

Committee(s): Pensions Committee	Dated: 19 March 2024
Subject: Investment Consultant Strategic Objectives - Annual Review	Public
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	ALL
Does this proposal require extra revenue and/or capital spending?	N/A
If so, how much?	£
What is the source of Funding?	N/A
N/A	Y/N
Report of: The Chamberlain	For Decision
Report author: Amanda Luk, Chamberlain's	

Summary

This report updates the Pensions Committee on the performance of the Fund's Consultant, Mercer Ltd (Mercer) against the aims and objectives set and approved at the Financial Investment Board (FIB) (prior to the establishment of the Pensions Committee, who first met on 11 July 2022) and which forms part of the Investment Consultant contract.

Recommendation

Members are asked to approve the Investment Consultant Review for 2023 and delegate authority to the Chamberlain to sign the Compliance Statement.

Main Report

Background

1. In November 2019, FIB (prior to the establishment of the Pensions Committee, who first met on 11 July 2022) received a report on the implications of the Competition and Market Authority's (CMA) *Investment Consultancy and Fiduciary Management Market Investigation Order 2019 (the "Order")*. The Order came into force on 10 December 2019. Whilst the Local Government Pension Scheme (LGPS) was largely out of scope for much of the Order, following clarification from the Government and the Scheme Advisory Board (SAB), it was established that one obligation – "Part 7" did apply. This required administrative authorities of the LGPS, such as the City of London Corporation, to set strategic objectives for its Investment Consultants.
2. Members agreed seven strategic objectives noting that these applied to the investment consultancy services delivered in respect of the City of London Pension Fund. The objectives agreed by FIB are set out in Appendix 1.
3. In 2022, the CMA order requirements were brought into legislation by the Department of Work and Pensions (DWP) under Part 6, Chapter 3 of *The Occupational Pension*

Schemes (Scheme Administration) regulations 1996 (the scheme administration regulations) and the regulation of the obligations transferred from the CMA to the Pensions Regulator (tPR).

Performance

4. In line with best practice, the performance of the investment consultant against the objectives should be reviewed on an annual basis and the objectives updated at least every three years or where there has been a material change in the investment approach.
5. Appendix 2 details the objectives and aims for the investment consultant, Mercer, against which the consultant's performance has been assessed and reviewed for the year to 31 December 2023. Each objective has been assigned a rating.
6. The review of Mercer's performance over the last year was undertaken by Officers in conjunction with Mercer on 6 February 2024. Mercer have performed well over the past year with all aims and objectives achieved to at least a satisfactory standard. Officers are pleased with the work produced by the consultant.

Compliance Statement

7. The CMA order previously included a requirement for LGPS funds to submit an annual compliance statement confirming compliance with "Part 7". Under the scheme administration regulations, this is no longer a requirement, however compliance should be documented as a matter of good practice. A draft compliance statement is set out in Appendix 3.

Conclusion

8. Officers, in conjunction with Mercer, completed the review of Mercer's performance against the aims and objectives set and approved at the Financial Investment Board (FIB) (prior to the establishment of the Pensions Committee, who first met on 11 July 2022) and which forms part of the Investment Consultant contract to the year ending 31 December 2023. Mercer have performed well over the past year and Officers are pleased with the work produced by the consultant.

Appendices

Appendix 1 - Strategic Objectives for Investment Consultancy Services: City of London Corporation Pension Fund

Appendix 2 - Investment Consultant Performance Review

Appendix 3 - Draft Compliance Statement

Background Papers

FIB: 29 November 2019: Investment Consultant Strategic Objectives (LGPS only)

Amanda Luk

Senior Accountant – Pensions

Chamberlains Department

T: 020 7332 1372

E: amanda.luk@cityoflondon.gov.uk

Strategic Objectives for Investment Consultancy Services: City of London Corporation Pension Fund (the “Fund”)

Overall objective

The overall objective of the Fund is to:

- achieve and maintain a funding level at or close to 100% of the Fund’s estimated liabilities;
- and in conjunction with the funding strategy, to minimise the cost and variability of cost to employers. (The “Overall Objective”).

