

## Proposal for asset pooling in the LGPS – 15 July 2016

<p>Name of pool</p>	<p><b>London CIV</b></p> <p>The London CIV was formed as a voluntary collaborative venture by the London Local Authorities in 2014 and has led the way in pooling of investments in the LGPS. London Local authorities and their pension funds have been working together for over 3 years to bring the benefits of pooling of investments in London. The work done in London has been widely recognised as performing a seminal role in the wider pooling agenda and demonstrating how collaboration can work in practice. This has all been done on a voluntary basis. It is gratifying that all 33 London Local Authorities have now committed to what started as a ground-breaking voluntary project.</p>
<p>Participating authorities</p>	<p>London Borough of Barking and Dagenham</p> <p>London Borough of Barnet</p> <p>London Borough of Bexley</p> <p>London Borough of Brent</p> <p>London Borough of Bromley</p> <p>London Borough of Camden</p> <p>City of London Corporation</p> <p>London Borough of Croydon</p> <p>London Borough of Ealing</p> <p>London Borough of Enfield</p> <p>Royal Borough of Greenwich</p> <p>London Borough of Hackney</p> <p>London Borough of Hammersmith and Fulham</p> <p>London Borough of Haringey</p> <p>London Borough of Harrow</p> <p>London Borough of Havering</p> <p>London Borough of Hillingdon</p>

	<p>London Borough of Hounslow</p> <p>London Borough of Islington</p> <p>Royal Borough of Kensington and Chelsea</p> <p>Royal Borough of Kingston upon Thames</p> <p>London Borough of Lambeth</p> <p>London Borough of Lewisham</p> <p>London Borough of Merton</p> <p>London Borough of Newham</p> <p>London Borough of Redbridge</p> <p>London Borough of Richmond upon Thames</p> <p>London Borough of Southwark</p> <p>London Borough of Sutton</p> <p>London Borough of Tower Hamlets</p> <p>London Borough of Waltham Forest</p> <p>London Borough of Wandsworth</p> <p>Westminster City Council</p>
<p><b>Individual London Authority Responses</b></p> <p><b>Appendix 9</b></p>	<p>The template response has been completed by the London CIV as the pool for London Local Authorities. Where London Funds have wanted to provide a supplementary response and have arranged for a copy of their response to be given to the London CIV, these have been included as appendices.</p> <p>Responses from individual funds are:</p> <ul style="list-style-type: none"> <li>➤ London Borough of Barnet</li> <li>➤ City of London</li> <li>➤ London Borough of Ealing</li> <li>➤ London Borough of Hackney</li> <li>➤ Royal Borough of Kensington &amp; Chelsea</li> <li>➤ London Borough of Lambeth</li> </ul>

	<ul style="list-style-type: none"> <li>➤ London Borough of Sutton</li> <li>➤ London Borough of Tower Hamlets</li> </ul>
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**Criterion A: Asset pools that achieve the benefits of scale**

<b>1. The size of the pool once fully operational.</b>	
<p>(a) Please state the total value of assets (£b) to be invested via the pool once transition is complete (based on asset values as at 31.3.2015).</p>	<p><b>£28.4 bn.</b></p> <p>NB – assumes all assets transferred by 2033 with the exception of cash held for operational reasons</p>

<b>2. Assets which are proposed to be held outside the pool and the rationale for doing so.</b>
<p>(a) Please provide a summary of the total amount and type of assets which are proposed to be held outside of the pool (once transition is complete, based on asset values at 31.3.2015).</p>
<p>Up to £700m or 2.4% of total assets under management as at 31.03.15 to be held as individual cash holdings across the London Local Authorities for operational reasons. Rationale for all other assets transferring to the pool – additional fund structures to be established alongside the ACS to hold other investments which either can't be held in ACS or aren't economical to do so.</p> <p>However in the interim, we anticipate that approximately 12.6% of the assets may be in illiquid assets and are therefore likely to remain outside of the pool in the short to medium term. This is comprised of:</p> <ul style="list-style-type: none"> <li>• Property £2.1bn or 7.2% AUM</li> <li>• Private Equity £0.6bn or 2% AUM</li> <li>• Hedge Funds £0.6bn or 2% AUM</li> <li>• Infrastructure £0.2bn or 0.7% AUM</li> </ul>

- Other illiquid assets e.g. partnerships £0.3bn or 0.7% AUM

In addition the government’s list of exemptions for the immediate future includes life funds. Whilst the CIV has been working to transition these to an ACS structure, in the light of this new exemption and some of the complexities faced in moving to ACS structures from life companies, the CIV is reappraising its approach to this asset class, where possible it will continue with an ACS approach, but will blend with maintaining life policies where appropriate to do so. Within London this represents £7.5bn or 25.9% of AUM as at 31.03.15. Whilst recognising that a proportion of these can continue to be held at a local level as life policies, the CIV at a pool level will provide the management and reporting for these assets as outlined in the asset exemptions paper.

(b) Please attach an ANNEX for each authority that proposes to hold assets outside of the pool detailing the amount, type, how long they will be held outside the pool, reason and how it demonstrates value for money.

Attached as ANNEX number  
 Annex 01 – Illiquid Assets held across London Local Authority Pension Fund  
 Annex 02 – Passive Life Policies across London Local Authority Pension Funds

### 3. The type of pool including the legal structure.

(a) Please set out the type of pool, including legal structure, and confirm that it has been formally signed off by all participating authorities:

- Details of the FCA authorised structure that will be put in place, and has been signed off by the participating authorities.

