Pensions CIV Sectoral Joint Committee Agenda

31 January 2018 – 14.00 – 16:00

Conference Suite (1st Floor)
At London Councils offices, 59½ Southwark St., London SE1 0AL
Refreshments will be provided
London Councils offices are wheelchair accessible

Labour Group pre-meeting:	Room 2 (1st Floor)	13.00
(Political Adviser: 07977 401955)		
Conservative Group pre-meeting:	Room 3 (1st Floor)	13:30
(Political Adviser: 07903 492195)		

Contact Officer: Alan Edwards

Telephone and email: 020 7934 9911 Alan.e@londoncouncils.gov.uk

***Declarations of Interests**

If you are present at a meeting of London Councils' or any of its associated joint committees or their sub-committees and you have a disclosable pecuniary interest* relating to any business that is or will be considered at the meeting you must not:

- participate in any discussion of the business at the meeting, or if you become aware of your disclosable pecuniary interest during the meeting, participate further in any discussion of the business, or
- participate in any vote taken on the matter at the meeting.

These prohibitions apply to any form of participation, including speaking as a member of the public.

It is a matter for each member to decide whether they should leave the room while an item that they have an interest in is being discussed. In arriving at a decision as to whether to leave the room they may wish to have regard to their home authority's code of conduct and/or the Seven (Nolan) Principles of Public Life.

*as defined by the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012

The Chairman to move the removal of the press and public since the following items are exempt from the Access to Information Regulations. Local Government Act 1972 Schedule 12(a) (as amended) Section 3 Information relating to the financial or business affairs of any particular person (including the authority holding that information).

Pensions CIV Sectoral Joint Committee (PSJC)
11 December 2017

Minutes of a meeting of the Pensions CIV Sectoral Joint Committee held on Monday 11 December 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	-
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	-
Hammersmith and Fulham	-
Haringey	Cllr John Bevan (Deputy)
Havering	-
Harrow	Cllr Nitin Parekh
Hillingdon	-
Hounslow	Cllr Mukesh Malhotra
Islington	Cllr Richard Greening
Kensington and Chelsea	-
Kingston Upon Thames	Cllr Andrew Day
Lambeth	Cllr Iain Simpson
Lewisham	Cllr Mark Ingleby
Merton	Cllr Philip Jones
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:

Barnet	Cllr Mark Shooter
Bromley	Cllr Keith Onslow
Croydon	Cllr Simon Hall
Greenwich	Cllr Don Austin
Hackney	Cllr Roger Chapman
Haringey	Cllr Clare Bull
Hillingdon	Cllr Philip Corthorne
Kensington & Chelsea	Cllr David Lindsay
Redbridge	Cllr Elaine Norman

Officers of London Councils were in attendance as were Mark Boleat (Chair of PSJC), Lord Kerslake (Chair, London CIV), Mark Hyde-Harrison (CEO, London CIV), Julian Pendock (CIO, London CIV), Brian Lee (COO, 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 Pensions CIV Sectoral Joint Committee held on 13 September 2017

3.1. The CEO, with regards to the issue of diversity (paragraph 4.13), said that the CIV now had a higher ratio of female staff than male, and was more diverse than previously envisaged.

3.2. The CEO informed members that due to the departure of Jill Davies (paragraph 4.13) there had not been a response to the Ministerial letter and it was now felt to be too late for the PSJC to reply.

3.3. Subject to a couple of minor amendments that were emailed to Alan Edwards and were corrected, the minutes of the PSJC held on 13 September 2017 were agreed as an accurate record.

4. Finance Report & MTFS Update

4.1. Brian Lee, COO, introduced the report. The report consisted of three parts: (i) the Finance Report, (ii) Development Funding Charge (DFC), and (iii) Medium Term Financial Strategy (MTFS). The London CIV had made good progress on the MTFS – Achieving AUM of £7.2 billion and cost savings to the boroughs.

4.2. Timing differences on recruiting staff, which were budgeted in the MTFS to start earlier than had been achieved, had led to a positive expense variance.

4.3. Councillor Heaster said that there were some issues that had not been highlighted, like staffing costs for temporary staff and consultants. There was also a question regarding the amount of funds going into Assets Under Management (AUM), which was less than was targeted for.

4.4. Lord Kerslake (Chair, London CIV) informed members that there were 3 interim staff out of a total of 17, and there had been a number of very good recruits recently. This would be picked up in the next period.

4.5. Councillor French asked whether the CIV set deadlines for charging payments. He also asked for more detail regarding technology costs. The COO confirmed that Camden and Kensington and Chelsea had now paid the service charge. Technology costs would be detailed in a report to the PSJC on 31 January 2018. Work had begun with consulting firm Alpha, who were working with a number of other pools (Brunel, Borders to Coast). The initial discovery and analysis phase, along with recommendations, would report to the CIV Board in mid-December.

4.6. The Chair asked about the collection of the Development Funding Charge (DFC). The COO said that the CIV had to plan a year in advance. The AUM was forecast to grow from £7.2 to £10 billion next year. The COO said that there had been delays in the service charge. There was a surplus of £25,000 for the DFC for this year. Lord Kerslake said that the CIV only used the DFC when it was needed to support capital adequacy. The COO said that there were 2 other pools that had not yet paid their DFC..

4.7. Councillor Greening said that he thought the idea of the CIV was to have new fund managers taking over from existing ones (a transitional period). Julian Pendock (CIO, London CIV) said that a degree of compromise was needed in order to get the best results.

4.8. The Committee:

- Noted the finance report;
- Confirmed the Development Funding Charge (DFC) for the 2017/18 financial year; and
- Noted the status of the MTFS

5. Fund Launch Status Report

5.1. The CIO introduced the report which updated the PSJC on the progress of the sub-fund openings. EPOCH had been launched. Henderson Emerging Markets launch was on hold and RBC would officially launch once borough subscriptions had been received. Fixed income funds would be presented to the CIV Board.

5.2. The paperwork was in process for the Global Bond mandate and the IOC was being asked for the green light for investment. Feedback was welcomed. The timetable had not changed on the fund launch status (page 20).

5.3. The CIO said that a paper was going to the IOC on a Low Carbon Working Group (low carbon trackers).

5.4. Councillor Malhotra mentioned the need for a road map and timeline. He said that it was difficult to see what the future plans would be in the absence of a road map. The CIO said that for fund launchs there was a road map for the next 6 months. Discussions would take place internally on how to move from fund launches to a coherent investment strategy. The Chair said that this issue would come up in the Governance Review, in the exempt part of the agenda.

5.5. Councillor Simon said that the Fixed Income phase had slipped by 3 months. He said that more detailed timescales were required. He asked whether infrastructure would take place on a “cross-pool” basis. The CIO said that he was on the working group and discussions were taking place on this with LPP, as well as CIV officers looking at cooperating with other pools. He said that economies of scale were key when it came to infrastructure. The CIO said that it was difficult to move co-investment without the requisite resources. . There was also the need to look at global funds. A paper would be presented to the IOC giving the names of who had been provisionally selected. Lord Kerslake said that there was a good timetable on fixed incomes. Infrastructure was more complicated and required more time in order to get it right.

5.6. Councillor French asked what was meant by infrastructure. The CIO said that the lack of formal definition of infrastructure was a challenge, and it was often based on what people wanted from an investment view vs political considerations.

5.7. The Committee noted the report.

6. Fund Performance Report

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

- The quarterly performance statistics could be found on page 25 of the report.
- Global Equity had a disappointing performance (they were less enthusiastic about markets).
- Newton Real Return had announced personnel changes, after breaking the law (none of our clients had been affected).
- There were some concerns – Newton Real Return had spent too much on hedging, and the CIV was keeping a close eye on this.

6.2. Councillor Greening asked whether funds could be moved out of Newton Real Return. The CIO said that there was a need to see what Newton Real Return had done to derivatives (this was a “lift and shift”). This would be carried out in the next month.

6.3. Councillor French said that there was a more generic question about how long the fund manager was reviewed. The CIO said that this would depend on the reason for the underperformance. He said that the issue regarding Newton Real Return would be brought to the IOC and then on to borough advisers/consultants to decide whether to undertake a formal review. Councillor Simpson said that boroughs could move funds from Newton Real Return to another fund if they so desired.

6.4. The Committee noted the report.

7. Client Engagement Report

7.1. Kevin Cullen, (Client Engagement Director, London CIV) introduced the report. He informed members that a meeting would be taking place with Northern Trust and proposals on transitional arrangements would be brought back to local authorities.

7.2. The Committee noted the report.

8. Any Other Business

8.1. The COO informed members that Chloe had left the “variation of omission” letter on the desk for the boroughs that had still not signed it.

Members of the press and public were asked to leave the meeting while the exempt part of the agenda was discussed.

The meeting closed at 12:10pm

LONDON CIV

Pensions Sectoral Joint Committee

Item no: 4

Medium Term Financial Strategy ('MTFS')

Report by: Brian Lee **Job title:** Chief Operating Officer

Date: Date 22nd January 2018

Contact Officer: Brian Lee

Telephone 020 7934 9818 **Email:** brian.lee@londonciv.org.uk

Summary:

MTFS

The initial Medium Term Financial Strategy ('MTFS') covered the five year period from 2017/18 to 2021/22. This report highlights progress against that MTFS and covers the MTFS period from 2018/19 to 2022/23.A summary presentation will be given to the PSJC on 31st January highlighting key matters, particularly in respect of the financial year 2018/19.

