

By email only

13 June 2018

Dear Chief Executive

New governance arrangements for London LGPS CIV Limited (London CIV)

Now we are at the stage of implementing the new London CIV governance arrangements we are writing to update you about next steps and to seek your ongoing support for the next phase of implementation. This follows Lord Kerslake's letter to Leaders of 17 April 2018.

Background

These arrangements were the subject of consultation earlier in the year and received support from both the Pensions CIV Sectoral Joint Committee ("PCSJC") and the London Councils Leaders' Committee in March 2018. The next milestone is the London CIV AGM on 12 July 2018 which is the same day as the PCSJC AGM.

The key components of the new governance framework are summarised below, together with next steps. A more comprehensive note about the framework is enclosed as Appendix A, together with detailed Terms of Reference for the Shareholder Committee and General Meeting and for key roles.

We would be grateful for your ongoing support in achieving the key next steps, which are already well in hand with input from other interested parties:

- confirmation of the new governance arrangements at the AGM on 12 July 2018 followed by the transition to new arrangements beginning with the September Board and Shareholder Committee meetings;
- ratification of the appointment of new Non-Executive Directors and members of the Shareholder Committee at the 12 July 2018 AGM, following nomination via the London Councils collective political processes;
- any feedback on the Terms of Reference which will be confirmed at the London CIV AGM;
- signing of the written notice revoking the delegation to the joint sectoral committee (the PCSJC).

Governance Framework, Key Components

The key changes to the London LGPS CIV Limited governance framework are summarised in this section.

The composition and experience on the London CIV board will be enhanced by the appointment of two more Non-Executive Directors, representative of the shareholders (expected to be Leaders of London Local Authorities). The first nominations will be made via the London Councils collective political processes for ratification at the London CIV AGM on 12 July 2018, subject to formal appointment by the Board in accordance with the articles and FCA approval. The appointment is expected to be for a three year term. A Treasurer will be nominated as an Observer, but not a member of the London CIV Board.

The Shareholders will meet at two General Meetings of London CIV each year, one to approve the budget, and an AGM.

There will be a Shareholder Committee of the London CIV ("the Committee"), which will act on behalf of the Shareholders as a consultative body, including on the Company's business plans and financial performance, and topics such as Responsible Investment. There will be 12 Committee Members made up of 8 Local Authority Pension Committee Chairs (or Leaders of London Local Authorities) and 4 Local Authority Treasurers. The Chair of the Board of London CIV will also be a member of the Committee. The first nominations of elected members (Local Authority Pension Committee Chairs or Leaders) will be made via the London Councils collective political processes and the Society of London Treasurers in the case of Treasurers, for ratification at the London CIV AGM on 12 July 2018. A Trade Union Representative will be nominated as an Observer in consultation with London Councils and the Joint Secretaries (Greater London Provincial Council) .

These arrangements will replace the PCSJC which will be dissolved. Written notice is required to be given by participating London Local Authorities to London Councils revoking the delegation of the discharge of the relevant functions to the sectoral joint committee. The notice is enclosed for signature in accordance with the authorisation procedures required by each individual London Local Authority.

To complement these new Shareholder governance arrangements there will be an improved framework for client services, informed by Shareholder consultation, including a Service Level Agreement and programme of events for clients collectively.

Timeline for implementing the change

In summary the key steps in implementing the change are set out below.

June

- Two additional Non-Executive Directors nominated for appointment by the Board subject to FCA approval, formal nomination to be made by the London Councils collective political processes. One Treasurer Observer nominated via the Society of London Treasurers. Appointments expected to take effect in August 2018 (subject to FCA approvals).
- 12 members of the Shareholder Committee nominated for appointment via the London Councils collective political processes and the Society of London Treasurers in the case of Treasurers. The Chair of London CIV will also be a Committee member. Appointments are expected to take effect from 1 August 2018. One Trade Union Observer to be nominated as an Observer in consultation with London Councils and the Joint Secretaries (Greater London Provincial Council).

July

- PCSJC and London CIV AGMs held on 12 July 2018 ratifying nominations and other AGM business
- Shareholder Committee Terms of Reference agreed at the London CIV AGM, subject to on-going review
- General Meeting Framework endorsed at the London CIV AGM

Mid July/August

- Induction of new Board members and Shareholder Committee members from July onwards

September

- New Board members attend first Board meeting in early September
- First meeting of new Shareholder Committee 19th September, subject to PCSJC dissolution

Questions

If you have any questions in respect of the proposals please email them to Kristina Ingate, Chief of Staff, London CIV Kristina.ingate@londonciv.org.uk preferably before the 12 July 2018 AGM with a copy to Christiane Jenkins Director of Corporate Governance London Council christiane.jenkins@londoncouncils.gov.uk

Yours sincerely



Mark Hyde-Harrison
Chief Executive London CIV



John O'Brien
Chief Executive London Councils

This letter has been copied to Treasurers, Pension Chairs and Pension Managers of the London Local Authorities and equivalent at the City of London.

Appendix A

London LGPS CIV Limited (“London CIV”) Governance Framework Overview

General

London CIV is a company limited by shares, whose shareholders are the London Local Authorities. In addition to the Memorandum and Articles of Association there is a Shareholder Agreement which reserves certain matters to the Shareholders in General Meeting.

New governance arrangements have been agreed in principle, which are intended to be implemented from 12 July 2018, which replace the existing Pensions CIV Sectoral Joint Committee of the London Councils with a new framework for Shareholder engagement. The Shareholder rights under the existing Agreement are not changed.

