

## Buy and Maintain Credit Manager Selection Invitation to Tender

### Overview

This tender is being issued as part of a search for a manager offering a Buy and Maintain Credit mandate for the City of Westminster Pension Fund ("the Fund").

The Committee ("the Committee") has asked Deloitte to assist with the identification and appointment of an investment manager offering an appropriately structured Buy and Maintain Credit pooled fund that could replace the existing mandate.

This exercise is not being carried out as part of an OJEU procurement process. However, the Committee expects that the selected mandate will become one of the funds options offered by the London Council's CIV ("the CIV"), making it available to other boroughs. The CIV's preference would be for a segregated mandate.

### Mandate description

As at the end of March 2017, the Scheme's assets amounted to approximately £1,263m of which £189.5m is invested in a combination of gilts and corporate bonds, managed on a segregated basis.

The Fund currently has a traditional benchmark aware segregated credit portfolio that is managed with the objective of outperforming the iBoxx £ Non-Gilt 1-15 Years Index by 0.9% per annum gross of fees.

The expectation is that the holdings will be transferred on an in specie basis to the selected investment organisation and restructured accordingly.

## Tender evaluation

The evaluation will comprise two elements:

- A questionnaire (i.e. the response to this document) – 60%; and
- A presentation to the Committee – 40%.

However, the assessment of the responses will be based on the assumption that your organisation either already offers an appropriately structured pooled fund managed on a Buy & Maintain basis or that one will be available for launch before the end of 2017. Candidates not currently offering or able to launch an appropriate pooled fund within the timescales will not be considered.

Responses to this questionnaire will be reviewed and scored by Deloitte working with the Fund's Officers, with the top three candidates invited to present their proposals to the Officers and representatives of the Committee. At the presentation, the candidates will be expected to provide more detail on how the assets will be transferred from the current arrangements to the proposed fund and what the cost of the transfer is likely to be. Additional information will be provided to the candidates selected for interview ahead of the presentations.

It is anticipated that a representative from the London CIV will also attend the presentations.

The Committee does not undertake to accept the lowest cost proposal. The Committee reserves the right to discount any submission where it is felt that insufficient detail has been provided in response to this tender.

The scoring of the responses to this tender will be based on the following areas:

- Business strategy – 10%
- Investment team – 15%
- Mandate experience – 10%
- Investment process – 20%
- Proposed fund – 20%
- Fees – 15%
- Client service – 5%
- Other – 5%

Managers asked to present to the Committee will be provided with further information, with the scoring from the presentation based on a combination of the expected fit with the Committee and the ability to set up and take on the mandate in a cost effective manner.

## Timescales

Please confirm whether you will be submitting a response to this questionnaire and that your organisation either already offers or is about to launch an appropriately structured pooled fund for the mandate.

Any questions or queries relating to the mandate or the information requested should be submitted before noon on Monday 9<sup>th</sup> October 2017. The responses to any clarification questions will be distributed to all managers who have confirmed that they are completing this tender.

Responses to the tender along with any supporting information should be returned to Kevin Humpherson (khumpherson@deloitte.co.uk) by noon on Monday 16<sup>th</sup> October 2017. Any submissions received after this deadline will not be considered.

Your responses to the questions in this tender should be clear and concise. Your response to this questionnaire should be submitted in electronic format as a Word document. In preparing your response, please do not alter the order of the questions asked.



## **1. Business (10%)**

1. Please provide an overview of your organisation, including details on:
  - The ownership structure of your organisation;
  - Regulatory approvals;
  - The proportion of the equity of the business held by the current employees and what happens to any equity ownership when an individual leaves the business;
  - Any changes in the ownership structure in the last 5 years; and
  - Any investment that has been undertaken in the business to help you meet your business objectives.
2. Please provide a brief summary of your business strategy for the next 5 years (max 400 words).

## 2. Mandate experience (10%)

- Please provide background on your organisation's experience and commitment to Fixed Income and, in particular, Buy and Maintain Credit, including:
  - Number of fixed interest investment professionals including the number focused on the management of Buy and Maintain mandates;
  - A breakdown of assets under management ("AUM") split along the lines set out below. Please provide the following details on assets under management – in sterling terms. For row D, please provide figures for the particular strategy being proposed for this tender.

£m		31 Dec 12	31 Dec 13	31 Dec 14	31 Dec 15	31 Dec 16
A	Total assets under management					
B	Total fixed income					
C	Total UK Buy and Maintain					
D	Total UK Buy and Maintain pooled					

### Fixed income - total

Assets under management - £m	31 Dec 12	31 Dec 13	31 Dec 14	31 Dec 15	31 Dec 16	30 June 17
UK pension funds						
UK local authorities						
London boroughs						
Other UK non-pension fund						
Non UK clients						

### Buy and Maintain

Assets under management - £m	31 Dec 12	31 Dec 13	31 Dec 14	31 Dec 15	31 Dec 16	30 June 17
UK pension funds						
UK local authorities						
London boroughs						
Other UK non-pension fund						
Non UK clients						

- Please provide details of any Buy and Maintain strategies you manage on both a pooled and segregated basis.

