Leaders' Committee

Update on London CIV (London LGPS CIV Limited) Item no: 4

Report by: Christiane Jenkins

Date: 22 March 2022

Contact Officer: Christiane Jenkins

Telephone: 0207 934 9540 **Email:** Christiane.jenkins@londoncouncils.gov.uk

Summary

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

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

A new governance framework was agreed in July 2018 which included the dissolution of the Pensions Sectoral Joint Committee (PSJC) and the establishment of a Shareholder Committee. It was agreed that the Chair of the London CIV would provide an annual update to Leaders' Committee. The first update was provided at the February 2019 Leaders' Committee and it was requested at that Leaders' Committee meeting that an update should come to future February Leaders' Committee Meetings[1].

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

Leaders should note that:

- Cllr Peter Murray (Ealing) and Cllr Ravi Govindia (Wandsworth) serve on the Board of London CIV

[1] The newly appointed Chair of the Board, Mr Mike Craston was unfortunately not able to attend in February, which is why this update is coming to the March meeting.

- Shareholders Meetings of all members are held twice a year (called General Meetings)

- Shareholder Committee meetings are held quarterly, and membership consists of twelve representatives drawn from treasurers (four), Pension Chairs (eight), Trade Union representative (one)

- Cllr Rishi Madlani (Camden) chairs the Shareholder Committee.

Recommendations Leaders' Committee is asked to note the report from the London 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
22 March 2022

Report from:	Mike Craston and Mike O'Donnell	**Job title:**	Chair and CEO London CIV
Date:	14 March 2022		
Telephone:	020 8036 9005	**Contact Email:**	mike.odonnell@londonciv.org.uk

1. Summary:

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

1.2 London CIV was established, initially as a voluntary initiative by London boroughs, 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."***.

1.4 The London CIV budget and objectives for 2022/23 (see Appendix A) were approved by client funds at the 27 January 2022 General Meeting in the context of a three year rolling plan. In summary our focus is on:

- delivering value through asset pooling with a target 70% (rounded) of potential assets pooled by 2025 including both active and passive funds. This requires a growth of £1.7bn year on year in active funds pooled. Our approach to growth will be steady, incremental and organic. Collaboration and partnership is core to the way we work and achieving successful outcomes for all Client Funds
- ESG and Net Zero as a thread throughout; adding further value. This includes additional services such as climate reporting
- ongoing client engagement to ensure funds and services deliver what boroughs require. Immediate priorities are the development of property funds with residential property a particular focus
- continuing to develop our people and culture, including as a diverse and inclusive workplace
- using our influence as responsible investors to encourage good stewardship by the companies we invest in across the 4 pillars of sustainable investment including initiatives such as the Asset Owners Diversity Charter which aims to set standards in respect of diversity and inclusion

1.5 There was very positive feedback at the January 2022 General Meeting for the progress made in respect of ESG and climate change strategies in particular:

- The range of ESG focused funds available, in particular to assist boroughs achieve their climate strategies, such as the LCIV Renewable Infrastucture Fund and LCIV Progressive Equity Passive Paris Aligned (PEPPA) Fund
- Work to develop a climate reporting tool which will support boroughs in their TCFD reporting requirements incluidng on off-pool investments
- Approved as a 2021 signatory to the UK 2020 Stewardship Code (our Stewardship Outcomes Report is available on our website www.londonciv.org.uk)

- membership of key ESG networks including UNPRI, ClimateAction 100+, Pensions for Purpose, LAPFF, Diversity Project
- extensive engagement as a responsible investor, in consultation with our Responsible Investment Reference Group (RIRG) chaired by Cllr Rob Chapman (LB Hackney) and LAPFF, now supported by EOS Hermes. In the last quarter we engaged with 139 companies in LCIV portfolios on a range of environmental, social and governance issues and objectives

1.6 The development of The London Fund which is a *double bottom* line fund, in partnership with LPPI with an investment from the LPFA and investments from our own Client Funds, provides the potential for London boroughs to achieve a social impact whilst also making infrastructure investments.

