

City of London Corporation Committee Report

Committee(s): Pensions Committee	Dated: 13 February 2025
Subject: Investment Consultant Strategic Objectives - Annual Review	Public report: For Decision
This proposal: <ul style="list-style-type: none"> • provides statutory duties • provides business enabling functions 	
Does this proposal require extra revenue and/or capital spending?	No
If so, how much?	£N/A
What is the source of Funding?	N/A
Has this Funding Source been agreed with the Chamberlain’s Department?	N/A
Report of:	The Chamberlain
Report author:	Amanda Luk

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) and which forms part of the Investment Consultant contract.

Recommendation

Members are asked to approve the Investment Consultant Review for 2024 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) 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 eight 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, if appropriate, revise the objectives to ensure they remain suitable 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 2024. 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 22 January 2025. Mercer have performed well over the past year and all aims and objectives have been rated green (in accordance with a RAG rating). Officers are very 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) and which forms part of the Investment Consultant contract to the year ending 31 December 2024. 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 Pensions 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.

8. Manager Fees

The IC will review the fees paid by the Fund and through size and market knowledge negotiate more competitive manager fees

Appendix 2

Investment Consultant Performance Review to year ended 31 December 2024

Rating	Key
Red	R
Amber	A
Green	G

Objective Number	Objective	Officer Commentary	Rating
1	Alignment of services with Overall Objective	<p>Building on the Investment Strategy review that Mercer completed in 2023, Mercer put forward a report on alternatives for the 'Broad private market' allocation. When drafting this report, they were cognisant of the desire to maintain the expected return and the increased interest in investing in options that could be managed by the LCIV.</p> <p>As with all of Mercer's advice over the year, they have strived to be collaborative, very clear and succinct. The 'Broad private markets alternatives' were a good example of this.</p>	G
2	Consideration of responsible investment requirements	<p>On a quarterly basis, Mercer provide a monitoring report which provides a review and update on the investment manager's ESG ratings. Mercer highlight where there are any changes to the ESG rating of the managers and the rationale for these.</p> <p>Mercer have also included thoughts on managers' ESG integration during the reviews of the equity managers and have provided key metrics of these managers and the LCIV equivalents (where applicable). Mercer also provided key metrics in the open-ended infrastructure manager search.</p>	G
3	Investment Strategy	<p>During Mercer's review of the assumptions used in the 'Broad private markets' allocation, they were confident that at allocation to open-ended infrastructure would have a similar impact from a total Fund risk/return perspective. Mercer also believed this addition to the strategy was in line with the objectives of the Fund and would be additive, given its consistent returns and yield, which would help to meet cashflow requirements over time.</p> <p>Mercer have also provided advice in relation to raising funds to meet the open-ended infrastructure subscription payment, which took into account the Fund's actual asset allocation at the time and how best to disinvest to bring the asset allocation back in line with the strategic asset allocation.</p>	G

4	Investment manager selection	<p>Given the direction of travel towards pooling, Mercer's clear advice and provision of clear options on LCIV alternatives has helped the Fund to pool more assets.</p> <p>For the appointment of the open-ended infrastructure manager, Mercer provided clear confirmation of other London boroughs that are already invested in the fund, which should make future "lift and shifts" by the LCIV easier.</p>	G
5	Implementation	<p>Mercer assisted where possible in the implementation of the new open-ended infrastructure mandate and assisted with queries in a timely fashion. They were able to work with the new manager to achieve good outcomes for the Fund, with up-to-date commitment timelines and help with some elements of the documentation. Overall, Mercer helped to ensure the appointment from selection to cash being transferred went smoothly.</p>	G
6	Investment Strategy Statement (ISS)	<p>Mercer reviewed the ISS over the year and Officers were happy with the input Mercer made to the document, noting that the updates were relatively minor this year.</p>	G
7	Monitoring	<p>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. This ensures that the Fund's investment managers are performing in line with objectives and highlights and areas for further review.</p> <p>Mercer have tried to bring a clear point of view to the quarterly reports and have been more assertive when manager performance has fallen short of expectations.</p> <p>Mercer have also broadened the scope of their quarterly reporting to include monitoring of the two corporate bond funds, to monitor the split between them and other key metrics.</p>	G
8	Manager Fees	<p>A value for money paper has not been produced since 2021. Mercer could complete a value for money paper given the implementation of the new strategic asset allocation is near completion. However, with the direction of travel towards pooling it may be of limited use.</p> <p>Mercer assisted in conversations with two equity managers which resulted in a material reduction in the size of transaction costs that could have been levied following the decision to redeem these holdings and transfer the proceeds to strategies on the London CIV.</p> <p>Mercer also reviewed the equity and multi-asset manager fees when producing their manager deep dives. In the open-ended infrastructure manager selection paper, Mercer reviewed the fees of all the shortlisted managers and the fees of the current infrastructure manager.</p>	G

Draft Compliance Statement

I {insert name}, confirm on behalf of the City of London Pension Fund that during the year to 31 December 2024, 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:.....