

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

To: Superannuation Fund Committee – 10 February 2017

Subject: **PASSIVE MANAGER PROCUREMENT**

Classification: Unrestricted

Summary: To seek agreement to the approach to the Passive Manager procurement.

FOR DECISION

INTRODUCTION

1. This report updates the Committee on work which has been underway with other funds within the ACCESS pool on the procurement of a passive manager on a collaborative basis and seeks decisions on the approach to be taken to an appointment. This work seeks to follow the example of a number of joint procurements already undertaken by LGPS funds which have delivered very significant fee savings.

CURRENT POSITION

2. The Kent Fund currently has two passive equity mandates both with State Street; UK equities £299m and Global equities £263m, £562m in total or around 11% of the Fund.
3. Passive management of equities has developed enormously over the last 20 years with the approach giving exposure to equity markets but with the manager just buying shares in proportion to the company's share of whatever index is required. There is no stock selection as such and the approaches can be implemented very cheaply. Given the vagaries of active management, passive investing has become very popular.
4. Although the Fund considered passive equity management in the late 1990's it did not invest in it until February 2009 when some funds, around £100m, from the ex Societe Generale equity mandate were moved into State Street's UK equity fund.
5. A further allocation of £70m was made in September 2009 with £20m allocated to UK equities and £50m to global equities. The charges agreed were:
 - UK equities – 6 bps to £100m and 4 bps above that.
 - Global equities – 12.5 bps to £50m and 10 bps above that.

7. The State Street funds were substantially increased by £201m in September 2010 when the Alliance Bernstein global equity mandate was terminated.
8. State Street has managed the funds allocated efficiently achieving index returns and has also been an effective transition manager.

FRAMEWORK PROCUREMENT

9. In November 2015 the Committee agreed that the Fund should participate in the establishment of the Passive Manager procurement framework led by National LGPS Frameworks. National LGPS Frameworks has developed a range of framework contracts including actuarial services, investment consultancy services, global custody services and legal services which all LGPS funds can use. The Kent Fund used the global custody service framework in 2015. The existence of a framework allows LGPS funds to undertake a mini competition between suppliers but with the EU procurement requirements already satisfied.
10. The procurement process proceeded through 2016 with timescales being lengthened due to the work pressures of pooling. All the ACCESS funds have participated. ACCESS pooling its allocation to passive management will be the first tangible outcome of the pooling process and will cover around £9bn. The investments will be in life funds which will not be part of the ACCESS pooled funds within an ACS structure if that proves to be the way forward.
11. In November the following managers were appointed to the framework.

Blackrock;
Deutsche Asset Management;
Legal and General Investment Management;
UBS
12. It is now proposed that the ACCESS funds undertake a mini competition and select a manager from the framework to maximize the reduction in fee.
13. The initial research on transition costs is indicating that no stamp duty will be incurred because investments are held in life funds.

RECOMMENDATION

14. Members are asked to delegate to the Corporate Director of Finance & Procurement in consultation with the Chairman the decision to call-off from the National Framework for Passive Investment Management and contract with the selected supplier(s).

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