

## PENSIONS COMMITTEE

12 November 2019

**Subject Heading:**

**INVESTMENT CONSULTANCY  
SERVICES PERFORMANCE REVIEW**

**SLT Lead:**

**Jane West**

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**Policy context:**

LGPS (Management and Investment of Funds) Regulations 2016.

**Financial summary:**

Investment Consultant fees are met from the Pension Fund

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

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

<b>SUMMARY</b>
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This report asks for the Committee to agree strategic objectives set for the Fund's investment Consultancy Services provider (Hymans) and to review the performance of the Investment Consultant against those objectives for the period October 2018 to September 2019.

## RECOMMENDATIONS

It is recommended that the Committee:

1. Agrees the Objectives set for the Investment Consultancy Services provider and the method for the ongoing performance measurement (**Appendix A**).
2. Note the views of officers on the performance of the Investment Consultant and makes any comment on the report which it considers appropriate (**Appendix A**).

## REPORT DETAIL

### 1. Background

- 1.1 Regulation 9 (4) Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 state that the Fund must take proper advice in relation to the appointment and the terms on which the appointment [of an investment manager] is made.
- 1.2 As a result of an investigation by the Competition and Markets Authority (CMA) "The Investment Consultancy and Fiduciary Management Market Investigation Order 2019" (the 'Order') was issued. Amongst other recommendations it includes a requirement for trustees to set strategic objectives for their investment consultants (IC) (Part 7, Remedy 7).
- 1.3 The CMA also recommended that the Pensions Regulator produce guidance for trustees (Committees) to support them in meeting the new requirements. The Pensions Regulator "*trustee guide to: Setting objectives for providers of investment consultancy services*" is attached as **Appendix B**.
- 1.4 The term Investment Consultancy Services is used to describe the provision of advice to the committee to support decisions on matters such as investment strategy, strategic asset allocation and manager selection.
- 1.5 The Order that takes effect from **the 10 December 2019**.
- 1.6 The CMA has recommended that the Department for Work and Pensions (DWP) legislates to bring the requirements of the Order into Pensions Legislation. DWP has since published a consultation which seeks to enact the obligations placed on pension schemes under the Order. Consultation closed on the 2 September 2019. Unfortunately the Havering pension Fund did not

respond to the consultation as it was not aware of its issue until it was too late to respond

- 1.7 The DWP has also stated that *“Our regulations do not apply to the LGPS. In particular, we have made no provision for applying remedy 7 to the LGPS, as regulations and guidance in relation to the LGPS are a matter for the Ministry of Housing, Communities and Local Government” (MHCLG).*
- 1.8 The Scheme Advisory Board (SAB) also published a briefing, issued on the 1 August 2019, setting out the position of LGPS administering authorities under the Order. They suggest that it would be prudent for authorities to assume the IC requirements will apply and an assumption that Part 7; Remedy 7 will apply until such time as MHCLG make regulations and/or guidance which implements remedy 7 into the LGPS.
- 1.9 Administering authorities will also be obliged to submit a statement of compliance under Part 7 of the Order within 12 months and 4 weeks beginning 10<sup>th</sup> December 2019 and thereafter, annually. The compliance return will include:
  - a. Scheme the name and address of the IC provider
  - b. the most recent date on which the IC provider was appointed
  - c. whether the trustees have set objectives for the IC provider, and if not, why not
  - d. whether the trustees have reviewed the objectives set for the IC provider and if not, why not
  - e. whether the trustees have reviewed the services provided by the IC provider and if not, why not
- 1.10 Regardless of the outcome of the CMA order in regulations, the Committee have always adopted the procedure to undertake an annual assessment of the IC's performance, which can be seen in **Appendix A**.
- 1.11 Hymans was appointed to provide Investment Advisory services to the Havering Pension Fund for the period commencing on the 1<sup>st</sup> April 2012. After a one year extension this contract terminated on the 31 March 2019.
- 1.12 The Pensions Committee agreed to undertake the procurement of an Investment Adviser for the Fund through the “LGPS National Framework for Investment Management Consultancy Services”. Following a ‘mini’ competition exercise Hymans were awarded a further contract commencing on the 1 April 2019, duration of 5 years until the 31 March 2024 with an option to extend by a further two years until 31 March 2026.
- 1.13 Hymans have provided advice to the Fund since April 2006

