

Pensions CIV Sectoral Joint Committee Agenda

14 March 2018 – 14.30 – 16:30

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

Labour Group pre-meeting: (Political Adviser: 07977 401955)	Room 1 (1 st Floor)	13.30
Conservative Group pre-meeting: (Political Adviser: 07903 492195)	Room 3 (1 st Floor)	13.30

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***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).

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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 Harrisson
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

Pensions CIV Sectoral Joint Committee

Item no: 4

Board Structure

Report by: Mark Hyde-Harrison **Job title:** Chief Executive

Date: 14th March 2018

Contact Officer: Mark Hyde-Harrison

Telephone: 020 7934 9942 **Email:** Mark.Hyde-Harrison@londonciv.org.uk

Summary: Questions were asked at the last PSJC about the process for the appointment of Directors to the Board of the London CIV. This paper sets out the formal agreements as laid out in the Articles of Association and the Shareholder Agreement. In addition, each Director has a individual contract with the London CIV. The note also provides details of the processes actually used for the appointment of the Directors to date and in addition details about their individual Terms of Office.

In addition, if the decision to expand the Board of the London CIV with two individuals from London Local Authorities is adopted then it is proposed that those two new Directors form part of the LCIV Nomination Committee going forward.

Recommendation:

The paper is for noting.

Report on the Board Governance of London CIV

Background

Following discussion at the PSJC it was requested that the London CIV clarify the processes for the appointment and removal of Directors. This report sets out the current status and structure of the London CIV Board, as specified by the interaction of the Shareholder Agreement, the Articles of Association of the London CIV and the individual Director's contracts when appointed.

Current Status

The LCIV Board comprises six non-executive directors (including the Chair) and currently two executive directors (the CEO, COO) plus one vacancy for a CIO. The Articles state that the Board should not be less than five Directors. The Shareholder Agreement states that 'as far as possible the Directors shall comprise 3 Executive Directors and at least 3 Non-Executive Directors'.

Appointment of Directors

- The Articles of Association (AA) state that Directors are appointed by the Board. The Shareholder Agreement ('SA') refers to the Articles.
- The Articles state that the Chairman of the LCIV is appointed by the Board of the LCIV. The SA states that one of the Non-Executive Director shall be appointed Chairman of the Board pursuant to the Articles.
- The contracts with Non-Executive Directors are for an initial three years with a potential extension of a further three years.
- The contract of the Chairman is for an initial four years with a potential extension of a further four years.

Removal of Directors

- The SA permits the removal of any Director by the shareholders under the statutory rights set out in the Companies Act 2006. This would require a resolution passed by a majority of shareholders at a General Meeting of the Shareholders.
- The Articles set out that a Director ceases to be a Director if made bankrupt or reaches an arrangement with Creditors, is banned from being a Director under the Companies Act, or is signed off as medically unfit.
- The Articles state that Directors may resign.
- The contracts of the Chair and Non-Executive Director appointments can be terminated with 3 months written notice by the Board.

Current Board Appointments

The current Board was selected following the process outlined below:-

- The interview panel for the prospective Chair (Lord Kerslake) comprised 3 leaders, Councillors Dombey and O'Neill and John O'Brien.
- The Non-Executive Directors were interviewed by the Chair and interim directors in an open recruitment process managed by Odgers, an executive search firm
- The Executive Directors (CIO, COO) were interviewed by a selection panel following an open recruitment process also managed by Odgers.
- The interim CEO was appointed following an interview process involving Non-executive directors following a search by Odgers.
- In 2017, as the assets under management of LCIV increased, it was recognised that additional non-executive investment expertise was required.
- Accordingly, the Board appointed two additional NEDs in September 2017 following an open selection process. The interview panel included Non-executive and Executive Directors.

Practical appointment of Board Directors:

- Future Directors of the LCIV are proposed by the Nomination Committee of the LCIV.
- It is proposed that the LCIV Board is expanded with at least one or two additional Board members representing the LLA community. These Directors along with the Chairman of the LCIV plus one other to ensure Diversity would form the Nomination Committee.
- In appointing the next Chairman of the LCIV it is proposed that the Nomination Committee of the LCIV chaired by the senior Independent Director undertakes initial screening. The final choice from the shortlisted candidates is made by a x-party group of London Leaders representing all the political parties running London Boroughs.

Appendix 1

Relevant Text from the Shareholder Agreement:

- 1.1 The parties agree that the Directors shall be appointed by the Board in accordance with the Articles. At all times the Directors shall comprise at least five (5) Directors. The intention of the Shareholders is that, as far as possible, the Directors shall comprise (3) Executive Directors and at least three (3) Non-

Executive Directors. One of the Executive Directors shall be appointed by the Board as the Chief Executive Officer. One of the Non-Executive Directors shall be appointed by the Board as the Directors' Chairman pursuant to the Articles. The Company, acting through the Directors, shall notify the Shareholders in writing upon the appointment of each Director. The Board will at all times ensure there is a company secretary. The first company secretary shall be Eversecretary Limited. Should any Director, the Chief Executive Officer, the Chairman or the company secretary resign or be removed from their position, the Company shall procure that the Board will replace such officer as soon as reasonably practicable.

Name	Contract Termination Date	Bios
<p>Bob Kerslake Chairman</p>	<p>7 September 2019 (fixed term)</p>	<p>Lord Kerslake was appointed Chair of London CIV in September 2015. In addition to this role, he is Chair of London's King's College Hospital NHS Foundation Trust. Lord Kerslake is President-Elect of the Local Government Association.</p> <p>A former Head of the Civil Service, Lord Kerslake led the Department for Communities and Local Government (DCLG) from 2010 to 2015.</p> <p>Before joining the Civil Service Lord Kerslake received a knighthood for his services to local government, spending eight years serving the London Borough of Hounslow and then a further 11 years leading Sheffield Council.</p>
<p>Mark Hyde-Harrison Interim CEO</p>	<p>11 May 2018 (contract)</p>	<p>Mark Hyde Harrison is the interim Chief Executive Officer of the London CIV since November 2017. Mark has over 30 years' experience in investment management, defined benefit and defined contribution pensions. Mark led the transformation of a top 10 UK pension fund into one of the top pension funds in Europe. He also held positions as Director of Pension Infrastructure Platform and Chair of the National Association of Pension Funds.</p> <p>Mark developed the defined contribution business strategy for a leading global consultancy, Willis Towers Watson and was the Chief Executive Officer of Barclays UK Retirement Fund. Mark has represented the pensions industry at the highest levels of Government in the UK and Europe.</p>

