



Policy and Resources Committee

Date: THURSDAY, 24 SEPTEMBER 2015
Time: 1.45 pm
Venue: COMMITTEE ROOMS, 2ND FLOOR, WEST WING, GUILDHALL

ITEM NO. 21

LONDON COUNCILS – LONDON LGPS COLLECTIVE INVESTMENT VEHICLE

Report of the Chamberlain.

For Decision
(Pages 1 - 6)

Item received too late for circulation in conjunction with the Agenda.

John Barradell
Town Clerk and Chief Executive

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Committee(s):		Date(s):
Policy & Resources	For decision	24 September 2015
Financial Investment Board	For decision	Urgency
Subject: London Councils: London LGPS CIV Ltd - Funding		Public
Report of: Chamberlain		For Decision
<p style="text-align: center;">Summary</p> <p>On 6 March 2014 the Court of Common Council endorsed, at the recommendation of the Policy & Resources Committee and the Finance Committee, the establishment of a London Local Government Pensions Scheme Collective Investment Vehicle (CIV) and the City Corporation becoming a shareholder in that company. An FCA Authorised Contractual Scheme operating company, the London LGPS CIV Ltd (reg no: 09136445) (the London CIV) was incorporated on 17 July 2014 and 30 London local authorities, including the City, are shareholders having each contributed £1 as initial capital for an ordinary share in the company.</p> <p>This report summarises progress made to date and recommends that the City, as a shareholder in the company, agrees to adopt the new Articles of Association and that every issued ordinary share be reclassified as an A ordinary share, agrees to enter into the shareholder agreement, and authorises the Comptroller & City Solicitor to sign the Written Resolution and the shareholders agreement. The report also recommends that the Financial Investment Board agree that the Pension Fund meets the cost of the regulatory capital for the London CIV of £150,000 by way of a subscription for B shares, along with any subsequent costs such as the annual service charge and additional calls for regulatory capital.</p> <p>Recommendations</p> <p><u>Policy & Resources Committee:</u></p> <p>Members are asked to:</p> <ul style="list-style-type: none"> (a) Note the report; (b) Agree that the City, as a shareholder in the London LGPS CIV Limited, adopts the new Articles of Association and further agrees that every issued ordinary share be reclassified as an A ordinary share; (c) Agree that the City, as a shareholder in the London LGPS CIV Limited, shall enter into the shareholder agreement; (d) Authorise the Comptroller & City Solicitor to sign both the Written Resolution to indicate the City's approval of the actions under (b) above, and to execute the Shareholders Agreement for the London LGPS CIV Limited; 		

- (e) Recommend that the Financial Investment Board meet the cost of the regulatory capital of £150,000 by way of a subscription for B shares along with any subsequent costs such as the annual service charge and additional regulatory capital for the London LGPS CIV Limited from the Pension Fund.

Financial Investment Board:

- (f) Subject to the approval of the Policy & Resources Committee, Members are asked to agree that the Pension Fund meets the cost of the regulatory capital of £150,000 for the London LGPS CIV Limited by way of a subscription for B shares along with any subsequent costs such as the annual service charge and additional regulatory capital.

Main Report

Background

1. On 6 March 2014 the Court of Common Council endorsed, at the recommendation of the Policy & Resources Committee and the Finance Committee, the establishment of a London Local Government Pensions Scheme Collective Investment Vehicle (CIV) in the form of an authorised contractual scheme (ACS) and the incorporation of a private company limited by shares to act as the Authorised Contractual Scheme Operator (ASC Operator). It was also agreed that the City of London would become a shareholder in the ASC Operator and contribute £1 the ACS Operator as initial capital for an ordinary share in the company.
2. The Court agreed also that a representative body – a ('Pensions CIV Joint Committee') be established pursuant to the existing London Councils Joint Agreement, to act as the representative body for those local authorities that resolved to participate in the CIV and at its meeting on 11 December 2014, the Policy & Resources Committee nominated the Chairman of the Committee as the City of London Corporation's representative on the London Councils' Pensions CIV Joint Committee with the Chairman of the Financial Investment Board as the deputy representative. The City's representative chairs the Pensions CIV Joint Committee.
3. A CIV will allow local authorities to benefit from economies of scale through reduced investment management fees, whilst providing for the first time the ability for local authorities to invest additional types of asset classes, such as direct investment in infrastructure. Unlike a straightforward merger, under a CIV local authorities will retain control of their investment funds and have the ability to choose from investment options drawn up by the CIV.
4. An operating company, London LGPS CIV Ltd (the London CIV) has been incorporated and 30 London local authorities, including the City, are currently shareholders each holding one ordinary share in the company.

