

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel
Date:	12 April 2011
Title:	Pension Fund Panel representatives and frequency of meetings with investment managers
Reference:	2800
Report From:	County Treasurer

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1. Executive Summary

1.1. The purpose of this paper is to update the Panel for changes to the arrangements for appointing Panel representatives from the Hampshire district councils, and to set out possible changes to the arrangements for the investment managers to report to the Panel.

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.

3. Panel representation

3.1. The County Council on 24 Feb 2011 agreed the Panel's recommendation that the number of co-opted representatives of the Hampshire district councils should be increased from one to two, and that both Portsmouth City Council and Southampton City Council should each have a co-opted representative, with effect from autumn 2011. Steps are in hand to invite both parties to nominate representatives, who can then be appointed to the Panel by the County Council.

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.
- 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 practice

- 5.1. The Panel currently meets every six months, with three meetings in the May and June period and three meetings in November and December period. Two of those meetings each cycle are largely devoted to discussions with the investment managers, with the third meeting allocated primarily to 'business items' concerning the Pension Fund.
- 5.2. This differs to a degree 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.
- 5.3. In the quarters when the investment managers do not attend Panel meetings, they 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.

6. A risk-based approach

- 6.1. The current frequency of the investment managers' meetings with the Panel has been determined by taking account of the risks involved in their mandates and the size of their portfolios, as summarised in Table 1.

Table 1 – Frequency of Panel meetings with the managers

Every six months	High performance target equities Aberdeen global equities portfolio AllianceBernstein Newton GLG Partners Alternative investments Aberdeen alternative investments
Annually	Low risk target equities Aberdeen UK equities portfolio Schroders
Annually	Global bonds Western Property CB Richard Ellis Aberdeen (European property)
No meetings with the Panel	UK Index Linked Bonds Legal & General State Street

6.2. This pattern was agreed by the Panel in May 2008 and reviewed again in October 2009. Subsequently, Aberdeen’s European property managers were reinstated to the list of annual meetings with the Panel, as shown in Table 1.

6.3. The two index tracking managers of UK Index Linked Bonds, Legal & General and State Street, do not attend Panel meetings. Instead, the County Treasurer has a short meeting with them once a year to review their activities. It also gives the two managers an opportunity to brief the County Treasurer about any developments in their business and the products they offer. State Street also attended one of the Panel’s training sessions in November 2010 to talk about UK index linked bonds.

6.4. The number of meetings with investment managers increased after January 2007 when the Panel moved from four managers (three multi-asset managers plus a UK property manager) to the current arrangements of twelve separate specialist portfolios with seven individual managers (excluding Legal & General and State Street).

7. Possible changes

7.1. As part of the forthcoming review of the investment management arrangements, the Panel may wish to consider whether to reduce the number of managers. Although that would increase the size of portfolios and the ‘manager risk’, it should reduce the number of meetings with the managers.

- 7.2. In his talk at the Panel's training sessions in November 2010, Lord Myners suggested that the Panel should use some of the time allocated to discussions with the managers to, instead, review its strategic approach to the investment of the Pension Fund.
- 7.3. Lord Myners may have had in mind a one-off diversion of the Panel's time, similar to today's special meeting. It is unlikely that he would encourage the Panel to reduce the Pension Fund's scrutiny of its managers on a permanent basis.
- 7.4. It has previously been considered sound practice to meet with the managers and to challenge them on a face-to-face basis about their activities. Much can be picked up from the managers' body language and from "seeing the whites of their eyes", particularly when they have underperformed. Investment management is a "people" business and it is important that the Panel knows the individuals involved and has the opportunity to develop confidence in them, particularly with amount of money the managers are responsible for and the fees they charge.
- 7.5. An alternative to face-to-face meetings would be to rely on written reports from the managers. Such reports are important but there is a risk that the managers would provide highly polished reports that inevitably present the best gloss on the situation from the manager's perspective, without the opportunity for the Panel to challenge them.
- 7.6. With the increase in the size of the Panel in autumn 2011, from 13 voting members to 15, there would be scope to consider nominating an investments sub-group to meet the managers at regular intervals. However, Panel members who are not nominated to the sub-group could feel excluded from one of the more important and interesting parts of the Panel's duties.
- 7.7. To an extent, the issue may be resolved by the current review of the Panel's investment strategy, if that results in a reduction in the number of investment managers. Whilst the number and frequency of meetings with the managers should not be a driving force in considering the investment management arrangements, over and above investment issues, it could be a convenient benefit if it is decided to reduce the number of managers.
- 7.8. With that in mind, the Panel may wish to defer any decision on reducing the number of meetings with managers until after the completion of the review of the investment strategy.
- 7.9. The current plans for the meetings in May/June 2011 and November/December 2011 would stand, as follows:

Table 2 – timetable for meetings with the managers

27 May 2011	Aberdeen (global equities) AllianceBernstein Newton	Six-monthly meeting Six-monthly meeting Six-monthly meeting
10 June 2011	GLG Partners	Six-monthly meeting
17 June 2011	CB Richard Ellis Aberdeen (alternatives)	Annual meeting Six-monthly meeting
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4 November 2011	Aberdeen (global equities) Aberdeen (UK equities) AllianceBernstein Newton	Six-monthly meeting Annual meeting Six-monthly meeting Six-monthly meeting
18 November 2011	Schroders GLG Partners Western	Annual meeting Six-monthly meeting Annual meeting
16 December 2011	Aberdeen (alternatives) Aberdeen (European property)	Six-monthly meeting Annual meeting

8. Recommendations

- 8.1. That the Panel note the progress made in changing the Hampshire district councils' representation on the Panel.
- 8.2. That the Panel consider whether to make any changes to the current arrangements for the Panel's meetings with the investment managers.
- 8.3. That the position be reconsidered following the completion of the current review of the Pension Fund's investment strategy.

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

This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because actions are required to continue the appropriate reporting arrangements for the Hampshire Pension Fund.

Other Significant Links

Links to previous Member decisions:		
<u>Title</u> None	<u>Reference</u>	<u>Date</u>
Direct links to specific legislation or Government Directives		
<u>Title</u> None	<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.)

<u>Document</u>	<u>Location</u>
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.