

CMA objectives for investment consultants

Addressee

This paper is addressed to the Officers of the Leicestershire County Council 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 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. This statement covers the period from 10 December 2022 to 9 December 2023, so it will need to be sent **after 10 December 2023, but before 7 January 2024**. We note this date falls on a Sunday next year so you may want to complete this work by Friday 5 January 2024.
- The format of the compliance statement is a short statement which is stipulated in the CMA order, please see Appendix 2 for details. A scanned copy of a signed statement will need to be submitted by email to this address: RemediesMonitoringTeam@cma.gov.uk.
- Department for Work and Pensions (“DWP”) has now brought forward secondary legislation to enact the CMA requirements for private sector pension schemes. Under the new legislation, responsibility for monitoring compliance will transition to The Pensions Regulator (“TPR”). During the transition period, the requirement to submit compliance statements to the CMA has been dropped. The Department for Levelling-up, Homes and Communities (“DLUHC”) is expected to bring forward similar legislation for the LGPS. At this stage, it is not clear whether or not LGPS funds are still required to submit compliance statements. For now, we assume the requirement stands.
- 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 that the Fund has set is part of ongoing good governance. This is in line with [guidance](#) from TPR which suggests performance is monitored annually, with a detailed review every three years. Further, we note that the recent DLUHC consultation proposes to extend this requirement to cover LGPS funds under future regulations. We have evaluated our performance against current objectives in Appendix 1.
- TPR also suggests checking that objectives are still appropriate at least every three years. We have proposed amendments to the current objectives in Appendix 3.

Assessing performance against objectives

As noted above, we are assuming that, by 7 January 2024 the Fund must have submitted a compliance statement to the CMA confirming compliance with Part 7 of the CMA, by setting strategic objectives for their investment consultant. However, there is not an obligation to have assessed your consultant's performance against these objectives by that date.

Next steps for the Fund

- Report compliance relative to the CMA's requirements to the CMA by 7 January 2024 – see Appendix 2;
- Finalise the assessment of performance against current objectives;
- Confirm the proposed objectives for the coming year.

Prepared by: -

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For and on behalf of Hymans Robertson LLP

November 2023

General Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets.

Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

Appendix 1: Current objectives

Leicestershire County Council Pension Fund Objectives	Investment Consultant Objectives	Performance Evaluation 2023
<p>Strategic</p> <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>The implications of required returns of this funding objective will be reassessed at each actuarial valuation. The current strategic return target is between 3-4% per annum in excess of CPI.</p> <p>Reduce the deficit recovery period for the Fund.</p>	<p>Advise on a suitable investment strategy and amendments to the strategy reflecting changes in market conditions, to deliver the required real return to maintain a long-term steady state of full funding going forward.</p> <p>Deliver an investment approach that supports meeting the Fund's cashflow, and likely evolution, and minimises the risk of forced disinvestment. Ensure the approach involves suitable diversification, a level of complexity consistent with the Fund's governance capacity and focuses on predictable returns.</p> <p>Deliver strategic advice with an expected range of outcomes that captures the downside risk tolerance preferences of the Committee.</p>	<p>We undertook an extensive annual review of investment strategy, following the 2022 valuation, which aimed to maintain the target expected return, whilst improving diversification and prospective risk adjusted returns, in order to support an affordable funding and contribution strategy. Cashflow needs were not critical, however, our analysis showed some further diversification into income assets could deliver an improvement in funding outcomes, albeit we didn't conduct further asset-liability modelling and instead focused on portfolio efficiency. Our proposed recommendations covered listed equities, private equity, targeted return, infrastructure, emerging market debt, multi-asset credit, investment grade credit, cash and the currency hedging program, subject to additional due diligence, in certain cases.</p> <p>In each asset class, we reconfirmed the investment case through to potential mandate construction options (active vs. passive, regional vs. global implementation, pooling options, responsible investment considerations amongst others). We also reviewed the potential for additional diversification, balancing the benefits of reduced downside risk with the cost of managing additional complexity, acknowledging the aim of portfolio simplification.</p> <p>As the Fund continues in the development of its climate strategy, we also provided a progress report as well as</p>

		the expected impact from some of our recommendations, where possible, and suitable implementation vehicles.
<p>Implementation</p> <p>Ensure the Fund’s investment 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>Ensure an orderly transition to LGPS Central (where applicable).</p>	<p>Advise on the cost efficient implementation of the Fund’s investment strategy.</p> <p>Advise on the use of solutions provided by LGPS Central as a vehicle for implementing the agreed investment strategy, and where appropriate help in the specification of LGPS Central solutions to meet the Fund’s needs.</p>	<p>On the asset classes where we recommended deeper reviews, such as targeted return and listed equities, fee implications and pooling were covered in detail.</p> <p>We advised on the use of LGPS Central solutions in each of the asset classes, and provided constructive challenge to the specification in certain cases such as in targeted return, private debt and private equity. This included advice on concentration limits and their relevance, in the context of pooling, with a view to minimising the governance burden on the Fund.</p>
<p>Governance</p> <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>Ensure the Fund’s investment objectives are supported by an effective governance framework.</p>	<p>Ensure our advice complies with relevant pensions’ regulations, legislation and supporting guidance.</p> <p>Ensure our advice reflects the Committee’s own policies and beliefs, including those in relation to Responsible Investment and climate risk, with such considerations reflected in investment recommendations and the Strategic Asset Allocation (SAA) where appropriate.</p> <p>Advise on the actions the Fund should undertake to deliver its Net Zero goals and other Responsible Investment objectives and priorities.</p> <p>Provide relevant and timely advice.</p>	<p>Our advice complied with current regulations and guidance and, where possible, anticipated future requirements.</p> <p>We ensured that all advice included consideration of responsible investment issues and was consistent with the Fund’s other policies and beliefs. We advised on the rebalancing policy, which we had previously flagged, and responsible investment goals were considered when reviewing implementation options.</p> <p>Timeliness of advice and deliverables improved during the year, by incorporating previous learnings such as earlier project milestones, but there is always room for further improvements, for example by agreeing executive summary working papers, which are more concise.</p>

