

<b>COMMITTEE:</b> <b>Pensions Committee</b>	<b>DATE:</b> <b>18 November 2010</b>	<b>CLASSIFICATION:</b> <b>Unrestricted</b>	<b>REPORT NO.</b>	<b>AGENDA NO.</b>
<b>REPORT OF:</b> <b>Corporate Director of Resources</b>		<b>TITLE:</b> <b>Report on Absolute Return Manager Interviews</b>		
<b>ORIGINATING OFFICER(S):</b> <b>Alan Finch – Service Head, Corporate Finance</b>		<b>Ward(s) affected:</b> N/A		

<b>Lead Member</b>	
<b>Community Plan Theme</b>	<b>All</b>
<b>Strategic Priority</b>	<b>One Tower Hamlets</b>

## **1. SUMMARY**

- 1.1 This report summarises the outcome of the interviews that were conducted to appoint an absolute return manager for the Pension Fund.

## **2. DECISIONS REQUIRED**

- 2.1 Members are recommended to agree that Ruffer LLP and Baillie Gifford may be appointed to manage absolute manager portfolios for the Fund and that £70m (£35m each) be transferred from cash held and existing equity holdings to fund the mandates.
- 2.2 The contracts referred to in 2.1 are to be completed to the satisfaction of the Assistant Chief Executive (Legal Services).

## **3. REASONS FOR DECISIONS**

- 3.1 The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulation 2009 requires an administering authority to invest fund money that is not needed immediately to make payments from the Pension Fund.
- 3.2 The Pension Committee is charged with meeting the duties of the Council in respect of investing pension fund assets having taken professional advice. Therefore it is appropriate that the Committee approves the appointment of investment managers.

## **4. ALTERNATIVE OPTIONS**

- 4.1 The Council may invest the funds itself and may choose not to appoint an investment manager, but this approach is highly risky given the nature of the financial markets and depth of knowledge/specialism required to manage an absolute mandate.

## **5. BACKGROUND**

- 5.1 The Investment Panel agreed at its 5<sup>th</sup> August meeting that officers should proceed with the tendering and selection of an absolute return manager as part of an overall desire to diversify the investment strategy.
- 5.2 The existing manager structure has become quite specialised with individual managers focussing on their own area of expertise. This means that there is little management of cross asset class positions, e.g. equities versus bonds.
- 5.3 Investment managers have in the past struggled to judge when to switch allocation between assets, but the biggest restriction is in the inability of managers to switch between asset classes. Given the current economic environment, with markets likely to remain very volatile, the Panel decided that it would be beneficial to have a manager who can seek to exploit any relative price movements in various asset classes. An absolute return mandate will be able to do this.
- 5.4 The key mandate parameters were set as follows:
- A multi-asset absolute return mandate, representing approximately 10% (£70m) of the Fund
  - Expected benchmark of 3% (or higher) above 3 month sterling LIBOR over a 3-5 year rolling period; and
  - Managers and their investment strategies will need to be able to comply with appropriate LGPS regulations.
- 5.5 The contract was tendered in accordance with European Union procurement legislation through. A Contract Notice was placed in the Official Journal of the European Union (OJEU), requesting that managers who wished to participate in the selection exercise complete Pre Qualification Questionnaire (PQQ).
- 5.6 41 managers requested PQQs, with 30 responses received by the agreed deadline. From the list of 30 responses, 10 managers were selected to complete detailed Request for Proposals (RfP). All ten managers submitted completed RfPs by the agreed deadline.
- 5.7 Following a review of RfP submissions, the following four managers were short listed for interview:
- Baillie Gifford & Co
  - Newton Asset Management
  - Ruffer LLP Investment Management
  - Standard Life Investments
- 5.8 The Panel agreed at its 5 August meeting that the interviews be conducted by a board of officers and the two professional advisers to the Pension Fund. The interviews were duly conducted and attended by all four managers on 20 October.
- 5.9 The four presentations were assessed broadly against these 3 categories:
- Quality of Presentation

- Ability to Answer Questions
  - Demonstration of Understanding of Process
- 5.10 All four managers presented well, but after evaluating the scores for each individual manager based on the advertised pre-determined evaluation criteria, the board recommend the appointment of Ruffer and Baillie Gifford, and for each manager to manage 5% (£35m) of Fund assets, splitting the 10% allocation to absolute return equally.
- 5.11 These appointments will provide access to Ruffer's absolute return focus and to the opportunities within the Baillie Gifford Fund. The board also believes that the governance of the structure will not be significantly increased by splitting the mandate since Baillie Gifford already manages a global equity mandate for the Fund. The fee basis offered by Baillie Gifford also makes this option appealing.

## **6. COMMENTS OF THE CHIEF FINANCIAL OFFICER**

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

## **7. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)**

- 7.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 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.
- 7.2 The Council does not have to invest the fund money itself and may appoint one or more investment managers. The 2009 Regulations specify pre-conditions to the appointment of an investment manager. The Council must have taken proper advice in relation to the appointment. The Council must reasonably believe that the investment manager's ability in and practical experience of financial matters makes that investment manager suitably qualified to make investment decision for it. The investment manager must not be an employee of the Council. The Council must be satisfied that there will be an adequate number of investment managers and that the value of fund money to be managed by an investment manager is not disproportionate compared to the amount to be managed by the other investment managers.
- 7.3 The 2009 Regulations specify mandatory terms on which an investment manager must be appointed.
- 7.4 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, on receipt of appropriate advice, to determine whether or not it is necessary to appoint an investment manager and whether such appointment would be in accordance with the 2009 Regulations.

- 7.5 The selection of an investment manager must additionally comply with the Council's procurement procedures and with national legislation and EU law governing public sector procurement. The procedure followed in this case as specified in the report appears to comply with these requirements.

## **8. ONE TOWER HAMLETS CONSIDERATIONS**

- 8.1 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.
- 8.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to residents.

## **9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 9.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

## **10. RISK MANAGEMENT IMPLICATIONS**

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

## **11. CRIME AND DISORDER REDUCTION IMPLICATIONS**

- 11.1 There are no any crime and disorder reduction implications arising from this report.

## **12. EFFICIENCY STATEMENT**

- 12.1 Following an open public tender process in the award of this contract offers the best opportunity to ensure most economically advantageous outcome for the Pension Fund.

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

***Brief description of "background papers"***

*Summary of Absolute Return Manager Interviews,  
Hymans Robertson LLP*

***Name and telephone number of holder  
And address where open to inspection***

*Oladapo Shonola Ext. 4733  
Mulberry Place, 4<sup>th</sup> Floor.*