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WIRRAL

Pensions Committee

Date:	**Tuesday, 19 November 2013**
Time:	**6.00 pm**
Venue:	Committee Room 1 - Wallasey Town Hall

Contact Officer:	Pat Phillips
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AGENDA

1. MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST

Members of the Committee are asked to declare any disclosable pecuniary and non pecuniary interests, in connection with any item(s) on the agenda and state the nature of the interest.

2. MINUTES (Pages 1 - 8)

To approve the accuracy of the minutes of the meeting held on 16 Sept 2013.

3. LGPS UPDATE (Pages 9 - 14)

4. ACTUARIAL VALUATION (Pages 15 - 20)

5. FUNDING STRATEGY STATEMENT (Pages 21 - 42)

6. ASSET ALLOCATION (Pages 43 - 96)

7. STATEMENT OF INVESTMENT PRINCIPLES (Pages 97 - 128)

8. AUTHORISED SIGNATORIES (Pages 129 - 134)

9. GIFTS & HOSPITALITY RETURNS (Pages 135 - 150)

10. LGC INVESTMENT CONFERENCE (Pages 151 - 154)

11. LGC INVESTMENT AWARDS (Pages 155 - 158)

12. **INVESTING 4 GROWTH (Pages 159 - 206)**

13. **STRATEGIC PROPERTY ADVISORS CONTRACT (Pages 207 - 210)**

14. **CUNARD BUILDING (Pages 211 - 218)**

15. **NATIONAL EXPRESS VISIT (Pages 219 - 222)**

16. **MOSSCROFT CHILDCARE (Pages 223 - 226)**

17. **IMWP MINUTES 08/10/13 & 23/10/13 (Pages 227 - 232)**

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. **MOSSCROFT CHILDCARE - EXEMPT APPENDIX (Pages 233 - 234)**

20. **IMWP MINUTES - EXEMPT APPENDICES (Pages 235 - 244)**

21. **ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR**

PENSIONS COMMITTEE

Monday, 16 September 2013

Present:	Councillor	A R McLachlan (Vice Chair)	
	Councillors	G Watt	AER Jones
		T Harney	H Smith
		G Davies	C Povall
		M McLaughlin (dep for Cllr S Hodrien)	
	Councillors	N Keats, Knowsley Council	
		P Hurley, Liverpool City Council	
In attendance:		Mr P McCarthy (Non District Council Employers)	
		Mr P Goodwin (Unison)	
		Mr P Wiggins (Unison)	
Apologies	Councillors	P Glasman	
		M Hornby	
		J Fulham St Helens Council	
		P Tweed, Sefton Council	

26 MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST

Members were asked whether they had any pecuniary or non pecuniary interests in connection with any application on the agenda and, if so, to declare them and state the nature of the interest.

Councillor Norman Keats declared a pecuniary interest by virtue of being a member of Merseyside Pension Fund.

Councillor Geoffrey Watt declared a pecuniary interest by virtue of a relative being a member of Merseyside Pension Fund.

27 MINUTES

The Strategic Director Transformation and Resources submitted the minutes of the meeting held on 24 June 2013.

Resolved – That the minutes be received.

28 MERSEYSIDE PENSION FUND - AUDIT FINDINGS REPORT - 2012-13

The Pensions Committee gave consideration to the Audit Findings for Merseyside Pension Fund for the year ended 31 March 2013.

Mike Thomas, Director, Grant Thornton outlined the keys findings of the report and responded to Members questions.

Resolved – That the report be noted and referred to the Audit & Risk Management Committee.

29 **DRAFT ANNUAL REPORT**

A report of the Strategic Director Transformation and Resources provided the Pension Committee with the draft Annual Report of Merseyside Pension Fund for 2012/13.

A copy of the draft Annual Report was made available for Members at the meeting.

Resolved – That the draft Annual Report of Merseyside Pension Fund be approved for publication.

30 **FUND ACCOUNTS 2012/13**

A report of the Interim Director of Finance presented Members with the audited statement of accounts of Merseyside Pension Fund for 2012/13 and responded to the Annual Governance Report (AGR) from Grant Thornton.

The purpose of the Statement of Audited Accounts is to present the overall financial position of the Pension Fund as at 31st March 2013 in accordance with prescribed guidance.

A summary of the response to the AGR and action plan was attached as an appendix to the report.

Resolved - That:

1 having considered the amendments to the draft accounts, the draft Annual Governance Report and the Letter of Representation, the audited Statement of Accounts for 2012/13 be approved

2 the Action Plan within the Annual Governance Report be agreed, and that the Pensions Committee be informed of progress with its implementation.

3 the recommendations be referred to the Audit and Risk Management Committee.

31 **LGPS UPDATE**

A report of the Strategic Director Transformation and Resources updated Members of the latest developments relating to the proposed reform of the Local Government Pension Scheme (LGPS) and outlined the current consultations that were taking place. In addition, it presented a position statement on the national Communication Plan - the focus of which was to promote the value of the new Scheme to the current membership.

It also covered the recent Ministerial Statement and the guarantee from the Department for Education to cover outstanding LGPS exit debts upon the closure of an Academy.

MPF submission dated 2 August 2013 to DCLG Consultation on Draft LGPS 2013 Regulations, MPF submission dated 30 August 2013 to DCLG Discussion Paper on the New Governance Arrangements LGPS 2014, MPF submission dated 5 July to DCLG on Tax-Payer Funded Pensions for Councillors and LGPS2014 – Scheme Changes Leaflet were attached as appendices to the report.

Resolved – That the report be noted.

32 **FUTURE STRUCTURE OF THE LGPS**

A report of the Strategic Director Transformation and Resources updated Members with the latest developments relating to the proposed changes to the structure of the Local Government Pension Scheme (LGPS) and sought approval for a proposed response to the DCLG's call for evidence.

The Draft MPF submission to DCLG call for evidence on reform of the LGPS was attached as appendix to the report.

Resolved – That the report be noted and the response to the call for evidence be approved.

33 **TACTICAL ASSET ALLOCATION**

A report of the Strategic Director Transformation and Resources updated the Pensions Committee on progress on the implementation of a framework for active management of medium term asset allocation.

Appendices 1 and 2 to the report contained exempt information. This was 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).

Resolved - That

1 the report on progress to date on the implementation of the framework for active management of medium term asset allocation be noted.

2 subject to approval, the Compliance Manual be amended to reflect the MTAA framework.

3 the additional consultancy fees paid to Aon Hewitt for conducting due diligence on the recommended arrangements be noted.

34 **IT COSTS 2014 REFORM**

A report of the Strategic Director Transformation and Resources informed the Pension Committee of the IT costs relating to updating the pension administration computer system in order to meet the legislative changes of the Local Government Pension Scheme (LGPS) in April 2014.

The report also covered the current Electronic Document Management and Workflow system, with the request to align procurement arrangements with the contractual renewal date for the Pensions Administration and Pensioner Payroll system.

An exempt report on the agenda, setting out the IT costs, contained exempt information. This was 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).

Resolved – That

1 the additional costs required to update the Altair IT System for the new regulations from April 2014 be noted.

2 the current annual renewal arrangement for Pensions5 continue until December 2016, in order to align procurement arrangements with the contractual renewal date for the Altair system be agreed.

35 **ANNUAL EMPLOYERS CONFERENCE**

A report of the Strategic Director Transformation and Resources informed Members of the arrangements for the annual Employers' Conference to be held on Thursday 28 November 2013.

Resolved – That the report be noted.

36 **LGPS FUNDAMENTALS TRAINING**

A report of the Strategic Director Transformation and Resources recommended the Committee to approve participation by Members in the LGPS Trustee Training 'Fundamentals XII' organised by the Local Government Pensions Committee.

Details of the training event were attached at Appendix 1 to the report.

Resolved – That

1 attendance by Members on the 'Fundamentals training' be approved.

2 Members wishing to attend notify the Head of Pension Fund to enable the necessary registration and administration to be undertaken.

37 **LAPFF CONFERENCE**

A report of the Strategic Director Transformation and Resources recommended the Committee to approve attendance by the Chair and the Executive Board member at the Local Authority Pension Fund Forum (LAPFF) Annual Conference, organised by PIRC, to be held in Bournemouth from 4 to 6 December 2013.

Resolved - That attendance at the LAPFF conference by the Chair and party spokepersons be approved.

38 **INFRASTRUCTURE & PRIVATE EQUITY SEMINAR**

A report of the Strategic Director Transformation and Resources asked the Pensions Committee to consider attendance by Members at an Infrastructure & Private Equity Seminar, organised by Capital Dynamics, to be held in Manchester on 13 November 2013.

Resolved - That attendance at this seminar be approved and the Head of Pension Fund contact Members to determine interest in attendance.

39 **NAPF CONFERENCE**

A report of the Strategic Director Transformation and Resources recommended the Pensions Committee to consider attendance by Members at the National Association of Pension Funds (NAPF) Annual Conference, to be held in Manchester from 16 to 18 October 2013. Appendix 1 to the report provided further information on the event including the programme of events.

Resolved - That

1. **attendance at the NAPF conference by Members be approved.**
2. **Members wishing to attend the conference notify the Head of Pension Fund to enable the necessary registration and administration to be undertaken.**

40 **AMEY SERVICES**

A report of the Strategic Director Transformation and Resources informed members of the Interim Director of Finance decision taken under delegation, to approve the application received from Amey Services Limited for admission to Merseyside Pension Fund as a Transferee Admission Body. The company had secured the Highways/Street Lighting contract (Lot 1) and the Street Cleansing contract (Lot 2) at Liverpool City Council from 1st July 2013 for a period of 9 years.

The appendix attached to the report contained exempt information. This was 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).

Resolved – That the approval of the applications for admission to the Merseyside Pension Fund of Amey Services Ltd be noted.

41 **TUNSGATE SQUARE TENDER**

A report of the Strategic Director of Transformation and Resources informed the Pension Committee of the outcome for the recent tendering exercise in respect of replacing the patio roof covering for the flats which formed part of the Tunsgate shopping centre in Guildford which was owned by MPF as part of the direct property investment portfolio. The Tendering process had been conducted on behalf of MPF by CB Richard Ellis (CBRE).

The appendix to the report (report from CBRE on the tender process) contained exempt information. This was by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972, ie information relating to the financial or business affairs of any particular person (including the authority holding that information).

Resolved – That the acceptance by the Interim Director of Finance of the lowest cost tender as outlined in the exempt appendix to the report be noted.

42 **GRWP MINUTES 18 JULY 2013**

A report of the Strategic Director of Transformation and Resources provided members with the minutes of the Governance & Risk Working Party (GRWP) held 18 July 2013.

An exempt report on the agenda, the minutes of the GRWP on 18 July 2013, contained exempt information. This was 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).

Resolved – That the minutes of the GRWP be noted.

43 **MINUTES OF THE INVESTMENT MONITORING WORKING PARTY 11 SEPTEMBER, 2013.**

A report of the Strategic Director Transformation and Resources provided the Pensions Committee with the minutes of the Investment Monitoring Working Party (IMWP) held on11 September, 2013.

The appendices to the report, the minutes of the IMWP held on 11 September, 2013, contained exempt information. This was 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).

Resolved – That the minutes be noted.

44 **EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC**

Resolved – That in accordance with section 100 (A) 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 it involved the likely disclosure of exempt information as defined by relevant paragraphs of Part 1 of Schedule 12A (as amended) to that Act. The public interest test had been applied and favoured exclusion.

45 **TACTICAL ASSET ALLOCATION EXEMPT APPENDICES**

The appendix to the report on Tactical Asset Allocation (Minute 33 refers) was exempt by virtue of paragraph 3.

46 **IT COSTS 2014 REFORM EXEMPT APPENDIX**

The appendix to the report on IT Costs 2014 Reform (Minute 34refers) was exempt by virtue of paragraph 3.

47 **AMEY SERVICES EXEMPT APPENDIX**

The appendix to the report on Amey Services (Minute 40 refers) was exempt by virtue of paragraph 3.

48 **TUNSGATE SQUARE TENDER EXEMPT APPENDIX**

The appendix to the report on Tunsgate Square Tender (Minute 41 refers) was exempt by virtue of paragraph 3.

49 **GRWP MINUTES EXEMPT APPENDIX**

The appendix to the report on GRMP Minutes (Minute 42 refers) was exempt by virtue of paragraph 3.

50 **IMWP MINUTES 11 SEPTEMBER 2013 EXEMPT APPENDIX**

The appendix to the report on the IMWP Minutes (Minute 43 refers) was exempt by virtue of paragraph 3.

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WIRRAL COUNCIL

PENSIONS COMMITTEE

19 NOVEMBER 2013

SUBJECT:	**LGPS UPDATE**
WARDS AFFECTED:	**ALL**
REPORT OF:	**STRATEGIC DIRECTOR** **TRANSFORMATION AND RESOURCES**
KEY DECISION	NO

1.0 EXECUTIVE SUMMARY

1.1 This report updates Members with the latest regulatory developments relating to the Local Government Pension Scheme (LGPS) and raises awareness of the current collaborative project between Merseyside and Cheshire Pension Funds to plan and resource the implementation of the New Scheme from 1 April 2014.

1.2 The report also covers the recent consultation on ‘Proposals for pooling arrangement for Academies and local authorities’ and a position statement on the national LGPS Communication Plan.

2.0 KEY ISSUES

Reform of the LGPS – LGPS Regulations 2013

2.1 The LGPS Regulations 2013 were laid before parliament on 19 September 2013 and will come into force 1 April 2014. They are the first part of the regulatory framework to introduce a new defined benefit pension scheme, based upon:

- a career average benefit structure;
- an improved accrual rate;
- a concept of annual pension accounts;
- the reintroduction of a two year vesting period;
- and the alignment of Normal Pension Age to State Pension Age.

2.2 It is necessary for Fund Officers to undertake an impact assessment of the statutory provisions to ensure that:

- each specific provision is correctly interpreted and applied to benefit payments, transfer values, and the level of remitted employee contributions, ensuring they are accurate and consistent with the regulatory intent;

- operational practices are appropriately reviewed and updated in accordance with the revised benefit structure;

- employing authority responsibilities and data requirements are identified and all constituent stakeholders notified ;

- members are informed of the impending changes with the continued value of the new scheme promoted as an element of 'deferred pay' and a vehicle to provide a guaranteed tax efficient income in retirement. .

The Statutory Instrument can be accessed at the following website address:

http://www.legislation.gov.uk/uksi/2013/2356/contents/made

2.3 It is expected that the Transitional Regulations will be issued shortly. The regulations will include provisions to protect previously accrued benefits and define the interaction between the current and new Scheme.

Fund software providers have indicated that systems will be available to coincide with the launch of the new scheme as it is unlikely that the outstanding final provisions will differ substantially from the known content of the draft regulations.

2.4 Further regulations on Cost Control and Scheme Governance will follow to establish a complete regulatory framework for an Administering Authority to ensure the effective financial management and stewardship of the LGPS.

Merseyside and Cheshire West & Chester Collaborative Project

2.5 Merseyside Pension Fund has entered into a joint working arrangement with Cheshire Pension Fund in implementing the New Scheme; specifically to deliver a robust operational service and investigate administration efficiencies by sharing expertise, best practice and resources.

An outline project plan has been constructed to define the potential areas of joint working, with specific focus on the interpretation and application of the regulatory provisions and resultant impact on service areas, business process and systems.

There is also potential to work collaboratively in communicating the changes of the scheme to the membership and employers, including the joint production of training material for practitioners and employers within each Fund.

2.6 An inital scoping and information sharing exercise has taken place and Fund officers are working with colleagues from Cheshire Pension Fund in finalising the outline Project Plan covering, specific resource requirements, timescales and milestone events.

2.7 It is intended that the Project Plan will be a fluid document as the detail relating to employer communication is still emergent and is greatly dependent on agreements reached with the LGA Communication Working Party on the expected content and format of employer related material.

Officers of Merseyside Pension Fund are key collaborative contributors to the LGA working party in delivering member communications to the benefit of all LGPS Funds.

LGPS 2014 – Communications

2.8 **LGA Communications Plan**

An updated draft communication plan has been released by the LGA and can be accessed on the LGA website at the following link:

http://www.local.gov.uk/web/lgaworkforcepensions/lgps2014comms

At the time of writing this report, version 3 of the plan includes additional information on the planned Scheme Guides for 2014 and general updates on the work of the various communication sub-groups.

2.9 **Employer Communications**

National work has been completed to produce an in-depth payroll specification and HR guide for employers, payroll providers and software providers. MPF has shared this information with its major employers to openly discuss any anticipated problems in advance of the regulations being laid.

The Fund is currently reviewing the guides to reflect the final regulations as a number of authoritative directions are now inaccurate. In addition, timescales for provision of data from employers to administering authorities are impractical for funds to comply with its statutory requirements to produce Annual Benefit Statements.

The Fund intends to provide an update to all employers during November of the revised payroll and HR specification, with a plan to issue further monthly updates to all employers. Topics to be covered as part of the monthly updates will include:

- member communications;
- specific MPF administrative requirements;
- changes to Forms and data exchanges with the Fund;
- changes in operational practice; and
- the employer's statutory responsibility to review and formulate policy discretions within three months of commencement of the new scheme.

2.10 **Employee Communications**

The scheme members' website **lgps2014.org** is currently being updated in line with the laid regulations and is scheduled for re-launch in November 2014.

The re-launched website will also include the remaining three topic-based videos, designed to help members understand the main differences of the new Scheme.

2.11 **Consultation on Pooling Arrangements for Academies within the LGPS**

Committee considered the recent guarantee from the Department for Education (DfE) at the last committee meeting on 16 September 2013 (minute 31 refers).

This guarantee was intended to indemnify administering authorities from outstanding pension liabilities should an Academy close.

2.12 The provision of that guarantee forms the foundation for the current Department for Communities and Local Government consultation on options for pooling Academies with the ceding local authority, or within a separate academy pool.

There are six questions posed in relation to this consultation which runs for six weeks and responses are required by 15 November 2013.

The consultation can be accessed on the DCLG website at the following link

https://www.gov.uk/government/consultations/pooling-arrangements-for-academies-within-the-local-government-pension-scheme

2.13 The consultation is the latest stage in the DfE's efforts to ensure that pension costs do not act as a barrier to academy status and to try to ensure that academies pay a contribution rate in line with that of the relevant LEA,

2.14 The options for prescriptive regulations include:

- requiring that pension arrangements for an Academy, or several Academies, and the ceding local authority are pooled together should the Academy so choose;
- the Academy, or several Academies, and the ceding local authority should be pooled together without choice between the parties;
- academies and local authority maintained schools are pooled together;
- academies are pooled together as a group.

2.15 The consultation is ambiguous as to whether the key issue being addressed is to how stable academy rates are post conversion or how different they are to the LEA rate at conversion.

2.16. The issue to-date appears to be in regard to a step change in contribution rates at academy conversion, rather than any concern about the ongoing volatility of employer contribution rates.

It is therefore questionable whether ongoing pooling is the best way of avoiding any divergence of rates at conversion if there is little concern about ongoing stability post conversion.

2.17 The Fund's approach of aligning past service deficit and recovery periods to the funding position of the school prior to conversion, broadly ensures that academies pay contribution rates in line with that of the LEA. We believe this does not act as a barrier to a school becoming an Academy and maintains a prudent and equitable approach.

2.18 Upon receipt of advice from the Fund Actuary as to the perceived benefits, disadvantages and practical difficulties that pooling creates, a response will be prepared and forwarded to the Chair of the Committee before a formal submission within the prescribed deadline.

3.0 RELEVANT RISKS

3.1 There is a risk that a full suite of "fit for purpose" Statutory Instruments and Guidance from the Government Actuaries Department (GAD) will not be available in time to effectively administer the new LGPS from April 2014.

3.2 There is a risk that if the government regulates that academies should be pooled together this may present a concentration of risk for administering authorities as it unlikely that successful academies would wish to provide ongoing funding for any residual liabilities of failed academies.

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.

It is important that MPF responds to the statutory consultations that will lead to revised regulations and a reformed LGPS, particularly when relating to Governance, Cost Control and Administration, as it is crucial to ensure the Scheme is well–run and affordable in the long term.

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 MPF needs to initiate a formal strategic change programme to overhaul current administration arrangements, resources and communications; in recognition of the fundamental change of introducing a Career Average benefit pension arrangement complete with ongoing protections to the pre-2014 Final Salary benefits.

7.2 The collaborative project with Cheshire Pension Fund will assist in delivering a timely implementation of the new benefit structure and ensure continuity of current service provision.

7.3 If the outcome of the consultation on pooling arrangements results in the Government compelling Academies to be pooled in a prescribed format, it may increase the costs of some Academies as the pool might generate an employer rate that is higher than that currently set for the individual Academy.

8.0 LEGAL IMPLICATIONS

8.1 Depending on the impending revisions to the scheme regulations relating to governance there may be implications for the Council arising from the necessity to revise the constitution.

9.0 EQUALITIES IMPLICATIONS

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

The reforms to the LGPS have already been assessed by Government with regard to equality.

10.0 CARBON REDUCTION IMPLICATIONS

10.1 None arising from this report

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 None arising from this report

12.0 RECOMMENDATION/S

12.1 That Members note the report and approve a response to the consultation subject to the agreement of the Chair of Pensions Committee.

13.0 REASON/S FOR RECOMMENDATION/S

13.1 There is a requirement for Members of the Pension Committee to be kept up to date with legislative developments to carry out their decision making role in order to enable them to make informed decisions.

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SUBJECT HISTORY (last 3 years)

Council Meeting	Date
The LGPS update is a standing item on the Pensions Committee agenda.	

WIRRAL COUNCIL

PENSIONS COMMITTEE

19 NOVEMBER 2013

SUBJECT:	**2013 TRIENNIAL ACTUARIAL VALUATION**
WARDS AFFECTED:	**ALL**
REPORT OF:	**STRATEGIC DIRECTOR OF TRANSFORMATION AND RESOURCES**
KEY DECISION	NO

1.0 EXECUTIVE SUMMARY

1.1 This report updates Members of the provisional results from the Fund's Triennial Actuarial Valuation.

1.2 This matter was discussed in detail at an Investment Monitoring Working Party on 23 October.

2.0 KEY ISSUES

Statutory Framework and Purpose of the Valuation Process

2.1 The Local Government Pension Scheme (Administration Regulations) 2008 provide the statutory framework for the valuation process - they require an actuarial assessment of the Fund's assets against the current value of the pension benefit liabilities, with a corresponding funding level to be declared every three years.

2.2 The fundamental purpose of the valuation is to secure the long-term solvency of the scheme. It also needs to ensure that all pension benefit promises can be met and sets the employer contribution rates for the financial period 1 April 2014 to 31 March 2017.

2.3 In order to undertake the valuation, the Actuary must have regard to the draft funding assumptions and principles adopted by the Fund. These include any deficit repair strategy, investment strategy and the LGPS reform from 1 April 2014.

All contributory policies and statutory statements to support the valuation process are covered under separate reports at this Committee meeting.

2.4 At the 2010 Triennial Valuation, the Actuary made a number of assumptions in relation to the key factors affecting the assets and liabilities over the inter-valuation period. Financially these are the assumed rates of:

- Investment return
- Inflation based on Consumer Price Index
- Future increases in pensionable pay
- Future pension increases

Additionally, a number of demographic assumptions were made in regard to:

- Average age of retirement
- Rates of ill-health retirement
- Rates of mortality
- Withdrawals from active membership
- Proportions married and age differences between spouses.

2.5 The actual experience in relation to investment performance, cash flows and member demographics are compared to the assumptions made at the previous valuation. In addition to this the actual value of the Fund is compared to the aggregate estimated liabilities on a whole fund basis. This process enables the Actuary to declare the specific funding level at the valuation date of 31 March 2013.

2.6 A separate exercise is then undertaken to identify notional sub-funds, comprising of assets and liabilities linked to each participating employer's experience – this is tracked at each Triennial Valuation.

2.7 The Actuary has taken into account the change of the pension benefit basis from Final Salary to Career Average Salary with CPI revaluation, along with the alignment of Normal Pension Age(NPA) to State Pension Age (SPA).

Provisional Valuation Results – Financial Implications

2.8 The Market value of the Fund has increased from £4,706m as at 31 March 2010 to £5,819m at 31 March 2013.

2.9 The past service liabilities have been assessed as follows:

	£million
Active members' accrued benefits	2,975
Deferred pensioner	1,187
Pensioners (including dependants)	3,526
Total	**7,688**

2.10 This gives a deficit of £1,869m and a funding level of **76%** at 31 March 2013.

This compares to the previous deficit position of £1,310m and a funding level of 78% at the previous valuation as at 31 March 2010.

2.11 The deficit is in respect of benefits for past service liabilities and has to be recovered from employers.

2.12 The cost of future accrual determined at the 2010 valuation was 11.6% of pensionable pay. This has been used as the baseline position in calculating the cost of the new LGPS being introduced from April 2014.

Following the realignment of the proposed financial and demographic assumptions, the **Future Service Rate** emerging from the 2013 valuation has increased to **13.9%**, despite an average whole Fund cost saving of 1.8% emanating from the introduction of the new Scheme.

The level of savings is dependent on the specific profiles of individual employers. Specifically, those employers with a high number of members with protections under the 85 year rule and the 2008 Scheme underpin (afforded to members aged 55 at 1 April 2012) are likely to be subject to a lower level of saving.

2.13 As part of the Funding Strategy consultation, employers were asked to consider whether they would wish their Future Service rate to reflect a 10% take-up of the 50/50 scheme. This take-up rate is in line with the Government Actuary Department's published costing for the new Scheme. Adopting this assumption will reduce the rate by 0.6%, but it will not be offered to employers with a small number of pensionable employees.

2.14 It is intended that employers who face significant increases in contributions following the 2013 Valuation, may phase the increase over a maximum period of 3 years.

2.15 The final valuation position will be declared following approval of both the Funding Strategy Statement and Statement of Investment Principles. Individual employer contributions will be certified and notified to employers thereafter, with the new rates taking effect from 1 April 2014

3.0 RELEVANT RISKS

3.1 It is imperative that the Administering Authority take a prudent view when negotiating the financial and demographic assumptions for the 2013 Triennial Valuation, in order to secure the long term solvency of the Scheme.

However, to achieve a successful outcome to the valuation there is a clear need to consider affordability of contributions and build in flexibility to the funding of employer contributions. There is a tangible risk that certifying unaffordable cash payments will lead to a number of employers' exiting the Fund leaving unrecoverable debt.

3.2 As part of the valuation, the Actuary has assumed that future costs for the LGPS 2014 will be managed by linking Normal Pension Age to State Pension Age.

In managing the risk that this link does meet the costs of the new Scheme, proposals have been made that Actuaries develop an LGPS longevity index. This would enable Fund actuaries to track the match between increases to SPA and longevity within the Scheme, recommending mitigating action should they diverge.

These measures will combine to ensure that in future not all the longevity risk falls on the employer but is shared with employees.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

5.1 There has been consultation with all constituent employers on the Funding Strategy Statement which determines the financial and demographic assumptions that drive the valuation process.

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH SECTOR

6.1 Consideration of employer covenant is crucial during the valuation process to deliver affordability within the Fund's solvency parameters. The objective is to maintain appropriate scheme participation of third-sector organisations.

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

7.1 The 2013 valuation has resulted in a major challenge to Scheme funding, as liabilities have increased significantly since 2010 due to the current, historically low gilt yields.

7.2 Given the difficult market conditions, unfortunately most employers will see a significant increase in their contributions from 1 April 2014. This is in despite of the move to a new Scheme and the implementation of an employer cost cap.

7.3 In addition, employers are entering a period when they have to deal with the additional costs of Auto-Enrolment legislation and the loss of the National Insurance rebate as a result of state pension reform. Both of these changes will place increasing pressure on employer budgets and resources.

8.0 LEGAL IMPLICATIONS

8.1 The Local Government Pension Scheme Regulations prescribe the statutory obligation to obtain an actuarial valuation of the Fund triennially at 31 March

9.0 EQUALITIES IMPLICATIONS

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

The differing characteristics and financial strength of employers have been reviewed to ensure that appropriate contribution easements have been applied equitably across all employers to prevent adverse risk falling on any individual employer.

10.0 CARBON REDUCTION IMPLICATIONS

10.1 None arising from this report

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 None arising from this report

12.0 RECOMMENDATION/S

12.1 That Members note the provisional valuation results. The final valuation report and schedule containing employer's contributions will be reported to this committee in due course.

13.0 REASON/S FOR RECOMMENDATION/S

13.1 There is a requirement for Members of the Pension Committee to be kept up to date with legislative developments to carry out their decision making role in order to enable them to make informed decisions.

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SUBJECT HISTORY (last 3 years)

Council Meeting	**Date**
Actuarial Valuation As At March 2010	**16 November 2010**

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WIRRAL COUNCIL

PENSIONS COMMITTEE

19 NOVEMBER 2013

SUBJECT:	**FUNDING STRATEGY STATEMENT**
WARDS AFFECTED:	**ALL**
REPORT OF:	**STRATEGIC DIRECTOR** **TRANSFORMATION AND RESOURCES**
KEY DECISION	NO

1.0 EXECUTIVE SUMMARY

1.1 This report amends the Funding Strategy Statement (FSS) in accordance with updated advice received from the Actuary. The FSS aims to secure the long term solvency of the Fund and will have a direct impact on the level of employer contribution rates set during the period of the 2013 Triennial valuation.

1.2 The revisions to the financial and demographic assumptions take account of the LGPS reform from 1 April 2014, market movements, the demographic experience of the Fund membership and will reflect changes to the Statement of Investment Principles (SIP).

2.0 KEY ISSUES

CURRENT FUNDING STRATEGY STATEMENT

2.1 The previous FSS was approved by the Pensions Committee on 16 November 2010 (Minute 52 refers).

2.2 The Local Government Pension Scheme (Administration) Regulations 2008 require that each Administering Authority, following consultation with appropriate stakeholders, revise and publish a FSS, when there is a material change in the policy matters set out in either the FSS or a related area of the SIP.

REVISED FUNDING STRATEGY STATEMENT

2.3 Merseyside Pension Fund actively encouraged engagement with the Funding Strategy Consultation process by organising a number of employer forums during October.

The objective was to consider employer affordability as the provisional valuation results had indicated a substantial increase in pension liabilities and employer costs due to the fall in gilt yields since the 2010 valuation.

The events were attended by the Fund Actuary, who provided an update of the provisional valuation results and an explanation of the impact of the financial and demographic stressors on the funding plan.

The information at the provided at the forums and the opportunity for questions will have assisted those who attended in making an informed response to the consultation.

2.4 Following due consideration of the comments received the draft FSS is presented as attached (Appendix 1)

The assumptions and methodology set out below are to be used by the Actuary in completing the 2013 Triennial Valuation and determining individual employer contribution rates.

2.5 **MORTALITY**

The Actuary has analysed increases to life expectancy based on the Fund's mortality experience and membership profile – he has also taken account of the wider trends in future life expectancy improvements using aggregate data from 21 other LGPS Funds.

From this analysis, the Actuary has recommended increasing the long term rate of future improvements to life expectancy from 1% to 1.5% per annum, for both past and future service based on data sourced from the Continuous Mortality Investigation 2012 model.

2.6 **FUTURE ILL HEALTH EXPERIENCE & OTHER DEMOGRAPHICS**

The actual number of Ill Health retirements over the 2010/13 period was greater than the 2010 valuation allowed for, and the number of incidents within the Merseyside Authorities was consistently higher than the aggregate LGPS Fund data over the same period.

The Actuary has therefore recommended an increase to the expected frequency of ill health retirements informed by the actual Fund experience over the preceding three years, resulting in an increase in both past and future service liabilities.

The number of members with dependant benefits has also increased following the extension of pensions to civil and unmarried partners which has also resulted in an increase to the determination of both past and future service liabilities.

On a more positive note, the incidence of deaths in service are fewer and members are retiring on average at age 63, one year later than previously assumed - this will mean an offset reduction to past and future service liabilities.

2.7 FINANCIAL ASSUMPTIONS

The Financial assumptions used to calculate the past service liabilities are directly linked to market conditions at the Triennial Valuation date (31 March 2013). As the long term outlook is depressed relative to the 2010 market position, the discount rate to determine the liabilities has been rebased from 5.9% to 4.6% resulting in a substantial increase to the market cost of providing pension benefits.

The discount rate set for future accrual is not directly linked to market conditions at the valuation date and allows for a higher level of investment outperformance than assumed for the past service liabilities. However, the expected return over CPI has been reduced from 3.75% to 3% since the last valuation resulting in a substantial increase to the Future Service Rate.

2.8 RECOVERY PLAN AND PERIOD FOR DEFICIT REPAYMENT

The revised Funding Strategy has been updated to reflect a maximum deficit recovery period of 22 years for Scheme employers and a 12 year maximum period will apply to admitted bodies.

For employers who do not admit new members, the recovery period will be limited to the future working lifetime of the membership or 12 years if shorter. A shorter period may also be applied in respect of particular employers where the Administering Authority considers this to be warranted.

2.9 In addition, the following measures have been incorporated into the funding plan for application during the 2013 Triennial Valuation:

- No reductions in the indexed monetary value of each employer's deficit contributions from the 2010 levels;
- The ability to reduce recovery periods in recognition of improvements to the funding position or evidence from an individual employer on affording increased deficit contributions;
- To provide the Administering Authority the discretion to vary the funding parameters subject to an assessment of the financial covenant of an individual employer.

2.10 STABILISATION OF CONTRIBUTIONS

The LGPS regulations prescribe that the valuation of the Fund's assets and liabilities must be evaluated at 31 March 2013, and the actuary must set contribution rates at a near as constant rate as possible. These prescriptions can prove to be challenging when market factors are depressed at the valuation date.

2.11 In acknowledgement of reduced public sector funding, Officers are aware of the need to engage with employers in actively considering the parameters set within budgets for pension costs over the coming valuation period. The intention is to provide mechanisms to stabilise contributions which balance the long term solvency of the Fund against employer affordability.

2.12 Consequently, the Administering Authority having received advice from the Actuary, is satisfied that it is reasonable to take a longer term view when certifying employer contribution rates; the following measures may be built into the funding plan:

- some allowance for interest rates and bond yields to revert to higher levels over the medium to long term;

- allowance for an increased investment return over the agreed recovery period.

It should be noted that funding levels would be declared to reflect the position at the valuation date with the contributions reflecting the above easements.

2.13 The FSS now includes provision to vary individual employer contribution rates as a result of any costs being insured with a third party or internally within the Fund.

3.0 RELEVANT RISKS

3.1 If stabilising mechanisms are not introduced to recognise the recovery in the market position post valuation then the Actuary would be required to set unaffordable employer contribution rates.

Given budget pressures, this would likely result in the reduction of a number of local services and could lead to a number of charitable organisations exiting the Fund, leaving unrecoverable debt. This places considerable risk on the Fund as unrecoverable debts are spread amongst the remaining scheme employers

3.2 The maximum recovery period for all employers has been reduced by three years. Officers and the Fund Actuary believe that it would be imprudent to maintain the recovery period at the 2010 rate. Not reducing the maximum recovery period would actually be detrimental to an employer's long term funding of pension costs, as they will further delay repayment of the principal debt and the opportunity of gaining investment returns on contributions.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

5.1 MPF has formally consulted with its constituent employers on the proposals to revise the Funding Strategy Statement and has taken into consideration those comments received.

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 The revised financial and demographic assumptions within the Funding Strategy Statement will have a direct impact on funding levels and the employer contributions certified for the financial period 1 April 2014 to 31 March 2017

7.2 The cost savings related to the LGPS Reform from 1 April 2014 will vary between constituent employers of the Fund, depending upon the demographic profile of the workforce.

8.0 LEGAL IMPLICATIONS

8.1 The Local Government Pension Scheme Regulations prescribe that all Pension Funds have a statutory obligation to produce a FSS.

9.0 EQUALITIES IMPLICATIONS

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

The differing characteristics and financial strength of employers have been reviewed to ensure the Funding Strategy is applied equitably across all employers with limited adverse risk falling on any individual employer.

10.0 CARBON REDUCTION IMPLICATIONS

10.1 None arising from this report

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 None arising from this report

12.0 RECOMMENDATION/S

12.1 Members are recommended to approve the proposed amended Funding Strategy Statement attached at Appendix 1 and note the report. Any subsequent revisions by the actuary will be reported to this committee.

13.0 REASON/S FOR RECOMMENDATION/S

13.1 The Local Government Pension Scheme Regulations prescribe that all Pension Funds have a statutory obligation to produce a FSS.

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APPENDICES

Appendix 1

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

Merseyside Pension Fund

Funding Strategy Statement 2013 (draft)

Introduction

The Local Government Pension Scheme (Administration) Regulations 2008 replaced the Local Government Pension Scheme Regulations 1997 providing the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Fund the Administering Authority will prepare and publish its funding strategy;

- In preparing the FSS, the Administering Authority must have regard to the guidance issued by CIPFA for this purpose; and the revised **Statement of Investment Principles (SIP)** for the Fund dated November 2012 published under **Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended)**;

- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the SIP.

Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund provides defined benefits with its benefit structure having been reviewed recently by the Government. Members will have final salary benefits for service accrued prior to 1 April 2014 with Career Average Revalued Earnings ("CARE") benefits accruing on and after this date.

The benefits are specified in the governing legislation -

- The LGPS (Benefits, Contributions & Membership) Regulations 2007 (as amended), "the BMC Regulations"

New legislation The Local Government Pension Scheme Regulations 2013 governs the Scheme from 1 April 2014.

The required levels of employee contributions are also specified in the Regulations. Employer contributions are determined in accordance with the Regulations (currently principally Administration Regulation 36) which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate.

Contributions to the Fund should be set so as to “secure its solvency”, whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

Purpose of the FSS in policy terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made.

Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is:

- To establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- To support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and
- To take a prudent longer-term view of funding those liabilities.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled.

Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

Aims and Purposes of the Fund

The aims of the Fund are to:

- Enable employer contribution rates to be kept as nearly constant as possible and at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies
- Manage employers’ liabilities effectively
- Ensure that sufficient resources are available to meet all liabilities as they fall due, and
- Maximise the returns from investments within reasonable risk parameters.

The purpose of the Fund is to:

- Receive monies in respect of contributions, transfer values and investment income, and
- Pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses, as defined in the various Local Government Pension Scheme Regulations:

- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended)

- The Local Government Pension Scheme (Administration) Regulations 2008 (as amended), and
- The Local Government Pension Scheme (Benefits, Contributions & Membership) Regulations 2007 (as amended)
- The Local Government Pension Scheme Regulations 2013 from 1 April 2014

Responsibilities of the Key Parties

These are as set out in the relevant regulations as amended from time to time:

- The LGPS (Administration) Regulations,
- The LGPS (Benefits, Contributions & Membership) Regulations and
- The LGPS (Transitional Provisions) Regulations 2007, “the Regulations”.
- The Local Government Pension Scheme Regulations 2013 from 1 April 2014

The Administering Authority should:

- Collect employer and employee contributions
- Invest surplus monies in accordance with the underlying legislation
- Ensure that cash is available to meet liabilities as and when they fall due
- Manage the valuation process in consultation with the actuary
- Prepare and maintain an FSS and a SIP, both after due consultation with interested parties, and
- Monitor all aspects of the Fund’s performance and funding and amend FSS/SIP.

The Individual Employer should:

- Deduct contributions from employees’ pay correctly
- Pay all contributions, including their own as determined by the actuary, promptly by the due date
- Exercise discretions within the regulatory framework
- Make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain, and
- Notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund Actuary should:

- Prepare valuations including the setting of employers’ contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS
- Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters, and

Advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

Solvency issues and target funding levels

The funding objective:

To meet the requirements of the Administration Regulations the Administering Authority’s long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the “**funding target**”) assessed on an ongoing basis including allowance for projected final pay.

Determination of the funding target and recovery period:

The principal method and assumptions to be used in the calculation of the **funding target** are set out in the Appendix. Underlying these assumptions are the following two tenets:

- That the Scheme is expected to continue for the foreseeable future; and
- Favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows us to take a longer term view when assessing the contribution requirements for certain employers. As part of this valuation when looking to potentially stabilise contribution requirements we will consider whether we can build into the funding plan the following:-

- some allowance for interest rates and bond yields to revert to higher levels over the medium to long term; and
- whether some allowance for increased investment return (in excess of AOA) can be built into the funding plan over the agreed recovery period.

In considering this the Actuary, following discussions with the Administering Authority, will consider if this results in a reasonable likelihood that the funding plan will be successful.

