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Havering
LONDON BOROUGH

PENSIONS COMMITTEE AGENDA

7.30 pm	Tuesday 17 March 2015	Town Hall, Main Road, Romford

Members 7: Quorum 3

COUNCILLORS:

Conservative (3)	Residents' (2)	East Havering Residents' (1)	UKIP (1)
John Crowder (Chairman) Melvin Wallace Roger Westwood	John Mylod Stephanie Nunn	Clarence Barrett	David Johnson (Vice-Chair)

Trade Union Observers

(No Voting Rights) (2)

John Giles, (Unison)
Andy Hampshire, GMB

Admitted/Scheduled Bodies Representative

(Voting Rights) (1)

Heather Foster-Byron

For information about the meeting please contact:
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james.goodwin@OneSource.co.uk

Protocol for members of the public wishing to report on meetings of the London Borough of Havering

Members of the public are entitled to report on meetings of Council, Committees and Cabinet, except in circumstances where the public have been excluded as permitted by law.

Reporting means:-

- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, so that the report or commentary is available as the meeting takes place or later if the person is not present.

Anyone present at a meeting as it takes place is not permitted to carry out an oral commentary or report. This is to prevent the business of the meeting being disrupted.

Anyone attending a meeting is asked to advise Democratic Services staff on 01708 433076 that they wish to report on the meeting and how they wish to do so. This is to enable employees to guide anyone choosing to report on proceedings to an appropriate place from which to be able to report effectively.

Members of the public are asked to remain seated throughout the meeting as standing up and walking around could distract from the business in hand.

AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) - receive

3 DISCLOSURE OF PECUNIARY INTERESTS

Members are invited to disclose any pecuniary interest in any of the items on the agenda at this point of the meeting.

Members may still disclose any pecuniary interest in any item at any time prior to the consideration of the matter.

4 MINUTES OF THE MEETING (Pages 1 - 4)

To approve as correct the minutes of the meeting held on 16 December 2014 and authorise the Chairman to sign them.

5 DEVELOPMENT OF THE PENSION COLLECTIVE INVESTMENT VEHICLE (Pages 5 - 52)

Report attached.

6 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 DECEMBER 2014 (Pages 53 - 68)

Report attached.

7 URGENT BUSINESS

To consider any other item in respect of which the Chairman is of the opinion, by reason of special circumstances which shall be specific in the minutes that the item should be considered at the meeting as a matter of urgency.

8 EXCLUSION OF THE PUBLIC

To consider whether the public should now be excluded from the remainder of the meeting on the grounds that it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the public were present during those items there would be disclosure to them of exempt information within the meaning of paragraph 1 of Schedule 12A to the Local Government Act 1972; and, if it is decided to exclude the public on those grounds, the Committee to resolve accordingly on the motion of the Chairman.

9 HYMANS REVIEW OF FUND PERFORMANCE FOR THE QUARTER ENDING 31 DECEMBER 2014.

10 PRESENTATION BY ROYAL LONDON ASSET MANAGEMENT

11 PRESENTATION BY UBS TRITON PROPERTY FUND

12 PRESENTATION BY STAET STREET GLOBAL ADVISORS

13 FUNDAMENTAL EQUITY INDEX INVESTMENT

Andrew Beesley
Committee Administration Manager

**MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Town Hall, Main Road, Romford
16 December 2014 (7.30 - 9.05 pm)**

Present:

COUNCILLORS

Conservative Group	John Crowder (Chairman), Melvin Wallace and Roger Westwood
Residents' Group	Stephanie Nunn
East Havering Residents' Group	Clarence Barrett
UKIP Group	David Johnson (Vice-Chair)

Admitted/Scheduled Bodies Representatives: Heather Foster-Byron

Apologies were received for the absence of CouncillorJohn Mylod and John Giles (UNISON) and John Hampshire (GMB).

The Chairman reminded Members of the action to be taken in an emergency.

21 **MINUTES OF THE MEETING**

The Minutes of the meeting of the Committee held on 25 November 2014 were agreed as a correct record and signed by the Chairman.

22 **PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30 SEPTEMBER 2014**

Officers advised the Committee that the net return on the Fund's investments for the quarter to 30 September 2014 was 2.7%. This represented an out performance of 0.2% against the combined tactical benchmark and an under performance of -4.7% against the strategic benchmark.

The overall net return for the year to 30 September 2014 was 8.6%. This represented a performance in line with the tactical combined benchmark and an out performance of -5.2% against the annual strategic benchmark.

1. Hymans Robertson(HR)

Market Summary

- Hymans Robertson updated the Committee with a round up of the market background as at the end of September.

Fund Performance

- Assets were valued at £529.01m as at 30 September 2014, an increase of £13.0m over the quarter. The total return on the Fund's assets over the quarter was 2.5%, marginally ahead of the benchmark return of 2.3%.

- Performance from the Fund's active equity manager, Baillie Gifford, had detracted from performance as the mandate underperformed its benchmark by 1.2%. Performance from the Multi-asset mandates had been positive with the Baillie Gifford DGF, Barings DAAF and Ruffer Absolute funds all outperforming their respective benchmarks.

Investment manager changes

- In August, Barings had announced the departure of Percival Stanion (head of the Global Multi-Asset group and lead portfolio manager for the DAA Fund) together with Andrew Cole and Shaniel Ramjee, two other members of the team. Following this, HR had changed their rating of the DAA Fund to "1"-Sell immediately and had advised the Fund to disinvest. Disinvestment had been made on the 29 August 2014 dealing date, with the funds being transferred into the SSgA Sterling Liquidity Fund. Following the quarter end, the Committee had agreed to invest in the GMO Global Real Returns (UCITS) Fund as a replacement for Barings.

Asset Allocation

- As at the quarter end, the Fund's direct allocation to equity assets had been slightly overweight target at 26.0%. On a look-through basis, the equity allocation had reduced from 45%, previous quarter, to 35% as at 30 September 2014. This reflects the disinvestment from the Barings DAAF which had a significant allocation to equities (c.54%). The Fund was currently overweight to cash, although this was expected to be eliminated before the year end.

2. **Baillie Gifford (BG)**

   James Mowat and Paul Morrison attended the meeting to give a presentation on the performance of BG's Global Alpha and Diversified Growth Funds. Both funds had shown growth in the quarter and this had been continued up to 31 October 2014. As at 15 December the total value of the two funds combined remained the same.

3. **Miscellaneous**

   The Committee was advised that following the decision to appoint GMO and invest in their Global Real Return (UCITS) Fund (GRRUF) officers had completed the necessary documentation and intended to transfer the funds early in the New year.

The Committee **noted** the report.

23 **ESTIMATED DEVELOPMENT OF THE FUNDING POSITION FROM 31 MARCH 2013 TO 30 SEPTEMBER 2014**

The Committee received a report from the Fund's Actuaries Hymans Robertson estimating the development of the Pension Fund's funding position from 31 March 2013 to 30 September 2014. The report looked at the whole fund position and did not allow for the circumstances of individual employees.

Employer contributions would not be reviewed until the next valuation as at 31 March 2016. The purpose of the funding update was to assess whether the funding plan was on track and take actions where necessary.

The funding level at the last formal valuation had been 61.2%. As at 30 September 2014 the funding level had increased to 66.8%. This was largely as a result of higher than expected investment returns and an additional cash contribution paid into the fund by the Council in March 2014, principally in relation to the creation of a Local Investment Fund.

Although Assets had increased, liabilities had also increased.

The Committee were satisfied that there was no reason to change the funding plan.

Chairman

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE **17 March 2015**	**REPORT**

Subject Heading:	**Development of the Pension Collective Investment Vehicle**
Report Author and contact details:	Contact: Debbie Ford Designation: Pension Fund Accountant Telephone: (01708) 432569 E-mail address: Debbie.ford@havering.gov.uk
Policy context:	Pensions Investment Strategy
Financial summary:	If the Council decides to join the CIV it will make an initial contribution of £1 in the share capital of the ACS and £75k contribution in set up and implementation costs.

SUMMARY

To update the Committee on the progress made in establishing a Collective Pensions Investment Vehicle (CIV) across London and of the opportunity for the Council to participate in its development.

The benefits of joining the CIV will come from potential fee reductions. Indications are that eleven separate managers may be brought into the CIV for launch, with an average reduction of 20% in fees per manager.

RECOMMENDATIONS

The Committee is asked to:

a) note the progress made in establishing the creation of a CIV across London.

b) Consider whether it wishes to recommend to Council that it seek membership of the CIV.

REPORT DETAIL

1. Background

1.1 On the 11 February 2014 the Leaders Committee of London Council's approved a report and the underlying business case supporting the creation of a Collective Investment Vehicle (CIV) across London.

1.2 A report was presented to the Pension Committee on the 26 March 2014 asking for the committee to comment and note the arrangements for the creation of a CIV and that at the Council meeting being held on the 26 Mar 2014 they would be recommended to join the CIV.

1.3 The Pensions Committee commented that they had concerns around the financial and governance arrangements and would not recommend joining the CIV until further information was available. This view was endorsed at the Council meeting.

1.4 Some progress in the development of the CIV has been made and this report outlines that progress.

2. Progress

2.1 The process of establishing the CIV has commenced and Interim Directors of the ACS Operator have been appointed.

2.2 An Implementation programme has been set up and includes three projects:

a) **Establish the company that will become the ACS operator** - includes all areas associated with setting up a new company, agreeing a licence to occupy within the same building as London Councils (59 ½ Southwark Street), and setting up finance, HR and IT systems and policies.

b) **Establishing the company as a financial services organisation regulated by the FCA** – includes defining the company's operating model, writing policies and procedures, completing a significant amount of paperwork to support the authorisation application to the FCA, and procuring relationships with key partners such as the asset provider (covering custodian, depository and fund administration).

c) **Establish the Fund for Launch** – analysing the current pattern of investments across the councils, engaging with the investment managers to gather detailed data about assets under management, mandate types and fee structures, discussing with the Investment Managers which mandates may be suitable to transition to the CIV, putting the proposed structure to each borough for consideration by the relevant committee and later agreeing a transition strategy for launch.

2.3 To support the delivery of this programme a Technical Sub-Group (TSG) was set up. This is made up of two officers from the London Councils and a number of LGPS experts from across the councils, under the leadership of the Director of Finance from LB Wandsworth.

2.4 The Leaders' Committee agreed to set up a new Joint Committee (The Pensions CIV Joint Committee). That committee has now been formed and met for the first time on the 17 December 2014. A copy of the first reports are attached as **Appendix A** and includes in more detail reports covering:

a) Item 5 - Terms of Reference & notification of membership
b) Item 6 - Background and progress update (also covers governance & structures)
c) Item 7 – Fund Manager analysis update
d) Item 8 – Asset Servicer Procurement update
e) Item 9 – Dates of future meetings

2.5 So far 30 out of 33 London Boroughs have become active participants in the CIV. Each of those Councils has to date committed to contributing £25,000 into a designated fund. Those Councils already participating have been asked for a further £25,000 and another £25,000 will be requested at the start of the next financial year. Total joining cost at this stage is £75,000. Upon joining the CIV there will be a future financial commitment of contributing towards the on-going operating costs.

2.6 The designated fund is being used to commission specialist expert professional advice associated with the development of the proposed CIV. A key provider to the CIV will be as Asset Servicer (covering fund Administration, depository and custodian roles). This contract has now been awarded.

2.7 The TSG is currently undertaking analysis of the assets under management to identify commonality of investments across the London funds. The focus is on those fund managers which currently have mandates shared by two or more funds. More formal negotiations with fund managers are expected to start soon.

2.8 It is reported that it looks likely that the CIV will launch in the summer of 2015, but key to this will be defining the company's operating model and taking this to the FCA for authorisation.

3. Governance

3.1 The CIV is being developed for and on behalf of the London Boroughs and the boroughs will participate on an entirely voluntary basis. As such, considerable attention has been given to ensuring that the proposed governance and operational structures of the CIV reflects the wishes and needs of the boroughs, both on day one and into the future.

