Essex County Council

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Essex Pension Fund
Investment Steering Committee

Date:	**4 April 2017**
Time:	**2:00pm**
Venue:	**Committee Room 2**

Officer support to the ISC:
Kevin McDonald, Director for Essex Pension Fund
Telephone 01245 431301 (internal ext 21301) or 0333 0138 488
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Agenda

This meeting is open to the public and the press.

These documents can be provided on request in the following formats, large print, braille, or on disk. For further information please contact the Director for Essex Pension Fund.

Agenda
Part I
(Business to be taken in public)

1. **Apologies for absence**
   To note the receipt (if any)

2. **Declarations of Interest**
   Any declarations of interest to be made by members of the Committee during the meeting will be noted at this stage

3. **Minutes**
   To approve as a correct record the Minutes of the Investment Steering Committee meeting held on 20 February 2017 and the Investment Steering Committee Appointment Sub Committee 24 February 2017.

4. **Arrangements for future meetings**
   To agree a schedule of meetings for the municipal year 2017/18. The following dates have been proposed:

   (2:00pm, unless stated)
   Wednesday 14 June 2017
   Wednesday 19 July 2017
   Wednesday 18 October 2017
   Wednesday 15 November 2017
   Wednesday 21 February 2018
   Wednesday 7 March 2018

5. **Investment Strategy Statement**
   To consider a report from the Director for Essex Pension Fund in consultation with Hymans Robertson and Mark Stevens, Independent Adviser.

6. **Treasury Management Strategy 2017/18**
   To consider a report by the Director for Essex Pension Fund

7. **Market Outlook and Background**
   To receive a report from Hymans Robertson

8. **Urgent Part I Business**
   To consider any matter which, in the opinion of the Chairman, should be considered in public by reason of special circumstances (to be specified) as a matter of urgency.

9. **Exclusion of the Public**
   To consider whether the public (including the press) should be excluded from the meeting during consideration of an agenda item on the grounds that it involves the likely disclosure of exempt information as specified in Part I of Schedule 12A of the Local Government Act 1972 (exclusion is recommended for the items set out in Part II below).

Part II

(Business to be taken in private)

10. Structural Reform of the Local Government Pension Scheme – Pooling

To receive a report from the Director for Essex Pension Fund

11. Infrastructure Procurement Process

To receive a report by Hymans Robertson in consultation with Mark Stevens, Independent Adviser and the Director for Essex Pension Fund

12. Q3 December 2016 Investment Tables

To receive a report by the Director for Essex Pension Fund in consultation with Mark Stevens, Independent Adviser

13. Investment Manager Update - Traffic Light Report

To receive a report by Hymans Robertson

14. Update on Investment Managers presenting – Hamilton Lane and Baillie Gifford

To receive a report by Hymans Robertson

15. Investment Manager Presentation – Hamilton Lane

To receive a presentation on the private equity portfolio from Hamilton Lane

16. Investment Manager Presentation – Baillie Gifford

To receive a presentation on the global equity portfolio from Baillie Gifford

17. Urgent Exempt Business

To consider in private any other matter which in the opinion of the Chairman should be considered by reason of special circumstances (to be specified) as a matter of urgency.

Forthcoming Meetings:

Investment Steering Committee
Wednesday 14 June 2017
2.00pm Committee Room 2, County Hall

Essex Pension Fund Strategy Board
Wednesday 5 July 2017
2.00pm Committee Room 2, County Hall

Essex Pension Fund
Investment Steering Committee (ISC)

Minutes of a meeting of the Essex Pension Fund Investment Steering Committee held at 1:00pm at County Hall, Chelmsford on 20 February 2017

Present

Cllr R Bass (Chairman)	Essex CC
Cllr S Barker	Essex CC
Cllr S Canning	Essex CC
Cllr K Clempner	Essex CC
Cllr N Hume	Essex CC
Cllr J Whitehouse	Essex CC
Cllr K Bobbin (Labour substitute)	Essex CC
Cllr J Spence (Conservative substitute)	Essex CC
Sandra Child (Observer representing scheme members)	UNISON

The following Advisers were present in support of the meeting;

Mark Stevens	Independent Adviser
John Dickson	Hymans Robertson
Matt Woodman	Hymans Robertson

The following Officers were present in support of the meeting;

Kevin McDonald	Director for Essex Pension Fund
Jody Evans	Head of Essex Pension Fund
Samantha Andrews	Investment Manager

The following Essex Pension Fund Advisory Board (PAB) members were present as observers of the meeting:

Paul Hewitt	Deferred Member
Mark Paget	Active Member

1 Apologies for absence

Apologies were received from Cllr N Le Gresley (Essex CC) and Cllr Riley (Observer representing scheme employers).

2 Declaration of Interest

There were none

3 Minutes

The minutes of the meeting of the Committee which took place on 23 November 2016 were approved as a correct record.

4 Urgent Part 1 Business

There were none.

5 Exclusion of the Public

Resolved:

That the Public (including the press) be excluded from the meeting during consideration of the following items on the grounds that they involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972:

- Structural Reform of the Local Government Pension Scheme (LGPS) – Investment Pooling
- O&A Briefing Note – Aviva Investors;
- Infrastructure Mandate RfP Analysis Report;
- Infrastructure Manager Interviews; and
- Institutional Investment Consultant – contractual arrangements.