Current Position

5. The CIV has made significant progress in 2015, as follows:
 - (a) The Pensions CIV Joint Committee has met four times and considered:

- The establishment of the operating company (London LGPS CIV Ltd.) and its governance arrangements;
 - The appointment of Northern Trust as the Asset Servicer for the London CIV. This will include services such as Depositary, Custodian, Fund Accountant, Transfer Agency and Tax reclaims; and
 - The Joint Committee's role as also acting as a forum of shareholders of the London CIV.
- (b) The interim Directors of the London CIV (comprising London Councils' Chair and Vice Chairs, two borough Treasurers, the Chamberlain of the City of London, and London Councils' Chief Executive) have met and considered/ratified decisions concerning:
- Procurement activity, including engaging a recruitment consultant to assist with recruiting the permanent executive and non-executive Board members, Eversheds and Deloitte as legal and technical advisors to the company, and an advisor for an asset servicer procurement.
 - The appointment of Northern Trust as the Asset Servicer for the London CIV.
 - The company programmes, risk registers and procedures.
 - The recruitment process for senior executives and future board members.
- (c) The Technical Sub Group have met and considered:
- The fund managers that the boroughs currently invest in and the process by which they may come onto the CIV.
 - The process of narrowing down those managers for the launch phase of the London CIV and the proposals those managers have put forward including fee reductions and scope of investment.
 - The initial structures and governance modelling of the London CIV and the methods by which the boroughs will interact with the vehicle.
 - A number of procurements including the reviewing and ratification of candidate responses.
 - An initial paper on regulatory capital requirements to meet the liquidity needs as set out by the Financial Conduct Authority (FCA)
6. There is still an on-going debate on structural reform of the Local Government Pension Scheme (LGPS) and a further consultation is expected in late October/November. The debate around the consolidation of the LGPS has been on-going for 2 years and indications are that the number of funds (there are currently 89 LGPS funds) will be reduced, if not to one, to a small number of substantially large funds. It therefore remains imperative that LGPS funds work closely to deliver savings and efficiency improvements in order to avoid some form of compulsion which may not be in the best interest of London LGPS funds.

7. Along with the other shareholders, the City has contributed £75,000 towards the cost of establishing the CIV Company - the initial £25,000 contribution was met from the Chamberlain's local risk budget whilst the remaining £50,000 has been met from the Finance Committee's City Fund Contingency (£25,000 in 2014/15 and £25,000 in 2015/16).
8. Regulatory approval from the FCA is expected in the autumn of 2015, and there is a requirement for regulatory capital to be placed as without this the London CIV would not receive authorisation. This is £150,000 for each London local authority that participates in the London CIV. However, it needs to be emphasised that this is not a cost in the same way as the previous sums to set up the London CIV, instead this will be share capital and should be seen as an investment in the London CIV and recognised as such in the Pension Fund accounts. The amount of regulatory capital required will be informed by the anticipated size of the funds to be invested in the London CIV - the ceiling is €10 million for around £30bn of assets under management.
9. The London CIV has now reached a stage where managers with multiple mandates across London have provided their best and final offers on fees for inclusion in the CIV. Each borough which currently invests with that manager will be asked in the near future whether they wish to transfer existing funds with that manager to the London CIV under the CIV fee schedule. Once those indications are received contracts will need to be signed and funds transferred. This can only be undertaken once the FCA have authorised the CIV Operator and Fund for trading. For the CIV to launch on schedule boroughs need to be able to sign off on the transition of current mandates into the London CIV and associated capital, otherwise there is the real possibility that the CIV launch will be delayed, thereby reducing the immediate benefits to the London local authorities.
10. The Financial Investment Board (FIB) approves the appointment of and monitors the performance of investment managers for the Pension Fund, City's Cash and the Bridge House Estates. Any decision to transfer funds to the London CIV falls within the remit of FIB and will need to be considered at the appropriate time.

