
| Sub-fund | 2.68% |

** Inception Date 21 June 2016*
*Portfolio returns net of fees*

13. The London CIV is also currently working with a number of managers on a programme to open a number of further sub-funds based on the CQC criteria. Terms have been agreed with Newton Real Return Fund which will see a sub-fund opened scheduled for December 2016 with 3 Pension Funds seeing savings being delivered from the current mandates.

14. Further work is ongoing with a UK Equity Manager and 2 Global Equity Managers which if successful should be open as sub-funds in the first quarter of next year.

**Voting and Engagement**

15. Since the date of the last Joint Committee meeting there has been one LAPFF voting alert covering the Sports Direct AGM. This was not a company held within the portfolios on the London CIV. Whilst the CIV is not responsible for passive funds held by Legal and General, Members will be aware of the negotiations which LCIV has effected resulted in London Funds being offered lower fees, albeit outside of the CIV structure. The Government has said that Life Funds can remain outside pools for the time being, but that "management and reporting regarding these life funds is done within the pool", without providing guidance as to what this entails. Whilst the CIV is still reviewing with the IAC what this means in practice, LGIM are working with the CIV to monitor LAPFF voting alerts and confirmed that they voted in accordance with the alert and for the shareholder resolution.

16. One of the recommendations from the Stewardship and Voting paper presented at the Joint Committee meeting in June was the establishment of a Member working group on Stewardship. The working group met on 22nd July 2016 to discuss terms of reference for the working group, voting policy, approach to the Stewardship Code and consideration of a dedicated seminar to cover responsible investment and stewardship. The minutes of the meeting are attached as an appendix to this report, but the key decision on voting was to maintain the existing policy to use LAPFF Voting Alerts.

17. As noted in the IAC update report, there is also an officer ESG Sub-Group and this has met to look more broadly at the CIV approach to responsible investment, engagement and voting. The sub-group is working closely with officers of the CIV to consider the Stewardship Code and also the new Investment Strategy Statements requirements on voting and engagement for individual Pension Funds. Further updates will be provided to this Committee within the IAC update papers on the work of this sub-group.

18. The CIV as a fund manager is required to issue a statement in respect of the Stewardship Code on a comply or explain basis and it had been hoped to bring a draft statement to this Committee for consideration. However, time constraints and the need to better understand the new categorisations issued by the FRC (Financial Reporting Council), has meant that officers have not been able to draft a statement at this time. Following a round table meeting with the FRC, it has become clear that there are now 3 categories of statement for fund managers rather than the 2 which apply to asset owners. CIV officers will be meeting with the FRC in the near future to consider the implications of this for the CIV and an update on progress will be provided to a future meeting of the Joint Committee.

**Recommendations**

19. The Committee is recommended to note the contents of this report

**Financial Implications**

20. There are no financial implications for London Councils.

**Legal implications**

21. There are no legal implications for London Councils.

## Equalities implications

22. There are no equalities implications for London Councils.

## Appendix

Minutes of the Member led Stewardship Working Group

APPENDIX

# PENSIONS SECTORAL JOINT COMMITTEE – LONDON CIV

## Stewardship Working Group

## 22nd July 2016 – Minutes

**Attendees:**

| **Borough** | **Representative** |
|---|---|
| Ealing | Cllr Yvonne Johnson (YJ) |
| Enfield | Cllr Toby Simon (TS) |
| Islington | Cllr Richard Greening (RG) |
| Richmond | Cllr Thomas O'Malley (TOM) |
| Wandsworth | Cllr Maurice Heaster (MH) |

| **London CIV** | |
|---|---|
| Chief Executive | Hugh Grover (HG) |
| AD, Client Management | Jill Davys (JD) |

| Agenda Item Number | Agenda Item | Actions |
|---|---|---|
| 1. | **Apologies:**<br>Cllr Robert Chapman (Hackney) | |
| 2. | **Appointment of Chair and Vice Chair**<br>Unanimously Agreed:<br>Cllr Yvonne Johnson – Chair<br>Cllr Maurice Heaster – Vice Chair | |
| 3. | **Stewardship Working Group Terms of Reference**<br>The draft terms of reference were agreed by the Stewardship Working Group. | |
| 3. | **Voting Policy**<br>Cllrs Richard Greening and Toby Simon declared an interest in this agenda item as members of the LAPFF Executive Group.<br><br>The Working Group considered the options proposed for the voting policy of the London CIV, noting that the current policy agreed by the Pensions Sectoral Joint Committee (May 2015) was to vote in accordance with the LAPFF voting alert.<br><br>Discussion took place around the need to be flexible and to what extent consensus opinion was achievable across all the London Authorities. RG commented on the need to recognise that not all London Funds were signed up to LAPFF and RG would like to achieve a consensus approach. Inevitably there will be individual issues that might difficult to agree on.<br><br>The option of appointing an individual voting provider to the CIV was discussed, but it was recognised that this would lead to additional costs. MH noted that the purpose of the CIV is to | Agreed to maintain approach of LAPFF voting alerts for London CIV<br><br>London CIV Officers to manage and monitor voting alerts to ensure fund managers receive and action accordingly where feasible to do so |

| | | |
|---|---|---|
| | drive out costs not add to them with additional overlays.<br><br>If voting delegations are given to mangers, we need to find reason why they have taken particular decisions where they have not voted in accordance with LAPFF. Where Fund Managers are not able to adopt LAPFF voting alerts it would be better to use a comply or explain approach in order to understand why. MH favoured continuing with the LAPFF route<br><br>TS pointed out that in some instances managers will cancel out the CIV's votes by voting differently.<br><br>Will look at extra costs, e.g. to have a separate voting agent, but would be offset.<br><br>YJ proposed that the CIV copes with alerts from LAPFF for the time being. RG noted that this has been seen as a reasonable compromise over the past year, particularly as LAPFF is a cross party organisation. TOM proposed that we do follow through the use of voting alerts from LAPFF. CIV to ensure these are managed and monitored. Position to be reviewed in a year or so. | |
| 4. | **Stewardship Code**<br>The Working Group reviewed the Stewardship Code and the compliance statements provided which covered London Funds and the managers currently in place on the CIV platform. TOM has responsibility for this area in his employment and commented that the FRC (Financial Reporting Council) was raising the bar by bringing in a 2 tier system for assessing Compliance Statements. TOM felt that the London CIV should adopt a pragmatic route at this time to compliance and target a Level 2 Compliance Statement. It was also noted that the FCA require Fund Managers to make a statement in relation to the Code on a comply or explain basis.<br><br>Agreed that London CIV officers would prepare a Compliance Statement for consideration at the PSJC | London CIV officers agreed to draft a Compliance Statement that would target a Level 2 Statement |
| 5. | **Responsible Investment / Stewardship Seminar**<br>The Working Group questioned whether there was likely to be sufficient appetite for a dedicated seminar on this area. RG commented that it would be worthwhile discussing the types of issues that might be covered with companies and in particular issues raised by LAPFF, e.g. climate change and member representation on Boards – these issues are important and also reflect words of new Prime Minister. TS would be in favour of a seminar particularly where there might be interest in new funds e.g. low carbon as it would provide the opportunity to have a considered debate. The seminar should be open to Committee Members, borough officers, London CIV Board Members and Pension Board members. HG suggested that the seminar would be a useful | LCIV Officers to arrange a dedicated RI/Stewardship Seminar, timing to be agreed but probably January 2017 |