6 Structural Reform of the Local Government Pension Scheme (LGPS) – Investment Pooling

(Press & public excluded)

Kevin McDonald, Director for Essex Pension Fund, gave an update outlining the latest developments in respect of the structural reform of the LGPS.

It was noted that following the meeting on 29 November 2016 with Local Minister Marcus Jones of which Cllr Bass was one of a number of Chairman from ACCESS to attend a letter was received on 27 January 2017 in response to ACCESS's July submission and the subsequent 'twin track' dialogue.

A meeting of the ACCESS Chairmen was held on 15 February, where further clarification was sought from Eversheds as to the fiduciary role of the participating ACCESS administering authorities.

It was agreed that a letter in response to the Minister's letter of 27 January be sent from the ACCESS Chairmen setting out the ACCESS pool's position.

The presentation was noted.

7 O&A Briefing Note – Aviva Investors

(Press & public excluded)

Matt Woodman highlighted that at its meeting of 20 November 2016 the Committee agreed that a review be undertaken at its February meeting of the property mandate managed by Aviva Investors. Matt confirmed that a follow up meeting took place on 27 January 2017 with Aviva where Advisers met again with Anna Rules replacement, David Diemer.

Following discussions the Committee **agreed** that:

- no action be taken;
- a further review of the property mandate be undertaken in 12 months; and
- the report be noted.

8 Infrastructure Mandate RfP Analysis Report
(Press & public excluded)

The Committee received a presentation from Matt Woodman from Hymans Robertson outlining the Infrastructure mandate selection process to date.

It was explained that of the 32 managers that had applied for the Request for a Proposals (RfP), 22 were completed and returned. Each submission was evaluated against the qualifying criteria. Of which 4 managers; Hermes Fund Managers Limited, Infracapital , IFM Investors, and JPMorgan Asset UK Management met the required qualifying score and were then invited to interview.

Following discussions the report was noted.

9 Infrastructure Mandate Interviews

9a Manager Presentation – IFM Investors
(Press & public excluded)

The Committee received a presentation from Duncan Symonds and Annabel Wiscarson of IFM Investors.

Mark Paget, (Essex Pension Fund Advisory Board Member) left the room
Cllr J Spence (Conservative Substitute) joined the meeting.

9b Manager Presentation – Infracapital
(Press & public excluded)

The Committee received a presentation from Andy Matthews, Martin Lennon and Carolyn Pearce of Infracapital.

Mark Paget, (Essex Pension Fund Advisory Board Member) returned to the room

9c Investment Manager Presentation – Hermes Fund Managers Limited
(Press & public excluded)

The Committee received a presentation from Peter Hofbauer, Robert Wall, James Lucas from Hermes Fund Managers Limited.

9d Investment Manager Presentation – JPMorgan Asset UK Management
(Press & public excluded)

The Committee received a presentation from Richard Bannister and Paul Ryan from JPMorgan Asset UK Management.

Following consideration of the presentations and discussion **it was agreed**:

- IFM Investors and JPMorgan Asset UK Management be appointed to manage the 2% infrastructure allocation that will be vacated by Infracapital each managing c1.3% of Fund assets (£75m commitment);
- that officers, in conjunction with fund advisers, be authorised to finalise the arrangements; and
- that the outcome be reflected within the review of the Investment Strategy Statement.

At 2:45pm Matt Woodman, John Dickson and John Wright from Hymans Robertson left the room.

10 Institutional Investment Consultant –contractual arrangements
(Press & public excluded)

Kevin McDonald provided an update of the progress to date of the Institutional Investment Consultant re-tender carried out via the National LGPS Framework.

It was explained that all 6 investment consultancy firms on the National LGPS Framework were invited to participate to tender, of which 4 responses were received back.

On 2 February 2017 the Director for Essex Pension Fund, the Head of Essex Pension Fund, the Investment Manager and the Independent Investment Adviser conducted interviews with each of the four candidates. Subsequently an evaluation of each submission and interview was undertaken with the three highest ranked candidates invited to present to the ISC Appointment Sub-Committee consisting of Cllr Bass (Chairman), Cllr Barker (Vice Chairman) and Cllr Clempner on 24 February 2017.

Following discussions the report was noted.

11 Urgent Exempt Business
(Press & public excluded)

There was none.

There being no further business, the meeting closed at 4:45pm.

Chairman
4 April 2017

Essex Pension Fund
Investment Steering Committee (ISC)
Appointment Sub Committee (ASC)

Minutes of a meeting of the Essex Pension Fund Investment Steering Committee Appointment Sub-Committee held at 9:15am at County Hall, Chelmsford on 24 February 2017

Present

Cllr R Bass (Chairman)	Essex CC
Cllr S Canning	Essex CC
Cllr K Clempner	Essex CC

The following were present in support of the meeting;

Mark Stevens	Independent Adviser
Kevin McDonald	Director for Essex Pension Fund
Samantha Andrews	Investment Manager

1 Membership

As agreed by the Investment Steering Committee on 23 November 2016 the Membership of the Appointment Sub Committee was noted as:

Cllr R L Bass (Chairman)
Cllr S Barker
Cllr K Clempner
Cllr S Canning (Substitute)

2 Apologies for absence

Apologies were received from Cllr S Barker (Essex CC)

3 Declaration of Interest

There were none.

4 Urgent Part 1 Business

There were none.

