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
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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.