

Pensions CIV Sectoral Joint Committee (PSJC)

8 February 2017

Minutes of a meeting of the Pensions CIV Sectoral Joint Committee held on Wednesday 8 February 2017 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
Bromley	-
Camden	Cllr Rishi Madlani
Croydon	-
Ealing	Cllr Yvonne Johnson
Enfield	Cllr Toby Simon
Greenwich	-
Hackney	-
Hammersmith and Fulham	Cllr Iain Cassidy
Haringey	-
Havering	-
Harrow	Cllr Nitin Parekh
Hillingdon	Cllr Michael Markham (Deputy)
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	-
Redbridge	-
Richmond Upon Thames	-
Southwark	Cllr Fiona Colley
Sutton	-
Tower Hamlets	Cllr Clare Harrisson
Waltham Forest	Cllr Simon Miller
Wandsworth	Cllr Maurice Heaster
City of Westminster	Cllr Suhail Rahuja

Apologies:

Barnet	Cllr Mark Shooter
Bromley	Cllr Teresa Te
Hackney	Cllr Robert Chapman
Haringey	Cllr Clare Bull
Havering	Cllr John Crowder
Hillingdon	Cllr Philip Corthorne
Kensington & Chelsea	Cllr Quentin Marshall
Newham	Cllr Forhad Hussain
Redbridge	Cllr Elaine Norman
Richmond-upon-Thames	Cllr Thomas O'Malley

Officers of London Councils were in attendance as were Lord Kerslake (Chair, London CIV), Hugh Grover (CEO, London CIV), Julian Pendock (CIO, London CIV), Brian Lee (COO, London CIV), Jill Davys (AD Client Management, London CIV), and Ian Williams (Chair, Investment Advisory Committee).

1. Announcement of Deputies

1.1. Apologies for absence and deputies were as listed above.

2. Declarations of Interest

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

3. Minutes of the PSJC meeting held on 13 December 2016

3.1. The minutes of the PSJC meeting held on 13 December 2016 were agreed.

4. London CIV 2017/18 Budget and Medium Term Financial Strategy (MTFS)

4.1. Lord Kerslake (Chair, London CIV) introduced the report, which provided members with the CIVs budget proposals for 2017/18 and the medium term financial strategy over the next 5 years. He noted that:

- £3.3 billion AUM had been placed into the fund, as at 31 December 2016, and around £1.5 million of net annualised fee savings were being delivered so far;
- LCIV had made good progress and had now reached a critical moment in its development which would require additional upfront funding and resources to ensure delivery of the plans; and
- The plans suggest a target AUM of £14.1 billion by March 2022; it was thought that this could be increased to around £19 billion with a 'fair wind', which would lead to the proposed development funding charge being eliminated 2 years earlier.

4.2. Councillor Heaster said that extra staff resources would be needed at least in the short term. He said that the budget did not include any additional income from charging a fee on the passive funds – this £¼ million could be used to help deliver this budget and potentially fund some of the additional resource. It was hoped that the CIV Board would come back to Pensions CIV Sectoral Joint Committee (PSJC) with details on this.

4.3. Councillor Heaster asked if the Board could look into the possibility of using the flexibility of investing with other pools, outside of the London pool. Lord Kerslake said that the Board could look into this. Mr Grover (CEO, London CIV) noted that there was regular contact with the other pools and conversations about collaboration, particularly with LPP, but most other pools were still being established and so didn't present immediate opportunities but all options would be considered going forward.

4.4. Councillor Heaster noted that experienced professional staff would be needed in order to achieve the plans and that there may be challenges in finding those staff at appropriate remuneration levels. He encouraged a degree of flexibility in

recruiting, including considering the possibility of employing part-time staff and using fixed term contracts. Lord Kerslake agreed that any and all options should be considered.

- 4.5. Councillor French said that Bexley supported the budget, although there was concern that the lack of staff was causing delays and this needed to be addressed. Any areas where there was the potential for duplication between London CIV and the local LGPS funds also needed to be avoided.
- 4.6. The Committee considered the report and agreed London CIV's 2017/18 budget.

5. London CIV 2016/17 Financial Report

- 5.1. Brian Lee (Chief Operating Officer, London CIV) introduced the report noting that the financial report covered the nine months up to December 2016. He confirmed that everything was currently on target with no shortfalls and the forecast was on track to be achieved.
- 5.2. The COO highlighted that although the operating loss was lower than forecast this was largely due to a timing difference on expensing certain costs and would be on budget by the end of the financial year..
- 5.3. The Committee agreed to note:
 - i. the financial report for the nine months to December 2016;
 - ii. the updated forecast to March 2017; and
 - iii. the capital adequacy position of LCIV as at December 2016.

6. Investment Advisory Committee (IAC) Update

- 6.1. Ian Williams (Chair of IAC) introduced the report and made the following comments:
 - IAC had met twice since the last CIV Joint Committee meeting (December and January)
 - Global Equities procurement successful and IW thanked all for contributions
 - Fixed income and stewardship outlined and discussed
 - MiFID2 consultation and response submitted by CIV but FCA not seeming to understand scale of problem this causes and how it compromises pooling agenda
 - Further working group on reporting and transparency established
 - Actuarial valuation – Borough Funds generally in a better position
 - The IAC treasurers were looking forward with the CIV with regards to the Governance Review
 - There would be an item on housing/infrastructure going to the next IAC meeting.

