

# Pensions CIV Sectoral Joint Committee

Item no: 5

## London CIV Progress Update

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### Summary

This report provides the Committee with updates covering programme implementation, general progress as London CIV moves into 'business as usual' and the high-level programme risk register for consideration.

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### Recommendations

The committee is recommended to:

- i. Consider and note the contents of this report.
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# London CIV Progress Update

## Introduction

1. The Committee last received a report on progress towards establishing the London CIV at its meeting of 4 November 2015. Since then significant progress has continued to be made and this report provides an update to Members covering the major achievements over the last three months.

## Progress

2. Major items to note are:
  - **Borough participation:** in November 2015 the 31<sup>st</sup> London local authority (LB Havering) became an active participant in the London CIV programme. Timing of report drafting and distribution prevented this being reported to the last meeting.
  - **Fund authorisation:** the Committee's last update noted that the Company (London CIV) had been authorised by the FCA on 15 October 2015 and that the Fund application for authorisation had been submitted. It can now be reported that the Fund was authorised on 13 November 2015. Achieving this milestone made London CIV the first full-scope Alternative Investment Fund Manager (AIFM) in local government and the first to be authorised to operate an Authorised Contractual Scheme Fund (ACS). This achievement is the result of more than two years of collaboration across the London boroughs facilitated by London Councils.
  - **Fund launch:** the first sub-fund (London LGPS CIV Global Alpha Growth Fund), managed by AllianzGI under delegated management, opened on 2 December 2015. The 'seed' investors are LBs Ealing, Islington and Wandsworth. The fund has £500 million of assets under management from three participating boroughs. There are eight further sub-funds to open to complete the 'launch' phase and the next two will be a Diversified Growth Fund and another Active Global Equities Fund under the management of Baillie Gifford.

It is becoming clear that opening the six passive equity sub-funds involves some complex issues that are taking longer to resolve than first anticipated. Seminars are being organised with officers of the boroughs involved to discuss the issues and to keep them in touch with progress. As the bulk of assets for the launch phase sit within the passive asset class there is a knock-on impact on the company's cost recovery model, this is being modelled. London CIV officers are stepping up the process of discussing with Fund Managers the potential to open other sub-funds sooner than previously planned.

- **Business strategy development:** now that the implementation phase is drawing to a close, and the light of the government's LGPS reform criteria and guidance, London CIV's Board has begun the process of revisiting and refining the company's business strategy through to 2020. The strategy will be presented to the Committee for consideration at the next meeting.
- **Board appointments:** following the last Committee meeting one of London CIV's Board members, Lisa Arnold, resigned due to other commitments. The Board has been working with Odgers Berndtson to recruit a suitably qualified replacement and

interviews are being scheduled for 18 February 2016, due regard is being paid to diversity issues in making this appointment.

- **Implementation programme closure:** implementation of London CIV is drawing to a close and the implementation budget is being reviewed. A report will be submitted to the next Committee meeting but indications are that costs have been maintained within budget.
- **Engagement with the FCA:** on 22 January London CIV's CEO, COO and Eric Mackay (Non-executive Director) presented to over 30 staff of the FCA on the formation of the CIV and the wider LGPS reform agenda. This level of engagement from the regulator is very unusual and a clear indication that they are very interested in ground breaking nature of what the London boroughs and London CIV have achieved.

The CEO and COO of London CIV met with officers of the FCA to discuss the impact of MiFID II and what options might be pursued to mitigate the effects of the Directive on local government. It was a productive meeting giving both sides a greater understanding of the issues on each side. Enactment of the Directive has been postponed for a year giving more time for further discussions.

The FCA has announced that they are to undertake a review of the Investment Management industry and Investment Consultants. Indications are that London CIV will be asked to participate in the evidence gathering phase of this review. The specific questions they are seeking address are:

- whether investors find it difficult to monitor asset managers and ensure they are getting value for money;
- whether potential conflicts of interest arise from the provision of both advice and asset management services by investment consultants;
- whether asset managers have the incentive and ability to control costs incurred on behalf of investors along the asset management value chain effectively;
- whether the bundling of some ancillary services affects the provision and quality of services provided.

