

Leaders' Committee

Update on the London Pensions CIV Item no: 4

Report by: John O' Brien
Date: 11 February 2020
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Summary

The attached report from the London Pensions CIV, outlines ongoing work and development.

The London Pensions CIV was established in 2015 as a collective investment vehicle to pool LGPS pension fund assets for more effective investment.

It was agreed as part of the governance review and subsequent agreement to dissolve the London Pensions CIV sectoral Joint Committee, that the Chair of the London Pensions CIV would provide an annual update to Leaders' Committee. Leaders' Committee requested at the Leaders' Committee meeting on 5 February 2019 that this update should come to the future February Leaders' Committee Meetings. This is the first of those updates.

The Chair of the Board, Lord Kerslake and the Chief Executive, Mr Mike O'Donnell, will be in attendance to update Leaders and answer any questions.

Leaders should note that:

- Cllr Stephen Alambritis and Cllr Ravi Govindia serve on the Board of the CIV;
- Shareholders Meetings of all members are held twice a year (called General Meetings); and,
- Shareholder Committee meetings are held quarterly and membership consists of twelve representatives drawn from treasurers (four) and Pension Chairs (eight).

Recommendations

Leaders' Committee is asked to note the report from the London Pensions CIV and to raise relevant points with the Chair and Chief Executive of the Company.

London CIV

Briefing Report for the London Councils Leaders' Committee

11 February 2020

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|---------------------|------------------------------------|---------------------------|--------------------------------|
| Report from: | Lord Kerlake and Mike O'Donnell | Job title: | Chair and CEO London CIV |
| Date: | 23 January 2020 | | |
| Telephone: | 020 8036 9005 | Contact Email: | Mike.ODonnell@londonciv.org.uk |

1. Summary:

1.1 This report briefs the Leaders Committee of the London Councils on the ongoing development of London CIV.

1.2 London CIV was established in 2015 as a collaborative vehicle to pool LGPS pension fund assets for more effective investment and value add. The purpose of the company is **“to be the LGPS pool for London to enable the London Local Authorities to achieve their pooling requirements”**.

1.3 Pool members are both shareholders and investors. Beyond our practical purpose to deliver pooling LCIV aspires to be **“a best in class asset pool delivering value for Londoners through long term sustainable investment strategies.”** That statement has been updated to emphasise our commitment to responsible investment and stewardship.

1.4 2020/21 is a transitional year in the sense that pool members are reviewing their pooling plans following their triennial revaluations and informed by strategic asset allocations. The objectives for 20/21 which pool members will be asked to agree as part of the Annual Budget are set out at the end of this paper. Key points to note include:

- We plan to grow assets under management (AUM) by £1.4bn through a combination of new funds and investment in existing funds.
- We are finalising our ESG strategy in consultation with pool members following a stocktake review by the former Chief Executive of the Brunel Pensions Partnership.
- We are also recruiting into key vacancies as well as to new posts to further our work on ESG and climate change risks
- Costs have not gone up but disappointingly the low pace of pooling impacts on our income from boroughs investing in funds so we have had to fill this gap by asking all boroughs to increase the basic fee they pay by £20,000 despite cost management action. Of course if we can find ways to eliminate or reduce this during the year (including if AUM grows faster than projected) we will do so and avoid the need to levy this increased charge.
- Alongside this we are working to improve our collaboration with pool members especially in respect of our approach to fund launches and communication about London CIV's activities. Feedback from our recent governance progress review has been valuable in all this.

1.5 The challenges in developing the collaboration with pool members, which are not unique to London CIV and will be familiar to leaders from other pan-London projects, include:

- The challenge of achieving a shared pooled strategy across London
- Moving forward at a pace which delivers for the large majority of the 32 pool members given that others are more cautious about pooling
- Uncertainty about government policy in a climate where a Pensions Commission has been proposed

- The importance of attracting, motivating and retaining quality staff
- Recently London CIV has successfully launched an Infrastructure Fund, and is soon to launch a Sustainable Equity Exclusion Fund .
- We are now working with boroughs to identify requirements in respect of Responsible Investment and climate change priorities, including considering options for a separate renewables fund. We are also working jointly with LPFA and LPP on developing a London Fund. This would be an impact investment in collaboration with LPP and LPFA which we expect to be of interest to some boroughs. We are currently undertaking early engagement with potential investors to establish the appetite for investment in such a fund.

2. Financial

2.1 London CIV was set up in 2015 and in our fifth year of operation have achieved 50% of LLA assets pooled and £7.7 mn in net fee savings to LLAs in the first half of the current financial year and £30.2 mn cumulative net savings. Since inception, the pooling context has evolved, and we continue to work in partnership to address these changes and jointly deliver the purpose of the organisation.

2.2 Our forward-looking plans have been developed against the backdrop of Brexit, increasing ESG and climate change concerns and emerging outcomes of triennial valuations that are expected to show higher funding levels which will influence asset allocation strategies and pooling activities. The pace of pooling by the LLAs has a direct relationship with London CIV's AUM based management fees and is one of the key challenges we face. The rate of AUM growth has slowed and will be flat in 2019-2020 versus the £2.6 bn AUM growth forecast in last year's MTFS.

2.3 A number of items are impacting the pace of pooling including a pause in pool member decision-making pending the outcome of strategic asset allocation reviews. Currently a third, £13bn, of LLA assets are invested in passive funds not located on the ACS operated by London CIV. During the year we have also seen changes in pool members investment requirements which impact on fund launch plans and a lack of seed funding for new funds. The delay in launching a number of funds, particularly some more complex funds which have longer timelines, has also impacted on pool member confidence. We now have a more robust fund launch process in place and were pleased with the positive response to our Infrastructure Fund launched in the Autumn of 2019.

