

The London Borough of Lewisham Pension Fund

Investment Consultant Objectives

Background

In December 2018 the Competition and Markets Authority (CMA) published the results of its investigation into the investment consultancy market, which looked at the supply and acquisition of investment consultancy and fiduciary management services in the UK. In June 2019, it then issued an Order to remedy some of the conclusions of that report, one remedy in particular being the requirement for Trustees of Local Government Pension Schemes to set objectives for their investment consultants.

The Order sets out that the Fund must establish objectives for its consultants no later than 10 December 2019. Revised guidance issued by the Scheme Advisory Board in October 2019 suggests the Ministry for Housing, Communities and Local Government will implement the remedy as an amendment to the Investment Strategy Statement statutory guidance; until such time, and to meet the December 2019 deadline, the Fund has chosen to publish a preliminary set of investment consultant objectives which will be developed over the coming months and incorporated into the Investment Strategy Statement when next updated in early 2020.

Investment Consultant Objectives	Potential Measures of Success
<p>Develop Clear Policies, Objectives and Beliefs</p> <ol style="list-style-type: none"> 1. Develop the Committee's policies and beliefs (including Responsible Investment considerations) through consideration of up-to-date evidence and challenge, and ensure this is reflected in all advice. 2. Assist in developing realisable long-term funding objectives. 	<ul style="list-style-type: none"> • The Committee has clear policies in place reflecting their beliefs and objectives (including those in respect of RI matters).
<p>Strategic Advice</p> <ol style="list-style-type: none"> 3. Develop and advise on investment strategies that: <ol style="list-style-type: none"> a. Are expected to achieve (at least) the returns required to maintain funding, with an acceptable level of investment risk for the Committee and employers. b. Support long-term affordability for employers. c. Reflect the Fund's cash flow requirements (positive or negative). d. Incorporate research on climate risk such as scenario testing, carbon footprint analysis, and impact on funding and investments, where it is appropriate and feasible to do so. e. Ensure Committee members understand the implications of different strategic options, including associated risks, so that they can make decisions with sufficient knowledge and confidence. 	<ul style="list-style-type: none"> • The Fund remains on track relative to longer term funding plans as measured on 5 year rolling periods. • The funding level remains within the expected variation of outcomes. • Investment approach delivers sufficient income and liquidity to pay benefits as they fall due (after allowing for net contributions and other cash flow). • Performance (net of fees) in line with expected relative to the strategic asset allocation, as measured over rolling 3 year periods. • The Fund's exposure to climate risk and the transition to a low-carbon economy has been assessed, and approaches proposed to manage such risks.

<p>Compliance</p> <p>4. Ensure advice complies with relevant pensions regulation, legislation and supporting guidance, and is consistent with the Committee's beliefs and the Fund's objectives.</p>	<ul style="list-style-type: none"> • The Committee has complied with relevant pensions regulations, legislation and supporting guidance.
<p>Efficient Implementation</p> <p>5. Advise on the cost efficient implementation of the Fund's investment strategy as required, considering approaches including via the London CIV, the use of suitable benchmarks, active or passive management.</p> <p>6. Develop an investment approach that reflects the Fund's cash flow position, and likely evolution, and minimises the risk of forced disinvestment.</p>	<ul style="list-style-type: none"> • Cash flow obligations (including benefit payments) have been met in full as they fall due, without the need to disinvest at inopportune times. • The Committee has considered alternative implementation approaches and made an informed decision on an approach reflecting the Fund's requirements.
<p>Research, Reporting and Delivery</p> <p>7. Provide accurate and timely reporting to enable the Committee to monitor the success of the investment approach and opportunities to improve outcomes.</p> <p>8. Provide advice on the suitability of investment managers and/or the London CIV, including Responsible Investment considerations.</p> <p>9. Provide advice on regulatory developments and any additional compliance requirements.</p> <p>10. Work within agreed budgets and be transparent with regards to advisory costs and the costs of any additional work.</p>	<ul style="list-style-type: none"> • The Committee has been able to determine the main drivers of investment performance, and identify risks/opportunities as they arise (if relevant). • The Committee has confidence that appointed managers (including the Pool) are exercising their Responsible Investment obligations appropriately. • Advisor costs do not exceed quoted and agreed fees, except when otherwise approved.