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CITY OF LONDON

Financial Investment Board

Date: **TUESDAY, 5 SEPTEMBER 2017**

Time: **1.45 pm**

Venue: **COMMITTEE ROOMS - WEST WING, GUILDHALL**

Members:
Andrew McMurtrie (Chairman)
Nicholas Bensted-Smith (Deputy Chairman)
Alexander Barr
Henry Colthurst
Alderman Robert Howard
Deputy Jamie Ingham Clark
Deputy Clare James
Tim Levene
Andrien Meyers
Deputy Henry Pollard
James de Sausmarez
Ian Seaton
Deputy Philip Woodhouse

Enquiries: **Sacha Than (interim cover)**
tel. no.: 020 7332 3419
sacha.than@cityoflondon.gov.uk

Lunch will be served in Guildhall Club at 1PM
NB: Part of this meeting could be the subject of audio or video recording

John Barradell
Town Clerk and Chief Executive

AGENDA

Part 1 - Public Agenda

1. **APOLOGIES**

2. **MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**

3. **MINUTES OF THE PREVIOUS MEETING**
   To agree the public minutes and non-public summary of the meeting held on 29 June 2017.

   For Decision
   (Pages 1 - 4)

4. **OUTSTANDING ACTIONS**
   Report of the Town Clerk.

   For Information
   (Pages 5 - 6)

5. **MONTHLY INVESTMENT ANALYSIS REVIEW**
   Report of the Chamberlain.

   For Information
   (Pages 7 - 18)

6. **IMPLEMENTATION OF THE MARKETS IN FINANCIAL INSTRUMENTS DERIVATIVE (MIFID II)**
   Report of the Chamberlain.

   For Decision
   (Pages 19 - 44)

7. **RESPONSIBLE INVESTMENT - NEXT STEPS**
   Report of the Chamberlain.

   For Decision
   (Pages 45 - 50)

8. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**

9. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**

10. **EXCLUSION OF THE PUBLIC**
    MOTION - That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part I of the Schedule 12A of the Local Government Act.

    For Decision

Part 2 - Non-Public Agenda

11. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**
To agree the non-public minutes of the meeting held on 29 June 2017.

For Decision
(Pages 51 - 54)

12. **NON-PUBLIC OUTSTANDING ACTIONS**
Report of the Town Clerk.

For Information
(Pages 55 - 56)

13. **PENSION FUND - DRAFT INVESTMENT STRATEGY REVIEW**
Covering report of the Chamberlain and report of Mercer.

For Decision
(Pages 57 - 116)

14. **INVESTMENT MONITORING REPORTS**

a) Investment Monitoring Report (Pages 117 - 142)

Report of the Chamberlain.

For Information

b) Investment Monitoring Report (Pages 143 - 162)

Report of Mercer.

For Information

15. **SIR WILLIAM COXEN TRUST FUND (206936): FUTURE PLANS AND OBJECTIVES**
Report of the Town Clerk.

For Information
(Pages 163 - 166)

16. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**

17. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE COMMITTEE AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**

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FINANCIAL INVESTMENT BOARD

Thursday, 29 June 2017

Minutes of the meeting of the Financial Investment Board held at Committee Rooms - West Wing, Guildhall on Thursday, 29 June 2017 at 1.45 pm

Present

Members:
Andrew McMurtrie (Chairman)
Nicholas Bensted-Smith (Deputy Chairman)
Alexander Barr
Henry Colthurst
Alderman Robert Howard
Tim Levene
Deputy Henry Pollard
Deputy Philip Woodhouse

In Attendance

Officers:

Sacha Than	-	Town Clerk's Department
Peter Kane	-	Chamberlain
Caroline Al-Beyerty	-	Chamberlain's Department
Tom Broughton	-	Chamberlain's Department
Kate Limna	-	Chamberlain's Department
Catrina Arbuckle	-	Mercer

1. **APOLOGIES**
Apologies were received from Deputy Jamie Ingham Clark, Deputy Clare James, Andrien Meyers, James de Sausmarez and Ian Seaton.

The Chairman and Board thanked former Clerk to the Board, Philippa Sewell for her work.

2. **MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**
Alexander Barr declared an interest due to working for Aberdeen Asset Management which is merging with Standard Life.

Deputy Philip Woodhouse declared that he had received an invitation to Ruffer LLP on a private basis.

3. **MINUTES OF THE PREVIOUS MEETING**
RESOLVED - That the public minutes and non-public summary of the meeting held on 18 May 2017 be agreed as a correct record.

4. **OUTSTANDING ACTIONS**
The Board received the list of Outstanding Actions. In response to the Chairman's question, the Chamberlain explained that the current (2017/18) Treasury Management Strategy allowed for investments with up to three years maturity.

RESOLVED – That the report be noted.

5. **MONTHLY INVESTMENT ANALYSIS REVIEW**
The Board received the monthly review for May 2017 which detailed the list of current investments. Members discussed the report in detail and noted that there would be further discussion on the investments at item 12.

RESOLVED – That the analysis review be noted.

6. **RISK REGISTER FOR BRIDGE HOUSE ESTATES**
The Board received the risk register for Bridge House for review. Members noted that the risks set out in the report ensured the Board were meeting their statutory requirements.

RESOLVED – That the Board:

a) review the two risks currently on the register for the Financial Investment Board, relating to a potential reduction in income from non-property investments and cash balances, and confirm that appropriate control measures are in place, and;
b) confirm that there are no other risks relating to the services overseen by the Financial Investment Board which should be added to the BHE risk register.

7. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
There were no questions.

8. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**
There was no other business.

9. **EXCLUSION OF THE PUBLIC**
RESOLVED - That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part I of the Schedule 12A of the Local Government Act.

Item No.	**Paragraph(s) in Schedule 12A**
10-18	3
19-20	-

10. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**
RESOLVED - That the non-public minutes of the meeting held on 18 May 2017 be agreed as a correct record.

11. **NON-PUBLIC OUTSTANDING ACTIONS**
The Board received the list of non-public outstanding actions.

RESOLVED – That the report be noted.

12. **TREASURY MANAGEMENT - MEDIUM TERM CASH INVESTMENT OPPORTUNITIES**
The Board considered a report of the Chamberlain.

13. **REVIEW OF INVESTMENT STRATEGY**
The Board considered a report of Mercer.

14. **HAMPSTEAD HEATH TRUST & CHARITIES POOL INVESTMENT PERFORMANCE MONITORING TO 31 MARCH 2017**
The Board noted a report of the Chamberlain.

15. **CHARITIES POOL SURVEY RESULTS**
The Board considered a report of the Chamberlain.

16. **SIR WILLIAM COXEN TRUST FUND PERFORMANCE MONITORING TO 31 MARCH 2017**
The Board noted a report of the Chamberlain.

17. **PROPERTY INVESTMENTS - FEES**
The Board considered two reports, one of the Chamberlain and one of Mercer.

18. **INVESTMENT MONITORING**
The Board considered two reports, one of the Chamberlain and one of Mercer, regarding investment performance.

19. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
There were no non-public questions.

20. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE COMMITTEE AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**
There was no other business.

The meeting ended at 3.05 pm

Chairman

Contact Officer: Sacha Than (interim cover)
tel. no.: 020 7332 3419
sacha.than@cityoflondon.gov.uk

Financial Investment Board – Outstanding Actions

Item	Date	Action	Officer responsible	To be completed/ progressed to next stage	Progress Update

There are no current public outstanding actions.

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CAPITA

Treasury solutions

Asset Services

City Of London Corporation

Monthly Investment Analysis Review

July 2017

Monthly Economic Summary

General Economy

Throughout the year, Brexit has been ever present in economic discussions. This month has been no different as economic stability has appeared more uncertain.

The first economic releases of June were of sombre viewing as the UK. Purchasing Managers Index (PMI) survey figures were released. While still in expansion territory, manufacturing activity fell to a 3 month low of 54.3 from a downwardly revised 56.3. This drop in activity was a result of poor Q1 GDP growth and a sharp increase in inflation. Export orders also rose at their slowest pace for five months as the UK struggled to benefit from the weaker sterling, as some hoped they would. The Construction PMI also signified a slowing of activity as it fell to 54.8 in June from the 18 month high of 56 in May. Again, the survey results were a product of political and economic uncertainty. The slowing of activity was also reflected in the Services sector which saw its PMI fall to 53.4 from 53.8 in June, a four month low. As a result of these individual declines, the composite PMI reading has almost fallen to its 2011 lows. Growth in export orders also hit a nine month low as the economy started to see the effects of Brexit. Other data showed that industrial production fell by 0.2% on an annual basis in May, an improvement from its 0.8% fall in April. Manufacturing rose by 0.4% on the year. In all, these figures gave the economy an uncertain outlook as the second quarter came to a close.