5 Exclusion of the Public

Resolved:

That the Public (including the press) be excluded from the meeting during consideration of the following items on the grounds that they involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972:

- Institutional Investment Consultant (IIC) procurement process
- Interview: Hymans Robertson LLP
- Interview: KPMG LLP; and
- Interview: Mercer Limited

6 Institutional Investment Consultant (IIC) procurement process
(Press & public excluded)

Kevin McDonald took the Committee through a presentation which outlined the selection process to date. It was explained that all 6 investment consultancy firms on the National LGPS Framework were invited to participate to tender, of which 4 responses were received back.

On 2 February 2017 all participates had been interviewed by Mark Steven, Independent Investment Adviser, Kevin McDonald, Jody Evans and Samantha Andrews and the three with the highest scores had been shortlisted for interview by the ASC. Kevin also highlighted the process for the interviews. It was noted that each applicant had been instructed that the interview would be up to 45 minutes in length.

The presentation was noted.

7 Interview: Hymans Roberson LLP
(Press and public excluded)

The Committee interviewed John Dickson and Matt Woodman from Hymans Robertson.

8 Interview: KPMG LLP
(Press and public excluded)

The Committee interviewed David O'Hara and Nick Evans from KPMG.

9 Interview: Mercer Limited
(Press and public excluded)

The Committee interviewed Nick Sykes and Catrina Arbuckle from Mercer.

10 IIC appointment
(Press and public excluded)

After a full deliberation the Committee **agreed that**:

- Hymans Robertson be formally appointed to the position of Institutional Investment Consultant to the Essex Pension Fund;
- Officers to make the necessary contractual arrangements for the successful candidate; and
- inform all other candidates of the Committee's decision.

11 Urgent Part II Business
(Press and public excluded)

There were none.

There being no further business, the meeting closed at 12:00pm.

Chairman
4 April 2017

Investment Steering Committee	AGENDA ITEM 5
date: 4 April 2017	

Investment Strategy Statement (ISS)

Report by the Director for Essex Pension Fund in consultation with Hymans Robertson and the Independent Investment Adviser, Mark Stevens.

Enquiries to Kevin McDonald on 0333 0138 488

1. Purpose of the Report

1.1 To present a draft ISS for the Committee's consideration.

1.2 To outline a timetable for consultation with stakeholders.

2. Recommendations

It is recommended that the Committee **note**:

2.1 the requirement to produce and publish an ISS and the timetable, as highlighted in section 4.

It is recommended that the Committee **agree**:

2.2 the draft ISS;

2.3 that the draft ISS be circulated to stakeholders for consultation;

2.4 that the ISS be passed to the Pension Advisory Board (PAB) to note;

2.5 the outcome of the stakeholder consultation be brought back to the Committee at the next meeting.

3. Background

3.1 The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 ("2016 Regulations") were introduced in November 2016 and require local authority pension funds to prepare and publish an ISS by 1 April 2017.

3.2 The 2016 Regulations supersedes the requirement to publish a Statement of Investment Principles (SIP). Like the SIP, the ISS must be reviewed, and if necessary revised, following any material change in the factors which are judged to have a bearing on the stated investment policy, and at least every three years.

3.3 In accordance with the Fund's business plan, like the SIP, the ISS will be reviewed on an annual basis. The draft ISS is then circulated to stakeholders for consultation. The outcome of the stakeholder consultation is then brought back to the Committee for their consideration whereby the draft ISS if required is updated, agreed and adopted.

4. Investment Strategy Statement (ISS)

4.1 The draft ISS is attached as Annex A.

4.2 The ISS will take a similar form to the Fund's current SIP. However in addition to the areas already addressed by the SIP, the ISS must highlight the approach to collaborative investment, including the use of collective investment vehicles – a clear reflection of the reform agenda around pooling.

4.3 The ISS must also include:

- a requirement to invest fund money in a wide variety of investments
- the Fund's assessment of the suitability of particular investments and types of investments;
- the Fund's approach to risk, including the ways in which risks are to be measured and managed;
- the Fund's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- the Fund's policy on the exercise of the rights (including voting rights) attached to investments.

4.4 The table below provides a timetable for stakeholder consultation and publishing the ISS:

Meeting	Action	Date
-	Publication of draft ISS (Part 1 of ISC Agenda published on EPF and ECC Website	31 March 2017
ISC	Discussion of draft ISS	4 April 2017
-	Stakeholder Consultation	April - May 2017
PAB	PAB discussion	6 June 2017
ISC	Outcome of consultation and agreement of final ISS	14 June 2017

5. Recommendations

It is recommended that the Committee **note**:

5.1 the requirement to produce and publish an ISS and the timetable as highlighted in section 4.

It is recommended that the Committee **agree**:

5.2 the draft ISS;

5.3 that the draft ISS be circulated to stakeholders for consultation;

5.4 the ISS be passed to the Pension Advisory Board (PAB) to note;

5.5 the outcome of the stakeholder consultation be brought back to the Committee at the next meeting.

6. Background Papers

6.1 The LGPS (Management and Investment of Funds) Regulations (as amended) 2016 revoking The LGPS (Management and Investment of Funds) Regulations (as amended) 2009

6.2 ISC agenda item of 23 March 2016 highlighting the draft investment regulation consultation and requirement to produce an ISS.

INVESTMENT STRATEGY STATEMENT

ESSEX PENSION FUND

MARCH 2017

CONTENTS

Introduction and background

This is the Investment Strategy Statement (the "Statement") of the Essex Pension Fund, which is administered by Essex County Council (the "Scheme Manager") as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the "2016 Regulations") in accordance with the guidance issued by Secretary of State.

