

Pensions CIV Sectoral Joint Committee (PSJC)

12 April 2017

Minutes of a meeting of the Pensions CIV Sectoral Joint Committee held on Wednesday 12 April 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	Cllr Keith Onslow (Deputy)
Camden	Cllr James Yarde (Deputy)
Croydon	Cllr John Wentworth (Deputy)
Ealing	-
Enfield	Cllr Derek Levy (Deputy)
Greenwich	-
Hackney	Cllr Robert Chapman
Hammersmith and Fulham	-
Haringey	Cllr John Bevan (Deputy)
Havering	-
Harrow	Cllr Nitin Parekh
Hillingdon	Cllr Philip Corthorne
Hounslow	-
Islington	Cllr Richard Greening
Kensington and Chelsea	-
Kingston Upon Thames	Cllr Eric Humphrey
Lambeth	Cllr Iain Simpson
Lewisham	Cllr Mark Ingleby
Merton	-
Newham	Cllr Forhad Hussain
Redbridge	Cllr Elaine Norman
Richmond Upon Thames	-
Southwark	-
Sutton	Cllr Sunita Gordan
Tower Hamlets	Cllr Clare Harrisson
Waltham Forest	Cllr Simon Miller
Wandsworth	Cllr Maurice Heaster
City of Westminster	-

Apologies:

Barnet	Cllr Mark Shooter
Bromley	Cllr Teresa Te
Camden	Cllr Rishi Madlani
Croydon	Cllr Simon Hall
Ealing	Cllr Yvonne Johnson
Enfield	Cllr Toby Simon
Haringey	Cllr Clare Bull
Havering	Cllr John Crowder
Hounslow	Cllr Mukesh Maholtra
Kensington & Chelsea	Cllr Quentin Marshall
Merton	Cllr Imran Uddin
Southwark	Cllr Fiona Colley
City of Westminster	Cllr Suhail Rahuja

Officers of London Councils were in attendance as were Hugh Grover (CEO, London CIV), Brian Lee (COO, London CIV), and Jill Davys (Client Relations Director, London CIV).

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 8 February 2017

3.1. Councillor Heaster asked if an update could be given by the Board on the recruitment of staff (page 2, Paragraphs 4.2 to 4.4 in the minutes). He said that there were concerns that elements of work were falling behind which could impact on delivery of the overall business plan, particularly opening sub-funds. The CEO confirmed that 6 roles were in the process of being recruited and a recruitment consultant was carrying out 1st interviews. The roles should be in post by the end of the current quarter. Maurice Heaster asked if the recruitment process could be undertaken in good time. The CEO confirmed that this was being carried out now.

3.2. Councillor Simpson asked when a detailed definition of “infrastructure” and a timetable would be made available to members. The CEO said that Julian Pendock (Chief Investment Officer, London CIV) was unable to attend the meeting, but a note on infrastructure would be sent to members shortly. Members and officers would attend the infrastructure seminar.

3.3. The minutes of the PSJC meeting held on 8 February 2017 were agreed.

4. National Pooling Update, the Scheme Advisory Board (SAB) and MiFID II (Jeff Houston, LGA Head of Pensions and SAB Secretary)

4.1. Mr Houston (LGA Head of Pensions and SAB) introduced the report. The following comments were made and questions asked:

(i) Asset Pooling

There were 8 pools and the London CIV was the first pools to go live. Transition of assets for other pools was due to commence from April 2018 onwards. Overall the estimated level of fee savings stood at £200m per annum. Concerns had been voiced over timescales and pressure from government on infrastructure investment. Although the current administration appeared more focussed on housing. The Chair noted that there were problems with housing supply, especially in London. Mr Houston said that it was down to the pools to decide how to approach infrastructure.

(ii) Investment Fee Transparency

There was a voluntary code of transparency for asset managers being launched by the Scheme Advisory Board (SAB), including a standard template, which managers would complete and provide to their clients. The fee transparency would include marketing, advertising costs etc. The template

could be found on the SAB website. Councillor Chapman asked whether the Code was fully voluntary. Mr Houston confirmed that it was, but those who signed up to the Code would be placed on the SAB website and could use the new Kite-mark Standard for Asset Management Services. Managers holding some 60% of LGPS assets had signed up to the Code.