At first glance, employment figures released this month painted a positive picture as unemployment fell to a 42 year low of 4.5%. However, it was a case of all work and no pay as average weekly earnings, including bonuses, fell by 0.7% when adjusted for inflation. This left economists concerned about the potential impact on consumer confidence. The Bank of England is keeping a close eye on wage growth as they try to observe whether increased inflation is leaving a longer term impact on prices. The fall in real wages makes an interest rate rise significantly less likely as Bank of England Governor Mark Carney stated that interest rates would probably need to rise if wages were to grow more strongly.

On the prices front, there was a particularly surprising piece of news as Consumer Price Inflation (CPI) fell to 2.6% from the four year high of 2.9% in May. This was in contrast to economists' predictions of an unchanged rate. The fall in inflation was primarily a result of falling oil prices. However, inflation is expected to pick up again as a result of the falling pound causing imports to be more expensive. However, the Bank of England have stated they expect this effect to only be temporary. Retail Price Inflation (RPI) fell to 3.5% from 3.7%. The high inflation is expected to have a negative effect on consumer spending as it eats away at disposable income.

There was one cause for optimism as after a poor start to the year as retail sales rebounded, rising 0.6% in June (mom), after a 1.1% fall in May. In the three months to June, sales rose by 1.5% offsetting the 1.4% drop in the first quarter of 2017. Thanks to the unseasonably warm weather, there was a rise in purchasing of clothes, offsetting the fall in sales of food and oil. Despite the apparent boost, some surveys noted that confidence took a slight knock as Prime Minister Theresa May lost her majority in the May election, creating fresh political uncertainty to add to that for the overall economy. Economists also predict that sluggish consumer demand is likely to slow growth, while stronger exports and investment are hoped to compensate. Despite the increase in retail sales, consumer confidence has fallen to -12, a twelve month low in the latest reading from surveyors GfK.

UK public finances were majorly hit by inflation as the deficit rose to £6.854 billion, 43% higher than at the same point the previous year. In Q1, the budget deficit also widened to £22.8 billion, increasing 8.9% compared to the last year. Spending on debt jumped up by 33% on the previous year to £4.9 billion as a higher inflation increased the cost of index linked bonds. The budget deficit is expected to widen to 2.9% of GDP from 2.4% of GDP last year. Chancellor Phillip Hammond is still looking to balance the deficit by the middle of the next decade but remains willing to be flexible as Britain continues the process of leaving the European Union.

The last big data release of the month was the first Q2 GDP estimates. This showed that the economy grew by 0.3%, up from 0.2% during the first quarter.. However, Brexit did lead to a fall in sterling, pushing up inflation which is eating away at consumers finances this year. Resultantly, the International Monetary Fund downgraded the economic outlook of Britain by more than any other G7 country, predicting growth of 1.7%, down from their previous forecast of 2.0%.

The Eurozone is carrying on a steady recovery. The unemployment rate of 9.3%, while higher than market expectations, remains unchanged and is still the lowest rate in Europe since 2009 as they slowly recover from the effects of the financial crisis. The European Central Bank (ECB) also decided to keep policy rates at unchanged while carrying on their monthly €60 billion monetary stimulus until at least December. German inflation rose by 1.6%, which was stronger than expected, suggesting a brighter future only days after ECB head Mario Draghi suggested a less accommodating ECB policy in 2018.

It was a solid month for the US which saw the unemployment rate come in at 4.4%. While this is a rise from the 16 year low 4.3%, this is down to more people looking for jobs. Non-farm payrolls saw accelerating growth, jumping up by 220,000. The increased labour market activity suggests confidence in the labour market. These encouraging figures could lead to the US central bank to begin the process of reducing its portfolio of bonds and securities later in the year. However, markets do not expect it to increase interest rates until at least December due to the US having low inflation at 1.6%. Growth accelerated at 2.6% in Q2 with boosts in consumers spending and firms investing. This is despite Congress being unable to make any headway on President Trump's fiscal initiatives.

Housing

Mortgage lenders Halifax saw house prices rise at the slowest rates in over four years. In the three months to June house prices rose by 2.6%, a slowdown from the 3.3% increase in May. In June alone, house prices actually fell by 1.0%. Elsewhere, mortgage approvals fell to their lowest level since last September at 64,684, down from 65,109 in May. Nationwide said that house prices rose by 0.3% in July, slower than the 1.1% in June. However, two months of house price growth have suggested that the housing market is stabilising after its recent wobble.

Forecast

Neither Capita Asset Services (CAS) nor Capital Economics (CE) altered their forecasts this month. It is forecasted by CAS that a rate hike to 0.50% will occur in Q2 2019 followed by a further hike to 0.75% in Q4 2019. CE expects a hike in the bank rate to occur in Q2 2018 to 0.50% with further hikes forecasted in Q4 2018 to 0.75% and in Q2 2019 to 1.00%.

Bank Rate	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%
Capital Economics	0.25%	0.25%	0.25%	0.50%	0.50%

City Of London Corporation

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF CCLA	10,000,000	0.19%		MMF	AAA	0.000%
MMF Deutsche	10,000,000	0.21%		MMF	AAA	0.000%
MMF Federated Investors (UK)	5,000,000	0.59%		MMF	AAA	0.000%
MMF Federated Investors (UK)	8,200,000	0.21%		MMF	AAA	0.000%
Goldman Sachs International Bank	20,000,000	0.95%		Call	A	0.000%
MMF Invesco	35,900,000	0.26%		MMF	AAA	0.000%
Lloyds Bank Plc	10,200,000	0.20%		Call	A	0.000%
USDBF Payden Sterling Reserve Fund	55,000,000	0.96%		USDBF	AAA	0.000%
MMF Standard Life	5,000,000	0.76%		MMF	AAA	0.000%
MMF Standard Life	41,100,000	0.23%		MMF	AAA	0.000%
Plymouth City Council	10,000,000	0.35%	10/05/2017	10/08/2017	AA	0.001%
Barnsley Metropolitan Borough Council	5,000,000	0.45%	23/02/2017	23/08/2017	AA	0.001%
Plymouth City Council	10,000,000	0.35%	24/05/2017	24/08/2017	AA	0.002%
Nationwide Building Society	7,200,000	0.65%	30/08/2016	30/08/2017	A	0.005%
Kingston Upon Hull City Council	5,000,000	0.37%	01/06/2017	01/09/2017	AA	0.002%
Lloyds Bank Plc	17,500,000	0.32%		Call32	A	0.005%
Dundee City Council	5,000,000	0.37%	28/04/2017	06/09/2017	AA	0.002%
Leeds City Council	25,000,000	0.33%	16/06/2017	18/09/2017	AA	0.003%
Birmingham City Council	25,000,000	0.50%	24/04/2017	25/09/2017	AA	0.004%
North Lanarkshire Council	5,000,000	0.48%	24/02/2017	27/09/2017	AA	0.004%
Barclays Bank Plc	25,000,000	0.62%	03/04/2017	29/09/2017	A-	0.009%
Surrey County Council	25,000,000	0.35%	30/06/2017	29/09/2017	AA	0.004%
Lloyds Bank Plc	30,000,000	1.00%	03/10/2016	03/10/2017	A	0.010%
Barclays Bank Plc	36,000,000	0.74%	04/01/2017	04/10/2017	A-	0.010%
Lloyds Bank Plc	16,400,000	0.55%	04/04/2017	04/10/2017	A	0.010%
Suffolk County Council	5,000,000	0.48%	06/03/2017	06/10/2017	AA	0.004%
Lloyds Bank Plc	10,000,000	0.55%	12/04/2017	12/10/2017	A	0.011%
Australia and New Zealand Banking Group Ltd	5,000,000	0.34%	27/06/2017	27/10/2017	AA-	0.006%
Australia and New Zealand Banking Group Ltd	15,000,000	0.40%	03/05/2017	03/11/2017	AA-	0.006%
Lloyds Bank Plc	10,000,000	0.55%	03/05/2017	03/11/2017	A	0.015%
Santander UK Plc	100,000,000	0.65%		Call95	A	0.015%
Coventry Building Society	20,000,000	0.45%	19/04/2017	12/12/2017	A	0.021%
Goldman Sachs International Bank	20,000,000	0.71%	22/06/2017	19/12/2017	A	0.022%
Australia and New Zealand Banking Group Ltd	5,000,000	0.40%	03/07/2017	03/01/2018	AA-	0.010%
Lloyds Bank Plc	18,000,000	0.65%	03/05/2017	05/02/2018	A	0.029%
Lloyds Bank Plc	21,400,000	0.39%	12/07/2017	12/02/2018	A	0.030%

