

# WIRRAL COUNCIL

## PENSIONS COMMITTEE

15 SEPTEMBER 2014

<b>SUBJECT:</b>	<b>REVIEW OF FIXED INCOME MANDATES</b>
<b>WARD/S AFFECTED:</b>	<b>NONE</b>
<b>REPORT OF:</b>	<b>STRATEGIC DIRECTOR TRANSFORMATION &amp; RESOURCES</b>
<b>KEY DECISION?</b>	<b>NO</b>

### 1.0 EXECUTIVE SUMMARY

- 1.1 This report outlines the procedural steps taken by Officers of Merseyside Pension Fund to undertake a review of the fixed income investment mandates with Legal & General and Schroders.
- 1.2 The report recommends their extension, subject to continued satisfactory monitoring, for a further two years as is permitted under Procurement and Wirral Council's contract procedure rules.

### 2.0 BACKGROUND AND KEY ISSUES

- 2.1 Legal & General Investment Management and Schroders Investment Management were reappointed in October 2009 to undertake the management of active bond mandates for a period of six years; an initial three years with the option to extend for a further three years. The three year review was deferred to allow regulatory changes under the European Market Infrastructure Regulation to be implemented in order that the new operational arrangements could be assessed.
- 2.2 Officers of Merseyside Pension Fund have conducted a detailed due diligence exercise to establish *inter alia*, that:-
  - The investment thesis is still valid;
  - The investment strategy has been executed consistently;
  - Investment performance has satisfied contractual targets;
  - The Investment Manager remains fit for purpose in terms of its operations;
  - MPF is confident that the Investment Manager can continue to achieve contractual investment performance returns on a risk adjusted basis, and net of investment management fees.

- 2.3 Summary scoring of the due diligence meetings has been completed and is documented in the appendix. The outcome of the scoring shows that all aspects of both mandates are fully satisfactory. Therefore, the recommendation is that, subject to continued satisfactory monitoring, these mandates are retained for the remainder of their contract term.

The mandates have achieved good performance; have remained consistent in their investment philosophy and process; have team stability; have provided good communication and client service; and, importantly, there are no issues arising from operational due diligence.

### **3.0 RELEVANT RISKS**

- 3.1 There is a risk that the investment manager will not meet its contractual investment performance targets. The Fund's Statement of Investment Principles sets out MPF's approach to risk management. The volatility of active returns is a key risk and therefore the selection and monitoring of external investment managers is a key area of operations. A key mitigation of this risk is to have a clear and robust process, appropriately resourced.

### **4.0 OTHER OPTIONS CONSIDERED**

- 4.1 Re-tendering of the contracts was considered.

### **5.0 CONSULTATION**

- 5.1 Officers of MPF met with the Fund Manager on 19th August 2014 to review the Manager's response to the standard Due Diligence Questionnaire.

### **6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS**

- 6.1 None associated with the subject matter.

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

- 7.1 There are none arising from this report.

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

- 8.1 There are none arising from this report.

### **9.0 LEGAL IMPLICATIONS**

- 9.1 There are none arising directly from this report..

### **10.0 EQUALITIES IMPLICATIONS**

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

- 10.2 No because there is no relevance to equality.

## **11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS**

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

## **12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

12.1 There are none arising from this report.

## **13.0 RECOMMENDATION/S**

13.1 To retain Legal & General and Schroders as the investment managers of MPF's Active Bond Mandates.

## **14.0 REASON/S FOR RECOMMENDATION/S**

14.1 The Managers have fully satisfied contractual triennial investment performance criteria. **Please refer to the Manager Due Diligence report for technical details.**

**REPORT  
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## **APPENDICES**

The summary scoring of the mandates is attached as an appendix to this report.

## **BACKGROUND PAPERS/REFERENCE MATERIAL**

Investment Manager Standard Due Diligence Questionnaire

Investment Manager Due Diligence Report

## **BRIEFING NOTES HISTORY**

<b>Briefing Note</b>	<b>Date</b>

## SUBJECT HISTORY (last 3 years)

Council Meeting	Date

## Appendix

### Scoring Matrix

Mandate	Score Performance	Score Consistency of Approach	Score Team Retention and Communication	Score Operational due diligence	Total
Schroders	4	5	4	5	18
L&G	5	5	4	5	19

### Scoring Guide

#### Performance (as at 30th June 2014)

5= more than 1.5% pa against benchmark, 4=0.3% to 1.5%pa against benchmark 3=0.3 to -0.3% pa against benchmark 2=-0.3 to -1.5% pa against benchmark 1= more than -1.5% pa against benchmark

#### Consistency of Approach

5= process and philosophy remain as hired. 4=minor changes 3=some change, 2=significant issues not fully addressed by manager, 1=fundamental issues not addressed by manager.

#### Team Retention and Communication

5=Original team in place and good written communications and presentations received well by Members, 4=minor issues, 3=some issues but concerns addressed fully. 2=significant issues not fully addressed by manager, 1=fundamental issues not addressed by manager.

#### Operational due diligence

5=no operational due diligence issues good systems in place, 4=minor issues, 3=some issues but concerns addressed fully. 2=significant issues not fully addressed by manager, 1=fundamental issues not addressed by manager.