



<b>Report for:</b>	Pensions Committee 15 <sup>th</sup> December 2014	<b>Item number</b>	
<b>Title:</b>	Review of Passive Investment Manager Structure		
<b>Report authorised by :</b>	Kevin Bartle, Assistant Director – Finance (CFO)		
<b>Lead Officer:</b>	George Bruce, Head of Finance – Treasury & Pensions george.bruce@haringey.gov.uk 020 8489 3726		
<b>Ward(s) affected:</b> N/A	<b>Report for Non Key Decision</b>		

## **1. Describe the issue under consideration**

- 1.1 The equity and index linked investments are managed by BlackRock and Legal & General. Mercer (appendix 1) advise that combining the mandates will offer fee and operational benefits and propose that we approach the existing managers for fee quotations.
- 1.2 The information contained in Appendix 1 is not for publication as it contains information classified as exempt under Schedule 12A of the Local Government Act in that it contains information relating to the business or financial affairs of any particular person (including the Authority holding that information).

## **2. Cabinet Member Introduction**

- 2.1 Not applicable.

## **3. Recommendations**

- 3.1 That BlackRock and Legal & General are invited to quote for a combined equity and index linked index tracking portfolio, including the option of using leveraged index linked gilt funds.



#### **4. Other options considered**

- 4.1 The Committee will have the opportunity to discuss at a later date whether the fee savings and operational gains are sufficient to justify the time and costs of merging the two index tracking portfolios. They will also have a basis for evaluating the impact on investing through the CIV.

#### **5. Background information**

- 5.1 The Committee currently use both Legal & General and BlackRock to manage passive equities and index linked bonds. Mercer indicates that this has two disadvantages; higher fees and the difficulty of operating automatic rebalancing. They recommend that consideration be given to seeking revised price quotations based on a single manager for all the passive mandates.
- 5.2 It is expected that the London CIV will be operational in Q2, 2015 and that the Committee will be invited to manage their passive assets through the CIV. In order to fairly consider the impact of using the CIV, it is necessary to obtain revised fee quotations from the current providers. The CIV platform is likely to propose only one passive manager.

#### **6. Comments of the Chief Financial Officer and financial Implications**

- 6.1 The proposal to seek a revised fee quotation from the existing passive managers during a period when investment managers are aware that the London CIV will offer an alternative investment route may enable a better financial and operational structure to be negotiated.

#### **7. Assistant Director of Corporate Governance comments and Legal Implications**

- 7.1 The Council on behalf of the Pension Fund has appointed investments managers to invest and manage funds belonging to the Pension Fund. The Council has a contractual relationship with Legal & General and BlackRock. The fund managers are managing the funds on a “passive management” as oppose to an “active management” basis. Passive management means accepting returns from assets classes in which the investor invest. This is accomplished by investing in vehicles that buy and hold stocks that meet certain criteria.
- 7.2 The Council as administering authority for the Pension Fund has the power to appoint investment managers and in doing so must meet all the criteria set in Local Government Pension Scheme (Management and



Investment Funds) Regulations 2009 (“the 2009 Regulations”) in respect of such appointments.

- 7.3 The Council’s power to invest fund money is also set out in the 2009 Regulations. All investments must be made in accordance with the Council’s published investment policy.
- 7.4 The Council will be seeking quotes within the context of the present contracts with these fund managers. Should the Council wish to reappoint and therefore enter into a new contract with either Legal & General or BlackRock the Council must comply with the Public Contracts Regulations 2006 (the 2006 Regulations”) in carrying out this procurement (where the current threshold is £175,514 for part A Services) and Contract Standing Orders. Legal advice must be sought about whether or not it is possible to terminate the existing contracts early (if that is what the members are minded to do) and the consequences of termination.

## **8. Comments from Independent Advisor**

- 8.1 I concur with Mercers analysis that the existing arrangements whereby there are two Fund Managers responsible for managing the Fund’s passive listed assets appears unduly complex and that placing all passive assets with one manager should both simplify the governance of the Fund and potentially result in lower fees. Such an approach would also be preferable if the Fund were to utilise Leveraged Index Linked Gilts in the future.
- 8.2 Furthermore the present arrangements, whereby there are two managers for listed assets do not facilitate genuine passive management of listed assets. However I understand that genuine passive management of listed assets is the desired position of the Fund.
- 8.3 Given recent and potential continuing heightened activity in currency markets I would support the suggestion of Mercer that passive currency hedging be given further consideration. There is also, as Mercer state, evidence that low volatility equities, which can be managed on a passive basis, can provide downside protection in times of market stress and reduce the risk associated with equity investment.

## **9. Equalities and Community Cohesion Comments**

- 9.1 There are no equalities issues arising from this report.

## **10. Head of Procurement Comments**



**Haringey** Council

10.1 Not applicable

## **11. Policy Implications**

11.1 None.

## **12. Use of Appendices**

12.1 Appendix 1: Mercer report – Review of passive investment manager structure

12.2 The information contained in Appendix 1 is not for publication as it contains information classified as exempt under Schedule 12A of the Local Government Act in that it contains information relating to the business or financial affairs of any particular person (including the Authority holding that information).

## **13. Local Government (Access to Information) Act 1985**

13.1 Not applicable.