

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

London CIV Update Pensions Board 18th November 2019	Classification PUBLIC	Enclosures None AGENDA ITEM NO.
	Ward(s) affected ALL	

1. → **INTRODUCTION ¶**

- 1.1 This report provides the Pensions Board with an overview of recent developments at the London CIV, including the requirement to recruit a new Chief Investment Officer (CIO) and the introduction of a new workstream to consider Responsible Investment (RI). A representative of the London CIV will be in attendance at the Board to provide a verbal update and take questions from Board members.

2. → **RECOMMENDATIONS¶**

- 2.1 The Pensions Board is recommended to:
- Note the report

3. → **RELATED DECISIONS¶**

- 3.1 Pensions Board 29th November 2018 - London CIV Governance Update
- 3.2 Pensions Committee 23rd July 2018 - London CIV Update

4. → **COMMENTS OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES¶**

- 4.2 Regular engagement with the London CIV helps the Board to understand the impact of pooling on the Fund's investment governance. This in turn ensures the Board is able to support the Fund in its decision-making and delivery of its investment objectives, helping to ensure the long term financial health of the Fund and that of its stakeholders, including the Council.
- 4.3 There are no immediate financial implications arising from this report.

5. → **COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE SERVICES¶**

- 5.1 The role of the Pension Board is prescribed by Section 106 of the Local Government Pension Scheme Regulations 2013 and includes the following:
- Securing compliance with the Local Government Pension Scheme Regulations 2013 and any other legislation relating to the governance and administration of the Scheme and any connected scheme
 - Securing compliance with any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme
 - Ensuring the effective and efficient governance and administration of the Scheme and any connected scheme

- 5.2 Regular engagement with the London CIV helps the Board to understand the impact of pooling on the Fund's investment governance. This helps demonstrate that the Board is meeting its regulatory requirement to ensure the effective and efficient governance of the Fund. As the Fund's chosen asset pool, the London CIV is integral to the delivery of the Fund's investment strategy; it is vital that the Fund understands the impact of the CIV on its decision making and is able to hold the pool to account accordingly.
- 5.3 Taking into account the role of the Pension Board as set out in the Regulations and the impact of the London CIV on the Fund's investment governance, the consideration of this report would appear to properly fall within the Board's remit

6. → **BACKGROUND TO THE REPORT**

- 6.1 The London Collective Investment Vehicle (CIV) was the first LGPS pool to be set up, to help the London LGPS funds benefit from bigger scale and cost savings. Initially established prior to the introduction of mandatory pooling for LGPS funds by the Government, the CIV became the first pool to receive FCA authorisation in 2015.
- 6.2 Despite good early progress, the CIV has faced a number of challenges over the past 2.5 years. Having initially been set up as voluntary pool, the CIV encountered difficulties with the introduction of mandatory pooling, with its large number of stakeholders and previous voluntary nature resulting in a lack of clarity around its vision and strategy.
- 6.3 The CIV has also experienced high staff turnover; early high profile departures included the Chief Executive (CEO), Chief Investment Officer (CIO) and Assistant Director, Client Relations. A new permanent CEO, Mike O'Donnell, was appointed in early 2019 and has brought about a number of changes to the way in which the CIV engages with the London Local Authorities (LLAs). A new CIO, Mark Thompson, was appointed in summer 2019 and took up the role in September; he tendered his resignation after a few weeks in the role citing personal and family reasons. Aside from staffing, significant other challenges also remain, including maintaining the rate of growth of assets under management, and the complexity of fund launches, which has resulted in delays.
- 6.4 Despite ongoing significant challenges, the CIV has made progress in recent months. 50% of London fund assets are now pooled, either via the CIV's Authorised Contractual Scheme (ACS) platform or via life funds with oversight from the CIV. 5 additional permanent hires have now been made and 2 new sub-funds (global equity core and infrastructure) have been filed with the FCA and are open for subscriptions. The CIV has also embarked on a new programme of work to assess client expectations around responsible investment and look at how the CIV can assist funds in terms of both sustainable investing and stewardship of assets. More details on this work are set out in Section 8.

7. → **GOVERNANCE REVIEW**

- 7.1 A review of the CIV's governance arrangements was commissioned from Willis Towers Watson and carried out during late 2017. The review found that the CIV needed to refresh its governance arrangements and clarify its future direction. Taking into account the findings of the governance review, the CIV launched a stakeholder consultation to engage with the Boroughs across 3 key areas; governance, client relations and investment.

- 7.2 One of the key outcomes of the consultation was the approval of proposals to change the governance structure of the London CIV. The original governance structure used the Pensions Sectoral Joint Committee (PSJC), a Committee of London Councils, as the key forum for shareholder engagement. The PSJC included representatives from all 32 London funds and was run as a formal Committee of London Councils. The consultation proposal, which was approved by Boroughs, disbanded the PSJC and replaced it with a Shareholder Committee to act on behalf of the Shareholders as a consultative body.
- 7.3 The new Committee consists of 12 members: 8 Local Authority Pension Committee Chairs (or Leaders of London Local Authorities) and 4 Local Authority Treasurers. The Chair of the Board of London CIV is also a member of the Committee. The Shareholders Committee meets at two General Meetings of London CIV each year, one to approve the budget, and an AGM.
- 7.4 The new corporate governance framework has now been in place for 12 months. The LLAs are now asked to review the framework to assess how it can be improved further, in particular to improve its effectiveness in achieving collaboration and an effective working relation between London CIV and its 32 shareholders collectively. A questionnaire has been distributed to all 32 shareholders to be returned by 30th November.

8. → **RESPONSIBLE INVESTMENT REVIEW**

- 8.1 One key area for the London CIV at present is to improve its offer in terms of Responsible Investment. Pooling represents a significant opportunity for the LLAs to both improve stewardship of assets and potentially increase the extent to which financially material environmental, social and governance (ESG) factors can be integrated into investment decision-making. Working collaboratively can help deliver better value for money by allowing funds to access options, such as engagement services, that might prove too costly to consider individually.
- 8.2 The CIV's review will focus on the following factors:
- Increased resourcing
 - Improved reporting, including reporting esg factors for each sub-fund manager and engagement reporting at the pool level
 - Improved stewardship e.g. via improved processes on shareholder litigations and class actions
 - Wider range of funds, for LLAs to be able to implement their own RI policies
- 8.3 An initial scoping exercise is now being carried out to help identify LLA expectations and priorities, with initial feedback due by the end of 2019.

Ian Williams

Group Director, Finance & Corporate Resources

Report Originating Officers: Rachel Cowburn ☎020-8356 2630

Financial considerations: Michael Honeysett ☎020-8356 3332

Legal comments: Juliet Babb ☎020-8356 6183