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| Non-Executive Report of the:<br><b>PENSIONS COMMITTEE</b><br><br><b>28 November 2019</b>   | <br><b>TOWER HAMLET</b> |
| <b>Report of:</b> Neville Murton, Corporate Director, Resources                            | <b>Classification:</b>   |
| <b>The Investment Consultancy and Fiduciary Management Market Investigation Order 2019</b> |  |

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| <b>Originating Officer(s)</b> | Miriam Adams, Pensions & Investments Manager |
| <b>Wards affected</b>         | All  |

## REASONS FOR URGENCY

The report was not published five clear days in advance of the meeting. This is due to the additional time required to review the report in order to provide the necessary clearances. Also as it is important that there should not be an extended period without member oversight of this matter this report cannot be deferred.

## Introduction

This report provides the Pensions Committee with a summary of the Investment Consultancy and Fiduciary Management Market Investigation Order 2019, guidance from The Pension Regulator (TPR) in response to the Competition and Markets Authority (CMA) investigation into investment consultancy market. As well as draft objectives for the Fund's investment consultant Mercer and Independent Financial Adviser Colin Robertson.

## Recommendations:

Members are asked to

- note the contents of this report;
- consider the example investment consultant objectives;
- note the legal requirement for trustees of occupational pensions (including the LGPS) to set objectives comes into effect from 10 December 2019;
- consider the draft Strategic Objectives in relation to the provision of Investment Consultancy and Fiduciary Management Market Investigation Order 2019;
- discuss their views and that will help to formulate and amend the draft objectives;
- delegate to the Director of Resources/Section 151 Officer in consultation with the Pensions Committee Chair and Vice-Chair authority to agree final Strategic Objectives.

## 1. REASONS FOR THE DECISIONS

- 1.1 It is a legal requirement for trustees of occupational pensions (including LGPS) to set objectives by 10 December 2019. This report informs members of the steps to be taken to ensure compliance with the Investment Consultancy and Fiduciary Management Market Investigation Order 2019.

## **2. ALTERNATIVE OPTIONS**

- 2.1 There are no alternative options to this report.

## **3. DETAILS OF REPORT**

- 3.1 The requirement for LGPS funds to establish objectives for their investment consultants comes into effect from 10 December 2019.

At the end of 2018, the Competition and Markets Authority (“CMA”) published its report following a review of the investment consulting and fiduciary management markets which found weaknesses, including trustees entering into uncompetitive terms or failing to switch to potentially better providers because they struggled to compare fees and performance. Earlier this year following on from this review, the CMA issued an Order, setting out requirements for the appointment and governance of fiduciary managers for Pension Scheme Trustees to set objectives for their investment consultants. Pension Scheme Trustees in this context means the trustees or managers of Occupational Pension Schemes that have their main administration in the United Kingdom. The CMA requirements extend to both Trustee-based schemes and Local Government Pension Schemes (i.e. Pensions Committees).

- 3.2 Funds must establish ‘measureable’ objectives for their investment consultant(s) which are aligned with their own. The Scheme Advisory Board has provided guidance setting out how the Order applies to the LGPS.

These objectives should

- be closely linked to the pension scheme’s strategic objectives;
- review the performance of each investment consultant at least every 12 months;
- be reviewed at least every three years, and after a significant change to the investment strategy or objectives
- include a clear definition of the outcomes expected and timescales for achieving this;
- objectives should be measurable; and
- established no later than 10 December 2019

- 3.3 To support the new requirements, the CMA recommended that TPR provide enhances guidance to support trustees on engaging with consultants and fiduciary managers. The Pensions Regulator also consulted on draft guidance, focussing mainly on how trustees should assess the performance of their investment consultants relative to objectives and how to choose an investment model. The SAB’s briefing note (Appendix A) issued on 15 October suggested that the Order will be implemented by MHCLG as an

amendment to the Investment Strategy Statement (ISS) statutory guidance and the CMA have confirmed that such provisions within the ISS guidance will meet the requirements of Part 1.4 of the Order.

- 3.4 From 10 December 2019, the order prohibits Pension Scheme Trustees (including LGPS scheme managers) from entering into a contract or continuing to obtain investment consultancy services without setting objectives for the provider.
- 3.5 Pension Scheme Trustees will be required to report on the appointment and governance of fiduciary managers, the first round of compliance reporting works out no later than 12 months and 4 weeks after the relevant requirements came into force. This translates into a deadline of early January 2021.
- 3.6 The draft investment objectives has given to factors like aligning with the ISS, included upcoming projects, are realistic, a mix of qualitative and quantitative, includes both short and long term objectives.

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

- 4.1 There are no direct financial implications as a result of the contents of this report.

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

- 5.1 The Competition and Markets Authority have made the investment Consultancy and Fiduciary Management Market investigation order 2019 implementing a range of requirements in relation to the investment consultants and fiduciary management market.
- 5.2 Part 7 section 12 of the Order prohibits Pension Schemes from entering into or continuing existing contracts with an Investment Consultancy Provider unless the Pension Scheme trustees have set Strategic for the investment consultancy provider. The Committee must ensure that it has set objectives for the Fund's Investment Consultant and Independent Adviser. It is a legal requirement that these objectives are set by the 10<sup>th</sup> December 2019. Failure to do so will mean that the Fund cannot continue with existing contracts with Investment Consultancy Providers or enter into new ones.

#### **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 costs management will reduce the contribution and increase the funds available for other corporate priorities.

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

7.1 The effective and efficient management of scheme costs is key to the achievement of the funding strategy objectives and this is considered to be a good decision which can result in greater cost savings to the fund.

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

8.1 There is no direct Sustainable Action for A Greener Environment implication arising from this report. However some future decisions as a result of these objectives may have climate and sustainable impact implications.

## **9. RISK MANAGEMENT IMPLICATIONS**

11.1 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.

11.2 Ensuring good corporate governance and the adoption of sustainable business models at the companies in which the Fund invests should over the longer term ensure that they are able to deliver superior returns to the Fund.

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

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

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

Appendices:

- Appendix A – TPR guidance on setting objectives for investment consultancy
- Appendix B – Scheme Advisory Board briefing paper
- Appendix C – Investment Consultancy Objectives
- Appendix D – Independent Financial Adviser Objectives

### **Linked Report**

<https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/draft-guide-setting-objectives-investment-consultancy.ashx>

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

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