

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel
Date:	14 September 2011
Title:	Future meetings with the investment managers
Reference:	3205
Report From:	County Treasurer

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1. Executive Summary

- 1.1. The purpose of this paper is to set out proposals for the future arrangements for meetings with the Pension Fund's investment managers.

2. Background

- 2.1. The Pension Fund's investment managers currently attend Panel meetings at various intervals during the year to report on their activities and answer the Panel's questions. It has been suggested that the frequency of these meetings could be reduced to allow the Panel more time to consider strategic issues affecting the Pension Fund, including pensions administration matters.
- 2.2. The Panel last considered the frequency of meetings with investment managers on 12 April 2011. The Panel decided to continue with the existing schedule and to reconsider the position once the review of the Pension Fund's investment strategy had been completed.

3. Existing arrangements

- 3.1. The Panel currently meets every six months, with three meetings in May or June and three meetings in November or December. Two of those meetings in each cycle are largely devoted to discussions with the investment managers, with the third meeting allocated primarily to 'business items' concerning the Pension Fund.
- 3.2. This differs to some extent from the Government's guidance on the governance of Local Government Pension Funds which suggests that the Panel should meet at quarterly intervals. In practice, the Panel meets more

frequently than four times a year, but not necessarily at strictly quarterly intervals.

- 3.3. In the quarters when the investment managers do not attend Panel meetings, the managers meet the County Treasurer to report on their portfolios, ie, in February/March and September each year. If any matters of urgent concern are raised by these meetings, the County Treasurer would report to the Panel.

4. Statutory background

- 4.1. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 include the requirement that:

The investment manager must report to the administering authority at least once every three months on the action the investment manager has taken on behalf of the authority.

Where an administering authority has appointed an investment manager it must keep the investment manager's performance under review.

At least once every three months, the authority must review the investments the investment manager has made for the fund and any other action that has been taken by the manager in relation to it.

- 4.2. The Regulations do not specify how the investment manager should report to the administering authority or how the authority should review the manager's performance, investments and other actions.
- 4.3. It could take the form of face-to-face meetings with the Panel or with the County Treasurer and her staff. Or it could be a quarterly written report by the manager.
- 4.4. None of the guidance papers on the Local Government Pension Scheme issued by bodies such as the Chartered Institute of Public Finance and Accountancy (CIPFA) set out how the investment managers should report to the administering authority.

5. Current schedule of meetings

- 5.1. The current arrangements for meetings are summarised in Table 1. The list includes the managers retained following the review of the investment strategy.

Table 1 – Frequency of Panel meetings with the managers

Every six months	High performance target global equities Aberdeen Newton Alternative investments Aberdeen alternative investments
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Table 1 – Frequency of Panel meetings with the managers

Annually	Low risk target UK equities Schroders Global bonds Western Property CB Richard Ellis Aberdeen (European property)
No meetings with the Panel	UK Index Linked Bonds Legal & General State Street

- 5.2. This schedule reflects the level of risks associated with each portfolio and its size.
- 5.3. In practical terms, the Panel's meetings with managers currently planned over the next 12 months are as follows.

Table 2 – Meetings with the managers from November 2011 onwards

4 November 2011	High performance target global equities Aberdeen Newton Alternative investments Aberdeen alternative investments	Six-monthly meeting Six-monthly meeting Six-monthly meeting
18 November 2011	Low risk target UK equities Schroders Global bonds Western Property Aberdeen (European property)	Annual meeting Annual meeting Annual meeting
16 December 2011	No managers will attend this meeting of the Panel	
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May 2012 (1)	High performance target equities Aberdeen Newton Alternative investments Aberdeen alternative investments	Six-monthly meeting Six-monthly meeting Six-monthly meeting
May 2012 (2)	Property CB Richard Ellis	Annual Meeting

Table 2 – Meetings with the managers from November 2011 onwards

June 2012 No managers will attend this meeting of the Panel

- 5.4. In addition, the County Treasurer plans to meet all the managers in February/March 2012 and again in September 2012.
- 5.5. The reduction in the number of investment managers following the review of the investment strategy has enabled the third meeting in each cycle, such as 16 December 2011, to be fully released for the Panel to consider 'business' or administration matters.
- 5.6. If the Panel decide to appoint a tactical asset allocation adviser, as discussed in item 12 on this Agenda, it is possible that the Panel will want to meet the adviser every six months. That would add to the schedule of meetings in Table 2.
- 5.7. Further reductions in the number of meetings could be achieved if the Panel was prepared to meet the managers of the higher risk portfolios at annual intervals only. Face-to-face meetings could be replaced by a requirement for the managers to provide a concise written report on their portfolios for the Panel, similar to the presentation booklets they use at Panel meetings. That would affect the global equities portfolios managed by Aberdeen and Newton, together with Aberdeen's alternative investments portfolio.
- 5.8. In addition, the Panel could take the view that the portfolio of European property managed by Aberdeen is too small at around £65m to justify the Panel meeting with Aberdeen on a regular annual basis.
- 5.9. If the Panel agreed these further reductions in the schedule of meetings, it would be possible to establish risk-based criteria for requiring the manager to attend the Panel's next meeting if the portfolio has underperformed during, say, the preceding six or twelve months. Possible criteria are summarised in Table 3.