Name	Contract Termination Date	Bios
<p>Brian Lee COO</p>	<p>-</p>	<p>Brian Lee is the Chief Operating Officer and Compliance Officer . Brian is a Chartered Accountant and has been responsible for the management and operation of substantial investment management and fiduciary services businesses including the asset management division of a major bank, a FTSE 250 wealth manager, and a NYSE listed hedge fund and private equity manager.</p> <p>Brian has broad experience in the set up and operation of investment management businesses and has been responsible for the operation and compliance of mainstream and alternative asset class collective investment schemes.</p>
<p>Carolann Dobson Non-executive</p>	<p>28 February 2019 (fixed term)</p>	<p>Mrs. Dobson has over 30 years' experience in investment, pensions and financial markets and has held positions as trustee, chairman and non-executive director for pension schemes and investment trusts. She has a strong understanding of governance matters, with particular regard to investment, and has a strong working knowledge of risk and controls. In her career she has worked as a fund manager, head of research.</p> <p>In her capacity as an independent investment adviser, Mrs. Dobson advises numerous local authority pension scheme in addition to non-executive director appointments for five investment trusts and private sector pension fund appointments. She is Chairman of Nest's ISC.</p>

Name	Contract Termination Date	Bios
<p>Chris Bilsland Non-executive</p>	<p>7 September 2018 (fixed term)</p>	<p>Chris is a non-executive director for London CIV. His experience with the LGPS dates back to 1991 when as the Somerset County Treasurer he was responsible for the Somerset Fund. He previously served as the Chamberlain of London where he was responsible for the finances of an organisation with turnover in excess of £500m p.a. and property and investment assets of over £4bn.</p> <p>Chris has worked in both the public and private sector. He has been an advisor to the LGPS Scheme Advisory Board, was President of CIPFA from 2011/2012 and received the OBE in 2014 for his services to local government finance. In February 2015 he was appointed as the Chair of Lewisham Southwark FE College.</p> <p>Chairs the IOC.</p>
<p>Eric Mackay Non-executive</p>	<p>31 October 2018 (fixed term)</p>	<p>Eric Mackay has over 18 years' experience in investment management, where he has held a number of senior roles in authorised firms. Eric spent fourteen years at F&C Asset Management where he was Chief Risk Officer and in 2013 joined TT International. At TT Eric is a Partner of the firm and Chief Operating Officer.</p> <p>Eric has extensive experience providing oversight and bringing appropriate independent challenge within an investment firm managing over £100bn of assets. He also has a range of other relevant experience, including responsibility for the risk management framework, legal, compliance and operational functions.</p> <p>Chairs the CARCO.</p>

Name	Contract Termination Date	Bios
<p>Linda Selman Non-executive</p>	<p>31 October 2020 (fixed term)</p>	<p>After almost 40 years in financial services, Linda retired in 2016. She is an actuary who has spent almost her entire career in a wide range of investment roles, including managing fixed income and derivative portfolios for a mutual life company where she was ultimately Group Investment Manager.</p> <p>After a period as a client director for a fund management company she spent the later stages of her career as an investment consultant providing advice to pension funds in both the private and public sectors, including London boroughs. She contributed to the research on the establishment of investment pools for the LGPS.</p>
<p>Paul Niven Non-executive</p>	<p>31 October 2020 (fixed term)</p>	<p>Paul is Head of Multi-Asset Investment at BMO Global Asset Management, which manages in excess of £180bn. He has over twenty years of investment experience and is Fund Manager of the FTSE 250 listed Foreign & Colonial Investment Trust, one of the largest Investment Trusts in the UK.</p> <p>Paul has invested across a wide range of traditional and alternative asset classes and has experience across a number of relevant areas including manager and product selection, strategic and tactical asset allocation as well as risk and portfolio management.</p>

Pensions CIV Sectoral Joint Committee

Item no: 5

Governance

Report by: Mark Hyde-Harrison **Job title:** Chief Executive
Date: 14 March 2018
Contact Officer: Mark Hyde-Harrison
Telephone: 020 7934 9942 **Email:** Mark.Hyde-Harrison@londonciv.org.uk

Summary: Following the Governance Review by Willis Towers Watson the PSJC has debated what changes need to take place in how the London CIV interacts with its Shareholders and Clients. Proposals were made at the PSJC in January around changes to the PSJC, a formation of a smaller shareholder committee and the addition of individuals to the Board of the London CIV. Each London Local Authority was asked to comment on these proposals and the vast majority were in favour of the recommendations. This paper sets out the summary of the consultations responses.

Recommendation:

The shareholder Governance of the London CIV moves to the revised meeting structure of two General Meetings and Quarterly Shareholder Meetings in line with the Terms of Reference and this sectoral joint committee of London Councils is dissolved with the written agreement of all the participating local authorities all being shareholders in the London CIV.

At the next AGM of the London CIV the Chairs, Directors and members would be confirmed.

A consultation with all London Local Authorities on the future governance arrangements as shareholders in the London CIV has been held and many thanks for all those who responded.

The summary of the responses to the Governance Questions is included in annex 1.

In addition representations have been made by the Unions to be included in the LCIV governance arrangements. Following conversations it is recommended that Union representation is made on the Shareholder Committee and that they are able to send a Representative to the General meetings.

Following the consultation it is proposed that:-

Pensions CIV Sectoral Joint Committee

As engagement with shareholders (being all the London local authorities) and the exercise of their shareholder rights in the London CIV are intended to be delivered through the new governance arrangements, set out below, this Pensions CIV Sectoral Joint Committee will be dissolved. In accordance with London Councils' Governing Agreement, under which the sectoral joint committee was established, this will require all the participating London local authorities to give written notice to London Councils that they have agreed to revoke the

delegation of the discharge of the relevant functions to the sectoral joint committee. A separate communication will be sent to all the local authorities to prompt that action before the London CIV AGM on 12th July.

General Meetings

All Shareholders meet twice a year in General Meetings of the London CIV Ltd. In July to approve the Accounts at an AGM and in January to approve the Medium Term Financial Strategy.

This meeting is held under the terms of the London CIV Articles of Association and the Shareholder Agreement. Attached to this paper in Annex 2 is a paper setting out the relevant extracts of those documents as related to Shareholder meetings.

Shareholder Meeting

A quarterly meeting is held of 12 Shareholders (six Treasurers, six Pension Chairs), Chairman of the London CIV and a Union representative. This meeting is only consultative and cannot make decisions, its aim is to promote an effective dialogue between all the main stakeholders. Decision making rests with the Board of the London CIV and the Shareholder General Meetings.

A paper in Annex 3 sets out the Terms of Reference of the Shareholder Meeting, the membership, terms of office and its role.