London LGPS CIV Limited (“London CIV”) is fully authorised by the FCA as an Alternative Investment Fund Manager (AIFM) with permission to operate a UK based Authorised Contractual Scheme fund (ACS Fund). FCA firm registered as London LGPS CIV Ltd, Reference Number 710618.

Approval for the structure has been signed off by the 33 participating London Local

Authorities with each authority formally approving the decision to join the London CIV

- Outline of tax treatment and legal position, including legal and beneficial ownership of assets.

The London CIV is a UK authorised and regulated tax transparent fund (TTF) structured as an ACS open to qualified investors. The legal ownership of assets is with the depository and beneficial ownership of the assets will remain with each of the investing local authorities; the London CIV is the fund manager.

- The composition of the supervisory body.

Annex 5 sets out the governance structure for the London CIV. The governance structure of the CIV has been designed to ensure that there are both formal and informal routes to engage with all the Authorities as both shareholders and investors. This is achieved through a combination of the London Councils’ Sectoral Joint Committee, comprising nominated Member representatives from the London Local Authorities (in most cases the Pensions Committee Chair), and the Investment Advisory Committee (“IAC”) formed from nominated borough officers, which includes both London Local Authority Treasurers and Pension Officers from a number of Authorities.

At the company level for London CIV, (second chart), it is the Board of Directors that is responsible for decision making within the company, which will include the decisions to appoint and remove investment managers.

Please confirm that all participating authorities in the pool have signed up to the above. If not, please provide in an Annex the timeline when sign-off is expected and the reason for this to have occurred post July submission date.

Attached as ANNEX number  
[Annex 3 - Shareholders Agreement](#)  
[Annex 4 - London CIV Articles of Association](#)  
[Annex 5 - London CIV Governance Structure](#)

**4. How the pool will operate, the work to be carried out internally and services to be hired from outside.**

Please provide a brief description of each service the pool intends to provide and the anticipated timing of provision.

(a) To operate in-house (for example if the pool will have internal investment

management from inception):

1. Selection, appointment and termination of 3<sup>rd</sup> party fund managers (in-house fund management is an option that will be considered in future)
2. Investment Oversight of external 3<sup>rd</sup> party fund managers
3. Operations Management and oversight of 3<sup>rd</sup> party service providers
4. Compliance and Risk Management (fund and company)
5. Client Reporting
6. Website Management
7. Financial Management and Budgeting
8. Fund Oversight, controlled functions support (2018?)

(b) To procure externally (for example audit services):

1. External Fund Managers – to be procured as and when required
2. Audit Services (Deloitte) – Contract in place
3. Legal Services (Eversheds) – Contract in place
4. Asset Service Provider (Northern Trust) – Contract in place
5. Depository (Northern Trust) – Contract in place
6. Fund Oversight, controlled functions support (Capita) – Contract in place – likely to move internal over a period of time
7. Communications support (London Councils) – Contract in place
8. ICT Support Services (London Councils) – Contract in place
9. Payroll and Pension Services (City of London) – Contract in place
10. Bookkeeping Services (PWC) – Contract in place
11. Investment Consultancy – to be procured as and when required
12. Transition Management – to be procured as and when required

**5. The timetable for establishing the pool and moving assets into the pool. Authorities should explain how they will transparently report progress against that timetable and demonstrate that this will enable progress to be monitored.**

(a) Please provide assurance that the structure summarised in 3 above will be in place by

01.04.2018 assuming: x, y and z (add caveats).	
<p>Confirmed YES/NO</p> <p>YES – Structure already in place and operational</p> <p>However, London CIV now dependent on government progress the Investment Regulations as some funds will be at risk of breaching current regulatory limits in the near future.</p>	<p>Anticipated date structure will be in place:</p> <p>Established and operational 2015 with first assets under management December 2015</p>
<p>(b) Please provide as an ANNEX a high level timetable for the establishment of the structure and transition of assets as well as the proposed methodology for reporting progress against this timetable.</p>	<p>Attached as ANNEX number</p> <p>An indicative timetable for bringing assets under management is attached at Annex 6. However this is heavily dependent on a range of factors including but not limited to:</p> <ul style="list-style-type: none"> <li>➤ Ability of FCA to approve opening of London CIV funds in a timely manner</li> <li>➤ Ability to open additional Fund structures outside of the ACS to facilitate transfer of less liquid assets</li> <li>➤ The treatment of life funds going forwards</li> <li>➤ Ability of suppliers to meet timescales for opening sub-funds for the CIV, particularly when other Pools start the process of sub-fund openings</li> <li>➤ Sufficient resources available both internally, externally and at a Local Authority level to transition assets</li> <li>➤ It should be recognised that the draft</li> </ul>