3.2 The governance principles adopted during the development of the proposed structure still stands:

a) Investment in the ACS should be voluntary. A borough should be able to decide they do not wish to participate, or to the extent they initially decided to participate, to choose to withdraw their investment.

b) If a borough chose to invest, it will be able to choose which asset classes to invest into, and how much they might invest into each asset class.

c) The boroughs should have sufficient control over the ACS Operator, in order to be assured that it will be acting in their best interests.

d) The ACS Operator would provide regular information to participating boroughs regarding the performance of managers, investment options, and other areas, so that information continues to be available to the same extent it is currently in order for boroughs to make investment decisions.

e) The ACS will not increase the overall investment risk faced by boroughs.

3.3 A key element to the governance structure is the structure of the Pension CIV joint committee. Boroughs investing in the ACS will also have membership of the Pensions CIV Joint Committee. This joint Committee will assist the boroughs having a shareholding in the ACS and will have the power to identify and appoint key directors to the ACS Operator. It will also be the forum to discuss key issues which affect the participating local authorities, both individually and collectively.

3.4 The pensions CIV Joint Committee will be fulfilling two roles:

a) To consider and provide guidance on the direction and performance of the CIV (Joint Committee meetings)
b) To take decisions on behalf of the participating local authorities in their capacity as shareholders (Shareholder meetings).

3.5 The CIV will be in the form of an authorised contractual scheme (ACS) and this will be a private company limited by shares (London LGPS CIV ltd). The ACS will also be required to be regulated by the Financial Conduct Authority (FCA).

3.6 The ACS is wholly owned by the participating boroughs. At this stage it only has interim directors; Major Pipe, Councillors O'Neill and Dombey, Mr Chris Bilsland (Chamberlain, City of London), Mr Chris Buss (Finance Director, LB Wandsworth), Mr Ian Williams (Finance Director, LB Hackney), and Mr John O'Brien (Chief Executive, London Councils). Final directors to be appointed ahead of the company being authorised and operational.

4. Joining instructions

4.1 Local Authorities wishing to participate in the CIV will agree:

4.1.1 to become shareholders in the ACS Operator

4.1.2 to contribute £1 to the ACS Operator as initial share capital

4.1.3 to contribute £75,000 for the exploration and implementation costs. Upon joining the CIV there will be a future financial commitment of contributing towards the on-going operating costs

4.1.4 Appoint an elected Councillor to act for the Local Authority in exercising its rights as a shareholder of the ACS Operator. (Most boroughs have nominated their pension committee chair or a member of the pensions committee).

4.1.5 that Major Pipe, Councillors O'Neill and Dombey, Mr Chris Bilsland (Chamberlain, City of London), Mr Chris Buss (Finance Director, LB Wandsworth), Mr Ian Williams (Finance Director, LB Hackney), and Mr John O'Brien (Chief Executive, London Councils) be appointed as interim directors of the ACS Operator. Please note these appointments have already taken place.

If the Pensions Committee decides to recommend membership, a report will also be made to full Council with an update on the progress of the CIV with a request that Council reconsider whether the London Borough of Havering Pension Fund should now participate in the CIV.

The decision on whether to invest Pension Fund money into the CIV will be made by the Pensions Committee once the vehicle has been established and if there are investment funds into which the Havering Pension Fund can place its assets. A full assessment of options will be made at that time as to whether the investment into the CIV is appropriate for the Fund. This will include consideration of the returns available, cost reductions available and associated risks, in line with all other investment decisions that are made.

IMPLICATIONS AND RISKS

Financial Implications and risks:

If the Council decides to join the CIV it will be required to contribute £1 in initial share capital. However, further contributions will be required to meet the initial set up and implementation costs, currently set at £75,000. Based on the current participation of 30 boroughs this will raise £2,250,000. Included in the report attached at **Appendix A, Item 6**, estimated expenditure to launch the CIV is currently set at £1,733,831. Any underspend after launch will be used to contribute towards the first year's operating expenses as the CIV becomes established and the 'business as usual' budget and fee structure comes into play.

A 'business as usual budget' is currently being worked on by the Technical Support Group and will be reported to the Pensions CIV Sectoral Joint Committee at a later date. Regular contributions into the operational costs of the CIV will be necessary.

Initial financial implications presented to London Councils suggest that savings will be achieved in management fees. These are expected to outweigh the costs of administration and still produce a net gain for member authorities. Indications are that eleven separate managers may be brought into the CIV for launch; nine have provided estimates of fee savings, with an average reduction of 20% in fees per manager. The benefits of joining the CIV will come from potential fee reductions.

Whilst the Government is expected to support this form of partnership arrangement there remains a risk that it will produce alternative proposals to merge Local Authority Pension funds. This matter has been the subject of extensive consultation by the Government although there has been no indication the Government thinks that Councils should stop their plans to establish a CIV.

Kris Hopkins MP, Parliamentary Under Secretary of State for Communities and Local Government has met Major Pipe and Cllr Teresa O'Neill and officers from the TSG since the consultation and was very interested in the achievements through a voluntary and collaborative approach. It has been agreed that he will be updated with developments.

The risks of non-participation in this collaborative venture are seen as far more significant, particularly if the outcome were to be a merger of funds which could see decisions being taken by external bodies and resulting in loss of accountability and potential to increase costs to local taxpayers.

Any financial contributions to the establishment and operational costs of the CIV will be met by the Pension Fund.

Legal Implications and risks:

A decision to enter into the agreement for the ACS and to become a shareholder in the ACS operator company (which will be a company wholly owned by the member Councils) has limited legal implications for the Council as it gives the Council the opportunity to invest via the ACS, but not a legal commitment to do so. However it is clear that the intention is that members would make some use of the facility, and it is probable that it would be in the financial interest of the pension scheme to place some funds with the ACS, particularly if its size enables it to obtain better deals with active pension fund managers. However its existence will not absolve the pension committee from reviewing performance of the fund, it would switch from fund managers to the ACS. There will also be a need to ensure that there isn't a conflict of interest for whichever councillor is the Council's representative on the proposed joint committee, but that can be addressed when selection occurs.

The Report to the London Councils meeting of 17 December refers to legal advice obtained from solicitors and counsel. It appears also that further advice will be obtained from counsel to clarify certain matters. That may have been provided in the subsequent report of 11 Feb but as at the date of drafting these comments that Report is not available.

It is clear that there are a number of legal risks for the constituent Local Authorities when the CIV procures contractors/services through the ACS. The legal advice from London Councils' lawyers indicates that this risk is low, however, it is subject to the clarification mentioned above.

If the Pension committee is minded to recommend joining the CIV to Council it is hoped that some of the legal uncertainties will have been resolved, but these will be addressed more fully in the Report to Council. It is also possible that changes will be required to the Constitution.

Human Resources Implications and risks:

None arising directly

Equalities implications and risks:

None arising directly

BACKGROUND PAPERS

London Councils Leaders' Committee papers 11 February 2014
London Councils Pensions CIV Sectoral Joint Committee papers 17 December 2014

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Pensions CIV Sectoral Joint Committee

17 December 2014: 14:30 – 16:30

Conference Suite (1st Floor)

At London Councils offices, 59½ Southwark St., London SE1 0AL
Refreshments will be provided
London Councils offices are wheelchair accessible

Labour Group pre-meeting:	Room 4 (1st Floor)	14:00
(Political Adviser: 07977 401955)		
Conservative Group pre-meeting:	Room 1 (1st Floor)	14:00
(Political Adviser: 07903 492195)		

Contact Officer: Alan Edwards

Telephone and email: 020 7934 9911 Alan.e@londoncouncils.gov.uk

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***Declarations of Interests**

If you are present at a meeting of London Councils' or any of its associated joint committees or their sub-committees and you have a disclosable pecuniary interest* relating to any business that is or will be considered at the meeting you must not:

- participate in any discussion of the business at the meeting, or if you become aware of your disclosable pecuniary interest during the meeting, participate further in any discussion of the business, or
- participate in any vote taken on the matter at the meeting.

These prohibitions apply to any form of participation, including speaking as a member of the public.

It is a matter for each member to decide whether they should leave the room while an item that they have an interest in is being discussed. In arriving at a decision as to whether to leave the room they may wish to have regard to their home authority's code of conduct and/or the Seven (Nolan) Principles of Public Life.

*as defined by the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012

Pensions CIV Sectoral Joint Committee

Terms of Reference and Notification of Membership

Item no 5

Report by:	Hugh Grover	**Job title:**	Programme Director London LGPS CIV
Date:	17 December 2014		
Contact Officer:			
Telephone:	020 7934 9942	**Email:**	hugh.grover@londoncouncils.gov.uk

Summary

The Pensions CIV Sectoral Joint Committee has been established in accordance with recommendations made to London Councils' Leaders' Committee on 11 February 2014 and decisions taken by participating London boroughs and the City of London Corporation in accordance with those recommendations.

This report presents the committee with its current Terms of Reference as agreed, in principle, by London Councils Leaders' Committee at its meeting of 11 March 2014.

Recommendations

The committee is recommended to:

i. Note the contents of this report; and

ii. Note the provisional Terms of Reference at Annex

Terms of Reference and Notification of Membership

1. The Pensions CIV Sectoral Joint Committee has been established in accordance with recommendations made to London Councils' Leaders' Committee on 11 February 2014 and decisions taken by participating London boroughs and the City of London Corporation in accordance with those recommendations.

2. The committee will take decisions in accordance with the functions which have been delegated to it by the participating local authorities. The committee will collectively act as the shareholder of the ACS Operator and each shareholder (i.e. the participating local authorities) will nominate a representative to the Pensions CIV Joint Committee to act for it.

3. The committee will operate under London Councils governance arrangements[1] and in practice will fulfil two roles:

    i. To act as the shareholder body for general meetings of the ACS Operator for those London local authorities that have chosen to take a shareholding in the Authorised Contractual Scheme (ACS) Operator company established for the purposes of a London Pensions Collective Investment Vehicle (CIV). This would relate to usual shareholder powers such as appointing the directors (subject to FCA approval of the appointees) and auditors of the ACS Operator, changing the articles of association of the ACS Operator, and the ability to wind up the ACS Operator; and

    ii. To act as a forum for the participating authorities to consider and provide guidance on the direction and performance of the CIV as an investment vehicle.

4. The committee will be guided by a set of Terms of Reference (ToR). Attached at Annex A are the current ToR as agreed, in principle, by Leaders' Committee at its meeting of 11 March 2014. These were agreed in anticipation of sufficient boroughs agreeing the recommendations of 11 February, and the incorporation of the ACS operating company (London LGPS CIV Ltd.), which would predicate the need for the establishment of this committee.

5. This set of ToR are subject to revision in the light of on-going work to settle the detail of the CIV's governance arrangements, revision of the 'model' Articles of Association that have been adopted by the company on incorporation, the drafting of a shareholder

[1] The London Councils' Governing Agreement dated 13 December 2001 (as amended), London Councils' Standing Orders, Financial Regulations and other policies and procedures as relevant.

agreement, and in light of changes made to London Councils' Standing Orders. A revised ToR will be brought to a future meeting of the committee for approval before going to Leaders' Committee for agreement.

6. The committee will note that the current nominated members of the committee are set out in section 3 of the ToR at Annex A.

Recommendations

7. The committee is recommended to note the contents of this report.

Legal implications

8. As noted above, the committee will have two different reasons for convening, one as shareholders in a Private Limited Company and the other as members with a common interest in the pensions issues and the operation of the CIV. Annex B provides some clarity about the legal distinction.

Financial implications

9. The administration costs of running the PSJC will be met by the participating authorities. The board of the ACS operator company is considering suitable models for recovering the costs of running the CIV which will include the costs of the PSJC.

Equalities implications

10. There are no equalities implications for London Councils

Attachments

Annex A	Pensions CIV Joint Committee Terms of Reference
Annex B	Brief guidance note on the dual role of the committee

1. **Pensions CIV Joint Committee**

Constitution

1.a.1 The Pensions CIV Joint Committee is a sectoral joint committee operating under the London Councils governance arrangements.[2]

1.a.2 Each London local authority participating in the arrangements shall appoint a representative to the Pensions CIV Joint Committee being either the Leader of the local authority or the elected mayor as applicable or a deputy appointed for these purposes.[3]

1.a.3 The Pensions CIV Joint Committee shall appoint a Chair and Vice-Chair.

