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15 October 2008

To: All Members and Representatives of the Pensions Committee

Dear Members ,

Pensions Committee - Monday, 20th October, 2008

I attach a copy of the following reports for the above-mentioned meeting which were not available at the time of collation of the agenda:

Report of the Chief Financial Officer to present governance options regarding the monitoring of Fund Managers.

Report of the Chief Financial Officer to consider the ownership of our current Fund Managers and business continuity arrangements in the event of a Fund Manager ceasing to trade.

Report of the Chief Financial Officer to consider the ownership of our current Fund Managers and business continuity arrangements in the event of a Fund Manager ceasing to trade.

Yours sincerely

Helen Jones
Principal Committee Coordinator

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Agenda Item 6

Haringey Council

Agenda Item

Pensions Committee On 20 October 2008

Report title: **Governance options regarding monitoring of Fund Managers**

Report of: **Chief Financial Officer**

Ward(s) affected: All	**Report for**: Decision

1. Purpose

1.1 To present governance options regarding monitoring of Fund Managers.

2. Recommendation

2.1 That the Committee consider the options presented, but that at this time, no changes are made to the current arrangements.

Report authorised by: Gerald Almeroth – Chief Financial Officer

G. Almeroth

Contact officer: John Hardy – Corporate Finance
Telephone 020 8489 3726

3. Executive Summary

3.1 The purpose of the attached report of our external advisors, Hewitt, is to detail best practice options regarding the monitoring of Fund Managers by Pensions Committee.

3.2 The Committee are invited to consider the options presented and consider the recommendation.

4. Reasons for any change in policy or for new policy development (if applicable)

4.1 None.

5. Local Government (Access to Information) Act 1985

The following background papers were used in the preparation of this report:

Presentation by Hewitt to Pensions Committee on 18 September 2008.

6. Background

6.1 The purpose of this report is to consider the best practice options regarding the monitoring of the performance of our Fund Managers. Consideration is also given on the arrangements for reviewing the investment strategy.

7. Report

7.1 A report is appended from our external investment advisors, Hewitt, for consideration that sets out best practice options.

7.2 LGPS regulations require that:

- The investment manager must report to the administering authority at least once every three months on the action taken for them;
- Where an administering authority has appointed an investment manager they must keep their performance under review;
- At least once every three months the administering authority must review the investments investment managers have made;
- Periodically an administering authority must consider whether or not to retain each investment manager;
- In reviewing an investment manager's decisions and appointment, an administering authority must take proper advice.

7.3 It is important for the Committee to have the best balance between time spent reviewing investment strategy and monitoring Fund Managers. In the long run, investment strategy adds most value and is an area of significant importance specifically mentioned in the Myners Principles.

7.4 Currently Pensions Committee meets six times per annum (excluding any special meetings). At four of these meetings Fund Managers attend and two meetings are for other business. Our core Fund Managers (Bernstein, Capital International and Fidelity) attend Pensions Committee quarterly to present their performance and our other managers with longer term investments attend annually (ING and Pantheon). Our custodian, Northern Trust, also attend annually to review their performance. Our new investment strategy will be adding two more fund managers for active currency. Currently each fund manager attends Committee for 25 to 30 minutes as the meetings have limited time available.

7.5 The Officers and the Independent Advisor to Trustees meet with our Fund Managers every three months to review performance other than our private equity manager where meetings are held every six months.

8. Options

8.1 Three best practice options, different from the current arrangements, have been identified and are as follows;

1. Refocus of current structure: The Committee continues to hold six meetings per annum but with three dedicated to business and three dedicated to Fund Manager monitoring. In addition the agenda would be more focussed – with more emphasis and time spent on the Fund's investment strategy and monitoring at a Fund level;
2. Use of a Sub Committee: The Committee could delegate some responsibilities to a Sub Committee. This body could either be a standing body or meet when deemed necessary. Elected Members who sit on the Pensions Committee could attend the Sub Committee at any time;
3. Delegating responsibilities to Officers: The Committee could create an Investment Advisory Panel, to deal with some of the Fund's investment matters. Membership of the Panel could include Officers, Independent Advisor and Investment consultants. Pensions Committee members could attend at any time. The Panel would support the Committee, possibly to include developing investment strategy, monitoring investment managers, monitoring investment management agreements and guidelines, and overseeing the rebalancing of the Fund's strategy. Final decisions would be made by Pensions Committee and the latter could meet less often to quarterly.