LCIV Employee Pension Scheme

In respect of the LCIV pension scheme, in 2015 the City of London ('COL') helpfully agreed to be the Scheme Employer to LCIV staff as LCIV could not offer an LGPS pension itself. However this was on the proviso that the City of London Pension Fund ('COLPF') would be afforded protection for any pension liabilities arising in consequence of LCIV's admission to the COLPF. Eversheds have advised COL that the existing shareholder agreement does not provide sufficient protection against the pension liability. Consequently, Eversheds have opined that a separate agreement provided by all shareholders would be required. The agreement would take the form of a guarantee which would be the most cost effective solution compared to an insurance policy. **It should be noted that the current exercise to formalise the pension arrangements does not represent a change to the agreed pension position in 2015**.

As noted in previous PSJC meetings, FRS102 creates a pension deficit even though there is no actuarial deficit. The accounting deficit creates a reduction in LCIV's capital adequacy. **As detailed below a recharge agreement, which does not create any additional cost or liability to shareholders, looks to be, although not elegant, a way to achieve resolution and allow LCIV to address the capital impact of the FRS102 deficit. The recharge agreement will allow LCIV to reduce the DFC in line with MTFS and prevent capital adequacy fluctuations.** This recharge agreement would need to be signed by all shareholders.

A key meeting with advisers is taking place on 24th January, following which a verbal update will be given to the PSJC including confirmation of the date that draft agreements will be circulated to LLAs.

Recommendations

The Committee is recommended :-

1. To note and approve the Annual Budget for 2018/19 and the MTFS for the period 2018/2023
2. To agree to the pension guarantee in favour of COLPF and the recharge agreement to address the FRS102 pension accounting deficit.

1. London CIV MTFS

LCIV is required to complete an Annual Budget for each Financial Year in accordance with clause 6.3 of the Shareholder Agreement. Clause 6.4 of the Agreement requires the budget to be submitted for approval by the Board not less than 90 days before the commencement of the next financial year and to shareholders no later than 60 days before the commencement of the next financial year.

This report provides the detail required to satisfy the terms of clause 6.3 of the Shareholder Agreement.

A draft of this report was circulated to the Board of LCIV for discussion and approval on the 13th December.

The initial Medium Term Financial Strategy ('MTFS') covered the five year period from 2017/18 to 2021/22. This report highlights progress against that MTFS and covers the period from 2018/19 to 2022/23.

A summary presentation will be given to the PSJC on 31st January highlighting key matters, particularly in respect of the financial year 2018/19, following which the Committee is asked to discuss and approve the Annual Budget and MTFS.

Recommendation: **The Committee is asked to note and approve the Annual Budget for 2018/19 and the MTFS for the period 2018/2023**

2. London CIV LGPS Limited Employee Pension Scheme ('LCIV Pension Scheme')

This report is a further update to the PSJC in respect of the LCIV Pension Scheme following previous reports to the PSJC in July, September and December 2017.

There are currently three matters that need to be resolved and are summarised below:-

- **Admission Agreement**. The City of London ('COL') and LCIV require written approval from the Secretary of State to allow LCIV to be an admission body to the Local Government Pension Scheme. Following this approval, a formal Admission Agreement into the City of London Pension Fund ('COLPF') will then require completion.
- **Guarantee.** Any one (rather than all) of the Scheme Employers participating in the CIV could admit LCIV into their Scheme. COL has confirmed, and has in fact since September 2015, acted as the Scheme Employer provided that the COLPF is afforded sufficient protection from liabilities. It had been hoped that the existing Shareholder Agreement would provide adequate protection for COLPF, but Eversheds have advised to the contrary.
- **Recharge Agreement.** As a limited company, LCIV must comply with accounting standards such as FRS102 (which is essentially a consolidation of existing accounting standards). This particular accounting standard has a specific disclosure for the accounting of liabilities for defined benefit pension schemes. If a particular form of wording is agreed by LCIV shareholders, which builds on the guarantee agreement above, the accounting anomalies of FRS102 can be resolved.

Admission Agreement

The Admission Agreement involves the need to formalise arrangements for LCIV to be a member of COLPF. The proposals covering pension arrangements for prospective employees were discussed by the original 'Interim' LCIV Board and set before the Pensions Sectoral Joint Committee (PSJC) in February 2015. The proposals were agreed by both bodies and LCIV began its participation in the Scheme in the COLPF from 1 September 2015 with the intention that the necessary documentation would then be put in place. Following the legal advice from Eversheds to COLPF, COLPF and LCIV must seek approval from the Secretary of State for LCIV to be formally recognised as a public service admission body.

The application was made to DCLG in December, but we have been notified that due to ministerial changes at DCLG where Marcus Jones has been replaced Rishi Sunak, the processing of the application may take a little longer.

Guarantee Agreement
It was explained that the LCIV could not be a Scheme Employer in its own right and in order to participate in the LGPS would need to be an admission body within an existing Scheme Employer, most logically by a Scheme Employer participating in the London CIV. COL helpfully agreed to be that Scheme Employer in 2015 but on the proviso that any liabilities arising in consequence of LCIV's admission to the COLPF would need to be apportioned between the shareholders.

The method proposed by the COL was that all thirty three London authorities participating in LCIV should enter into a multi-party guarantee to the effect that if liabilities arise, these would be apportioned in equal parts between the authorities.

The draft guarantee agreement has been prepared by Eversheds and reviewed by LCIV and the COL. The COL believe that the agreement provides the protection it requires but also does so which in a way which spreads any potential liabilities arising from the pension scheme in an equitable way. It is recognised that individual Boroughs may wish to take their own legal advice on the agreement.

Recharge Agreement
It should be noted that COLPF and the COL have been extremely helpful in facilitating the pension arrangements for LCIV so that staff recruitment in 2015 was not delayed by the lack of available LGPS pension arrangements when LCIV was being set up.
In respect of the year end to March 2017, the accounting deficit was £830k and due to pension transfers in during 2017/18, this is forecast to increase to £1.8m. **It is important to emphasise that the accounting deficit is created by the assumptions required to be used under FRS102, the scheme is appropriately funded under the Scheme's Actuary advised funding rates.** LCIV has been in discussion with other LGPS Pools and understands that Brunel, Central and Borders to Coast are working on the same issues but are not at the same stage of development and so will not face the practical impact on this until late 2018 early 2019.

LCIV does not believe that the recharge agreement increases the potential or actual liability to each Authority but seeks to clarify certain clauses in the Shareholder Agreement required to resolve the FRS102 accounting issue.

It is also important to note that the approval and signing of the recharge agreement is time critical as the agreement needs to be in force for the end of the current financial year in order to obviate the £1.8m capital hit which will remain in force until the next accounting year in March 2019.

Recommendation: **The Committee is recommended to agree to the pension guarantee in favour of COLPF and the recharge agreement to address the FRS102 pension accounting deficit**.

Medium Term Financial Strategy
2018-2023

December 2017

Contents

1. BACKGROUND TO THE MEDIUM TERM FINANCIAL STRATEGY ('MTFS')

The Company is required to complete an Annual Budget for each Financial Year in accordance with clause 6.3 of the Shareholder Agreement. Clause 6.4 of the Agreement requires the budget to be submitted for approval by the Board not less than 90 days before the commencement of the next financial year and to shareholders no later than 60 days before the commencement of the next financial year.

This report provides the detail required to satisfy the terms of clause 6.3 of the Shareholder Agreement.

A draft of this report is being circulated to the Board of LCIV for discussion at a board meeting on the 13th December, with a revised draft being submitted for shareholder approval at a meeting of the Pensions Sectoral Joint Committee on the 31st January 2018.

The initial Medium Term Financial Strategy ('MTFS') covered the five year period from 2017/18 to 2021/22. This report highlights progress against that MTFS and covers the period from 2018/19 to 2022/23.

Whilst the report focuses on previously defined business and client priorities, it must be recognised that the governance review completed by Willis Towers Watson in December and recent executive changes at LCIV will impact these priorities both in the short term and throughout the MTFS. Therefore, it is proposed that any proposed changes to this MTFS will be discussed with stakeholders as part of any normal stakeholder engagement process.

Furthermore, LCIV intends to proactively engage with a variety of stakeholders including shareholders, pension committees, LLA officers and members and treasurers and will make this a core priority in its business planning.

As part of the input for the current MTFS, a review of the service offering was undertaken by the Board in its strategy review in September and summarised in the table below:-

Horizon of Services During the MTFS (Until 2022)	
Service	**Definition**
• Current service offering to LLAs	• Pooled Procurement and Manager Selection • Investment Manager Oversight (Risk, Performance, Guideline compliance etc.) • Investment Manager Termination • Fund Performance Reporting
• Asset Classes and Fund Structures	• Fixed Income • Alternatives (Loan Structures, Infrastructure, Private Equity, Real Estate) – LP/Co-Invest only
• Consolidated Client Level Reporting	• Bespoke and consolidated LLA level performance and risk reporting
• Blended Strategy / Asset Solutions	• Blending funds to enable efficient rebalancing of client exposures across strategies and asset classes, implemented by rebalancing to an agreed, fixed set of rules
• Provide Investment Advice	• Advise, on a reactive basis when requested, LLAs on fund level investments within specific asset classes

It was also necessary to identify those activities and services which are in scope of the MTFS so that the required operating model and supporting systems could be identified in the analysis phase of the systems work being completed by the consulting firm, Alpha.

At the strategy review meeting it was agreed that LCIV should obtain regulatory permissions to provide investment advice in the event that LCIV officers were asked to provide investment opinions by LLAs.

