

PENSIONS COMMITTEE

22 November 2016

Subject Heading:

**INVESTMENT ADVISOR SERVICE
REVIEW and CONTRACT EXTENSION**

CMT Lead:

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Policy context:

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In line with Myner's compliance statement
policy number 4 recommendation on
Performance measurement

Financial summary:

Investment Adviser fees and procurement
costs are met from the Pension Fund

The subject matter of this report deals with the following Council Objectives

Havering will be clean and its environment will be cared for

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People will be safe, in their homes and in the community

☐

Residents will be proud to live in Havering

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SUMMARY

This report reviews the performance of the Investment Advisor, Hymans, covering the period September 2015 to September 2016.

This report also asks for the Committee to consider the option of extending the existing pensions advisor contract.

RECOMMENDATIONS

It is recommended that the Committee:

1. Notes the views of officers on the performance of the Investment Advisor and makes any comment on the report which it considers appropriate.
2. Approves a one year extension of the existing contract for the provision of Investment Advice with Hymans Robertson LLP for the period April 2017 to March 2018.

REPORT DETAIL

1. Background

- 1.1 Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2009 state that the Fund must obtain proper advice about its investments and in relation to the appointment of investment managers.
- 1.2 Myner's Principles number 2 on clear objectives recommends that the committee, in setting out its overall objective for the Fund, should take proper advice and appoint advisors in open competition.
- 1.3 Members have adopted the procedure to undertake an annual assessment of the Investment Adviser performance which is in line with Myner's Principle number 4 on performance measurement.
- 1.4 Hymans was appointed to provide Investment Advisory services to the Havering Pension Fund for the period commencing on the 1st April 2012. The contract is to run from 1st April 2012 until 31st March 2017 unless terminated or extended by the Council in accordance with the terms of the contract.
- 1.5 The contract can be extended for an additional period of up to two years with written consent of both parties, no later than three months before expiry.

2. REVIEW OF THE INVESTMENT ADVISER'S PERFORMANCE

- 2.1 Hymans has been the Fund's Advisor since April 2006. A change to the individual advisor who was assigned to the Havering Pension Fund took place shortly before the new contract was awarded and this arrangement has continued after the contract commenced.
- 2.2 The services provided by Hymans are generally in relation to the core service which includes production of quarterly monitoring performance reports, attendance at Pensions Committee and providing questions for officer meetings with fund managers, investment advice and performance monitoring of the fund's investment managers.
- 2.3 In addition to the above core services, Hymans carried out a due diligence review of the London CIV (Collective Investment Vehicle) prior to the initial transfer of assets to the London CIV and provided advice on the purchase of additional units in the Fund's property portfolio.
- 2.4 A set of criteria was defined as part of the investment advice tender specification and these are outlined below:
- Attendance at Committee Meetings
 - Investment Advice
 - Setting Investment Strategy
 - Investment Management structure
 - Appointing an investment Manager
 - Monitoring an investment Manager
 - Other responsibilities (advising on statement of investment principles, custody, setting investment guidelines etc.)
 - The value they will/could add to the decision making process
 - The level of Pro-Activity expected from the adviser
 - Support arrangements
- 2.5 In addition, included within the tender documentation officers selected other criteria which the Investment Advisor should be assessed against, as they are essential in a service such as investment advice, as:
- 2.6 Communications and advice are clear, timely, accurate, challenging and comprehensive
- 2.7 Provision of advice to officers and members include comprehensive options and is encouraged to test the alternatives to decisions being made
- 2.8 A partnership approach to reaching investment decisions

2.9 The Investment Advisor's performance has been reviewed using the above criteria and with consultation of the Pensions Committee; the results of the review of performance over the year of review are set out in the following table and have been discussed with the adviser:

CRITERIA	ASSESSMENT
Attendance at Pensions Committee Meetings	Investment Advisor has attended each Pension Committee as required.
Investment Advice :	<p>It is important that the Pensions Committee and officers receive expert advice on investment issues and how they affect the Local Government Pension Scheme.</p> <ul style="list-style-type: none">• Investment Strategy – Hymans produced advice on the purchase of additional units in the property fund which resulted in the additional units being purchased. Hymans also undertook a review of the London CIV documentation from an investment perspective and produced a note on the suitability and appropriateness of the proposed investment transfer into the London CIV. Investments were transferred.• Investment Management Structure – Hymans undertook a review of the current bond manager's benchmark and investment constraints which resulted in the portfolio being changed to reflect the outcome of the review.• Monitoring an investment manager - Every quarter the investment advisor produces a monitoring report which covers market analysis and the performance of the Investment Managers. Hymans attends the Pensions Committee meetings to discuss their report and have provided valuable advice and guidance at these meetings. The advisor also provides useful information and advice to officers and produces suggested questions for officers for meetings with investment managers.
The value they will/could add to the decision making process	The advisors are expected to add value through their input to the development of the Fund's investment strategy and in the selection of individual managers. The investment advisor has continued to include in their quarterly monitoring reports a more quantitative measure of recognising added value, by breaking down the overall return to show market and manager

