

## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Pension Fund Panel and Board
<b>Date:</b>	13 December 2019
<b>Title:</b>	Competition and Markets Authority (CMA) Order – Investment Consultancy
<b>Report From:</b>	<i>Director of Corporate Resources – Corporate Services</i>

**Contact name:** Andrew Bouflower

**Tel:** 01962 847407

**Email:** andrew.bouflower@hants.gov.uk

#### **Purpose of this Report**

1. This paper provides the Pension Fund Panel and Board with a summary of the requirements of the CMA for the Pension Fund to establish aims and objectives for its investment consultant and recommended aims and objectives for the Fund's consultants, Hymans Robertson and MJ Hudson Allenbridge.

#### **Recommendations**

2. That the strategic objectives for investment consultants show in paragraph 7 are approved.

#### **Background**

3. The CMA investigated the investment consultancy and fiduciary management market following a referral made by the Financial Conduct Authority (FCA) in September 2017. The CMA published its final report in December 2018 and concluded that there was an adverse effect on competition in the investment consultancy and fiduciary management market. It found low levels of engagement by trustees when choosing and monitoring their investment consultant and low levels of tendering when first moving into fiduciary management.
4. The final report set out a number of remedies to improve the information that investment consultants and fiduciary managers provide trustees on fees and performance and to facilitate trustee engagement when tendering for

services and assessing the performance and quality of service of their providers. These remedies apply to trustees and providers of investment consultancy and fiduciary management services. The specific remedies that apply to trustees are as follows:

- Remedy 1: Requirement to tender for fiduciary management services when 20% or more of scheme assets are delegated.
  - Remedy 7: Requirement to set strategic objectives for providers of investment consultancy services.
5. The CMA has introduced the remedies via the Order, which was published on 10 June 2019 and the duties that apply to trustees will take effect from December 2019. After clarification it has been confirmed that whilst the findings and order relating to fiduciary management do not apply to the LGPS, the requirement to set objectives for investment consultants does.

### **Strategic objectives for the Pension Fund's investment consultants**

6. The following strategic objectives are recommended for the Pension Fund's investment consultants; Hymans Robertson and MJ Hudson Allenbridge, both of whom the Pension Fund has contracted with following tender processes compliant with the Public Procurement Regulations. The CMA's requirements do not apply to the Pension Fund's independent advisor, or Link as the Operator for the ACCESS pool, neither of which provide regulated fiduciary services or investment advice.
7. The following aims and objections have been shared and discussed with both Hymans Robertson and MJ Hudson Allenbridge who have confirmed that they are appropriate.

#### *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, beliefs, capacity and circumstances, such as funding level, with specific reference to improving the efficiency of the investment strategy in terms of risk adjusted returns and the ongoing pooling of investments through ACCESS.
- b) The investment consultant has an appropriate framework in place to recognise opportunities to reduce risk and will make recommendations where it has a high degree of confidence in achieving the objective after fees over a market cycle.

- c) The investment consultant undertakes specific tasks such as advice on the selection/retention of new/existing investment managers/asset classes, review of the strategic asset allocation, setting investment objectives, use of transition management services and responsible investment as commissioned.
- d) Recognition of the dynamism of investment markets, recognising opportunities to crystallise gains or emerging risks which require immediate attention.

#### *Governance and Costs*

- a) Cost implications, both in terms of investment management expenses and implementation costs, are considered as part of investment strategy advice including assessing investment returns on a net of fees basis and where applicable the continued merits of active management are demonstrable.
- b) 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.
- c) The advice provided by the consultant is objective and any conflicts of interest are highlighted in advance.
- d) The investment consultant has ensured that their advice and the Pension Fund's investments are in accordance with the current regulatory and compliance requirements relevant for the LGPS, including the Pension Fund's own Investment Strategy Statement.

#### *Delivery*

- a) The investment consultant has formed a strong working relationship throughout their work as appropriate 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.
- g) The investment consultant is generally available for consultation on fund investment matters.

**REQUIRED CORPORATE AND LEGAL INFORMATION:****Links to the Strategic Plan**

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	No
<b>People in Hampshire live safe, healthy and independent lives:</b>	No
<b>People in Hampshire enjoy a rich and diverse environment:</b>	No
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	No
<b>OR</b>	
<b>This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because:</b> For the ongoing management of the Hampshire Pension Fund.	

**Section 100 D - Local Government Act 1972 - background documents**

**The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)**

DocumentLocation

None

## **EQUALITIES IMPACT ASSESSMENT:**

### **1. Equality Duty**

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

### **2. Equalities Impact Assessment:**

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.