It was also agreed that the services and activities listed below are not currently in the scope of the 2018-2023 MTFS but the Board recognises that changes in client demand and LCIV strategy may impact the services listed below. It was also recognised that widening the range of services would require an assessment of operational and resourcing requirements:-

Out of Scope for MTFS Consideration	
Service	**Definition**
• Asset Allocation	• Advising LLAs on Strategic Asset Allocations
• Fiduciary Management	• Investment decisions / discretionary management of funds against an agreed risk and expected return mandate
• Cash Flow Management	• Managing LLA cash flows to ensure sufficient liquidity for investment purposes
• Liability Management	• Overseeing and managing LLA Liabilities to ensure sufficient pension obligation coverage
• Pooled Actuarial Support Services	• Supporting LLAs in managing risks inherent to pension funds and associated capital planning

LCIV's value proposition, initially articulated in the 2017/18 MTFS, has been reviewed by the Board and is captured in the table below:-

Value	Definition	Delivered By
Performance	• Providing improved investment outcomes compared with current LLA performance • Demonstrating ability to perform detailed risk analysis and compare performance of funds given visibility of risk profiles	• Rigorous fund manager selection • Enhanced and timely oversight of manager activity and risk exposure • Improved timeliness of transition and exit • Implementing tools / outsourcing to have access to detailed risk analysis / reporting • Improved performance derived from cost savings (net of LCIV and reduced manager fees) • Selecting and overseeing funds against a desired risk profile
Cost Savings	• Deliver cost savings to clients through the collective purchasing power / scale economies gained by pooling pension funds	• Economies of scale gained through the pooling of LLA funds • Operational cost reduction by multiple pension funds investing through the CIV
Access to Investment Opportunities	• Providing a broader range of investment opportunities to LLAs than currently accessible (e.g. broader asset class coverage)	• Adopting platforms and data sources that have the capability to handle asset classes that meet LLA investment objectives • Broader opportunities presented by greater asset class coverage
Transparency of Governance and Reporting	• Transparency of reporting across investment performance, client reporting, risk management and client benefits • Delivering responsible oversight	• Leveraging existing data to create client-specific and fund-related reporting • Adopting client reporting tool that allows for interactive and customisable holdings-based performance and risk reporting • Demonstrating understanding of and consideration to responsible investing

2. SUMMARY OF THE MEDIUM TERM FINANCIAL STRATEGY ('MTFS')

A detailed financial plan has been prepared for the term of the MTFS, focussing on delivering growth in AUM and building on the costs savings that have been achieved to date.

The key financial data for the years to March 2023 is summarised in the table below:-

KEY FINANCIAL DATA	Y/E March 17	F'cast March 18	March 18 MTFS	March 19	March 20	March 21	March 22	March 23
Assets under management (AUM) in £m	3,576	7,277	6,344	9,789	11,797	13,321	14,986	16,346
Target available LLA assets £m		23,552	23,559	23,559	23,559	23,559	23,559	23,559
% of available AUM		31%	27%	42%	50%	57%	64%	69%
New Sub-funds launched in year	4	6	10	10	5	2	2	0
Total Sub Funds FY Year End	6	12	16	22	27	29	31	31
LCIV Staff (FY Year End)	11	15	24	25	25	25	25	25
LCIV Shareholders/Investors	32	32	32	32	32	32	32	32
Annual Service Charge	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Capital Adequacy Requirement £k	780	1,520	1,335	1,913	2,315	2,620	2,953	3,225
Capital Adequacy Surplus £k	4,201	1,959	2,738	1,980	1,976	2,071	2,043	2,118
Cash position £k	4,291	4,578	4,140	4,763	4,948	5,022	5,145	5,447
Net Profit in the year £k	-750	563	69	398	400	305	347	499
MTFS Development Funding Charge		75,000	75,000	65,000	50,000	20,000	10,000	10,000
Development Funding Charge		75,000	75,000	65,000	50,000	25,000	10,000	0

Assets under management

Assets under management are forecast to increase as the number of assets classes is expanded to include fixed income, infrastructure, real assets and hedge funds. The table below shows the forecast allocation of the AUM growth across the asset classes. No change has been included for market moves.

AUM Plan						
AuM	**Mar-18**	**Mar-19**	**Mar-20**	**Mar-21**	**Mar-22**	**Mar-23**
Active Equities	5,291	6,222	6,575	6,962	7,658	8,271
Multi Asset	1,986	1,916	2,012	2,113	2,113	2,113
Fixed Income	0	1,100	2,160	2,376	2,614	2,875
Property	0	0	0	200	240	288
Infrastructure	0	550	550	970	1,461	1,899
Alternative Assets	0	0	500	700	900	900
Total on LCIV	7,278	9,789	11,797	13,321	14,986	16,346
Total LLA Assets as at March 2017	33,936	34,234	34,234	34,234	34,234	34,234
Total LLA Assets excl cash and passives	23,552	23,559	23,559	23,559	23,559	23,559
% on LCIV	31%	42%	50%	57%	64%	69%
Passive Equities - for information	6,984	7,284	7,284	7,284	7,284	7,284

Overall, as a result of this expansion the number of fund is scheduled to increase to 31, which will be spread across the ACS and the non-ACS platform. At the time of preparation of this report an OJEU compliant tender was being prepared for the non ACS fund administration.

LCIV is budgeting to increase the take up of LLA engagement from @31% currently to @69% in 2023, increasing the depth and breadth of funds offered by LCIV, including fixed income and infrastructure in 2018/19.

Profit and Loss

A summary profit and loss for each of the years to 2023 is set out below:-

PROFIT AND LOSS	March 17	F'cast March 18	March 18 MTFS	March 19	March 20	March 21	March 22	March 23
Service Charge	850	800	800	800	800	800	800	800
Development Funding Charge (DFC)		2,400	2,400	2,080	1,600	640	320	320
Total Management Fee	678	1,546	1,251	2,522	3,004	3,702	4,323	4,922
Total Operating Income	1,528	4,746	4,451	5,402	5,404	5,142	5,443	6,042
Total Operating Expenses	2,292	4,196	4,400	4,947	4,948	4,959	5,042	5,121
EBITDA	-764	550	51	455	456	184	401	921

Management fee income is budgeted to increase from the current level of £1.5m to £4.9m, which follows the increase in AUM and the higher fees relating to the additional asset classes. The MTFS assumes that the DFC will remain in place and reduce over the term of the MTFS and ceases in year ending March 2022 rather than March 2023.

Staffing levels are forecast to reach 25 by March 2019, allowing headcount to grow from its current level of 15, with recruiting emphasis on client servicing and engagement.

As LCIV moves from its build up phase to business as usual, the cost base of LCIV will flatten out next year with costs in the region of £5m over the remainder of the MTFS.

Based on the financial forecasts above, the table below sets out LCIV's 2018/19 Objectives and KPIs.:-

LCIV 2018/19 Objectives

Investments and Investment Oversight

- Complete fund launches as budgeted – fixed income, infrastructure, equities
- Implement investment oversight platform, including processes
- Deliver quarterly investment oversight reporting

Client Service

- Complete assessment of LLA needs based on governance review results
- Implement CRM system
- Improve client and stakeholder engagement

Finance and Business Operations

- Variation of permissions to become a manager of unauthorised alternative investment funds (UAIFM) to be obtained
- Appoint new administrator for unauthorised AIFs
- Implement client reporting system
- Complete OJEU tenders for investment oversight system and unauthorised fund administrator

Governance

- Implement governance review recommendations
- Manage business in accordance with risk appetite statement

LCIV 2018/19 KPIs

- AUM: Achieve AUM of @£10bn
- Income: Management fee income in line with budget of £2.5m
- Expenses: Expenses managed in line with budget
- Clients: Deliver products from which all 32 LLA pension funds benefit
- Staff: 10 staff on-boarded

3. KEY HIGHLIGHTS OF 2017/18

- The forecast year end assets under management ('AUM') position is @£7.2bn compared to the £6.3bn in the MTFS. At the end of November AUM was £6.2bn. The increase in AUM is a combination of market growth (@£500m) and unbudgeted subscriptions (£400m).
- LCIV has calculated that is has achieved annualised cost savings of £5.8m pa to LLAs based on the ACS at the end of September (£5.5bn) and passive assets (£7bn) on behalf of 26 London Boroughs .
- The year end forecast AUM represents @31% of potentially available LLA assets (@£23.5bn as at March 2017). Available LLA AUM represents the total value of assets held in LLA pension funds less assets held in life funds (£6.9bn) and cash reserves (£570m) – all LLA figures as of March 2017.
- Six funds launched this year, compared to the MTFS of 10

	Planned		Actual	
	Date	**AUM**	**Date**	**AUM**
Majedie - UK Equity	Apr-17	530	May-17	526
Newton - Global Equity	Apr-17	500	May-17	666
Longview - Global Equity	May-17	450	Jul-17	286
EPOCH Income Equity	Sep-17	200	Nov-17	140
HD Emerging market equity	Sep-17	200	Jan-18	80
RBC sustainable equity	Sep-17	200	Jan-18	180

- Good progress on fixed income and infrastructure funds has been made and anticipating Q2 launch in calendar year 2018..
- Income is @£295k ahead of the MTFS, principally due to the passive fee receivable from boroughs in respect of the fee savings negotiated by LCIV not budgeted in MTFS.
- The full DFC of £75k per LLA will be billed in 2017/18.

- Staffing levels have been lower than planned, impacted by slower than expected recruitment and staff turnover not forecast. Current staffing of 15 is expected to be at @18 by year end. The lower actual headcount has led to a lower than budgeted staff costs.
- Legal and Professional costs are lower than forecast due to fund launch costs being charged to funds.
- The initial phase of the operating model work has been completed. An OJEU tender will be required for the investment oversight management system to be implemented potentially in calendar year Q2/Q3.

4. LLA COST SAVINGS

LCIV is focused on delivering benefits to the LLAs. Regarding quantifiable benefits for the initial launch phase of funds, these have been calculated based on the fee scales pre and post transition and include the costs associated with the LCIV charges including asset servicer and custody costs.

The following table sets out the London Boroughs and the City of London, and lists total pension fund assets as of the 31st March 2017 and shows assets under management with LCIV at the end of March 2018 (£7.2bn), and annualised fee savings of £2.6m on ACS managed assets, £3.2m on passive assets owned by LLAs but not managed by LCIV.