Next Steps

The AGM of the London CIV is due to be held on the 12th July. At this meeting, the Chairs of the AGM and Shareholders Meeting would be selected. The members of the Shareholders Committee would be nominated. In addition the two new Board Directors of the London CIV would also be confirmed.



LCIV Strategy – Governance Responses to Proposal

Common themes:

Broadly Supportive of the New Governance Proposals

Establishment of new shareholders committee welcomed

The IAC should meet quarterly, needs terms of reference

Board appointments restricted to four years

Treasurer on Board with full voting rights

The vast majority of LLAs agree to have two meetings a year with all shareholders and disband the PSJC under the London Councils framework

Over 70% of LLAs agree with formation of a consultative shareholder committee of 12 treasurers and pension chairs

Nearly two thirds of LLAs would like us to invite the Chair of the main shareholder group onto the board of the London CIV and a Treasurer as an observer, most feel the treasurer should have full voting rights.

The majority of LLAs would like the Chair of the main shareholder group to be elected from the shareholders.

Around 40% of LLAs would like the Chair of the shareholder consultative group to be elected by shareholders, whereas 29% would like it to be the Chair of the London CIV, and 26% would like it to be the Chair of the shareholder group.

Over 80% of LLAs would like the London CIV Board to be expanded by a shareholder nominated by all shareholders, with 20% who would rather it be the Chair of the main shareholder group.

Over half of LLAs agreed that the IAC becomes a forum to share ideas and consult, however the ones that disagreed clarified that it should meet every 2-3 months and not 'when appropriate'. It should also have clear terms of reference.

- Almost all LLAs would like to formalise their relationship with LCIV by having a Service Level Agreement in place to set out how we would service and consult with them.
- 80% of LLAs agreed that there should be a responsible investment policy for the Pool which is proposed by the London CIV and agreed by shareholders
- Nearly 90% of LLAs agreed that an individual investment consultation would be useful to help them choose between earlier or later pooling.



Annex 2

London LGPS CIV Limited (the “Company”) Shareholders General Meeting

Objective

1. The objective of this document is to set out in detail those matters that have been reserved for the shareholders and the framework of the Annual General meeting which operates under the Articles of Association and the Shareholders Agreement. This document reflects these agreements but does not override them. The annual general meeting (AGM) is a mandatory yearly gathering of the Company’s interested shareholders. The shareholders may meet more frequently at their discretion. At the AGM, the directors of the company present an annual report, which contains information for shareholders about its performance and strategy. Shareholders vote on current issues, such as appointments to the company’s board of directors and selection of auditors. If the Shareholders have appointed a Shareholders’ Chairman, the Shareholders’ Chairman shall chair general meetings. It is expected that the Chairman will be selected after consultation with members.

Shareholders who do not attend the meeting in person may vote by proxy, which can be done online or by mail.

The following items to be discussed at the AGM are as follows;

- Minutes of previous meeting: The minutes of the previous meeting must be presented and approved.
- Financial statements: The company presents its annual budget to the shareholders for approval.

ORGANISATION OF GENERAL MEETINGS

1. NOTICE OF GENERAL MEETINGS

Every notice convening a general meeting shall:

- 1.1 comply with section 325(1) of the 2006 Act as to giving information to shareholders relating to their right to appoint proxies; and
- 1.2 be given in accordance with section 308 of the 2006 Act but shall not be given by means of a website.

2. ATTENDANCE AND SPEAKING AT GENERAL MEETINGS

- 2.1 A person is able to exercise the right to speak at a general meeting when that person is in a position to communicate to all those attending the meeting, during the meeting, any information or opinions which that person has on the business of the meeting.

- 2.2 A person is able to exercise the right to vote at a general meeting when:
- 2.2.1 that person is able to vote, during the meeting, on resolutions put to the vote at the meeting, and
- 2.2.2 that person's vote can be taken into account in determining whether or not such resolutions are passed at the same time as the votes of all the other persons attending the meeting.
- 2.3 The directors may make whatever arrangements they consider appropriate to enable those attending a general meeting to exercise their rights to speak or vote at it.
- 2.4 In determining attendance at a general meeting, it is immaterial whether any two or more members attending it are in the same place as each other.
- 2.5 Two or more persons who are not in the same place as each other attend a general meeting if their circumstances are such that if they have (or were to have) rights to speak and vote at that meeting, they are (or would be) able to exercise them.

3. **CHAIRING GENERAL MEETINGS**

- 3.1 If the Shareholders have appointed a Shareholders' Chairman, the Shareholders' Chairman shall chair general meetings if present and willing to do so.
- 3.2 If the Shareholders have not appointed a Shareholders' Chairman, or if the Shareholders' Chairman is unwilling to chair the meeting or is not present within 30 minutes of the time at which a meeting was due to start, the meeting must appoint a director or shareholder to chair the meeting by simple majority, and the appointment of the chairman of the meeting must be the first business of the meeting.
- 3.3 The person chairing a meeting in accordance with **Article 3** (Articles of Association) is referred to as "the chairman of the meeting".

4. **ATTENDANCE AND SPEAKING BY DIRECTORS AND NON-SHAREHOLDERS**

- 4.1 Directors may attend and speak at general meetings, whether or not they are shareholders.
- 4.2 The chairman of the meeting may permit other persons who are not:
- 4.2.1 shareholders of the Company, or
- 4.2.2 otherwise entitled to exercise the rights of shareholders in relation to general meetings, to attend and speak at a general meeting.

5. MINUTES OF MEETINGS

5.1 The Committee Secretary shall minute any significant items of discussion, action points and decisions of all meetings of the Committee, including recording the names of those present and in attendance. Conclusive evidence of the business transacted at each meeting will be recorded in the minutes which will include an up-to-date actions and issues log.

5.2 The Committee Secretary should ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

5.3 Minutes and action points of Committee meetings shall be circulated promptly to all members of the Committee and will be available for review by the Board.

6. QUORUM AT GENERAL MEETINGS

6.1 No resolution shall be voted on and no other business shall be transacted at any general meeting of the Company unless a quorum is present when such vote is taken or other business is transacted and no resolution or transaction shall be effective unless a quorum is so present.

6.2 A quorum shall consist of one third in number of the shareholders of the Company for the time being present by proxy or by representative.

6.3 If a quorum is not present within half an hour from the time appointed for a general meeting or if, during any general meeting, a quorum ceases to be present, the general meeting shall stand adjourned until such other day and at such other place as the chairman of the meeting may determine (or, if the chairman does not so determine any outstanding business to be discussed at the meeting shall be adjourned to the next general meeting) and if at the adjourned general meeting a quorum is not present within half an hour from the time appointed for the same such adjourned general meeting, the general meeting shall be dissolved.