	<p>timeline is inevitably very high level at this stage. We recognise that this timeline has of necessity to be flexible, because it will depend to a large extent on meeting the needs of the London Local Authority investment strategies particularly as they review their asset allocation following the triennial valuation. Depending on appetite this may also result in earlier moves into property and infrastructure.</p>
<p>(c) Please provide as an ANNEX an outline of how you will approach transition over the years and where possible by asset class (any values given should be as at 31.3.2015.)</p>	<p>Attached as ANNEX number  <a href="#">See comment above and Annex 6</a></p>
<p>(d) Based on the asset transition plan, please provide a summary of the estimated value of assets (in £b and based on values as at 31.3.2015 and assuming no change in asset mix) to be held within the pool at the end of each 3 year period starting from 01.4.2018.</p>	
<p>Total value of assets estimated to be held in pool as at: -</p> <p><b>Please note that of necessity any forecasts have to be heavily caveated due to the fact that it will depend on the timing of assets being transferred, the ability to source and implement sub-funds, the complexity of the requirements for different assets classes including that of infrastructure. It also assumes that AUM will continue to grow steadily but this will be heavily dependent on market movements and also the structures for local government going forwards, how quickly individual funds become cashflow negative and also any future changes to the benefit and cost structure of the LGPS.</b></p> <p>31.3.2021: £25.9bn Est  31.3.2024: £28.4bn Est</p>	



31.3.2027: £28.4bn Est

31.3.2030: £28.4bn Est

31.3.2033: £28.4bn Est i.e. all AUM held by London Local Authorities with the exception of cash held for operational reasons

**Criterion B: Strong governance and decision making**
**6. The governance structure for their pool, including the accountability between the pool and elected councillors and how external scrutiny will be used.**

- a) Please briefly describe the mechanisms within the pool structure for ensuring that individual authorities' views can be expressed and taken account of, including voting rights.

The governance structure of the CIV and the role that Authorities play in this is crucial to understanding how decisions are made in the CIV and the interaction that there has to be. All participating London Local Authorities are both shareholders and investors in the London CIV company and as such the CIV is accountable to the Authorities at both levels. The governance structure of the CIV has been designed to ensure that there are formal and informal routes to facilitate engagement with all the Authorities. This is achieved through a combination of the London Councils' Pensions Sectoral Joint Committee (PSJC), comprising nominated elected Member representatives Authorities (in most cases the Pensions Committee Chair), and the Investment Advisory Committee ("IAC") formed from nominated borough officers, which includes both Treasurers and Pension Officers from a representative sample of Authorities.

The share structure of London CIV provides for equal voting rights for each authority on a one share one vote basis, this is a key tenet of the decision making process.

- b) Please list and briefly describe the role of those bodies and/or suppliers that will be used to provide external scrutiny of the pool (including the Pensions Committee and local Pension Board).

- As an AIFM London CIV must comply with the Alternative Investment Manager Directive ("AIFMD") and falls under the regulatory scrutiny and reporting regime of the Financial Conduct Authority ("FCA"). This includes the requirement for robust systems and processes and for these to be documented appropriately in policies and manuals. Risk management is a particular focus for the FCA and London CIV has developed a risk framework and risk register covering all areas of its operations, including fund management.
- The Pensions Sectoral Joint Committee ("PSJC") has been established under the governing arrangements of London Councils. The PSJC effectively fulfils two roles, one is as a mechanism

for convening elected Member representation from each borough (generally the borough's Pension Committee Chair), and the other is as the route to convening the Authorities as shareholders in London CIV. This Committee will provide scrutiny and oversight of the CIV for the Authorities, with each Borough represented on the Committee with voting rights.

- Borough Pension Committees – In most instances the Chair of the Pensions Committee at a Borough level will be the delegated representative on the PSJC and will be able to provide an overview back to the individual Committee on the work of the London CIV and its effectiveness from attending the PSJC. In addition the London CIV will provide regular updates to Authorities through its written reports and will also attend Committee meetings as and when required and in this way will help to ensure that the individual Pensions Committee are able to provide scrutiny of the London CIV.
- Pensions Boards – The role of Pension Boards is to assist the Administering Authority in ensuring compliance with the regulatory framework which the Fund operates in. Whilst in the first instance the CIV will be accountable to the relevant Pensions Committees of its shareholders and investors, if they are unable to receive the necessary assurance, then the Pensions Board can in turn seek to gain that assurance direct that the Administering Authority is compliant with the regulations.
- External Audit – Deloitte have been appointed to undertake external audit of both the company (London CIV) and the ACS Fund and will provide an annual governance statement which will be publicly available on the website.
- Depositary – The formal structures that the London CIV has put in place including FCA registration and the appointment of a Depositary (Northern Trust) helps to provide additional scrutiny on the CIV in providing monitoring and regulatory oversight of the company and a range of services including:
  - Safe custody of assets
  - Oversight of key systems and processes
  - Due-diligence review of the Operator (London CIV), and the Custodian, Fund Accountant, and Transfer Agent (Northern Trust)

## 7. The mechanisms by which authorities can hold the pool to account and secure assurance

**that their investment strategy is being implemented effectively and that their investments are being well managed in the long term interests of their members.**

(a) Please describe briefly the type, purpose and extent of any formal agreement that is intended to be put in place between the authorities, pool and any supervisory body.

- London CIV has gone beyond ‘intention’ and has formal agreements and arrangement in place and is already in the process of pooling investments for the London Local Authorities.
- As already described above there are three levels of interaction between investing authorities and London CIV as the operating company; the PSJC, the IAC and regular contact through formal and informal interaction at borough level. It is embedded in the culture of London CIV that everything is being done ‘for and on behalf of’ the investing authorities and, while London CIV must ultimately take decisions independently of investors (for regulatory reasons) those decisions will be taken with appropriate levels of collaboration and the best interest of the investing authorities at heart. Formal agreements and documentation include:

- The Shareholders Agreement which sets out the terms and conditions of the joint venture and regulates their relationship with each other and certain aspects of the affairs of and dealings with the Company. The Company has agreed with the Shareholders that it will comply with the terms and conditions of the Agreement insofar as it relates to the company and provided it is legal to do so. (See annex)

- The PSJC is established under London Councils’ governance arrangements.

