

From: Chairman Pension Fund Committee
Corporate Director of Finance

To: Pension Fund Committee – 29 March 2023

Subject: Investment Manager Monitoring

Classification: Unrestricted

Summary:

This report summarises the governance arrangements surrounding the oversight and ongoing monitoring of the Fund's appointed investment managers. The purpose of the paper is twofold:

- 1) to provide information around and to clarify the current manager monitoring arrangements; and
- 2) to propose the establishment of an investment manager monitoring strategy consistent with those arrangements.

The central feature of the proposed monitoring strategy is the introduction of a structured informal manager meeting cycle to support the Committee's oversight over investment managers and inform investment decisions making.

Recommendation:

The Pension Fund Committee is recommended to note this report and to endorse the monitoring strategy set out at section 3.

FOR DECISION

1. Background

- 1.1 In common with most institutional investors, the Kent Pension Fund implements its investment strategy via specialist external investment managers who are appointed to manage the day-to-day investment of the Fund's assets. The Fund needs to maintain assurance that its investment assets are being managed effectively, and in line with the Fund's overall investment strategy, which necessitates the development and implementation of proper investment manager monitoring arrangements.

1.2 Although the asset pooling regime in the LGPS means that, increasingly, investment manager monitoring is undertaken by pools rather than by administering authorities, most LGPS pension funds (including Kent) are still in the process of transitioning assets to pools.¹ As at 31 December 2022, approximately 60% of the Fund's assets are invested outside of the ACCESS asset pool, and while officers expect this proportion to decrease over time (as transition plans progress and suitable investment products become available), there remains an ongoing requirement to monitor investment managers (especially for any assets that are held locally on a permanent basis, or where governance requirements dictate). In addition, whilst ACCESS will co-ordinate monitoring of the pool's asset managers, individual funds are still likely to maintain regular contact to give themselves necessary assurance.

2. Investment Manager Monitoring Governance

2.1. Responsibility for investment manager monitoring is located in various areas:

2.1.1. **Pension Fund Committee:** as the senior decision-making body under the Fund's governance arrangements, the Committee has a strategic role focused on the oversight of the Fund's appointed investment managers. The Committee receives and considers relevant information to enable it to undertake informed strategic investment decisions, such as asset allocation; the transition of assets to the ACCESS Pool; or the appointment and termination of investment manager relationships.

2.1.2. **Investment Consultant (Mercer):** the Investment Consultant advises the Committee on the ongoing suitability of the Fund's investment managers. Mercer maintains individual manager ratings and manager ESG ratings, built upon a qualitative assessment of the managers' investment process. This information is principally communicated via a quarterly manager monitoring report to the Committee, highlighting any material developments. Mercer maintains an extensive global research function, which carries out periodic deep-dive assessments of individual managers' investment strategies, and which is available to the Fund.

2.1.3. **Officers:** the treasury and investments team monitor and evaluate investment performance at both the whole Fund and manager level using data from the custodian, Northern Trust, combined with investment managers' own reports and advice from the Investment Consultant. Officers also maintain ongoing dialogue with the investment managers' client relations teams, which is a key communication channel for understanding material manager developments (such as a change in senior investment team personnel) or for requesting additional information to support monitoring (on engagement activities or carbon

¹ A key founding objective of ACCESS is that the pool will provide a range of asset types necessary to enable participating authorities to execute their locally decided investment strategies as far as possible. Whilst administering authorities retain the key decision-making power over investment strategy, responsibility for the appointment of asset managers passes to the pool. This is consistent with the statutory guidance underpinning the pooling regime in the LGPS in England and Wales.

emissions, for instance). Officers also periodically meet with investment managers to review investment performance and strategy.

2.1.4. ***Custodian (Northern Trust)***: The custodian is the principal source for the Fund's investment performance information, which is provided on a monthly basis at manager and fund level. The custodian has also historically been responsible for safeguarding and accounting for individual securities. Although this function is still carried out by the custodian for the Fund's two remaining segregated account mandates (Sarasin and Goldman Sachs), as the Fund is now generally invested in mutual funds, custodian activities are largely carried out elsewhere.

2.1.5. ***ACCESS Support Unit and Pool Operator (Link)***: for pooled assets, additional investment monitoring activities are carried out at a pool level. The ACCESS Support Unit convenes regular monitoring meetings with investment managers including monthly investment user group meetings (led by the pool operator and attended by officers) and investor days. The pool operator also provides quarterly performance monitoring alongside an annual "Assessment of Value" report which evaluates where funds provide value to investors based on criteria outlined by the FCA.

2.2. It can be noted from the above, that there is a clear split between the strategic oversight carried out by the Committee and the more frequent and granular ongoing assessment of the continuing suitability of investment managers performed by others.

3. Monitoring strategy

3.1 As pooling of assets continues, it is proposed that the Fund introduces a investment manager monitoring strategy centred on the roles and responsibilities outlined in section 2 above.

Manager Meetings

3.2 Historically, investment managers have been invited to present to each formal meeting of the Pension Fund Committee. Whilst this arrangement has its advantages, Committee meeting agendas have become increasingly full and do not always allow adequate time for fund manager presentations, which means that Members may not fully benefit from the interaction. In addition to this the number of investment managers engaged by the Fund has increased so managing attendance has become challenging.

