

## Investment Consultant Objectives

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Prepared for: London Borough of Harrow Pension Fund Committee  
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# CMA Order - Setting Investment Consultant Objectives

## Introduction

This paper is addressed to the London Borough of Harrow Pension Fund Committee ("the Committee"), in relation to the London Borough of Harrow Pension Fund ("the Fund").

It sets out potential Investment Consultant Objectives for the Committee to adopt for Aon, following new duties introduced by the Competition and Markets Authority ("CMA").

## CMA Order

On 10 June 2019, the CMA introduced new duties for trustees via an Order which takes effect from **10 December 2019**. This Order aims to address several problems that the CMA found as part of its Investment Consultancy and Fiduciary Management Market Investigation, including:

1. Low levels of engagement by trustees when choosing and monitoring their Investment Consultant.
2. Difficulties for trustees in accessing and assessing the quality of their existing Investment Consultant.

This paper focuses on one of the newly introduced duties: **for trustees to set objectives for its Investment Consultant ("IC")**. This duty applies to all trustees of either DB or DC occupational pension schemes based in the UK.

**Although the CMA Order refers to trustees, the Order is also applicable to the Local Government Pension Scheme ("LGPS").**

## DWP and tPR consultations

The CMA Order is expected to be passed into pension law by the Department for Work and Pensions ("DWP"). The DWP has run a consultation process on the planned regulations which concluded on 2 September (the results of which are yet to be confirmed).

Whilst the DWP regulations will not apply to LGPS, it is expected that similar regulations will be adopted by the Ministry for Housing, Communities and Local Government ("MHCLG") in due course.

Once passed into law, the Pensions Regulator ("tPR") will be able to oversee the new duties on trustees. It is currently expected that this will confirm the following requirements for trustees:

- Set objectives for their IC service.
- Review the performance of each IC provider at least every 12 months.

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- Review the objectives themselves at least every 3 years, and without delay following any significant change in investment policy.

There has also been a consultation by tPR regarding its guidance for trustees on "Setting objectives for providers of investment consultancy services". This consultation is finished on 11 September.

We have taken account of both sets of consultation (and draft tPR guidance) in our advice on setting IC objectives.

## **Committee Objectives**

We have outlined below some example objectives which may be a useful starting point for discussion. These are based on the Committee's current investment strategy, objectives and governance framework and have been divided into broad categories to help identify the services which are provided.

These objectives should be tailored to ensure that they are appropriate for the IC services that are received or required.

## **Reviewing the objectives and setting a framework**

Once the objectives themselves have been agreed, consideration of how to assess them on an annual basis will be needed.

For example, the objectives could be set against a relatively simple assessment methodology ('yes/no' or a RAG (Red, Amber, Green) approach) or the Committee may wish to consider defining a different marking/scoring approach in due course.

We acknowledge that the Committee is currently undertaking a review of the Fund's investment strategy and this may influence some of the objectives in the future.

## **1 Strategy**

- The IC, Aon, will help the Committee formulate and understand their collective investment beliefs.
- The IC will support the Committee in determining the composition of the strategic asset allocation and will help the Committee build a suitably diversified portfolio to meet its investment objectives.
- The IC will support the Committee with respect Responsible Investment (RI) and Stewardship matters.

## **2 Implementation**

- The IC will work alongside Members, Officers and the London CIV to develop / provide suitable investment solutions for the Fund.
- The IC will assist the Members and Officers with understanding the offerings provided by the London CIV.
- Where required, the IC will support the Officers with any asset transitions and help to effectively plan for, and mitigate, the key risks associated with transitioning assets (e.g. out of market risk).

### 3 Monitoring

- The IC will keep the Members and Officers updated, on a timely basis, of any material developments with any of the Fund's investment managers held outside the London CIV.
- The IC will provide sufficient, clear and accurate monitoring of the Fund's asset allocation vs. strategic target and provide advice on rebalancing where appropriate.

### 4 Compliance and regulation

- The IC will provide advice on the appropriate changes to the Fund's Investment Strategy Statement following any changes to Investment Strategy (or at least once every three years).
- The IC will keep the Members and Officers informed of any changes to relevant legislation and meet the Committee's investment training requirements. This should include any best practice initiatives.

### 5 Client servicing and relationship management

- The IC will produce investment reports, briefing papers and investment advice in good time ahead of Committee meetings.
- The IC will respond to email requests and voicemails on a timely basis.
- The IC will provide advice in a clear and concise manner, limiting the use of jargon and ensuring that the Members and Officers understand the key messages.

#### Next Steps

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The intention was originally for the objectives to be discussed and agreed at the 26 November 2019 Committee meeting, in order to meet the 10 December 2019 deadline. However, as this meeting was postponed, discussions will now take place at the re-arranged Committee meeting on 18 December 2019.

We will confirm later in the year if there are any changes to the requirements following the completion of the various consultations.

The method for confirming compliance with the new duties will also be confirmed once the MHCLG has passed the duties into law.

We welcome the opportunity to discuss these objectives with the Committee at the 18 December 2019 meeting.

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