- The PSJC has specific Terms of Reference which include the following:

*“....to receive and consider reports and information from the ACS Operator particularly performance information and to provide comment and guidance in response (in so far as required and permitted by Companies Act 2006 requirements and FCA regulations).*

*In addition, members of the Pensions CIV Joint Committee will meet at least once each year at an Annual General Meeting of the ACS Operator to take decisions on behalf of the participating London local authorities in their capacity as shareholders exercising the shareholder rights in relation to the Pensions CIV Authorised Contractual Scheme operator (as provided in the Companies Act 2006 and the Articles of Association of the ACS Operator company) and to communicate*

*these decisions to the Board of the ACS Operator company. These include:  
the appointment of directors to the ACS Operator board of directors;  
the appointment and removal of auditors of the company;  
agreeing the Articles of Association of the company and consenting to any  
amendments to these;  
receiving the Accounts and Annual Report of the company;  
exercising rights to require the directors of the ACS Operator company to call a  
general meeting of the company;”*

- As an FCA authorised contractual scheme, the CIV is required to publish a prospectus which details how the CIV will operate including the valuation, pricing and administration of the Scheme.
- A service level agreement is also currently being drafted which will set out in more detail agreed service levels between the CIV and the Authorities which will help to further enable the CIV to be held to account for ensuring that borough investment strategies are being implemented and the timescales.

(b) If available please include a draft of the agreement between any supervisory body and the pool as an ANNEX.

Attached as ANNEX number  
Annex 3 - Shareholders Agreement  
Annex 4 - Articles of Association  
Annex 7 - Terms of reference – PSJC  
Annex 8 - Prospectus of London  
LGPS CIV ACS

(c) Please describe briefly how that agreement will ensure that the supervisory body can hold the pool to account and in particular the provisions for reporting back to authorities on the implementation and performance of their investment strategy.

- See comments above and relevant Annexes

**8. Decision making procedures at all stages of investment, and the rationale underpinning this. Confirm that manager selection and the implementation of investment strategy will be carried out at the pool level.**

(a) Please list the decisions that will be made by the authorities and the rationale underpinning this.

The overall control of each individual authority pension fund stays at the local level and Authorities will continue to set their fund investment strategy and decide the most appropriate asset allocation mix in conjunction with advice from their officers, Consultants and Advisors. Therefore, Individual Pension Committees will continue to make all the key decisions as they do now in relation to asset allocation and investment strategy.

Funds will therefore continue to make decisions around:

- Funding
- Asset Allocation
- Investment Strategy
- Appointment of advisers
- Governance structures for the Fund
- Setting their own Responsible investment strategy
- Preparing and ratifying relevant Fund policy statements in accordance with the regulations e.g. Funding Strategy Statement, Investment Strategy Statement, etc.

(b) Please list the decisions to be made at the pool level and the rationale underpinning this.

Decision Making – London CIV Ltd. Level (FCA Authorised & Regulated AIFM)

- Appointment of external 3<sup>rd</sup> party managers
- Removal of external 3<sup>rd</sup> party managers
- Implementation and optimisation of investment strategies
- Appointment of other external 3<sup>rd</sup> party service providers
- Decisions on sub-fund structures and fund launches

- Management Structure
- All FCA Regulated Activities
- The CIV will, where appropriate consider investing in other pools in order to facilitate access to different investment strategies where other pools have capacity and we don't or can't build capacity (generally for reasons of limited demand within the London Pool). Likewise we will be open to accepting investments from other pools where we offer strategies that the other pool doesn't.

(c) Please list the decisions to be made by the supervisory body and the rationale underpinning this.

Decision Making – Supervisory Body – London Councils' Sectoral Joint Committee

- Oversight and scrutiny of the pool
- Shareholder representative body
- Recommending strategic overall strategy and sub-fund requirements to meet the needs of Shareholders
- Policy decisions including stewardship and voting at a pool level

## 9. The shared objectives for the pool and any policies that are to be agreed between participants.

(a) Please set out below the shared objectives for the pool.

Principles:

The shared principles of the London CIV established when the London Local Authorities came together are unchanged despite the government's more mandatory stance, namely:

1. Investment in the ACS should be voluntary, both entry and withdrawal (although it is recognised that the voluntary nature is now more constrained by the forthcoming investment regulations).
2. Authorities choose which asset classes to invest into and how much.
3. Authorities should have sufficient control over the ACS Operator
4. Investing authorities will take a shareholding interest in the operator
5. Shareholders will have membership of the Pensions Sectoral Joint Committee

<p>6. ACS Operator will provide regular information to participating Authorities</p> <p>7. ACS will not increase the overall investment risk faced by the Authorities.</p>	
<p>(b) Please list and briefly describe any policies that will or have been agreed between the participating authorities.</p>	
<p><b>Policies:</b></p> <ul style="list-style-type: none"> <li>➤ High level policy on responsible investment to include compliance statement with the Stewardship Code to be developed by end December 2016</li> <li>➤ Voting Policy – to vote in accordance with LAPFF recommendations – Agreed by the PSJC – 27<sup>th</sup> May 2015</li> <li>➤ The London CIV is working closely with other Pools to consider approaches to responsible investment and ESG issues can be addressed by the pools to ensure effective stewardship</li> </ul>	
<p>(c) If available please attach as an ANNEX any draft or agreed policies already in place.</p>	<p>Attached as ANNEX number</p>

