

WIRRAL COUNCIL

PENSIONS COMMITTEE

21 JANUARY 2019

SUBJECT:	RISK MANAGEMENT
WARD/S AFFECTED:	NONE
REPORT OF:	DIRECTOR OF PENSIONS
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

1.1 This report informs Members of the appointment of investment managers providing equity downside protection strategies to a framework agreement and implementation of a bespoke investment strategy in relation to a substantial employing body in the Fund.

2.0 BACKGROUND AND KEY ISSUES

2.1 Members will be aware that officers have been actively developing risk reduction strategies for the Fund. As advised to this Committee in January 2018, one area of interest has been the potential use of equity option strategies and, following an in-depth review of these strategies, a framework of investment managers able to implement these strategies has been put in place. The firms appointed are listed in appendix 1 to this report.

2.2 Additionally, following the 2016 actuarial valuation, the Fund introduced two additional investment strategies (medium risk and lower risk) to give employers the option of reducing the level of investment risk they wished to take.

2.3 The Fund was approached by an admitted body in the Scheme with a request to provide them with a lower risk strategy which would include explicit hedging of their liabilities' sensitivities to inflation and interest rate risk. Following detailed negotiations involving the Fund's actuary, officers and KPMG, advisors to the admitted body, a bespoke strategy has been agreed and designed to fulfil the requirements. The parameters of the strategy proposed by the employer are set out in appendix 2.

2.4 The majority of the strategy will comprise existing holdings of the Fund but in different proportions to the standard investment strategies. Additionally, it will involve an LDI mandate which will hedge a significant proportion of the interest rate and inflation sensitivities of the liabilities. This will provide scale efficiencies to the employing body and provide some simplification for the Fund in the

operational management of the strategy. The LDI mandate is being provided by one of the Fund's incumbent bond managers.

- 2.5 The two principal operational challenges for the Fund has been to ensure that performance of the strategy is accurately provided to the employing body and that it pays its share of the investment and other costs arising from the strategy. Officers are satisfied that appropriate controls have been put in place.

3.0 RELEVANT RISKS

- 3.1 As with any insurance, equity option structures have a cost which will have the effect of reducing returns in the long term. The cost, purpose and duration of these strategies should be identified clearly before they are implemented.
- 3.2 Regarding alternative investment strategies, a failure to provide an auditable record of investment performance and of the investment and related costs arising from the strategy may result in a challenge from the employing body. The Fund has worked closely with its actuary to ensure robust arrangements have been put in place.

4.0 OTHER OPTIONS CONSIDERED

- 4.1 No other options have been considered.

5.0 CONSULTATION

- 5.1 Not relevant to this report

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

- 6.1 There are no previously approved actions outstanding.

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 The costs of the strategy will be borne by the employing body. The Fund intends to use reports from its custodian to provide the requisite performance and cost data.

9.0 LEGAL IMPLICATIONS

- 9.1 There are none arising from this report.

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 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 That Members note the report.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 It is important that members are informed of strategic developments within the Fund.

REPORT AUTHOR: PETER WALLACH
Director of Pensions
telephone (0151) 2421309
email peterwallach@wirral.gov.uk

APPENDICES

Framework of equity downside protection managers
Letter of confirmation.

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date