

WIRRAL COUNCIL

PENSIONS COMMITTEE

18 SEPTEMBER 2012

SUBJECT:	APPOINTMENT OF PROVIDER OF PASSIVE INVESTMENT MANAGEMENT SERVICES
WARD/S AFFECTED:	NONE
REPORT OF:	INTERIM DIRECTOR OF FINANCE
KEY DECISION? <i>(Defined in paragraph 13.3 of Article 13 'Decision Making' in the Council's Constitution.)</i>	NO

1.0 EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to inform Members of the outcome of a procurement process to appoint a provider of passive investment management services to Merseyside Pension Fund and to recommend that Members approve the award of the contract to the organisation recommended. The detail of the recommendation is provided in the Exempt Appendix to this report.
- 1.2 Appendix 1 to the report contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972, i.e. Information relating to the financial or business affairs of any particular person (including the authority holding that information).

2.0 BACKGROUND AND KEY ISSUES

- 2.1 On 27 June 2011 Pensions Committee decided to defer an earlier procurement exercise to select passive investment managers due to an administrative error. On 20 March 2012 Pensions Committee agreed to resume the exercise and to appoint Mercer to assist with the search (in a call off from the Manager Search Framework List). The procurement exercise has now been completed and the full results are given in the Appendix.
- 2.2 The Fund's approach to risk management involves using a diversity of investment management styles. This is outlined in the Statement of Investment Principles. Passive investment management, whereby the manager is required to track the performance of specific benchmark indices, accounts for 28% of the Fund's strategic benchmark. The exact size of the mandate will be affected by market movements. However, as a guide, the total size of the passive mandate is expected to be approximately of £1,000m to £1,500m.

The index tracking mandate is expected to cover the following areas:

Asset Class	Benchmark
UK Equities	FTSE All Share Index
UK Index Linked Gilts	FTSE UK Gilts Index Linked All Stocks
North American Equities	FTSE AW North America

It should however be noted that whilst the mandate is initially on the basis of these areas, the Fund may wish to expand to further regions/asset classes at a later stage. The split of the mandate between the three areas is approximately 30% UK Equities, 40% UK Index Linked Gilts and 30% North American Equities.

- 2.3 Officers of the Fund worked with Mercer to develop a specification for the mandate, evaluation criteria and a detailed evaluation questionnaire. Areas for consideration were track record of returns across a range of global asset classes (consistent with benchmarks), client servicing standards, the ability to implement asset manager transition exercises, the ability to support the Fund's responsible investment policy and the scale and ongoing viability of the organisation.
- 2.4 The bids were evaluated on price (35%) and quality (65%) to ensure that the most economically advantageous tenders were accepted. Details of the assessment criteria and method of assessment are given in the Appendix.
- 2.5 The contract will run for five years, with an option to extend for a further five.

3.0 RELEVANT RISKS

- 3.1 The use of passive investment management is part of the Fund's risk management strategy. It ensures that for a proportion of the Fund's assets, the performance returns are not less than those achieved by the market (as represented by the relevant benchmark index). It has been observed that it is rare for investors to achieve returns in excess of the market in certain asset classes, particularly UK Index-Linked Gilts and North American Equities. Therefore, a passive approach to managing those asset classes is judged to be prudent.
- 3.2 The procurement exercise has been carried out with support from the Council's Corporate Procurement Unit, to ensure compliance with EU procurement regulation. This mitigates the risk of challenge.
- 3.3 Because the Fund is moving from two providers to one, it will be necessary to increase Schedule 1 limits under Reg 14.3 of the Investment Regulations, entailing a revision of its Statement of Investment Principles (SIP). This will be reflected in the revised SIP which is to be brought to November's Committee.

4.0 OTHER OPTIONS CONSIDERED

- 4.1 No other options have been considered as the Fund requires passive investment management services and it is necessary to tender at this time as reported previously to Pensions Committee.

5.0 CONSULTATION

- 5.1 There has been no consultation undertaken or proposed for this report. There are no significant implications for partner organisations arising out of this report.

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are none arising from this report.

7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

7.1 The bids submitted represent an overall saving to the Fund, versus current budget provision. There are no further IT or staffing implications.

8.0 LEGAL IMPLICATIONS

8.1 There are none arising from this report.

9.0 EQUALITIES IMPLICATIONS

9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

10.0 CARBON REDUCTION IMPLICATIONS

10.1 There are none arising directly from this report.

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 There are none arising from this report.

12.0 RECOMMENDATION/S

12.1 That Members agree to appoint the organisation recommended in the appendix to provide passive investment management services to the Fund.

13.0 REASONS FOR RECOMMENDATION

13.1 MPF requires passive management services as a part of its investment strategy.

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APPENDICES

Appendix 1 Exempt, Selection of provider of passive investment management services to the Merseyside Pension Fund.

REFERENCE MATERIAL

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee, Passive Management	20th March 2012