9. Conclusions

9.1 Of the above options it is considered that option one is the best way forward. The core Fund Managers would attend twice per annum but with an option for attending more frequently if performance is particularly poor. Our other Fund Managers could attend annually with all being seen at a third meeting. This would then leave three meetings of the Committee available for other matters including reviewing asset allocation and overall investment strategy. Officers and the

Independent Advisor would continue to hold quarterly meetings, private equity bi-annual, with our Fund Managers as now.

9.2 However, given the current unprecedented turbulence in the financial markets it is recommended that no change is made to the current arrangements. Members can still discuss the options outlined, perhaps to be considered further and to be implemented at some future date.

9.3 It is considered that the options of having a Sub Committee or greater delegation to the Chief Financial Officer would not be the best options as it is important that the Fund Managers have direct contact with Pensions Committee.

10. Consultation

10.1 Our Governance Compliance Statement will need to be revised for any changes made to our current arrangements. This report was copied to our Admitted and Scheduled bodies and any views received will be shared at the Committee meeting.

11. Financial Implications

11.1 There are no direct financial implications arising from the recommendation in this report.

12. Recommendation

12.1 That the Committee consider the options presented, but that at this time, no changes are made to the current arrangements.

13. Head of Legal Services comments

13.1 The Head of Legal Services has been consulted on the content of this report. There is some discretion under the relevant statutory frameworks for Authorities to decide upon the specific structure and arrangements that they will adopt to for elected Members to carry out their legal responsibilities for the prudent and effective stewardship of the pension funds under their control. The arrangements and framework must however comply with the provisions of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 and the statutory guidance covering governance compliance issued by the Secretary of State for Communities and Local Government and also fall within the best practice principles of that guidance and the principles of investment practice within LGPS schemes adopted by CIPFA (The "Myners Principles"). Each of the options set out for consideration in the appendix to the report falls within the statutory framework and best practice principles indicated.

13.2 The Authority is under a duty to publish and to keep under review a governance compliance statement by virtue of Regulation 31 of the Local Government Pension

Scheme (Administration) Regulations 2008. Material changes to the current statement including the delegation of functions, frequency of meetings and representation should be published and a copy sent to the Secretary of State. In doing so the Authority must consult such persons as it considers appropriate.

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APPENDIX

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Hewitt

London Borough of Haringey Pension Fund
Date: 2 October 2008
Prepared for: Pensions Committee
Prepared by: David Hager
David Crum

Pension Fund Governance Arrangements

Introduction

At the Pension Committee meeting on 18 September 2008, several Committee members expressed a desire to review the structure of the Committee meetings. With so many moving parts, and the limited time of Elected Members, having a good governance structure is critical to making effective and timely decisions and to helping to achieve the ultimate objective of funding the Fund at reasonable cost to the Employers.

As the new investment advisers to the Fund, we have been asked to review the governance arrangements and we propose a number of possible alternatives that could work in a more effective and efficient manner.

Increasing demands on 'Trustees'

With many pension funds in deficit and funding levels failing to improve despite substantial contributions from employers, the investment decisions taken are more critical than ever.

Elected Members and Officers are under enormous pressure in the face of rapidly evolving markets and a continually changing landscape of investment risks and opportunities. Bombarded by new and often complex products and instruments from fund managers and investment banks, funds are striving to strike a balance between long-term strategy and short-term investment volatility.

In many cases these funds are hampered by slow decision-making processes; strategies run the risk of being driven by fixed timetables, meeting agendas and Elected Member availability rather than investment criteria. As a result, funds may be in danger of settling for a sub-optimal investment strategy.