Strategy Name	Benchmark	Performance target	Inception date	Pooled/ segregated	AUM - £m 30 June 2017

Buy and Maintain Credit Manager Selection  
Invitation to Tender

3. Please provide details of the number of Buy and Maintain Credit clients won and lost in each of the last 5 years and the associated value of assets.

	Wins		Losses	
	Value (£m)	Number	Value (£m)	Number
2012				
2013				
2014				
2015				
2016				
2017 (to 30 June)				

### 3. Investment team (15%)

1. Please provide details of the team responsible for managing Buy and Maintain Credit. Where fundamental analysis is carried out by a separate team of analysts, please include summary details for the team including number of analysts, location of the analysts and how the team is organised.

Name	Role	Yrs investment experience	Yrs with your organisation	Yrs in current role

2. Please provide details of any departures from the team responsible for managing Buy and Maintain Credit mandates over the last 3 years.
3. To what extent is the remuneration of the team linked to the performance of the funds being managed? Please summarise the basis for any performance related remuneration including details of whether any element of this remuneration is either deferred or invested in the product(s) managed.
4. If successful, who would comprise the team responsible for managing the mandate and delivering the service to the Fund?
5. Who would attend the Committee meetings to discuss/review performance? Please provide a brief CV for each of the individuals.

#### 4. Investment process (20%)

1. Please summarise your investment philosophy and approach (max 400 words).
2. Please describe your research process (max 400 words).
3. Please describe your security selection process (max 400 words).
4. Please describe your portfolio construction process (max 400 words).
5. To what extent are environmental, social and governance issues taken into account in the selection of the investments?
6. How is the weighting of securities entering the portfolio determined?
7. What steps are taken to ensure that there is sufficient diversification within the portfolio?
8. How is risk within the portfolio measured and monitored? What systems/tools are used in the risk management process?
9. What changes or enhancements have been made to your process over the last 5 years?
10. What sell disciplines are applied?
11. How is the currency risk monitored and managed?
12. To what extent are derivatives used within the process? If used, please explain what role they would be used for, detailing any constraints or restrictions applied.
13. If you use a separate dealing desk, to what extent does the dealing team have discretion over the purchase/sale of holdings?
14. How do you measure the effectiveness of your dealing?
15. Please describe what risk management tools/processes are used in the management of the portfolio.
16. Have you had an independent review undertaken of your compliance procedures? If so, by whom and what were the main findings?



## 5. Proposed strategy and fund characteristics (20%)

1. What is the name of the pooled fund being proposed for this mandate? What is the legal structure of the fund? Why is this fund being proposed? When was the fund launched?
2. Who is responsible for the day to day management of the fund detailed in this section of the tender? Why was this individual/team selected for this role and what discretion does this individual/team have in terms of the implementation of the underlying investment process?
3. Who oversees this team and monitors adherence to process and the portfolio guidelines?
4. Are either the fund or the process proposed in this instance capacity constrained? If so, at what level of assets will you look to close the proposed fund?
5. Is the current fund tax efficient for a UK pension scheme? Have you had the tax efficiency independently assessed?
6. What is the dealing frequency of this fund?
7. What is the pricing basis for the fund? Is there a bid/offer spread? If so, what is the current spread and how wide has it been?
8. Are you willing to accept in-specie transfers in and out of the fund? Are there additional costs associated (i.e. other than the bid/offer spread) with an in specie transfer and, if so, who bears these costs?
9. Is there scope to delay or defer redemptions?
10. How is residual cash held within the fund?
11. Does the fund make regular distributions of income?

12. Please provide a summary of the key characteristics for a Buy and Maintain mandate, including:

Performance objective	
Expected number of holdings	
Initial investment universe	
Maximum weight in any single security at time of purchase	
Maximum cash weighting	
Average duration	
Restrictions on sector allocation	
Maximum allocation to non £ issues	
Maximum allocation to currencies other than sterling	
Sector limits/restrictions	
Maximum allocation to different credit rating bands	
Maximum allocation to non-rated bonds	
Maximum allocation to sub investment grade bonds	
Expected annual turnover (please state your definition of turnover)	

Please clarify the extent to which any limits summarised above apply (a) at time of purchase and/or (b) on an ongoing basis.

13. What other controls or guidelines are applied in the day to day management of the portfolio?

14. Who is responsible for monitoring adherence to any controls or guidelines and who do they report to?

## 6. Fees (15%)

1. What is the standard fee structure for this fund?
2. What fee are you proposing for this mandate and as a potential London CIV mandate (if different).
3. Please provide details of any additional fees or charges incurred by the fund.

## 7. Client service (5%)

1. Please describe your approach to client service (max 400 words).
2. Please provide an example of a typical monitoring report, including any risk monitoring that can be provided to clients.
3. What is your approach to trustee training/education?

**8. Other (5%)**

1. Is your firm GIPS compliant?
2. Has your firm's GIPS compliance been verified and if so, by whom?
3. Please summarise your Corporate Governance Policy?
4. Who is the custodian of your Buy and Maintain pooled fund(s)?
5. Please summarise the process used to monitor the services provided by the custodian?
6. Do you provide full "look through" transparency in your reporting to clients?

Questionnaire completed by:

Date:



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