

Assessing performance against CMA objectives for investment consultants

Addressee

This paper is addressed to the Officers and Pensions Committee (the “Committee”) of the London Borough of Hackney as Administering Authority of the London Borough of Hackney Pension Fund (“the Fund”). The purpose of this paper is to set out the next steps in the requirement to set objectives and assess Hymans Robertson, as investment consultant to the Fund, against the objectives set in 2019 following the publication of the Competition and Markets Authority (“CMA”) final order, relating to their review of investment consulting and fiduciary management markets.

This paper should not be disclosed to any third parties without our prior written permission. We accept no liability to any third party relying on the advice or recommendations in this paper.

Background and scope

In June 2019, the CMA published its final order following a review of the investment consulting and fiduciary management markets. The order made it a regulatory requirement for pension scheme trustees (including pension committees within the LGPS) to set objectives for their investment consultants.

We have summarised the key points below:

- Since 10 December 2019 pension scheme **trustees must set strategic objectives for their investment consultants** before they enter into a contract or continue to receive services from them. The Fund has set and agreed objectives for Hymans Robertson, which are set out in Appendix 1.
- Pension scheme **trustees must submit ‘compliance statements’** stating that they have complied with the above requirement. These need to be submitted between 10 December 2020 and 7 January 2021 and annually thereafter. The format of the compliance statement is a short statement which is stipulated in the CMA order. We have attached separately a draft compliance statement. A scanned copy of a signed statement will need to be submitted by email to this address: RemediesMonitoringTeam@cma.gov.uk.
- At some point the Department for Work and Pensions (“DWP”) will amend current legislation so that the CMA requirements become part of pensions law (and will then be overseen by The Pensions Regulator). [The DWP’s consultation regarding draft regulations](#) closed on 02 September 2019 and an update from the DWP is not expected until after the first quarter of 2021 at the earliest. Until then the CMA rules apply. 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.
- The CMA order only requires trustees to confirm that they have complied with the requirements over the last 12 months and had objectives in place, however reviewing our performance against the objectives which the Trustee has set is part of ongoing good governance.
- This is in line with [guidance](#) from The Pensions Regulator (“TPR”) which suggests performance is monitored annually, with a detailed look every three years. TPR also suggests checking that objectives are still appropriate at least every three years.

Assessing performance against objectives

In this updated paper we have set out the objectives agreed last year alongside evidence for discussion against which we can be assessed as your investment consultant.

There is no 'one size fits all' approach to performance assessment and the format of the assessment should be considered to address what the Committee finds most effective. For example, whether the review takes place as a discussion or as a questionnaire to be completed on an individual basis.

As part of the ongoing assessment cycle, the output from the performance assessment, any feedback sessions and agreed actions should be well-documented.

Looking back

Key areas of focus that we have worked with you on over the past 12 months have included:

- A review the Fund's Investment Beliefs, considering the 17 UN Sustainable Investment Beliefs.
- Modelling of the Fund's assets and liabilities was carried out, covering the Fund's current strategic asset allocation to Growth, Income and Protection assets. These were compared with a range of alternative allocations to compare the probability of success of reaching full funding relative to alternative allocations within the Committee's target investment horizon
- A review of the investment strategy which sets out our recommendation to the Committee on the Fund's longer-term strategic asset allocation as well as providing advice on the recommended changes to the Fund's investment.
- A review of the Committee's past investment decisions and an assessment of how these had impacted the Fund's position relative to its objectives.

Looking forward

There are several areas which we look forward to working with you on over 2021. One of the most significant matters is the agreement and implementation of the Fund's new long-term strategic asset allocation which will involve:

- A review of the Fund's Growth and income mandates and currency hedging strategy
- Progressing the agreed investments in infrastructure and alternative credit investments
- Further development of the Fund's Responsible Investment beliefs and considerations of implementation and governance solutions

Next steps

- Consider the evidence we've presented in our self-assessment and share any comments or questions on this;
- Document your review of our performance relative to the agreed objectives; and
- Report your compliance relative to the CMA's requirements to the CMA by 7 January 2021.