Appendix 2 – CMA compliance statements – the details

Background

- The Investment Consultancy and Fiduciary Management Market Investigation Order 2019 requires pension scheme trustees to set strategic objectives for their investment consultants before they enter into a contract or continue to receive services from them.
- Part 7 of the Order sets out this requirement. Specifically, stating:
“Pension Scheme Trustees 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 unless the Pension Scheme Trustees have set Strategic Objectives for the Investment Consultancy Provider.”
- Pension scheme trustees must submit statements to confirm that they have complied with the above requirement.
- **Completing the statement below and submitting it to the CMA between 10 December 2023 and 7 January 2024 will fulfil the requirement to report back to the CMA.**
- We have drafted the compliance statements for the Fund on the following page. A scanned copy of a signed statement should be submitted by email to this address: RemediesMonitoringTeam@cma.gov.uk.

Leicestershire County Council Pension Fund

Investment Consultancy and Fiduciary Management Market Investigation Remedy Compliance Statement for the Leicestershire County Council Pension Fund

I,, confirm on behalf of the Leicestershire County Council Pension Fund that during the period commencing on 10 December 2022 and ending on 9 December 2023, the Leicestershire County Council Pension Fund has complied with Part 7 of the Investment Consultancy and Fiduciary Management Market Investigation Order 2019.

Additional Compliance Reporting

- (a) this Compliance Statement has been prepared in accordance with the requirements of the Order; and
- (b) for the period to which the Compliance Statement relates, the Leicestershire County Council Pension Fund has complied in all material aspects with the requirements of the Order and reasonably expect to continue to do so.

For and on behalf of the Leicestershire County Council Pension Fund

Signature:

Name:

Title:

Appendix 3: Proposed objectives

Leicestershire County Council Pension Fund Objectives	Investment consultant objectives 2024
<p>Strategic</p> <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>The implications of required returns of this funding objective will be reassessed at each actuarial valuation. The current strategic return target is between 3-4% per annum in excess of CPI.</p> <p>Reduce the deficit recovery period for the Fund.</p> <p>Consider the Net Zero Climate Strategy in strategic decisions.</p>	<p>Advise on a suitable investment strategy and amendments to the strategy reflecting changes in market conditions, impacting the required real return and likelihood thereof, to maintain a long-term steady state of full funding going forward.</p> <p>Deliver an investment approach that supports meeting the Fund's cashflow needs, and likely evolution, and minimises the risk of forced disinvestment. Ensure the approach involves suitable diversification, a level of complexity consistent with the Fund's governance capacity and focuses on predictable returns.</p> <p>Deliver strategic advice with an expected range of outcomes that captures the downside risk tolerance preferences of the Committee and considers the Net Zero ambitions.</p> <p>This includes a review of protection assets and potential alternative protection assets.</p>
<p>Implementation</p> <p>Ensure the Fund's investment 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>Ensure an orderly transition to LGPS Central (where applicable).</p>	<p>Advise on the cost-efficient implementation of the Fund's investment strategy, with a focus on delivering recommendations outstanding from the 2023 SAA review.</p> <p>Proposing benchmark amendments to the reporting of investment performance.</p> <p>Advise on the use of solutions provided by LGPS Central as a vehicle for implementing the agreed investment strategy, to support the regulatory direction of travel on pooling whilst also expressing our views on preferred solutions, and where appropriate help in the specification of LGPS Central solutions to meet the Fund's needs. Ensure investment decisions take into account the potential for regulatory change and developments.</p> <p>Reviewing and developing investment mandates to increase alignment with the NZCS. Including development of a climate-aware investment strategy, and climate solutions investments, where possible.</p>
<p>Governance</p> <p>Ensure the Fund's approach reflects relevant regulatory and legislative requirements.</p>	<p>Ensure our advice complies with relevant pensions' regulations, legislation and supporting guidance.</p>

Ensuring the Fund's Net Zero Climate Strategy and approach to responsible investment is reflected in ongoing governance and decision making processes.

Ensure the Fund's investment objectives are supported by an effective governance framework.

Ensure our advice reflects the Committee's own policies and beliefs, including those in relation to Responsible Investment and climate risk, with such considerations reflected in investment recommendations and the Strategic Asset Allocation (SAA) where appropriate.

Advise on the actions the Fund should undertake to deliver its Net Zero goals and other Responsible Investment objectives and priorities by both reporting on progress, where a baseline has been established, or doing so once baseline information is available, in areas such as listed credit and private markets, thereby expanding the coverage of the overall portfolio.

Provide relevant and timely advice.