

Report of: Corporate Director of Finance and Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	14 September 2015		n/a

Delete as appropriate	Exempt	Non-exempt

SUBJECT: CURRENCY HEDGING BRIEFING

1. Synopsis

- 1.1 To consider a currency hedging briefing to enable Members review of our current passive hedging strategy. The paper is prepared by AllenbridgeEpic and attached as Appendix 2

The key question is whether Members want to take on additional currency risk in addition to the risks associated with overseas equity holdings.

2. Recommendations

- 2.1 To consider the AllenbridgeEpic briefing paper on currency hedging set out in Appendix 2.
- 2.2 To consider the 2 options below as stated in the paper:

Option 1 – Maintain existing 50% currency hedge on overseas equities

Do Members have the appetite to live with the shorter term impact of currency volatility on the fund's valuation? Whilst these effects may well wash out over time, the shorter term effect could be significant and if this is a concern, then maintain the 50% currency hedging programme, notwithstanding the longer term conclusions drawn by Dimson, Marsh and Staunton.

Option 2 – Stop hedging currency risk on overseas equities

Members are less concerned about the shorter term impact of currency volatility on the fund's valuation on the basis that research indicates that the currency effects wash out over time, so not hedging would save the (modest) costs associated with implementing the strategic currency hedge so maintain an unhedged equity allocation.

- 2.3 To agree either Option 1 or Option 2 above.

3. Background

- 3.1 Following a review of the Fund's investment strategy in 2007 and final implementation stages in 2010, Members agreed to terminate their active currency mandate, that included a hedge overlay. To minimize the short term effects of currency volatility on performance in our segregated global equity portfolios, our custodian BNY Mellon was contracted to hedge 50% of the major currencies, Dollar, Yen and Euro.
- 3.2 Members asked for a briefing paper to review the currency hedge to determine if it was still beneficial to the Fund

4. Implications

- 4.1 **Financial implications**
Fund management and administration fees are charged directly to the pension fund. The passive hedge service fee is £5000 per annum.
- 4.2 **Legal Implications**
None applicable to this report.
- 4.3 **Environmental Implications**
None applicable to this report.
- 4.4 **Equality Impact Assessment**
None applicable to this report.

5. Conclusion and reasons for recommendation

- 5.1 Members are asked to consider the briefing paper Appendix 2, and agree to option1 or option 2.

Background papers:

None

Final report clearance:

Signed by:

Received by: Corporate Director of Finance & Resources Date

Head of Democratic Services Date

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