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Shell's Pension Fund Shies Away From Active Management

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The £10.5 billion (\$14.3 billion) pension fund for [Royal Dutch Shell](#) PLC has become the latest big investor retreat from active fund management, in a further blow to managers already suffering from reduced market values and a poor economic outlook.

In documents posted on the pension plan's Web site, the fund's trustees wrote that they had placed an upper limit on the amount they would entrust to stock pickers: 40% of its equities holdings. The fund didn't say what percentage it previously had under active management, but it didn't previously have an upper limit. It has also upped the percentage of its investments that go to passive bond investments such as those tracking bond indexes.

"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," they wrote.

Shell's pension fund is limiting active management to 40% of stockholdings.

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 done 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 12.8 billion Swiss-franc (\$11.9 billion) PK Post fund, one of the largest pension funds in Switzerland, placed 60 million francs with Tobam, a Paris-based fund manager that invests clients' money in alternatives to traditional stock indexes of its own design.

PK Post first employed Tobam in June 2008 and its latest allocation means it now has 165 million francs 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."

"The shift towards passive is not being driven by a belief that good active managers do not exist," said Rob Gardner, a partner at Redington, a consultancy that advises some of the U.K.'s biggest pension plans. "It is being driven by a realization 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

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, said last week that he was looking at an acquisition in passive management.

A spokeswoman for Shell in London said: "We believe this is the right strategy for long-term value."

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