


Non-Executive Report of the:  <b>Pensions Board</b>  31 July 2017	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Zena Cooke, Corporate Director ,Resources	<b>Classification:</b> restricted
<b>Pension Fund Procurement Plans and Update 2017/18</b>	

<b>Originating Officer(s)</b>	Bola Tobun, Investment and Treasury Manager
<b>Wards affected</b>	All wards

### Summary

This report covers the pension fund procurement plans for this financial year 2017/18, which will results in the following appointments: investment consultant to the Pension Fund, global custodian, actuarial services and independent adviser.

The contracts in place for all the above mentioned service providers have been in place for long periods of time and therefore it is appropriate to carry out a formal review of the requirements and carry out the relevant procurement activity.

### Recommendations:

The Pensions Board is recommended to note the contents of this report.

## **1. REASONS FOR THE DECISIONS**

- 1.1 The Council has an overarching responsibility to maintain the Pension Fund. It is essential that the Council has a Global Custodian, Investment Consultant, Independent Investment Adviser and a Scheme Actuary.
- 1.2 Within the terms of reference for the Pensions Committee, they are required to 'to make arrangements for the appointment of and to appoint suitably qualified pension fund administrators, advisers, investment managers and custodians and periodically to review those arrangements.'
- 1.3 The contents of this report and the procurement process demonstrate that this Committee is meeting both its regulatory and constitutional requirements.

## **2. ALTERNATIVE OPTIONS**

- 2.1 There are no alternative options.

## **3. DETAILS OF REPORT**

- 3.1 The Committee were notified of the procurement plans at their meetings September and December 2016. It was noted at the time that where there were suitable existing national frameworks, these would be used to reduce the time required to conduct the procurements and therefore the cost associated with them. In the case of the independent adviser, it is expected that this will be a locally managed process similar to the usual recruitment and selection process, advertising the position/role in specific dedicated LGA/LGPS websites and national newspapers and also the Council website.
- 3.2 The current timetable is as shown below:

<b>Service</b>	<b>Procurement Method</b>	<b>Procurement Start Date</b>	<b>Procurement End Date</b>	<b>Contract Start Date</b>
Investment Consultant	National Framework	20/02/2017	31/03/2017	04/07/2017
Global Custodian	OJEU/National Framework	01/09/2017	31/12/2017	01/04/2018
Scheme Actuary	National Framework	31/05/2017	31/07/2017	01/09/2017
Independent Advisor	Local process	Estimated 01/08/2017	By end of 2017	TBC

- 3.3 At the Pensions Committee meeting on the 22nd September 2016, it was agreed that Officers would call off the Local Government Pension Fund National Framework (established by Norfolk Country Council) for the procurement of investment consultants, scheme actuary and global custodian. The roles and responsibilities of each of these service providers can be found at appendix 1 of this report.

## **Investment Consultant Procurement**

- 3.4 The incumbent provider, Hyman Robertson, have been operating for over 15 years without a fixed contract in place so this procurement exercise was undertaken in order to regularise that situation. It was determined in advance of the tender that there would be two different providers for the two elements of the work. This decision was taken in order to minimise the risk of a conflict of interest arising.
- 3.5 Two elements were put out to tender using an existing framework. The elements were:
- a) Strategic Advisory Consultant (All other investment consultancy services - the main part of the work)
  - b) Fund manager selection services (the smaller part of the work)
- 3.6 At the Pensions Committee meeting in February 2017, officers invited the participation of members of the Pensions Committee in this procurement process. This procurement exercise had to be done quickly because the framework (Local Government Pension Fund National Framework), established by Norfolk County Council was due to expire on 31<sup>st</sup> March 2017. In addition it was crucial for the successful bidder to commence the Investment Strategy review of the Fund in order for this to be presented to the Committee for consideration at this meeting in July 2017. Two members of the Committee were available to participate in the process.
- 3.7 An investment consultancy specification was drawn up and as already stated, to manage conflicts of interest; the contract was split into two functions. Conflicts of interest can arise for investment consultants who assist in all areas of advisory services for funds. An example of this is when a consultant assists a fund to appoint a new fund manager, and then has to comment critically upon the performance of this fund manager. To avoid this, officers designed a procurement process where there would be at least two consultants appointed: one as the main strategic advisory consultant for the pension fund, and one or two consultants to assist with fund manager selection exercises when required. There would be no overlap in terms of the activities that the different consultants were to undertake: hence appointing multiple providers would not compromise the fund's objective of achieving value for money for stakeholders.
- 3.8 It was determined that the evaluation of tenders would be carried out as follows:

