

Report for: **ACTION**



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| Contains Confidential or Exempt Information | <i>NO - Part I</i> |
| Title | Global Custody |
| Responsible Officer(s) | Nick Greenwood |
| Contact officer, job title and phone number | Pedro Pardo Investment Manager 01628 796704 |
| Member reporting | Not applicable |
| For Consideration By | Pension Fund and Pension Fund Advisory Panels |
| Date to be Considered | 11 April 2016 |
| Implementation Date if Not Called In | Not Applicable |
| Affected Wards | None |

REPORT SUMMARY

1. This report seeks approval for the continuation of the Pension Fund's contract with JP Morgan Security Services for the provision of custodial services to the Pension fund.

If recommendations are adopted, how will residents, fund members and other stakeholders benefit?

| Benefits to residents and reasons why they will benefit | Dates by which residents can expect to notice a difference |
|--|--|
| 1. Safekeeping of the Pension Fund's assets is essential | On-going |

1. DETAILS OF RECOMMENDATIONS

RECOMMENDATION: That Panel

- i. confirms that the custody contract with JP Morgan continues until a custody review is undertaken once investment pooling arrangements with other Local Government Pension Scheme funds have been finalised.

2. REASON FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

Five years ago, JP Morgan was appointed global custodian to the Fund for an initial period of 5 years commencing 1 April 2011 with the potential, subject to satisfactory performance by J P Morgan, to extend for a further period of 5 years at the Council's option.

JP Morgan currently provides accounting, valuations and performance measurement independently from the Fund. They ensure that all payments, fund subscriptions and redemptions are authorised, settled and executed in a timely manner with appropriate segregation of duties, audit trail and reporting. JP Morgan also manage all ad-hoc cash-flows for private market investments where managers call down or distribute cash as required, for instance private equity, infrastructure and global property funds. Over the last five years, all pooled funds, hedge funds and limited partnerships were re-registered in the name of the Custodian, who carried out all purchases and sales on our behalf alleviating various operational risks.

Among recent enhancements to the service, they undertook a full review of the Fund's private markets data since inception. In the process, some historical entries were corrected and a more standard classification of the various data items enabled more accurate and comparable performance measurement. They also enhanced their portal to make it more integrated and allow user interaction, access to the various platforms and corresponding reports from a single website. JP Morgan also acquired Burgiss, whose suite of software, tools and data service solutions will significantly enhance performance/risk reporting and benchmarking efforts for private market investments.

Conclusion

The overall performance of JP Morgan over the last five years has been satisfactory and tendering the contract at this time would be costly and distracting in a period of likely significant change in the context of LGPS pooling. Therefore, Officers recommend that the custody contract with JP Morgan be continued until a custody review is undertaken once the final arrangements for investment pooling with other Local Government Pension Scheme funds are finalised.

| Option | Comments |
|---|--|
| Continue the contract with JP Morgan | Recommended |
| Re-tender contract | Not recommended. The appropriate time for reviewing custody arrangements will be when arrangements for the pooling of investment assets have been finalised. |

3. KEY IMPLICATIONS

| Defined Outcomes | Unmet | Met | Exceeded | Significantly Exceeded | Date they should be delivered by |
|---|-----------------------|-----------------------------|----------|------------------------|----------------------------------|
| Assets of the Pension Fund are held securely by a third party | No custodian in place | Assets held in safe custody | | | On-going |

4. FINANCIAL DETAILS

Financial impact on the budget

- 4.1 Custody costs are borne by the Pension Fund and amounted to £283,000 in 2015/16

5. LEGAL IMPLICATIONS

- 5.1 None

6. VALUE FOR MONEY

- 6.1 The contract was tendered in 2011 and will be reviewed in 2018 once final investment pooling arrangements have been finalised.

7. SUSTAINABILITY IMPACT APPRAISAL

- 7.1 None

8. RISK MANAGEMENT

- 8.1 Loss/ misappropriation of assets causing loss to the Pension Fund

| Risks | Uncontrolled Risk | Controls | Controlled Risk |
|------------------|---|----------------------------|---|
| Loss of assets | Loss of assets causing a financial loss to the Fund | Appoint a global custodian | Assets are held securely by a third party |
| Misappropriation | Misappropriation | Appoint a global | Assets are held |

| Risks | Uncontrolled Risk | Controls | Controlled Risk |
|--------------|--|-----------------|---------------------------|
| of assets | of assets causing financial loss to the Fund | custodian | securely by a third party |

9. LINKS TO STRATEGIC OBJECTIVES

9.1 Not Applicable

10. EQUALITIES, HUMAN RIGHTS AND COMMUNITY COHESION

10.1 Not Applicable

11. STAFFING/WORKFORCE AND ACCOMMODATION IMPLICATIONS

11.1 None

12. PROPERTY AND ASSETS

12.1 Pension Fund assets to be held securely by an independent global custodian in-line with recognised best practice.

13. ANY OTHER IMPLICATIONS

13.1 None

14. CONSULTATION

14.1 Not Applicable

15. TIMETABLE FOR IMPLEMENTATION

15.1 Not Applicable

16. APPENDICES

- None

17. BACKGROUND INFORMATION

- Not Applicable