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer (or employer grouping), following a principle of no cross-subsidy between the various employers in the Scheme. In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates:

- LEA Schools and certain other employers within the Fund have been grouped with the respective Council.
- Academies are treated as separate employers but consistently with the relevant LEA schools
- Certain employers will follow a bespoke investment and funding strategy pertaining to their own circumstances related to their risk and maturity characteristics. This will be documented separately.

A maximum deficit recovery period of [22] years will apply for scheme employers and a [12] year maximum period will apply to admitted bodies. For employers who do not admit new members, the recovery period will be limited to the future working lifetime of the membership or [12] years if shorter. Shorter periods will also be applied for employers who have a limited participation in the Fund. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may also be applied in respect of particular employers where the Administering Authority considers this to be warranted (see **Deficit Recovery Plan** on page 7).

• Employer contributions are expressed and certified as two separate elements:

- a percentage of pensionable payroll in respect of future accrual of benefits

- a schedule of £s amounts over 2014/17, building in an allowance for increases annually in line with the valuation funding assumption for long term pay growth, in respect of the past service deficit or surplus subject to review from April 2017 based on the results of the 2016 actuarial valuation.

  Where an employer is in a surplus position the fixed amount deduction from the future service rate (subject to a minimum of zero) will be subject to a threshold of £1,000 below which no deduction will be made.

- Unless agreed otherwise by the relevant Scheme Employer any Transferee admission bodies will be treated in the same way as the original Scheme Employer.

- Where the employer contributions required from 1 April 2014 increase significantly in terms of the employer's pay following completion of the 2013 actuarial valuation, the increase from the rates of contribution payable in the year 2013/14 may be phased in over a maximum period of [3] years.

- On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer.

Depending on the circumstances of the termination event this assessment and in particular whether another Fund employer is prepared to act as guarantor to the residual liabilities will incorporate a more cautious basis of assessment of the final liabilities for the employer. Where it may be appropriate to use a more cautious basis the financial assumptions used will be derived to be consistent with the equivalent assumptions adopted for the FRS17 accounting standard for current employers in the Fund. This is subject to the financial assumptions used being no less cautious than the equivalent valuation assumptions updated appropriately based on the advice of the actuary. Full details of the approach to be adopted for such an assessment on termination are set out in the separate termination policy report dated [to be updated].

- For new Community Admission Body (CAB) admissions only from 1 April 2011, who do not have a guarantor of sufficient financial standing based on the assessment of the Administering Authority, the basis of assessment for both the contributions and termination will be on a gilts or "least risk" basis. The employer's assets will then be deemed to be invested in government bonds of the appropriate duration to the liabilities and be credited with the returns derived from such assets based on the advice of the Actuary. Where a guarantor is available the assessment will be on the normal valuation basis if the guarantor agrees to underwrite the obligations of the employer in the long term.

- All admitted bodies that were in existence at 1 April 2011 will have the option of adopting a funding basis based on corporate bond yields. The employer's assets will then be deemed to be invested in corporate bonds of the appropriate duration to the liabilities and be credited with the returns derived from such assets on the advice of the Actuary.

- In all cases the Administering authority reserves the right to apply a different approach at its sole discretion taking into account the risk associated with an employer in proportion to the Fund as a whole. Any employer affected will be notified separately.

In determining the above objectives the Administering Authority has had regard to:

- the responses made to the consultation with employers on the FSS principles

- relevant guidance issued by the CIPFA Pensions Panel

- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose, and the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

- The need to minimise the risks to the Fund from its admission arrangements by strengthening its admission arrangements and pursuing a policy of positive engagement.

Deficit recovery plan

If the assets of the scheme relating to an employer are less than the **funding target** at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

Additional contributions will be expressed as a monetary lump sum.

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- The size of the funding shortfall;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.
- Length of expected period of participation in the Fund.

For those employers with no guarantor or bond arrangements in place, a higher **funding target** will be adopted. The contribution rate for these employers will be determined to target a funding position of [120]% for the liabilities of the current active membership. The **funding target** for the non-active liabilities will be as defined earlier. The principles around the recovery period will be as noted earlier after the change in funding target has been applied.

When considering the recovery period for an individual employer in the Fund the Administering Authority has the discretion to vary the recovery periods from those set out above. In all cases this will be limited to the maximum period of [22] years as applied to Scheme Employers subject to satisfactory evidence of the financial covenant of an employer.

As well as the above we would also apply the following criteria to the valuation when determining employer contribution rate:

i. there being no reduction from that implied by the 2010 funding strategy. For the avoidance of doubt this means that the monetary value of each employer's deficit contributions payable including future indexation of the annual monetary amounts
ii. an assessment of the strength of the employer's financial covenant by the Administering Authority or any alternative contingent security (after taking appropriate advice) could support employer specific adjustments to the parameters being applied
iii. recognition of the need to use any improvements in the funding position and/or affordability of contributions for an individual employer at the 2013 valuation to reduce the deficit recovery period initially towards a more manageable period.

The normal cost of the scheme (future service contribution rate)

In addition to any contributions required to rectify a shortfall of assets below the **funding target** contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the "normal cost"). The method and assumptions for assessing these contributions on the normal valuation basis are also set out in the Appendix.

Funding For Non-Ill Health Early Retirement Costs

Employers are required to meet all costs of early retirement strain by immediate capital payments into the Fund or in certain circumstances by agreement with the Fund, by instalments over a period not exceeding 5 years or if less the remaining period of the body's membership of the Fund.

Link to Investment Policy in the SIP

The results of the 2013 valuation show the liabilities to be [76]% (compared to 78% at 31 March 2010) covered by the current assets, with the funding deficit of [24]% being covered by future deficit contributions.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for asset out-performance as described in the Appendix on page 14, taking into account the investment strategy adopted by the Fund, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts.

Investment of the Fund's assets in line with the least risk portfolio would minimise fluctuations in the Fund's ongoing funding level between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the investments or any adjustment to the market implied inflation assumption due to supply / demand distortions in the bond markets. On this basis of assessment, the assessed value of the Fund's liabilities at the 31 March 2013 valuation would have been significantly higher and the declared funding level would be correspondingly lower at [tbc]%.

Departure from a least risk investment strategy, in particular to include equity investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

Proposed Benchmark Investment Strategy and Asset Allocation

The proposed benchmark investment strategy and asset allocation to be set out in the SIP is shown in *Table 1*

Asset	Benchmark		Benchmark Index
UK Equities	**25**		FTSE ALL SHARE INDEX
Overseas Equities	**30**		
US Equities		8	FTSE AW NORTH AMERICA UK
European Equities		8	FTSE WORLD EUROPE EX UK
Japan		4	FTSE AW JAPAN
Pacific		4	FTSE AW DEV ASIA PAC EX JAPAN
Emerging Markets		6	MSCI EMERGING MARKETS FREE
Fixed Interest	**20**		
UK Gilts		4	FTSE A ALL STOCKS
Overseas Gilts		0	JPM GLOBAL GOVT EX UK
UK Index Linked		12	FTSE UK GILTS INDEXED ALL STKS

Asset	Benchmark	Benchmark Index
Corporate Bonds	4	ML 3 NON GILTS
Property	**10**	IPD ALL PROPERTIES INDEX
Alternatives	**14**	
Private Equity	4	GBP 7 DAY LIBID
Hedge Funds	5	GBP 7 DAY LIBID
Thematic Fund of Funds	3	GBP 7 DAY LIBID
Infrastructure	2	GBP 7 DAY LIBID
Cash	**1**	GBP 3 MONTH LIBID
Total	**100**	**SPECIFIC BENCHMARK**

(Table 1: MPF Multi Asset Portfolio)

The funding strategy adopted for the 2013 valuation was based on an assumed overall asset out-performance of [1.4%] p.a.

The Administering Authority believes that this is a reasonable and prudent allowance for asset out-performance, based on the investment strategy adopted as set out in the SIP.

Identification of risks and counter-measures

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the Fund's funding is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall 1.4% per annum assumed in the long term.

The chart below shows a "funnel of doubt" funding level graph, which illustrates the probability of exceeding a certain funding level over a 10 year period from the valuation date. For example, the top line shows the 95th percentile level (i.e. there is a 5% chance of the projected funding level at each point in time being better than the funding level shown and a 95% chance of the funding level being lower). The graph adopts the 2013 actuarial valuation results as a starting point, and allows for the expected contributions into the Fund assuming a [22] year recovery period. An overall out-performance over and above gilts yields has been assumed in line with best estimate market expectations, together with a continuation of the current investment strategy as outlined above.

[CHART TO BE INSERTED]

The following key risks have been identified:

Financial

- Investment markets fail to perform in line with expectations

- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies

Demographic

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)

Insurance of certain benefits

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

Regulatory

- Changes to Regulations, e.g. changes to the benefits package, potential new entrants to Fund, and retirement age
- Changes to national pension requirements and/or Inland Revenue rules

Governance

Wirral Borough Council as the administering authority for Merseyside Pension Fund has delegated responsibility and accountability for overseeing the Fund to the Pensions Committee.

The Pensions Committee is made up of ten Members nominated by Wirral, one nominated from each of the other four metropolitan authorities and a representative of the other admitted and scheduled bodies elected by ballot. There are three members drawn from trade unions representing all actives, deferred members and pensioners. Aside from the representative Member, changes to Committee membership are subject to the political leadership of the Councils, although efforts are made to limit rotation where possible.

The Committee meets 4 to 5 times a year and has set up an Investment Monitoring Working Party which meets at least 6 times a year to monitor investment performance and developments. The Committee has delegated powers to the Director of Finance for the day to day running of the Fund.

There is a clear decision making process for the operations of the Fund, major decisions are taken and minuted at monthly Fund Operating Group meetings attended by the Director and Deputy Director of Finance and senior MPF managers.

There is a significant resource dedicated on an annual basis for Member training which is provided both internally and externally.

The Pensions Administration Strategy (PAS) sets out clear standards of service to members by defining employer and Fund responsibilities in administering the Scheme and sets out the requirements for the two way flow of information. The employer should notify the administering authority of the following events.

- Structural change in employer's membership e.g. large fall in employee numbers or large number of retirements.
- A closure in accessibility of the scheme to new entrants.
- An employer ceasing to exist.

Monitoring and Review

The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with the employers participating in the Fund.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- If there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- If there have been significant changes to the Fund membership, or LGPS benefits
- If there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- If there have been any significant special contributions paid into the Fund.

Appendix

Actuarial Valuation as at 31 March 2013

Method

The actuarial method to be used in the calculation of the funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, unless specifically agreed otherwise, an alternative method is adopted (the Attained Age method), which makes advance allowance for the anticipated future aging and decline of the current closed membership group.

Financial assumptions

Investment Return (Discount Rate)

A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an overall Asset Out-performance Assumption ("AOA") of [1.4%].

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date. The allowance for this out-performance is based on the liability profile of the Fund, and the fact that the Fund is invested predominantly in higher return assets as detailed in Section 7. If the return actually achieved is higher than this the Fund deficit will be reduced; if the return is lower then the Fund deficit will increase (provided that all the other assumptions remain valid).

Inflation

The market implied RPI inflation assumption will be taken to be the investment market's expectation for inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities. Pensions in payment and deferment are linked to CPI inflation and the CPI assumption will be calculated by making a 1% p.a. downward adjustment to the market implied RPI assumption at the valuation date. This adjustment is to take account of general market trends, the risk premia and the fact that the CPI is systematically lower than RPI in the long term due to methodology.

Salary increases

The assumption for real salary increases (salary increases in excess of CPI price inflation) will be determined by an allowance of [1.5%] p.a. over the CPI inflation assumption as described above. This includes allowance for promotional increases.
Allowance for short term pay can be included for the if justifiable and in line with the advice of the Fund Actuary.

Pension increases

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

Mortality

The mortality assumptions will be based on the most up-to-date information published by the Continuous Mortality Investigation Bureau, making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below, with loadings reflecting Scheme specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Members who retire on the grounds of ill heath are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 3 years older for current retirees, and 4 years older for future cases (reflecting the updated ill health criteria). For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity ‘improvement’ year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1.5% per annum.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the ill health, death before retirement, retirement in normal health and proportions married assumptions have been modified from the 2010 valuation. Other assumptions are as per the 2010 valuation.

Method and assumptions used in calculating the cost of future accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below. The financial assumptions for assessing the future service contribution rate should take account of the following points:

- Contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and
- The future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities.
- Allowance for market real yields to revert to higher levels over the longer term.

The financial assumptions In relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of [3.0]% per annum using an assumption for price inflation of [2.6]% per annum. These two assumptions give rise to an overall discount rate of [5.6]% p.a.

Adopting this approach the future service rate will not be subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the "Common Rate" of contributions. In market conditions at the effective date of the 2013 valuation this approach gives rise to a slightly more optimistic stance in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target.

At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position but over the long term you would expect the variation to average out.

For certain employers the normal cost will be calculated using the assumptions adopted for the funding target.

Summary of key whole Fund assumptions used for calculating funding target and long term cost of future accrual (the "normal cost") for the 2013 actuarial valuation

Long-term gilt yields (derived for the full yield curve)	**31 March 2013**
Fixed Interest	3.2% p.a.
Index-Linked	-0.4% p.a.

Funding Target financial assumptions	
Investment return	[4.6]% p.a.
CPI price inflation	[2.6]% p.a.
Salary increases	[4.1]% p.a.
Pension increases	[2.6]% p.a.

Long Term Future service accrual financial assumptions	
Investment return	[5.6]% p.a.
CPI price inflation	[2.6]% p.a.
Salary increases	[4.1]% p.a.
Pension increases	[2.6]% p.a.

Demographic assumptions

The mortality tables adopted for this valuation are as follows (male/female):

Life expectancy at 65 in 2013		Base table	Adjustment	Improvement model	Long term rate
CURRENT ANNUITANTS	Normal health	S1PxA	106% / 100%	CMI_2012	1.5%
	Ill health	S1PxA	Normal health + 3 years	CMI_2012	1.5%
	Dependants	S1PMA/S1DFA	173% / 120%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	115% / 108%	CMI_2012	1.5%
CURRENT ACTIVES / DEFERREDS	Actives normal health	S1PxA	104% / 94%	CMI_2012	1.5%
	Actives ill health	S1PxA	Normal health + 4 years	CMI_2012	1.5%
	Deferreds	S1PxA	130% / 110%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	111% / 106%	CMI_2012	1.5%

Other demographic assumptions are noted below:

Commutation	One half of members take maximum lump sum, others take 3/80ths
Other demographics	Based on and LG wide analysis experience adjusted for Fund specific factors.

(Version updated 11/10/2013)

WIRRAL COUNCIL

PENSIONS COMMITTEE

19 NOVEMBER 2013

SUBJECT:	**STRATEGIC ASSET ALLOCATION**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**STRATEGIC DIRECTOR TRANSFORMATION AND RESOURCES**
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

1.1 This paper outlines proposed changes to the strategic asset allocation following a detailed analysis undertaken by the investment consultant AON Hewitt, and discussions held with the internal investment management team and the independent advisers. This issue was also discussed in detail at an IMWP meeting on 23rd October involving presentations from the Fund's actuary Mercer and Investment Consultant, Aon Hewitt.

2.0 BACKGROUND AND KEY ISSUES

2.1 The Fund last approved a strategic asset allocation at its meeting on 16th November 2010.

2.2 The decision as to how and where the MPF should invest assets, the "strategic asset allocation", is of critical importance in determining the likelihood of the Pension Fund achieving its objectives of optimizing investment returns and meeting its longer term liabilities within acceptable levels of risk.

2.3 The strategic asset allocation is the long-term allocation between the main asset classes and involves the following decisions:

- The balance between equities and bonds
- The allocation between UK and overseas equity investment, and the balance within the overseas equity portfolio between the major regional markets
- The allocation within the bond portfolio between fixed interest and index linked gilts, sovereign and corporate bonds
- The use of alternative investments, such as private equity, hedge funds, infrastructure and property.

2.4 Although the balance between equities and bonds has historically been the most important consideration, the development of more global equity markets and a number of technical factors affecting bond markets causing historically low yield levels has raised the profile of investments in alternative assets to achieve greater diversification and potentially improved risk adjusted returns.

2.5 At an IMWP on 23 October Aon Hewitt presented the preliminary results of their asset liability modelling which looked at the Fund's current strategic allocation, postulated a range of "extreme" investment scenarios and then recommended an optimal strategy to achieve the Fund's long term objectives. These results are set out in appendix 1.

2.6 The current asset allocation is shown in the table below,

Asset	Benchmark	Benchmark Index
UK Equities	**25**	FTSE ALL SHARE INDEX
Overseas Equities	**30**	
US Equities	8	FTSE AW NORTH AMERICA
European Equities	8	FTSE WORLD EUROPE EX UK
Japan	4	FTSE AW JAPAN
Pacific	4	MSCI DEV ASIA PAC EX JAPAN
Emerging Markets	6	MSCI EMERGING MARKETS FREE
Fixed Interest	**20**	
UK Gilts	4	FTSE A ALL STOCKS
Overseas Gilts	0	JPM GLOBAL GOVT EX UK
UK Index Linked	12	FTSE UK GILTS INDEXED ALL STKS
Corporate Bonds	4	ML 3 NON GILTS
Property	**10**	IPD ALL PROPERTIES INDEX
Alternatives	**14**	
Private Equity	**4**	GBP 7 DAY LIBID
Hedge Funds	**5**	GBP 7 DAY LIBID
Opportunities	**3**	GBP 7 DAY LIBID
Infrastructure	**2**	GBP 7 DAY LIBID
Cash	**1**	GBP 3 MONTH LIBID

2.7 The proposed changes are

To increase alternatives to 20% of the Fund: 5% for each of Private Equity, Hedge Funds, Opportunities and Infrastructure.

To fund this by making reductions of

- 2% to UK Equities
- 1% to Index Linked Gilts
- 2% to Property
- 1% to Cash (the fund will run minimal cash balances to pay pensions and meet other obligations)

2.8 The rationale for these changes is as follows

- To improve risk adjusted returns
- To minimise transaction costs for the transition
- To have regard to the balance between liquid and illiquid assets

2.9 The new suggested asset allocation is shown in the table below.

Asset	Benchmark	Benchmark Index
UK Equities	**23**	FTSE ALL SHARE INDEX
Overseas Equities	**30**	
US Equities	8	FTSE AW NORTH AMERICA
European Equities	8	FTSE WORLD EUROPE EX UK
Japan	4	FTSE AW JAPAN
Pacific	4	MSCI DEV ASIA PAC EX JAPAN
Emerging Markets	6	MSCI EMERGING MARKETS FREE
Fixed Interest	**19**	
UK Gilts	4	FTSE A ALL STOCKS
Overseas Gilts	0	JPM GLOBAL GOVT EX UK
UK Index Linked	11	FTSE UK GILTS INDEXED ALL STKS
Corporate Bonds	4	ML 3 NON GILTS
Property	**8**	IPD ALL PROPERTIES INDEX
Alternatives	**20**	
Private Equity	**5**	GBP 7 DAY LIBID
Hedge Funds	**5**	GBP 7 DAY LIBID
Opportunities	**5**	GBP 7 DAY LIBID
Infrastructure	**5**	GBP 7 DAY LIBID
Cash	**0**	GBP 3 MONTH LIBID

2.10 As the moves will largely be to illiquid investments it will not be possible to implement the changes with immediate effect. The suggested targets are set out above but officers will move assets gradually toward these targeted allocations as opportunities arise and this will be reflected in incremental changes to the benchmark against which WM monitors the Fund.

3.0 RELEVANT RISKS

3.1 The setting of the investment strategy and the use of diversification to control the overall volatility of Fund returns is the key part of the Fund's risk control strategy. A significant amount of resources and time have been invested in the preparation of the strategy.

4.0 OTHER OPTIONS CONSIDERED

4.1 A number of options were considered in the preparation of this report both in meetings between officers and advisers and at a specific IMWP meeting on 23 October 2013

5.0 CONSULTATION

5.1 Not relevant for this report, However there has been significant consultation in the preparation of the Funding Strategy Statement which sits alongside this report.

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are no implications arising directly from this report.

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

7.1 The costs of compiling the strategy were met from existing budgeted resources. The aim of the strategy is to improve future risk adjusted returns and to minimise the level and volatility of employer contribution rates.

7.2 With an increase in the proportion of assets selected and monitored by the in-house team, the appropriateness of the current staffing resources will be kept under review.

8.0 LEGAL IMPLICATIONS

8.1 There are no implications arising directly 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 no carbon usage implications, nor any other relevant environmental issues arising from this report.

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 There are no planning or community safety implications arising from this report.

12.0 RECOMMENDATIONS

12.1 That the Pensions Committee approves the revised Strategic Investment Allocation.

13.0 REASONS FOR RECOMMENDATIONS

13.1 The approval of the investment strategy by Pensions Committee forms a key part of setting the strategy and governance arrangements for the Fund's Investments.

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APPENDICES

1. The AON Hewitt report to IMWP on 23rd October is attached as an appendix to this report

REFERENCE MATERIAL

Actuarial Valuation
AON Hewitt Reports

SUBJECT HISTORY (last 3 years)

Council Meeting	**Date**
PENSIONS COMMITTEE **ASSET ALLOCATION**	 **16 NOVEMBER 2010**

Merseyside Pension Fund
Investment Strategy Review

Asset liability modelling results

Prepared by Louis-Paul Hill & Emily McGuire
23 October 2013

Agenda

- Introduction to setting an investment strategy

- What we've modelled
  - Current
  - Extremes
  - Diversification
  - Focus on liability management

- Introduction to flight planning

Aims, purpose and objective of the Fund

Aims

- Keep contribution rate constant, reasonable and affordable
- Meet all liabilities as they fall due
- Maximise returns within reasonable risk parameters

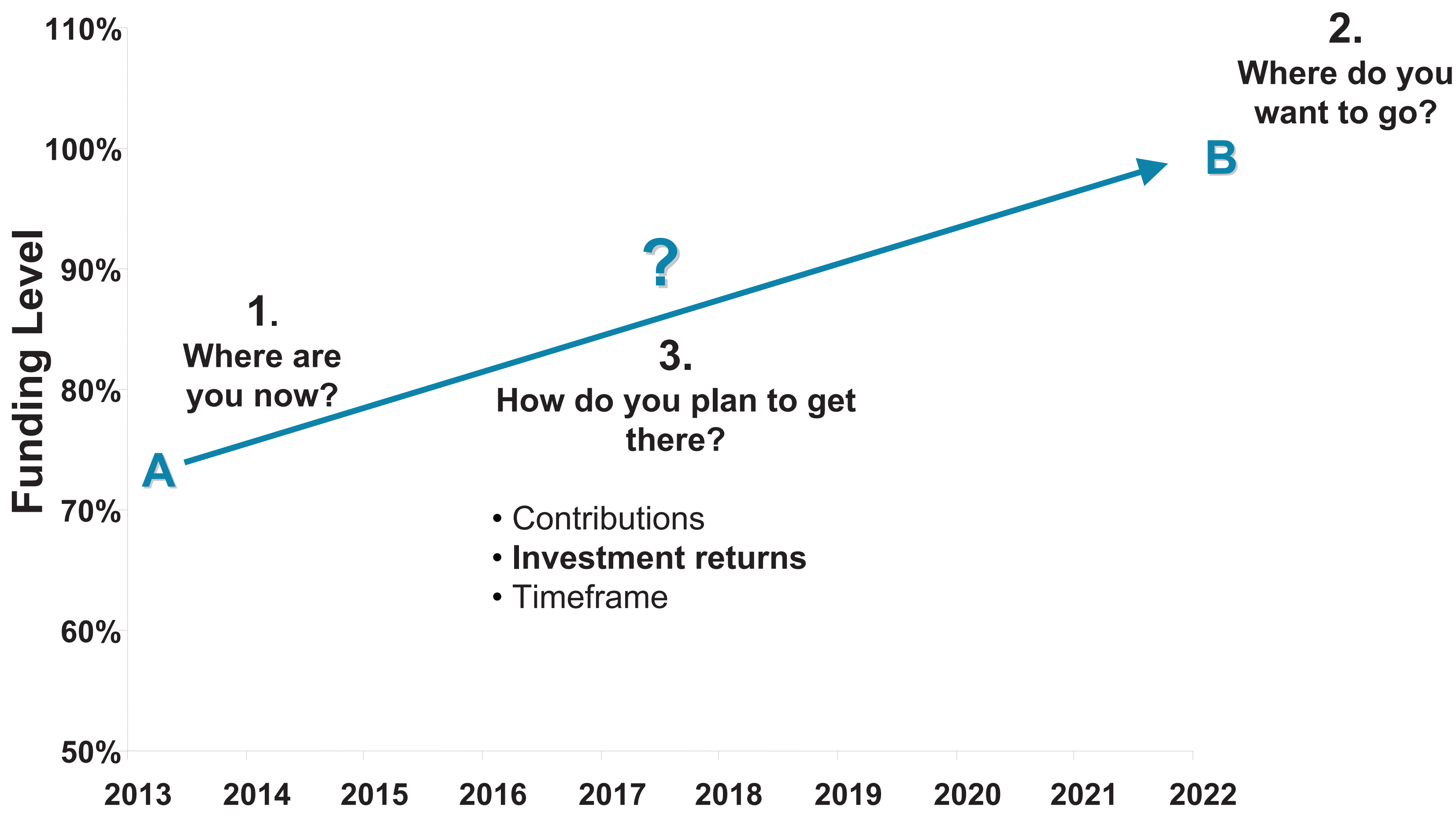
Purpose

- Pay out monies in respect of Fund benefits (etc)

Objective

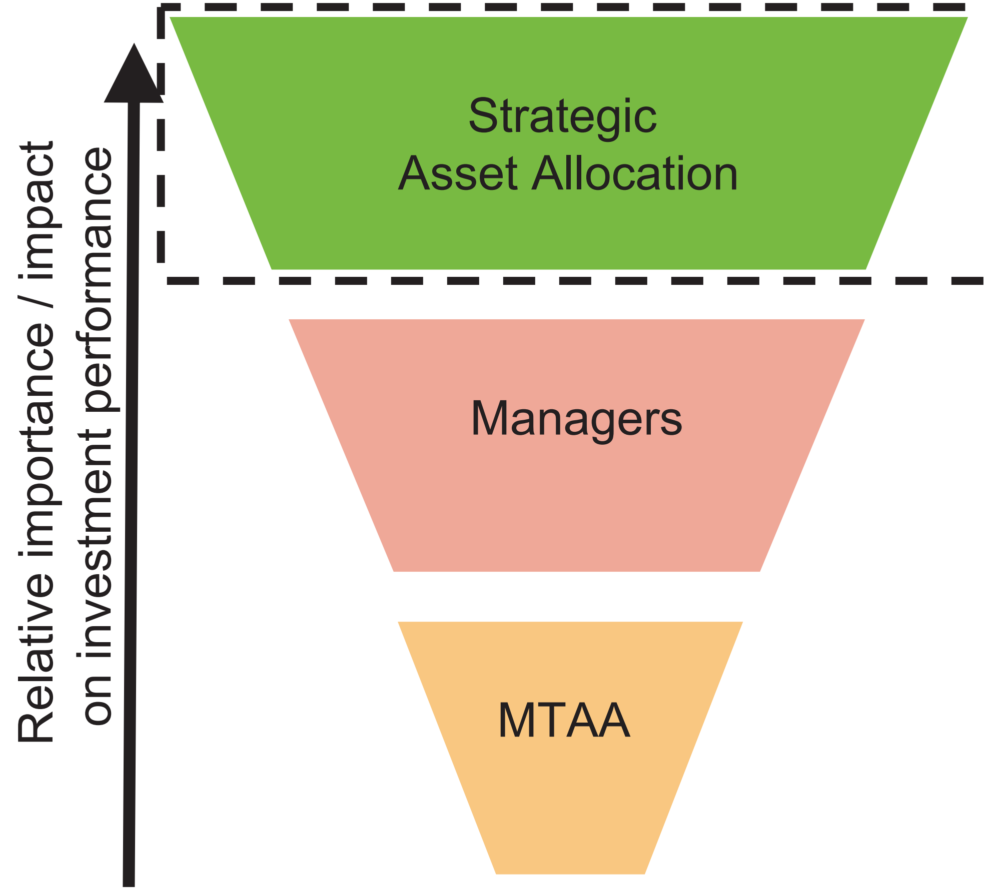
- To achieve and then maintain sufficient assets to cover 100% of accrued liabilities (the “funding target”) assessed on an ongoing basis

What is an investment strategy?



The current focus is on recovering the deficit long term (without making it considerably worse short term)

Strategic asset allocation is key



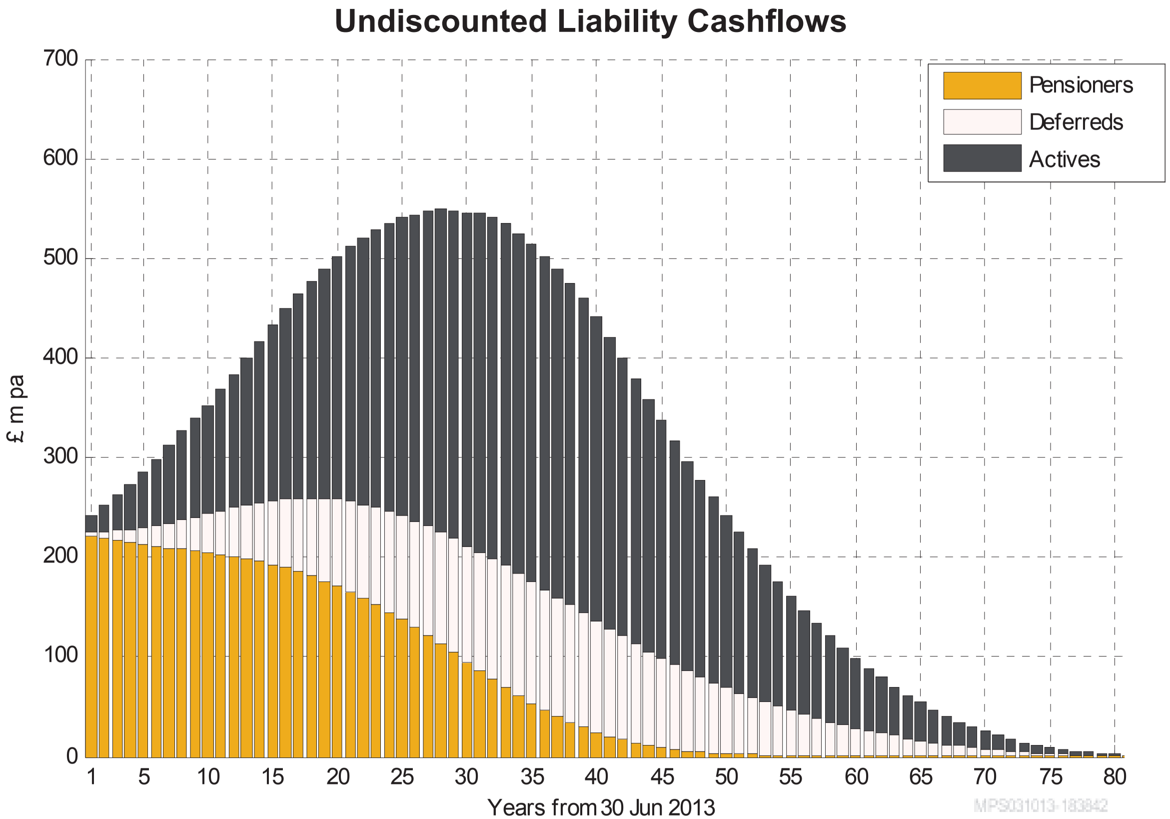
Strategic Asset Allocation
Set a long term strategic asset allocation based on the deficit recovery plan and investment objectives identified

Manager Structure
Aim to add value through active management.
Time typically spent on manager selection and monitoring manager performance.

Medium Term Asset Allocation
Aim to add value by exploiting market pricing inefficiencies.
Asset classes rarely fairly valued.

Understanding your liabilities

- Present value of liabilities measured on initial proposed valuation basis at 31 March 2013: **£7,950m**



- Gilt yields fall = liabilities rise
- Inflation rises = liabilities rise

Note: data uses an approximation of the Merseyside Pension Fund and Aon Hewitt's assumptions.

Our capital market assumptions (30 June 2013)

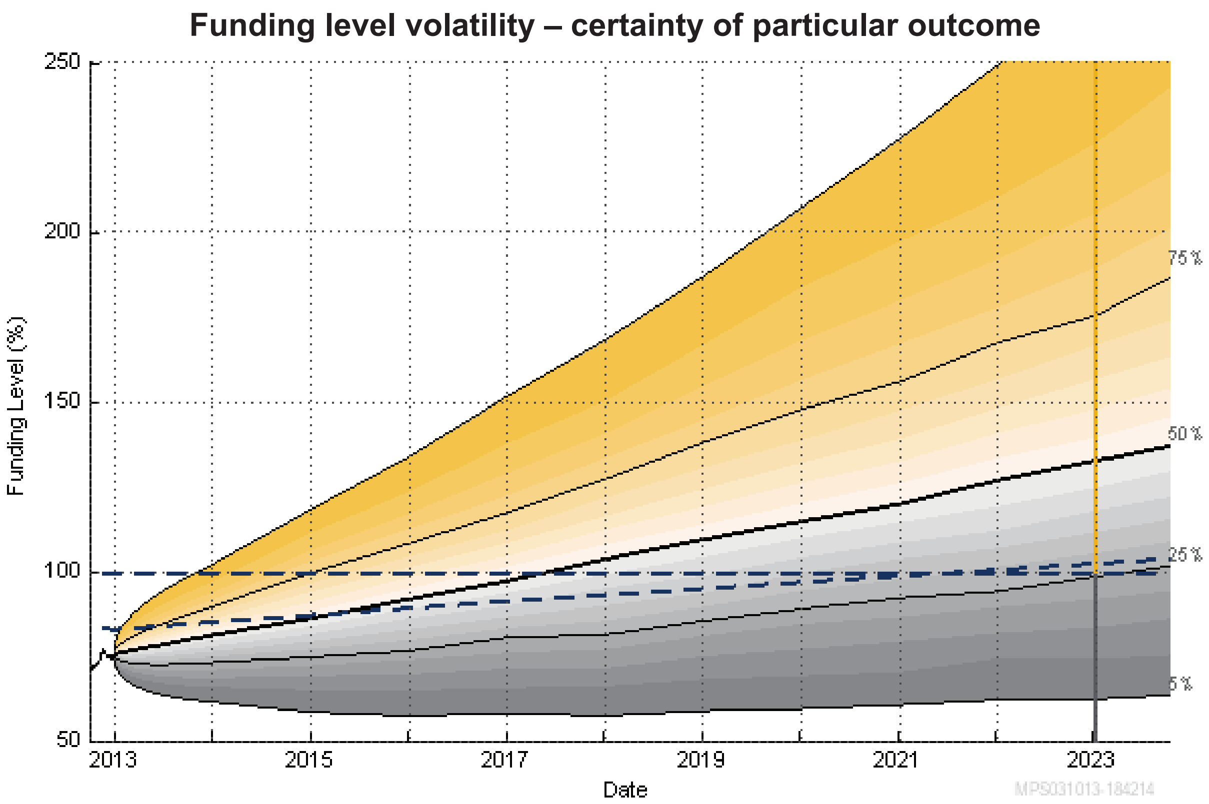
	Return	Volatility
15 yr Inflation Linked Bonds	2.40%	9.00%
15 yr Fixed Income Bonds	3.00%	11.00%
10 yr Investment Grade Corporate Bonds	4.10%	9.00%
Real Estate/Property	7.40%	14.50%
US High Yield	5.00%	14.00%
Emerging Market Debt	5.40%	12.00%
UK Equities	8.00%	20.00%
US Equities	7.40%	19.00%
Europe ex UK Equities	7.70%	20.00%
Japan Equities	6.60%	20.00%
Canada Equities	8.00%	20.00%
Switzerland Equities	7.30%	20.00%
Emerging Market Equities	9.30%	28.50%
Global Private Equity	9.60%	26.00%
Global Fund or Hedge Fund	5.40%	8.00%

Key	
IL	Domestic 15yr Inflation-Linked Government Bonds
FI	Domestic 15yr Fixed Income Government Bonds
CB	Domestic 10yr Investment Grade Corporate Bonds
RE	Domestic Real Estate/Property
UK Eq	UK Equities
US Eq	US Equities
Eur Eq	Europe ex UK Equities
Jap Eq	Japan Equities
Can Eq	Canada Equities
CHF Eq	Switzerland Equities
EM Eq	Emerging Markets Equities
Gbl PE	Global Private Equity
Gbl FoHF	Global Fund of Hedge Funds

Representative Correlations

	IL	FI	CB	RE	UK Eq	US Eq	Eur Eq	Jap Eq	Can Eq	CHF Eq	EM Eq	Gbl PE	Gbl FoHF
IL	1	0.5	0.4	0.1	-0.1	-0.1	-0.1	0	-0.1	-0.1	0	0	0
FI		1	0.8	0.1	-0.2	-0.2	-0.2	-0.1	-0.2	-0.2	-0.1	0	0
CB			1	0.1	0.1	0.1	0.1	0	0.1	0.1	0	0.1	0
RE				1	0.4	0.4	0.4	0.3	0.4	0.4	0.3	0.3	0.3
UK Eq					1	0.85	0.85	0.7	0.85	0.85	0.8	0.6	0.6
US Eq						1	0.85	0.7	0.85	0.85	0.8	0.7	0.6
Eur Eq							1	0.7	0.85	0.85	0.8	0.6	0.6
Jap Eq								1	0.7	0.7	0.6	0.4	0.5
Can Eq									1	0.8	0.8	0.6	0.6
CHF Eq										1	0.8	0.6	0.6
EM Eq											1	0.6	0.5
Gbl PE												1	0.4
Gbl FoHF													1

Risk and Return

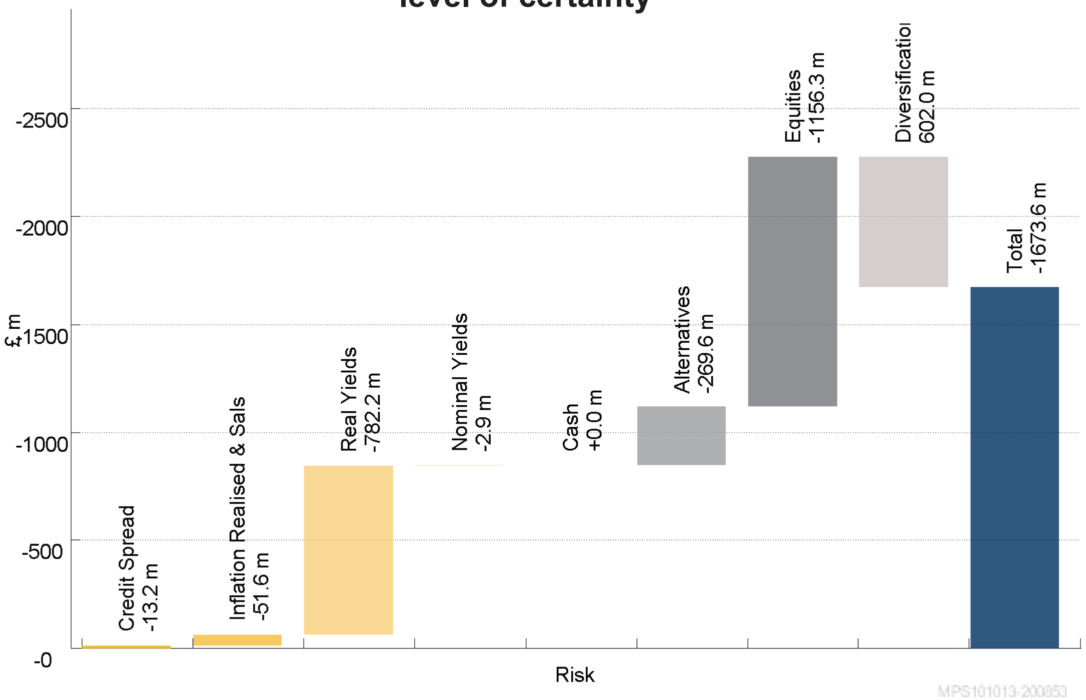


Return

- Investment strategy needs to provide return to support discount rate and recovery plan.
- To what extent will you rely on additional investment returns to reduce deficit?
- Striving for more return means bearing more risk .

Risk and Return

“Maximum” deficit over a specified period with given level of certainty*



* One year Value at Risk at 5% level

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Risk

- Focus on risks relative to liabilities.
- What risks are you most concerned about?
- What is an unacceptable level of risk?
- Where is it most efficient to “spend” your risk?
- Unrewarded versus rewarded risk.