1.7 On a more negative note London CIV is making some minor changes to its Articles of Association and Shareholder Agreement to address FCA concerns about the classification of share capital which does not currently meet regulatory threshold requirements as it is classified as debt and redeemable. The change to the Articles has been approved by special majority. However we still need two shareholders (RBKC and LB Bromley) to agree to change the Shareholder Agreement and implement the change to the Articles. Other shareholders have expressed concern about the delay in resolving this issue and pension fund advisors/consultants are also beginning to express concerns. Whilst the FCA have shown forebearance to date we cannot assume this will continue. We would also expect to conclude the matter before the 31 March 2022 year end accounts are approved so that the share capital is classified as equity. It is important to note that London CIV has adequate working capital. This is a matter of regulatory capital which must meet certain criteria.

2. Strategic Context

2.1 We have made significant progress in delivering benefits for Client Funds in 2021/22, but we will be able to deliver more value if the volume of assets pooled is greater. This means achieving a greater commitment from client funds at the fund development stage which can be relied upon by London CIV and other boroughs as a firm commitment that can in turn be used to leverage the most competitive rates from fund managers. The projection is that we will achieve asset pooling levels of around 70% in 2025 through a combination of new products and investment in current funds with a need for a more sophisticated five year strategic product road map which responds to clients needs. The profile of assets invested varies significantly from one client fund to another including investment in active funds and passive funds. Client funds vary in size so the timeline for reaching 70% pooled overall will be influenced by the decisions made by the larger funds. Appendix B shows the current fund offer with the two latest funds highlighted in yellow. Appendix C shows the latest pooling projections to 2025

2.2 Last year we completed a review of LCIV's funding model in conjunction with the Board, Cost and Transparency Working Group and Client Funds which concluded there was Client Fund preference to move towards more of the Company's income being derived from ad valorem fees rather than fixed fees which was the intention when the Development Funding Charge ('DFC') was introduced as an interim measure to cover the income shortfall. The modelling work at the time demonstrated that AuM would need to increase to at least 75% of target assets before a change could be considered. Therefore, this prospective change remains in abeyance until the level of pooling improves.

2.3 We were expecting to have updated MHCLG (now DLUCG) guidance by now but that has not been the case. The indications are that this will be issued in summer 2022 and we were expecting this to be guidance, not regulation on the basis that LGPS asset pooling continues to be seen as delivering clear benefits, with the potential to deliver more, based on "lessons learnt" elsewhere and experience to date. Our assumption is that the government will stop short of an "absolute enforcement" approach. Being based on realistic steady organic growth the London CIV business plan is based on the assumption that Client Funds will invest because this is their asset pooling company and asset pooling makes long term sense for stakeholders, whether those be client funds, beneficiaries or taxpayers. It assumes that Client Funds will engage with London CIV to ensure that the product roadmap is one that makes maximum sense for London Local Authority pool members and their stakeholders, creating maximum value add through asset pooling.as was intended when London CIV was created.

2.4 There is always the possibility that the government will look for opportunities for more fundamental change, particularly if these are seen as contributing to other government policy objectives such as levelling up. For example, greater economies of scale through a smaller number of pools (international research suggested that pools of about £70bn might be optimal). However, we continue to take the approach that our role is to provide attractive funds and services in line with our agreed purpose.

3. Financial

3.1 At the end of January 2022 we had £13.9bn pooled in active funds (against a budget target of £13.8bn at the 31 March 2022 year end) with a further £12.8bn in passive funds counted as pooled for DLUHC purposes at the end of December 2021. The target is to pool 70% of assets (rounded, forecast 71%) by 2025. Key factors are the rate of pooling and a move to private markets bearing in mind that triennial valuations are just taking place with some client funds showing high funding levels. Strategic Asset Allocations are being reviewed as a result.

3.2 We will continue the work to benchmark the value we add, and scope to achieve more efficiency for client funds, during 2022/23. The Cost Transparency Working Group, chaired by John Turnbull s151 at LB Waltham Forest is an important part of our ongoing review of how London CIV adds value and ensuing it provides value for money.