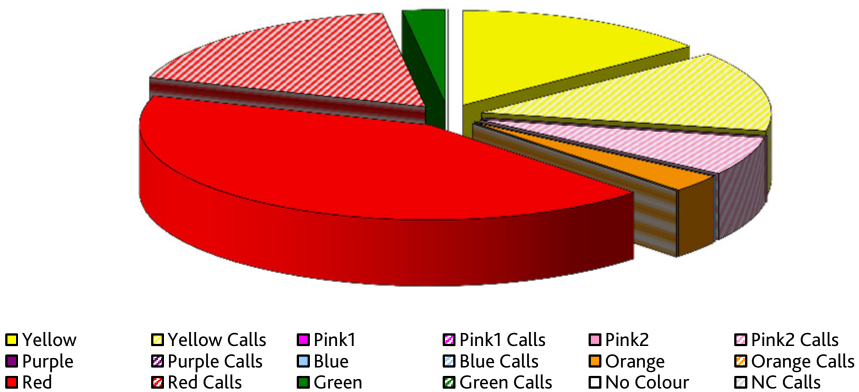
City Of London Corporation

Current Investment List

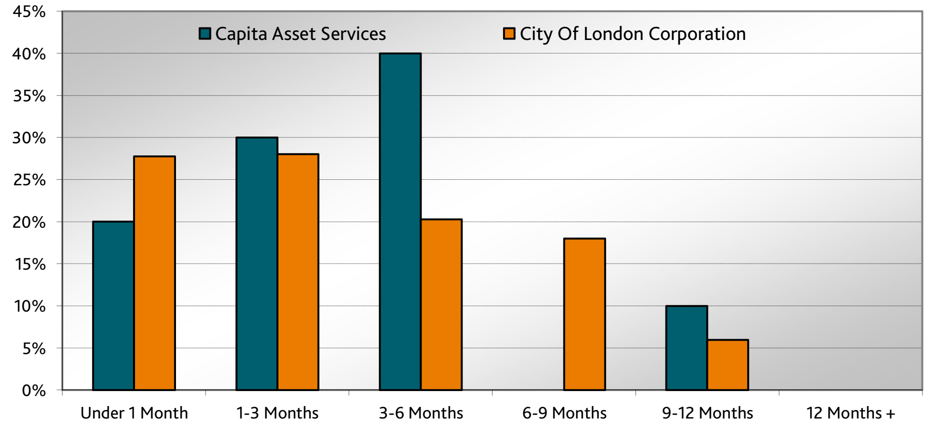
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Lloyds Bank Plc	9,400,000	0.65%	17/05/2017	19/02/2018	A	0.031%
Goldman Sachs International Bank	10,000,000	0.75%	01/06/2017	01/03/2018	A	0.033%
Nationwide Building Society	25,000,000	0.40%	26/07/2017	12/03/2018	A	0.035%
Barclays Bank Plc	25,000,000	0.84%	10/04/2017	29/03/2018	A-	0.037%
Leeds Building Society	8,000,000	0.48%	29/06/2017	03/04/2018	A-	0.038%
Skipton Building Society	20,000,000	0.77%	24/04/2017	23/04/2018	BBB+	0.123%
Barclays Bank Plc	14,000,000	0.85%	26/04/2017	25/04/2018	A-	0.041%
Goldman Sachs International Bank	30,000,000	0.87%	19/05/2017	18/05/2018	A	0.045%
Goldman Sachs International Bank	20,000,000	1.02%	03/07/2017	02/07/2018	A	0.052%
Total Investments	**£838,300,000**	**0.59%**				0.016%

City Of London Corporation

Portfolio Composition by Capita Asset Services' Suggested Lending Criteria



Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

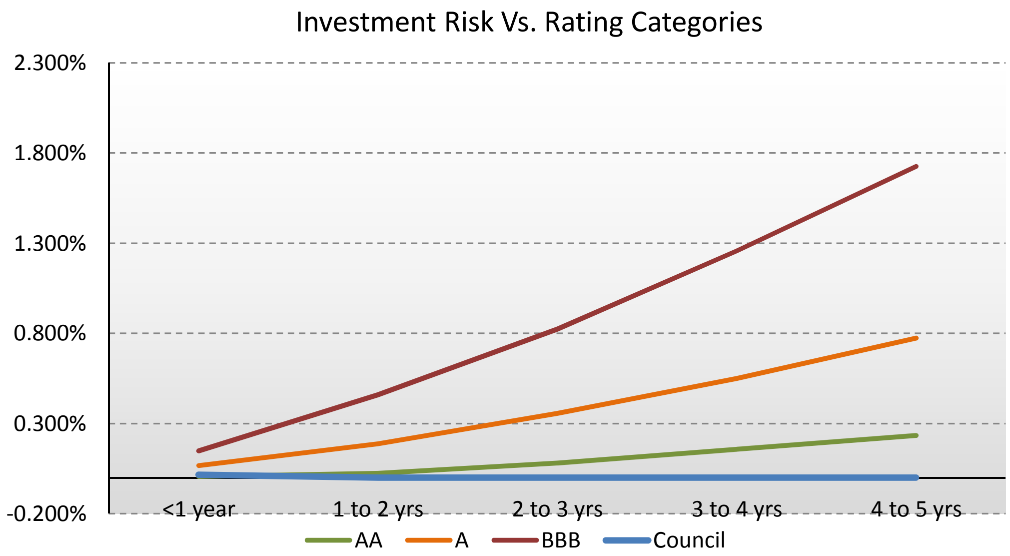


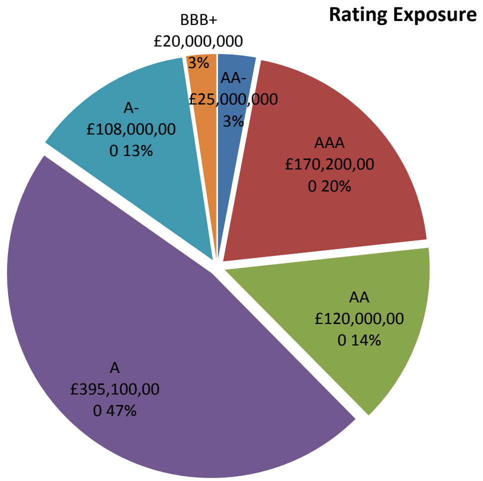
Portfolios weighted average risk number = 3.64

WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/USDBFs WAM	Excluding Calls/MMFs/USDBFs WAM at Execution
Yellow	28.06%	£235,200,000	48.98%	£115,200,000	13.74%	0.33%	24	62	46	121
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	6.56%	£55,000,000	100.00%	£55,000,000	6.56%	0.96%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Orange	2.98%	£25,000,000	0.00%	£0	0.00%	0.39%	106	172	106	172
Red	60.01%	£503,100,000	29.36%	£147,700,000	17.62%	0.67%	137	215	165	275
Green	2.39%	£20,000,000	0.00%	£0	0.00%	0.77%	266	364	266	364
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	**£838,300,000**	**37.92%**	**£317,900,000**	**37.92%**	**0.59%**	**98**	**160**	**139**	**238**

Investment Risk and Rating Exposure





Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.007%	0.024%	0.081%	0.158%	0.234%
A	0.067%	0.189%	0.356%	0.551%	0.775%
BBB	0.150%	0.460%	0.824%	1.257%	1.726%
Council	0.017%	0.000%	0.000%	0.000%	0.000%

Historic Risk of Default
This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment.

Chart Relative Risk
This is the authority's risk weightings compared to the average % risk of default for “AA”, “A” and “BBB” rated investments.

Rating Exposures
This pie chart provides a clear view of your investment exposures to particular ratings.

City Of London Corporation

Monthly Credit Rating Changes

FITCH

Date	Update Number	Institution	Country	Rating Action
				No credit updates to report over the month

City Of London Corporation

Monthly Credit Rating Changes

MOODY'S

Date	Update Number	Institution	Country	Rating Action
03/07/2017	1536	Co-Operative Bank Plc	United Kingdom	Long Term Rating removed from Evolving Outlook and placed on Evolving Watch
03/07/2017	1537	Norddeutsche Landesbank Girozentrale	Germany	Long Term Rating downgraded to 'Baa2' from 'Baa1', removed from Negative Watch and placed on Negative Outlook
05/07/2017	1538	Qatar Sovereign Rating	Qatar	Outlook on the Sovereign Rating changed to Negative from Stable
05/07/2017	1539	Qatar National Bank	Qatar	Outlook on the Long Term Rating changed to Negative from Stable
31/07/2017	1541	Landesbank Berlin AG	Germany	Long Term Rating upgraded to 'Aa2' from 'Aa3', Outlook changed to Stable from Positive

City Of London Corporation

Monthly Credit Rating Changes

S&P

Date	Update Number	Institution	Country	Rating Action
27/07/2017	1540	ING Bank N.V.	Netherlands	Long Term Rating upgraded to 'A+' from 'A'