1.a.4 The Pensions CIV Joint Committee shall meet at least once each year to act as a forum for the participating authorities to consider and provide guidance on the direction and performance of the CIV, In addition, members of the Pensions CIV Joint Committee shall meet at least once each year at an Annual General Meeting of the ACS Operator in their capacity as representing shareholders of the ACS Operator.

1.a.5 Subject to Clause 1.1.4 above, meetings of the Pensions CIV Joint Committee shall be called in accordance with London Councils' Standing Orders and the procedure to be adopted at such meetings shall be determined in accordance with those Standing Orders.

1.a.6 If the Pensions CIV Joint Committee is required to make decisions on specialist matters in which the members of the Pensions CIV Joint Committee do not have expertise the Pensions CIV Joint Committee shall arrange for an adviser(s) to attend the relevant meeting to provide specialist advice to members of the Pensions CIV Joint Committee.

Quorum

1.a.7 The requirements of the Standing Orders of London Councils regarding quorum and voting shall apply to meetings of the Pensions CIV Joint Committee.

[2] The London Councils' Governing Agreement dated 13 December 2001 (as amended), London Councils' Standing Orders, Financial Regulations and other policies and procedures as relevant.
[3] Clause 4.5 of the London Councils' Governing Agreement dated 13 December 2001 (as amended).

Membership

Borough	Representative	Party
City of London	Mark Boleat	-
Barking & Dagenham	Dominic Twomey	Labour
Barnet	Mark Shooter	Conservative
Bexley	John Waters	Conservative
Brent	Shafique Choudhary	Labour
Camden	Peter Brayshaw	Labour
Croydon	Simon Hall	Labour
Ealing	Yvonne Johnson	Labour
Enfield	Toby Simon	Labour
Greenwich	Don Austen	Labour
Hackney	Robert Chapman	Labour
Hammersmith & Fulham	Iain Cassidy	Labour
Haringey	Jason Arthur	Labour
Harrow	Keith Ferry	Labour
Hounslow	Mukesh Malhotra	Labour
Islington	Richard Greening	Labour
Kensington & Chelsea	Quentin Marshall	Conservative
Kingston upon Thames	Eric Humphrey	Conservative
Lambeth	Adrian Garden	Labour
Lewisham	Mark Ingleby	Labour
Merton	Imran Uddin	Labour
Newham	Forhad Hussain	Labour
Redbridge	Elaine Norman	Labour
Richmond upon Thames	Thomas O'Malley	Conservative
Southwark	Fiona Colley	Labour
Sutton	Sunita Gordon	Liberal Democrat
Tower Hamlets	Clare Harrisson	Labour
Waltham Forest	Simon Miller	Labour
Wandsworth	Maurice Heaster	Conservative
Westminster	Suhail Rahuja	Conservative

Terms of Reference

1.a.8 To act as a representative body for those London local authorities that have chosen to take a shareholding in the Authorised Contractual Scheme (ACS) Operator company established for the purposes of a London Pensions Common Investment Vehicle (CIV).

1.a.9 To exercise functions of the participating London local authorities involving the exercise of sections 1 and 4 of the Localism Act 2011 where that relates to the actions of the participating London local authorities as shareholders of the ACS Operator company.

To act 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).

1.a.10 In addition, members of the Pensions CIV Joint Committee will meet at least once each year at an Annual General Meeting of the ACS Operator to take decisions on behalf of the participating London local authorities in their capacity as shareholders exercising the shareholder rights in relation to the Pensions CIV Authorised Contractual Scheme operator (as provided in the Companies Act 2006 and the Articles of Association of the ACS Operator company) and to communicate these decisions to the Board of the ACS Operator company. These include:

1.a.10.1 the appointment of directors to the ACS Operator board of directors;

1.a.10.2 the appointment and removal of auditors of the company;

1.a.10.3 agreeing the Articles of Association of the company and consenting to any amendments to these;

1.a.10.4 receiving the Accounts and Annual Report of the company;

1.a.10.5 exercising rights to require the directors of the ACS Operator company to call a general meeting of the company;

Guidance note on the dual role of the committee

1. Overview

The Pensions CIV Joint Committee will in practice be fulfilling two roles:

a) To consider and provide guidance on the direction and performance of the CIV (**" Joint Committee Meetings"**). Decisions can be taken at the committee relating to the operation and business of the ACS Operator but they will not be formal decisions of the ACS Operator unless either a general meeting of the ACS Operator (and not the committee) has been formally convened or a Board meeting of the ACS operator adopts the recommendations of the Joint Committee

b) The formal shareholder meetings of the ACS Operator to take decisions on behalf of the participating London local authorities in their capacity as shareholders exercising the shareholder rights in relation to the ACS Operator (**"Shareholder Meetings"**).

There are various differences between the Committee meetings and the Shareholder Meetings, both in terms of how they are convened and who can attend. These differences are summarised below. In practice, the best way to conduct business is for a meeting of shareholders to be convened at the rising of the Joint Committee so that shareholders business can be transacted including any necessary formalising of any business of the joint committee:

2. Committee Meetings

The conduct of London Councils committee meetings are governed by London Councils' Standing Orders which are contained in Schedule 6 of the Leaders' Committee Governing Agreement.

3. Shareholder Meetings

The Shareholder Meetings are private meetings of the shareholders of the ACS Operator and only shareholders or their appointed representative may attend.

The conduct of the shareholder meetings will also be governed by London Councils' Standing Orders as far as these are compatible with company law, or by company law where the requirements are different e.g. notice periods are longer under company law and there are rules around proxies which must be followed.

Pensions CIV Sectoral Joint Committee

Background and Progress Update

Item no: 6

Report by:	Hugh Grover	**Job title:**	Programme Director London LGPS CIV
Date:	17 December 2014		
Contact Officer:			
Telephone:	020 7934 9942	**Email:**	hugh.grover@londoncouncils.gov.uk

Summary This report provides the committee with an update on progress towards establishing a Collective Investment Vehicle for those London boroughs that wish to participate in such arrangements.

Recommendations The committee is recommended to consider and note the contents of this report.

Progress report and proposed next steps towards a London LGPS CIV

Introduction

1. The question of whether and if so how the Local Government Pension Schemes (LGPS) across London might work more closely together has been the subject of a number of reports to London Councils' Leaders' Committee and Executive since March 2012 (see 'Background Papers' below for a complete list of all reports). To provide leadership and direction to this consideration Leaders' Committee resolved to establish a Pensions Working Group (PWG) comprised of the then three London Councils' Party Group Leaders (Mayor Jules Pipe and Cllrs. Teresa O'Neill and Ruth Dombey) and three representatives from the Society of London Treasurers, supported by the then Director of Fair Funding, Performance & Procurement.

2. In response to a Pensions Working Group (PWG) update to its December 2013 meeting, Leaders' Committee resolved that London Councils should establish a designated fund with contributions from those boroughs interested in further exploration of proposals for the establishment of a London LGPS Collective Investment Vehicle (CIV) and that the funds collected should be used to pay for the professional costs associated with that exploration.

3. Since that meeting 30 London local authorities have become active participants in the CIV programme and have each contributed £25,000 to the designated fund. Three boroughs have decided not to participate at this time.

4. The fund is being used to commission specialist expert professional advice associated with the development of the proposed CIV. At this point £470,000 of the fund has been committed to cover the costs of expert advisors (Eversheds, Deloitte, Northern Trust (on a short contract leading to the February 2014 report to Leaders' Committee), and Mercer), and the engagement of a Programme Manager on a one year fixed-term contract.

5. At its February 2014 meeting, Leaders' Committee considered a report from the PWG, which presented a more detailed business case and proposals in respect of establishing a CIV with the underlying structure of a UK Authorised Contractual Scheme (ACS).

6. Leaders' Committee agreed the recommendations of the PWG, and resolved to endorse and recommend to each local authority which decides to participate that, in addition to matters connected to the establishment of an ACS operating company, a representative

body, in the form of a new Sectoral Joint Committee (the "Pensions CIV Joint Committee" (PCJC)), be established (pursuant to the existing London Councils Governing Agreement, dated 13 December 2001 (as amended)). That committee has now been formed and is meeting today for the first time.

7. This report provides an update to the PCJC on progress since the February meeting of Leaders' Committee and sets out plans leading towards the eventual launch of the CIV.

Borough engagement

8. The February 2014 report asked that Leaders' Committee endorse and recommend to each local authority which decides to participate, that they make decisions based on a number of recommendations that would be necessary to the establishment of the CIV. Since then 30 boroughs have given formal notification (in the form of a letter to London Councils' Chief Executive) that such resolutions have been made. Three have decided that they will not be participating at this time.

Programme Structure

9. With such weight of support being demonstrated by the boroughs the initial exploratory project has quickly moved to being an implementation programme. Within the programme there are three projects:

    i. **Establishing the company that will be the ACS Operator with all the underlying systems, processes and policies required of an organisation that will conduct business and employ staff**, which includes all the areas associated with setting up a new company from the ground up including (as examples) incorporating the company as a company limited by shares (London LGPS CIV Ltd. has been incorporated and each participating borough holds a £1 share), agreeing a licence to occupy with London Councils (it is proposed that the company will be accommodated within 59½ Southwark Street), and setting up finance, HR and IT systems and policies;

    ii. **Establishing the company as a financial services organisation regulated by the Financial Conduct Authority (FCA)**, which includes defining the company's operating model, writing policies and procedures, completing a significant amount of paperwork to support the authorisation application to the FCA, and procuring relationships with key partners such as the Asset Servicer (covering custodian, depository and fund administration);

    iii. **Establishing the fund structure for launch**, which includes analysing the current pattern of investments across the boroughs, engaging with the

Investment Managers (IMs) to gather detailed data about assets under management, mandate types and fee structures, discussing with the IMs which mandates may be suitable to transition to the CIV, putting the proposed structure to each borough for consideration by their relevant committee and, later, agreeing a transition strategy for launch.

10. To support the delivery of this programme a Technical Sub-Group (TSG) was set up at the beginning of 2014. This is an officer group, constituted of the core programme team of two officers from London Councils and a number of LGPS experts from across the boroughs, under the leadership of the Director of Finance from LB Wandsworth. The input from these borough colleagues has been vital to the progress made so far.

Governance and structures

11. The CIV is being developed for and on behalf of the London boroughs and the City of London, and each will participate on an entirely voluntary basis. As such, considerable attention is being given to ensuring that the proposed governance and operational structures of the CIV reflect the wishes and needs of the boroughs, both on day one and into the future.

