



London Borough of Tower Hamlets Pension Fund

CMA assessment

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Steve Turner

September 2024

welcome to brighter

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Overview

In this presentation we provide a reminder on the DWP regulations impacting the Fund, and we also provide a summary of each of the objectives set by the Pensions Committee (the “Committee”) in **January 2023**, and provide a brief overview of:

- Where to find information related to the objectives based on advice provided over the year to end December 2023.
- Mercer’s comments (self-assessment) on how we believe we have delivered versus the objectives set for us over the year.
- A red/amber/green (“RAG”) rating against each of the objectives.

We note that the assessment and scoring of Mercer versus the objectives set is ultimately the responsibility of the Committee. The intention of these initial views is to help the Committee arrive at their overall assessment of Mercer, and we would be happy to discuss further once the Committee have agreed on their overall scoring.

As part of the scoring, we have proposed the use of RAG indicators to assess each objective. This will naturally focus the attention on any items marked as red in order to resolve any issues. To the extent that the Committee need or wish to assess the service delivery in total we would argue that a holistic overview of all of the colours would provide a useful guide without resorting to arbitrary and exclusive weightings.

Update on DWP Regulations

CMA Order – New DWP Regulations

Background and key changes



Background

- The Occupational Pension Schemes (Governance and Registration) (Amendment) Regulations 2019 (the Regulations) came into force on 1 October 2022. The Regulations integrate certain parts of the Investment Consultancy and Fiduciary Management Market Investigation Order 2019 (the Order), introduced by the Competition and Markets Authority (CMA) on 10 June 2019, into pensions law.
- The Regulations supersede two Parts of the Order that, in certain circumstances, require occupational pension scheme Committee to:
 - Set and review objectives for their providers of investment consultancy services, and
 - Carry out a competitive tender process when engaging fiduciary management (FM) providers (this doesn't apply to the Fund).

TPR Guidance

- TPR has issued updated guidance in response to the Regulations. <https://www.thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/funding-and-investment-detailed-guidance/tender-and-set-objectives-for-investment-service-providers/set-objectives-for-your-investment-consultant>

Investment Objectives - Setting, Reviewing and Assessing

Objectives – Setting, Reviewing and Assessing

- Pensions Committee should:

- set objectives for each investment consultant appointed to provide in-scope investment consultancy services*. Objectives must be set by the end of the date that any new appointment takes effect
- have regard to the Investment Strategy Statement (“ISS”) in setting the objectives
- review the objectives (and, if appropriate, revise) (i) at least every three years and (ii) without delay after any significant change in investment policy. The Committee must complete the first review of those existing objectives within three years of the date that the objectives were set under the Order.
- review the performance of the investment consultancy service provider against the objectives they have set, at least every 12 months.



Objectives – Setting, Reviewing and Assessing

- Actions required:

- ensure you have reviewed the performance of the investment consultancy service provider against the objectives set, within 12 months of the previous review. Diarise in the business plan the deadline for the next annual review, and
- review the objectives by December 2025, or following any significant changes to the Plan’s investment strategy.



* In scope investment consultancy services are when advising on: exercising of any of the Committee’s powers of investment in any particular case (including the making or retaining of any investment), the appointment of a particular fund manager, strategic asset allocation, adopting a particular investment strategy, the preparation/revision of a scheme’s ISS

The CMA objectives and Mercer’s performance against those objectives were last assessed at the Pensions Committee meeting held on 12 January 2023.

Committee assessment

Balanced Scorecard

Pro Forma Balanced scorecard (1/8)

KEY	
	In line with objectives, no action needed
	Keep under review, includes where action is required but has already been agreed
	Committee to consider taking action

Objective	Mercer Evidence	RAG
Investment Strategy Design		
<ul style="list-style-type: none"> • Advice on Investment Strategy Statement • Advising on alternative investments • Advising on Environmental, Social, Corporate Governance and Socially Responsible Investment policies and climate change considerations • Have an understanding of the changing circumstances and appreciation of the risks and opportunities inherent in a rapidly changing business environment in the UK, Europe and rest of the world. • Assist with developing policy on currency hedging • Assist with formulating investment beliefs • Ensure Members understand the role of each asset class 	<p>Mercer has provided advice throughout the year in a number of these areas. Revisions to the ISS were provided over the year to account for various investment strategy changes.</p> <p>Advice has been provided over the year on the Index-Linked Gilts allocation to move it from Schroders to a true index-tracking fund with BlackRock.</p> <p>Mercer assisted the Committee in reviewing key carbon metrics arising from the Fund's assets and suggested actions that would help improve the Fund's carbon footprint profile.</p>	
<p><u>Committee commentary</u></p>		

Pro Forma Balanced scorecard (2/8)

KEY	
	In line with objectives, no action needed
	Keep under review, includes where action is required but has already been agreed
	Committee to consider taking action

Objective	Mercer Commentary	RAG
Investment Strategy Implementation		
<ul style="list-style-type: none"> • Advising on controlling investment costs including fees and transaction related costs • Advising on fund manager selection • Arrange the implementation of asset transitions in a timely manner and ensure that the Pensions Committee is given sufficient notice of their Responsibilities 	<p>Costs are monitored on an ongoing basis.</p> <p>Following the Committee’s decision to explore a true index-tracking and cost effective solution for the Index-Linked Gilts held with Schroders, a fund manager selection was provided by Mercer to the Committee. A number of managers were reviewed that had a Mercer ‘A’ rating. This advice resulted in the BlackRock Aquila Life Over 5 Years UK Index Linked Gilt Index Fund being selected.</p>	
<p><u>Committee commentary</u></p>		

