WIRRAL COUNCIL

Pensions Committee
19th January 2015

SUBJECT:	BlackRock Mandate
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 an update following some material changes made by BlackRock to the carrying out their developed Asia-Pacific ex-Japan equities mandate, including a change of fund manager.

1.2 It has been decided to continue the mandate, which will continue to be subject to monitoring under established procedure.

2.0 BACKGROUND AND KEY ISSUES

2.1 BlackRock commenced managing a developed Asia-Pacific ex-Japan equities mandate for the Fund in October 2010, following a public tendering exercise. Merseyside Pension Fund's weighting to developed Asia-Pacific ex-Japan equities comprises 4% of its strategic asset allocation. This mandate for BlackRock was to manage half of this allocation. As at 30th November 2014, the portfolio was valued at £121 million. The target of the mandate was to achieve, over a rolling three-year term, out-performance of 2% relative to the benchmark index of the MSCI Asia Pacific ex-Japan.

2.2 The mandate was run by a portfolio management team based in Edinburgh, drawing on the firm's global analysis and risk management capacity. The mandate's reference benchmark has the following geographic weighting:

MSCI Developed Asia ex Japan	Benchmark %
Australia	62.33
Hong Kong	24.15
Singapore	12.44
New Zealand	1.08

The portfolio's active allocations to these geographies are at the discretion of the fund manager, as is the power to invest up to 20% of the portfolio in off-benchmark stocks.

2.3 BlackRock informed the Fund that, due to operational re-structuring, the implementation of its Asian equity strategies would no longer be carried out by the Edinburgh team. Responsibility for Merseyside Pension Fund's mandate would transfer to a well-established team based in Hong Kong. This team had been in place since August 2011, running pan-Asian equity strategies with a strong track record of success. Fund officers then undertook a due diligence process to determine if the new team was suitable to continue with the Fund's mandate.

2.4 BlackRock is the world's largest asset management business, operating with global reach and considerable resources. At the time of the proposed transfer, the Hong Kong team were already managing the majority of the firm's Asian equity business. It was determined that the proposed team demonstrated the requisite capacity and skill to manage our mandate, albeit with some variations in the investment process largely characterised by a greater use of qualitative analysis in portfolio construction and a wider pan-Asian focus. It was agreed that the terms of the mandate would be altered to increase the off-benchmark capacity to 30%, which would allow for wider geographic allocation and tilting toward more small and mid cap stocks. There was no indication that the proposed strategy had a higher volatility (expressing active risk) than the current portfolio.

2.5 BlackRock agreed to meet all explicit costs (and half of the anticipated implicit spread costs) of implementing the transition to their target portfolio. The management fees are to remain unchanged. The mandate is due for formal review and re-tendering in 2016.

3.0 RELEVANT RISKS

3.1 There is a risk that the Fund's investment objectives for this mandate will fail to be met by switching to an unsuitable manager. This has been addressed by the due diligence process and will be subject to ongoing monitoring.

3.2 The transition to the new portfolio can be disruptive and potentially destructive of value, due to the costs involved (e.g. transaction costs and market timing). BlackRock are addressing this by agreeing to cover the majority of costs incurred. The Hong Kong team presented officers with a pre-trade analysis indicative of costs and likelihood of being able to efficiently trade the vast majority of the target portfolio within a week. The performance measurement history of this mandate will be kept unbroken, so the Hong Kong team have further incentive to manage the transition efficiently.

4.0 OTHER OPTIONS CONSIDERED

4.1 The Fund had the option to terminate the mandate, had the new portfolio management arrangements been considered too radical a departure. Using existing mechanisms, the portfolio could have been de-risked by moving into a passive vehicle, while a re-tendering exercise is undertaken. This option is not considered to offer any added value at the present time.

5.0 CONSULTATION

5.1 The change in the mandate was reported to IMWP in November 2014 under the Monitoring Policy.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 There are none.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none.

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

8.1 BlackRock will cover all costs associated with transitioning the portfolio by setting them off against their quarterly fee.

9.0 LEGAL IMPLICATIONS

9.1 The Fund has completed a side-letter to its Investment Management Agreement with BlackRock to reflect the mandate changes.

10.0 EQUALITIES IMPLICATIONS

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

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

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are none.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none.

13.0 RECOMMENDATION/S

13.1 That Members note the changes made in fund management arrangements for the BlackRock Developed Asia-Pacific ex-Japan equities mandate.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 The changes are not thought detrimental to implementation of the Fund's investment strategy.

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APPENDICES

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date
Pensions Committee, 'Manager Reviews and Tender Exercises'	20th January 2014
Pensions Committee, 'Management of Asia/Pacific Equities'	27th September 2010

SUBJECT HISTORY (last 3 years)

Council Meeting	Date