<b>Criteria</b>	<b>Weighting Manager Selection</b>	<b>Weighting Strategic Advisory</b>
Quality	50%	35%
Service Fit	N/A	15%
Price: Value for Money	50%	50%
Total	100%	100%

The quality and service fit elements to be evaluated as set out below

**a) Strategic Advisory consultancy services**

	<b>Weighting</b>
<b>Quality</b>	<b>35%</b>
<b>A Experience</b>	2%
<b>B Proposed Consultant Team</b>	5%
<b>C Advice</b>	24%
<b>D Working with the Fund</b>	4%

**Plus**

A presentation on the subject of “Why are you right for the London Borough of Tower Hamlets Pension Fund & its Employers?” for the remaining 15% of the quality score.

**b) Fund Manager Search & Selection:**

	<b>Weighting</b>
<b>Quality</b>	<b>50%</b>
<b>A Experience</b>	2%
<b>B Proposed Consultant Team</b>	5%
<b>C Advice</b>	37%
<b>D Working with the Fund</b>	6%

3.9 On 1st March 2017, officers invited tenders from the six service providers signed up to the national framework for LGPS investment consultancy services. The closing date for the receipt of tenders was 21st March 2017. Two firms, JLT and Mercer Ltd, submitted tenders for both aspects of the work. These were the only submissions received. A panel of officers and the independent advisor to the Pension Fund reviewed and scored the submissions for the Strategic Advisory consultancy service in accordance with the criteria set out above. Presentations were carried out by the same panel to establish the service fit. An informal discussion with the two members of the Pension Committee was held with the preferred bidder, giving them the opportunity to meet the potential adviser.

3.10 **OUTCOME OF EVALUATION OF TENDER**

**a) Investment consultancy services:**

<b>Rank</b>	<b>Supplier Name</b>	<b>TOTALS FOR QUALITY</b>	<b>TOTAL FOR PRICE</b>	<b>OVERALL FINAL SCORE WEIGHTING</b>
<b>1</b>	Mercer Ltd	38.80%	42.10%	80.90%
<b>2</b>	JLT	24.00%	42.90%	66.90%

The evaluation panel agreed to recommend the appointment of Mercer Limited as the Pension Fund, Investment Consultant for strategic advisory work, contract has been signed and work has commenced.

**b) Fund manager selection services**

- i) No appointment for the Fund Manager Search and Selection consultant as JLT priced on a different basis to that required under the tendering rules.
- i) Mercer Ltd had being deemed as the preferred supplier for the investment consultancy advice; they were no longer able to be considered for this piece of work.
- ii) This led to the decision not to appoint a consultant for this piece of work but to consider other mechanisms, likely to be RFQ, to be used in the event of needing this service.

**Progress Update on Scheme Actuary Procurement Exercise**

3.11 Please see below indicative timetable for the scheme actuary procurement exercise.

<b>Event</b>	<b>Date</b>
Tender documents issued	28 <sup>th</sup> June 2017
Deadline for receipt of Clarification questions	7 <sup>th</sup> July 2017
ITT Return deadline	19 <sup>th</sup> July 2017
ITT evaluations	19 <sup>th</sup> -21 <sup>st</sup> July
Presentations	27 <sup>th</sup> July 2017
Informal meeting with Pension Committee Members	31 <sup>st</sup> July 2017
Preferred supplier notification and award	w/c 7 <sup>th</sup> August 2017
Expected contract commencement	4 <sup>th</sup> September 2017