	Total AUM 31/03/17 £m	Passive £m*	Cash	Available Assets	LCIV Assets 30/09/17 £m	% of LLA AUM	Anticipated LCIV Assets 31/03/18 £m	% of LLA AUM	Benefits from Investing in ACS £	Passive Benefits £	Total Benefits £
Barking & Dagenham	916	196	9	711	345	48	507	71	256	-	256
Barnet	1,052	405	14	633	134	21	138	22	90	177	267
Bexley	804	-	-	804	370	46	382	48	71	-	71
Brent	804	355	100	349	126	36	131	37	190	161	351
Bromley	894	-	-	894	-	-	-	-	-	-	-
Camden	1,517	528	21	968	245	25	254	26	24	226	251
City of London	926	-	-	926	-	-	-	-	-	-	-
Croydon	1,021	576	-	445	-	-	-	-	-	-	-
Ealing	1,092	-	48	1,044	376	36	390	37	11	-	11
Enfield	1,077	245	44	788	49	6	216	27	97	144	241
Greenwich	1,234	529	12	692	-	-	-	-	-	313	313
Hackney	1,282	312	-	970	-	-	180	19	-	-	-
Hammersmith & Fulham	982	279	14	689	231	34	299	43	42	127	168
Haringey	1,248	1,000	25	223	-	-	100	45	-	431	431
Harrow	770	253	8	509	90	18	153	30	212	-	212
Havering	648	97	13	538	301	56	312	58	98	-	98
Hillingdon	931	215	-	716	103	14	247	35	43	123	166
Hounslow	933	159	10	764	-	-	52	7	-	97	97
Islington	1,255	309	-	946	295	31	305	32	155	71	226
K&C	1,047	291	74	682	-	-	-	-	-	124	124
Kingston	760	-	2	758	79	10	152	20	64	-	64
Lambeth	1,313	-	20	1,293	371	29	519	40	178	-	178
Lewisham	1,225	1,044	1	180	-	-	-	-	-	281	281
Merton	623	450	-	173	-	-	-	-	-	-	-
Newham	1,335	344	113	879	-	-	-	-	-	123	123
Redbridge	743	238	2	504	264	52	273	54	80	-	80
Southwark	1,431	809	-	622	-	-	-	-	-	426	426
Sutton	591	69	11	511	185	36	192	38	207	31	238
Tower Hamlets	1,368	266	13	1,089	567	52	587	54	400	146	546
Waltham Forest	807	-	1	806	-	-	320	40	-	-	-
Wandsworth	2,093	551	23	1,519	832	55	860	57	371	139	510
Westminster	1,212	287	-	925	558	60	708	76	- 13	127	114
Total	**33,934**	**9,806**	**578**	**23,550**	**5,522**	**23**	**7,277**	**31**	**2,575**	**3,265**	**5,841**

* Highlighted AUM is covered at least in part by LCIV negotiated rates

The below table shows the savings per fund based on September 2017 figures annualised.

	Fund	Period End AUM £m	No of LLAs Invested*	Annualised Saving £
	Allianz Global Equity Alpha	709,175,735	3	69,741
	Baillie Gifford - Diversified Growth	434,572,523	5	462,202
	BG Global Alpha Growth	1,725,780,688	9	296,159
	Longview - Global Equity	374,478,620	2	373,612
*	Majedie - UK Equity**	518,899,887	3	-
	Newton - Global Equity	657,240,834	3	230,909
	Newton - Real Return	342,563,272	3	229,356
	Pyrford - Global Total Return	222,471,820	3	169,225
	Ruffer - Absolute Return	536,772,142	6	744,050
	Active Total	**5,521,955,522**	**19**	**2,575,254**
	LGIM	5,202,576,659	13	2,181,287
	Blackrock	1,859,668,909	5	1,084,187
	Passive Total	**7,062,245,568**	**17**	**3,265,474**
	Grand Total	**12,584,201,090**	**28**	**5,840,728**

**Majedie has not been included as it moved from a low fixed rate plus performance fee to a higher flat rate. The two are not comparable so have been excluded.

Assumptions:

- Assumes a flat AUM equal to the September 2017 figures.
- The saving on ACS is equal to expected cost inside ACS less cost outside ACS
- Cost rates within the ACS are equal to the ongoing charges figures (OCF) per the interim report and accounts multiplied by the AuM
- Rates outside the ACS use figures obtained from the LLAs as the total cost rate previously experienced multiplied by the current AuM, where no information was available estimates were made by reviewing other LLAs in the same fund.
- For the LGIM passive investments the saving has been calculated as weighted average difference in annual management charge (AMC) from the old rate to the new rate card on the September 2017 holdings less the LCIV charge multiplied by the AuM.
- For the Blackrock passive investments the saving has been calculated as the difference in average annual management charge (AMC) from the old rate to the new rate card as calculated by Blackrock at the time of negotiation multiplied by the AUM.

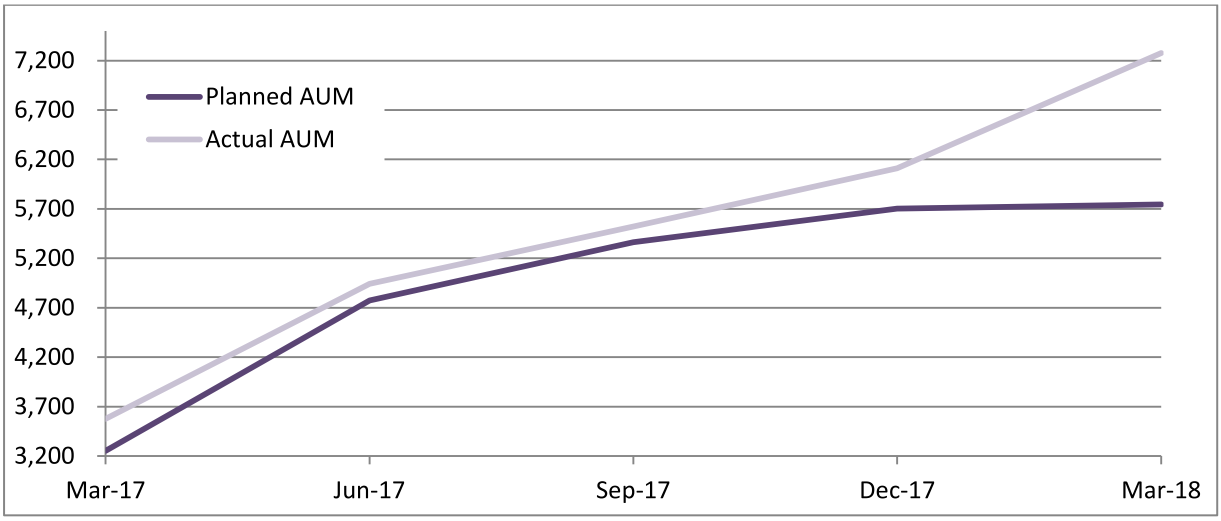
5. FUND LAUNCHES AND ASSETS UNDER MANAGEMENT

The prioritisation of the fund launch plans are based on the London LGPS Funds consolidated asset allocation as of March 2017, totalling @£33.9bn. of which @£6.9bn is allocated to passive equities and @£500m retained as cash within the pension pools.

The assumptions underlying the growth in AUM is based on a greater allocation of the existing asset classes to LCIV, as well as a broadening of asset classes such as infrastructure which has assumed a greater allocation than is currently allocated.

AuM	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Active Equities	5,291	6,222	6,575	6,962	7,658	8,271
Multi Asset	1,986	1,916	2,012	2,113	2,113	2,113
Fixed Income	0	1,100	2,160	2,376	2,614	2,875
Property	0	0	0	200	240	288
Infrastructure	0	550	550	970	1,461	1,899
Alternative Assets	0	0	500	700	900	900
Total on LCIV	7,278	9,789	11,797	13,321	14,986	16,346
Total LLA Assets as at March 2017	33,936	34,234	34,234	34,234	34,234	34,234
Total LLA Assets excl cash and passives	23,552	23,559	23,559	23,559	23,559	23,559
% on LCIV	31%	42%	50%	57%	64%	69%
Passive Equities - for information	6,984	7,284	7,284	7,284	7,284	7,284

The table below compares the actual AUM compared to the planned AUM in the MTFS:-

