



Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

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Item 6(a)

2nd June 2021

**Appointment: Investment Consultancy Services -
Strategy and Structure**

Purpose of Report:

To conclude a tendering exercise for investment consultancy services – strategy and structure.

Recommendation:

The Committee is asked to **APPROVE** the appointment of **Hymans Robertson** to provide investment consultancy services – strategy and structure.

Ward No(s):

Citywide: ✓

Local member(s) advised: Yes ☐ No ☐ consulted: Yes ☐ No ☐

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1 Background

The legal framework for the investment of the Local Government Pension Scheme (LGPS) is contained in The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations. Under these regulations, the Council must obtain 'proper advice' when considering investment decisions for the Strathclyde Pension Fund. "Proper advice" means the advice of a person (including any suitable officer of the administering authority) whom the authority reasonably believes to be qualified by that person's ability in and practical experience of financial matters.

2 Current Service

To assist with the requirement to obtain proper advice, the Fund has retained the services of one or more investment consultants since it was established in 1974. The service requirements have been reviewed and re-tendered regularly. Most recently, in January 2016:

- Hymans Robertson were re-appointed to assist in the monitoring and review of overall investment strategy, structure and investment managers.
- Isio (formerly KPMG), were appointed to assist with assessment and diligence of investments for the Fund's Direct Investment Portfolio (DIP).

The current contracts have been extended twice, firstly for one year to end December 2020 and then, following a delay to the re-tender exercise, to end June 2021.

A tendering exercise to review current arrangements is included in the 2020/21 and 2021/22 Business plans. This exercise is described below.

3 Tendering Process

In line with the efficiency and effectiveness aim of the Council's Corporate Procurement and Commercial Improvement Strategy 2018 - 2022 (which promoted consideration of National and Collaborative Frameworks), it was agreed that the most appropriate procurement route to deliver this contract would be a mini-competition process under the National Local Government Pension Scheme (LGPS) Investment Management Consultancy Services Framework Agreement. ("the Framework") reference NCT41358. This Framework has 3 separate lots, covering the following services:

- Lot 1: Investment Consultancy Services, for investment consultancy services including, but not limited to, those related to investment strategy and structure, asset liability modelling and management, investment policy advice, responsible investment and stewardship, investment markets and solutions.
- Lot 2: Manager Search, Selection, Monitoring and Review Services for advisory services in relation to the review, selection, appointment and monitoring of investment managers.
- Lot 3: Investment Management Consultancy Related Specialist Services for a wide range of specialist, investment related work including, but not limited to, services related to regulatory compliance, policy review, investment/ portfolio reviews and supporting custody, administration or transition management services.

4 **Scope of Tender**

The Fund requires investment consultancy services to assist in the monitoring, review and implementation of overall investment strategy, structure and investment mandates. The consultancy services available from providers under lot 1 and lot 2 of the Framework meet these requirements and the Fund therefore proceeded with 2 mini competition processes as follows:

- **Strategy and structure (lot 1)** for all advice required to review, set and monitor the Fund's investment objectives, investment strategy and investment management structure.
- **Implementation (lot 2)** for all advice associated with investment manager procurement and monitoring, and for assistance with assessment and diligence, as required, of investments for DIP.

This paper describes the tendering exercise for investment consultancy services – strategy and structure.

A full scope of services for this tendering exercise is set out in **Appendix A**.

5 **Mini-Competition**

The tendering exercise commenced when an Invitation to Mini-Competition was issued to all 7 suppliers appointed to the Framework.

The 7 suppliers who received the mini-competition documentation were:

- Aon Hewitt
- Deloitte Total Reward and Benefits Limited
- Hymans Robertson LLP
- Isio
- Mercer Ltd
- Pricewaterhouse Coopers LLP
- Redington Ltd

Of the 7 suppliers: 2 submitted a tender by the 1st April 2021 deadline; 1 indicated that they felt they could not submit a commercially competitive proposal as they were not based in Scotland; 1 indicated that they felt their philosophy was not right for the Fund at this time; and the other 3 failed to confirm why they did not bid.