LGPS regulations

The Local Government Pension Scheme (LGPS) is one of the largest public sector pension schemes in the UK. The Scheme is administered locally for participating employers through regional funds. The vast majority of these funds are administered by local councils. These 'administering authorities' are responsible for collecting contributions and paying pensions, maintaining the records of scheme members and the investment arrangements of the scheme.

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LGPS regulations (continued)

The regulations which govern the investment arrangements of the funds are the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended). Sections 7 and 8 of the Regulations set out the legal responsibilities with regard to terms of appointment and the review of an investment manager's performance. Relevant points are:

- The investment manager must report to the administering authority at least once every three months on the action he has taken for them.
- Where an administering authority have appointed an investment manager they must keep his performance under review.
- At least once every three months they must review the investments he has made.
- Periodically they must consider whether or not to retain him.
- In reviewing an investment manager's decisions and appointment, an administering authority must take proper advice.

Industry Best Practice

The LGPS regulations are very general and do not dictate how pension funds should be managed. In 2001, Paul Myners completed his industry wide review of pension funds and published the Myners Code of Best Practice for pension funds. It is voluntary code covering ten aspects of pension scheme governance.

CIPFA specifically adopted these ten Principles of Investment for LGPS schemes in April 2002, and in August 2002 the LGPS Investment Regulations were amended so that Administering Authorities had to '...state the extent to which the administering authority compl[ies] with the ten principles of investment practice.' These are included for reference in the Appendix.

Current Governance Arrangements

As we understand it, the current governance arrangements of the London Borough of Haringey Pension Fund are as follows:

- A Pensions Committee has been created by the Council to oversee its responsibilities as the administering authority for the Haringey Pension Fund.
- The Committee is comprised of 7 Elected Members and is chaired by Cllr Gmmh Rahman Khan.
- The Committee also has a number of non-Elected Members who participate in meetings. These include the independent advisor Howard Jones and some non-voting representatives of scheme members.
- The Committee normally meets 6 times a year; 4 are meetings with Fund Managers present and 2 are not.
- In addition to broader pension fund business, at each meeting the Committee also receives 10 minute presentations from some of the Fund's investment managers, with 15 minutes set aside for questions.
- The Officers and independent adviser also meets with the Fund's managers on a quarterly basis (Private Equity and Currency on a semi-annual basis) to review performance.

Current Governance Arrangements (continued)

- Officers are responsible for the 'administration' of the Fund's investment arrangements.
- Procurement of services for the Pension Fund is carried out via the public tendering process overseen by Council staff.

Our initial thoughts on the current arrangements

There are some good points regarding the current arrangements:

- The Elected Members regularly see the Fund's investment managers and have the opportunity to question them.
- Meetings are held frequently and as a result a significant amount of time is spent on pension fund matters.
- Elected Members, Advisers and Officers have a regular opportunity to work closely together, thereby building up trust and co-operation.

However, there are also some potential issues with the current arrangements:

- Although we have very limited experience of the Fund, the meeting agendas do not appear to us to allow the Members sufficient time to concentrate on strategic matters. In the long run, strategy adds most value and indeed is an area of significant importance specifically mentioned in the Myners Principles.
- The length of time given to Fund Managers to present is not sufficient to review their performance, their economic outlook and any potential business issues that they have. This leads to a more superficial review than we would suggest, and we believe that individual manager reviews should be more comprehensive.
- There would appear to be a duplication of effort, with the Officers and Independent Advisor reviewing investment managers, in addition to the managers' attendance at Committee meetings.
- Members seemed to be presented with a large amount of information of varying complexity, across all asset classes. This may be difficult for some Members to absorb in the short time available at the meeting.
- Given time constraints, it is not always possible to bring a manager or custodian to account in the way which may be appropriate. For example, it was difficult, due to time constraints, at the September Meeting to question Northern Trust on their foreign exchange charges and whether these were hampering fund managers in securing the most competitive foreign exchange rates.

