

## Pensions CIV Sectoral Joint Committee

Item no: 4

### CEO's Report

**Report by:** Hugh Grover      **Job title:** Chief Executive

**Date:** 13 September 2017

**Contact Officer:**

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**Summary:** This report provides the Committee with an update on delivery against the 2017/18 business plan and MTFS and covers other matters not addressed elsewhere in the agenda.

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**Recommendations:** The committee is recommended to note and discuss the contents of this report.

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## MTFS Plan Progress Update

1. Performance to end July 2017/18 has been positive and we are making progress to achieve the Q2 quarterly KPI targets.
2. Since end Q1, we have:
  - launched an additional sub-fund, Longview, and Henderson Emerging Markets sub-fund will be open to accept assets once the India market opens (expected to be end September). Two additional sub-funds, RBC and EPOCH, are on track to launch in September. AuM as of end July was £5,263Bn, £531Mn ahead of target.
  - recruited a Head of Global Equities and an October start date has been agreed
  - had lower than planned expenses due to lower staff, facilities, consulting and IT costs, and fund opening expenses being charged to individual sub-funds.
3. More detail covering fund launches, financials and client engagement is provided in separate reports to this meeting.
4. Below is a performance summary based on end July figures and narrative on Forward Looking performance.

### Q1 2017/18 KPI Status

KPI	End July Forecast <sup>1</sup>	End July Actual	Variance	Comments	Forward Looking
Number of funds	9	9	0	Longview launched 17 July and Henderson Emerging Markets will be open to transfer assets end September.	RBC Sustainable Equity and EPOCH Equity Income are on track to launch at end September. We are proposing to progress the development of a Low Carbon Equity fund and a further equities fund in the autumn.
AuM (£Mn)	4,732 Mn	5,263 Mn	£531 Mn	AuM above end July target by £531 Mn mainly due to new subscriptions and market movements. We had an AuM shortfall with the Longview launch of due to not all LLAs assets being transitioned as forecast.	Current working with LLAs to gain firm commitments for September launch of RBC and EPOCH funds.

KPI	End July Forecast <sup>1</sup>	End July Actual	Variance	Comments	Forward Looking
<b>Management Fee (£)</b>	354,118	455,121	101,003	Positive variance of £101,003 due to mainly to passive fee income (£83,119) which was not agreed prior to or included in the MTFS and market values of the multi-asset and active equity funds at end July.	Expect to be on target to achieve management fee forecast.
<b>Service Fee and DFC ( £) (Exc. VAT)</b>	2,400,000	1,680,000	720,000	The Service Charge (£25,000) and Development Funding Charge (£75,000) was invoiced in April and we have not yet received full payment across the LLAs	We will continue to follow up on outstanding payments of the first invoice. In addition, we are assessing whether to invoice the remaining DCF and, if so, at what level given the current level of lower operating costs
<b>Operating Cost (£)</b>	931,311	1,203,071	271,760	Under spend mainly due to lower staff, facilities and IT costs and adjustment for legal fees being charged to fund which was not agreed ahead of MTFS sign off.	Staff, consultants, and IT spend will continue to be below forecast in Q2 and we expect under spend to continue for the financial year. We are reviewing what level of the remaining DFC balance (33%) is to be invoiced in December and the Board will make a proposal to the Committee at its December meeting.
<b>LLAs receiving benefits<sup>1</sup></b>	N/A	N/A	--	18 LLAs have transferred assets to LCIV sub. When passive funds outside of LCIV are included, 25 LLAs are receiving benefits.	One LLA transitioned assets in August.  Two LLAs have made formal decision to invest in LCIV sub-funds and expect to fund in Q3 taking those with direct LCIV investments to 21 and increases LLA's receiving benefits to 27 by end Q3.
<b>SLAs signed with LLAs<sup>1</sup></b>	N/A	N/A	--	SLA targets set and agreed for client reporting, Client SLA for providing information to be finalised with Working Group	SLA to be finalised in Q2 with aim to have all LLAs signed by end of Q3 (December)

KPI	End July Forecast <sup>1</sup>	End July Actual	Variance	Comments	Forward Looking
<b>Staff on-boarded</b>	9	4	-5	Fund Accountant to join at end September and Head of Global Equities to start in October.	Job search initiated to replace Chief Risk Officer and Client Relations Director who will both be leaving by end Q2  Reviewing roles and responsibilities of planned hires against current roles and required skills/resources.
<b>Material Audit Points</b>	0	0	--	2016/17 audit complete. Nothing to report.	Nothing to note.
<b>Material Compliance Points</b>	0	0	--	No material compliance issues to report.	Nothing to note.

