

Shell deals blow to active funds

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The £10.5bn (€11.8bn) pension fund sponsored by **Royal Dutch Shell** in the UK has become the latest big investor to stage a retreat from active fund management, in a further blow to managers already suffering from reduced market values and a poor economic outlook.



Royal Dutch Shell

In documents posted on the scheme's website, the fund's trustees wrote that they had placed an upper limit on the amount they would entrust to stockpickers: 40% of its equities holdings. It has also upped the amount of passive bonds.

They wrote: "Active management, where managers pick stocks or

bonds rather than just follow the index, has not been very successful for many investors during this period of market turmoil and the trustees have decided that they want to track the market indices more closely."

Shell's money is managed in-house, rather than by third-party fund managers, but its trustee board's decision is part of a wider trend as pension funds increasingly question the value of allocating assets to active managers.

Consultancy Towers Watson, which looks for the best fund managers on investors' behalf, said the number of searches it had carried out worldwide for index-tracking, or passive, fund managers had increased fourfold in the past two years.

This implies lower fees and profits for fund managers, since a passive mandate typically costs between 0.1% and 0.15% of managed assets a year, whereas the fees on active mandates range from 0.35% to 0.75%.

Other big investors have been taking similar steps. Last week, the Sfr12.8bn (€8.7bn) PK Post fund, one of the largest pension funds in Switzerland, placed another Sfr60m of its money with Tobam, a Paris-based fund manager that invests clients' money in alternatives to traditional stock indices of its own design.

PK Post first employed Tobam in June 2008 and its latest allocation means it now has Sfr165m with the self-styled "anti-benchmark" managers. [Christophe Roehri](#), head of development at Tobam, said its fund was slightly more expensive than a traditional index, but offered more diversification.

Towers Watson consultants believe today's level of passive investing – about a quarter to a third of institutional investor assets – is set to increase dramatically. [Tim Hodgson](#), a senior consultant at the company, said it could account for half of assets under management within the next 10 years. He said: "We are probably just about to enter the acceleration phase."

[Rob Gardner](#), a partner at [Redington](#), a consultancy that advises some of the UK's biggest pension schemes, said: "The shift towards passive is not being driven by a belief that good active managers do not exist. It is being driven by a realisation that pension trustees' limited governance budget is better spent on the overall mix between assets and liabilities."

[Andy Barber](#), global head of manager research at [Mercer](#), said that of last year's searches for global equity managers on behalf of clients, 15% were for passive mandates, an increase compared with previous years.

The £9bn Strathclyde council pension scheme in the UK is another that has become more sceptical of active managers since the onset of the financial crisis. It has shifted its bonds portfolio from a one-third passive, two-thirds active mix to half and half, while in equities, it has increased the passive weighting from one-quarter to one-third.

[Richard McIndoe](#), head of the fund, said: "It's fair to say that had active managers delivered more during the crisis, we might not have reduced their contribution in the portfolio."

Passive management has become a booming business for those with the necessary scale, such as Legal & General Investment Management. [BlackRock](#), one of the world's biggest active managers, bought index giant [Barclays Global Investors](#) last year.

[John Fraser](#), the chief executive of [UBS Global Asset Management](#), told [Financial News](#) last week that he was looking at an acquisition in passive management.

Royal Dutch Shell did not respond to a request for further comment.