

INVESTMENT CONSULTANCY CONTRACT PROCUREMENT AND INVESTMENT STRATEGY REVIEW

Report of the Director of Finance and Public Value

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

1) Recommendation

That the Committee be asked to:

- (a) Note the appointment of Redington to provide investment consultancy services to the Devon Pension Fund as and when required.
- (b) Approve the commissioning of an external review of the Fund's investment strategy and strategic asset allocation;
- (c) Approve the specification and strategic objectives as set out at Appendix 1 to this report.

2) Introduction

- 2.1 At the June 2023 meeting of the Investment and Pension Fund Committee it was resolved to undertake a procurement exercise, using the LGPS National Framework for Investment Consultancy Services. The Fund needs investment consultancy advice from time to time and the appointment of consultants for a period of 6 years would enable the Fund to call off individual pieces of work as and when required.
- 2.2 The procurement exercise was delayed in order that procurement resources could be focused on the procurement of a new actuarial contract but has now been undertaken. This report sets out the process undertaken and the outcome of the procurement exercise.
- 2.3 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require each LGPS administering authority to have in place an Investment Strategy Statement. The guidance requires that the Investment Strategy Statement should be revised at least every three years, and when any significant changes are made to the Fund's investment strategy.
- 2.4 While a number of adjustments have been made to the Investment Strategy Statement, it is now three years since the last external major review of the investment strategy. Therefore, it would be good practice to commission a further

review, which will then feed into the assumptions used in the 2025 Triennial Actuarial Valuation. This report seeks Committee approval to commission the review.

3) Investment Consultancy Contract

- 3.1 The use of the LGPS National Framework means that an initial exercise had been undertaken on behalf of all LGPS funds to appoint providers to the framework. Individual funds can then use the framework to undertake a “mini-competition” between the providers appointed to the framework in order to award a contract.
- 3.2 Six providers under the National LGPS Framework took up the opportunity to participate in a mini-competition exercise, in accordance with the framework agreement. The specification for the mini-competition specified that submissions would be judged 80% on quality and 20% on price.
- 3.3 Each submission was independently evaluated and awarded scores for quality by an evaluation panel comprising the Head of Pensions and Investments), the Investment Manager and the Committee’s Independent Investment Advisor, supported by the Devon County Council Procurement Team.
- 3.4 The panel then met to agree consensus scores. These were then added together with scores based on an assessment of price to determine a preferred bidder. The result of the process was that Redington were awarded the contract.
- 3.5 Redington were founded as an investment consultancy in 2006 and work with several LGPS clients, including Wiltshire and Gloucestershire. They have recently announced their acquisition by Arthur J. Gallagher (Gallagher), one of the world’s largest insurance brokerage, risk management and consulting firms.
- 3.6 Their LGPS team who will do the work for the Devon Fund have significant experience of working in and with the LGPS. The LGPS team sits within their wider Investment Consulting team – an 86-person strong team responsible for servicing 140+ clients.

4) Review of Investment Strategy

- 4.1 Following the appointment of Redington, it is now proposed to commission them to undertake a review of the Fund’s investment strategy and strategic asset allocation. The aim of the review would be to consider the Fund’s current investment strategy and consider whether any changes are required to better manage risk and achieve the required return to meet our long term liability to pay pensions.
- 4.2 The review will also need to consider the Fund’s policies on responsible investment and climate change and build in a climate scenario analysis of the impact of various temperature rise scenarios on the risk and return of the strategy. The review will also consider the Government’s desire to encourage more investment in the UK. The

intention would be that any new areas of investment should ideally be achievable via portfolios/funds provided by the Brunel Pension Partnership.

