

CMA objectives for best practice investment governance

Scope of paper

This note is addressed to the Officers and Pension Committee of the London Borough of Hackney Pension Fund (“the Fund”).

In December 2018, the Competition and Markets Authority (“CMA”) published its report following a review of the investment consulting and fiduciary management markets.

The Competition and Markets Authority’s Order issued in June 2019 sets out requirements for pension scheme trustees to establish (measurable) objectives for their investment consultants, which should be underpinned by trustees’ longer term vision and objectives. We are awaiting further details from the Ministry for Housing, Communities and Local Government (“MHCLG”) on how the CMA’s requirements will be translated into LGPS regulations.

We are supportive of the new requirements, and believe that setting objectives linked to the Fund’s longer term objectives, represents best practice in terms of overall pension scheme governance.

The CMA requirements stipulate that committees should set objectives for their investment consultants prior to appointment, or by 10 December 2019.

The purpose of this note is to propose some potential objectives for you to set us in our capacity as investment consultants to the Fund. We have prepared a separate guide setting out the requirements and considerations for setting objectives in more detail.

Basis of proposed wording

We have based the proposed objectives set out in this paper on the Fund’s implied objectives reflecting your current approach.

Next steps

- Consider the proposed objectives to set us in our capacity as investment consultants and share any comments and feedback on these;
- Establish a final set of objectives by no later than 10 December 2019.

In the following section we have considered your long term vision and strategic objectives as implied from the current investment approach, and set out objectives against which you may wish to assess Hymans Robertson for discussion.

In addition to the above, we have included some objectives relating to our overall service delivery.

We look forward to discussing the content of this paper with you at your forthcoming meeting.

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For and on behalf of Hymans Robertson LLP

Your requirements	Our objectives
Ensure members' benefits are met as they fall due.	Advise on a suitable investment strategy, and amendments to the strategy, to deliver the required investment returns from the Fund's investments to support progress towards a long term steady state of funding
Support a long term funding approach that is consistent with a stable and affordable contribution approach from the employers.	Deliver an investment approach that reflects the Fund's cashflow position, and likely evolution, and minimises the risk of forced disinvestment
Support a long term funding aim to be fully funded by 2031 on an ongoing basis of 1.65% over gilts and to continue maintaining this funding level going forward.	Advise on the cost efficient implementation of the Fund's investment strategy as required, including advice on the use of suitable benchmarks, active or passive management, and taking into account the evolution of the London CIV.
Ensure the Fund's approach is aligned with the objectives of pooling and associated guidance	Provide advice on the suitability of investment managers and regular reporting to allow the Committee to monitor the success of the investment strategy
Ensure cost efficient implementation of the Fund's investment strategy	Ensure our advice complies with relevant pensions regulations, legislation and supporting guidance, and is consistent with the Committee's policies and beliefs
Ensure the Fund's approach reflects relevant regulatory and legislative requirements	Develop the Committee's policies and beliefs, including those in relation to Responsible Investment.
Develop the Committee's Responsible Investment policy and ensure this is reflected in ongoing governance and decision making processes	Advise on suitable investment options to reduce fossil fuel exposure in the portfolio
Reduce the Fund's exposure to fossil fuels by 50% over six years to July 2022	Provide relevant and timely advice
Ensure the Fund's investment objectives are supported by an effective governance framework	Develop knowledge and understanding of investment matters
	Our services to support your ongoing governance shall be proportionate and competitive in terms of costs relative to our peer group