2.4 We are committed to reviewing the funding model in the coming year to consider the overall balance between the core costs of London CIV being covered by a fixed management fee versus the variable income from individual LLAs based assets invested and, therefore the relationship with actual use of LCIV services.

2.5 We completed a peer cost benchmarking exercise ahead of the last MTFS and this confirmed that the London CIV was lightly resourced compared to other similar pools. However, we will complete a cost benchmarking exercise in the coming financial year to ensure our cost base continues to be in line with our peers and provides the necessary resources to support our fiduciary and regulatory obligations to all stakeholders.

2.6 We already have a cost and transparency group which includes s151 or their nominees and are seeking a s151 to chair this.

3. People

3.1 Key appointments to note are:

- Mike O'Donnell appointed CEO in March 2019.
- Chief Investment Officer (CIO) role covered since May 2019 on an interim basis, (Kevin Corrigan since November 2019) and a recruitment to the permanent role in hand. (The individual appointed in September decided, for personal reasons, not to stay.)
- Rob Hall, Head of Equities appointed as Deputy Chief Investment Officer (retaining his responsibilities for Equity Asset Class). Interim appointments in place to cover Larissa Benbow Head of Fixed Income who has resigned.

- Head of ESG appointment in progress which has been enabled by a review of the investment team structure rather than by adding additional posts
- Kevin Cullen retiring as Client Relations Director in March 2020 and recruitment of a replacement in hand.

4. 2020/21 Objectives and Collaboration with Pool Members

4.1 London CIV exists to deliver more effective pension scheme asset management. To achieve that we establish an effective working relationship with 32 pool members and achieve a consensus way of working. For some matters this means obtaining formal approval from all 32 pool members which from time to time proves difficult and can be an impediment to moving forward at the pace London CV would hope for in order to deliver the outcomes pool members are expecting of us.

4.2 We expect pool members to agree our Annual Budget on 30 January, including key objectives for the year. This is set in the context of a broader Medium-Term Financial Strategy. Key items which we expect to discuss with pool members as part of our longer-term strategic planning during this transitional year, leading into next year's Annual Budget include

- **Pooling plans:** Clarifying LLAs strategic asset allocation requirements following triennial valuations and commitment to pooling
- **Investment Strategy:** Finalising and agreeing the investment strategy and where we prioritise our resources and have the appropriate client engagement to ensure seed investors are in place once funds are launched
- **ESG:** Establishing and implementing our ESG framework to deliver ESG and our response to climate change requirements, building on the recommendations from the ESG Stocktake report by Dawn Turner (formerly Chief Executive of the Brunel Pensions Partnership)
- **Permissions:** Gaining shareholder approval to expand permissions enabling us to provide a fuller service offering and realise the ambition of being a best in class asset pool that delivers value for Londoner
- **Governance Review:** Completing the Governance Review and recommendations
- **Transparency and Reporting:** Further work on and enhanced reporting on the costs and benefits of pooling

4.3 Pool member focus on responsible investment and stewardship issues, in particular the need to fully reflect risks arising from climate change, has increased significantly over the last 12 months. It is understood that around 23 pool members have made climate change declarations and are now considering their more detailed response to these issues, including how this relates to pension fund investments. Following the stocktake report by Dawn Turner former CEO of Brunel Pension Partnership we are taking forward actions in the following areas:

- the appointment of a Head of ESG;
- investment strategy and our product range;
- stewardship of assets including a voting policy;
- improved reporting; and culture including our updated vision statement.

4.4 The London CIV 2020-21 Budget considered at the 30 January General Meeting includes the following high level objectives:

| 2020-2021 Objectives | KPIs |
|---|--|
| <ul style="list-style-type: none"> Continue to build credibility | <ul style="list-style-type: none"> Appoint permanent CIO and stabilise team Deliver strong fund performance Deliver fee savings Deliver fund launches to agreed timelines |
| <ul style="list-style-type: none"> Establish a product strategy which meets LLAs needs including ESG and climate change requirements | <ul style="list-style-type: none"> Develop investment and fund strategy to meet LLAs strategic allocation plans Establish leadership position in ESG and climate change including engagement, voting and product range. |
| <ul style="list-style-type: none"> Establish appropriate LLA engagement model for new fund launches | <ul style="list-style-type: none"> Complete detailed mapping of individual borough intentions to drive three-year plan for AUM growth and fund portfolio Review current LLA engagement model and ensure adding value; establishing revised approach where required Establish greater transparency on activities and clearer position on confidentiality |
| <ul style="list-style-type: none"> Deliver on transparency reporting | <ul style="list-style-type: none"> Deliver Scheme Advisory Board requirements Delivery Quarterly net savings reporting Deliver CIPFA and Cost Transparency Code compliant reporting for LLAs |
| <ul style="list-style-type: none"> Delivery strategic projects | <ul style="list-style-type: none"> Governance Review / Recommendations Pension fund closure to new hires (subject to 32 signed Pension Guarantees and Recharge agreements) Change in permissions (subject to 32 signatures) Senior Management Certificate Regime (SMCR) FIS and reporting implementation VAT and Transfer Pricing Review |

5. Conclusion

5.1 This paper provides a summary of London CIV progress and developments for the London Councils Leaders Committee. More information is available in the London CIV Medium Term Financial Strategy 2020/2025 and Annual Budget 2020/21. Members of the committee are invited to ask questions of the Chair and CEO of London CIV to assist in the successful development of London CIV.