

CAMBRIDGESHIRE PENSION FUND



INVESTMENT SUB COMMITTEE

12th September 2019

Report by: HEAD OF PENSIONS

Subject	Independent Investment Adviser
Purpose of the Report	The purpose of this report is to outline the process for the appointment of an Independent Investment Adviser to the Cambridgeshire Pension Fund.
Recommendations	<p>That the Investment Sub Committee:</p> <ol style="list-style-type: none"> 1. Confirms that the Fund should tender for an independent Investment Adviser; 2. Notes the process and indicative timetable to appoint an Independent Investment Adviser to the Fund; 3. Instructs the Head of Pensions to take all steps to procure the Independent Adviser.
Approve	<p>Name: Richard Perry, Pension Services Financial Manager Tel: 07717 360604 Email: RPerry@Northamptonshire.gov.uk</p>

1. Purpose of the report

- 1.1. To outline the process for the appointment of an Independent Investment Adviser to the Cambridgeshire Pension Fund.

2. Background

- 2.1. The Committees of many LGPS Funds have the support of an Independent Investment Adviser. The role of the Adviser is primarily to give independent and considered advice to the Fund in the investment of its assets. The Adviser should also challenge the views of the ISC, the officers and the Investment Consultants, providing an alternative perspective to discussions and reflects best practice.
- 2.2. The tender for the Investment Adviser role is included in the Fund's Business Plan for 2019-20 that was approved by the Pension Fund Committee on 22nd March 2019 and therefore costs are included in current year budgets. The tender process is, however, subject to the Committee approval.

- 2.3. The Business Plan notes that Northamptonshire Pension Fund has an existing Independent Adviser whose contract expires at the end of January 2020. The Business Plan envisaged a joint procurement, sharing the costs of the exercise with Northamptonshire, although separate selections will be held for each Fund. Each Fund may appoint a different adviser or both Funds may appoint the same individual.

3. Independent advice

- 3.1. The Fund's investment strategy continues to evolve to meet the Fund's objectives whilst managing an appropriate level of risk. As dictated by the LGPS Investment Regulations, the Fund takes "proper advice" from its Investment Consultants Mercer Ltd.
- 3.2. Investment products and risk management solutions are growing in number and complexity. In the last 12 months the Fund has adopted Alternative Beta passive equity funds, has approved a Protected Equity strategy and may be considering Multi Asset Credit products and currency protection.
- 3.3. Whilst the ISC receive comprehensive briefing and training from Mercer, in this increasingly complex environment it is suggested that members would find it beneficial to have a second opinion from an Independent Adviser with industry experience (gained either as a fund manager or a senior LGPS officer). This would provide a different insight into investment solutions and knowledge of what products and solutions are being adopted by other LGPS funds (who are not Mercer clients).
- 3.4. It is therefore proposed that the Cambridgeshire Fund should appoint an Independent Adviser.

4. Selection process

- 4.1. Officers have consulted with LGSS Procurement to confirm the alternative procurement routes. Discussions continue to agree the most pragmatic option to attract the most relevant applicants. Involvement of LGSS Procurement will be chargeable, but the cost is contained within existing budgets.
- 4.2. A draft specification for the adviser role is attached as **Appendix 1**. This will be refined in conjunction with feedback from Mercer.
- 4.3. It is anticipated that the appointment will be made for an initial period of up to 5 years.
- 4.4. Submissions from applicants will be evaluated and interviews conducted by a panel consisting of the Section 151 Officer, the Chairman and Vice Chairman, and advised by the relevant officers of the Fund.
- 4.5. An indicative timetable is shown below. Specific dates may change depending upon the procurement route chosen.

Step	Target date (indicative)
ISC to note the process and timetable	20 September 2019
Final draft statement of requirements	14 October 2019

Issue Request for Quotation (RFQ)	1 November 2019
Deadline to receive responses	12 noon, 15 November 2019
Issue invitations to interview to shortlisted applicants	22 November 2019
Interviews with panel comprising s151, Chairman and Vice Chairman	2 December to 13 December 2019
Successful applicant notified, contract awarded	20 December 2019
Contracts signed, contract commences	1 February 2020
ISC paper to note the decision	21 February 2010

5. Recommendation

5.1. That the Investment Sub Committee:

- 5.1.1. Confirms that the Fund should tender for an independent Investment Adviser;
- 5.1.2. Notes the process and indicative timetable to appoint an Independent Investment Adviser to the Fund;
- 5.1.3. Instructs the Head of Pensions to take all steps to procure the Independent Adviser.

6. Relevant Pension Fund Objectives

<p><i>Objective 1</i> Have robust governance arrangements in place, to facilitate informed decision-making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance.</p>
<p><i>Objective 3</i> Ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment.</p>
<p><i>Objective 5</i> Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate.</p>
<p><i>Objective 18</i> Put in place a Strategic Asset Allocation ensuring it is appropriately maintained taking into account the Funding Strategy.</p>

7. Finance & Resources Implications

- 7.1. The costs associated with procurement are contained within the 2019/20 Business Plan and budgets.

