# Strategy for meeting with the East Sussex Pension Fund managers

## Addressee

This paper is addressed to the Officers and Investment Committee ("the Committee") of the East Sussex Pension Fund ("the Fund"). It suggests a timetable for regular manager meetings over the next year and discusses the type of analysis we could provide to support the Officers.

It has not been prepared for use for any other purpose and should not be so used. The paper should not be released or otherwise disclosed to any third party except as required by law or regulatory obligation or without our prior written consent.

## Background

The Fund has a wide range of investment managers running traditional and alternative asset classes in both segregated and pooled mandates and via active and passive investment approaches. The structure of the Fund has grown more complex in recent years, reflecting the increasing desire to diversify the investment strategy.

Historically, the Investment Panel sought to meet with all managers on a regular basis through the year; this responsibility will now pass to the Committee. We are keen to ensure that while the Committee has appropriate opportunities to review and challenge the Fund's managers, their meetings are not dominated by investment manager presentations, preferring to leave time to discuss more significant matters such as the investment strategy. The investment strategy will be the key driver of returns and risk for the Fund, and we believe that this is where the Committee should concentrate its focus. However, it is important to ensure that the maximum benefit is derived from the managers employed and that the Committee is kept up to date with their progress.

## Investment Managers and Governance

The Fund has a total of 13 distinct investment managers / mandates (including two private equity managers). In addition, the Fund employs Northern Trust as the custodian.

We would recommend meeting with those managers investing via an active approach more frequently than those managing passive mandates. The more volatile the asset class being managed, ideally the more supervision and oversight is required. The size of the assets being managed will also impact how regularly the Fund should meet with the managers. We suggest that those actively managed mandates which constitute 5% or more of Fund assets should be prioritised. Taking these factors into account we suggest the following approach to meeting with managers. Managers should, of course, be invited more frequently if necessary and in particular if there are any specific issues requiring the Committee's attention, or a decision on a desired course of action to be made.

- Managers to be seen once per year:
  - Longview (Global equities)
  - Lazard (Global equities)
  - Ruffer (Absolute return)
  - Newton (Absolute return)
  - Schroder (property)
  - M&G (bonds)
- Managers to be seen once every three years:
  - Adams Street

  - HarbourVest
  - Infracapital (M&G Infrastructure)
  - UBS (Infrastructure)
  - M&G (Financing Fund)
- As necessary
  - L&G (passive manager)
  - State Street (passive manager)
  - Northern Trust (custodian)

In total this results in 8 or 9 manager meetings over the year. We suggest that these are spread across the 4 regular Committee meetings and potentially the Annual Strategy day where appropriate, although we would not wish to dilute the focus of this day from the more important strategic issues.

### Meeting structure

In order to get the most out of the manager meetings the Committee might wish to consider imposing some structure on the managers' presentations. There are three factors we have found that can make meetings more effective.

1. Require managers to submit their presentation packs in advance of the meetings – the practicality of this will depend on the timing of the meeting relative to the quarter end;
2. The preparation by the Officers (or the Investment Consultant) of relevant questions - in the meeting itself it is essential that questions are followed through to ensure that managers give a full answer which can be understood by the members, and;
3. Requiring that managers follow a clear meeting structure and cover all points of interest.

In our experience the questions only work if:

a) You send them to the manager beforehand, and;

b) You insist on the pack being structured to answer the questions, rather than to the manager's own agenda.

We have outlined below a general structure for manager meetings together with examples of the types of questions that might be asked. Specific questions should be added dependent on each manager mandate and the historical performance. Sight of the presentation pack ahead of the meeting would make it easier to ensure that all appropriate questions are raised and managers should be asked to submit these five working days ahead of the meeting if at all possible. However, in the absence of that, we (or the Officers) could have a telephone conversation with the manager to get an insight into the relative performance and the drivers of that performance. In our experience managers will have assessed this well in advance of quarterly reports being issued, however they will need time to respond to specific questions.

### Part 1 – Portfolio review

**Investment views**

When we last met what were your expectations of markets and how was that reflected in your portfolio positioning?

What went as expected and what did not? How did this impact on overall performance?

What changes have you made to the portfolio since you last reported and what was the background to these?

**Relative performance**

What have been the key drivers of performance over the last 3 and 12 months? (These periods should be set to reflect the reporting regularity of each manager.) Please quantify the impact on our portfolio using attribution analysis at both a stock and sector level where possible.

Please select the sectors which have made the biggest positive and negative contributions to performance and discuss the background to the holdings in these sectors over the last 3 and 12 months.

Please comment on the share of total risk that is accounted for by your largest positions.

Add any other specific questions.

## Part 2 – Current views

**Markets and economies**

**Portfolio positioning**

- What is your central view of the future and how is this reflected in your portfolio positioning?
- What would change this view?
- What environments would be most positive and most negative for your portfolio?

## Part 3 – Business and other update

- Please outline any changes to the team and more broadly in the firm.
- How are new business flows and what impact is this having on resourcing?
- Please update us on the extent of your compliance with the Stewardship Code and more generally with your approach to ESG issues.

## Timetable

We set out a proposed timetable for the meetings in the Appendix.

Prepared by:-

Linda Selman  Partner

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For and on behalf of Hymans Robertson LLP

# Appendix

## Timetable of Meetings

The time table below is based on the Panel's typical dates for their regular meetings and the annual strategy meeting.

| Meeting date | Manager rota |
|---|---|
| **July 2015** | Lazard (re performance) |
| **September 2015** | As requested by the Panel, e.g. for training matters and market views.[1] |
| **November 2015** | Longview and M&G (bonds and infrastructure) |
| **February 2016** | Newton and Ruffer |
| **May 2016** | Schroder and one of Harbourvest, Adams Street, UBS or Infracapital |

[1]It might be useful to invite one of the passive managers to present on 'smart beta' approaches.

If a particular issue arises with a manager the order can be revised.