Pro Forma Balanced scorecard (3/8)

KEY	
	In line with objectives, no action needed
	Keep under review, includes where action is required but has already been agreed
	Committee to consider taking action

Objective	Mercer Commentary	RAG
Monitoring the investment strategy and investment managers		
<ul style="list-style-type: none"> Review of asset allocation Review of investment strategy Review of investment management structure Monitoring and reporting of investment managers Produce quarterly reports based on data provided by measuring and incorporating other third party reporting as may be required in a cost-effective manner Advising on investment markets and the outlook for different asset classes Produce investment advice, ad hoc and other briefing papers in advance of Committee meetings on a timely basis. 	<p>Mercer provided an investment strategy review to the Committee in Q4 2023 which explored alternative investment strategies to replace the existing 5% allocation to Baillie Gifford Diversified Growth Fund due to performance and liquidity concerns and ongoing fit with the Fund's wider investment strategy.</p> <p>Quarterly Investment Performance reports are provided for each Committee meeting.</p> <p>Ad hoc investment advice has been provided in Q1 2024 in light of actual asset allocations drifting outside of the strategic asset allocation rebalancing ranges.</p>	R
<p><u>Committee commentary</u></p>		

Pro Forma Balanced scorecard (4/8)

KEY	
	In line with objectives, no action needed
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	Committee to consider taking action

Objective	Mercer Commentary	RAG
Ongoing Service Standards		
<ul style="list-style-type: none"> Advising on the Pension Fund Annual Report and accounts Assist the Pensions Committee to implement their strategy efficiently through manager fee negotiations and periodic benchmarking of fees Provide advice in a clear and concise manner, limiting use of jargon and assuming that Members and Officers understand the key messages 	<p>Mercer provide advice and relevant information when requested in a timely manner.</p> <p>Mercer explored various managers as part of the passive Index-Linked Gilts manager selection in Q4 2023 with fees charged a key consideration given no outperformance expectations for a passive fund.</p>	In line
<p><u>Committee commentary</u></p>		

Pro Forma Balanced scorecard (5/8)

KEY	
	In line with objectives, no action needed
	Keep under review, includes where action is required but has already been agreed
	Committee to consider taking action

Objective	Mercer Commentary	RAG
Governance		
<ul style="list-style-type: none"> Ensure the Committee is up to date with respect to the legislations, regulations, risks and opportunities with respect to the management of pensions and investment funds Assisting with consideration of appropriate governance structures and to ensure investment decisions are made effectively 	<p>Advice is provided by Mercer in these areas as and when required.</p> <p>Briefing notes have been provided over the year for example: Mercer thought piece on Efficiencies in the management of LGPS funds (sent in July 2024).</p>	G
<p><u>Committee commentary</u></p>		

Pro Forma Balanced scorecard (6/8)

KEY	
	In line with objectives, no action needed
	Keep under review, includes where action is required but has already been agreed
	Committee to consider taking action

Objective	Mercer Commentary	RAG
Training		
<p>Provide training to Members as required to enable the Pensions Committee to take sufficiently informed investment decisions</p>	<p>Training is provided by Mercer on an ongoing basis especially when new Committees are elected to ensure all are up to speed. This includes a recent training session on the role of Index Linked Gilts in the Fund and a session on asset allocation.</p> <p>When introducing new asset classes, Mercer provides appropriate training.</p> <p>Asset allocation training was provided to the Committee in Q2 2023.</p>	
<p><u>Committee commentary</u></p>		

Pro Forma Balanced scorecard (7/8)

KEY	
	In line with objectives, no action needed
	Keep under review, includes where action is required but has already been agreed
	Committee to consider taking action

Objective	Mercer Commentary	RAG
Proactivity		
<ul style="list-style-type: none"> Advising on new investment opportunities or emerging risks Advise on opportunities to mitigate or transfer risks 	<p>Mercer has proactively advised on new investment opportunities and emerging risks. Recently (in Q2 2024), discussions began on diversifying the Fund's equity portfolio by seeking to address the bias towards the Growth/Quality investment style. Mercer has also highlighted the potential to invest in the LCIV's Global Equity Value Fund.</p> <p>The Committee is kept up to date on market dynamics and how if any this could impact the Fund, such as the UK General Election in July 2024 and the global market volatility briefly observed in August 2024.</p>	G
<p><u>Committee commentary</u></p>		

Pro Forma Balanced scorecard (8/8)

KEY	
	In line with objectives, no action needed
	Keep under review, includes where action is required but has already been agreed
	Committee to consider taking action

Objective	Mercer Commentary	RAG
Relationship Management		
<ul style="list-style-type: none"> Working with the Fund Actuary to undertake asset liability modelling as required Manage potential conflict of interest appropriately Charge fees in line with agreements Maintain appropriate quality and accuracy of work to meet the needs and requirements of the Fund Appropriate management and mitigations of any conflicts of interest 	<p>Mercer works proactively to meet this criteria.</p> <p>Fees are charged in line with the contract.</p> <p>Thorough checks are performed on the investment advice produced to ensure accuracy before it is presented to the Committee.</p> <p>Independent peer review process in place.</p> <p>Mercer works collaboratively with Officers and the independent advisor.</p>	
<p><u>Committee commentary</u></p>		