CRITERIA	ASSESSMENT
	contributions separately.
The level of pro-activity expected from the Adviser	The investment advisor has taken an active role at pension committee meetings and on behalf of the committee does challenge the fund managers on their performance and strategies. Feedback from members would like to see more challenge being made to the Fund Managers
Support arrangements	The support arrangements in place are good.
Communications	The communication with the adviser is good. Reports are well structured and easy to understand.
Partnership Approach	The advisor has close working relationships to the Fund's actuary which helps the understanding of the implications of different strategies on the Fund.

3. Service Review Conclusion

Officers and the Pensions Committee are satisfied with the service provided by Hymans and have continued confidence in the advice being given.

4. Contract Extension/Re-Tendering

- 4.1 The current contract expires on the 31 March 2017 but can be extended for up to an additional period of two years with written consent of both parties, no later than three months before expiry. If no extensions are granted then a new contract needs to be in place from 1 April 2017.
- 4.2 The committee has the following options:
- Grant contract extensions for any period up to two years from 1 April 2017 on the existing contract.
 - Re-tender for a new contract to commence from the 1 April 2017.

5. Contract Extension options

- 5.1. The 1 April 2017 deadline conflicts with a number of external priorities (pooling, MiFIDII and new investment regulations) and therefore it is recommended that the **existing contract be initially extended for a period one year.**

- 5.2. Deferring the re-tendering exercise until March 2018 instead of April 2017 will give officers time to assess the impact on the types of advice that the Committee will need going forward given the future of pooling requirements.
- 5.3. In line with the new LGPS (Management and Investment of Funds) Regulations 2016 coming into force from 1 November 2016, the Pensions Committee together with officers and the investment advisor will need to formulate and publish a statement of its Investment strategy under the new regulations by no later than 1 April 2017. The investment advisor has developed a good understanding of the Committee's requirements and there are significant benefits to be had from service continuity at this time. This is also particularly important at a time when the Actuary will also be recommending that the Fund consider an alternative investment strategy as part of the 2016 valuation exercise.

6. Contract Re Tendering options

- 6.1. Tendering is a costly and time consuming process. The direct costs associated with re-tendering can be significant for major contracts which are subject to the **Procurement Directive 2014/24/EC for Public Contracts**. The alternative to undertaking a full procurement exercise would be to join a procurement framework. Some of the benefits of joining would be:
 - Significant reduction in procurement timescale from six-nine months to as little as 4-6 weeks
 - Reduced procurement costs – slashed by up to 90%
 - Flexibility in the planning and running of tender processes via mini-competition
 - Ceiling prices that can be further reduced by competition at call off.
- 6.2. There is currently a National LGPS Framework for Investment Consultancy Services which was launched at the end of April 2013 and will be available until April 2017. Contracts awarded under the framework may be for up to seven years, but cannot extend beyond 31 March 2021. If members wanted to join the current framework then the maximum length of a contract if commenced from April 2017 would cover a maximum of four years.
- 6.3. The National Framework are about to commence the process of appointing to a new investment consultancy contract and this is likely to be made available from April 2017. The contract will be for a period at least seven years and likely be broken up into separate lots to make the new contract more flexible and more future proof. If members extend the existing contract by one year as mentioned

above then this will give officers the time to consider the flexibility of the variety of lots on offer and assess whether there is merit and value for money in undertaking this process jointly with our oneSource partners.

IMPLICATIONS AND RISKS

Financial implications and risks:

The cost of Investment Advisory services from October 2015 to September 2016 was £32,755 (prior year £65,940). This includes costs of £28,255 (prior year £28,382) for the core services and £4,500 (prior year £37,558) for additional services. Costs for additional services have been kept within budget.

The current cost of joining the National Framework for Investment Consultancy is £5,000. This cost may change under the new contract which may be available from April 2017.

There are no financial implications or risks arising directly from this report. The costs of the Investment Advisor and any re-tendering costs are met from the Pension Fund.

Legal implications and risks:

As stated in the Report, the existing contract may be extended by written consent of both parties for a period of up to two years, provided notice is given at least three months before the expiry date, which means that there is sufficient time to extend. There are no apparent legal implications if the extension is granted as recommended.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

There are no equality implications or risks as a result of this report.

BACKGROUND PAPERS

Background Papers List

Specification for the Advice to the London Borough of Havering Pension Fund