**10. The resources allocated to the running of the pool, including the governance budget, the number of staff needed and the skills and expertise required.**

<p>(a) Please provide an estimate of the operating costs of the pool (including governance and regulatory capital), split between implementation and ongoing. Please list any assumptions made to arrive at that estimate. <u>Please include details of where new costs are offset by reduced existing costs.</u></p>	<p>Implementation costs -</p> <p>Approximately £1.8m to establish core structure and open first sub-funds</p> <p>Ongoing costs - The budget for the financial year ending 2017 has costs of £2.3m growing by 8% for the following year and 2.7% for the year after. At this time the budget for the longer term outlook is</p>
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currently under review.

Assumptions:

**Please note that of necessity any forecasts have to be heavily caveated due to the fact that it will depend on the timing of assets being transferred, the ability to source and implement sub-funds, the complexity of the requirements for different assets classes including that of infrastructure. It also assumes that AUM will continue to grow steadily but this will be heavily dependent on market movements and also the structures for local government going forwards, how quickly individual funds become cashflow negative and also any future changes to the benefit and cost structure of the LGPS.**

The budget that has been agreed by the Board and the PSJC for 2016/17 and the following 3 years, however, it has become necessary to consider resources in particular in the light of the move to mandatory pooling and the timeframe in which this has to be delivered.

The London CIV is aware of a range of benchmarking exercises which would indicate that for investment management organisations of the size and scope of the London CIV a greater level of resourcing is required and will need to take this into account as it considers its longer term budget.

Capital adequacy is based on either 25% of annual expenditure or 0.02% of AUM subject to a max of £10m whichever is the higher in line with regulatory requirements.

Whilst in theory there may be reduced costs at a Local Authority level to come through in terms of resources allocated to managing investments and the relationships with individual managers, there will still be an ongoing requirement to monitor performance of the London CIV as well as any investments which continue to be held outside of the CIV at least in the short to medium term. Furthermore, in

London, there are very limited numbers of staff dedicated solely to the function of pension investments, it usually forms part of an individual's job role, estimated at 0.35 FTE for most authorities for this exercise, which could lead to 11 FTE's over the course of pooling (approximate saving of £660k p.a. based on a staff cost of £60k p.a.) However, it should be noted that any savings at a local level are highly unlikely to follow through given earlier comments on ongoing monitoring plus additional regulatory requirements elsewhere, for example increased oversight requirements from Pensions Board and the Pensions Regulator, which is likely to mean that resourcing at a local level is not reduced as a result of pooling of investments.

Reduced costs at a Borough level should follow through from a reduction of investment manager searches at individual fund authorities as this will now be conducted at a pool level. It has been assumed that this will give rise to savings at a London-wide level in the region of £825k p.a. (based on a search costing £25k and approximately 33 investment management searches being conducted on behalf of London funds each year based on historic data)

**Comments**

- The long term budget for the London CIV is subject to strategic review and a revised budget and financial plan are being drafted over the next 2 months for approval by the London CIV Board and PSJC.
- Surplus funds can be used to support additional resource requirements going forwards.
- Reduced costs at a Borough level will include reduced investment management fees, but this will also be dependent on the types of assets that Authorities may choose to allocate to and in some instances could actually increase e.g. moving assets from passive to infrastructure.

(b) Please provide an estimate of the staff numbers and the skills/expertise required, split

between implementation and ongoing. Please state any assumptions made to arrive at that estimate.

#### Assumptions

- The near term business plan currently assumes 12 full time equivalent (FTE) staff to March 2017 and recruitment is underway to take the CIV up to this complement of staff. However, it is recognised that as assets under management grow and the complexity of those assets increases, there will be additional resourcing requirements which could see staffing at least double over the next few years.
- The CIV is aware of the CEM benchmarking work on the level of staffing required for investment management organisations which use external managers. This would indicate a staffing ratio of 0.36 FTE investment and front office staff per £1bn AUM with additional back office/support and governance staff of 1.8 FTE for every front office staff. If this level of staffing were to be reflected for the CIV with £29bn AUM this would indicate staff levels of 10.4 investment front office FTE and 18.8 FTE in supporting and governance roles.
- The CIV will have to consider the level of resources required to manage the growing asset base and complexity of those assets, recognising that it is providing services to 33 underlying clients, but will do so in a measured way recognising the need to deliver pooling in the most cost effective and efficient way.
- Staffs in key roles are required to have the requisite skills and expertise to be able to fulfil FCA regulated functions, e.g. CF1, CF3, CF10, CF11 and CF30.

#### Comments

- With the London CIV having been established and transition of assets underway, it is more a case of business as usual going forwards, although there will be additional implementation costs in the next 2-3 years.
- However, it is likely that going forwards any release of resource from implementation will transfer to other areas and to ensure that switching of asset

allocation and investment strategy by the London Funds is carried through in a timely efficient manner.

- In addition the ongoing monitoring of existing managers and potential new managers and investment opportunities, means that going forwards the addition and removal managers will still require resources to undertake strategic implementation decisions.