Agenda

- Introduction to setting investment strategy
- What we've modelled
  - Current
  - Extremes
  - Diversification
  - Focus on liability management
- Introduction to flight planning

What we modelled – Liability information

- **Funding position**
  - At 31 March 2013, using the preliminary valuation, the Scheme had a deficit of £2,131m and was 73% funded (discount rate below)
  - We have approximately rolled forward the data used in the 2011 ISR and recalibrated the model to the above liability valuations and discount rate. The model then projects forward from this point
  - At 30 June 2013 assumed funding level was 76% with deficit of £1,777m
- **Actuarial assumptions**
  - Consistent with initial proposed basis for 31 March 2013 valuation
  - Discount rate of long dated gilt yield +1.4% (pre & post) for past service
  - Discount rate of CPI+3.0% (pre & post) for future service
  - Payroll as in valuation report
- **Assumed contributions**
  - Regular employer contributions of 13.90% p.a. (i.e. c. £116m p.a. increasing in line with salary)
  - Plus deficit contributions of £107m p.a. increasing at RPI + 0.5% for 22 years

What we modelled

- Current position
- Impact of changing investment strategy, including
  - Extreme allocations
  - Increasing alternatives while decreasing different asset classes to do so
  - Focus on liability management

Key measures:

- Ongoing funding level and/or deficit volatility at key dates:
  - 1 year
  - 3 years
  - 10 years
  - 22 years
- Value at Risk
- Possible impact on deficit contributions

Agenda

- Introduction to setting an investment strategy
- What we’ve modelled
  - **Current**
  - Extremes
  - Diversification
  - Focus on liability management
- Introduction to flight planning

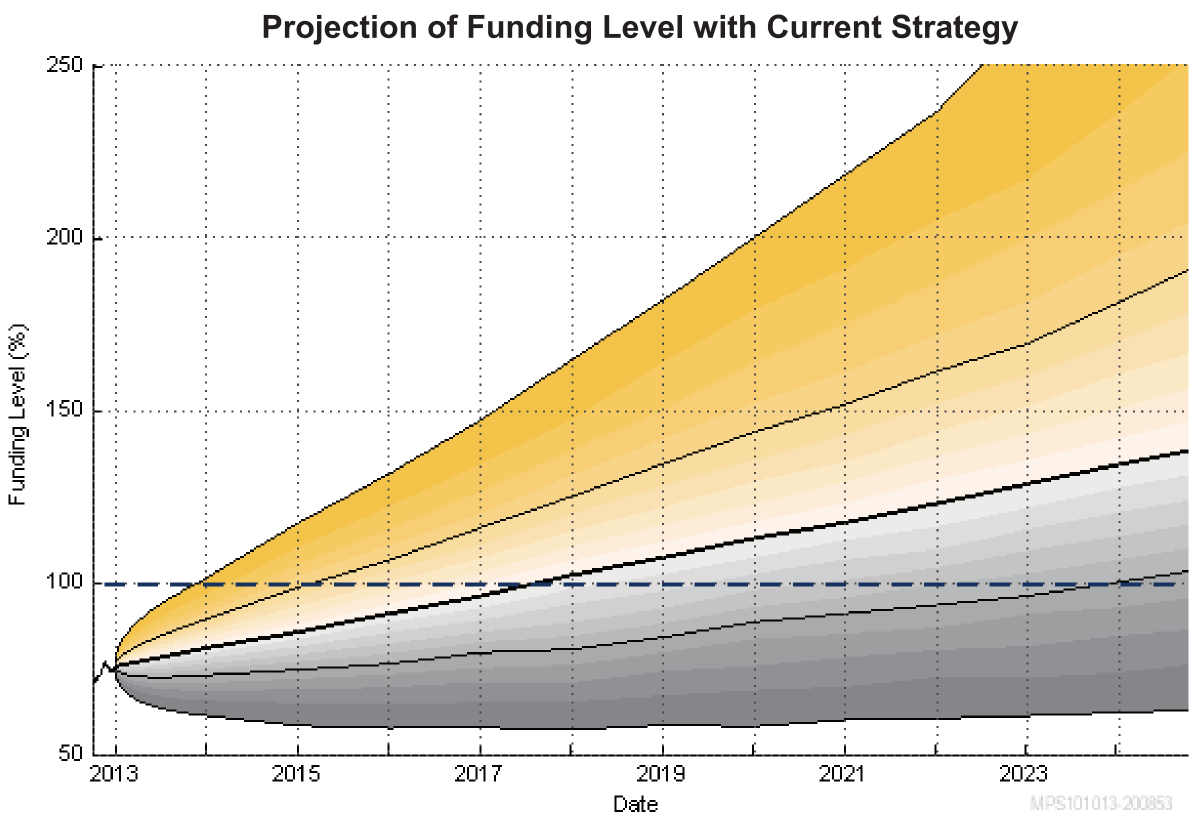
What we modelled - Current investment strategy

	Current portfolio
10 year expected absolute return (median)	8.5%
10 year expected absolute standard deviation	13.5%
10 year expected return above ongoing liabilities (median)	4.0%
10 year expected relative standard deviation	14.1%
1 year 95% Value at risk (VaR)	£1,674m
Probability fully funded by 30/06/2016	36%
Worst case (95th percentile) deficit contribution rate at 30/06/2016	£274m
Probability fully funded by 30/06/2023 (10 yrs)	72%
Worst case (95th percentile) deficit at 30/06/2023 (10 yrs)	£4,351m
Probability fully funded by 30/06/2035 (22 yrs)	90%
Worst case (95th percentile) deficit at 30/06/2035 (22 yrs)	£4,764m

Asset	Benchmark
UK Equities	**25**
Overseas Equities	**30**
US Equities	8
European Equities	8
Japan	4
Pacific	4
Emerging Markets	6
Fixed Interest	**20**
UK Gilits	0
Overseas Gilits	0
UK Index Linked	12
Unconstrained Bonds	8
Corporate Bonds	0
Property	**10**
Alternatives	**14**
Private Equity	4
Hedge Funds	5
Thematics Fund of Funds	3
Infrastructure	2
Cash	**1**
TOTAL	**100**

Source: Merseyside Pension Fund SIP 2010

Risk analysis – Current Investment Strategy

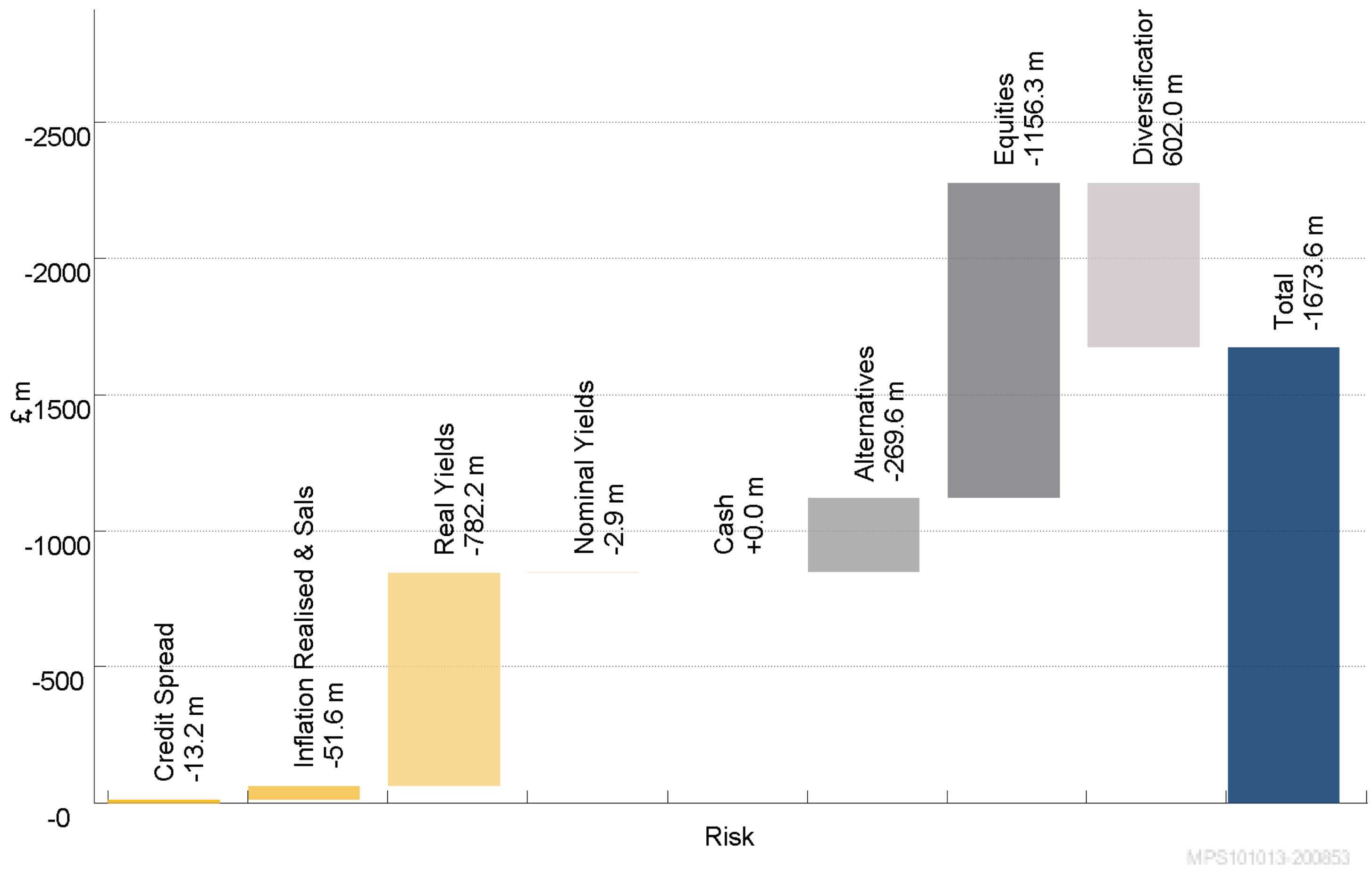


Asset	Benchmark
Equities	55
Fixed Interest	20
Property	10
Alternatives	14
Cash	1
TOTAL	100

10yr expected relative return	4.0%
10yr expected standard deviation of relative return	14.1%

Risk analysis – Current Investment Strategy

1 Year VaR (at 5% level) with Current Strategy

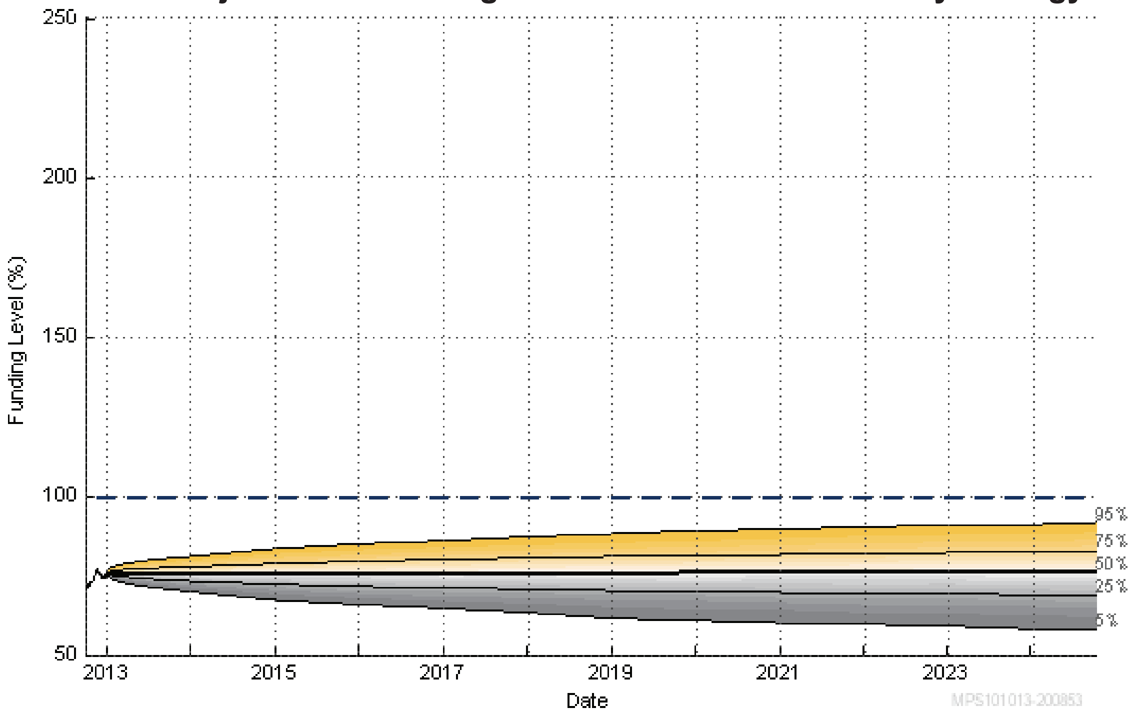


Agenda

- Introduction to setting an investment strategy
- What we've modelled
  - Current
  - **Extremes**
  - Diversification
  - Focus on liability management
- Introduction to flight planning

Extreme – 100% allocation to best matching gilt portfolio

Projection of Funding Level with Fixed Income only strategy

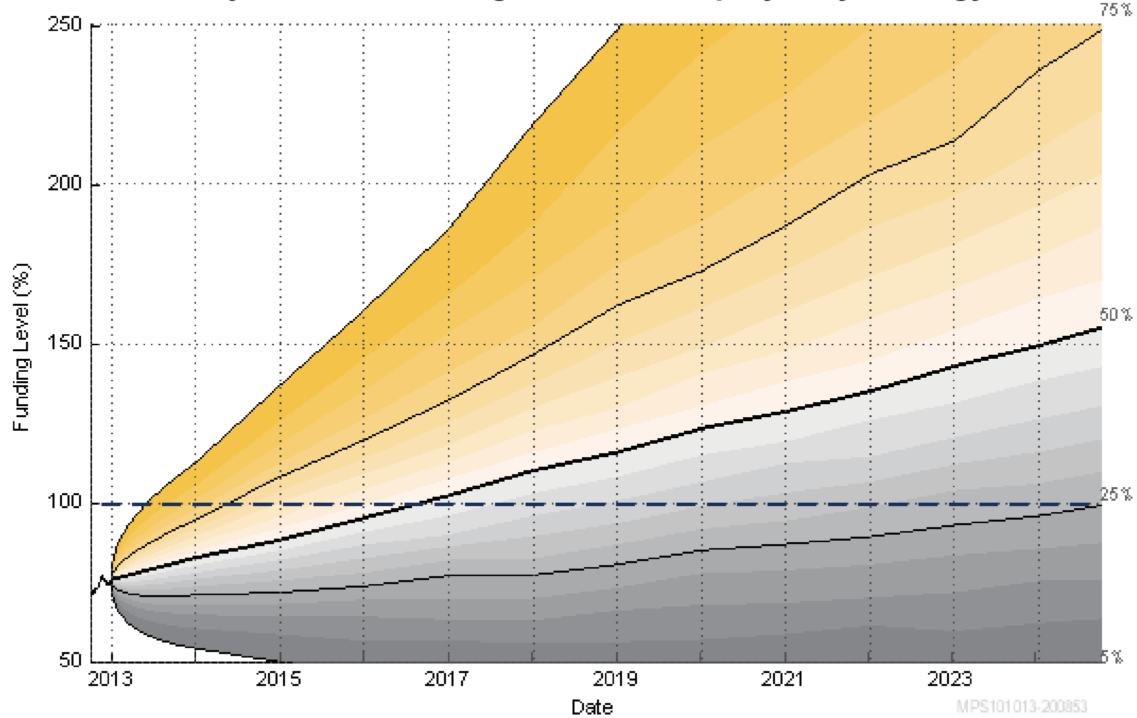


Asset	Benchmark
Equities	0
Fixed Interest	100
Property	0
Alternatives	0
Cash	0
TOTAL	100

10yr expected relative return	-1.5%
10yr expected standard deviation of relative return	5.1%

Extreme – 100% allocation to equities

Projection of Funding Level with Equity only strategy



Asset	Benchmark
Equities	100
Fixed Interest	0
Property	0
Alternatives	0
Cash	0
TOTAL	100

10yr expected relative return 5.1%

10yr expected standard deviation of relative return 21.0%

Summary Metrics

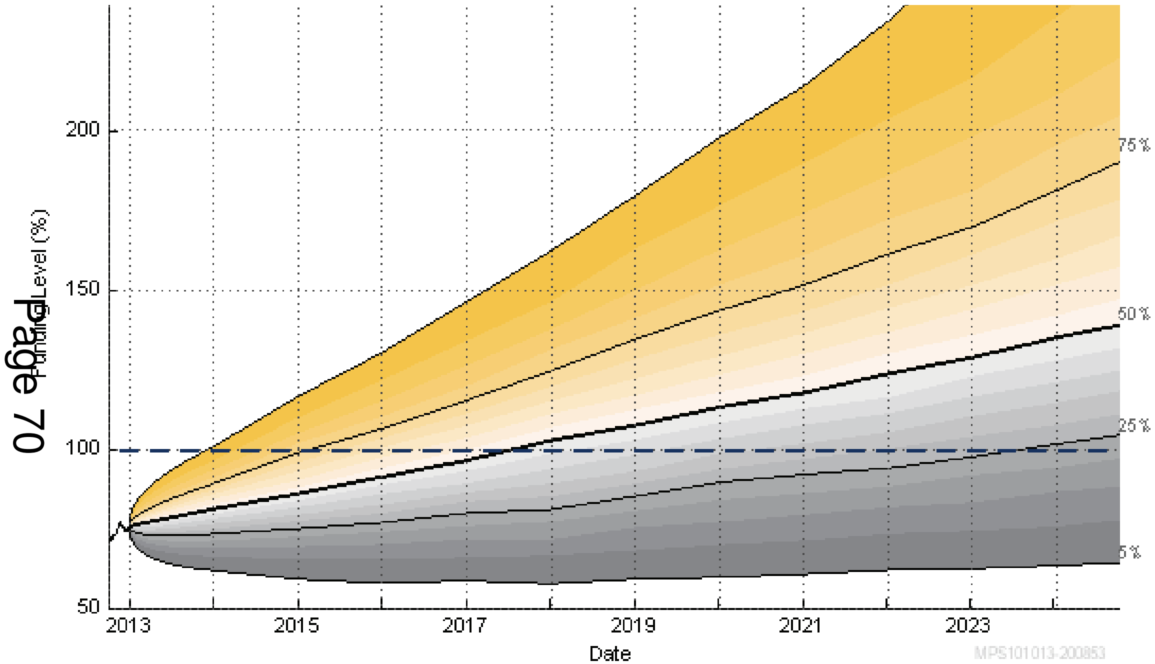
	Current portfolio	100% matching	100% equity
10 year expected absolute return (median)	8.5%	2.7%	9.7%
10 year expected absolute standard deviation	13.5%	11.1%	20.5%
10 year expected return above ongoing liabilities (median)	4.0%	-1.5%	5.1%
10 year expected relative standard deviation	14.1%	5.1%	21.0%
1 year 95% Value at risk (VaR)	£1,674m	£201m	£2,325m
Probability fully funded by 30/06/2016	36%	0%	45%
Worst case (95th percentile) deficit contribution rate at 30/06/2016	£274m	£208m	£334m
Probability fully funded by 30/06/2023 (10 yrs)	72%	0%	72%
Worst case (95th percentile) deficit at 30/06/2023 (10 yrs)	£4,351m	£3,639m	£5,954m
Probability fully funded by 30/06/2035 (22 yrs)	90%	4%	85%
Worst case (95th percentile) deficit at 30/06/2023 (10 yrs)	£4,764m	NA	£8,813m

Agenda

- Introduction to setting an investment strategy
- What we've modelled
  - Current
  - Extremes
  - **Diversification**
  - Focus on liability management
- Introduction to flight planning

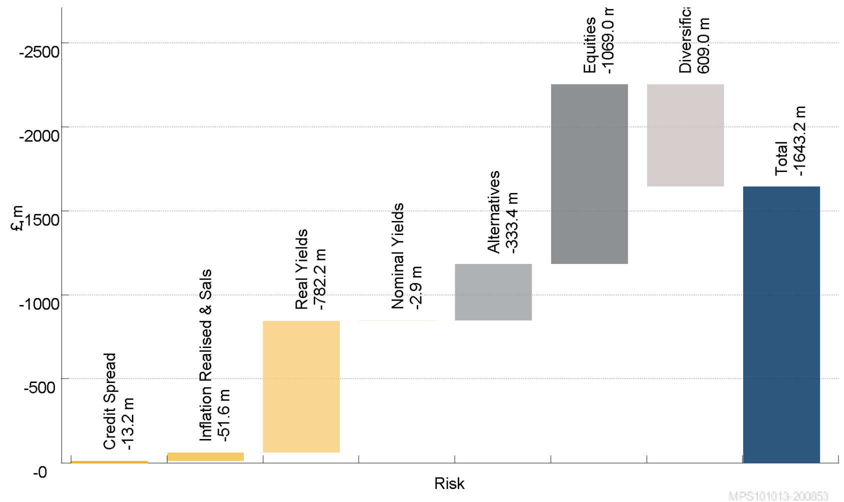
Increasing Alternatives – Allocation reduced from equities and cash

Projection of Funding Level with alternatives increased to 20% (5% from Equity, 1% from Cash)



Asset	Benchmark
Equities	50
Fixed Interest	20
Property	10
Alternatives	20
Private Equity	5
Hedge Funds	5
Thematics	5
Infrastructure	5
Cash	0
TOTAL	**100**

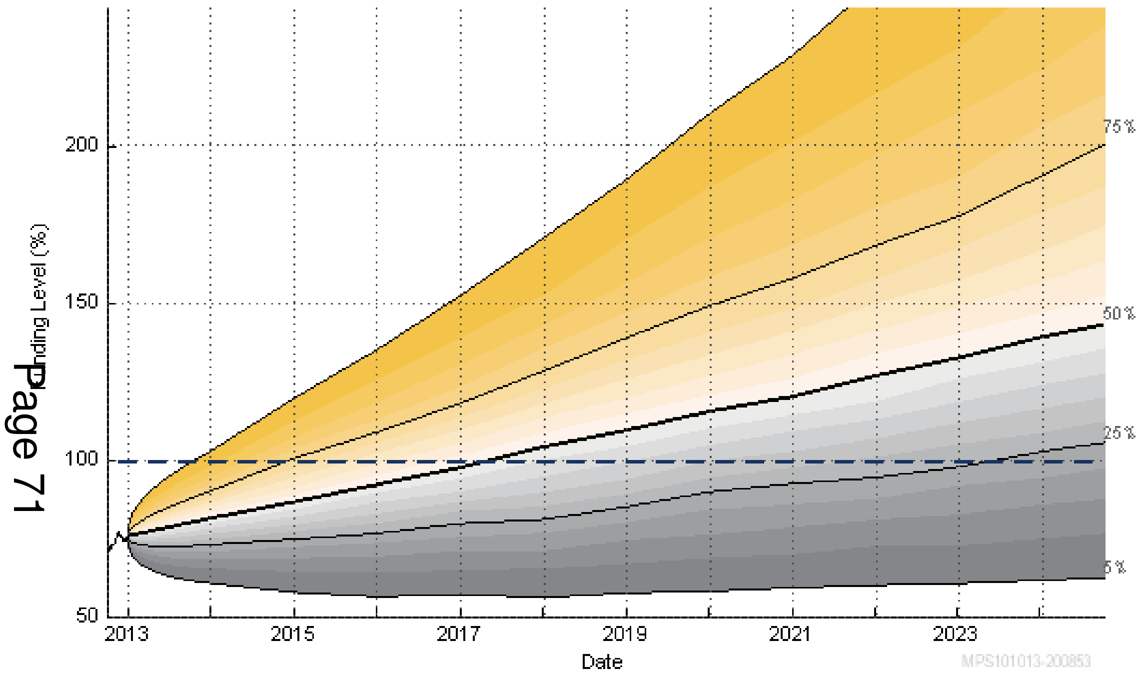
1 Year VaR (at 5% level) with alternatives increased to 20% (5% from Equity, 1% from Cash)



10yr expected relative return	3.9%
10yr expected standard deviation of relative return	13.9%

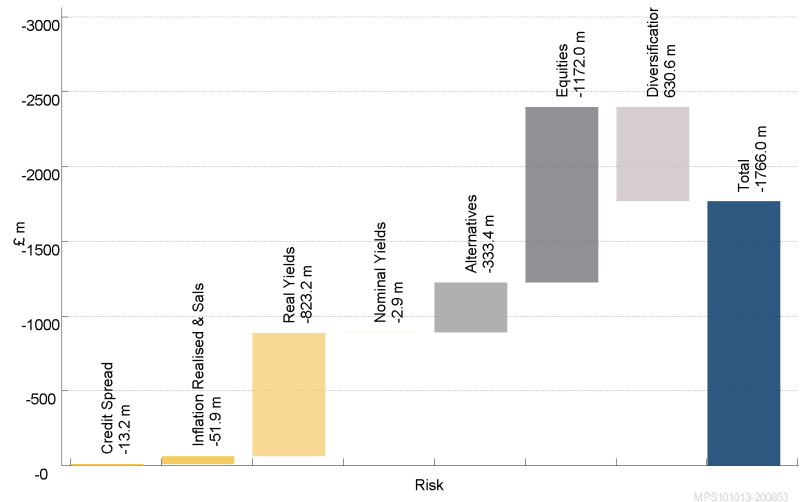
Increasing Alternatives – Allocation reduced from ILG and cash

Projection of Funding Level with alternatives increased to 20% (5% from ILG, 1% from Cash)



Asset	Benchmark
Equities	55
Fixed Interest	15
Property	10
Alternatives	20
Private Equity	5
Hedge Funds	5
Thematics	5
Infrastructure	5
Cash	0
TOTAL	**100**

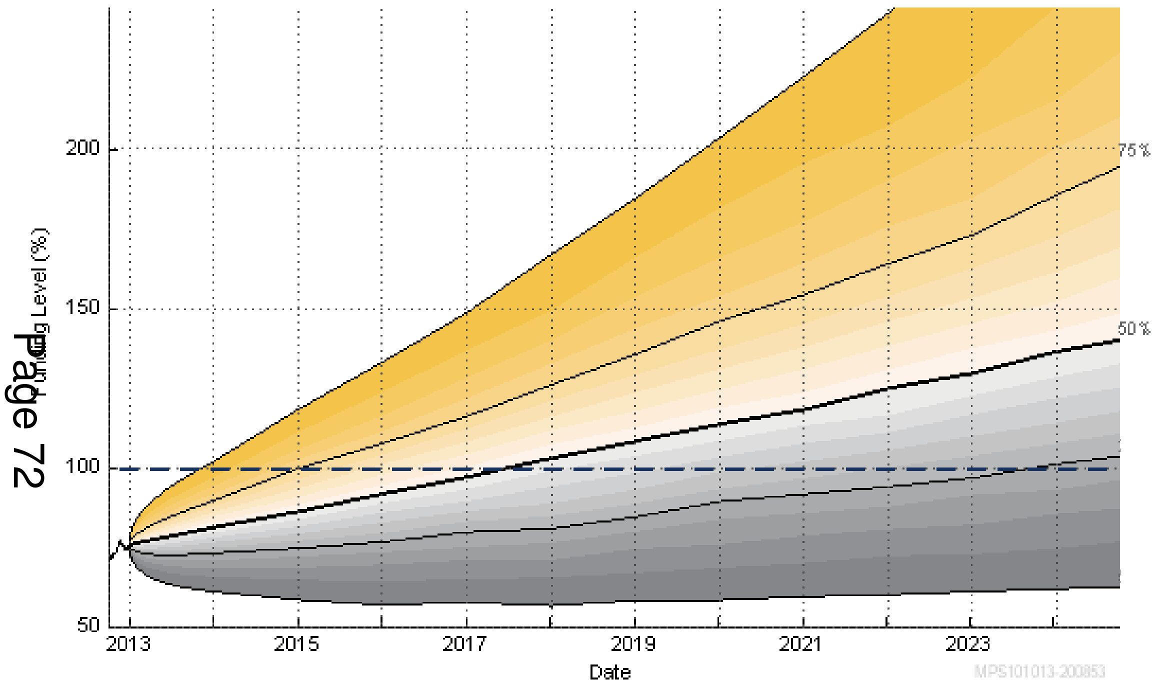
1 Year VaR (at 5% level) with alternatives increased to 20% (5% from ILG, 1% from Cash)



10yr expected relative return	4.3%
10yr expected standard deviation of relative return	15.0%

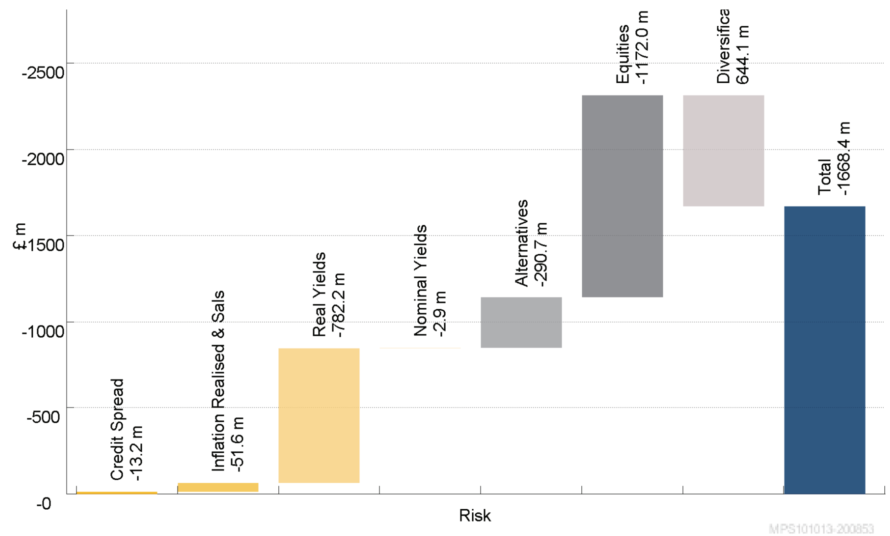
Increasing Alternatives – Allocation reduced from property and cash

Projection of Funding Level with alternatives increased to 20% (5% from Property, 1% from Cash)



Asset	Benchmark
Equities	55
Fixed Interest	20
Property	5
Alternatives	20
Private Equity	5
Hedge Funds	5
Thematics	5
Infrastructure	5
Cash	0
Total	100

1 Year VaR (at 5% level) with alternatives increased to 20% (5% from Property, 1% from Cash)



10yr expected relative return	4.1%
10yr expected standard deviation of relative return	14.5%

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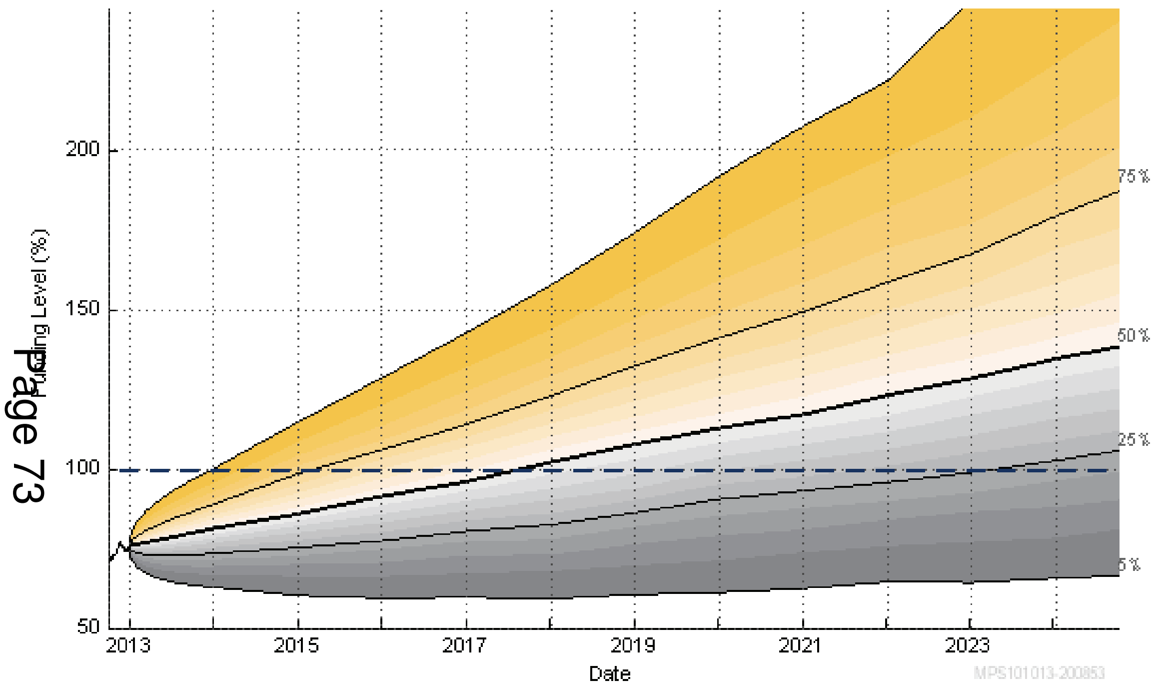
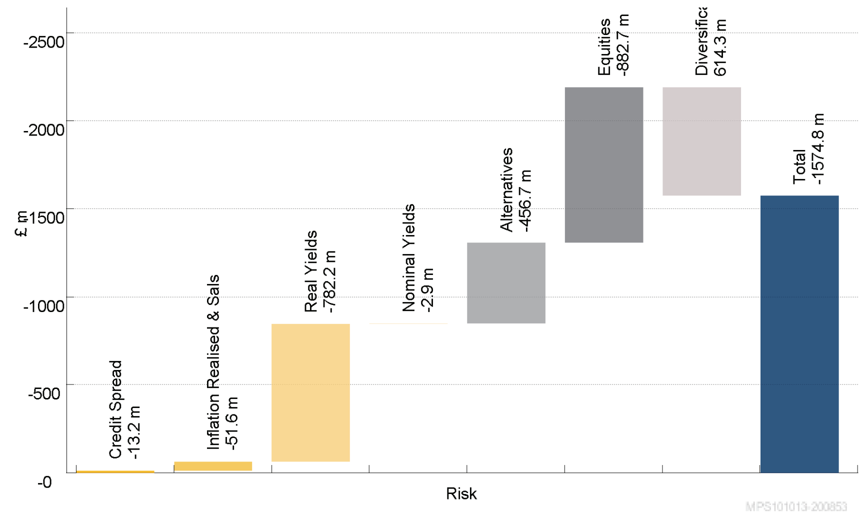
Increasing Alternatives – Alternatives increased to 30%, from equities and cash

Projection of Funding Level with alternatives increased to 30% (15% from Equity , 1% from Cash)



Asset	Benchmark
Equities	40
Fixed Interest	20
Property	10
Alternatives	30
Private Equity	7.5
Hedge Funds	7.5
Thematics	7.5
Infrastructure	7.5
Cash	0
TOTAL	**100**

1 Year VaR (at 5% level) with alternatives increased to 30% (15% from Equity , 1% from Cash)



10yr expected relative return	4.0%
10yr expected standard deviation of relative return	13.3%

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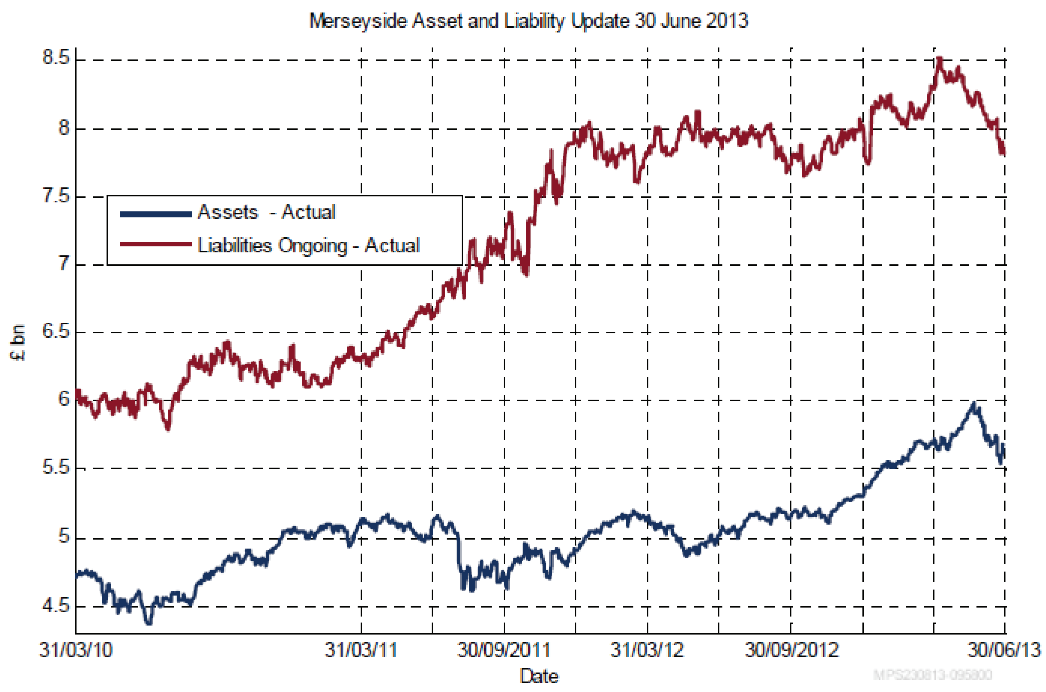
Summary Metrics – increasing alternatives

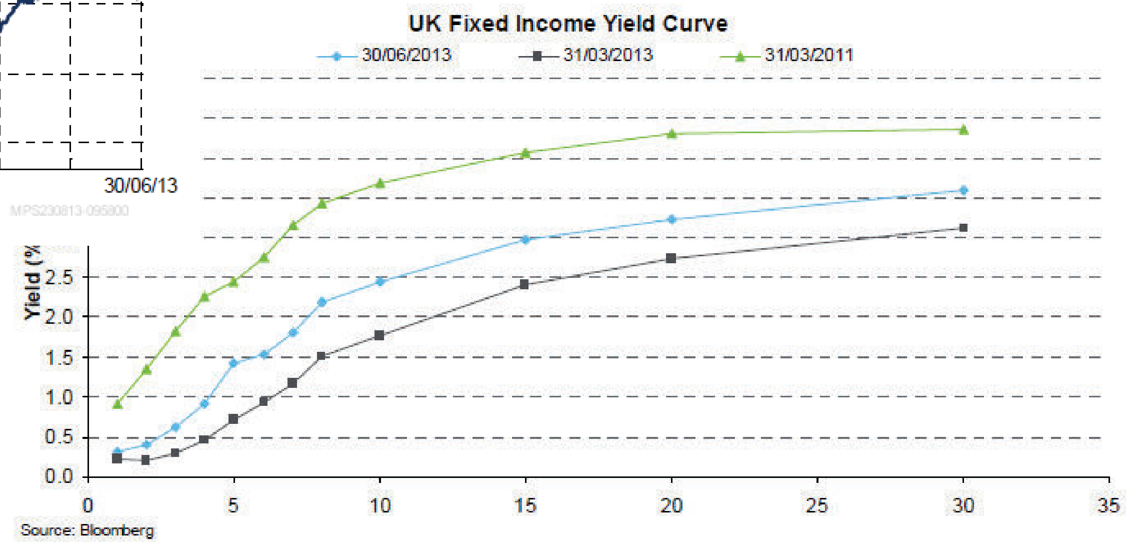
	Current Portfolio	Cash and then Equities	Cash and then ILG	Cash and then Property	Alternatives 30%
10 year expected absolute return (median)	8.5%	8.6%	8.9%	8.7%	8.6%
10 year expected absolute standard deviation	13.5%	13.2%	14.2%	13.9%	12.5%
10 year expected return above ongoing liabilities (med)	4.0%	3.9%	4.3%	4.1%	4.0%
10 year expected relative standard deviation	14.1%	13.9%	15.0%	14.5%	13.3%
1 year 95% Value at risk (VaR)	£1,674m	£1,643m	£1,766m	£1,668m	£1570m
Prob. fully funded 30/06/2016	36%	36%	38%	37%	36%
Worst case (95th percentile) deficit contribution rate at 30/06/2016	£274m	£270m	£279m	£277m	£260m
Prob fully funded 30/06/2023 (10 yrs)	72%	73%	73%	73%	74%
Worst case (95th percentile) deficit at 30/06/2023	£4,351m	£4,184m	£4,374m	£4,364m	£3,930m
Prob fully funded 30/06/2035 (22 yrs)	90%	90%	90%	90%	92%
Worst case (95th percentile) deficit at 30/06/2035	£4,764m	£3,913m	£4,307m	£4,590m	£2,873m