Possible options

There are three main options open to the Fund, which we believe would result in a more effective and efficient governance structure. These options are formed by our experience of working with other pension fund clients, and are not necessarily mutually exclusive:

Refocus of Current Structure

The Fund could keep the existing set-up – albeit with each meeting agenda being more focussed - with more emphasis and time spent by the Elected Members on the Fund's investment strategy and monitoring at a Fund level. We suggest below a possible agenda:

- Minutes of last meeting
- Matters arising from minutes
- Fund Manager Performance covering:
  - overall market assessment and impact on investment strategy
  - investment performance of each manager
  - manager issues causing concern – why and recommended action
  - any significant changes in a Manager's characteristics
- Update on Fund Business Plan
- AOB

Such an approach would allow the Elected Members to focus more of their time on the most important topics, whilst at the same time allowing some of the more 'routine' items to be passed to the Officers, Independent Adviser and Consultants.

The Committee currently meets 6 times a year – with 4 meetings dedicated to monitoring and 2 dedicated to Fund business. We suggest that, should the Fund wish to continue with 6 meetings a year, that the priorities are changed, with 3 meetings dedicated to business and 3 dedicated to monitoring, at which the Committee would still see and review investment managers in person.

A possible arrangement might look like this:

Meeting 1: Fund Business issues

Meeting 2: Review Alliance Bernstein, Fidelity & Capital

Meeting 3: Fund Business issues

Meeting 4: Review Pantheon, Currency Managers (once in place), ING, Northern Trust

Meeting 5: Fund Business issues

Meeting 6: Review Alliance Bernstein, Fidelity & Capital

Officers would continue to review the managers every quarter, and the Committee could call a manager for review at any time – for example, if they were underperforming and causing some concern.

Use of a Sub-Committee

Another approach could be to create a Sub-Committee, which consists of some members of the Pensions Committee, Officers, and the Independent Advisor. Hewitt would also participate in the Sub-Committee meetings in its role as investment consultant.

The Committee could delegate responsibilities as it sees fit to the Sub-Committee. This new Committee could be a standing body, or could meet as and when deemed necessary – for example, to appoint an investment manager. Elected Members who sit on the main Pensions Committee could attend the Sub-Committee at any time they wish.

Again, such an approach would allow the main Pensions Committee to focus on the most significant aspects of managing the Fund, whilst delegating other arguably less critical areas down to the Sub-Committee.

Delegating Responsibilities to Officers

The Committee could create an Investment Advisory Panel, to take on board some of the Fund's investment matters. Membership of the Panel could include the Officers, Independent Adviser and Investment Consultants. Any of the Pension Fund Committee Members could attend the Panel at any time. The purpose of the Panel would be to support the Committee, possibly including:

- Developing investment strategy.
- Monitoring investment managers.
- Monitoring investment management agreements and guidelines.
- Overseeing the rebalancing of the Fund's strategy.

Despite having the responsibilities listed above, the actual Pension Fund Committee would always have the final say on any pension fund matters.

The Panel would meet quarterly, carrying out its brief over 1-1.5 days. The Panel would produce a written report for the Committee each quarter, summarising the meeting and highlighting specific issues of interest.

With this new body being created, the burden on the Pension Committee would reduce. This might in turn permit the Committee to reduce the number of meetings from every two months, to meeting quarterly. The new 'core' agenda for the Committee might look like the following:

- Pensions Administration issues (including budget monitoring).
- Investment Advisory Panel Report.
- Investment Performance (long term, medium term, short term).

Clearly, the Committee would have the discretion to add any items to the agenda it saw fit – including asking specific investment managers to come in to be reviewed, if there were concerns.

Summary

LGPS Pension Fund Committees are asked to do a difficult job, in a rapidly changing complex environment. We firmly believe that Elected Members' limited time is best spent on 'high level' matters such as investment strategy, as opposed to aspects such as quarterly investment manager monitoring.

