

Pensions CIV Sectoral Joint Committee Item no: 11

Variation of Permissions

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Summary: This report provides the Committee with advanced notification that a written resolution will be circulated to all Shareholder Representatives shortly to seek agreement to LCIV applying to the FCA for a 'Variation of Permissions' to enable the Company to expand its activities to include the operation of Unauthorised Alternative Investment Funds.

Recommendations: The Committee is recommended to note the contents of this report and agree that LCIV:

- i. proceed to prepare a resolution for shareholder approval to extend the activity of the Company to manage both authorised and unauthorised Alternative Investment Funds (AIFs).
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Background

1. The current regulatory permissions of LCIV, as detailed in the Shareholder Agreement, limit the Company's business activities to *"acting as the FCA authorised operator of an ACS to provide a collaborative platform through which the Administering Authorities of the LGPS funds can aggregate their pension monies and other investments."*
2. This permission relates to the management of an authorised Alternative Investment Fund (AIF) which is essentially a highly liquid collective investment scheme. Consequently, the current FCA permission does not naturally fit with some other asset classes such as private debt, private equity, real estate or infrastructure which by their inherent nature represent limited liquidity.
3. This current limitation means that LCIV must expand its range of permissions in order to be able to offer illiquid asset classes which are generally held in different legal structures such as partnerships.
4. In order to resolve this situation and provide illiquid pooled solutions, LCIV needs to obtain shareholder approval to extend the activities of the business. This approval will permit LCIV to apply for a variation of permissions with the FCA to run both unauthorised, as well as authorised, AIFs.
5. It is important that the extension of the business activity is approved as soon as possible so that LCIV can deliver on LLAs' immediate requests for Direct Credit (part of the fixed income fund offerings) and Infrastructure.
6. This report is intended to give the Committee advance warning that a written shareholder resolution will be circulated in the next few weeks and the reasons why this resolution is necessary.

Requisition a variation of permissions

7. The mechanics of the FCA variation of permissions (VoP) application process are straightforward and involve filling out an online form submission to the FCA. Eversheds has informed LCIV that the FCA typically takes 3 months to approve the variation of permissions although the FCA reserves the right to take 6 months. There is no FCA fee for this submission.
8. As this is a change to the business activities of the Company outlined in the Shareholder Agreement, this variation will need majority shareholder approval.
9. The Committee should note that there are no additional capital requirements for managing UAIFs and forms part of the normal capital adequacy calculations.
10. Prior to this report coming to the PSJC, this proposal has received LCIV Board approval.
11. It should be noted that other LGPS pools have already applied for this permission and been successfully approved.

Recommendation

12. The Committee is recommended to note and agree that LCIV:
 - i. proceed to prepare a resolution for shareholder approval to extend the activity of the Company to manage unauthorised Alternative Investment Funds (AIFs);

Financial Implications

13. There are no financial implications for the Variation of Permission submission from the FCA. LCIV will request Eversheds to review the form prior to submission which will be charged on a time cost basis.

Equalities implications

14. There are no equalities implications for the committee.