Agenda

- Introduction to setting an investment strategy
- What we've modelled
  - Current
  - Extremes
  - Diversification
  - **Focus on liability management**
- Introduction to flight planning

Focus on liability management





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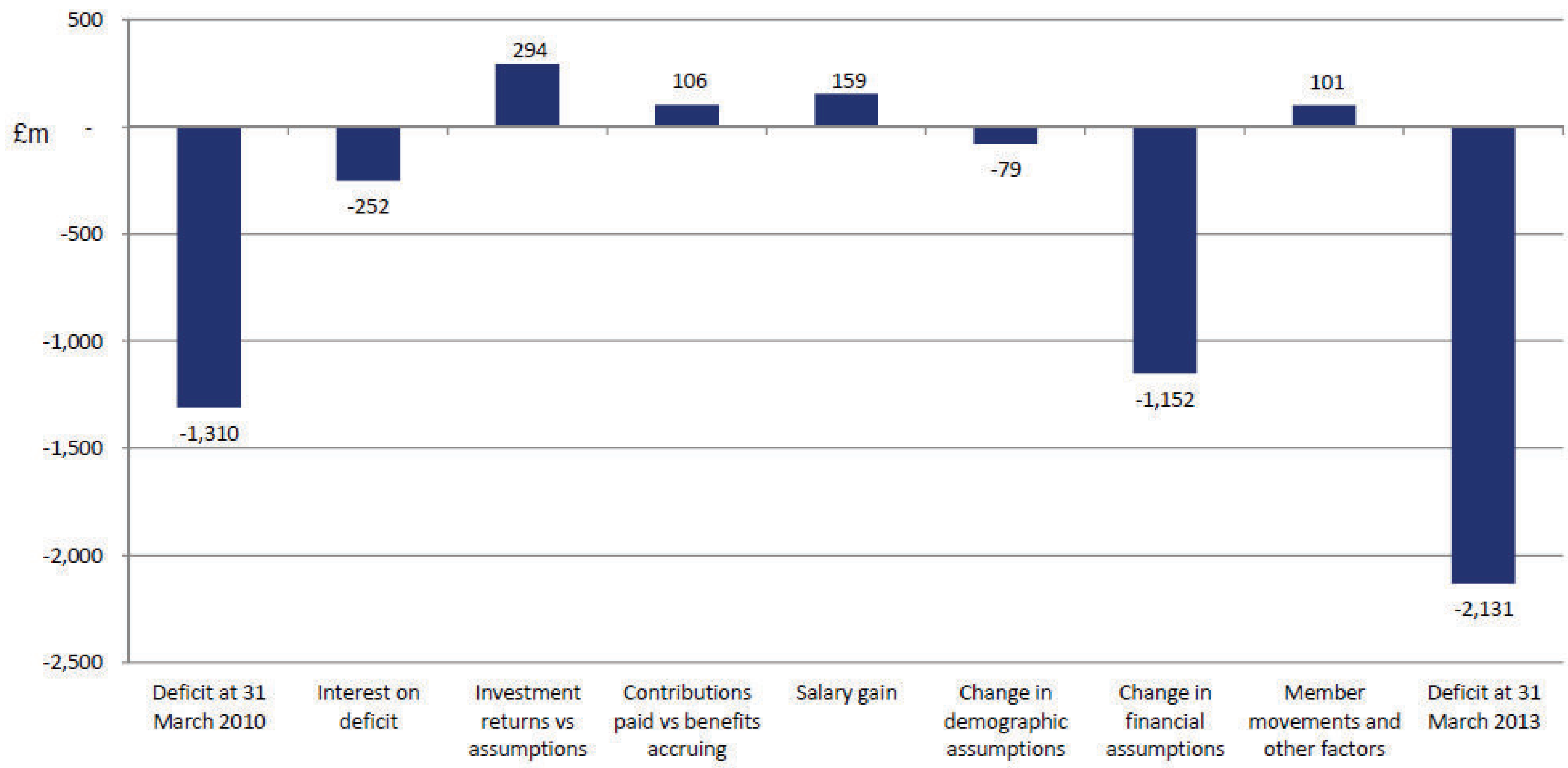
Analysis of change in baseline position for past service

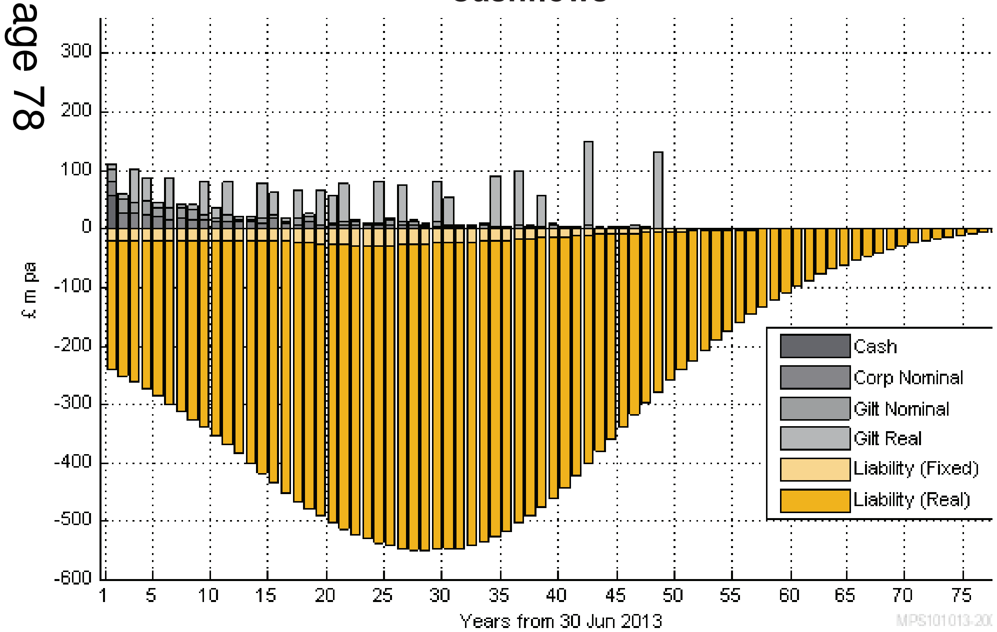


Source: Mercer

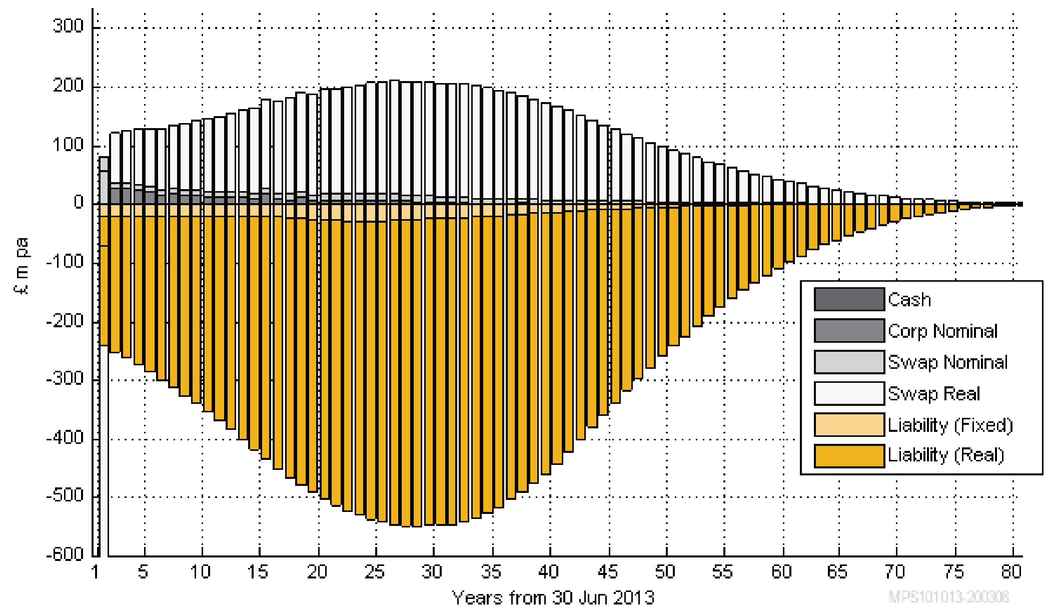
Matching Assets

- The Fund's matching assets (i.e. index-linked gilts and bonds) change in value in a similar way to the liabilities, i.e:
  - Gilt yields fall = liabilities rise
  - Inflation rises = liabilities rise
- It is common amongst corporate pension funds to use derivatives to more efficiently match the movement of the liabilities and assets
  - This is know as Liability Driven Investment (LDI)

Cashflows from bonds within Current Strategy versus Liability Cashflows



Cashflows when LDI used in strategy versus Liability Cashflows



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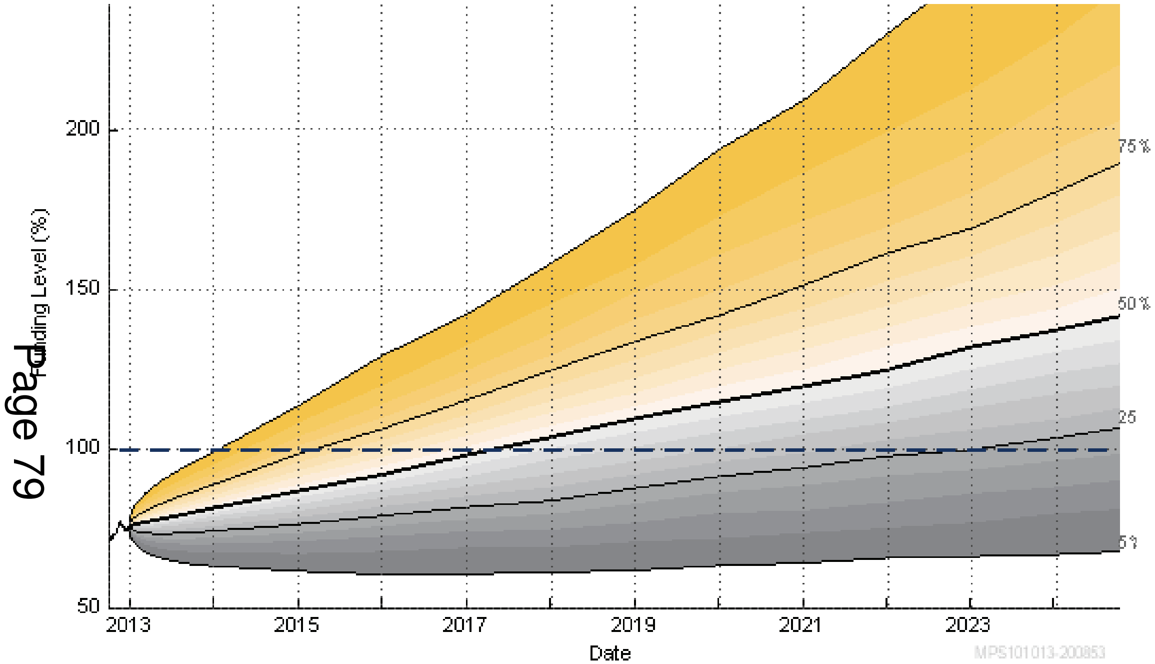
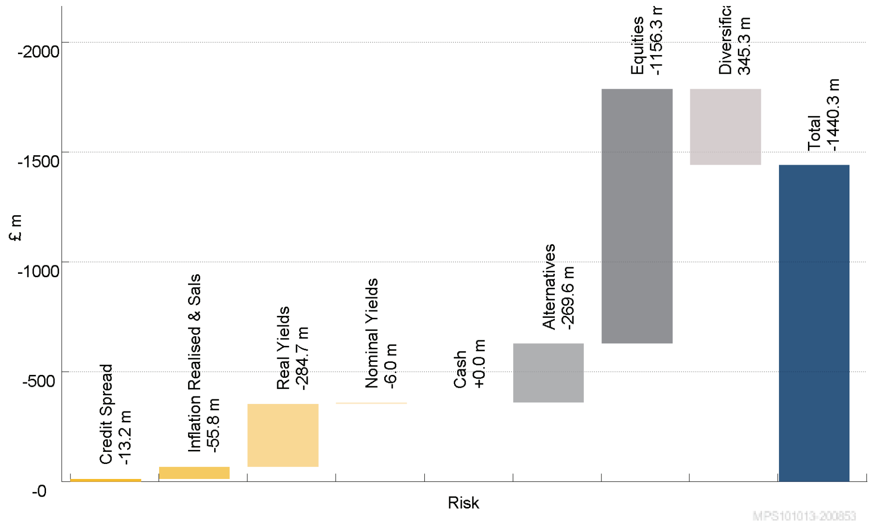
Risk analysis – Using derivatives to match changes in liability values

Projection of Funding Level with LDI Strategy (16% Bonds to LDI using gearing of 4x, hence 64% hedging)



Asset	Benchmark
Equities	55
Fixed Interest	4
LDI	16
Property	10
Alternatives	14
Private Equity	4
Hedge Funds	5
Thematics	3
Infrastructure	2
Cash	1
TOTAL	**100**

1 Year VaR (at 5% level) with LDI Strategy (16% Bonds to LDI using gearing of 4x, hence 64% hedging)



10yr expected relative return 4.2%

10yr expected standard deviation of relative return 13.1%

Summary Metrics – LDI

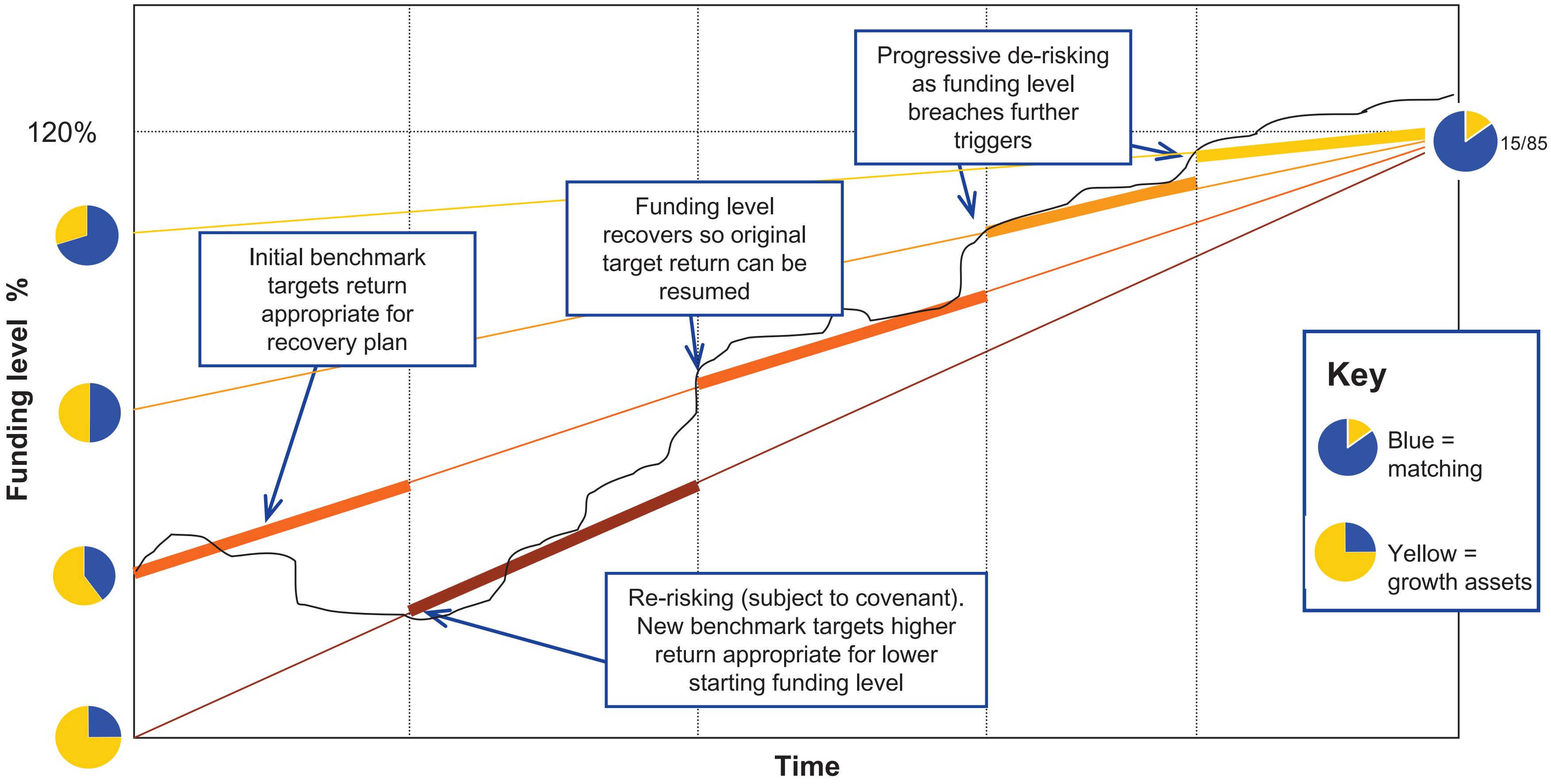
	Current portfolio	Existing Gilt and ILG holdings to LDI
10 year expected absolute return (median)	8.5%	8.9%
10 year expected absolute standard deviation	13.5%	14.2%
10 year expected return above ongoing liabilities (median)	4.0%	4.2%
10 year expected relative standard deviation	14.1%	13.1%
1 year 95% Value at risk (VaR)	£1,674m	£1,440m
Probability fully funded by 30/06/2016	36%	35%
Worst case (95th percentile) deficit contribution rate at 30/06/2016	£274m	£246m
Probability fully funded by 30/06/2023 (10 yrs)	72%	75%
Worst case (95th percentile) deficit at 30/06/2016	£4,351m	£3,606m
Probability fully funded by 30/06/2035 (22 yrs)	90%	91%
Worst case (95th percentile) deficit at 30/06/2016	£4,764m	£3,310m

Agenda

- Introduction to setting an investment strategy
- What we've modelled
  - Current
  - Extremes
  - Diversification
  - Focus on liability management
- Introduction to flight planning

Flight plan – responding to actual experience

- Consider a plan to lock in gains as funding level improves
  - Bear in mind long term objective and link between investment strategy and discount rate
  - Also consider process for switching assets



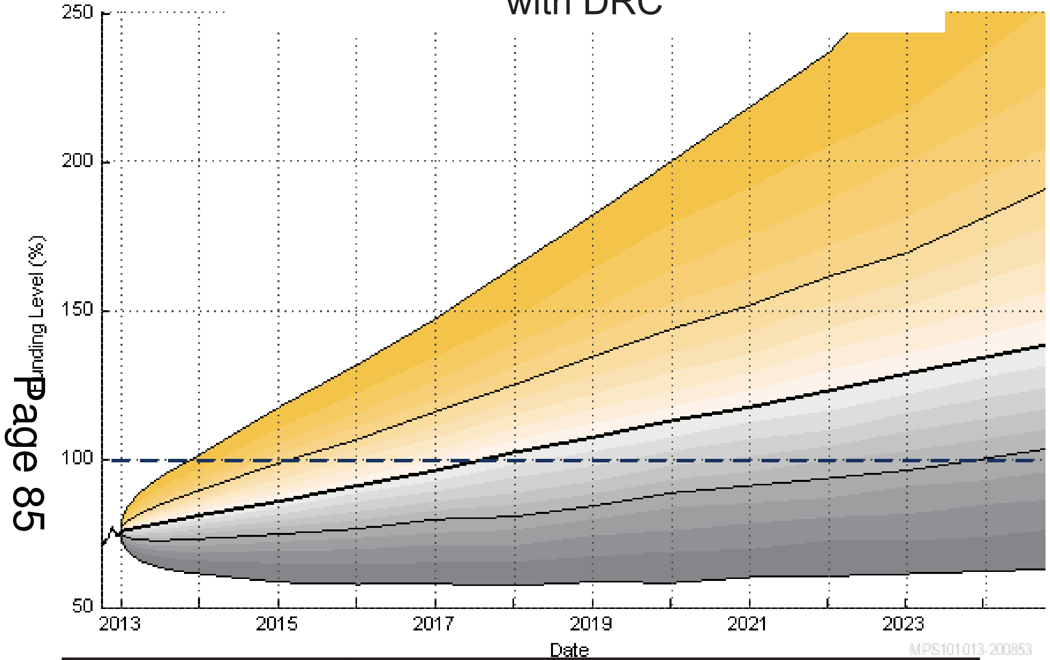
Next steps

- Discuss and decide future investment strategy
- Move from current investment strategy to future investment strategy
  - Possibly using medium term asset allocation framework
- Is more training required on Liability Driven Investment (LDI) and Flight planning?

Appendix

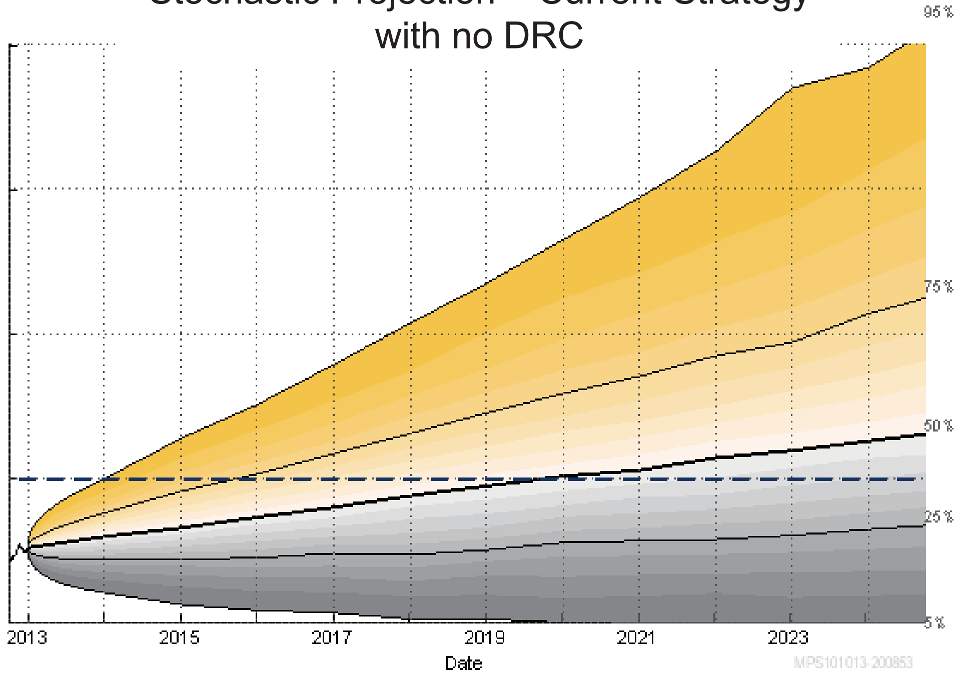
Funding level projections – current and no deficit repair contributions

Stochastic Projection – Current Strategy with DRC



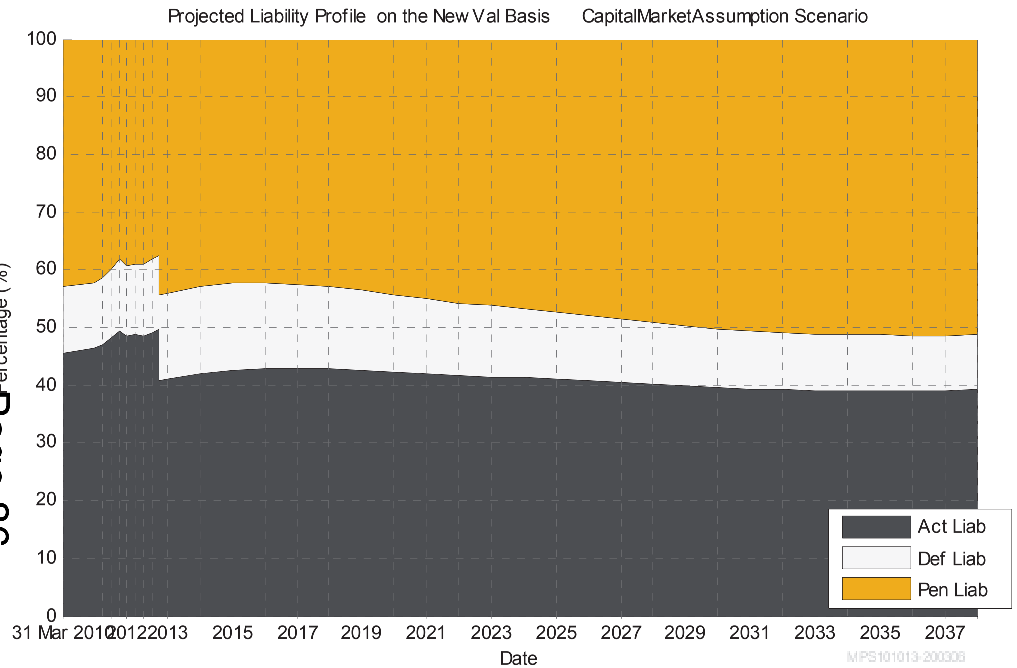
	2016	2023	2035
Probability of funded	36%	72%	90%
95th Deficit	£3,719m	£4,351m	£4,764m

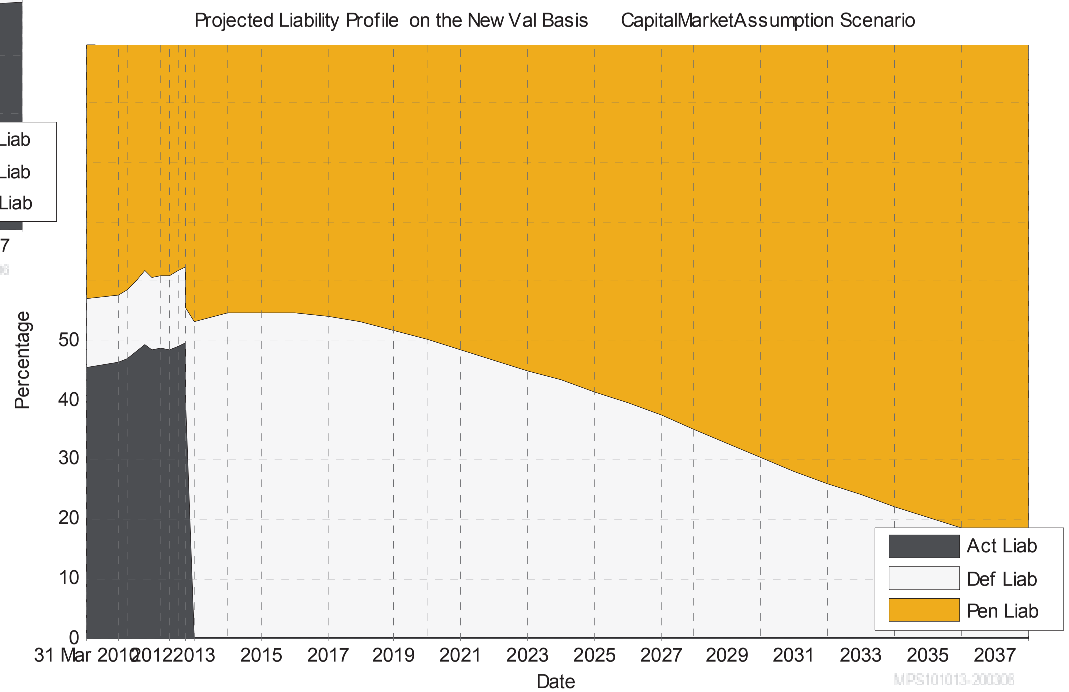
Stochastic Projection – Current Strategy with no DRC



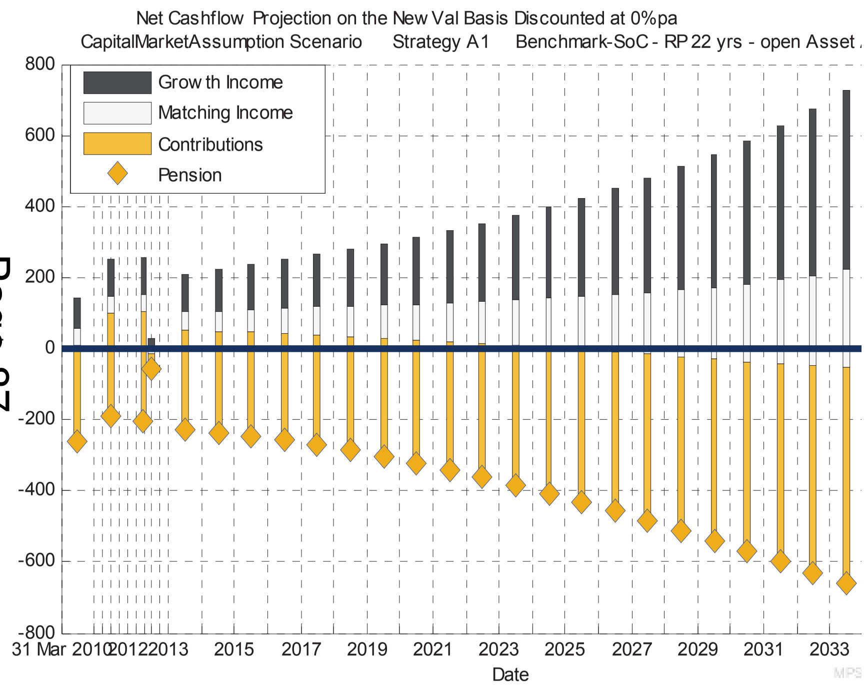
	2016	2023	2035
Probability of funded	28%	58%	75%
95th Deficit	£4,039m	£5,739m	£11,931m

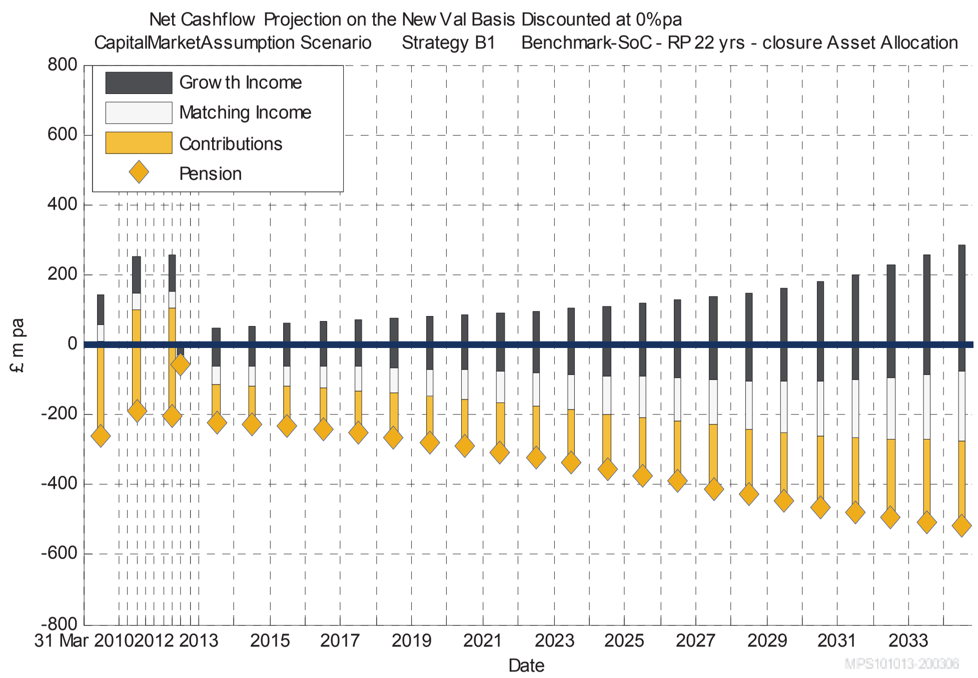
Your projected liability profile current or closed to future accrual





Cashflow projections – current and closed to future accrual





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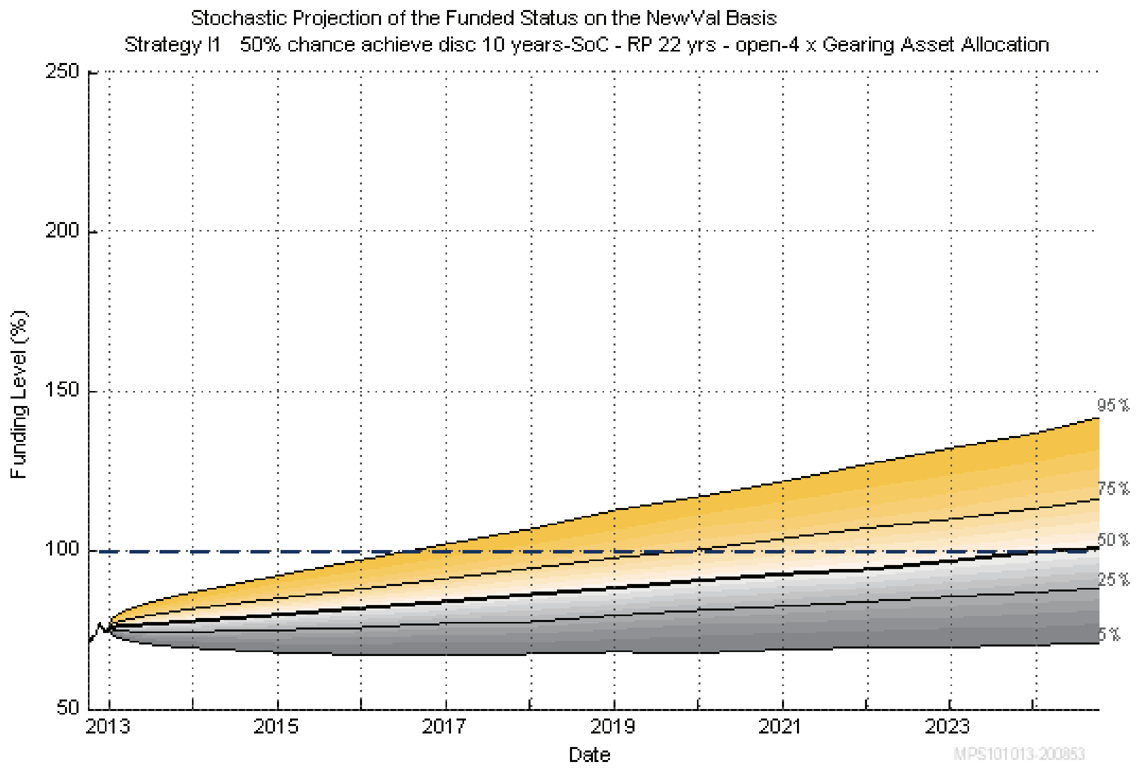
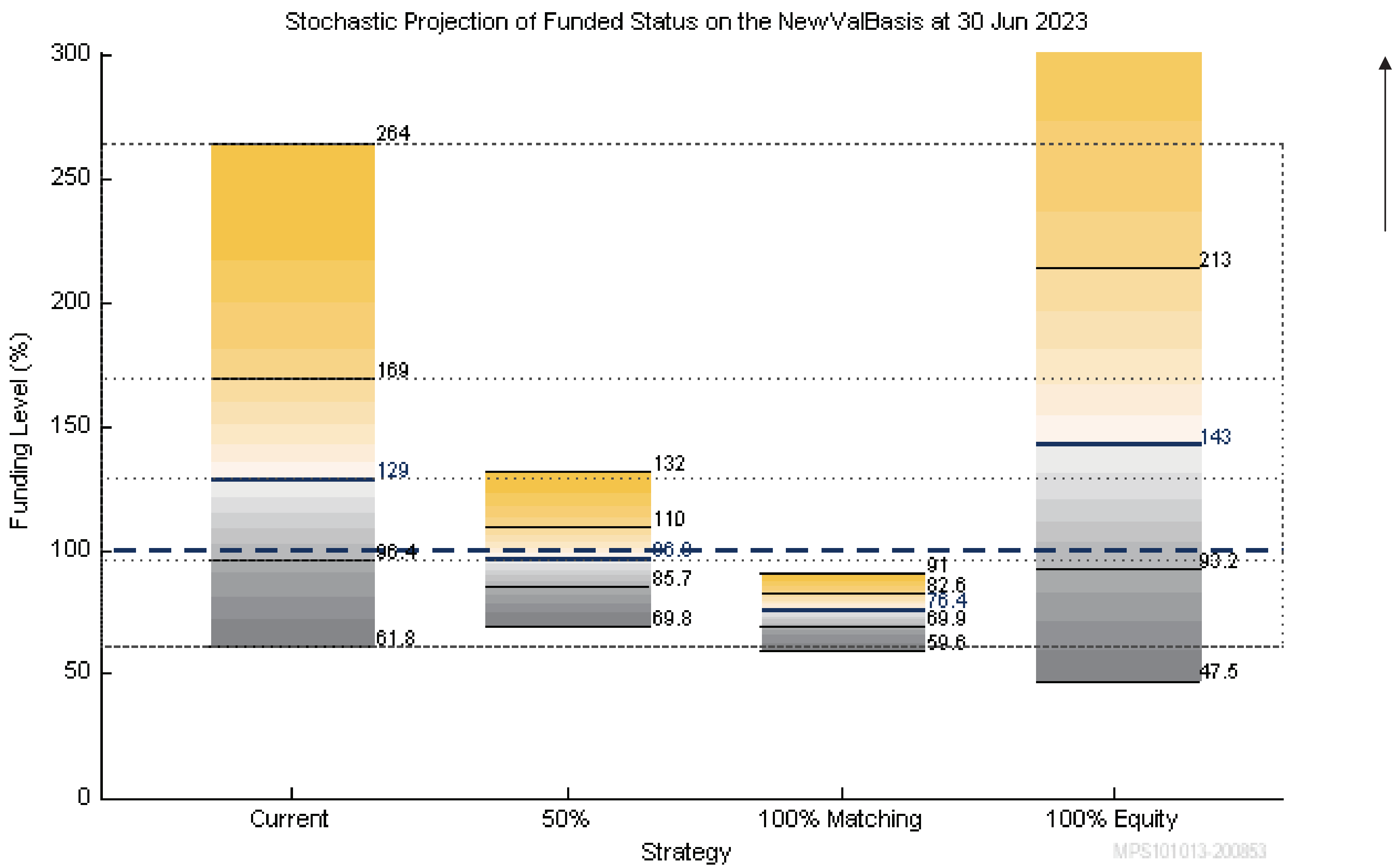
Extreme – 50% chance of being fully funded in 10 years



Asset	Benchmark
Equities	22
Fixed Interests	65
Property	4
Alternatives	6
Cash	3
Total	100

10yr expected relative return	1.0%
10yr expected standard deviation of relative return	5.9%

