

HEALTH WEALTH CAREER

ASSET POOLING

WHAT TO SAY THAT
HASN'T ALREADY BEEN
SAID

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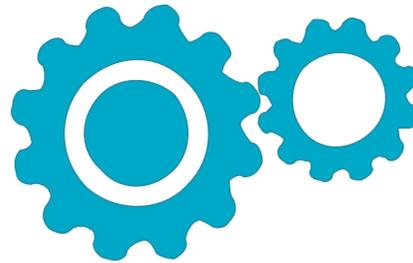
WHAT TO SAY THAT HASN'T ALREADY BEEN SAID...



TOPICS



PROPERTY

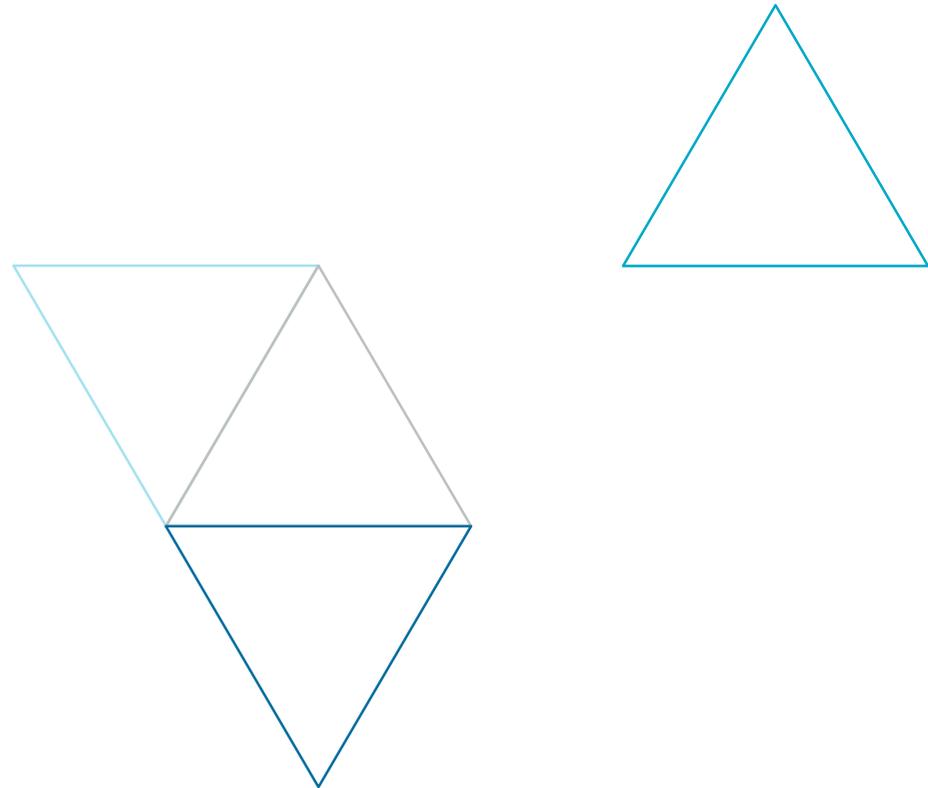


**OPERATIONAL
RISKS**



**GOVERNANCE
STRUCTURES**

PROPERTY



PROPERTY WHAT HAVE WE GOT?



£2.5BN

1. Multi-manager approach is popular
2. Large mandates are common
3. Focused on traditional commercial real estate
4. Heavily biased towards UK
5. Centred around IPD benchmarks



PROPERTY WHAT DO WE WANT?



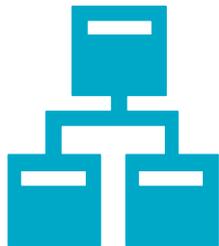
Absolute return /
inflation-linked targets



Residential sector



Lower risk strategies



Improved governance



Greater control



Global mandates

PROPERTY PRIORITIES?