3.3 It is proposed that the Fund creates an investment manager meeting schedule outside of formal committee meetings. Provisionally these meetings would be held on the basis of two manager meetings per quarter and would be accessible to all Committee Members and relevant officers.

3.4 The inclusion of a short pre-briefing and a standardised agenda would enable the Fund to drive the dialogue, ensure interactions are consistent and cover key areas

of interest, and support continuous improvement. A summary of the proposed features is shown in Table 1.

Table 1: Summary of Manager Meeting Proposals

| Item | Description |
|---------------|--|
| Frequency | 2 per quarter (8 per year) |
| Attendance | Committee Members, officers, investment manager (portfolio manager plus client relations), Investment Consultant (by exception) |
| Format | Pre-briefing, presentation plus Q&A |
| Agenda | 1. Business/team update 2. Strategy recap 3. Performance review 4. Portfolio activity 5. Responsible investment activity 6. Outlook |
| Expected time | 1 hour (maximum) each |
| Evidence | Recording and one page meeting note circulated to Committee Members |
| Outputs | Informed investment decision making and effective asset allocation |

- 3.5 An indicative meeting rota has been developed with reference to such criteria as mandate size and current performance and is included at the Appendix.

Escalation

- 3.6 The creation of an informal manager meeting schedule does not negate the requirement for investment manager attendance at the formal Committee meetings, but rather such interactions would be as a result of escalation or due to urgency and would therefore be by exception.
- 3.7 Ongoing monitoring will proceed in accordance with the roles and responsibilities outlined in section 2. Possible reasons for escalating manager interactions to either an informal meeting with officers and Members or to a full Committee meeting include:
- severe or persistent underperformance.
 - a change in the Investment Consultant’s opinion of the manager.
 - a change in key personnel, or
 - a change in or deviation from the manager’s stated, original investment thesis.

Reporting

- 3.8 A key component of ongoing investment manager monitoring is regular reporting. The Committee currently receives ongoing monitoring information via several items including the Fund Position Statement and the Quarterly Manager Ratings Report. It is likely that the Fund’s reporting needs will evolve over time and officers intend to periodically review the reporting arrangements to ensure they remain

appropriate. An initial review will explore the inclusion of risk-adjusted return information and climate-related data.

4. Other ACCESS funds

4.1 To establish how the other 10 ACCESS partner funds monitor their asset managers a brief survey was undertaken by officers. A summary of this is shown below:

- 3/10 of the Funds have regular attendance at Pension Fund Committee meetings by asset managers. 2 of these commented that they were looking to change due to the agenda demands, and administrative burden.
- 3/10 had established Investment Sub-Committees that had responsibility for manager monitoring and other investment activity.
- 4/10 had informal sub-groups on manager monitoring briefing calls to ensure elected members had the opportunity to meet managers on a regular basis (generally monthly/quarterly).
- All commented that managers could still attend formal Committee meetings by exception.

4.2 It seems clear from this that the general trend has moved away from investment managers attending meetings as standard, due to other demands on agenda time, but that other arrangements have been put in place to ensure that effective monitoring continues.

5. Conclusion

This report has provided a recap of the governance arrangements surrounding the Fund's investment manager monitoring activities and proposed the introduction of a monitoring strategy centred on a structured manager meeting schedule to support the Committee's ongoing oversight role and inform investment decision making.

Appendices

Appendix – Manager Meeting Rota

James Graham, Pension Fund and Treasury Investments Manager

T: 03000 416290

E: james.graham@kent.gov.uk

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Appendix – Manager Meeting Rota

Fund Manager Review Rota

| Quarters ended | Manager | Format | Mandate | Dec 22 AUM (£m) |
|--|-----------------|-----------|--------------------|-----------------|
| Jun-23 | Baillie Gifford | MS Teams | Global Equity | 1074 |
| | Sarasin | In Person | Global Equity | 383 |
| Sep-23 | DTZ | MS Teams | Direct Property | 542 |
| | Schroders | In Person | UK Equity | 1189 |
| Dec-23 | M&G | TBC | Global Equity | 536 |
| | Schroders | TBC | Global Equity | 412 |
| Mar-24 | GSAM | TBC | Fixed Income | 387 |
| | Schroders | TBC | Fixed Income | 412 |
| Jun-24 | Partners Group | TBC | Infrastructure | 247 |
| | HarbourVest | TBC | Private equity | 254 |
| Sep-24 | Pyrford | TBC | Absolute Return | 381 |
| | Ruffer | TBC | Absolute Return | 192 |
| Dec-24 | M&G | TBC | Multi Asset Credit | 247 |
| | CQS | TBC | Multi Asset Credit | 230 |
| Mar-25 | Baillie Gifford | TBC | Global Equity | 1074 |
| | Sarasin | TBC | Global Equity | 383 |
| Jun-25 | DTZ | TBC | Direct Property | 542 |
| | Schroders | TBC | UK Equity | 1189 |
| Managers also monitored on ACCESS platform | | | | |

| Other smaller mandates to be covered by officers: | | | |
|---|----------------|--|-----|
| Fidelity | Property | | 142 |
| | Residential | | |
| M&G | Property | | 69 |
| | Environmental | | |
| Impax | Equity | | 75 |
| YFM | Private Equity | | 68 |
| UKAV (DTZ) | Property | | 32 |