VOTES OF SHAREHOLDERS

7. VOTING: GENERAL

7.1 A resolution put to the vote of a general meeting must be decided on a show of hands. No resolution shall be decided on a poll.

8. ERRORS AND DISPUTES

8.1 No objection may be raised to the qualification of any person voting at a general meeting except at the meeting or adjourned meeting at which the vote objected to is tendered, and every vote not disallowed at the meeting is valid.

8.2 Any such objection must be referred to the chairman of the meeting, whose decision is final.

9. **CONTENT OF PROXY NOTICES**

9.1 Proxies may only validly be appointed by a notice in writing (a "proxy notice") which:

9.1.1 states the name and address of the shareholder appointing the proxy;

9.1.2 identifies the person appointed to be that shareholder's proxy and the general meeting in relation to which that person is appointed;

9.1.3 is signed by or on behalf of the shareholder appointing the proxy, or is authenticated in such manner as the directors may determine; and

9.1.4 is delivered to the Company in accordance with these Articles and any instructions contained in the notice of the general meeting to which they relate.

9.2 The company may require proxy notices to be delivered in a particular form, and may specify different forms for different purposes.

9.3 Proxy notices may specify how the proxy appointed under them is to vote (or that the proxy is to abstain from voting) on one or more resolutions.

9.4 Unless a proxy notice indicates otherwise, it must be treated as:

9.4.1 allowing the person appointed under it as a proxy discretion as to how to vote on any ancillary or procedural resolutions put to the meeting, and

9.4.2 appointing that person as a proxy in relation to any adjournment of the general meeting to which it relates as well as the meeting itself.

10. **DELIVERY OF PROXY NOTICES**

10.1 A person who is entitled to attend, speak or vote at a general meeting remains so entitled in respect of that meeting or any adjournment of it, even though a valid proxy notice has been delivered to the Company by or on behalf of that person.

10.2 An appointment under a proxy notice may be revoked by delivering to the Company a notice in writing given by or on behalf of the person by whom or on whose behalf the proxy notice was given.

10.3 A notice revoking a proxy appointment only takes effect if it is delivered before the start of the meeting or adjourned meeting to which it relates.

10.4 If a proxy notice is not executed by the person appointing the proxy, it must be accompanied by written evidence of the authority of the person who executed it to execute it on the appointor's behalf.

11. **AMENDMENTS TO RESOLUTIONS**

11.1 An ordinary resolution to be proposed at a general meeting may be amended by ordinary resolution if:

11.1.1 notice of the proposed amendment is given to the Company in writing by a person entitled to vote at the general meeting at which it is to be proposed not less than 48 hours before the meeting is to take place (or such later time as the chairman of the meeting may determine), and

11.1.2 the proposed amendment does not, in the reasonable opinion of the chairman of the meeting, materially alter the scope of the resolution.

11.2 A special resolution to be proposed at a general meeting may be amended by ordinary resolution, if:

11.2.1 the chairman of the meeting proposes the amendment at the general meeting at which the resolution is to be proposed, and

11.2.2 the amendment does not go beyond what is necessary to correct a grammatical or other non-substantive error in the resolution.

11.3 If the chairman of the meeting, acting in good faith, wrongly decides that an amendment to a resolution is out of order, the chairman's error does not invalidate the vote on that resolution.

12. **WRITTEN RESOLUTIONS**

12.1 A written resolution, proposed in accordance with section 288(3) of the Companies Act 2006, will lapse if it is not passed before the end of the period of 40 days beginning with the circulation date.

12.2 For the purposes of this **Article 54** (Articles of Association) "circulation date" is the date on which copies of the written resolution are sent or submitted to shareholders or, if copies are sent or submitted on different dates, to the first of those dates.

13. **NUMBER OF VOTES**

13.1.1 Subject to any rights or restrictions for the time being attached to any class or classes of Shares, on a written resolution every holder of A Shares has one vote in respect of each A Share held by him and on a show of hands at a general meeting every holder of A Shares entitled to vote and who is present by a representative has one vote.

SCHEDULE

Matters reserved for approval of Shareholders

Unless approved in accordance with the requirements of **clause 4.7** (Shareholders Agreement), the Parties shall procure that the Company does not:

PART A (Requiring unanimous approval of all shareholders)

1. subject to FCA rules, extend the activities of the Company outside the scope of the business or close down any business operation;
2. subject to FCA rules, give any guarantee or indemnity outside the ordinary course of business to secure the liabilities of any person or assume the obligations of any person (other than a wholly owned subsidiary) (e.g. guaranteeing a lease that does not relate to the business of the Company);
3. subject to FCA rules, enter into or vary any contracts or arrangements with any of the shareholders or Directors (other than service agreements and letters of appointment as directors) or any person with whom any shareholder or Director is connected (whether as director, consultant, shareholder or otherwise) (eg any contract which could give preferential rights to a specific shareholder);
4. enter into any agreement not in the ordinary course of the business and/or which is not on an arm's length basis;
5. enter into or vary any agreement for the provision of consultancy, management or other services by any person which will, or is likely to result in, the Company being managed otherwise than by its Directors;
6. change the name of the Company;
7. pass a resolution or present a petition to wind up the Company or apply for an administration order or any order having similar effect in a different jurisdiction in relation to the Company unless in any case the Company is at the relevant time unable to pay its debts within the meaning of section 123 Insolvency Act 1986;
8. reduce or cancel any share capital of the Company, purchase its own shares, hold any shares in treasury, allot or agree to allot, whether actually or contingently, any of the share capital of the Company or any security of the Company convertible into share capital, grant any options or other rights to subscribe for or

to convert any security into shares of the Company or alter the classification of any part of the share capital of the Company (in each case other than as expressly contemplated by this Agreement and/or the Articles including, without limitation, pursuant to **clauses 3 and 9** and Article 26 of the Articles (*Issue of Shares and Pre-Emption Rights*));

9. redeem or buy any shares or otherwise reorganise the share capital of the Company (in each case other than as expressly contemplated by this Agreement and/or the Articles including, without limitation, any redemption of B Shares by the Company pursuant to **clauses 3 and 9** and Article 27 of the Articles (*Rights Attaching to the Shares*), Article 34 of the Articles (*Shareholder Withdrawal*) and Article 35 of the Articles (*Deemed transfers to the Company*);
10. admit any person (other than a London Local Authority) as a member of the Company or an investor in the LGPS;
11. enter into any partnership, joint venture or profit sharing arrangement with any person;
12. alter any of the provisions of the Articles or any of the rights attaching to the shares;
13. amalgamate or merge with any other company or business undertaking;
14. sell, lease (as lessor), license (as licensor), transfer or otherwise dispose of any of its material assets otherwise than in the ordinary course of the business;

PART B (Requiring majority approval of all shareholders)

1. enter into or vary any licence or other similar agreement relating to intellectual property to be licensed to or by the Company which is otherwise than in the ordinary course of business;
2. appoint or remove the auditors of the Company;
3. alter the Company's accounting reference date;
4. make any significant change to any of the Company's accounting or reporting practices other than conforming with any changes made to the accounting standards adopted by the Company;
5. approve the annual accounts of the Company;
6. establish or amend any pension scheme (i.e. for employees of the Company);
7. remove any Director of the Company in accordance with the Companies Act 2006;
8. make any capitalisation, repayment or other distribution of any amount standing to the credit of any reserve of the Company or pay or declare any dividend or other distribution to the shareholders;
9. subject to FCA rules, enter into any agency, distribution or similar agreement which confers or is expressed to confer any element of exclusivity as regards any goods or services the subject of such agreement or as to the area of the agreement or vary such an agreement to include any such exclusivity.