## 2. STRATEGIC OBJECTIVES

- 2.1 The CMA report set out its remedies for improving the IC services received by customers. The aim is that pension scheme trustee's better monitor the performance of their IC provider by setting and measuring them against an appropriate set of strategic objectives. It is the intention that trustees must not enter into an agreement for the provision of IC services unless strategic objectives have been set for the provider.
- 2.2 Objectives were set out in the "LGPS National Framework for Investment Management Consultancy Services" and included within the contract for IC services provided to the Havering Pension Fund.
- 2.3 The CMA expects that trustees
  - a. set objectives for their IC service that have regard to the investment strategy statement
  - b. review the performance of each IC provider against their objectives at least every 12 months, and
  - c. review the objectives at least every 3 years and without delay after any significant change in investment policy
- 2.4 The CMA expect that objectives:
  - a. include a clear definition of the outcome expected to be delivered and the timescale over which it will be delivered
  - b. should be relevant to the services provided
  - c. should also enable the trustee to measure the performance of the IC services provided
- 2.5 The suggested strategic objectives are set out in **Appendix A**. The objectives have been produced by reference to the services required as set out in the "LGPS National Framework for Investment Management Consultancy Services" and included within the contract for IC services provided to the Havering Pension Fund. The services have been categorised under five objectives:
  - a. Demonstration of Value Added
  - b. Delivery of Specialist processes
  - c. Proactivity of advice
  - d. Support with scheme management and compliance
  - e. Support with additional matters arising
- 2.6 Within each of the five objectives, measure(s) of success and expected outcomes are listed with the expected timescales for delivery. It may be difficult to define an appropriate period to measure and attribute performance given investment market volatility and therefore duration of the contract is suggested as the measure except where an obvious timescale can be included i.e. quarterly monitoring reports.

- 2.7 The objectives are not dissimilar to those used in previous performance assessment but the format adopted is more in line with suggested practices as set out in The Pensions Regulator “*trustee guide to: Setting objectives for providers of investment consultancy services*” (**Appendix B** refers).

### **3. REVIEW OF THE INVESTMENT CONSULTANT SERVICE PERFORMANCE**

- 3.1 The IC’s performance has been reviewed against the suggested objectives and with consultation of the Pensions Committee; the results of the review of performance over the year of review are set out in the attached Table (**Appendix A**).
- 3.2 Officers shared their proposed list of objectives and performance assessment for the year to September 2019 with the IC. The consultant agreed with the assessment by Officers of performance and noted their delight in being reappointed to work with the Fund following the retender exercise undertaken during the year. The IC proposed a series of success measures for each objective so that the IC performance could be explicitly assessed which has now been incorporated.
- 3.3 The core services provided by Hymans generally includes production of quarterly monitoring performance reports, attendance at least four Pension Committee meetings, provision of investment advice and performance monitoring of the fund’s investment managers.
- 3.4 Officers and the Pensions Committee conclude that they are satisfied that Hymans delivers a good service and have continued confidence in the advice being given.

## **IMPLICATIONS AND RISKS**

### **Financial implications and risks:**

Fees are generally charged on a time-cost basis as set out in the tender documents under Section 6.

Invoices have only been received for the period 1 October 2018 to August 2019 at a cost of £70,000, including estimated fees to September the total cost is expected to be in the region of £76,000 (1 October 2017 to September 2018 £78,540).

The costs of the IC Services are met from the Pension Fund.

**Legal implications and risks:**

In relation to the requirements to set objectives for providers of investment consultancy services, unless an exemption applies, the trustees (Committee) must not:

- enter a new contract, or
- continue to obtain investment consultancy services unless the trustees have set objectives in relation to the services they are going to or are already receiving.

This prohibition is effective from 10 December 2019 and will apply to new and existing contracts for investment consultancy services.

**Human Resources implications and risks:**

There are no direct human resource implications and risk arising from this report.

**Equalities implications and risks:**

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- i. the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- ii. the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- iii. foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants

An EIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

<b>BACKGROUND PAPERS</b>
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**Background Papers List**

None