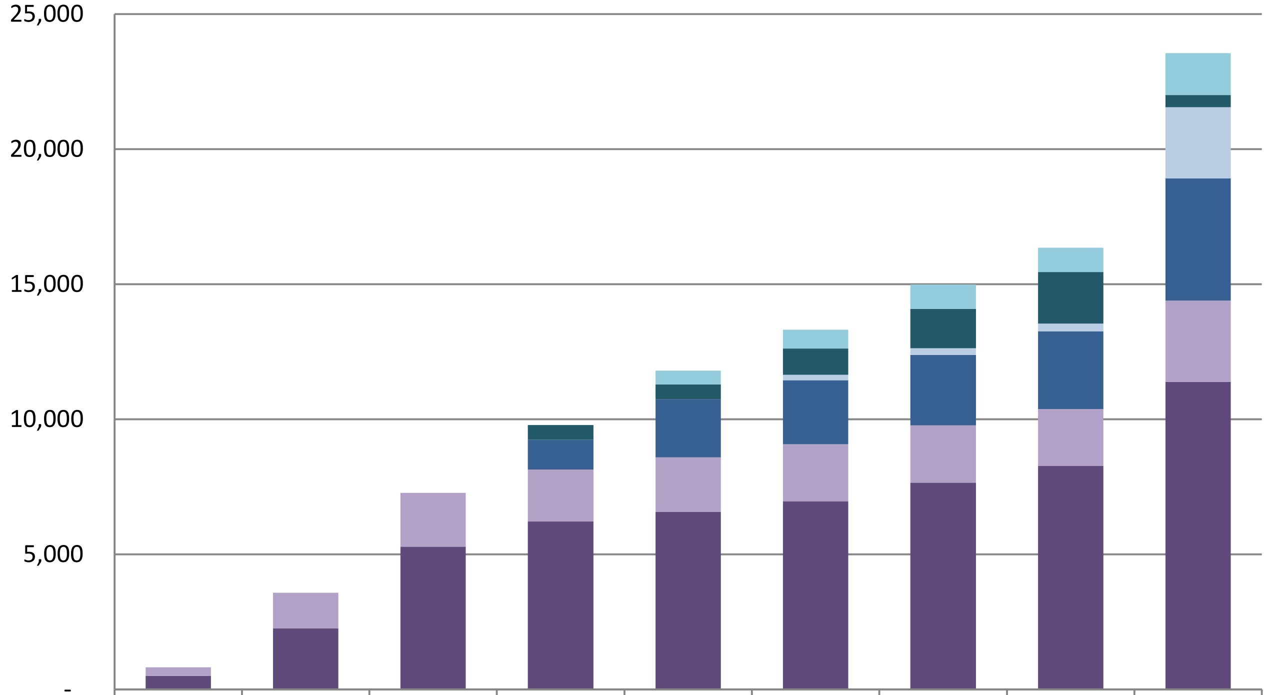


Fund launch AUM is behind plan for the FY due to two global equity funds of £150m being deferred, Longview launching with £164m less than planned and the latest equity launches being lower than forecast AUM, despite Newton Global Equity launching with £166m more than budgeted.

However, in light of recent comments about stakeholder engagement as outlined in the governance review and changes in the relationship management team, LCIV will be reviewing product launches in line with client demand to ensure that business activities are aligned to client requirements.

	Planned		Actual	
	Date	AUM	Date	AUM
Allianz Global Equity Alpha			Dec-15	507
Baillie Gifford - Diversified Growth			Feb-16	511
BG Global Alpha Growth	May-16	1,455	Apr-16	931
Pyrford - Global Total Return	Jun-16	200	Jun-16	188
Ruffer - Absolute Return	Jun-16	335	Jun-16	301
Newton - Real Return	Dec-16	330	Dec-16	321
Majedie - UK Equity	Apr-17	530	May-17	526
Newton - Global Equity	Apr-17	500	May-17	666
Longview - Global Equity	May-17	450	Jul-17	286
EPOCH Income Equity	Sep-17	200	Nov-17	140
HD Emerging market equity	Sep-17	200	Jan-18	80
RBC sustainable equity	Sep-17	200	Jan-18	180
RWC Core Equity	Dec-17	150	Sep-18	150
Global Equity 5	Dec-17	150	Potential low carbon tracker off ACS	
Global Bonds	Apr-18	200		
Liquid MAC long short	Apr-18	200		
Liquid MAC long only	Apr-18	100		
Liquid loans	Apr-18	100		
Core Infrastructure	Jul-18	300		
Direct Debt	Aug-18	200		
Core infrastructure 2	Sep-18	250		
Illiquid MAC	Dec-18	200		
Liability driven investment	Dec-18	100		

The total AUM forecast across asset classes including subscriptions and the fund launches is shown below:-



	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Total Available
Alternative Assets	-	-	-	-	500	700	900	900	1,546
Infrastructure	-	-	-	550	550	970	1,461	1,899	458
Property	-	-	-	-	-	200	240	288	2,623
Fixed Income	-	-	-	1,100	2,160	2,376	2,614	2,875	4,529
Multi Asset	318	1,306	1,986	1,916	2,012	2,113	2,113	2,113	3,005
Active Equities	500	2,269	5,291	6,222	6,575	6,962	7,658	8,271	11,389
	818	3,576	7,277	9,788	11,797	13,321	14,986	16,346	23,550

The assumptions of the AUM forecast include:

- Cash and passive investments are excluded
- A low carbon passive investment of £300m off the ACS platform.
- The infrastructure assets planned to launch are above 100% of the current allocation. This is because many LLAs have not yet invested in this asset class due to availability and knowledge we are expecting the allocation to increase once we have an offering in this space.
- additional subscriptions are made to funds where no capacity constraints apply.
- no fund redemptions or sub-fund closures during the planning period.
- LCIV regulatory approvals are granted for unauthorised AIFs.

- No market moves forecast

  Overall, the forecast AUM of £16.3 billion by March 2023 represents the transfer of 69.3% of the total £23.5 Bn of LLA available assets (as of March 2017). The amount of each asset type expected to be transferred up to the end of FY 2019 has been shown compared to a percentage of the total available assets as per above the following Fig. 5.

Further to this a review of the amount of available assets transferred per LLA is shown in the table below. This shows 19 LLAs are on board with an approximate average share of 31% of these engaged LLAs available assets. We have three further LLAs actively looking to invest before the end of FY 2018.

Management Fee	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Active Equities	982,604	1,449,034	1,565,898	1,658,363	1,827,575	1,991,186
Passive Equities	212,500	270,000	270,000	270,000	270,000	270,000
Multi Asset	381,813	469,545	491,068	515,621	528,197	528,197
Fixed Income	-	170,667	360,436	446,976	496,368	550,699
Property	-	-	-	100,000	110,000	132,000
Infrastructure	-	162,500	275,000	380,000	607,750	840,075
Alternative Assets	-	-	41,667	331,250	482,813	609,766
Total Management Fee	1,576,917	2,521,746	3,004,069	3,702,210	4,322,702	4,921,923

6. OPERATING MODEL

As LCIV grows its business operations, it is important that LCIV has an operating model which is scalable, cost-effective, risk controlled and allows LCIV to deliver tangible benefits to its stakeholders.

LCIV has conducted an initial analysis of business and client requirements in the operating model in the following areas:-

Investment oversight

- Application / Software vendor that meets all / majority of Investments and Investment Oversight Functional requirements

Client Reporting

- Use of outsourced provider of Client Reporting, using a 2-stage implementation process for immediate value and strategic integration

Client Management

- Use of a market-leading platform, adopting a 2-stage implementation process for 'quick wins' and strategic use

The analysis has identified that the implementation of the systems requirements can be split into three separate but connected projects. The segmentation will also allow the risks of a single large IT project to be mitigated.

As part of the definition of the operating model framework, the following guiding principles have been established and will apply to any potential operating model.

Value add to LLAs: providing cost synergies, transparency of reporting, improved performance and access

Product Offering: deliver product offerings and solutions that meet or improve existing LLA investment options

Ensure Scalability: scalable to meet future demand in terms of AUM growth and asset class breadth

Reduce Deployment Risk: reduce risk by weighing up speed of deployment against total cost of ownership

IT Infrastructure: tools to be scalable, standardised and deliverable within a market standard IT infrastructure

Data Integrity: clear ownership and one golden source, with processes in place to move data between systems

Organisational Structure: clear roles and responsibilities to drive teamwork and collaboration

The four options for the type of operating model that would apply to LCIV are set out below:-

Option	Overview
Outsourced	Outsourcing the core IIO and Client Reporting functions will greatly reduce the infrastructure and processing required in the business but may reduce the depth and flexibility of the platform
Enterprise	An Enterprise solution provides the synergies of a simplified data model and vendor oversight process but likely to also come with a slightly more rigid and less feature rich solution
Hybrid	An Enterprise IIO with a separate CR solution enables a broader set of IIO providers and best in class CR solutions available, however this will increase the number of vendors to manage
Best of Breed	A Best of Breed solution will enable full IIO functionality through multiple risk models being plugged together through one central provider but will require strong vendor management and internal data management capability

LCIV has concluded that an outsourced or 'best of breed' approach involve too much risk, cost or a combination of the two factors. Due to the confidential and material nature of the costings and the need to proceed to a competitive tender, indicative costs have not been detailed in the MTFS.

7. FINANCIAL ANALYSIS

This section of the MTFS covers the following:

- income and expenses
- balance sheet
- cash flow
- regulatory capital

PROFIT AND LOSS	March 17	F'cast March 18	March 18 MTFS	March 19	March 20	March 21	March 22	March 23
Service Charge	850	800	800	800	800	800	800	800
Development Funding Charge (DFC)		2,400	2,400	2,080	1,600	800	320	0
Management Fee by Asset Class								
Active Equities	458	918	944	1,449	1,566	1,658	1,828	1,991
Passive Equities	-	264		270	270	270	270	270
Multi Asset	220	365	306	470	491	516	528	528
Fixed Income	-	-		171	360	447	496	551
Property	-	-		-	-	100	110	132
Infrastructure	-	-		163	275	380	608	840
Alternative Assets	-	-		-	42	331	475	581
Total Management Fee	678	1,546	1,251	2,522	3,004	3,702	4,315	4,893
Total Operating Income	1,528	4,746	4,451	5,402	5,404	5,302	5,435	5,693
Expenses								
Staff	1,186	2,221	2,318	2,792	3,043	3,104	3,163	3,226
Facilities	232	356	359	447	410	419	428	437
Legal and Professional	791	1,216	1,231	830	534	469	479	479
Travel, Conferences and Marketing	38	34	67	45	52	52	52	52
Technology	7	236	308	595	638	643	648	654
Data Feeds	44	121	110	195	230	230	230	230
General Expenses		12	0	13	13	13	13	13
Total Operating Expenses	2,292	4,196	4,394	4,917	4,918	4,929	5,012	5,091
EBITDA	-764	550	56	485	486	374	423	602
Depreciation	-1	-2	-2	-2	-1	0	-	-
Interest Income	15	15	15	15	15	15	15	15
PBT	-750	13	13	498	500	389	438	617
Corporate Tax @15%	0	2	-	75	75	58	66	93
Net Profit/Loss	-750	563	69	424	425	330	372	525

