

**Report of: Corporate Director of Resources**

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	26 June 2018		n/a
Delete as appropriate	Exempt	Non-exempt	

**Appendix 1** is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information relating to the financial or business affairs of any particular person (including the authority holding that information).

## **SUBJECT- EQUITY PROTECTION STRATEGY- QUARTERLY MONITORING**

### **1. Synopsis**

- 1.1 This is a quarterly monitoring report on the implemented equity protection strategy to allow Pensions Sub-Committee to review the performance of the strategy regularly. The end of quarter market to market exposure and option gain or loss position will be discussed and noted for information.
- 1.2 Mercer our investment advisor, has prepared a presentation to highlight the main features of activities to May 2018 and performance during the quarter to March 2018.

### **2. Recommendations**

- 2.1 To note the options value as at March 2018
- 2.2 To receive Mercer's presentation highlighting the main features and activities of the strategy to May 2018- attached as Exempt Appendix 1-Equity Protection Monitoring

### **3. Background**

#### **3.1 March 2016 valuation**

The triennial valuation was completed in March 2017 with a calculated funding level of 78% and a deficit of £299m. A 22-year recovery plan was agreed with projected contributions over this period to achieve a 100% funding level.

- 3.2 Members agreed at the October 2017 special meeting to implement an equity protection strategy aiming to protect 50% of the portfolio (total equities exposure is 65%). They agreed the protection will initially be to 31 March 2020, the next actuarial valuation, and then reviewed.
- 3.3 The protection strategy was implemented on 2<sup>nd</sup> February and was based on an equity notional value of £734m (equity value at 31 December 2017 less premium of £25m). The premium was sourced from our LGIM MSCI Global Low Carbon Fund. The target maturity is March 2020 except for Japan that expires in June 2020. The actual premium for the structure was £24.7m. The weighted average upper and lower strike were 94.9% and 78.3% respectively.
- 3.4 Members agreed to receive quarterly monitoring reports to track our equity exposure and the market to market value of our protection. As at March 2018 our equities exposure had decreased by £41m but our option had improved by £7m. Members should note that as the strategy is for a fixed term any gains and losses will only be realised at the end of the contract.
- 3.5 Mercer will be presenting in more detail activities during the quarter and how the protection has performed.

## **4. Implications**

### **4.1 Financial implications**

- 4.1.1 The cost of providing independent investment advice and fund management is part of fund management and administration fees charged to the pension fund.

### **4.2 Legal Implications**

The Council, as the administering authority for the pension fund may appoint investment managers to manage and invest a portfolio on its behalf (Regulation 8(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

### **4.3 Environmental Implications**

Environmental considerations can lawfully be taken into account in investment decisions

### **4.4 Resident Impact Assessment**

None applicable to this report. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding

## **5. Conclusion and reasons for recommendation**

- 5.1 Members are asked to note the Fund's market to market equity exposure position and receive a presentation from Mercer highlighting the equity protection strategy performance during the quarter to March 2018 and activities to May 2018, attached as Exempt Appendix 1 – Equity Protection Monitoring.

## Background papers:

None

## Final report clearance:

**Signed by:**

## Corporate Director of Resources Date

## **Received by:**

Head of Democratic Services Date

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