- 4.3 As part of the review it is proposed to undertake a survey of Committee members. This will be compiled by Redington and will address the Committee's high level strategic objectives and beliefs on investment strategy, including views on risk appetite and the approach to responsible investment. The aim would be to issue the survey during December, with responses due by early January
- 4.3 The next Triennial Actuarial Valuation is due as at 31 March 2025. The outcome of the review of the Investment Strategy will determine the Fund's long term investment strategy, which will then be fed into Barnett Waddingham's discount rate assumptions that will be used in undertaking the Valuation, determining the funding level and setting employer contribution rates.
- 4.4 Under Part 7 of the Investment Consultancy and Fiduciary Management Market Investigation Order 2019, issued by the Competition and Markets Authority:

“Pension Scheme Trustees must not enter into a contract with an Investment Consultancy Provider for the provision of Investment Consultancy Services or continue to obtain Investment Consultancy Services from an Investment Consultancy Provider unless the Pension Scheme Trustees have set Strategic Objectives for the Investment Consultancy Provider.”

- 4.5 For the purposes of this regulation the Investment and Pension Fund Committee act as quasi-trustees, and therefore need to agree strategic objectives for the review. The specification / strategic objectives proposed are set out at Appendix 1. This also includes a proposed timetable for the review. This includes a workshop for the Committee which is proposed to take place on Monday 10th February with an initial report to be considered by the Committee at the meeting on 3rd March.

5) Conclusion

- 5.1 The Committee is asked to note the appointment of Redington to undertake consultancy work as and when required, following completion of the procurement process.
- 5.2 The Committee is asked to approve the commissioning of a review of the Fund's investment strategy from Redington, in accordance with the timetable and strategic objectives set out in Appendix 1.

Angie Sinclair

Director of Finance and Public Value

Electoral Divisions: All

Local Government Act 1972: List of background papers

Nil

Contact for enquiries:

Name: Mark Gayler

Telephone: 01392 383621

Address: Room 196 County Hall

Appendix 1

Devon Pension Fund Strategic Investment Review Specification and Strategic Objectives for Consultants

1. The Devon County Council Pension Fund is seeking an investment strategy review, to advise on the Fund's investment strategy to meet the fund liabilities, including a formal report and a discussion meeting with officers and a presentation to the Investment and Pension Fund Committee.
2. The Triennial Actuarial Valuation of the Fund as at 31 March 2025 is due to take place over the year following the review. It is intended that the results of the review should be taken into account in the assumptions to be used in that review. In particular, any revisions to the strategic asset allocation would be taken into account in determining the appropriate discount rate. The review should therefore take into account the methodologies used by the Fund Actuary and the best information available on the current funding position, making use of the quarterly funding updates provided by the Fund Actuary.
3. The review should make use of significant data on investment markets and use the appropriate modelling software to analyse the data in order to inform the review's conclusions.
4. The review should assess the appropriate strategic asset allocation for the Devon Fund, including the split between "growth" assets and "fixed interest" type assets, geographical allocations, the balance between active and passive management of assets, the balance between liquid and illiquid asset classes and currency hedging issues. This should take into account the structure of the Fund's liabilities and cashflow profile, appropriate risk management and diversification, and the setting of appropriate performance targets and benchmarks. The review should also consider the UK Government's growth agenda and potential relevance to future investment options.
5. The review should concentrate on the investment strategy rather than investment manager related activities or functions which are the responsibility of the Brunel Pension Partnership. The review will need to take into account the availability of investment solutions through the Brunel Pension Partnership when considering the practicality of implementing of any revisions to the investment strategy.
6. The outcome of the review would be the provision of a formal report on an investment strategy review, which must include, but not necessarily be limited to, providing advice on:
 - (a) Strategic Asset Allocation in the context of the current funding position.
 - (b) Risk management in the context of the current funding position.

- (c) Scenario analysis in respect of TCFD (Taskforce for Climate-related Financial Disclosures) requirements.
- (d) The issues outlined in paragraph 4 above.

7. The report should be supplemented by narrative that can be used to update the Fund's Investment Strategy Statement, including a draft section on risk measurement and management.

Proposed Strategy Review Timeline

