

GLOBAL CUSTODIAN SERVICES CONTRACT REVIEW

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

- Recommendations:**
- (a) That the Committee approves the use of the National LGPS Framework Agreement to secure a new contract for Global Custody Services.**
 - (b) That the appointment process and final decisions be delegated to the Chairman in consultation with the County Treasurer.**

1. Introduction

- 1.1. In accordance with the principles of best practice for investment management the Devon Pension Fund uses the services of specialist custodians to work alongside our external fund managers in ensuring the safe custody of the investment assets owned by the Fund.
- 1.2. J.P. Morgan was awarded the contract to provide Global Custodian services to the Devon Pension Fund on 1 April 2008. A revised fee structure for providing the service was reviewed and accepted in 2011 and is due to expire on 30 May 2014. It is therefore proposed to review and re-tender the contract.

2. Custody Arrangements

- 2.1. A custodian is a financial institution that holds customers' securities for safekeeping in order to minimise the risk of theft or loss. Most custodians also offer a variety of other services including investment accounting, account administration, transaction settlements, collection of dividends and interest payments, tax support, foreign exchange and securities lending.
- 2.2. The Devon Pension Fund uses a global custodian service to ensure that there is a separation of investment management arrangements from the custody of assets. In addition, cost savings arise from the use of a custodian due to the fact that they will act on the behalf of many institutional investors and are therefore able to exploit economies of scale. The service provided by a custodian is vital to ensure the efficient running of the Fund.
- 2.3. The cost of providing these services will vary depending on the number of holdings and transactions undertaken over the course of the year, but is currently between £150,000 and £200,000 per annum.

3. The National LGPS Framework for Global Custody Services

- 3.1. In the past it would have been necessary to undertake a full OJEU (Official Journal of the European Union) compliant procurement process to award a new Global Custody contract. However, over the last year a national procurement framework has been set up for custody services, as one of a number of national LGPS procurement frameworks.
- 3.2. A procurement framework is an agreement put in place with a provider or range of providers that enables customers to place orders for services without running lengthy full tendering exercises. Frameworks are based on large volume buying. Aggregating the potential needs of different buyers means individual buyers can source services at lower prices, or with special added benefits and/or more advantageous conditions.
- 3.3. The national LGPS frameworks are the result of collaboration between a number of funds with procurement, legal and project management support provided by Norfolk County Council and the Norfolk Pension Fund. They are a direct example of funds with shared interests and vision collaborating effectively to deliver benefits both locally and nationally across the entire LGPS. The initiative is supported by the Department for Communities and Local Government and the Local Government Association, and has been presented as good practice in view of the Government's current agenda of reducing the cost of the LGPS to taxpayers.
- 3.4. The Global Custody Framework was established with the support of specialist technical and legal advisors. Such advice can often cost funds up to £100,000 for a global custody procurement. The technical analysis, provided by Mercer Sentinel, also supports the call-off process. The framework agreement is OJEU compliant, removing the need to independently undertake a full OJEU procurement process, as this has already been completed as part of setting up the framework.
- 3.5. The national frameworks are multi-provider, allowing several qualified providers to be on the framework. The following custodians have all been awarded contracts to participate in the framework:
 - BNP Paribas Securities Services
 - BNY Mellon
 - HSBC Securities Services
 - JP Morgan
 - Northern Trust
 - State Street
- 3.6. Agreed terms and conditions are provided so LGPS Funds can simply 'call-off' the framework to meet their own local requirements. When an LGPS Fund opts to buy a service from the framework agreement, they 'call off' the framework by running a mini-competition amongst the providers on the framework, which can take 4-6 weeks. This enables Funds to locally define their requirements.
- 3.7. A one-off joining fee of £8,000 is payable to join the National LGPS Framework for Global Custody Services. This fee provides access to the framework including all contractual documentation, terms and conditions, ceiling prices, shared rebate provision and ongoing support.

4. Conclusion

- 4.1. Using the National LGPS Framework can save significant time and money, whilst still delivering a service specified to local requirements, and supporting local decision making and accountability. Benefits for the Devon Pension Fund are as follows:
- Significant reduction in procurement costs and timescale.
 - Flexibility in the planning and running of the tender process via mini-competition.
 - Robust frameworks resulting from thorough professional due diligence.
 - More money spent via the framework results in better prices for Funds using it.
 - Pre-agreed terms and conditions – Funds simply ‘call off’ the framework to meet their requirements.
 - Ceiling prices that can be further reduced by competition at call off.
 - Detailed and easy to use guides, support and templates.
- 4.2. It is therefore proposed that the National LGPS Framework be used to secure a new contract for Global Custody Services, and that the six providers listed in section 3.5 above be invited to take part in a mini-competition exercise, in accordance with the framework agreement.
- 4.3. It is proposed that the appointment process and final decisions be delegated to the Chairman in consultation with the County Treasurer.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers - Nil

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