- 6.2. The CEO said that a further report on infrastructure could be brought to the next, or a subsequent CIV Sectoral Committee meeting, with a specialist being brought in to talk on the issue. Alternatively, a workshop on infrastructure could be convened for CIV Sectoral members to attend.
- 6.3. The Chair asked whether “infrastructure” referred specifically to taking on equity interests or investing in solid return investments. Julian Pendock (CIO) said that the issue of infrastructure had been discussed with Hermes, and a detailed definition of “infrastructure” could be sent around to members.
- 6.4. Members felt that a workshop on infrastructure investment would be a good way forward. The Chair said that a workshop on infrastructure should be convened, and a short paper outlining the outcome should be brought to the CIV Sectoral Committee.
- 6.5. Councillor Simon asked for a progress update on Black Rock. The CIO said that Jill Davys was co-ordinating with Black Rock and fee savings would be back dated to the 1st January 2017. The Chair said that fee savings should be made clearer in the financial report, as well as being highlighted in a footnote.
- 6.6. The Committee:
- (i) agreed that a workshop on infrastructure should be convened and a short paper of the discussions of this workshop would be brought back to the CIV Sectoral Committee;
 - (ii) agreed that fee savings would be made more specific in the financial reports brought before the CIV Sectoral Committee; and
 - (iii) noted the contents of the report.

7. Investment Report and Fund Update

- 7.1. This item had been moved to the “exempt” part of the agenda.

8. London CIV Stewardship Update

- 8.1. The CEO introduced the report noting that the substantive element covered London CIV’s draft Stewardship Code Statement of Compliance for the committee to consider and comment on ahead of it being presented to LCIV’s Board for adoption.
- 8.2. Members thanked the Board and London CIV staff (particularly Jill Davys, AD Client Management) for arranging the recent stewardship seminar, noting that it was a good event. Thanks were also noted to the City of London for hosting the event.
- 8.3. The Committee:
- i. Considered and noted the contents of this report; and
 - ii. Approved the LCIV draft Stewardship Code Statement of Compliance

9. Passive Funds Fee Proposal

- 9.1. Mr Grover introduced the report noting that LCIV had been asked to consider options for charging a fee to the London Local Authorities (LLAs) on passive funds held outside of LCIV. This report presented those options and gave proposals for which option might be preferred. He further noted that the options had been discussed with officers in the IAC and the report represented the collective view of that committee.
- 9.2. It was also noted that Mr Grover would raise the proposals separately with LB Sutton as Councillor Gordon was not present at the meeting and had expressed some concerns over this issue.
- 9.3. Councillor Rahuja asked for an estimate of what the fee savings would be from Black Rock. Jill Davys said that this would amount to approximately £400,000. Councillor O'Malley voiced concern that there were not sufficient resources going into the CIV to progress with this proposal.
- 9.4. The Committee:
 - i. agreed to adopt an AUM based fee to be charged to the LLAs benefitting from reduced fees negotiated by LCIV on any passive funds managed outside of the LCIV;
 - ii. agreed that the preferred fee scale to be charged would be 0.5 bps from the options in Annex B of the report;
 - iii. agreed the date of 1st April 2017 for implementation of passive fee charges to commence and for a review of the fees to take place after five years; and
 - iv. agreed that LLAs investing in passive funds where reduced fees had been negotiated by LCIV were charged from the first full month after subscribing to the passive fund.

10. Markets in Financial Instruments Directive 2 (MiFID2)

- 10.1. Mr Grover introduced the report and made the following comments:
 - the LCIV was actively engaged with the LGA and colleagues across the country to discuss MiFID2 implementation with the FCA;
 - the LGPS was the only scheme that appeared to be caught by MiFID2 as all other European local government pension schemes were believed to be structured as separate organisations and not embedded in local authorities;
 - the paper set out the FCA's proposals at the current point in time, but it was anticipated that changes would be made before full implementation in January 2018;
 - while LCIV might provide one mitigating option it would not be ready in time to take in all boroughs' assets by the implementation date;
 - officers of the IAC were involved with LCIV in considering the issue; and
 - there was confidence that a workable solution would be achieved.

10.2. The Chair asked if contact with the FCA beyond the current officer led group would be helpful. Mr Grover responded that it probably would.

10.3. The Committee discussed the contents of the report.

11. London CIV Governance Review

11.1. Lord Kerslake introduced the report and made the following comments:

- It was right to commission a governance Review now as LCIV had been operating for just over a year and the environment had changed with the Government now imposing a more mandatory model of pooling;
- LCIV's Board was committed to the review and the company would fund it, although input from the CIV Sectoral Committee and borough treasurers would be beneficial and appreciated. The aim was to set up a panel to steer the review and to select the organisation or people to carry it out;
- a draft scope and ToR was in the report for consideration;
- the aim was to finish the review and have the final report before the summer recess; and
- it was the intention to get input from as many people as possible in the review (investment/borough experts, CIV Sectoral members etc.);

11.2. Councillor Malhotra said that he was happy to provide input into the Governance Review.

11.3. Mr Grover noted that the committee had received a governance report from London Councils at its previous meeting. However, in light of the proposed governance review no further action would be taken on that for the time being.

11.4. The Committee considered and discussed the contents of the report.

12. Any Other Business

12.1. **London CIV Annual Conference:** Councillor Simon asked whether a programme had been produced for the annual conference. Mr Grover responded that the programme had not been published as the Local Government Minister had been invited to speak and his attendance had only just been confirmed. The programme would now be published.

12.2. Councillor Harrison requested that more notice be given for such events in future to enable members with work commitments to arrange the necessary time off to attend. Mr Grover confirmed that every effort would be made to give as much notice as possible.

The meeting closed at 11.29am