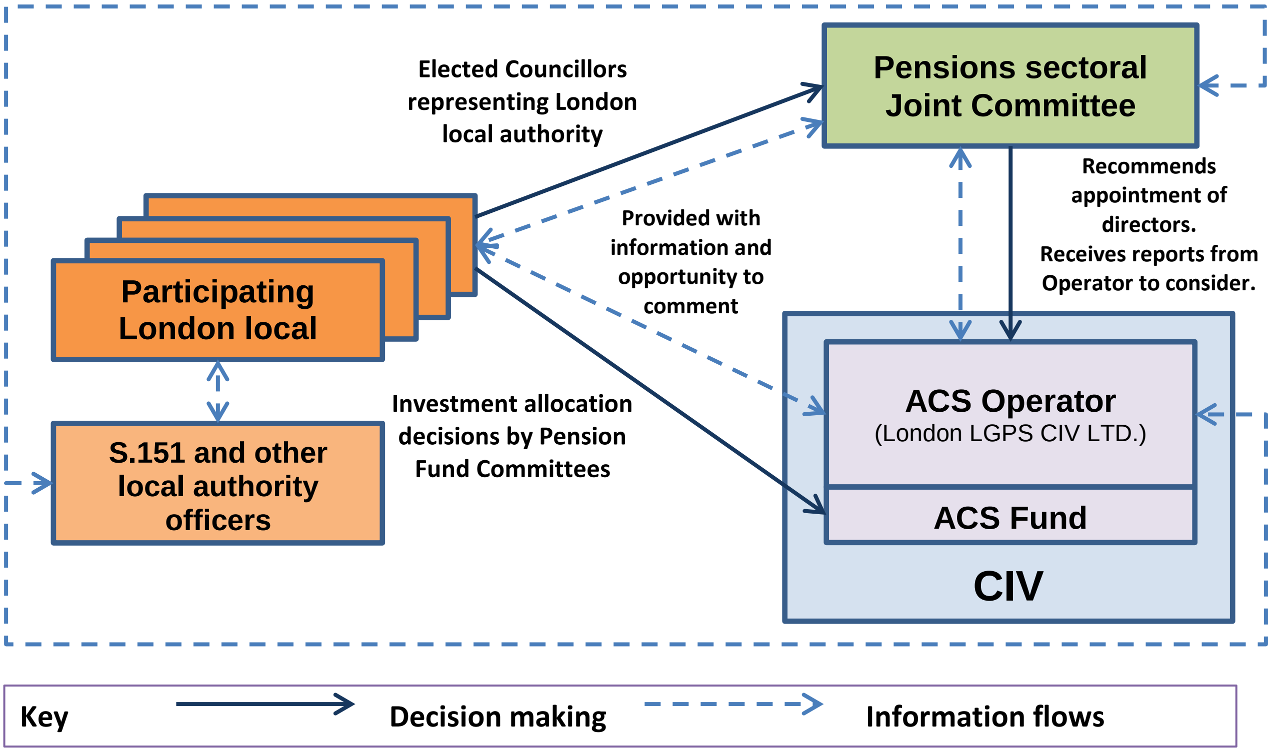
12. It is noteworthy that from advice to date the governance and structures described below are considered to give sufficient ownership and control for the participating boroughs such that there is no requirement for a borough to procure either the services of the Operator nor entry in the Fund (procurement professionals would recognise the arrangements are “Teckal compliant”). Some initial thought has been given to the possibility that the CIV might be open to investments from other LGPS funds (Administering Authorities from outside of London). This is something that members will be asked to decide upon at a later stage, but the question does have some bearing on the relationship between participating London LGPS funds and the CIV which could lead to the Teckal rules being breeched, this is explored in more detail in the ‘Relationship between the London boroughs, the CIV and other LGPS funds’ section below.

13. Figure 1 below illustrates the overarching governance structure that is being established. A key element of that structure is the Pensions CIV Joint Committee. The committee will act as a representative body comprised of elected members from those local authorities that resolve to participate in the arrangements. At its March 2014 meeting, Leaders’ Committee agreed, in principle, the Pensions CIV Joint Committee terms of reference, which are the subject of a separate report to today’s meeting (see agenda item 5).

14. The CIV will be a Financial Conduct Authority (FCA) regulated UK domiciled Authorised Contractual Scheme (ACS). The ACS structure has been adopted because it brings with it significant international tax advantages and a high degree of data transparency. There are primarily two separate regulated elements to the structure, which are an ACS Operator and the ACS Fund.

15. The ACS Operator is a limited liability company (London LGPS CIV Ltd.), which is wholly owned by the 30 participating boroughs. At this stage it has interim directors, as proposed in the February report to Leaders' Committee, with final directors to be recruited and appointed ahead of the company being authorised and operational. The interim directors are Mayor Jules Pipe, Cllrs. Teresa O'Neill and Ruth Dombey, Mr Chris Buss (Treasurer, LB Wandsworth), Mr Ian Williams (Treasurer, LB Hackney), Mr Peter Kane (Chamberlain, City of London) and Mr John O'Brien (CEO, London Councils).

Figure 1



16. Detailed work is about to begin of define the company's operating model. Deloitte LLP have been selected through a procurement process to give expert advice to this work and to assist in taking the company through to authorisation and launch.

17. It is anticipated that, initially, the Operator will be based on a model that has as many roles and functions outsourced as possible – accepting that the FCA will have strong views in this area so total outsourcing is unlikely to be acceptable. As such it will have a

limited number of directly employed staff, with most functions being provided through outsourced partners. Over time, it is likely that a number of the outsourced functions could be brought in-house, but this will depend on establishing the necessary level of skills, knowledge and expertise, either through recruitment or training.

18. Procuring the outsourced partners is a complex and time consuming exercise and the Technical Sub-Group (TSG, set up to support the PWG) has begun the process of drawing up specifications and engaging with the market. It is hoped to have the first key partner, the Asset Servicer, in place by the end of 2014.

19. For expediency it was agreed that the London LGPS CIV Ltd. would adopt 'model' Articles of Association for its initial incorporation and that these would be revised to reflect the final governance structures and operating model as the detail became clearer. Over recent weeks Eversheds has been working on a draft 'Head of Terms' (HoT) document to inform the revision of the Articles and the drafting of a Shareholder Agreement. It is proposed that the draft HoT will be circulated to officers in participating boroughs for consideration and comment before bringing a final draft to the company's Board of Directors and this committee for formal agreement.

Structuring the ACS fund

20. Final decisions about the initial fund structure will be taken later following consultation with the participating boroughs and the Investment Management industry. However, it is thought that a pragmatic starting point is to analyse which Investment Managers (IM) boroughs are currently invested through, to look for commonality (i.e. more than one borough invested with the same IM in a largely similar mandate), and to discuss with boroughs and IMs which mandates would be most appropriate to transition to the ACS fund for launch. Each mandate would become a separate, ring-fenced, sub-fund within the overall ACS fund. Boroughs will be able to move from one sub-fund to another relatively easily, but ring-fencing will prevent cross contamination between sub-funds.

21. The strategy being proposed for launch does, however, raise the question of whether the CIV can enter into contracts with IMs without the need for procurement (were procurement rules to apply there would be a significant risk that current borough-Investment Manager relationships may not be replicated on the ACS fund). Because of the critical nature of this issue to the overall strategy the advice of counsel has been sought.

22. Counsel's initial advice suggests that Regulation 6(2)(h) of the Public Contracts Regulations (as amended) can be relied upon to take these contracts outside of the EU

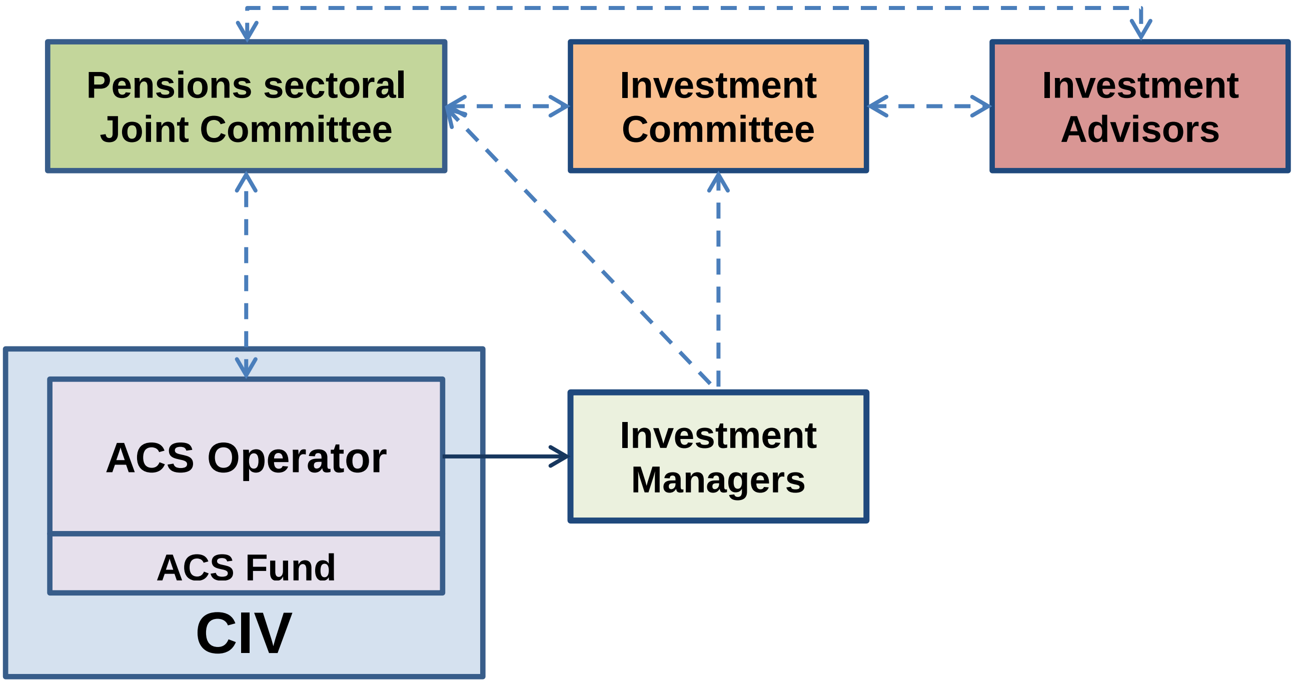
procurement regime. However, because this advice is so important to the CIV's proposed launch strategy it is intended to return to Counsel for clarification of a few points before circulating the final advice around the boroughs.

23. It is worth noting that, beyond the launch phase, the intention of the CIV company would be to normally carry out competitive procurements for the contracts which it concludes in the same way as currently seen across the boroughs.

24. Over time the fund will evolve and develop, with the potential for some mandates to be removed and others to be brought on. The Operator will not be regulated to give investment advice to the boroughs (at least not initially), and so thought is being given to the governance structures that might inform decision making of the boroughs and ensure that the boroughs' needs and wishes are reflected in the fund going forward.

25. Figure 2 illustrates current thinking in this area; it shows that an investment committee might be formed, with a number of LGPS experts drawn from across the boroughs, and potentially some independent experts. This committee would meet to consider how the ACS fund is performing and how it might be developed. Those considerations would be informed by input from a panel of procured investment consultants/advisors. Reports and recommendations would flow from the Investment Committee to the PCJC (similar to the way borough officers and investment advisors support borough pension committees). The PCJC would consider the recommendations made by the Investment Committee and feed its recommendations to the Operator. The Operator will act on the recommendations of the Joint Committee, subject to the necessary due diligence checks and so on that it will be required to carry out as the regulated body with responsibility for the good management of the ACS fund.

Figure 2



26. This is not an entirely settled structure and its final form will depend on the wishes of the boroughs, the final directors of the ACS Operator being content, and what is acceptable to the FCA from a regulatory perspective.

Relationship between the London boroughs, the CIV and other LGPS funds

27. A number of LGPS funds outside of London have shown an interest in what the boroughs are seeking to achieve. This has included both, looking at the governance and structures being proposed as a source of learning and information, as well as asking if the CIV will be open to investors beyond just the London boroughs.

28. On the point of the ACS fund being open to other investors, it is a requirement of the legislation underpinning an ACS fund that it must be open to all qualified investors (it will be what is known as a Qualified Investor Scheme (QIS)). Clearly the Operator will need to manage this as it is not the intention that it should take on, for instance, investors from the private sector. However, it could be that the boroughs might wish the CIV to accept investments from other LGPS funds, and this may well be attractive in terms of the benefits to be derived from additional scale.

29. Should the boroughs wish to have the ACS fund open to the wider LGPS in the future, there are some issues to be worked through to ensure that this can be achieved without undermining the ability of the boroughs to use the CIV without having to procure its products (investment opportunities) or the services of the Operator.

30. Because of the potentially critical nature of this issue it has been raised with Counsel as part of the advice noted above. In essence, Counsel has been asked to confirm that the boroughs' relationship with the company is exempt from procurement, and whether opening the CIV to investments from other LGPS funds would undermine that position and lead to the boroughs having to procure the services of the company.

31. In brief Counsel has confirmed that he is of the view that there are two possible arguments that might be used to argue that the relationship between the boroughs and the CIV is procurement exempt. These are either (1) the application of the Teckal Exemption (which can apply where a contracting authority (in this case a London borough or the City of London) contracts with a legally distinct entity (usually this will be a company that the authority has set up, either on its own or in concert with others), to provide services) or (2) that Regulation 6(2)(h) of the Public Contracts Regulations 2006 (as amended) provides an appropriate exemption to the application of the Regulations.