Annex 3

London LGPS CIV Limited (the “Company”) Shareholders Committee: Terms of Reference

Objective

- 1.1. To consult on the strategy, business plan and financial performance of the Company as mandated by the Board of Directors.
- 1.2. Identify, assess, discuss and establish effective solutions to address emerging issues and opportunities facing shareholders which may impact the Company and escalate to the Board as appropriate.
- 1.3. Consult and advise on Company policies such as Responsible Investment and Reporting and Transparency.

2. Membership

- 2.1. Shareholders of the Company in good standing. The Committee membership shall be comprised of six Members and six Treasurers with one being the Chair, the Chair of the London CIV and one trade union representative.
- 2.2. The Committee Chair shall be one of the existing committee members. In the absence of the Committee Chair or a deputy nominated by the Committee Chair (the “**Nominated Deputy**”), the remaining members present shall elect one of themselves to chair the meeting.
- 2.3. The quorum for meetings of the Committee shall be seven members.
- 2.4. No more than one Member and one Treasurer can be from a London Local Authority without direct investments in the London CIV Funds.
- 2.5. London Local Authorities which have Directors on the Board may not be members of the Shareholders Committee.
- 2.6. Appointments to the Committee shall be for two and three year terms split evenly between Members and Treasurers as appointed by the Shareholders at the Annual General Meeting.

3. Attendance at Meetings

- 3.1. Only the Committee Chair (or Nominated Deputy) and Committee members are entitled to be present at a meeting of the Committee. The Committee, at the Committee Chair’s discretion, may invite to attend its meetings, other non-members including Board members, trade union representatives or representatives from within the Company or from appropriate third parties.
- 3.2. An appropriate individual shall be the secretary of the Committee (the “**Committee Secretary**”).

4. Frequency of Meetings

- 4.1. The Committee shall meet quarterly.
- 4.2. Meetings of the Committee shall be summoned by the Committee Secretary at the request of any member of the Committee.

5. Minutes of Meetings

- 5.1. The Secretary shall minute any significant decisions and action points of all meetings of the Committee, including recording the names of those present and in attendance. The minutes will include an up-to-date actions and issues log.
- 5.2. The Committee Secretary should ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 5.3. Minutes and action points of Committee meetings shall be circulated promptly to all members of the Committee and will be available for review by the Board.

6. Reporting Procedures

7. The Committee Chair shall provide regular reports of the Committee's activities as considered reasonable and necessary to the Board. These reports will also be circulated to the Executive Committee and any other Committee as **appropriate to ensure governance of issues and risks.**



PSJC – 7 March 2018

Item no:6

Business Update Report

Report by: Brian Lee **Job title:** COO
Date: 6 March 2018
Contact Officer: Brian Lee
Telephone: 020 7934 9818 **Email:** Brian.Lee@londonciv.org.uk

Summary: The business update covers the following items:-

- A finance report covering the actual financial results for the ten months to January 2018 and an updated full year forecast
- A report on the regulatory capital including the pension guarantee required by City of London and the FRS102 recharge agreement
- An update report on the operating model and investment oversight tender
- A status report on fund launches and new business pipeline
- A report on the Richmond shareholding in LCIV

Recommendations: The PSJC is asked to note :-

- i. the finance report
- ii. the report on regulatory capital and the status of the guarantee and recharge agreement
- iii. the operating model report
- iv. the fund launch update
- v. the Richmond shareholding in LCIV

I. Finance Report

LCIV is on track with the MTFS forecast submitted to the PSJC in December and ahead of the 2017/18 MTFS as previously noted.

The current forecast is £580k EBITDA compared to the MTFS of £69k. The variance is principally due to LGIM fees not budgeted and timing differences on expenses. Details of major variances are given below.

Income statement

	1H Actual	2H Actual+ Forecast	Full Year Forecast	MTFS	Variance	Notes
Service Charge	1,600	1,600	3,200	3,200	0	
Fund Income	601	744	1,345	1,251	94	
LGIM Fees	128	141	268		268	1
Total income	2,328	2,484	4,813	4,451	362	
Facilities	(157)	(181)	(338)	(359)	22	
Staff Costs	(858)	(1,368)	(2,226)	(2,318)	92	2
Legal & Professional	(383)	(907)	(1,290)	(1,231)	(60)	3
Travel & General Expenses	(12)	(20)	(32)	(67)	35	
Technology	(12)	(223)	(236)	(308)	73	4
Data Services	(56)	(56)	(111)	(110)	(1)	
Total Costs	(1,479)	(2,763)	(4,234)	(4,394)	161	
Net Profit	850	(279)	579	56	523	
Interest Income	4	(1)	3	15	(12)	
Depreciation	(1)	(1)	(2)	(2)	(0)	
Profit Before Tax	853	(281)	580	69	511	
FRS 102 Adjustment (est)			(1,146)		(1,146)	5
Net Adjusted Loss after FRS102			(566)			

Notes

- As previously reported to the PSJC, the LGIM fees were not included in the previous MTFS. The LGIM fees are to be invoiced in April, reflecting the fees for the year. The PSJC is requested to agree the invoicing to be changed to twice a year to ensure that fees are being paid on a regular basis.
- Staff costs are below budget due to lower headcount than budgeted.
- Professional fees are higher than MTFS due to work involved in the governance review not fully budgeted in the MTFS and legal advice necessary for the Richmond/Wandsworth fund merger, legal work on the guarantee agreements for the City of London and the FRS102 recharge agreements.
- As set out in the MTFS for 2017/18 and further explained in the 2018/19 MTFS, the operating model development began in October 2017 which was later than budgeted. Further details on the operating model are given later in this report.
- As explained in the next section, the estimated additional FRS102 accounting liability provision for the pension scheme has been shown in the income statement. This provision does not involve any cash payments but an accounting estimate of future liabilities using a different set of assumptions to the Actuary.