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For and on behalf of Hymans Robertson LLP

December 2020

Appendix 1 – Investment consulting objectives

Your requirements	Our objectives	Evidence
<p>Ensure members' benefits are met as they fall due.</p> <p>Support a long term funding approach that is consistent with a stable and affordable contribution approach from the employers.</p>	<p>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</p> <p>Deliver an investment approach that reflects the Fund's cashflow position, and likely evolution, and minimises the risk of forced disinvestment</p>	<ul style="list-style-type: none"> Over the calendar year to 30 September 2020 the funding level change was -7.8% on an ongoing basis and the Scheme's deficit increased from c£278m to c£305m. The falls were largely attributed to the impact of Covid-19 on the markets. During the year we carried out modelling of the assets and liabilities of the Fund to assess whether the contribution rate remains sufficient and whether the Fund's allocation to Growth, Income and Protection assets remains suitable for reaching full funding within the Fund's target date. We concluded that the current contribution rate was appropriate and that marginal improvements could be made to the Fund's asset allocation to increase the probability of reaching full funding over the target time horizon.
<p>Ensure the Fund's approach is aligned with the objectives of pooling and associated guidance</p> <p>Ensure cost efficient implementation of the Fund's investment strategy</p>	<p>Advise on the cost efficient implementation of the Fund's investment strategy as required, including advice on the use of suitable benchmark's, active or passive management, and taking into account the evolution of the London CIV.</p> <p>Provide advice on the suitability of investment managers and regular reporting to allow the Committee to monitor the success of the investment strategy</p>	<ul style="list-style-type: none"> During the year we presented to the Committee a strategy review paper which included a deep dive review of the Fund's current investments as well as our recommendations for including alternative mandates which may be more suitable. The strategy review took into consideration the Committee's investment beliefs and objectives such as incorporating its SDG/RI goals and looking to migrate its investments to utilise pooling options via the London CIV. Manager performance is reviewed quarterly with any manager concerns raised with the Committee. Performance from actively managed funds has been mixed over the year, although those that have underperformed have been highlighted with deep dive reviews carried out. A decision paper was also provided to show the results of the Committee's investment decisions over the past 10years.

<p>Ensure the Fund's approach reflects relevant regulatory and legislative requirements</p> <p>Develop the Committee's Responsible Investment policy and ensure this is reflected in ongoing governance and decision-making processes</p> <p>Reduce the Fund's exposure to fossil fuels by 50% over six years to July 2022</p>	<p>Ensure our advice complies with relevant pensions regulations, legislation and supporting guidance, and is consistent with the Committee's policies and beliefs</p> <p>Develop the Committee's policies and beliefs, including those in relation to Responsible Investment.</p> <p>Advise on suitable investment options to reduce fossil fuel exposure in the portfolio</p>	<ul style="list-style-type: none"> • A review of the Fund's beliefs regarding the UN Sustainable Development Goals was carried out over the year whereby it was established that the Committee broadly agreed with the 17 UN Sustainable Development Goals however wished to focus predominately on the issues such as tackling climate change. • Along with our assessment for the Fund's asset and liability modelling, we had also presented the Committee our climate change scenario analysis to highlight some of the key issues the Fund may face. • As part of the Fund's strategy review we recommended that the Committee adopt a more global (decreasing UK allocation) approach to equity investing, including increasing holdings in mandates that invest in more sustainable companies with a wider global set of investment opportunities which can help decarbonise the Fund's holdings.
<p>Ensure the Fund's investment objectives are supported by an effective governance framework</p>	<p>Provide relevant and timely advice</p> <p>Develop knowledge and understanding of investment matters</p> <p>Our services to support your ongoing governance shall be proportionate and competitive in terms of costs relative to our peer group</p>	<ul style="list-style-type: none"> • In July 2020 we reviewed the Fund's investment beliefs with the Committee to ensure a clear and transparent framework was in place for setting the investment strategy for the Fund. The review focussed on the Committees' Fund specific beliefs, portfolio management beliefs and ESG beliefs. Upon review the Committee had agreed to the updated beliefs in September 2020. • Over the year we have provided periodic reviews on our capital markets outlook and investment perspectives to keep the ensure the Committee are updated on ongoing events in the markets. • We provided the Committee with an asset class review paper focussed predominately on the assets that the Fund invests in whilst also broadly reviewing alternative asset classes the Committee have expresses interest in (such as infrastructure).