Essex County Council is the Administering Authority for the Fund under the Regulations. In 2008, a Pension Board was established to exercise on behalf of Essex County Council all the powers and duties of the Council in relation to its functions as Administering Authority of the Essex Pension Fund, except where they have been specifically delegated by the Council to another Committee or an officer. Responsibility for setting and monitoring investment strategy has been specifically delegated to the Essex Pension Fund Investment Steering Committee ("ISC"). Responsibility for the day to day management of the Fund has been delegated to the Section 151 Officer ("s151O") and the Director for Essex Pension Fund.

This statement has been prepared by the ISC having taken appropriate advice from the Fund's Institutional Consultant, Hymans Robertson LPP, and its Independent Investment Adviser, Mark Stevens. The responsibilities of relevant parties are set out in appendix A.

The Statement is subject to periodic review at least every three years and from time to time on any material change in investment policy or other matters as required by law. The ISC has consulted on the content of this Statement with its stakeholders. The Statement is also subject to review by the Essex Pension Fund Advisory Board (PAB) which was established as the Local Pension Board for Essex in accordance with section 5 of the Public Service Pension Act 2013 and Part 3 of the LGPS Regulations 2013.

Investment strategy and the process for ensuring suitability of investments

Fund Objective

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

The funding objective adopted for the Essex Pension Fund is to ensure that the assets of the Pension Fund, when taken in conjunction with future contributions, are sufficient to ensure that all future pension and retirement benefits will be fully covered by the Fund's assets when they fall due.

This primary objective has been converted to a number of funding objectives, as set out in the Fund's Funding Strategy Statement (FSS). The purpose of the FSS is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the desirability of maintaining as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

The funding position will be reviewed by the Essex Pension Fund Strategy Board (PSB) at each triennial actuarial valuation, with interim reviews occurring in the years between triennial valuations.

Funding Level

The funding level of the Pension Fund is the value of the Fund's assets expressed as a percentage of the Fund's liabilities at the most recent actuarial valuation of the Fund. The funding level at March 2016 was 89%. The Funding Strategy provides for the Fund to return to a fully funded position over a period of 15 years. In accordance with the Funding Strategy Statement, the PSB determined the rate of contributions payable by each of the employers in the Fund for the three years starting 1 April 2017.

Investment Beliefs

The ISC has adopted 4 core investment beliefs covering the following areas:

- Long Term Approach;
- Diversification;
- Benchmarks; and
- Active vs Passive Management.

Details are set out in appendix B.

Investment Strategy

The Fund is maturing and analysis has been undertaken to forecast when new contributions (employees and employers including deficit) are not enough to meet all benefit payments falling due. This is normal for a pension scheme and reflects the purpose of the Fund (accumulate monies and then pay it out in benefits).

In order to meet the short to medium term cashflow requirements, the Investment Steering Committee at its 23 February 2015 meeting agreed to realise income from L&G's UK assets and Aviva's property portfolio.

Realised income may be held in cash short term in order to meet a proportion of benefit payments.

The initial requirements are small (c. 0.5% of total Fund assets) and is expected to be more than met by the income on assets. There should be no need to disinvest the capital value of any asset. The time at which the sale of assets will become a requirement will be subject to periodic review.

The Fund is therefore still in a position to target a predominantly growth-based strategy, with the aim of maximising asset value in the long term within agreed risk levels, which takes into account liquidity requirements.

There are varying levels of diversification between different asset classes to ensure that the value of the Pension Fund when taken in conjunction with future contributions is sufficient to ensure that all future pension and retirements benefits will be fully covered by the Fund's assets when they fall due, whilst managing the Fund within the ISC's risk appetite.

Asset Allocation

The Fund has an 87% allocation to 'growth' (equities and alternatives) assets in order to meet the long term funding assumptions set out in the 2016 actuarial valuation.

The Fund's investments are allocated across a range of asset classes. The largest allocation is to equities which also accounts for the majority of the investment risk taken by the Fund. Over the long term, equities are expected to outperform other liquid asset classes, particularly bonds. Allocation to asset classes other than equities and bonds, allows the Fund to gain exposure to other forms of return which can help to reduce the overall volatility of the portfolio. These assets are in the main negatively correlated to equities and are expected to generate returns broadly similar over the long term and so allocation to these can maintain the expected return and assist in the management of volatility.

The 13% allocation to bonds is designed to manage overall levels of funding volatility within agreed levels.

Investment Allocation

The Committee has translated its objectives into a suitable strategic asset allocation benchmark and structure for the Fund (set out in appendix C), taking into account both the liability structure and the objectives set out above. The Fund benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

The Committee monitors investment strategy relative to the agreed asset allocation benchmark. In addition to on-going monitoring, the investment strategy is formally reviewed every six months at Committee meetings set aside for that purpose. Furthermore, specific consideration is given to investment strategy in the light of information arising from each triennial actuarial valuation.

Investment managers

The Committee has appointed a number of active and passive investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles and a mix of asset types across a range of geographies in order to provide diversification of returns.

The managers appointed, and the mandates they manage, are detailed in appendix C. Appendix D details the objectives and investment rationale of the mandates.

Types of investment to be held

The investment managers are required to comply with LGPS investment regulations. The Fund may invest in quoted and unquoted securities of UK and overseas markets, including equities, fixed interest and index linked bonds, cash, property, commodities, infrastructure, timber and loans either directly, through pooled funds or via partnership agreements.