<sup>1</sup> No quarterly targets set for number of LLAs receiving benefits or agreeing/signing SLAs. 2017/18 full year target is 32 LLAs.

## Resourcing Plan

- Recruiting continues to be a major focus and call on resources, both to recruit to new roles and to replace members of the team that are leaving. As previously reported the Executive team continues to monitor the resourcing plan to ensure that efficient use is being made of the full range of skill sets being brought to the team by new staff. It is becoming clear that LCIV is able to attract high quality, multi-skilled candidates that deliver opportunities to pay higher salaries for one individual balanced against savings from not recruiting others. A revised organisational structure and recruiting plan is being developed as part of the 2018/19 business planning process and will be presented to the Committee at its December meeting.
- Below is a summary of the hiring plan status:

2017/18 RESOURCING PLAN STATUS / AS OF 31 JULY 2017					
MTFS PLAN DATES	RESOURCE	Job Description Posted	Interviews Initiated	Offer	On-board Date
Q1	Global Equities Manager	✓	✓	✓	October
	AD Investment Oversight/ Performance <sup>1</sup>				
	Client management Assistant	✓	✓	✓	✓
	Fund Accountant	✓	✓		Sept
Q2	Systems/Data Manager <sup>2</sup>	✓			
	Fixed Income/Alts Manager	✓	✓	✓	June
	Management Accountant	✓	✓		
	Operations Assistant <sup>3</sup>				
Q3	Project Manager <sup>3</sup>				
	Real Estate/Infrastructure Manager	✓			
	Chief Risk Officer	✓	✓		
	Non-Executive Director	✓	✓	✓	Sept
Q4	Non-Executive Director	✓	✓	✓	Sept
	Client Management Assistant				
	Administrative Assistant	✓			

<sup>1</sup> Role and requirements under review due to integrating performance reporting into Chief Risk Officer role

<sup>2</sup> On-hold until while we consider the IT infrastructure needs of the company going forward as this will inevitably influence the skills and experience required

<sup>3</sup> Roles on hold until requirements are clarified

7. Since the Committee's last meeting in July the following developments can be reported:

- **Head of Global Equities:** interviews were held in late July for this role and an offer was made to Robert Hall who will join the team in early October.
- **Fund Accountant:** Charlotte Hamilton will join the team in late September to fill this role.
- **Financial Accountant:** recruiting is ongoing for this role with the aim of interviewing and appointing by the end of Q2 leading to a start date in Q3
- **Systems & Data Manager:** the job description for this role is under review to ensure that it aligns with the company's overall IT and systems needs.
- **Investment Team Assistant:** with the growth of the investment team and the nature of the work involved it has become clear that an assistant is needed in this area to cover administrative duties such as diary management, meeting organisation and general office tasks. The role will report to the Office Manager to ensure efficient use of the resource beyond the investment team when workload allows. Candidates are being sourced for his role now.
- **HR Director:** although not in the original resourcing plan it has become clear that the Executive team need dedicated support to assist with the recruitment programme and to ensure that the company has robust HR systems and processes in place as the team grows. This is initially a three month appointment and will deliver knowledge transfer into the team and an understanding of what HR support is required in the longer term.
- **Client Relations Director:** Sadly, Jill Davys, the current CRD has decided to leave the LCIV and she will be departing by the end of September. Jill has been a key contributor to the development of LCIV from the very beginning and she will be greatly missed. The Board and Team are grateful to Jill for all her hard work and dedication.

Recruiting a replacement is underway with some good candidates already coming forward.

- **Chief Risk Officer:** Dominique Kobler has also resigned and left the organisation. Again, recruitment for this role is underway and the committee will be kept in touch with progress.