- 3.12 The actuary performs key functions for the Pension Fund in determining the contribution rates to be paid by employers in the Fund and assessing the assets and liabilities of the Pension Fund. The cost of providing the actuarial and benefits services is likely to vary from year to year depending on the level of work required but has recently been in the region of £200,000 over the life of a three years contract. Given the value of the Fund’s assets is in excess of £1.3bn as at the end of March 2017, this would seem to be a relatively insignificant cost for receiving timely informative advice in the management of the Pension Fund to ensure it meets not only its statutory obligations but also for the Committee to meet its fiduciary duties.
- 3.13 The invitation to tender (ITT) pack for Scheme Actuary was issued 28 June 2017 and the closing date for submission of service providers’ response to tender document is 19 July 2017.

- 3.14 A panel of officers and the independent adviser will evaluate responses/submissions to shortlist a maximum of four for presentation and clarification of their service in order to evaluate their service fit for Tower Hamlets Pension Fund.
- 3.15 It is expected that the shortlisted service providers will present to the panel on 27 July 2017. Following the presentation, a short list of 2 providers will be invited to a meet with representatives of the Pension Committee on 31<sup>st</sup> July 2017 (separate to the main meeting). Following this, the final evaluation will be completed to determine contract award.

#### **4. COMMENTS OF THE CHIEF FINANCE OFFICER**

- 4.1 Local Government Pension Funds have been the subject of much debate at a national level recently regarding the costs of administering individual funds. The National Framework for investment consultancy services was set up with this in mind.
- 4.2 The procurement process is shortened by using the framework procurement process, thereby freeing up officer time and reducing administration burden. The framework also increases accountability and transparency for consultancy fees by enabling direct comparison of different pricing structures. It can therefore be concluded that an exercise that has been conducted using the framework represents value for money for the Council and its Pension Fund.
- 4.3 The Pensions Committee would not be able to fulfil its duties without the support from professional advisers whose knowledge is far more extensive than the Fund officers. However, it is also important to get value for money by carrying out procurement exercise at appropriate interval.

#### **5. LEGAL COMMENTS**

#### **6. ONE TOWER HAMLETS CONSIDERATIONS**

- 6.1 The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will reduce the contribution and increase the funds available for other corporate priorities.
- 6.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

#### **7. BEST VALUE (BV) IMPLICATIONS**

- 7.1 The use of the National Frameworks for the procurement of investment consultant, global custodian and scheme actuary would result in a significant savings in comparison to a full OJEU process. And also we could also achieve a significant savings from the current ongoing cost of these services.

## **8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 8.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

## **9. RISK MANAGEMENT IMPLICATIONS**

- 9.1 The rigorous robust management of LBTH Pension Fund results in better quicker and more effective decision making which can lead to better Fund performance and reduction in the contribution required from the Council towards the Fund. The monitoring arrangement for the Pension Fund and the work of the Pensions Committee should ensure that the Fund optimises the use of its resources in achieving the best returns for the Council and members of the Fund.

## **10. CRIME AND DISORDER REDUCTION IMPLICATIONS**

- 10.1 There are no crime and disorder reduction implications arising from this report.

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### **Linked Reports, Appendices and Background Documents**

#### **Linked Report**

- NONE

#### **Appendices**

- Appendix 1 - Roles and Duties of LBTH Pension Fund Service Providers

#### **Local Government Act, 1972 Section 100D (As amended)**

#### **List of "Background Papers" used in the preparation of this report**

- NONE

#### **Officer contact details for documents:**

Bola Tobun(Investment & Treasury Manager) x4733

## **Appendix 1**

### **Roles and Duties of Service Providers**

**Independent Advisor:** general role and duty is to advise and support members of the committee and officers by the following activities;