Reduced fees

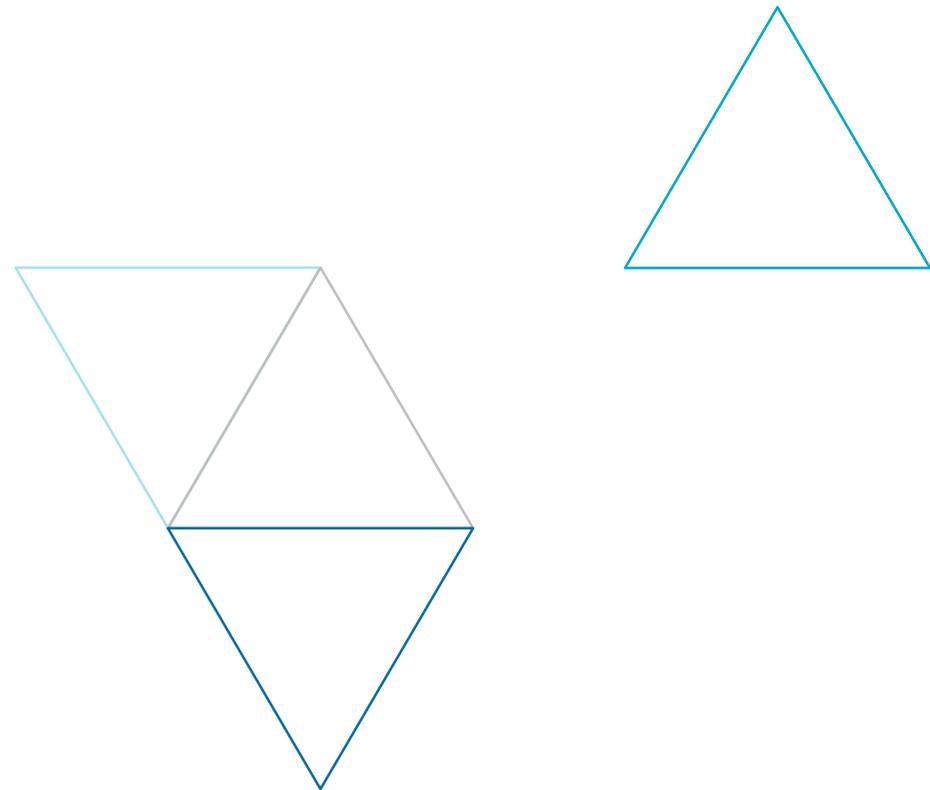
Economies of scale



Transaction costs

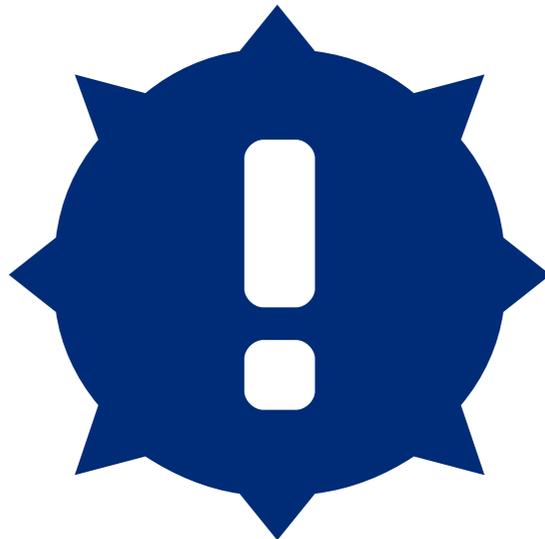
The process of pooling represents many opportunities – but should be focused on the most appropriate strategy for each client.

OPERATIONAL EFFICIENCIES



OPERATIONAL RISK – WHAT IS IT?

*“The risk of **incurring losses** that might be caused by **negligence of proper operational processing**, or by **incidents or misconduct** by either officers or staff.”*



IT'S IMPORTANT

Operational risk increases during difficult economic times.

- Increased incidents of fraud
- Operational controls are weakened

(Source: Kroll)

There have been over 350 recorded incidents of operational failure leading to losses in excess of €80billion in client assets

(Source: HedgeEvent)

Surveys show that improving operational infrastructure increases investment performance by between 0.5-2.5%

(Source: Citigroup)

OPERATIONAL REVIEWS

WHY ARE THEY IMPORTANT?

Investors focus on the Investment Process often ignoring Operations and Back Office

“Most significant losses result from inadequate or failed internal processes, people or systems”

Complexity of the Operational Processes, Regulations and Compliance underestimated

“The market is evolving faster than the operational support and control framework”

“ Good controls **save cost** and **reduce risk** of operational losses ”

CASE STUDY: INVESTMENT OPERATIONS ASSESSMENTS

REVIEW OF BOUTIQUE MANAGER



Situation

- We carried out a review on a boutique manager and found a number of operational weaknesses which were communicated back to the manager and client.
- As part of our review process we re-visited the manager to understand changes that had taken place.



Challenge

- The investment manager's client base had grown rapidly but the infrastructure had not grown with the demand. All operational functions were carried out in house.
- The investment manager had one person carrying out 6 vital roles including CFO, COO and HR and was often conflicted in the various roles.



Action

- Mercer Sentinel gave a thorough de-brief with the investment manager. Of particular concern was conflict in roles and lack of controls in trade modelling and pre-trade compliance.
- Mercer Sentinel re-visited all of the areas which we previously had concern to understand any changes.



