

	<p><b>Pension Fund Committee</b></p> <p><b>4 September 2014</b></p>
<p><b>Title</b></p>	<p><b>Change of Custody Arrangements</b></p>
<p><b>Report of</b></p>	<p>Chief Operating Officer</p>
<p><b>Wards</b></p>	<p>N/A</p>
<p><b>Status</b></p>	<p>Public</p>
<p><b>Enclosures</b></p>	<p>Appendix 1 - Summary DPR approving a single tender action in relation to the proposal.</p>
<p><b>Officer Contact Details</b></p>	<p>Iain Millar, Head of Treasury Services 0208 359 7126</p>

### Summary

This report recommends the appointment of the Pension fund custodian.

### Recommendations

1. That the Committee approve the appointment of Bank of New York Mellon as custodian of the investments managed by Newton Investment Management Limited for a period of up to two years.

## **1. WHY THIS REPORT IS NEEDED**

- 1.1 To ensure that the pension fund is being invested prudently and in accordance with the investment strategy.

## **2. REASONS FOR RECOMMENDATIONS**

- 2.1 In approving the change of custody arrangements, the Pension Fund Committee are ensuring the efficient and cost effective management of resources.

## **3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED**

- 3.1 The procurement of a global custodian will be undertaken within the next two years after current fund manager arrangements have been reviewed. The cost of undertaking the procurement is greater than the option proposed.

## **4. POST DECISION IMPLEMENTATION**

- 4.1 The Investment Management Agreement with Newton Asset Management will be amended to reflect the change in custody arrangements and a Global Custody Agreement with Bank of New York Mellon will be signed and sealed.

## **5. IMPLICATIONS OF DECISION**

### **5.1 Corporate Priorities and Performance**

- 5.1.1 To ensure that the pension fund is being invested prudently and to the best advantage in order to achieve the required funding level. In approving the change of custody arrangements, the Pension Fund Committee is ensuring the efficient and cost effective management of resources

### **5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)**

- 5.2.1 Under the terms of the Investment Management Arrangement (IMA) with fund manager Newton Investment Management Limited, Newton appointed affiliate, The Bank of New York Mellon, London Branch (BNYM) to act as the custodian of the LB Barnet Pension Fund portfolio of investments and cash managed by Newton.
- 5.2.2 Newton has now decided to withdraw from this ancillary service following a review of its operations and is reducing its annual management charge for two years effective from the appointment of a third party custodian by the current minimum core custody fee of £10,200.

- 5.2.3 The Bank of New York Mellon have offered to provide a direct custody service and have offered the minimum core custody fee of £10,200 based on the last 12 months custody activity.
- 5.2.4 The costs of custody for the fund are minimal because of investment in a pooled vehicle but this is a technical specialist area.
- 5.2.5 The costs of procurement are likely to be greater than the annual custody fee. It would be more efficient to review custody arrangements at the same time as considering the selection and appointment of any new fund manager.
- 5.2.6 It is therefore recommended to appoint Bank of New York Mellon as interim custodian pending a review of current fund manager arrangements.

### **5.3 Legal and Constitutional References**

- 5.3.1 Constitution – Part 15 Responsibility for Functions –Responsibility for Council Functions delegated to the Pension Fund Committee through the Pension Fund Governance Compliance Statement includes the appointment of fund managers and custodians. (paragraphs 2.2.6 and 2.2.9).
- 5.3.2 Paragraph 9.1 of the Contract Procedure Rules provides that a single tender action or commitment is not allowed unless approved in advance by the Commercial and Customer Service Director. This approval has been obtained and is attached to this report.

### **5.4 Risk Management**

- 5.4.1 The separation of investment management from custody is a crucial aspect of security of the pension fund assets.

### **5.5 Equalities and Diversity**

- 5.5.1 Pursuant to the Equalities Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation.
- 5.5.2 Accurate financial accounting and reporting for pension fund investments by the custodian, is important to ensure the management of resources to enable the equitable delivery of services to all members of the community and to reduce the differential impact of the services received by all of Barnet's diverse communities.

## **5.6 Consultation and Engagement**

5.6.1 Not Applicable.

## **6 BACKGROUND PAPERS**

6.1 None