



PENSIONS COMMITTEE

11 JULY 2023

REPORT TITLE:	APPOINTMENTS TO EQUITY PROTECTION FRAMEWORK
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

This report informs Members of a recently completed procurement exercise and seeks approval (subject to the satisfactory conclusion of final checks and legal agreements) for the appointment of investment managers, providing equity overlay risk management strategies, to a framework agreement available to Northern LGPS (local Government Pension Scheme) partner funds.

Appendix 1 to the report, (A report from advisors, bfinance, on the procurement exercise), contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972, i.e. Information relating to the financial or business affairs of any particular person (including the authority holding that information).

RECOMMENDATION/S

That the Pensions Committee be recommended to approve the establishment of the framework as set out in the report.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 The ability to deploy overlay strategies in order to manage investment risks within the Fund is an important element of the Fund's risk management capabilities. Following an OJEU compliant process on behalf of the Northern LGPS, a framework of potential investment managers has been identified.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 Not relevant for this report. The Financial Regulations require Pensions Committee to approve the framework.

3.0 BACKGROUND INFORMATION

- 3.1 At Pensions Committee in January 2019, Members were advised that officers had undertaken an in-depth review of equity option strategies and that a framework of investment managers able to implement these strategies had been put in place. Under procurement regulations, a framework can be utilised for four years before it needs to be refreshed. With the existing framework arrangements coming to an end this year, officers have taken steps to renew the framework and, following consultation with partner funds, it was agreed that a framework should be put in place for the Northern LGPS, hosted by Wirral Council.
- 3.2 An OJEU compliant procurement exercise has been undertaken advised by bfinance and supported by Wirral procurement. The report, attached at appendix 1, sets out the procurement process, the assessment of tenders and the investment firms recommended for inclusion on the framework.

4.0 FINANCIAL IMPLICATIONS

- 4.1 As set out in the appendix. The tenders were assessed on an 80% Quality/20% Price basis.

5.0 LEGAL IMPLICATIONS

- 5.1 A procurement process according with Wirral's contract procedure rules was undertaken advised by bfinance and supported by Wirral's procurement team.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 There are none arising directly from this report. Investment firms will be selected to provide overlay services in accordance with the terms of the framework.

7.0 RELEVANT RISKS

- 7.1 Equity overlays can be used for efficient portfolio management in order to mitigate risks arising from the Fund's investment strategy. Overlay strategies may involve the use of derivatives such as forwards, futures, options and swaps and it is important

that expert advice is available in designing, implementing and monitoring suitable structures.

- 7.2 As with any insurance arrangement, 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.

8.0 ENGAGEMENT/CONSULTATION

- 8.1 MPF engaged with Northern LGPS (Local Government Pension Scheme) and consulted with its Pooling partner funds in developing the tender specification and undertaking the procurement process. Officers have also engaged with the Fund's actuary who recommends the use of protection strategies and large employers in the Scheme.

9.0 EQUALITY IMPLICATIONS

- 9.1 There are no equality implications arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

- 10.1 There are none arising directly from this report. Environmental, Social and Governance matters are a key consideration of MPF's Responsible Investment strategy.

11.0 COMMUNITY WEALTH IMPLICATIONS

- 11.1 There are none arising from this report.

REPORT AUTHOR: **Peter Wallach**
(Peter Wallach, Director of Merseyside Pension Fund)
telephone:
email: peterwallach@wirral.gov.uk

APPENDICES

Appendix 1 Northern LGPS Equity Protection Managers' Framework

The PDF file below may not be suitable to view for people with disabilities, users of assistive technology or mobile phone devices. Please contact peterwallach@wirral.gov.uk if you would like this document in an accessible format.

BACKGROUND PAPERS

CIPFA: Managing Risk in the Local Government Pension Scheme

TERMS OF REFERENCE

This report is being considered by the Pensions Committee in accordance with Section G of its Terms of Reference: (g) To award contracts for goods and services relating to the Fund

in accordance with the Contract Procedure Rules after taking into account the recommendations of officers and external professional advisers (where appropriate).

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Minutes of all IMWP and GRWP meetings are brought to the subsequent Pensions Committee.	