We would be happy to discuss this matter further with the Pensions Committee in due course, to gauge its interest and any appetite for change.

Appendix – CIPFA Pensions Panel Principles

Principle 1: Effective decision making

Decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

Trustees should ensure that they have sufficient in-house staff to support them in their investment responsibilities. Trustees should also be paid, unless there are specific reasons to the contrary.

It is good practice for trustee boards to have an investment sub-committee to provide the appropriate focus.

Trustees should assess whether they have the right set of skills, both individually and collectively and the right structures and processes to carry out their role effectively. They should draw up a forward-looking business plan.

Principle 2: Clear objectives

Trustees should set out an overall objective for the Fund that:

- Represents their best judgement of what is necessary to meet the Fund's liabilities given their understanding of the contributions likely to be received from employer(s) and employees.
- Takes account of their attitude to risk, specifically their willingness to accept underperformance due to market conditions.

Objectives for the overall Fund should not be expressed in terms which have no relationship to the Fund's liabilities, such as performance relative to other pension funds, or to market index.

Principle 3: Focus on asset allocation

Strategic asset allocation decisions should receive a level of attention (and, where relevant, advisory or management fees) that fully reflect the contribution they can make towards achieving the Fund's investment objective. Decision-makers should consider a full range of investment opportunities, not excluding from consideration any major asset class, including private equity. Asset allocation should reflect the Fund's own characteristics, not the average allocation of other funds.

Principle 4: Expert advice

Contracts for actuarial services and investment advice should be opened to separate competition. The Fund should be prepared to pay sufficient fees for each service to attract a broad range of kinds of potential providers.

Principle 5: Explicit mandates

Trustees should agree with both internal and external investment managers an explicit written mandate covering agreement between trustees and managers on:

- An objective, benchmark(s) and risk parameters that together with all the other mandates are coherent with the Fund's aggregate objective and risk tolerances.

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Principle 5: Explicit mandates (continued)

- The manager's approach in attempting to achieve the objective.
- Clear timescale(s) of measurement and evaluation, such that the mandate will not be terminated before the expiry of the evaluation timescale for underperformance alone.

The mandate and trust deed and rules should not exclude the use of any set of financial instruments, without clear justification in the light of the specific circumstances of the Fund.

Trustees, or those to whom they have delegated the task, should have a full understanding of the transaction related costs they incur, including commissions. They should understand all the options open to them in respect of these costs and should have an active strategy – whether through direct financial incentives or otherwise – for ensuring that these costs are properly controlled without jeopardising the Fund's other objectives. Trustees should not without good reason permit soft commissions to be paid in respect of their Fund's transactions.

Principle 6: Activism

The mandate and trust deed should incorporate the principle of the US Department of Labor Interpretative Bulletin on activism. Trustees should also ensure that managers have an explicit strategy, elucidating the circumstances in which they will intervene in a company; the approach they will use in doing so; and how they measure the effectiveness of this strategy.

Principle 7: Appropriate benchmarks

Trustees should:

- Explicitly consider, in consultation with their investment manager(s), whether the index benchmarks they have selected are appropriate; in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies.
- If setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection.
- Consider explicitly for each asset class invested, whether active or passive management would be more appropriate given the efficiency, liquidity and level of transaction costs in the market concerned.
- Where they believe active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving the managers the freedom to pursue genuinely active strategies

Principle 8: Performance measurement

Trustees should arrange for measurement of the performance of the Fund and make formal assessment of their own procedures and decisions as trustees. They should also arrange for a formal assessment of performance and decision-making delegated to advisers and managers.

Principle 9: Transparency

A strengthened Statement of Investment Principles should set out:

- Who is taking which decisions and why this structure has been selected.

