

By: Chairman Superannuation Fund Committee
Corporate Director of Finance and Procurement

To: Superannuation Fund Committee – 28 August 2015

Subject: **PENSION FUND CUSTODY SERVICES REVIEW**

Classification: Unrestricted

Summary: To update the Committee on the outcome of the custody services review and contract tender

FOR INFORMATION

INTRODUCTION

1. At its meeting in August 2014 the Committee was advised that KCC would be undertaking a review of the Pension Fund investments back office function. This review has been completed and, following a procurement process using the LGPS global custody services framework, a contract for custody and accounting services has been awarded to The Northern Trust Company to commence on 2 November 2015.
2. The contract has been issued with a 3 year plus 1+1 year extension periods achieving a significant reduction in future costs compared to the current rate.

SERVICE REVIEW

3. The current value of the Pension Fund is £4.5bn. Custodian services are used for its total segregated funds, which currently stand at £1.9bn. These assets are held by the custodian as the nominee for safekeeping; the custodian also settles all transactions in these assets carried out by the fund managers on our behalf.
4. Currently, Custodian Services are provided by JP Morgan, accounting is undertaken by KCC using the Shareholder system and the WM Company provides performance measurement services. As previously reported to the Committee, this arrangement necessitates separate flows of information, resulting in duplication. This is time consuming, requires several layers of validation, and delays the production of accounting and management information.
5. The review therefore considered the following 2 options:
 - i) KCC to continue to provide the accounting service and implement an upgraded Shareholder system. Look to transfer all non-

Shareholder based recordkeeping onto the upgraded Shareholder and dispense with Excel spreadsheets. Using the LGPS Custody Framework either to continue to use the JPM custody service or engage a new custodian. Continue to use the performance measurement service provided by The WM Company.

- ii) Call off the LGPS Custody Framework for one provider of fund custody, accounting and performance measurement services and cease the use of Shareholder and WM other than for league tables.
6. At the outset it was envisaged that option ii) would be pursued due to the advantages it afforded of seamless processes and timely information being available, besides affording staff time to carry out value added functions. Performance measurement services were however left out of the scope of this tender with the option to add to the contract in the future.

PROCUREMENT PROCESS

7. It was agreed to use the LGPS global custody services framework and to invite the 6 banks on the framework to tender for the supply of Custody Services with the option to contract for Accounting Services covering all asset classes of the fund. Quotes were also invited for the Performance Measurement Service for information for future use. These services are included under the National LGPS Global Custody Services Framework.
8. Tenders were received from BNP Paribas Securities Services, BNY Mellon, J.P.Morgan, Northern Trust and State Street. HSBC Securities Services did not tender.

EVALUATION OF TENDER RESPONSES

9. Proposals were evaluated on the following basis:

Criteria	Weighting %
Quality Offered (Part 1 and 2)	30
Service Fit (Part 1 and 2)	30
Value for Money	40
Total	100

10. Providers' capabilities / proposals against part 1 of each criterion were evaluated and pre-scored by Mercer Sentinel as part of the framework management process. KCC then determined the relative weightings for the pre-evaluated capabilities /proposals to include in the evaluation and the latest scores by Mercer as at 31 December 2014 were used for this purpose.

11. Providers were also scored on their responses to the additional specific questions detailed in Part 2 of each criterion. One question was identified as Mandatory to be answered as a 'Yes' or 'No'. A 'No' in response to the mandatory question would have disqualified the applicant from providing services under this Tender.
12. As part of the evaluation process suppliers were invited to attend an interview particularly to demonstrate their technology and reporting systems. The interviews were used to verify and clarify the content of the answers given, and final scores were agreed after the completion of the interviews.
13. The final scores for each section were collated giving a final total and the highest score used to identify the preferred provider.

CONTRACT AWARD

14. A contract for custody and accounting services has been awarded to The Northern Trust Company primarily on the basis of their competitive pricing. It was evident that all of the providers who tendered would have been able to deliver this contract. Favourable references were also received from other LGPS Funds who contract with Northern Trust.
15. The contract was signed on 31 July and will commence on Monday 2 November 2015.
16. Over the 5 years of the new contract we expect to receive enhanced custody and accounting services as well as achieve a reduction in future costs of more than 50% against the existing rate.

FUTURE REPORTING TO THE COMMITTEE

17. Over the next 6 to 9 months KCC finance officers' efforts will be mainly focused on achieving a successful transition of custody and accounting services to Northern Trust. At the same time consideration will be given to the development of enhanced reporting to the Committee and the future provision of performance measurement services with reference to responses to the recent tender process.

RECOMMENDATION

18. Members are asked to note the outcome of the investments back office services review and contract tender.

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