The Fund may also make use of contracts for difference and other derivatives either directly or in pooled funds when investing in these products, for the purpose of efficient portfolio management or to hedge specific risks. The Committee considers all of these classes of investment to be suitable in the circumstances of the Fund.

Currency hedging

The Fund, to reduce the volatility associated with fluctuating currency rates (currency risk), has put in place a passive currency programme which is managed by Legal and General Investment Management. The Fund hedges 50% of its major overseas currency exposure within the equity portfolio.

Investment Managers have discretion to utilise hedges for risk management purposes.

Risk measurement and management

Risk

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. These risks are set out and monitored as part of a formal risk register. An extract of the risk register relating to funding and investment is included in Appendix E. However, in summary, the principal risks affecting the Fund (including their reference code within the risk register) are:

Funding risks:

- Financial mismatch – F1. The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities. F8. The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- Changing demographics – F4. The risk that longevity improves and other demographic factors change increasing the cost of Fund benefits.
- Systemic risk - I2 & F3. The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Fund liabilities.

Asset risks:

- Concentration – I1 & I2. The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity – I11. The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Manager underperformance – I6. The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

Other provider risks – I13:

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the ISC takes professional advice and considers the appointment of specialist transition managers.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

Mitigations:

The approach the ISC adopts to managing these risks is also addressed in Appendix E. However, in general terms, the risks are managed via a combination of:

- The appointment of professional advisers to assist the ISC in managing these risks;

- Agreed processes and guidelines for consideration and monitoring of the investments;
- Specific limits on individual investments;
- Ensuring the expected return from the investment strategy is consistent with the assumptions made by the Actuary in valuing the Fund;
- Assessments of the levels of risk taken by the Fund;
- Diversification across asset classes and managers; and
- Regular review and monitoring.

Full descriptions of these risks, including the mitigating actions taken by the ISC, are set out in appendix E.

Expected return on investments
Over the long term, the overall level of investment return is expected to exceed the rate of return assumed by the Actuary in valuing the Fund and setting funding requirements.

Realisation of investments
The majority of assets held within the Fund may be realised quickly if required. The Committee monitors both the level of liquid assets and the liquidity requirements of the Fund.

Asset pooling
Overview
The Fund is one of eleven participating Fund's in the ACCESS Pool (A Collaboration of Central, Eastern & Southern Shires) along with Cambridgeshire, East Sussex, Hampshire, Hertfordshire, Isle of Wight, Kent, Norfolk, Northamptonshire, Suffolk and West Sussex.

All eleven funds are committed to collaboratively working together to meet the government's criteria for pooling and have signed a Memorandum of Understanding to underpin their partnership.

The proposed structure and basis on which the ACCESS Pool will operate in order to meet the Governments criteria was set out in the July 2016 submission to Government. A copy of the submission is available on the ACCESS website at www.accesspool.org

The participating authorities have a clear set of objectives and principles that will drive decision-making and help shape the design of the Pool. These underpin the design of the project plan that the ACCESS Funds are working towards.

The first arrangements to be brought under the ACCESS structure will be the passively managed assets. Arrangements are due to be put in place over the course of 2017.

Assets to be invested inside the Pool
The Fund's intention is to invest its assets through the ACCESS Pool as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government. The key criteria for assessment of Pool solutions will be as follows:

1. That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund
2. That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

The Fund is monitoring developments with a view to transitioning liquid assets across to the Pool when are suitable sub-funds to meet the Fund's investment strategy requirements are in place.

Any assets not currently invested in the ACCESS Pool will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money.

The Essex Pension Fund is working towards the expectation that over time all investments will be pooled with the exception of direct property and operational cash. The table below sets out the rationale.

Assets to be invested outside the Pool

Asset Class	Manager	Strategic Allocation %	Reason for not investing in the ACCESS Pool
Direct Property	Aviva Investors	Up to 12%	• Investment manager skill is a major determinant of returns. The availability of quality investment managers for a large mandate is untested. • The portfolio has been built to specific risk and return requirements • Portfolio designed to account for target holding sizes, to reflect the total portfolio size and achieve the required level of diversification • Moving holdings to part of a bigger direct portfolio would have significant cost implications such as Stamp Duty Land Tax (SDLT) • To reshape the portfolio to meet new objectives would be inconsistent with the value for money criteria • Project Pool analysis showed that increasing direct mandate size does not result in incremental cost savings
Operational Cash	In-house	n/a	A reasonable level of operational cash will be required to maintain efficient administration of scheme. This will be held in house as ECC will need to manage cashflow to meet statutory liabilities, including monthly pension payroll payments.

This will be reviewed periodically by the ISC.

Environmental, Social & Governance Considerations

Fiduciary duty

The fundamental responsibility of the Fund is to ensure that it has adequate monies available to pay pensions as they fall due. This objective must be achieved in a cost effective way for members, employers and the taxpayer. Moreover, in reaching decisions, the Fund must comply with its fiduciary responsibilities.

Policy

The ISC does not place restrictions on investment managers in choosing investments in quoted companies except in limiting the size of single investments. The ISC expects investment managers to place their primary consideration on financial factors when selecting investments for inclusion in the portfolio, as an assessment of appropriate ESG capability is made before the manager is appointed.