32. The Teckal exemption is based on a set of rules which includes that 80% of the company's turnover must derive from its 'parent' authorities. In the context of allowing other LGPS funds to invest in the CIV this presents a potential problem if significant investments, and therefore fees, were to be generated by investments from other parts of the LGPS (i.e. non-London authorities). It may still be possible to establish the company as a Teckal body but it will be less straightforward.

33. The second argument, is that "contracts" between the London boroughs (who are members of London LGPS CIV Ltd) and the CIV itself and any associated contracts with third party suppliers to which the boroughs may become signatories (e.g. Asset Servicer) do not need to be procured, as such arrangements are excluded from the application of the Regulations by virtue of Regulation 6(2)(h). The specific exemption provides that the Regulations do not apply to the seeking of offers for *"financial services in connection with the issue, purchase, sale, or transfer of securities or other financial instruments in particular transactions by the contracting authorities to raise money or capital."*

34. Counsel has confirmed that in his opinion this exclusion does apply and therefore the boroughs do not need to procure the services of the CIV. In effect this means that at the outset the boroughs can rely on either the Teckal exemption or Regulation 6(2)(h) to use the CIV without procurement.

35. Relying on Regulation 6(2)(h) counsel also advises that any LGPS fund can chose to invest through the CIV without the need for procurement even though they are not a

participating member of the CIV. If the reliance is placed on Regulation 6(2)(h) rather than Teckal the “80%” rule is no longer an issue.

36. As noted above, because this issue is so critical to the overall strategy for the CIV, the programme’s legal advisers have been asked to go back to Counsel with some points needing clarification. Once this clarification has been received a note will be circulated to the boroughs.

Budget

37. Since the report to Leaders’ Committee in December 2013, and the subsequent report in February 2014, 30 boroughs have agreed to participate in the CIV and have each contributed £25,000 to a dedicated fund held by London Councils which was initially for the purposes of “…exploring the proposal…”. As noted above the initial exploratory project has swiftly moved to being an implementation programme. The February report provided an estimated budget, based on what was known at the time, that proposed an implementation cost in the region of £1.5 million.

38. Attached at Annex A is an updated budget showing expenditure committed to date and anticipated expenditure through to launch. From Annex Ait can be seen that the total estimated expenditure to launch is now £1,713,831.

39. At its inaugural meeting of 14 October 2014 the board of London LGPS CIV Ltd. were presented with this budget overview and were recommended to write to the Treasurer of each participating borough proposing that each borough make an additional contribution of £25,000 now and a further contribution of the same amount at the beginning of the next financial year.

40. The board agreed to the recommendation and letters have now been sent, and invoices will be raised shortly for the first amount, although it should be noted that one borough has indicated that an invoice should not be sent until after this meeting and subject to a final decision by members of the borough’s pension committee.

41. The committee will wish to note that there will be an anticipated underspend at launch of £516,169 which will contribute towards the first year’s operating expenses as the CIV becomes established and the ‘business as usual’ (BAU) budget and fee structure comes into play.

42. A BAU budget is being worked on by the TSG, but this is heavily reliant on the final definition of the company’s operating model and as such it will be brought to the committee at a later meeting.

Timeline

43. The TSG has been working hard during 2014 to make swift progress, a significant amount has been achieved, but there is a lot of ground still to cover. As things stand it looks likely that the CIV will launch in the summer of 2015, but key to this will be defining the company's operating model and taking this to the FCA for authorisation – the FCA can take up to six months to consider an application for authorisation, although it is hoped that they might be able to process this application more swiftly.

Government Consultation

44. Government Ministers have shown significant interest in the LGPS over the last two years and have been particularly keen to consider options for reform that might deliver cost savings and efficiencies.

45. On 2 May 2014 the Government released a consultation titled Local Government Pensions Scheme: Opportunities for collaboration, cost savings and efficiencies, which drew on an earlier call for evidence on the future structure of the LGPS, which ran through the summer of 2013, and supplementary cost-benefit analysis of proposals for reform that the Government commissioned from Hymans Robertson LLP.

46. The package of proposals set out in consultation included:

- Establishing common investment vehicles to provide funds with a mechanism to access economies of scale, helping them to invest more efficiently in listed and alternative assets and to reduce investment costs;

- Significantly reducing investment fees and other costs of investment by using passive management for listed assets, since the aggregate fund performance has been shown to replicate the market;

- Keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to help identify the true cost of investment and drive further efficiencies in the Scheme;

- A proposal not to pursue fund mergers at this time.

47. The Government posed five questions in the consultation, which were:

Q1. Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? Please explain and evidence your view.

Q2. Do you agree with the proposal to keep decisions about asset allocation with the local fund authorities?

Q3. How many common investment vehicles should be established and which asset classes do you think should be separately represented in each of the listed asset and alternative asset common investment vehicles?

Q4. What type of common investment vehicle do you believe would offer the most beneficial structure? What governance arrangements should be established?

Q5. In light of the evidence on the relative costs and benefits of active and passive management, including Hymans Robertson's evidence on aggregate performance, which of the options set out above offers best value for taxpayers, Scheme members and employers?

48. The consultation closed on 11 July 2014, and by agreement of Leaders' Committee London Councils submitted a response on behalf of its members which in summary said:

- London Councils endorses the Government's decision not to pursue fund mergers at this time.
- London Councils believes that Collective Investment Vehicles (CIVs) can offer significant savings and the opportunity for improved investment returns through economies of scale and access to alternative investments.
- London Councils strongly endorses the proposal to keep asset allocation decisions with the local fund authorities.
- London Councils has no firm view on the number of CIVs that should be set up, but does believe that a single CIV for the entire LGPS would generate dis- economies of scale and potential disruption to the investment market.
- London Councils believes that an FCA regulated ACS is the most suitable form of CIV for the London boroughs, and proposes a governance structure that allows the boroughs strong oversight and control within the regulatory framework.
- London Councils believes that passive management should not be enforced at any level and that individual fund authorities should have the ability to use active management as part of their investment strategies. London Councils also believes that the London CIV could enhance governance and could act as a catalyst to deliver the benefits of active management for individual pension funds.

49. London Councils' officers have continued to engage closely with their counterparts in Government and, while ultimate decisions are still to be made by Ministers, there has been no indication that the Government thinks the boroughs should stop their plans to establish a CIV. Indeed, the fact that the Government's consultation clearly shows that Ministers have developed their thinking away from LGPS fund mergers (although not to the point of abandoning the potential for mergers altogether), towards encouraging the development of CIVs, and that the Local Government Minister has met with Mayor Jules Pipe and Cllr Teresa O'Neill since the consultation, could both be taken as positive signs of encouragement.

Conclusion

50. Significant progress has been made towards establishing a CIV for those London boroughs that wish to participate in the arrangements. This report has provided an update on the key aspects of that progress to date. There is still significant ground to be covered across the three projects underpinning the programme, further reports will come to future meetings of the committee to ensure that members are kept fully informed and have regular opportunities to comment on and steer implementation over the coming months.

Recommendations

51. The committee is recommended to consider and note the contents of this report.

Legal implications

52. These are captured in the body of the report.

Financial implications

53. This report outlines progress on a range of issues, primarily financial and governance processes, required to successfully establish the London LGPS CIV. These will continue to be developed as the requirements of the company become clearer and the operating model is firmed up. Annex A details the current budget plan in respect of preparatory costs and highlights the contributions from participating boroughs to cover all anticipated commitments up until launch.

Equalities implications

54. There are no equalities implications for London Councils

Attachments

Annex A Budget Overview

Background papers

13 March 2012, Leaders' Committee report:
http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=4796

13 November 2012, Leaders' Committee report:
http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=5072

11 December 2012, Leaders' Committee report:
http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=5109

14 May 2013, Leaders' Committee report:
http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=5252

19 September 2013, Executive report:
http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=5353

26 November 2013, Executive report:
http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=5490

10 December 2013, Leaders' Committee report
http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=5495

11 February 2014, Leaders' Committee report
http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=5562

11 March 2014, Leaders' Committee report
http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=5598

15 July 2014, Leaders' Committee Report
http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=5668

Annex A

Budget Overview			
		£	**£**
Expenditure committed to date			
Deloitte - initial consultancy		-£150,000	
Eversheds		-£170,000	
Northern Trust		-£22,080	
Eversheds - procurement advice (inc. Counsel)		-£15,890	
Project Manager (to May 2015)		-£70,000	
Mercer		-£49,950	
Office equipment		-£911	
			-£478,831
Income to date			
Borough contributions		£750,000	
(30 boros x £25k)			£750,000
	Balance		£271,169
Estimated expenditure to Mar 2015			
Tax advice consultancy		-£144,000	
ACS set up costs		-£320,000	
Legal costs		-£160,000	
Transition consultant		-£20,000	
Recruitment and employment costs of			
CEO / CIO / COO and non-exec board members		-£190,000	
			-£834,000
Additional income from boroughs now		£750,000	
(30 boros x **£25k**)			£750,000
	Balance		£187,169
Estimated expenditure Apr 2015 - launch			
Tax advice through to launch		-£36,000	
ACS set up		-£100,000	
Legal costs		-£40,000	
Transition consultant		-£80,000	
Anticipated employment costs of CEO / CIO / COO			
and non-exec board members to launch		-£165,000	
			-£421,000
Additional income from boroughs Apr 2016		£750,000	
(30 boros x **£25k**)			£750,000
	Balance		£516,169
Total estimated expenditure to launch			-£1,733,831

Pensions CIV Sectoral Joint Committee

Fund Manager Analysis Update

Item no: 7

Report by:	Hugh Grover	**Job title:**	Programme Director, London LGPS CIV
Date:	17 December 2014		
Contact Officer:	Frederick Fuller		
Telephone:	020 7934 9844	**Email:**	frederick.fuller@londoncouncils.gov.uk

Summary This report provides the committee with an update on progress made by the Technical Sub-Group in analysing borough investments with Investment Managers and the consideration they have given to a proposed strategy for structuring the CIV fund for launch.

Recommendations The committee is recommended to:

i. Note and provide any guidance on the content of this report, especially on the subject of infrastructure investment.

Fund Manager Analysis Update

Background

1. Earlier in the summer the Technical Sub-Group ((TSG) the officer group made up of pensions experts from across the boroughs supporting the CIV programme) approached all the participating London boroughs and asked for each to provide data covering their investment profile (which Investment Managers (IM), scale of assets invested, and the type of investment mandate). From analysis of this data it was possible for the TSG to get a picture of which mandate types were held by each borough and with which IMs.

2. Having considered the data the TSG were of the view that adopting a strategy based on bringing 'common' mandates (i.e. mandates with two or more boroughs invested in them) onto the fund for launch could be a pragmatic approach, which could deliver scale efficiencies and opportunities for most boroughs without the need for boroughs to change from one IM to another. Data suggested that 28 boroughs would have the potential for between £5bn and £9bn of assets to transition. The majority of these assets would be listed equities and fixed income, with the 'alternative' investments (such as private equity and property) being viewed as 'phase two' (i.e. after launch).

3. Based on that strategy it was initially recognised that focussing on the top nine Investment Managers by quantum of assets under management, and adding a tenth smaller manager could deliver a viable outcome to launch the fund – subject to borough decisions about investment in the CIV that would follow later.

4. This report provides the committee with an update about work that has progressed over the summer.

Progress

5. Since the analysis over the summer based on borough data, every participating borough has given London Councils written permission to engage with the IMs to both request detailed data and to meet with them to discuss what opportunities, based on the TSG's proposed strategy, might be available for the fund for launch. This data has brought the total number of IMs being engaged with to fourteen. These managers collectively manage over £14.5 billion of Borough assets, which accounts for over half of the total assets under management across all the borough pension funds.