The new arrangements include:

1. The appointment of two more Non-Executive Directors (NEDs), who are expected to be Leaders, to the London CIV Board to enhance its composition so that it is more representative of London CIV shareholders and stakeholders, has more experience of the environment in which London CIV operates, and enhances stakeholder and shareholder engagement. A Treasurer will also be nominated as an Observer.
2. The creation of a Shareholder Committee of 12 Members from the London Local Authorities plus the Chair of the London CIV Board, 8 being Pension Committee Chairs (or equivalent) and 4 Treasurers (or equivalent). A Trade Union Representative will also be nominated as an Observer in consultation with London Councils and the Joint Secretaries (Greater London Provincial Council).
3. Two General Meetings of Shareholders, one to agree the budget and the other being the Annual General Meeting which considers the annual report and financial statements, regulatory capital statement, and appointments. Both meetings therefore provide an opportunity to review and comment on the corporate and financial performance of the company.

Appointments Process Generally

The process for nominating individuals for appointment is via the collective political processes of the London Councils or the Society of London Treasurers in the case of Treasurers, and in line with the process for other external bodies. Nominations for the Trade Union Observer to the Shareholder Committee will be made in consultation with the London Councils and the Joint Secretaries (Greater London Provincial Council). The London CIV Chief of Staff is the contact point within London CIV, supporting the Chair and CEO of London CIV. The route for making requests for nominations from the Shareholders is via the CEO of the London Councils or Secretary of the Society of London Treasurers as appropriate.

London CIV Board

Non-Executive Directors

The London CIV is responsible for the strategic direction of the company, key business and financial decisions, oversight of its performance, and governance. It is comprised of a mix of Executive and Non-Executive Directors. The current Chair is Lord Kerslake.

All NEDs have the same responsibilities under the Companies Acts and other relevant legislation, with collective responsibility as a board and to promote the success of the company for members (Shareholders) as a whole. London CIV is regulated by the Financial Conduct Authority (FCA) and the role of director is a “controlled function” so appointments are subject of FCA approval. The formal appointment of the nominee, subject to FCA approval, is by the Board in line with the company's Articles of Association. All director appointments are subject to (re)-ratification at the AGM.

To enhance the expertise available on the Board, and shareholder/stakeholder engagement, the two additional NEDs are expected to be Leaders of London Local Authorities who are Shareholders and nominated via the Leaders Committee of the London Councils.

There is a service agreement for the NED role which includes the role description and summary of director duties. It also includes the fee payable (currently £15,000 per annum), time commitment, induction and ongoing development expectations and obligations. These obligations take account of FCA requirements.

Treasurer Observer

The Treasurer Observer is expected to be nominated by the Society of London Treasurers. They will attend meetings of the London CIV Board in an observer capacity as part of stakeholder engagement arrangements, but without any decision-making or advisory role.¹

Shareholder Committee

The Terms of Reference for the Committee are set out in full in Appendix B. These will be ratified at the London CIV AGM to be held on 12 July 2018 and have been updated from those circulated at the March 2018 meeting to take account of discussions at that meeting, practice to date, and improve clarity e.g. about appointment arrangements.

The Committee acts as a representative body of the shareholders, and its members are appointed by the shareholders. It is a Committee of the London CIV. Its key aims are to be consulted on and provide the views of the Committee members, acting always collectively on behalf of the Shareholders, to the Company's Board in respect of matters such as:

1. The strategy, business plan, corporate and financial performance of the Company;
2. Emerging issues and opportunities facing Shareholders which may impact the Company;
3. Topics such as Responsible Investment, and Reporting and Transparency;
4. Matters reserved for the approval of the shareholders, as and when appropriate in accordance with the terms of the Shareholders Agreement.

The Terms of Reference set out the objectives of the new Committee, as well as detail on the membership and reporting to the Board and Shareholders collectively. The Committee membership ("Members") is 8 Pension Committee Chairs/Leaders (or equivalent), 4 Treasurers, and the Chair of the London CIV Board. There will be a Trade Union Observer.

In future years the Terms of Reference will be reviewed every two years, and agreed between, Committee Members and the Board. This year the AGM will be requested to endorse the Terms of Reference, subject to any final review by the new Committee and London CIV Board with the Terms of Reference of the Committee being formally adopted at its first meeting.

General Meeting Framework

The General Meeting Framework has been updated from the document circulated in March 2018 to: reflect discussion at that meeting and subsequently; clarify the matters to be discussed at the two General Meetings; and include information about appointment arrangements.

Dissolving the PCSJC, The Articles and Shareholders Agreement

The new arrangements do not alter any of the existing Shareholder rights under the Shareholders' Agreement.

The PCSJC was established under the London Council's Governing Agreement. The new arrangements replace the PCSJC and written notice is required to be given by all participating London Local Authorities to London Councils revoking the delegation of the discharge of the relevant functions to the sectoral joint committee. The notice is enclosed and is to be signed in accordance with the authorisation procedures required by each individual London Local Authority

The Shareholders Agreement currently refers to the PCSJC, but only in that it provides that the Shareholder representative at AGMs will be the same person as the shareholder has appointed to represent it within the PCSJC. It also provides that the chairman of the PCSJC will chair the General Meetings of the London CIV unless another person is appointed by the Shareholders.

A Deed of Amendment will be drafted to update the Shareholders Agreement to remove references to the PCSJC and include a reference to the new Shareholder Committee.

¹ It will be important to take account of formal guidance on Stakeholder Engagement and on Shadow Directorships to ensure an appropriate balance between company law requirements in respect of shadow directors and good practice on stakeholder engagement