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Principle 9: Transparency (continued)	■ The Fund's investment objective. ■ The Fund's planned asset allocation strategy, including projected investment returns on each asset class and how the strategy has been arrived at. ■ The mandates given to all advisers and managers. ■ The nature of the fee structures in place for all advisers and managers, and why this set of structures has been selected.
Principle 10: Regular reporting	Trustees should publish their Statement of Investment Principles and the results of their monitoring of advisers and managers. They should send key information from these annually to members of these Funds, including an explanation of why the fund has chosen to depart from any of these Principles.

Haringey Council

Agenda Item

Pensions Committee On 20 October 2008

Report title: **Business continuity arrangements**	
Report of: **Chief Financial Officer**	
Ward(s) affected: All	**Report for**: Decision

1. Purpose

1.1 To consider the ownership risks of our current Fund Managers and the business continuity arrangements in the event of a Fund Manager ceasing to trade.

2. Recommendations

2.1 That the ownership risks of our Fund Managers be noted.

2.2 That the Committee delegate authority to the Chief Financial Officer to appoint an Index Tracker Fund Manager to a framework agreement for a four year contract period.

Report authorised by: Gerald Almeroth – Chief Financial Officer

G. Almeroth

Contact officer: John Hardy – Corporate Finance
Telephone 020 8489 3726

3. Executive Summary

3.1 The purpose of this report is to detail the risks associated with the ownership of our current Fund Managers and our business continuity arrangements in the event that any of our Fund Managers cease to trade.

3.2 The Chief Financial Officer has recommended that a procurement process be commenced with the active support of our external advisors Hewitt and that authority to appoint an Index Tracker Fund Manager be delegated to the Chief Financial Officer.

4. Reasons for any change in policy or for new policy development (if applicable)

4.1 None.

5. Local Government (Access to Information) Act 1985

The following background papers were used in the preparation of this report:

Fund Performance report and presentation by Hewitt to Pensions Committee on 18 September 2008.

This report contains exempt and non-exempt information. Exempt information is under the following category (identified in amended Schedule 12A of the local Government Act 1972. s (3) Information relating to financial or business affairs of any particular person (including the authority holding that information).

6. Background

6.1 The purpose of this report is to consider the ownership risks of our current Fund Managers. Also to present our business continuity arrangements, following a review, in the event that any of our Fund Managers cease to trade.

6.2 The Chief Financial Officer has agreed that a procurement process be commenced with the active support of our external advisors Hewitt.

6.3 Pensions Committee on 18 September agreed that our business continuity arrangements in the event of any of our Fund Managers ceasing to trade be reviewed.

7. Risks

Ownership of equities and bonds

7.1 Ownership of holdings of equities and bonds are held in the name of Haringey Council's pension fund by our custodian, Northern Trust, and not in the name of our fund managers. Therefore there is no risk of capital loss if a fund manager ceases to trade as all holdings are registered with Northern Trust.

Transition

7.2 The risk of holdings being inactive and not managed for a time is a possibility. The current position is that a failed fund managers equities and bonds could be transferred to one or more of the other existing managers. The transfer in itself could be effected quickly, however this would greatly alter the current risk profile of the fund and may not accord directly with the receiving managers preferred holdings. Therefore there could be significant time delays in varying existing mandates and profiles.

Assessment of Fund Manager ownership

7.3 The ownership of our current Fund Managers has been reviewed to consider how much of a risk this represents. Private ownership represents a smaller risk than public ownership. Details for our current Fund Managers are as follows:

Fund Manager	Ownership
Bernstein	Alliance Bernstein is a wholly-owned subsidiary of AXA. AXA is a French company that is listed on the French stock exchange and also AXA depository shares are listed on the New York stock exchange. AXA, a *société anonyme* organized under the laws of France, is the holding company for an international group of insurance and related financial services companies engaged in the financial protection and wealth management businesses. AXA's operations are diverse geographically, with major operations in Western Europe, North America, and the Asia/Pacific regions and, to a lesser extent, in other regions including the Middle East and Africa. AXA has five operating business segments: life and savings, property and casualty, international insurance, asset management, and other financial services.
Capital International	The Capital Group Companies, Inc. (CGC) is the parent of a number of organisational entities, all of which are 100% owned by CGC. CGC is privately owned by around 400 current and recently retired associates.
Fidelity	Over 50% of FIL Limited is owned by its employees at Director level or equivalent. The remainder is owned by the founding Johnson family and various charities.
ING	ING Real Estate is a subsidiary of the ING Group. ING are a Dutch company who are listed on the exchanges of Amsterdam, Brussels, Frankfurt, Parris, New York and Switzerland. ING shareholders range from institutional holdings to employee holdings. ING is a significant global financial services institution which provides banking, insurance and asset management services to over 85 million residential,