### **Risk Register**

3. The current implementation risk register is attached at Annex A for consideration, significant updates are:
  - **Risks 1a, 1b, 4 & 5:** these risks have been closed.
  - **Risk 3:** the 'Likelihood' factor of this risk has been reduced to 2, reducing the 'Outcome' rating to 4 as experience has shown that boroughs are generally very engaged and able to make the necessary transition decisions on time.
  - **Risk 8:** this risk has been added at the request of the Committee.
4. The programme risk register will be closed as part of the overall programme closure process. London CIV has developed a company risk register which is under review by the Compliance Audit & Risk Committee before going to the Board for formal ratification. The finalised risk register will be brought to the next meeting of this Committee for information.

## **Recommendations**

5. The committee is recommended to:
  - i. Consider and note the contents of this report.

## **Financial implications**

6. There are no financial implications for London Councils

## **Legal implications**

7. There are no legal implications for London Councils

## **Equalities implications**

8. There are no equalities implications for London Councils



## Risk Register

Responsibility		London CIV Programme Office									
Date last reviewed		01/02/2016									
Reviewed by		Hugh Grover									
No	Risk	Risk Type	Risk description	Risk Rating without control (1-4)			Controls in place	Responsible Officer	Risk rating with control (1-4)		
				L	I	O			L	I	O
1.	FCA Authorisation	External; & Reputational	1a) Risk that FCA will delay the CIV application	2	3	6	- Expert advisors engaged for application. - Meetings with FCA to discuss proposal.	Hugh Grover	2	2	4
			1b) Risk that FCA will reject the CIV application	1	4	4	- Expert advisors engaged for application. - Meetings with FCA to discuss proposal.		4	3	3
2.	Borough engagement	External; & Reputational	Risk that any serious delays in the CIVs launch will result in some of the boroughs withdrawing their support	2	2	4	- Frequent communications with senior borough officers and SLT. - Engagement with members through the PCJC and other communications.	Hugh Grover	1	2	2
3.	Borough investment decision making	Project	Risk that the borough committees will not take the decision to invest through the CIV and delay sub fund launches.	3 2	2	6 4	- communicate critical timeframes to boroughs. - understand and respond to individual borough needs. - Boroughs being encouraged to seek delegated decision making powers for the s.151 (Finance Director).	Hugh Grover	1	2	2
4.	Company infrastructure	Operational	Risk that infrastructure is not established within launch timeline	2	3	6	- Project plans in place to deliver infrastructure within timeframe.	Hugh Grover	4	2	2

5.	Government action	Project	Risk that government may decide to take its own actions to reform the LGPS and that the CIV may not be part of those reforms	1	4	4	<ul style="list-style-type: none"> <li>- maintain regular contact with Ministers and civil servants.</li> <li>- maintain high profile of the CIV.</li> </ul>	Hugh Grover	1	4	4
6.	Not delivering savings	Financial & reputational	Risk that the CIV will not deliver savings to the participating boroughs	1	4	4	- Ensure focus on delivering savings.	Hugh Grover	1	3	3
7.	Unexpected costs	Financial & project	Risk that programme implementation costs will exceed budget due to unexpected costs	1	2	2	<ul style="list-style-type: none"> <li>- Robust financial system and regular budget review.</li> <li>- Ensure VFM is gained from every 3<sup>rd</sup> party contract.</li> </ul>	Hugh Grover	1	2	2
8.	The impact of MiFID II on the boroughs	Operational	Risk that when boroughs are downgraded to 'Retail' investors they will not be able to invest through the CIV	3	4	12	- Maintain dialogue with the FCA to ensure that they deliver a workable outcome.	Hugh Grover	2	4	8