



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**

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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	<p>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.</p> <p>AXA, a <i>société anonyme</i> 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.</p>
Capital International	<p>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.</p>
Fidelity	<p>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.</p>
ING	<p>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,</p>

	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 30 th June 2008). Russell is a subsidiary of Northwestern Mutual Life, an AAA rated company by Standard & Pools. 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.