



## Pensions Committee

**Date:** Tuesday, 1 July 2014

**Time:** 6.00 pm

**Venue:** Committee Room 1 - Wallasey Town Hall

**Contact Officer:** Pat Phillips  
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## SUPPLEMENTARY AGENDA

11. EUROPEAN EQUITY MANDATES (Pages 1 - 4)

17a IMWP Minutes - Amended Report (Pages 5 – 10)

18. EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC

The following items contain exempt information.

RECOMMENDATION: That, under section 100 (A) (4) of the Local Government Act 1972, the public be excluded from the meeting during consideration of the following items of business on the grounds that they involve the likely disclosure of exempt information as defined by the relevant paragraphs of Part I of Schedule 12A (as amended) to that Act. The Public Interest test has been applied and favours exclusion.

19. EUROPEAN EQUITY MANDATES (Pages 11 - 46)  
Exempt appendices

25a IMWP Minutes 10 April 2014 - Exempt appendix (Pages 47 – 50)

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## WIRRAL COUNCIL

### PENSIONS COMMITTEE

1ST JULY 2014

|                         |  |
|-------------------------|--|
| <b>SUBJECT:</b>         | <b><i>EUROPEAN EQUITY MANDATE – RESULT OF TENDER EXERCISE</i></b>  |
| <b>WARD/S AFFECTED:</b> | <b><i>ALL</i></b>  |
| <b>REPORT OF:</b>       | <b><i>STRATEGIC DIRECTOR OF TRANSFORMATION &amp; RESOURCES</i></b> |
| <b>KEY DECISION</b>     | NO   |

#### **1.0 EXECUTIVE SUMMARY**

- 1.1 The purpose of this report is to present to Members the recommendations of officers concerning the appointment of investment managers to a European (ex UK) equities mandate for Merseyside Pension Fund.
- 1.2 The appendices attached to the report contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972 i.e. information relating to the financial or business affairs of any particular person (including the authority holding that information).

#### **2.0 BACKGROUND AND KEY ISSUES**

- 2.1 Members, at their meeting on 20th January 2013, approved a plan to carry out a public tender exercise, commencing early in 2014, to appoint investment managers to an active, unconstrained European (ex UK) equities mandate. That process has been successfully concluded, culminating in recommendations to appoint two managers to the mandate, as out-lined in the Appendices to this report.
- 2.2 European (ex UK) equities comprise 8% of the Fund's strategic benchmark. In line with the Fund's investment strategy, 5.5% of the Fund's assets are to be allocated to external investment managers, pursuing strategies that seek to out-perform the FTSE World Europe (ex UK) index over an appropriate time horizon. JLT were called-off from the Fund's Investment Manager Selection Consultants Framework to carry out a search process, under direction from Fund officers, which would deliver on our strategic objectives and be fully compliant with the Council's Contract Procedure Rules. Details of the process and its outcomes are set out in JLT's report, which is presented in the Appendices to this paper.
- 2.3 JLT were given a specific brief to carry out the final stage of evaluation of investment manager submissions in a manner consistent with the Fund's views on active management and signifiers of investment manager skill. Their process (which we have used for prior manager search exercises) sought, in particular, to identify forward-looking indicators in managers' submissions, such that might give a degree of confidence in managers' ability to add future value,

for a reasonable cost. Therefore, the final evaluation (following assessment of all submissions and further clarification discussions with officers) was carried out by applying the formula:

Probability of achieving outperformance x outperformance target (net of fees)

- 2.4 The most recent valuation of the Fund's assets would put the overall size of this mandate at £347 million. The recommendation is to evenly divide this mandate between the two managers identified in the JLT report.

### **3.0 RELEVANT RISKS**

- 3.1 There is an accepted body of evidence that describes any number of pitfalls that can befall pension funds when selecting active investment managers. The evidence describes the tendency for pension funds to appoint investment managers after a period of good performance who then go on to under-perform; and to terminate managers for under-performance who then subsequently go on to out-perform. This arises due to the tendency to over-rely on assessing past performance as a basis for predicting which managers will be successful generators of alpha (risk-adjusted outperformance relative to a specified benchmark index). This leads to problems of herding and selection bias, as well as overlooking the phenomenon of mean reversion.

It should be possible, using a mixture of quantitative and qualitative analysis, to develop a manager selection model that corrects for these problems and seeks to pinpoint evidence of alpha-generating ability using appropriate forward-looking indicators. Officers are confident that the process supported by JLT has delivered this.

- 3.2 The method for including an assessment of fee proposals (on the basis of a net return) was determined to be the most appropriate for establishing the most economically advantageous tender in this context, in line with the Council's procurement policy and OJEU requirements. Support from the Corporate Procurement Team and the use by JLT, at all stages of the process, of The Chest online portal ensured proper maintenance of a control environment and audit trail through-out.

### **4.0 OTHER OPTIONS CONSIDERED**

- 4.1 None

### **5.0 CONSULTATION**

- 5.1 None

### **6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

- 6.1 None

## **7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS**

7.1 The full cost of the exercise will be borne by the successfully appointed investment managers, upon commencement of their mandate. JLT will provide detailed feedback (upon request) to any of the unsuccessful managers, at no charge. This 'manager pays' remuneration model is increasingly becoming the industry norm for consultant-led active manager searches of this nature.

