

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND INVESTMENT PANEL	
MEETING DATE:	25 May 2016	AGENDA ITEM NUMBER
TITLE:	LIABILITY RISK MANAGEMENT FRAMEWORK	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Exempt Appendix 1 – Mercer Report: Risk Management – Implementation Framework		

## 1 THE ISSUE

- 1.1 At the November meeting the Panel agreed in principle the Fund should put in place a framework to more effectively use the investment assets to match liabilities, and requested a framework be prepared for consideration by the Panel to recommend to Committee. The Committee discussed and noted this at their December meeting and additional information was provided to Committee in a training session on the subject in March 2016.
- 1.2 The report from Mercer at Exempt Appendix 1 sets out the proposed framework for approval for recommendation to Committee.

## 2 RECOMMENDATION

### 2.1 The Panel recommends to Committee:

- (1) The liability risk management framework summarised on pages 24 and 25 of Exempt Appendix 1.
- (2) The implementation of the framework be delegated to Officers in consultation with the Investment Panel.

### **3 FINANCIAL IMPLICATIONS**

- 3.1 There is provision in the 2015/16 budget for investment advice relating to the review of the Fund's management of liability risks. Any future implementation of a liability risk management framework may incur additional costs for future budgets.

### **4 BACKGROUND**

- 4.1 In November, the Panel agreed in principle to more effectively use the investment assets to match liabilities, specific elements included:
- (1) An immediate change to the UK government bond portfolio to improve matching – already implemented.
  - (2) Developing a three year plan to increase the level of matching and to establish a longer term plan to reach a target level of matching when affordable – set out in the proposed implementation framework.
- 4.2 The proposed framework is the culmination of work by the Committee, Panel Officers and Mercer over the preceding 12 months.

### **5 PROPOSED IMPLEMENTATION FRAMEWORK**

- 5.1 Mercer's report at Exempt Appendix 1 sets out the proposed Liability risk management framework. The report describes the rationale for the framework, the framework itself and provides information for future considerations on implementation. It comprises the following:

Recap:

- (1) Outline of the objective and explanation of the impact of increasing certainty on the Fund's ability to improve affordability and/or reduce asset risk
- (2) Estimate of potential costs (depending on implementation choices made)

**For approval:**

- (3) Establishment of target level of hedging and a plan to get there**
- (4) Yield trigger framework: Types of triggers, reference rates, how triggers are set, action at each trigger level and how work in practice**

For information and future consideration by Officers and Panel:

- (5) Implementation considerations such as types of instruments used, leverage employed, structure of investment vehicle, monitoring.

### **6 RECOMMENDATIONS**

- 6.1 The implementation framework proposed by Mercer for approval is summarised on pages 24 and 25 of Exempt Appendix 1.

### **7 RISK MANAGEMENT**

7.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

## **8 EQUALITIES**

8.1 An equalities impact assessment is not necessary as the report contains only recommendations to note.

## **9 CONSULTATION**

9.1 N/a

## **10 ISSUES TO CONSIDER IN REACHING THE DECISION**

10.1 Are set out in the report.

## **11 ADVICE SOUGHT**

11.1 The Council's Section 151 Officer (Divisional Director – Business Support) has had the opportunity to input to this report and has cleared it for publication.

<b>Contact person</b>	Liz Woodyard, Investments Manager 01225 395306
<b>Background papers</b>	<p><u>Report to March 2016 Committee workshop: Mercer Report 'Managing Liabilities through the investment Portfolio'</u></p> <p><u>Report to November 2015 Panel meeting: Managing Liabilities - Scenario analysis, with Mercer Report 'Further training and scenario analysis'</u></p> <p><u>Report to September 2015 Panel meeting: Managing Liabilities, with Mercer Report 'Risk Management Framework'.</u></p> <p><u>Report to June 2015 Committee meeting: Liability Risk Management with Mercer Report 'Management of Liability Risks: Developing a Risk Management Framework'</u></p>
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