(iii) MiFID II

Local authorities would be reclassified from professional to retail investors from 1st January 2018. This would significantly reduce the firms, asset classes and vehicles available to local authorities. Asset managers have informed the FCA that the proposed 'opt-up' process would not work. For clarity Mr Houston noted that under LGPS pooling arrangements, the local authorities would be the clients of LCIV and LCIV would be the clients of the Investment Managers.

Mr Houston said that the CIV would have to opt up each local authority. The opt-up test, as currently proposed, assumed that an individual was the client to be assessed. However, it had been explained to the FCA that the LGPS does not operate on the basis of individual decision making, it was a collective. On 11 May 2017, the FCA Board would meet to make a final decision about the form of the opt-up regime. Following a number of meetings between the LGA and LGPS colleagues with the FCA it was hoped that a more workable regime would be adopted.

Councillor Greening said that changes to FCA regulations were needed, especially with regards to exiting from private equities. The Chair said that he had raised various issues with the FCA's CEO, who said that the main problem lay with MiFID II (EU directives) and not the FCA. The FCA were willing to do something about these issues, however, a great deal of time was currently being taken up by Brexit matters.

Mr Houston said that meetings were being set-up to agree a template of opt-up information that would be needed by Investment Managers and that it was hoped to commence the opt-up process from June 2017 to be ready for the 1 January 2018 implementation of the regulations.

Councillor John Bevan asked for an update on the issue of academies. Mr Houston said that ministers would be looking at dealing with the guidance, regulations in the LGPS and options outside of the scheme. The preferred option would be regulations in the scheme. It was essential that liabilities of academies did not fall back on local authorities. The Chair thanked Mr Houston for coming to discuss these issues with Committee.

4.2. The Committee noted the report.

5. Fund Development Update

5.1. Brian Lee (Chief Operating Officer, London CIV), introduced the report and made the following comments:

- The timeline for fund launches could be found on pages 17 and 18 of the report.

- The various phases to open funds were explained on page 17 of the report, starting from: a “borough needs assessment”, procurement, product development, legal/fund documents, FCA approval and finally the fund launch itself.
 - The “fund launch pipeline status” (ie where we were now) could be found in the table on page 18 of the report. This included a “RAG” status to indicate whether the fund launches were on target.
 - “Longview Globe Equity” was being pushed down slightly because “Henderson EM” was being brought forward.
 - The other funds “EPOCH” and “RBC Sustainable” would be launched in September 2017, and were all on target. “Global Equities: Phase 2” would be launched in December 2017 and “Fixed Income” in March 2018, as agreed in the 2017/18 business plan.
- 5.2. Councillor Heaster said that the remaining funds were relatively small in comparison to the first two funds. He said that the first three funds on the table all appeared to have slipped timewise and he presumed that this was owing to resource implications. Councillor Heaster asked whether this would have any implications for other schemes in the future. Mr Lee said that he was confident that the targets in the table would be met, and therefore this would not impact on the fund launch timescales.
- 5.3. Councillor Corthorne asked whether there should be concern at the speed of fixed income products coming onto the platform. He also mentioned risk return targets when considering low carbon approaches in investments.
- 5.4. The CEO noted that approximately £5.5b should be in the CIV by the end of July 2017 (approximately 18% of the total £30b overall). Councillor Simpson said that it would be beneficial to have a road map and to achieve a level of £15b as soon as possible. The CEO confirmed that a road map was set out in the Business Plan. He said that there would be changes – for example, demand seemed to be growing for fixed income products and the plan was being revisited to see if it would be possible to open the first FI products earlier..
- 5.5. The CEO said that the Henderson fund was being launched earlier, which was very positive. It was hoped that the pipeline would “speed-up” partly as a result of more resources coming on board shortly.
- 5.6. Jill Davies (Client Relations Director) said that the London CIV would be looking at options for low carbon funds, although it was for local authorities to make decisions on how they allocated their assets.
- 5.7. The Committee noted the report.

