

Report of the Section 151 Officer

Pension Fund Committee - 7 December 2016

INVESTMENT CONSULTANCY

Purpose:	To approve the procurement and appointment of an investment consultant to the City & County of Swansea Pension Fund.
Reason for Decision:	To ensure the Pension Fund is appropriately advised.
Consultation:	Legal, Finance and Access to Services.
Recommendation:	It is recommended that the revised investment advice arrangements in outlined in 4.5 be approved.
Report Author:	J Dong
Finance Officer:	M Hawes
Legal Officer:	S Williams
Access to Services Officer:	S Hopkins

1 Introduction

1.1 The pension fund is required to have considered appropriate professional advice before undertaking its decisions (investment or otherwise) and has for a long period engaged professional independent consultants for that purpose. The advisors' retained have provided:

- Strategic investment advice
- Strategic asset allocation advice
- Fund manager Selection advice
- Fund manager monitoring
- Market Commentary
- Appraisal of investment opportunities
- Market Intelligence

1.2 The independent advisors retained were/are

Mr D Ives 1996- 2007

Mr V Furniss 2007- present

Mr N Mills 2007- present

2 The Evolving LGPS Governance Landscape

2.1 Since 2014, The Pension Regulator tPR now has responsibility for the professional oversight of the Local Government Pension Scheme (LGPS) alongside corporate pension schemes.

- 2.2 The LGPS now has to consider and adopt tPR Code of Practice which encompasses additional governance and reporting burdens on LGPS funds.
- 2.3 The revised Investment management regulations are due to be implemented this Autumn which in their draft form require each fund to have in place a fund policy on environmental social governance (ESG) issues and to have a fully revised investment strategy statement (ISS).

3 All Wales Pool

- 3.1 The Pension Fund Committee has been well briefed on the pending changes in the way in which the majority of the fund's assets are envisaged to be managed from 2018 onwards via an All Wales Investment Pool.
- 3.2 The Pension Fund Committee shall retain investment strategy and asset allocation decision making responsibilities, however it is envisaged that a lot of manager selection, oversight and monitoring shall be undertaken by the pool operator. There will be a subtle change in emphasis on the role of the pension fund committee, now being able to focus on investment strategy and asset allocation and broad policy around things such as ESG and investment beliefs. There will also be increased interaction with tPR, the Local Pension Board, the All Wales Pool and additional training requirements thereof.

4 Investment Consultancy

- 4.1 The services of the independent investment advisors have served the fund well to date, however with the additional burdens and changing landscape outlined above, it is considered appropriate to review the advisory requirements required to take the work of the pension committee going forward.
- 4.2 LGPS funds usually engage the services of an independent advisor (as Dyfed do) or an investment consultancy (as e.g. Gwynedd do) whilst some LGPS funds engage the services of both (Clwyd and Torfaen). The thinking behind having 2 views ensures healthy debate and challenge to investment decisions.
- 4.3 An investment consultancy (e.g. Aon, Mercers, Hymans, JLT) offers the additional resource, research capability, market intelligence and professional support that an independent advisor alone cannot.
- 4.4 There are merits in all of the approaches, however at this juncture of the fund's timeline and future aspirations of the pension fund committee, it is recommended to augment current arrangements by retaining the services of an investment consultancy to support the role of the pension fund committee going forward in the areas of :
- Establishing the fund's investment beliefs
 - Reviewing the investment strategy in light of the same and the 2016 Valuation
 - Reviewing the asset allocation in light of the same and the 2016 valuation
 - Develop Environmental, Social, Governance Policy
 - Ensuring compliance with tPR
 - Ensuring compliance with Investment management regulations

- Pool Operator monitoring
- Pool Operator oversight
- Trustee training

4.5 The proposal is to engage an investment consultancy immediately to work alongside existing independent investment advisors to enable appropriate handover, with a view to reducing the number of independent advisors from 2 to 1 in the interim ahead of the implementation of the All Wales Pool in April 2018. It is recommended to retain the services of one of the current independent investment advisors to ensure continuity and appropriate audit and tenure with the current and legacy investment strategy and arrangements and provide appropriate challenge and counterpoint to any given views/recommendation. The new permanent arrangements shall be :

- 1x Independent Investment Advisor
- 1x Investment Consultancy

being in place ahead of the All Wales Pool becoming operational in April 2018.

5 Procurement

It is proposed to use the LGPS National Framework for investment consultants to publicly tender for the investment consultant services.

6 Financial Implications

6.1 The costs for independent investment advice is currently £43k p.a. which shall be halved. The cost for retaining an investment consultancy will be in the region of £50k -£100k p.a subject to tender.

7 Legal Implications

7.1 The relevant procurement legal framework shall be followed and respective governance/constitutional documentation revised accordingly.

8 Equality Impact Implications

8.1 There are no equality impact implications arising from this report.