

Pensions CIV Sectoral Joint Committee (PSJC)

13 September 2017

Minutes of a meeting of the Pensions CIV Sectoral Joint Committee held on Wednesday 13 September 2017 at 10:30am in the Conference Suite, London Councils, 59½ Southwark Street, London SE1 0AL

Present:

City of London	Sir Mark Boleat (Chair)
Barking and Dagenham	-
Barnet	Cllr Mark Shooter
Bexley	Cllr Louie French
Brent	Cllr Sharfique Choudhary
Bromley	Cllr Russell Mellor (Deputy)
Camden	Cllr Rishi Madlani
Croydon	-
Ealing	Cllr Yvonne Johnson
Enfield	Cllr Toby Simon
Greenwich	-
Hackney	Cllr Robert Chapman
Hammersmith and Fulham	Cllr Iain Cassidy
Haringey	-
Havering	-
Harrow	Cllr Nitkin Parekh
Hillingdon	Cllr Philip Corthorne
Hounslow	-
Islington	Cllr Richard Greening
Kensington and Chelsea	Cllr David Lindsay
Kingston Upon Thames	Cllr Andrew Day
Lambeth	Cllr Iain Simpson
Lewisham	Cllr Mark Ingleby
Merton	-
Newham	Cllr Forhad Hussain
Redbridge	-
Richmond Upon Thames	-
Southwark	Cllr Fiona Colley
Sutton	Cllr Sunita Gordon
Tower Hamlets	Cllr Clare Harrisson
Waltham Forest	-
Wandsworth	Cllr Maurice Heaster
City of Westminster	Cllr Suhail Rahuja

Apologies:

Bromley	Cllr Keith Onslow
Croydon	Cllr Simon Hall
Havering	Cllr John Crowder
Hounslow	Cllr Mukesh Malhotra
Merton	Cllr Philip Jones
Redbridge	Cllr Elaine Norman
Richmond Upon Thames	Cllr Thomas O'Malley
Southwark	Cllr Fiona Colley

Officers of London Councils were in attendance as were Hugh Grover (CEO, London CIV), Julian Pendock (CIO, London CIV), Brian Lee (COO, London CIV), Ian Williams (Chair of IAC), and Jill Davys (Client Relations Director (CRD), 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 Pensions CIV Sectoral Joint Committee AGM held on 12 July 2017

3.1. The following amendments to the minutes were made:

- *Paragraph 15.2 (page 7) – Councillor Johnson said that it was agreed to follow the voting “alerts” (not “rights”).*
- *Paragraph 15.2 (page 6/7) – Councillor Greening said that the adoption of alerts sentence needed to be strengthened.*
- *Paragraph 15.2 (page 7) – Councillor French said that a mechanism needed to be in place “to ensure fund managers were not being provided with mixed instructions on how to proceed with shareholder voting. He said that some boroughs had previously delegated ESG matters to the fund manager in their individual investment strategies, whereas the CIV dictates that LAPFF voting policies be followed.”*

4. CEO’s Report

- 4.1. The CEO introduced the report. He informed members that in the KPI column for “Operating Cost” (page 12 of the report) the figures in “End July Forecast” (£931,311) and “End of July Actual” (£1,203,071) needed to be swapped around as they were in the wrong row. The KPIs were broadly on target.
- 4.2. Cllr Johnson thanked Jill Davys, Client Relations Director, who was leaving LCIV, for all her contributions to the CIV and wished her all the best for the future, as did all of the PSJC.
- 4.3. The CEO said that recruiting consultants previously had taken longer than anticipated. He said that it was disappointing to lose key members of staff. A replacement was also being sought for Dominique Kobler, the previous Chief Risk Officer, who had only been with the LCIV for a short period of time.
- 4.4. The CEO informed members that some people putting themselves forward for recruitment were not currently employed, and could take up the posts quickly, should they be successful.