| | | |
|---|---|---|
| | sounding board to understand where clients are.<br><br>It was proposed that a meeting date in early 2017 be set.<br><br>TS commented that it would be good for the group to reflect on any outcomes from the seminar event at its next meeting. | |
| 6. | **Dates of Future Meetings**<br>It was agreed that the Working Group was a useful forum to consider issues of stewardship and responsible investment and that it should continue to meet. It was agreed that twice a year would be best initially. Dates to be agreed but provisionally in late February and October. | LCIV Officers to propose dates for future meetings |
| 7. | **A.O.B**<br>RG felt it would be good to offer opportunities where there are a range of managers rather than just generic asset classes, such as global equity e.g. low carbon manager. JD confirmed that the global equity search will include ESG managers and that where appropriate these will be included on the LCIV platform. How far can LCIV go in offering choice without impacting on cost? Clearly adding too much choice will impact on the costs and won't deliver economies of scale benefits.<br><br>RG also raised the question - do we envisage LCIV being able to sack a manager, HG confirmed that LCIV would remove managers when funds no longer wanted to invest. Also RG noted that in general larger funds have ability to switch more easily.<br><br>TS raised the question of passive managers as to where LCIV is with them. HG said there had been a number of challenges, but more recently the CIV with the LGIM passive these had come down to 2 final challenges. Because of wider pooling agenda, LGIM want to continue with life fund model and despite withholding tax benefits it wasn't clear the LCIV could deliver best value continuing with the ACS path with LGIM. Further the Government had also exempted life funds as part of the pooling process, at least initially. Another issue causing a major problem was rebalancing – everything happening under the bonnet of the life fund making rebalancing appear costless and transition free. Under the ACS model, it would also mean that funds were out of market for a period. One last option LCIV was looking at in connection with rebalancing, but almost certain to continue with life funds for LGIM clients. BlackRock was operating a different model and options were still being worked through here. | |

Item no: 6

# Pensions CIV Sectoral Joint Committee

## Global Equity Procurement Update

| | | | |
|---|---|---|---|
| **Report by:** | Julian Pendock | **Job title:** | Chief Investment Officer |
| **Date:** | 18/10/2016 | | |
| **Contact Officer:** | | | |
| **Telephone:** | 020 7934 9887 | **Email:** | julian.pendock@londonciv.org.uk |


**Summary**

The Investment Team at the London CIV have been working over the summer on global equity procurement. External investment consultants were appointed to assist with the procurement, and the Equity Sub-Group, drawn from the Investment Advisory Committee, has also been providing support to the in-house team. Tender submissions were received from over 200 fund managers and a shortlist has been drawn up. Interviews and clarification meetings are due to take place throughout October and November. The Investment Team intends to submit final recommendations on manager selection to the Joint Committee in December. This paper sets out the timeline of the procurement process for the appointment of sub-funds for London's Local Authority Pension Funds to access.


Recommendations

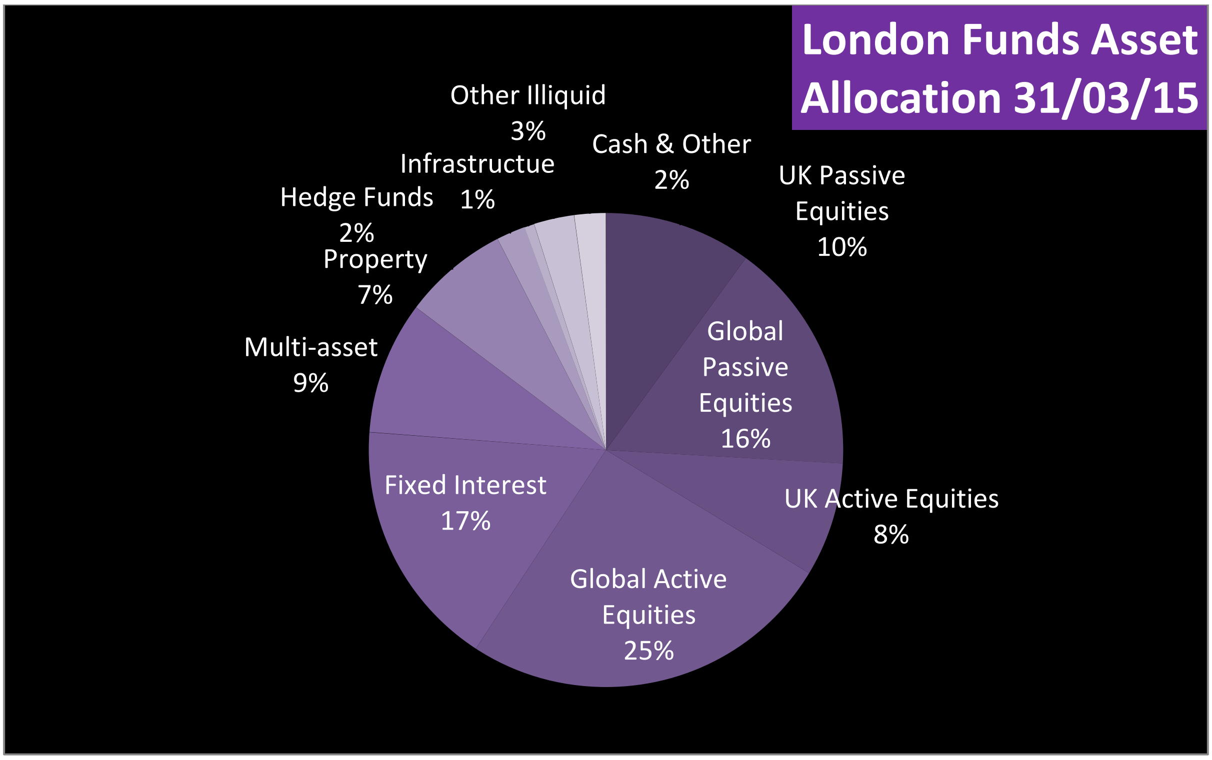
The committee is recommended to:

i. Note the contents of this report

# Global Equity Procurement

**Background**

1. The London Local Authority Pension Funds have their largest single asset allocation, measured collectively, in active global equities. This allocation over a quarter of their fund invested in this asset class with around £7.5bn invested across London (based on 31/03/15 statistics). This is the largest asset class therefore for London Pension Authorities and inevitably has been one of the key areas for the London CIV Investment Team to concentrate efforts.




