Putting the Community First

BARNET LONDON BOROUGH

MEETING
PENSION FUND COMMITTEE
DATE AND TIME
TUESDAY 14TH MARCH, 2017
AT 7.00 PM
VENUE
HENDON TOWN HALL, THE BURROUGHS, LONDON NW4 4AX

TO: MEMBERS OF PENSION FUND COMMITTEE (Quorum 3)

Chairman:	Councillor Mark Shooter	
Vice Chairman:	Councillor John Marshall MA (Hons)	
Councillors		
Rohit Grover	Andreas Ioannidis	Peter Zinkin
Arjun Mittra	Jim Tierney	
Substitute Members		
Pauline Coakley Webb	Dean Cohen	Anthony Finn
Adam Langleben	Stephen Sowerby	Ross Houston

In line with the Constitution's Public Participation and Engagement Rules, requests to submit public questions or comments must be submitted by 10AM on the third working day before the date of the committee meeting. Therefore, the deadline for this meeting is Friday 10 March at 10AM. Requests must be submitted to paul.frost@barnet.gov.uk

You are requested to attend the above meeting for which an agenda is attached.
Andrew Charlwood – Head of Governance

Governance Services contact: Paul Frost

Media Relations contact: Sue Cocker 020 8359 7039

ASSURANCE GROUP

ORDER OF BUSINESS

Item No	Title of Report	Pages
1.	Minutes	5 - 8
2.	Absence of Members	
3.	Disclosable Pecuniary interests and Non Pecuniary interests	
4.	Public Question and Comments (if any)	
5.	Report of the Monitoring Officer (if any)	
6.	Members' Items (if any)	
7.	Presentation - Impact of Brexit decision on Pension Fund Performance.	N/A
8.	Pension Fund Performance to 31 December 2016	9 - 34
9.	London Collective Investment Vehicle Update Report	35 - 74
10.	External Audit of Pension Fund 2016- 2017	**To Follow**
11.	Investment Strategy Review: Income Managers and Infrastructure	**To Follow**
12.	Actuarial Valuation 2016 Report	**To Follow**
13.	Investment Strategy Statement	**To Follow**
14.	Any item(s) that the Chairman decides is urgent	

FACILITIES FOR PEOPLE WITH DISABILITIES
Hendon Town Hall has access for wheelchair users including lifts and toilets. If you wish to let us know in advance that you will be attending the meeting, please contact Paul Frost. People with hearing difficulties who have a text phone, may telephone our minicom number on 020 8203 8942. All of our Committee Rooms also have induction loops.

FIRE/EMERGENCY EVACUATION PROCEDURE
If the fire alarm sounds continuously, or if you are instructed to do so, you must leave the building by the nearest available exit. You will be directed to the nearest exit by Committee staff or by uniformed custodians. It is vital you follow their instructions. You should proceed calmly; do not run and do not use the lifts. Do not stop to collect personal belongings Once you are outside, please do not wait immediately next to the building, but move some distance away and await further instructions. Do not re-enter the building until told to do so.

This page is intentionally left blank

Decisions of the Pension Fund Committee

18 January 2017

Cabinet Members:-

Cllr Mark Shooter (Chairman)
Cllr John Marshall (Vice-Chairman)

* Rohit
* Andreas Ioannidis
* Jim Tierney
* Peter Zinkin
* Arjun Mittra

Also in attendance

James Kennedy (Middlesex University)

1. MINUTES (Agenda Item 1):

The Committee agreed to make minor amendments to the minutes of the meeting that took place on 31 October 2016.

Councillor Peter Zinkin moved to amend section 3 of the minutes and therefore suggested inserting the word 'or' following the word 'and' in respect all the declarations made by Members. Therefore the committee noted that minute in respect to declarations made read:

Non Disclosable Pecuniary Interest by virtue of being beneficiary of LGP Scheme and/or having shareholdings in a number of companies that the fund had invested in.

Having considered the above the Committee agreed the amendments and therefore the minutes were signed as an accurate record.

2. ABSENCE OF MEMBERS (Agenda Item 2):

None

3. DISCLOSABLE PECUNIARY INTERESTS AND NON PECUNIARY INTERESTS (Agenda Item 3):

Member	Agenda Item	Interests Declared
Councillor Mark Shooter	All Items	Non Disclosable Pecuniary Interest by virtue of being beneficiary of LGP Scheme and/or having shareholdings in a number of companies that the fund had invested in.
Councillor John Marshall		Non Disclosable Pecuniary Interest by virtue of being beneficiary of LGP Scheme and/or having shareholdings in a number of companies that the fund had invested in.

Councillor Rohit Grover		Non Disclosable Pecuniary Interest by virtue of being beneficiary of LGP Scheme and having shareholdings in a number of companies that the fund had invested in.
Councillor Arjun Mittra		Non Disclosable Pecuniary Interest by virtue of being beneficiary of LGP Scheme and/or having shareholdings in a number of companies that the fund had invested in.
Councillor Peter Zinkin		Non Disclosable Pecuniary Interest by virtue of being beneficiary of LGP Scheme and/or having shareholdings in a number of companies that

4. PUBLIC QUESTION AND COMMENTS (IF ANY) (Agenda Item 4):

None

5. REPORT OF THE MONITORING OFFICER (IF ANY) (Agenda Item 5):

None

6. MEMBERS' ITEMS (IF ANY) (Agenda Item 6):

None

8. PENSION FUND ACTUARIAL REVIEW (Agenda Item 8):

The report was presented by Gemma Sefton, Partner Hymans Robertson LLP. She outlined the assumptions to be used by the actuary, Hymans Roberts to set the funding target in preparing the 2016 actuarial valuation and of the changes in assumptions from the 2013 actuarial valuation.

Councillor Peter Zinkin moved an amendment which was seconded by the Chairman for the recommendation be reworded to read…That the actuarial assumptions ‘proposed’ to be used in the actuarial valuation be noted.

The Committee agreed this and therefore having considered the report the committee

Resolved:

- That the report be noted
- That the Pension Fund Committee agreed that a sub-committee be established to meet to consider the assumptions that will be reported to the Committee
- First draft of results will be communicated with the Pensions Fund Committee Members prior to the resubmission via a formal Committee report for consideration

9. PENSION FUND ADMISSION BODY AGREEMENT (Agenda Item 9):

The Chairman introduced the item and provided a summary on the report.

Having considered the report the Pensions Fund Committee:

Resolved:

- That the Pension Fund Committee approved, subject to amalgamation taking place, the admission into the Pension Fund of a body formed following the amalgamation of Viridian and AmicusHorizon.

- That the Pension Fund Committee delegated to the Section 151 officer:
  - To approve the pre and post amalgamation deeds of agreement between the London Borough of Barnet as administering authority for the London Borough of Barnet Pension Fund and Viridian Housing a registered provider
- That the Pension Fund Committee noted the requirement of the amalgamated company to provide a bond for the admitted body.

10. BARNET COUNCIL PENSION FUND PERFORMANCE FOR QUARTER JULY TO SEPTEMBER 2016 (Agenda Item 10):

The report was presented by Mudaddal Jamali, Investment Analyst Hymans Robertson LLP. He outlined the performance of the London Borough of Barnet's Pension Fund performance for quarter July to September 2016 as highlighted within the report.

Resolved:

- **That having considered the performance of the Pension Fund for the quarter to 30 September 2016, the Committee instructed the Chief Executive Officer (Interim) and Chief Finance Officer to address any issues that it considers necessary.**
- **That the committee request that a report in presented to pensions fund committee that provides information on the procedure for fund benchmark allocation rebalancing**

11. PENSION FUND RISK REGISTER (Agenda Item 11):

The Head of Treasury introduced the report.

Having considered the report the Pension Fund Committee:

Resolved:

- That the arrangements in place to manage risk within the pension fund were noted.
- That the risk registered will be reported for noting to the Pension Fund Committee annually and therefore this item shall be added to the committees work programme.

12. UPDATE ON ADMITTED BODIES ORGANISATIONS (Agenda Item 12):

The Head of Treasury introduced the report.

- **That the Pension Fund Committee noted the update to the issues in respect of admitted body organisations within the Pension Fund, as detailed in Appendix 1.**
- **The Committee requested that where a bond had expired the date be added.**

7. INVESTMENT STRATEGY REVIEW - EXEMPT (Agenda Item 7):

The Committee noted the exempt information in the report.

13. WORK PROGRAMME (Agenda Item 13):

The work programme was noted.

14. ANY ITEM(S) THAT THE CHAIRMAN DECIDES IS URGENT (Agenda Item 14):

There were no urgent items.

The meeting finished at 20:30

	AGENDA ITEM 8 **Pension Fund Committee** **14 March 2017**
Title	**Barnet Council Pension Fund Performance for Quarter October to December 2016**
Report of	Chief Executive Officer/Section 151 Officer
Wards	n/a
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Pension Fund Market Value of Investments as at 31 December 2016 Appendix B – Hymans Robinson Performance Report to 31 December 2016 (Draft) Appendix C - Asset Allocation to 31 December 2017
Officer Contact Details	Iain Millar, Head of Treasury Services Iain.Millar@barnet.gov.uk - 0208 359 7126

Summary

This report summarises the Pension Fund investment managers' performance for the October to December quarter 2016, based on the performance monitoring report provided by Hymans Robertson. An update on fund performance to 28 February 2017 will be tabled at the Committee meeting

Recommendations

1. **That having considered the performance of the Pension Fund for the quarter to 31 December 2016, the Committee instruct the Chief Executive Officer (Interim) and Chief Finance Officer to address any issues that it considers necessary.**

1. WHY THIS REPORT IS NEEDED

1.1 To ensure that the Pension Fund is being invested prudently and in accordance with the Pension Fund investment strategy.

2. REASONS FOR RECOMMENDATIONS

2.1 The terms of reference of the Pension Fund Committee require the Committee to review and challenge the Fund Managers' quarterly investment performance against benchmarks and targets.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None

4. POST DECISION IMPLEMENTATION

4.1 The Chief Executive Officer and Chief Finance Officer will carry out any actions considered necessary.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 To ensure that the Pension Fund is being invested prudently and to the best advantage in order to achieve the required funding level. Effective monitoring of the Pension Fund will ensure that long term investment targeted returns are achieved and will provide support towards the Council's corporate priorities (2015-2020).

5.2 Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 The Pension Fund appoints external fund managers to maximise pension fund assets in accordance with the fund investment strategy. The Pension Fund is a long term investor and short term volatility of investment return is expected. In the longer term, the appointed fund managers are expected to deliver positive returns in accordance with the fund benchmarks. The global diversification of the Pension Fund portfolio gives some protection against the market volatility. The Scheme benchmark is a liability driven benchmark and is dependent on the movement in gilt yields

5.2.2 On 22 October 2015 (Item 11), Pension Fund Committee reviewed and revised the pension fund asset allocation. It agreed to adopt an investment strategy based on 36% overseas equity, 21.5% diversified growth, 12% corporate bonds, 0.5% cash; 20% 'multi asset credit; and 10% illiquid alternatives. Pension Fund Committee agreed to fund the asset re-allocation by reducing the weighted allocation in diversified growth funds and corporate bonds .This included selling the Newton Corporate Bond fund to re-invest in the Schroder Strategic Bond Fund.

5.2.3 On 15 March 2016, the Pension Fund Committee considered proposals for allocating funds to illiquid credit and multi asset liquid credit. The Committee resolved to make an allocation of 8% of the fund to illiquid credit strategies through investing with new fund managers, 4% to Partnership Group and 4% to Alcentra. The Committee also agreed an allocation of 7% to multi-asset credit strategies through investing 3.5% with Babson Capital and 3.5% with Alcentra. Officers were instructed to implement the re-allocation. The May 2016 funding target dates with the new credit managers were met. The asset re-allocation was made from the sale of Corporate Bonds.

5.2.4 The total market value of externally managed investments rose by £21.2 million over the quarter from £982.7 million to £1003.9 million. The graph in Appendix A shows how the market value of the fund has grown since 2009

5.2.5 **Performance Summary**: Over the quarter, at a total scheme level, the Fund's externally managed investments returned 2.9% (gross of fees), underperforming the combined scheme benchmark for the period by -0.4% (See performance summary page 6, of the attached Hymans Robertson performance report for Quarter 4, 2016. Newton's real return fund produced a negative absolute return of -4.8% against a benchmark of 1.1% reflected their continuing defensive position. The Schroder All Maturities Corporate Bond Fund produced a negative gross return of -3.0% and underperformed the benchmark of -2.7%. All other active mandates outperformed their respective benchmarks.

5.2.6 The Performance fees are shown gross.

5.2.7 On the 18th December 6the diversified growth funds held in the Newton Real Return Fund (£131 million) were transitioned into the London Collective Investment Vehicle (LCIV). In September 2016, the £415 million Legal and General Investment Management pooled funds moved to a reduced fee rate negotiated through LCIV 2016 with new fee scales backdated to 1 July 2016. Combined these represent fee reductions on over 54% of the externally managed fund investments and annual fee savings of over £330k.

5.3 **Social Value**

5.3.1 Membership of the Pension Fund ensures the long term financial health of contributing employees on retirement.

5.4 **Legal and Constitutional References**

5.4.1 Constitution - Under Part 15, Annex A Responsibility for Functions one of the terms of reference of the Pension Fund Committee is 'To review and challenge at least quarterly the Pension Fund investment managers' performance against the Statement of Investment Principles in general and investment performance benchmarks and targets in particular.'

5.5 **Risk Management**

5.5.1 A key risk is that of poor investment performance. The performance of the fund managers is monitored by the Pension Fund Committee every quarter with reference to reports from Hymans Robertson, the Pension Fund investment adviser. If a fund manager's performance is considered inadequate, the fund manager can be replaced.

5.5.2 Risks around safeguarding of pension fund assets are highlighted in the current economic climate following the Brexit decision in the UK. Fund managers need to have due regard to longer term investment success, in the context of significant market volatility. A presentation on the impact to date of the Brexit decision on investment fund will be made to the March meeting of Pension Fund Committee.

5.6 **Equalities and Diversity**

5.6.1 Pursuant to the Equalities Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public sector equality duty. The Public Sector Equality Duty requires public authorities in carrying out their functions, to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements and monitoring of the pension fund managers will benefit everyone who contributes to the fund.

5.7 **Consultation and Engagement**

5.7.1 Not applicable

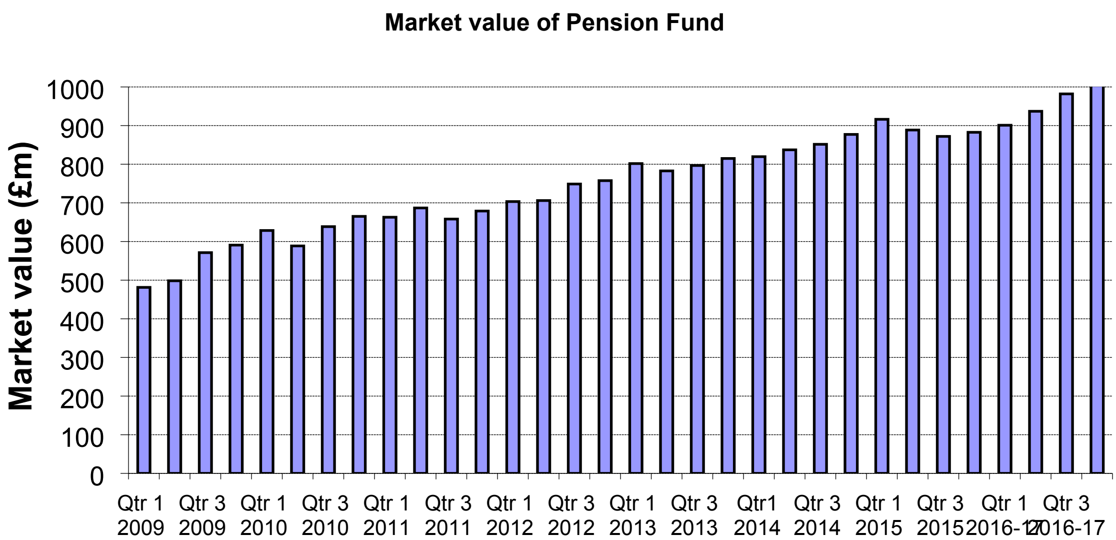
5.8 **Insight**

5.8.1 Not applicable

6. BACKGROUND PAPERS

6.1 None

Appendix A – Pension Fund Market Value of Investments as at 31 December 2016.



Market value of Pension Fund

Market value (£m)

Appendix C Asset Allocation to 31 December 2016

Appendix C

LB Barnet Pension Fund

Total value of externally managed Investments as at 31.12.2016

		Allocation as at 31.12.2016				Target Allocation
		£	%		%	£
Equities				**41.42**		**36.00**
	LGIM Global	213,331,916	21.25		18.00	180,699,623
	LGIM RAFI	202,514,837	20.17		18.00	180,699,623
Diversified Growth				**27.12**		**22.00**
	Schroder	141,129,149	14.06		11.00	110,427,548
	Newton	131,087,654	13.06		11.00	110,427,548
Multi Credit Liquid				**15.29**		**17.00**
	Schroder	93,699,701	9.33		10.00	100,388,680
	Babson Capital	28,146,133	2.80		3.50	35,136,038
	Alcentra	31,649,160	3.15		3.50	35,136,038
Corporate Bonds				**11.11**		**12.00**
	Schroder	111,554,249	11.11		12.00	120,466,416
Illiquid Alternatives				**5.06**		**13.00**
	Alcentra	13,640,970	1.36		4.00	40,155,472
	Partners Group	37,133,027	3.70		4.00	40,155,472
	Manager X TBC	0	0.00		5.00	50,194,340
Total		**1,003,886,796**	**100.00**		**100.00**	**1,003,886,796**

London Borough of Barnet Pension Fund

Review of Investment Managers' Performance for the Fourth Quarter of 2016

Prepared By:

Andrew Elliott - Senior Investment Consultant
Mufaddal Jamali - Investment Analyst

For and on behalf of Hymans Robertson LLP
February 2017

Contents

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

Hymans Robertson LLP has relied upon third party sources and all copyright and other rights are reserved by such third party sources as follows: DataStream data: © DataStream; Fund Manager data: Fund Manager; Investment Property Databank Limited data: © and database right Investment Property Databank Limited and its licensors 2017. All rights reserved. IPD has no liability to any person for any losses, damages, costs or expenses suffered as a result of any use or reliance on any of the information which may be attributed to it; Hymans Robertson data: © Hymans Robertson. Whilst every effort has been made to ensure the accuracy of such estimates or data - including third party data - we cannot accept responsibility for any loss arising from their use. © Hymans Robertson LLP 2017

Executive Summary

Market Summary

A resilient post-referendum performance from the UK economy and some fiscal easing has lowered expectations that the Bank of England will cut interest rates again in the short term. Gilt yields rose for most of the quarter as further monetary easing seemed less likely. 30-year gilt yields rose from 1.5% p.a. to 2.1% p.a. in mid-December, before falling a little by the year-end. There was a smaller rise in long-dated index-linked gilts, and so the cost of inflation protection increased.