The cash flow by quarter is given below. The large cash flows in Q1 and Q4 reflect the billing of the service charge and the DFC. As discussed at previous PSJC meetings, LCIV is not a capital intensive business and most expenses are on a monthly payment cycle but the build out of the business is reflected in the quarterly increase in expenses.

Cashflow

	Q1 Actual	Q2 Actual	Q3 Actual	Q4 Actual+ Forecast
Service Charge	1,425	525	450	800
Fund Income	263	337	381	363
LGIM Fees				
Total income	1,688	862	831	1,163
Facilities	(72)	(85)	(106)	(75)
Staff Costs	(364)	(494)	(654)	(715)
Legal & Professional	(166)	(217)	(371)	(544)
Travel & General Expenses	(4)	(9)	(14)	(6)
Technology	(7)	(5)	(3)	(220)
Data Services	(27)	(28)	(24)	(32)
	-	-	-	-
Total Costs	(641)	(838)	(1,171)	(1,592)
Net Cash Position	1,048	24	(340)	(429)
Opening Cash Position	4,291	5,339	5,363	5,023
Closing Cash Position	5,339	5,363	5,023	4,594

The LCIV balance sheet contains a few key items:-

- i. The cash position held for regulatory capital purposes in current assets
- ii. The FRS102 provision which is a non-cash item
- iii. The capital position which reflects the A and B shares including Richmond shares which is also commented on later in this report.

Balance Sheet

	Actual Mar-17	Actual Jan-18	Forecast Mar-18
Non Current Assets	5	3	3
Current Assets	4,605	6,474	5,683
Current Liabilities	(300)	(1,223)	(823)
FRS102 Provision	(831)	(831)	(1,897)
Net Assets	3,479	4,423	2,966
Capital and Reserves	4,950	4,950	4,950
Profit and Loss Account	(1,471)	943	(1,984)
Net Capital	3,479	5,893	2,966

The table below shows the movement in AUM over the year to date. The Henderson Emerging Markets sub-fund was launched with January with a single borough investing £80m. There are now 11 sub-funds in the ACS, compared to 6 at the beginning of the year with assets having increased from £3.6bn to £6.3bn. The MTFs is forecasting a year end position of £7.2bn.

Funds	Mar	Apl	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
EPOCH Income Equity Fund	-	-	-	-	-	-	-	-	140	140	136
Henderson Emerging Markets Eq	-	-	-	-	-	-	-	-	-	-	79
Longview Global Equity Fund	-	-	-	-	282	378	376	436	436	442	448
Majedie UK Equity Fund	-	-	529	510	520	528	523	525	514	531	518
Newton Global Equity Fund	-	-	675	659	662	676	661	677	683	641	638
Newton Real Return Fund	333	334	341	346	341	343	343	345	345	344	337
Pyrford Global Return Fund	205	204	207	225	224	225	223	358	358	359	243
Ruffer Absolute Return Fund	413	413	478	473	467	539	539	582	583	834	830
Ballie Gifford Diversified Growth	356	358	363	362	358	432	434	475	475	477	481
Global Alpha Growth Fund	1,602	1,613	1,683	1,674	1,710	1,766	1,742	1,822	1,808	1,826	1,893
Global Alpha Equity Fund	667	667	691	691	699	720	715	731	735	742	749
Grand Total	3,576	3,590	4,967	4,941	5,261	5,607	5,557	5,952	6,077	6,338	6,353

II. Regulatory Capital

A significant amount of work has been undertaken to resolve the issue of the impact of the FRS102 pension deficit on the regulatory capital of LCIV. The PSJC will recall that from the MTFs presentation in January, the following table showed the impact of the pension deficit and the trading position of LCIV up to March 2018.

The PSJC is asked to note that LCIV's audited accounts 'locks in' the capital and reserves position until the following year. Assuming that the recharge agreements cannot be implemented by 31st March 2018, the FRS102 deficit would be carried through until July 2019. Accordingly, if LCIV were to achieve its MTFs target of £9.8bn of AUM by March 2019, LCIV is forecast to have a regulatory surplus of @£900k.

CAPITAL ADEQUACY	Actual	Actual	Forecast post audit	Forecast post audit and pension	Regulatory capital based on MTFs AUM
	Mar 2017 A	Sep 2017 B	Mar 2018 D	Mar 2018 E	Mar 2019 F
AUM	3,575	5,557	7,277	7,277	9,789
A = Initial Capital - Euro 125k	106	110	110	110	110
B = 0.02% of AUM in Excess of EUR 250 Mn	673	1,067	1,411	1,411	1,913
C = Quarter of Operating Expenses	556	576	576	576	1,100
Regulatory Capital Requirement	779	1,177	1,521	1,521	2,023
Share Capital	4,950	4,950	4,950	4,950	4,950
Retained Earnings	-720	-720	-720	-720	-720
FRS102 Deficit	-751	-751	-1,897	0	-1,897
Current Year P&L	0	0	580	580	580
Total Reserves Carried Forward	3,479	3,479	2,913	4,810	2,913
Surplus/Deficit Regulatory Capital	2,700	2,302	1,392	3,289	890

As previously advised to the PSJC, the two agreements have now been drafted and input has been requested from SLT to assist in the implementation. Initiated by Ian, a preliminary discussion took place with LFAC on 26th February which flagged a number of unspecified issues. Following the LFAC meeting, further discussion took place at an SLT meeting on 2nd March, the outcome of which at the time of this report unclear. A summary of the position is as follows:-

The guarantee proposal should be seen as implementing what was agreed in 2015 whilst signing the recharge agreement is a no cost action, frees up a large amount of capital and arises from the decision to offer the LGPS pension to LCIV staff.

Professional Advice taken

- Significant professional advice has been taken to ensure that LLAs do not increase their liabilities or costs when signing the guarantee and recharge agreements whilst achieving the aims of the City of London and LCIV.

Further Considerations

- The alternative to a written guarantee from each LLA would be an insurance bond. This was considered some three years ago but deemed cost prohibitive. This would become an annual LCIV running cost ultimately picked up by shareholders.
- The cost of the bond would prevent the Development Funding Charge being reduced as forecast in the MTFS and potentially increase the DFC per shareholder.
- During 2017, as part of the review of the existing pension provision, the LCIV Board agreed to cap the LGPS scheme to staff earning less than £120k.
- The recharge agreement is on an individual shareholder basis so there are 32 agreements, with each agreement on a several basis. The agreement needs to be signed by 31st March for it to be effective in the current year's accounts otherwise it will be rolled forward for 12 months.
- The guarantee agreement is an 'all shareholder' agreement which only becomes effective when the last shareholder signs. Any liabilities arising are on a several basis.
- Although Richmond's pension fund has merged with Wandsworth, Richmond's A share still exists and are still the legal owners and would need to sign the guarantee agreement for it to be effective.