2. The initial approach to selecting managers for inclusion on the CIV was based on the "CQC" criteria. That is, Commonality (number of boroughs invested in a mandate), Quantum (of assets) and Conviction (the boroughs wished to remain invested in the mandate). This initial approach is delivering, and will we believe continue to deliver, material benefits to the invested boroughs. There are drawbacks to this approach including less negotiating leverage with the Investment Managers (IMs), for example. Consequently the decision was taken to look at a wider opportunity set in the global equity space, given that a number of funds had indicated a desire to switch managers, but also that there was a desire for some new categories of global equity strategies including emerging markets and sustainable equity mandates.

**Global Equity Procurement**

3. The London CIV Investment Team undertook a procurement exercise to search for consultants at the start of the summer, to assist with the global equity procurement exercise. Following a thorough process, the CIV appointed Mercer and Redington as advisers on this key project. Working with colleagues from the Investment Advisory

Committee (IAC) consideration was given to the widest possible range of investment strategies (see appendix 1) that might be required by the London Funds over the longer term, in order to capture requirements that might develop over time. Consequently it was agreed that the following global equity strategies should be included in the procurement programme, sub-divided into a number of different lots with different advisers responsible for the different strategies:

| | | |
|---|---|---|
| **Lot 1** | Core | Redington |
| | Income | Mercer |
| | Low Volatility | Redington |
| | Quality | Mercer |
| | Trend Growth | Mercer |
| | Value | Redington |
| **Lot 2** | Emerging Markets | Mercer |
| **Lot 3** | Sustainable | Redington |
| **Lot 4** | Incubator | Mercer & Redington |

4. Whilst the CIV has not used the OJEU procurement process, it has endeavoured to emulate best practice in this area and followed a similar process to that required by OJEU, in order to ensure best practise in terms of the transparency and fairness of the process. All London Pension Funds were notified when the tender went live, to enable them to contact existing managers to alert them to the tender. In addition the London CIV Investment Team has been working closely with a small group of colleagues from the IAC to review the documentation for the tender and the responses to the tender.

5. The CIV received an extremely strong response to its request for global equity managers to tender for its first major investment procurement exercise, with over 200 responses received by mid-September. The Investment Team, along with the IAC Sub-Group and the Investment Consultants, assessed the submissions and a comprehensive short list has been produced. The submissions were screened based on the IMs' perceived ability to deliver appropriate strategies investment returns, as well as the competitiveness of the fees. The names include both familiar and some less familiar names to LGPS funds, and they have been invited to clarification meetings. The breakdown of responses and the number of managers selected for interview are shown in the table below:

| **Lot** | **Strategy** | **No. of Managers for Interview** | **No of submissions** |
|---|---|---|---|
| Lot 1 | Core | 7 | 44 |
| | Income | 6 | 15 |
| | Low Volatility | 6 | 21 |
| | Quality | 6 | 23 |
| | Trend Growth | 4 | 6 |
| | Value | 7 | 14 |
| Lot 2 | Emerging Markets | 9 | 47 |
| Lot 3 | Sustainable | 8 | 27 |
| Lot 4 | Incubator Managers | 5 | 10 |
| | **Totals** | **58** | **207** |

6. Clarification meetings with the shortlisted managers will take place through October and early November, in order to generate a final shortlist of preferred managers. The list will be presented to London Funds in mid-November. The intention is to hold a “Meet the Managers” event, when representatives from the boroughs (as well as their consultants and advisers) will be able to engage with the Investment Managers. We hope that this event will provide London Funds with the opportunity to consider new opportunities that will be available on the London CIV and indications of potential interest in these new investment strategies will be sought from Funds afterwards.

7. For legal, regulatory and operational reasons, along with anticipated levels of demand, it is being proposed that 3 sub-funds be opened in the first instance. Whilst this will be dependent on demand from the investing authorities, early indications from London funds indicate that the following strategies provide the best fit at this time: income; emerging markets, and sustainable equities. This would then be followed by further sub-fund openings later in the year, again reflective of expected demand. An indicative outline timeline is attached as appendix 2 to this report.

8. After this stage it is anticipated that two managers will be recommended for the first three strategies, with a lead choice and second choice presented to the IAC and the Joint Committee before the end of the year. Any final decisions to appoint managers will however, be dependent on successful due diligence being completed along with finalisation of commercial terms and conditions. Thereafter the Board of LCIV will meet to formally approve the launch of a given strategy. London CIV officers are currently working on a standard Investment Management Agreement (IMA) with legal advisers.

9. Once the process for selecting IMs is complete and the Board has made the final decision, London CIV will then focus efforts on opening single investment strategy sub-funds to provide maximum choice and flexibility for the London Funds to undertake any necessary asset allocation and investment strategy decisions on their global equity allocations.

10. For legal, regulatory and operational reasons along with anticipated levels of demand, it is being proposed that 3 sub-funds be opened in the first instance. Whilst this will be dependent on demand from the investing authorities, early indications from London Funds indicate that the following strategies provide the best fit at this time: income; emerging markets, and sustainable equities. This would then be followed by further sub-fund openings later in the year, again reflective of expected demand. An outline timeline is attached as appendix 2 to this report.

11. Recognising that it will be up to individual funds to determine whether or not to invest in specific global equity strategies, London CIV will work closely with colleagues in the IAC and also more broadly with the London Funds themselves to assess demand for specific investment strategies. The Investment Team looks forward to updating the Joint Committee further on the progress of this procurement and hope that funds will attend information days currently being arranged.

**Recommendations**

12. The committee is recommended to:

    i. Note the contents of this report

**Financial implications**

13. There are no financial implications for London Councils

**Legal implications**

14. There are no legal implications for London Councils.

**Equalities implications**

15. There are no equalities implications for London Councils

**Appendix**

Appendix 1 – Global Equity Investment Strategies

Appendix 2 – Global Equity Procurement Timeline

*Appendix 1*

# GLOBAL EQUITIES PROCUREMENT – INVESTMENT STRATEGY LOTS

## Lot 1 – Generic Global Equities – 6 investment strategies:

- Global Core (Redington) - Exposure to long-only listed global equity markets with tilts to a blend of multiple style factors. This might include (but not exclusively); a combination of Value, Momentum and Quality factors.
- Global Value (Redington) - Exposure to long-only listed global equity markets with persistent style exposure to “value” factors (relative to the MSCI World). This might include (but not exclusively); low price to earnings, price to cash-flow or price-to-book ratios.
- Global Quality (Mercer) - Exposure to long-only listed global equity markets with persistent style exposure to “quality” factors (relative to the MSCI World). This might include (but not exclusively); high return on equity, high return on assets, low volatility of earnings growth or low levels of financial leverage.
- Global Trend Growth (global unconstrained) (Mercer) - Exposure to long-only listed global equity markets with persistent style exposure to “trending” factors (relative to the MSCI World). This might include (by not exclusively); price momentum, fundamental momentum or earnings revisions.
- Global Income (Mercer) - Exposure to long-only listed global equity markets with persistent style exposure to “dividend yield” (relative to the MSCI World), and a portfolio-level yield persistently in excess of the dividend yield on the MSCI World.
- Global Low Volatility (Redington) - Exposure to long-only listed global equity markets with a focus on creating a portfolio of securities that primarily target a lower overall volatility than MSCI World.