The US economic background was buoyant – reported GDP growth in Q3 was the strongest for two years. As almost universally expected, the Federal Reserve raised US interest rates in December.

Brent crude rose from $49 to $57 per barrel over the quarter, as OPEC and non-OPEC oil-producing nations agreed at the end of November to cut production of oil by 600,000 barrels per day.

US Treasury Bond yields moved sharply higher following the Presidential election. In mid-December, 10-year yields reached 2.6% p.a., the highest level for over two years.

In general, yield spreads in global credit markets narrowed further. However, UK investment-grade credit spreads, which had tightened considerably in Q3, were little changed over the quarter.

Sterling fell another 5% in trade-weighted terms at the start of Q4, but recovered some ground later as an interest rate cut seemed less likely and investors' concerns about a hard Brexit eased a little. Higher interest rates supported the US dollar, which was the strongest of the major currencies over the quarter. The yen was the weakest, suffering from a sharp swing in sentiment after the US election.

UK property stabilised after the third-quarter downturn. Capital values, as reflected in the IPD UK Monthly Index, rose a little in October and November.

Valuation and Performance Summary

Fund assets totalled c. £1,009m at the end of Q4 2016, an increase of c.£26m from the start of the quarter.

The Fund's assets returned 2.9% (gross of fees) over the quarter, underperforming the combined benchmark for the period by 0.4%.

All active mandates, other than Newton's real return fund and Schroder corporate bond fund, posted modest to significant outperformance relative to their performance targets. Over the period from the 31 December 2010 to 31 December 2016, the Fund has returned 6.7% p.a. (gross) underperforming the combined benchmark by 1.0% p.a. This is largely due to the Schroder Diversified Growth Fund's underperformance versus its ambitious outperformance target which can be difficult to achieve during volatile market conditions.

Manager Ratings Summary

Manager	Fund Name	Rating				
Legal & General	Equity index funds					●
Newton	Real Return Fund					●
Schroder	Diversified Growth Fund				●	
Schroder	ISF Strategic Bond Fund				●	
Schroder	All Maturities Corporate Bond Fund				●	
Partners Group	Multi-Asset Credit 2015 Fund					●
Barings	Global High Yield Credit Strategies Fund					●
Alcentra	European Direct Lending Fund II					●
Alcentra	Global Multi-Credit Fund					●

Actions and Recommendations

No new mandates were appointed over the fourth quarter of 2016. The final stage in the move to the Fund's new long term strategic target is for the Committee to decide upon a 5% allocation to infrastructure. In line with this, various sessions were held in Q1 2017. Additionally, the Committee is considering a relative value assessment of whether some of the Fund's bond assets might be invested more efficiently in other sectors of the market.

The recent rally in global equities caused the Fund to become overweight to this asset class. This can be seen in the far right hand side column of table 1 on page 6. In January 2017, steps were taken to reduce this overweight. Approximately £30m was disinvested from LGIM's Global Equity fund; c.£7m was invested in the Barings multi-credit fund while the remainder is being held pending cash calls from Alcentra's direct lending fund.

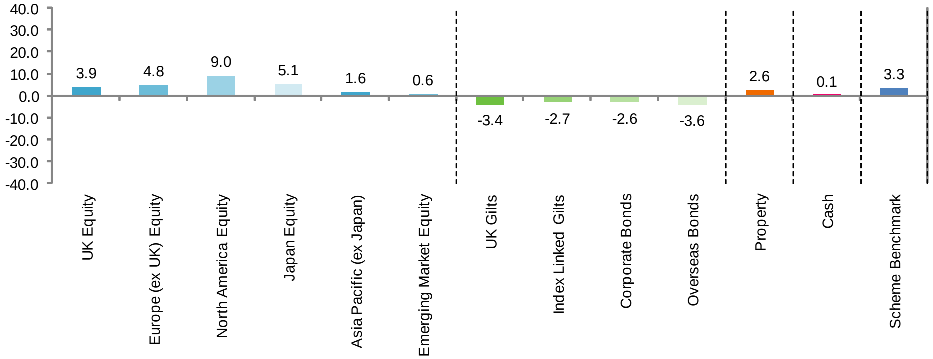
Our actuarial colleagues are currently working on the actuarial valuation of the Fund at 31 March 2016. Once the valuation has been agreed and cashflows are available from this exercise, we recommend that an updated asset liability modelling exercise is carried out to assess whether the Fund's strategy remains on track. This was discussed and agreed in principle at the most recent meeting of the Pension Fund Committee.

All of the Fund's investment managers are currently rated either a '4 –Retain' or '5 –Preferred strategy'. There were no significant changes over the quarter to warrant any changes in rating.

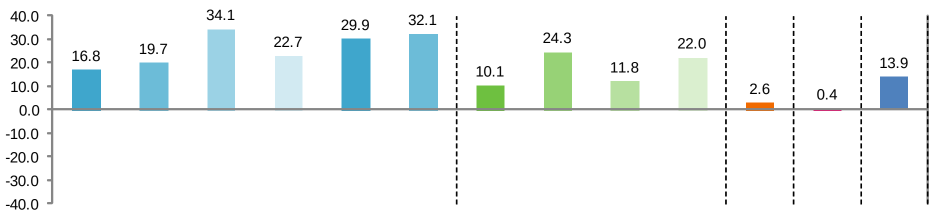
Historic Returns for World Markets to 31/12/2016

Historic Returns [1] [i]

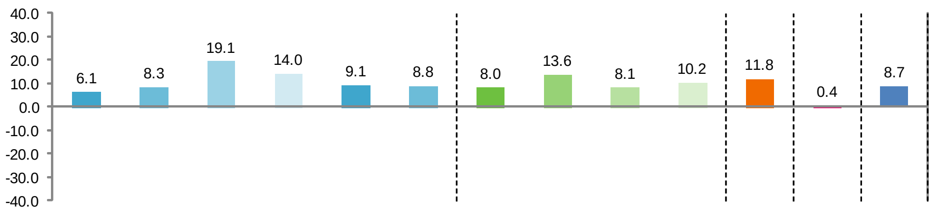
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Market Comment

A resilient post-referendum performance from the UK economy and some fiscal easing has lowered expectations that the Bank of England will cut interest rates again in the short term.

The US economic background was buoyant – reported GDP growth in Q3 was the strongest for two years. As almost universally expected, the Federal Reserve raised US interest rates in December.

Brent crude rose from $49 to $57 per barrel over the quarter, as OPEC and non-OPEC oil-producing nations agreed at the end of November to cut production of oil by 600,000 barrels per day.

Gilt yields rose for most of the quarter as further monetary easing seemed less likely. 30-year gilt yields rose from 1.5% p.a. to 2.1% p.a. in mid-December, before falling a little by the year-end. There was a smaller rise in long-dated index-linked gilts, and so the cost of inflation protection increased.

US Treasury Bond yields moved sharply higher following the Presidential election. In mid-December, 10-year yields reached 2.6% p.a., the highest level for over two years.

In general, yield spreads in global credit markets narrowed further. However, UK investment-grade credit spreads, which had tightened considerably in Q3, were little changed over the quarter.

Sterling fell another 5% in trade-weighted terms at the start of Q4, but recovered some ground later as an interest rate cut seemed less likely and investors' concerns about a hard Brexit eased a little.

Higher interest rates supported the US dollar, which was the strongest of the major currencies over the quarter. The yen was the weakest, suffering from a sharp swing in sentiment after the US election.

Global equities also responded positively to the election after a subdued start to the quarter. US equities reached new all-time highs, but the strongest local currency performance came from Japan, where the market was boosted by currency weakness and better-than-expected economic growth.

Emerging market equities bucked the trend – dipping sharply in the wake of the US election and falling over the quarter as a whole – amid concerns over Trump's protectionist stance.

The strongest performing global equity sectors over the quarter were Financials – viewed as the main beneficiaries of higher rates in 2017 – and Oil & Gas – reacting to rising oil prices. It was a relatively poor quarter for defensive areas such as Healthcare, Consumer Goods and Utilities.

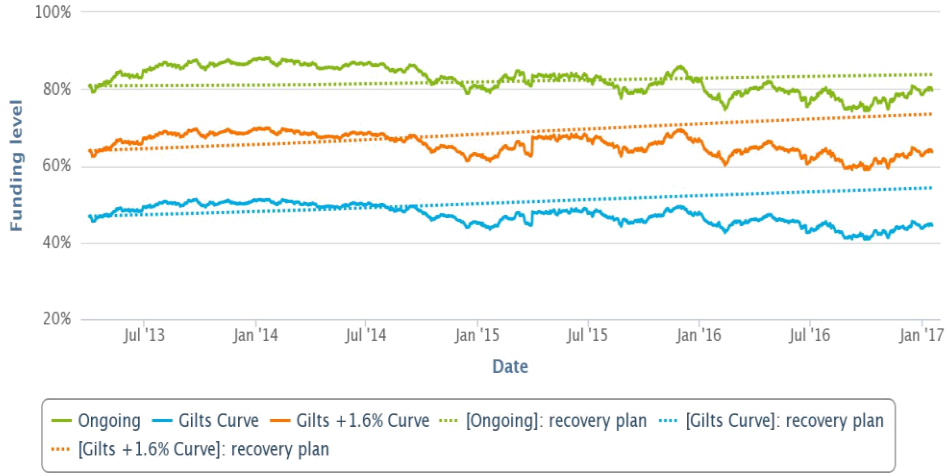
UK property stabilised after the third-quarter downturn. Capital values, as reflected in the IPD UK Monthly Index, rose a little in October and November.

[1] All returns are in Sterling terms. Indices shown (from left to right) are as follows: Equities – FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, S&P/IFCI Composite; Bonds – FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds; Property – IPD UK Monthly Property Index; Cash – UK Interbank 7 Day.

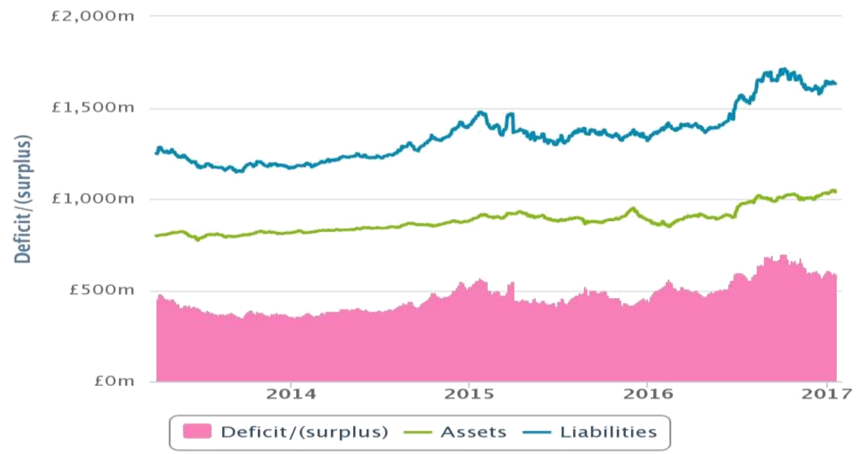
Source: [i] DataStream, Fund Manager, Investment Property Databank Limited

Funding update

Progression of funding level (on different bases)



Funding position (gilts + 1.6% p.a. basis)



Comments

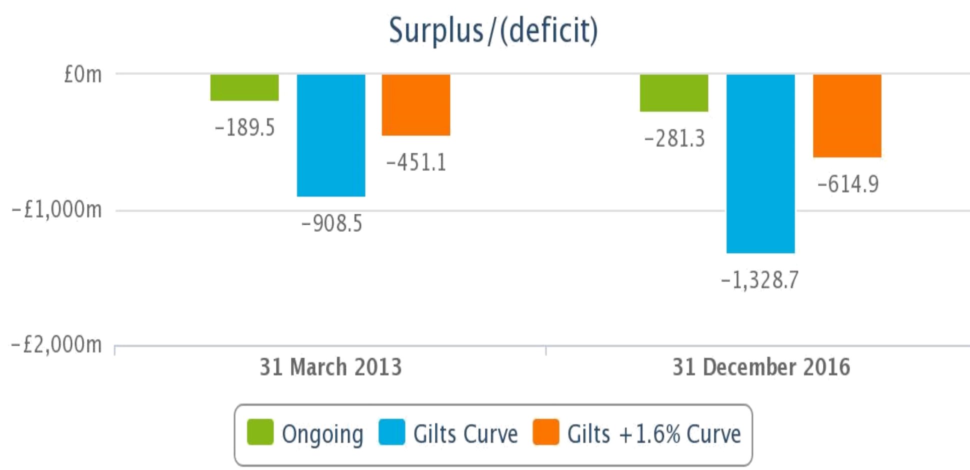
We have estimated the progression of the Fund's funding position (on different bases) since the last actuarial valuation at 31 March 2013. The analysis is based on the 2013 actuarial valuation report and subsequent funding updates provided by the Fund's previous actuary, Barnett Waddingham. The liabilities have been "rolled forward" allowing for changes in gilt yields over time.

We estimate that since 31 March 2013 the Fund's funding level (on a gilts + 1.6% p.a. basis) has risen from c. 61% to c. 63% as at 31 December 2016.

As at 31 December 2016, we estimate that the Fund's deficit on a gilts + 1.6% basis is around £615m, an increase of c. £164m since 31 March 2013.

Please note that the Fund's funding position estimated here will differ from that calculated by the previous Fund Actuary, Barnett Waddingham. This is due primarily to the roll forward of the Fund's liabilities and also due to differences in our assumptions used to calculate the funding level. This anomaly will disappear once the 2016 actuarial valuation has been agreed.

Surplus / deficit (on different bases)

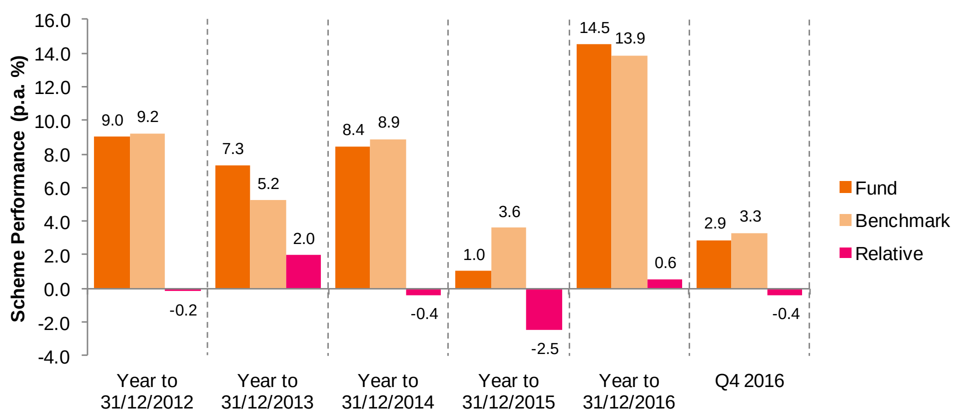


Fund Summary

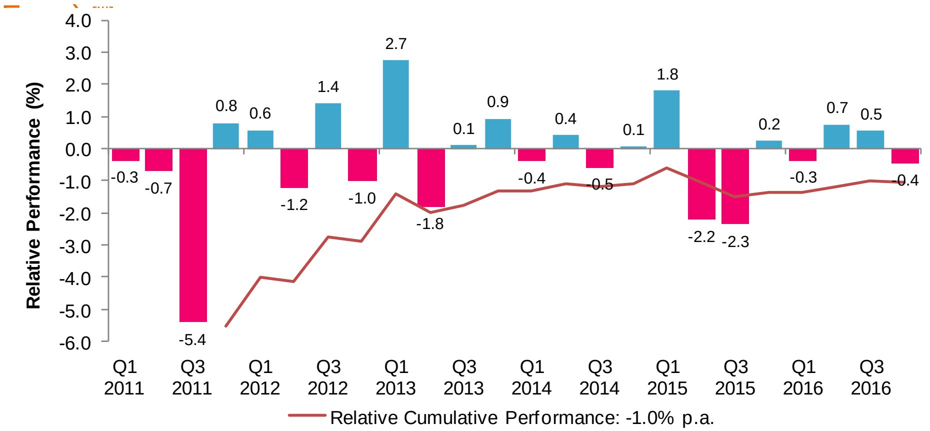
Valuation Summary [1] [i]

Asset Class	Values (£m) Q3 2016	Q4 2016	Actual Proportion %	Target Proportion %	Difference %
Global Equity	386.1	415.8	41.2	36.0	5.2
Absolute Return Funds	275.3	272.2	27.0	27.0	0.0
Multi-Credit	150.7	153.9	15.3	17.0	-1.7
Corporate Bonds	115.0	111.6	11.1	12.0	-0.9
Illiquid Credit	55.6	55.1	5.5	8.0	-2.5
Total Client	**982.7**	**1008.7**	**100.0**	**100.0**	

Performance Summary (Gross of fees) [ii]



Relative Quarterly and Relative Cumulative Performance (Gross of



[1] Excludes operating cash held in Fund bank account.