4. Responsible Investment

4.1 We have set a target to become a Net-Zero company by 2040 in line with the Paris Agreement objectives to limit global temperature rise below 1.5°C. We have also set two interim targets:

- Reduce the carbon intensity of the Pool's investments by 35% by 2025 (relative to 2020), and 60% by 2030 across investment funds invested via the London CIV Funds.
- Become a Net-Zero company across operational and supply chain emissions by 2025.

4.2 Our objective in 2022/23 is to achieve demonstrable progress against our agreed net zero climate ambition and review progress to develop a transition plan and identify the actions required to maintain progress. Beyond the Fund de-carbonisation targets outlined above, we will set sector-level decarbonisation targets, climate-engagement targets, and financing transition targets to drive GHG emissions reduction outcomes in the real economy. We will also endeavour to assess the climate impact of assets invested passively through Blackrock and LGIM and integrate these funds as part of the London CIV Net-Zero Strategy by 2023.

4.3 LCIV has set up aggregated voting and engagement working with partner Hermes EOS, the underlying managers, LAPFF and other industry groups. With this capability we focus our stewardship activity around priority themes, bearing in mind materiality, client and stakeholder concerns and taking into account where we can have the greatest impact. Our priorities for engagement are: climate change; human rights, diversity and inclusion; tax and cost transparency.

5. People, Diversity and Inclusion

5.1 During the last year we have achieved a more stable staff team and recruited successfully during the period of "lockdown" and working from home. The financial services market place is highly competitive with skills in short supply. In a time when costs are increasing we expect to find it harder to recruit and retain staff and are paying close attention to our overall Reward Strategy and this years Annual Pay Award. We know that a stable staff is of importance to our client funds and also to their advisors/consultants.

5.2 Mike Craston was appointed as Chair of the Board in succession to Lord Kerslake in September 2021. Yvette Lloyd and Mark Laidlaw joined the Board in January 2021 replacing Eric Mackay and Chris Bilsland. Cllr Peter Mason (Leader of L.B. Ealing) replaced Cllr Stephen Alambritis (former Leader L.B. Merton) as shareholder nominated NED and Cllr Ravi Govindia (Leader LB Wandsworth) was re-appointed for a second term. Kitty Ussher was appointed Chair rof the Remuneration and Nomination Committee. Alison Talbot was appointed Chair of the Compliance, Audit and Risk Committee. Cllr Rishi Madlani was appointed Chair of the Shareholder Committee.

5.3 Our formal reporting date for composition of the staff team is 31 March, however as it is close to the year end so we expect that the latest data should provide a good basis for comparison year on year. Note however that the size of the staff team is small and the percentage figure is susceptible to small changes. The overall gender composition of our staff team at the last reporting date of 31 March 2021 was 45% female based on 31 staff and is now 42% female (15 people) based on a total 36 staff. In terms of ethnicity at the reporting date of 31 March 2021 19% of staff were of BAME origin (including Latin American origin) and the percentage is now 36% (11 people). Note that 22% of staff (8 people) preferred not to provide information about their ethnic origin.

5.4 The Board has also agreed a Board Diversity and Inclusion policy. The Board aspires to achieve a 40% female representation on the Board overall in the medium term and aspires to at least maintain the position of meeting the Parker objective of one BAME member on the Board by, or as soon as possible after, the target date of 2021. The position in respect of the Board on gender diversity is that as at January 2022 of the total 9 Board members excluding the two shareholder NEDs 33% are female and the Parker objective has not been achieved. The Board agreed in March 2021 that it would be appropriate to exclude the two shareholder nominated NEDs in calculating whether the objectives had been met. For information if the two shareholder NEDs are included 27% are female and the Parker objective is achieved. In practice the composition of the Executive Director team will always be a factor in the composition of the Board.

6. Conclusion

6.1 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 2022/23 Budget and Medium Term Financial Strategy. 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.