Income

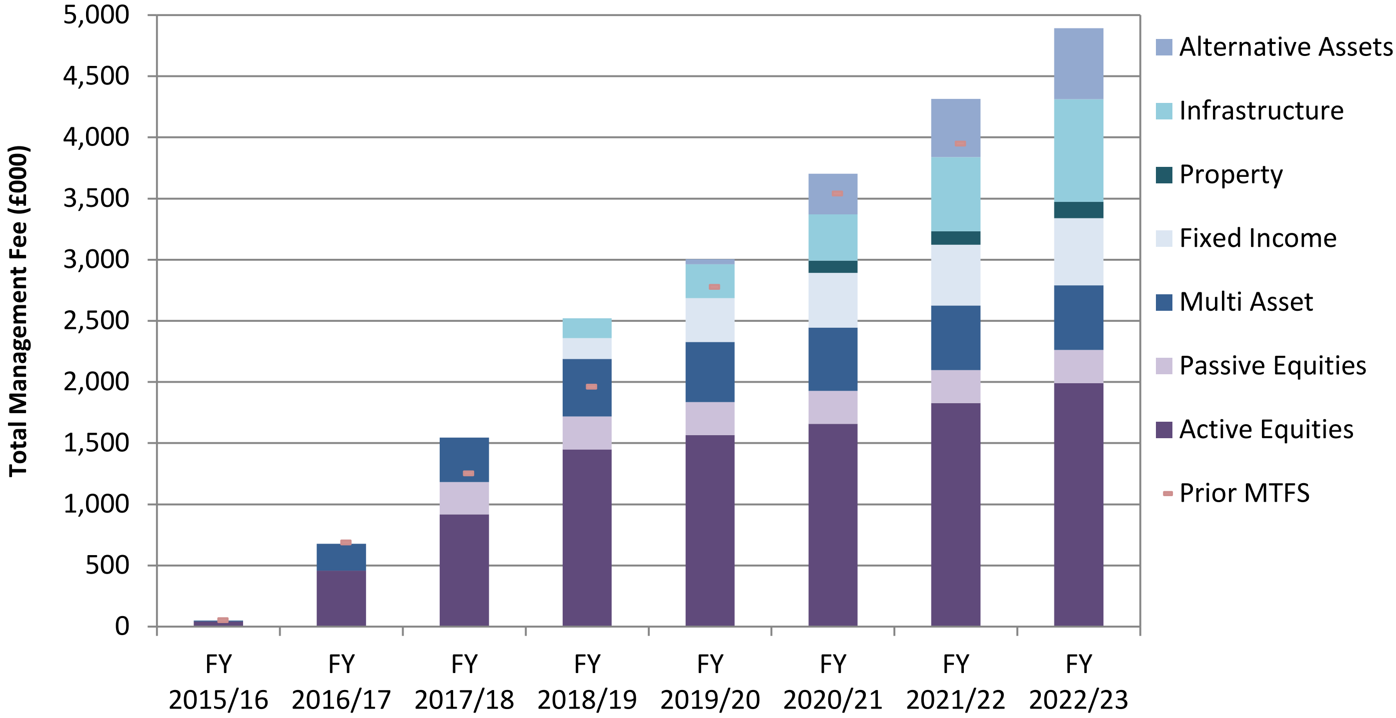
Income is sourced from three areas:-

- Service charge of £25k per shareholder
- A DFC set at £65k for 2018/19, reducing over the next three years
- An ad valorem fee which varies according to the asset class from 0.5bp for passives to 5bps for illiquid asset structures

The average fee rate is 3bps reflecting the bias towards illiquid assets types with the higher management fee.

As the AUM increases, the management fee becomes a greater proportion of income which leads to LCIV broadly matching costs by the end of the MTFS. However, the MTFS has not factored in market moves so that a 10% fall in asset values could reduce income by as much as £500k in a full year in 2023. Therefore a sensible and prudent financial policy would be to ensure that a minimum level of profitability is established in the annual budget setting process so that LCIV has a certain level of downside revenue protection.

Management fee income assumes flat passive revenues from the fee reduction on LGIM attracting a fee of 0.5bp on assets £5.2bn



The assumptions of the above revenue forecast over the period include:

- uses AUM forecast and opening dates of new launches
- management fee rates are to be charged as follows:
    - Active Equities, Long short liquid MAC, and Liquid Loans 2.5 basis points (bps)
    - Long only liquid MAC 1 bps
    - Active Global Bonds 0.5 bps
    - Passive LGIM equities 0.5 bps
    - Off ACS structures including Illiquid Fixed income, Infrastructure, Real Estate, and Alternatives 5 bps

EXPENSES

Staff Costs – are based on a headcount of 25 being reached in 2018/19 and remaining flat thereafter. As mentioned in the introduction to the MTFS, the governance review references resources as being an area for review which may impact this cost line in future years. A key challenge for LCIV will be its ability to recruit and retain staff, given staff turnover in 2017/18 and the impact of the governance review. Staff cost increases have been set in line with existing public sector practices.

Facilities - LCIV licenses its premises, desking and systems, including support, from London Councils on a cost per head basis. In 2018/19, LCIV has been advised that the charge will be £17k (incl. VAT) per head per annum, equating to @£450k per annum.

Following discussions with London Councils about future IT support requirements, it will be necessary for LCIV to obtain alternative support arrangements and IT bandwidth due to specialist support needs and the use of more bandwidth intensive cloud based systems. These additional costs have been estimated in the MTFS pending more detailed costings becoming available.

Legal and Professional – this cost category includes:-

- consultancy fees in connection with the operating model and systems implementation for 2018/19,
- internal and external audit
- regulatory reporting (Annex IV)
- recruitment fees

Travel, conferences and Marketing – includes attendance at LGPS conferences and investment manager seminars for LLAs.

Technology – the work on the operating model will lead to a number of systems being introduced in respect of:-

- investment oversight and risk management
- client reporting
- client and data management

The work will be project led by Alpha Consulting and will create a risk managed and scalable infrastructure in Q2/Q3. The implementation of the relevant investment system will be preceded by an OJEU compliant procurement tender. Due to the material level of costs involved, and the various pricing methodologies that could be used by vendors eg AUM, users, activity, funds, asset types a rigorous competitive tender process will be required.

Due to the bandwidth and systems support requirements, additional band width supplied directly to LCIV and direct support arrangements will be required.

2018/19 will be a transitional period for LCIV in respect of the build out of its infrastructure. If budgetary approval and the OJEU procurement progresses to plan, the implementation of the systems will be completed in financial year 2018/19.

Data Feeds – in addition to the actual systems costs, data, information and research fees are costed separately. As the number of asset types broadens, the level of data and investment research data will increase.

General expenses – includes day to day operational expenses.

CASHFLOW

LCIV's cash flows are straightforward, with few capital requirements. The systems expenditure outlined above are rented, cloud based services. There may be additional expenditure to ensure that the London Council's premises are suitable for systems and staff but this is likely to be £10-20k rather than the substantial plans contemplated in last year's MTFS.

Service charges are invoiced in April for the year ahead. It is proposed that the DFC is again billed in two parts – two thirds in April and the balance in December. Based on the payment experience this year, this should generate a £1.5m cash flow in Q1.

Management fees are paid on a monthly basis, with the exception of LGIM fees which are billed annually in arrears.

LCIV expenses are either monthly or quarterly, with the exception of internal/external audit, and consultancy which is ad hoc.

CASHFLOW	March 17	F'cast March 18	March 18 MTFS	March 19	March 20	March 21	March 22	March 23
Service Charge	850	800	800	800	800	800	800	800
Development Funding Charge (DFC)	0	2,400	2,400	2,080	1,600	800	320	0
Fund Income	678	1,283	1,251	2,252	2,734	3,432	4,045	4,623
Cash Inflow	**1,528**	**4,483**	**4,451**	**5,132**	**5,134**	**5,032**	**5,165**	**5,423**
Staff	1,186	2,221	2,318	2,792	3,043	3,104	3,163	3,226
Facilities	232	356	359	447	410	419	428	437
Legal and Professional	791	1,216	1,216	830	534	469	479	479
Travel, Conferences and Marketing	38	34	67	45	52	52	52	52
Technology	7	236	308	595	638	643	648	654
Data Feeds	44	121	110	195	230	230	230	230
General Expenses	0	12	0	13	13	13	13	13
Cash outflow	**2,298**	**4,196**	**4,379**	**4,917**	**4,918**	**4,929**	**5,012**	**5,091**
Net cash movement - EBITA	-770	286	71	215	216	104	153	332
Opening cash balance	5,061	4,291	4,069	4,578	4,793	5,008	5,112	5,265
Ending cash balance	4,291	4,578	4,140	4,793	5,008	5,112	5,265	5,597

REGULATORY CAPITAL

The regulatory capital requirement is determined by a FCA formula derived from a combination of AUM and the expenses of the business. As a regulated entity, LCIV is required to maintain a minimum of regulatory capital at all times and must formally report this to the FCA on a quarterly basis.

LCIV was capitalised to cover a budgeted AUM of £25bn with the issuance of £4,950,000 of B shares at £1 each. The capital position will change following the completion of shareholder arrangements of Richmond and Wandsworth Pension Funds reducing the capital by £150k. LCIV will be able to meet its regulatory requirements based on the current capital position and the proposed financial plan. A summary of the capital adequacy requirements and surplus are below:-.

