

# WIRRAL COUNCIL

## PENSIONS COMMITTEE

20 JANUARY 2013

<b>SUBJECT:</b>	<b>INVESTMENT CONTRACT MONITORING</b>
<b>WARD/S AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>STRATEGIC DIRECTOR</b> <b>TRANSFORMATION AND RESOURCES</b>
<b>KEY DECISION</b>	NO

### EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to inform Members of progress on the review of investment mandates for Japanese, Pacific Rim and Emerging Markets Equities. This report also sets out a plan for a tender exercise for European Equities this year.
- 1.2 Appendix 2 to the report, the JLT proposal 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 Members will be aware that on 20<sup>th</sup> March 2012, Committee approved a schedule for the selection of investment managers This schedule included
  - An interim 3 year review of Japanese, Pacific Rim and Emerging Market equity for 2013. (The mandates of Nomura, Black Rock, Maple Brown, M&G and Amundi.)
  - A tender exercise for European Equities to start in 2014 (The mandates of JP Morgan and Unigestion.)
- 2.2 Members will be aware that there have been several updates on the 3 year review of the mandates above at IMWP (Investment Monitoring Working Party) meetings during the year. The work is close to completion, all field visits and questionnaires are complete and the full reports and appendices will be made available to Members and Advisers on request.
- 2.3 Summary scoring has been completed and is documented in the appendix. The results of this scoring show that for 4 of the mandates the scoring is clearly satisfactory. Therefore the recommendation is that, subject to continued monitoring, these mandates are retained for the remaining 3 years. These mandates have achieved good or satisfactory performance; have remained consistent in their investment strategy; have retained their team; and provided good communication with the internal team and Members; and, importantly, there are no issues arising from operational due diligence.

- 2.4 In the case of Amundi, performance has been unsatisfactory as has communication with officers and Members and consistency of approach. The decision is not clear cut; Amundi claim to have made improvements to their process, although the time period is too short for a full assessment of this. They have improved the client relationship function. The recommendation is that there is further consideration of information by officers and input from independent advisers before a discussion at the IMWP on 19<sup>th</sup> February 2014.
- 2.5 The tender exercise for European Equities was due to commence during 2014. Pressure on internal resources at the Fund has delayed the commencement of the exercise but this is intended to commence early in 2014.
- 2.6 Officers requested proposal from consultants on the manager framework selection list and received 3 replies from JLT, Mercer and bFinance. Following assessment of the proposals on quality and price, JLT were selected.
- 2.7 Appendix 2, the accepted proposal from JLT, sets out the approach for the exercise. The approach is to select managers that produce the highest risk adjusted returns net of fees. A key element of this is to assess the probability of prospective managers achieving the targeted returns. JLT will provide support in documentation for the tender exercise, assessment of returns and at interviews with managers. They will also work with Corporate Procurement Unit to ensure an adequate audit trail of the process. The key feature of the timetable is to present recommendations to Committee at the meeting in June. The other key feature is that the costs charged for the exercise by JLT will be passed on to the managers through the 'manager pays' structure that has been operated by MPF for selection exercises of this nature since 2006.

### **3.0 RELEVANT RISKS**

- 3.1 The Fund's Statement of Investment Principles sets out MPF's approach to risk. The volatility of active returns is a key risk and therefore the selection and monitoring of external Investment Managers is a key area of operations. A key mitigation of this risk is to have a clear and robust process, appropriately resourced. The items in this report are part of that process and therefore part of the mitigation of risk.

### **4.0 OTHER OPTIONS CONSIDERED**

- 4.1 The Fund is required to review and re-tender its investment mandates in order to comply with European Procurement Legislation. Pensions Committee has previously approved a time-table for this.

### **5.0 CONSULTATION**

- 5.1 Not relevant for this report.

### **6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

- 6.1 There are no implications arising directly from this report.

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

7.1 The fee disclosed in the exempt appendix is to be charged to the successful managers as indicated in paragraph 2.7. This is a competitive exercise which would target the reduction of the ad valorem fee level for investment management. The absolute level of fees paid is determined by market returns and consequential valuations through the contract period.

7.2 There are no staffing IT or asset implications arising from this report.

## **8.0 LEGAL IMPLICATIONS**

8.1 There are no implications arising directly 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 no carbon usage implications, nor any other relevant environmental issues arising from this report.

## **11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

11.1 There are no planning or community safety implications arising from this report.

## **12.0 RECOMMENDATION/S**

12.1 Members note the recommendations for Japanese, Pacific Rim and Emerging Markets equity mandates. The final decision on Amundi will be taken at the IMWP on 19<sup>th</sup> February 2014 and implemented under delegated authority.

12.2 Members note the tender exercise for European Equities

## **13.0 REASON FOR RECOMMENDATIONS**

13.1 The review of contractual arrangements for investment managers by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund.

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## **APPENDICES**

1. The summary scoring for the 5 mandates is attached as an appendix to this report.

2. The proposal from JLT on approach for the exercise is attached as an appendix to this report.

#### **REFERENCE MATERIAL**

Internal working papers were used in the production of this report.

#### **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
<b>Pensions Committee Investment Contract Monitoring</b>	<b>20<sup>th</sup> March 2012</b>
<b>Pensions Committee Policy for the monitoring of Investment Mandates</b>	<b>31<sup>st</sup> March 2008</b>

Appendix 1

Mandate	Score Performance	Score Consistency of Approach	Score Team Retention and Communication	Score Operational due diligence	Total
Nomura	5	5	4	5	19
Black Rock Asia Pac	3	5	4	5	17
Maple Brown	5	5	4	5	19
<b>Amundi</b>	<b>1</b>	<b>3</b>	<b>2</b>	<b>5</b>	<b>11</b>
M&G	5	4	3	5	17

**Scoring Guide**

Performance (as at September 2013 since inception annualised)

5= more than 1.5% pa against benchmark, 4 = 0.3% to 1.5%pa against benchmark, 3 = 0.3 to -0.3%pa against benchmark 2= -0.3 to -1.5%pa against benchmark, 1 more than -1.5%pa against benchmark

Consistency of approach

5= process and philosophy remain as hired and this is validated by Analytics data, 4=minor changes, 3 = some changes and Analytics data is not consistent with manager narrative, 2= significant changes and inconsistencies with Analytics data, 1= fundamental changes and Analytics data does not support manager narrative.

Team Retention and Communication

5=Original team in place and good written communications and presentations received well by Members, 4= minor issues, 3= some issues but concerns addressed fully. 2= significant issues not fully addressed by manager, 1= fundamental issues not addressed by manager.

Operational due diligence

5= no operational due diligence issues good systems in place, 4= minor issues, 3= some issues but concerns addressed fully. 2= significant issues not fully addressed by manager, 1= fundamental issues not addressed by manager.