Source: [i] Fund Manager, [ii] DataStream, Fund Manager, Hymans Robertson, [iii] DataStream, Fund Manager, Hymans Robertson

Manager Summary

Manager Summary

Manager	Investment Style	Benchmark Description	Annual Fee (bps)	Rating *				
LGIM Global Equity	Passive	FTSE World Net Tax (UKPN)	15					●
Alcentra Multi-Credit	Active	£ 3 month LIBOR + 4% p.a.	50					●
Newton Real Return Fund	Active	1 month £ LIBOR + 4% p.a.	59					●
Schroder Life Diversified Growth Fund	Active	RPI + 5% p.a.	60				●	
Barings Multi-Credit	Active	£ 3-month LIBOR + 5% p.a.	53					●
Schroder All Maturities Corporate Bond Fund	Active	Merrill Lynch Sterling Non-Gilts All Stocks Index	18				●	
Schroder ISF Strategic Bond Fund	Active	3 month £ LIBOR + 2% p.a.	52				●	
Alcentra Direct Lending	Active	-	100					●
Partners Group MAC 2015	Active	-	73					●

* For information on our manager ratings, see individual manager pages

Key:- - Replace - On-Watch - Retain

Manager Valuations [1] [i]

Manager	Value (£m) Q3 2016	Q4 2016	Actual Proportion %	Target Proportion %	Difference %
LGIM Global Equity	386.1	415.8	41.2	36.0	5.2
Alcentra Multi-Credit	31.2	32.1	3.2	3.5	-0.3
Newton Real Return Fund	137.7	131.1	13.0	13.5	-0.5
Schroder Life Diversified Growth Fund	137.6	141.1	14.0	13.5	0.5
Barings Multi-Credit	27.2	28.1	2.8	3.5	-0.7
Schroder All Maturities Corporate Bond Fund	115.0	111.6	11.1	12.0	-0.9
Schroder ISF Strategic Bond Fund	92.3	93.7	9.3	10.0	-0.7
Alcentra Direct Lending	18.6	18.6	1.8	4.0	-2.2
Partners Group MAC 2015	37.0	36.6	3.6	4.0	-0.4
Total	**982.7**	**1008.7**	**100.0**	**100.0**	0.0

[1] Excludes operating cash held in Fund bank account

Source: [i] Fund Manager, Hymans Robertson

Performance Summary (Gross of fees)

Performance Summary [1] [i]

		LGIM Global Equity	Alcentra Multi-Credit	Newton Real Return Fund	Schroder Life Diversified Growth Fund	Barings Multi-Credit	Schroder All Maturities Corporate Bond Fund	Schroder ISF Strategic Bond Fund	Total Fund
3 Months (%)	Absolute	7.7	3.0	-4.8	2.5	3.6	-3.0	1.6	2.9
	Benchmark	7.8	1.1	1.1	2.1	1.4	-2.7	0.6	3.3
	Relative	-0.1	1.9	-5.8	0.4	2.2	-0.3	1.0	-0.4
12 Months (%)	Absolute	23.1	N/A	4.8	7.1	N/A	11.7	3.9	14.5
	Benchmark	22.5	N/A	4.5	7.5	N/A	10.6	2.5	13.9
	Relative	0.5	N/A	0.3	-0.3	N/A	1.0	1.4	0.6
3 Years (% p.a.)	Absolute	12.2	N/A	3.5	4.7	N/A	8.0	N/A	7.8
	Benchmark	12.2	N/A	4.5	6.8	N/A	7.8	N/A	8.7
	Relative	0.0	N/A	-0.9	-2.0	N/A	0.2	N/A	-0.8
Since Inception (% p.a.)	Absolute	10.3	7.8	3.7	4.8	8.7	7.5	3.3	6.7
	Benchmark	10.3	3.0	4.6	7.6	3.1	7.4	2.5	7.9
	Relative	0.0	4.7	-0.8	-2.6	5.5	0.1	0.8	-1.0

[1] Since inception performance includes historic returns generated by managers that are no longer held by the Fund. Since inception figures for some funds may be slightly different to the manager reports due to rounding or different dates being used as the 'inception point'.

Source: [i] DataStream, Fund Manager

Performance Summary (Net of fees)

Performance Summary [1] [i]

		LGIM Global Equity	Alcentra Multi-Credit	Newton Real Return Fund	Schroder Life Diversified Growth Fund	Barings Multi-Credit	Schroder All Maturities Corporate Bond Fund	Schroder ISF Strategic Bond Fund	Total Fund
3 Months (%)	Absolute	7.7	2.9	-4.9	2.4	3.4	-3.0	1.5	2.8
	Benchmark	7.8	1.1	1.1	2.1	1.4	-2.7	0.6	3.3
	Relative	-0.1	1.8	-5.9	0.3	2.1	-0.3	0.9	-0.5
12 Months (%)	Absolute	22.9	N/A	4.2	6.5	N/A	11.5	3.4	14.1
	Benchmark	22.5	N/A	4.5	7.5	N/A	10.6	2.5	13.9
	Relative	0.4	N/A	-0.3	-0.9	N/A	0.9	0.9	0.2
3 Years (% p.a.)	Absolute	12.0	N/A	2.9	4.1	N/A	7.8	N/A	7.4
	Benchmark	12.2	N/A	4.5	6.8	N/A	7.8	N/A	8.7
	Relative	-0.1	N/A	-1.5	-2.5	N/A	0.0	N/A	-1.2
Since Inception (% p.a.)	Absolute	10.2	7.6	3.1	4.2	8.4	7.3	2.8	6.3
	Benchmark	10.3	3.0	4.6	7.6	3.1	7.4	2.5	7.9
	Relative	-0.1	4.5	-1.4	-3.2	5.2	0.0	0.2	-1.5

[1] Since inception performance includes historic returns generated by managers that are no longer held by the Fund.

Source: [i] DataStream, Fund Manager

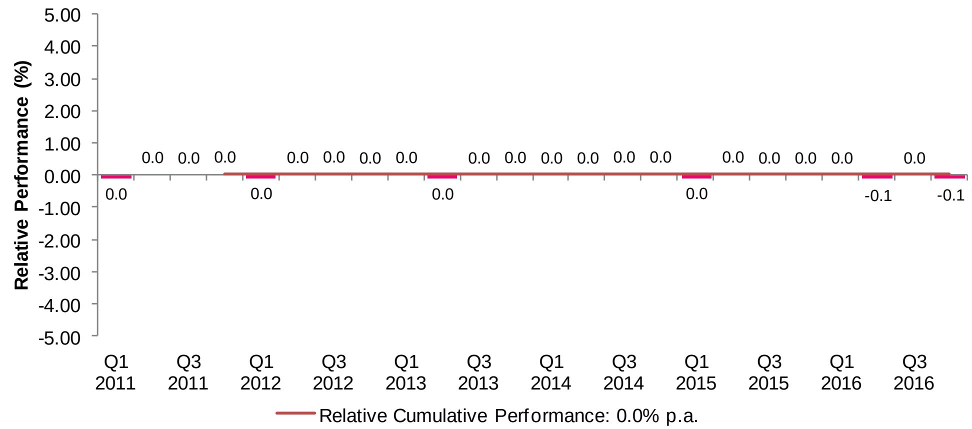
LGIM Global Equity

HR View Comment & Rating

We rate Legal and General Investment Management's market cap and fundamental index-tracking equity capability at ‘5 – Preferred strategy’.

There were no significant developments over the quarter.

Relative Quarterly and Relative Cumulative Performance [i]



Fund Commentary

Long term performance shown has been retained to include the performance of the World (ex UK) Equity Index fund since 31 December 2010.

LGIM's global equity mandate has been set up to broadly hedge 50% of its overseas currency exposure.

The final quarter of 2016 was again positive for equity markets, with the fund's overall equity portfolio returning 7.7%, in line with the index as expected of a passive manager.

Performance Summary (Gross of fees) [1] [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	7.7	23.1	12.2	10.3
Benchmark	7.8	22.5	12.2	10.3
Relative	-0.1	0.5	0.0	0.0

* Inception date 31 Dec 2010.

[1] Long term performance returns includes performance of World (ex UK) Equity Index Fund to 8 October 2015. 3 month return includes performance of World (ex UK) Dev Equity fund from 23 October 2015, performance of UK Equity fund and World EM Equity fund from 15 October 2015 and performance of RAFI AW 3000 Equity fund from 8 October 2015.

Source: [i] DataStream, Fund Manager, [ii] DataStream, Fund Manager, Hymans Robertson

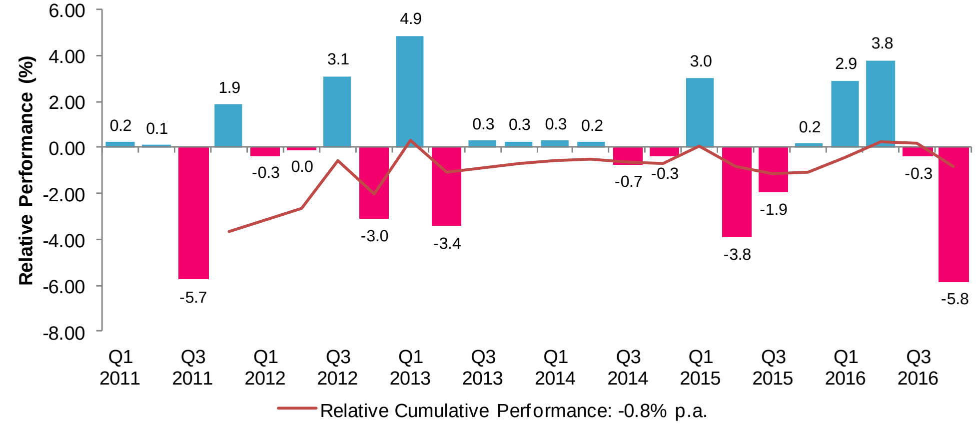
Newton Real Return Fund

HR View Comment & Rating

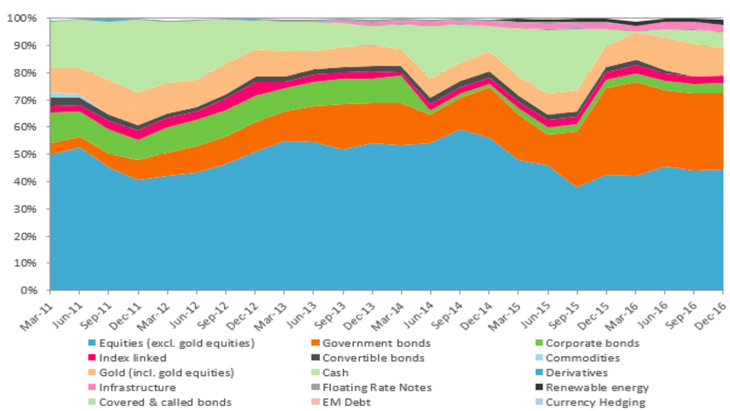
Susan Noble was appointed as Chair of the Board of Directors as of 1 January 2017. In addition, former CEO Helena Morrissey stepped down from the Board of Directors during the quarter and has subsequently joined Legal & General Investment Management as Head of Personal Investing.

We maintain a rating of '5' - Preferred Strategy.

Relative Quarterly and Relative Cumulative Performance [ii]



Change in asset allocation over time [i]



Fund Commentary

The fund delivered negative absolute return of -4.8% over the quarter, reducing the 12 month performance for the fund to 4.8% (which is marginally ahead of Newton's Libor +4% performance target on a gross of fees basis). The fund is lagging its since inception target by 0.8%.

At a high level the fund's defensive positioning was the key driver behind the large negative return over Q4. The fund's equity portfolio produced very modest positive performance, but lagged far behind the market return over the period and failed to offset the losses incurred from the fund's exposure to gold and government bonds. The fund also largely failed to benefit from sterling weakness over the quarter as the manager elected to hedge almost all of the foreign currency exposure.

At a more granular level the fund's allocation to government bonds, some 28% of the total portfolio mainly focused in the UK and US, had the largest detrimental effect on performance as US and UK yields rose over Q4. In terms of the equity portfolio, the fund's strategy of investing in more defensive equities (utilities, telecommunications and consumer staples) hurt performance, as investor sentiment favoured more cyclical sectors (financials and energy). Finally, the fund's allocation to precious metals, approximately 10% of assets, had a detrimental effect on returns as investors opted against safe haven assets like gold and silver, forcing prices down.

The overall allocation has remained broadly unchanged over Q4 with approximately a 50:50 split between return-seeking assets and stabilising assets. The manager continues to focus on long-term fundamentals rather than short-term noise, with the fund's cautious position being maintained on the basis of stretched valuations which the manager believes are largely unsustainable.

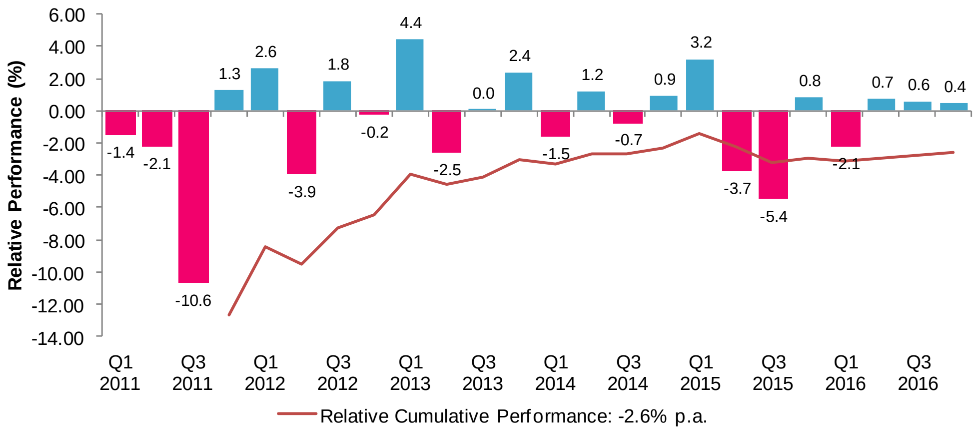
Source: [i] Fund Manager, [ii] DataStream, Fund Manager, Hymans Robertson

Schroder Diversified Growth Fund

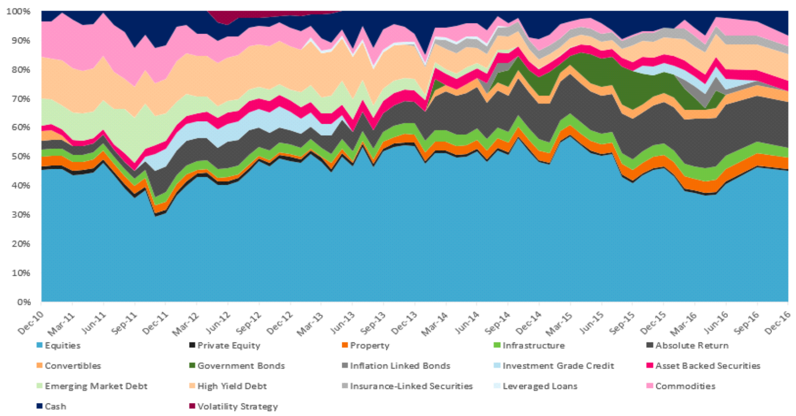
HR View Comment & Rating

There were no significant developments over the quarter.

Relative Quarterly and Relative Cumulative Performance [ii]



Change in asset allocation over time [i]



Fund Commentary

Over the third quarter Schroder's DGF posted an absolute return of 2.5%, outperforming its RPI + 5% p.a target by 0.4%. However, the fund remains behind its performance target over all longer term periods.

The fund's equity holdings delivered a strong positive contribution to return over the quarter. The manager's decision to rotate into value stocks at the beginning of the year proved favourable as value stocks outperformed the market over the quarter and the year as a whole. More specifically, regional allocations to Japanese and US equities provided the strongest returns during the quarter. The fund's underweight to government bonds also had a positive impact on performance as rising yields caused bond values to fall.

The fund's emerging market investments detracted from performance, despite the manager reducing exposure during the quarter. Emerging market equities suffered due to the market's anticipation of Trump's protectionist trade policies, whilst emerging market debt lost value due to the strengthening dollar increasing the value of liabilities.

The fund has reduced exposure to interest rate sensitivity within the portfolio in favour of value stocks and commodities. The manager believes this higher exposure to the economic cycle will prove beneficial in light of the expected fiscal stimulus in the US.

26

Source: [i] Fund Manager, [ii] DataStream, Fund Manager, Hymans Robertson

Schroder ISF Strategic Bond Fund

HR View Comment & Rating

There were no significant developments over the quarter.

Although we do not explicitly rate the ISF Strategic Bond Fund, we continue to rate Schroder Sterling Corporate Bond Fund at '4' - Retain.

Performance Summary (Gross of fees) [i]

	3 Months (%)	6 Months (%)	Since Inception* (% p.a.)
Fund	1.6	3.7	3.3
Benchmark	0.6	1.2	2.5
Relative	1.0	2.4	0.8

* Inception date 30 Nov 2015.

Fund Commentary

The fund originally had a stated performance target of LIBOR + 4% p.a. over a market cycle which is typically c. 5 years. We have viewed this performance target as ambitious given the type of strategy being employed and, therefore, have been measuring the fund against a benchmark of LIBOR + 2% p.a., at least over the shorter term, as we believe this level of outperformance to be a more realistic target for the fund to achieve. More recently, the fund has also revised its target to LIBOR + 2% p.a. due to the manager's pessimistic outlook of markets.

Over Q3 2016 the fund outperformed its performance target of LIBOR + 2% p.a by 1.0%, delivering an absolute return of 1.6%.

At a high level, the fund's interest rate, credit, and currency strategies contributed positively to performance, whilst short-term technical trades detracted from performance. The fund benefitted from rising government bond yields, given the portfolio's short (i.e. negative) exposure to the long end of the US yield curve. The fund's exposure to inflation-linked bonds also contributed positively to returns as inflation expectations rose both pre- and post- US election. US high yield credit holdings also performed well over the quarter, as did the fund's long USD vs short GBP currency positioning.

Source: [i] Fund Manager

Barings Global High Yield Credit Strategies Fund

HR View Comment & Rating

There were no significant changes to report over the quarter.

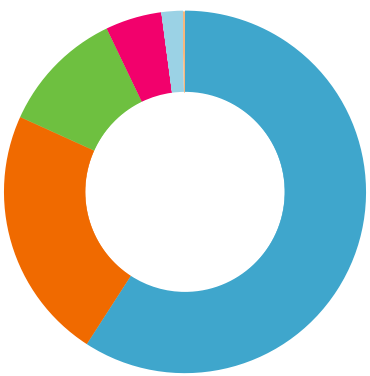
We continue to rate Barings Global High Yield Credit Strategies at '5' – Preferred Strategy

Performance Summary (Gross of fees) [ii]

	3 Months (%)	Since Inception* (% p.a.)
Fund	3.6	8.7
Benchmark	1.4	3.1
Relative	2.2	5.5

* Inception date 10 Jun 2016.