6 **Award Criteria**

The mini-competition documentation included a detailed scope of the services required by the Fund and requested responses to 13 technical questions designed to assess the quality of each of the supplier's proposals, as well as seeking detailed pricing information for commercial and value for money assessment. Fair work practices (FWP) were also assessed, and details of voluntary community benefits were requested. The mini-competition award criteria were divided as follows:

- | | |
|---------------------------------|-----|
| • Quality - Service Fit | 40% |
| • Quality – Quality Offered | 30% |
| • Quality – Fair Work Practices | 5% |
| • Price | 25% |

7 **Evaluation**

The evaluation panel comprising officers of the Fund and the Corporate Procurement Unit (CPU) assessed the tender responses and allocated a score to each candidate. CPU assessed the pricing and fair work practices submissions and allocated a score to each candidate.

8 Final Scores

The final scores for each candidate were as follows:

- Hymans Robertson 93%
- Isio 80.6%

On the basis of the award criteria Hymans Robertson tendered the most advantageous proposal for the Fund.

9 Hymans Robertson

Hymans is a privately owned, UK actuarial and investment consultancy practice, with 1,000 staff and 20 Equity Partners. They provide independent pensions, investments and benefits and risk consulting services, as well as data and technology solutions. They are a leading advisor to LGPS funds throughout the UK and have provided advice to Strathclyde Pension Fund since its inception over 45 years ago. To celebrate their 100th birthday this year, Hymans launched their climate pledge which has committed the firm to halve its 2019/20 carbon footprint by 2025, be net carbon zero by 2021 and lifetime net zero by 2025.

10 Implementation

Subject to conclusion of contract the appointment will be effective from 1st July 2021 and will run for an initial period of 3 years. There is also the option to extend the contract for a further period of up to 2 years and thereafter extend for one further period of up to 2 years.

11 Strategic Objectives for Investment Consultancy Services

In 2019, the UK Competition and Markets Authority issued 'The Investment Consultancy and Fiduciary Management Market Investigation Order'. As defined in part 2 of the Order, pension funds in the UK are now required to set strategic objectives for providers of investment consultancy services, with the aim of ensuring that funds can access and receive the information required to evaluate the quality of the service provided.

Objectives for investment consultancy services – strategy and structure are detailed in **Appendix B**.

12 Policy and Resource Implications

Resource Implications:

<i>Financial:</i>	Net total cost of the contract is estimated to be £350k. This may vary due to actual demand and requirements for services through the life of the contract. Prices are fixed for the first three years of the contract.
<i>Legal:</i>	Standard call-off terms are agreed with suppliers when the framework is put in place, allowing only for minor amendments by clients. These terms have already been reviewed by a GCC solicitor.
<i>Personnel:</i>	No direct personnel implications
<i>Procurement:</i>	The framework and call off process are described in sections 2 and 3 above. The process was

conducted in accordance with European procurement rules.

Council Strategic Plan: Strathclyde Pension Fund aligns with the theme of a well governed city.

Equality and Socio-Economic Impacts:

Does the proposal support the Council's Equality Outcomes 2017-22

The procurement supports best practice in the procurement of services. Equalities issues were addressed in the tender process within the Fair Work Practices assessment.

What are the potential equality impacts as a result of this report?

No specific impact from this proposal.

Please highlight if the policy/proposal will help address socio economic disadvantage:

Sustainability Impacts:

Environmental:

Hymans is a signatory to the Principles for Responsible Investment and in 2021 launched its Climate Pledge which committed the firm to: halve its 2019/20 carbon footprint by 2025; be net zero from 2021; be lifetime net zero by 2025 and to ensure that climate risks will be an integral part of research, advice and services as well as how the firm is run.

