



# Committee Report

<b>Decision Maker:</b>	<b>PENSION FUND COMMITTEE</b>
<b>Date:</b>	<b>23 October 2019</b>
<b>Classification:</b>	<b>General Release</b>
<b>Title:</b>	<b>Global Custodian Contract Extension</b>
<b>Wards Affected:</b>	<b>None</b>
<b>Policy Context:</b>	<b>Effective control over council activities</b>
<b>Financial Summary:</b>	<b>There are no immediate financial implications arising from this report.</b>
<b>Report of:</b>	<b>Phil Triggs</b> <b><i>Tri-Borough Director of Treasury and Pensions</i></b> <a href="mailto:ptriggs@westminster.gov.uk">ptriggs@westminster.gov.uk</a> <b>020 7641 4136</b>

## 1. EXECUTIVE SUMMARY

- 1.1 The Pension Fund global custodian contract with Northern Trust is due to expire on 30 September 2019.
- 1.2 The current contract, approved at the Audit, Pensions and Standards Committee on 30 June 2014, has scope for an automatic two-year extension on the current terms.
- 1.3 Due to the changing nature of the Local Government Pension Scheme (LGPS), Northern Trust remains the only realistic appointment for London Local Authority LGPS pension schemes. This arises from most London Local Authority assets being pooled with the London CIV (LCIV), who employs Northern Trust, and therefore other providers cannot be competitive in the market.
- 1.4 Northern Trust have offered to apply the LCIV level of discount, saving £8k per annum.

## 2. RECOMMENDATIONS

- 2.1 The Pension Fund Committee is recommended to approve the continuation of the global custodian contract with Northern Trust for an additional two years up to 30 September 2021, with an estimated annual cost of £25k per annum.

### **3. BACKGROUND**

- 3.1 On 14 July 2014, the Audit, Pensions and Standards Committee agreed to award the contract to Northern Trust for a period of five years with a two-year extension, with an original estimated cost of £52,250 per annum.
- 3.2 It was Central Government's view in 2015 that LGPS Pension Funds should be pooling their assets in order to achieve savings on investment manager and other operational fees through economies of scale. As such, WCC has 70% of its assets pooled with LCIV. These assets are held in pooled funds via LCIV's global custodian, Northern Trust.
- 3.3 Traditionally, the global custodian business generated profits through a variety of different ways, but one of the major sources of revenue was holding direct segregated assets which result in higher transactional fee income and other residual benefits such as stock lending income.
- 3.4 With WCC's and other London Boroughs' assets moving to the LCIV model, the incentive for global custodians to take on LGPS business has been significantly reduced as Northern Trust currently holds most of the assets. Market intelligence suggests that, in order to make up for the lost revenue, other global custodians are forced to make significant flat fee increases to existing mandates (with one provider raising its fee to circa £120k per annum for similar sized funds). Other providers are not bidding at all for new business outside of their pool.

### **4 FUTURE OF CUSTODY SERVICES**

- 4.1 The future direction of travel for the LGPS is increased emphasis on pooling and for this to be enshrined in regulation and government statutory guidance. Indeed, other London Local Authorities, which are likely to achieve significantly higher levels of pooling with no segregated assets, are moving away from having any global custodian at all.
- 4.2 The LGPS Global Custody Services Framework expired in April 2019 but call-off contracts let under the framework can run till 30 September 2024 insofar as the option to extend was included in the original contract award.
- 4.3 To this end, it is recommended that the incumbent global custodian, Northern Trust, be reappointed to the City of Westminster Pension Fund for an additional two years up to 30 September 2021, with an estimated annual cost of £25k per annum.

**If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:**

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**BACKGROUND PAPERS:** None

**APPENDICES:** None