Asset Allocation [i]



Fund Commentary

Over the quarter to 31 December 2016, the fund delivered a return of 3.6%, outperforming its performance target return of LIBOR + 5% p.a. by 2.2%.

All asset classes generated positive returns for the fund during the quarter, particularly distressed investments and structured credit. The risk-on mentality was beneficial for distressed investments as a lack of new supply and prolonged positive performance has helped boost demand for lower-rated credit as investors search for more yield.

All three of the fund's top contributors to performance over the quarter came from distressed companies. In terms of stock selection, the fund's top contributor over the quarter was Fieldwood Energy, an oil and gas exploration and production company, which completed a debt refinancing exercise and benefited from an improvement in operational performance. In contrast, Valeant Pharmaceuticals (an over-the-counter drug manufacturer) was the largest detractor over the quarter. The company has attracted poor publicity and legal scrutiny over the past year regarding its pricing strategy. The manager believes these trends in performance are in line with the rhetoric established by the US government, whereby investors expect an expansionary environment for Energy companies and a threat to Healthcare in the form of the Affordable Care Act expected to be repealed.

Source: [i] Fund Manager, [ii] DataStream, Fund Manager

Alcentra Global Multi-Credit Fund

HR View Comment & Rating

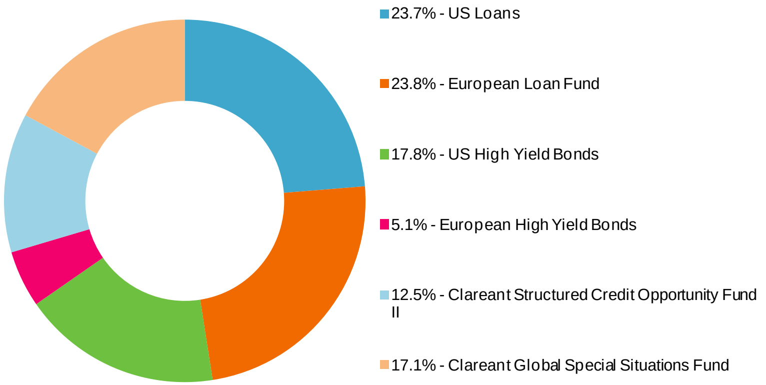
There were no significant developments over the quarter.

Performance Summary (Gross of fees) [ii]

	3 Months (%)	Since Inception* (% p.a.)
Fund	3.0	7.8
Benchmark	1.1	3.0
Relative	1.9	4.7

* Inception date 03 May 2016.

Asset Allocation by Strategy [i]



Fund Commentary

The Fund's allocation to Alcentra's multi-credit fund has a made strong start since inception back in May this year. The fund delivered a positive return of 3.0% during the quarter, despite the turbulent market conditions following the unexpected outcome of the US Presidential Election.

In the US, the election of Trump fuelled investor optimism of successful passage of critical expansionary fiscal stimulus, including tax and regulatory overhaul and potential infrastructure spending, which may lead to better corporate earnings growth. In Europe, the European Central Bank announced that it would extend the Quantitative Easing programme until December 2017. Sub-investment grade assets responded positively to these events, owing to improving risk sentiment across US and European markets.

Specifically, the US High Yield market led the liquid strategies with the Bank of America Merrill Lynch US High Yield index up 1.97% over the quarter. The US loan market has also posted a solid month, as the asset class saw strong inflows from investors wanting to hedge against potential future rate increases by the US Fed. Given rising rates and LIBOR spreads in Europe, the manager made minimal re-allocations to this asset class and favoured floating rate paper over fixed rate. Allocations to both alternatives funds, namely the Special Situations Fund and Structured Credit Opportunities Fund, also contributed positively to performance over the quarter.

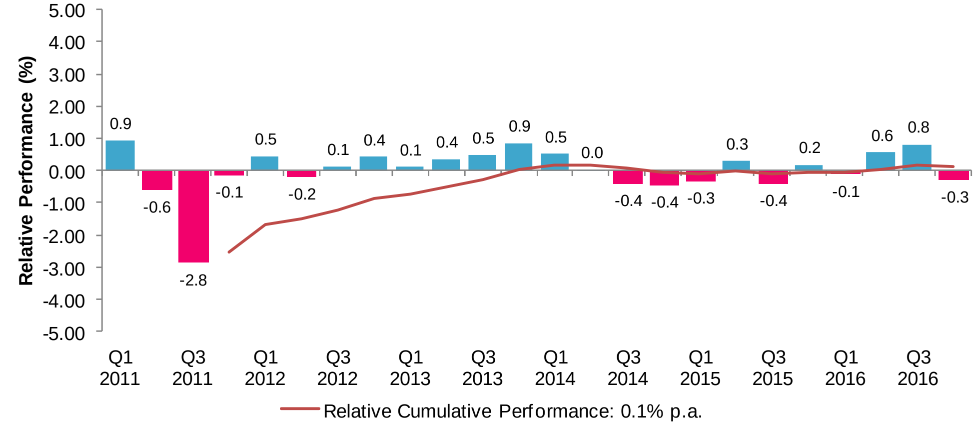
Source: [i] Fund Manager, [ii] DataStream, Fund Manager

Schroder Corporate Bond Fund

HR View Comment & Rating

There were no significant developments over the quarter.

Relative Quarterly and Relative Cumulative Performance [i]



Fund Commentary

The Schroder All Maturities Corporate Bond Fund seeks to outperform its benchmark by 0.75% p.a. (gross of fees) over a rolling 3 year period. The fund remains ahead of its benchmark over the longer term.

Credit markets experienced heightened volatility in Q4 due to on-going Brexit negotiations and Donald Trump's surprise win in the US presidential election. All sectors posted negative returns over the quarter, with the strongest detractors being healthcare, overseas government bonds, and consumer goods. The fund's overweight duration position (i.e. high sensitivity to interest rate changes) detracted over the quarter as interest rates rose, and the manager acted to reduce the fund's long duration positions. In contrast to last quarter, automotive and mortgage-backed securities were the strongest performers in Q4.

Performance Summary (Gross of fees) [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-3.0	11.7	8.0	7.5
Benchmark	-2.7	10.6	7.8	7.4
Relative	-0.3	1.0	0.2	0.1

* Inception date 31 Dec 2010.

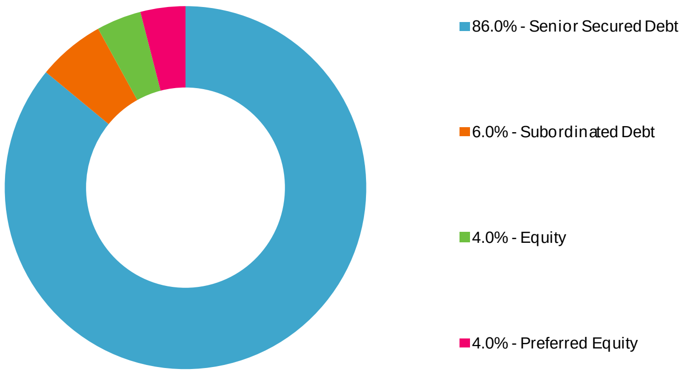
Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Fund Manager, Hymans Robertson

Partners Group Private Market Credit Strategies 2015 Fund

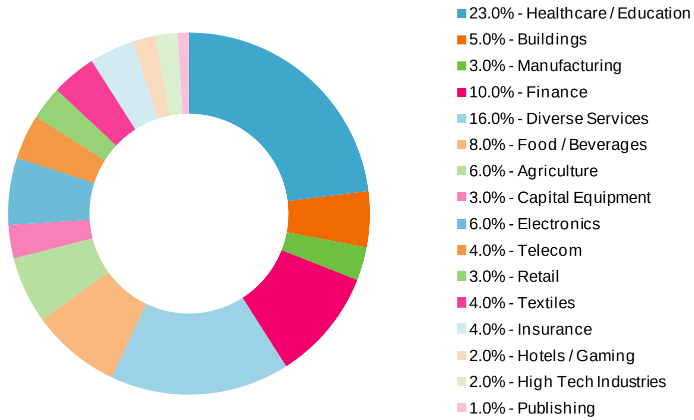
Fund Summary [i]

Fund	Capital Contributed	Total Capital Committed	Percentage of Total Program	Net Asset Value	Value Created	Net Multiple	Net IRR
MAC 2015	£35,000,000	£35,000,000	11.6%	£36,558,994	£1,558,994	1.05x	4.8%

Asset Allocation [ii]



Sector Allocation [iii]



31

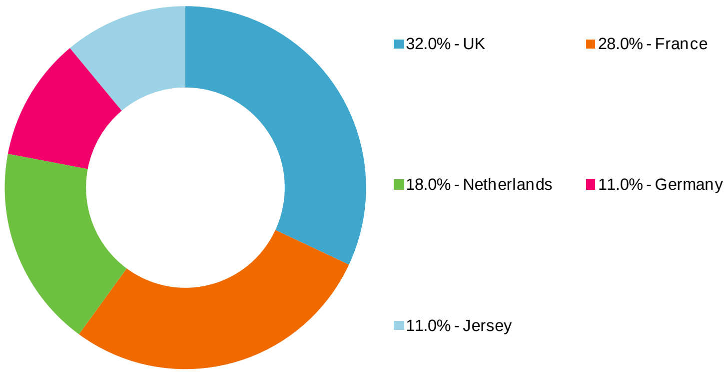
Source: [i] Fund Manager, [ii] Fund Manager, [iii] Fund Manager

Alcentra European Direct Lending Fund

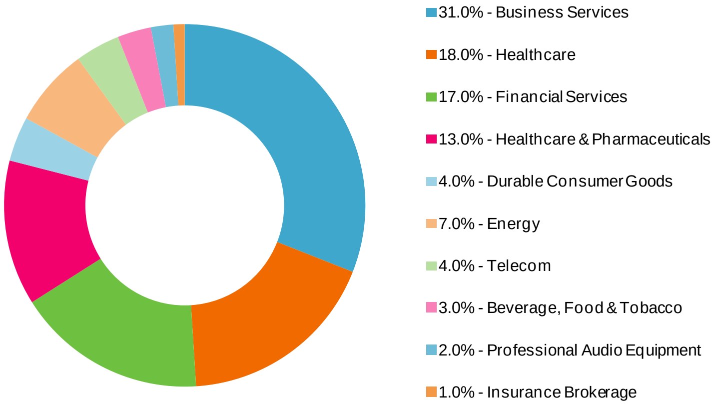
Fund Summary

Fund	Capital Contributed	Total Capital Committed	Percentage of Total Program	Net Asset Value	Value Created	Net Multiple	Net IRR
EDL II	£17,622,857	£35,000,000	3.1%	£18,581,339	£958,482	-	-

Geographic Allocation [1] [i]



Sector Allocation [ii]



[1] Data as at 30 September 2016, due to unavailability of data as at 31 December 2016.

32

Source: [i] Fund Manager, [ii] Fund Manager

Performance Calculation

Geometric vs Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

((1 + Fund Performance) / (1 + Benchmark Performance)) - 1

Some industry practitioners use the simpler arithmetic method as follows:

Fund Performance - Benchmark Performance

The following example illustrates the shortcomings of the arithmetic method in comparing short term relative performance with the longer term picture:

	Arithmetic Method			Geometric Method			Difference
Period	Fund Performance	Benchmark Performance	Relative Performance	Fund Performance	Benchmark Performance	Relative Performance	
Quarter 1	7.00%	2.00%	5.00%	7.00%	2.00%	4.90%	**0.10%**
Quarter 2	28.00%	33.00%	-5.00%	28.00%	33.00%	-3.76%	**-1.24%**
Linked 6 months			-0.25%			0.96%	**-1.21%**
6 Month Performance	36.96%	35.66%	1.30%	36.96%	35.66%	0.96%	**0.34%**

Using the arithmetic method

If fund performance is measured quarterly, there is a relative underperformance of 0.25% over the six month period.
If fund performance is measured half yearly, there is a relative outperformance of 1.30% over the six month period.

Using the geometric method

If fund performance is measured quarterly, there is a relative outperformance of 0.96% over the six month period.
If fund performance is measured half yearly, an identical result is produced.

The geometric method therefore makes it possible to directly compare long term relative performance with shorter term relative performance.

This page is intentionally left blank

AGENDA ITEM 9

Pension Fund Committee

14 March 2017

Title	London Collective Investment Vehicle Update and Local Government Pension Scheme Pooling Arrangements
Report of	Chief Executive Officer/Section 151 Officer
Wards	n/a
Status	Public
Urgent	No
Key	No
Enclosures	Appendix 1:LCIV Pensions Sectoral Committee 2017-2018 Budget and Medium Term Financial Strategy Appendix 2: Pooling letter from Minister for Local Government
Officer Contact Details	Iain Millar, Head of Treasury Services 0208 359 7126

Summary

This report gives updates on the Local Government Pension Scheme pooling arrangements and on the London Collective Investment Vehicle (LCIV). LCIV has requested a budget contribution in 2017-18 of £100,000 to cover both the annual service charge and the development funding charge.

Recommendations

1. **That the Pension Fund Committee note the progress update on investing in the LCIV.**
2. **That the Committee note the developments on Local Government Pension Scheme Pooling arrangements**
3. **That the Committee note the payment of £100,000: the Fund's contribution to the running costs of the LCIV and notes the LCIV budget proposals and passive fee charges for 2017-2018.**

1. WHY THIS REPORT IS NEEDED

1.1 To update the Pension Fund Committee and to provide reassurance that the pension fund is being invested prudently and in accordance with the investment strategy. To request that the payments be made to the LCIV as requested.

2. REASONS FOR RECOMMENDATIONS

To notify Pension Fund Committee of LCIV contributions required for 2017-18

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 The required budget contributions for 2017-18 was approved by the LCIV Joint Committee on 8th February 2017.

4. POST DECISION IMPLEMENTATION

4.1 Not relevant in the context of this report..

5. IMPLICATIONS OF DECISION

5.1 No direct implications in the context of this report.

5.2 UPDATE ON THE LCIV

5.2.3 The London CIV is fully authorised by the FCA Governance and decision making will remain with participating London Boroughs, the investment decision makers for funding strategy, asset allocation and investment strategy. The Pensions Sectoral Joint Committee (PSJC) made up of Elected Member representatives is the supervisory body with responsibility for oversight and scrutiny, policy decisions and strategic objectives of the London CIV. The PSJC is supported by the Investment Advisory Committee (representative officers who provide advice and guidance on investment mandates. All London Boroughs now participate in the London CIV.

5.2.4 6 sub –funds have been opened. Fourteen authorities transferred a total of £3.1 billion of assets. A further eight sub-funds will be opened over the coming months and these will be a mix of active and passive asset classes. On the 16th December 2017, the diversified growth funds held in the Newton Real Return Fund were transitioned into the London Collective Investment Vehicle (LCIV). In September 2016, the £415 million Legal and General Investment Management pooled funds moved to a reduced fee rate negotiated through LCIV 2016 with new fee scales backdated to 1 July 2016. Combined these represent fee reductions on over 54% of the externally managed fund investments and annual fee savings of over £330k.

5.2.5 LCIV is launching global equities and fixed income mandates later in 2017 and will be available to invest in.

5.2.6 At its meeting on 8th February 2017, LCIV Pensions CIV Joint Committee considered a report on the London CIV 2017/18 Budget and MTFS (see Appendix 1). This report sets out funding requirement for the LCIV .There has been a significant shortfall in the income due to slower than anticipated fund opening and no income received from passive equity funds. The Joint Committee and CIV Board agreed to charge a development funding charge of £75,000 to each borough in 2017-18 .This will reduce to zero over the next 4-6 years. This is in addition to the £25,000 annual service charge.

5.2.7 It is recommended that Pension Fund Committee note the 2017-18 contribution to the LCIV of £100,000, to be funded from the Pension Fund

5.2.8 The Joint Committee also considered a report on a proposal to charge a fee on passive funds held outside of LCIV which have benefited from LCIV fee re-negotiations. This would be based on a basis point charge on assets under management .The fee charge would be effective from 1st April 2017 and would cost the Barnet Pension Fund circa £30,000 per annum .

GOVERNMENT RESPONSE ON LGPS INVESTMENT POOLING REFORM

5.2.9 The London CIV has been co-ordinating the response to the Government's investment pooling reform of the LGPS to deliver efficiencies through collective investment, the Government's expectation is that all investments should be made through a collective pool.

5.2.10 The pooling reform requires the development of a transition plan from individual LGPS funds to one of the national pools in three year time blocks from 2018. Liquid assets are to transfer. The following are exempted from pooling.

- Life Policies
- Directly held property
- Illiquid assets
- Local investment
- Buy-ins
- Hedging instruments
- Working capital/cash.

5.2.11 LCIV submitted a response on the pooling consultation on behalf of London Boroughs pools is required by the submission date in July 2016. The Minister for Local Government responded in a letter to Baron Kerslake, Chair of LCIV, dated 16 December 2016, (see Appendix 2). In this letter the Minister set out the Government's commitment to pooling and stressed the expectation that all assets should be placed in the pool unless there was a strong value for money case for delay. He stated that he expected London Boroughs to speed up the "*unacceptably slow*" forecast transition into the London CIV and that he would review progress in spring 2018.

5.3 Social Value

5.3.1 Membership of the Pension Fund ensures the long term financial health of contributing employees on retirement.

5.4 Legal and Constitutional References

5.4.1 Regulation 4(5) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 allows that any costs, charges and expenses incurred administering a pension fund may be paid from it except for charges prescribed by regulations made under sections 23, 24 or 41 of the Welfare Reform and Pensions Act 1999 (charges in relation to pension sharing costs).

5.4.2 Part 15 – Annex A – the terms of reference of the Pension Fund Committee include:

To appoint Pension Fund Investment Managers.

To determine the appropriate course of action on any matter not specifically listed above that pertains to the leadership and/or strategic management of the Pension Fund, in particular any matter which could materially affect its financial performance or long-term standing.

5.5 Risk Management

5.5.1 The Pension Fund's asset allocation may not maximise potential investment return. This can be addressed by restructuring the fund portfolio to reflect changes in market conditions and expectations of future returns through asset classes and fund managers accessible through the London CIV.