CAPITAL ADEQUACY								
£ Mn	**March 17**	**F'cast March 18**	**March 18 MTFS**	**March 19**	**March 20**	**March 21**	**March 22**	**March 23**
AUM Assumptions	3,576	7,277	6,344	9,789	11,797	13,446	15,317	16,985
A = Initial Capital - Euro 125k	110	110	111	110	110	110	110	110
B = 0.02% of AUM in Excess of EUR 25(	671	1,411	1,224	1,804	2,205	2,535	2,909	3,243
C = Quarter of Operating Expenses	1	1,049	1,098	1,237	1,237	1,240	1,260	1,280
Regulatory Capital Requirement	780	1,520	1,335	1,913	2,315	2,645	3,019	3,352
Share Capital	4,950	4,950	4,800	4,800	4,800	4,800	4,800	4,800
Retained Earnings	30	-1,471	-727	-911	-513	-113	192	545
Current Year P&L	-750	560	69	398	400	305	353	523
Total Reserves Carried Forward	4,230	4,038	4,142	4,287	4,687	4,992	5,345	5,869
Surplus/Deficit Regulatory Capital	4,201	1,959	2,738	1,977	1,974	2,043	1,974	1,994

Note:current year profits do not count for regulatory capital purposes until audited

8. RISKS TO THE DELIVERY OF THE PLAN

A number of key assumptions have been made in respect of the fund launch schedule, value of asset transfer, AUM level and staffing requirements and costs.

As mentioned elsewhere in the MTFS, the governance review will lead to changes in the operation of LCIV and its engagement with stakeholders. At the time of preparation of this MTFS, it has not been possible to assess the impact of the Review as this will require further discussion with stakeholders.

REF	RISK	MITIGATION	KEY RISK INDICATORS
1.0	**INVESTMENT AND INVESTMENT OVERSIGHT**		
1.1	Investment offerings do not meet LLAs' investment needs; LLAs do not transfer assets	• Track individual LLA engagement, investment barriers • Ensure early LLA engagement in procurement process and identification of seed investors • Set clear and agreed investment principles	• RAG status of LLA engagement by fund offering • Variance on target quarterly / annual AUM
1.2	Investments do not deliver required performance	• Complete effective and thorough investment manager due diligence • Monitor fund performance and challenge investment managers	• Quarterly fund performance reporting • Investment managers reviews
1.3	Fund launches delayed and LLA investments/asset transitions delayed	• Establish disciplined programme management and tracking of milestones • Escalation of issues to Exco which may delay fund launch (eg LLA decisions, benefits business case, 3rd party timelines, etc)	• Launch project milestone delays • Number of items escalated to Exco
1.4	LCIVs success results in fee reductions by current LLA fund managers and LLAs do not transfer assets	• Effectively leverage scale to negotiate material fee reductions • Close and ongoing engagement with LLAs to ensure strategic alignment with LCIVs purpose	• Level and transparency of communications with fund managers
1.5	Government views pace of LLA asset transfer as unacceptably slow creating a damaging response to LLAs/ LCIV	• Ensure clear articulation of benefits to be gained by moving to LCIV • Continue to build trust and confidence of LLAs in LCIVs capabilities to deliver benefits and performance	• RAG status of LLA engagement • Variance on target quarterly / annual AUM • Clarity of benefits in business case
2.0	**CLIENT SERVICE**		
2.1	Failure to deliver defined benefits to the London Local Authorities	• Establish ongoing and transparent engagement with LLAs during fund development process in order to build business case and identify benefits • Establish and agree standard benefits calculation approach with LLAs	• Fund business case not clearly articulated • Variance on target and actual benefits
2.2	Failure to deliver effective client service and reporting	• Establish and implement client service and reporting model • Develop and complete SLA and implement with each LLA	• SLA breaches • Dissatisfied clients

REF	RISK	MITIGATION	KEY RISK INDICATORS
3.0	**FINANCE AND BUSINESS OPERATIONS**		
3.1	Insufficient staff, skills and business processes to deliver against business objectives	• Deliver staffing and recruitment plan • Maintain appropriate organisational structure • Ensure staff performance objectives/ targets are documented and tracked • Implement target operating model and document business processes	• Hiring plans not in place • Critical skill/functional gaps • Performance targets not met • Effective business processes not in place
3.2	Financial controls not in place to ensure delivery against budget	• Monthly budget reporting to ExCo • Quarterly budget reporting to Board and Stakeholders	• Budget variance in monthly and/or quarterly reporting
4.0	**GOVERNANCE, RISK AND COMPLIANCE**		
4.1	Lack of appropriate business governance to deliver against business plan and objectives	• Ensure proper governance is followed for decision making • Deliver accurate, timely and comprehensive MI on KPIs and business plan progress	• Inadequate/misleading MI for decision making • Individual decisions made without oversight which impact the budget, business priorities
4.2	Lack of appropriate culture and tone from the top to establish high performing team and compliant behaviour	• Ensure organisation has clear vision and purpose • Establish clear roles/responsibilities, performance objectives and targets • Ensure adherence to LCIV policies and procedures	• Employee engagement • Underperformance (organisational/individual) • Compliance breaches
4.3	Failure to comply with existing or new financial regulations	• Implement thematic based review of controls • Deliver compliance monitoring plan • Complete consistent monitoring and reacting to new regulation	• Items highlighted in compliance monitoring • Volume of new regulation • Items highlighted in external reviews

Pensions CIV Sectoral Joint Committee

Item no: 5

Fund Launch Status Report

Report by:	L. Benbow/R.Hall	**Job title:**	Head of Fixed Income/ Head of Equities
Date:	31 January 2018		
Contact Officer:	L. Benbow/R. Hall		
Telephone:	0207 934 9826 0207 934 9823	**Email:**	Larissa.Benbow@londonciv.org.uk Robert.Hall@londonciv.org.uk

Summary: This paper serves to update the PSJC on the progress of sub-fund openings.

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

1. Equity Fund Launch Update

- Henderson Emerging Markets fund launched on the 11th January with £80m seed coming from Lambeth.

- RBC was operationally ready to open on September 21st. The fund will officially launch once we have subscriptions from the boroughs.

2. Fixed Income Update

- The Board agreed to move forward with the appointment of the following fixed income funds pending the successful completion legal and operational due diligence.

- These new funds will include:
    - LCIV Global Bonds Fund (run by PIMCO)
    - LCIV Liquid Loans Fund (run by Ares)
    - LCIV Private Debt Fund (run by Ares)
    - LCIV Multi Asset Credit Fund – Long Only (run by CQS)
    - LCIV Multi Asset Credit Fund – Long/Short (run by MidOcean)

- LCIV will require written soft commitments to funds before submitting prospectuses to the FCA and work towards the launch of these products can complete. As there are already assets in the CQS fund LCIV are actively working towards the launch of this targeting March 2018 however other fund launch dates will be contingent on the soft commitments being received.

- The manager for the LCIV Illiquid Multi Asset Credit Fund will be announced later in Q1/ Early Q2 following the due diligence process and sign off of the managers defined on the preferred manager list.

3. Real Asset and Illiquid Asset Update

- The FCA has notified LCIV that they have successfully approved the application to manage Unauthorised Alternative Investment Funds. This paves the way for LCIV to now launch illiquid asset funds such as investments in Private Debt, Infrastructure, Property and Private Equity. LCIV will now work towards the OJEU procurement of a fund administrator and depository to launch these new investments.

Fund Launch Status Report

2017/18 Fund Launch Status as of January 2018

Plan Phase	Vehicle Type/On-Off Platform	Fund	Current Launch Date	MTFS Launch Date	Launch Date RAG	Launch £AUM (m)	MTFS £ AUM (m)	AUM vs. Plan and/or Commitments	Current AUM	Boroughs Indications of Interest / Comment
Global Equities	Delegated/On Platform	Henderson Emerging Markets	Jan '18	Sep		£80	£150	-£70	£0	£80m Lambeth seed investor. Indications of interest: £20m Enfield
	Delegated/On Platform	RBC Sustainable	Mar '18	Sep		£180	£200	-£20	£0	Hackney £180mil seed investor
	Delegated/On Platform	RWC Core Equity	tbc	Dec		tbc	£150	-£150		
Fixed Income	Delegated/On Platform	Global Bond (PIMCO)	tbc*	Mar '18		tbc	£300 per fund (on avg)	N		* Contingent on written soft commitments being received from LLAs ^ Contingent on both written soft commitments being received from LLAs and completion of the OJEU process for the UAIF administrator and depository. Assuming commitments in the next 2 months this would be launched in July '18
	Delegated/On Platform	Liquid MAC (CQS)	Mar '18	Mar '18		tbc				
	Delegated/On Platform	Liquid MAC (MidOcean)	tbc*	Mar '18		tbc		N		
	Direct/On Platform	Private Debt: Liquid Loans (Ares)	tbc*	July '18		tbc		N		
	Direct/On Platform	Illiquid MAC	tbc^	July '18		tbc		N		
	Direct/On Platform	Private Debt: Illiquid Direct Lending (Ares)	tbc^	Oct '18		tbc		N		
Infrastructure	tbc	Infrastructure Fund	tbc	Dec '18		tbc	£300	N		
						MTFS Aum	£3.1bn			

G on track — A AUM commitments delayed — R No firm AUM commitments / impact: delayed fund launches — N Fund structure & plan to be developed

Pensions CIV Sectoral Joint Committee Item 6

Fund Performance Report

Report by:	Robert Hall	**Job title:**	Head of Equity
Date:	31st January 2018		
Contact Officer:	Robert Hall		
Telephone:	020 7934 9823	**Email:**	Robert.Hall@londonciv.org.uk

---

Summary: This report updates the Committee on the performance of the LCIV sub-funds.

1. Summary

The performance of the equity funds over Q4 2017 generally struggled to keep pace with their respective benchmarks. Many of the fund managers are finding valuations difficult to justify, prompting them to take a more defensive position. As the broader market continued its rapid rise with another 4.6% increase during Q4, these positions hurt the relative performance. The LCIV MJ UK Equity fund was particularly affected, underperforming the FTSE All Share by 2.8%.

The Multi-Asset funds all had a positive Q4, but were also more defensively positioned, relative to history, so failed to take full advantage of the rising equity markets.

