

Report for: Pensions Committee and Board 19 November 2019

Title: Investment Consultant Strategic Objectives

Report authorised by: Jon Warlow, Director of Finance (S151 Officer)

Lead Officer: Thomas Skeen, Head of Pensions, Treasury & Chief Accountant
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Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** Non Key decision

1. Describe the issue under consideration

- 1.1. In order to be compliant with new regulations coming into force on 10 December 2019, the fund must set strategic objectives for its appointed investment consultant, currently Mercer Ltd.

2. Cabinet Member Introduction

- 2.1. Not applicable.

3. Recommendations

- 3.1. That the Pensions Committee and Board approve the strategic objectives for the fund's appointed Investment Consultant drafted in Confidential Appendix 1 to this report.
- 3.2. If the Pensions Committee and Board wish to amend any of these strategic objectives, they delegate authority to the Head of Pensions, in consultation with the Chair of the Pensions Committee and Board and Independent Advisor to the fund, to agree these outside of the meeting with Mercer, including any further additional changes deemed desirable, in order to meet the deadline.

4. Reason for Decision

- 4.1. The Fund must remain compliant with all relevant legislation and regulation, this is a new requirement, which the fund must take action to comply with by 10 December.
- 4.2. The Fund must ensure it takes proper advice on investment matters in order to carry out its role as the Administering Authority for Haringey

LGPS Fund, it does this by having an appointed Investment Consultant.

5. Other options considered

5.1. N/A

6. Background information

6.1. The Competition and Markets Authority (CMA) have recently completed an investigation into fiduciary management and investment consultancy services: 'The Investment Consultancy and Fiduciary Management Market Investigation Order 2019'. A link to this publication is below:

<https://www.gov.uk/government/publications/the-investment-consultancy-and-fiduciary-management-market-investigation-order-2019>

6.2. The Pensions Regulator has produced draft guidance for Funds in how to implement the requirements of the Order. These are not yet finalised, and they are not specific to the LGPS:

<https://www.thepensionsregulator.gov.uk/en/document-library/consultations/draft-guidance-consultation-in-response-to-cma-recommendation>

6.3. The order will come into force from 10 December 2019, and Haringey must be compliant with the parts of this which apply to it by this date. There was initially a lack of clarity as to whether this order would apply to the LGPS at all, however it is understood that one area of the order does apply, and that is 'remedy 7' the requirement to set strategic objectives for investment consultants. The Scheme Advisory Board has produced a briefing note on the Order generally:

<https://lgpsboard.org/images/Guidance/CMASum151019.pdf>

6.4. It is anticipated that the Department for Work and Pensions (DWP) will bring the requirements of the order into legislation in the near future. However, the part of the order which is applicable to the LGPS will be governed by MHCLG, not this DWP legislation.

6.5. The Order deals with the procurement of fiduciary management services, and the requirement to tender investment consultancy services. Both of these parts of the order are understood not to apply to the LGPS. Had they applied, they would not have impacted on Haringey, as the Fund does not use fiduciary management services, and already regularly tenders its Investment Consultancy contract, so it already complies with this requirement. Other LGPS funds do utilise fiduciary management services, and it is understood that some of the LGPS pools offer these services to funds, however they are understood currently to be out of scope for the order.

- 6.6. The 'remedy 7' stipulates that Investment Consultants should be set strategic objectives, and this is a requirement that will apply to Haringey. Haringey must ensure these strategic objectives are in place by 10 December 2019 when the Order comes into force. Whilst the fund has an existing contract in place with its appointed Investment Consultant, the specifications of the existing contract will not satisfy the requirements of the new Order.
- 6.7. It is anticipated that in the future MHCLG may produce guidance for funds on how they are expected to fulfil the requirements of the Order which are applicable. It may, for example, be a requirement that is satisfied by a statement for inclusion within the Fund's Investment Strategy Statement (ISS). MHCLG guidance is not yet published, and a publication date is unknown, so the Fund must therefore approve a set of strategic objectives as an interim measure prior to 10 December, and then take further action if such guidance is published. This further action may be as simple as including the approved strategic objectives within its ISS. The fund will be reviewing its ISS in the near future following the completion of the 2019 Valuation.
- 6.8. Mercer, the fund's current appointed Investment Consultant have written to the fund, with a draft set of strategic objectives. They have acknowledged, however, that they are conflicted in this end, and that the Fund must ultimately set and agree the objectives. These draft objectives have been reviewed and redrafted by the Head of Pensions and Independent Advisor to the fund, and agreed with Mercer (as both parties must agree these). They are included at Confidential Appendix 1 to this report.

7. Contribution to Strategic Outcomes

7.1. None.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance and Procurement

- 8.1. This report details a new regulatory requirement for the fund, with which the fund must comply. This essentially formalises existing arrangements, and will have limited impact on the fund as it already retenders its contract for Investment Consultancy Services on a regular basis. In the future, the strategic objectives set for the Investment Consultant may be included in the tender process when the Investment Consultancy contract is let.

Legal

- 8.2. The Assistant Director for Corporate Governance has been consulted on the content of this report.
- 8.3. The obligation in the Part 7 of the Order is as set out in the report. The Order sets out what the Strategic Objectives means. These are the objectives for the Investment Consultancy Provider's advice as applicable by reference to (a) to (d) of the definition of Investment Consultancy Services, in accordance with the administering authority's investment strategy. This would be applicable where the provider advises the administering authority in relation to one or more of the following:
- (a) investments that may be made or retained by or on behalf of the administering authority;
 - (b) any matters in respect of which the administering authority are required by law to seek advice in relation to the preparation or revision of the statement of investment principles;
 - (c) strategic asset allocation;
 - (d) manager selection.

Equalities

- 8.4. There are no equalities issues arising from this report.

9. Use of Appendices

- 9.1. Confidential Appendix 1 – Draft Strategic Objectives (Pages 157 – 158)

10. Local Government (Access to Information) Act 1985

- 10.1. Not applicable.