Projected funding level comparison in 10 years



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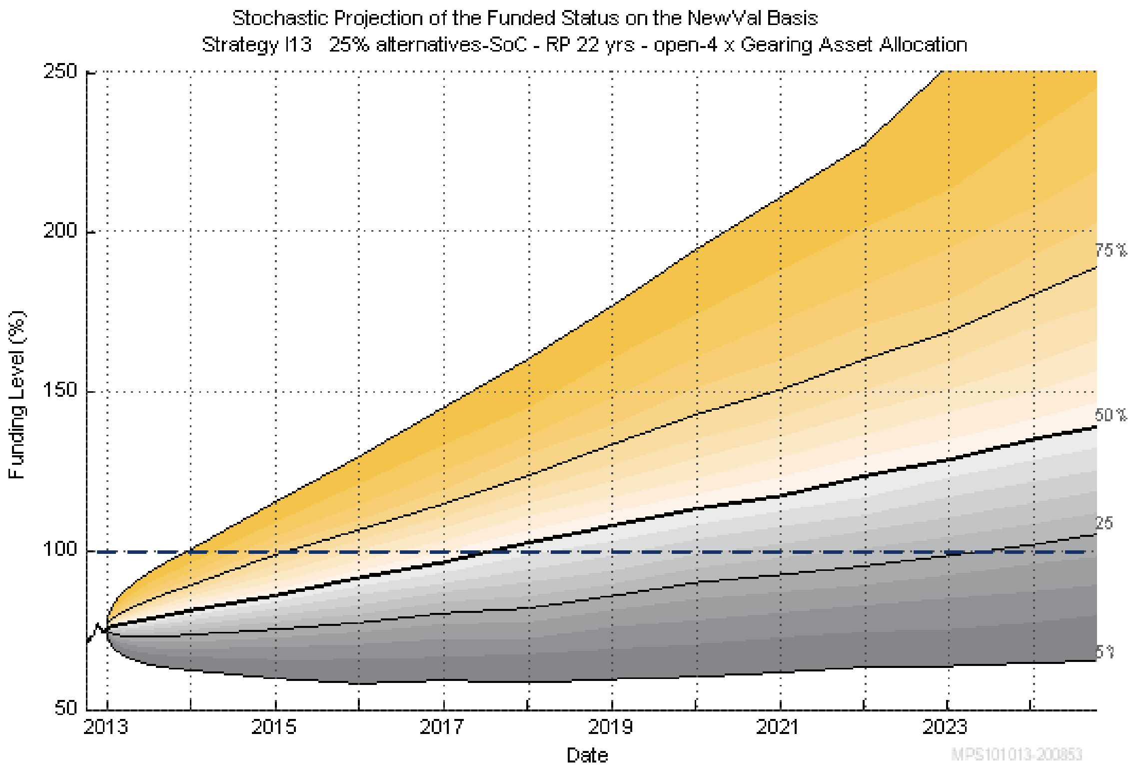
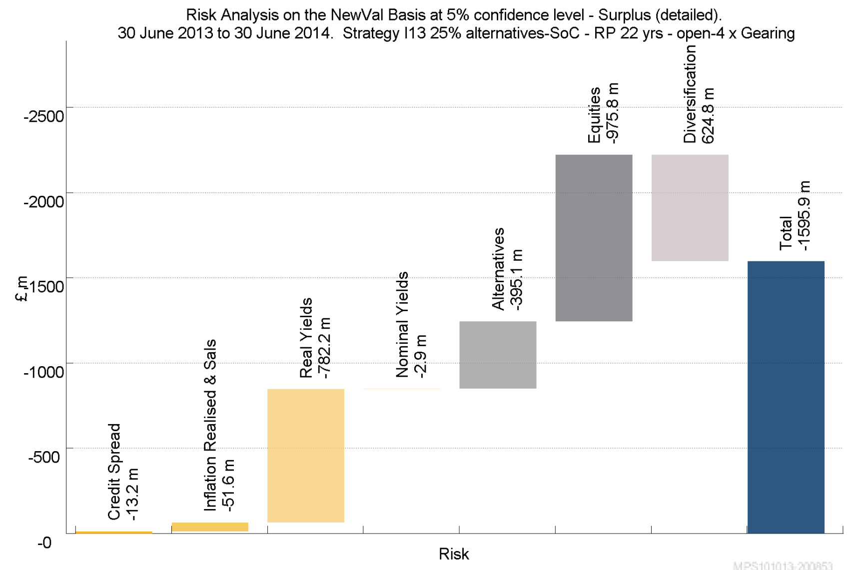
Extremes - Summary Metrics

	Current portfolio	100% matching	100% equity	50% chance of fully funded in 10 yrs
10 year expected absolute return (median)	8.5%	2.7%	9.7%	5.4%
10 year expected absolute standard deviation	13.5%	11.1%	20.5%	6.6%
10 year expected return above ongoing liabilities (median)	4.0%	-1.5%	5.1%	1.0%
10 year expected relative standard deviation	14.1%	5.1%	21.0%	5.9%
1 year 95% Value at risk (VaR)	£1,674m	£201m	£2,325m	£841m
Probability fully funded by 30/06/2016	36%	0%	45%	3%
Worst case (95th percentile) deficit contribution rate at 30/06/2016	£274m	£208m	£334m	£222m
Probability fully funded by 30/06/2023 (10 yrs)	72%	0%	72%	43%
Worst case (95th percentile) deficit at 30/06/2023 (10 yrs)	£4,351m	£3,639m	£5,954m	£3,540m
Probability fully funded by 30/06/2035 (22 yrs)	90%	4%	85%	80%
Worst case (95th percentile) deficit at 30/06/2023 (10 yrs)	£4,764m	NA	£8,813m	£4,654m

Increasing Alternatives – Alternatives increased to 25%, from equities and cash



Asset	Benchmark
Equities	45
Fixed Interest	20
Property	10
Alternatives	25
Private Equity	6.25
Hedge Funds	6.25
Thematics	6.25
Infrastructure	6.25
Cash	0
TOTAL	**100**



10yr expected relative return	3.9%
10yr expected standard deviation of relative return	13.6%

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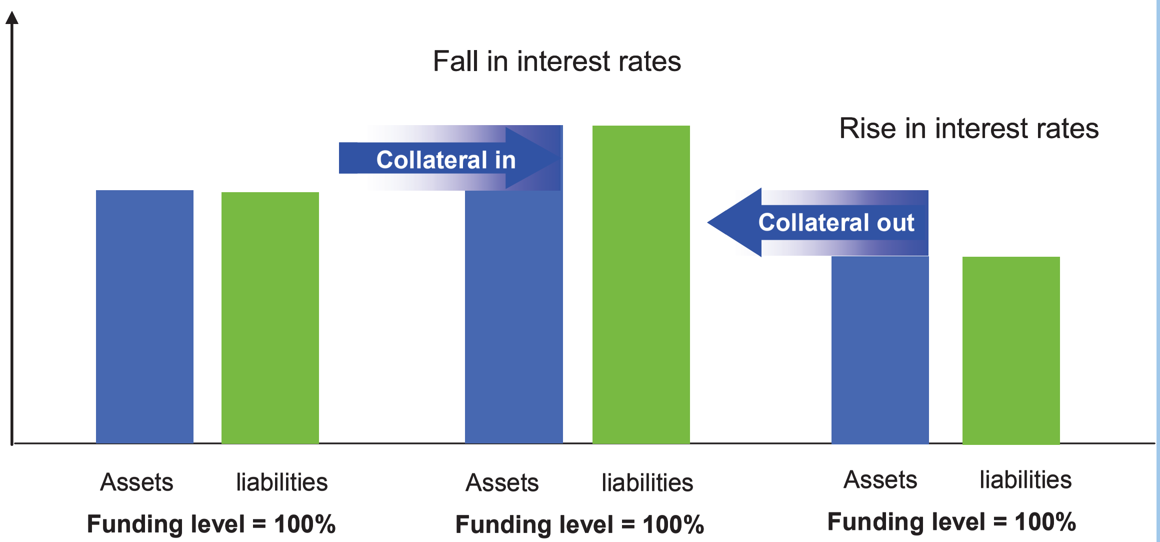
Summary Metrics – increasing alternatives

	Current Portfolio	Cash and then Equities	Cash and then ILG	Cash and then Property	Alternatives 25%	Alternatives 30%
10 year expected absolute return (median)	8.5%	8.6%	8.9%	8.7%	8.6%	8.6%
10 year expected absolute standard deviation	13.5%	13.2%	14.2%	13.9%	12.9%	12.5%
10 year expected return above ongoing liabilities (med)	4.0%	3.9%	4.3%	4.1%	3.9%	4.0%
10 year expected relative standard deviation	14.1%	13.9%	15.0%	14.5%	13.6%	13.3%
1 year 95% Value at risk (VaR)	£1,674m	£1,643m	£1,766m	£1,668m	£1,596m	£1570m
Prob. fully funded 30/06/2016	36%	36%	38%	37%	36%	36%
Worst case (95th percentile) deficit contribution rate at 30/06/2016	£274m	£270m	£279m	£277m	£265m	£260m
Prob fully funded 30/06/2023 (10 yrs)	72%	73%	73%	73%	74%	74%
Worst case (95th percentile) deficit at 30/06/2023	£4,351m	£4,184m	£4,374m	£4,364m	£4,019m	£3,930m
Prob fully funded 30/06/2035 (22 yrs)	90%	90%	90%	90%	91%	92%
Worst case (95th percentile) deficit at 30/06/2035	£4,764m	£3,913m	£4,307m	£4,590m	£3,273m	£2,873m

Reducing the volatility of the funding level

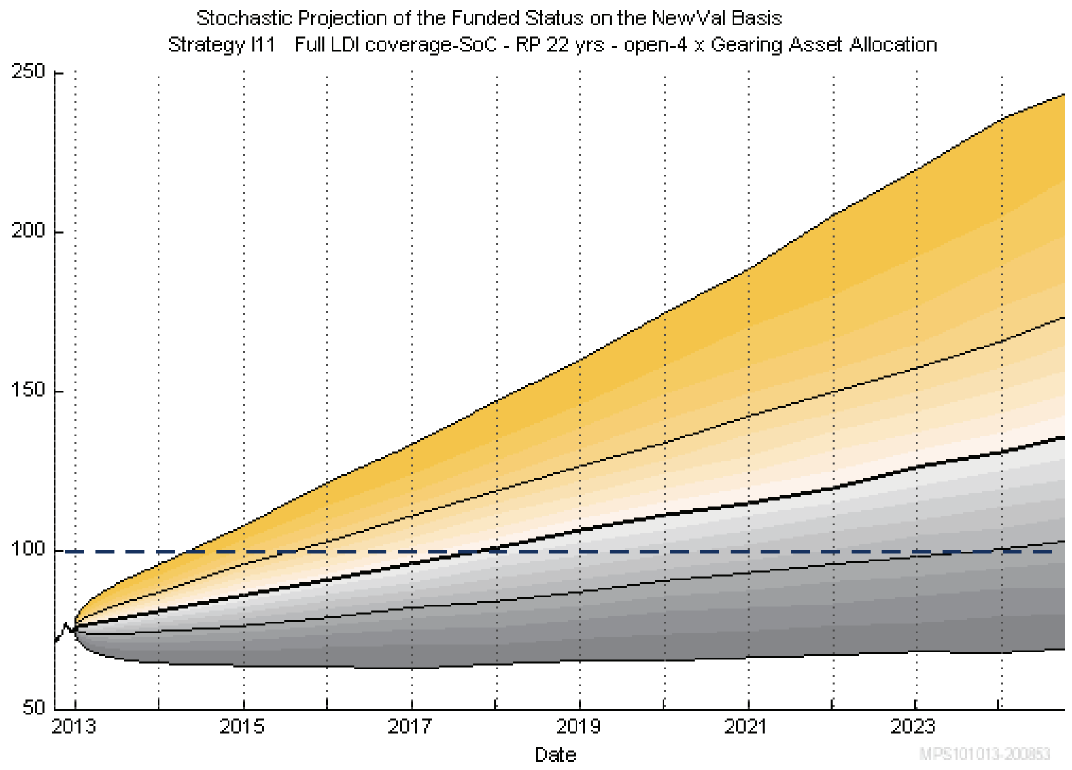
- **Aim:** Protect the Funding Level against movements in interest rates and inflation
- **How:** Collateral is paid into the Scheme account when interest rates fall. Collateral is paid out of the Scheme account when interest rates rise.
- It is similar for inflation. Collateral is paid into the Scheme account when inflation rises.



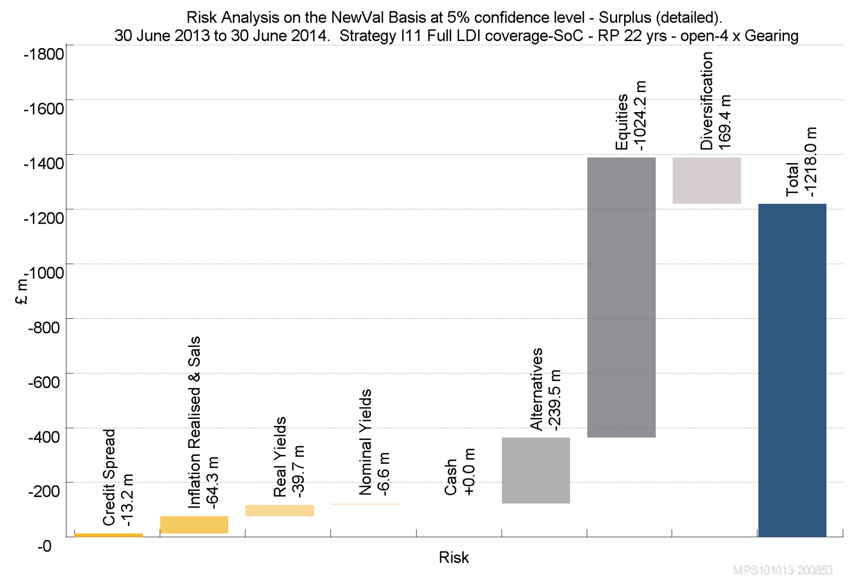
The payment or receipt of collateral is not a bad thing:

- Payment is received when the value of your liabilities rises (as compensation)
- Payments are made when the value of your liabilities falls

Risk analysis – Full LDI coverage



Asset	Benchmark
Equities	48.7
Fixed Interest	4
LDI	25
Property	8.9
Alternatives	12.4
Private Equity	3.5
Hedge Funds	4.4
Thematics	2.7
Infrastructure	1.8
Cash	1
TOTAL	100



10yr expected relative return 3.7%

10yr expected standard deviation of relative return 11.6%

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Summary Metrics – LDI

	Current portfolio	Existing Gilt and ILG holdings to LDI	Full LDI Coverage
10 year expected absolute return (median)	8.5%	8.9%	8.4%
10 year expected absolute standard deviation	13.5%	14.2%	13.7%
10 year expected return above ongoing liabilities (median)	4.0%	4.2%	3.7%
10 year expected relative standard deviation	14.1%	13.1%	11.6%
1 year 95% Value at risk (VaR)	£1,674m	£1,440m	£1,218m
Probability fully funded by 30/06/2016	36%	35%	30%
Worst case (95th percentile) deficit contribution rate at 30/06/2016	£274m	£246m	£225m
Probability fully funded by 30/06/2023 (10 yrs)	72%	75%	74%
Worst case (95th percentile) deficit at 30/06/2016	£4,351m	£3,606m	£3,246m
Probability fully funded by 30/06/2035 (22 yrs)	90%	91%	89%
Worst case (95th percentile) deficit at 30/06/2016	£4,764m	£3,310m	£3,041m

WIRRAL COUNCIL

PENSIONS COMMITTEE

19 NOVEMBER 2013

SUBJECT:	**STATEMENT OF INVESTMENT PRINCIPLES**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**STRATEGIC DIRECTOR TRANSFORMATION AND RESOURCES**
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to present Members with a draft updated Statement of Investment Principles (SIP), request that Members note the changes from the previous SIP and approve the revised document.

1.2 Members are asked to consider a project for a review of the Fund's approach to Responsible Ownership.

2.0 BACKGROUND AND KEY ISSUES

2.1 The Fund last approved a SIP at its meeting on 20 November 2012.

2.2 The SIP describes the high-level principles governing the investment decision-making and management of Merseyside Pension Fund (MPF) and the policy that has been developed to ensure their implementation. It has been prepared, in line with guidance received from the Secretary of State for Communities and Local Government, with reference to the Chartered Institute of Public Finance & Accountancy (CIPFA) Pensions Panel publication, 'Principles for Investment Decision Making and Disclosure in the LGPS in the United Kingdom 2009 – A Guide to the Application of the 2008 Myners Principles to the Management of LGPS Funds'.

2.3 Following the actuarial valuation and subsequent changes to asset allocation, there is a requirement to review the SIP and the FSS and other related documents. A draft copy of the revised document is attached as appendix 1.

2.4 The main changes are as follows. *(In italics in the document)*

- Changes to effective decision making section to reflect changes in Wirral's constitution and management structure.

- Changes to the Asset allocation as reported elsewhere at this Committee including changes to the paragraph on tactical asset allocation to reflect the introduction of the medium term asset allocation framework.

- Changes to the clear objectives section to include approach of internal team to making investments.

- Changes to the risk section to reflect the introduction of the medium term asset allocation framework.

- There has also been some editing of typographical errors and cross references.

2.5 A project is proposed for a more comprehensive and fundamental review of Responsible Ownership section within the SIP. This follows concerns over Fund investments in particular stocks and sectors. The Fund principally has followed a strategy of engagement; this project will look at the potential strategies of positive and negative engagement. Appendix 2 to this report covers this in more detail. Members are asked to consider approval of this project.

3.0 RELEVANT RISKS

3.1 The SIP alongside the Funding Strategy Statement is a document which, amongst other content, sets out the Fund's approach to managing key strategic risks.

4.0 OTHER OPTIONS CONSIDERED

4.1 Not relevant for this report.

5.0 CONSULTATION

5.1 Not relevant for this report.

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are no implications arising directly from this report.

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

7.1 There are none arising directly from the proposed changes to the SIP. There could be some costs arising from the proposed project in appendix 2 although the impact this financial year would be limited and could be met from existing resources. Costs for next year would be built into the budget.

8.0 LEGAL IMPLICATIONS

8.1 There are no implications arising directly 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 no carbon usage implications, nor any other relevant environmental issues arising from this report.

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 There are no planning or community safety implications arising from this report.

12.0 RECOMMENDATIONS

12.1 That the Pensions Committee approves the revised Statement of Investment Principles which is attached as an appendix to this report. (The document will not be published until other relevant cross referenced documents have been approved).

12.2 Pensions Committee considers approval of the project set out in Appendix 2 to make a fundamental review of the approach of the Fund to Responsible Ownership.

13.0 REASONS FOR RECOMMENDATIONS

13.1 The approval of the SIP by Pensions Committee forms a key part of setting the strategy and governance arrangements for the Fund's Investments.

REPORT AUTHOR: **Paddy Dowdall**
Investment Manager
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email: paddydowdall@wirral.gov.uk

APPENDICES

1. The revised Statement of Investment Principles is attached as an appendix to this report.

2. The proposed project for a fundamental review of MPF's approach to Responsible Ownership is attached as an appendix to this report.

REFERENCE MATERIAL

Internal working papers and Regulatory guidelines.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
STATEMENT OF INVESTMENT PRINCIPLES	20 NOVEMBER 2012
STATEMENT OF INVESTMENT PRINCIPLES	16 NOVEMBER 2010
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STATEMENT OF INVESTMENT PRINCIPLES 2012

Merseyside
PENSION FUND

(As approved by Pensions Committee – 20 November 2012)

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MERSEYSIDE PENSION FUND

AND THE 2008 MYNERS PRINCIPLES

This Statement of Investment Principles (SIP) was approved by the Pension Committee of Wirral Council (constituting the primary governing and decision-making body of the Merseyside Pension Fund) at its meeting on 19th November 2013. The statement has been prepared in accordance with **Regulation 12 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No. 3093)**.

The SIP describes the high-level principles governing the investment decision-making and management of Merseyside Pension Fund (MPF) and the policy that has been developed to ensure their implementation. It has been prepared, in line with guidance received from the Secretary of State for Communities and Local Government, with reference to the
Chartered Institute of Public Finance & Accountancy (CIPFA) Pensions Panel publication, **'Principles for Investment Decision Making and Disclosure in the LGPS in the United Kingdom 2009 – A Guide to the Application of the 2008 Myners Principles to the Management of LGPS Funds'**.

It is accepted that these six principles form the code of best practice for LGPS Funds; this SIP reports the extent of MPF's compliance with each of the **six** principles. A statement of compliance can be found on page 21 of this document.

This statement supersedes the SIP approved by Pensions Committee on 20 November 2012. The SIP, and the policy approaches it describes, has been developed with the benefit of proper advice from the Fund's consultants and advisers, whom it considers to be suitably qualified and experienced in investment matters. The Fund consults its stakeholders over matters of policy, including scheme employers, trade unions and other interested parties.

The SIP will be made available on the Fund's website at: **http://tinyurl.com/btomqfe** and compliance with the CIPFA Principles will be reported in the Fund's Annual Report. This statement should be read in conjunction with the following statements, also available on the Fund's website:

- Funding Strategy Statement;
- Governance Policy Statement; 2013 Actuarial Valuation and Review; Communications Strategy Statement

EFFECTIVE DECISION MAKING

1

Administering Authorities should ensure that:

Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and

Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

- Wirral Council is the Administering Authority with overall responsibility for Merseyside Pension Fund (MPF), which it delegates to its Pensions Committee. This body comprises 10 Wirral councillors, with representation from other principal employers in the Fund (5) and Trade Unions (3), representing beneficiaries' interests. There is also an Investment Monitoring Working Party (IMWP) and Governance and Risk Working Party (GRWP) to look at governance and risk issues to which all members of the Pensions Committee and Trade Unions are invited; the IMWP meets at least six times a year and the GRWP twice.

- The terms of reference for the Committee, IMWP and the Strategic Director of Transformation and Resources are set out in the scheme of delegation for Wirral Council; the structural and operational details of the delegation are set out in a Governance Policy Statement for Merseyside Pension Fund, which can be viewed at: http://mpfmembers.org.uk/pdf/gov_policy.pdf.

- The Pensions Committee takes strategic decisions on asset allocation, investment manager selection and other high-level investment policy matters and delegates tactical asset allocation and investment monitoring through the IMWP. The IMWP is a deliberative body, acting as a forum where investment issues can be discussed in depth, with the power to make recommendations to Committee. *The Strategic Director of Transformation and Resources is delegated to implement Committee policy and delegates the management of the Fund to the Head of Pension Fund who leads a well qualified and experienced internal team (Fund officers).The Section 151 Officer of Wirral also has a role in ensuring appropriate financial reporting of the Fund's activities, and adequate internal controls.*

EFFECTIVE DECISION MAKING

- The Committee receives what it considers to be proper advice from Fund officers and, in addition, has appointed an external consultant to provide advice on its high-level investment strategy. The Committee has also appointed independent advisors to the IMWP, to further inform and support decision-making across the breadth of issues that are considered by the IMWP.

- The Committee considers that its strategic objectives are best met by further delegating investment decision-making, at the level of portfolio management, to a combination of Fund officers and a roster of external investment managers. Fund officers are tasked with making recommendations to Committee regarding the appointment of external managers; a task supported by use of a Committee-approved 'framework list' of investment manager selection consultants. Fund officers also make use of specialist advisers in managing those areas over which they exercise delegated responsibility (including property, private equity, hedge funds and responsible ownership).

- The Fund has an ongoing training programme (updated annually) for Committee Members and Fund officers to ensure that decision-making is on an informed basis. Members have each been issued with a manual which outlines the regulatory framework of the LGPS, the Fund's governance structure, fundamental concepts in pensions administration and investment policy and a glossary of technical terminology. The manual emphasises the quasi-trustee status and fiduciary role of Committee Members. The manual also serves as a tool for Members to assess where their individual training needs may lie.

CLEAR OBJECTIVES

2

An overall investment objective(s) should be set out for the Fund that:

Takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers; and

The attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.

- The Fund's objective is to achieve a funding level position of 100% whilst minimising the level and volatility of employer contributions. Investment strategy is decided with clear reference to this objective, as described in MPF's Funding Strategy Statement, which can be viewed at: http://mpfmembers.org.uk/content/funding-strategy-statement

- The Fund's investment objective over the long term is to match the assumptions within the actuarial valuation of achieving returns 1.4% in excess of the liabilities. There are 3 sources of achieving this return; strategic asset allocation, medium term asset allocation and active investment management. At the same time these sources mean that the fund has to allow for a level of risk or volatility of returns in the short, medium and long terms from the liability matching return.

- With regard to this investment objective, and following advice from its investment consultants, the Fund has agreed, both a bespoke strategic benchmark for asset classes and an out performance target of this benchmark. This bespoke strategic benchmark is formally reviewed every 3 years at the time of the actuarial valuation but can be subject to interim review if there are significant changes in the liability profile or investment environment.

CLEAR OBJECTIVES

Focus on Asset Allocation

Following an asset/liability study from the Fund's actuaries and consultation with its various advisers and officers, the following strategic benchmark was agreed by the Pensions Committee on 19 November 2013.

Asset	Benchmark	Benchmark Index
UK Equities	***22***	FTSE ALL SHARE INDEX
Overseas Equities	***30***	
US Equities	*8*	FTSE AW NORTH AMERICA
European Equities	*8*	FTSE WORLD EUROPE EX UK
Japan	*4*	FTSE AW JAPAN
Pacific	*4*	MSCI DEV ASIA PAC EX JAPAN
Emerging Markets	*6*	MSCI EMERGING MARKETS FREE
Fixed Interest	***20***	
UK Gilts	*4*	FTSE A ALL STOCKS
Overseas Gilts	*0*	JPM GLOBAL GOVT EX UK
UK Index Linked	*12*	FTSE UK GILTS INDEXED ALL STKS
Corporate Bonds	*4*	ML 3 NON GILTS
Property	***8***	IPD ALL PROPERTIES INDEX
Alternatives	***20***	
Private Equity	***5***	GBP 7 DAY LIBID
Hedge Funds	***5***	GBP 7 DAY LIBID
Thematics Fund of Funds	***5***	GBP 7 DAY LIBID
Infrastructure	***5***	GBP 7 DAY LIBID
Cash	***0***	GBP 3 MONTH LIBID
TOTAL	***100***	**SPECIFIC BENCHMARK**

(Table 1: MPF Multi Asset Portfolio)

PLEASE NOTE: The control range around the main asset classes is +/-5%

- The Fund has set an out-performance target against the bespoke strategic benchmark of 1.25%p.a. on a 3 yearly basis. This out-performance target assumes that 0.25% can be made from tactical asset allocation decisions and 1% from active management. The active management target assumes that on a capital weighted basis the Fund achieves 2/3rds of targeted returns. *The Fund has set up a medium term asset allocation framework, including the appointment of an overlay manager to both control risk and achieve active returns.*

CLEAR OBJECTIVES

Explicit Mandates

- The Fund mandates are governed in compliance with the following principles.

- Investment managers are prohibited from holding investments not defined as such in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 by clear reference in their Investment Management Agreements. Clear instructions for fund managers as to how the investment portfolio is to be managed include; the objective, asset allocation, benchmark flexibility, risk parameters, regulatory requirements, performance targets and measurement timescales.

Manager	Asset Type/Brief	Out-performance target % p.a. over 3 years
Legal & General	Active bonds	1
Schroders	Active bonds	1
Internal	Alternatives/private equity	5
Internal	Cash	0
Unigestion	European equities	3
Internal	European equities	1
JP Morgan	European equities	3
Nomura	Japan equities	3
Black Rock	Far East equities	3
Maple Browne	Far East equities	3
Amundi	Emerging markets equities	3
M&G	Emerging markets equities	3
State Street	Passive equities & bonds	0
Internal	Property	1
Internal	UK equities	1
BlackRock	UK equities (unconstrained)	3
M&G	UK equities (unconstrained)	3
Newton	UK equities (unconstrained)	3
TT International	UK equities (unconstrained)	3

(Table 2: Managers – appointed by the Fund)

CLEAR OBJECTIVES

This strategic benchmark and the out-performance target comprise the investment strategy. This strategy is underpinned by certain core beliefs.

- There is an equity or volatility risk premium i.e. investors are rewarded in the longer term for making investments in equities or other assets that have a return profile that is more volatile than liability matching assets

- There is a liquidity risk premium i.e. investors are rewarded in the longer term for making illiquid investments

- Active management of asset allocation is possible and can generate addition returns. Therefore the Fund can make additional returns by taking active positions against the strategic benchmark, within constraints to control risk.

- Active management within asset classes is possible by internal and external managers, i.e. over the medium and long term active managers can generate returns above specific benchmark indices. There are persistent anomalies within asset pricing that can be exploited.

- Active management requires taking on risk i.e. volatility from the specific benchmark index returns in the short and medium terms.

The Fund has written investment philosophies for each of the internally managed portfolios which draw on the core beliefs above. These portfolios are; UK Equities, European Equities, Opportunities, Direct Property, Indirect Property, Private Equity, Hedge Funds, Infrastructure

These are different for each asset class but a consistent theme is that

> *The internal team has a capability to assess investments and does so looking at key factors:*
>
> - *Thorough analysis and validation of the investment strategy,*
> - *Analysis of the ability of the firm to execute it, including track record.*
> - *The fit within MPF portfolio*
> - *Suitability of terms and security of operations.*

RISK
AND LIABILITIES

3

In setting and reviewing their investment strategy, administering authorities should:

Take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

The Fund is required, as detailed in the section on objectives, to take investment risk compared to the liabilities to achieve the 1.4% out-performance required in the assumptions underpinning the actuarial valuation.

The key risks taken are in strategic asset allocation, tactical asset allocation and active management. The sources of return are diverse and to some extent uncorrelated which reduces the overall level of risk.

For strategic asset allocation, which is the primary risk taken, the Fund is advised by its investment consultant, which considers the risk or expected volatility of asset classes when formulating the overall asset allocation. The table below outlines the predicted risk which includes the risks of holding assets overseas i.e. foreign currency risk. The performance and volatility of asset classes is reviewed by the IMWP on a quarterly basis.

	Expected Volatility 10 years p.a.		**Expected Volatility 10 years p.a.**
Cash	1.4%	Corporates	9.0%
UK Equities	20.0%	Private Equity	29.3%
US Equities	22.6%	Infrastructure	20.2%
European Equities	23.4%	Hedge Funds	14.6%
Japan Equities	20.4%	Opportunities	13.3%
EM Equities	28.8%	Property	14.5%
UK Gilts	11.0%		
UK ILG	9.0%	Total Portfolio	TBC%

The Fund has approved a Medium Term Asset Allocation Framework which will control risk by reducing unintended variances from benchmark by correcting positions created by market movements For active positions limits are set on positions that can be taken and the positions and results are reviewed by the IMWP on a quarterly basis. For active investment management, the Fund has comprehensive monitoring procedures including internal officers and scrutiny by elected Members. These procedures are documented in the Compliance Manual

RISK AND LIABILITIES

There are other ways of analysing the risks through holding investment instruments.

Interest rate risk

Interest rates primarily affect the Fund's liabilities through the transmission mechanism from interest rates to government bond yields and ultimately the discount rate used by the actuary to discount the liabilities; the Fund's actuary has calculated that the Fund has sensitivity to this discount rate of 16%. The Fund considers both the liabilities and assets together and assesses the funding ratio and the implications for investment strategy on a quarterly basis at the IMWP.

Liquidity

The Fund considers that, for the medium term, liquidity risk is not significant for meeting its cash flows. However, reports are made to the IMWP on a quarterly basis (from Q4 2012 onwards) detailing the liquidity profile of the investments as follows:

Realisable in a period up to 7 days
Realisable in a period up to 30 days
Realisable in a period up to 90 days
Not realisable in a period up to 90 days

The justification for the risk undertaken is that it can enhance returns and meet the investment objective; this is based on the core beliefs set out in Section 2 Objectives. The Fund's ability to tolerate these risks is underpinned by the strong employer covenant, maturity profile and cash flow profile.

Credit Risk

The Fund does not hold any fixed interest securities directly and the managers of the pooled fixed income vehicles are responsible for managing credit risk. The volatility arising from credit risk is included in the figure for 'Corporates' in the table shown on page 11.

For short-term cash deposits and other investment balances, the risk is controlled through the Fund's Treasury Management Policy. This policy is compliant with current best practice and includes regular reporting to management and elected Members.

RISK AND LIABILITIES

The Fund complies with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, where use of the extensions in investment limits per Schedule 1 are utilised. The Fund utilises two of the allowable extensions at present

Limited Partnerships up to 15% (from 5%)

The Fund has considered after advice from investment consultants, that given cash flow profile it is prudent to have up to 15% of investments in limited partnerships.

Unitised Insurance contracts up to 35% (from 25%)

The Fund has considered after advice from investment consultants, that given the contractual protection afforded in arrangements it is prudent to have up to 35% of investments in unitised insurance contracts in its mandates with State Street for passive investments and L&G for fixed income.

The Fund manages operational risks through the following measures as illustrated in this SIP.

- The use of a global custodian, Northern Trust, for custody of assets.
- Having formal contractual arrangements with investment managers.
- Maintaining independent investment accounting records.
- Having access to the internal audit service of Wirral Council.

Stock Lending

The Fund engages in a stock lending programme with the Fund's Custodian as agent lender. The key document for controlling the risks associated with this activity is the Securities Lending Agreement which is agreed with the Custodian on appointment, following review by legal advisors and investment consultants and which is reviewed on a regular basis. The document controls the Fund's risk exposure to the following key factors.

- Agent Lender Risk
- Counterparty Risk
- Collateral Risk
- Market Risk
- Currency Risk
- Settlement Risk
- Operational Risk

PERFORMANCE ASSESSMENT

4

Arrangements should be in place for:

The formal measurement of performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

- In setting the overall investment objective and asset allocation and in the award of mandates to individual investment managers the Pensions Committee has set benchmarks for each asset class, and out-performance targets. These are set out in the Objectives section.

- The different benchmarks culminate in the specific benchmark for the Fund, which is determined by the core asset allocation, which has been made with reference to the Fund's Investment Objectives.

- The Fund engages the WM Company to provide an independent measurement of investment returns. These are used for comparison purposes against specific and peer group benchmarks. The reporting from the WM Company also comprises performance attribution broken down by asset class, and the impacts of asset allocation and stock selection. The Fund has recently re-negotiated contracts with WM to ensure that information is available for comprehensive monitoring of individual fund managers. The Fund has dedicated internal staff resource to providing timely valuations of its assets.

- The Pensions Committee and IMWP receive WM reports and are therefore able to consider the performance of all asset classes and managers against a variety of time frames on a regular basis. These considerations form the basis of decision making.

- The Fund is aware of the need to monitor transaction costs for external managers and uses Inalytics Ltd to monitor the explicit and implicit costs arising from transactions.

PERFORMANCE ASSESSMENT

- The Fund does not practice soft commissions through its internal managers. Where external managers operate a soft commission policy the Fund has, where possible, set up recapture arrangements.

- The Fund has appointed internal monitoring officers to closely monitor the external managers and ensure compliance with mandates.

- The Investment Monitoring Policy, which can be viewed at: http://mpfmembers.org.uk/content/fund-policies establishes the framework for the monitoring of the Fund's internal and external investment managers. This framework is linked into the reporting and governance framework of the Fund and defines a range of status levels linked to management actions, which are assigned to each investment manager. It takes account of quantitative measures, such as performance against benchmark and target, but assessment of status is weighted toward longer-term measures, such as one and three-year annualised returns. The monitoring policy is not felt to be overly prescriptive, as it does allow for qualitative factors to be taken into account in status assessment, as well as flexibility over the range of management actions to be taken and the outcomes expected.

- Neither the Pensions Committee, nor the IMWP, presently undertake a formal self-assessment of their effectiveness as decision-making bodies. Historically, the reasons for this lie in the lack of a suitable framework for conducting such an assessment. However, this position will be reviewed following publication of the CIPFA Pensions Panel's knowledge, skills and competencies framework for elected Members and officers involved in managing the LGPS. Likewise, there is no performance framework in place for monitoring the effectiveness of the Fund's consultants and advisers. However, as these are contractual relationships, they will be subject to a formal review and re-tendering exercise on a five-to-seven yearly cycle.

RESPONSIBLE OWNERSHIP

5

Administering Authorities should:

Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents include a statement of their policy on responsible ownership in the SIP; and report periodically to scheme members on the discharge of such responsibilities.

- Merseyside Pension Fund has long since regarded the fiduciary duty it has toward its stakeholders as fully including a duty of stewardship over the assets owned by the Fund. As the core purpose of the Fund involves being a long-term investor to meet long-term liabilities, the Fund considers it prudent to view the long-term absolute performance of its investments as being subject to a wide range of factors. Such factors, as may not appear to be materially or financially pertinent in the present, may well prove to be so in the future; and, as such, the Fund considers its interests not best served by a disengaged attitude to asset ownership.

- It is a core belief within the investment philosophy of Merseyside Pension Fund that environmental, social and governance (ESG) factors can affect investment performance and, therefore, should be a feature of investment analysis and management. The Fund is mindful of legal opinion on the nature of its fiduciary responsibility and regards the 'Freshfield opinion' (as commissioned by the United Nations Environmental Project Finance Initiative) as being authoritative. This states that it is a breach of fiduciary duty not to have due regard to ESG issues within the framework of investment policy.

RESPONSIBLE OWNERSHIP

- Therefore, the Fund has adopted a policy of responsible investment and, in November 2007, became a signatory to the United Nations Principles for Responsible Investment (UNPRI). The UNPRI are:

  1. Integrate ESG factors into investment analysis and decision-making;
  2. Active ownership - integrating ESG factors into asset ownership;
  3. Seek effective ESG disclosure in investee entities;
  4. Promote acceptance of UNPRI within the investment industry;
  5. Work with others to enhance our effectiveness in implementing the Principles;
  6. Report on our activities and progress toward implementing the Principles.

- The Fund's policy for acting on its UNPRI commitment can be summarized as one of constructive engagement with its investee companies and asset managers on ESG matters; often acting in collaboration with other like-minded investors. Engagement encompasses a broad range of activity, including meaningful dialogue with companies and active use of voting rights. The Fund considers the engagement approach to be best suited to meeting its investment objectives and fulfilling its fiduciary duty to stakeholders; as opposed to an approach based on the positive or negative screening of assets from a portfolio on ESG or ethical grounds. This latter approach could be seen as effectively negating the value of responsible ownership.

- Active use of the voting rights attached to equity shares is the principal tool used in the Fund's engagement strategy. The Fund considers voting rights to be part of the intrinsic value of share ownership; and the use of these rights is an important mechanism for communicating the Fund's views to the management of investee companies. Therefore, the Fund has appointed a specialist adviser (Pensions Investment & Research Consultants Ltd, aka PIRC) to assist in implementing a comprehensive voting policy that covers the Fund's global equities portfolio. The Fund considers PIRC's Global Shareholder Voting Guidelines to insist upon the highest standards of corporate governance and responsibility. Accordingly, MPF's voting policy at all company meetings, in all markets, where it has a vote, is to vote in line with PIRC guidance.

RESPONSIBLE OWNERSHIP

- MPF does not view its voting policy as seeking to enforce a 'tick box' compliance regime within its equity portfolio, but rather as a means of promoting the highest standards of corporate governance. The practical arrangements for implementing the voting policy are determined by the Fund's preference for retaining the beneficial ownership of its equity investments, separate from its investment managers, by using a single global custodian. PIRC are mandated by the Fund to issue voting instructions to the custodian.

- MPF further pursues its engagement strategy through its active membership of the Local Authority Pension Fund Forum (LAPFF). It states its mission thus, "LAPFF exists to promote the investment interests of local authority pension funds, and to maximize their influence as shareholders whilst promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest." The LAPFF membership agree annual research and engagement work-plans that cover a broad range of ESG subjects and are appropriate to the typical member's investment portfolio. LAPFF members then work with a partner organization (PIRC Ltd) to implement these work-plans. The combined ownership influence of LAPFF enables it to conduct high-level engagement with investee companies and policy-makers, both on a sustained long-term basis and with pertinent issues as they arise.

- The Fund recognizes the importance of global climate change and the impact it, and efforts to adapt to and mitigate its effects, will have on its investment strategy. MPF is a member of the Institutional Investors Group on Climate Change (IIGCC), which brings together asset owners and asset managers to catalyse greater investment in a low carbon economy by bringing investors together to use their collective influence with companies, policymakers and investors.

RESPONSIBLE OWNERSHIP

- MPF has taken account of the recommendations of the Walker Review, (http://www.hm-treasury.gov.uk/walker_review_information.htm) and the publication of the Institutional Shareholders' Committee (ISC) Code on the Responsibilities of Institutional Investors. Although Walker's main focus was on the governance of banks and other financial institutions, the Review placed a welcome emphasis on the role of institutional shareholders and their duty of stewardship by recommending adoption of the ISC Code. The ISC Code sets out best practice for institutional investors that choose to engage with the companies in which they invest. The Fund considers that its responsible ownership policy already complies with, and may even exceed, the principles in the ISC Code. However, the Fund believes it has direct relevance for managing its relationships with external investment managers, and will require its managers to state their approach to the ISC Code on a 'comply or explain' basis, while highlighting the Fund's policy on engagement and support for the UNPRI.

- The Fund does not believe that it is necessary, nor practicable, to make responsible ownership an explicit part of its investment manager mandates. It considers that it best promotes its belief in responsible investment, and guards against the dilution of its ownership principles, by urging adoption of the ISC Code and promoting the UNPRI as the highest standard of best practice. Therefore, the Fund's selection criteria for investment manager selection will reflect a preference for investment managers that adopt the ISC Code and are signatories to the UNPRI. MPF wishes to see the consideration of ESG factors, and the fulfillment of a duty of stewardship, become part of the mainstream of investment management practice.

- The Fund will publish annually a Responsible Investment Review. The Review will report on the Fund's activities and progress in implementing its responsible investment policy over the calendar year. This will include disclosure of the Fund's voting record, the activity of LAPFF and IIGCC and a review of the approach of the external investment managers toward responsible investment and ownership practice.

TRANSPARENCY AND REPORTING

6

Administering Authorities should:

Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives; and provide regular communication to scheme members in the form they consider most appropriate.