**8. How any environmental, social and corporate governance policies will be handled by the pool. How the authorities will act as responsible, long term investors through the pool, including how the pool will determine and enact stewardship responsibilities.**

(a) Please confirm there will be a written responsible investment policy at the pool level in place by 01.4.2018.

Confirmed

Attached as ANNEX number

The London CIV pool is committed to reviewing its approach to being responsible long term investors including becoming signatories to the Stewardship Code.

A cross cutting stewardship working group has been formed as a sub group of the PSJC to review this area, in addition to a working group of the IAC officer group to work with the CIV to develop stewardship policies and approaches which can be taken forwards.

If no please attach an ANNEX setting out how the pool will handle responsible investment and stewardship obligations, including consideration of environmental, social and corporate governance impacts.

**9. How the net performance of each asset class will be reported publicly by the pool, to encourage the sharing of data and best practice.**

(a) Please confirm that the pool will publish annual net performance in each asset class

<p>on a publicly accessible website, and that all participating authorities will publish net performance of their assets on their own websites, including fees and net performance in each listed asset class compared to a passive index.</p>	
<p>Confirmed</p> <ul style="list-style-type: none"> <li>➤ The London CIV is committed to providing performance information publicly and the website is already operational and reporting of sub-funds available: <a href="http://londonciv.org.uk/">http://londonciv.org.uk/</a></li> <li>➤ Performance reporting is already taking place on the funds that are operational</li> <li>➤ Quarterly and Annual report to Sectoral Joint Committee (public papers) on both sub-fund and overall performance at a pool level</li> <li>➤ Quarterly performance reporting to the company Board</li> <li>➤ Individual quarterly performance reports to each investor</li> <li>➤ The CIV is already working on the first interim report and accounts, which will also be put on the website with an annual report and accounts published in spring next year. This will include both the financial information relating to the CIV as a company along with the performance of all the relevant sub-funds.</li> </ul> <p>If no please attach an ANNEX setting out how the pool will report publically on its performance.</p>	<p>Attached as ANNEX number</p>

**10. The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool.**

(a) Please list the benchmarking indicators and analysis that the participating authorities intend to implement to assess their own governance and performance and that of the pool.

- Performance at individual fund level net of fees and relative to relevant benchmark,

quarterly, annual and longer term performance to include since inception and 3 and 5 years.

- Where funds migrate to the same investment strategy with the same underlying manager, longer term performance records to be maintained.
- Full disclosure of fees and investment costs
- Budgeted and Actual costs for the London CIV
- Benchmarking – use of external provider/ collaborate with other pools to review options – looking at options for a National LGPS Framework Procurement exercise to procure providers in this area.
- Scheme Advisory Board reporting requirements both at Fund and Pool levels

**Criterion C: Reduced costs and excellent value for money**

<b>1. A fully transparent assessment of investment costs and fees as at 31 March 2013.</b>	
(a) Please state the total investment costs and fees for each of the authorities in the pool as reported in the Annual Report and Accounts for that year ending 31.03.2013.	<b>£67.6m (Published costs)</b> <b>28.16 bps</b>
(b) Please state the total investment costs and fees for each of the authorities in the pool as at 31.03.2013 on a fully transparent basis.	<b>£108.6m (CEM Benchmarking)</b> <b>48.34 bps</b>
(c) Please list below the assumptions made for the purposes of calculating the transparent costs quoted.  All London Local Authorities have provided data to CEM Benchmarking to ensure that costs are measured in the same way and to make investment costs fully transparent	

<b>2. A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison, and how these will be reduced over time.</b>	
(a) Please state the total investment costs and fees for each of the authorities in the pool as reported in the Annual Report and Accounts for that year ending 31.03.2015.	<b>£107.19m (Published costs)</b> <b>36.84 bps</b>
(b) Please state the total investment costs and fees for each of the authorities in the pool as at 31.03.2015 on a fully transparent basis.	<b>£135.6m (CEM Benchmarking)</b> <b>48.16 bps</b>
(c) Please list below any assumptions made for the purposes of calculating the transparent costs quoted that differ from those listed in 1(c) above.  All London Local Authorities have provided data to CEM Benchmarking to ensure that costs are measured in the same way and to make investment costs fully transparent.	

The accounting treatment has meant greater transparency for the reporting of costs between 2013 and 2015 and is not necessarily reflective of higher fees paid to external managers, which is probably reflected in the constant level of bps charge shown by the CEM benchmarking.

### 3. A detailed estimate of savings over the next 15 years.

- (a) Please provide a summary of the estimated savings (per annum) to be achieved by each of the authorities in the pool at the end of each 3 year period starting from 01.04.2018.