## Lot 2 – Emerging Markets Strategy:

- Emerging Markets (Mercer) - Exposure to long-only listed emerging market equities with the majority of portfolio invested in securities listed in countries defined as “emerging”.

## Lot 3 – Sustainable Equities Strategy:

- Sustainable Equity (Redington) - Exposure to long-only listed global equity markets with a focus on explicitly considering environmental, social and governance (ESG) factors in portfolio selection and management.

## Lot 4 – Incubator Managers:

- Emerging Managers/ Incubator (Mercer and Redington) - Exposure to long-only listed global equity markets with firm-wide AUM less than $2bn

*Appendix 2*

## Global Equity Timeline

| | |
|---|---|
| Advisers | •Appointment of Advisers - **Summer 2016**<br>•Consideration of Global Equity Strategiy Lots |
| Tender | •Tender for Global Equities - **August/September 2016** |
| Short-listing | •Tender Responses Evaluated and Managers Shortlisted by Strategy - **October 2016** |
| Inter-views | •Interviews / Clarification Meetings of Shortlisted Manager - **October and November 2016** |
| Prefer-ences | •Preferred Managers Chosen for consideration by London Funds- **November 2016** |
| Recom-men-dations | •Preferred Managers to IAC/ Joint Committee - **November / December 2016**<br>•CIV working with Funds to asses likely demand for different strategies |
| DD | •London CIV undertakes Operational / Risk/ Regulatory Due Diligence on Managers - **December 2016 /Q1 2017** |
| Board | •Board considers Recommendations from Joint Committee and CIV Investment Team, decisions on Appointment of Global Equity Managers - **December 2016/ Q1 2017** |
| Sub-Funds 1 | •Legal, FCA and Operational readiness of first 3 sub-funds (strategies to reflect anticipated Fund demand) - **Q1 / Q2 2017** |
| Funds 1 | •LGPS London Funds invest in accordance with Fund decisions on Asset Allocation and Investment Strategy - **Summer 2017** |
| Sub-Funds 2 | •Legal, FCA and Operational readiness of second 3 sub-funds (strategies to reflect anticipated Fund demand) - **Autumn 2017** |
| Funds 2 | •LGPS London Fund invest in accordance with Fund decision on Asset Alllocation / Investment Stratgy - **Autumn 2017** |
| Sub-Funds 3 | •Further sub-funds opened as demand requires - **Autumn 2017 onwards** with necessary Legal, FCA and Operational work as required |

LONDON CIV

# Pensions CIV Sectoral Joint Committee

Item no: 7

## Investment Advisory Committee Update

| | | | |
|---|---|---|---|
| **Report by:** | Ian Williams | **Job title:** | Chair |
| **Date:** | 18/10/2016 | | |
| **Contact Officer:** | | | |
| **Telephone:** | 020 7934 9968 | **Email:** | Jill.davys@londoncouncils.gov.uk |

| | |
|---|---|
| **Summary** | The Investment Advisory Committee was re-formed in July with new members. The Committee continues to work closely with the London CIV to consider a range of investment opportunities. A number of working groups have worked alongside the Investment Team to progress global equity procurement, responsible investment and fixed income. |
| Recommendations | The committee is recommended to:<br>i. Note the contents of this report; |

# London CIV Investment Advisory Committee – Update July – September 2016

**Introduction**

1. The Investment Advisory Committee (IAC) was formed in September 2015 with the remit to:

    i. To support the Joint Committee in the investment decision making process

    ii. To liaise with the Fund Operator of the CIV in defining Shareholders' investment needs.

2. Membership of the IAC was renewed in July with London Treasurers being asked to nominate themselves or their officers with 24 nominations being received. Whilst this was greater than allowed for under the Terms of Reference, after consideration, it was agreed that the full complement of nominations should be included in the Committee. This was to ensure at a time of rapid development for the London CIV, as many Pension Funds could be engaged fully in the process and that this would also enable a wide range of pension managers to work closely alongside officers of the CIV. The new Committee comprised 9 London Treasurers and 15 Pension Managers.

3. In addition to expanding the Committee, it was also felt appropriate to meet more frequently, again to provide support and challenge to the CIV at a time of change with the result that the IAC now meets monthly. Consequently the IAC has met 3 times over the summer months.

4. The IAC has considered wider investment strategy with presentations from the CIO of the CIV covering global equities and fixed income and in particular Funds search for income in a world of low interest rates and negative cashflow. Consequently, the CIV was asked to bring work forwards in this area.

5. Consideration was also given to the level of resourcing for the CIV, with the IAC questioning whether there were sufficient resources to deliver the work required by Funds to meet their future needs. The IAC was informed that business plans were subject to review and that future meetings would cover updated business and resourcing plans, although it was acknowledged that an increase in the service charge was likely over the next 1-2 years to ensure that the CIV was properly resourced to meet it's regulatory and investor requirements.

6. The IAC were provided with updates on passive management where it was agreed that these assets could remain outside of the CIV following government guidance on life funds. The IAC was also kept updated on progress of fund openings and the ongoing negotiations with managers still being considered under the CQC criteria (Commonality of mandates, Quantum of assets and Conviction of Funds in the manager).

7. Other items considered were options for the CIV to work with funds on procurement for a pan-London transition manager, but it was agreed that it was not necessary for this work to be led by the CIV at this time. A draft allocations policy was considered by the IAC alongside a fee policy where it was agreed to proceed with deducting fees at fund level

as long as funds provided with a complete breakdown of all the fees and that they will have full transparency over costs, particularly to meet the new accounting requirements for CIPFA.