However, the ISC will allow investment managers to consider non-financial factors in selecting investments providing that such decisions are not expected to:

1 be financially detrimental to the Fund (either in terms of expected return or risk) or;
2 represent significant opportunity cost if not held.

In general the ISC expects the selection of stocks based on a significant degree of non-financial reasons to be extremely rare and reserves the right to intervene on a case by case basis. Intervention is likely to be extremely rare as companies are aware of the increasing sensitivity of investors.

The ISC has determined that restricting investment may be of financial detriment to the Fund depending on price and outlook. Hence pursuing divestment goes against the Committee's fiduciary duty and responsibilities to maximise returns and manage costs for participating employers who ultimately bear the investment risk should a shortfall arise.

Exercise of voting rights

The Fund has instructed its Fund Managers to vote in accordance with their in house policies and practices.

The Fund fully supports the UK Stewardship Code and requires those of its investment managers who hold shares on its behalf to comply with it or to provide the ISC with an explanation of why it is not appropriate to do so, in the exercise of the mandate that they have been given, and how they will instead achieve and demonstrate the same level of responsible share ownership.

The Fund's equity investment managers are signatories to the UK Stewardship Code and have all gained a Tier 1 status (demonstrating a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary).

Engagement

The Fund expects its investment managers to take account of social, environmental and ethical considerations in the selection, retention and realisation of investments as an integral part of the normal investment research and analysis process. This is insofar as these matters are regarded as impacting on the current and future valuations of individual investments. The Fund believes taking account of such considerations forms part of the investment managers' normal fiduciary duty.

Instead of divesting, the ISC believes that they will have greater influence on the future direction of companies if they remain invested. Overall engagement activities are viewed by the Committee as a key element of the broader approach to responsible investment. Remaining invested provides the Fund with a voice on how companies are generating their revenues and how they will change in the future.

The Fund is a long term investor and therefore has an interest in the long term direction and success of the companies in which it invests. Divestment reduces the Fund's ability to influence how big companies change in the future.

Ongoing Monitoring

The Committee actively monitors the Fund's investment managers' approaches. As part of this regular manager monitoring, the ISC will challenge their managers on how they consider and manage all financial risks faced by their investments, including those that arise from ESG considerations. The Committee also strives to improve and develop their knowledge and understanding on how ESG factors will impact the Fund's investments in the future.

Stock Lending

The policy on stock lending (below) reflects the nature of the mandates awarded to investment managers by the ISC, which include both pooled and segregated mandates:

Segregated Investments

The Fund does not participate in stock lending schemes nor allow its stock to be lent.

Pooled Investments

In regard to the Fund's pooled investments, where the Fund is buying units in a pooled vehicle, stock lending is outside the control of the Fund and undertaken at the discretion of the pooled fund manager.

Appendix A – Responsibilities

ISC Responsibilities

- To approve and annually review the content of the ISS.
- To appoint and review investment managers, custodian and advisors.
- To assess the quality and performance of each investment manager annually in conjunction with investment advisers and Section 151 Officer.
- To set the investment parameters within which the investment managers can operate and review these annually.
- To monitor compliance of the investment arrangements with the ISS.
- To assess the risks assumed by the Fund at a global level as well as on a manager by manager basis.
- To approve and review the asset allocation benchmark for the Fund.
- To submit quarterly reports on its activities to the Essex Pension Fund Strategy Board.
- To approve and annually review the content of the Pension Fund Treasury Management Strategy

Section 151 Officer ('S151O') Responsibilities

- To manage the Pension Fund including the power to seek professional advice and to devolve day-to-day handling of the Fund to professional advisers within the scope of the Pensions Regulations.
- To provide a training plan for the members of the ISC (and the Strategy and Advisory Boards).

Custodian Responsibilities

- To safeguard all segregated assets (excluding direct property holdings, unitised holdings and cash held separately with either the Administering Authority or investment managers) within the Fund and ensure that all associated income is collected, including dividends and tax reclaims. Also to ensure that corporate actions affecting the securities are dealt with, including rights issues, bonus issues and acquisitions.
- To provide regular statements of transactions, corporate actions, income and asset valuations as required by the Administering Authority.
- To report to the ISC in person on the assets of the Fund if required.
- To inform the Fund of any areas of concern which arise in its dealings with investment managers.
- To report the performance of the Fund's assets

External Advisers

Hymans Robertson

- To provide advice to the Fund on investment strategy, asset allocation, benchmark selection and design, investment management structure, legislative changes impacting on the Fund and current emerging issues.
- To prepare and present a report, based on information supplied by the Fund's custodian, on the annual investment performance of the Fund.
- To carry out on behalf of the Fund, when required, the functions of manager selection and manager monitoring.
- To carry out asset/liability modelling studies when required.
- To provide expert commentary on the economy and investment market.
- To attend and advise at all meetings of the ISC and all meetings arranged between its officers, advisers and managers.
- To assist the ISC in its annual review of asset allocation, investment management structure, SIP and Funding Strategy Statement.

Independent Investment Adviser

- To assist the officers of the Fund in the determination of agendas and papers for the meetings of the ISC.
- In consultation with the officers of the Fund, to identify investment issues of strategic importance to the Fund and arrange for their consideration by the ISC e.g. asset allocation, and investment, management structure.
- In conjunction with the officers of the Fund, to keep under review the individual investment managers and where necessary put forward proposals for their management, including where appropriate their dismissal.
- To assist the officers of the Fund, where requested, in manager searches and other Fund procurement exercises.
- To assist the ISC in keeping under review its statutory publications.
- When requested by the officers, to attend and participate in monitoring, reviewing and briefing meetings arranged with investment managers, limited partners etc.

