

**REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES**

<b>CMA Order - Review of Investment Consultants Objectives</b>  <b>Pensions Committee</b> <b>23rd November 2021</b>	<b>Classification</b> <b>PUBLIC</b>	<b>Enclosures</b> <b>One</b>  <b>AGENDA ITEM NO.</b>  <b>8</b>
	<b>Ward(s) affected</b>  <b>ALL</b>	

**1. INTRODUCTION**

- 1.1 Under Remedy 7 of the Competition and Markets Authority’s (CMA) Investment Consultancy and Fiduciary Management Market Investigation Order 2019, the Fund is required to set objectives for its investment advisers and then on an annual basis assess the advisers against those objectives. It is required to formally assess the advisers against the set objectives and submit a compliance statement annually by 7th January showing that it has complied with the requirements of the Order.
- 1.2 This report sets out a suggested set of updated objectives to be used for the formal assessment that will be presented to the January 2022 Committee ahead of the submission of the Compliance Statement

**2. RECOMMENDATIONS**

- 2.1 **The Pensions Committee is recommended to:**
  - **Agree the objectives, as set out in Appendix 1, by which the Fund’s Investment Advisers will be assessed against for 2021**
  - **Note that Members will be asked to approve a submission to the CMA in line with requirements setting out the Fund’s assessment against the set objectives, at the January 2022 meeting**

**3. RELATED DECISIONS**

- 3.1 Setting of objectives for the Fund Investment Consultant - December 2019
- 3.2 Investment Consultancy Compliance Statement - January 2021

**4. COMMENTS OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES**

- 4.1 The CMA Order is intended to help address competition issues within the investment consultancy and fiduciary management markets. Although the Fund does not currently make use of a fiduciary manager, it does use an investment consultant to fulfil its obligation under the LGPS (Management and

Investment of Funds) Regulations 2016 to obtain proper advice.

- 4.2 The Fund should benefit from the CMA Order either directly, through clarifying and strengthening the requirements for its investment consultant, and indirectly via improved competition within the investment consultancy market and lower possibly lower fees.
- 4.3 This report sets out suggested objectives against which our current investment advisers will be assessed in respect of 2021.
- 4.4 There are no immediate financial implications arising from this report

## **5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE SERVICES**

- 5.1 LGPS administering authorities must set strategic objectives for investment consultants according to the CMA Order published in June 2019. The Committee is required to confirm on an annual basis that it has complied with the requirements of the Order. The statutory deadline for the submission of the annual statement is 7th January, however, the Fund will request a short extension to this date in order that the January Committee can consider the statement.
- 5.2 The Pensions Committee's Terms of Reference state that one of the Committee's functions is 'To make arrangements for the appointment of and to appoint suitably qualified pension fund administrators, actuaries, advisers, investment managers and custodians and periodically to review those arrangements'. Given this role in appointing and reviewing the Fund's investment consultant, the setting of objectives for the consultant and subsequent monitoring against them would appear to properly fall within the Pensions Committee's remit.

## **6. BACKGROUND TO THE REPORT**

- 6.1 In September 2017, the Financial Conduct Authority (FCA) requested that the Competition and Markets Authority (CMA) carry out a market investigation of the supply and acquisition of investment consultancy services and fiduciary management services to and by institutional investors and employers in the UK. 2. The CMA published its report (Investment Consultants Market Investigation Final Report) on the matter in December 2018.
- 6.2 In the report, the CMA found that both the investment consultancy and fiduciary markets had features that restricted or distorted competition and that the CMA ought to take action to remedy, mitigate or prevent these issues. A draft order was issued in early 2019 with the final order being issued in June 2019. The Order placed new obligations on service providers and pension schemes with regard to fiduciary management and investment consultancy Services.
- 6.3 On 15th October 2019, the LGPS Scheme Advisory Board published an

update on the CMA order stating that, following clarification from the DWP and MHCLG, amendments to MHCLG's Investment Strategy Statement statutory guidance would eventually implement remedy 7 (obligation to set strategic objectives for Investment Consultants).

- 6.4 The requirements of remedy 7 are set out in Part 7 of the Order which came into force from 10th December 2019. These stated that unless LGPS authorities set strategic objectives for their investment consultants they must not *“enter into a contract with an Investment Consultancy Provider for the provision of Investment Consultancy Services or continue to obtain Investment Consultancy Services from an Investment Consultancy Provider.”*
- 6.5 LGPS authorities are obliged to implement strategic objectives in line with the revised statutory guidance.
- 6.6 Officers of the Fund have worked together with Hymans Robertson and its Benefits and Governance Advisers, Aon, to develop an updated suggested set of objectives, for consideration and agreement by the Committee.
- 6.7 The fund is required to certify that it has complied with the order on an annual basis by submitting a compliance statement to the CMA by 7th January each year. Following the agreement of the objectives, officers will work with Hymans to provide evidence and an assessment of their work during 2021 against those objectives in order that such a statement can be produced and considered by the Committee at its January meeting.
- 6.8 It should be noted that the January meeting does not take place until 20th January and therefore officers will request a short extension to the deadline for the submission of the compliance statement, similar to that requested in relation to the 2020 submission.

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**Appendices**

Appendix 1 - Draft CMA Investment Adviser Objectives