The decision making structure for the Fund has been set out earlier. The key decision making forum is the Pensions Committee. The minutes of this Committee are available to the public through the Wirral Council website at: http://www.wirral.gov.uk.

This SIP will be made available to stakeholders on request and its availability will be publicised through newsletters, the annual conference and on the Fund's Website.

The Fund will also make available other documents relating to investment decision making and performance to interested stakeholders.

In accordance with LGPS (Administration) Regulations 2008, MPF has published a Communications Policy Statement, which can be viewed at: http://mpfmembers.org.uk/content/fund-policies , which describes the Fund's policy on:

- Providing information to members, employers and representatives,
- The format, frequency and method of distributing such information,
- The promotion of the Fund to prospective members and their employing bodies.

The Fund recognises the need to communicate its purpose and ethos to a wider body of stakeholders, and in furtherance of this, it has developed a media protocol supported by Wirral Council's corporate communications division. The protocol outlines engagement with local and national media, as well as the pensions and investment industry trade media.

The Fund will continue to develop its website, which it considers to be its primary communications channel.

COMPLIANCE WITH
CIPFA PRINCIPLES 2010

Applying the 2008 Myners Principles to the Management of LGPS Funds

1	**Effective Decision Making**	The Fund is wholly or substantially compliant with the CIPFA principles.
2	**Clear Objectives**	The Fund is wholly or substantially compliant with the CIPFA principles.
3	**Risk and Liabilities**	The Fund is wholly or substantially compliant with the CIPFA principles.
4	**Performance Assessment**	The Fund is substantially compliant with the CIPFA principles.
5	**Responsible Ownership**	The Fund's policy and practice exceed compliance requirements.
6	**Transparency and Reporting**	The Fund's policy and practice exceed compliance requirements.

(As approved by Pensions Committee – 20 November 2012)

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ADMINISTERING AUTHORITY
WIRRAL

Appendix 2

Project Proposal for Fundamental Review of SIP in relation to Responsible Ownership

1. Executive Summary

1.1 The purpose of this note is set out a proposal for a project to conduct a fundamental review of MPF's approach to Responsible Ownership as described in its SIP, in particular the merits of the strategies of engagement and screening.

1.2 Members are asked to approve the commencement of this project and to indicate any changes they wish to make to the project brief.

1.3 This note will cover the following; Background, Workstream projects including: Objectives/Philosophical Beliefs; Legal Framework; Practical Implications; and Performance Implications.

2. Background

2.1 There has been significant debate of late over whether the Fund should be invested in certain companies/sectors. In terms of the responsible ownership element of the SIP this is best considered as a debate between the strategies of engagement and screening both positive and negative. The definitions of these are listed below.

Responsible Investment, in theory and practice, continues to develop around three broadly defined strategies. These strategies have found favour with different groups of investor, at different times, responding to different objectives, but also to changing market conditions (both in terms of investor sentiment and market infrastructure e.g. scope and availability of data). These strategies are:

1. *Negative screening* - A screen is applied across a portfolio that will exclude certain stocks that exhibit any of a set of pre-determined characteristics. This is the method commonly used for implementing ethical investment, whereby an investor may determine a set of ethical criteria on which they would want a stock excluded from their portfolio. Typically, this approach would be adopted by what could be broadly termed 'mission based investors', such as charities, religious institutions, trade unions and endowments, whose main objectives and activities could be in direct conflict with those of certain companies. Exclusion criteria commonly cover companies who derive at least 10% of their revenues from activities in one or more of the following: armaments, gambling, nuclear power/uranium extraction, tobacco, questionable work-place practices, any particularly egregious ESG practices. In addition to being in

conflict with an investor's values or ethos, the argument made from the perspective of a long-term investor is that companies with these characteristics carry long-term risk factors such reputational risk, Government regulation, litigation and an overall higher cost of capital.

2. *Positive screening* - This practice applies a screen across a porfolio that gives preference to stocks or sectors exhibiting certain characteristics. This can make use of specialist data-sets such as indices (e.g. FTSE4Good) or ratings (e.g. PIRC Governance ratings). It can also be used to implement a theme-driven approach, such as over-weighting portfolios in favour of stocks with strong sustainability or governance characteristics.

3. *ESG integration and engagement* - This approach does not involve top-down imposition of investment rules, but flows from an investor's strategic RI beliefs and objectives. It is a holistic approach ranging from integration of ESG factors into investment analysis and decision-making to active ownership activity (usually incorporating voting and engagement). It is the approach most commonly adopted by large institutional investors who recognise that effectively they 'own the market' and costs which are externalised will fall to them. An investor adopting this approach would typically establish guidelines determining the extent of ESG integration and setting out ESG priorities, which would determine active ownership activities. Applying the 6 Principles of the UN PRI is commonly seen as a good way of implementing this approach, not least because UN PRI require compulsory reporting and assessment of its signatories, which allows the RI investor to monitor and review their activity, as well as benchmark against peers.

2.2 The Responsible Ownership section of the SIP at present is based on a strategy of engagement. The key aim of this project would be to consider whether this is still appropriate and to consider the use of screening both positive and negative. If taken forward, the second stage would be to consider policy options for screening and to examine the implications for these options in terms of legality, practicality,costs and performance.

3. Workstream 1: Objectives/Philosophical Beliefs

3.1 The purpose of this workstream would be to establish the views of Committee on certain issues and to draw out themes. The main event would be an IMWP/Member Development Session. In February of next year.

3.2 The internal team at MPF would look to provide reading material to Members ahead of this session. During the session there would be external speakers to further elucidate the options available.

3.3 Following the session in February, officers would look to draw in ideas expressed by Members and subject to legal opinion, draw up a number of policy options to be considered in terms of how practical they are to implement and what is the likely impact on investment performance.

3.4 These policy options could include various forms of positive or negative screening in certain markets/sectors

4. Workstream 2: Legal Framework

4.1 The LGPS is a statutory scheme and the investment powers of the Administering Authority flow from the LGPS Investment Regulations. The Regulations provide that schemes must formulate an investment policy, based on proper advice and with regard to the suitability and advisability of particular investments. The policy should also state the extent to which 'social, environmental or ethical considerations are taken into account'. The Regulations imply, but do not stipulate, that in formulating this policy an Administering Authority should have regard to its fiduciary duty.

4.2 A fiduciary is someone with the obligation to act in the interests of others. However, its precise definition in law is unclear, as it the legal basis for its application in the context of pension funds investment. The traditional view has been that the fiduciary duty lies in the optimisation of returns on pension fund investments. However, an influential QC's opinion published as the 2005 Freshfield Report, argued that the growing acceptance that ESG factors could have a material impact on long-term investment returns meant that it could be a breach of fiduciary to not include ESG considerations in determining investment policy.

4.3 The UK Government have tasked the Law Commission to carry out a through-going review of fiduciary duty as it is currently understood, to determine if it contributes to the short-termism in investment practice, as criticised in the Kay Review. The Law Commission have issued a comprehensive Consultation Paper, which sets out the law as it stands, highlights some areas of contradiction or confusion and invites comments as to how the law could be clarified. They expect to report back to Government in June 2014.

4.4 The LGPS Advisory Board will be participating in this consultation, with a view to assessing implications for the LGPS and the need for future amendments to the Regulations. This workstream will need to have regard to the Law Commission's paper, its relevance to the LGPS and the likelihood of post-2014 changes to the LGPS Regulations.

4.5 This workstream will involve officers conducting research and presenting to Members on the above issues

5. Workstream 3: Practical Implications

5.1 This work stream would involve fund officers looking at the practical implications of policy options. Issues involved would be:

- Use of pooled funds both private and public equities and fixed income instruments - how can MPF influence policy in these funds?
- Fee implications for changing mandates particularly in passive arrangements.
- Cost of disinvestment from existing investments particularly in pooled vehicles.
- How policy options affect fixed income investments.

6 Workstream 4: Performance Implications

6.1 The aim of this work stream would be to look at the likely impact of policy options on investment performance. Whilst past performance is not a guide to future performance it is an indicator of magnitude and a significant part of the modelling will include backward testing of options. Officers will also look to external sources to assist with models looking to future investment performance.

6.2 This work would take place between the first and second sessions with Members of Pensions Committee at the IMWP/ Member Development meetings.

6.3 This could entail use of external consulting resources to conduct the modelling.

7 Timetable

7.1 This is a significant piece of work and there is a need to bring the workstreams together in a coherent way and to ensure that the inputs have been discussed by the Members of Pensions Committee and other working parties. The timetable for the project is linked to these meetings and the need for considerable work in between.

7.2 The suggested timetable is below.

November 2013 – February 2014

Preparation for IMWP/Member Development in February

Work by officers on workstreams 1 and 2 including preparation of documents for session and engagement of external speakers clarification of legal position

TBC February IMWP/Member Development Session

Completion of workstream 1
Draft policy options agreed for detailed work by officers on implications

February 2014 – May 2014

Detailed work by officers on workstreams 3 and 4

TBC May 2014 IMWP/Member Development Session

Presentation of results of workstreams 2,3,4
Final agreement of policy options

TBC June 2014 Revised SIP to Pensions Committee

8. Outcomes

8.1 The ultimate outcome of the process would be a report encompassing the results of the different workstreams and a recommendation for an update to the Responsible Ownership section in the SIP. This could be taken to a Pensions Committee in June 2014.

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WIRRAL COUNCIL

PENSIONS COMMITTEE

19 NOVEMBER 2013

SUBJECT:	**AUTHORISED SIGNATORIES**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**STRATEGIC DIRECTOR TRANSFORMATION & RESOURCES**
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

1.1 This report sets out proposed changes to authorised signatories at Merseyside Pension Fund (MPF) following the completion of the new Wirral management structure.

1.2 This report describes the different requirements for various institutions and functions, including the banks, custodian, and overseas pensions payment agent, as well as the granting of power of attorney where appropriate.

1.3 This report also forms a part of the Fund's scheme of delegation and and sets out the management and authorisation arrangements for the avoidance of doubt by organisations undertaking due diligence on MPF as an investee company or as a financial services provider, or for purposes of overseas jurisdiction.

2.0 BACKGROUND AND KEY ISSUES

2.1 The current approved signatories are:

Interim Director of Finance	James Molloy
Interim Director of Finance	Peter Timmins
Deputy Director of Finance	David L H Smith
Head of Financial Services	Thomas W Sault
Head of IT Services	Geoffrey W. Paterson
Head of Business Processes	Malcolm J Flanagan
Principal Pensions Officer	Yvonne M Caddock
Operations Manager	Guy W Hayton
Group Accountant	Donna S Smith
Member Services Manager	Margaret M Rourke
Member Services Manager	Susan J Roberts

2.2 As officers leave the employment of Wirral Council, they are removed from the signatory list and accounts deleted from any electronic systems immediately.

2.3 Approval is requested for the following signatories:

Strategic Director Transformation & Resources	Joe Blott
Director of Resources	Vivienne Quayle
Head of Financial Services	Thomas W. Sault
Head of Business Processes	Malcolm J. Flanagan

Principal Pensions Officer	Yvonne M. Caddock
Operations Manager	Guy W. Hayton
Group Accountant	Donna S. Smith
Member Services Manager	Margaret M. Rourke
Member Services Manager	Susan J. Roberts

2.4 These responsibilities will include powers to open, close and amend bank accounts; authorise instructions for payment of benefits and for investment transactions; sign manual cheques and countersign cheques over £10,000 in respect of accounts with the Fund's bankers (Lloyds Banking Group), with the Global Custodian (Northern Trust), and with other financial institutions including those detailed in the Fund's Treasury Management Strategy. The officers will also be authorised to sign investment documentation.

2.5 For reasons of internal control, the following officers are empowered to authorise investment decisions and relevant investment documentation, but without powers to authorise the transfer of monies:

Head of Pension Fund	Peter J. Wallach
Senior Investment Manager	Leyland K. Otter
Investment Manager	Patrick G. Dowdall

2.6 Other officers can make investment decisions up to their limits as specified in the Compliance Manual approved by Pensions Committee, 20 March 2012.

2.7 Authorisation of the monthly pension payroll is undertaken by approved authorised signatories based at MPF.

2.8 For the avoidance of doubt, the Strategic Director Transformation and Resources can designate officers of MPF to exercise powers of attorney on behalf of MPF and Wirral Council. From 1 July 2011, any two of the following officers of MPF may exercise powers of attorney on behalf of MPF and Wirral Council:

Head of Pension Fund	Peter J. Wallach
Senior Investment Manager	Leyland K. Otter
Investment Manager	Patrick G. Dowdall
Principal Pensions Officer	Yvonne M. Caddock

3.0 RELEVANT RISKS

3.1 It is essential that the Fund maintains strong internal controls and that arrangements which designate those individuals who may authorise transactions are clearly documented. Without the appropriate number of authorising officers, there is a risk of delayed transactions and settlement of trades. This could manifest itself both as financial risk, as there could be a cost due to delayed transactions and settlements, and as a reputational risk to MPF in financial markets.

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 from 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 additional resource implications in this proposal.

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 no carbon usage implications, nor any other relevant environmental issues 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 approved the arrangements set out in section 2 of this report in relation to the internal control arrangements at Merseyside Pension Fund.and officers designated

12.2 That Members approve the officers designated in section 2 of this report as authorised signatories for Merseyside Pensions Fund.

13.0 REASON/S FOR RECOMMENDATION/S

13.1 Following management changes at Wirral Council it is necessary to update the list of authorised signatories.

REPORT AUTHOR: **Donna Smith**
Group Accountant
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APPENDICES

None

REFERENCE MATERIAL

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Cabinet	18 October 2012
Cabinet	15 March 2012
Pensions Committee	19 September 2011
Pensions Committee	27 June 2011
Pensions Committee	29 March 2011
Cabinet	17 March 2011

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WIRRAL COUNCIL

PENSIONS COMMITTEE

19 NOVEMBER 2013

SUBJECT:	**MONITORING/TRAINING AND GIFTS & HOSPITALITY RETURNS**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**STRATEGIC DIRECTOR TRANSFORMATION & RESOURCES**
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

1.1 This report provides Members with a summary of monitoring/training events attended by officers of the Fund and details of gifts and hospitality received over the past 12 months.

2.0 BACKGROUND AND KEY ISSUES

2.1 In November 2012, this Committee approved new guidance in relation to the declaration of gifts and hospitality received by officers and those members of Committee that are not otherwise subject to personal conduct arrangements.

2.2 The guidance is reflected by Wirral in its overall governance arrangements and is set out in the Fund's Compliance Manual, reflecting the practicalities of the Pension Fund's business needs.

2.3 Appendix 1 provides a schedule of declarations from December 2012 to September 2013.

3.0 RELEVANT RISKS

3.1 It is important that the Fund has clear guidelines and that officers' activities are subject to review by Committee.

3.2 A failure to recognise and allow for the differences of the Fund's business activities may inhibit the Fund's training and monitoring arrangements and incur additional cost.

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 none arising 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 Committee notes the report.

13.0 REASON/S FOR RECOMMENDATION/S

13.1 It is important that the Fund has clear guidelines and that officers' activities are subject to review by Committee to ensure transparency.

REPORT AUTHOR: **Peter Wallach**
Head of Pension Fund
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APPENDICES

APPENDIX 1

REFERENCE MATERIAL

NONE

SUBJECT HISTORY (last 3 years)

Council Meeting	**Date**
Pensions Committee	**24 June 2013**
Pensions Committee	**20 November 2012**

Metropolitan
Borough of Wirral

REGISTER OF GIFTS & HOSPITALITY M21

Department :	**FINANCE**	**Section :**	**MPF**

All offers of gifts and hospitality should be registered, whether or not they have been accepted. Officers should not accept such offers except in very limited circumstances. It is a criminal offence to accept money, gifts or hospitality in return for special favours.

Officer's Name	Nature of Gift / Hospitality	Value of Offer	Donor Organisation	Date of Offer	Organisation Seeking Work: Yes / No	Offer Accepted: Yes / No	Disposal Arrangements	Senior Officer Review: Signature	Date of Review
HEAD OF PENSION FUND	PRE-IMWP DINNER	£35.00	NOMURA	27 Nov 12	No	Yes			
INVESTMENT MANAGER	DINNER - FOLLOWING BUSINESS MEETING	£50.00	L&G	5 Nov 12	No	Yes			
INVESTMENT MANAGER	LUNCH - FOLLOWING BUSINESS MEETING	£30.00	SCHRODER	6 Nov 12	No	Yes			
INVESTMENT MANAGER	DINNER – FOLLOWING BUSINESS MEETING	£50.00	BLACKROCK	22 Nov 12	No	Yes			
INVESTMENT MANAGER	LUNCH	£40.00	CAPITAL DYNAMICS	23 Nov 12	No	Yes			
INVESTMENT ASSISTANT	EVENING MEAL – FOLLOWING BUSINESS MEETING.	£50.00	L & G	5 Nov 12	No	Yes			
INVESTMENT ASSISTANT	LUNCH	£30.00	SCHRODERS	6 Nov 12	No	Yes			
HEAD OF PENSION FUND	LUNCH – FOLLOWED MEETING WITH EM AND UK SPECIALISTS.	£30	M&G	21 Dec 12	NO	YES			

! Metropolitan
Borough of Wirral

REGISTER OF GIFTS & HOSPITALITY M21

Department :	**FINANCE**	**Section :**	**MPF**

All offers of gifts and hospitality should be registered, whether or not they have been accepted. Officers should not accept such offers except in very limited circumstances. It is a criminal offence to accept money, gifts or hospitality in return for special favours.

Officer's Name	Nature of Gift / Hospitality	Value of Offer	Donor Organisation	Date of Offer	Organisation Seeking Work: Yes / No	Offer Accepted: Yes / No	Disposal Arrangements	Senior Officer Review: Signature	Date of Review
HEAD OF PENSION FUND	BOOK – SENT TO OFFICE.	£30	UNIGESTION	20 Dec 12	NO	NO	MPF library		
INVESTMENT MANAGER	DINNER – FOLLOWING MEETING AND CONFERENCE.	£40	NCH	5 Dec 12	NO	YES			
INVESTMENT MANAGER	LUNCH	£30	CBRE	11 Dec 12	NO	YES			
INVESTMENT MANAGER	CHRISTMAS GIFTS: RAFFLED. BOTTLE OF CHAMPAGNE, BOTTLE OF WHISKEY, WINE, CHOCOLATES AND BOOK. RAFFLED AND PROCEEDS SENT TO MAYOR'S CHARITY.	£150	DEXION, HANJO FUND, UNNAMED, NEWTON AND UNIGESTION.	Dec 12	No	YES	Raffled and proceeds sent to Mayor's charity.		
HEAD OF PENSION FUND	LUNCH – UPDATE MEETING WITH RELATIONSHIP MANAGER (ENROUTE TO EDINBURGH).	£25	INVESCO	10 Jan 13	NO	YES			

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Metropolitan
Borough of Wirral

REGISTER OF GIFTS & HOSPITALITY M21

Department :	FINANCE	Section :	MPF

All offers of gifts and hospitality should be registered, whether or not they have been accepted. Officers should not accept such offers except in very limited circumstances. It is a criminal offence to accept money, gifts or hospitality in return for special favours.

Officer's Name	Nature of Gift / Hospitality	Value of Offer	Donor Organisation	Date of Offer	Organisation Seeking Work: Yes / No	Offer Accepted: Yes / No	Disposal Arrangements	Senior Officer Review: Signature	Date of Review
INVESTMENT MANAGER	DINNER – FOLLOWING BUSINESS MEETING.	£40	FPF	26 Feb 13	NO	YES			
INVESTMENT MANAGER	LUNCH	£20	KRISTOFFERSON ROBB	26 Feb 13	NO	YES			
INVESTMENT MANAGER	LUNCH	£30	NORTHERN TRUST	27 Feb 13	NO	YES			
HEAD OF PENSION FUND	DINNER – TO MEET HEAD OF CLIENT RELATIONSHIPS WHILST HE WAS VISITING UK.	£40.00	NOMURA	15 April 13	No	Yes			
INVESTMENT OFFICER	LUNCH SUPPORTING CURRENT FX INVESTIGATIONS AND TO DISCUS TOOL TO AID INVESTORS IN MONITORING FX TRANSATION COSTS.	£30.00	FTSE GROUP	25 April 13	No	Yes			
INVESTMENT MANAGER	LUNCH – FOLLOWING MEETING.	£30	DRC CAPITAL	29 APR 13	NO	YES			

Metropolitan
Borough of Wirral

REGISTER OF GIFTS & HOSPITALITY
M21

Department :	FINANCE	Section :	MPF

All offers of gifts and hospitality should be registered, whether or not they have been accepted. Officers should not accept such offers except in very limited circumstances. It is a criminal offence to accept money, gifts or hospitality in return for special favours.

Officer's Name	Nature of Gift / Hospitality	Value of Offer	Donor Organisation	Date of Offer	Organisation Seeking Work: Yes / No	Offer Accepted: Yes / No	Disposal Arrangements	Senior Officer Review: Signature	Date of Review
INVESTMENT MANAGER	DINNER TO MEET HEAD OF CLIENT RELATIONSHIPS WHILST HE WAS VISITING UK.	£50	NOMURA	15 APR 13	NO	YES			
INVESTMENT MANAGER	LUNCH FOLLOWING MEETING.	£30	M&G	15 APR 13	NO	YES			
INVESTMENT MANAGER	DINNER TO MEET NEW PORTFOLIO MANAGER AHEAD OF IMWP	£40	NEWTON	9 APR 13	NO	YES			
INVESTMENT OFFICER	EVENING MEAL TO MEET THE NEW PORTFOLIO MANAGER FOR NEWTON UK EQUITY MANDATE AHEAD OF THE IMWP	£40	NEWTON	9 APR 13	NO	YES			
SENIOR INVESTMENT MANAGER	DINNER TO MEET HEAD OF CLIENT RELATIONSHIPS WHILST HE WAS VISITING UK.	£50	NOMURA	15 APR 13	NO	YES			
INVESTMENT MANAGER	DINNER FOLLOWING BUSINESS MEETING.	£80	BLACKROCK	22 MAY 13	YES – Assessment is made by Consultant.	YES			

! Metropolitan **Borough of Wirral**

REGISTER OF GIFTS & HOSPITALITY M21

Department :	FINANCE	Section :	MPF

All offers of gifts and hospitality should be registered, whether or not they have been accepted. Officers should not accept such offers except in very limited circumstances. It is a criminal offence to accept money, gifts or hospitality in return for special favours.

Officer's Name	Nature of Gift / Hospitality	Value of Offer	Donor Organisation	Date of Offer	Organisation Seeking Work: Yes / No	Offer Accepted: Yes / No	Disposal Arrangements	Senior Officer Review: Signature	Date of Review
INVESTMENT MANAGER	DINNER FOLLOWING BUSINESS MEETING.	£80	SCOTTSCOVE	13 MAY 13	NO	YES			
INVESTMENT MANAGER	DINNER – EVENING MEETING	£70	PANDA POWER	14 Jul 13	No	Yes			
INVESTMENT MANAGER	LUNCH – FOLLOWING BUSINESS MEETING	£40	OPTIMA	14 Jul 13	No	Yes			
HEAD OF PENSION FUND	LUNCH FOLLOWING OFFICIAL OPENING OF GWYNEDD AD PLANT	£30	IONA	2 JUL 13	NO	YES			
HEAD OF PENSION FUND	JAWBONE HEALTH MONITOR	£85.00	WEATHERGAGE	16 JUL 13	NO	YES	Retained by Fund for testing.		
INVESTMENT MANAGER	DINNER – FOLLOWING BUSINESS MEETING	£50	PAAMCO	29 AUG 13	NO	YES			
INVESTMENT MANAGER	LUNCH – FOLLOWING BUSINESS MEETING	£40	SL CAPITAL PARTNERS	28 AUG 13	NO	YES			

Metropolitan
Borough of Wirral

REGISTER OF GIFTS & HOSPITALITY M21

Department :	FINANCE	Section :	MPF

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Officer's Name	Nature of Gift / Hospitality	Value of Offer	Donor Organisation	Date of Offer	Organisation Seeking Work: Yes / No	Offer Accepted: Yes / No	Disposal Arrangements	Senior Officer Review: Signature	Date of Review
INVESTMENT MANAGER	LUNCH – FOLLOWING BUSINESS MEETING	£50	CAPITAL DYNAMICS	27 AUG 13	NO	YES			
INVESTMENT MANAGER	DINNER – FOLLOWING BUSINESS MEETING	£50	BLACK ROCK	28 AUG 13	NO	YES			
PROPERTY MANAGER	ASSOC. OF REAL ESTATE FUNDS ANNUAL DINNER.	£25	MAYFAIR CAPITAL	18 Sep 13	No	Yes			
HEAD OF PENSION FUND	LUNCH – BUSINESS MEETING WHILST IN THE REGION.	£30.00	AVIVA	17 Sep 13	No	Yes			
INVESTMENT MANAGER	DINNER – FOLLOWING BUSINESS MEETING.	£50	UNIGESTION	2 Sep 13	No	Yes			
INVESTMENT MANAGER	GOLF FOLLOWING BRIEFING SESSION OF SIGNIFICANT INVESTMENT FOR THE FUND AND TO BRING OTHER LGPS FUNDS IN (TAKEN AS ANNUAL LEAVE).	£75	IONA	12 Sep 13	No	Yes	Taken as annual leave.		

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Metropolitan
Borough of Wirral

REGISTER OF CPD /TRAINING FORM

Department :	**FINANCE**

Officer's Name	Nature of Non Hospitality	Donor Organisation	Date of Offer	Organisation Seeking Work: Yes / No	Disposal Arrangements	Senior Officer Review: Signature	Date of Review
HEAD OF PENSION FUND	ATTENDANCE AT ANNUAL AWARDS CEREMONY.	LGC	11 DEC 12	NO			
HEAD OF PENSION FUND	ATTENDANCE AT LOCAL AUTHORITY INVESTMENT MEETING	CRISPIN DERBY LTD SPONSORED BY LAZARDS	4 DEC 12	NO			
INVESTMENT MANAGER	HOTEL AND BUSINESS DINNER AS PART OF ADVISORY BOARD.	ZEUS	13 DEC 12	NO			
INVESTMENT MANAGER	ATTENDANCE AT CLIENT CONFERENCE INCLUDING HOTEL – EDUCATIONAL CONFERENCE.	M&G	22-23 JAN 13	NO			
INVESTMENT MANAGER	HOTEL AND DINNER - TO FACILITATE MEETING. FULL UNIGESTION TEAM IN GENEVA AS OPPOSED TO THEIR FLYING TO LIVERPOOL FOR ANNUAL REVIEW.	UNIGESTION	29-29 JAN 13	NO			

! Metropolitan **Borough of Wirral**

REGISTER OF CPD /TRAINING FORM

Department :	**FINANCE**

Officer's Name	Nature of Non Hospitality	Donor Organisation	Date of Offer	Organisation Seeking Work: Yes / No	Disposal Arrangements	Senior Officer Review: Signature	Date of Review
HEAD OF PENSION FUND	SPEAKER AT EUROPEAN PENSIONS SYMPOSIUM IN BARCELONA TRAVEL AND ACCOMMODATION PROVIDED.	INSTITUTIONAL INVESTOR	5-8 FEB 13	NO			
INVESTMENT OFFICER	HOTEL ACCOMMODATION AND EVENING MEAL.	KEY CAPITAL PARTNERS	14 MARCH 13	NO			
PROPERTY MANAGER	HOTEL – ATTENDED ANNUAL MEETING, ACCOMMODATION PROVIDED TO ALL LTD PTNERS.	PARTNERS GROUP	12-15 MARCH 2013	NO			
INVESTMENT MANAGER	CONFERENCE, ACCOMMODATION, DINNER – ATTENDANCE AT CONFERENCE.	BNY MELLON	19-21 MARCH 2013	NO			
HEAD OF PENSION FUND	SPEAKING AT CONFERENCE AND UPDATE MEETING WITH INCUMBENT INVESTMENT MANAGER.	MARCUS/EVANS/ UNIGESTION	22-24 APRIL 2013	NO			

Metropolitan
Borough of Wirral

REGISTER OF CPD /TRAINING FORM

Department :	**FINANCE**						
Officer's Name	**Nature of Non Hospitality**	**Donor Organisation**	**Date of Offer**	**Organisation Seeking Work: Yes / No**	**Disposal Arrangements**	**Senior Officer Review: Signature**	**Date of Review**
PROPERTY MANAGER	IPE REAL ESTATE AWARD – CONFERENCE, AWARD DINNER & PRESENTATION	IPE	16 MAY 13	NO			
HEAD OF PENSION FUND	SPEAKING AT NAPF. MEALS & ACC. PROVIDED BY NAPF AND SPONSORS.	NAPF	20-22 MAY 13	NO			
INVESTMENT MANAGER	FLIGHT & ACCOMMODATION TO ATTEND ADVISORY BOARD	SL CAPITAL PARTNERS	11 MAY 13	NO			
INVESTMENT MANAGER	GOLF & LUNCH – ADVISORY BOARD	A&M CAPITAL PARTNERS	16 MAY 13	NO			
PROPERTY MANAGER	EVENING DINNER & CONFERENCE – WITH ACCOMMODATION.	CBRE Global Investors	3-4 JUNE 13	No			
INVESTMENT MANAGER	ACCOMMODATION & DINNER AT AGM	RHONE	6-7 JUN 13	NO			
INVESTMENT MANAGER	ACCOMMODATION & DINNER, ADVISORY BOARD MEETING.	PALATINE	16 JUN 13	NO			
INVESTMENT MANAGER	CONFERENCE, ACCOMMODATION & MEAL, SPEAKER ON PANEL.	INSTITUTIONAL INVESTOR	24-26 JUN 13	NO			

! Metropolitan
Borough of Wirral

REGISTER OF CPD /TRAINING FORM

Department :	FINANCE						
Officer's Name	**Nature of Non Hospitality**	**Donor Organisation**	**Date of Offer**	**Organisation Seeking Work: Yes / No**	**Disposal Arrangements**	**Senior Officer Review: Signature**	**Date of Review**
CIPFA TRAINEE	CONFERENCE – WITH ACCOMMODATION. ANALYSIS SERVICE FOR EXTERNAL INVESTMENT MANAGERS.	INALYTICS LTD	17-18 JUN 13	NO			
HEAD OF PENSION FUND	ATTENDANCE AT LGC PENSION FUND SYMPOSIUM AS SPEAKER. TRANSPORT, ACCOMMODATION AND HOSPITALITY PROVIDED.	LGC	27-28.JUN13	NO			
INVESTMENT OFFICER	DINNER – FOLLOWING ANNUAL INVESTOR DAY	Bridges Venture	18 JUN 13	No			
HEAD OF PENSION FUND	ATTENDANCE AT ANNUAL INV SUMMIT. ACC, HOSP AND TRANSPORT PROVIDED.	INVESCO	11&12 JUL 13	NO			

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Metropolitan
Borough of Wirral

REGISTER OF CPD /TRAINING FORM

Department : **FINANCE**

Officer's Name	Nature of Non Hospitality	Donor Organisation	Date of Offer	Organisation Seeking Work: Yes / No	Disposal Arrangements	Senior Officer Review: Signature	Date of Review
PROPERTY MANAGER	PROPERTY BREAKFAST MEETING – INFORMAL ROUND TABLE EVENT TO PROVIDE INSIGHT INTO CURRENT ISSUES.	KPMG	10 JUL 13	NO			
INVESTMENT MANAGER	DINNER – FOLLOWING BUSINESS MEETING	PAAMCO	29 AUG 13	NO			
INVESTMENT MANAGER	LUNCH – FOLLOWING BUSINESS MEETING	SL CAPITAL PARTNERS	28 AUG 13	NO			
INVESTMENT MANAGER	LUNCH – FOLLOWING BUSINESS MEETING	CAPITAL DYNAMICS	27 AUG 13	NO			
INVESTMENT MANAGER	DINNER – FOLLOWING BUSINESS MEETING	BLACK ROCK	28 AUG 13	NO			
PROPERTY MANAGER	PROPERTY CONFERENCE. HOTEL ACCOMMODATION FOR ALL DELEGATES	INVESCO	17-18 SEP 13	NO			

! Metropolitan **Borough of Wirral**

REGISTER OF CPD /TRAINING FORM

Department :	FINANCE						
Officer's Name	**Nature of Non Hospitality**	**Donor Organisation**	**Date of Offer**	**Organisation Seeking Work: Yes / No**	**Disposal Arrangements**	**Senior Officer Review: Signature**	**Date of Review**
INVESTMENT OFFICER	DINNER AT GSAM INVESTOR CONFERENCE AND ATTENDANCE AT CONFERENCE.	GOLDMAN SACHS ASSET MANAGEMENT	18 SEP 13	NO			
HEAD OF PENSION FUND	ATTENDANCE AT LGC PENSION INV. SUMMIT WITH ELECTED MEMBERS. HOSPITALITY PROVIDED BY SPONSORS.	LGC	4-6 SEP 13	NO			
HEAD OF PENSION FUND	ATTENDANCE AT ANNUAL AWARDS CEREMONY.	LGC	11 DEC 12	NO			

Agenda Item 10

WIRRAL COUNCIL

PENSIONS COMMITTEE

19 NOVEMBER 2013

SUBJECT:	**LGC INVESTMENT CONFERENCE**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**STRATEGIC DIRECTOR TRANSFORMATION & RESOURCES**
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

1.1 This report requests nominations to attend the Local Government Chronicle (LGC) Investment Conference, to be held in Chester on 28-28 February 2014.

2.0 BACKGROUND AND KEY ISSUES

2.1 The conference is themed “Rising to the Challenges Ahead” and will cover the progress of the new pensions regulations; the oversight role of the Pensions Regulator; various investment workshops; and thoughts on the restructuring of the LGPS and the challenges they may bring.

2.2 The conference is scheduled for 27 and 28 February 2014. It is likely that delegates would require overnight accommodation on 27 February.

2.3 As a consequence of attending the Investment Summit in September, the Fund is entitled to receive one free place. Conference costs including accommodation are £425 plus VAT per person, with travel an additional cost.

2.4 Attendance at this conference has traditionally been in the ratio 1:1:1. In recent years the independent adviser has also attended the conference and I would recommend that this decision is continued.

3.0 RELEVANT RISKS

3.1 The Fund is required to demonstrate that Members of Pensions Committee have been adequately trained. This conference is a recognised training opportunity.

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 The cost of attendance plus a night's accommodation will be £425 per delegate plus VAT (excluding travel), which can be met from the existing Pension Fund budget.

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 Committee considers if it wishes to send a delegation to attend this conference and, if so, to determine the number and allocation of places.

13.0 REASON/S FOR RECOMMENDATION/S

13.1 The CIPFA Knowledge and Skills Framework requires the Fund to prove that Members have received adequate training and this conference is a recognised training and development opportunity.

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APPENDICES

NONE

REFERENCE MATERIAL

NONE

SUBJECT HISTORY (last 3 years)

Council Meeting	**Date**

Pensions Committee	**17 January 2012**
Pensions Committee	**16 November 2010**
Pensions Committee	**6 April 2009**

WIRRAL COUNCIL

PENSIONS COMMITTEE

19 NOVEMBER 2013

SUBJECT:	**LOCAL GOVERNMENT CHRONICLE (LGC) INVESTMENT AWARDS**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**STRATEGIC DIRECTOR TRANSFORMATION & RESOURCES**
KEY DECISION? *(Defined in paragraph 13.3 of Article 13 'Decision Making' in the Council's Constitution.)*	NO

1.0 EXECUTIVE SUMMARY

1.1 This report informs members of the submission of an entry for the LGC Investment Awards 2013.

1.2 Attendance at the awards ceremony if the Fund is shortlisted should be considered.

2.0 BACKGROUND AND KEY ISSUES

2.1 The awards have been held for a number of years and are intended to celebrate the highest levels of achievement in local government pension funds.

2.2 The closing date for submission of entries was 25 October and I will provide a verbal update on progress at the meeting. If the Fund is shortlisted, then Members may wish to attend the awards ceremony.

2.3 The awards ceremony is to take place on 11 December at the Grand Connaught Rooms, Holborn, London.

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 from 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 was no charge for entering the awards competition or for attendance at the awards ceremony. The cost of travel to London and overnight accommodation can be met from within the existing budget provision.

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 no carbon usage implications, nor any other relevant environmental issues 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 Committee consider attendance at the awards ceremony on 11 December.

13.0 REASON/S FOR RECOMMENDATION/S

13.1 To ensure that, if shortlisted, the Fund is represented at the awards ceremony.

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APPENDICES

None

REFERENCE MATERIAL

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee	November 2012

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WIRRAL COUNCIL

PENSIONS COMMITTEE

19 NOVEMBER 2013

SUBJECT:	**INVESTING FOR GROWTH**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**STRATEGIC DIRECTOR TRANSFORMATION AND RESOURCES**
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to inform Members of the progress of an initiative by a number of Local Authority Pension Funds including Merseyside Pension Fund to look at the potential opportunities for investing for wider economic and social benefit.

2.0 BACKGROUND AND KEY ISSUES

2.1 The Government is encouraging pension funds to invest more in major infrastructure projects. Local authorities meanwhile are looking to bridge their capital funding gaps with private finance, including from pension funds. However, it is unclear what the potential is for local authority pension funds to increase their investments in the UK, and how much scope is there to maximise investments to help stimulate economic growth.

2.2 In the spring of last year, a major new study was commissioned from the Smith Institute, supported by the Local Authority Pension Fund Forum (LAPFF) and Local Government Pension Scheme funds, seeking to provide fresh insights into what is happening with local authority pension funds and with the aim of delivering a rigorous assessment of the prospects for advancing local authority pension fund investment to help stimulate growth and wider economic development.

The study aimed to:

- Test out what the demand for such investments might be;
- review what has been achieved and what can be achieved by such investments;
- identify the key opportunities and barriers to change; and
- make recommendations on what government and other partners might do to enable changes in practice.

The review was delivered by an independent body of researchers whose members were: The Smith Institute; The Centre for Local Economic Strategies (CLES); and Pensions Investment Research Consultants (PIRC). It also included a peer review panel with members from the LAPFF.

2.3 The report was published on 24 October 2012 and is attached at appendix 1. The principal findings were:

- Impact investments, for wider economic benefit, mostly centred on developing infrastructure – mainly UK office property

- Whilst maximising returns remained paramount for all funds, most would be interested in developing impact investment provided that: rates of return and the right risk profile could be achieved; there were no conflicts of interest; the investment schedule was clear; there was a track record of delivery; and investors had a clear exit strategy.

- The main barriers were managing reputational risks and potential conflicts of interest, especially where local infrastructure schemes were concerned.

- Impact investments were perceived to be more resource-intensive than conventional investment practice, in terms of management and the knowledge requirement. Scale was required to bear the due diligence, legal, administrative and other management costs.

- A number of common areas for future training were identified including: setting up joint ventures, pooling arrangements and associated legal issues; developing framework agreements for procurement and commissioning external managers.

2.4 Following the report, to test the market, the five LGPS funds sought expressions of interest from asset managers who could propose investments with a positive economic impact locally, regionally or nationally.

A significant number of responses (28) were received and categorised according to a variety of criteria. A smaller number of proposals are now being evaluated by the LGPS funds with an initial meeting taking place on 8 November.

2.5 Those proposals that satisfactorily pass the overall evaluation criteria will be then be considered for investment by each of the LGPS funds subject to the specific requirements of each fund.

3.0 RELEVANT RISKS

3.1 Impact investing is a new area of investment for the fund and has a limited track record.

3.2 There are reputational risks and potential conflicts of interest, especially where local infrastructure schemes are concerned.

3.3 Unless adequate resources are available, there is the risk that insufficient coverage is available as the investments are likely to be more resource-intensive than conventional investment practice, in terms of management and the knowledge requirement. Due diligence, legal, administrative and other management costs will be considerable.

4.0 OTHER OPTIONS CONSIDERED

4.1 Not relevant for this report.

5.0 CONSULTATION

5.1 Not relevant for this report.

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are no implications arising directly from this report.

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

7.1 By pooling resources with other LGPS funds and sharing the evaluation of the proposals, the Fund's approach seeks to manage demands on staff time and resources. Nonetheless, considerable staff time has already been devoted to the evaluation so far. As detailed in section 3, investments of this nature are likely to be more resource intensive.

8.0 LEGAL IMPLICATIONS

8.1 There are no implications arising directly 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 no carbon usage implications, nor any other relevant environmental issues arising from this report.

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 There are no planning or community safety implications arising from this report.

