

Merseyside Pension Fund

Policy for Monitoring of Investment Mandates

February 2009

1. Executive Summary

- 1.1 The purpose of this policy is to provide a framework for the monitoring of internal and external investment mandates for Merseyside Pension Fund.
- 1.2 The aim of this policy is to provide a structured approach to the response of the investment team to the performance of all aspects of the Fund, that whilst ensuring that there is an auditable trail of consequences allows for full consideration of all relevant facts in decision making giving flexibility for outcomes.
- 1.3 The structure provides for a full reporting structure and documentation of discussions and decisions.
- 1.4 This note covers the following
- The Mandates
 - Arrangements for Appointment and Strategic Review of Mandates
 - Monitoring Arrangements and Reporting Structure
 - Status Levels and Consequences

2. Mandates

- 2.1 MPF has two main types of investment manager internal and external.
- 2.2 The internal portfolios are

Mandate	Benchmark	Size	Performance Target
UK Equities	FTSE UK All Share TR	7%	1% excess pa on a 3 year basis
European Equities	FTSE World Europe TR	3%	1% excess pa on a 3 year basis
Property	IPD	10%	1% excess pa on a 3 year basis
Private Equity	LIBID	4%	5% excess pa on a 3 year basis
Alternatives	LIBID	6%	5% excess pa on a 3 year basis
Cash Management	LIBID	1%	Match Benchmark

2.3 The external portfolios are

Mandate	Benchmark	Size	Performance Target
Europe-JP Morgan,	FTSE World Europe ex UK TR	4%	2% excess pa on a 3 year basis
Far East – Nomura Asset Management.	Composite Bespoke	11%	2% excess pa on a 3 year basis
Legal & General Passive Portfolio (UK Equity & Index-Linked Gilts)	Composite Bespoke	25%	Match benchmark
Schroders Active Bonds	Composite Bespoke	4%	1% excess pa on a 3 year basis
Legal & General Active Bonds	Composite Bespoke	4%	1% excess pa on a 3 year basis
US Equities Passive - UBS	FTSE North America	8%	Match benchmark

2.4. As of March 2009, we added 5 managers to the roster: 4 active UK equity managers (each allocated 2.5% of the Fund) and 1 additional active European (ex UK) equity manager (allocated 3% of the Fund). The UK managers are BlackRock, M&G, Newton and TT International and the European manager is Unigestion. The new managers were funded from the Legal & General Passive portfolio.

3. Arrangements for Appointment and Strategic Review of Mandates

3.1 The decision to have internal managers is taken by Pensions Committee. The internal managers are staff of the Council who report to the Director of Finance.

3.2 The external investment managers are selected through OJEU procedures and appointments are made by Pensions Committee, which takes the decision whether or not to approve a recommendation of the Director of Finance following assessment by a panel of officers and independent advisers. Contracts are made with investment managers according to the directions of LGPS Regulations.

3.3 There is a programme which involves investment manager contracts being subject to review every three years and subject to a re-tendering exercise through OJEU procedures at least every six years. The time table for this is detailed below. The monitoring arrangements are designed to complement these timetables and control risk in the interim periods.

Mandate	Date of Procurement Process	Notes / Rational
Legal & General (Bonds) Objective: To manage fixed income assets and outperform the composite benchmark by 1% on a rolling 3 year basis.	2009	Process to commence January for June/ July appointment Earlier appointment can be done in parallel with other bond mandate
Schroders Bonds Objective: To outperform the benchmark by 1% p.a on a rolling 3 year basis.	2009	Process to commence January for June/ July appointment Earlier appointment can be done in parallel with other bond mandate
Legal & General (Passive) Objective: To track the total return of a number of market indices within specified sector tolerances.	2010	Process to commence January for June/ July appointment Less risk in delay and less complex can be done alongside Far East Mandate
Nomura Objective: To manage Far East And Emerging Markets Equities and outperform the benchmark by 2% or more p.a on a rolling 3 year basis.	2010	Process to commence January for June/ July appointment Manager has performed reasonably well to justify one year delay
J.P Morgan Objective: To manage European equities and outperform by 2% p.a on a rolling 3 year basis. UBS	2011	Process to commence January for June/ July appointment At present unchanged
UBS Passive U.S. Equities	Appointed November 2007	To be let for two years then re-tendering to be combined with other passive mandate

3.4 Every three years following the actuarial asset allocation there is an asset liability study and strategic investment review agreed by Pensions Committee. As part of this there is a review of the arrangements for internal management. The results of this review may have implications for asset allocation and mandate structure.

4. Monitoring Arrangements

4.1 MPF has a team in place to monitor the investments of the Fund, the staff involved are detailed below with their roles and responsibilities.