MONTHLY INVESTMENT REVIEW AS AT 31 JULY 2017

	Couterparty Limit £M	Total Invested as at 31-Jul-17 £M
TOTAL INVESTED		**838.30**
UK BANKS		
Barclays	100.0	100.0
Goldman Sachs International	100.0	100.0
HSBC	100.0	-
Lloyds	150.0	142.9
RBS	100.0	-
	550.0	342.9
BUILDING SOCIETIES		
Coventry	20.0	20.0
Leeds	20.0	8.0
Nationwide	120.0	32.2
Skipton	20.0	20.0
Yorkshire	20.0	-
	200.0	80.2
FOREIGN BANKS		
Australia & New Zealand	25.0	25.0
National Australia Bank	25.0	-
Svenska Handelsbanken	25.0	-
	75.0	25.0
LIQUIDITY FUNDS		
Aberdeen Liquidity Fund	100.0	-
CCLA - Public Sector Deposit Fund	100.0	10.0
Deutsche Global Liquidity Fund	100.0	10.0
Federated Prime Liquidity Fund	100.0	13.2
Invesco Sterling Liquidity Fund	100.0	35.9
Payden Sterling Reserve Fund	100.0	55.0
Standard Life (Ignis) Liquidity Fund	100.0	46.1
	600.0	170.2
NOTICE ACCOUNTS		
Santander 95 Days Account	100.0	100.0
	100.0	100.0
PUBLIC SECTOR		
Barnsley Metropolitan Borough Council	25.0	5.0
Birmingham City Council	25.0	25.0
Dundee City Council	25.0	5.0
Kingston-Upon-Hull City Council	25.0	5.0
Leeds City Council	25.0	25.0
North Lanarkshire Council	25.0	5.0
Plymouth City Council	25.0	20.0
Suffolk County Council	25.0	5.0
Surrey County Council	25.0	25.0
	225.0	120.0

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Committee:	Date:
Financial Investment Board	5 September 2017
Subject: Implementation of the Markets in Financial Instruments Derivative (MiFID II)	**Public**
Report of: The Chamberlain	**For Decision**
Report author: Kate Limna – Chamberlain's Department	

Summary

This report outlines the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 ("MiFID II"); highlighting in particular the risk to the City of London Corporation as the administering authority of the City of London Pension Fund and in its treasury management role becoming a retail client on 3rd January 2018. The recommendation is that the Financial Investment Board (the Board) agree that elections for professional client status should be made on behalf of the authority immediately.

Recommendations

Members are asked to:

i. Note the potential impact on investment strategy of becoming a retail client with effect from 3rd January 2018

ii. Agree to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy.

iii. Note that in electing for professional client status the Board acknowledges and agrees to forgo the protections available to retail clients attached as Appendix 1.

iv. Note that a training programme will need to be formalised to better evidence the expertise, experience and knowledge of the Board as set out in paragraph 9 and that a report will follow in due course.

v. Agree to delegate responsibility to the Chamberlain for the purposes of completing the applications and determining the basis of the application as either full or single service.

Main Report

Background

1. Under the current UK regime, local authorities are automatically categorised as 'per se' professional clients in respect of non-MiFID scope business and are categorised as 'per se professional' clients for MiFID scope business if they satisfy the MiFID Large Undertakings test. Local authorities that do not satisfy the

Large Undertakings test may opt up to elective professional client status if they fulfil certain 'opt up criteria'.

2. Following the introduction of the Markets in Financial Instrument Directive 2014/65 ("MiFID II") from 3 January 2018, financial service institutions (fund managers, advisors, consultants, banks etc.) will no longer be able to categorise a local public authority as a "per se professional client" or elective eligible counterparty (ECP) for both MiFID and non-MiFID scope business. Instead, all local authorities must be classified as "retail clients" unless they are opted-up by institutions to an "elective professional client" status.
3. The opt-up process includes both a qualitative and quantative test that will be assessed by the individual institutions and the criteria will be applied separately to local authorities depending on the capacity in which they are acting – either as treasury managers or as pension fund administrators. The decision to opt up an authority lies solely with the institution to whom the application is made and it may, at its discretion request alternative/further information in support of an application. For example institutions that are not regulated by the Financial Conduct Authority may have their own opt up processes/questions.

Potential Impact

4. A move to retail client status would mean that all financial services institutions will have to treat local authorities (including the City) in the same way they do non-professional individuals and small businesses. That includes a raft of protections ensuring that investment products are suitable for the customer's needs, and that all the risks and features have been fully explained. This provides a higher standard of protection for the client but it also involves more work and potential cost for both the financial institution and the client, for the purpose of proving to the regulator that all such requirements have been met.
5. Such protections would mean that the City would not be able to access the wide range of assets needed to implement an effective, diversified investment strategy. Retail status would significantly restrict the range of financial institutions and instruments available to us. Many financial institutions currently servicing the Local Government Pension Scheme (LGPS) and the treasury management function are not authorised to deal with retail clients and may not wish to undergo the required changes to resources and permissions in order to do so.
6. Even if the institution secures the ability to deal with retail clients the range of instruments it can make available to the client will be limited to those defined under Financial Conduct Authority (FCA) rules as 'non-complex' which would exclude many of the asset classes currently included in LGPS fund portfolios. In many cases managers will no longer be able to even discuss ('promote') certain asset classes and vehicles with the authority as a retail client.

Election for professional client status

7. MiFID II does allow for retail clients which meet certain conditions to elect to be treated as professional clients (to 'opt up'). There are two tests which must be met by the client when being assessed by the financial institution - the quantitative and the qualitative test. In electing to be treated as professional clients the authority will forgo the protections available to retail clients as set out in Appendix 1.

8. The Local Government Pension Scheme Advisory Board (SAB) and the Local Government Association (LGA) along with the Department of Communities and Local Government (DCLG) and the Investment Association (IA) have successfully lobbied the FCA to make the test better fitted to the unique situation of local authorities.

9. The new tests recognise the status of LGPS administering authorities as providing a 'pass' for the quantitative test while the qualitative test can now be performed on the authority as a collective rather than an individual. A summary of and extracts from the FCA policy statement which set out these new tests is attached as Appendix 2. The Chamberlain's review of the qualitative tests indicate that improvements will need to made to the training programme, such as the introduction of a self-assessment and recognition of currently ad hoc specific 'needs-based training' as part of a wider training programme

10. The election to professional status must be completed with all financial institutions prior to the change of status on 3rd January 2018. Failure to do so by local authorities would result in the financial institution having to take 'appropriate action' which could include a termination of the relationship at a significant financial risk to the authority.

11. The SAB and the LGA have worked with industry representative bodies including the IA, the British Venture Capital Association (BVCA) and others to develop a standard opt up process with letter and information templates for the LPGS. This process should enable a consistent approach to assessment and prevent authorities from having to submit a variety of information in different formats. The LGA and CIPFA are working on a similar template to cover the treasury management function.

12. A flowchart of the process is attached as Appendix 3 and the letter and information templates (for the LGPS) are attached as Appendices 4 and 5.

13. Applications can be made in respect of either all of the services offered by the financial institution (even if not already being accessed) or a particular service only. A local authority may wish to do the latter where the financial institution offers a wide range of complex instruments which the authority does not currently use and there is no intention to use the financial institution again once the current relationship has come to an end, for example, for the Pension Fund, if the next procurement is achieved via the London CIV. It is recommended that officers determine the most appropriate basis of the application, either via full or single service.

14. Authorities are not required to renew elections on a regular basis but will be required to review the information provided in the opt up process and notify all financial institutions of any changes in circumstances which could affect their status, for example, if the membership of the Board changed significantly resulting in a loss of experience or if the relationship with the authority's investment advisor was terminated.

LGPS pools

15. LGPS pools will be professional investors in their own right so will not need to opt up with the external institutions they use. Local authorities will however need to opt up with their LGPS pool in order to access the full range of services and sub-funds on offer.

16. In some circumstances, in particular where the pool only offers access to fund structures such as Authorised Contractual Scheme (ACS) the pool could use 'safe harbour' provisions resulting from local authorities continuing to be named as professional investors in both the Financial Promotion Order (the "FPO") or in the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order (the "PCISO"). These provisions would enable the promotion and potential sale of units in fund structures to local authorities as retail investors.

17. Elections to professional status will be needed for every financial institution that the authority uses outside of the pool, both existing and new, together with a continuing review of all elections. If all new purchases are made via fund structures within the pool then no new elections will be required, only an ongoing review of the elections made with the pool and any legacy external institutions the number of which would reduce as assets are liquidated and cash transferred.

Conclusion

18. In order to continue to effectively implement the City's investment strategy after 3rd January 2018, applications for election to be treated as professional clients should be submitted to all financial institutions with whom we have an existing or potential relationship with in relation to the investment of the pension fund and the treasury management function.

19. This process should start as soon as possible in order to ensure completion in good time as failure to do so could result in the financial institution having to take 'appropriate action' which could include a termination of the relationship at a significant financial risk to the authority.

20. The Chamberlain should be granted the necessary delegation to make applications on the City's behalf and to determine the nature of the application on either full or single service basis.

Appendices

- Appendix 1 – Retail client protections
- Appendix 2 – Summary of FCA policy statement
- Appendix 3 – Opt up process flowchart
- Appendix 4 – Opt up letter template
- Appendix 5 – Opt up information template

Kate Limna
Corporate Treasurer – Chamberlain's Department

T: 020 7332 3952
E: kate.limna@cityoflondon.gov.uk

Appendix 1

Warnings - Loss of Protections as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This document contains, for information purposes only, a summary of the protections that you will lose if you request and agree to be treated as a Professional Client.

1. **Communicating with clients, including financial promotions**
   As a Professional Client the simplicity and frequency in which the firm communicates with you may be different to the way in which they would communicate with a Retail Client. They will ensure however that our communication remains fair, clear and not misleading.

