Division(s):N/A

PENSION FUND COMMITTEE – 7 DECEMBER 2012

THE APPOINTMENT PROCESS FOR A NEW FUND MANAGER

Report by the Assistant Chief Executive and Chief Financial Officer

Introduction

1. This report responds to the Committee's concern about the time taken to finalise the appointment of Wellington as the Fund's new global equity manager, after the initial decision of this Committee to remove the previous manager. The report sets out the key elements of the timetable, and seeks to identify any learning points for future fund manager selection processes.

Timetable for the Appointment of Wellington

2. The initial decision to seek a new global equity fund manager was made by this Committee at its meeting on 18 March 2011. Money was initially passed to Wellington on 4 September 2012 some 76 weeks (18 months) later.

3. The initial element of the exercise to appoint a new Fund Manager was the selection of consultants to support the officers in managing the process. A number of Pension Funds employ investment consultants who can undertake a fund manager selection process on a permanent/retained basis, but this Committee has previously determined not to do so.

4. Given the expected size of the contract to support the fund manager selection process, the Council's procurement rules which the Pension Fund Committee is required to follow, stipulate that quotes must be obtained from a minimum of three potential suppliers before an appointment can be made.

5. The identification and selection of consultants was one aspect of the process where there was undue delay. Having identified the need for consultants at the end of March, it was not until May/June that requests for quotes were sent out. It should be noted that this period saw the transition in the overall management of the Pension Fund following the retirement of Paul Gerrish at the end of March 2011, and the delay can in part be explained by the transition.

6. It should also be noted that over the April/May period, the Pensions Investment team is heavily engaged in the work to close the Pension Fund Accounts. During this period, the Pension Investment team also successfully managed the transfer of assets from the former Fund Manager to Legal & General who managed the resources during the transitionary period in their passive fund. The work pressure associated with the requirement to meet

statutory deadlines on the closedown timetable, on top of managing the transfer of assets was also a factor which led to the delay in seeking quotes.

7. The last of the three quotes was not received back until the second week of July. The quotes were then examined, clarifications sought where necessary, and bFinance appointed as consultants for the project at the end of July.

8. During August, officers met with bFinance to discuss the Pension Funds requirements in respect of the new mandate, the minimum requirements of any potential Fund Manager and to agree the selection criteria and scoring weighting for the tender exercise. bFinance worked on the documents over the August/September period in consultation with the officers, and these were finally signed off and the tender exercise launched at the beginning of October. Any delays during this aspect of the process, tended to reflect the summer holiday commitments of the key officers from the Council and bFinance.

9. The tenders closed at the end of November, in line with the timescales determined under the OJEU process. bFinance completed their first analysis of the results and presented these to the officers of the Council on 14 December 2011. A long list of 6 Fund Managers was identified before Christmas, and interviews were set up for 10/11 January 2012.

10. Following the officer interviews, 3 Fund Managers were shortlisted to be interviewed by Members, and these interviews were set up for 14 February 2012. Wellington were appointed following these interviews.

11. Following the decision to appoint Wellington, there was considerable legal work both to agree the Investment Management Agreement, and to set up the necessary legal framework in the various new overseas markets including power of attorneys, custodian accounts, filing tax forms etc. The complexity of the legal issues in some of the overseas markets, meant that this activity was not fully completed until August 2011.

12. Only with the legal work completed, could the final arrangements be made between the Council, Wellington, Legal & General and Bank of New York Mellon (the Custodian) for the liquidation of assets where appropriate and the transfer of the remaining assets and cash to Wellington. This was completed over the first week in September 2012.

Lessons to Learn?

13. There is little publically available benchmark data which indicates how long it should take to appoint a Fund Manager. Our conversations with bFinance and Wellington, plus ad hoc conversations with others in the industry suggests that our experience in the appointment of Wellington is towards the longer end of the timescale, but is not significantly longer.

14. If like many Pension Funds we retained Investment Consultants who could have managed the process for us, we could have reduced the timescale by

the 4 months it took to appoint bFinance. The downside of such an approach is the additional costs of retaining the investment consultants. This Committee determined not to retain investment consultants when it last considered this issue.

15. The Council could also have looked for a pooled arrangement which would have reduced some of the legal work required in setting up the custodian agreements in some of the more difficult overseas markets. As this work was intertwined with other legal issues, it is difficult to determine how much quicker a pooled arrangement could have been finalised. The downside of a pooled arrangement is the restrictions in respect of exercising separate voting rights, as well as reduced transparency in the actual assets the fund is invested in.

16. Where future fund manager selections do not involve a segregated component in the more difficult overseas markets, the time required to complete all the necessary legal documentation should be significantly reduced.

17. There were certain aspects of the timeframe where the delay was a direct consequence of the timing of the decision, which led to additional work pressures at both the start and end of the process due to the conflict with the work required to close the accounts in line with the statutory deadlines. The timing of any future fund manager appointment process cannot readily be fixed to avoid key pressure points in the year, so workload may again be a determining factor in the time scale for future selections.

18. Finally it should be noted that throughout the period of the transition between fund managers, the Fund was invested in the Legal and General passive fund. The Fund continued therefore to receive investment returns in line with the market paying fees at a passive fund level. It is not easy to establish what the value of the Fund would have been if the transition to Wellington had been any quicker, but there is no guarantee that the investment returns net of the higher fees would have been greater, than the actual returns earned.

RECOMMENDATION

19. **The Committee is RECOMMENDED to consider the report and determine any changes they would wish to see to the process for the appointment of future fund managers.**

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Background papers: None
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November 2012