8. Working groups have been established to cover**:**

    i. Global Equities – This group has met to consider the current procurement exercise and has had significant input into the development of the tender documentation. Representatives of the group have also attended the manager shortlisting meetings with consultants and have agreed the managers to be taken forward for interviews. Representatives will also be attending the clarification interviews with the shortlisted managers to assist the Investment Team at the CIV.

    ii. Fixed Income and Cashflow – This group met to provide input into the development of the fixed income work that the CIV will be undertaking over the coming months. The analysis previously carried out indicated that there was a lack of commonality in fixed income mandates across the London Funds. In addition with Funds currently reviewing the outcome of their triennial valuations and facing increasing pressure on cashflow for the funds at a time when income from investments was falling means that this area of work is likely to grow in importance as Funds consider their Investment Strategy Statements over the coming months. A seminar for officers has been arranged to air some early thoughts in this area.

    iii. Responsible Investing and ESG – The group met to consider a wide range of topics including, the CIV's approach to voting, the Stewardship Code and appetite for sustainable equity funds as part of the broader global equities procurement. In addition, the group is considering agenda items for a Stewardship and Responsible Investment seminar in January. It was noted that the guidance and the new Investment Regulations required Funds to set out how they will meet their stewardship and voting responsibilities and it was agreed that the group should look at developing some standard wording in this area to assist funds with developing their own approach to include in their new Investment Strategy Statement which replaces the Statement of Investment Principles.

    iv. Infrastructure – Whilst recognising that this was a key area in the government pooling submission, work in other areas has taken precedence and this group is yet to formally meet.

    v. Housing – As with the infrastructure group, other priorities for the CIV have taken precedence although it is hoped that this group will meet shortly to start work in this key project area.

9. Future work for the IAC will include consideration of the final selection of global equity managers following on from the procurement exercise, the shape of the fixed income mandates and income producing assets that the CIV will look to introduce. The IAC will also work closely with the CIV in considering the business plan and any need for additional resourcing.

**Recommendations**

10. The committee is recommended to:

i. Note the contents of this report

**Financial implications**

11. There are no financial implications for London Councils

**Legal implications**

12. There are no legal implications for London Councils.

**Equalities implications**

13. There are no equalities implications for London Councils

# Pensions CIV Sectoral Joint Committee

Item no: 8

## Review of Benefits


| | | | |
|---|---|---|---|
| **Report by:** | Jill Davys | **Job title:** | Assistant Director, Client Management |
| **Date:** | 18/10/2016 | | |
| **Contact Officer:** | | | |
| **Telephone:** | 020 7934 9968 | **Email:** | Jill.davys@londonciv.org.uk |



| | |
|---|---|
| **Summary** | This paper updates an earlier paper provided to the Joint Committee on the benefits to be delivered to Local Authority Pension Funds from the Collective Investment Vehicle. The benefits paper circulated in February 2015 was in advance of the Government's Criteria and Guidance issued in November 2015. |


| | |
|---|---|
| Recommendations | The committee is recommended to:<br>i. Note the contents of this report; |

# London CIV Review of Benefits

**Introduction**

1. At its meeting in February 2015 the Committee was presented with a report on the operating budget and benefits of the CIV which covered a range of cashable and non-cashable benefits to investors and stakeholders. At the Pensions Joint Committee AGM in June 2016, it was agreed that a further exploration of the benefits would be presented to the autumn meeting of the Joint Committee. This paper sets out to update the Committee on the benefits being delivered and those still being worked on.

**Cashable Benefits**

<u>Investment Manager Fee Reductions</u>

2. Since the benefits paper was produced, the London CIV has obtained FCA registration and opened 5 sub funds (2 global equity and 3 multi-assets). Assets under management by mid-September were just over £2.5bn with 14 London Funds invested. This is delivering just under £1m net of annualised fee savings. These have been calculated taking into account each London Fund’s assets under management, the fee scales pre and post transition and include the costs associated with the London CIV charges including asset servicer and custody costs.
3. In addition, the London CIV expended considerable efforts in negotiating with the largest passive manager for London Funds and whilst this has not resulted in sub-funds for the CIV, it has delivered significant savings benefits to the invested funds. Fourteen funds were invested with Legal & General in their passive life funds and as a result of the centralised negotiations with the CIV, annualised savings of £1.85m net will have been achieved. These have been calculated taking into account each London Fund’s assets under management, the fee scales pre and post transition and include the costs associated with the London CIV charges including asset servicer and custody costs.
4. With a further sub-fund due to open in December this will again increase the value of annualised savings by a further £0.37m net. Additional sub-fund openings based on current negotiations with managers could see 2-3 more sub-funds opening and on a conservative estimate, this could add close to £1m of further annualised savings to invested boroughs. These have been calculated taking into account each London Fund’s assets under management, the fee scales pre and post transition and include the costs associated with the London CIV charges including asset servicer and custody costs.
5. In aggregate anticipated annualised fee savings from opening sub-funds since FCA registration to the end of the 2016/17 financial year could amount to annual savings for invested London Funds of £2.56m net on assets under management of £4.26bn. If savings from the largest passive manager of London Pension Funds is included then the benefits delivered on an annual basis could amount to £4.4m net. The CIV are hopeful the negotiations underway with the second largest provider of passive funds and a further global equity manager will deliver further savings to investors during the current financial year. These have been calculated taking into account each London Fund’s assets under management, the fee scales pre and post transition and include the costs associated with the London CIV charges including asset servicer and custody costs.

6. Members will note that there is an additional Committee paper on the global equity procurement and whilst it is unlikely to deliver new sub-funds until the financial year 2017/18, the potential to add value from this procurement exercise against standard institutional fees could be significant when reflecting on proposed fees being put forward as part of the tender process.

Tax Benefits

7. The benefits paper from February 2015 set out additional tax benefits which could be available when investing through the CIV ACS and these will vary considerably depending on the starting point of the individual funds invested. Little work has so far been undertaken on the actual tax benefits achieved, but is likely to be the subject of further work, to demonstrate value adds in this area.

Procurement Savings

8. As Members will be aware, to date the London CIV has concentrated efforts on opening sub-funds on the basis of a CQC approach, thereby undertaking transitions of existing managers on to the CIV platform.

9. The global equity procurement is the first where new managers are being sought via a procurement route (this may indeed include existing managers for some London Funds). The analysis referred to in the February 2015 paper showed over the three years 2010 to 2013 that there were 99 mandate changes made by London Pension Funds (an average of one mandate change per fund per year). The assumption that generally a mandate change incurs procurement related costs of around £50,000 and that going forwards where the CIV was undertaking procurement on behalf of the London Funds then savings over an 18 month period could amount to £500,000. The current global equity procurement has looked to deliver a procurement exercise which covers a wide range of investment strategies including some of the newer global equity strategies that London Funds are developing an interest in such as sustainable equities. In total 9 investment strategies are being procured for the cost of 2 Fund searches. Whilst it is recognised that the decision on whether to invest in these individual strategies will of course be taken at a Local Fund level, they will be open to all 33 Pension Funds to invest. Managers selected under this procurement process will of course be subject to high levels of due diligence and ongoing monitoring.

