

By: Chairman Superannuation Fund Committee
Corporate Director of Finance and Procurement

To: Superannuation Fund Committee – 15 November 2013

Subject: **COLLABORATION WORK ON INVESTMENT MANAGER
PROCUREMENT**

Classification: Unrestricted.

Summary: To agree to add standard wording to investment manager procurements to enable other Funds to access the manager.

FOR DECISION

INTRODUCTION

1. West Sussex Pension Fund has been leading on an initiative established by the Society of County Treasurers (SCT) to facilitate more collaborative means of procurement between funds for Investment Managers. The SCT has 38 authorities participating, most of whom will be Administering Authorities for pension funds, so there is considerable scope for joint working, saving time and effort, as well as realising economy of scale benefits.

PROPOSAL

2. The collaboration is facilitated via a comprehensive database of all SCT Pension Funds which has details of all investment mandates and other contracts let by each pension fund.
3. The basic approach is that a procurement process will have built into its documentation provision for other Administering Authorities to join into any contract. A clause has been agreed with legal advice.
4. The benefits of being able to join existing contracts or procurements in progress are:
 - (1) Procurement processes can be expensive and time consuming.
 - (2) There is likely to be advantages of economies of scale when combining with other funds to employ an Investment Manager.
 - (3) The authority letting the contract retains its full discretion over whom to appoint – it is not a joint decision.

- (4) Costs would be shared fairly, in proportion to the assets invested by each authority.
5. This collaboration can be done in such a way as it will not impact on the decisions of asset allocations, or investment strategies of individual funds who retain full authority locally over their own funds. Rather, when separate Funds have a shared objective (say both wish to invest in a UK equity passive fund), it allows them to combine their purchasing power and save time on procurement, when there is a common goal for the type of asset allocation sought.
6. To allow this collaboration to work effectively, the following steps will need to be followed:
 - (1) All participating authorities must include an 'enabling' provision in any procurement process to permit the participation of other authorities in the eventual contract. Standard wording is attached at Appendix 1.
 - (2) Authorities must provide and maintain information to the SCT database for sharing on what investment mandates and other contracts they hold. This can be for any service the pension fund needs, but will probably be of most use on the provision of investment management. West Sussex currently holds an initial draft version of this database, but would seek a neutral third party to hold and maintain the data when the proposal is fully implemented with all participating SCT authorities having access.
 - (3) Any Administering Authority wishing to embark on a new procurement should then first check the database SCT pensions database for if any existing contract already let by another authority could potentially fit the bill in preference to a solo procurement e.g. the Fund may be seeking a passive equity investment vehicle in the UK which a neighbouring authority has already let or is about to let shortly. The presumption will be that the SCT database will be checked ahead of any procurement decision at each Fund, to see if existing mandates can simply be joined instead.
 - (4) Authorities can talk to each other regarding participating in existing contracts. Crucially, the database will also indicate when contracts will be renewed, which will allow authorities to plan their potential collaboration when a common investment mandate is being sought.
7. The scheme is likely to be of most use for straight forward investment mandates such as UK passive mandate.
8. When up and running such a scheme should also provide good evidence to the Government that Pension funds can achieve the efficiencies sought from economies of scale, but without the complexity and distraction of going down the path of fund mergers.

RECOMMENDATION

10. Members are asked to agree that:

- (1) The Fund support the collaboration initiative by the SCT.
- (2) The Fund agrees to maintain 'headline' details of the mandates and contracts it has on a shared database to facilitate this collaboration. Only participating authorities will have access to the database which in the short term will be held by West Sussex and in the long term a neutral third party.
- (3) There is a presumption that the Fund will check the SCT database for any future procurements, when this is implemented, to see if an existing mandate or contract can be used in preference to individual Fund by Fund procurement.
- (4) Any procurement the Fund undertakes has the standard form of words to permit other authorities to be added to the mandate / contract, as supplied in the Appendix.

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Contract Wording

“The anticipated value of the contract is approximately £x million to £x million per annum for xxxxx County Council alone. The contract is also available to members of the Society of County Treasurers (<http://www.sctnet.org.uk/Members>). Although there are 38 members in total, access to the contract will be on a first come first served basis, therefore once the upper range of the contract value stated in the OJEU has been reached the contract will be closed to other authorities joining. Therefore, the contract value could rise from £x million to £xx million per annum should other local authorities wish to access the contract. The Council gives no guarantee or commitment as to the initial and future value of any work arising from this contract. Note that this estimate does not include third party settlement fees.”

PLUS Either:

Simple Model

“The winning bidder agrees to make available to other members of the Society of County Treasurers (<http://www.sctnet.org.uk/Members>) the fee scale attached to this contract, at which point all assets in this mandate would be amalgamated across schemes for the benefit of fee aggregation. For the avoidance of confusion, all participating councils under this arrangement would pay the same pro-rate fee”.

OR

Complex Model

“The winning bidder agrees to make available to other members of the Society of County Treasurers (<http://www.sctnet.org.uk/Members>) a fee scale which mirrors the discount to standard fees contained within this winning contract. For the avoidance of confusion, this means that different size schemes will pay a different fee, but all will benefit from the agreed discount to standard fees”.

FOR INFORMATION

Explanatory Note re: The Legal Framework

The example form of words to insert in tender documentation has been reviewed from a legal perspective. The advice is that the wording (above) is satisfactory for the intended purpose. **Any feedback from authorities with procurements processes imminent is welcomed as the first necessary step to having flexible mandates available.**

The working has been further clarified to reflect that there could be two different categories of contracts (simple portfolio structure model, such as a basic passive mandate and complex portfolio structure model, such as a global multi-asset balanced mandate). In this way, greater flexibility in fee arrangements required for more complex, tailored mandates can be accommodated.

Under the simple portfolio structure model, the fund manager could amalgamate assets across similar strategies from multiple local authority funds, thereby demonstrating efficiencies of scale in service delivery. The fee structure would be tiered based upon assets under management (AUM), and all participating authorities would pay the same marginal fee rate.

For the complex portfolio structure model such as the existing West Sussex County Council Pension Fund balanced mandate, the fee advantage could be expressed as a discount to a standard fee scale, which varies by AUM. In this way, a small Fund would obtain a similar percentage discount on fees, but could pay a higher fee for a more tailored and more labour intensive, multi asset mandates, for example.

The wording will underpin the provision of a mechanism for apportioning fee, rebate and return fairly and consistently to be embedded in the Investment Manager Agreement (IMA) schedule of the individual authorities. For clarity, fund managers are able to implement either model regardless of the custodian or reporting arrangements of the individual authorities.