

Pensions CIV Sectoral Joint Committee (PSJC)

31 January 2018

Minutes of a meeting of the Pensions CIV Sectoral Joint Committee held on Monday 31 January 2018, at 2:00pm 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 Keith Onslow
Camden	Cllr Rishi Madlani
Croydon	Cllr Simon Hall
Ealing	Cllr Yvonne Johnson
Enfield	Cllr Toby Simon
Greenwich	-
Hackney	Cllr Robert Chapman
Hammersmith and Fulham	Cllr Iain Cassidy
Haringey	Cllr John Bevan (Deputy)
Havering	-
Harrow	Cllr Nitin Parekh
Hillingdon	Cllr Philip Corthorne
Hounslow	Cllr Mukesh Malhotra
Islington	Cllr Richard Greening
Kensington and Chelsea	Cllr David Lindsay
Kingston Upon Thames	Cllr Andrew Day
Lambeth	-
Lewisham	Cllr Mark Ingleby
Merton	Cllr Philip Jones
Newham	Cllr Forhad Hussain
Redbridge	Cllr Elaine Norman
Richmond Upon Thames	-
Southwark	Cllr Fiona Colley
Sutton	-
Tower Hamlets	Cllr Clare Harrison
Waltham Forest	-
Wandsworth	Cllr Maurice Heaster
City of Westminster	-

Apologies:

Barking & Dagenham	Cllr Dominic Twomey
Greenwich	Cllr Don Austen
Haringey	Cllr Clare Bull
Havering	Cllr John Crowder
Lambeth	Cllr Iain Simpson

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), Kevin Cullen (Client Relations Director, London CIV), Larissa Benbow (Head of Fixed Income London CIV) and Robert Hall (Head of Equities, 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 held on 11 December 2017

3.1. The minutes of the PSJC meeting held on 11 December 2017 were agreed as an accurate record.

4. Medium Term Financial Strategy (“MTFS”)

4.1. Brian Lee, COO, gave a presentation on the Medium Term Financial Strategy (MTFS).

4.2. Brian Lee made the following comments and key points:

- *Areas of focus:* included key financial data for 2017/18, income and expenditure, fund launches and AUMs, annualised LLA cost savings, capital adequacy and systems and processes.
- Presentation focused on key financial and business highlights for 2018/2023 and the 2018/19 budget timetable. Cost budget forecast remained the same. Resourcing and operational infrastructure needed to continue to be invested in during 2018, including recruitment of staff (16 now, rising to 25), three core IT systems, appoint administrator for IT systems, administrator for non-ACS funds and implementing operational model.
- *Key financial highlights:* AUM - £7.2 billion by end of year. 31% of available London AUM this year and 42% in 2019. Development Funding Charge (DFC) for currently £75,000 and £65,000 for 2018/19 (expected to fall off earlier than expected – a good positive trend).
- *Income and expenses:* 25 staff members by 2018/19, which was pivotal to build-up capability. Legal and professional expenses included Governance review, Alpha FMC (IT) and the pension scheme. Also, there were increases in technology and operational costs.
- Eleven funds launched to date. £1 billion of assets for Q1 – ongoing.
- *Borough cost saving at end of September 2017:* A number of LLAs benefiting from cheaper fees and lower rates. Cost savings of £6 million per annum.

- *Capital adequacy requirement end of 2018:* FRS102 adjustment of £1,892k – a notional deficit relating to all pools, even though there was no actual deficit. **A recharge agreement needed to be put in place – this agreement needed to be signed by all the London boroughs.** There would be no additional costs to the shareholders. The recharge agreement would allow LCIV to reduce DFC in line with MTFS and prevent capital adequacy fluctuations.
- *Operational model and systems:* Exercise with Alpha FMC – Board agreed to operate three separate systems (IIO Tool, CRM Tool and Client Reporting Tool).
- Client Management to go live in Q1 2018 – key to the development to the organisation.
- LCIV needed to complete in 2018: (a) OJEU tender for investment and risk oversight, (b) OJEU tender for non-ACS administrator/depository, and (c) Complete FCA variation of permissions and structuring.
- *In summary:* Financial risk for 2018/19 not material based on the current MTFS. **PSJC approval needed for recharge agreement to avoid capital fluctuations. PSJC approval for the guarantee agreement in favour of City of London required.**
- Detailed paper-out of scope within existing MTFS in first year. Further update and issue will be addressed.