- 4.5. The CEO said that Jill Davys had carried out a great deal of good work during her time working at the LCIV and her loss was a blow. Interviewing to find a replacement for Jill would be taking place shortly, with four potential contenders currently being considered. The CEO reassured the Committee that a high quality replacement would be recruited to the position.
- 4.6. Councillor Madlani voiced concern at recruiting staff that were not currently working in the market, especially with regards to ensuring that they were still FCA regulated. He said that there were concerns at losing a CRO and CRD and a potential loss of diversity.
- 4.7. Councillor Greening asked how many women there would be in the Senior Management Team. Councillor French said that the successful candidates needed to be able to perform the job well. The CEO said that he could bring a note on diversity to the next Committee meeting in December 2017. He informed members that there were currently three senior members of the team who were women. Councillor Heaster asked how many women were represented on the CIV Board. The CEO confirmed that there were currently two women on the Board.
- 4.10. The following comments were made about the Ministerial letter that could be found on page 17 of the report:
- The Chair said that the ministerial letter stated that all funds must participate in to a pool.
 - Councillor Greening said that these were not Central Government assets. He said that he agreed with the issue of infrastructure funding.
 - Councillor Johnson said that most borough officers were in disagreement with the contents of the letter and disliked the tone. She said that the LCIV was different from other pension “pools”. Councillor Johnson said that it was borough money being used after all.
 - Councillor Simon asked how minimum risk could be presented. He said that other pools were pooling all their equities together. There was also no current infrastructure plan. Councillor Simon said that the LCIV was not locked into private equity for the long-term. The LCIV had hedge funds that few other organisations in London had and issues like these needed to be pointed out to the Government.
 - Councillor Parekh asked if a response would be written to the Ministerial letter.
 - Councillor Rahuja said that not enough assets had been transferred yet. He emphasised the need to save taxpayers’ money, as a great deal was wasted on fees to fund managers. There were two separate issues: (a) ensuring the asset class choice was the right one (competition), and (b) the transition of

assets in to the CIV - how quickly the CIV could provide choices. Councillor Rahuja felt that the Ministerial letter was badly phrased.

- The Chair said that the objective was to reduce fund agent costs. A general response needed to be made to the letter, emphasising the various points made. The regulatory burden had also been far greater than anticipated and these had taken up the majority of the cost savings, and had slowed down creating the funds. Choice was also very important. The Chair said he would go back to the City of London and raise some of the questions asked.
- Councillor Simon said that the Government wanted a response in October 2017, and asked whether the PSJC could see a draft of this response before it was sent out. The CEO confirmed that Jill Davys would circulate a draft of this letter to the PSJC. The Chair said that a separate discussion on this needed to be had, as quite a lot of thinking was required on the issue beforehand.

4.11. The Chair confirmed that the Governance Review had already started, with the meeting of the Governance Review Steering Committee (GRSC) on 6 September 2017. Councillor Johnson informed members that the survey would be sent to the PSJC, via email, at the end of September/early October. The CEO said that he would send out a letter that on behalf of Willis Tower Watson within the next few days.

4.12. Councillor Madlani asked whether the PSJC could see the Governance Review report before it went to London Councils' Leaders Committee. The CEO assured members that this would be the case.

4.13. The Committee:

- Agreed that the CEO would bring in a note regarding the diversity of the LCIV to the next PSJC meeting in December 2017.
- Noted that a separate discussion would take place before a response to the Ministerial letter was made. The PSJC would see a draft of the response before it was sent out. Jill Davys would be responsible for drafting the initial response.
- Noted that a survey of the Governance Review would be sent to the PSJC, via email, by end of September/early October 2017, for members to complete.
- Noted that the PSJC would have sight of the Governance Review report before it went to Leaders' Committee.