### **Business Planning**

8. The Board will commence the 2018/19 business planning & MTFS update process at a strategy day to be held on 11 September. Treasurers from the IAC have been invited to a session on the day to provide input to the process and this Committee will be kept in touch with progress through the Chair and Vice Chairs.
9. The draft business plan will be presented to the Committee at its December meeting to allow for discussion and finalisation ahead of final sign off in the New Year.

### **Ministerial Letter**

10. In response to Pool updates to DCLG in April, a generic response from government has been received. This was circulated to the Committee Members as well as LLA officers. A copy of the response is attached for reference.
11. Significantly the response on this occasion has come from Treasury (signed by the Chief Secretary), DCLG and DWP. It reiterates the government's continued commitment to its pooling policy; that all LGPS funds are expected to fully participate in a Pool (with fund manager selection delegated to the pool); and that plans for increasing exposure to infrastructure should be delivered. A further progress update (to the end of September) has been commissioned by DCLG with a deadline for submission of 20 October

### **Governance Review**

12. The Governance Review Steering Committee (GRSC), which comprises the PSJC Chair and Vice Chairs, Treasurers from the IAC and the Chair and a Non-Executive Director from London CIV, has selected Willis Towers Watson to complete the Governance Review.
13. The project has been initiated and a kick-off meeting has been scheduled with the GRSC for 6th September. There will be wide stakeholders engagement for the Governance Review including:
  - Pre-survey interviews with the GRSC, London CIV Board, and Eversheds
  - Survey sign off by the GRSC
  - Survey distribution to stakeholders
  - Post survey workshop(s) with stakeholders to discuss and clarify key items identified in the survey
  - Summary conclusions and recommendation discussions with the Investment Advisory Committee (IAC; borough Treasurers and Officers), the PSJC, the London CIV Board and London Councils Leaders' Committee
  - GRSC is comprised of the PSJC Chair and Vice Chairs, Treasurers from the IAC and the Chair and a Non-Executive Director from London CIV Board

**Recommendations**

14. The Committee is recommended to note and discuss the contents of this report.

**Financial Implications**

15. The financial implications are contained within the body of the report.

**Legal implications**

16. There are no legal implications for the Committee that have not been considered in the report.

**Legal implications**

17. There are no equalities implications for the Committee that have not been considered in the report.







Department for  
Communities and  
Local Government

Chairs of LGPS pension funds  
Chairs of LGPS investment pools

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**22 AUG 2017**

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

Thank you for your reports on progress to 31 March and updates to our officials on developments since then. We have been pleased to see that most pools in development have been moving at pace towards becoming operational, including launching procurements for pool operators and, where new operators are being established, making key senior appointments and preparing applications for Financial Conduct Authority (FCA) authorisation. We have also been pleased to note progress in some pools towards your ambitions on infrastructure investment, with some significant new funding committed this year. We are well aware of the substantial demands on your staff and resources required to deliver the progress already made and the challenges still to be overcome in order to deliver, and we are grateful to all those involved.

However in some areas we have not yet received the assurance we require. We have made clear that all funds must fully participate in a pool and all pools must have an FCA authorised operator. In order to achieve the maximum savings, funds must invest through the pools, with minimal exceptions where there is a value for money case, and they must delegate manager selection to the operator. Our officials will of course continue to engage with funds and pools where there are outstanding issues over the summer. But if we are not satisfied that there is a clear path and timetable for delivery, the Department for Communities and Local Government will consult on further action, including use of the powers available.

We will expect a further report on progress to 30 September from all pools in October. At that time we will want to see further details of savings achieved and planned, as well as plans for reporting, including on fees and net performance by asset class, and for increasing your infrastructure investment in line with your ambition.

We remain committed to this vital long term change programme in order to deliver improved net investment performance and capacity to invest in infrastructure, and to protect the sustainability of the LGPS for the benefit of its members. We look forward to working with

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you to bring the first stage of the reform to a successful conclusion with the establishment of pools across the LGPS.



CHIEF SECRETARY TO THE TREASURY

MARCUS JONES MP

CAROLINE NOKES MP

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