

Pensions Committee

2.00pm, Tuesday, 12 December 2017

Appointment of Providers

Item number	5.5
Report number	
Executive/routine	
Wards	All
Council Commitments	Delivering a Council that works for all

Executive Summary

This report provides an update on the appointment of providers for services to the pension funds covering the period since the last report in March 2016 to date.

Appointment of Providers

1. Recommendations

Committee is requested to:

- 1.1 Note the appointments of the providers for the pension funds.

2. Background

- 2.1 Service providers to the pension fund are reviewed, and tendered, on a regular basis. The way in which services are procured, and the process and resource involved in the process, depends on the expected costs of the service. The more significant contracts are typically procured via advertising in the Official Journal of the European Union (OJEU), with a number of officers involved in assessing potential providers. Each provider is required to evidence their ability to provide the service, for example by providing references and via interviews.
- 2.2 Collective procurement by the Local Government Pension Scheme (LGPS) has increased over recent years, particularly using the National LGPS Framework which is coordinated by Norfolk County Council. Frameworks are available for all LGPS funds to use, enabling the LGPS to optimise combined buying power to deliver greater value for money and offering all funds fast and efficient access to services via a fully OJEU compliant route.

3. Main report

Stewardship Services

- 3.1 Hermes' contract to provide stewardship (i.e. engagement and voting) services originally expired in June 2016. In March 2016, Committee agreed to extend the contract to March 2017. In March 2017, Committee approved a further extension to June 2018 to allow for time for implementation of the Joint Investment Strategy Panel and for consideration of a collaborative tender processes.

Investment Management Services

- 3.2 On 22 March 2017, the Fund terminated its agreement with State Street to manage equity and bond investments on behalf of the Scottish Homes Pension Fund. The mandate is now managed in-house.

3.3 Standard Life's contract to provide property management services for the direct property holdings of Lothian Pension Fund was due to expire in June 2017. In March 2017, Committee approved an extension to June 2018 to allow for time for a review of property investment by the newly established Joint Investment Strategy Panel. The review concluded that:

3.3.1 there could be opportunities for FCPF and LPF to collaborate to invest in new properties at a measured pace, subject to availability of opportunities and an appropriate legal/tax structure being in place;

3.3.2 the Funds investigate the possibility of hiring a new property portfolio manager to oversee property fund investments;

and a more detailed plan on options will be prepared with the benefit of additional specialist resource.

Custody Services

3.4 As reported to the Committee in September 2016, the contract with the Fund custodian, Northern Trust, was due to expire 28 February 2017. After conducting a benchmarking exercise to ensure that value for money was being obtained, the Fund took up the option of extending the contract by 3 years (taking the contract up to 29 February 2020).

Performance Measurement Services

3.5 The Fund completed a tender for investment performance and risk analysis in late 2016. The new contract was awarded to Portfolio Evaluation (the previous provider) and runs for 5 years from 1st January 2017 with an option to extend by 3 years.

Pension Administration Software System

3.6 The pension administration software system Invitation to Tender was initially issued in June 2017, but was reissued in July owing to the need to provide further clarity to bidders. Specifically, although pre-market engagement meetings with potential providers had highlighted that the successful contractor would be solely responsible for the design specification of calculations, responses indicated that this had not been explicit enough in the original documentation. The opportunity was also taken to affirm certain other mandatory requirements. At the time of writing, evaluation of the bids is ongoing and it is hoped that an appointment will be made soon. There is not expected to be any implementation delay, in that the original timetable to align with the expiry of the current contract for core supply, of October 2018, should be met.

Actuarial Services

3.7 The actuarial services contract is due to expire in March 2018 and is being tendered with an appointment to be made by April 2018. It is intended to utilise the existing LGPS Framework Contract for such supply and a mini-competition will determine the provider from those companies already identified through the framework. It is anticipated that this will commence very shortly.

Mortality Screening and Tracing Services

- 3.8 There is a requirement to procure mortality screening and tracing services (member addresses). The contract will be for one year with the option of a one year extension. Norfolk Pension Fund is currently developing a national LGPS Framework Contract for these services and it is intended that the Fund should drawdown from this provision once established.

Front Office Service System

- 3.9 An invitation to tender has been issued for provision of an investment front office software system, which will further strengthen the risk management and controls for the Fund's internal investments. Tender responses are due on 23 November 2017, with tender assessment due for completion thereafter. Presentations from short-listed candidates will then be scheduled in January 2018, with conclusion expected by end February.

Investment Broker Research

- 3.10 Committee will recall the requirement under MiFID II regulations to unbundle research and execution fees paid to investment brokers by January 2018. This is a major change for the industry and providers are having to reassess their business models. Accordingly, a budget of £500K for research costs has been included in the Funds' budget in the last two years. Although the budget has not yet been used to any great extent, a similar scale of costs will have been incurred in the past but incorporated within trading costs.
- 3.11 The Fund's investment team has reviewed its needs, covering both macro economic and company specific research, and has selected its preferred brokers for the unbundled research. Contracts are currently being put in place.
- 3.12 Similar to the existing review of providers of bundled services, an annual review is planned to ensure that research services and costs are justifiable and remain appropriate to the Funds' needs.

Other providers

- 3.13 As result of Quick Quote procurements, the following providers have been appointed to provide services:
- 3.13.1 Ernst & Young for the preparation of a benchmarking report on custodian tax services covering the 12 months to 31 July 2017.
- 3.13.2 New Change Currency Consultants Limited for the preparation of the benchmarking report on foreign exchange transactions covering a 12 month period ending in 2017.
- 3.13.3 Ernst & Young for the preparation of Fokus Bank type claims in respect of Germany for calendar years 2015 and 2016. However, Officers have decided that, based on an assessment of the cost and the perceived likelihood of the claims ultimately being paid, these additional claims should not be made.

3.13.4 BSR for the provision of tax accountancy services in India for the 12 months ending 30 September 2018.

3.13.5 KPMG for the provision of US federal and state tax return filing services for calendar year 2016.

3.13.6 Payescape for the provision of payroll, HR and time recording systems for LPFE Limited for 3 years to 31 July 2020.

4. Measures of success

4.1 Providers are set objectives against which performance is assessed. Regular tendering of providers ensures service is reviewed.

5. Financial impact

5.1 Appropriate provision for costs has been provided within the approved budget 2016/17, the proposed budget for 2017/18 and indicative budget for 2018/19.

6. Risk, policy, compliance and governance impact

6.1 Management of service providers and appropriate procurement reduces risk to the pension funds.

7. Equalities impact

7.1 There are no equalities implications as a result of this report.

8. Sustainability impact

8.1 The provider of stewardship services will include consideration of environmental implications in its engagement with companies.

9. Consultation and engagement

9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund and they are invited to comment on the relevant matters at Committee meetings.

10. Background reading/external references

10.1 None.

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11. Appendices

None