4.3. The following conversations took place:

- Lord Kerslake (Chair, LCIV) said that the out of scope was a good part and in line with borough views.
- The MTFS Development Funding Charge and the Development Funding Charge, at the bottom of the “Key Financial Table” on page 16 of the report were one of the same.
- Councillor Simon asked about additional resources for posts of Client Network and Stakeholder Engagement Executive. Mark Hyde-Harrison (CEO, LCIV) confirmed that there were two Client Network posts. The Stakeholder Engagement post would be responsible for the Governance arrangement for the CIV.
- Councillor Heaster asked about the 9 positions that currently needed recruiting to and when this would be completed. The COO confirmed that Tony Lambert was leading on the recruitment. 7 vacancies being advertised at present. The recruitment was expected to conclude by June to July 2018.
- Councillor Onslow asked whether the FRS102 adjustment from £751,000 to £1.897 million was a realistic amount. The COO said that the LCIV followed

the actual funding rate by the City of London (FRS102) and confirmed that there was no deficit at all. There was also no deficit on the final salary pension scheme.

- Councillor Onslow queried why the LCIV had a final salary pension scheme and suggested that this be closed to new staff entrants. Lord Kerslake said that the Board had looked into this issue. He said that recruitment was taking place with staff from the public and private sector. Final salary pensions were put in place originally, although there would be choices in the future, and the Board would take this issue back to the stakeholders.
- Councillor Johnson said that it would be hard to recruit staff from local authorities if a final salary pension was not incorporated into the package. Lord Kerslake said boroughs would need to be consulted on this issue. The Chair said that the final salary pension arrangement rolled over from local authorities. The COO confirmed that it was not possible to take away a final salary pension scheme away from a local authority member that was already in receipt of it. Also, if you closed the final salary pension scheme down altogether, staff from local authorities would not apply to join the CIV.
- Councillor Onslow felt that the principle of final salary pension schemes created liabilities for the CIV. Lord Kerslake said that there were choices regarding this matter, although they were not straightforward (eg it would be problematic to retain existing final pension salaries whilst denying them for new entrants).
- The Chair reminded the PSJC that the CIV would not be able to participate in pension funds until the pension guarantee was signed off by all shareholders. Professional advice had been sought from PwC, Deloitte and Eversheds, and this advice would be shared with stakeholders.

4.4. The Committee:

- Noted and approved the Annual Budget for 2018 and the MTFS for the period 2018/2013;
- Agreed to the pension guarantee in favour of the City of London Pension Fund. Borough treasurers were required to sign the guarantee and legal advice would be sent out with the pension guarantee form. The current exercise to formalise the pension arrangements did not represent a change to the agreed pension position in 2015; and
- Agreed the recharging agreement which would allow the LCIV to reduce the Development Funding Charge (DFC) in line with the MTFS and prevent capital adequacy fluctuations. The new recharging agreement was needed by the end of March 2018. This would have no cost implications to the boroughs

5. Fund Launch Status Report

5.1. Larissa Benbow (Head of Fixed Income, LCIV) introduced the report, which gave an update on the sub-fund openings. The following comments were made:

- Five new funds had been opened, pending the completion of legal and operational due diligence. RBC was operationally ready to open on 21 September.
- LCIV would require written soft commitments to the funds before the FCA could be asked to complete the launch of these funds.
- Significant Fee savings had been achieved.
- FCA had approved application for LCIV to manage Unauthorised Alternative Investment Funds. LCIV could now launch illiquid asset funds such as investments like Private Debt.

5.2. Councillor Simon asked how much “soft” commitments would be needed. Larissa Benbow said that this would be approximately £100 million. She said that the larger the funds the greater the fee savings.

5.3. The Committee:

- Noted the report and noted that written soft commitments to the funds would be required before the funds could be launched.

6. Fund Performance Report

6.1. Robert Hall (Head of Equity, London CIV) introduced the report that updated the PSJC on the performance of the funds.

6.2. Members asked for an update on the Newton Real Return Funds and the Newton Global Equity Fund, which were both formally placed on “Watch”. Robert Hall said that if a key member of staff stepped aside, the fund would be placed on Watch and monitored for a period of six months.

6.3. Robert Hall explained that Newton Global was placed on Watch because an FCA investigation found irregularities over its UK Equity Fund practices around small and mid-cap stocks.

6.4. The CEO said that this was a useful example of inefficiencies in the CIV – there was uncertainty over what would happen if a manager left a fund and clarity was needed on these issues and who would be responsible for taking decisions (eg a Governance problem).

6.5. Councillor Greening felt that this would be a good case for a pilot to take place (eg move Newton to another fund). Robert Hall said that there was £1billion in these funds. Larissa Benbow said that a change in manager was a genuine risk.

6.6. The Committee noted the report and the two funds that had been placed on “Watch”.

7. Client Engagement Report

7.1. Kevin Cullen (Client Relations Director, LCIV) introduced the report and made the following comments:

- A number of productive meetings had taken place with boroughs and an Infrastructure workshop meeting would be attended shortly
- Passives with LGIM (£5.7 billion) and Blackrock (£2 billion)- pipeline of £7 billion by the end of March.
- 18 boroughs in LGIM and 5 in Blackrock pursuing passives.
- Focus on recruitment - Client Relations Director and additional Client Relations Executive.

The meeting closed at 16:10pm