Summary

The guarantee agreement formally addresses what was agreed in principle previously, in a cost effective way.

The guarantee and recharge agreements do not require the shareholders to commit any additional funding or costs beyond what was set out in the MTFS which has been approved by shareholders.

If the agreements are not signed there could be: -

- higher costs resulting from the cost of the bond preventing the reduction in the DFC per the MTFs and could be higher,
- a material reduction in regulatory capital which restricts the amount of assets managed. Note: capping assets managed means inevitably lower fee income which impacts the level of DFC
- if the scheme is forced to close and a s75 exit liability is triggered, the estimated s75 liability falls on LCIV impacting capital preventing LCIV from operating as an FCA regulated entity.

The PSJC is asked to note the impact of the FRS102 accounting deficit on the regulatory capital position of LCIV in the absence of recharge agreements being signed by 31st March 2018 and the requirement of the City of London for a guarantee to be signed by all shareholders.

III. Operating Model

The table below sets out the current status of the three core IT projects. The client management information and client reporting projects are on track and on budget. The investment oversight tender was issued on 19th February.

Progress vs Agreed Budget & Timelines



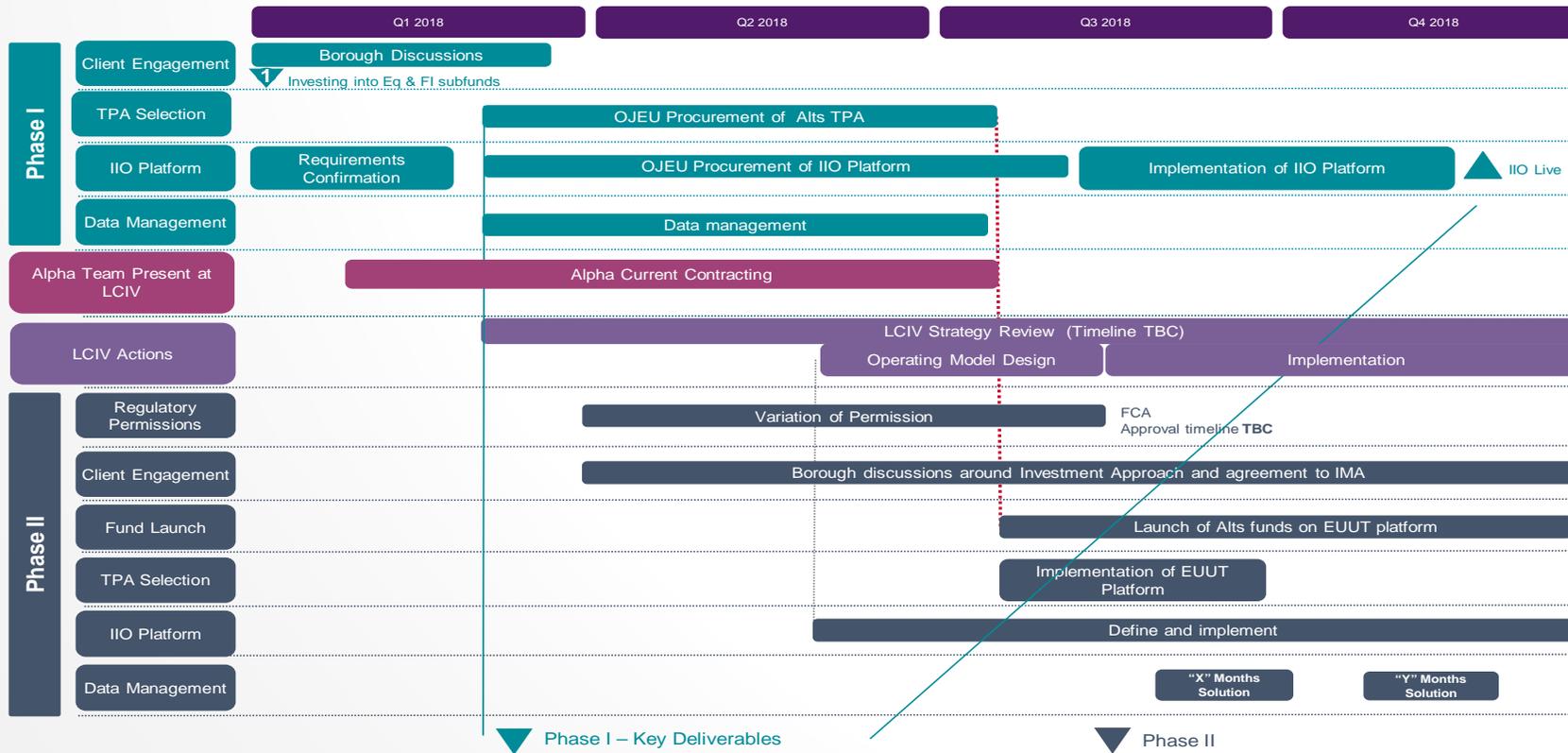
Ref	Project	Status	Timeline	On Budget	Description
1	Discovery	Complete	Complete	Complete	<ul style="list-style-type: none"> Completed LCIV Target Operating Model Design (Phase 1a) on plan and within agreed budget
2	CMI / Client Reporting Procurement	Complete	Complete	Complete	<ul style="list-style-type: none"> Salesforce procured as CRM solution Opus Nebula as Client Reporting Solution Contracts in place
3	CMI Implementation	In Progress	On plan	On Budget	<ul style="list-style-type: none"> Implementing Salesforce as CRM Additional (out-of-scope) functionality being included e.g. early stage GDPR compliance workflows
4	IIO Procurement	In Progress	On plan	On Budget	<ul style="list-style-type: none"> Changing LCIV strategy, in particular the focus on Blended Asset Solutions, has led to the need to revisit investment system requirements prior to OJEU submission Additional 5 weeks added into procurement for Bidder Dialogue to ensure most suitable vendor selected Cost impact to be assessed in April – LCIV may opt for full or part time support during this period
5	Client Reporting Implementation	In Progress	On Plan	On budget	<ul style="list-style-type: none"> Client Reporting Implementation in progress and on plan according to agreed timelines Slightly over agreed budget due to the inclusion of additional reporting content and data Client reporting scope increased to include additional content in QIRs to meet more LLA requirements
6	CMI Processes	To Be Confirmed / Scoped			<ul style="list-style-type: none"> Subsequent sprints of CRM development (to be scoped)
7	IIO Processes	To Be Confirmed / Scoped			<ul style="list-style-type: none"> Ongoing development of IIO processes, exact scope to be agreed with Investments
8	IIO Implementation	To Be Confirmed / Scoped			<ul style="list-style-type: none"> Implementation of selected IIO system

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Project Timelines



The 2018 timeline focuses on building the platform and shaping the future operating model



Non-ACS fund platform

Following meetings with Eversheds to consider what is the most suitable platform for asset classes that don't naturally sit on the ACS (generally the more illiquid asset classes), Eversheds have been asked to confirm what is the most effective structure recognising that LCIV would like to future proof as far as possible. The recommendations are as follows:-

- (a) a UK exempt unauthorised unit trust (“**EUUT**”) for its alternative investments, alongside its existing ACS; and
- (b) the ACS for its equity investments, plus for the CQS mandate and, in the future, for asset classes where it is considered appropriate to do so.

