



City of Westminster

Pension Board

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| Date: | 27 November 2019 |
| Classification: | General Release |
| Title: | Investment Consultant Aims and Objectives |
| Wards Affected: | None |
| Policy Context: | Effective control over council activities |
| Financial Summary: | There are no immediate financial implications arising from this report. |
| Report of: | Phil Triggs <i>Tri-Borough Director of Treasury and Pensions</i> ptriggs@westminster.gov.uk 020 7641 4136 |

1. Executive Summary

- 1.1 This paper provides the Pension Board with a summary of:
- The requirements of the Competition and Markets Authority (CMA) for the Pension Fund to establish aims and objectives for its investment consultant.
 - The aims and objectives for the Fund's consultant, Deloitte, as agreed by the Pension Fund Committee on 23 October 2019.

2. Recommendations

- 2.1 The Pension Board is requested to note the aims and objectives for the Pension Fund's investment consultant, Deloitte.

3. CMA Findings

- 3.1 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 of concerns expressed around fees and conflicts of interest.

3.2 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”.

3.3 Whilst a number of these are either not relevant to the City of Westminster 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.

3.4 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.

4. Setting Aims and Objectives

4.1 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, to be setting aims and objectives for investment consultants and advisors in order to achieve better outcomes and manage areas of underperformance.

4.2 As the Pension Fund investment consultancy mandate is considerably all encompassing, the aims and objectives need to be fully comprehensive. Below are areas broken down into sub categories:

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 Committee when considering the investment of the Fund's assets.

2. Governance and Costs

- a) Assist the 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 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 Committee up to date with regulatory developments and additional compliance requirements.
- d) The investment consultant has highlighted areas that the 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 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 Committee, Council Officers and other key stakeholders.
- b) Reports and educational material are pitched at the right level, given the Committee's understanding.
- c) Provides training/explanation which aids understanding and improves the 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.

5. Pension Fund Committee Outcome

- 5.1 The Pension Fund Committee agreed to adopt the aims and objectives for the Fund's consultant as set out within this report at the committee meeting dated 23 October 2019. The investment consultant aims and objectives will be reviewed on an annual basis to ensure they remain relevant and fit for purpose.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

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BACKGROUND PAPERS: None

APPENDICES: None