2. **Information about the firm, its services and remuneration**
   The type of information that the firm provides to Retail Clients about itself, its services and its products and how it is remunerated differs to what the firm provides to Professional Clients. In particular,

   (A) The firm is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients; and

   (B) there are particular restrictions on the remuneration structure for staff providing services to Retail Clients which may not be applicable in respect of staff providing services to Professional Clients;

   (C) the information which the firm provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, they are required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and

   (D) when handling orders on behalf of Retail Clients, the firm has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

3. **Suitability**
   In the course of providing advice or in the course of providing discretionary management services, when assessing suitability for Professional Clients, the firm is entitled to assume that in relation to the products, transactions and services for which you have been so classified, that you have the necessary level of experience and knowledge to understand the risks involved in the management of your investments. The firm will assess this information separately for Retail Clients and would be required to provide Retail Clients with a suitability report.

4. **Appropriateness**
   For transactions where the firm does not provide you with investment advice or discretionary management services (such as an execution-only trade), it may be required to assess whether the transaction is appropriate. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, the firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. **Dealing**
   A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for

Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in any execution.

6. **Reporting information to clients**
For transactions where the firm does not provide discretionary management services (such as an execution-only transactions), the timeframe for our providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. **Client reporting**
Investment firms that hold a retail client account that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. **Financial Ombudsman Service**
The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. **Investor compensation**
Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Hence, depending on how you are constituted you may not have access to the Financial Services Compensation Scheme.

10. **Exclusion of liability**
The FCA rules restrict the firm's ability to exclude or restrict any duty of liability which the firm owes to Retail Clients more strictly than in respect of Professional Clients.

11. **Trading obligation**
In respect of shares admitted to trading on a regulated market or traded on a trading venue, the firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients

12. **Transfer of financial collateral arrangements**
As a Professional Client, the firm may conclude title transfer financial collateral arrangements with you for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. **Client money**
The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

It should be noted that at all times you will have the right to request a different client categorisation and that you will be responsible for keeping the firm informed of any change that could affect your categorisation as a Professional Client.

FCA Markets in Financial Instruments Directive II Implementation – Policy Statement II

The matters relating to the reclassification of local and public authorities as retail are covered in Chapter 8 pages 64 to 74 of the full document
https://www.fca.org.uk/publication/policy/ps17-14.pdf

Highlights (see highlighted sections following for context)

1. Firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions
2. Governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment
3. Adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test
4. Rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion
5. Compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions
6. Retain the 10 transactions on average per quarter test as one of the four available criteria for enabling a local authority body to opt up.
7. Firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged
8. Changed the portfolio size threshold to £10m
9. Proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018 are being taken forward

Page 67 Our response on the qualitative test

MiFID II requires the qualitative test to be applied to local authorities seeking to opt-up to professional client status, with the test itself unchanged from MiFID. It is important that an investment firm is confident that a client can demonstrate their expertise, experience and knowledge such that the firm has gained a reasonable assurance that the client is capable of making investment decisions and understanding the nature of risks involved in the context of the transactions or services envisioned.

COBS 3.5.4 requires that the qualitative test should be carried out for the person authorised to carry out transactions on behalf of the legal entity. 'Person' in this context may be a single person or a group of persons. We understand that the persons within a local authority who invest on behalf of pension funds are elected officials acting as part of a pensions committee. In those circumstances, firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions. We also understand that typically the person(s) within local authorities who invest the treasury reserves of those authorities are likely to be officers of the authorities, who are delegated authority from elected members and act under an agreed budget and strategy.

Given different governance arrangements, we cannot be prescriptive but we would stress the importance of firms exercising judgement and ensuring that they understand the arrangements of the local authority and the clear purpose of this test. It remains a test of the individual, or respectively the individuals who are ultimately making the investment decisions, but governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment.

We agree that adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test.

Page 68 Our response on the quantitative test – approach for Local Government Pension Schemes (LGPS)

We recognise that local authority pension schemes are established within the framework of the LGPS Regulations and are subject to the oversight of the Pensions Regulator, as well as the broader public policy in MiFID II, such as ensuring that local authority pension schemes receive appropriate investment services, and that they understand the costs and risks involved with such service.

Some expressed concerns about interpreting the quantitative criteria in light of the common governance of local authority pension scheme administration, and recognise that the drafting of our proposed rules was not sufficient to achieve our policy intention of allowing all local authorities administering LGPS pension funds to have the ability to successfully opt up. Therefore, our rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion. This will assist all local authority pension fund administrators who wish to opt-up to meet the quantitative test, but maintain the need for local authorities to qualitatively demonstrate their sophistication to become professional clients. We agree with views that compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions.

Page 69 Our response on the quantitative test – undertaking 10 transactions on average per quarter

We accept that some local authorities will not be able to meet this part of the quantitative test (particularly when investing pension funds). However, it continues to be our view that regular and recent experience of carrying out relevant transactions remains a useful proxy for assessing sophistication. We have received no arguments against this view, and so confirm that we will retain this test as one of the four available criteria for enabling a local authority body to opt up.

While theoretically this criterion could be 'gamed' by firms and clients by churning portfolios, we believe it is an unlikely course of action for local authorities who are accountable to the electorate and have specific statutory duties requiring prudent management of their financial affairs. In future, we could scrutinise any firm who appeared to be recommending this course of action to its client and question whether the firm was acting in the client's best interest and whether the firm believed that an artificially higher number of trades contributed to the expertise, experience and knowledge of their client.

Page 70 Our response on the quantitative test – employment in the financial sector for at least 1 year in a professional position

We accept we could be clearer about who this test is applied to, while ensuring it can be applied flexibly to different governance arrangements. We also recognise that employment in the financial sector is a criterion that can only apply to a natural person.

In response, we have amended the proposed drafting in COBS 3.5.3BR(b)(ii) to note that 'the person authorised to carry out transactions on behalf of the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged'. This should allow local authorities to delegate authority to make investment decisions on their behalf to professional staff with at least one year's experience. We recognise that this redrafted criterion may not be useful for assessing the collective decision making involved in investing local authority pension funds. However, we think this will be less problematic given our new fourth criterion aimed at LGPS administering authorities.

We do not interpret the term 'financial sector' in a limited way for the purposes of COBS 3.5.3BR(2)(b)(ii), and firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged. This meets the purpose of the test, to ensure the person acting on behalf of a client has the expertise, experience and knowledge necessary in relation to the investment or service being sold and the risks involved.

Page 71 Our response on the quantitative test – portfolio size threshold

We have changed the portfolio size threshold to £10m. This follows further data and case studies provided by local authorities, Department for Communities and Local Government (DCLG) new data, and wider CP responses.

We believe £10m is closer to our policy goal of restricting the ability of the smallest, and by implication the least sophisticated, local authorities (town and parish councils, and the smallest county and district councils) to opt-up, but giving larger ones the ability to do so more readily, (provided they meet the other criteria).

Based on the number of local authorities we estimated were investing in MiFID scope instruments and understanding the quoted portfolio size in the DCLG dataset for 2014/15, in CP16/29 we estimated that 63 additional local authorities would not be able to opt-up to professional client status for the purposes of engaging in MiFID business as a result of our consulted upon policy.

At a £15m portfolio size threshold, this increased to 78 additional local authorities which would not be able to opt-up to professional client status for the purposes of engaging in MiFID business when we used the new 2015/16 DCLG dataset.

Applying the £10m threshold to data over the following years:

- 2014/15 – 27 local authorities would not be able to opt-up to professional client status; and the estimated one-off costs for investment firms would decrease from £1.7m to £0.8m and on-going costs from £0.8m to £0.3m.
- 2015/16 – 42 local authorities would not be able to opt-up, and the one-off costs for investment firms would decrease from £2.0m to £1.1m, and on-going costs would reduce from £0.9m to £0.5m.47

While a local authority's ability to borrow extra funds to 'game' this requirement may be possible, it is questionable whether local authorities would be able to justify this approach while at the same time making budgets and investment strategies available for public scrutiny.

Page 74 Our response on transitional arrangements

MiFID II gives us very limited discretion with regard to transitional arrangements for applying these rules in respect of local authorities and provides no ability to extend the deadline for compliance with this requirement beyond 3 January 2018. We consulted in CP16/43 on proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018. These proposals are being taken forward (see Chapter 24). However, firms will not be expected to re-consider categorisation of existing clients other than local authorities, where MiFID II rules are the same as existing MiFID rules transposed at COBS 3.

Otherwise, we have made further consequential drafting changes to transitional provisions at COBS TP 1 that were added when MiFID was implemented in 2007, but that are no longer carried across into MiFID II.

