

# WIRRAL COUNCIL

## PENSIONS COMMITTEE

25 MARCH 2019

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

### 1.0 EXECUTIVE SUMMARY

- 1.1 This report informs Members of the progress made in relation to the design of an equity downside protection strategy for the Fund and seeks approval for the implementation of the structure outlined in the report from Mercer (appendix 1).
- 1.2 To enable implementation, the report also seeks approval for an amendment to the Fund's Investment Strategy Statement to allow for the use of derivatives.
- 1.3 The appendix to this report contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of Local Government Act 1972 i.e. information relating to the financial or business affairs of any particular person (including the authority holding that information).

### 2.0 BACKGROUND AND KEY ISSUES

- 2.1 In January 2019, Committee was informed of the appointment of a framework of investment managers able to implement equity downside protection strategies. Officers have been liaising with the Fund's major employers and with the actuary in order to design an appropriate strategy for the Fund that, by reducing the uncertainty of outcomes, should give the actuary greater certainty in the assumptions used for the 2019 triennial valuation.
- 2.2 In parallel with this, officers have been putting in place the necessary arrangements with the Fund's custodian for collateral management and related operational requirements as well as negotiating legal agreements with the framework managers. In order to conclude the investment management agreements, the Fund needs to amend its Investment Strategy Statement to include a specific reference permitting the use of derivatives in both pooled and segregated mandates. The proposed wording is consistent with the LGPS (Management and Investment of Funds) Regulations 2016 regarding the suitability of particular investments and types of investments.

- 2.3 Approval is sought for the Fund's Investment Strategy Statement to be revised to read:

*"The suitability of particular investments and types of investments to reside within the Fund's investment portfolio are analysed within the context of the overall strategic asset allocation. The Fund may also make use of derivatives, either directly or in pooled investments, for the purposes of efficient portfolio management or to hedge specific risks, in order to protect the value of the Fund's assets."*

### **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.

### **4.0 OTHER OPTIONS CONSIDERED**

- 4.1 No other options have been considered.

### **5.0 CONSULTATION**

- 5.1 The Fund and actuary have consulted with the major employers in the Scheme to discuss the potential return and cost implications.

### **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 overlay structures were set out in January's report. The design, implementation and monitoring of the strategies will require additional officer resource. The overlay has the potential to deliver considerable short term benefit to employers through revised contribution rates.

### **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 and approve the implementation of the overlay strategy as outlined in the Mercer report.

13.2 That Members approve the revised wording for the Investment Strategy Statement.

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

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

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**APPENDICES**

Mercer report.

**BACKGROUND PAPERS/REFERENCE MATERIAL**

**BRIEFING NOTES HISTORY**

Briefing Note	Date

**SUBJECT HISTORY (last 3 years)**

Council Meeting	Date