Becoming a World Class Asset Owner: RPMI Railpen’s Journey

Speaker:
Chris Hitchen, CEO, RPMI Railpen
Railways Pension Scheme

Unitised, sectionalised, industry-wide scheme

350,000 members
200 employers
$40 billion
200 years in the making...

1825 - Stockton and Darlington Railway opens
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1994 – British Rail Privatised
200 years in the making…

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2017/8 – Azuma arrives!
Ups and Downs of Fund Investing

1975 – Invested in Art to beat UK high inflation
1987 – outsourced fund management
1994 – privatisation leads to “multi-manager model”
2000s – specialisation, hedge funds, LDI and other fads
2010s – New Normal demands coherent Asset Ownership
Clark and Urwin (2007)

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Ambachtsheer (2010)

Tomorrow’s Pension Fund” has/is

- Aligned interests
- Good governance
- Sensible investment beliefs and relevant risk management
- Right-scaled
- Competitive compensation

(Dr Keith Ambachtsheer, Director, Rotman International Centre for Pensions Management, University of Toronto)
Investment Transformation Programme

=  Shared investment beliefs + Stronger investment governance + Sustainable investment model

alignment of interests  effective decision making  high class implementation
Investment Transformation Programme

- Right change at the right time.
- Stakeholder management and frequent communication to sell the vision and what success looks like.
- Governance change from lay Investment Committee to expert Investment Board.
- Leadership accountability.
- Culture of collaboration and taking ownership.
Mission and Goals

- Mission to pay members’ pensions **securely, affordably and sustainably**.
- Vision to be a World Class Asset Owner.
- Long-term return goal to achieve 4% per annum over price inflation (RPI).
- Focus on costs and only doing things which add value.
- Remuneration aligned to long-term outcomes and consistent with “one team one portfolio”.

ITP
What we need not what we want

- Growth: RPI +4%
- De-risking Platform: Various
- Illiquid Growth: RPI +4-6%
- Long Term Income: RPI +0.2%

Unpredictable Cash Flows → Predictable Cash Flows
Illiquid → Liquid
Cost Analysis

• External benchmarking was reassuring, but
• Our own analysis found “hidden” investment costs were three times the size of the cheques we actually wrote
• 20% of our assets gave rise to two-thirds of our costs
• Performance fees (and “carry”) tend to be understated because of hiring-firing cycle, so...
Cost Management

- Continue improvements to cost discovery, measurement and monitoring
- Substitution – e.g. Alternative Risk Premia vs active management
- Internalise – e.g. long term buy and hold strategies
- Reduce exposures where suppliers have excessive bargaining power
- Procurement – pay a fair share of added value to external managers
A governance rating framework

Relative to a low-cost Reference Portfolio, value can be either created or destroyed through the influence of governance. The impact of that will depend on the fund’s starting risk budget.
Managing for the Long Term

- Kay Review of UK equities (2012)
- Optimise the utility of markets for companies and for investors and restore trust and respect to the investment chain
- Avoid “ownerless corporations”, whilst
- recognising that much of our intellectual capital resides inside companies.
Managing for the Long Term

- Engage with companies to promote strategic agenda
- Investor Forum – a place where shareholders can come together
- 33 members with assets of £12 trillion, investing 35% of UK equity market (£700 billion)
Managing for the Long Term

- Mismatch between individual and institutional time frames.
- Outcome-oriented objectives can help,
- but hard to keep score.
- Reference portfolios can bridge the gap but may become an anchor.
A Marathon not a sprint

- All participants in the investment chain should behave as a fiduciary
- Be patient – who loses from over-reserving or investing when prospective returns are low?
- Answer – current and future beneficiaries
From railways to local government

(And from CEO to Chair)
Different stakeholders, same critical mission

➢ To pay members’ pensions securely, affordably and sustainably.
➢ What could be more important?
➢ Thank you.