5.6 Equalities and Diversity

5.6.1 Pursuant to the Equalities Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with this public sector equality duty. Good governance arrangements and monitoring of the pension fund managers will benefit everyone who contributes to the fund.

5.7 Consultation and Engagement

5.7.1 Not applicable

5.8 Insight

5.8.1 Not applicable

6 BACKGROUND PAPERS

6.1 London Councils Pensions CIV Sectoral Joint Committee, 8th February 2017

https://www.londoncouncils.gov.uk/node/31265

This page is intentionally left blank

Pensions CIV Sectoral Joint Committee Item no: 9

London CIV 2017/18 Budget and MTFS

Report by:	Hugh Grover	**Job title:**	Chief Executive, London CIV
Date:	8 February 2017		
Telephone:	020 7934 9942	**Email:**	hugh.grover@londonciv.gov.uk

Summary: As required by the Shareholders Agreement this report provides the committee with London CIV's budget proposals for 2017/18 and the medium term financial strategy for the following years through to March 2022.

Recommendations: The committee is recommended to consider the contents of this report and to agree to London CIV's 2017/18 budget.

London CIV 2017/18 Budget and MTFS

Introduction

1. Members will be aware that the London CIV Shareholders Agreement (to which all participating London Local Authorities (LLAs) and London CIV are signatories) requires that London CIV's annual budget be submitted for approval by the Shareholders. This report and the attached 2017/18 budget fulfils that requirement and goes beyond to also include a medium term financial strategy (MTFS) covering the financial years through to March 2022.
2. The budget and MTFS have been prepared by London CIV's Executive team and approved for submission to shareholders by London CIV's Board.
3. For clarity, Members are reminded that London CIV is committed to an annual budget cycle and thus only the 2017/18 budget requires formal agreement at this time. The MTFS for following years is provided to give Members clarity about London CIV's future plans and how the growth of assets under management interacts with funding requirements.
4. Members will note that the budget and MTFS have been based on 32 participating LLA LGPS funds. This is because although all 33 funds have now become participating members, LB Richmond and LB Wandsworth are in the process of merging their two funds into one combined fund that will be administered by LB Wandsworth. It is not yet clear at this point what the implications of the merger will be for London CIV, but it may be that income and capital will revert to being available from 32 authorities rather than 33. Thus 32 has been used as the prudent position for budgeting at this point. Legal advice is being sought on the implications of the merger, but for clarity, London CIV has no specific view on the likely or desirable outcome.
5. The Board is grateful to the Joint Committee Chair and Group Leaders, and the Treasurers from the Investment Advisory Committee, for the robust and constructive challenge and guidance they have provided.
6. To facilitate discussions at the local level LLA Treasurers have been provided with copies of this report.
7. An invoice for the proposed Service Charge and Development Funding Charge will be issued to each LLA at the beginning of the financial year.

Recommendations

8. The committee is recommended to consider the contents of this report and to agree to London CIV's 2017/18 budget.

Legal Implications

9. There are no legal implications for London Councils.

Financial implications

10. There are no financial implications for London Councils.

Equalities Implications

11. There are no equalities implications for London Councils

Attachments

12. London CIV 2017/18 Budget and Medium Term Financial Strategy

2016/17 Budget and
Medium Term Financial Strategy

January 2017

Contents

1. PURPOSE

This document sets out the following:

- the revised budget forecast for financial year ending March 2017 as agreed by shareholders in December 2016;
- the annual budget as required by the LCIV Shareholder Agreement for the financial year ending March 2018; and
- the Medium Term Financial Strategy (MTFS) covering the annual financial plan for the five years from April 2017 to March 2022.

London CIV's (LCIV) Board has set the strategic direction for the company which is supported by this budget and MTFS. The document has been drafted by the company's Executive team and has been approved by the Board. Day-to-day delivery against the budget is the responsibility of the Executive team which, as with any budgetary process, will require flexibility on managing the detail to ensure that the objectives can be achieved within the overall budgetary framework.

2. CONTEXT

The London CIV journey began back in 2012 with proposals being presented to London Councils' Leaders' Committee that would have led to the complete merger of all of London's 34 Local Government Pension Scheme (LGPS) funds (boroughs, City of London and the London Pension Fund Authority). These proposals were not adopted and instead Leaders' Committee commissioned London Councils officers to facilitate the development of ideas that would deliver most, if not all, of the benefits of merger without the cost, complexity and loss of sovereignty and democratic oversight that would result from merger.

Proposals were developed by a working group comprised of the then London Councils political group leaders and three representative treasurers, which were reported back to Leaders' Committee. In brief those proposals were that:

- A London LGPS Collective Investment Vehicle (CIV) should be set up in the form of an Authorised Contractual Scheme fund (ACS);
- A new company, wholly owned by the participating authorities, should established to act as operator of the CIV; and
- Participation of the separate London LGPS funds should be entirely voluntary, with responsibility for investment strategy and asset allocation staying at the local level, while responsibility for the appointment and management of external fund managers and the general management, performance and oversight of the ACS fund would rest with the operator.

At the same time that these regional proposals were being developed, discussed and agreed the Government was actively considering the future structure of the LGPS nationally and began to make proposals to bring about complete merger across the scheme into a smaller number of funds. However, the work being done across London was in large part successful in demonstrating that voluntary collaboration could be delivered and that, as originally aimed for, substantial benefits could be delivered without the need for merger.

In November 2015 the Government published a document 'LGPS: Investment Reform Criteria and Guidance' setting out policy for all LGPS funds across England and Wales to develop pools along similar lines to London CIV. The funds were instructed to submit "ambitious proposals" for the establishment of a small number of investment pools based on the requirement that every fund must join with a pool and invest the majority of its assets through that pool over a period of time. This direction from Government effectively changed the environment for London funds and London CIV from being engaged in an entirely voluntary collaboration to a more mandatory position.

It is within this changing regional and national policy framework that London CIV has been established and now operates

3. EXECUTIVE SUMMARY

Since FCA authorisation in October 2015, LCIV has launched 6 sub-funds with £3.1 Bn assets under management (AUM) across 14 boroughs (as of 31 December 2016). LCIV resources have been expanded from three to eleven including recruitment of the LCIV Executive Management team and the organisation has worked with stakeholders to establish an effective partnership which is critical to the success of the organisation. Both the scale of AUM achieved in the first twelve months and the operational progress are a considerable achievement.

During the first year of operation, a number of key lessons have also been identified and it is clear that what LCIV has to deliver as a regulated fund manager, providing excellent client service with potentially £25 Bn of assets under management (AUM) across multiple asset classes, is more challenging than had been envisioned.

The challenges faced by London's LGPS funds, as for most of the world's pension funds, are significant and growing. LCIV has to deliver benefits beyond cost savings from scale economies and address the fact that many Pension Fund's strategic asset allocations will increasingly tilt towards asset classes which require scale and in-house expertise. This will inevitably mean higher up-front costs to ensure LCIV has the requisite skills required to deliver the investments investors will require, but ultimately should result in cash and non-cash benefits of a far greater magnitude than originally envisaged.

A key imperative for LCIV and its investors/shareholder to progress from being a delivery platform for voluntary collaboration of London local authorities (LLAs) to a fully established fund management company able to deliver investor benefits in the widest sense, is to ensure the transfer of assets is completed as quickly as possible as a higher AUM base will:

- lead to faster delivery of greater fee savings;
- allow LCIV to efficiently offer a broader range of investment products; and
- allow LCIV to cover its costs and be less reliant on additional LLA funding.

2016/2017 Budget

The status of the annual budget for 2016/17 was reviewed and approved by the shareholders at the General Meeting of the Company held on 13th December 2016. The budget forecast £1.5Mn in revenues, £2.3 Mn operating expense and a deficit of near £800K. The shareholders agreed that the 2016/17 deficit would be covered by existing capital reserves, which would be recovered in future years as LCIV moves to profit and balance balanced budget.

2017/2021 Forecast and Plans

During the next phase of LCIV's development in the period 2017-2021 as it moves from set up through implementation to full 'business as usual' (BaU), LCIV's key priorities are to:

- Continue to work closely with the LLAs to respond to their investment needs and ensure the opportunities LCIV identifies across Global Equities, Fixed Income, and other cash flow-generating asset classes such as Real Estate, Infrastructure and other "alternative" asset classes, will meet those needs;
- Expand LCIV's staff complement in the front, middle and back office to bring on board the necessary capacity, knowledge and skills to deliver the different asset classes, volume of planned fund launches, and ensure that the company can fulfil its fiduciary responsibilities;
- Establish scalable, fit for purpose, system and process capabilities for client reporting, performance management reporting, and risk management; and
- Develop clear and transparent communications with LLAs and stakeholders.

AUM and Revenue Forecast. The plan includes a broadening of asset classes during 2017-2021 with the launch of Global Equities and Fixed Income funds in 2017/18 and 2018/19, Real Estate in 2018/19 and 2019/20, and Infrastructure and Alternatives in 2019/20. Overall, as a result of this expansion the number of sub-funds is likely to increase from 6 to 28 under current assumptions, leading to a forecast increase in AUM from £3.2 billion in March 2017 to £14.1 billion by March 2022. This is equal to 49% of the £29.2 Bn total LLA assets (as of March 2015). Based on the projected AUM growth and other current assumptions, management fees are forecast to grow from £640K at end 2016/17 to £3.9 Mn by end 2021/22.

As it is difficult for LCIV to accurately forecast AUM growth and resulting management fees as decisions to transition assets reside with the LLAs, a number of revenue and cost scenarios have been modelled (working with a sub-group of LLA Treasurers) before finalising the proposed Annual Budget. With the budgeted AUM growth, LCIVs management fees are unlikely to cover annual operating costs over the planning period and additional funding will be required.

It is important to point out that based on LCIVs estimates approximately 60% of 2017/18 expenditure will be focused on fund launches and development projects, with only 40% being targeted on recurring activities or BaU. This ratio of fund launch/development projects to BaU expenditure is forecast to change gradually over the planning period shifting to 10% fund launch/development projects and 90% BaU spend in 2021/2022.

In order to cover the cash flow imbalance between annual revenues and annual costs, LCIV is proposing to introduce a development funding charge (DFC) until LCIV generates sufficient management fee income to cover annual operating costs. The DFC would be in addition to the annual service charge and will decline year on year starting at £75,000 in 2017/18 and reducing to £10,000 in 2021/22 as AUM and management fees rise over the five years.

On 16 December 2016 Marcus Jones MP (Minister for Local Government) wrote to Lord Kerslake, Chair of LCIV, following a meeting to discuss the joint submission of LCIV and the LLAs to government in July 2016. In his letter the Minister noted that, in the government's view, the current forecasts and transition of assets into the LCIV pool will be "unacceptably slow".

Using a more optimistic AUM growth scenario where £19.4 Bn or 67% of the £29.2 Bn LLA assets are transferred to LCIV by March 2022, the DFC would drop to £25,000 in 2019/20 and LCIV would become self-funded through management fees and the annual service charge in 2020/2021, two years earlier than the current plan.

Expense Forecast. Given the expansion in the variety of asset classes and sub-funds, additional resources and systems are required to support:

- the number and variety of funds;
- ongoing investment oversight and risk management; and
- client, financial, and regulatory reporting.

On this basis, total expenses are forecast to increase from £2.3 Mn in 2016/17 to £4.9 Mn in 2019/20 driven by:

- an increase in staffing levels from 11 to 25 over the planning period, which accounts for more than 50% of the cost base;
- investment in client reporting, performance management and risk systems; and
- legal and professional fees associated with sub-fund launches, particularly new asset classes which will require new legal structures and front and back office operating processes to be developed.

Capital Expenditure. The forecast includes a total capital expenditure of £150,000 in 2018/19 which is comprised of:

- £100,000 for ICT equipment to improve IT resilience, and functionality, which will be depreciated over 3 years; and
- an allowance of £50,000 for fixtures and fittings to fit out expanded accommodation which will be depreciated over 3 years.

Enterprise Risks. LCIV Board and Executives have reviewed the risks associated with delivering the 2017/18 plans and identified the key Enterprise Risks, mitigation plans and key risk indicators as outlined in the Enterprise Risk Register, Fig 11. These risks will be monitored on an ongoing basis and status reported quarterly to the Board and stakeholders.

Performance Reporting. LCIV will provide quarterly reports on performance of its funds, annual and half yearly report and accounts and regular newsletter updates. In addition, LCIV's Executive team will provide an update to the Board and stakeholders on progress against the business plan's 2017/18 objectives, including fund launches, financial performance and forecast for the remainder of the financial year and risks.

4. LONDON CIV STRATEGIC FRAMEWORK

LCIV's strategic framework outlines the core purpose of the organisation, its vision, and the value proposition to the LLAs.

Purpose. LCIV's purpose is to create a collective investment vehicle for London Local Authority (LLA) Pension Funds which delivers broader investment opportunities and enhanced cost efficiencies than LLAs can achieve individually and overall better risk-adjusted performance.

Vision. LCIV aims to be the vehicle of choice for Local Authority Pension Funds through successful collaboration and delivery of compelling performance

Value Proposition. The LCIV value proposition to the LLAs focuses on:

Performance:	providing superior risk adjusted investment outcomes by leveraging scale economies and full-time resources focused purely on investment management
Opportunity:	providing a broader range of investment opportunities than might be accessible by an LLA acting alone
Efficiency:	providing cost effective investment products through leveraging the scale of LLA pooled assets and being an efficient organisation
Transparency:	providing transparent reporting across investment performance, client reporting, risk management and client benefits

LCIV Objectives. Below are LCIV's Aims and 2017/18 Objectives and KPIs.

LCIV Aims
Investments and Investment Oversight
• Deliver cost effective investment solutions which enable the LLA Pension Funds to meet their investment objectives • Demonstrate and deliver effective investment oversight appropriate for a large scale regulated investment vehicle
Client Service
• Provide excellent client service • Deliver identified client cost savings benefits • Deliver transparent, regular and effective reporting to clients and stakeholders
Finance and Business Operations
• Achieve target AUM levels and revenues • Maximise operational and cost efficiencies • Establish a high-performing learning organisation
Governance, Risk and Compliance
• Deliver LCIV's value proposition within an effective governance structure • Remain an enterprise risk managed and compliant company

LCIV 2017/18 Objectives

Investments and Investment Oversight

- Complete launch of identified and agreed commonality funds
- Launch Global Equity and Fixed Income fund strategies as prioritised in collaboration with LLAs and supported by a business case and transparent benefits
- Deliver quarterly investment oversight dashboard monitoring mandate drift and performance and taking proactive action where required

Client Service

- Complete assessment of LLA needs based on triennial valuation results
- Agree client reporting and service model and implement including SLA
- Establish robust and transparent benefits reporting by LLA

Finance and Business Operations

- Manage costs in line with approved budget
- Finalise target operating model and complete implementation of core systems
- Deliver staff recruitment plan
- Meet LCIV Board and stakeholder MI and reporting requirements and timetables

Governance, Risk and Compliance

- Maintain compliance with FCA regulation including third parties
- Unqualified annual audit report
- Satisfactory Depositary reviews (no red/critical issues)
- Maintain Enterprise Risk register and manage business in accordance with risk appetite statement and agreed tolerances

LCIV 2017/18 KPIs

- AUM: At or above £6.3 Bn
- Income: Management fee income in line with budget
- Expenses: Expense spend in line with budget
- Clients: Deliver products and services from which all 32 LLA pension funds can benefit and have agreed and signed SLAs in place
- Staff: 13 staff on-boarded
- Governance: No significant audit or compliance issues

Charging Principles. As LCIV's purpose is to improve cost efficiency and provide better risk adjusted performance and broader investment opportunities for Local Government Pension Scheme Funds, the company does not aim to make a significant profit. In light of this, LCIV has developed the following charging principles and structure.

Fairness: Charges should be structured as fair as possible to ensure benefits and costs are fairly distributed across investors.

Transparency: LCIV will be transparent with any charges to the LLAs and provide quarterly budget updates to stakeholders.

Structure: LCIV's business model currently has two charging mechanisms:

(i) a management fee on AUM

(ii) an annual service charge of £25,000

LCIV is still in the build phase of development and will require additional funding to invest in required skills, expertise and core infrastructure in order to become a fully established fund management company. To address this funding need, LCIV is proposing to introduce a development funding charge (DFC) to cover the investment required to build the organisation and become self-funded.

Management Fee: The key criteria when setting the LCIV management fee level is to ensure that clear, material net benefits can be achieved inclusive of the LCIV management fee. Therefore, LCIV will ensure:

- Management fees in the annual budget and MTFS will be set at prudent levels
- Management fees are transparently included in the TER of each sub-fund; annual service charge costs are not included in the TER

Service charge: The £25,000 annual service charge is akin to a membership fee providing access to the breadth of LCIV services. The charge is invoiced at the start of each financial year.

Development Funding Charge (DFC): The DFC will cover the investment needed to build out LCIVs fund offering and organisational infrastructure. The DFC level will be set through the annual planning process and proposed to the shareholders when the Annual Budget for each financial year is set. It is proposed that the DFC is invoiced in two parts with 66% of the charge invoiced in April with the remaining 33% to be invoiced in December of each financial year. The December invoice will be adjusted according to the prevailing budget and business needs.

5. 2016/17 BUDGET

The status of the annual budget for 2016/17 was reviewed and approved by LCIV Shareholders at the Company General Meeting held on 13th December 2016. The summary figures from the budget include £1.5Mn in revenues, £2.3 Mn operating expense and a deficit of near £800K. The Shareholders agreed that the 2016/17 budget deficit would be covered by existing capital reserves. Details of the 2016/17 budget and capital adequacy statement can be found in Appendix A.

6. FUND LAUNCH PLANS AND AUM AND REVENUE FORECAST

Investment Principles. LCIV is currently developing a proposal for Investment Principles and will be sharing this with the LLAs to develop a high level set of investment principles which will provide a framework for LCIV's efforts to identify and offer attractive investment opportunities aligned with the LLA's principles and needs.

Current fund status and revenue. As of end December 2017, LCIV has launched 6 sub-funds and 14 LLAs are invested with £3.2 Bn AUM. Management fee income in the first half of 2016/17 was £260K and forecast to reach £640K by March 2017. The service charge for the current year is £25K per LLA with total service charge revenue of £850K including a payment from one LLA from 2015/16. Consolidated management fees and service charge revenue for the first year of operation are forecast to be £1.5 Mn.