Audit Responsibilities

The Fund is subject to review by both the County Council's External Auditors (EY) and internally by Internal Audit.

The Pension Fund financial statements contained in the Council's Annual Statement of Accounts present fairly:

- the financial transactions of its Pension Fund during the year; and
- the amount and disposition of the Fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

The External Auditor audits the Pension Fund financial statements and gives their opinion, including:

- whether they present fairly the financial position of the Pension Fund and its expenditure and income for the year in question; and
- whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards;

In carrying out their audit of the financial statements, auditors will have regard to the concept of materiality.

Additionally the Council must prepare a Pension Fund annual report which should contain the Pension Fund Account and Net Asset Statements with supporting notes and disclosures. External Audit will review the annual report as a whole and the accounts contained in it and then report:

- whether the accounts contained in the annual report are consistent with the financial statements on which the audit opinion was given; and
- that other information in the annual report is not inconsistent with the financial statements on which the audit opinion was given.

Internal Audit carry out a programme of work designed to reassure the S151O that Fund investment systems and records are properly controlled to safeguard the Fund's assets.

Appendix B - Core Investment Beliefs

Long term approach

Local authority (LA) funds take a long term view of investment strategy

This is largely based on covenant. Unlike the private sector, the covenant underlying the Fund is effectively gilt-edged. This means that short term volatility of returns can be acceptable in the pursuit of long term gain. Whilst there is a need to consider stability of contributions, at current maturity levels and with deficits spread over 20 years, it is largely the future service rate which is expected to drive instability. One of the best ways to avoid this is to build in margins over the long term. More recently, the ISC has noted the increasing maturity of the Fund and potential change in cashflow position on the horizon. It is therefore also taking this into consideration in decision making.

Over the long term, equities are expected to outperform other liquid asset classes, particularly bonds

Given the above, there is a preference for a significant allocation to equities in the Fund as over the long-term as they are expected (but not guaranteed) to outperform other asset classes.

Allocations to asset classes other than equities and bonds expose the Fund to other forms of risk premium

Investors with a long term investment horizon and little need for immediate liquidity can use this to their benefit as it offers the ability to capture the illiquidity premium on many asset classes, such as private equity and infrastructure.

Diversification

Diversification into alternative asset classes (including property) is also expected to reduce overall volatility of the Fund's funding level

Given that the returns from different asset classes are expected to be delivered in different cycles (i.e. not be directly correlated with equity returns), the use of alternative assets can reduce overall volatility in the delivery of Fund returns without leading to a significant reduction in overall expected return, therefore increasing efficiency.

In the context of LA funds (open, long duration, not maturing quickly and with high equity content), an allocation to bonds does not offer a match to liabilities, but additional diversification.

Where bonds are not used for liability matching purposes, an allocation to these assets can be beneficial from an overall risk/return perspective improving the overall efficiency of the Fund. The corollary to this is that bond benchmarks do not necessarily have to reflect the nature and duration of the liabilities (see benchmark section below), but should be set to provide managers with the sufficient scope to add value.

The overweight to UK equities in most UK pension funds is historic and loosely based on currency exposures, rather than a preference for the UK market

Although historically the UK may have benefited from better corporate governance, and therefore a higher return, increasingly the rest of the world is catching up and UK equities are not expected to outperform overseas equities over the long term. Given the concerns over market concentration in the UK market and an increased opportunity set overseas a move towards increased overseas allocation relative to the UK seems appropriate. Concerns about currency risk can be addressed by a separate currency hedging programme.

Benchmarks

Where appropriate, benchmarks should represent the full opportunity set.

For example, for a global equity mandate, a market capitalisation ("market cap") weighted benchmark reflects a passive allocation to the market (analogous to investing in a passive equity mandate and investing in each stock according to its size). It therefore reflects the investable universe of stocks available and represents the starting point for an equity benchmark.

To some extent market cap weighted indices reflect past winners, so should be treated with caution

The regional exposures in the World Index are a function of the relative market cap of the regional stock markets. In turn, these are a function of the size of the economy as a whole and how well companies have performed in that economy. One measure of the size of the economy could be its overall contribution to global GDP. However, as has been seen in the UK, many companies in the market have little exposure to the domestic economy and, again, this should not be adhered to too slavishly. At the total fund level a fixed weights regional benchmark is therefore preferred in order to maintain an appropriate level of diversification across markets. This is particularly the case when the allocations are maintained by a passive "swing" manager.

Emerging market economies may be expected to outperform over the long term as the economy develops and the risk premium falls

As emerging markets develop both politically and economically, become more robust and less dependent on the fortunes of a small number of developed economies (such as the US), the risk of investing in these countries should decrease. The return demanded by investors for investing in these 'riskier' countries will therefore fall reflecting the increased security. This reduction in required return would tend to lead to a systematic increase in stock prices. As a result, a strategic allocation to emerging markets of at least the market cap weight if not slightly above is favoured.

Bond benchmarks do not need to reflect the nature and duration of the liabilities

As discussed in the diversification section above, if bonds are not held for liability matching purposes, benchmarks should be set in order to maximise the scope for adding value.