- **Head of Pension Fund**

Responsible for the management of Merseyside Pension Fund. Reports to Director of Finance specifically when attention status level is reached

- **Senior Investment Manager**

Responsible for the management of the investments of Merseyside Pension Fund. Reports to Head of Fund, and Director of Finance specifically when attention status on a mandate is reached

- **Investment Manager (Monitoring and Alternatives)**

Responsible for the monitoring of external investment mandates of Merseyside Pension Fund and is also the investment manager for private equity and alternatives portfolios. Reports to Senior Investment Manager and Head of Fund.

- **Investment Officer (Monitoring and Alternatives)**

Provides support to Investment Manager (Monitoring and Alternatives)

4.2 There are clear reporting structures for investment performance which are detailed below.

- **Director of Finance**

Receives reports from Head of Pension Fund and has certain delegated powers of decision making for mandates, specifically can terminate mandates, ahead of reporting to Pensions Committee. Within monitoring policy takes decision on consequences when mandate reaches attention level. One of these consequences can be to refer decision to IMWP.

- **Fund Operating Group (FOG)**

Receives monthly investment performance reports and notes performance of investment mandates, status levels and action taken.

- **Investment Monitoring Working Party (IMWP)**

Receives investment performance reports including status level reports on a quarterly basis and acts as a forum for discussion on investment performance and can give guidance for consequences for attention status mandates and make recommendations to Pensions Committee.

- **Pensions Committee**

Provides governance of the Fund; approves investment strategy, makes appointments of external investment managers, receives and approves minutes of IMWP and receives reports on decisions taken by Director of Finance under delegated powers.

4.3 MPF receives monthly performance figures and quarterly investment reports from external managers MPF receives and analyses performance data from WM Company on four time periods.

- 1month
- Quarter
- 12 month
- 3 year annualised or annualised since inception (if mandate has run for less than 3 years.)

4.4 Officers meet with external fund managers on a quarterly basis. All managers present to IMWP once a year and more frequently if concerns are raised.

4.5 The Head of Pension Fund and Senior Investment Manager are responsible for the management of internally managed portfolios. These portfolios are also subject to this monitoring policy, with performance numbers provided from an independent external source..

5. **Status Levels**

5.1 On a quarterly basis all investment mandates are applied a status level based on assessment of data by monitoring officers. These status levels and consequences are detailed below. These status levels and the status level history of managers are reported to IMWP.

	Officer Dealing	Consequences
Normal	Investment Manager	Monitoring Programme continues as normal
Watch	Head of Pension Fund / Senior Investment Manager	Monitoring Officer refers to SIM and HOPF discussion recorded in diary and reported to FOG possible consequences are. Defer for quarter Officer meeting with manager Letter to manager Manager summoned to IMWP
Attention	Director of Finance	DOF receives report with recommendation from SIM HOPF and makes minuted decision from possible consequences are Defer for quarter Officer meeting with manager Letter to manager Manager summoned to IMWP Recommendation to IMWP for dismissal Immediate dismissal

5.2 The status levels are allocated by analysis of performance over different time periods. As indicated in section 4.3, these are month, quarter previous 12 months and 3 year annualised. Monitoring Officers examine the performance figures for investment mandates and apply performance categories. There are four different performance categories for the performance of investment managers. They are applied with regard to the performance target for the manager for all reporting periods.

Performance Category

	Category	Definition	Notes
E	Exceptional	Performance is exceeding the benchmark by a factor of more than 2 to out performance target (annualised)	This may be a concern if persistent as may indicate manager is taking inappropriate risk
G	Good	Performance is exceeding the benchmark by more than 0.2% and up to a factor of 2 of outperformance target (annualised)	Satisfactory in all time periods up to 3 year reviews
B	Benchmark	Performance is within 0.2% of benchmark (annualised)	Passive management target may indicate active managers not taking adequate risk
P	Poor	Performance is below the benchmark by more than 0.2% and up to a factor of 2 of outperformance target (annualised)	Requires attention ahead of 3 year reviews
C	Critical	Performance is below the benchmark by a factor of more than 2 to out performance target (annualised)	Requires accelerated attention

5.3 The matrix below sets out the status levels applied for performance categories across the different time periods.

Matrix

Performance Category	One Month	Quarterly	12 month	3 years annualised
E	Normal	Normal	Watch	Attention
G	Normal	Normal	Normal	Normal
B	Normal	Normal	Watch	Watch
P	Normal	Normal	Watch	Attention
C	Normal	Watch	Attention	Attention

5.4 On a quarterly basis each Manager will be allocated an overall status score which will be based on the judgement of the internal team. This would usually be the most serious status level recorded although an emphasis would be given longer time periods. The persistence of status levels would also be considered.

5.5 The application of status levels and consequences is subject to review by the compliance officer at the Fund and to internal and external audit.