Proposals

11. At the last London CIV Board meeting, the Directors agreed to recommend to the shareholders revised Articles of Association which make provision for the B shares to be issued for the investment of regulatory capital in the company and the reclassification to an A ordinary share of the £1 ordinary shares currently held by each shareholder. The revised Articles of Association must be approved by the shareholders and a written resolution has been circulated to all shareholders, including the City, for approval for this purpose.
12. The Board of Directors also recommended the terms of a Shareholders Agreement to the shareholders. In signing the Shareholders Agreement the City is committing to provide its share of the required regulatory capital of £150,000, is agreeing to provide additional regulatory capital when required and to pay an annual service charge (this is estimate at £25,000 per

shareholder for the year ended 31 March 2016). The Shareholders Agreement will be executed as a deed under the City's seal.

13. It is proposed that the return on the capital from it being invested by the London CIV will flow into it and become part of its overall 'surplus'. Each year the shareholders are likely to be asked what they wish to do with any surplus generated, and subject to a recommendation from the London CIV Board there are likely to be three options for them to consider:
 - Leave the surplus in the London CIV to increase the level of capital so that the boroughs don't have to be asked to provide further regulatory capital. (The first round of regulatory capital (the £150k x 30 boroughs = £4.5m) takes the London CIV to just under half way to the maximum that might be required which £10m.);
 - Pay a dividend; or
 - The annual 'service charge' could be reduced or set to zero with the London CIV then using its surplus to pay running costs in the following year
14. As the London CIV grows more capital will be required and the Pensions CIV Joint Committee agreed at its last meeting that the requirement for regulatory capital will always be for the participating London local authorities to address, and that capital will not be called on from any other LGPS funds that might decide to invest in the future.
15. The Policy and Resources Committee is asked to approve the City's consent to the adoption of the new Articles of Association and the reclassification of the existing shares in the company to an A ordinary share as set out in the written resolution, and to instruct the Comptroller & City Solicitor to sign that written resolution on behalf of the City Corporation. Further, the Policy and Resources Committee is being asked to give its consent to the City entering into the Shareholders Agreement and to instruct the Comptroller and City Solicitor to execute that Agreement accordingly. In addition, the Policy and Resources Committee is being asked to recommend to the Financial Investment Board that they meet the cost of the regulatory capital and any subsequent costs such as the annual service charge and additional regulatory capital from the Pension Fund with the regulatory capital being by way of share capital and recognised as such in the Pension Fund accounts.

Conclusion

16. The City had committed to the establishment of a London Local Government Pensions Scheme Collective Investment Vehicle (CIV) in the form of an authorised contractual scheme (ACS) and as a shareholder has contribute £1 to the initial capital. Significant progress has been made in establishing the CIV and regulatory approval from the FCA is expected in the Autumn of 2015. As a shareholder, the City is now being asked to agree to adopt the revised Articles of Association, agree to the reclassification of the existing shares, and to enter into the Shareholders Agreement. In signing the Shareholders Agreement the City is committing to provide its share of the required regulatory capital of £150,000 by way of subscription for B shares in the

London CIV, agreeing to provide additional regulatory capital when required and pay an annual service charge (this is estimate at £25,000 per shareholder for the year ended 31 March 2016).

Appendices

None

Background Papers:

- Report of the Policy & Resources Committee to the Court of Common Council - *London Councils: London Local Government Pension Scheme (LGPS) Collective Investment Vehicle* – 6 March 2014
- Report of the Policy & Resources Committee - *London Councils' Pensions CIV Sectoral Joint Committee - City of London Corporation Membership* – 11 December 2014
- Report of the Finance and Policy & Resources Committee – *London Councils: London LGPS Collective Investment Vehicle – Funding* – 13/22 January 2015

Peter Kane
Chamberlain

T: 020 7332 1300

E: peter.kane@cityoflondon.gov.uk