- a) To participate in any discussions relating to investment issues arising out of actuarial studies affecting the Fund;
- b) To contribute towards determining the asset allocation policy of the Fund and the development of customised benchmarks;
- c) To monitor and comment upon the ongoing relevance of the benchmark;
- d) To advise on the appropriateness of the management arrangements, targets and mandates adopted by the Fund;
- e) To monitor the performance of the investment managers against the mandates and ensure that they are carrying out their duties;
- f) To advise as required on the selection of managers;
- g) To monitor and identify appropriate investment issues as necessary;
- h) To advise on the most appropriate asset allocation and provide market intelligence and comment;
- i) To produce a formal report on the Fund's performance annually;
- j) To provide advice on other related issues as requested or as the Panel considers appropriate.
- k) To assess the main picks taken against the benchmark, the changes over the quarter and analyse, understand and comment on what has worked well and what hasn't;
- l) To review the Fund's progression relative to the asset and liability assumptions adopted when setting the benchmark;
- m) To comment upon interest rate risk, inflationary expectations, active versus passive management, long term investment returns, etc.;
- n) To assess the external influences affecting investment returns and comment upon industry developments, etc.;
- o) To monitor the economic and investment climate and report accordingly.

**The Investment Consultancy** will be required to provide investment consultancy services to the Fund including but not limited to:

- a) Review of asset allocation, investment strategy and investment management structure;
- b) Working with the Fund Actuary to undertake asset liability modelling as required;
- c) Monitoring and reporting of investment managers and producing quarterly reports based on data provided by the measuring company or incorporating other third party reporting as may be required in a cost effective manner;
- d) Attendance at meetings as required;
- e) Providing training to Members and officers as required;
- f) Advising on the Investment Strategy Statement;
- g) Advising on the Pension Fund Annual Report;
- h) Advising on controlling investment costs including fees and transaction related costs;
- i) Advising on alternative investments;



- j) Advising on Environmental, Social, Corporate Governance and Socially Responsible Investment policies;
- k) Advising on Investment Fund Manager selection;
- l) Advising on investment markets and the outlook for different asset classes. it is envisaged that the advice and outlook will be offered on a monthly basis or as and when fluctuations of the markets dictate.

**The Global Custodian** - is responsible for the safekeeping of the Fund's securities. This function may be carried out by a custodian appointed directly by the fund, or via appointed fund managers. Current best practice is for funds to appoint their own custodian. Responsibilities may include:

- a) settlement of purchases and sales;
- b) advising managers of cash available for investment;
- c) safe custody of securities and cash;
- d) acting as banker to the fund;
- e) cash reconciliations; collection of dividends, income and tax reclaims;
- f) ensuring correct actions including rights issues, bonus issues and acquisitions are correctly dealt with;
- g) ensuring the necessary approvals are in place to invest in certain overseas markets; and
- h) providing (monthly) valuations of scheme assets, details of all transactions and accounting reports

**The Scheme Actuary** is an independent and appropriately qualified adviser who carries out statutorily required fund valuations and other valuations as required and who will also provide general actuarial advice. The actuary will:

- a) Fund Triennial Valuation and Rates and Adjustment Certificate
- b) Draft Funding Strategy Statement (FSS)
- c) Actuarial advice about outsourcing or new employers bodies including initial funding position, employer contribution rate and bond value for new employers
- d) Cessation valuations and post cessation funding agreements
- e) Bond value assessments and advice relating to other forms of security
- f) FRS102, FRS17 and IAS19 accounting reports
- g) Employer covenant assessments
- h) Cashflow projections and related advice
- i) Data quality reports, advice and support on data cleansing (as required)
- j) Commenting on consistency of FSS with Investment Strategy Statement and proposed changes to investment strategy
- k) Reviewing administration strategy statement, admission and other policies (as required)
- l) Advice concerning administration service structure, processes and targets (as required)
- m) Attendance at meetings (as required)
- n) Providing training to Members and officers (as required)
- o) IDRPs support (as required)
- p) Advice and support on GMP reconciliations (as required)