5. Finance Report

5.1. The COO introduced the report that provided Committee with a finance update on delivery against the 2017/18 business plan and MTFS. The following comments were made:

- Councillor Simpson asked if cash flow and balance sheet report could be incorporated into future Finance reports. The COO confirmed that these would be reported at the next PSJC in December 2017.
- Councillor Shooter queried the £29,000 interest costs in the “opening defined benefit obligation” table on page 25 of the report. The COO confirmed that this was a notional cost of interest.
- Councillor Shooter asked about the costs of transferring pensions from the public/private sectors when joining LCIV. The CEO said that a report on 22 September would look into this and the choices to be made – (a) to continue offer the LGPS to all new staff joining or if already an LGPS member to join the “pot”, and (b) if previously from the private sector to offer them an LGPS pension. The CEO said that offering the LGPS pension was an attraction, especially in light of the fact that LCIV was already paying lower market rates for recruitment.
- The CEO said that there was an underspend in some areas of the recruiting and resources budget. He said that there was an option to get FTC consultants in place.
- The Committee noted the report and that cash flow and balance sheet would be reported in the Finance report at the PSJC in December 2017

6. Fund Performance Report

6.1. The CIO introduced the report and made the following comments:

- LCIV MJ UK Equity (Majedie) had only been in operation for a few weeks.
- LCIV Global Equity Alpha (Allianz) – looking to rotate moving out of funds
- Other funds performing well, with the exception of LCIV NW Global Equity (Newton)

6.2 The Committee noted the report.

7. Fund Launch Progress

7.1. The COO introduced the report and the following comments were made:

- Councillor Johnson asked if some further updates could be given on the “Fund Launch Pipeline August 2017” table (page 84). The COO confirmed that this had been updated recently (Longview and Henderson). The CIO said that funds in the table were new – EPOCH currently had no initial £AUM commitments.
- The CIO said that it was not economically viable to open funds that were currently empty. A paper on Infrastructure would be sent to members and a firm steer was needed on this.
- Councillor Rahuja said that Westminster had concerns with Longview Global Equity regarding their fees in general, including a transition charge that they were now requesting. No money had been transferred to Longview as a result of this.

- Councillor French asked about the costs for setting up funds that remained empty. The COO confirmed that the third party set-up costs could be between £30k to £40k depending on the type of fund, although there were no day-to-day costs attributed to this.
- The COO said that there were no costs attributed to a fund that had not been opened. If the FCA was not content after 6 months, they could look to close the fund. Councillor Greening said that a model was needed for boroughs to have a choice on transferring funds.
- Councillor Madlani asked when LCIV would have the first structures in place regarding Infrastructure. The CIO confirmed that the Infrastructure Working Group was coming together and negotiations were taking place with the LGPS (Hermes/JP Morgan)
- Councillor Johnson asked if there was a timetable for when Infrastructure would be rolled out, as this appeared to be stalling at the moment. She said that she understood that there were issues regarding regulation, but did not know how long this would take. The CEO said that the plan that was in place last year had been revisited and Fixed Incomes had been brought forward over Infrastructure. This could be separated out of the business plan.
- The CEO said it would be beneficial if boroughs could send LCIV details of their investment strategies, as talking to individual boroughs was very resource intensive.

The Committee noted the report.

8. Investment Advisory Committee Update

- 8.1. The Chair of the IAC introduced the report and said that the IAC continued to work closely with LCIV on a wide range of investment related projects.
- 8.2. The Committee noted the report

9. Quarterly Client Engagement and Stakeholder Report

- 9.1. The Client Relations Director, LCIV, introduced the report and informed Committee that a new Global Equity Manager Session II meeting was taking place today.
- 9.2. The Committee noted the report.

10. MiFID Update Report

- 10.1. The CEO introduced the report, which gave an update on the MiFID and to opt up LGPS from retail to professional status. The following comments were made:
- 10.2. Engagement with officers was currently taking place, and boroughs needed to have opted up with all of their providers. The LGA had produced a useful template, which needed to be completed and given to fund managers. Boroughs needed to give their completed forms to LCIV as soon as possible. If

there was any change to borough commitments (eg because of local elections in 2018), then the opt-up process would have to be repeated.

10.3. The Committee noted the report and the urgency in completing the LGA template and passing this to LCIV.

11. Variations of Permissions

11.1. The COO introduced the report and said that Committee approval was now needed to seek agreement to LCIV applying to the FCA for a Variation of Permissions.

11.2. The Committee agreed that LCIV 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).

The meeting closed at 11:45am