Total value of savings (per annum) estimated to be achieved by each of the authorities in the pool as at 3 year intervals commencing from 2018

**Please note that of necessity any forecasts have to be heavily caveated due to the fact that it will depend on the timing of assets being transferred, the ability to source and implement sub-funds, the complexity of the requirements for different assets classes across 33 London Local Authorities, along with the changing structures for local government going forwards, how quickly individual funds become cashflow negative and also any future changes to the benefit and cost structure of the LGPS.**

**Whilst recognising that fee savings are one aspect of improving the level of return which pension funds achieve, this has to be put into the context of the levels of risk and return delivered. Targeting higher levels of return are inevitably going to increase risk but also the cost of accessing greater returns.**

**If, as seems likely Funds require more complex investments to deliver returns and cashflow as they mature including accessing infrastructure assets, then the cost savings may well fall significantly short of the estimated savings being suggested. As funds adjust their asset allocation and investment strategy to meet their funding needs, it may well not be possible to evidence the fee savings set out below.**

**Further, if as seems likely, we are entering an environment where both economic growth and market returns are structurally and materially lower, then investment returns will by definition be lower. This will also be impacted by the likely move into more expensive cash-flow generating assets. In sum, the shifting needs and**



**requirements of the local authority pension funds, allied to broader shifts in the economic and investing environment, may mean that the CIV overall will report lower growth in capital values and higher fees than has been the case in recent years.**

The table below sets out the estimated savings on 3 year basis with both high and low estimates of the savings that might be achieved based on the AUM and asset allocation as at 31/03/15. The average saving per annum is based on the 3 years accumulated saving averaged over 3 years and then assumes each of the 33 authorities achieve the same level of saving.

However, it is recognised that funds start in very different places in terms of the AUM and the asset allocation and the fee levels paid for those investments. It is only possible to calculate savings at a fund level once all relevant information is taken into account at the

time of

3 years to	Low Estimate £'000 - 3 years	Avg saving p.a. based on 33 funds £'000	High Estimate £'000 - 3 years	Avg saving p.a. based on 33 funds £'000
2021	27,856	281	63,596	642
2024	33,836	342	80,121	809
2027	34,736	351	83,022	839
2030	34,736	351	83,022	839
2033	34,736	351	83,022	839

transition.

- (a) Please list below the assumptions made in estimating the savings stated above (for example if you have used a standard assumption for fee savings in asset class please state the assumption and the rationale behind it).

Standard assumptions have been made on basis point savings in each asset class – this reflects both experiences from recent negotiations with external managers, but also echoes the work undertaken by Project Pool. A high and low estimate has been provided to reflect the fact that fee savings are likely to vary significantly depending on the investment strategy within individual asset classes and the capacity and demand for

products with each external provider.

Assumptions - bps savings on fees paid to external managers			
	AUM	Low Estimate	High Estimate
Passive Equity	7,537,293	2	4
Active Equity	9,697,638	5	12
Fixed Interest	4,938,727	3	5
Multi-Asset	2,635,633	5	12
Property	2,094,598	5	15
Alternatives	1,566,590	10	30
Cash & Other	626,735	-	-
<b>TOTAL</b>	<b>29,097,214</b>		

- Project Pool – estimated savings in the range £140-185m p.a. by year 10 based on asset values today
- LGPS AUM £217bn at 31/03/15
- London = 13.4% AUM
- Low estimate of savings = 8.3%
- High estimate of savings = 15.0%

(c) Alternatively you may attach an ANNEX showing the assumptions and rationale made in estimating the savings shown.

Attached as ANNEX number

**4. A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool, and an explanation of how these costs will be met.**

(a) Please provide a summary of estimated implementation costs, including but not limited to legal, project management, financial advice, structure set-up and transition costs. Please represent these costs in a table, showing when these costs will be incurred, with each type of cost shown separately. Please estimate (using information in Criteria C Section 3) the year in which the pool will break even (i.e. the benefits will exceed additional costs of pooling).

As noted in a previous response the London CIV has gone beyond 'intention' and has formal agreements and arrangements in place and is already in the process of pooling investments for the London Local authority pension funds and delivering fee savings to funds.

The estimated implementation costs were £1.8m and have already been incurred.

At this time the London CIV budget is under review with a revised budget to be presented to the PSJC and the Board at meetings in the autumn. Until such time as the revised budget is available, it will not be feasible to provide break-even point and an update will be provided in the autumn.

(b) Please list below the assumptions made in estimating the implementation costs stated above (for example if you have assumed a standard cost for each asset class please state the assumption and the rationale behind it).

Total transition costs at this time are estimated at £30.4m (low estimate) up to £103.6m (high estimate), with a mean cost of £53.3m these are based on average transition costs supplied by Russell. A proportion of current AUM has been assumed as being transferred in-specie.

ASSET CLASS	AUM £000s	Mean Estimated Costs			Low Estimated Costs			High Estimated Costs		
		% in-specie	Bps	£000s	% in-specie	Bps	£000s	% in-specie	Bps	£000s
Passive Equity	7,537,293	85%	20	4,522	90%	10	1,507	80%	30	9,045
Active Equity	9,697,638	60%	30	23,274	70%	24	13,965	50%	36	34,911
Fixed Interest	4,938,727	40%	25	14,520	50%	20	9,680	30%	29	20,328
Multi-Asset	2,635,633	60%	15	3,163	70%	12	1,898	50%	18	4,744
Property	2,094,598	85%	100	6,284	90%	80	3,351	80%	300	25,135
Alternatives	780,999	95%	100	781	100%	-	-	90%	300	4,686

Private Equity	589,456	95%	100	589	100%	-	-	90%	300	3,537
Infrastructure	196,135	95%	100	196	100%	-	-	90%	300	1,177
Cash & Other	626,735									
<b>Total £000s</b>	<b>29,097,214</b>			<b>53,330</b>				<b>30,401</b>		<b>103,563</b>
<b>Total % (based on total AUM)</b>				<b>0.18%</b>				<b>0.10%</b>		<b>0.36%</b>

\*NB Estimated transition cost assumptions provided by Russell based on AUM and estimated turnover

But transition costs will be heavily dependent on each individual transition taking into account:

- Timing of transition – volatility in markets can have a significant impact on these costs
- Where the assets are being transitioned from and to e.g. passive to passive is relatively low cost and may be largely in-specie, alternatively, emerging market to emerging market with no in-specie will be at the higher cost end
- How much in-specie transition is feasible i.e. where there are common mandates or holdings which can be moved between investment managers.
- Stamp duty costs

(c) Alternatively you may attach an ANNEX showing the assumptions and rationale made in estimating the implementation costs shown.

