

WIRRAL COUNCIL

PENSIONS COMMITTEE

25 JUNE 2012

SUBJECT:	EXTENSION OF MINIMUM VARIANCE STRATEGY
WARD/S AFFECTED:	ALL
REPORT OF:	ACTING CHIEF FINANCE OFFICER
RESPONSIBLE PORTFOLIO HOLDER	
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

1.1 This report informs Members of the intention to extend the use of minimum variance strategies in relation to emerging markets equities.

2.0 BACKGROUND AND KEY ISSUES

2.1 Minimum variance strategies seek to exploit the anomaly that has seen low-risk stocks outperform higher risk stocks over the past 20 years, in contradiction to conventional financial theory. It is believed that this anomaly will persist and can be exploited.

2.2 MPF first implemented a minimum variance strategy in March 2009 in relation to European equities. Since then, the strategy has delivered returns in accordance with expectations and has provided useful diversification to the existing European mandates, performing strongly in down markets and benefitting from continuing market volatility.

2.3 MPF reduced an underweight position in emerging markets exposure earlier this year through a passive allocation. With little likelihood of the turbulence in financial markets easing in the foreseeable future, officers intend to switch the passive exposure to a minimum variance strategy when appropriate. The characteristics of emerging markets are favourable to this strategy and it is believed that this will prove similarly complementary to the existing emerging markets mandates.

3.0 RELEVANT RISKS

3.1 All equity investments carry risks but it is believed that this strategy should reduce 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 The anticipated outperformance of the mandate should more than cover the additional management fees incurred by the change.

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 RECOMMENDATION

12.1 That Members note the report.

13.0 REASON FOR RECOMMENDATION

13.1 The transaction will be implemented under delegation.

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APPENDICES

None

REFERENCE MATERIAL

None

SUBJECT HISTORY (last 3 years)

Council Meeting	Date