

Essex Pension Fund Board	EPB/09/12
date: 7 March 2012	

Investment Steering Committee (ISC) Quarterly Report

Report by the Head of Investments

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1. Purpose of the Report

1.1 To provide a report on ISC activity since the last Board meeting.

2. Recommendations

2.1 That the Board should note the report.

3. Background

- 3.1 In accordance with the constitution of the Essex Pension Fund the ISC is required to submit quarterly reports on its activities to the Essex Pension Fund Board. Since the Board's last meeting the ISC has met once, on 22 February 2012.

4. Report of meeting of ISC on 22 February 2012

- 4.1 This meeting was one set aside for consideration of Fund strategy and the main purpose of the meeting was for the Committee to be updated on progress with the decisions that had been made at its meeting in July 2011:
- 4.1..1 Hymans Robertson updated the Committee on progress against the actions agreed at the July strategy meeting, comparing the actual structure with the agreed target structure, explaining the work already accomplished and identified the work still to be carried out as well as putting forward proposals for future consideration.
- 4.1..2 Officers and advisers had met with Alliance Bernstein and with Mellon, whose mandates had been and remained a matter of concern, and reported on their findings.
- 4.1..3 They also reported on a proposal that had been received from Aviva, the Fund's property manager, that their mandate should be changed to permit a significantly greater allocation to direct property and a reduction in indirect property and an expansion of the scope to include global property investment. The officers and advisers had considered this proposal and put forward an alternative approach involving a more gradual and lower cost move from indirect into direct property while further investigation was made in regard to global property.
- 4.1..4 The Committee agreed:
- That the Mellon mandate be retained unchanged.
 - That the Alliance Bernstein mandate be retained unchanged.
 - That work should be carried out by Hymans Robertson, in conjunction with the Fund Actuary and officers and advisers, on the development of:
 - A high level cash model for the Fund;
 - Ongoing monitoring of the funding position;
 - Triggers for equity allocation reduction;
 - Target asset allocations as equity allocation reduces.
 - That work should be carried out by Hymans Robertson, in conjunction with officers and advisers, on more detailed proposals for macro asset allocation for discussion at the July 2012 ISC meeting.
 - That the revised proposal by officers and advisers for the Aviva mandate be agreed and implementation delegated to officers, in consultation with advisers.
 - That work should be carried out by Hymans Robertson on researching global property and Aviva's suitability as a global property manager for discussion at the July 2012 ISC meeting.
 - That an additional indicator on "favourability of market background to a manager's performance" be included in future traffic light reports.
 - That the current rebalancing strategy be maintained unchanged.

- 4.2 The Committee received an update on progress with the market testing of the global custodian. This has now progressed to the stage where due diligence is being carried out on 3 shortlisted candidates. A recommendation on the preferred custodian is expected to be made next month.
- 4.3 Hamilton Lane, the Fund's private equity manager attended the meeting and gave a presentation on the private equity market, threats and opportunities and the implications for the Fund's private equity investment strategy.
- 4.4 Finally the Committee received a revised draft Statement of Investment Principles, incorporating the July decisions and subsequent developments. They noted that a review had been carried out of the expected return from the Fund's assets and that it had fallen from 7.9% p.a. to 6.1% p.a. At that level it was below the normal rate of return assumed by the Fund Actuary in the 2010 Actuarial valuation. However the investment consultants consider that this is a symptom of current unusual market conditions, where gilt yields are at very low levels, and expect that gilt yields will return to more normal levels (i.e. increase) over time, which is expected to lead to a fall in the assessed value of the liability which will assist in closing the funding gap in relative terms. The funding strategy will be reassessed during 2013 as part of the triennial valuation.
- 4.5 The Committee approved the draft SIP, amended to include a statement of the investment consultants' opinion, to be sent out for consultation with stakeholders.

5. Link to Essex Pension Fund Objectives

- 5.1 Investments
- To maximise the returns from investments within reasonable risk parameters.
 - To ensure the Fund is properly managed.

6. Risk Implications

- 6.1 None other than those already identified as part of the Fund's investment strategy.

7. Communication Implications

- 7.1 None

8. Finance and Resources Implications

- 8.1 None other than those already identified as part of the Fund's investment strategy.

9. Background Papers

- 9.1 ISC meeting 22 February 2012– Agenda and draft minutes.