Social, including opportunities under Article 20 of the European Union Procurement Directive:

Hymans Robertson LLP outlined a number of relevant fair work practices they have adopted to enhance the workplace environment including paying the living wage, no use of zero hours contracts, training and development support, and diversity enhancing recruitment practices

Economic:

Hymans Robertson LLP have committed to delivering the following community benefits through delivery of this contract:

1 x New Employee – Full Time Job (from priority group)

1 x New Employee – Full Time Job (from non-priority group)

1 x New Employee – Part Time Job (from priority group)

- 1 x Apprentice New Start - Full Time (from priority group)
- 1 x New Entrant Graduate - Full Time (from Priority Group)
- 1 x Work Experience Placement – School
- 1 x Work Experience Placement - Non School
- 1 x Career Event
- 1 x Workplace Visit
- 1 x Community Engagement - Financial Support (minimum £1k)
- 1 x Community Engagement - Non-Financial Support (min. 5 hrs)

Privacy and Data Protection impacts: n/a

13 Recommendation

The Committee is asked to approve the appointment of **Hymans Robertson** to provide investment consultancy services – strategy and structure.

Scope of Service

The role and responsibilities of the supplier to Strathclyde Pension Fund are summarised in Schedule 3 of the Fund's Statement of Investment Principles.

The scope of service for investment management consultancy services – strategy and structure is provided below.

Core Deliverables

Services include, but are not limited to, the following;

Role of Investment Consultant (Strategy and Structure)	Core Services
Advice on setting investment objectives and strategy	<ul style="list-style-type: none"> • Working with the Fund's Actuary to undertake asset liability modelling, including sensitivity analysis and climate risk scenario modelling, as required • Advice on setting the Fund's investment objectives and strategic asset allocation that <ul style="list-style-type: none"> • reflects the Fund's key investment principles • can deliver the investment return required to support the Fund's funding strategy • considers a full range of asset classes and potential investment mandates, products and services • reflects the Fund's cash flow position and its likely evolution
Advice on appropriate investment management structures	<ul style="list-style-type: none"> • Advice on the appropriate investment management structure to meet the Fund's strategic investment objectives and asset allocation, including consideration of costs of investment • Provision of market wide advice on the range of providers with capability to undertake required portfolio management services
Advice on appropriate asset classes and investment vehicles	<ul style="list-style-type: none"> • Advice and updates on assets classes, to include the outlook for different asset class and markets and identification of emerging risks • Advice on climate change, responsible investment and stewardship policies, styles and tools across any or all asset classes • Advice on investment markets and solutions, including availability and appropriateness of different investment vehicles • Provision of sensitivity analysis data to be included as part of the Fund's annual report and accounts.
Assistance with monitoring	<ul style="list-style-type: none"> • On-going review of the Fund's investment strategy, structure and performance relative to liabilities
Provide benchmark Advice	<ul style="list-style-type: none"> • Advice on setting appropriate performance targets and benchmarks

Scope of Service

Ad hoc requirements

In addition to the core services listed above, the supplier may be required to:

- Advise on potential or actual regulatory and/ or policy changes affecting LGPS investment.
- Provide bespoke investment research or advice.
- Provide training presentations to Strathclyde Pension Fund Committee or to the Strathclyde Pension Fund Sounding Board, the working group of the Committee.
- Provide general advice in respect of any of the Fund's policies, strategies or investments.

Investment Consultancy Service Objectives

In 2019, the UK Competition and Markets Authority issued 'The Investment Consultancy and Fiduciary Management Market Investigation Order'. As defined in part 2 of the Order, pension funds in the UK are now required to set strategic objectives for providers of investment consultancy services, with the aim of ensuring that funds can access and receive the information required to evaluate the quality of the service provided.

Strathclyde Pension Fund has set the following objectives for investment consultancy services – strategy and structure:

- Investment advice should demonstrably add value to the Fund.
- The consultancy service should successfully support Fund governance arrangements and compliance.
- The investment consultant should achieve or exceed contract service delivery standards.

Detailed metrics for assessment of consultant performance against each objective together with monitoring mechanisms were reviewed as part of the mini-competition process and will be finalised in advance of contract commencement.