Transition costs reduced

10. At this stage the only transitions to have taken place have revolved around moving existing mandates on to the CIV platform, with subscriptions into existing sub-funds only just starting to materialise.

11. The potential to undertake a London-wide procurement exercise for transition managers has been considered by the IAC, but capacity constraints at the CIV has meant that it has not been possible to take this forward at this stage, particularly given that the number of transitions was unlikely to be significant for some months. However, given that the global equity procurement and future investment procurement could mean that the numbers of transitions that occur are likely to increase over time; this is something that can be re-visited to see if transition manager savings can also be delivered.

12. The February 2015 paper also talked about the potential for a reduction of ‘value leakage’ as Funds move assets between managers outside the CIV platform and the

potential for internal CIV transitions to reduce this. Clearly at this stage it is too early in the life cycle of the CIV to assess the impact of this in terms of wider benefits.

Manager Churn reduction

13. This benefit can only be assessed over the longer term as the CIV appoints managers to the platform and performance is delivered.

Custody Costs Reduced

14. As the 2015 benefits paper referenced the potential for London Fund custody costs to decrease over time as assets move across on to the CIV platform. Whilst the CIV will continue to have custody costs as assets increase, the cost of these will decrease. For funds themselves, in time, they may no longer require a separate custodian for liquid assets thereby seeing an overall reduction in custody costs. Again, it is probably too early in the life cycle to calculate an accurate picture of the potential savings delivered, but the CIV will look to capture the current custody costs of London Funds to make an assessment of the savings delivered over time.

Crossing (trades in pooled funds)

15. Again this was highlighted as a potential cashable benefit for London Funds for crossing of trades within the London CIV Pool, as with a number of benefits, they can only be evidenced when the CIV is fully operational.

Securities Lending

16. This is not something that is currently undertaken by the CIV, but over the longer term will be considered once the CIV approaches a business as usual status.

Foreign Exchange

17. Looking at the cashable benefits savings from the February paper, there is scope for foreign exchange savings to be delivered, but again this is something for the longer term once a larger number of funds are operational.

**Non-Cashable or 'Softer' Benefits**

Data Transparency and data access

18. The ability of London Funds to view data across the different sub-funds and investment strategies will provide Funds with greater levels of transparency with individual managers. The London CIV is working on the best format to provide access to this data with a secure area of the website being key, which is one of the projects currently being considered as the CIV develops its reporting for London Funds.

Shared investment manager oversight

19. In addition to the London CIV undertaking its own in-depth scrutiny of the funds on its platform, London Funds themselves will have the opportunity to meet and discuss managers appointed to the CIV platform providing the prospect of greater scrutiny of both the underlying managers and the CIV itself.

Regulatory Scrutiny

20. With the London CIV being a regulated entity, London Funds can be assured that the oversight and scrutiny undertaken on the CIV will be significant and that all Pension Funds have to be treated fairly and that officers of the company have to be 'fit and proper' to perform FCA controlled functions. The fact that the London CIV was able to obtain FCA approval at a fund and operator level last autumn provides London Funds with the necessary assurances from a governance perspective when transferring assets to the CIV.

Governance / Shared Training / Shared Knowledge

21. The London CIV has conducted a number of seminars for the London Funds with more planned for the future. Whilst the majority of these have been targeted at officers within the Funds, further events are being planned which will also be open to the Pension Committee Members. This includes a Responsible Investment Seminar in January and an Investor Conference in March.

22. The Joint Committee has also received a number of presentations from the FCA, Treasury and on topics such as infrastructure.

Access to 'alternative' investment

23. The London CIV has in the early stages of development inevitably concentrated on the asset classes where London Funds have the greatest assets under management which has included passive and global equities. The development of a broader range of asset classes to include 'alternative' assets such as private equity and infrastructure will be developed over the coming years.

Responding proactively to the wider LGPS efficiency agenda

24. As Members know, the formation of the London CIV was at the forefront of efforts to improve the efficiency of London Pension Funds and in advance of the wider government pooling agenda. The CIV was able to collate data and provide a detailed response to the Government's Criteria and Guidance for both the February and July submissions to Central Government.

Market Management

25. As can be seen from the cashable fee savings and the global equity procurement process, the ability of the CIV to influence the fund management industry on fees is already evidenced. In terms of wider influences, as the CIV gains further traction, the ability to negotiate with managers to come up with bespoke products for London Funds could deliver wider benefits in the future.

More time at local level to focus on strategic issues

26. With London local authorities facing increasing pressure on local resources, the procurement of managers and the scrutiny of managers being undertaken by the CIV should enable Funds to concentrate on more strategic delivery of asset allocation and investment strategy.

Voting and Engagement

27. Having a standard approach to voting across London Funds and the ability over time to increase the level of engagement on a range of stewardship, environmental, social and governance with managers will help to ensure that London Funds have a stronger voice when engaging on these issues.

Reputation

28. As noted in the February 2015 paper, London Funds have led the way on delivering collaboration and have been at the forefront of pooling of investments. CIV officers have been sought out and have attended a number of pool meetings with other pools to provide assistance as they develop their own thinking on pooling, helping to enhance the reputation of London Funds.

**Recommendations**

29. The committee is recommended to:

    i. Note the contents of this report

**Financial implications**

30. There are no financial implications for London Councils

**Legal implications**

31. There are no legal implications for London Councils.

**Equalities implications**

32. There are no equalities implications for London Councils.

# Pensions CIV Sectoral Joint Committee

Item no: 9

## Remuneration Committee Policy & Terms of Reference

| | | | |
|---|---|---|---|
| **Report by:** | Hugh Grover | **Job title:** | Chief Executive, London LGPS CIV Ltd. |
| **Date:** | 18 October 2016 | | |
| **Telephone:** | 020 7934 9942 | **Email:** | hugh.grover@londoncouncils.gov.uk |

| | |
|---|---|
| **Summary** | This report informs the committee of the first meeting of London CIV's Remuneration Committee and provides the draft Terms of Reference and Remuneration Policy for information. |
| **Recommendations** | The committee is recommended to consider and note the contents of this report. |

# Remuneration Committee Policy & Terms of Reference

**Introduction**

1. The inaugural meeting of London CIV's Remuneration Committee (RemCo) is scheduled for 12 October 2016.
2. Members of the Committee are the Chair and two Vice Chairs of the London Councils' Pensions CIV Sectoral Joint Committee, two independent non-executive directors of London CIV (Eric Mackay and Carolan Dobson) and the Chair of London CIV (Lord Bob Kerslake). Eric Mackay (in line with the committee's terms of reference) has been appointed as Chair.
3. For information the company's draft Remuneration Policy and Remuneration Committee Terms of Reference are attached as Annexes A & B.
4. The draft Terms of Reference have been drafted in line with Institute of Chartered Secretaries and Administrators guidance, adjusted to be appropriate for the governance structures of London CIV.
5. The draft Remuneration Policy has been drafted with advice from the Company's legal advisors (Eversheds LLP). It is compliant with the requirements of the Alternative Investment Managers Directive (AIFMD) as implemented in the UK by SYSC 19B of the Financial Conduct Authority (FCA) Handbook, and including any related Financial Conduct Authority (FCA) or European Securities and Markets Authority (ESMA) or other applicable requirements or guidelines, otherwise known as the Remuneration Requirements.
6. The Remuneration Committee has been invited to review both documents after which they will be submitted to the Board for final adoption. Any substantive recommendations for amendments from the RemCo will be provided as a verbal update to this committee.