6. Initial discussions with the IMs focussed upon listed equities and fixed income. However, managers have been quick to point out that there are other areas that may also prove easier than anticipated to bring onto the CIV at launch, such as some of the multi-asset

funds (many of these referred to as Diversified Growth Funds) and a number of the more straightforward property mandates.

7. Subsequent analysis suggests that of the £14.5 billion of assets, £8.4 - £9.9 billion could potentially be brought onto the CIV for launch through eleven separate managers. Whether or not the full amount will be brought on for day one is subject to further analysis, cost considerations, discussions with the Asset Servicer when procured, and possibly some pragmatism about what can be realistically achieved.

8. Although fee reductions only make up a small part of the CIV's overall benefit to the boroughs, they are arguably the most immediate and tangible benefit. For this reason managers have been asked to provide initial un-negotiated estimates of potential fee savings.

9. Between the eleven managers with mandates that might be collectivised for launch, nine have provided estimates of fee savings, totalling £2.8 million per annum, with an average reduction of 20% per manager. It should be noted that these fees are un-negotiated and therefore will be subject to change. These savings vary considerably from manager to manager and are inevitably not spread evenly across the boroughs (some will gain more in savings than others).

10. There are a number of reasons for this spread of savings across the boroughs. Broadly, based on the strategy being proposed, some boroughs:

    - Have greater commonality in their choice of mandates and managers than others and therefore could have significantly greater amounts of assets moving to the CIV at the point of launch;

    - Have an investment strategy that is focussed primarily on passive investment where generally potential fee savings are lower as fees are already low. However, as some of these passive mandates have large amounts of borough assets in aggregate, and the fees are generally based on ad valorem scales, the process of collectivisation leads to some boroughs saving substantial amounts of money through more assets accruing fees at a lower point in the scale;

    - Might have the opportunity to collectivise their active mandates and as the fees for these investments are generally significantly higher than for passive mandates the potential for substantial fee reductions is much greater.

11. Conversations will continue with a small number of managers who have yet to meet for discussions with London Councils.

Next Steps and Strategy

12. The strategy of the TSG thus far has been to concentrate on those managers which currently have mandates shared by two or more boroughs.

13. Of those managers with common mandates, the TSG has focussed upon those that cover both quantum of assets and as many of the boroughs that are participating in the CIV as possible. This strategy has the benefit of narrowing down the number of managers efficiently and also quickly obtains the critical mass needed for the CIV in terms of quantum of assets.

14. Based on the current strategy and analysis so far, this approach leaves one of the participating boroughs with no common mandates currently in line to come onto the CIV for launch because of their current pattern of asset allocation. However, boroughs will continue to review their current asset allocation decisions and it may be that this position will change before launch.

15. In addition, it may be that when the fund structure is finally defined and shown to the boroughs some might decide to move a current mandate to an alternative on the CIV to gain advantage from the lower fees that can follow.

16. Further analysis is due to take place on the remaining borough assets, and savings calculated accordingly. More formal negotiations with fund managers are likely to start in the New Year, with members of the TSG performing this function. It has been suggested to London Councils that this and the process of drawing up agreements with IMs, could both take some time, hence the need to progress quickly with the decision of how the fund is likely to be made up and the more formal negotiations with those managers involved.

17. Once these more formal negotiations have happened it will be possible to provide each participating borough with an outline of what mandates might be brought onto the fund for launch and what level of saving would accrue.

18. Further reports will come to the committee as this work progresses, including a more detailed strategy for engaging with the boroughs and particularly the process for requesting borough investment decisions from their Pensions Committees.

Infrastructure investments

19. The strategy proposed by the TSG would not encompass infrastructure at this time (primarily because there is no commonality in this asset class across the boroughs), however the officers of the TSG are very conscious that members will be interested in the opportunities that the CIV might present in this area.

20. The committee is invited to discuss their views on infrastructure investment to provide guidance to the TSG so that further work can be done on this asset class with a view to a report coming to a future meeting.

Recommendations

21. The board is recommended to:

    i. Note and provide any guidance on the content of this report, especially on the subject of infrastructure investment.

Financial implications

22. There are no financial implications for London Councils.

Legal implications

23. There are no legal implications for London Councils.

Equalities implications

24. There are no equalities implications for London Councils.

LONDON COUNCILS

Pensions CIV Sectoral Joint Committee

Asset Servicer Procurement Update

Item no: 8

Report by:	Hugh Grover	**Job title:**	Programme Director, London LGPS CIV
Date:	17 December 2014		
Contact Officer:	Frederick Fuller		
Telephone:	020 7934 9844	**Email:**	frederick.fuller@londoncouncils.gov.uk

Summary

This report provides the committee with background and a progress update relating to the procurement of the Asset Servicer (a key provider to the CIV). It notes that the procurement is underway through an OJEU process using the competitive dialogue route and that six potential providers responded to a PQQ, and following evaluation that led to three being shortlisted.

The tender is now at the ITT stage, with responses recieved from the three bidders on 28th November.

Recommendations

The committee is recommended to:

i. Note the content of this report and the on-going progress of the procurement

Asset Servicer Procurement Update

Background

1. A key provider to the CIV will be an Asset Servicer (covering fund administration, depository and custodian roles). Putting this provider in place is key to finaly defining the CIV's operating model and will be of great importance to the Finacial Conduct Authority when they are asked to give consideration to authorising the arrangements being put in place to run the CIV overall.

2. As the contract with the Asset Servicer will be of high value and is likley to span several years (possibly up to five) the procurement is going through an OJEU process using the competitive dialogue route.

3. A Pre-Qualifying Questionnaire (PQQ) was published in the summer inviting interested parties to respond. Six potential providers submitted PQQ responses, which, following a scoring process, led to a shortlist of three candidates being invited to enter into the competitive dialogue stage and respond to a detailed Invitation to Tender (ITT).

4. As this contract is so important to the successful delivery and operation of the CIV, London Councils contracted with Mercer Sentinel (recognised experts in the contracting of such services) to inform the procurement process.

5. This procurement process is being facilitated by London Councils, on behalf of the CIV Operating Company, and is being supported by the Technical Sub-Group (TSG). The contract with the Asset Servicer will be between London LGPS CIV Ltd. (the CIVs Operating Company) and the selected provider, as such the decision to appoint rest with the company's interim directors.

Discussion

6. A detailed ITT was drawn up over a number of weeks by both Mercer and members of the TSG and was issued on Friday 7 November to the three shortlisted candidates. The three unsuccessful candidates have now been informed in writing of their position by Mercer.

7. The ITT closed on Friday 28 November.

8. All three bids are being assessed against the scoring criteria published in the ITT, which focuses in part upon three scenarios for the CIV fund through which the candidates have drawn up pricing models.

Next Steps

9. On 10 December, a number of representatives from Mercer, the boroughs and London Councils will be attending clarification meetings with the three shortlisted candidates. The meetings will provide an opportunity to pose any questions that have arisen from their ITT responses, as well as give the candidates a final opportunity to clarify their position and support their ITT response. Following those meetings the responses will be given their final scoring.

10. Based on the final scores a report will be drafted for the Board of Directors of London LGPS CIV Ltd. to consider and make a final decision about which candidate should be awarded the contract. This decision will be published as a 'contract award notice' on the Internet (and relayed directly to each candidate) on Friday 19 December. The award notice will be followed by a mandatory standstill period of 10 calendar days, which will expire during the Christmas holiday break, thus leading to a final contract award in the New Year.

11. A report will come to the next meeting of the committee informing members of the outcome of this process.

12. The committee will wish to note that this is the first of a number of procurements that will be run over the coming months to put the necessary suppliers to the CIV in place, including an audit company, tax consultants and a compliance consultant. All procurements will be run following best-practice procurement methodologies.

Recommendations

13. The committee is recommended to:

    i) Note the content of this report and the on-going progress of the procurement.

Financial implications

14. There are no financial implications for London Councils.

Legal implications

15. There are no legal implications for London Councils.

Equalities implications

16. There are no equalities implications for London Councils.

Pensions CIV Sectoral Joint Committee

Dates of Future Meetings

Item no: 9

Report by:	Alan Edwards	**Job title:**	Governance Manager
Date:	17 December 2014		
Contact Officer:			
Telephone:	020 7934 9911	**Email:**	Alan.e@londoncouncils.gov.uk

Summary This report notifies members of the proposed Pensions CIV Sectoral Joint Committee meeting dates for 2015.

Recommendations The committee is recommended to:

i. Note and agree the proposed dates for the Pensions CIV Sectoral Joint Committee for 2015.

Dates of Future Meetings

Pensions CIV Sectoral Joint Committee: Proposed Dates

- Wednesday 25 February 2015
- Wednesday 25 March 2015
- Wednesday 27 May 2015
- Wednesday 29 July 2015 (AGM)
- Wednesday 23 September 2015
- Wednesday 4 November 2015

1. All the above meetings start at 10.30am (with 10:00am political pre-meets if required) and will be held at 59½ Southwark Street, London, SE1 0AL.

Recommendations

2. The committee is recommended to:

   i. Note and agree the proposed dates for the Pensions CIV Sectoral Joint Committee for 2015.

Legal implications

3. There are no legal implications for London Councils

Financial implications

4. There are no financial implications for London Councils

Equalities implications

5. There are no equalities implications for London Councils

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE **17 March 2015**	**REPORT**

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 DECEMBER 2014**
CMT Lead:	**Andrew Blake Herbert**
Report Author and contact details:	Debbie Ford Pension Fund Accountant (01708) 432569 debbie.ford@havering.gov.uk
Policy context:	Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met.
Financial summary:	This report comments upon the performance of the Fund for the period ended 31 December 2014

SUMMARY

This report provides the Committee with an overview of the performance of the Havering Pension Fund investments for the quarterly period to 31 December 2014. The performance information is taken from the Quarterly Performance Report supplied by each Investment Manager, the WM Company Quarterly Performance Review Report and Hymans Monitoring Report.

The net return on the Fund's investments for the **quarter** to 31 December 2014 was **3.7%.** This represents an out performance of **0.3%** against the tactical benchmark and an under performance of **-7.1%** against the strategic benchmark.

The overall net return of the Fund's investments for the **year** to 31 December 2014 was **9.7%.** This represents an out performance of **0.4%** against the tactical combined benchmark and an under performance of **-15.1%** against the annual strategic benchmark.

It is now possible to measure the individual managers' annual return for the new tactical combined benchmark since they became active on the 14th February 2005. These results are shown later in the report.

RECOMMENDATIONS

That the Committee:

1) Considers Hymans performance monitoring report and presentation (Appendix A).
2) Receive a presentation from the Fund's Property Manager (UBS), the Funds UK/Global Equities Passive Manager (State Street Global Assets) and Investment Grade Bonds Manager (Royal London).
3) Notes the summary of the performance of the Pension Fund within this report.
4) Considers the quarterly reports provided by each investment manager.
5) Considers and notes any Corporate Governance issues arising from voting as detailed by each manager.
6) Considers any points arising from officer monitoring meetings (section 4 refers).
7) Notes the analysis of the cash balances (paragraphs 2.2 and 2.3 refers).

REPORT DETAIL

1. Background

1.1 The Fund undertook a full review of the Statement of Investment Principles (SIP) during 2012/13 and following the appointments of the Multi Asset Managers in September 2013, who commenced trading in December 2013; this almost completes the fund's restructuring. The Fund is still considering options for an investment in Local Infrastructure.

1.2 A strategic benchmark has been adopted for the overall Fund of Gilts + 1.8% (net of fees) per annum. This is the expected return in excess of the fund's liabilities over the longer term. **The main factor in meeting the strategic benchmark is market performance.**

1.3 Individual manager performance and asset allocation will determine the out performance against the strategic benchmark. Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which their performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic benchmark as the majority of the mandate benchmarks are different but contributes to the overall performance.

1.4 Changes to the Asset Allocation targets were agreed by members at the Pensions Committee meeting on the 26 March 2013 and 24 July 2013. The long term strategy of the fund adopted at those meetings was to reduce exposure to equities and invest in multi asset strategies.

