



Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	8 December 2020		n/a

Delete as appropriate		Non-exempt
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Appendix 1 attached is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information relating to the financial or business affairs of any particular person (including the authority holding that information).

SUBJECT: REVIEW OF OBJECTIVES SET FOR PROVIDERS OF INVESTMENT CONSULTANCY SERVICES

1. Synopsis

- 1.1 This report updates Members on the performance of the Fund's Investment Consultant, Mercer against the strategic objectives set and agreed at their meeting of 3rd December 2019 for our Investment Consultancy providers in accordance with the requirements of the Investment Consultancy and Fiduciary Management Market Investigation Order 2019 (the 'Order').

2. Recommendations

- 2.1 To note that the legal requirement for trustees of occupational pensions (including LGPS) to set strategic objectives for investment consultancy providers, came into effect from 10 December 2019
- 2.2 To note the objectives and agree the performance rating of our investment consultancy provider as set out in Exempt Appendix 1
- 2.3 To agree to review these objectives at least annually and / or where there is a change in the fund's requirements.

- 2.4 To delegate to the Corporate Director of Resources, in consultation with the Acting Director of Law and Governance, authority to submit an annual compliance statement confirming compliance with Part 7 of the Order. The first statement must be submitted to the CMA by 7 January 2021 covering the period 10 December 2019 to 9 December 2020.

3. Background

- 3.1 The Pensions Regulator (TPR) is the UK regulator of occupational pension schemes. They are a non-departmental public body established under the Pensions Act 2004. Their sponsoring body is the Department for Work and Pensions (DWP) and Parliament sets the legislative and regulatory framework within which they work.
- 3.2 Following an investigation into the investment consultancy and fiduciary management market, the Competition and Markets Authority (CMA) introduced new duties for trustees and managers of occupational pension schemes, that took effect from 10 December 2019.
- 3.3 It appears that the only Remedy applicable to the LGPS is the requirement for Administering Authorities to set strategic objectives for their IC provider. Whilst we await the MHCLG guidance and legislation, the TPR 's consultation on guidance contained roles of an investment consultant and a case study of a pension fund setting objectives and agreeing a performance monitoring scorecard. The link to the full consultation is <https://www.thepensionsregulator.gov.uk/en/document-library/consultations/draft-guidance-consultation-in-response-to-cma-recommendation>
- 3.4 Members considered and agreed a set of strategic objectives for their IC Provider at their 3 December 2019 meeting. Members also agreed to review the objectives at least annually and or where there is a change in the Funds requirements.
- 3.5 **Performance**
Exempt Appendix 1 attached, details the Fund requirements and objectives set for the investment consultant provider Mercer, against which the consultant's performance has been assessed and reviewed. A commentary has been assigned to each strategic objective and then rated from excellent to poor. Mercers' ratings are from excellent to good reflecting the high standard of service received over the year.
- 3.6 Members are asked to consider whether the objectives still meet the fund requirements or should be amended and to review and agree the performance ratings.
- 3.7 The CMA Order includes a requirement for LGPS funds to submit an annual compliance statement confirming compliance with Part 7. The first statement must be submitted to the CMA by 7 January 2021 covering the period 10 December 2019 to 9 December 2020. Members are asked to delegate authority to the Corporate Director of Resources, in consultation with the Acting Director of Law and Governance to submit the compliance statement.

4. Implications

4.1 Financial implications

None applicable to this report. Financial implications will be included in each report to the Pensions Sub-Committee as necessary.

4.2 **Legal Implications**

On 10th June 2019, the Competition and Market's Authority (CMA) made the Investment Consultancy and Fiduciary Management Market Investigation Order 2019 placing new obligations on service providers and pension scheme trustees with regard to Fiduciary Management (FM) and Investment Consultancy (IC) Services. The Order implements the CMA's recommended remedy 1 (tendering for FM services) in Part 3 and remedy 7 (Setting objectives for IC) in Part 7 which came into force on 10 December 2019.

4.3 IC Services are defined as the provision of advice:

- on investments that may be made or retained;
- in relation to the preparation or revision of the statement of investment principles;
- on strategic asset allocation; and
- on manager selection.

However, IC Services do not extend to the high-level commentary provided by the scheme actuary in or in respect of triennial valuation reports and with regard to the link between the investment approach and the pension scheme's funding objectives.

4.4 Under Part 7, the council may not enter into a contract with an investment consultancy provider or the provision of IC Services or continue to receive such services from an existing provider unless it has set Strategic Objectives for the provider. Strategic Objectives are objectives for the provider's advice by reference to the four areas in paragraph 4.3 above in accordance with the council's pension investment strategy.

4.5 Article 12 of the Order requires the council to set Strategic Objectives for Mercers, its Investment Consultancy provider applicable to its advice regarding the matters set out in paragraphs 4.3 above. The council is required to submit a Compliance Statement to the CMA by 7 January 2021 confirming that this requirement has been complied with during the year commencing 10 December 2019 (Article 15).

4.6 **Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:**

None applicable to this report. Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is

<https://www.islington.gov.uk/~media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf>

4.7 **Resident Impact Assessment:**