In the event that the EUUT is launched this will not mean that the investments on the ACS are “transferred” across to the EUUT. Unless tax regimes change, the ACS will be the most tax efficient structure for a broad range of equity investments. This means that LCIV would be operating two separate structures, the ACS and the EUUT.

IV. Fund Launch & Third Party Administrator Update

- **RBC Sustainable** Fund was operationally ready to open September 21st. The fund will officially launch once we have subscriptions from the boroughs. Recent indications are Merton will be the seed investor with a £65mil subscription in early April.
- **CQS** LCIV, Northern Trust and the Depositary have worked through the majority of the operational and structural issues that have arisen in the design phase. The remaining challenge is trying to receive a price on the underlying CQS fund in time to price and accept subscriptions into our fund. Discussions are ongoing with Northern Trust, CQS and Eversheds. If there is a resolution within the week, fund launch is estimated to be towards the end of May.
- **PIMCO/ARES/MidOcean:** The fund launches are dependent upon procurement for a Third Party Administrator and borough demand. At this stage there is interest in PIMCO and MidOcean but no demand as of yet for ARES.
- **Third Party Administrator:** LCIV together with our advisor Mercer have had informal meetings with six potential Third Party Administrators to assess capabilities and receive pertinent information which helped to form the tender. The selection of the most appropriate administrator is critical for the future direction of LCIV. The administrator must have comprehensive capabilities to handle alternative asset classes, generic asset classes, blended solutions and the ancillary services LCIV would like to provide. Drafting the procurement is underway with the Invitation to Tender to be completed in early March and contract award mid-summer. In parallel, LCIV are in discussions with Eversheds and Deloitte on the fund and tax structuring options.

PIPELINE AS AT 28th February 2018				
Fund	LLA	Level of interest	Estimated Date of Transition	Amount
Baillie Gifford Alpha Growth	Ealing	Committee Decision made	April	197
Baillie Gifford Alpha Growth	Enfield	Committee Decision made	tbc	103
Baillie Gifford Alpha Growth	Waltham Forest	Committee Decision made	April	100
Baillie Gifford Alpha Growth	Merton	Committee Decision made	April	65
				465
Baillie Gifford Diversified Growth	Merton	Committee Decision made	April	65
Longview Global Equity	Enfield	Committee Decision made	tbc	50
Longview Global Equity	Waltham Forest	Committee Decision made	April	120
				170
Epoch Income Equity	Bexley	Committee Decision made	Funded March	85
				85
Ruffer Absolute Return	Camden	Committee Decision made	Split over Q1, Q2, Q3 2018	55
				55
Henderson Emerging Markets	Ealing	Committee Decision made	April	39
Henderson Emerging Markets	Enfield	Committee Decision made	tbc	35
Henderson Emerging Markets	Waltham Forest	Committee Decision made	April	80
				154
RBC Sustainable Equity	Hackney	Committee Decision made	April	180
RBC Sustainable Equity	Merton	Committee Decision made	April	65
				245
Pyrford Global Total Return	Merton	Committee Decision made		33
CQS	Haringey	Existing investor	tbc	75
CQS	Wandsworth	Existing investor	tbc	110
				185
BlackRock Passive	Hackney	Committee Decision made		300

Fund Launch Status Report

Fund Launch Status February 2018



Plan Phase	Vehicle Type	Fund	Current Launch Date	MTFS Launch Date	Launch £AUM (m)	MTFS £ AUM (m)	AUM vs. Plan and/or Commitments	Current AUM	Boroughs Indications of Interest / Comment
Global Equity Phase 1	Delegated/On Platform	RBC Sustainable	Apr'18	Sep '17	£180	£200	-£20	£0	Hackney £180mil / Merton £65mil seed investor
Global Equities Phase 2	tbc	Low Carbon Tracker	n/a	Dec '17	tbc	£150	-£150		Boroughs are accessing Low Carbon off platform via BlackRock & LGIM offerings.
	Delegated/On Platform	RWC Global Horizons	tbc	Dec '17	tbc	£150	-£150		
Fixed Income	Delegated or Unitised tbd	Global Investment Grade Credit: PIMCO	tbc	Mar '18	tbc	£300 per fund (on avg)	tbc		<u>Global Bond / Liquid MAC / Liquid Loans</u> Fund Launch Dates contingent upon receipt of soft commitments & onboarding of Third Party Administrator for funds on the new platform. CQS: £200m LLA will transition over. Fund Launch target May '18 subject to resolution of liquidity and pricing. Proposed Structure discussions with legal and tax advisors are ongoing. Finalise Product design and operational model.
	Delegated or Unitised tbd	Liquid MAC CQS	May '18	Mar '18	£185		tbc		
	Delegated or Unitised tbd	Liquid MAC MidOcean (long/short)	tbc	Mar '18	tbc		tbc		
	Delegated or Unitised tbd	Private Debt: Liquid Loans ARES	tbc	July '18	tbc		tbc		
	Delegated or Unitised tbd	Illiquid MAC ARES	tbc	July '18	tbc		tbc		
					Total AUM	£2bn			

G on track	A AUM commitments delayed	R No firm AUM commitments / impact: delayed fund launches	N Fund structure & plan to be developed
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V. Richmond and Wandsworth fund merger

Following discussions with Eversheds and Richmond, the status of the A and B shares owned by Richmond has now been established. The A and B shares were owned by the Richmond pension fund and following the Statutory Instrument issued to action the transfer, a number of decisions will need to be made with regards to the transfer and any potential request for redemption of the shares as the Shareholder Agreement did not anticipate the merger of funds and not the merger of authorities.

A detailed paper will be circulated shortly but the principle is that no redemption of A or B shares can take place without unanimous shareholder approval.

Brian Lee

6th March 2018