## **8.0 LEGAL IMPLICATIONS**

8.1 None

## **9.0 EQUALITIES IMPLICATIONS**

9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

## **10.0 CARBON REDUCTION IMPLICATIONS**

10.1 None

## **11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

11.1 None

## **12.0 RECOMMENDATION/S**

12.1 That Members approve the recommendations for the appointment of managers, as set out in the JLT report.

## **13.0 REASON/S FOR RECOMMENDATION/S**

13.1 The investment management contracts for the externally-managed active European ex-UK equity mandate were required to be publicly tendered. A robust and compliant process has taken place, resulting in clear recommendations.

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## **APPENDICES**

*Exempt Appendix 1 – Officer recommendations arising from European ex-UK equity manager search*

*Exempt Appendix 2 – Merseyside Pension Fund, European ex-UK Equity search: Mandate Award Proposal (report of JLT)*

## REFERENCE MATERIAL

### SUBJECT HISTORY (last 3 years)

| Council Meeting   | Date              |
|-------------------|-------------------|
| Pension Committee | 20th January 2013 |

## WIRRAL COUNCIL

### PENSIONS COMMITTEE

1 JULY 2014

|                         |   |
|-------------------------|---|
| <b>SUBJECT:</b>         | <b>MINUTES OF THE INVESTMENT<br/>MONITORING WORKING PARTY</b> |
| <b>WARD/S AFFECTED:</b> | <b>NONE</b>   |
| <b>REPORT OF:</b>       | <b>STRATEGIC DIRECTOR<br/>TRANSFORMATION AND RESOURCES</b>    |
| <b>KEY DECISION?</b>    | <b>NO</b>   |

#### 1.0 EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to provide Members with the minutes of the Investment Monitoring Working Party (IMWP) held on 10 April 2014.
- 1.2 The appendix to the report, the minutes of the IMWP on 10 April 2014, contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972, i.e. Information relating to the financial or business affairs of any particular person (including the authority holding that information).

#### 2.0 BACKGROUND AND KEY ISSUES

- 2.1 The IMWP meets at least six times a year to enable Members and their advisers to consider investment matters, relating to Merseyside Pension Fund, in greater detail.

#### 3.0 RELEVANT RISKS

- 3.1 There are none arising from this report.

#### 4.0 OTHER OPTIONS CONSIDERED

- 4.1 No other options have been considered

#### 5.0 CONSULTATION

- 5.1 There has been no consultation undertaken or proposed for this report. There are no implications for partner organisations arising out of this report.

#### 6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are none arising from this report.

## **7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS**

7.1 There are no implications arising directly from this report.

## **8.0 LEGAL IMPLICATIONS**

8.1 There are none arising from this report.

## **9.0 EQUALITIES IMPLICATIONS**

9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

## **10.0 CARBON REDUCTION IMPLICATIONS**

10.1 There are none arising from this report.

## **11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

11.1 There are none arising from this report.

## **12.0 RECOMMENDATION/S**

12.1 That Members approve the minutes of the IMWP which are attached as an appendix to this report.

## **13.0 REASON/S FOR RECOMMENDATION/S**

13.1 The approval of IMWP minutes by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund. These arrangements were approved by Pensions Committee as part of the Fund's Governance Statement at its meeting on 27<sup>th</sup> June 2011.

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## **APPENDICES**

Exempt Appendix 1

## **REFERENCE MATERIAL**



NONE

**SUBJECT HISTORY (last 3 years)**

| <b>Council Meeting</b>   | <b>Date</b> |
|--|-------------|
| <b>Minutes of all IMWP's are brought to the subsequent Pensions Committee meeting.</b> |             |

## **APPENDIX 1**

### **Minutes of Investment Monitoring Working Party, 10<sup>th</sup> April 2014**

***In attendance:***

|   |   |
|---|---|
| (Chair) Councillor Patricia Glasman (WBC) | Peter Wallach (Head of MPF)                                 |
| Councillor Geoffrey Watt (WBC)            | Joe Blott (Strategic Director Transformation and Resources) |
| Councillor Mike Hornby (WBC)              | Owen Thorne (Investment Officer)                            |
| Councillor George Davies (WBC)            | Allister Goulding (Investment Manager)                      |
| Councillor Harry Smith (WBC)              | Greg Campbell (Investment Manager)                          |
| Louis Hill (Aon Hewitt)                   | Donna Smith (Group Accountant)                              |
| Noel Mills (Independent Advisor)          | Rohan Worrall (Independent Advisor)                         |
| Susannah Friar (Property Manager)         | Emma Jones (PA to Head of Pension Fund)                     |

***Apologies were received from:***

|                                       |                                    |
|---------------------------------------|------------------------------------|
| Councillor Cherry Povall (WBC)        | Councillor Tom Harney (WBC)        |
| Councillor Ann McLachlan (WBC)        | Councillor Norman Keats (KBC)      |
| Councillor John Fulham (St Helens BC) | Phil Goodwin (Unison)              |
| Councillor Adrian Jones (WBC)         | Councillor Paul Doughty (WBC)      |
| Patrick McCarthy                      | Leyland Otter (Investment Manager) |
| Paul Wiggins (Unison)                 | Councillor Paul Tweed (Sefton MBC) |

**Declarations of interest**

Councillor Pat Glasman (PG) and Councillor Geoffrey Watt (GW) declared an interest in Merseyside Pension Fund.



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