Appendix A 2022/23 Key Themes and Objectives

Headline MTFS Theme and Objective
Deliver value through asset pooling: Develop Strategic Product Roadmap into a detailed two to three year product roadmap and deliver first phase. On track to deliver 70% pooling by 2025
Delivering value through asset pooling: Increase investment in existing funds
Delivering value through asset pooling: First phase of strategic roadmap for delivery in 2022/23 provisionally identified as (subject to client consultation and SIGs): • Property • Passives through Peppa (and with Blackrock and LGIM) • Private Equity
ESG: Achieve demonstrable progress against agreed net zero climate ambition and review progress to develop transition plan and identify actions required to maintain progress. Demonstrate through aggregated voting working with EOS the benefits of engagement with companies and asset managers. Develop ESG and NetZero aspirations into fund launches and Fund modifications.
Adding value: Obtain additional regulatory permissions and develop plans for additional services (including collaboration with other pools). Provisional plans include: • Transition services • Enhanced oversight and reporting of passive funds • Consideration of other investment structure options through the use of Investment Management Agreements (IMAs)
Adding value: Develop work on assessment of value and further demonstrate added value for clients (including fund manager fee savings) (to include use of CTI reporting)
Adding value: Develop value for money and benchmarking dashboards and reporting around CTI templates and performance versus Benchmark and Benchmark plus targets
Client engagement: Improve engagement with clients to enhance the client experience, including review of SIG processes and responsibilities
People and culture: Foster a London CIV culture which attracts and retains a diverse and inclusive staff team and board
People and culture Build out team
People and culture: People strategy covering succession planning, Key Person Risk, training, team working and development.

Appendix B

1 Fund Range and Assets under Management

31 January 2022

LONDON CIV

Authorised Contractual Scheme (ACS) (Public Markets) **Total £13.1bn**										Exempt Unauthorised Unit Trust (EUUT) (Private Markets) **Total £1.8bn***		Scottish Limited Partnership (SLP) (Private Markets) **Total £195m***
	Global Equities									**Infrastructure**		**Private Markets**
Fund	LCIV Global Alpha Growth Fund	LCIV Global Equity Fund	LCIV Global Equity Focus Fund	LCIV Emerging Market Equity Fund	LCIV Sustainable Equity Fund	LCIV Sustainable Equity Exclusion Fund	LCIV Global Equity Core Fund	LCIV Global Alpha Growth Paris Aligned Fund	LCIV Progressive Equity Passive Paris Aligned Fund "PEPPA"	LCIV Infrastructure Fund	LCIV Renewable Infrastructure Fund	The London Fund
AUM	**£2,376m**	**£742m**	**£980m**	**£537m**	**£1,342m**	**£440m**	**£568m**	**£1,227m**	**£500m**	**£399m*/£122m****	**£683m*/£52m****	**£195m*/£23m****
Launch Date	11/04/16	22/05/17	17/07/17	11/01/18	18/04/18	11/03/20	21/08/20	13/04/21	01/12/21	31/10/19	29/03/21	16/12/20
Manager	Baillie Gifford	Newton	Longview	JP Morgan	RBC	RBC	MSIM	Bailie Gifford	State Street	Stepstone	BlackRock, Quinbrook, Stonepeak and Foresight	LPPI
No. of Investors	11	3	5	7	8	3	2	6	2	6	10	2

	Multi Asset				**Fixed Income**			**Private Debt**	**Property**
Fund	LCIV Diversified Growth Fund	LCIV Global Total Return Fund	LCIV Absolute Return Fund	LCIV Real Return Fund	LCIV Alternative Credit Fund	LCIV MAC Fund	LCIV Global Bond Fund	LCIV Private Debt Fund	LCIV Inflation Plus
AUM	**£861m**	**£221m**	**£1,250m**	**£129m**	£360m	£909m	**£669m**	**£290m*/£92m****	**£202m*/£36m****
Launch Date	15/02/16	17/06/16	21/06/16	16/12/16	31/01/22	31/015/18	30/11/18	29/03/21	11/06/20
Manager	Baillie Gifford	Pyrford	Ruffer	Newton	CQS	CQS	PIMCO	Churchill and Pemberton	Aviva
No. of Investors	8	3	10	2	3	9	6	7	2

