

London Borough of Hammersmith & Fulham

Report to: Pensions Board

Date: 13/01/2020

Subject: Pension Fund Consultant Aims and Objectives

Report of: Matt Hopson

Summary

1.1 This paper provides the Pensions Board with a summary of:

- a. The requirements of the Competition and Markets Authority (CMA) for the Pension Fund to establish aims and objectives for its investment consultant.
- b. Some suggested aims and objectives for the Fund's consultant, Deloitte.

Recommendations

1. The Pensions Board is requested to note and comment on the report.
-

Wards Affected: None

H&F Priorities

Our Priorities	Summary of how this report aligns to the H&F Priorities
<ul style="list-style-type: none">• Being ruthlessly financially efficient	Ensuring good governance for the Pension Fund should ultimately lead to better financial performance in the long run for the Council and taxpayer.

Financial Impact

- None

Legal Implications

- The CMA investment consultancy and Fiduciary Management Market Investigation Order 2019 will come in to effect in December 2019, by which time Pension Funds must have set aims and objectives for their investment consultants or else be in breach of the order.
-

Contact Officer(s):

Name: Matt Hopson
Position: Strategic Investment Manager
Telephone: 020 7641 4126
Email: mhopson@westminster.gov.uk

Name: Phil Triggs
Position: Director of Treasury and Pensions
Telephone: 020 7641 4136
Email: ptriggs@westminster.gov.uk

Verified by Phil Triggs

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

1. Proposals and Analysis of Options

- 1.1. This proposal is for the aims and objectives set out in section 1.7 to be adopted.

CMA Findings

- 1.2 After conducting an extensive review into the pension fund consultancy and fiduciary management industry, the CMA produced a report, detailing a number of recommendations to improve pension fund governance, with a number concerns expressed around fees and conflicts of interest.

- 1.3 The key remedies suggested in the report are as follows:

- Remedy 1: Mandatory competitive tendering for first adoption of fiduciary management.
- Remedy 2: Mandatory warnings when selling fiduciary management.
- Remedy 3: Enhanced trustee guidance on the competitive tender process.
- Remedy 4: Requirement to report disaggregated fees to existing customers.
- Remedy 5: Minimum requirements for fee disclosures for prospective clients.
- Remedy 6: Standardised methodology to report past performance.
- Remedy 7: Trustees to set strategic objectives and firms to periodically report against them.
- Remedy 8: Basic standards for reporting performance of recommended asset management “products” and “funds”.

- 1.4 Whilst a number of these are either not relevant to the London Borough of Hammersmith and Fulham Pension Fund, either because they are the responsibility of the firms, or we do not outsource fiduciary responsibilities, Remedy 7 still applies to LGPS Funds and is something currently not in place within LBHF governance arrangements.

- 1.5 After consultation, the CMA investment consultancy and Fiduciary Management Market Investigation Order 2019 will come into effect in December 2019, by which time all Pension Funds will be required to have formally set aims and objectives for their investment consultants.

Setting aims and objectives

- 1.6 The Pensions Regulator (tPR) welcomed the review by the CMA and produced guidance on setting aims and objectives. The regulator’s view is that it is good practice for Pension Funds, including LGPS schemes, to set aims and objectives for investment consultants and advisors in order to achieve better outcomes and manage any areas of underperformance.

- 1.7 As the Pension Fund investment consultancy mandate is considerably all encompassing, the aims and objectives need to be fully comprehensive. Below are some suggested areas broken down into sub categories for the Sub-Committee to debate:

1. Assistance in Achieving the Fund's Objectives:

- a) Any proposed changes in investment strategy or investment managers has a clear rationale linked to the Fund's objectives with specific reference to improving the efficiency of the investment strategy in terms of risk adjusted returns.
- b) All advice considers funding implications and the ability of the Fund to meet its long-term objectives.
- c) The investment consultant has an appropriate framework in place to recognise opportunities to reduce risk.
- d) The investment consultant has contributed to the Fund's cashflow management process ensuring that the Fund's benefit obligations are met in a cost efficient manner.
- e) The investment consultant undertakes specific tasks such as the selection of new managers and asset liability studies as commissioned.
- f) The investment consultant has complied with prevailing legislation, the constraints imposed by the Investment Strategy Statement, the detailed Investment Management Agreements and the policy agreed with the Sub-Committee when considering the investment of the Fund's assets.

2. Governance and Costs

- a) Assist the Sub-Committee to implement the Fund's investments on a more competitive fee basis, through negotiation and periodic benchmarking of fees.
- b) Cost implications, both in terms of investment management expenses and implementation costs, are considered as part of investment strategy advice.
- c) Where the investment consultant has provided support on implementation activity, including activity required to meet Fund benefits, these transactions have been carried out in a cost effective manner.
- d) The investment consultant has demonstrated an understanding and appreciation of governance requirements, in particular, the investment consultant has avoided complexity where simpler, more cost effective solutions may be available.
- e) The investment consultant has ensured that investments are in accordance with the current regulatory and compliance requirements relevant for the LGPS.

- f) The investment consultant has taken into account the necessity for all investment funds within the portfolio, with few exceptions, to utilise one of the pools.

3. Proactivity/Keeping Informed

- a) Advise the Sub-Committee on appropriate new investment opportunities.
- b) Recognition of the dynamism of investment markets, recognising opportunities to crystallise gains or emerging risks which require immediate attention.
- c) The investment consultant has kept the Sub-Committee up to date with regulatory developments and additional compliance requirements.
- d) The investment consultant has highlighted areas that the Sub-Committee may wish to focus on in the future.
- e) The investment consultant should be generally available for consultation on fund investment matters.

4. Monitoring

- a) The investment consultant provides insightful monitoring focused on the reasoning behind performance.
- b) The Sub-Committee has been kept abreast of investment market developments and their implications for the Fund's investment strategy.
- c) Monitoring is integrated with funding and risk.
- d) Particular focus on the continued merits of active management. The investment consultant considers the value added by active management on a net of fees basis.

5. Delivery

- a) The investment consultant has formed a strong working relationship with the Sub-Committee, Council Officers and other key stakeholders.
- b) Reports and educational material are pitched at the right level, given the Sub-Committee's understanding.
- c) Provides training/explanation which aids understanding and improves the Sub-Committee's governance.
- d) Meeting papers are provided in a timely fashion, with all required detail and accuracy.
- e) The investment consultant works within agreed budgets and is transparent with regard to advisory costs, itemising additional work with fees in advance.

- f) The investment consultant works collaboratively with the scheme's actuary and other advisors or third parties including the global custodian.

2. Reasons for Decision

- 2.1. The aims and objectives above should be incorporated and subject to annual performance review subject to the CMA investment consultancy and Fiduciary Management Market Investigation Order 2019.

3. Equality Implications

- 3.1. N/A

4. Risk Management Implications

- 4.1. N/A

5. Other Implications

- 5.1. N/A

6. Consultation

- 6.1. N/A

List of Appendices:

None