



Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

Contact: Jacqueline Gillies, Chief Investment Officer, Ext: 75186

Item 6(b)

2nd June 2021

**Appointment: Investment Consultancy Services -
Implementation**

Purpose of Report:

To conclude a tendering exercise for investment consultancy services – implementation.

Recommendation:

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

Ward No(s):

Citywide: ✓

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

PLEASE NOTE THE FOLLOWING:

Any Ordnance Survey mapping included within this Report is provided by Glasgow City Council under licence from the Ordnance Survey in order to fulfil its public function to make available Council-held public domain information. Persons viewing this mapping should contact Ordnance Survey Copyright for advice where they wish to licence Ordnance Survey mapping/map data for their own use. The OS web site can be found at <http://www.ordnancesurvey.co.uk> "

If accessing this Report via the Internet, please note that any mapping is for illustrative purposes only and is not true to any marked scale

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 an investment consultancy services provider – implementation.

A full scope of services for this tendering exercise is set out at **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
- Bfinance UK Limited
- Hymans Robertson LLP
- Isio
- Mercer Ltd
- MJ Hudson Allenbridge
- Redington Ltd

Of the 7 suppliers: 3 submitted a tender by the 9th April 2021 deadline; 1 indicated that it could not deliver all the requirements outlined in the scope; and the 3 other 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 14 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 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.

- | | |
|--------------------|-------|
| • Bfinance | 76.6% |
| • Hymans Robertson | 83.7% |
| • Mercer | 80.1% |

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 – implementation 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 £500k. 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 (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 management consultancy services – implementation.

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 – implementation is provided below.

Core Deliverables

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

Role of Investment Consultant (Implementation)	Core Services
Assistance with investment manager monitoring	<ul style="list-style-type: none"> On-going monitoring of investment managers, including the provision of a quarterly report covering the consultant's latest ratings of the Fund's institutional investment managers, a summary of reasons of any changes in rating, note of any significant developments and any research updates Assistance with monitoring of DIP fund investments, as requested Provision of prompt updates and analysis of significant developments or changes at any of the Fund's investment institutional investment managers as they occur.
Assistance with investment manager selection, retention and termination	<ul style="list-style-type: none"> Provision of market wide advice on the range of providers with capability to undertake required portfolio management services Undertaking investment manager or other investment related services, assessment and selection using public and/or non-public procurement processes. These processes will include but not be limited to; pre-meets, report and tender document production and response evaluation, reporting on the outcome of the process and attendance at final selection meeting with committee and preparation of supporting papers Advice on, and enhanced analysis of, specific investment opportunities, including manager or fund selection, investment vehicles and appropriate benchmarks, as requested. Assistance with financial and commercial diligence of investment opportunities. Provision of analysis to inform investment manager or fund reviews, and retention or termination decisions to include, where relevant, advice on transition processes and costs.
Provide benchmark Advice	<ul style="list-style-type: none"> Advice on appropriate performance targets and benchmarks to assess and monitor investment mandates or funds
Advice on appropriate investment management and other related agreements	<ul style="list-style-type: none"> Provision of advice in relation to investment agreements as requested, including advice on appropriate investment, guidelines, tolerances and restrictions and the level and structure of investment fees and other costs.

Scope of Service

Ad hoc requirements

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

- Advise on specific investment markets or sectors.
- Advice on responsible investment matters.
- Advise on regulatory changes impacting fund investments or mandates.
- Provide training presentations to Strathclyde Pension Fund Committee or to the Strathclyde Pension Fund Sounding Board, the working group of the Committee.
- Provide bespoke investment research or advice.
- 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 – implementation:

- 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.