12.0 RECOMMENDATIONS

12.1 That the Pensions Committee notes the report and progress of this initiative.

13.0 REASONS FOR RECOMMENDATIONS

13.1 This initiative has gained a high profile and MPF was one of the principals behind the commissioning of the report from the Smith Institute.

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APPENDICES

1. The report from the Smith Institute is attached as an appendix to this report.

REFERENCE MATERIAL

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

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local authority pension funds: investing for growth

prepared by a research consortium of the Smith Institute, the Centre for Local Economic Strategies (CLES), Pensions Investment Research Consultants (PIRC) and the Local Authority Pension Fund Forum (LAPFF)

THE SMITH INSTITUTE

About the Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum (LAPFF) exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting social responsibility and corporate governance at the companies in which they invest. Formed in 1990, the forum brings together a diverse range of local authority pension funds with combined assets of over £100 billion.

About Pensions Investment Research Consultants

Pensions Investment Research Consultants (PIRC) is the UK's leading independent research and advisory consultancy providing services to institutional investors on corporate governance and corporate social responsibility. Since 1986, it has been the pioneer and champion of good corporate governance within the UK.

PIRC has a wide spectrum of clients ranging from pension funds, faith-based investors and trade unions to banks and asset managers. Its Corporate Governance Service is an authoritative and vital resource for active investors, while its widely-read Shareowner Voting Guidelines provide a market-wide benchmark for investors and forms part of the movement for corporate governance reform and long-term wealth creation strategies for responsible investors.

About the Smith Institute

The Smith Institute is a leading independent think tank which promotes progressive policies for a fairer society. We provide a high-level forum for new thinking and debate on public policy and politics. Through our research, reports, briefings, monographs, events, lectures, education and website, the institute offers a platform for thought leadership on a wide range of topics. We are interested not only in innovation and new ideas but also in how to translate policy into practice.

About the Centre for Local Economic Strategies

The Centre for Local Economic Strategies (CLES) is the UK's leading member and research organisation, with charitable status, dedicated to regeneration, local economic development and local governance. CLES brings together a network of subscribing organisations, including regeneration partnerships, local authorities, regional bodies, community groups and voluntary organisations.

Established in 1986, CLES undertakes a range of activities including policy research, production of publications, training, an information and briefing service, events and a consultancy trading arm, CLES Consulting. CLES also owns New Start Magazine, the international magazine for making better places.

The project is supported by major funds from across the country, including: the Local Authority Pension Fund Forum; Greater Manchester Pension Fund; Merseyside Pension Fund; South Yorkshire Pension Authority; West Midlands Pension Fund; West Yorkshire Pension Fund; and Northern Ireland Local Government Officers' Superannuation Committee.

local authority pension funds: investing for growth

prepared by a research consortium of the Smith Institute, the Centre for Local Economic Strategies (CLES), Pensions Investment Research Consultants (PIRC) and the Local Authority Pension Fund Forum (LAPFF)

Published by The Smith Institute

Contents

Foreword

Paul Hackett, Director of the Smith Institute, Alan MacDougall, Managing Director of Pensions Investment Research Consultants, and Neil McInroy, Chief Executive of the Centre for Local Economic Strategies

The economic and policy context for investment in the UK has experienced significant change over the past five years. The recession and persistent credit squeeze has not only affected the immediate prospects of the private, public and social sectors, it has prompted a fundamental rethink about what we should be investing in and where new sources of finance might come from. Pension funds, including those of local authorities, have become an important item on this new agenda, with much talk in Whitehall and town halls about directing pension fund investment towards upgrading the nation's infrastructure and kick-starting major capital projects.

Local authority pension funds, which hold investments and assets of more than £120 billion, already make substantial investment in the UK. But in this time of fiscal austerity and uncertainty, can they do more to invest for wider economic and social benefit? This unique and extremely timely study tests out what the demand and scope for such investment might be; takes an impassioned look at what has been achieved and can be achieved; highlights the key opportunities and barriers to change; and makes some practical recommendations to government, local authority pension funds and their partners.

There are no quick fixes. Patience, due diligence and fiduciary responsibility are watchwords for all local authority pension funds. Reforms to the system take time, and demand consensus. However, there are positive signs of change, not least around impact investment and pooled funds.

We hope our findings enhance the debate about investment for local growth not only among pension fund experts and professionals, but also among local authority members and officers, and those in central government. We also hope to stimulate much wider interest and a more constructive dialogue between the sector and politicians, policy makers, opinion formers and the public (many of whom are members of local authority pension schemes). There is still more work to be done on this topic, but we believe that rigorous studies like this can provide the much-needed solid evidence base that trustees and managers need if they are to do things differently in future.

The project included extensive desk research; case studies; interviews with pension managers, fund managers, local authority members and officers; peer review meetings with Local Authority Pension Fund Forum (LAPFF) members; and three round table seminars in Manchester, Barnsley and London. We hope the results reflect the views we received.

We would like to thank all those who took part in the project, especially those who attended the round tables. We would also like to thank the LAPFF members for sponsoring this project and for the information and advice they gave, in particular Brian Bailey, whose knowledge and guidance was invaluable. And finally we would like to offer a very special thanks to Rupert Greenhalgh, the lead researcher, whose work is of the highest standard.

Executive summary

Executive summary

Context

This study is the first of its kind in the UK. It aims to provide a detailed assessment of how pension funds can use their substantial resources to deploy capital in ways that derive wider economic benefit. As such, the study's objectives are to:

- test out what the demand for impact investments might be;
- review what has been achieved and what can be achieved by such investments;
- identify the key opportunities and barriers to change; and
- make recommendations on what stakeholders might do to enable changes in practice.

The study is based upon the results of interviews and workshops with local authority pension fund officers, local authority economic development officers and external fund managers. The main lines of enquiry were informed by a detailed literature review and a call for evidence that was sent out to 100 funds across the UK. The response from these forms the basis for the structure of the report.

General context

The recent turbulence in the world's economy has resulted in the diversification of investment portfolios and mitigation of risks in investment decisions over the past 18 months. Almost all funds have responded by increasing their exposure to "alternatives" – private equity and infrastructure. Infrastructure investment was cited in approximately four-fifths of the research interviews.

Impact investments

Trustees are showing growing interest in and action towards developing new and alternative sources of investment.

Fiduciary responsibilities and "finance first" were cited as the main reasons for not developing extensive impact investments. Impact investments, for wider economic benefit, mostly centred on developing infrastructure – mainly UK office property. Most regarded established infrastructure as the most attractive in terms of long-term income streams, awareness of risks and a track record of data on occupation, rents and yields.

Whilst maximising returns remained paramount for all funds, most funds stated that they would be interested in developing impact investment in the future, provided that: rates of return and the right risk profile could be achieved; there were no conflicts of interest; the investment schedule was clear; there was a track record of delivery; and investors had a clear exit strategy.

The question of social return cannot intrude on return or fiduciary responsibilities. No funds said they would be prepared to accept lower returns in exchange for achieving social benefit. Equally, current examples of layered investments were also in a minority, despite a growing interest in learning more about these types of opportunity.

While fiduciary responsibility was a first-order concern for funds, there was also a significant interest in the issue of pooling resources, mergers and the barriers to scaling up investment. Most funds recognised that infrastructure investments were likely to be more attractive to the larger funds that had scale and would be able to bear the due diligence, legal, administrative and other management costs.

Key barriers to impact investments

The main barriers arising in relation to developing impact investments (particularly for infrastructure funds) were managing reputational risks associated with new investments and potential conflicts of interest, especially where local infrastructure schemes were concerned. Despite these perceptions, investment for wider impact was certainly much higher up the agenda of all the funds interviewed.

Conflict of interest was the primary worry for almost every fund interviewed, and to a lesser extent there were concerns about the risks of investing locally, along with the fact that some employers in a fund (such as outsourced admitted bodies) might not be locally based or derive any real benefit, and so might question such policies.

Impact investments were perceived to be more resource-intensive than conventional investment practice, in terms of management and the knowledge requirement for trustees. Funds were concerned that more complex fund portfolios would put additional pressure upon pension panel members, who already had limited time to devote to their trustee responsibilities.

Investment consultants were regarded as the main gatekeepers, best placed to support and advise on changes in asset portfolio, such as investments for wider economic impact. The other gatekeepers were typically identified as one or two elected members that had a particular interest in particular types of, for example, environmental and social investment, and who were prepared to act as champions to take changes forward.

The qualifications of investment officers were identified as paramount for good fund management.

A number of common areas of future training were identified during the interviews, including: setting up joint ventures, pooling arrangements and associated legal issues; developing framework agreements for procurement and commissioning external managers; and understanding complex alternative investments such as layered property investments, joint ventures, and the use of derivatives and hedge funds to manage exposure to certain investments.

Potential for delivering social and environmental impacts

Scaling up the social investment sector will require the development of consistent and robust evaluation processes, in order to raise confidence and attract new investment. The majority of funds interviewed said they thought that this area of investment was largely untested, requiring more information on the historic levels of risks and rates of return to be generated.

Environmental or green investments were, however, seen as a growing asset class, offering a range of subsectors, industrial operations, and localities which could be used to diversify risk and returns across an investment portfolio. The main opportunities identified were linked to government policy relating to waste management, energy sources and carbon targets, and resource efficiency.

While there has been a significant amount of discussion across UK pension funds regarding social housing, there was very little current evidence of take-up of social housing investment products. However, they are proving attractive enough to stimulate requests for further consultancy advice and debate about future development. Most funds suggested they were waiting for others to lead "demonstration projects".

It was widely considered that the development of alternative investments, including those for wider economic benefit, would require external consultancies to "push" on these types of issues (such as social impact investments) if they were to have future traction.

Key summary messages for central government

The government needs to show leadership, expediency and greater clarity on how some of its ideas around using pension funds for infrastructure investment would work in practice – including legislation, guidance and financial support to enable the pooling of funds. Most funds feared a rush to pension funds with the expectation that they would be in "a position to support any type of local or national infrastructure".

The government should take a more active role in supporting those areas that wish to move towards pooled investments. Some funds suggested that more could be done to merge funds across the UK (for scale rather than efficiency savings). Others expressed some caution over being forced into mergers that were not in the interests of their funds.

Many fund managers were reluctant to invest in areas where government policy has a significant bearing on the potential returns on investment, with many citing the recent changes to energy feed-in tariffs and the knock-on effects for business investment in the micro-generation sector. They stated that the government's role must be to provide a stable long-term policy environment that provides fund managers with the confidence to invest for wider economic benefit.

Key messages for local government

Dialogue across local authority and local enterprise partnership boundaries is vital in presenting investment opportunities. There were divergent views about the geographic scale at which wider impact investment should operate, including the potential for pooled funds at pan-regional or city-regional level (in some of the UK's larger city-regions).

A pooling of ready opportunities for investors should be considered, provided that they were heavily informed and forged by what the investment market required/would be receptive to.

Pooling was seen as a way for smaller funds to benefit from larger organisations' experience, capacity and ability to bear due diligence costs. Taking this a step further, a number of funds were also interested in receiving more guidance on the legal issues affecting "pooling and service-level agreements" between authorities to build economies of scale to develop funds, in particular where smaller funds could piggy-back on larger funds in their region.

Funds also highlighted the importance of local authorities in making places more attractive for investment, including their role in economic development, providing strong leadership and governance, delivering quality public services and managing local infrastructure. Addressing bottlenecks in planning and fast-tracking planning applications were the most common examples given as ways to make places more attractive for investment.

Some funds cited the potential to blend sources of finance to kick-start "recyclable funds", where commercial investment is matched against sources of European funding. However, they also stated that there needed to be a shift away from authorities' reliance on funding. The notion of "soft money" was raised as a huge risk for how future investments are perceived, in terms of ensuring that investments are not perceived as depending solely on subsidies.

Moving the agenda forward: key recommendations

The report concludes by making five key recommendations.

Recommendation 1: Better information and clearer guidance

Local authority pension funds should work with the Local Authority Pension Fund Forum (LAPFF), relevant government departments, external investment fund managers and the Chartered Institute of Public Finance & Accountancy to develop guidance and technical papers on impact investment and pooled investment vehicles.

Recommendation 2: Demonstrable case studies and training on matching impact investment within fiduciary duties

LAPFF should work with investment intermediaries and consultants to develop good-practice case studies, for promotional use by "champion trustees" on how impact and infrastructure investments can be used effectively within their fiduciary duties to enhance the risk/reward profiles. LAPFF needs to explore member support/funding for the development of a series of training seminars for pension fund officers that highlights emerging finance vehicles which "layer" investments, combining high- and lower-risk investments (for instance, including property assets to underwrite risk).

Recommendation 3: Legislative adjustments – enhancing potential for flexibility

The government should consider reviewing and exploring potential changes to restrictions on investments (as set out in *The Local Government Pension Scheme Schedule – Management and Investment of Funds*), to enable local authorities to have sufficient flexibility to address the issues and recommendations set out in this report, in particular those relating to limits for investment in limited partnerships.

Recommendation 4: Create an enabling platform – a clearing house

Local authority pension funds and other relevant partners, including LAPFF, should lobby government to fund an independent external agency to act as a clearing house, gathering data from a wide range of (impact) projects around the UK, supporting transparent valuation and consistent financial reporting standards of impact/infrastructure projects. The agency would support the development of a combined national framework and standard for assessing economic, social and environmental value: of interest to the public, politicians, commissioners, social investors and local communities.

Recommendation 5: A new pooled vehicle

The potential should be explored for a core group of larger pension funds to contribute funding for the commissioning of an independent manager to help determine and deliver a way forward for pooled impact investment funds. The aim of the fund manager would be to develop a joint investment agreement that would see a group of five or more signatories each putting £5 million to £10 million into a pooled vehicle, with a view to inviting local authorities/public-sector bodies to put forward bids for the investment, including the leverage of other sources of public and private investment.

1. Introduction

1. Introduction

1.1 Context and terms of reference

The UK has over £1.6 trillion of assets under management in pension funds – 9% of the world's total, a sum larger than the UK's GDP.[1] Within the public sector alone, there are over 100 separate local government pension schemes, with a market value of £143 billion in March 2011.

It is clear that the government sees the use of institutional investors, such as pension funds, as an important source of future investment, in particular for national infrastructure.[2] These funds have the potential to help supply long-term, stable growth capital – at scale. At the same time the public sector is looking for new sources of investment to bridge capital funding gaps with private finance. The social sector is also looking at the potential role which it, and sources of impact investment, can play in the development and delivery of local services.

With intense competition for the resources available to public services, regeneration, transport, infrastructure and business support, it will be a huge challenge to maintain momentum and investment in many of the local plans and development programmes across the UK. Regaining this momentum will require fresh approaches to securing investment. It will also require greater flexibility from both the public and private sector in developing investment vehicles which are supported by a wider range of investors and finance.

This study is the first of its kind in the UK, and aims to provide a detailed assessment on how local authority pension funds can use their substantial resources to deploy capital in ways that derive wider economic benefit. As such, the study has the following objectives:

- to test out what the demand for impact investments might be;
- to review what has been achieved and what can be achieved by such investments;
- to identify the key opportunities and barriers to change; and
- to make recommendations on what stakeholders might do to enable change.

The study is not intended to be a comprehensive benchmarking exercise, nor is it a detailed guidance note for investment managers. However, we provide case studies to illustrate transferable practice, in the hope of encouraging investors to create a new wave of investment for more resilient local economies.

1.2 Participation

The study findings are not attributable to any specific organisation (see Appendix 1 for participants); they are founded on a combination of the following research inputs:

- a call for evidence, telephone and face-to-face interviews with local authority pension fund officers, national and international investment fund managers;
- interviews with relevant UK representative bodies for investment; and
- workshops held with pension fund officers, external fund managers and local authority economic development and regeneration officers.

1.3 Report structure

The remainder of this report is structured around the following sections:

- Section 2 provides an overview of the drivers of change influencing investment, including the current market for investment and government policy.
- Section 3 provides analysis of the main findings and themes identified in a national call for evidence and interviews undertaken with investment officers and external fund managers.
- Section 4 draws on the findings of the research and a series of round-table discussions to identify recommendations for action.

2. Drivers of change

2. Drivers of change

This section aims to explore some of the issues influencing the use of local authority pension investments for wider economic benefit, including the challenges of growing investment, recent changes to government policy and the developing market for impact investment.

2.1 Growing investment

The recession has left an indelible mark on investment levels across the UK, and a lack of access to finance continues to act as a drag on growth.[3] Levels of investment by the public sector, for example on capital expenditure (investing in new assets, or adding value to existing fixed assets), remain around half of what they were throughout the 1970s, and equate to just over £1 in every £10 of local government spending.[4] Between 2007 and 2010, capital receipts[5] fell by £2.6 billion.[6]

A combination of restrictions on raising capital finance and public-sector cuts (£6.68 billion by 2015) gives little doubt that these conditions have contributed to a decline in the overall quality of infrastructure, leaving the UK in a challenging position compared with many of its peer economies. Local authorities continue to remain under intense pressure to finance existing services and initiatives, let alone invest in infrastructure to address the issues that continue to affect their long-term competitiveness – such as worsening concentrations of deprivation and worklessness.

New sources of funding, such as the £600 million Big Society Bank (launched in April 2012)[7] will not be able to completely fill holes in investment, leaving funding gaps in many areas across the UK. As a result there is an urgent necessity to find new ways of leveraging additional investment to meet the expectations and need that have built across the country. In short, the ability to recycle and reinvest public resources alongside other sources of local investment – including pension funds – must become the norm in order to stretch public- and private-sector resources further.

2.2 Local authority pension fund performance

The fallout from the credit crisis has continued to drive investment markets globally and has had a significant impact on pension returns on investment. Bank of New York Mellon has suggested that, over the past five years, the estimated weighted average for pension funds was 3.2% – slightly behind inflation (as measured by the RPI), and behind potential returns from investments such as government gilts over the same period.[8]

There were 1.6 million employees in the Local Government Pension Scheme (LGPS), with a market value of £143 billion in March 2011. Whilst this represents a significant tranche of investment, pension schemes have suffered significant losses, up to third between 2007 and 2009.[9] Our own desk research, which included a light-touch review of pension performance, suggested that many funds were operating at between 85% and 95% of expected levels.[10]

LGPS statistics illustrate the growing pressures on funds. The number of people leaving the scheme rose in 2010/11, which, because of redundancies and retirements, has also led to an increase in benefits paid (£6.73 billion in 2010/11, compared with £5.61 billion in 2008/09), while income from employees' contributions stood at £1.97 billion, representing little change on the 2008/09 level of £1.93 billion. At the same time investment from income fell from £2.87 billion in 2008/09 (26.6% of total income) to £2.7 billion (23.5%) in 2010/11.[11]

These trends have led to an increasing interest in the diversification of investment portfolios in order to manage exposure to risk. Typically, funds have aimed to combine higher-risk overseas equities with more stable longer-term investments, including bonds, property and other "alternative" investments, which have risen by over 85% to £600 million in the course of the past two years.

2.3 Developing a market for impact investment

As the language of impact investing gains resonance, questions asked with increasing frequency and relevance are: "When is an investment an impact investment?" and "How can we use investment to deliver sustainable economic growth?"

For the purposes of this report, "impact investing" and "investing for growth" were defined as "investments made based on the practice of assessing not only the financial return on investment, but also relevant and proportionate consideration of the economic, social and/or environmental impacts of the investment". Investment in UK infrastructure was also covered in this definition and this can clearly cut across each of these domains, as well as different types of asset such as property, building resource efficiency, utilities/energy, waste management and transport. Indeed, the Coalition government has set itself the task of facilitating some £250 billion worth of infrastructure investment, through "smarter use of public funding and improving private-sector investment models".[12]

This links with last year's publication of the National Infrastructure Plan,[13] calling for £30 billion to be invested over the next decade, and recent media coverage suggesting that £20 billion of this investment could potentially come from both private and local government pensions.[14] US pension funds have a track record of investing in infrastructure and regeneration programmes, typically through three types of asset classes: fixed-income, equity real estate and private equity (early and later-stage venture capital).

Impact investments are a relatively new segment of the financial market, which has emerged from an increasing convergence of: the social investing sphere, which seeks to combine wider economic impact with profit generation in order to become more self-sustainable; and an increased awareness in the traditional for-profit asset classes that value creation can only occur with due regard to both the sustainability requirements of society and delivering long-term economic growth.

Investors and investments within the field of impact finance range broadly. Investors include development finance institutions, private wealth managers, commercial banks, pension funds, investment funds, companies and community development finance institutions – operating across multiple business sectors such as water, housing, education, health, energy and microfinance. Key to the success of a majority of investments is that they are expected to generate financial returns alongside wider economic and social returns. Recent research[15] into the requirements of investors also found that they are likely to engage if impact investments can offer:

- an expectation of market or close to market returns;
- some guarantee or mitigation of risk while approaching market-level returns;
- liquidity, which helps to reduce perceived risk;
- robust measurement and evidence of the returns generated by the investment;
- larger-sized investment opportunities, for example through pooled funds; and
- fund managers with a track record in which key institutions can develop confidence.

The impact investment market today is typically dominated by government-backed funds and a small number of banks and trusts (Charity Bank, Ecology Building Society, Triodos UK and Unity Trust Bank), which were collectively responsible for around 70% of investment activity in 2010/11.[16] Their focus is on lower-risk, secured lending and represents a more traditional form of impact investing that has been a familiar feature of the sector over a number of years.

However, if a vision is to be realised of a more vibrant impact investment market that blends together higher-risk opportunities with more secure returns, then this will need wide-scale development of the institutions, knowledge, experience and skills of the organisations and fund managers surrounding impact investment, as much as the type of asset class itself. Therefore, this study takes a broader look at the potential blockers and drivers of growth in the use of impact investment, including the following themes, which will provide the main framework for the remainder of this report:

- pension performance, attitudes to risk and portfolio diversification;
- barriers to developing investment for wider economic impact;
- potential for pooling investments and achieving scale returns on investment;
- delivering social impacts;
- resource limitations, including knowledge, capacity and skills;
- the demand for investment; and
- lobbying messages to help scale up impact investment.

2.4 Government policy and strategy

There is a variety of recent legislation and government strategy relevant to this study, most notably the Localism Act[17] and the Public Services (Social Value) Act 2012,[18] as outlined below.

2.4.1 The Localism Act

The Coalition government, under the Localism Act, has made a series of reforms to allow authorities to act in their own financial interest to generate value-for-money outcomes, to raise money, and to allow authorities to engage in activities outside their powers of well-being:[19] "We have to create the conditions for communities to invest in their own success, give councils proper power over spending, as well as more control over the tax they raise and keep."[20]

These reforms are part of the Coalition's "localism" agenda, which aims to devolve more freedoms and flexibilities required for local authorities to develop innovative approaches to delivering services and securing investment. Incentives include localising council tax benefit, reform of council housing financing, development of local enterprise partnerships and enterprise zones, changes to the planning system, City Deals and plans for referendums to establish more local mayors.

How radical these reforms prove to be will not be fully clear until after the Local Government Finance Bill[21] has come into force later in 2012. However, it does present an opportunity to support new investment and funding tools and to provide greater flexibility over revenue streams, including the retention of a proportion of local business rates. It also aims to encourage greater collaboration between commercial, public and social sectors, to encourage growth in the following ways:

- **Local authorities and the social sector:** leveraging land and infrastructure assets; providing revenue; growing planning powers; and providing high-quality support services.
- **Government agencies:** managing land assets; providing project design and delivery expertise; and delivering direct funding or enabling finance.
- **Private sector:** providing financial resources and know-how; project management and delivery expertise; and the ability to bear risks that the public sector would prefer not to hold.
- **Local employees and communities:** building strong social capital; and locking in local economic benefit through earnings, local spending and investment.

2.4.2 The Public Services Act

The Public Services (Social Value) Act became law on 8 March 2012. It emphasises the importance of increasing public value through investment in public services and supporting wider economic impacts, which can be generated by the private sector, the voluntary and community sector and by informal community networks – as well as by governments.

The bill brings in a statutory requirement for public authorities, at the pre-procurement stage of any services contract (and at this stage, services contracts only), to have regard for economic, social and environmental well-being in their areas. It aims to make the concept of "social value" more relevant and important in the placement and provision of public services. This will provide an opportunity for local authorities to support new models of service delivery and encourage them to explore new ways of enabling and attracting investment for social and wider economic benefit.

2.4.3 HMG: Growing the Social Investment Market 2012

This strategy, published in July 2012, sets out afresh the government's vision of a thriving social investment market where social ventures can access the capital they need to grow, allowing them to do more to build a bigger, stronger society. It sets out the steps for achieving the vision, explaining how government and others can act, including the role of the "Big Society Bank" as a wholesale investor and champion of the market.

The document also sets out how government can continue to have a central role to play in developing this important market, including a focus on:

- increasing the number of credible social investment opportunities, by supporting social entrepreneurs with promising ideas to start up new social ventures through the development of "social incubators" that provide space, finance and support;
- supporting more social impact bonds to get off the ground and enabling social ventures to deliver large public-service contracts through a potential dedicated outcomes finance fund; and
- making it easier to invest in social ventures by reviewing and removing the legal, regulatory and financial barriers to social investment and social enterprise.

2.4.4 Pensions Investment Platform

The National Association of Pension Funds (NAPF) and the Pension Protection Fund (PPF) are working together to create a Pensions Infrastructure Platform (PIP). The PIP will be a new £2bn fund which will be created around the long-term needs of pension funds for long-term, inflation-linked, low risk infrastructure assets free from construction risk and with low leverage. The fund is planed to launch in the first quarter of 2013. Joanne Segars, Chief Executive of the NAPF, has said: "Pension funds are keen to invest in infrastructure, but often find it difficult to do so. Skills gaps, small fund sizes, investment fees, and fears over construction risk are all obstacles at the moment. We think one possible solution is in sight. We are well under way with the development of a new pensions infrastructure platform to help give pension funds large and small access to this important asset class."

3. Study findings

3. Study findings

This section provides the results of interviews with local authority pension fund investment officers, external fund managers and relevant representative organisations linked to the pensions sector. It summarises the results of a call for evidence that was sent out to over 100 funds across the UK. It also draws upon three round-table discussions held in the summer of 2012: two sessions held with local authority pensions fund officers and economic development, regeneration and housing officers, and a workshop with external fund directors in London.

The main lines of enquiry were informed by a detailed literature review (see bibliography) which forms the main basis for the structure of the report. Relevant policy implications and recommendations flowing from the research are outlined in the final section.

3.1 Fund performance and portfolio diversification

The study asked questions about the performance of funds, the general climate for investment, materiality given to environmental, social and governance issues (ESG), and whether or not significant changes had been made to funds over the course of the last 18 months. The interviews also discussed the extent to which trustees understood the market for making investment for wider economic benefit and for their perceptions on potential risks and returns.

All funds operate an asset mix policy which creates a framework for making investment decisions that have an improved prospect of generating returns consistent with the funding investment target. Their goals include:

- maintaining sufficient liquidity from fixed-income securities and cash flows to pay pensions;
- having large sums of capital available to complete private market transactions; and
- providing a cushion against market catastrophes and preserving their credit rating.

It was clear that all fund managers interviewed had witnessed a difficult 18 months in terms of financial performance of their funds, stemming initially from the credit crisis and subsequent stock-market meltdown, and rising costs of pension plan benefits reflecting the rising age profile of members:

We've been through a period of considerable change in terms of the fund [performance] and economic changes… We have worked over the last year to reduce our exposure to equities.

While there was a clear understanding that fund portfolios were long-term investments (typically exposed to peaks and troughs in market performance), the recent economic turmoil, lower-than-expected returns and pressure on pensions to meet their liabilities have led almost all fund managers and trustees to want to "take some risk off the table".

Mitigation of risks and the diversification of investment portfolios have been at the forefront of investment decisions over the past 18 months, with the aim of ensuring that there is no overexposure to any one asset or risk (timing, credit, liquidity, legal and other external risks). This was recognised by most of the funds and all external fund managers:

Long-term diversification will be vital… The more innovative funds will move beyond bonds and equities and will be looking at things like infrastructure, which is doing a similar job as index-linked gilts, but offering a better rate of return in the longer run.

With public funding sources under increasing pressure, many funds had decided to review their strategy. Aside from a few funds who suggested that there would be no "knee-jerk" reactions or were broadly happy with their funding strategy, most funds said they had looked to increase exposure to "alternative investments". These were, in the main, most likely to include private equity (including early and later-stage venture capital) and infrastructure (mostly property).

A couple of funds interviewed said that they were interested in the potential for using derivatives and hedge funds to give them more flexibility, but were cognisant of some of the legal difficulties that have surrounded this issue in case law in the past:

We've taken a look at alternatives such as hedge and derivatives to give the fund more flexibility, but we're taking advice on this to see what is possible.

Infrastructure investment was cited in approximately four-fifths of the research interviews as a key area for portfolio diversification. Around half of these already had infrastructure investments (through external fund managers), and the other half were taking advice (typically through consultants, or in discussion with other external partners) on the potential for future property investment:

They [trustees] have considered social housing, but have not made any active investments in this area yet. If there is a payoff from this type of investment then they would certainly look at it, but at the moment they are waiting to see what materialises around the debate on infrastructure.

Some of the larger funds interviewed identified a proactive approach as a way of mitigating the potential risk of being overwhelmed by a deluge of developers and members putting schemes forward for finance. Funds saw this approach as part of the process of working with external fund managers on property funds, and then when the time came they would have "an established seat at the table to flag up the stronger, well-evidenced, local opportunities".

The workshops with pension fund officers highlighted the progress that some of the larger funds had made in terms of developing recyclable investment funds and other property ventures that have been developed jointly with local authority partners. The discussion groups also highlighted that more could be done to promote what property development investments were available throughout the UK, and more support should be given through government and intermediaries to help local authorities develop "solid investment proposals":

It would be useful to have a single agency or platform to promote opportunities for investment… Equally, more could be done in terms of raising the quality of proposals that are requesting investment.

3.2 Materiality of impact investments

The interviews highlighted the need to clarify what was meant by the terms "impact investment" and "investing for growth". Many saw these as referring solely to social investments, and additional effort was made during the interviews to discuss the potential to develop infrastructure and environmental investments for wider economic (including local, regional and national) impact.

While there was growing interest in and action by trustees towards developing new and alternative sources of investment within their investment strategy, there was much less evidence (other than in some of the larger funds) of impact investments that extended beyond active engagement with companies to address environmental, social and governance (ESG) issues.

There was a growing recognition that ESG issues were an important part of developing a more sustainable long-term investment. These issues are typically dealt with by the delegated authority given to external fund managers and their compliance with the Stewardship Code and UN Principles of Responsible Investment:

The main duty is placed upon external funding managers who, as part of their contract, are required to select investments by making relevant and proportionate ESG consideration.

Funds used their position as shareholders to actively encourage good corporate governance in those companies in which they invested, typically by outsourcing proxy voting to external consultants, and through membership of the LAPFF acting collectively on governance issues:

LAPFF provides a very useful link into ESG issues and influencing change.

Most funds suggested that most of the recent conversations around alternative/impact investments centred on developing infrastructure – mostly UK office property investments. The call for evidence also highlighted the fact that established infrastructure (rather than green-field developments) proved most attractive in terms of long-term income streams, awareness of risks and a track record of data on occupation, rents and yields.

Some pension funds highlighted that complex products could put "pressure on the fund's resources" in terms of time needed to understand, promote and manage these investments, and a minority suggested that this could – without clear communications – create confusion and turn away investors.

The added complexity from such investment could run the risk of reducing transparency, putting pressure on staffing resources (in terms of management and developing staff in new areas of investment), and could – in extreme cases – put investors off.

Many investors (including institutional investors and pension funds) typically have a natural asset allocation model that allows them to allocate specific "sector buckets" rather than the specialist niche areas that impact investments present. Some fund managers suggested that the development of impact investments as an asset class in their own right (for example, within pension portfolios), such as "social finance investment", would help to address this issue:

It is not always obvious in which asset class infrastructure, for example, fits. In some locations it might be familiar, but for the majority there is not a specific allocation for infrastructure and therefore the issue always remains unhelpfully open to debate, or overlooked.

The interviews and workshops identified that the development of strategy tools, case studies and demonstration projects (typically by larger funds) would help to address the perception of a "restrictive fiduciary duty", which is seen by many investors as one of the main barriers to impact investment. The workshops also highlighted that different approaches to demonstrating fiduciary responsibility could actually help develop and deliver impact investment in the longer term:

The difficulty for many local authorities and pension funds is that it is a huge leap of faith and experience, jumping from receiving EU gap funds and moving to new forms of investment… There needs to be smaller demonstrable steps (by larger funds) that will convince others to follow.

It is critical to get over perception that impact investments (social, environmental, property) have suboptimal returns… Demonstrating the impact of some of the "first-overs" would show how funds have acted in the best interest of their beneficiaries.

Typically asset class allocations are adjusted a little behind the curve; there is little one can do about it apart from information and showing what can be achieved in niche opportunities, and getting investment managers to invest in a counter-cyclical way.

There were mixed views about investing directly in local infrastructure. External fund managers and consultants were largely averse to "local-only" types of impact investment. Many funds described local investments as posing a double risk, should local initiatives fail to deliver. The general consensus was that fiduciary responsibility and "finance first" must be *the* overriding factors in all investments:

Whatever happens, we would strongly recommend that there is not a forced exposure to specific types of [local] investment… We would never advise on that; pension funds must be allowed to choose the most flexible strategy for themselves.

I think the panel understand their fiduciary responsibilities and whilst we have investment for wider impact such as property, *this is certainly not a local-only approach. The result is a danger of accumulating conflict-of-interest and risk.*

Many of the investment officers from smaller funds said that it was very difficult to accommodate direct local investments within their funding strategies, due to the lack of information about potential risks and a lack of track record relative to other strategic options. Developing a robust evidence base and an information platform which demonstrates the types of investment and potential for returns from regional infrastructure projects was commended as one way forward:

Growing these types of investments requires an all-encompassing evidence base on what needs to be done to prove the potential for investment in many places.

There could be some form of agency or clearing house that helps promote a platform showing what investments are available and to help provide additional support for building and valuing propositions.

3.3 Key barriers to developing impact investments

The main barriers arising in relation to developing impact investments, particularly for infrastructure funds, were: managing reputational risks associated with new investments and delivering fund managers' fiduciary responsibility to maximise returns for investors; and a potential for conflicts of interest, especially if the investment was linked to local schemes. Despite these perceptions, investment for wider impact and stimulating economic growth was certainly much higher up the agenda of all the funds interviewed than it had been three to five years ago:

These issues are definitely higher up the agenda than they were, but as a fund, maximising returns remain paramount, although we have bought into the concept that these issues are important factors in achieving these long-term required returns.

The key issue in this agenda is stressing fiduciary duties. All investment must stack up financially with the right return on investment; anything which limits investment (worst case into substandard investments) just goes against fiduciary responsibilities.

While maximising returns remained paramount for all funds, most funds (all but two) stated that they would be interested in developing investment for greater economic and social impact, provided that:

- rates of return and the right risk profile could be achieved, where rates of return were "understandably less than equities, but higher than bond rates";
- there were no local conflicts of interest;
- the investment schedule was clear and there was a track record of delivery; and
- there was a clear exit strategy: "investors need to know how they can get their money out".

None of the pension fund managers interviewed said they would be prepared to accept lower returns in exchange for achieving social benefit. However, the workshops highlighted that there was potential to structure or "layer" investments together – that is, blending higher-risk with lower-risk/safer long-term investments – in order to "ensure fiduciary responsibility is built into an investment product":

If the investment manager can be trusted to deliver returns on your behalf, and there is demonstrable proof that the investment portfolio/product will make risk-adjusted rates of return, for example by including a property layer as part of the investment, then there is no reason why impact investments cannot be developed and rolled out.

The workshops also highlighted a growing interest in learning more about how joint investment vehicles and asset-backed vehicles could work in future, for example, by using lessons learned from previous public-private partnership projects:

There's a lot the public sector can learn and share with the private sector in terms of managing joint investments and making them work.

Pension funds highlighted the perception that recent initiatives such as the Private Finance Initiative (PFI) have a "certain stigma attached", but despite this they also indicated that there was strong interest in developing joint investment vehicles and partnerships moving forward. Many respondents interviewed (particularly larger funds) said having a partnership, or joint venture, with multiple investment partners and external fund management support demonstrated a "stronger level of commerciality" than a stand-alone investment:

Despite all the stigma attached to PFI, there still appears to be a significant appetite to be involved in any future rounds of this type of development.

It works when there is sufficient third-party input, with the scheme scheduled correctly and more than two other investors putting money in; then you know they will have done the due diligence and got the legal frameworks in order.

Conflict of interest was the primary worry for almost every fund interviewed; and to a lesser extent there were concerns about the risks of investing locally, along with the fact that some employers in a fund might not be locally based or deriving any real benefit (that is, outsourced admitted bodies), which might put such policies in question:

The biggest thing is conflicts of interest… Local interest can cause future complaints. The general view is that all investments are appraised on their own merits… rather than for a particular impact type or geography of impact.

Most funds were more likely to show interest in third-party vehicles or external fund managers, describing the use of specialist/niche investment houses that were best placed to advise and manage infrastructure funds. Funds were keen to point out that the use of specialist fund managers was also an "expression of intent to add value to the fund":

Generating commerciality is the critical factor and helps reduce perceived risks… and this can be done by using external fund managers to provide value and market intelligence.

California Public Employees' Retirement System
The California Public Employees' Retirement System (CalPERS) manages retirement benefits for more than 1.6 million California public employees, retirees, and their families. It is the US's largest public pension fund (£237 billion) and its membership is divided approximately in thirds among current and retired employees of the state, schools and participating public agencies.

In 1990, the CalPERS investment committee established the Alternative Investment Management (AIM) programme to specialise in private-equity investments. The initiative was initially launched with a capital commitment of $475 million to nine private equity funds and one fund of funds, and currently has $925 million committed to AIM.

The goal of the AIM programme is to "capitalise on marketplace opportunities in order to achieve superior risk-adjusted returns". Consistent with this goal, in 2001 the CalPERS Investment Committee established and implemented the California Initiative to invest private equity in traditionally under-served markets, primarily, but not exclusively, in California.

The initiative seeks to discover and invest in opportunities that may have been bypassed or not reviewed by other sources of investment capital. The California Initiative's primary objective is to generate attractive financial returns, meeting or exceeding private equity benchmarks.

As an ancillary benefit, the California Initiative was designed to have a meaningful impact on the economic infrastructure of California's under-served markets, and invests in portfolio companies that employ workers who reside in economically disadvantaged areas and that provide employment opportunities to women and minority entrepreneurs and managers.

3.4 Potential for pooling investment

Another key barrier identified by funds was having the scale of investment needed to achieve the required returns on investment. Scale was seen as the critical success factor for overseas institutional investors, which have taken a greater interest in UK infrastructure in recent years.

Recent press has highlighted discussions within local authorities in London on how they can operate their pension funds together in order to save money on administrative costs, and on their giving a commitment to explore further the proposals for the creation of a London Pensions Mutual, as a pan-London investment fund estimated to be around £30 billion in total value.[22]

The interviews discussed whether or not most of the opportunities for impact investments – such as regional/ national infrastructure – were outside the reach of most funds. Nearly all funds interviewed recognised that such investments could only be done at a scale which required the pooling of funds:

We need to look at pan-regional, perhaps even national scale, for impact investments in terms of property/physical development; and probably even for social impact investments.

All funds recognised that infrastructure investments were more likely to be more attractive to the larger funds that had scale and would be able to bear the due diligence, legal, administrative and other management costs. They recognised that even small percentages of larger funds would still be comparably larger in value than similar shares of investment in their own relatively smaller funds, and therefore infrastructure investments would be better carried out by external funds or through a pooled investment vehicle:

It is difficult to follow the largest funds to get the diversification needed, as 5% of our fund is not as large as the biggest UK funds; still considerable, but it would need additional investment to make infrastructure investment work.

Smaller direct investments, including those for wider economic benefit, don't always have the range of returns we require for the fund; equally, large infrastructure investment is just not affordable to us.

Ontario Municipal Employees' Retirement System
The Ontario Municipal Employees' Retirement System (OMERS) was established in 1962 to serve local government employees across Ontario. Today, it represents 947 employers and almost 420,000 members, retirees and survivors, including municipal workers, Children's Aid Society workers, firefighters, emergency services staff, police, transit workers and utilities workers.

OMERS has shown how a local government pension plan can take an active role in infrastructure investment. Through an investment arm, OMERS Ventures, OMERS has committed (as of December 2011) around 16% of its total assets ($55 billion) to various forms of infrastructure (including High Speed 1 in the UK). Through steadily increasing its stake (and investing alongside private companies), the fund has gained the type of knowledge and expertise that can arm it in the market for future investments.