	corporate and institutional clients in more than 50 countries.
Pantheon	Pantheon is wholly owned by Russell Investments ("Russell"), a multi-manager investment services. Established in 1936 in Tacoma, Washington, Russell has more than $211 billion in assets under management in over 40 countries (as at 30th June 2008). Russell is a subsidiary of Northwestern Mutual Life, an AAA rated company by Standard & Poors. Northwestern Mutual Life is an American mutual entity that is owned by its members and is therefore not listed on a stock exchange.

7.4 There is a mixture of types of ownership of the various fund managers in place. Privately owned companies are a lower risk than the publicly owned companies. It is concluded that there is sufficient risk here, particularly in the current market holdings to warrant having a contingency plan in place.

7.5 Northern Trust are the Fund's master custodian, and are one of the four main custodians used by Pension Funds in the UK. The Fund has arranged for Northern Trust to sweep surplus cash into their Global Cash Funds on an overnight basis. The 3 funds are dollar, pounds sterling and euros. Each fund invests in a diversified list of high rated assets such as commercial paper, time deposits, t-bills, corporate bonds, Corporate Deposits and Gilts. Assets are held for a short term to provide the required amount of liquidity.

7.6 Northern Trust are a trust bank, whose primary business is looking after the assets of institutional investors. Whilst they have an asset management arm that is essentially a passive manager, their main focus is on custody and related activities. They have not been participants of any significant size in derivative investments, they do not extend credit to any great degree and generally speaking they do not take risks. On the whole, Hewitt are comfortable with the position of Northern Trust as the Fund's custodian, and do not believe it is necessary to look for a replacement or backup custodian at this time.

Appointment of an Index Tracker Fund Manager

7.7 Consideration and discussions have taken place on contingency options. In addition to transferring the holdings to one or more of our existing managers a further option would be to appoint a new permanent manager. However, this would take too long to implement. Another option is to have in place an arrangement with a passive index tracker fund manager. It is recommended that this latter option is pursued and arrangements are now already underway.

7.8 Hewitt advise that the nature of passive management (lower manager-specific risk) and the smaller universe of good quality passive managers also support a simpler and faster route to making a selection. Hewitt's prior knowledge of the available passive managers in the market puts them in a good position to fast track the process on behalf of the Pension Fund. Hewitt would undertake the following work:

- draft a tailored tender document and then send it to a short list of three managers. This way competitive tenders can still be evidenced;

- Establish scoring criteria specific to passive management and the needs of the Fund. Price will be one important aspect but we also need to consider a full range of funds, flexibility, and ability to facilitate transition;
- Conduct an initial evaluation of manager responses based on established scoring criteria;
- provide the draft scoring of the managers and put forward a preferred candidate.

7.9 The proposed fee by Hewitt is exempt information and therefore is contained within Appendix A.

7.10 It is proposed that a Framework Agreement be entered into with one tracker manager for a duration of four years. The financial services to be provided are Part A services under the EU procurement rules. The proposed tendering would be carried out under EU procurement rules using the urgency route of the negotiated procedure without notice.

7.11 Once a preferred passive manager has been selected, an Investment Management Agreement (IMA) will need to be agreed. Having the manager in place would allow the Fund access to a full range of index tracking funds - equity, bond and cash. This would not only provide a comprehensive contingency plan but also provide the opportunity to incorporate medium term asset allocation views with relative ease. Any subsequent work after the passive manager has been selected would however fall outside of Hewitt's project fee, e.g. negotiation of contracts and subsequent transitions.

