



City of Westminster

# Committee Report

<b>Decision Maker:</b>	<b>PENSION FUND COMMITTEE</b>
<b>Date:</b>	<b>23 January 2018</b>
<b>Classification:</b>	<b>General Release</b>
<b>Title:</b>	<b>Fixed Income Manager Selection</b>
<b>Wards Affected:</b>	<b>All</b>
<b>Policy Context:</b>	<b>Effective control over Council Activities</b>
<b>Financial Summary:</b>	<b>Although no direct impact on the general fund, the change to the fixed income mandate for the Pension Fund is expected to generate savings of approximately £100K-150K per annum</b>
<b>Report of:</b>	<b>Steven Mair</b> <i>City Treasurer</i> <a href="mailto:smair@westminster.gov.uk">smair@westminster.gov.uk</a> <b>020 7641 2904</b>

## 1. EXECUTIVE SUMMARY

1.1 This paper updates Members on:

- a. The work undertaken to replace the fixed Income contract which expired at the end of 2017 and provide recommendation to award the fixed income contract to Insight Investment Management.

## 2. RECOMMENDATIONS

2.1 That the Committee approves:

- a. The award of the Pension Fund's fixed income contract to Insight Investment Management for a length of five years, with an additional five-year extension available subject to committee approval.

### 3. REASONS FOR DECISION

- 3.1 The current fixed income contract with Insight Investment Management has expired, and remains holding over based on historical contract terms. This needs to be addressed as soon as possible.
- 3.2 With the help of the Pension Fund investment consultant Deloitte, a “buy and maintain” request for proposal was issued, to which 17 fund managers responded. Of these the three highest scoring managers (Insight, PIMCO and LGIM) were invited to present to a panel consisting of two Pension Fund Committee members, two Council Officers and the Fund’s investment consultant.
- 3.3 Of these managers presenting, Insight were judged to have performed the best on the day and the Panel unanimously agreed that they were the preferred choice for the mandate, subject to delivering the fees offered and approval from the Pension Fund Committee.

### 4. PROCUREMENT PROCESS

#### Request for Proposal

- 4.1 The initial procurement process was set to include the London CIV (LCIV), who were procuring a fixed income manager simultaneously for their Investment Vehicle.
- 4.2 Whilst initially Deloitte and Council Officers were working with LCIV for a joint solution, it became clear that this was not going to be feasible for two reasons:
- The length of time that LCIV required to on-board the selected managers was problematic for the Fund as its contract with Insight would have expired with no facility for extension.
  - LCIV’s global fixed income mandate was not congruent with the Pension Fund Committee’s preference for a long duration buy and maintain style mandate
- 4.3 A decision was taken to work with Deloitte to issue a request for proposal on 28 September 2017 and run an independent procurement process.
- 4.4 Results of this initial request for proposal are shown below:

	Axa	BlackRock	Insight	LGIM	M&G	RLAM	Schroders	Threadneedle	Western	JPM	PIMCO
Business Strategy	7.5%	10.0%	<b>7.5%</b>	10.0%	8.8%	7.5%	7.5%	7.5%	10.0%	10.0%	10.0%
Mandate experience	6.7%	9.2%	<b>8.3%</b>	9.2%	4.2%	10.0%	5.8%	5.8%	6.7%	7.5%	9.2%
Investment team	9.0%	12.8%	<b>14.3%</b>	14.3%	12.0%	12.0%	9.8%	12.0%	10.5%	11.3%	12.8%
Investment process	16.8%	11.6%	<b>15.0%</b>	15.7%	12.3%	16.1%	15.9%	15.2%	14.8%	15.9%	17.0%
Proposed Fund	14.6%	18.7%	<b>15.8%</b>	18.0%	15.6%	13.3%	13.2%	14.0%	13.9%	16.0%	17.5%
Fees	12.4%	10.3%	<b>11.8%</b>	7.9%	11.6%	9.8%	8.8%	5.3%	8.6%	9.2%	7.5%
Client service	4.6%	3.3%	<b>3.8%</b>	3.8%	4.2%	3.8%	4.6%	4.6%	5.0%	5.0%	5.0%
Other	5.0%	5.0%	<b>5.0%</b>	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
<b>Total</b>	<b>76.5%</b>	<b>80.8%</b>	<b>81.4%</b>	<b>83.7%</b>	<b>73.6%</b>	<b>77.4%</b>	<b>70.6%</b>	<b>69.4%</b>	<b>74.4%</b>	<b>79.9%</b>	<b>84.0%</b>

- 4.5 Once these initial results were received, Pension Fund Committee members and Council Officers attended a shortlisting meeting with Deloitte to discuss the results and each manager's submission in detail.
- 4.6 Following on from these discussions, it was agreed that Insight, LGIM and PIMCO would be invited to present to a panel at Deloitte's offices to discuss their investment propositions in more detail, and answer questions from the panel.

### **Manager Selection**

- 4.7 On 30 November 2017, the manager selection meeting was held and it was decided that Insight should be reappointed to manage the Fund's fixed income strategy.
- 4.8 With each manager offering very similar target returns, and each having sound approaches to investment process and risk management, price was a significant factor in the decision.
- 4.9 Insight were able to offer the lowest fee but, more convincingly, were able to offer significantly lower transaction costs in comparison with their competitors from the existing mandate, and were able to give more certainty on costs rather than very wide ranging estimates.

**If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:**

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**BACKGROUND PAPERS:** None

**APPENDICES:**

**Appendix 1: Request for Proposal**