

Insurance Linked Securities 12 month extension

REPORT TO; Gary Fielding – Corporate Director, Strategic Resources, Central Services

DECISION DATE: 17th May 2021

SUPPORTING ANNEX; NA

PROPOSED RECOMMENDATION

It is recommended that the Authority extend the current contract for the Insurance Linked Securities for 12 months. This is to allow time and flexibility whilst we begin to explore the market as well as beginning the process of withdrawing funds from the investments with the aim to move all funds across to other investments in the future.

BACKGROUND TO SUPPORT THE RECOMMENDATION

In 2018 the Pension Fund Committee introduced an Insurance Linked Securities Mandate to reduce the Funds overall exposure to equities. The allocation of ILS was expected to account for between 3.3% - 5% of total fund assets.

Insurance Linked Securities is a term used to cover an array of financial instruments whose values are driven by insurance loss events. These instruments are linked to property losses caused by natural and man-made disasters.

This is an investment for the Pension Fund. It's part of the Investment Strategy as determined by the Pension Fund Committee.

Although the investment mandate was set up for an initial 3 years plus 7 x 12 month extensions, it will be continued until the Pension Fund Committee decides to terminate it. The Committee formally reviews the arrangements every quarter. The current position held is that the mandate is expected to be terminated at some point in the next year or two and will not be replaced. The Authority has looked at the option of moving the investment funds into a Pension Scheme Fund known as Boarder to Coast. This company is made up of 11 other Local Government Pension Scheme funds including North Yorkshire County Council.

The requirement for this investment is not something the Authority wishes to continue with and therefore the funds will be moved into other investments over the coming years. As to where the money will be invested once we move away from Leadenhall has yet to have been decided. Due to the volatility of the markets the service area cannot predict how much change may occur over the next 24 months. This is something to be decided this year and will be approved and managed by the Pension Fund Committee. Due to the lack of requirement Tom Morrison anticipates the contract will need terminating in the next 2 years.

The request for a 2 year extension was proposed however, there was a concern around potentially informing the incumbent supplier of our plans to look elsewhere so it was agreed to do 12 months and continue to extend as and when we need to as permitted in the original contract. A decision could be made to terminate as quickly as

close of play 2021 however, the transition period will be a lengthy process and therefore require an extra 12 month extension for 2022.

Once the decision has been made to move away from Leadenhall the handover period will commence. It is anticipated a year at least to get this organised as some investments pots are only accessible a few times a year. Therefore, the Authority will have to wait to withdraw the funds in some instances. If these periods of accessibility are missed it could add an extra 3 months onto the timeframe for each one.

Discussions and handovers will occur directly between Leadenhall and the new supplier with regards to moving investment funds over.

Conclusion

The Pension Fund investments are gradually being transferred over to Border to Coast, a teckal investment company part owned by NYCC. The transfers depend on suitable investment fund alternatives being created in Border to Coast. With respect to Leadenhall, the Border to Coast alternative is in development and may be ready, with luck, this financial year. However, the transition may take longer – it's impossible to say. What is certain though, is that we will not be re-procuring the contract before the investment is transferred to Border to Coast. Therefore we need to continue to extend (although, we may only need to do this once) until we are ready for the transfer.

Committee meetings take place every 3 months with the next one occurring on 4th June 2021

LEGAL AND GOVERNANCE COMPLIANCE

The mandate in place works as a legal and compliant route to market. By signing off on the agreed extension period of a further 12 months, we remain legally compliant and expect the suppliers to continue provision of their services.

RECOMMENDATION

It is recommended that the Authority continue with the mandate in place for a further 12 month extension. June 2021 – June 2022.