**Recommendations**

7. The committee is recommended to consider and note the contents of this report.

**Legal Implications**

8. There are no legal implications for London Councils.

**Financial implications**

9. There are no financial implications for London Councils.

**Equalities Implications**

10. There are no equalities implications for London Councils

**Annex A**

# Remuneration Committee Terms of Reference

## 1. Objective

1.1. The objective of the Remuneration Committee (the “**Committee**”) is to set the principles and parameters of the Remuneration Policy (the “**Policy**”) for London LGPS CIV Ltd. (the “**Company**”), and to oversee the Policy and outcomes for those colleagues specified in these Terms of Reference.

## 2. Membership

2.1. Appointments to the Committee are made by the Company Board (the “**Board**”), in consultation with the Chair of the London Councils Pensions CIV Sectoral Joint Committee (the “**PSJC**”), and shall be for a period of up to three years extendable by no more than two additional three-year periods, so long as members (other than the Chair of the Board, if he or she is a member of the Committee) continue to be independent.

2.2. The Committee shall comprise at least five members, being a minimum of two independent non-executive directors and a maximum of three members appointed from the PSJC to act as shareholder representatives. The Chair of the Board may also serve on the Committee as an additional member if he or she was considered independent on appointment as Chair.

2.3. Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the chief executive, the head of human resources and external advisers may be invited to attend for all or part of any meeting, as and when appropriate and necessary.

2.4. The Board shall appoint the Committee Chair who shall be an independent non-executive director. In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting who would qualify under these terms of reference to be appointed to that position by the Board. Neither the Chair of the Board nor a member of the PSJC shall be Chair of the Committee.

## 3. Secretary

3.1. The Company secretary or his or her nominee shall act as the secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.

## 4. Quorum

4.1. The quorum necessary for the transaction of business shall be three.

## 5. Meetings

5.1. The Committee shall meet at least once a year and otherwise as required.

5.2. Additional meetings of the Committee shall be summoned at the request of any member of the Committee at the discretion of the Committee Chair.

## 6. Notice of meetings

6.1. Meetings of the Committee shall be called by the secretary of the Committee at the request of the Committee Chair.

6.2. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees, as appropriate, at the same time.

## 7. Minutes of meetings

7.1. The secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance. The Committee Secretary should ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

7.2. Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee. Once approved, minutes should be circulated to all other members of the Board unless in the opinion of the Committee Chair it would be inappropriate to do so.

## 8. Annual general meeting

8.1. The Committee Chair should attend the annual general meeting to answer any shareholder questions on the Committee's activities.

## 9. Duties

9.1. The Committee shall:

9.1.1. Have responsibility for overseeing effective implementation of the Company Remuneration Policy.

9.1.2. Recommend and monitor the level and structure of remuneration for the Company's Chief Executive, Chair and all executive directors. The Board itself shall determine the remuneration of the non-executive directors, taking advice from the PSJC members of the Remuneration Committee. No director shall be involved in any decisions as to their own remuneration.

9.1.3. In making such recommendations, take into account all factors which it deems necessary including relevant legal and regulatory requirements, the provisions and recommendations of the Code and associated guidance. The objective shall be to attract, retain and motivate executive management of the quality required to run the Company successfully without paying more than is necessary, having regard to views of shareholders and other stakeholders. Recommendations should have regard to the risk appetite of the Company and alignment to the Company's long strategic term goals.

9.1.4. Review the on-going appropriateness and relevance of the remuneration policy.

9.1.5. Within the terms of the agreed policy and in consultation with the Chair and/or chief executive, as appropriate, determine the total individual remuneration package of each executive director, the Company Chair and other designated senior executives including bonuses, and/or other incentive payments.

9.1.6. Obtain reliable, up-to-date information about remuneration in other companies of comparable scale and complexity. To help it fulfill its obligations the Committee shall have full authority to appoint remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary at the expense of the Company but within any budgetary restraints imposed by the Board.

9.1.7. Be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee.

9.1.8. Approve the design of, and determine targets for, any performance-related pay schemes operated by the Company and approve the total annual payments made under such schemes.

9.1.9. Ensure that contractual terms on termination, and any payments made, are fair to the individual, and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised.

9.1.10. Oversee any major changes in employee benefits structures throughout the Company or group.

9.1.11. Work and liaise as necessary with all other Board Committees.

## 10. Voting

10.1. Decisions should normally be reached on a consensus basis. In the event of a non-consensus, decisions on any matter can be reached on a majority basis, with the Chairman having a casting vote in the event of a tie. A committee member who remains opposed to a proposal or recommendation after a vote can ask for his/her dissent to be noted in the minutes.

10.2. Any person invited to attend meetings, and who is not a member, is not entitled to vote on any matter before the committee.

## 11. Reporting responsibilities

11.1. The Committee Chair shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

11.2. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

11.3. The Committee shall ensure that provisions regarding disclosure of information, including pensions, as set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Code, are fulfilled and produce a report of the Company's remuneration policy and practices to be included in the Company's annual report and ensure each year that it is put to shareholders for approval at the AGM. If the Committee has appointed remuneration consultants, the annual report of the Company's remuneration policy should identify such consultants and state whether they have any other connection with the Company.

11.4. Through the Chair of the Board, ensure that the Company maintains contact as required with its principal shareholders about remuneration. 27

## 12. Other matters

12.1. The Committee shall:

12.1.1. Have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required.

12.1.2. Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members.

12.1.3. Give due consideration to laws, regulations and any published guidelines or recommendations regarding the remuneration of directors of non-listed companies including but not limited to the provisions of the Code, and Disclosure and Transparency Rules as well as guidelines published by the Association of British Insurers and the National Association of Pension Funds and any other applicable rules, as appropriate.

