

Surrey Pension Fund: Strategic Objectives for Investment Consultants (IC)

Background

The Pensions Act 1995 requires the trustees of a Local Government Pension Scheme (LGPS) to appoint certain 'professional advisers' to carry out specific tasks in relation to the scheme. The advisers, more specifically, the IC Provider, should have the knowledge, experience and professional qualification to provide investment advice to the Fund. The IC Provider must be formally appointed by the Fund through letter of appointment, as per The Pensions Regulator (TPR) guidance below:

The letter of appointment sent to the adviser must mention:

- The date the appointment begins;
- To whom the adviser will report; and
- Who will give instructions to the adviser.

The adviser must acknowledge the appointment in writing within a month. They must also confirm that they will disclose any conflict of interest that affects their role as soon as they become aware of one.

The Investment Consultancy and Fiduciary Management Market Investigation Order 2019 ('the Order')

The Order was published by the Competition & Markets Authority on 1 August 2019 and provides notice of new responsibilities for LGPS funds.

Following dialogue between the Competition Markets Authority (CMA), Ministry of Housing, Communities & Local Government (MHCLG) and Department for Work & Pensions (DWP) and subsequent consultations published by DWP and TPR, there is agreement that the Order applies two new obligations to the LGPS, as well as a potential change to the Financial Conduct Authority's (FCA) regulator perimeter. The obligations are as follows:

- A requirement to tender for services provided by some pool companies which fall under the definition of Fiduciary Management (FM)
- A requirement to set strategic objectives for providers of Investment Consultant (IC) services
- It also flagged a potential change to the FCA's regulatory perimeter to bring advice on strategic asset allocation within the definition of a regulated activity

Only the second objective immediately applies to the Surrey Pension Fund. This paper will outline the strategic objectives set by Surrey Pension Fund for the IC Providers.

The Objective of the Fund

The Trustees and those responsible for managing the Fund, seeks to ensure that it has sufficient assets to be able to meet its long term obligations to pay pensions to the Fund's members. It also has an objective to maintain employer contribution rates as reasonably stable and affordable as possible.

Subject to being consistent with the agreed investment consultancy services to be provided by the 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 the Objective of the Fund

The IC Provider should take into account the Objective of the Fund above and, in doing so, will give due consideration to relevant circumstances of the Fund when advising in its interests. Those relevant circumstances include; but are not limited to, the contributions policy, 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.

The IC Provider should also consider the fiduciary duty of the Fund to act in the best interests of pension members as per the Objective of the Fund, and consider Environmental, Social and Governance (ESG) factors and stewardship risks when providing advice.

The IC Provider should also avoid potential conflicts of interest between the objectives of the IC Provider and the objectives of the Fund.

2. Investment strategy objective

Where applicable, the IC Provider should guide the Fund in determining appropriate strategic investment objectives to achieve optimal funding levels to meet liabilities. This can be achieved through improved performance or management of investment risk over the long term;

- The IC Provider should develop an investment strategy robust enough in steering through volatile market movements which can impact asset and liability values
- The IC Provider should advise the Fund on setting a strategic asset allocation that is well diversified and expected to generate returns in excess of the expected rise of the Fund's liabilities.
- The IC Provider should, when advising on the overall level of risk in the strategic asset allocation, take into consideration the Fund's current risk appetite
- The IC Provider should advise the Fund in maintaining sufficient liquid resources to meet its ongoing obligations
- The IC Provider should advise the Fund on new investment opportunities and emerging risks and periodically propose amendments to the investment strategy where appropriate.

3. Investment manager selection objective

The IC Provider should make recommendations on the appointment and retention of suitable investment managers and also on construction of prospective sub funds within the Border to Coast Pensions Partnership (BCPP), which are consistent with the Fund's strategic objectives.

The IC Provider should recommend investment managers/ sub funds 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.

4. Implementation objective

The IC Provider should assist with achieving timely and cost-effective implementation of the Fund's investment decisions where appropriate, also in the context of current market conditions.

5. 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.

6. Breaches of Law

The IC Provider has a legal duty to report any breaches of law, in relation to its investments, if they have reason to believe there has been a breach made by the Fund that is likely to be of material significance to the Pensions Regulator.

7. Monitoring objective

The IC Provider should assist with the monitoring of the Fund's performance against its Investment Strategy in the following areas;

- Monitoring current legacy manager and asset class performance, and advising courses of action as and when required
- Monitoring performance of Fund Managers, asset classes of BCPP Sub-funds, and advising courses of action as and when required
- Monitoring the liquidity of the Fund in meeting its ongoing obligations and at what stage the Fund should begin to improve its cash flow requirements
- Monitoring current risk attrition of the Fund's portfolio in relation to its risk appetite and advising when the Fund should increase/ decrease risk in its portfolio.

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