Fund launch and AUM forecast. LCIV will be completing the sub-fund launches of the Commonality, Quality and Conviction (CQC) phase encompassing Equities and Multi-Asset funds in early 2017. The asset class prioritisation of the forward looking fund launch plans has been based on the London LGPS Funds consolidated asset allocation as of March 2015. Given that the asset classes with the largest fund allocations are also (relatively speaking) easier asset classes to access, prioritising fund launches based on the size of existing fund allocation was seen as the optimal route to provide opportunities to as many LLAs as possible in the shortest timeframe. As such LCIV has prioritised the procurement of Global Equities funds to be delivered in 2017, followed by Fixed Income funds and broadening to Real estate, Infrastructure and Alternative assets.

While LCIV builds its in-house capacity particularly in the Real Estate and Infrastructure areas, efforts will also be made to explore options to invest earlier in these asset classes. This will include investigating opportunities to work with other areas of the Local Government Pension Schemes (LGPS).

It is recognised that the current triennial valuation may impact the strategic asset allocation and investment needs of the LLAs. With this in mind, LCIV will liaise closely with the LLAs and the Investment Advisory Committee to ensure that the focus of our fund development and investment opportunities are aligned with their needs.

As we move to broaden the asset classes, LCIV should add value beyond leveraging scale to reduce management fees. With the likely changes in strategic asset allocation, combined with fundamental changes in markets, together with industry upheaval for fund managers, the LLAs, working with LCIV, could move beyond standard products and have products built to their specifications which could have both lower fees and materially better returns. This is most applicable to “alternative” asset classes which are planned for launch at the end of 2018 and during 2019, although structural changes in the Fixed Income markets, particularly in traditional, publicly traded assets, have meant that it may be necessary to look at private market debt as we expand into Fixed Income.

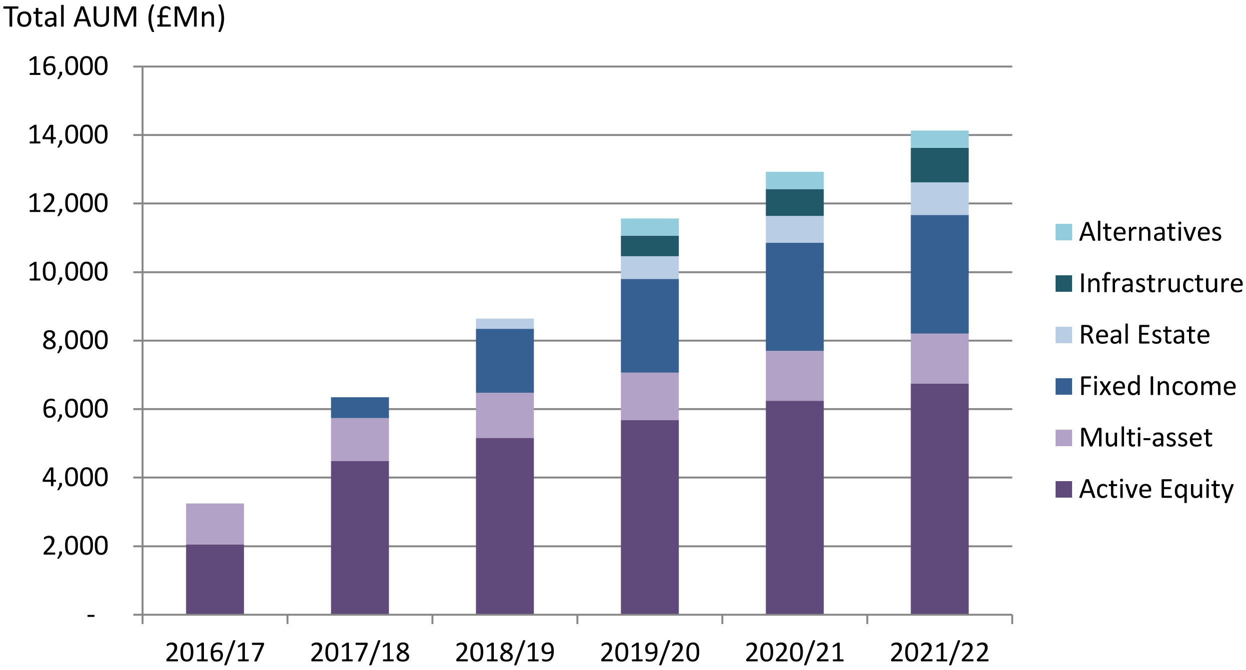
The fund launch and supporting plan is based on the cost structure and operational requirements of a single-manager sub-fund operating under LCIV’s current Financial Conduct Authority (FCA) regulatory approvals which do not include advisory services. The fund plan includes an expansion from 6 to 28 sub-funds over the planning period and growth from £3.2 Bn AUM in March 2017 to £14.1 Bn by March 2022. The fund launch plan for 2016/17 and 2017/21 with estimated AUM at launch date are shown in Fig. 1 below.

Figure 1. LCIV Fund Launch Plan with estimated AUM at launch

	Q1			Q2			Q3			Q4				
	April	May	June	July	August	September	October	November	December	January	February	March	New Funds	Total Funds
2016/17		Ballie Gifford Global Alpha (£1455)	Ruffer Abs Return (£335) (Purford Abs Return (£200)		*Work on passive asset structure and fee negotiations*				Newton Real Return (£330)				4	6
2017/18	Majedie (£530) Newton Global Equity (£500)	Longview (£450)				Global Equity 1 (£200) Global Equity 2 (£200) Global Equity 3 (£150)			Global Equity 4 (£150) Global Equity 5 (£150)			Fixed Income 1 (£300) Fixed Income 2 (£300)	10	16
2018/19			Real Estate 1 (£300)	Fixed Income 3 (£300) Fixed Income 4 (£300)			Fixed Income 5 (£300) Fixed Income 6 (£300)						5	21
2019/20			Real Estate 2 (£300)	Infrastructure 1 (£300) Infrastructure 2 (£300)			Fixed Income 7 (£300) Fixed Income 8 (£300)			Allternatives 1 (£250) Allternatives 2 (£250)			7	28
2020/21 2021/22	No individual fund launches detailed in plan AuM growth driven by subscriptions to funds on platform													

The fund launch plan for financial years 2020/21 and 2021/22 does not identify specific fund launches either by asset class or size as this is highly speculative given potential asset allocation changes from the next triennial review in 2019. The forecast AUM growth in the plan beyond the initial fund launch AUM is driven by estimates of additional subscriptions into existing funds across the asset classes. The AUM forecast across asset classes in shown in Fig. 2.

Figure 2. AUM Forecast based on 2017-2021 Fund Launch Plan



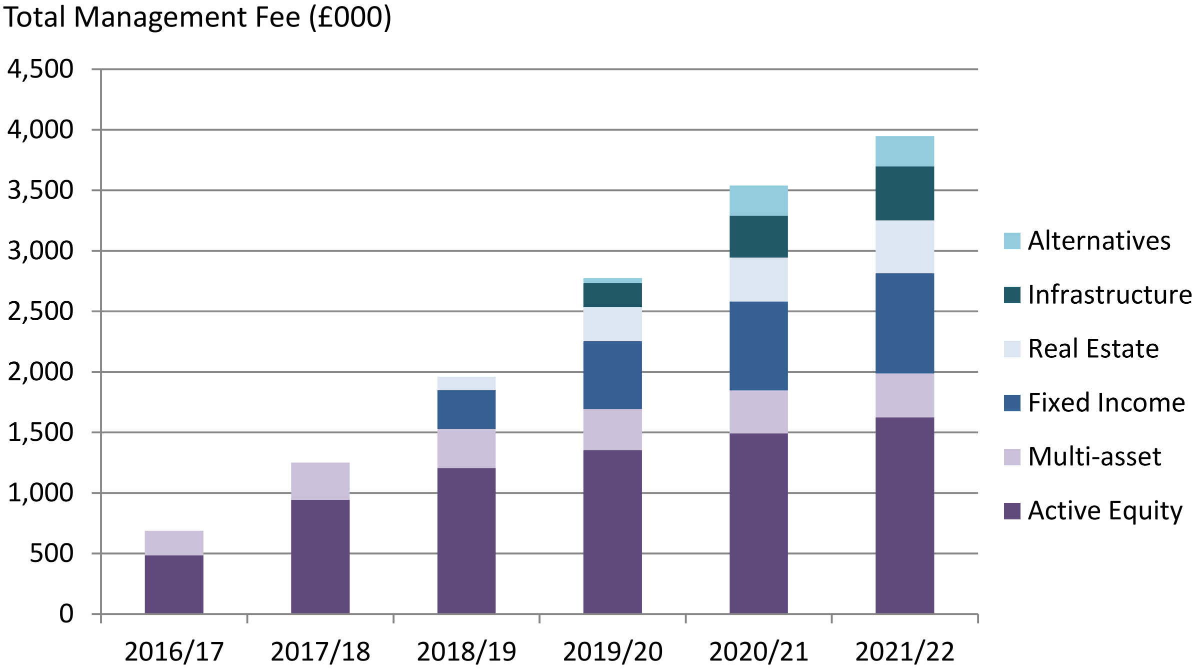
Overall, the forecast AUM of £14.1 billion by March 2022 represents the transfer of 49% of the total £29.2 Bn (as of March 2015) of LLA assets. The forecasted share of LLA asset transfer to LCIV is based on March 2015 LLA asset allocation and outlined below in Fig. 3.

Figure 3. Share of LLA Assets transferred based on 2017 /21 Fund Launch Plan

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Share of LLA Assets	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**	**March 21**	**March 22**
Active Equities	21%	46%	53%	59%	64%	70%
Passive Equities	0%	0%	0%	0%	0%	0%
Multi Asset	45%	48%	50%	52%	55%	55%
Fixed Income	0%	12%	38%	55%	64%	70%
Property	0%	0%	14%	32%	38%	45%
Infrastructure	0%	0%	0%	306%	398%	517%
Alternative Assets	0%	0%	0%	36%	36%	36%
Total share of LLA Assets transferred	11%	22%	30%	40%	44%	49%

Revenue forecast. Based on the fund launch plans and estimated AUM, the management fee revenue is forecast to grow from £640K at end 2016/17 to £3.9 Mn by end March 2022. LCIV is also currently working with stakeholders to agree an approach to passive assets. During 2016/17, LCIV negotiated significant savings for fourteen funds invested with Legal & General and it has been suggested that the LLAs who benefitted from LCIVs time and effort should pay a fee for the realised benefits. This potential fee would additional income and has not been included in the revenue forecast. The management fee forecast for the planning period is shown in Fig. 4 below.

Figure 4. Management fee Revenue Forecast



The assumptions of the above revenue forecast over the planning period include:

- management fees per asset class are constant over planning period
- management fee for Equities and Fixed Income is 2.5 basis points (bp)
- management fee for Real Estate, Infrastructure and Alternatives is 5.0 bp
- additional subscriptions are made to funds where no capacity constraints apply
- passive funds will be managed outside LCIV and no passive fee revenue is included
- there are no fund redemptions or sub-fund closures during the planning period
- current LCIV regulatory approvals are sufficient to implement plans

There are two key components for LCIV to deliver the above fund launch plans and associated revenue targets. These include:

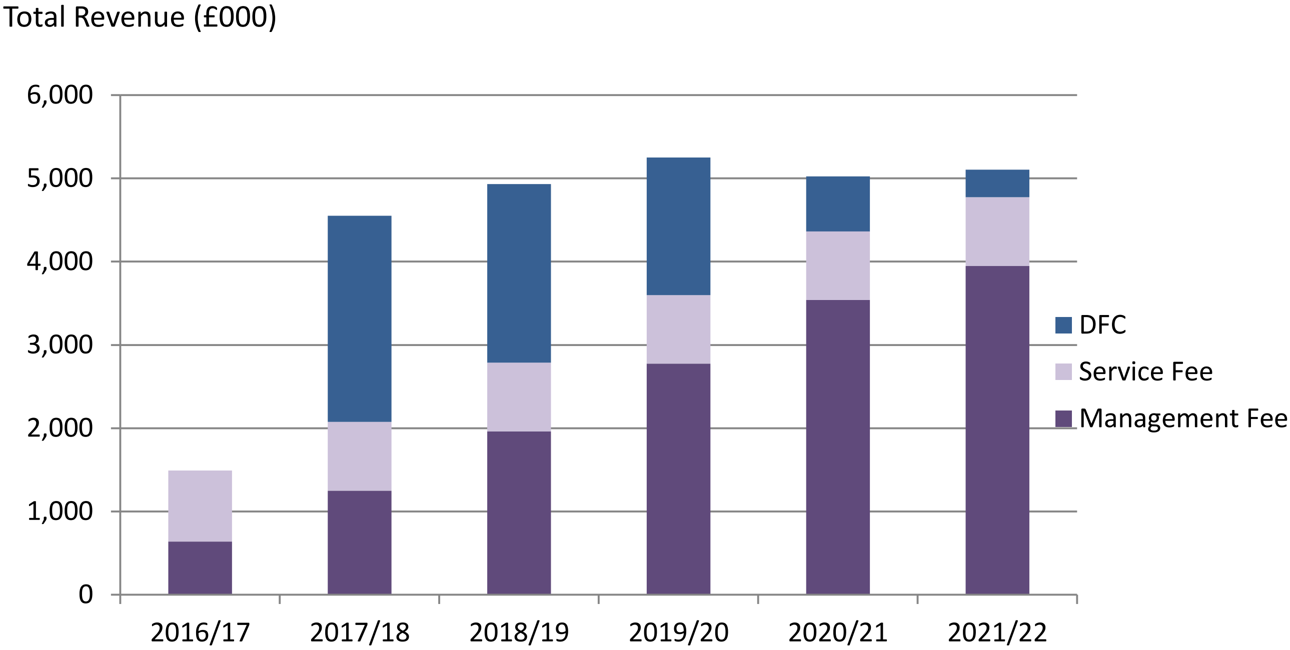
(i) the provision of attractive investment opportunities by LCIV to the LLAs

(ii) the pace at which the LLAs transfer their assets to LCIV

Service Charge and Development Funding Charge. The annual service charge for the planning period will be at £25,000. The DFC which is proposed to be introduced in 2017/18 would be set at £75,000 in 2017/18 and decline year on year to £10,000 in 2021/22.

Total revenue forecast. Based on the management fee forecast, service charge and proposed DFC, the total revenue is forecast to grow from £1.5 Mn in 2016/17 to £5.1 Mn in 2021/22 enabling the company to invest in the critical resources, skills and infrastructure to deliver the forward looking plans. Total revenue forecast is shown in Fig. 5.

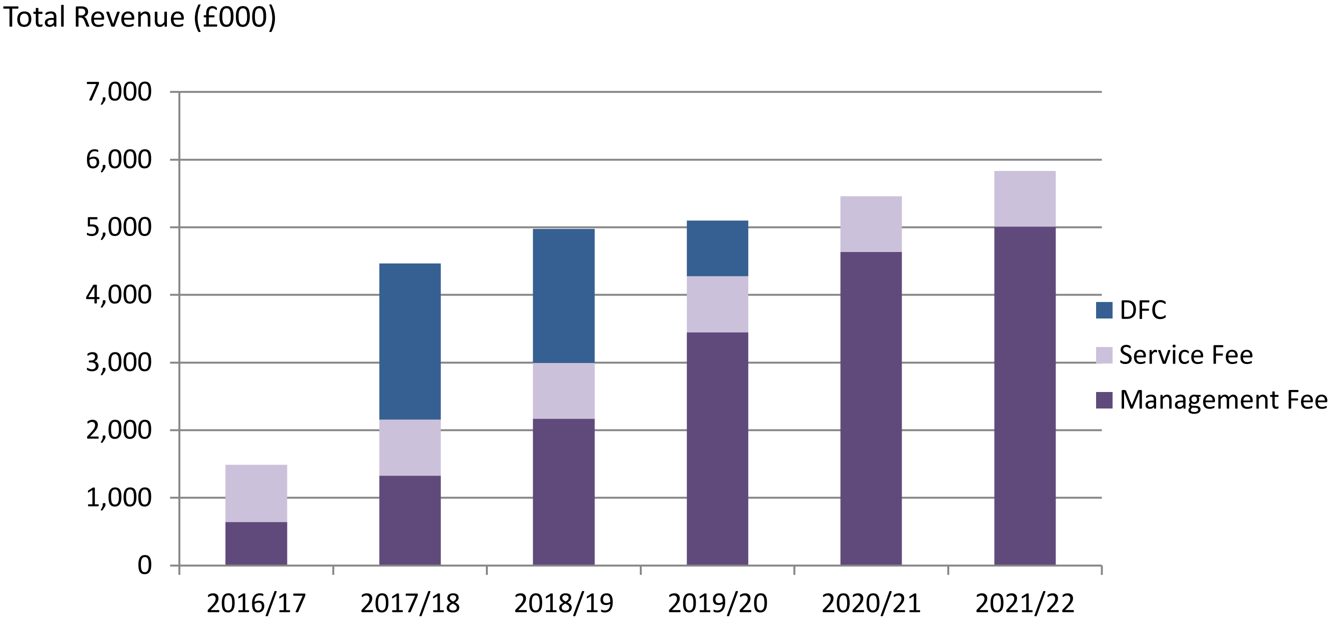
Figure 5. Total Revenue Forecast



On 16 December 2016 Marcus Jones MP (Minister for Local Government) wrote to Lord Kerslake (Chair of LCIV) following a meeting to discuss the joint submission of LCIV and the LLAs to government in July 2016. In his letter the Minister noted that, in the government's view, the current forecasts and transition of assets into the LCIV pool will be "unacceptably slow".

Recognising that transition of assets can only happen as and when LCIV provides the necessary investment opportunities and material benefits can be accessed, a more ambitious pace of fund transfer would suggest that AUM of £19.4 Bn could be achieved by March 2022 (versus planned £14.2 Bn) representing 67% of total LLA assets (versus planned 49%). Apart from responding to the government's challenge this would also result in the DFC declining to £25,000 in 2019/20 and enabling LCIV to cover its annual operating costs from fund management fees by 2020/21, two years earlier than forecast in the current plan. This scenario is based on a faster pace of asset transition and assumes no change in the forecast cost, cost structure or number of funds. LCIV will work closely with the LLAs and seek to jointly deliver a more aggressive pace of asset transfer during the planning period. A summary of revenue scenario with increased pace of fund transfer is shown below in Fig.6.

