

## Bath & North East Somerset Council

MEETING:	<b>AVON PENSION FUND INVESTMENT PANEL</b>	
MEETING DATE:	<b>4 JUNE 2013</b>	<b>AGENDA ITEM NUMBER</b>
TITLE:	<b>DIVERSIFIED GROWTH MANDATES – SPECIFICATION AND TENDER PROCESS</b>	
WARD:	<b>ALL</b>	
<b>AN OPEN PUBLIC ITEM</b>		
List of attachments to this report: Exempt Appendix 1 – Mandate Specification		

### **1 THE ISSUE**

- 1.1 In the new Investment Strategy agreed at the Special Committee Meeting on 6 March 2013, 10% of the Fund's assets are allocated to Diversified Growth Funds (DGFs). The Fund is seeking to appoint up to two managers to manage these assets.
- 1.2 The Panel have a standing delegation from Committee to select and appoint new investment managers.
- 1.3 This report sets out the proposed mandate specifications and selection process for the DGF mandates.

### **2 RECOMMENDATION**

**That the Investment Panel:**

- 2.1 Agree the proposed mandate specification at Appendix 1**
- 2.2 Select their preference for the selection panel makeup from section 5.5**

### 3 FINANCIAL IMPLICATIONS

3.1 The budget provides for investment advice for tendering the DGF mandates.

### 4 MANDATE SPECIFICATION

4.1 The proposed mandate specification is included at Exempt Appendix 1. Key considerations are as follows:

- (1) **Investing in a pooled fund** – Because each mandate will be investing in a variety of assets the most appropriate investment structure is via a pooled fund as this minimises administration requirements for investors. As a pooled fund, it is important the fund is of sufficient size so that the Fund does not own too large a share of the pooled fund. For that reason the tender will specify a minimum size such that if the Avon Pension Fund invests it holds no more than 20% at the outset.
- (2) **Management style** – The Fund is seeking up to two managers with complementary and differentiated styles that in aggregate will accomplish significant dynamic asset allocation. The Fund will not consider passive asset allocators as the rationale for the inclusion of DGFs in the portfolio is to increase the scope for dynamic asset allocation. The constraints in the tender specification will be minimised to leave it to the discretion of the manager as to the style and asset classes they consider to be the best way to achieve the investment objectives set out in the mandate specification. This will be evaluated as part of the selection process.
- (3) **Performance target** – The performance target is to achieve equity like returns at significantly reduced volatility. The manager will state the benchmark of the pooled fund against which performance will be monitored, and justify why they believe the benchmark meets these target requirements. The tender brief will not place additional constraints on the manager by imposing specific volatility or equity correlation targets, but the tender process will evaluate proposals from managers as to how they expect to achieve the return target at reduced volatility. For context, JLT's forecast long term equity returns used in the investment strategy were 8.25% p.a.
- (4) **Fees** – DGF funds invest in a range of asset types and this can involve investing in underlying funds where fees are payable at the underlying fund level. Therefore the total expense ratio (TER) will be assessed as this incorporates all such fees and not just the headline ad valorem fund management fee. It should be noted that the fee estimate in the specification is a realistic assessment of achievable fee levels and the invitation to tender will specify a performance target net of TER.

### 5 SELECTION PROCESS

5.1 As the investment will be made via pooled funds, OJEU requirements are not applicable. However, the Fund will apply the same level of rigour to the tender analysis and evaluation.

5.2 The Fund has commissioned its investment consultant, JLT, to manage the tender process. The process will be as follows:

- (1) JLT develop tender questionnaire based on agreed mandate specification and evaluation criteria
- (2) JLT invite all appropriate investment managers of DGF funds to submit a tender bid.
- (3) JLT evaluate bids and draw up a long list report, including combination analysis with Fund's existing assets
- (4) Following meeting on long list with officers, short list drawn up
- (5) Officers and JLT do further due diligence on short listed managers
- (6) Selection meeting to appoint from short listed managers

5.3 It is expected that the process will take 6 months from advertising the tender until the investments are made in the successful tenderers. The tender will be managed through JLT's fully auditable online procurement portal.

5.4 The selection meeting can be arranged as:

- (1) A meeting of the full Panel (an extra meeting would be arranged);
- or
- (2) Delegate selection decision to a meeting of a selection panel including Officers, JLT and those members of the Panel who wish to attend

**Comments from the Panel on their preference will be sought at the meeting.**

5.5 Proposed dates for an all-day selection meeting to be held in Bath are as follows: Monday 30 September, Tuesday 1st October, Wednesday 2nd October, Thursday 3rd October.

## **6 EVALUATION CRITERIA**

6.1 The evaluation of the tenders will adhere strictly and transparently to the tender process. The following criteria will be used to evaluate each tender:

Investment Process, Philosophy and Style  
 Corporate Governance and Responsible Investment  
 Risk Management and Portfolio Construction  
 Resources  
 Commitment to strategy / asset class  
 Corporate Structure  
 Performance  
 Fees  
 Client service

6.2 The tender questionnaire is designed to specifically address the above criteria and the evaluation will be based on the evidence put forward in the tender submissions.

## **7 RISK MANAGEMENT**

7.1 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund. The selection and implementation of new investment mandates seeks to achieve the target strategic asset allocation and return profile. The Committee has delegated the manager selection and monitoring process to the Investment Panel.

## **8 EQUALITIES**

8.1 An equalities impact assessment is not necessary.

## **9 CONSULTATION**

9.1 N/a

## **10 ISSUES TO CONSIDER IN REACHING THE DECISION**

10.1 The issues to consider are contained in the report.

## **11 ADVICE SOUGHT**

11.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

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<b>Background papers</b>	
<b>Please contact the report author if you need to access this report in an alternative format</b>	