8. Risk management

- 8.1. The ISC have the Authority to review and maintain the asset allocation of the Fund within parameters agreed with the Pensions Committee and the authority to appoint and terminate investment managers to the Fund. In both proposing the strategy to the Pension Committee and implementing the strategy the ISC are advised by external profession Investment Consultants, Mercer Ltd
- 8.2. The risks associated with implementing the strategy have been captured in the Fund's risk register as detailed below.

Risk register	Risk mitigated	Residual risk
Investment (Risk 4)	Fund assets are not sufficient to meet obligations and liabilities as they become payable.	Amber
Investment (Risk 19)	Failure to act appropriately upon expert advice and/or risk of poor advice.	Green
Investment (Risk 23)	Investment decisions and portfolio management may not achieve the return required or be performed in accordance with instructions provided.	Green

- 8.3. The Fund's full risk register can be found on the Fund's website at the following link:
<https://pensions.Cambridgeshire.gov.uk/app/uploads/2012/11/Risk-Register---Funding-and-Investment.pdf>

9. Communication Implications

- 9.1. None.

10. Legal Implications

- 10.1. Legal advice will be sought as required.

11. Consultation with Key Advisers

- 11.1. This paper has been produced in conjunction with the Fund's Investment Consultants, Mercer.

12. Alternative Options Considered

- 12.1. Included in the paper.

13. Background Papers

- 13.1. None.

14. Appendices

- 14.1. Appendix 1 – Independent Investment Adviser - specification.

Checklist of Key Approvals	
Is this decision included in the Business Plan?	Yes.
Will further decisions be required? If so, please outline the timetable here	Not applicable.
Is this report proposing an amendment to the budget and/or policy framework?	Included in existing budgets.
Has this report been cleared by Chief Finance Officer/Section 151 Officer?	Yes. Sarah Heywood.
Has this report been cleared by Head of Pensions?	Yes. Mark Whitby.
Has the Chairman of the Pensions Committee been consulted?	Yes. Cllr Rogers.
Has this report been cleared by Legal Services?	Yes. Fiona McMillan.

Independent Investment Adviser - Specification**1. OUTLINE OF THE ROLE**

- The Fund wishes to appoint a suitable person to support the Fund on the management of its investments in compliance with the LGPS Investment Regulations 2016.
- The Fund is looking for truly independent advice, which at times may challenge the views of the Investment Sub Committee, the officers, the investment consultants (currently Mercer Limited), external fund managers as well as other service providers to the fund, and bring a new perspective to the discussion.
- The appointment will be for an initial period of 5 years, with the option to renew. It will be subject to termination with 6 months notice from either side.

2. REQUIREMENTS OF THE ROLE.

The appointee may be required to advise on (but not limited to) the following areas:

- a) The investment aspects of the LGPS Regulations and other relevant pension's investments legislation as they apply to the Fund and the ACCESS asset pool.
- b) The appropriate investment strategy / strategic asset allocation to meet the Fund's liabilities.
- c) Appropriate investment management methods and structures for delivery of the strategy.
- d) The selection of ACCESS pool sub-funds or, where the available sub-funds are not appropriate to the Fund's strategic requirements, assisting with investment manager specifications to deliver the strategy.
- e) The selection of appropriate benchmarks and performance targets [including the ongoing monitoring and commentary on the relevance of those benchmarks and targets.
- f) The activity and performance of the Fund's investment mandates and the whole Fund.
- g) When to invest, switch or disinvest from investment mandates.
- h) The risks involved with existing or proposed investments including commentary/advice on interest rate risk, inflationary expectations, active versus passive management, long term investment returns, etc;
- i) The assessment of external influences affecting investment returns and the economic climate including commentary on industry developments, economic and investment issues with appropriate advice.
- j) Participation in any discussions relating to investment issues arising out of actuarial studies affecting the Fund;

Independent Investment Adviser - Specification

- k) Indirect investment issues such as custody, corporate governance, stock-lending, commission recapture, rebalancing, investment transition, fee structures, investment vehicle structures, etc.
- l) The fund's approach to responsible investment (Environmental/Social/Governance matters).

3. **PRACTICAL REQUIREMENTS**

The successful appointee will be:

- m) Required to attend between 8 to 10 day-time committee, board and/or performance monitoring meetings per annum, either at the County Council's offices in Cambridge or at Investment manager offices that are typically in London. Each meeting normally lasting about 4 hours and tend to commence at 9.30am. There may also be special purpose meetings (e.g. consideration of actuarial valuation results, appointment of investment managers, etc) where attendance will be required.
[Applicants to indicate whether they have the capacity to provide this level of commitment to Cambridgeshire alone or to both Cambridgeshire and Northamptonshire Funds].
- n) Able and willing to be involved in relevant Local Pension Board or Committee training events (internal & external) from time to time, typically 3 all day events per annum;
- o) Required to advise Cambridgeshire Pension Fund officers and (potentially) members of the Investment Sub Committee and Pension Fund Committee on an ad-hoc basis as issues arise, in person, by telephone, by email and at times by formal report; and
- p) Expected to give his/her opinion on committee reports, policy documents, performance data, consultation responses, etc, prepared by the Fund's officers, Investment Consultants or Investment managers as required.

August 2019