Meeting with Investment Managers

Introduction

This paper is addressed to the Pensions Committee ("the Committee") of the Gwynedd Pension Fund ("the Fund"). This paper should not be released or otherwise disclosed to any third party except with our prior written consent, in which case it should be released in its entirety. We accept no liability to any other party unless we have especially accepted such liability in writing.

Background

The Committee have previously met with each of the Fund's active investment managers on a quarterly basis. This was common practice across most local authority funds historically, and was quite manageable in the days when most funds employed two, or possibly three, balanced managers.

However, the general move to more specialised manager structures has resulted in funds employing larger numbers of managers across each of the asset classes. In addition, the increasing diversification within asset allocation has required more Committee time to be spent on broader investment strategy discussions at a total fund level.

In response to this squeeze on limited Committee time, funds have been reviewing their policy towards meeting their larger stable of investment managers.

Delegation of monitoring

In response to this problem, we have seen examples of delegation at two levels:-

- Some funds have small investment panels, or sub-committees, comprising a number of representatives from the main Pensions Committee. The panels, which sometimes have as few as 3 or 4 members, have additional meetings concentrating solely on the investment managers, so that managers meet with the full Committee much less often – just once a year in some cases – or not at all.

  One disadvantage of this approach is that it does require a significant additional time commitment from the members of the sub-committee. This approach has also been more common where the main Pensions Committee has had as many as 15-20 members, and formal Committee meetings have been too large to allow proper informal discussion with managers. The advantage for the Gwynedd Fund is that there are a relatively small number of members on the existing Committee / Panel and this does allow for useful discussions with managers. My impression is that it would be difficult to identify a further sub-group of individuals from the Gwynedd to spend more time seeing managers, and this would not be our preferred way forward.

- Some funds have agreed that investment managers responsible for relatively small proportions of the fund's assets should routinely meet with the fund's officers and only meet with the main Committee if there are specific performance concerns or issues with the particular asset class. This is a common arrangement where a fund has made direct investments in asset classes such as private equity or property with a number of managers.

  The current situation within the Gwynedd fund, with the new property holding with Lothbury, for example, would fall into this category.

  The other form of delegation to officers is where a Committee agrees to meet with managers less frequently, but requires that the officers still meet with the managers (or perhaps conduct at least a conference call) on a quarterly basis.

Options for the Gwynedd Fund

It is more useful to consider the above issues by thinking about practical options open to the Gwynedd fund.

Whilst it is not possible to set out every possible option available, we have provided a number of options below which we believe will help discussion. We have also indicated a preference in our conclusions.

The Fund has four 'core' active managers (Capital, Fidelity, Insight and 'Property'). Along with the passive manager, Blackrock, these account for 95% of the Fund's asset allocation. The other manager is Partners Group (private equity – 5%).

Each active manager should be given a minimum slot of 45 minutes (if 3 are attending) and 1 hour (if 2 are attending). The role of the managers should not be just to discuss their own specific performance but also to keep the Committee informed of developments within, and outlook for, the asset class as a whole. It would be useful if we could agree on specific areas for the managers to cover in advance.

Assumptions

We have assumed below that there would not be a further sub-committee established.

We have also assumed that, in line with the recommendation in our accompanying paper, there will be a single property manager in future – ideally managing a fund-of-funds mandate. If this is not the case, the examples below should be read as referring to the core property manager (currently UBS).

Option 1: See the four core managers every 6 months

Q1	Q2	Q3	Q4
Capital	Fidelity	Capital	Fidelity
Insight	Property	Insight	Property

- Blackrock once a year – asking them to include discussion on wider corporate governance and voting issues in a training-style format.
- Partners Group – once a year, or possibly every two years. A broad training-style approach would be preferred.

This provides an equity manager each quarter (useful - as this is the Fund's largest asset class exposure), with bonds and property six monthly. The managers have reasonable time slots, yet they take up only 2 hours, allowing more time to consider other items.

Option 2: See the most 'informative' core managers quarterly

Amongst the equity managers, Capital's more fundamental investment approach provides more useful commentary and discussion for the Committee on equity markets generally than Fidelity's more quantitative process –driven mandate. Seeing Capital and Insight quarterly would provide more insight on the bond and equity market environment. Fidelity could be seen only six monthly, as could the property manager.

Q1	Q2	Q3	Q4
Capital	Capital	Capital	Capital
Insight	Insight	Insight	Insight
Fidelity	Property	Fidelity	Property

The managers could be given 45 minute slots keeping total manager time to 2 ¼ hours.

- Blackrock once a year – asking them to include discussion on wider corporate governance and voting issues in a training-style format.
- Partners Group – once a year, or possibly every two years. A broad training-style approach would be preferred.

Fitting in Blackrock, and potentially Partners, is more difficult under this arrangement.

Option 3: A separate 'manager day' and then one manager at each meeting.

Q1	Q2	Q3	Q4
Capital	Fidelity	Insight	Property

This is a more radical departure from current practice. Only seeing one manager at quarterly meetings frees up a lot of Committee time, though an additional day is then required when the Committee would see all of the Fund's managers on one day. We have seen this arrangement adopted where Committee meetings of two hours (held locally) suit some authorities. However, as Gywnedd members travel some distance for these meetings, it would seem to be a poor use of time to have very short meetings.

- Blackrock once a year – asking them to include discussion on wider corporate governance and voting issues in a training-style format.
- Partners Group – once a year. A broad training-style approach would be preferred.

Fitting in Blackrock and Partners once a year, though, is quite easy under this arrangement.

July Meeting

One issue ignored so far is the different format of the July meeting. Although I have not attended in person, George Henshilwood was able to help in this regard.

We understand that all of the managers are currently asked to attend the meeting in July, but that there is limited time for proper discussions with the managers at the Committee meeting and the managers are not frequently questioned at the AGM.

If the principle of inviting the key managers to the July meeting is to be continued, then option 2 would seem to work in this regard.

Alternatively, it may be better not to invite any managers to that particular meeting, and see them instead across the remaining three meetings.

Option 4

Q1	Q2	Q3	Q4
Fidelity	Capital		Capital
Property	Insight		Insight
Blackrock	Property		Fidelity

Or, seeing two managers per meeting, as follows:-

Option 5

Q1	Q2	Q3	Q4
Insight	Capital		Capital
Property	Insight		Fidelity

Under all options where a ‘core’ manager is not attending a particular meeting, the Committee may wish to ask the officers (or advisers) to carry out a specific update with the manager in order to be able to report to the meeting.

Conclusions

The aim of the options above is to prompt discussion by the Committee. We look forward to discussing these issues at the forthcoming meeting.

Prepared by:-
Paul Potter, Partner
William Marshall, Investment Consultant
April 2010
For and on behalf of Hymans Robertson LLP

General Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets.
Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.