2. Manager updates

The **Newton Real Return Fund** was formally placed on **Watch** after the announcement that the lead Portfolio Manager, Iain Stewart, will be stepping back from managing the portfolio. The London CIV team have met with the wider team twice since then and remain concerned that the departure will mean a significant gap in knowledge and expertise will be left.

The **Newton Global Equity Fund** was formally placed on **Watch** after details of an FCA investigation emerged over its UK Equity fund practices surrounding small and mid-cap UK stocks. While there have been assurances that these practices were not utilised in the Global Equity Fund, the instances do cause concerns over the governance practices on the Equity teams. The London CIV team have set up a meeting with the CIO to discuss the matter further and will revert back to the Executive Committee with a formal report.

London CIV—Quarterly Performance Statistics

Q4 2017 September - December 2017

FUND (Underlying Manager)	PRICE (Pence)	FUND SIZE £M	Q4	YTD	SINCE INCEPTION	INCEPTION DATE	No. of Investors
UK Equity Sub-Fund							
LCIV MJ UK Equity (Majedie)	101.3	531	**2.15**	**n/a**	**2.22**	18/05/17	3
Benchmark: FTSE All Share Index			4.96	n/a	5.84		
Performance Against Benchmark			**-2.81**	**n/a**	**-3.62**		
Global Equity Sub-Funds							
London LGPS CIV Global Equity Alpha (Allianz Global Investors)	143.0	742	**3.98**	**19.96**	**46.98**	02/12/15	3
Benchmark: MSCI World Index Total Return (Net) in GBP			4.64	11.80	45.27		
Performance Against Benchmark			**-0.66**	**8.16**	**1.71**		
London LGPS CIV Global Alpha Growth (Baillie Gifford)	152.3	1,826	**4.84**	**22.87**	**54.16**	11/04/16	9
Benchmark: MSCI All Country World Gross Index			4.83	13.76	43.15		
Performance Against Benchmark			**0.01**	**9.11**	**11.01**		
LCIV NW Global Equity (Newton)	104.9	641	**4.35**	**n/a**	**5.50**	22/05/17	3
Benchmark: MSCI All Country World Index Total Return (Gross)			4.97	n/a	8.21		
Performance Against Benchmark			**-0.62**	**n/a**	**-2.71**		
LCIV LV Global Equity (Longview Partners)	103.6	442	**3.66**	**n/a**	**3.76**	17/07/17	3
Benchmark: MSCI World Index Total Return (Net) in GBP			4.64	n/a	5.06		
Performance Against Benchmark			**-0.98**	**n/a**	**-1.30**		
LCIV EP Income Equity (Epoch Investment Partners)	99.1	140	**-0.90**	**n/a**	**-0.90**	08/11/17	1
Benchmark: MSCI World Index Total Return (Net) in GBP			-0.42	n/a	-0.42		
Performance Against Benchmark			**-0.48**	**n/a**	**-0.48**		
Multi Asset Sub-Funds							
LCIV PY Total Return (Pyrford)	108.9	359	**0.55**	**1.49**	**8.90**	17/06/16	4
LGPS CIV Diversified Growth (Baillie Gifford)	117.5	477	**1.73**	**7.14**	**19.56**	15/02/16	6
LCIV RF Absolute Return (Ruffer)	112.2	834	**2.65**	**1.46**	**13.13**	21/06/16	9
LCIV NW Real Return (Newton)	103.0	344	**0.29**	**2.57**	**4.01**	16/12/16	3
Total LCIV Assets Under Management		**6,336**					**21**

Data Source: Bloomberg as at 29/12/2017 - All performance reported Net of fees and charges with dividends reinvested

Pensions CIV Sectoral Joint Committee

Item no: 7

Client Engagement Report

Report by:	Kevin Cullen	**Job title:**	Client Relations Director
Date:	18 January 2018		
Contact Officer:	Kevin Cullen		
Telephone:	020 7934 9844	**Email:**	Kevin.Cullen@londonciv.org.uk

Summary: This report covers the various forms of engagement with the LLAs since the last report

Recommendations: The committee is recommended to note the contents of this report

Introduction

This report covers the interaction the CIV has had with the LLAs during December and January via formal pension committee and pension board meetings, ad hoc meetings, committees, working groups and various events. A resourcing review of the client team has been carried out and, taking into account feedback from the Governance Review, The CIV has initiated a search for another Client Relations Director, an additional Client Relations Executive and a Communications Assistant. These new hires will help us to meet the growth plans of the CIV and the engagement expectations of the Boroughs. The acquisition of Salesforce, a client management system, during the first quarter of the year will assist the client team to better plan, manage and record our activities and communication with the Boroughs and other parties.

Investment Advisory Committee (IAC) meetings

The December meeting was cancelled and the date for the January meeting is being used for a consultation session with a number of Treasurers to inform them of the proposed strategy of the LCIV. The format and frequency of the IAC meetings may change going forward.

Pension Committee meetings

The CIV attended pension committee meetings at Hackney, Havering and Sutton in December, reporting on developments at the CIV and providing performance updates for the third quarter of the year.

LGPS interaction

The CIV was represented at the Annual LAPFF Conference in Bournemouth in early December. There are two cross LGPS pool working group meetings in late January, one regular meeting with the other pools and the other specifically arranged to discuss Responsible Investing.

Ad hoc meetings

The LCIV attended meetings with Newham and Croydon during December and with Barnet, Haringey, Lambeth, Harrow, Hillingdon and Brent during January.

Fixed Income Final presentations

The finals presentations from the short listed Fixed Income managers were received at the CIV's offices on 1st and 4th December. These were attended by members of the fixed income working group and details of the chosen managers in each category were communicated to the LLAs this week.

Events

The CIV is hosting a session on infrastructure at LB Westminster offices on 25th January with contributions from Railpen, Macquarie, PIP, Green Investment Group and Church Commissioners. Over 30 Borough representatives are expected to attend.

Transition Management

The CIV is expecting to play a more active role in the transition of assets onto the ACS platform and this is likely to become more of an issue as the take up of CIV platform strategies accelerates and we start to see LLAs moving between CIV platform strategies. Discussions are ongoing with Northern Trust's transition management team and Allenbridge are also being consulted in this regard. Both Allenbridge and NT have been appointed to the LGPS National Transition Management Framework

Recommendations

1. The committee is recommended to note the contents of this report

Financial implications

2. There are no financial implications for London Councils

Legal implications

3. There are no legal implications for London Councils.

Equalities implications

1. There are no equalities implications for London Councils

Annex

IAC and working group membership

Annex

Investment Advisory Committee	
Name	**Organisation**
David Dickinson	Barking & Dagenham
Ravinder Jassar	Brent
Peter Turner	Bromley
Nigel Mascarenhas	Camden
Kate Limna	City of London
Nigel Cook	Croydon
Bridget Uku	Ealing
Paul Reddaway	Enfield
Julian Gocool	Greenwich
Ian Williams (Chair)	Hackney
Rachel Cowburn	Hackney
Thomas Skeen	Haringey
Tracie Evans	Haringey
Iain Millar	Harrow
Sian Kunert	Hillingdon
Clive Palfreyman	Hounslow
Mike Curtis	Islington
Joana Marfoh	Islington
Hamant Bharadia	Lambeth
Mark Hyde-Harrison	London CIV
Brian Lee	London CIV
Lorraine Hendrickson	London CIV
Kevin Cullen	London CIV
Ryan Smart	London CIV
Chloe Crouch	London CIV
Caroline Holland	Merton
Stephen Wild	Onesource
Mark Maidment	Richmond & Wandsworth
Paul Guillotti	Richmond & Wandsworth
Duncan Whitfield	Southwark
Gerald Almeroth	Sutton
Bola Tobun	Tower Hamlets
John Turnbull	Waltham Forest
Debbie Drew	Waltham Forest
Matthew Hopson	Tri-Borough (Westminster, K&C, H&F)

Fixed Income Working Group	
Name	**Organisation**
Bridget Uku	Ealing
Paul Reddaway	Enfield
Rachel Cowburn	Hackney
Sian Kunert	Hillingdon
Paul Audu	Merton
Stephen Wild	Onesource
Paul Guillotti	Richmond & Wandsworth
Bola Tobun	Tower Hamlets
Debbie Drew	Waltham Forest
Matthew Hopson	Tri-Borough (Westminster, K&C, H&F)

Infrastructure Working Group	
Name	**Organisation**
David Dickinson	Barking & Dagenham
Nigel Mascarenhas	Camden
Iain Millar	Harrow
Joana Marfoh	Islington
Paul Audu	Merton
Paul Guillotti	Richmond & Wandsworth
Debbie Drew	Waltham Forest
Matthew Hopson	Tri-Borough (Westminster, K&C, H&F)

Global Equity Working Group	
Name	**Organisation**
Kate Limna	City of London
Paul Reddaway	Enfield
Rachel Cowburn	Hackney
Sian Kunert	Hillingdon
Paul Guillotti	Richmond & Wandsworth
Bola Tobun	Tower Hamlets
Debbie Drew	Waltham Forest

Council members Low Carbon Working Group	
Name	**Organisation**
Cllr Yvonne Johnson (Chair)	Ealing
Cllr Maurice Heaster	Wandsworth
Cllr Robert Chapman	Hackney
Cllr Fiona Colley	Southwark
Cllr Mukesh Malhotra	Hounslow
Cllr Clare Bull	Haringey
Cllr Mark Ingleby	Lewisham
Cllr Keith Onslow	Bromley
Cllr Peter Barnett	Waltham Forest
Cllr Louie French	Bexley
Borough Treasurers	
Ian Williams	Hackney
Duncan Whitfield	Southwark
John Turnbull	Waltham Forest
LCIV	
Robert Hall	
Chloe Crouch	