Result

- The following changes were noted:
 - Separation of compliance, finance and HR roles. Including hire of new compliance officer.
 - Implementation of new order and execution management system to improve the trade modelling and pre-trade compliance.
 - More frequent cash reconciliations to ensure manager valuations matched custodian valuations.
 - The investment manager became better organised with more robust controls over the outsourced relationships.

QUESTION

*To what extent have operational risks
been considered as part of your Pool?*

*How will you identify, manage and monitor
these risks?*



OLD WORLD TO THE NEW WORLD

FRAUD POST-MADOFF

- Weaving Capital
- The Werewolf

BACK TO BASICS

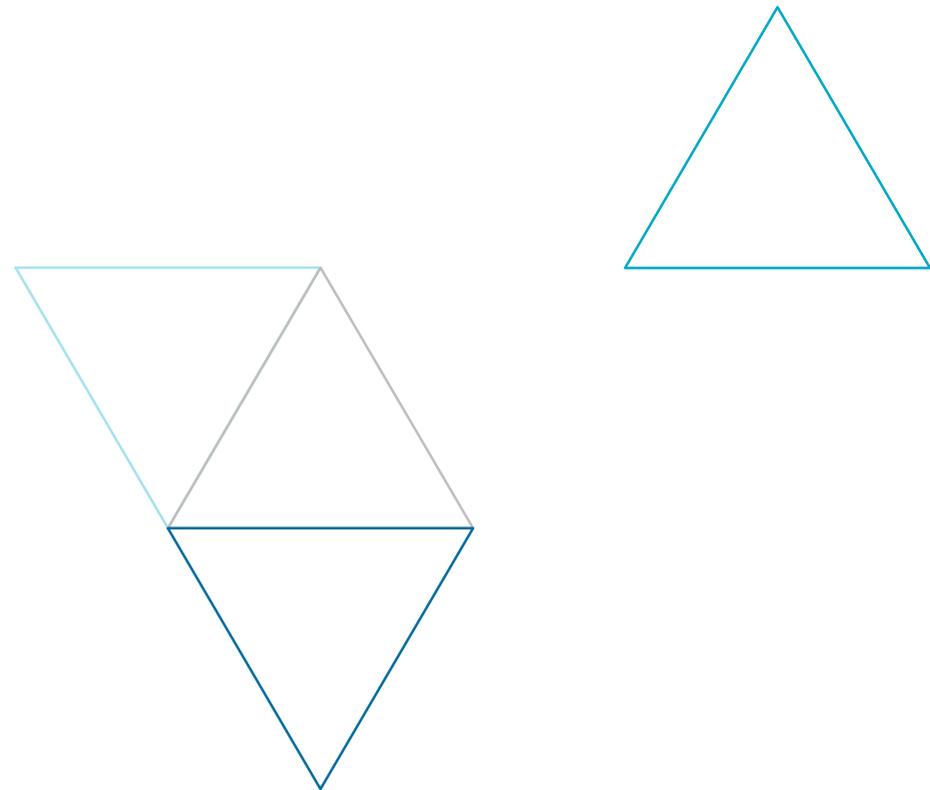
- There is no rulebook!
- Small firm challenges
- Big firm challenges

EMERGING RISKS

- Cybersecurity

THERE IS NO PLACE FOR COMPLACENCY

GOVERNANCE STRUCTURES



GOVERNANCE STRUCTURES

QUESTIONS FOR DISCUSSION

1. How much involvement should Councillors actually have?



2. How will you monitor whether the pool is doing a good job?

3. Monitoring by Pool or by Fund?

GOVERNANCE STRUCTURES MONITORING

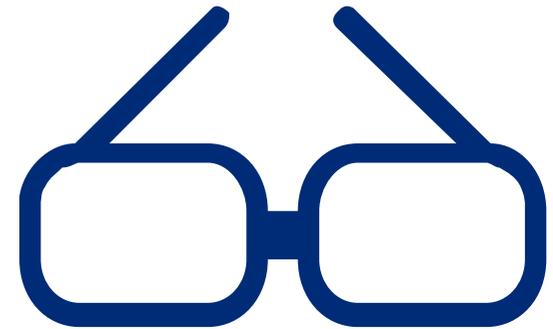
Manager performance (clearly).....

Availability of funds / asset classes

Operational efficiency

Transition expertise

Availability of data / access to information



...there is still a role for each Fund to play in holding the pools to account...

ASSET POOLING.... WE'VE ONLY JUST BEGUN



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TOMORROW,
TODAY

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