Table 3 – Risk-based criteria for triggering additional meetings with the managers

Manager	Portfolio	Bench- mark	Target	Criteria for triggering a meeting
Aberdeen	Global equities	MSCI	+3% pa	Performance below the MSCI Index in the preceding 6 or 12 month period
Newton	Global equities	MSCI	+3% pa	Performance below the MSCI Index in the preceding 6 or 12 month period

Table 3 – Risk-based criteria for triggering additional meetings with the managers

Manager	Portfolio	Bench- mark	Target	Criteria for triggering a meeting
Schroders	UK equities	FTSE All Share	+1.25% pa	Performance below the FTSE Index in the preceding 6 or 12 month period
Western	Global bonds	Barclays Global Bonds	+1.5% pa	Performance below the Barclays Capital Index in the preceding 6 or 12 month period
Legal & General	UK Index Linked bonds	FT over 5 years Index	Passively managed portfolio	Performance 0.5% below the FT Index in the preceding 6 or 12 month period
State Street	UK Index Linked bonds	FT over 5 years Index	Passively managed portfolio	Performance 0.5% below the FT Index in the preceding 6 or 12 month period
CB Richard Ellis	UK property	RPI	+4.5% pa	Fall in the value of the portfolio of more than 10% in the preceding 6 or 12 month period
Aberdeen	European property	HICP	+5% pa	Fall in the value of the portfolio of more than 10% in the preceding 6 or 12 month period
Aberdeen	Alternative investments	-	8% to 11% pa	Fall in the value of the portfolio of more than 20% in the preceding 6 or 12 month period

5.10. In addition, meetings with the managers would be arranged if there are significant changes to their corporate ownership or to the personnel directly managing the Pension Fund's portfolios.

5.11. This approach could be criticised as being reactive, however. It could be argued that regular contact with the managers should be maintained to pick up early warning signs that matters may be about to go wrong. Face-to-face contact with the managers in meetings may be considered very important in maintaining proper scrutiny of their activities.

5.12. The very large size of the amounts that the managers are responsible for investing on behalf of the Pension Fund (up to £500m) could also be a

justification for maintaining the frequency of meetings. Similarly the size of the fees paid to the managers (eg, circa £1.7m per annum in some cases) could be considered a reason for expecting them to report regularly in person to the Panel.

- 5.13. As an alternative to the full Panel meeting the managers, an investments sub-group of Panel members could meet all the managers at regular intervals. The outcomes from those meetings would be reported to the full Panel meetings. That might be a practical response to the recent increase in the size of the Panel but those Panel members not selected for the investment sub-group might feel excluded from what some might consider to be one of the more interesting parts of the Panel's work.

6. Conclusions

- 6.1. The Panel's previous decisions on the future investment strategy has helped to reduce the number of meetings with the managers. The current arrangements for the next year are summarised in Table 2.
- 6.2. If the Panel agrees to appoint a tactical asset allocation adviser, it is likely that meetings with the adviser will need to be added to the schedule in Table 2.
- 6.3. The Panel may wish to consider reducing still further the number of meetings, by adopting a risk-based approach to triggering meetings with the managers if they underperform, as summarised in Table 3.
- 6.4. In particular, it would be helpful to know the Panel's views on whether they wish to meet with representatives of Aberdeen Property Investors on 18 November 2011 in connection with the small European property portfolio.
- 6.5. As an alternative, an investments sub-group of Panel members could be established to deal with all investment matters, including the meetings with the investment managers.

7. Recommendation

- 7.1. That the Panel consider whether any changes should be made to the current schedule of meetings with the investment managers.

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

Hampshire safer and more secure for all:	yes/no
Corporate Business plan link number (if appropriate):	
Maximising well-being:	yes/no
Corporate Business plan link number (if appropriate):	
Enhancing our quality of place:	yes/no
Corporate Business plan link number (if appropriate):	
OR	
This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because actions are required to decide the schedule of meetings between the Pension Fund Panel and the investment managers.	

Other Significant Links

Links to previous Member decisions:		
<u>Title</u>	<u>Reference</u>	<u>Date</u>
Direct links to specific legislation or Government Directives		
<u>Title</u>	<u>Date</u>	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

- 1.1. Equality objectives are not considered to be adversely affected by the proposals in this report.

2. Impact on Crime and Disorder:

- 2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime.

3. Climate Change:

- a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific impact.

- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific impact.