Figure 6. Revenue Scenario



7. EXPENSE FORECAST

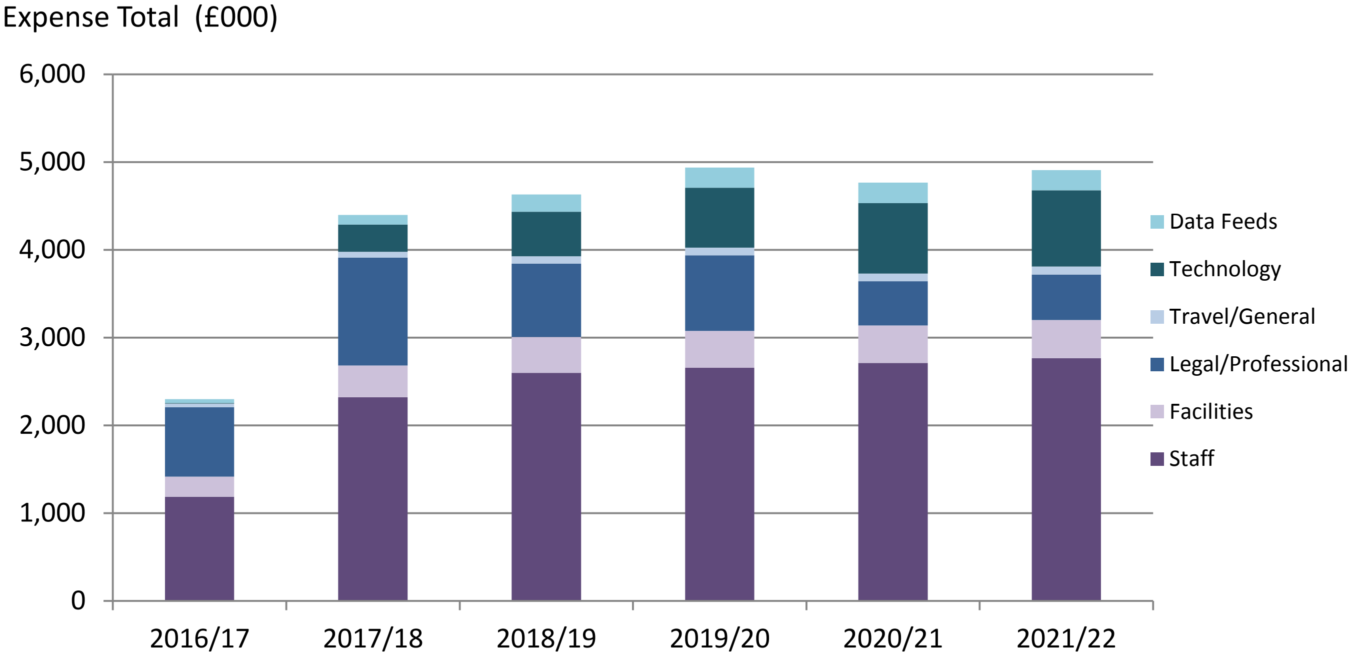
LCIV is moving from implementation and proof of concept to a key development phase for the organisation which requires additional resource investment to deliver proposed fund launch plans. The key cost drivers over the planning period are the variety, complexity and number of sub-funds, staff expansion, investment procurement, professional costs relating to fund structuring and launches, and core information and communication technology (ICT), risk and systems implementation.

From the current base of 6 funds, the number of funds is forecast to increase to 28 and new asset classes may require different fund structures outside of LCIVs Authorised Contractual Scheme (ACS). Staffing to support the growth in assets and business complexity is planned to increase from 11 to 25 resources. There will be a continuing need to utilise external legal and professional services for the fund launches, technology development and organisational expansion.

Consequently, LCIV’s costs will increase from £2.3 Mn in March 2017 to £4.9 Mn by March 2022. The increase in costs is primarily driven by operating costs (including the need to recruit staff with the appropriate skills and knowledge base), as well as costs relating to fund launches and operational set up.

To be consistent with the charging principles and ensure costs are fairly distributed across stakeholders, LCIV will be proposing charging fund opening costs such as legal fees and investment consulting fees to the funds, where possible. Accordingly, investors in the fund would incur the directly related fund set-up costs. These costs could be in the region of £50K per sub fund, but can be amortised over a number of years to reduce the immediate impact on early investors. However, for cash flow reasons, the financial plan includes the budgeted set up costs as an LCIV expense currently and would reduce LCIV costs if charged to the sub fund. A summary of the expense forecast is shown below in Fig. 7

Figure 7. Total Expense Forecast



The rationale and key assumptions across the cost line items are outlined below:

Staff. The staff expansion plans and timing have been driven by three key factors:

- fund launches by asset class (see Fig. 1) and the need to hire front office investment, investment oversight and client support capabilities to deliver and monitor a the planned fund range;
- the need to hire core skills for middle and back office including a fund accounting, risk management, and systems and data management; and
- additional middle and back office staff to support the compliance and operational requirements of the fund expansion.

An overview of the current resources and staff build plans are in Fig. 8 below.

Figure 8. 2017/18 Staff Build Plans

Year	Quarter	Front Office	Middle/Back Office	New Staff	Total Staff
Current Resources		*CEO and Office Manager/EA* *CIO* *AD Borough Client Management* *Head of Investment Oversight* *Investment Analyst* *Investment Analyst*	*COO* *Programme Director* *Compliance/Risk Manager* *Operations Manager*		*11*
2017/18	Q1	Global Equities Manager AD Investment Oversight/ Performance Client management Assistant	Fund Accountant Systems/Data Manager	5	16
2017/18	Q2	Fixed Income/ Alternatives Manager	Management Accountant Operations Assistant Project Manager	4	20
2017/18	Q3	Real Estate/ Infrastructure Manager	Risk Officer	2	22
2017/18	Q4	Client Management Assistant Administrative Assistant ---- General Support		2	24
2018/19	Q1		Compliance Assistant	1	25

The plan envisages front office staff growing from 5 to 11 staff. The hiring plan has been developed to ensure:

- adequate time for asset class managers to be in place prior to the launch of the new asset class funds;
- sufficient client management resources to deliver effective LLA engagement, service and appropriate data and reporting to the LLAs; and
- robust oversight of sub-funds, including rigorous challenge of investment manager performance.

In order to ensure the business is properly supported, compliant with regulatory requirements, and that risks are adequately identified and managed, the resourcing plan includes the middle and back office growing from 4 to 11 staff. The new staff will fill key functional areas including:

- fund and firm accounting
- risk management
- systems and data support
- compliance
- operations.

A general administration assistant will hired to support the administration needs of both the front and back office staff and expansion.

The remuneration of staff has been budgeted using scales and salary bands of London Councils as a guide. In addition, the LCIV Board is committed to following the London Council Diversity and Equality Guidelines and will apply these during the LCIV staff recruitment process.

Legal and Professional Fees. LCIV work with a variety of professional advisers who advise and assist on a number of technical issues over the planning period. Eversheds are the main source of legal support and provide advice on fund launches, tax, Freedom of Information (FoI), regulatory compliance, employment and governance matters. Other professional service costs include investment oversight support, audit services with Deloitte, Financial Conduct Authority (FCA) fees, internal audit costs, and investment consultant fees in respect of new fund launches and procurement. There will also be consulting support for IT implementation and staff expansion and hiring.

Technology and Data Feeds. ICT support is currently provided by London Councils/City of London as part of the facility arrangements with London Council. As the business requirements of LCIV grow, the technology infrastructure will require additional resources both in terms of staffing and systems to ensure that the appropriate level of resilience and disaster recovery/business continuity support are in place and appropriate to the scale and size of a substantial asset manager. The target operating model will be scoped in Q1 FY 2017 for the systems infrastructure across client and management reporting, performance measurement, online client portals, business continuity and risk management.

As the range and complexity of the ACS platform grows and its fiduciary responsibilities increases, LCIV must ensure that the staff and the Board have the necessary tools to manage this growth and deliver appropriate oversight of the operation. Investment in the infrastructure will allow for operational leverage as the AUM and business expands.

8. CAPITAL SPENDING FORECAST

The forecast includes a total capital expenditure of £150K in 2018/2019, comprising £100,000 for ICT equipment which will be depreciated over 3 years and an allowance of £50,000 for fixtures and fittings to support office expansion within London Councils' Southwark Street offices which will also be depreciated over 3 years.

9. BENEFITS DELIVERY

LCIV is focused on delivering benefits to the LLAs. Regarding quantifiable benefits for the initial launch phase of funds, these have been calculated based on the fee scales pre and post transition and include the costs associated with the LCIV charges including asset servicer and custody costs.

As of end Q3 2016, the total benefits delivered on £2.5 Bn AUM was estimated to be just under £1m annualised. Incorporating the second half 2016/17 fund launch plan and AUM forecast, the estimated benefits delivered in 2016/17 is forecast to be £1.5 Mn annualised on £3.2 Bn AUM. An additional three sub-funds are forecasted to be launched during Q2 of 2017 with a further £1.5 Bn AUM delivering an estimated £2.4Mn annualised additional savings. In addition, LCIV have negotiated significant savings fee savings for fourteen LLAs invested with Legal & General in passive life funds delivering an annualised savings of £1.85m net on the £3.1 Bn AUM held in LGIM passive life funds outside of LCIV.

With the completion of the CQC in the early FY 2017, the approach to calculating benefits will be reviewed. Where new funds are being launched through a procurement exercise, estimated savings will be provided by comparing the standard institutional rates charged by third party investment manager fees compared to the rates being offered through LCIV.

Tax benefits, procurement savings and lower custody costs are additional cashable benefits with the first procurement benefits being realised with global equity exercise that is currently underway. It is not possible to estimate withholding tax benefits with any accuracy at this point without undertaking a complex and time consuming exercise, however the ACS is a more tax efficient fund structure than many others and was the determining factor in choosing this fund model. Custody costs will be reduced as assets increase through the CIV, but also at a local level, where LLA custody costs should decrease over time as assets are moved across to LCIV.

The non-cashable or softer benefits previously outlined include: data transparency and data access, shared investment manager oversight, regulatory scrutiny, governance, access to alternative investments, responding proactively to the wider LGPS efficiency agenda, market management as well as greater levels of responsible investment and engagement across London.

10. FINANCIAL SUMMARY

The key summary financials over the planning period show AUM growth from £3.2 Bn to £14.1 Bn and an increase in related management fee income from £640K to £3.9 Mn. Increased spend on critical staff and systems resources to build out the core investment and operational processes and procedures will result in costs increasing from £2.3 Mn to £4.9 Mn. As previously noted, the increase in costs is due to fund launches, operational set up and normal operating costs with the earlier years of the plan’s costs relating to fund launch and set up.

To fund the shortfall during this key development phase, LCIV is proposing a DFC of £75,000 in 2017/18. The DFC will be invoiced in two parts; two thirds of the DFC will be billed in April at the beginning of the financial year and the balance invoiced in December in the financial year to which the DFC relates. The DFC will be set and agreed as part of the annual budgetary process which according to the shareholders’ agreement will be agreed no later than 60 days prior to the beginning of the relevant financial period. The DFC will decline over the planning period as management fee income increases and LCIV becomes self-funding from management fee income.

The service charge is forecast to remain constant at £25,000 and will be invoiced annually in April at the beginning of each financial year.

The majority of LCIV's expenses are either monthly (payroll, reporting partner, IT costs, data feeds) or quarterly in arrears such as London Council's (facilities) or City of London's fees. Consulting and other professional fees which are fund or project related are ad hoc in nature but represent less than 15% of annual expenditure.

LCIV is not a capital intensive operation and over the course of the five years of the MTFS, has budgeted for capital expenditure of a total of £150K to cover IT upgrades and office refurbishment in financial years 2017/18. The capital expenditure is required to cover office expansion due to the increase in headcount and increased IT infrastructure resilience. Therefore, the balance sheet of LCIV is operationally liquid and meets the requirement for FCA capital adequacy purposes and LCIV does not anticipate cash flow management challenges provided the annual service charge and DFC are paid as invoiced.

If any significant surplus occurs during the planning period, LCIV's Board will propose one of three options to the LLAs, those being:

(i) retain surplus and increase capital within the business,

(ii) reduce DFC, annual service charge and/or ad valorem charge in subsequent years

(iii) pay out surplus to shareholders as a dividend

The 2017/2021 Profit and Loss, Balance Sheet and Cash Flow summary statements are shown the Summary Financial Statements below in Fig. 9.

Figure 9. Summary Financial Statements

KEY SUMMARY DATA	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
	March 17	March 18	March 19	March 20	March 21	March 22
Assets under management (AUM) in £Mn	3,252	6,344	8,641	11,562	12,922	14,129
New Sub-funds launched in year	4	10	5	7	0	0
Total Sub Funds FY Year End	6	16	21	28	28	28
LCIV Staff (FY Year End)	11	24	25	25	25	25
LCIV Shareholders/Investors	32	32	32	32	32	32
Annual Service Charge	25,000	25,000	25,000	25,000	25,000	25,000
Development Funding Charge (DFC)		75,000	65,000	50,000	20,000	10,000

2027/2021 PROFIT AND LOSS	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
	March 17	March 18	March 19	March 20	March 21	March 22
Operating Income						
Service Charge	850,000	800,000	800,000	800,000	800,000	800,000
Development Funding Charge (DFC)		2,400,000	2,080,000	1,600,000	640,000	320,000
Management Fee by Asset Class						
Active Equity	*426,990*	*944,306*	*1,206,540*	*1,355,253*	*1,490,778*	*1,624,238*
Passive Equity	*0*	*0*	*0*	*0*	*0*	*0*
Multi-Asset	*212,593*	*306,270*	*321,584*	*337,663*	*354,546*	*363,193*
Fixed Income	*0*	*0*	*320,000*	*562,375*	*736,106*	*826,836*
Alternatives	*0*	*0*	*112,500*	*519,167*	*958,000*	*1,134,100*
Total Management Fee by Asset Class	639,583	1,250,576	1,960,623	2,774,457	3,539,430	3,948,367
Total Operating Income	1,489,583	4,450,576	4,840,623	5,174,457	4,979,430	5,068,367
Expenses						
Staff	1,185,744	2,318,220	2,596,558	2,657,295	2,710,441	2,764,650
Facilities	231,651	359,256	409,082	419,560	427,751	436,106
Legal and Professional	791,046	1,231,000	836,000	859,000	504,000	519,000
Travel and General Expenses	38,465	67,375	82,750	89,000	89,250	89,240
Technology	6,944	308,458	510,167	682,240	803,500	869,500
Data feeds	43,880	110,000	195,000	230,000	230,000	230,000
Total Operating Expenses	2,297,731	4,394,309	4,629,557	4,937,095	4,764,942	4,908,496
EBITDA	-808,148	56,267	211,066	237,362	214,488	159,871
Depreciation	1,333	1,842	51,719	50,509	50,000	0
Interest Income	15,000	15,000	15,000	15,000	15,000	15,000
PBT	-794,482	69,425	174,347	201,853	179,488	174,871
Corporate Tax @15%	0	0	0	0	0	825
Net Profit/Loss	-794,482	69,425	174,347	201,853	179,488	174,046
	-794,482	*-725,056*	*-550,710*	*-348,856*	*-169,368*	*0*

Figure 9. Summary Financial Statements (continued)

2017/2021 BALANCE SHEET	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
BALANCE SHEEET	March 17	March 18	March 19	March 20	March 21	March 22
Non-Current Assets						
Plant, Property and Equipment (PPE)	5525	5525	155525	155525	155525	155525
Accumulated Deprecation	1,456	3,297	55,017	105,525	155,525	155,525
Total Non-Current Assets	4,070	2,228	100,509	50,000	0	0
Current Assets						
Cash	4,068,591	4,139,858	4,215,924	4,468,286	4,697,774	4,871,819
Total Current Assets	4,068,591	4,139,858	4,215,924	4,468,286	4,697,774	4,871,819
Total Assets	4,072,660	4,142,086	4,316,432	4,518,286	4,697,774	4,871,819
Capital and Reserves						
A Class Shares	32	32	32	32	32	32
B Class Shares	4,800,000	4,800,000	4,800,000	4,800,000	4,800,000	4,800,000
Retained Earnings	67,110	-727,372	-657,946	-483,600	-281,746	-102,258
Profit/Loss in year	-794,482	69,425	174,347	201,853	179,488	174,046
Total Capital and Reserves	4,072,660	4,142,086	4,316,432	4,518,286	4,697,774	4,871,819
Total Liability and Shareholder Capital	4,072,660	4,142,086	4,316,432	4,518,286	4,697,774	4,871,819

2017/2021 CASHFLOW	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
	March 17	March 18	March 19	March 20	March 21	March 22
Operating Activites						
Operating Profit/Loss	-794,482	69,425	174,347	201,853	179,488	174,046
Depreciation	1,333	1,842	51,719	50,509	50,000	0
Change in Working Capital	0	0	-150,000	0	0	0
Cash from operating activities	-793,148	71,267	76,066	252,362	229,488	174,046
Total change in cash	-793,148	71,267	76,066	252,362	229,488	174,046
Beginning cash balance	4,865,809	4,068,591	4,139,858	4,215,924	4,468,286	4,697,774
Ending cash balance	4,068,591	4,139,858	4,215,924	4,468,286	4,697,774	4,871,819

11. REGULATORY CAPITAL REQUIREMENT

The regulatory capital requirement is determined by a FCA formula derived from a combination of AUM and the expenses of the business. As a regulated entity, LCIV is required to maintain a minimum of regulatory capital at all times and must formally report this to the FCA on a quarterly basis.

LCIV was capitalised to cover a budgeted AUM of £25 Bn with the issuance of £4,950,000 of B shares at £1 each. The capitalisation changed during the 2016/17 financial year due the planned merger of Richmond and Wandsworth Pension Funds resulting in a current capitalisation is £4,800,000. LCIV will be able to meet its regulatory requirements based on the current capital position and the proposed financial plan. A summary of the capital adequacy requirements and surplus are below in Fig. 10.

