



Meeting of the

PENSIONS COMMITTEE

Thursday, 19 November 2009 at 8.30 p.m.

SUPPLEMENTAL AGENDA

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5 .3 Tender of Bonds Mandate	1 - 4	

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Agenda Item 5.3

COMMITTEE: Pensions Committee	DATE: 19 th November 2009	CLASSIFICATION: Unrestricted	REPORT	AGENDA NO.
REPORT OF: Corporate Director of Resources		TITLE: Selection of Bonds Manager		
ORIGINATING OFFICER(S): Ian Talbot – Interim Chief Financial Strategy Officer		Ward(s) affected: N/A		

1. SUMMARY

- 1.1 This report describes the process carried out to seek an active bonds manager to take over the funds currently managed by Aberdeen Asset Management and recommends the appointment of Investec Asset Management.

2. RECOMMENDATION

- 2.1 Members are recommended to agree that from a date to be agreed Investec Asset Management be appointed to manage an active bonds portfolio with funds transferred from the bonds mandate currently managed by Aberdeen Asset Management.

3. BACKGROUND

3.1 During 2008 the Investment Panel agreed that the Fund should tender for an active bonds manager for a mandate of approximately £160m. The rationale for this decision was:

- A loss of confidence in the incumbent manager, Aberdeen Asset Management, following the departure of key personnel and an extended period of poor performance;
- An opportunity to re-assess the fixed income asset allocation and benchmark in light of current market conditions.

3.2 In April 2009 the Panel agreed that tenders should be sought employing the following benchmarks:

- 1/3rd index linked gilts and
- 2/3rds absolute return bonds (ARB), benchmarked against cash (LIBOR)

This balanced mandate reflects the different risk profiles of the two types of bonds, thereby complying with the Fund's risk control strategy.

3.3 At their meeting on 13 August the Investment Panel considered a report by Hymans Robertson which advised as follows:

- In accordance with European Union procurement legislation a Contract Notice had been placed in the Official Journal of the European Union and 51 pre qualification questionnaires had been received;
- These submissions were assessed and Request for Proposal questionnaires were sent to 13 suitably qualified organisations;
- By 16 July 11 proposals were received;

3.4 On the basis of the Hymans Robertson recommendation the Panel agreed that the following managers be invited for interview:

- Goldman Sachs Asset Management
- Investec Asset Management
- M and G Investment Management
- Putnam Investment Management

3.5 The Panel agreed that the interviews would be carried out by a board of Council officers and the two professional advisers chaired by Mr Raymond Haines, Chair of the Investment Panel.

3.6 All invited managers attended for interview on 29 October and they were assessed broadly according to the following categories:

- Company background, ownership and funds under management

- Approach to absolute return bond mandates
 - Strength and depth of resources
 - Competitive advantage relative to others
 - Proven ability to achieve the performance objectives of the mandate
 - Additional factors including ability to meet reporting and client servicing requirements and the level of fees
- 3.7 The interview board recommend the appointment of Investec Asset Management. Investec offered a sound process and well resourced team. The board's initial concern that their process may be too reliant on a single person was addressed at the interview. Whilst past performance is no guarantee for the future, Investec had continued to perform during the downturn of 2008 and are competitive on price.

4. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 4.1. The comments of the Corporate Director Resources have been incorporated into the report.

5. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

- 5.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 requires the Council, as an administering authority, to invest fund money that is not needed immediately to make payments from the Pensions Fund. The Council is required to have a Statement of Investment Principles that sets out its investment policy.
- 5.2 The Council does not have to invest the fund money itself and may appoint one or more investment managers. Where the Council appoints an investment manager, it must keep the manager's performance under review. At least once every three months the Council must review the investments that the manager has made and, periodically, the Council must consider whether or not to retain that manager.
- 5.3 One of the functions of the Pensions Committee is to meet the Council's duties in respect of investment matters. It is appropriate, having regard to these matters, for the Committee to receive information about the performance of appointed investment managers and to appoint investment managers.
- 5.4 The Council's Constitution contains procedure rules governing the processes to be followed when the Council enters in to contracts for the provision of goods or services. Those procedure rules require compliance with national and EU legislation governing public sector procurement.
- 5.5 The procurement rules require that where applicable the Council invites tenders from any organisation based in the EU and ensures that it invites a minimum number of potential contractors to submit tenders. The purpose behind this is to ensure that the Council secures value for money by testing the market.

- 5.6 In the present case, the Council has complied with its internal rules, national and EU legislation through the procedure it has adopted in selecting a new investment manager.

6. ONE TOWER HAMLETS CONSIDERATIONS

- 6.1 The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will reduce the contribution and increase the funds available for other corporate priorities.
- 6.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

7. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 7.1 There are no Sustainable Action for A Greener Environment implications.

8. RISK MANAGEMENT IMPLICATIONS

- 8.1 Any form of investment inevitably involves a degree of risk.
- 8.2 To minimise risk the Investment Panel attempts to achieve a diversified portfolio. This diversification relates to both asset classes and management styles.

**LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D
LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS
REPORT**

<i>Brief description of "background papers</i>	<i>Name and telephone number holder And address where open inspection</i>
<i>Company Submissions</i>	<i>Ian Talbot Ext. 4733 Mulberry Place, 4th Floor.</i>