More generally, COBS 3.5.8G notes that professional clients have the responsibility to keep investment firms informed about any changes that affect their current categorisation. Further, at COBS 3.5.9R, if the firm becomes aware that the client no longer fulfils the initial conditions that made the client eligible to be an elective professional client, it must take “appropriate action”. Neither MiFID II, nor our rules specify what ‘appropriate action’ is, which will depend on the facts of the case and what would be in the client’s best interest. Firms must exercise judgement and consider what would be in the best interests of the client. For example, if a client no longer meets the quantitative test to opt up to professional client status, a firm may decide it is appropriate to cease providing investment services but to do so in a way that minimises losses to the client.

Appendix 3

UK Local Authority Client Opt-Up Process

STAGES	TIMELINE	GUIDANCE
Preparatory Stage **Finalise standard opt-up process**	**End July 2017**	(i) Finalise industry standard quantitative and qualitative questionnaire; (ii) Finalise request and consent letter from Local Authority to be opted-up; and (iii) Finalise response letter from investment firms agreeing to the opt-up.
Stage 1 **Local authorities to complete letter and questionnaire and send to investment firms**	**August – September 2017**	Local authorities to complete and send investment firms: (i) request and consent letter to be opted-up to professional client status; and (ii) completed quantitative and qualitative questionnaire (to allow investment firms to satisfy themselves that the local authority passes the qualitative test).
Stage 2 **Investment Firms to validate the information and run the client status assessment**	**September – October 2017**	Investment firms to validate information received from local authorities to determine information is (i) sufficient; and (ii) appropriate. Assess the information received by the local authority and confirm that it: (i) has provided the request and consent letter to be treated as a professional client; and (ii) passes (i) the quantitative test and (ii) the qualitative test Log and store the local authority information and the results of the internal assessment.
Stage 3 **Dispatch the confirmation letter to LA clients confirming professional client status**	**October 2017**	If a local authority has provided the request and consent letter and has satisfied the requirements for both: (i) the quantitative test; and (ii) the qualitative test, send a letter confirming the classification of the client as a professional client.
Stage 4 **Client re-categorisation**	**3 January 2018**	Once the steps above are complete, as of 3 January 2018, the firm may continue to treat the local authority as a professional client.

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APPENDIX 4

Letter requesting categorisation as an elective professional client

[ON [AUTHORITY] HEADED PAPER]

[Manager name]

[Manager address]

[Date]

Dear [●]

Request to be treated as a professional investor

I am writing to you ahead of the implementation in the UK of the Markets in Financial Instruments Directive (2014/65/EU) (MiFID II). I have been authorised by NAME OF AUTHORITY (the "Local Authority") to inform you that, in its capacity as an administering authority of a local government pension scheme, it wishes to be treated as a professional client for the purpose of:

(a) any and all investment service(s) which it receives from you (the "Services"); and/or

(b) the promotion to us of, and investment in, any and all fund(s) managed or advised by you (the "Fund Promotions/Investments").

We understand you are required to categorise all of your clients as either professional clients or retail clients and that you currently categorise the Local Authority as a Professional Client ("Professional Client"). However as of 3 January 2018, under new rules deriving from MiFID II, you will be obliged to re-categorise the Local Authority as a Retail Client ("Retail Client") as regards receiving Services from you and/or as regards existing fund investments and any future Fund Promotions/Investments, unless you are satisfied you can otherwise treat the Local Authority as an elective Professional Client and opt-up the Local Authority to this particular client status.

I confirm and acknowledge that the Local Authority is aware that, being categorised as a Professional Client, it will not benefit from the protections and investor compensation rights set out in more detail in Schedule 1. In doing so, I confirm that the Local Authority has reviewed and considered the loss of these protections and rights very carefully and has, if it felt so appropriate, taken advice from legal, financial or other advisors.

I wish to inform you that the Local Authority wishes to be categorised as a Professional Client for the purposes of the Services and/or Fund Promotions/Investments, as applicable in its capacity as an administrating authority of the Local Government Pension Scheme.

Prior to re-categorising the Local Authority, as a Professional Client, I understand that you will be required to assess the Local Authority on certain quantitative and qualitative grounds. In order to facilitate this assessment, please find attached a completed questionnaire for your review and consideration.

Subject to you being reasonably assured that, as of 3 January 2018, the Local Authority satisfies the necessary quantitative and qualitative grounds and may be categorised as an elective Professional Client, the Local Authority confirms the following:

(a) its request to be categorised as a Professional Client, in its capacity as an administrating authority of the Local Government Pension Scheme, in relation to the Services and/or Fund Promotions/Investments.

(b) all information provided to you by us (for the purposes of facilitating your assessment of the Local Authority's request to be categorised as a Professional Client) is true, accurate and complete.

(c) the Local Authority understands the contents of Schedule 1 which contains summaries of the protections and investor compensation rights, if any, that the Local Authority will lose once it is categorised as a Professional Client. Please note that I can confirm that the Local Authority is fully aware of the consequences of losing such protections and still wishes to apply to be categorised as Professional Client in respect of the Services and/or Fund Promotions/Investments.

(d) the Local Authority has had sufficient time to consider the implications of categorisation as a Professional Client and has separately taken any legal, financial or other advice that it deems appropriate.

(e) the Local Authority will inform you of any change that could affect its categorisation as a Professional Client. I also confirm that the Local Authority understands its responsibility to ask you for a higher level of protection if it is unable to properly assess or manage the risks involved with the investments comprised within the portfolio management mandates which you have been appointed to manage.

(f) I acknowledge the Local Authority understands that you shall be permitted, in your sole discretion and without providing any reason, to re-categorise the client as a Retail client or cease to provide the Services or otherwise carry out any fund promotion to us or allow future investment in funds by us.

If you have any questions regarding this application please contact **[name]** on **[number]** or alternatively e-mail us at **[email address]**.

Yours sincerely,

………………………………………………

[insert name and position] [Authority]

Schedule 1

Warnings - Loss of Protections for the Local Authority if categorised as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This Schedule contains, for information purposes only, a summary of the protections lost when requesting and agreeing to be treated as a Professional Client.

Part 1 – Loss of protections as a Professional Client when receiving Services

1. **Communicating with clients, including financial promotions**

   As a Professional Client the simplicity and frequency in which firms communicate with you may be different to the way in which we would communicate with a Retail Client. Firms will ensure however that their communication remains fair, clear and not misleading.

2. **Information about the firm, its services and remuneration**

   The type of information that a firm provides to Retail Clients about itself, its services and products and how it is remunerated differs to what it provides to Professional Clients. In particular,

   (A) It is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients;

   (B) the information which it provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, it is required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and

   (C) when handling orders on behalf of Retail Clients, it has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

3. **Suitability**

   In the course of providing advice or in the course of providing portfolio management services, when assessing suitability for Professional Clients, a firm is entitled to assume that, in relation to the products, transactions and services for which Professional Clients have been so classified, that they have the necessary level of experience and knowledge to understand the risks involved in the management of their investments. Firms cannot make such an assumption in the case of Retail Clients and must assess this information separately. Firms would be required to provide Retail Clients with a suitability report, where they provide investment advice.

4. **Appropriateness**

   For transactions where a firm does not provide investment advice or portfolio management services (such as an execution-only trade), a firm may be required to assess whether the transaction is appropriate for the client in question. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, a firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. **Dealing**

   A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in determining best execution.

6. **Reporting information to clients**

For transactions where a firm does not provide portfolio management services (such as an execution-only transactions), the timeframe for providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. **Client reporting**

Firms that manage a retail portfolio that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. **Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. **Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

10. **Exclusion of liability**

A firms' ability to exclude or restrict any duty of liability owed to clients is narrower under the FCA rules in the case of Retail Clients than in respect of Professional Clients.

11. **Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, a firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. **Transfer of financial collateral arrangements**

As a Professional Client, a firm may conclude title transfer financial collateral arrangements for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. **Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

Part 2 – Loss of protections for the Local Authority as a potential investor if categorised as a Professional Client for the purposes of Fund Promotions

1. **Fund promotion**

   It is generally not permitted for firms to market alternative investment funds (AIFs) to investors who are Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will (subject to complying with applicable marketing rules) be generally permitted to market shares or units in AIFs to you, without being subject to this restriction.

2. **Non-mainstream pooled investments**

   For the purposes of the UK regulatory regime, AIFs typically fall within the definition of an "unregulated collective investment scheme". The UK regulator considers unregulated collective investment schemes to be a high-risk investment, which are not generally suitable investments for Retail Clients. As such, firms are not permitted to promote investments in unregulated collective investment schemes to Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will be generally permitted to promote an investment in unregulated collective investment schemes to you, without being subject to this restriction (and without making any assessment of whether the investment would be suitable or appropriate for you).

3. **Communicating with clients, including financial promotions**

   Detailed rules govern generally the form and content of financial promotions which are issued to investors who are Retail Clients. However, these detailed form and content rules apply less rigorously where a promotion is issued only to investors who are Professional Clients. As a Professional Client, firms will be generally permitted to issue promotions to you which do not satisfy the detailed form and content rules for Retail Clients. Firms must ensure however that communications remains fair, clear and not misleading.

