

**WIRRAL COUNCIL
PENSIONS COMMITTEE
21 NOVEMBER 2011**

SUBJECT:	INVESTMENT MONITORING WORKING PARTY: PROPOSED CHANGES TO FORMAT AND REPORTING
WARD/S AFFECTED:	ALL
REPORT OF:	DIRECTOR OF FINANCE
KEY DECISION	NO

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to request some changes to the way in which the Investment Monitoring Working Party monitors investments. The report also invites Members not present at recent training sessions or IMWP to give feedback on proposals and to suggest changes.

2.0 RECOMMENDATIONS

- 2.1 That Members approve the proposed changes to the way in which the IMWP works. Officers will take note of any suggested amendments and implement them for future IMWP meetings.
- 2.2 This recommendation may necessitate a review of some key documents such as SIP, compliance manual, and monitoring policy.

3.0 REASON FOR RECOMMENDATIONS

3.1 The reason for the recommendations is to improve the monitoring framework for the investments of MPF and make best use of the limited time of Members. The changes will ensure that MPF complies with LGPS regulations and with recommended best practice.

4.0 BACKGROUND AND KEY ISSUES

4.1 The Statement of Investment Principles sets out a framework for effective decision making for MPF. Included in this is the role of the IMWP as detailed below.

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 Director of Finance of Wirral Council (Section 151 Officer) is delegated to implement Committee policy and manage MPF leading a well qualified and experienced internal team.

4.2 MPF recently appointed new strategic consultants AON Hewitt who provided a training session on investment strategy and governance on 20 October 2011. From their presentation and the discussion that followed, a consensus on a number of issues emerged.

- The key issue for investments is to manage the funding position which requires managing the assets with regard to the liabilities. The liabilities are sensitive to real yields. Asset allocation should have regard to how assets behave in terms of the additional return and importantly the level of variance in returns away from the risk free level of return.
- An investment strategy that generates high levels of expected return also generates higher risk and creates funding level volatility and potentially contribution rate volatility.
- The current asset allocation mix has a high level of predicted out-performance but is more diversified in its sources of return than the average pension fund (i.e. it has a higher than average allocation to alternative assets and less equities).
- The key decisions for investments, in descending order, are strategic asset allocation, tactical asset allocation and investment manager issues.
- Whilst MPF has many areas of good practice in governance and is in a good position relative to its peers the focus has tended to be on manager issues at the expense of strategic and tactical asset allocation.
- There are huge demands on Members time and the amount of time the Committee has to focus on investments is limited.
- The level of information and details presented to Members in the IMWP packs at present is high.
- There have been low levels of attendance at IMWP and training days.

4.3 A broad consensus emerged on some proposed changes to the way in which the IMWP works

- The present number of meetings 6 IMWP plus two training days should be reduced to 6 IMWP with the meeting in June to review annual performance by WM plus reports from internal investment management and 3 other quarterly meetings to review performance and reports from external managers. The 2 IMWP meetings not receiving quarterly reports should be taken up by training and strategic considerations.
- All of the quarterly IMWP meetings will have a review of risk and liabilities and tactical asset allocation presented by the consultant.

- In order to free up time for the points above managers should be allocated less time to speak. Consideration should be given to reducing the frequency of manager attendance and targeting by exception. This might mean that managers performing well will come less than once a year and poorly performing managers more than once a year. There was less consensus on this issue.
- The content of the IMWP packs will be refocused to the present executive summary with an added report on liabilities plus reports for managers attending that meeting. The current pack with all the reports on individual managers will continue to be produced for the Director of Finance to ensure that officer led monitoring continues to be effective.
- The minutes of IMWP presented to Pensions Committee will in future include a summary of funding position, investment performance, asset allocation performance and any decisions taken. It is also recommended that the timing of the quarterly IMWP meetings be such that there is a Pensions Committee shortly after each IMWP.
- The tolerance bands controlling asset allocation variations should be widened and delegation to officers be reviewed to ensure implementation of decisions can be undertaken in an effective and timely way.
- Aon Hewitt will prepare a short, anonymous questionnaire for Members to complete to assist them in delivering training in appropriate areas.

5.0 RELEVANT RISKS

- 5.1 There are no risks arising directly from this report. The purpose of the governance arrangements of MPF is to control risk.

6.0 OTHER OPTIONS CONSIDERED

- 6.1 Members are asked to make suggestions for other improvements to the way in which the IMWP works

7.0 CONSULTATION

- 7.1 Not relevant for this report

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

- 8.1 There are no implications arising directly from this report.

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

- 9.1 There are no implications arising directly from this report.

10.0 LEGAL IMPLICATIONS

- 10.1 There are no implications for arising directly from this report.

11.0 EQUALITIES IMPLICATIONS

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

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

12.0 CARBON REDUCTION IMPLICATIONS

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

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

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

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APPENDICES

There are no appendices

REFERENCE MATERIAL

None used in the production of this report.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee	16 November 2010
Statement of Investment Principles	