1.5 The following table reflects the asset allocation split following the commencement of trading of the new multi asset managers:

Manager and % of target fund allocation	**Mandate**	**Tactical Benchmark**	**Out performance Target**
State Street Global Assets (SSgA) 8%	UK/Global Equities - passive	UK- FTSE All Share Index Global (Ex UK) – FTSE All World ex UK Index	To track the benchmark
Baillie Gifford 17%	Global Equities - Active	MSCI AC World Index	1.5 – 2.5% over rolling 5 year period
Royal London Asset Management 20%	Investment Grade Bonds	➢ 50% iBoxx Sterling Non Gilt Over 10 Year Index ➢ 16.7% FTSE Actuaries UK Gilt Over 15 Years Index ➢ 33.3% FTSE Actuaries Index-Linked Over 5 Year Index	0.75%
UBS 5%	Property	IPD (previously called HSBC/AREF) All Balanced Funds Median Index	To outperform the benchmark
Ruffer 15%	Multi Asset	Not measured against any market index – for illustrative purposes LIBOR (3 months) + 4%.	To outperform the benchmark
Barings – Dynamic Asset Allocation Fund 20%	Multi Asset	Sterling LIBOR (3 months) +4%	To outperform the benchmark
Baillie Gifford – Diversified Growth Fund 15%	Multi Asset	UK Base Rate +3.5%	To outperform the benchmark

1.6 At a Special meeting of the Pension Committee on the 23 October 2014 members agreed to appoint GMO and invest in their Global Real Return (UCITS) Fund (GRRUF). The GMO (GRRUF) will replace the investment with Barings and will be managed on a pooled basis. During January 2015, the cash was transferred from the SSGA Sterling Liquidity cash account to GMO who have now commenced trading.

1.7 UBS, SSgA, Baillie Gifford manage the assets on a pooled basis. Royal London and Ruffer manage the assets on a segregated basis. Performance is monitored by reference to the benchmark and out performance target. Each manager's individual performance is shown in this report with a summary of any key information relevant to their performance.

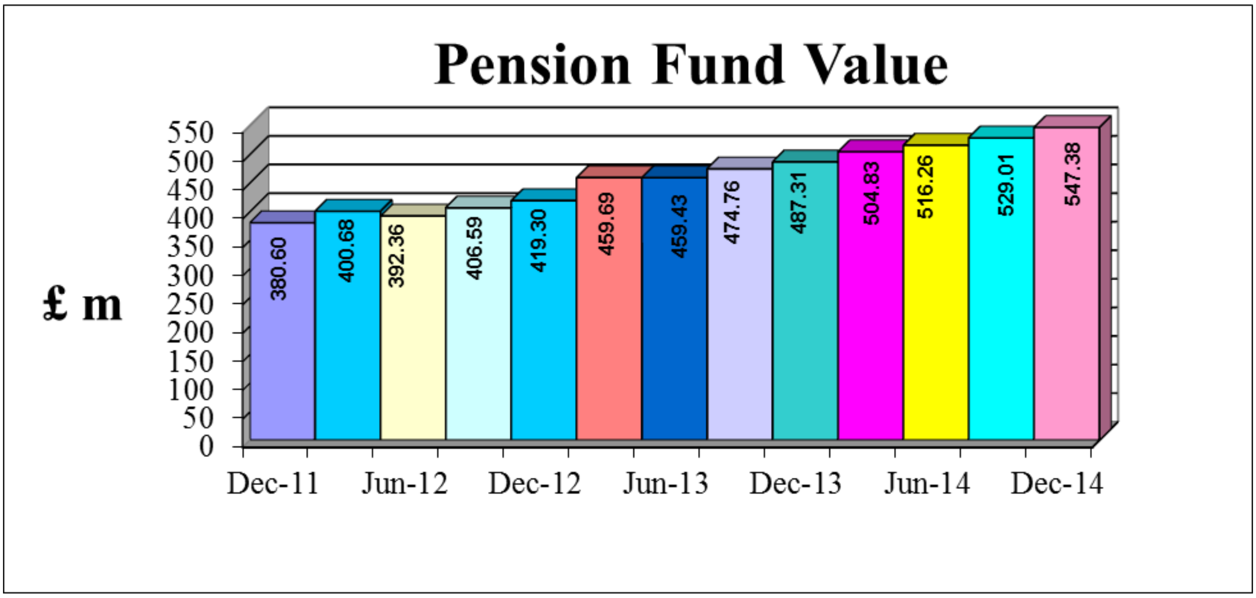
1.8 Since 2006, to ensure consistency with reports received from our Performance Measurers, Investments Advisors and Fund Managers, the 'relative returns' (under/over performance) calculations has been changed from the previously used arithmetical method to the industry standard geometric method (please note that this will sometimes produce figures that arithmetically do not add up).

1.9 Existing Managers are invited to present at the Pensions Committee Meeting every six months. On alternate dates, they meet with officers for a formal monitoring meeting. The exception to this procedure is the Multi Asset Managers (Ruffer and Baillie Gifford) and the Passive Equity Manager (SSgA) who will attend two meetings per year, one with Officers and one with the Pensions Committee. However if there are any specific matters of concern to the Committee relating to the Managers performance, arrangements can be made for additional presentations.

1.10 Hyman's performance monitoring report is attached at **Appendix A.**

2. <u>Fund Size</u>

2.1 Based on information supplied by our performance measurers the total combined fund value at the close of business on 31 Dec 2014 was **£547.38m**. This valuation differs from the basis of valuation used by our Fund Managers and our Investment Advisor in that it excludes income. This compares with a fund value of £529.01m at the 30 Sept 2014; an **increase** of **£18.37m**. The movement in the fund value is attributable to an increase in assets of £18.39m and a decrease in cash of (£0.02m). The internally managed cash level stands at **£5.36m** of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

2.2 An analysis of the internally managed cash balance of **£5.36** follows:

CASH ANALYSIS	**2012/13**	**2013/14 Updated**	**2014/15 31 Dec 14**
	£000's	£000's	£000's
Balance B/F	**-1194**	**-3474**	**-5661**
Benefits Paid	31272	32552	25540
Management costs	1779	2312	869
Net Transfer Values	-1284	-1131	185
Employee/Employer Contributions	-30222	-45659	-27621
Cash from/to Managers/Other Adj.	-3780	9825	1340
Internal Interest	-45	-86	-16
Movement in Year	**-2280**	**-2187**	**297**
Balance C/F	**-3474**	**-5661**	**-5364**

2.3 As agreed by members on the 27June 2012 a cash management policy has now been adopted. The policy sets out that should the cash level fall below the de-minimus amount of £2m this should be topped up to £4m. This policy includes drawing down income from the bond and property manager.

3. Performance Figures against Benchmarks

3.1.1 The overall net performance of the Fund against the new **Combined Tactical Benchmark** (the combination of each of the individual manager benchmarks) follows:

	Quarter to 31.12.14	12 Months to 31.12.14	3 Years to 31.12.14	5 years to 31.12.14
Fund	3.7%	9.7%	11.9%	9.3%
Benchmark return	3.4%	9.2%	10.0%	9.0%
*Difference in return	0.3%	0.4%	1.8%	0.3%

Source: WM Company

**Totals may not sum due to geometric basis of calculation and rounding.*

3.1.2 The overall net performance of the Fund against the **Strategic Benchmark** (i.e. the strategy adopted of Gilts over 15 years + 1.8% Net of fees) is shown below:

	Quarter to 31.12.14	12 Months to 31.12.14	3 Years to 31.12.14	5 years to 31.12.14
Fund	3.7%	9.7%	11.9%	9.3%
Benchmark return	11.6%	29.1%	9.9%	13.9%
*Difference in return	-7.1%	-15.1%	1.9%	-4.1%

Source: WM Company

**Totals may not sum due to geometric basis of calculation and rounding.*

3.1.3 The following tables compare each manager's performance against their **specific (tactical) benchmark** and their **performance target** (benchmark plus the agreed mandated out performance target) for the current quarter and the last 12 months.

QUARTERLY PERFORMANCE (AS AT 31 DECEMBER 2014)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
Royal London	7.40	8.12	**-0.72**	8.31	**-0.91**
UBS	4.29	4.56	**-0.27**	n/a	**n/a**
Ruffer	3.60	0.10	**3.50**	n/a	**n/a**
SSgA	4.45	4.48	**-0.3**	n/a	**n/a**
SSgA Sterling Liquidity Fund	0.13	0.09	**0.04**	n/a	**n/a**
Baillie Gifford (Global Alpha Fund)	6.50	4.50	**2.00**	5.13	**1.38**
Baillie Gifford (DGF)	0.60	1.0	**-0.40**	n/a	**n/a**

Source: WM Company, Fund Managers and Hymans

- Totals may not sum due to geometric basis of calculation and rounding.

ANNUAL PERFORMANCE (LAST 12 MONTHS)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
Royal London	20.07	20.51	**-0.44**	21.26	**-1.82**
UBS	19.01	17.19	**1.82**	n/a	**n/a**
Ruffer	6.47	0.50	**5.97**	n/a	**n/a**
SSgA	11.15	11.21	**-0.06**	n/a	**n/a**
SSgA Sterling Liquidity Fund	0.50	0.35	**0.15**	n/a	**n/a**
Baillie Gifford (Global Alpha Fund)	11.30	11.20	**0.10**	13.70	**-2.40**
Baillie Gifford (DAAF)	5.30	4.00	**1.30**	n/a	**n/a**

Source: WM Company, Fund Managers and Hymans

- Totals may not sum due to geometric basis of calculation and rounding.

4. Fund Manager Reports

4.1. UK Investment Grade Bonds (Bonds Gilts, UK Corporates, UK Index Linked, UK Other) – (Royal London Asset Management)

a) Representatives from Royal London are due to make a presentation at this Committee therefore a brief overview of their performance as at 31 December 2014 follows:

b) The Royal London portfolio fund saw an increase in value of 7.3% since the previous quarter.

c) Royal London delivered a return of 7.40% (net of fees) during the quarter and underperformed the benchmark by -0.72% and the target by -0.91%. Since inception they outperformed the benchmark by 0.62%.

4.2. Property (UBS)

a) Representatives from UBS are due to make a presentation at this Committee therefore a brief overview of their performance as at 31 December 2014 follows:

b) The value of the fund as at 31 December 14 reduced by (0.53%) since the previous quarter.

c) UBS delivered a return of 4.29% over the quarter, underperforming its benchmark by -0.27%. The Fund is ahead of the benchmark over the year by 1.82%.

4.3. Multi Asset Manager (Ruffer)

a) In accordance with agreed procedures officers will only meet with representatives from Ruffer once in the year with the other meeting to be held with members. The Pensions Committee last met with Ruffer at the June 2014 meeting at which their performance as at the end of March 14 was discussed. Officers met with representatives from Ruffer on 05 February 2015 at which a review of their performance as at 31 December 2014was discussed.

b) Officers last met with Ruffer in February 2014, the value of the fund as 31December 2013 was £64,804,848. The values of the fund as at 31December 2014 was £69,788,875, this represented an increase of 7.7% against the previous year.

c) Ruffer delivered a return of 3.60% (net of fees) over the quarter, outperforming the benchmark by 4.40%. The Fund is ahead of the benchmark over the year by 5.97%.

d) The biggest contributors to the positive performance were UK & US index linked bonds and the allocation to the US dollar. The longest dated bonds rose almost 40% in the year. Good stock selection enhanced returns in Western Equities, with strong performance in the US stock market. The improving US economy data and ending of US QE saw the dollar rise strongly.

e) The main detractor from t performance was the Options position which largely fell in value as volatility remained suppressed. Exposure in Gold and Gold mining equities also detracted from performance as gold prices were hurt by a stronger dollar and falling inflation expectations. Gold mining equities were particularly weak as investors questioned their sustainability at lower gold prices

f) Ruffer does not anticipate much change in the above drivers of performance in 2015. Continued low inflation rates, further strength in the US dollar and continued rehabilitation of Japanese equities. Low gold, oil and gas prices are still expected to have a negative impact.

g) Japanese equities comprise 19% of the portfolio but only made a small contribution to the overall performance, we asked Ruffer what is their outlook for Japan over 2015. They said that Japan remains their most favoured equity market; a belief spurred on by the expansion of Japan QE announced in October, Prime Minister Abe’s victory in the December election and enhanced competitiveness of the falling Yen. Equity still offers potential for good returns benefiting from the improving domestic economy. Japan is still pursuing the most aggressive monetary stimulus among the major economies, the new government and Bank of Japan appears determined to invigorate the market.

h) The Options positions have detracted from performance in 2014. Ruffer was asked were the protections you had in place the right ones and what challenges do they face in making use of protection strategies in the current market environment. They said that they still believe they have the right protective strategy in place, options are a type of financial instrument that will appreciate if interest rate rises, they are like an insurance premium, if equities fall Options return will rise and vice versa.

i) Ruffer announced at the meeting they are launching new Illiquid Strategies funds in 2015, as part of their protection strategy against the distortion in bond and credit markets. They are discussing the investments with consultants and clients beforehand as it will have limited liquidity.

j) They mentioned that if the LBH Pensions Committee is expecting a significant near term liquidity requirement on the portfolio this may not be a suitable investment. So they explained that there is an alternative more liquid option, although with a more limited opportunity set and potentially inferior terms for the underlying investments.

k) If possible, they would like to know by 6 March whether the limited liquidity would preclude the LBH portfolio from investing in the new illiquid vehicle.

l) As the next Pensions Committee meeting is outside of the timescales, Officers will discuss the options with Hymans before distributing the options to the chair for a decision.

m) No whistle blowing issues or governance was reported.