6. Investment Advisory Committee Update

- 6.1. The CEO said that Ian Williams (Chair of Investment Advisory Committee, London CIV) was unable to attend the meeting. Councillor Heaster asked if a deputy would be able to attend in the future. The CEO said that he would pass this request back to Mr Williams.
- 6.2. The Committee noted the report.

7. Finance Report and Benefits

- 7.1. Brian Lee (Chief Operating Officer, London CIV) introduced the report, which updated the forecast of the London CIV to March 2017. Assets look set to reach £5.1 billion by March 2018 and were on target.
- 7.2. Councillor Heaster noted that “Longview” was due to launch in Q2 of 2017, and not Q1 as stated in the report (paragraph 5).
- 7.3. Councillor Greening said that it would be helpful if the report stated what funds each borough was investing in. Councillor Heaster noted that the boroughs were investing varying sums of money. The CEO said that this information would be provided in future.
- 7.4. The Committee:
 - noted the updated forecast of LCIV to March 2017;
 - noted the reporting and audit timetable of LCIV for the financial year ending 31st March 2017;
 - noted the audited financial statements for the LCIV LGPS Authorised Contractual Scheme; and
 - agreed to publish what funds the boroughs were investing in and the amount they were investing.

8. Governance Review Update (verbal update)

- 8.1. The CEO gave a verbal update on LCIV Governance review, noting:
 - Pre-market engagement was underway to inform the final specification which would be released shortly.
 - The steering group would comprise of Mark Boleat as Chair, Lord Kerlake as Vice Chair, a Board NED, , the two Group chairs (Councillors Heaster and Johnson), Ian Williams and Gerald Almeroth. Diaries were proving difficult, but it was hoped to convene the steering group for its first meeting shortly.
- 8.2. Councillor Simpson said that buy-in from stakeholders was needed, along with some union representation. The CEO acknowledged the importance of the point, but noted that the governance structure was already complex, with some 56 committee meetings to support, and any additional committees/ meetings would add to the resource pressure that already existed.
- 8.3. The Committee noted the verbal update and the need to press on with the Governance review.

9. Business Plan and MTFs Implementation and Progress Reporting

- 9.1. The CEO introduced the report noting that the first quarter figures would be going to the CIV Sectoral AGM in June 2017.
- 9.2. The Committee noted the report.

10. Shareholder and Investor Reporting Framework and Progress Reporting to DCLG

- 10.1. Jill Davies (Client Relations Director, London CIV) introduced the report, which set out the reporting framework and timetable for London CIV reporting to key stakeholders. Work had been, and would continue to be, informed by the Investment Advisory Committee (IAC) Transparency Working Group.
- 10.2. Ms Davies said that the report also covered the progress reporting that was required by DCLG. The latest letter from the DCLG could be found at Annex C of the report.
- 10.3. Councillor French voiced concern that there could be duplication with regards to manager selection and client pools (last paragraph, Annex C). Jill Davies informed members that the CIV was working on a shared template, which would be agreed over the next couple of months.
- 10.4. The CEO noted that 'selection' of managers would be the responsibility of London CIV, as the regulated entity, but that the selection process would involve colleagues from the IAC. The aim was to provide boroughs with a range of products (from different managers) to 'choose' from.
- 10.5. The CEO also noted that issues regarding investment in infrastructure had been put to ministers, and it seemed unlikely that much more pressure would be exerted in this area by government, at least for the time being.
- 10.6. The Committee:
 - noted the requirement to report to DCLG on investment pooling progress; and
 - noted the reporting framework for shareholders and investors.

11. Quarterly Client Engagement and Stakeholder Report

- 11.1. Ms Davies introduced the client engagement and stakeholder report. She said that the report was for information and liaison had been taking place with the boroughs. The report provided feedback from the LCIV Annual Conference and the various seminars and events that were convening. There was also an invite to Global Equities day on 11 May 2017.
- 11.2. The Committee noted the report and agreed that members should have various dates of events and seminars in their diaries in good time.

Members of the public were asked to leave the room in order for the exempt part of the agenda to be discussed.

The meeting closed at 11:55am