The Pension Committee has concluded that, subject to being consistent with the agreed investment consultancy services to be provided by the Investment Consultant (IC) Provider, the following objectives for the IC Provider will, if well executed, contribute towards achieving the Fund’s Overall Objective:

1. Alignment of services with Overall Objective

The IC Provider should take into account the Overall Objective above and, in doing so, will give due consideration to relevant circumstances of the Fund. Those relevant circumstances include, but are not limited to, the employers’ contributions policy, perceived strength of covenant, mortality and longevity experience, developments in the funding level of the Fund from whatever cause, the tolerance for investment risk of the Fund and the employers, economic and market conditions and outlook, and ancillary objectives and requirements.

2. Consideration of responsible investment requirements

The IC Provider will give due consideration to the responsibilities of the Fund to consider environmental, social and governance (ESG) factors (including climate change) and stewardship risks.

3. Investment strategy objective

The IC Provider should guide the Fund in determining appropriate investment objectives, appropriate levels of investment risk, and an appropriate and diversified investment strategy. In addition, the IC Provider should advise the Fund on new investment opportunities and emerging risks and periodically propose amendments to the investment strategy where appropriate. Investment Strategy advice should contribute to the Overall Objective by way of either improved performance and/or of management of investment risk over the long term.

4. Investment manager selection objective

Under the Government’s pooling agenda it is expected that the IC Provider will have less input into manager selection advice going forward but, where appropriate, the

IC Provider should make recommendations on the appointment and retention of appropriate investment managers and on portfolio construction with those managers' strategies and funds, consistent with the overall investment objectives and the chosen investment strategy. The IC Provider should recommend investment managers that the IC Provider believes have a high degree of confidence in achieving the objective set for the investment manager after fees over a market cycle. Manager selection therefore, should contribute to implementing the investment strategy of the Fund by way of either managing risk and/or achieving the long-term return expected.

5. Implementation objective

Where appropriate, the IC Provider should assist with achieving timely and cost-effective implementation of the Fund's investment decisions.

6. Investment Strategy Statement

The IC Provider should provide guidance on any matters in respect of which the Fund is required by law to seek advice in relation to the preparation or revision of the Fund's Investment Strategy Statement.

7. Monitoring objective

The IC Provider should assist with measuring the success of the Fund's chosen investment strategy and investment manager structure against the Overall Objective.

Appendix 2

Investment Consultant Performance Review to year ended 31 December 2023.

Rating	Key
Excellent	E
Good	G
Satisfactory	S
Unsatisfactory	U

Objective Number	Objective	Officer Commentary	Rating
1	Alignment of services with Overall Objective	Mercer have reviewed the Investment Strategy whilst considering the expected return requirements determined by the Fund Actuary, and made changes to the investment strategy required to align the assets with the return expectations. Mercer's review considered current and forward looking economic and market conditions in assessing the level of expected return for the Fund.	E
2	Consideration of responsible investment requirements	Mercer provides regular quarterly monitoring reports with updates on the Investment manager's ESG ratings.	G
3	Investment Strategy	Mercer have reviewed the Investment Strategy and proposed a new strategic asset allocation and the introduction to corporate bonds, broad private markets and renewable infrastructure. Mercer also provide quarterly monitoring reports on the Pension Fund's portfolio considering how the investment managers are performing relative to their benchmarks and with regards to the Mercer rating scale as well as a review of general market conditions.	E
4	Investment manager selection	Mercer's quarterly report highlights any manager changes/developments over the quarter. Mercer also provides advice as to the appropriateness of LCIV vehicles.	E
5	Implementation	Mercer assisted with the implementation of a secondary market purchase in the Aviva Lime fund.	G
6	Investment Strategy Statement (ISS)	Mercer assisted with a review of the Fund's ISS in July 2023.	G
7	Monitoring	Mercer reviews the Fund's investment portfolio on a quarterly basis, completing both a high-level review of the Fund's assets and performance, as well as any developments of the underlying investment managers.	G

Draft Compliance Statement

I {insert name}, confirm on behalf of the City of London Pension Fund that during the year to 31 December 2023, the City of London Pension Fund has complied with Part 6, Chapter 3 of The Occupational Pension Schemes (Scheme Administration) regulations 1996 (the scheme administration regulations).

This Compliance Statement has been prepared in accordance with the good practice as per The Occupational Pension Schemes (Scheme Administration) regulations 1996 (the scheme administration regulations).

For the period to which this Compliance Statement relates, the City of London Pension Fund have complied in all material respects with the requirements of Part 6, Chapter 3 of the scheme administration regulations and reasonably expect to do so.

For and on behalf of the City of London Pension Fund.

Signature.....

Name:.....

Title:.....

Date:.....