12.1.4. Arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

## 13. Authority

13.1. The Committee is authorised by the Board to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference.

## 14. Relationship with the Board

14.1. The Board will determine the role of the Committee and may amend these Terms of Reference as necessary notwithstanding that the Committee shall review its Terms of Reference annually.

14.2. To the extent that the Committee undertakes tasks on behalf of the Board, the results should be reported to and considered by the Board. In doing so the Committee should identify any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken.

**Annex B**

# Remuneration Policy

## 1. Background

1.1 This Remuneration Policy of London LGPS CIV Limited (the "**Company**") is designed to ensure that the Company complies with the remuneration requirements imposed by the Alternative Investment Fund Managers Directive (AIFMD) as implemented in the UK by SYSC 19B of the Financial Conduct Authority (FCA) Handbook, and including any related Financial Conduct Authority (FCA) or European Securities and Markets Authority (ESMA) or other applicable requirements or guidelines (the "**Remuneration Requirements**").

1.2 The Company is committed to ensuring that its remuneration policies and practices are consistent with and promote sound and effective risk management and also ensure that the Company is able to recruit, retain and motivate staff of the caliber necessary to achieve its corporate objectives.

## 2. Responsibility and Review

2.1 Responsibility for setting, oversight and supervision of the Company Remuneration Policy lies with the Board of the Company (the "**Board**") which has delegated some functions and responsibilities to the Remuneration Committee.

2.2 No amendment to or exception from this Remuneration Policy may be made without the approval of the Board.

2.3 The Remuneration Committee is responsible for overseeing effective implementation of the Company Remuneration Policy in accordance with the Committee's Terms of Reference.

2.4 The Company Remuneration Policy will be subject to at least annual review by the Remuneration Committee, which will report on that review to the Board, to assess whether it:

(a) operates as intended; and

(b) remains compliant with the Remuneration Requirements.

2.5 Compliance with the Remuneration Policy may also be subject to compliance monitoring from time to time by the Compliance team.

## 3. Corporate Practices and requirements applicable to employees

*Principles*

3.1 In respect of all staff, the Company's remuneration arrangements are based on the principle that remuneration arrangements must be aligned with the Company's risk appetite and the business strategy, objectives, values and interests of the Company and the AIFs it operates, and the avoidance of conflicts of interest. The remuneration arrangements must not encourage risk-taking which is inconsistent with the risk profile of the Company or the AIFs it manages.

*Base Salary / Fees*

3.2 Base Salary of employees who are not directors or Code Staff will be set by the Board and in accordance with the business requirements of the Company.

Consideration will be given to any increased risk in the business and how this remuneration would be linked to the risk of the business.

3.3 Base Salary of directors and Code Staff will be set by the Board, under advice from the Remuneration Committee, and in accordance with the business requirements of the Company. Consideration will be given to any increased risk in the business and how this remuneration would be linked to the risk of the business.

*Bonuses*

3.4 Bonuses (where applicable) will be approved by the Board, under advice from the Remuneration Committee. All bonus targets must be documented and available for inspection if required.

3.5 If there is performance related pay of Code Staff this will based on a combination of the assessment of the performance of the individual and of the business unit or AIF concerned and of the overall results of the AIFM. When assessing individual performance, financial and non-financial criteria are taken into account.

3.6 The assessment of performance for Code Staff will be within a multi-year framework that is appropriate to the life-cycle of the AIFs managed by the Company to ensure that the assessment process is based on longer term performance.

*Employer Pension Contributions*

3.7 These will be subject to the Regulations pertaining to the Local Government Pension Scheme in accordance with the employee's terms and conditions which should be aligned with the Company's business strategy, objectives, values and long-term interests of the AIFs. These contributions are a fixed component of total remuneration. The Company does not provide discretionary pension benefits.

*Retention Pay and Guaranteed Variable Remuneration*

3.8 Any retention pay for staff must comply with the Remuneration Requirements. Retention awards for all staff must be documented appropriately and available for inspection if required.

3.9 Any guaranteed variable remuneration will only be paid if:

- it is exceptional;
- occurs only in the context of hiring new staff; and
- is limited to the first year of service.

*Severance Payments*

3.10 Payments on exiting the business, including in relation to pension arrangements, must also be in line with the Remuneration Requirements as well as complying with employment legislation. Consideration must be given to the timing of such payments and deferrals may be required to ensure that there is no breach of the Remuneration Requirements.

3.11 It is the Company's policy that payments related to the early termination of a contract reflect an employee's legal entitlements and his or her performance achieved over time and are designed in a way that does not reward failure.

*Control functions*

3.12 Staff responsible for risk management, compliance, internal audit and similar functions are compensated according to the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.

*Personal investment strategies*

3.13 The Company will ensure that its Code Staff undertake not to use personal hedging strategies or remuneration- and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

*Anti-avoidance*

3.14 The Company will ensure variable remuneration to Code Staff is not paid through vehicles or methods that facilitate the avoidance of the Remuneration Requirements.

## 4. Delegates

4.1 The Company will determine whether delegates are subject to regulatory requirements in respect of remuneration that are equally as effective as those in the Remuneration Requirements. Where a delegate is subject to the CRD and MiFID remuneration guidelines (as per the FCA guidance) this will be taken to be as effective as the Remuneration Requirements.

4.2 The relevant delegates are those firms the Company has we have delegated investment management and these firms are subject to either the CRD or MiFID remuneration guidelines.

## 5. Data Protection and disclosure

5.1 Details of any remuneration may be shared with the FCA. In addition, the Company's annual report may contain certain AIFMD required disclosures relating to remuneration.

## 6. Code Staff

6.1 Code Staff comprise those categories of staff whose professional activities have a material impact on the risk profiles of the Company or of the AIFs the Company manages. This includes senior management, risk takers, control functions[1], and any employees receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers.

6.2 The Code staff for the Company are:

- the non-executive directors;
- Hugh Grover;
- Brian Lee; and
- Julian Pendock.

6.3 After consideration of the FCA's proportionality guidelines as set out in SYSC 19B.1.13A and within the General guidance on the AIFM Remuneration Code[2] it has been decided that the Pay-out Process rules do not apply to the Company. The reason for this is that the following two conditions are met for Code Staff:

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1 staff (other than senior management) responsible for risk management, compliance, internal audit and similar functions within an AIFM

2 https://www.fca.org.uk/publication/finalised-guidance/fg14-02.pdf

- variable remuneration for each Code staff member is no more than 33% of total remuneration; and
- total remuneration is no more than £500,000.

## 7. Remuneration definition

7.1 For the purposes of comply with the Remuneration Requirements, remuneration should be understood to consist of:

- all forms of payments or benefits paid by the Company,
- any amount paid by the AIF itself, including carried interest, and
- any transfer of units or shares of the AIF.

7.2 in exchange for professional services rendered by the Company's Code Staff.