

**Decision Maker:** Pensions Investment Sub-Committee

**Date:** 16<sup>th</sup> May 2017

**Decision Type:** Non-Urgent                      Non-Executive                      Non-Key

**Title:** **OUTLINE PROCUREMENT PROCESS FOR FUND MANAGER APPOINTMENTS**

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**Chief Officer:** Director of Finance

**Ward:** All

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**1. Reason for report**

1.1 This report provides an outline for the implementation of the Pension Fund Asset Allocation Strategy that was agreed on 5<sup>th</sup> April 2017, and seeks agreement of certain principles to direct the tendering process for the new Investment Manager mandates.

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**2. RECOMMENDATIONS**

**2.1 The Pensions Investment Sub-Committee is asked to:**

- (a) Note the contents of the report;**
- (b) Consider the proposed actions and indicative time-frames attached in Appendix 1;**
- (c) Agree that the allocation to Property be split with £50m initially managed through a pooled fund, and the balance (circa £27m) managed via direct investment;**
- (d) Agree that mandates be tendered for two Multi Asset Income Funds, and one Property Fund;**
- (e) Agree that the Director of Finance, in consultation with the Chairman and Vice-Chairman, be delegated authority to select the shortlist of managers to be invited to submit a tender following the PQQ process;**
- (f) Agree that a Special Meeting of the Sub-Committee be held on 12<sup>th</sup> December 2017 to award the Property pooled fund mandate (see para 3.3.3).**

## Corporate Policy

1. Policy Status: Existing policy. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.
  2. BBB Priority: Excellent Council.
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## Financial

1. Cost of proposal: No cost
  2. Ongoing costs: Recurring cost. Total administration costs estimated at £3.9m (includes fund manager/actuary/adviser fees, Liberata charge and officer time)
  3. Budget head/performance centre: Pension Fund
  4. Total current budget for this head: £38.3m expenditure (pensions, lump sums, etc); £43.8m income (contributions, investment income, etc); £943.8m total fund market value at 31<sup>st</sup> March 2017)
  5. Source of funding: Contributions to Pension Fund
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## Staff

1. Number of staff (current and additional): 0.4 FTE
  2. If from existing staff resources, number of staff hours: c 14 hours per week
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## Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2013, LGPS (Management and Investment of Funds) Regulations 2016
  2. Call-in: Call-in is not applicable.
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## Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,076 current employees; 5,070 pensioners; 5,258 deferred pensioners as at 31<sup>st</sup> March 2017
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## Ward Councillor Views

1. Have Ward Councillors been asked for comments? No.
2. Summary of Ward Councillors comments: N/A

### 3. COMMENTARY

#### 3.1 Asset Allocation Strategy

3.1.1 At its meeting on 5<sup>th</sup> April 2017, the Pensions Investment Sub-Committee agreed a revised Asset Allocation Strategy for the Fund, primarily as a result of projected cash-flow shortfalls in future years and to reduce the expected volatility of investment returns. The revised strategy removes the allocation to Diversified Growth Funds, reduces the allocations to Global Equities and Fixed Interest, and introduces income generating allocations to Multi Asset Income (MAI) Funds and Property.

3.1.2 The current and revised strategic allocations are summarised in the table below:

	Current strategic allocation	Actual allocation 31/03/17	Revised strategic allocation	
	%	%	%	£m*
Global Equities	70	77.9	60	566.3
Fixed Interest	20	13.9	15	141.6
Diversified Growth Fund	10	8.2	0	0
Multi-Asset Income Fund**			16.8	158.5
Property**			8.2	77.4
				943.8

\* Indicative allocation based on total fund value as at 31st March 2017  
\*\* Allocation to property to equal actual DGF total value as at point of transfer, with the balance to adjust the allocation to MAI

3.1.3 The Council has appointed AllenbridgeEpic to manage the procurement of Fund Managers for the new mandates, and they have provided a brief report and indicative timeline for MAI Funds attached as Appendix 1.

#### 3.2 Multi Asset Income Funds

3.2.1 It is proposed that two managers be appointed for MAI Funds, to increase diversification and to aid performance appraisal, and that the tender be a two-stage restricted process advertised on the Official Journal of the European Union (OJEU).

3.2.2 Members are requested to delegate authority to the Director of Finance to agree the shortlist of Fund Managers (the recommended list to be submitted by AllenbridgeEpic) to be invited to submit a tender following the PQQ process, in consultation with the Chairman and Vice-Chairman of this Sub-Committee.

3.2.3 It is anticipated that the award of the mandates will take place following a “beauty parade” at the meeting of this Sub-Committee on 27<sup>th</sup> November 2017.

#### 3.3 Property Funds

3.3.1 Discussions at previous meetings of this Sub-Committee have indicated that members would prefer some of the property allocation to be managed via direct investment, similar to the Investment Fund within the Council’s revenue budget. As a result, it is proposed that £50m be initially managed in a pooled property fund, and the remaining balance (around £27m based on fund values as at 30<sup>th</sup> March 2017) be managed directly.

- 3.3.2 It is proposed that the pooled fund be tendered using the same process as, and alongside the MAI tender i.e. two-stage restricted OJEU process, with the shortlist to be agreed by the Director of Finance in consultation with the Chairman and Vice-Chairman.
- 3.3.3 Given the importance of selecting the fund managers for each asset class, and the likely number of managers on each shortlist, it is recommended that a Special Meeting of the Sub-Committee be held for the Property “beauty parade” on 12<sup>th</sup> December 2017.
- 3.3.4 Officers are currently investigating the potential for Cushman and Wakefield, the Council’s current strategic property provider, to also manage the direct property investments for the Pension Fund. This will include, for example, consideration of whether to pool funds with the Investment Fund, resulting in shared ownership, and the arrangements for a “Chinese wall” in the event that investments are kept separate.

**3.4 Sale of Assets**

- 3.4.1 In order to implement the revised strategy, it will be necessary to sell all of the Diversified Growth Funds, and around 23% of the total Global Equities assets (based on values as at 31<sup>st</sup> March 2017). It is proposed that the decision on which Global Equities assets to sell be deferred until a later meeting of the Sub-Committee.

**4. POLICY IMPLICATIONS**

- 4.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

**5. FINANCIAL IMPLICATIONS**

- 5.1 Details of the Pension Fund performance are provided in a report elsewhere on this agenda.

**6. LEGAL IMPLICATIONS**

- 6.1 The statutory provisions relating to the administration of the Local Government Pension Scheme are contained in the Local Government Pension Scheme (LGPS) Regulations 2013. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) set out the parameters for the investment of Pension Fund monies.

<b>Non-Applicable Sections:</b>	Personnel Implications, Impact on Vulnerable Adults and Children, Procurement Implications
Background Documents: (Access via Contact Officer)	Pension Fund Asset Allocation Strategy Review, Pensions Investment Sub-Committee, 22 <sup>nd</sup> February 2017 Pension Fund Asset Allocation Strategy Review – Follow-up Report, Pensions Investment Sub-Committee, 5 <sup>th</sup> April 2017