7.12 It is estimated that appointment of a new active fund manager would take six to nine months by following the OJEU process.

7.13 It is proposed that a Framework agreement be entered into with one supplier for a duration of four years. This is a Part A Financial Service under the OJEU regulations. The proposed tendering would be using the without notice urgency route.

7.14 Given the urgency of the matter the Chief Financial Officer has agreed that Hewitt should manage the above EU procurement process on our behalf. This will be done under the oversight of the Council's Corporate Procurement Unit and Legal Services who have been fully consulted on this matter. The Council would be fully involved in the process at each stage to agree the steps taken by Hewitt before they are actually completed and ensure full compliance with EU regulations

7.15 It is envisaged that the process to appoint a Fund Manager will take until mid to end of November. It is proposed also that given the urgency of this matter the actual decision to appoint a Fund Manager be delegated to the Chief Financial Officer once the negotiated procedure tendering exercise has identified a preferred bidder.

8. Financial Implications

8.1 The financial implications are exempt and therefore are contained within Appendix A.

8.2 The framework agreement with the new Index Tracker Fund Manager will not incur any costs unless a contract for services is actually implemented.

9. Recommendations

9.1 That the ownership risks of our Fund Managers be noted.

9.2 That the Committee delegate authority to the Chief Financial Officer to appoint an Index Tracked Fund Manager to a framework agreement for a four year period.

10. Head of Legal Services comments

10.1 The Head of Legal Services has been consulted on the content of this report.

10.2 The main contingency proposal is to procure a single-provider framework agreement for provision of index tracker manager services. The tracker manager would be appointed to the framework at the end of the proposed procurement process. However a contract, in the form of an investment management agreement, would only be issued on the terms agreed in the framework if and when the manager's services were actually needed.

10.3 The estimated value of the tracker manager services, if they have to be used, is likely to exceed the EU threshold for services, namely £139,893. As a result, this procurement is subject to EU procurement rules as set out in the Public Contract Regulations 2006 (PCR 2006).

10.4 It is proposed to use a procedure provided for under the PCR 2006 known as the negotiated procedure without notice. This would allow a selection of managers to be approached without advertising, a preferred bidder to be selected from among them and the terms of the proposed framework and investment management agreement to be negotiated with the preferred bidder.

10.5 The use of this procedure is permissible only in cases of extreme urgency brought about by unforeseeable events not attributable to the procuring body which mean the usual tender procedure time limits could not be met. Given the extremely unstable financial climate and the unforeseeable risk that this has suddenly presented to the Pension Fund, these conditions appear to be met. In general terms such a preparatory measure also represents an effective exercise of the fiduciary duty of Members of the Pensions Committee to stakeholders of the fund.

10.6 Under the Council's Constitution, the Pensions Committee has the power to make appointments of investment managers and specialist advisers for the Pension Fund. Under section 15 (7) of the Local Government Act 2000 the Committee has power to delegate their powers to an officer of the Council including to delegate to the Chief Financial Officer the power to make the appointment as recommended in this report.

10.7 The Head of Legal Services confirms that there is no legal reason preventing the Pensions Committee from approving the recommendations at paragraph 2 of this report.

11. Head of Procurement comments

11.1 The Head of Procurement has been consulted on the content of this report and comments that given the global volatility and uncertain nature of financial markets and institutions the use of the proposed EC urgency procedure would be appropriate.

11.2 Whilst Hewitt's will manage the procurement exercise, the Council will remain the "contracting authority" and for this reason it is advisable for tender documentation to be reviewed by the Council prior to its issue to potential bidders and for the Council to monitor the overall process of evaluation, selection and award.

11.3 On this basis, the Head of Procurement supports the recommendations to Members contained within this report.

12. Use of Appendices

12.1 Appendix A of this report contains Exempt information.

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