The target investment size is $100 million to $300 million, but it is able to invest a higher amount if needed. Ownership can be sole owner, majority control, joint control or minority owner with appropriate shareholder rights. Investments could be management or leveraged buyouts, corporate divestitures, expansion capital for a proven business or a significant investment in a public entity.

We focus on investing in our businesses for long-term value creation… We have the ability to leverage the relationships of other investment entities and resources of OMERS which make investments in real estate, infrastructure assets and public equities.

Critical success factors include using investment relationships (often through local offices in global cities) to present additional investment opportunities and to broaden the range of investments to include capital for high-growth firms through its venture capital funds – OMERS Ventures.

Many funds called on central government to take a more active role in supporting those areas that wished to move towards pooled investments. Some funds suggested that more could be done to merge funds across the UK (for scale rather than efficiency savings). Others expressed some caution at being forced into mergers that were not in the best interests of their funds or beneficiaries:

They really need more information on the detail and how this will work in practice… In the interim any more discussion without this information could prove unhelpful.

When it comes down to it, there has been extremely little thought about how their ideas on infrastructure investment will translate into practice… particularly in terms of fiduciary duty considerations… There's an expectation that the funds should focus on UK investments.

There were divergent views about the geographic scale at which wider impact investment should operate, including the potential for pooled funds at pan-regional or city-regional level (for some of the UK's larger cities). Concerns were mostly driven by a perception that the use of funds for wider impact – for example, central government using pension funds for big-ticket infrastructure items such as High Speed 2– would mean that opportunities for much-needed regional and local investment would be lost:

There is a risk between the emphasis placed upon localism and the current rhetoric put forward about national infrastructure funds.

Some funds saw the current hiatus on policy and guidance about infrastructure investment in the UK as an opportunity to identify schemes which, with some seed funding or part of the risk underwritten by government, would provide good rates of return in the next 20 years:

It will need authorities to put proper, well-evidenced investment options on the table rather than waiting to counter pressures from government for "big" investment.

Political will and expediency were cited as the most important factors determining the future of pooling or merged funds dealing with impact investment. All funds recognised that a lot of recent discussion had taken place, but in practice there was likely to be little movement on this front for some time, potentially resulting in missed opportunities:

Work through pooling funds… it is not clear where this may go at the moment. There is potential for small funds to link to other funds… more of a watching brief at this very moment, but we would not write it off as a way forward.

[For impact investment] to be an option, government needs to be on the front foot. If it takes too long to sort… opportunities will be missed… The challenge is political will to make it work.

Case studies of funds in London and Manchester such as the Greater Manchester Property Ventures Fund, were cited by interviewees as examples of where funds had been designed to work at scale, across a city region, with the backing of authorities.

Greater Manchester Property Ventures Fund

GMPVF creates property investments by a process of site acquisition, building design, direct property development and property letting/management. The fund recently decided to increase its local investment allocation from up to 3% to up to 5% of scheme assets, potentially allowing for up to £500 million of investment in the region through a diverse range of assets. A pilot scheme is being worked up by the Greater Manchester Pensions Fund and Manchester City Council to develop a housing investment model that could deliver mixed housing development and that is capable of being applied across Greater Manchester.

The pilot project will see development on land owned by the council for the construction of up to 240 homes, with around a quarter being sold on completion and the balance being let. The stakes in the joint venture will reflect the capital invested by the fund and the land value provided by the council. The council hopes that if successful, the pilot scheme would lead to a development pipeline of five to 10 years towards a joint-venture housing development by Manchester City Council.

A small, but not insignificant number of smaller funds were interested in the potential to "piggyback" as a junior investor to some of the larger local authority pension funds:

There is potential to build funds that offer the smaller funds the opportunity to piggyback on larger ones, where the larger fund has already done the due diligence and legal reviews and is ready to share the investment… This is some way from being put into practice, though.

Taking this a step further, a number of funds were also interested in receiving more guidance on the legal issues affecting "pooling and service-level agreements" between authorities, to build economies of scale to develop funds; and would welcome support for developing impact frameworks to encourage joint approaches and sharing of risk and rewards:

It is about setting up the systems and evidencing the wider economic benefits which might accrue from one investment to different areas across the patch.

The workshops also highlighted interest from local authority pension funds in finding out more about how pooling could be made to work, either through the commissioning of an external fund manager, or potentially through a group of larger funds coming together and taking the lead on a pooled initiative. Some of the smaller funds interviewed expressed a preference for using specialist external fund managers, who could spread risk across a range of property assets and locations.

While pooling through external funds allows pension funds to share risks, many also highlighted the concern that potential fees and follow-on transaction costs could prove prohibitive:

The fee structures for particular infrastructure funds and carry costs are still too high and need to adjust… They have been off-putting for the last couple of years.

3.5 Delivering social and environmental impacts

The interviews asked both pension officers and external fund managers about their perspectives on social finance and whether it would prove to be a serious choice for pension investments; and, in particular, what it would take to scale up this type of activity in future. The main barriers cited by interviewees were lack of information platforms about the opportunities, and the potential scale of return from social investments not really being worth the start-up/due diligence costs:

Investors are largely unaware of the impact investment market in general.

Many investment opportunities are young and cannot absorb large amounts of capital, while the due diligence costs are significant and often of a fixed nature.

Some pension funds suggested that they hadn't seen any advisers recommending these types of products. Others pointed to lack of track record, insufficient benchmarks/ratings and lack of legislation to develop pooled investments (including social impact investment):

There's a need for the social investment sector as a whole to develop a promotion and information strategy to ensure different types of investors have better access to products.

Environmental/green investments were, however, seen as a growing asset class, offering a range of subsectors, industrial operations, and localities which could be used to diversify risk and returns across an investment portfolio. The main opportunities identified were linked to government policy relating to waste management, energy sources and carbon targets, in particular building energy and resource efficiency:

Smaller, nimble firms moving into the "green economy" have been able to show great ROI… First movers have already spotted the gaps in the market… but overall still at one end of the investment spectrum… The market will shift as absolute CO2 reduction over a whole portfolio becomes a factor in performance.

Scaling up the social investment sector will require the development of consistent and robust evaluation processes, in order to raise confidence and attract new investment. The majority of funds interviewed (with one or two exceptions) said they thought that this area of investment was, despite all the current rhetoric, largely untested, requiring more information on the historic levels of risk and rates of return to be generated.

Many funds are nowhere near impact bonds yet, it needs a stronger model to get more organisations involved. That's not to say it couldn't have potential… We are looking into it.

Other funds suggested that it needed external funds and "various proposers" to work as a whole to pull finance together and then approach local authority pension funds for a small slice to match (say, £2 million to £3 million). The initial scale put in by these operators would suggest seriousness of intent, as well as providing legal and financial due diligence, and the value added by experienced niche fund managers:

These can work, but the main success factor is having a good team of highly skilled and experienced niche managers around the investments to ensure that they stack up and are well managed… This gives investors confidence that it will deliver.

London Green Investment Fund

The London Green Investment Fund is a £100 million fund for investment in schemes to cut London's carbon emissions, launched in October 2009 by the mayor of London. It was originally made up of £50 million from the London European Regional Development Fund Programme, £32 million from the London Development Agency and £18 million from the London Waste & Recycling Board. The fund is part of the Joint European Support for Sustainable Investment in City Areas initiative (JESSICA) that was developed by the European Commission and the European Investment Bank.

The London Green Fund provides funding for two smaller funds – the Waste Urban Development Fund, which has been allocated £35 million, and the Energy Efficiency Urban Development Fund, which will receive £50 million. These are revolving investment funds, where funds invested in one project are repaid and then reinvested in new projects.

Foresight Group LLP has been appointed to manage the Waste UDF, which is known as the Foresight Environmental Fund. This will be used to target local waste and environmental infrastructure investments in the Greater London area which are aligned with the government's view on local solutions to local problems.

The Foresight Environmental Fund is targeting high rates of return from investment while fulfilling local infrastructure needs (energy and recycling), creating jobs, diverting waste from landfill and reducing CO2 emissions. It could be viewed as attractive from an economic perspective, thanks to its return profile, but it also meets local environmental and social needs.

Pension fund officers also said that far more work needed to be done by local authorities to evaluate impact and demonstrate attribution of their projects:

Not knowing why, when and where the fruits of the investment are going to drop [is a problem].

We can see LAs needing to develop relationships with organisations to understand social impact, needing greater evidence and attribution of impacts… First movers will probably be doing this.

Funds indicated a preference to link to market initiatives that are in place to build third-party systems to manage funds and evaluate impacts. Many pension funds cited the role of niche investment funds with relevant expertise leading the way on investments for socioeconomic benefit, in particular citing the skills and track record of their fund managers in these areas:

It all comes back to scale. Small social investments do not have the scale or risk profile that is attractive to give you the right returns on investment… A better route is through third-party fund managers.

Social housing funds were mentioned in discussions about social investments, and are proving attractive enough to stimulate requests for further consultancy advice and debate about future development. While there has been a significant amount of discussion across UK pension funds regarding social housing (and announcements from the Scottish government about developing a programme of housing investment), there was very little evidence of take-up throughout the interviews from either pension funds or external fund managers:

There is a feeling that infrastructure, including housing, may have something as a way forward in investing for wider impact, but it needs a heavyweight, independent finance person (or persons) to push it through at government level.

Most funds said that housing investment was being or had been "looked at", but they were waiting for others to initiate "demonstration projects". Despite the potential benefit of long-term income streams, the workshops suggested that the timing for social housing wasn't immediately right for funds. However, some funds said they would be interested at some point in the near future in gaining access to investment products that provided the added security of long-term returns from property investment without the associated property operational risk – that is, externally managed property funds:

There are a lot of conversations about housing at the moment, but there are many hidden risks, including the fact that we don't want to do direct investment or property management… We're yet to see such investments take off at scale across the UK.

It needs some form of government backing, which is unlikely, to flag social housing as a pilot area to take impact investment forward; otherwise it will remain a cottage industry.

The larger funds interviewed expressed an interest in how "blended" or "layered" property investments could work. For example, the potential for a local authority to provide land (and some form of guarantee for the development) working alongside institutional investors, developers and property consultants to promote mortgage lending and housing development:

The local authority puts the land in, the developer does the box – some access and properties – and looks to sell a third of the site straight away… The remaining two-thirds are social housing… We would be looking at around 3-5%, plus RPI on top.

Some funds expressed concern that such investments might lock investors in for long periods of time (over 10-20 years), whereas some venture funds preferred exit strategies closer to five to 10 years, so that money could be recycled more quickly. This suggests that a flexible approach needs to be built into some of the investment layers.

Other pension funds suggested they needed more information about these types of investment before they would be persuaded to progress further:

The blending of optimal with suboptimal rates of return could work, but there is little information available from consultants and advisers on how this would work.

The main consensus was that this would work with larger funds (which could afford the transaction costs) and within areas where the demand for housing was forecast to be strongest, in particular across the South East of England. Even here, some funds called on government to provide some form of incentive to help develop a cohesive approach to housing investment and development:

There still needs to be some form of tax break to help get housing market investments kick-started, otherwise it will be a piecemeal approach to development investment through "cattle markets" and not through traded funds.

Most funds reiterated the need for authorities to focus on making their locations more attractive for investment by providing strong leadership and governance, delivering quality public services and managing local infrastructure. Addressing bottlenecks in planning and fast-tracking planning applications were the most common examples given as ways to make places more attractive for investment:

If investment for wider economic impact is urgent, then so is sorting planning… It needs to be much more fleet-of-foot to help make places more attractive for investment.

The workshops also identified a need for local authorities to work closer with developers, investment consultants and pension funds to raise the quality of their investment propositions, which to date had been generally poor in quality:

The biggest challenge we have (for the pension fund managers) is finding new projects that are credible, have well-designed investment schedules and have good long-term returns.

3.6 Resources, knowledge and skills

The pensions landscape is characterised by a complex legislative framework. In addition to the legislation of individual schemes, there are industry-wide statutes that apply in whole, or in part, to public-sector schemes, including the way in which schemes interact with state pensions. Of key importance is a knowledge of the governance frameworks that apply within the pensions industry (such as the Myners principles); within individual schemes (such as the Local Government Pension Scheme governance statement requirements); and within the organisations that administer the schemes (such as the Chartered Institute of Public Finance & Accountancy and Society of Local Authority Chief Executives' framework *Delivering Good*

Governance in Local Government).

The interviews and workshops explored pension fund managers' perceptions of resource constraints and skill shortages, especially those linked to the growing diversification of investment portfolios into new and innovative products and assets; and potential gaps in knowledge relating to understanding investment risk and performance.

Interviewees were also asked about the key gatekeepers, tools and signposts that typically helped trustees to develop their own understanding, and which could be used to promote investment for wider economic impact.

Resource constraints were cited as a barrier to developing new areas of impact investment, and funds were concerned that more complex fund portfolios would put additional pressure upon pension panel members who already had limited time to devote to their trustee responsibilities:

Smaller funds lack time and resources, so spend on training for general awareness rather than niche areas such as (social) impact investments.

Impact investments were perceived to be more resource-intensive than conventional investment practice – in terms of overall management as well as knowledge requirements for trustees. Some smaller funds were also administered alongside treasury services, and in these circumstances time and resource pressures were highlighted as a challenge to developing skills and knowledge in new product areas, but these problems were not insurmountable:

There's a clear issue that larger funds can support larger in-house teams, and can put time and resources into this area (impact investments), but there is also evidence of smaller funds which have political backing to develop and resource some in-house expertise.

Despite the pressures on elected members' time, all funds had taken extensive steps to provide training for elected members and officers – either through external investment consultants or through fund managers – when bringing new products to the market:

It is difficult to plug members into training, given that they have other commitments in the council as well as full-time jobs… However, training is high on our agenda and we aim to make it mandatory.

Whilst a general level of skills and knowledge was a prerequisite (many funds had long-serving experienced trustees), funds did not expect their trustees to micro-manage investment actions and therefore they did not require them to have a detailed understanding of complex products:

Members don't need to have such detailed understanding as they are not micro-managers for the fund. They are there to provide strategic steering and guidance when required.

However, the qualifications of investment officers were paramount to good fund management, in terms of intelligent commissioning of external fund managers as well as in delivering day-to-day management of funds:

The important thing is to use experience and learn from it… The aim should be to build up internal knowledge and understanding over time.

A number of common areas of future training were identified during the interviews, including: setting up joint ventures, pooling arrangements and associated legal issues; developing framework agreements for procurement and commissioning external managers; and understanding complex alternative investments such as layered property investments, joint ventures, derivatives and hedge funds (including information about regulations on their use).

Some complained that the regulations on limits to pooling and the use of hedge funds were restrictive and that government should explore potential revisions to these:

It will be useful to have clearer guidance on issues with investments; for instance, limited partnership limits, and the exact definition of derivatives in terms of investment is not clear… There is little or no legislation on this. We would like to use these "alternatives" to provide flexibility to the fund.

The gaps are governance, legislation and advice to allow a pension fund to operate on behalf of others… There are limits to certain asset class investments which are restrictive.

Many funds used external consultants and the Chartered Institute of Public Finance & Accountancy tools and skills framework to develop their trustees' levels of understanding, as this is viewed as providing good coverage of the legislative knowledge required to see how all parts of investment fit together. Funds also reiterated the importance of leveraging the skills and experience of external fund managers and consultants, rather than trying to develop deep knowledge in too many different areas of investment:

The skills needed are already complex and diverse – for example, 18% of our portfolio is in property, and we are diversified across equities by theme, area, sector etc. External managers' skills are important to deliver our investments in the right way.

Investment consultants were regarded as the main gatekeepers, best placed to give advice and guidance on changes in asset portfolio, such as investments for wider economic impact. The workshops highlighted the feeling that more could be done through investment consultancy to help develop awareness of impact investments as an asset class, and that both the institutional pension sector as a whole and local authorities were on a steep learning curve about how to develop impact investment:

There is a gap in local authority thinking, a reliance on funding and an urgent need for consultants and other intermediaries to *help build serious investment propositions... There's a huge gap in skills and experience in these areas.*

The workshops also suggested that there was a greater role for developing trustees as gatekeepers for impact investment. These were typically one or two elected members (often ex-investment managers or treasury officials) who had a particular interest in, for example, environmental and social investment, and were prepared to act as champions to help promote these opportunities moving forward:

It is important to have long-term officers and members that provide consistent support, expertise and experience; this has been an important part of the fund's management.

Despite the positive approach to knowledge and skills development, pension fund managers still highlighted a lack of knowledge about opportunities available, reiterating the need for the social investment sector as a whole to develop a promotion and information strategy to ensure different types of institutional investors had better access to impact investment products:

We don't see the product advice or the depth of support in this area of investment, it is underdeveloped despite what we hear recently about opportunities... More work needs to be done by external financial advisers and other intermediaries.

3.7 Sources of investment

While the study does not aim to provide a detailed assessment of the supply of different investment products, interviewees were asked how they thought impact investments compared with other sources of finance, and whether there were other, cheaper sources, such as the Public Work Loan Board (PWLB) and prudential bank borrowing, which should be the first choices for finance.

A small number of funds interviewed (five) questioned whether local authority pension funds should be approached to support local projects and wider economic benefit (national infrastructure) at all. They were keen to stress that local authorities and pension funds were, and should be, separate organisations, as well as suggesting that local authorities should use prudential borrowing and PWLB finance as a "safer option" to kick-start stalled property developments:

Local authorities should look towards risk-free sources of investment, such as prudential borrowing and PWLB, rather than looking at pension schemes.

Some funds cited the potential to blend sources of finance to kick-start "recyclable funds", where commercial investment is matched against other sources of UK and European funding. However, the notion of "soft money" was raised as a huge risk for how future investments are perceived, in terms of ensuring that investments are not perceived as depending on subsidy or tax incentives:

Sometimes the public sector can provide "seed" investments, but this must not be seen as soft money, or an initiative being "propped up" by the public sector – there have been plenty of property developments that have stalled now that public subsidies have come to an end.

3.8 A role for government?

The interviews and workshops discussed whether there should be any key asks of government. Most funds highlighted the need to maintain employer contributions at a fairly stable level to achieve the targets set by central government. The 100% funding target limited the amount of investment risk that funds could take, leading to requests for government to underwrite some of the risk attached to new or more entrepreneurial impact investments. However, funds were unsure whether this would be forthcoming, given the current levels of debt on the government's balance sheet:

The government could give thought to broadening the scope for underwriting investments to de-risk some larger investments around the country. Government backing in this way gives investors greater confidence. Whether this happens remains to be seen.

All funds expressed their reluctance to pursue any approach which required them, through regulations, to "go down a particular investment route". Most funds commented that the government narrative about infrastructure investments had not been helpful (lacking clarity and guidance on issues such as pooling investment) and some feared a rush to pension funds with expectations that they would be in a position to support any type of local or national infrastructure:

More clarity can be provided by government on how infrastructure funds might work, but regulation must not weaken the returns on investment which can be achieved by the fund.

We can do practical things on impact investment, but we need to be supported to take sensible but small steps... Pension funds can get involved in this agenda but it is not and never should be a "milch cow" of local finance and investment.

Many fund managers were reluctant to invest in areas where government policy has a significant bearing on the potential returns on investment, with many citing the recent changes to energy feed-in tariffs and the knock-on effects to business investment in the micro-generation sector. They stated that the government's role should be to provide a stable long-term policy environment that provides fund managers with the confidence to invest for wider economic benefit:

There must be greater clarity and continuity, a drive for less noise with absolute focus on resource efficiency; conflicting messages or lack of expediency really un-nerve investors.

The workshops and a small number of interviews called for the provision of "safe harbours" where employers and funds could talk more freely to scheme members about fulfilling their fiduciary responsibilities and delivering value for money. Some interviewees suggested the greater use of dialogue between pension authorities and beneficiaries, asking them directly about their preference for their investment choices:

How do we know we are working in the best interests of our beneficiaries and delivering our fiduciary responsibility if we are not asking them about what they want… This includes talking about issues like social and environmental impact investment… Could we implement an opt-in for particular investment choices?

4. Conclusions and recommendations

4. Conclusions and recommendations

The following section draws together some common themes across the call for evidence, interviews and workshops, and makes practical recommendations for action.

Our research suggests a lack of clarity on the asset class for impact investment and a need to scale up knowledge of trustees about impact investments. A perception of suboptimal returns from impact investment remains among some funds; however, most stated an interest in these opportunities but "only if it stacks up financially", or if this area can be demonstrated as a credible asset class by "addressing the issue of fiduciary responsibility".

The research also suggests a need for co-investment (local authority pension fund and external fund managers) to eliminate the danger of perceived conflicts of interest, as well as investing at scale through external fund managers with a track record in impact investments – rather than making direct impact investments. The other critical factor will be to promote how fiduciary responsibility is/can be delivered operationally when making impact investments.

Our first recommendation relates to providing a better mechanism for developing information and knowledge, in effect taking this research work forward.

Recommendation 1: Better information and clearer guidance
Local authority pension funds should work with the Local Authority Pension Fund Forum (LAPFF), relevant government departments, external investment fund managers, and the Chartered Institute of Public Finance & Accountancy to develop guidance and technical papers on impact investment and pooled investment vehicles. The guidance documents should be linked to evaluation and lessons learned from progress towards delivering the first recommendation. Consideration should be made to including these outputs within the Statement of Investment Priorities guidance and promoting their use via online knowledge and skills development platforms.

Our second recommendation relates to the continued development of the skills and knowledge of local authority pension fund trustees and pension fund officers, and the important role of investment intermediaries in helping to develop impact investment.

While the research did highlight some minor skill shortages, these were typically addressed through the continuous programme of training provided for trustees as required by the Myners review. However, the research highlighted a need for greater input from investment intermediaries to support the scaling up of impact investment through the advice they give to institutional investors. This would also support the emergence of impact investment as an asset class in its own right.

Recommendation 2: Demonstrable case studies and training on matching impact investment within fiduciary duties
LAPFF should work with investment intermediaries and consultants to develop good practice case studies for promotional use by "champion trustees" on how impact and infrastructure investments can be used effectively within their fiduciary duties to enhance the risk/reward profiles. LAPFF should explore member support and funding for the development of a series of training seminars for pension fund officers that highlight emerging finance vehicles which "layer" investments, combining high- and lower-risk investments (for example, including property assets to underwrite risk). While advisers and fund managers need to be given more freedom and a greater mandate to consider impact investments, there also need to be higher levels of understanding in the funds they support.

Our third recommendation relates to requests from pension funds for greater flexibilities in how funds are managed in terms of the limits set out in statutory legislation; in particular, in relation to the limits set for investment in partnership vehicles, enabling the recommendations set out in this report to be taken forward.

Recommendation 3: Legislative adjustments – enhancing potential for flexibility
The government should review and explore potential changes to restrictions on investments (as set out in the *Local Government Pension Scheme Schedule – Management & Investment of Funds*), to enable local authorities to have sufficient flexibility to address the issues and recommendations set out in this report, in particular those relating to limits for investment in limited partnerships.

There were frequent requests for greater input and support from government throughout the research, ranging from information and guidance to a more proactive stance whereby government would underwrite some of the risk in impact investments. Given the current curb on public spending it is not clear that this would be forthcoming, especially with the current levels of debt on the government's balance sheet. The next two recommendations give practical steps which the government could make, along with relevant agencies, to support impact investment.

Recommendation 4: Create an enabling platform – a clearing house
Local authority pension funds and other relevant partners, including LAPFF, should lobby government to fund an independent external agency to act as a clearing house, gathering data from a wide range of (impact) projects around the UK, supporting transparent valuation and consistent financial reporting standards of impact/infrastructure projects. The agency would support the development of a combined national framework and standard for assessing economic, social and environmental value that would be of interest to the public, politicians, commissioners, social investors and local communities.

Recommendation 5: A new pooled vehicle
The potential should be explored for a "core group" of larger pension funds to contribute funding for the commissioning of an independent manager to help determine and deliver a way forward for pooled impact investment funds. The aim of the fund manager would be to develop a joint investment agreement

that would see a group of five or more signatories each putting £5 million to £10 million into a pooled vehicle, with a view to inviting local authorities/public-sector bodies to put forward bids for the investment, including the leverage of other sources of public and private investment.

Study participants

Study participants

We would like to thank those organisations that have given their time freely in support of the research, interviews and workshops. Without their input the work would not have been possible.

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Mervyn Jones	Yorkshire Housing Group

Notes

Notes

1 TheCityUK estimates are based on those of Watson Wyatt, OECD, Insurance Information Institute – cited in ClearlySo *Investor Perspectives on Social Enterprise Financing* (2011)

2 www.localgov.co.uk "Pickles Urges Councils to Prepare for Next Spending Review", 7 March 2012

3 British Chambers of Commerce *Quarterly Economic Survey Q1 2012*

4 DCLG *Local Government Financial Statistics England No 21* (2011)

5 Capital receipts comprise disposal of tangible fixed assets, intangible assets, leasing disposals, repayments of grants, loans and disposal of share and loan capital and disposal of other investments.

6 DCLG, op cit

7 http://www.bbc.co.uk/news/business-17602323

8 http://www.stockmarketwire.com/article/4287075/UK-pension-funds-in-the-red-with-returns-of-0-point-9pct.html, cited in Localis *Credit Where Credit's Due: Investing in Local Infrastructure to Get Britain Growing* (2012)

9 Localis, op cit

10 Given the long-term nature of pension investments, it is not uncommon for pension assets to vary against obligations.

11 DCLG *Local Government Pension Scheme Funds England 2010 to 2011* (2011)

12 HM Treasury *National Infrastructure Plan 2010* (2010)

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16 Ibid

17 http://www.legislation.gov.uk/ukpga/2011/20/contents/enacted

18 http://www.legislation.gov.uk/ukpga/2012/3/contents/enacted

19 Power of "well-being" – set out in the Local Government Act 2000

20 Speech by the deputy prime minister for the DCLG, "Community Budgets to be Rolled Out Countrywide", 2011

21 http://www.communities.gov.uk/localgovernment/localgovernmentfinance/lgfinancebill/

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WIRRAL COUNCIL

PENSIONS COMMITTEE

19 NOVEMBER 2013

SUBJECT:	**EXTENSION OF CONTRACT WITH STRATEGIC PROPERTY ADVISORS**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**STRATEGIC DIRECTOR TRANSFORMATION & RESOURCES**
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

1.1 This report seeks approval from Members to extend the mandate with CB Richard Ellis Real Estate Finance (CBRE REF) for a further two years.

2.0 BACKGROUND AND KEY ISSUES

2.1 In November 2009, this Committee approved the appointment of CB Richard Ellis Real Estate Finance as Strategic Property Advisors to the Fund for four years with an option to extend for a further two years.

2.2 Officers have undertaken a formal review of the advice and service provided by CBRE REF since their appointment. This review has concluded that CBRE REF have met or exceeded expectations in the key aspects of their role. Property is a long-term asset class and performance since appointment has shown an improving trend. Officers are recommending that the option to extend the contract for a further two years in exercised.

3.0 RELEVANT RISKS

3.1 It is very important that the Fund has access to strategic property advice.

4.0 OTHER OPTIONS CONSIDERED

4.1 There is the option to retender the contract but in view of the long term nature of property management, the satisfactory service experience and costs/resources of retendering, it is proposed to extend the contract.

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 The contract will be extended on the terms agreed on appointment in 2009.

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 Committee approves the extension of the mandate with CB Richard Ellis Real Estate Finance (CBRE REF) for a further two years.

13.0 REASON/S FOR RECOMMENDATION/S

13.1 CBRE REF have met or exceeded expectations in the key aspects of their role.

REPORT AUTHOR: **Peter Wallach**
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APPENDICES

NONE

REFERENCE MATERIAL

NONE

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee	17 January 2012
Pensions Committee	16 November 2010
Pensions Committee	6 April 2009

WIRRAL COUNCIL

PENSIONS COMMITTEE

19 NOVEMBER 2013

SUBJECT:	**CUNARD BUILDING**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**STRATEGIC DIRECTOR TRANSFORMATION & RESOURCES**
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

1.1 This report provides Members with an update on developments in relation to the Cunard Building.

2.0 BACKGROUND AND KEY ISSUES

2.1 In November 2012, a report was brought to this Committee providing an update on work that had been undertaken by CBRE in relation to the Cunard Building. A follow up report, intended for January 2013 was delayed whilst CBRE undertook a further evaluation of options.

2.2 At the Investment Monitoring Working Party on 8 October, CBRE briefed Members on various aspects of the Fund's direct property portfolio and also addressed recent speculation in the media in relation to a potential offer for the Cunard Building by Liverpool City Council. Details of that briefing are included in the minutes to the working party.

2.3 At the time of writing this report, there have been no further developments to report. A verbal update will be provided at Committee should that change.

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 none arising 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 Committee notes the report.

13.0 REASON/S FOR RECOMMENDATION/S

13.1 Members have requested regular updates on this issue.

REPORT AUTHOR: **Peter Wallach**
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APPENDICES

NONE

REFERENCE MATERIAL

NONE

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee	17 January 2012
Pensions Committee	16 November 2010
Pensions Committee	6 April 2009

WIRRAL

EQUALITY FRAMEWORK FOR LOCAL GOVERNMENT ACHIEVING

Equality Impact Toolkit (new version February 2012)

Section 1: Your details

Council officer:

Email address:

Head of Service:

Chief Officer:

Department:

Date:

Section 2: What Council function / proposal is being assessed?

Section 2b: Is this EIA being submitted to Cabinet or Overview & Scrutiny Committee?

Yes / No

If 'yes' please state which meeting and what date

……………………………………………………………………

And please add hyperlink to your published EIA on the Council's website

……………………………………………………………………

Section 3: **Will the Council function / proposal affect equality in ……?** (please tick relevant boxes)

☐ **Services**

☐ **The workforce**

☐ **Communities**

☐ **Other** (please state)

If you have ticked one or more of above, please go to section 4.

☐ **None** (please stop here and email this form to your Chief Officer who needs to email it to equalitywatch@wirral.gov.uk for publishing)

Section 4: **Within the Equality Duty 2010, there are 3 legal requirements. Will the Council function / proposal support the way the Council** …………………(please tick relevant boxes)

☐ Eliminates unlawful discrimination, harassment and victimisation

☐ Advances equality of opportunity

☐ Fosters good relations between groups of people

If you have ticked one or more of above, please go to section 5.

☐ **None** (please stop here and email this form to your Chief Officer who needs to email it to equalitywatch@wirral.gov.uk for publishing)

Section 5: **Will the function / proposal have a positive or negative impact on any of the protected groups (race, gender, disability, gender reassignment, age, pregnancy and maternity, religion and belief, sexual orientation, marriage and civil partnership)?**

You may also want to consider socio-economic status of individuals.

Please list in the table below and include actions required to mitigate any negative impact.

Protected characteristic	Positive or negative impact	Action required to mitigate any negative impact	Lead person	Timescale	Resource implications

Section 5a: **Where and how will the above actions be monitored?**

Section 5b: **If you think there is no negative impact, what is your reasoning behind this?**

Section 6: **What research / data / information have you used in support of this process?**

Section 7: **Are you intending to carry out any consultation with regard to this Council function / policy?**

Yes / No – (please delete as appropriate)

If 'yes' please continue to section 8.

If 'no' please state your reason(s) why:

(please stop here and email this form to your Chief Officer who needs to email it to equalitywatch@wirral.gov.uk for publishing)

Section 8: **How will consultation take place?**

Before you complete your consultation, please email your 'incomplete' EIA to equalitywatch@wirral.gov.uk via your Chief Officer in order for the Council to ensure it is meeting it's legal requirements. The EIA will be published with a note saying we are awaiting outcomes from a consultation exercise.

Once you have completed your consultation, please review your actions in section 5. Then email this form to your Chief Officer who needs to email it to equalitywatch@wirral.gov.uk for re-publishing.

Section 9: **Have you remembered to:**

a) **Add a hyperlink to your published EIA on the Council website?** (section 2b)
b) **Include any positive impacts as well as negative impacts?** (section 5)
c) **Send this EIA to equalitywatch@wirral.gov.uk via your Chief Officer?**
d) **Review section 5 once consultation has taken place and sent your completed EIA to equalitywatch@wirral.gov.uk via your Chief Officer for re-publishing?**

Before you finalise this report, please delete section 9

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WIRRAL COUNCIL

PENSIONS COMMITTEE

19 NOVEMBER 2013

SUBJECT:	**VISIT TO NATIONAL EXPRESS US OPERATIONS**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**STRATEGIC DIRECTOR TRANSFORMATION AND RESOURCES**
KEY DECISION? *(Defined in paragraph 13.3 of Article 13 'Decision Making' in the Council's Constitution.)*	NO

1.0 EXECUTIVE SUMMARY

1.1 This report seeks approval for the Chair of Pensions Committee to accept an invitation to undertake a site visit of the US bus operations of National Express as a follow up to a LAPFF engagement meeting.

2.0 BACKGROUND AND KEY ISSUES

2.1 At the October Investment Monitoring Working Party certain issues were raised with regard to labour relations and working practices in the US bus operations of National Express. This resulted in a meeting between the Chair of Pensions Committee and another member of the LAPFF executive and representatives of National Express.

2.2 As an outcome of the meeting, an invitation was was made for the Chair of Pensions Committee to undertake a site visit of the bus operations around which there were concerns. This visit would serve a twofold purpose: to further MPF's engagement activities; and support the continuing engagement between LAPFF and National Express.

3.0 RELEVANT RISKS

3.1 There are none arising directly 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 The cost of a flight to the US is expected to be around £800. There may be the need for an internal flight. At present, the duration of the visit is uncertain but the ancilliary costs are anticipated to be within subsistence allowances.

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 Committee approves this site visit by the Chair of Pensions Committee.

13.0 REASON/S FOR RECOMMENDATION/S

13.1 The visit aligns with the Fund's engagement activities and forms a part of the Chair's activities as a member of the LAPFF executive.

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APPENDICES

REFERENCE MATERIAL

NONE

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

WIRRAL COUNCIL

PENSION COMMITTEE

19 NOVEMBER 2013

SUBJECT:	**ADMISSION BODY APPLICATION MOSSCROFT CHILDCARE LTD KNOWSLEY BOROUGH COUNCIL – CHILDCARE CONTRACT**
WARDS AFFECTED:	**ALL**
REPORT OF:	**STRATEGIC DIRECTOR OF TRANSFORMATION AND RESOURCES**
KEY DECISION	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report informs members of my decision taken under delegation, to approve the application received from Mosscroft Childcare Limited for admission to Merseyside Pension Fund as a Transferee Admission Body. The company has secured a childcare contract with Knowsley Borough Council for a period of 5 years with effect from 1st September 2013.

1.2 The appendix 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

2.1 The application is to provide pension provision for 4 transferred staff who were previously employed by Knowsley Borough Council and wish to continue to participate in the local government pension scheme.

2.2 Mosscroft Childcare Ltd is a private Limited Company, with a Company number of 08595640 and the date of incorporation was 3 July 2013.

2.3 The principal activity of the company is the provision of childcare facilities on the premises of the Sure Start Childrens Centre.

3.0 RELEVANT RISKS

3.1 The potential risk of financial loss to the Fund resulting from the admittance of the company is mitigated by virtue of Regulation 38(3) (a) of the Local Government Pension (Administration) Regulations 2008, which provides for the ceding employer to underwrite the contractor's pension obligations.

4.0 OTHER OPTIONS CONSIDERED

4.1 The contractor's preferred route in accordance with the Statutory Best Value Authorities Staff Transfer (Pension) Direction 2007 on staff Transfers was to secure admitted body status as an alternative to the provision of a comparable pension scheme.

5.0 CONSULTATION

5.1 No consultation required as staff retained access to the LGPS.

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 None arising from this report.

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

7.1 The transfer of past service liabilities are to proceed on a fully funded basis and will have no immediate impact on Knowsley Borough Council's current assessed contribution rate.

7.2 Any outstanding contributions either not recovered from the contractor or any bond provision at closure will ultimately fall to Knowsley Borough Council.

8.0 LEGAL IMPLICATIONS

8.1 The Legal documents to be drafted and approved by Wirral's Legal Department.

9.0 EQUALITIES IMPLICATIONS

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

No, as there are no equalities implications as employees retain access to the LGPS.

10.0 CARBON REDUCTION IMPLICATIONS

10.1 None arising from this report.

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 None arising from this report.

12.0 RECOMMENDATION/S

12.1 It is recommended that the members of the Pension Committee note the approval of the application for admission to the Merseyside Pension Fund of Mosscroft Childcare Ltd.

13.0 REASON/S FOR RECOMMENDATION/S

13.1 The application for admission meets all prescribed regulatory and financial requirements under the Local Pension Scheme Regulations and the appropriate supporting documentation has been received and approved by the Fund's Legal Monitoring Officer. All parties to the agreement are legally enforced to comply with the governance policy of Merseyside Pension Fund.

REPORT AUTHOR: **YVONNE CADDOCK**
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APPENDICES

Exempt Appendix included in committee papers.

REFERENCE MATERIAL

The report produced by Mercer Limited the Fund Actuary, dated 25 July 2013, was used in producing this report.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

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WIRRAL COUNCIL

PENSIONS COMMITTEE

19 NOVEMBER 2013

SUBJECT:	**MINUTES OF THE INVESTMENT MONITORING WORKING PARTY**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**STRATEGIC DIRECTOR TRANSFORMATION AND RESOURCES**
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to provide Members with the minutes of the Investment Monitoring Working Parties (IMWP) held on 8 and 23 October 2013.

1.2 The appendices to the report, the minutes of the IMWP on 8 and 23 October 2013, contain 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's 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 27th June 2011.

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APPENDICES

Exempt Appendix 1 and 2

REFERENCE MATERIAL

NONE

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Minutes of all IMWP's are brought to the subsequent Pensions Committee meeting.	

Minutes of Investment Monitoring Working Party, 8th October 2013

In attendance:

(Chair) Councillor Patricia Glasman (WBC)	Peter Wallach (Head of MPF)
Councillor Geoffrey Watt (WBC)	Susannah Friar (Investment Manager)
Councillor Mike Hornby (WBC)	Owen Thorne (Investment Officer)
Patrick McCarthy (Representative of other non-district Employers)	Paddy Dowdall (Investment Manager)
Councillor Patrick Hurley (Liverpool)	Leyland Otter (Investment Manager)
Councillor Cherry Povall (WBC)	Allister Goulding (Investment Manager)
Councillor Norman Keats (WBC)	Noel Mills (Independent Advisor)
Paul Wiggins (Unison)	Rohan Worall (Independent Advisor)
John Lea (CBRE)	Adam Williamson (Investment Assistant)
Andrew Willoughby (CBRE)	Emma Jones (PA to Head of MPF)
	Emma Murray (Admin Clerk)

Apologies were received from:

Councillor Harry Smith (WBC)	Jim Molloy (Interim Director of Finance)

Councillor John Fulham (St.Helens)	Phil Goodwin (Unison)
Councillor Ann McLachlan (WBC)	Emily McGuire (Aon Hewitt)
Councillor George Davies (WBC)	Louis Hill (Aon Hewitt)
Councillor Tom Harney (WBC)	

Declarations of interest

Councillor Pat Glasman, Councillor Norman Keats and Councillor Geoffrey Watt declared an interest in Merseyside Pension Fund.

Minutes of Investment Monitoring Working Party, 23rd October 2013

In attendance:

(Chair) Councillor Patricia Glasman (WBC)	Peter Wallach (Head of MPF)
Councillor Geoffrey Watt (WBC)	Susannah Friar (Investment Manager)
Councillor Mike Hornby (WBC)	Owen Thorne (Investment Officer)
Patrick McCarthy (Representative of other non-district Employers)	Leyland Otter (Investment Manager)
Councillor Adrian Jones (WBC)	Allister Goulding (Investment Manager)
Councillor Norman Keats (WBC)	Noel Mills (Independent Advisor)
Councillor Harry Smith (WBC)	Rohan Worall (Independent Advisor)
Emily McGuire (Aon Hewitt)	Adam Williamson (Investment Assistant)
Louis Hill (Aon Hewitt)	Emma Jones (PA to Head of MPF)

Apologies were received from:

Councillor Cherry Povall (WBC)	Paul Wiggins (Unison)
Councillor Ann McLachlan (WBC)	Councillor Tom Harney (WBC)
Councillor George Davies (WBC)	

Declarations of interest

Councillor Pat Glasman, Councillor Norman Keats and Councillor Geoffrey Watt declared an interest in Merseyside Pension Fund.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
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Agenda Item 19

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 20

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of the Local Government Act 1972.

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