4. **Financial Ombudsman**

   The services of the Financial Ombudsman Service may not be available to you as a Professional Client

5. **Investor compensation**

   Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

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Elective Professional Client - Status Assessment

NAME OF LOCAL AUTHORITY:____

CAPACITY: **As administering authority of the local government pension scheme**

NAME OF OFFICIAL COMPLETING QUESTIONNAIRE:_____________________________

DATE:___________________

QUANTITATIVE TEST

Answer questions (a) - (d) below. Please ensure that the detail forming the basis of the determination is recorded.

Please answer question (a) with a "Yes" / "No" answer	
(a) Does the size of the local authority's financial instruments portfolio (including both cash deposits and financial instruments) for the purposes of its administration of a local government pension scheme **exceed GBP 10,000,000**? Portfolio size_______ as at date: ………………………………………………….	☐ Yes ☐ No
(b) Is the local authority an 'administering authority' of the Local Government Pension Scheme within the meaning of the version of Schedule 3 of The Local Government Pension Scheme Regulations 2013 or, (in relation to Scotland) within the meaning of the version of Schedule 3 of The Local Government Pension Scheme (Scotland) Regulations 2014 in force at 1 January 2018, and is acting in that capacity?	☐ Yes ☐ No
If the answer is "Yes" to question (b) above, it is not necessary to carry out the assessment in question (c) or question (d) and the answer "N/A" can be given in both cases	
(c) Has the local authority carried out transactions (in significant size) on the relevant market, at an average frequency of at least **10 per quarter** for the **previous four quarters** (i.e. at least 40 investments on the relevant market in the last year)? Transaction total: …………………………………………………………………..	☐ Yes ☐ No ☐ N/A
(d) Does the person authorised to carry out transactions on behalf of the local authority work or has that person worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged? Details of role: ………………………………………………………………………	☐ Yes ☐ No ☐ N/A

QUALITATIVE TEST

The "qualitative test" requires a firm to undertake an assessment of the **expertise, experience and knowledge** of the local authority, in order for the firm to be reasonably assured, in light of the nature of the transactions or services envisaged, that the local authority is capable of **making its own investment decisions** and **understanding the risks involved**[1].

In order for a firm to undertake the assessment required for the purposes of the qualitative test, certain information must be received from local authorities. Local authorities should provide answers to the questions set out below in as comprehensive a fashion as possible. The responses received from the local authority client should be considered and assessed internally by the firm.

TO BE COMPLETED BY THE LOCAL AUTHORITY CLIENT

Section 1: Decision making body for pension investing within your authority

Please complete the following section in relation to the decision making body within the authority.

1.	Please indicate which <u>one</u> of the models below is used for investment decisions in the administering authority.

a	All decisions delegated to committee or sub-committee. (*Please tick whether you have enclosed or provided a link to the minute giving the officer completing this document the necessary authorisation to do so*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
b	Decisions delegated to committee or sub- committee with partial delegation to an officer or officers. (*Please tick whether you have enclosed or provided a link to the minute giving the officer completing this application the necessary authorisation to do so*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
c	All decisions delegated to an officer or officers.	YES NO	☐ ☐
d	Other	YES NO	☐ ☐

2.	Please enclose or provide a link to the relevant scheme of delegations, which confirm details of the model elected above.	Enclosed Link	☐ ☐

3.	If you have selected model "d - other" above, please use the box below to describe the composition of the decision making model giving details of the parties and their functions. Details should include information on how the decision making body is constructed, constituted and periodically reviewed.

[1] COBS 3.5.3R (1)

Section 2: Expertise, experience and knowledge

Please answer the following questions in relation to the members of the committee or sub-committee (*not officers, investment advisors or consultants*) which makes investment decisions of behalf of the authority.

If you answered (c) to Section 1 Question 1, please move to Section 3.

1	Are members provided with a written brief on joining the committee? (*Please tick whether you have enclosed or provided a link to a copy of an example of the briefing*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
2	Are members provided with training on investment matters? (*Please tick whether you have enclosed or provided a link to examples of the training offered to members in the last 12 months*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
	Please indicate the total number of hours of training offered and delivered to the committee over the last 12 months.	hours offered hours delivered	
3	Is the attendance of members at training monitored and recorded?	YES NO	☐ ☐
4	Please state the average number of hours of training committee members have attended over the last 12 months.	hours	
5	Please state the average number of hours at investment conferences that committee members have attended over the last 12 months.	hours	
6	Are members required to complete a self-assessment with regard to their knowledge of investments? (*Please tick whether you have enclosed or provided a link to details of the self-assessment tool used*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
7	Please state the number of years served on the committee (or other such investment committees) on average for each member	years	
8	Please provide any other information which may assist with the assessment of the knowledge, experience and expertise of the committee or sub-committee - (such as the average number of years of independent investment experience by members).		

Section 3: Investment history and strategy

1	Please complete the following questions in relation to the authority's history and current strategy with regard to investments which are acquired through an investment manager's investment mandate or invested in directly (e.g. funds).

Asset class or investment vehicle	Number of years held	Currently Held
Fixed interest securities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Index-linked securities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Listed equities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Pooled investment vehicles (PIVs) – authorised funds (e.g. UCITS, NURS, PAIFs)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Pooled investment vehicles (PIVs) – unauthorised (e.g. investment trusts, close-ended real estate funds, hedge funds)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Property PIVs	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Private equity funds	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Property	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Exchange traded derivatives (ETDs)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Over-the-counter derivatives (OTCs)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Commodities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Cash deposits	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Commercial paper	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Floating rate notes	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Money market funds	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Other asset classes or investment vehicles where the authority has experience (Please give details below)		
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐

2	Please tick whether you have enclosed or provided a link to the most recent version of the authority's Investment Strategy Statement.	Enclosed Link	☐ ☐
3	Has the authority taken the appropriate advice, as required by regulation, in preparing its Investment Strategy Statement?	YES NO	☐ ☐

Section 4: Understanding risks

Please answer the following questions in relation to the members of the committee or sub-committee or officers (*not investment advisors or consultants*) making investment decisions of behalf of the authority.

1	Does the authority have a risk framework and/or risk management policy in place in relation to investments? (*Please tick whether you have enclosed or provided a link to a details of the framework/policy*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
2	Was external advice taken with regard to the preparation, monitoring and review of the framework/policy?	YES NO	☐ ☐
	If yes, please provide the name of the advisor:		
3	Is the risk framework/policy reviewed on a regular basis?	YES NO	☐ ☐
	If YES please state the frequency of the review.		
	(*Please tick whether you have enclosed or provided a link to details of the last review*)	Enclosed Link	☐ ☐
4	Are those directly involved in decision making provided with training on risk management, including focused training on understanding the risks involved with investments? (*Please tick whether you have enclosed or provided a link to examples of the training offered in the last 12 months*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
5	Are those directly involved in decision making required to complete a self-assessment with regard to their understanding of risk management? (*Please tick whether you have enclosed or provided a link to details of the self-assessment tool used*)	YES NO Enclosed Link	☐ ☐ ☐ ☐

Section 5: Support for investment decisions taken by committee/sub-committee of the authority

Please answer the following questions in relation to those officers, advisors or consultants who directly contribute to assisting the committee/sub-committee of the authority take investment decisions or those officers who have delegated decision making powers.

In Section 1 Question 1, if you answered:

- Model a - please complete Question 1 below
- Model b - please complete Questions 1 and 2 below
- Model c - please complete Question 2 below
- Model d - please complete the below questions as appropriate

1.	For each officer providing support to the committee or sub-committee please provide the following information.

Job title	Relevant qualifications	Years experience in role[2]

2.	For each officer with delegated investment powers please provide the following information (these may be the same officers as above).

Job title	Limit on asset classes or investment vehicles	Limit on delegation (£m)

3	Does the authority have a written succession plan in place to manage key person risk in relation to the above officers?	YES NO	☐ ☐
	(*Please tick whether you have enclosed or provided a link to details of the succession plan*)	Enclosed Link	☐ ☐

4.	For each individual investment advisor used by the authority please provide the following information *only to be completed where these individual investment advisors are engaged on an independent basis and not acting on behalf of an entity listed in point 5 below)*.

Name	Relevant qualifications	Years experience in role[3]

[2] Or similar role which would provide knowledge of the provision of the services envisaged, which may have been carried out at a different organisation.

[3] Or similar role which would provide knowledge of the provision of the services envisaged.

5.	For each investment advisory firm used by the authority please provide the following information.

Name of firm	**Details of FCA authorisation**	**Years employed by authority**

6.	For each individual investment consultant used by the authority please provide the following information (*only to be completed where these consultants are engaged on an independent basis and not acting on behalf of an entity listed in point 7 below)*.

Name	**Relevant qualifications**	**Years experience in role**[4]

7.	For each investment consultancy firm used by the authority please provide the following information.

Name of firm	**Details of FCA authorisation**	**Years employed by authority**

8.	Please confirm whether the officer, investment advisor firm/individual, investment consultancy firm/individual, is aware of the reliance being placed on it for the purposes of the client categorisation of Local Authorities.	YES ☐ NO ☐

[4] Or similar role which would provide knowledge of the provision of the services envisaged.