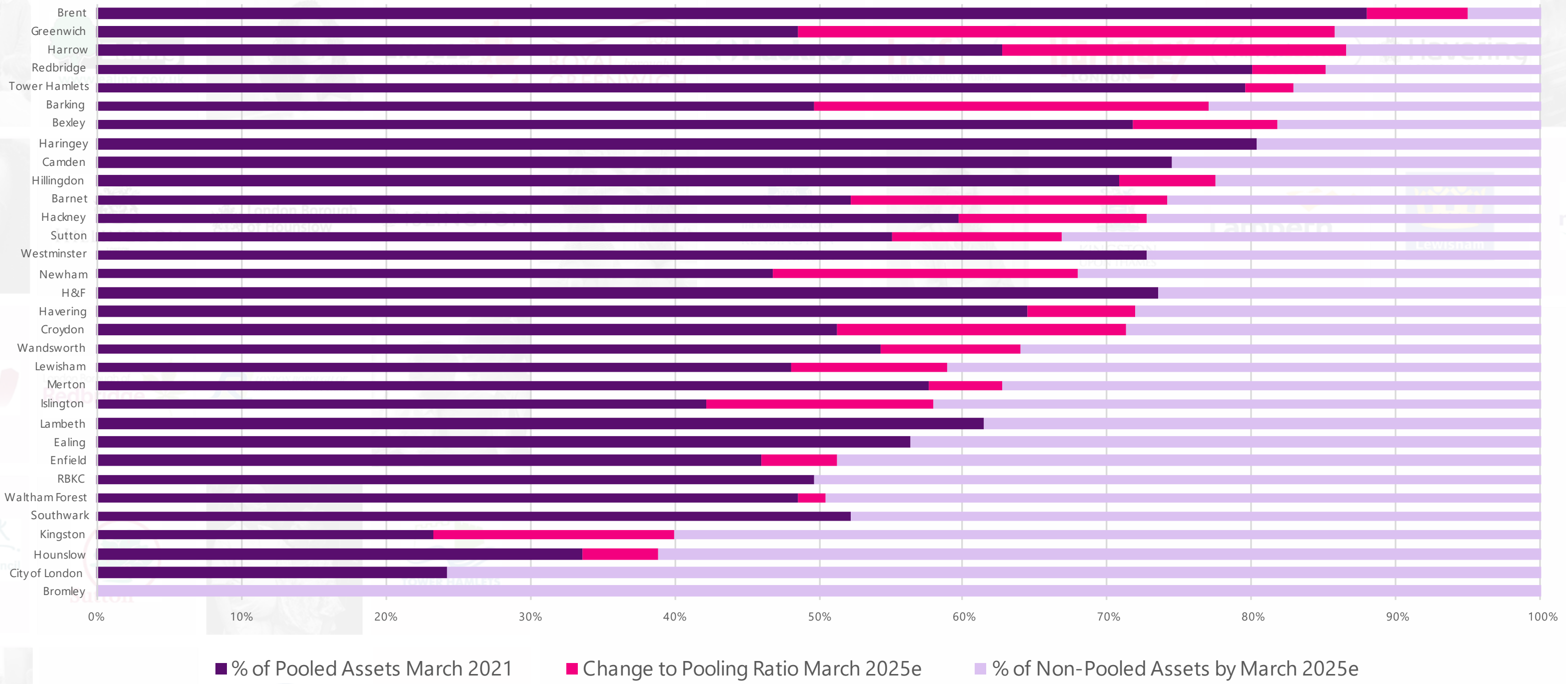
*Denotes committed amount

**Denotes drawn amount

Source: London CIV 31 January 2022

Appendix C

Pooling projections from March 2021 to March 2025



Source: London CIV input from Pension Officers following responses submitted to the September 2021 Annual MHCLG Survey on pooling projections.