Figure 10. 2017/21 Capital Requirement

CAPITAL ADEQUACY	FY 2016 March 17	FY 2017 March 18	FY 2018 March 19	FY 2019 March 20	FY 2020 March 21	FY 2021 March 22
AUM Assumptions 2017/2021 (£ Mn)	3,252	6,344	8,641	11,562	12,922	14,129
A = Initial Capital - Euro 125k	111,607	111,607	111,607	111,607	111,607	111,607
B = 0.02% of AUM in Excess of EUR 250 Mn	605,797	1,224,239	1,683,472	2,267,707	2,539,696	2,781,126
C = Quarter of Operating Expenses	574,433	1,098,577	1,157,389	1,234,274	1,191,236	1,227,124
D = Professional Negligence	25,000	25,000	25,000	25,000	25,000	25,000
Regulatory Capital Requirement [1]	742,404	1,360,846	1,820,079	2,404,314	2,676,303	2,917,733
Share Capital	4,800,032	4,800,032	4,800,032	4,800,032	4,800,032	4,800,032
Retained Earnings	67,110	-727,372	-657,946	-483,600	-281,746	-102,258
Current Year P&L	-794,482	69,425	174,347	201,853	179,488	174,046
Total Reserves Carried Forward	4,072,660	4,142,086	4,316,432	4,518,286	4,697,774	4,871,819
Surplus/Deficit Regulatory Capital	3,330,256	2,781,239	2,496,353	2,113,972	2,021,471	1,954,086

12. COMMUNICATIONS

The London CIV objective in communicating to stakeholders is to provide transparent and effective communications and to seek ways to deliver ongoing improvements in our communications and reporting processes. LCIV has a wide range of stakeholders with whom it undertakes communications including (but not limited to):

- London local authorities as investors and shareholders
- Wider local government universe
- Central Government
- Investment Managers
- Third Party suppliers
- Media

In particular, the focus with investors and shareholders is to have a regular and consistent communication program to support partnership and two-way dialogue.

LCIV will use a diverse range of channels to communicate with stakeholders including electronic, paper based, verbal, seminars, and surveys. LCIV is committed to providing high quality reporting to its investors, with quarterly reports on performance of its funds, annual and half yearly report and accounts and regular newsletter updates. LCIV will set out its communications strategy and consult with key stakeholders on its content and timing.

13. GOVERNANCE

LCIV governance structure includes the Board and a number of committees of the Board, and stakeholder committees including the London Councils' Pensions CIV Sectoral Joint Committee and the Society of London Treasurers led Investment Advisory Committee. These bodies are responsible for providing:

i. Oversight and scrutiny of LCIV;

ii. Providing input, assistance and advice to the development of LCIV's investment product.

A summary of the current governance bodies and their responsibilities are outlined below.

It should be noted that LCIV has engaged with key stakeholders and will be commissioning a governance review to ensure that the governance structures which were set up at the formation of LCIV pool arrangements remain fit for purpose and provide the appropriate levels of communication, governance, planning and decision making.

Regulated Entity Governance

LCIV Board of Directors. The LCIV Board comprises four non-executive directors (one of whom is the Chair) and three executive directors (the CEO, COO and CIO). The Board is responsible for overseeing the company's strategic direction including, setting and monitoring the delivery of the business plan and objectives, managing business risk including investment and operational risk, and approving fund launches and investment manager selection oversight.

The Board has the authority to delegate certain matters to Committees; however, the Board retains ultimate responsibility and supervises the discharge of all delegated matters. The Board meets at least four times a year on a quarterly basis. The Boards activities are governed by both the Articles of Association of the Company and the Shareholders' Agreement.

Investment Oversight Committee (IOC). The IOC is a Board Committee with responsibility for overseeing, maintaining and monitoring the investment strategy, performance and investment risk of the sub funds. The IOC does this in accordance with the investment policies approved by the Board and the investment guidelines, as set out in the Prospectus and any supporting documentation including the investment mandates and in compliance with the requirements of the AIFM Directive. Membership of the IOC consists of two Non-Executive Directors, one of which is the Chairman, and the Chief Executive Officer. The committee meets four times a year.

Compliance, Audit and Risk Committee (CARCO). The CARCO is a Board Committee and is responsible for overseeing the compliance and risk obligations of the Company in its capacity as a FCA regulated entity and as an Operator of the London LGPS CIV Authorised Contractual Scheme, including regulatory requirements, market practice and compliance with the requirements of the AIFM Directive. Membership consists of two Non-Executives one of which has risk oversight experience who is also the Chair, and the Chief Executive Officer. The CARCO meets four times a year.

Remuneration Committee (REMCO). The REMCO is responsible for setting the principles and parameters of the remuneration policy for the company and to make recommendations to the Board. Appointments to the Committee are made by the Board in consultation with the Chair of the London Council's Pensions Sectoral Joint Committee (PSJC). Appointments are for a period of up to three years extendable by no more than two additional three-year periods. Membership of the REMCO consists of two non-executive directors and the Chair and Vice-chairs of the PSJC. The committee meets at least once a year and otherwise as required.

Stakeholder Engagement and Governance

London Councils' Pensions CIV Sectoral Joint Committee (PSJC). The PSJC acts as a representative body for those LLAs that have chosen to take a shareholding in London CIV. It exercises functions of the participating LLAs involving the exercise of sections 1 and 4 of the Localism Act 2011 where that relates to the actions of the participating LLAs as shareholders of the company. It also acts as a forum for the participating authorities to consider and provide guidance on the direction and performance of the CIV and, in particular, 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).

Investment Advisory Committee (IAC). The IAC is responsible for supporting elected members of the Pensions Sectoral Joint Committee on the investments of the CIV and to liaise with LCIV in defining the investment needs, reviewing fund managers and shaping the annual investment plan. Members consist of pension fund officers and treasurers on a rotating basis for up to three years. The IAC meets on a quarterly basis.

14. RISKS TO THE DELIVERY OF THE PLAN

A number of key assumptions have been made in respect of the fund launch schedule, value of asset transfer, AUM level and staffing requirements and costs.

The performance to plan will be reported on a quarterly basis to the Board and LLA stakeholders. As part of the quarterly reporting, the Executive team will provide an update on progress against the business plan's objectives for 2017/8, including fund launches, financial performance and forecast for the remainder of the financial year. The LCIV Enterprise Risk Register summarising the risks, mitigation plans and key risk indicators (KRIs) is shown below in Fig. 11.

Figure 11. LCIV Enterprise Risks

REF	RISK	MITIGATION	KEY RISK INDICATORS
1.0	**INVESTMENT AND INVESTMENT OVERSIGHT**		
1.1	Investment offerings do not meet LLAs' investment needs; LLAs do not transfer assets	• Track individual LLA engagement, investment barriers • Ensure early LLA engagement in procurement process and identification of seed investors • Set clear and agreed investment principles	• RAG status of LLA engagement by fund offering • Variance on target quarterly / annual AUM
1.2	Investments do not deliver required performance	• Complete effective and thorough investment manager due diligence • Monitor fund performance and challenge investment managers	• Quarterly fund performance reporting • Investment managers reviews
1.3	Fund launches delayed and LLA investments/asset transitions delayed	• Establish disciplined programme management and tracking of milestones • Escalation of issues to Exco which may delay fund launch (eg LLA decisions, benefits business case, 3rd party timelines, etc)	• Launch project milestone delays • Number of items escalated to Exco
1.4	LCIVs success results in fee reductions by current LLA fund managers and LLAs do not transfer assets	• Effectively leverage scale to negotiate material fee reductions • Close and ongoing engagement with LLAs to ensure strategic alignment with LCIVs purpose	• Level and transparency of communications with fund managers
1.5	Government views pace of LLA asset transfer as unacceptably slow creating a damaging response to LLAs/ LCIV	• Ensure clear articulation of benefits to be gained by moving to LCIV • Continue to build trust and confidence of LLAs in LCIVs capabilities to deliver benefits and performance	• RAG status of LLA engagement • Variance on target quarterly / annual AUM • Clarity of benefits in business case
2.0	**CLIENT SERVICE**		
2.1	Failure to deliver defined benefits to the London Local Authorities	• Establish ongoing and transparent engagement with LLAs during fund development process in order to build business case and identify benefits • Establish and agree standard benefits calculation approach with LLAs	• Fund business case not clearly articulated • Variance on target and actual benefits
2.2	Failure to deliver effective client service and reporting	• Establish and implement client service and reporting model • Develop and complete SLA and implement with each LLA	• SLA breaches • Dissatisfied clients

Figure 11. LCIV Enterprise Risks (continued

REF	RISK	MITIGATION	KEY RISK INDICATORS
3.0	**FINANCE AND BUSINESS OPERATIONS**		
3.1	Insufficient staff, skills and business processes to deliver against business objectives	• Deliver staffing and recruitment plan • Maintain appropriate organisational structure • Ensure staff performance objectives/ targets are documented and tracked • Implement target operating model and document business processes	• Hiring plans not in place • Critical skill/functional gaps • Performance targets not met • Effective business processes not in place
3.2	Financial controls not in place to ensure delivery against budget	• Monthly budget reporting to ExCo • Quarterly budget reporting to Board and Stakeholders	• Budget variance in monthly and/or quarterly reporting
4.0	**GOVERNANCE, RISK AND COMPLIANCE**		
4.1	Lack of appropriate business governance to deliver against business plan and objectives	• Ensure proper governance is followed for decision making • Deliver accurate, timely and comprehensive MI on KPIs and business plan progress	• Inadequate/misleading MI for decision making • Individual decisions made without oversight which impact the budget, business priorities
4.2	Lack of appropriate culture and tone from the top to establish high performing team and compliant behaviour	• Ensure organisation has clear vision and purpose • Establish clear roles/responsibilities, performance objectives and targets • Ensure adherence to LCIV policies and procedures	• Employee engagement • Underperformance (organisational/individual) • Compliance breaches
4.3	Failure to comply with existing or new financial regulations	• Implement thematic based review of controls • Deliver compliance monitoring plan • Complete consistent monitoring and reacting to new regulation	• Items highlighted in compliance monitoring • Volume of new regulation • Items highlighted in external reviews

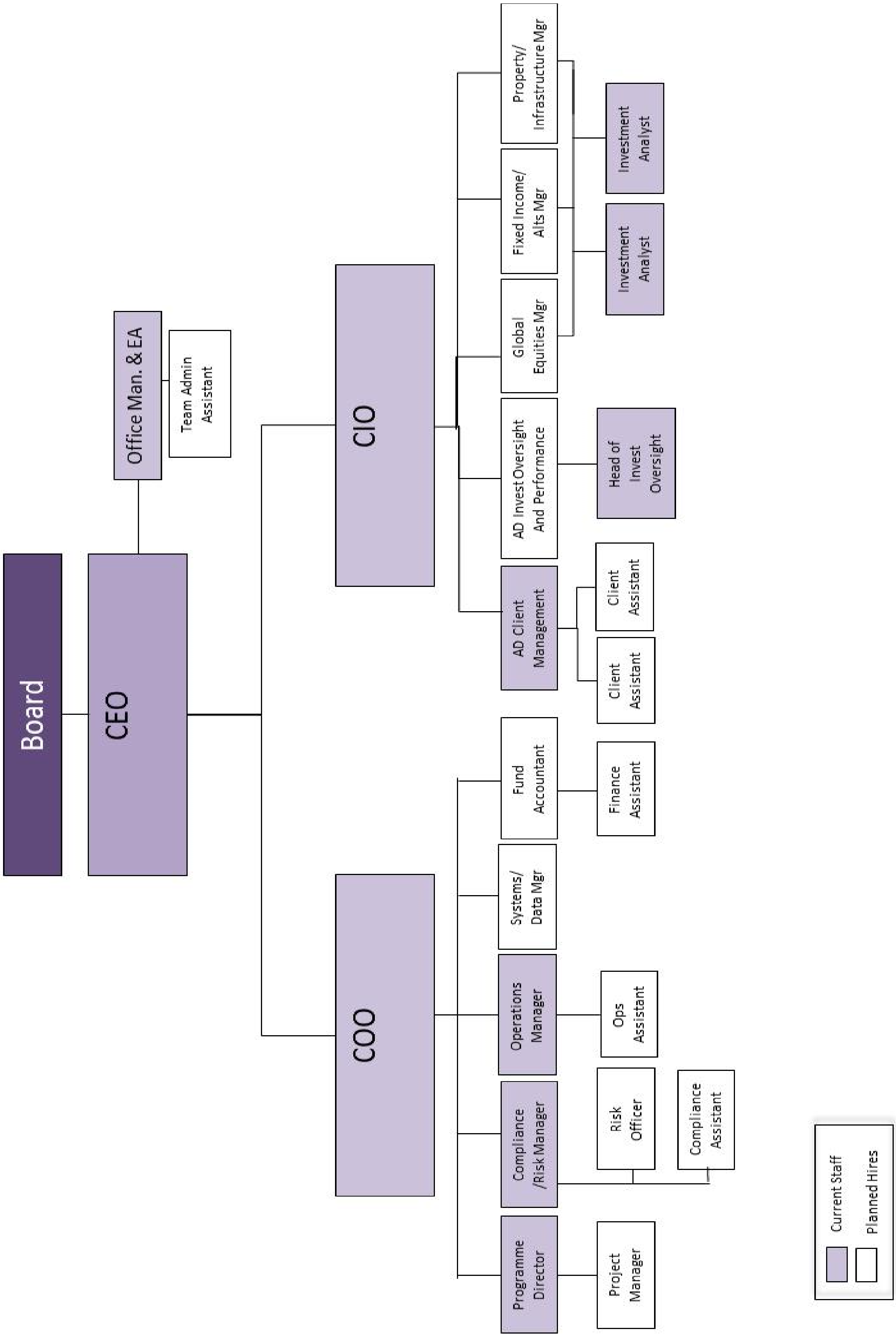
APPENDIX I
2016/2017 BUDGET AND CAPITAL ADEQUACY

2016/17 SUMMARY BUDGET	
	March 17
Operating Income	
Service Charge	850,000
Development Funding Charge (DFC)	
Management Fee by Asset Class	
Active Equity	*426,990*
Passive Equity	*0*
Multi-Asset	*212,593*
Fixed Income	*0*
Alternatives	*0*
Total Management Fee by Asset Class	639,583
Total Operating Income	1,489,583
Expenses	
Staff	1,185,744
Facilities	231,651
Legal and Professional	791,046
Travel and General Expenses	38,465
Technology	6,944
Data feeds	43,880
Total Operating Expenses	2,297,731
EBITDA	-808,148
Depreciation	1,333
Interest Income	15,000
PBT	-794,482
Corporate Tax @15%	0
Net Profit/Loss	-794,482
	-794,482

2016/17 CAPITAL ADEQUACY	
	March 17
AUM Assumptions March (£ Mn)	3,252
A = Initial Capital - Euro 125k	111,607
B = 0.02% of AUM in Excess of EUR 250 Mn	605,797
C = Quarter of Operating Expenses	574,433
D = Professional Negligence	25,000
Regulatory Capital Requirement	742,404
Share Capital	4,800,032
Retained Earnings	67,110
Current Year P&L	-794,482
Total Reserves Carried Forward	4,072,660
Surplus/Deficit Regulatory Capital	3,330,256

APPENDIX II

LCIV ORGANISATION CHART



Department for Communities and Local Government

Marcus Jones MP
Minister for Local Government

Department for Communities and Local Government
4th Floor, Fry Building
2 Marsham Street
London SW1P 4DF

Tel: 0303 444 3460
Fax: 020 7828 4903
E-Mail: marcus.jones@communities.gsi.gov.uk

www.gov.uk/dclg

16 DEC 2016

Baron Kerslake
Chair
London Collective Investment Vehicle

Dear Baron Kerslake.

LONDON COLLECTIVE INVESTMENT VEHICLE (CIV): FINAL PROPOSAL

I would like to thank you and all the authorities involved in the London CIV for your final proposal, which we discussed at our meeting on 12 December. I congratulate you on the savings already achieved since the London CIV became operational in 2015, and appreciate the hard work and commitment from elected members and officers which this represents.

It is now over a year since we set the framework for reform of the investment function of the local government pension scheme (LGPS), through the guidance and criteria for pooling published in November 2015. I am pleased that authorities across the scheme have responded to the challenge and come together to form partnerships of their own choosing based on a shared view of investment strategy. We do not underestimate the scale of the changes required, but the Government remains committed to pooling in order to deliver reduced costs while maintaining performance as well as to develop capacity and capability for greater investment in infrastructure.

I appreciate that overall costs are likely to rise in the early years, and that salaries are likely to be high for key senior roles within pool operators. But I consider that this is a price worth paying in order to achieve substantial savings, already estimated by the pools at £1-2 billion by 2033 or up to £200 million pa in the medium term. I am confident that as the reform beds in, there are further savings to be achieved.

I therefore expect every administering authority in England and Wales to participate in a pool. I also expect authorities to place all assets in their chosen pool, unless there is a strong value for money case for delay, taking into account the potential benefits across the pool. Individual funds will continue to be responsible for their investment strategies and asset allocation and will continue to require high standards of governance.

However I note that on current forecasts the transition of assets into the London CIV pool will be unacceptably slow. In order to deliver greater scale and the full potential for savings, I expect the participating funds to work with you to ensure faster progress on transition, and I will review progress in the spring. As many of the participating funds have raised the issue with me, I must also underline that funds may not use multiple pools in order to access a preferred investment manager. Pools may of course procure services from other pools, especially where a particular asset class is not yet available. On that basis I am pleased to confirm that I am content for you to proceed as set out in your final proposal.

Turning to the future, I appreciate there has been some delay this autumn, but I have no plans to extend the deadline for pools to become operational in April 2018. I will be reviewing progress of all the pools in spring and autumn 2017 and will expect to see a core team in place in spring 2017 and an application for Financial Conduct Authority authorisation, where not already in place, in autumn 2017. I look forward to seeing more detailed plans for delivering savings, and increasing your infrastructure investment in line with your stated ambition. I will also expect detailed plans for reporting, including on fees and net performance in each listed asset class against an index, standardised across the sector.

Yours sincerely.

Marcus Jones

MARCUS JONES MP