4.4. Passive Equities Manager (SSgA)

a) In accordance with agreed procedures officers will only meet with representatives from SSgA once in the year with the other meeting to be held with members. Officers last met with representatives from SSgA on the 12 May 2014 at which a review of their performance as at 31 March 14 was discussed. SSgA are due to make a presentation at this Committee therefore a brief overview of their performance as at 31 December 2014 follows:

b) Following the redemption of the Baring's mandate £100.6m was transferred to the SSGA Sterling Liquidity Fund. This was not transferred out to GMO until after the quarter end in January 2015.

c) Pending consideration of options for an investment in Local Infrastructure the £11.5m is still invested in the SSGA Sterling Liquidity Fund.

d) The SSgA Sterling liquidity fund has outperformed the benchmark by 0.04% over the quarter.

e) The SSgA passive Equity mandate has underperformed the benchmark by -0.03%. Since inception they have underperformed against the benchmark by -0.02%.

f) SSgA mentioned that they are looking at ways of enhancing returns in Index Equity Portfolio management. The opportunities that are available are options for the portfolio to track different indices that may deliver better returns.

g) Hymans has considered the options of switching indices and a separate paper is being presented elsewhere on this agenda for members of the committee to consider switching.

4.5. Global Equities Manager (Baillie Gifford)

a) In accordance with agreed procedures officers met with representatives from Baillie Gifford on the 05 February 2015 at which a review of their performance as at 31 December 14 was discussed.

b) The value of the fund increased by 6.5% over the last quarter and 11.2% over the last year.

c) Baillie Gifford Global Alpha Mandate has outperformed the benchmark over the last quarter by 2.0% (net of fees) and 0.1% (net of fees).

d) Positive performance came from a wide range of stock contributors, with Baillie Gifford making the strongest contribution to performance. There were no major challenges over the past quarter.

e) Detractors from performance included Coca Cola who have exposure in Ukraine and Eastern Europe, and Ultra Petroleum was down due to falling oil and gas prices.

f) Their fund positioning remains mainly unchanged over the past quarter, current positioning of the portfolio has holdings in Growth Stalwarts (strong Brands) 26%, Rapid Growth (fastest growth) 24%, Cyclical Growth (longer term performance) 36%, Latent Growth (stocks most out of favour with the markets) 13% and cash of 1%.

g) They purchased new stocks in Monsanto, Cyber Agent, Allababa, DistributionNOW, Leucadia National, and Fiat Chrysler Automobiles.

h) They Increased holdings in Schibsted, Amazon, TripAdvisor, AIA, Martin Marietta Materials, bank of Ireland and Sberbank.

i) Completed Sales in Investor, Deere, Walt Disney, Recall holdings, New York Community Bancorp, Namco Bandai and China Mobile.

j) They reduced holdings in eBay and Fairfax Financials.

k) Turnover of stock was 15% with the average stock holding being six years.

l) Baillie Gifford was asked why they do not hold shares in Apple of which they agreed in hindsight that this was a mistake not to. They tended to go for exposure in companies with a preference to software, i.e. Google, Twitter, TripAdvisor, and Allababa and as they already had a lot of online exposure they did not feel they needed the extra exposure to Apple.

m) The performance from the strategy was strong in Q4 although this left the performance flat for 2014 so we asked Baillie Gifford what made this a challenging year for them. They said that this was a year for everything, the US returned to growth after a weak start to the year, with the Federal reserve continuing to scale back QE, opposing this the Eurozone recovery may be faltering, combined with a ratcheting up of Russian sanctions in response to the conflict in the Ukraine which led to relative weakness in the region. Emerging Markets started weakly but Japan has ended the year with a new leader, announced QE in November and enhanced competitiveness due to falling yen. For a brief period Scotland's referendum dominated the markets, anticipation of increased interest rates did not happen, inflation remained low, with falling oil prices and changes in leadership (Japan & Greece) this all led to a volatile year on the Global Markets. However, against all this they still had a fairly good year, their long term strategy expects a drop in performance every so often and they said the average performance over 2013 to 2014 was good.

n) Baillie Gifford referred to Japan as an area of strong interest including the purchase of CyberAgent Inc. during the quarter. We asked how this will be taken forward over the coming 12 months. They expect that the fall in yen should produce increased competitiveness in the Japanese markets and reduced oil prices should lower production costs, encouraging growth. They will continue to invest in small new Japanese companies, i.e. CyberAgent where they have a 0.5% position, they will revisit this later in the year and if going well will increase the holdings to 1%. The ramping up of QE should have positive impact on markets.

o) Overall, Baillie Gifford's outlook for the portfolio over the longer term indicates that bouts of volatility may continue but believes this provides opportunity for stock pickers. They look to capitalise on short term share price volatility in order to invest in attractive long term opportunities. They are optimistic that the longer term investment case remains intact. Their research agenda is keeping them focused on topics they think are important, looking at Obsolescence and Disruption and Geographical changes, finding exciting companies from around the world that will drive growth for the next five years.

p) No governance or whistle blowing issues were reported.

4.6. Multi Asset Manager (Baillie Gifford Diversified Growth Fund)

a) In accordance with agreed procedures officers met with representatives from Baillie Gifford on the 05 February 2015 at which a review of their performance as at 31 December 14 was discussed.

b) The value of the fund has seen an increase in value of 0.63% over the last quarter and an increase of (5.3 %) over the year.

c) Baillie Gifford Diversified Growth Mandate has underperformed the benchmark by -0.4%. However, the fund is ahead of benchmark over the year by 1.3%.

d) The main contributors to performance were listed equities and the absolute return holdings.

e) The main detractor from performance came from their active currency position.

f) The portfolio continues to be invested in a wide range of asset classes. Most asset classes are priced to deliver lower returns than in recent years. They continue with cautious positioning while there remains volatility in the market, but remain confident in their ability to continue to meet the funds objectives.

g) Recent changes to asset allocation included the sale of the remaining position in Australian government bonds, which means they now don’t have any exposure to developed market government bonds. Emerging market bonds with a 6-7% yield are seen as more attractive than debt laden economies. There has been a reduction of holdings within Infrastructure by sale of US water utility holdings as strong performance left these looking fully valued.

h) During the quarter increases to the portfolio included an increase to holding in commodities by buying palladium and platinum to take advantage of price weakness. Following the significant fall in the oil price a small position in oil ETC was taken towards the end of December, which gives exposure to the oil price through oil futures. They increased holdings in listed equities to take advantage of market falls during the last quarter. The main addition to listed equities was to Japanese equities where it is believed there are a number of positive factors, including further QE and significant increases in equity from Japanese pension funds.

i) We asked Baillie Gifford if the departure of Mike Brooks is likely to be an issue for the portfolio, and what changes (if any) are being made to the composition of the DGF team within Baillie Gifford as a consequence of his departure. Baillie Gifford said that there should not be any issues for the portfolio; they are the same firm with the same strategies. They have a team based approach to decision making, the only impact of Mike leaving would be that there would be one less perspective around the table. They do not intend replacing Mike as they do not feel that there is a gap in their team as they are very well resourced, with three managers plus three analyst and two investment assistants, they have had a gradual increase in resources since inception but will continue to monitor the situation. They do not expect any further leavers.

j) Baillie Gifford noted that falling oil prices should be good for growth; we asked them why they believe this and if the significant fall in oil prices has affected the strategy. They said that they believe that the lower oil prices will reduce energy costs for companies enabling them to make larger profits which will encourage growth. Also lower energy bill may stimulate further consumer spending. They predict a 0.3% to 0.7% possible impact on global growth. To insure against a significant recovery in oil prices, they have taken advantage of low oil prices by a small position in oil ETF, which gives exposure to the oil price through oil futures. If oil rises to over £70 per barrel they will make money on this position

k) The allocation to Listed Equity now stands at 22% of the fund. We asked Baillie Gifford if the increase allocation to equity markets is indicative of the lack of opportunity elsewhere. They said that yes the increased allocation to equity markets was partly due to lack of opportunity, along with the advantages presented by falls in the equity markets, the listed equities (overseas equity markets) were one of the main contributors to performance in the 12 months to 31st December 14. This exposure reflects their cautious positioning of the portfolio, they expect further exposure to equities in 2015 mainly in the Japanese equities, but the portfolio will continue to be invested in a wide range of asset classes.

l) Property was one of the strongest performing asset classes last year and forecasts for 2015 are positive yet the fund has only a small allocation to the asset class (2%). We asked if this is as a consequence of liquidity constraints and they confirmed this but expect to increase holdings within the next few months.

4.7. Multi Asset Manager (GMO – Global Real Return (UCITS) Fund)

a) GMO was appointed in October 2014. As at the end of the quarter the cash had not transferred out from the SSgA Sterling Liquidity to GMO until after the quarter end in January 2015.

5. Corporate Governance Issues

The Committee, previously, agreed that it would:

1. Receive quarterly information from each relevant Investment Manager, detailing the voting history of the Investment Managers on contentious issues. This information is included in the Managers' Quarterly Reports, which will be distributed to members electronically.

2. Receive quarterly information from the Investment Managers, detailing new Investments made.

   - Points 1 and 2 are contained in the Managers' reports.

3. Voting – Where the fund does not hold a pooled equity holding, Members should select a sample of the votes cast from the voting list supplied by the managers (currently only Ruffer) which is included within the quarterly report and question the Fund Managers regarding how Corporate Governance issues were considered in arriving at these decisions.

This report is being presented in order that:

- The general position of the Fund is considered plus other matters including any general issues as advised by Hymans.
- Hymans will discuss the managers' performance after which the particular manager will be invited to join the meeting and make their presentation. The manager attending the meeting will be from:

  Royal London, UBS and SSgA

- Hymans and Officers will discuss with Members any issues arising from the monitoring of the other managers.

IMPLICATIONS AND RISKS

Financial Implications and risks:

Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met and consequently minimise any cost to the General Fund.

Legal Implications and risks:

None arising directly

Human Resources Implications and risks:

There are no immediate HR implications. However longer term, shortfalls may need to be addressed depending upon performance of the fund.

Equalities and Social Inclusion Implications and risks:

None arising that directly impacts on residents or staff.

BACKGROUND PAPERS

Standard Life Quarterly report to 31 Dec 2015
Royal London Quarterly report to 31 Dec 2015
UBS Quarterly report to 31 Dec 2015
Ruffer Quarterly reports 31 Dec 2015
State Street Global Assets reports to 31 Dec 2015
Baillie Gifford Quarterly Reports 31 Dec 2015

The WM Company Performance Review Report to 31 Dec 2015
Hyman's Monitoring Report to 31 Dec 2015

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