

<b>Bath &amp; North East Somerset Council</b>		
<b>MEETING:</b>	<b>AVON PENSION FUND INVESTMENT PANEL</b>	
<b>MEETING DATE:</b>	<b>26 FEBRUARY 2014</b>	<b>AGENDA ITEM NUMBER            <b>9</b></b>
<b>TITLE:</b>	<b>INFRASTRUCTURE TENDER PROCESS</b>	
<b>WARD:</b>	ALL	
<b>AN OPEN PUBLIC ITEM</b>		
List of attachments to this report:  Appendix 1 – Agreed Infrastructure Policy Framework		

## **1 THE ISSUE**

- 1.1 At their December 2013 meeting, the Committee agreed the framework for how the investment in infrastructure is to be structured, and agreed to delegate the tender process to Officers and Investment Adviser who will consult the Panel as required.
- 1.2 This paper updates the Panel on the proposed selection process, evaluation criteria and timescales for the Infrastructure tender.

## **2 RECOMMENDATION**

### **That the Panel**

- 2.1 Agree the selection process and evaluation criteria for the Infrastructure tender process.**
- 2.2 Select their preference for the selection panel makeup from section 6.4**

### **3 FINANCIAL IMPLICATIONS**

3.1 There is provision in the budget for investment advice relating to investing in infrastructure.

### **4 BACKGROUND**

4.1 The Fund's revised investment strategy agreed in March 2013 included a new allocation to Infrastructure of 5% of Fund assets.

4.2 An allocation to infrastructure meets the Fund's investment objectives as follows:

- (1) Provides a source of returns as part of growth portfolio
- (2) Reduces risk and increases diversification of returns within the investment portfolio
- (3) Provides predictable income with a link to inflation
- (4) Can generate income to meet the Fund's cashflow requirements

4.3 The framework agreed by Committee in their meeting on December 2013 identifies how the investment in infrastructure should be structured to best achieve these objectives.

### **5 MANDATE SPECIFICATION**

5.1 The agreed framework defined a broad draft mandate specification and is shown in Appendix 1.

5.2 JLT have not sought to express more detailed guidelines on diversification requirements (by investment type, sector geography etc) in the mandate specification than those already stated in Appendix 1 as it is more appropriate to assess the diversification attributes provided by the managers in their tender submissions.

### **6 SELECTION PROCESS**

6.1 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 as would be employed for an OJEU process.

6.2 An open tender will be conducted (where all investment managers that express an interest will be invited to submit a bid). It should be noted that the nature of closed ended infrastructure funds means that they have periods where they are raising funds and do not accept investments once their fund is closed. This means that only the managers who are raising funds at the time of the tender will participate.

6.3 The Fund has commissioned its investment consultant, JLT, to manage the tender process. The tender will be managed through JLT's fully auditable online procurement portal. The process will be as follows:

- (1) JLT develop tender questionnaire based on agreed mandate specification and evaluation criteria
- (2) JLT issue open invite for all qualified organisations to submit a tender bid.

- (3) JLT evaluate bids and draw up a long list report
- (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
- (7) Agree legal and implementation plan

6.4 It is expected that the process will take up to 6 months from advertising the tender until the investments begin with the successful tenderers. The process will begin with an invitation to tender in early March.

6.5 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.**

6.6 Proposed dates for an all-day selection meeting to be held in Bath are as follows: Mon 16<sup>th</sup> June, Tues 17<sup>th</sup> June, Thurs 19<sup>th</sup> June, Fri 20<sup>th</sup> June

## **7 EVALUATION CRITERIA**

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

- Philosophy, Investment Process and Portfolio Construction
- Risk Controls
- In-house systems and research
- Performance (historic but also forward looking indicators of success)
- Corporate Governance and Responsible Investment
- Resources, team and client service
- Corporate structure and business strategy
- Fees

7.2 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.

7.3 Although the criteria is similar to previous searches (with a focus on process and portfolio construction, performance, risk controls, in-house systems and research), the following differences compared to previous search criteria highlight the different challenges of evaluating infrastructure managers/funds:

- (1) Evaluation of performance - because of the nature of the asset type and the type of fund structure employed, it is less meaningful to assess performance data in isolation when comparing one manager with another due to differing characteristics such as vintage years, stage of investment and sector. Therefore the quantitative weighting, particularly in respect of past performance is reduced and a higher qualitative score is applied recognising

that a significant element of potential future performance is based on the sourcing of future deals and the analysis undertaken to assess projects.

- (2) The evaluation of ESG - Evaluation of submissions includes a specific weighting to governance and socially responsible investment factors. However, environmental, social and governance factors will also be considered explicitly within the philosophy and portfolio construction sections. The investment process is expected to take account of potential risks (eg. reputation, regulatory) and opportunities, including but not limited to the construction process, materials used and ongoing operation of infrastructure assets.
- (3) Slightly higher weighting to fees - because fees in this market are higher than average, a competitive fee basis should be appropriately rewarded. It should be noted that fees are more complex for this asset class than with others, often with performance fees and potentially hidden costs. The analysis will ensure transparency and fair comparison of costs across the different fee structures.

## **8 RISK MANAGEMENT**

8.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

## **9 EQUALITIES**

9.1 An equalities impact assessment is not necessary as the report contains only recommendations to note.

## **10 CONSULTATION**

10.1 N/a

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

11.1 This report is for information only.

## **12 ADVICE SOUGHT**

12.1 The Council's Monitoring Officer (Divisional Director – Legal and Democratic Services) and Section 151 Officer (Divisional Director – Business Support) 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>	