Attached as ANNEX number

(d) Please explain how the implementation costs will be met by the participating authorities.

- London Local Authorities provided initial set up capital of £75k per participating authority to establish the London CIV and cover the initial implementation costs including legal and advisers' costs.
- Transition costs will be met by each individual fund as it transitions assets across to the London CIV. Funds are provided with estimated transition costs in advance of transition taking place and then a post trade report showing costs of implementation.

**5. A proposal for reporting transparently against forecast transition costs and savings, as well as for reporting fees and net performance.**

(a) Please explain the format and forum in which the pool and participating authorities will transparently report actual implementation (including transition) costs compared to the forecasts above.

As assets are transferred either in-specie or in cash into a sub-fund, individual authorities will be provided with the costs of transition.

The CIV will look to disclose at a pool level the costs of transition and savings to its broader investment and shareholder base on an annual basis as a minimum, but will be reporting to the Board and PSJC on a quarterly basis

(b) Please explain the format and forum in which the pool and participating authorities will transparently report actual investment costs and fees as well as net performance.

- Authorities will be provided with quarterly reporting from the London CIV which will encompass both their investment performance and the fees paid by them, including any fund charges
- At a pool level, shareholders will be provided with an annual report setting out performance and costs for each individual sub-fund including net performance as well as at a pool level
- Quarterly reporting and annual reporting will be provided to individual Authorities in a written report
- In addition performance of sub-funds will be covered on the CIV website.
- Quarterly and Annual reporting will also be reviewed at the IAC and PSJC meetings as well as at the Company Board meetings and the Company Investment Oversight Committee.

(c) Please explain the format and forum in which the pool and participating authorities will transparently report actual savings compared to the forecasts above.

- As above

**Criterion D: An improved capacity to invest in infrastructure**

1. The proportion of the total pool asset allocation currently allocated to / committed to infrastructure, both directly and through funds, or “funds of funds”	
(a) Please state the pool’s committed allocation to infrastructure, both directly and indirectly, as at 31.3.2015.	0.7%
(b) Please state the pool’s target asset allocation to infrastructure, both directly and indirectly, as at 31.3.2015.	1%
Please use the definition of infrastructure agreed by the Cross Pool Collaboration Group Infrastructure Sub-Group.	

2. How the pool might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments through the combined pool, rather than existing fund, or “fund of funds” arrangements.	
<p>(a) Please confirm that the pool is committed to developing a collaborative infrastructure platform that offers opportunities through the utilisation of combined scale, to build capability and capacity in order to offer authorities (through their Pools) the ability to access infrastructure opportunities appropriate to their risk appetite and return requirements more efficiently and effectively.</p> <p style="color: blue;">Aim of the Cross Pool Collaboration Infrastructure Group:-</p> <p style="color: blue;">To develop a collaborative infrastructure framework that offers opportunities through the utilisation of combined scale, to build capability and capacity in order to offer Funds (through their Pools) the ability to access infrastructure opportunities appropriate to their risk appetite and return requirements more efficiently and effectively.</p>	
<p>(b) Please confirm that the pool is committed to continuing to work with all the other Pools (through the Cross Pool Collaboration Infrastructure Group) to progress the development of a collaborative infrastructure initiative that will be available to all Pools and include a timescale for implementation of the initiative.</p>	<p>Confirmed <span style="color: blue;">Yes</span></p> <p style="color: blue;">The CIO of the London CIV sits on the Cross Pool Infrastructure Group and will continue to play an active role as this group develops options for infrastructure investments</p>

	Details attached as ANNEX number
(c) [If different to above] Please attach an ANNEX setting out how the pool might develop the capability and capacity in this asset class, through developing its own resources and / or accessing shared resources of other Pools and include a timescale for implementation of the initiative.	Attached as ANNEX number  In addition to the Cross Pool group, consideration is also being given to a range of ways to access infrastructure including co-investment, direct funds and working closely with other investors in this area.

**3. The proportion the pool could invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at this position.**

(a) Please state the estimated total target allocation to infrastructure, or provide a statement of potential strategic investment, once the capacity and capability referred to in 2 above is in full operation and mature.	3-10%  Where funds have indicated to the Pool an interest in allocating to infrastructure, the range is between 3-10%, but this remains a local asset allocation decision
(b) Please describe the conditions in which this allocation could be realised.  The allocation to infrastructure will be a decision which is made at the London Local Authority level when determining overall asset allocation; however the CIV will ensure that it has the mechanisms in place and the opportunities for the relevant Funds to meet their asset allocation requirements when deciding to invest in infrastructure. The CIV will target infrastructure opportunities that offer the appropriate levels of risk/return for the London Local Authorities to be able to make informed decisions about their asset allocation to this asset class. The CIV will ensure that it works closely with other pools and with individual funds and their advisors to ensure that the requisite knowledge and skills are available to make informed decisions.	