Section 6 General questions

1.	In the last three years has the authority been censured for a material breach of Local Government investment regulations in force from time to time or any other related legislation governing investment? (*If yes please tick whether you have enclosed or provided a link to a details of the breach*)	YES NO Enclosed Link	☐ ☐ ☐ ☐

2.	Please use the box below to provide any further information which may be useful in the support of your application.

Committee(s)	Dated:
Financial Investment Board - For decision	5th September 2017
Subject: Responsible Investment – Next Steps	**Public**
Report of: Chamberlain, Dr Peter Kane	**For Decision**
Report author: Dr Peter Kane, Chamberlain's department	

Summary

Following a presentation and discussion at FIB in June 2016 Members confirmed their interest in developing a step by step approach to Responsible Investment. Subsequently,

- IfM, our infrastructure investment manager, presented to FIB in October 2016 on the synergy between their high performance track record and their commitment to Responsible Investment (RI).
- Mercer outlined their assessment of the level of maturity in the approach of our Investment Managers to RI. And we also invited them to spell out how they integrated Environmental, Social and Governance (ESG) considerations into their investment policies. This confirmed that over 70% of our funds are managed by signatories to the Principles of Responsible Investment (PRI).
- We have been exploring with Mercer, PRI and investment managers possible approaches to RI.
- At the July Policy & Resources Committee Members considered the outcome of a Responsible Business Survey of the Corporation and agreed an initial action plan, which referenced the work already underway on Responsible Investment.

This report sets out further actions we can now take to build on progress over the last year, which is aligned with the refreshed draft investment strategy. It includes a suggested roadmap to signing up to the Principles of Responsible Investment over the next year.

Members are asked to agree to:

- A Survey of FIB Members on their investment beliefs in relation to RI/ESG considerations.
- Following the analysis of the survey results, a workshop/ FIB discussion on a Responsible Investment draft policy statement (see Appendix 1 as an example) that would feed into the wider Investment Strategy
- Subsequently, prepare an implementation plan that would enable us to commit to the UK Stewardship Code and to the Principles of Responsible Investment within an agreed timeframe

Main Report

Background

1. Responsible Investment is an approach to investment that explicitly acknowledges the relevance to the investor, in carrying out their fiduciary duties, of environmental, social and governance (ESG) factors, and the long-term health and stability of the market as a whole. It recognises that generating long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems. It is driven by a growing recognition in the financial community that effective research, analysis and evaluation of ESG issues is a fundamental part of assessing the value and performance of an investment over the medium and longer term, and that this analysis should inform asset allocation, stock selection, portfolio construction, shareholder engagement and voting.

   One way in which asset owners, investment consultants and investment managers have underlined their commitment to RI is to sign up to the United Nations Principles of Responsible Investment (PRI). The six principles state:

   - *We will incorporate ESG issues into investment analysis and decision-making processes.*
   - *We will be active owners and incorporate ESG issues into our ownership policies and practices.*
   - *We will seek appropriate disclosure on ESG issues by the entities in which we invest.*
   - *We will promote acceptance and implementation of the Principles within the investment industry.*
   - *We will work together to enhance our effectiveness in implementing the Principles.*
   - *We will each report on our activities and progress towards implementing the Principles.*

   There are more than 1,700 signatories from over 50 countries, of which around two thirds are investment managers, representing over US$60 trillion of assets.

Progress to date

2. Members responded positively to the Responsible Investment presentation by Mercer at their September 2016 FIB. They agreed that we should adopt a step by step approach to strengthening our commitment to RI and to ensuring ESG considerations inform our approach to our investment strategy.

   A number of steps have therefore been taken over the last 12 months:

   - IfM presented to FIB in October 2016 on how they saw RI as central to their investment philosophy and that it underpinned their strong investment performance.

- We have discussed with Mercer the basis for the ESG ratings for each of our principal Investment Managers, which we see reflected in their regular performance reports. This suggests that most have signed up to the Principles of Responsible Investment (PRI) and will argue that they have taken on board ESG considerations. But they are still at a relatively early stage (Level 3 on a scale of 1 – best practice – to 5) in fully integrating RI into their ways of working.

- We also wrote to Investment Managers (IMs) to alert them to the increasing interest in RI and to give them an opportunity to set out how they currently approach ESG considerations and what they plan to do in the future. The responses confirmed that 71% of funds are managed by signatories to the PRI but that they were not able to evidence clearly in a number of cases how this has impacted on their investment strategies, backing up the Mercer analysis.

- Further discussions with Mercer have helped to shape the suggested next steps set out below. And discussions with individual IMs – most recently with Pyrford – confirm that RI/ESG considerations are increasingly seen as a mainstream/core business, in part in response to a growing expectation across public and charitable sectors that they should form an integral part of the investment offer. ESG was also a key element of the Private Rented Sector presentations to FIB recently.

- The Responsible Business Survey, which was reported on to P&R in July, highlighted the Corporation wide benefits of strengthening our commitment to being a Responsible Business and it identified Responsible Investment as an area where work was underway and early progress could be made.

A discussion with the Principles of Responsible Investment (PRI) organisation, which provides support to signatories and is based in London, suggests that:

- Signing up to the PRI can help to provide a strong message of intent to Investment Managers, other stakeholders and the public.

- The reporting requirements, particularly for asset owners, are not overly onerous, particularly after the initial investment in establishing the reporting framework. Investment managers provide the bulk of the required data. There are a significant number of resource constrained asset owner (university endowments, family offices) signatories who find the reporting workload manageable. We would bring in some additional support in the first instance, given the pressures on the team.

- Signatory reporting data feeds into two publicly available outputs – the Transparency and Progress Reports. New signatories have one full reporting cycle during which it is voluntary to report. The Assessment Report is a private confidential report given to the signatory offering feedback on their reporting. This is designed to assist the signatory in progressing their RI implementation journey, which begins with signing up and an initial period spent defining objectives, followed by reporting and feedback on future opportunities. In other words, it is a not a name and shame model and it is recognised that change does not happen overnight – this mitigates any perceived reputational risk.

- Current UK signatories include Lloyds Banking Group, the BT and Marks & Spencer Pension Schemes, the Pension Protection Fund and Kent and Lancashire County Council Pension Funds. Fees payable to PRI would amount to around £3k each year.

Next Steps

3. There are a number of steps that can now be taken to build on the groundwork over this last year. Following discussion with Mercer, we would suggest the following actions:

    - A Survey of FIB Members of their investment beliefs – Mercer have provided us with a previously used draft, which could be adapted if necessary, and circulated after the September FIB.
    - A workshop/extended FIB discussion on the outcome of the survey and a draft RI policy statement, which could in turn feed into the refreshed Investment Strategy. Appendix 1 is the RI statement made by the Pension Protection Fund and forms an integral part of their wider strategy.
    - Following the conclusion of the workshop/FIB discussion, prepare an implementation plan that would enable us to commit to the UK Stewardship Code and to the Principles of Responsible Investment within an agreed timeframe.

Conclusion

4. Strengthening our commitment to RI/ESG will support the long term performance of our assets. The proposed actions provide a step by step approach which would ensure we have a clear strategy which recognises that it will take time to implement fully.

Appendices

- Appendix 1 – Example of RI policy statement

Dr Peter Kane
Chamberlain
T: 0207 332 1300; E: peter.kane@cityoflondon.gov.uk

Appendix 1

Pension Protection Fund Statement of Investment Principles:

Chapter 9 Responsible Investment and corporate governance

9.1 The Board's primary concern, in setting its investment strategy, is to act in the best financial interests of the Fund and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk.

9.2 The Board believes that in order to fulfil this commitment and to protect and enhance the value of the Fund's investments over the long-term, it must act as a responsible and vigilant asset owner and market participant.

9.3 The Board further believes that environmental, social and governance (ESG) factors can have an impact on the long-term performance of its investments, and that the management of ESG risks and exploitation of ESG opportunities can add value to its portfolio.

9.4 The Board is a signatory of the UN Principles of Responsible Investment (UN PRI), a set of best practice principles on Responsible Investment (RI). The Board intends to use these Principles as a benchmark with which to guide its own approach to RI, and in doing so will seek to apply RI principles across all the assets in which it invests.

9.5 The Board defines environmental, social and governance (ESG) factors as the interaction of its investments with:

• The physical environment (environmental);

• Communities, workforces, wider society and economies (social);

• The governance structures of the organisations and markets we invest in, as well as of our agents (governance, including corporate governance).

9.6 The Board will integrate the consideration of ESG issues across all asset classes and markets in which it invests. In particular the Board, or its agents on its behalf, will exercise its ownership rights, including voting rights, in order to safeguard sustainable returns in the long-term.

9.7 The Board expects its fund managers, where appropriate, to have integrated ESG factors as part of their investment analysis and decision-making process. Appropriate weight will be given to ESG factors in the appointment of fund managers. The Board will hold fund managers to account in this regard as part of its regular monitoring process.

9.8 In line with its commitment to transparency, the Board will report to its stakeholders on its responsible investment activities.

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Agenda Item 14b

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