Active versus passive management

Passive management is appropriate for obtaining a low cost allocation to efficient markets

Where markets offer little scope for adding value through active management (such as individual allocations to UK equities, US equities and gilts) passive management is preferred as a low cost way of accessing the market. This does not include emerging markets where the risk inherent in the market (although improving as stated above) and inefficiency of the market lends itself to active management.

Active management is appropriate where a market is relatively inefficient offering opportunities for active managers to add value

Where markets offer substantial scope for added value active management would seem appropriate as a way of increasing overall expected return (after fees) without significantly increasing the overall level of volatility in the funding level.

Constraints on active managers reduce their ability to add value

Active managers should not be unnecessarily constrained (within appropriate risk limits) and should be given the maximum scope to implement their active views. There is therefore a preference for unconstrained mandates e.g. unconstrained global equity mandates and unconstrained bond mandates such as M&G's LIBOR plus approach. This also suggests that, within reason, managers' requests for additional scope should be acceded to.

A degree of diversification of managers improves the efficiency of the overall structure (i.e. improves the expected return per unit of risk)

Active manager performance is expected to be cyclical and therefore by appointing a number of managers the delivery of returns is expected to be less volatile. However, too much diversification can lead to expensive index tracking.

A rigorous approach to active manager selection improves the chance of appointing an active manager who will add value over the long-term

An active manager must outperform their benchmark after fees to add value. The selection of an active manager must assess more than just past performance and look into the infrastructure supporting the performance including; business and ownership, philosophy and process, people, risk controls and fees.

The Fund does not have the governance structure in place to take tactical views and market timing is very difficult

Both timing investments into the market and taking tactical views are very difficult given the governance structure in place and the time taken to agree and implement decisions. Where possible these decisions are left to professional investment managers who are closer to the market and can implement tactical views in a more timely fashion. This highlights the importance of not unnecessarily constraining active managers and providing them with appropriate scope.

The assessment of active management performance should be taken with a long-term view and take account of the market environment in which returns are delivered

Active management is cyclical and periods of underperformance from investment managers should be expected so the structure should be such that when the market cycle is unfavourable for some managers it is favourable for others and vice versa. This is expected to deliver added value over the long-term whilst smoothing the overall performance at the total Fund level. Churning of managers leads to additional costs; however, where the ISC no longer views an investment manager's prospects as positive over the long-term, action should be implemented as soon as possible due to the potential downside risk.

Appendix C – Fund Strategy and structure

Summary

Equities	Manager	Target %
UK	LGIM	5.0
Regional	LGIM	15.0
Global	Marathon	35.0
	M&G	
	Longview	
	Baillie Gifford	
	RAFI	
Emerging	First State	5.0
Total		60.0

Bonds	Manager	Target %
Index-linked gilts	LGIM	2.0
Active Cash plus	GSAM	5.5
	M&G	5.5
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
Total		13.0

Alternatives	Manager	Target %
Property	Aviva	12.0
Private equity	Hamilton Lane	4.0
Infrastructure	M&G	6.0
	Partners Group	
Timber	Stafford	2.0
Loans	M&G	0.5
Direct lending	Alcentra	2.5
-	-	-
Total		27.0

The Fund also hedges 50% of the currency risk arising from its investment in overseas equities via a currency overlay mandate with Legal and General.

		Swing			Equity					Bonds		Alternatives					
					Active global mandates					Active mandates							
	Effecive Benchmark	L&G Equity	L&G Bonds	L&G RAFI	Longview	Marathon	Baillie Gifford LTGG	M&G	First State	GSAM	M&G	Property	Timber	Direct lending	Infrastructure	Financing	Private Equity
Fund Weighting	100.0	20.0	2.0	7.0	7.0	7.0	7.0	7.0	5.0	5.5	5.5	12.0	2.0	2.5	6.0	0.5	4.0
UK equities (All Cap)	3.6	18.2															
UK equities (Mid/Small Cap)	1.8	9.1															
Global equities	35.0			100.0	100.0	100.0	100.0	100.0									
North America	6.4	31.8															
Europe	4.5	22.7															
Japan	2.3	11.4															
Pacific ex-Japan	1.4	6.8															
Emerging markets	5.0								100.0								
Total Equities	60.0	100.0		100.0	100.0	100.0	100.0	100.0	100.0								
UK index linked	2.0		100.0														
UK Gilts																	
UK Corps																	
Libor+	11.0									100.0	100.0						
Total bonds	13.0		100.0							100.0	100.0						
Infrastructure	6.0														100.0		
Timber	2.0												100.0				
Private equity	4.0																100.0
Property	12.0											100.0					
Financing	0.5															100.0	
Direct Lending	2.5													100.0			
Total alternatives	27.0											100.0	100.0	100.0	100.0	100.0	100.0
Total	100.0	100.0	100.0		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Appendix D – Fund Manager Mandate Objectives

Legal and General Investment Management
Passive Mandate - 22% of the Fund

Investment Objective
The objective is to match the Benchmark gross of fees over rolling three year periods. The Benchmark is the average of the respective FTSE indices for each of the asset classes and markets in which the mandate is invested and weighted in accordance to the proportions in the mandate's asset allocation shown below:

Investment Allocations:
The asset allocations are as below:

Asset Class	Target Allocation	Range
Equities	%	%
UK Equities Index	25.4	23.4 - 27.4
North America Equity Index	32.7	30.7 - 34.7
Europe Equity Index	24.1	22.1 - 26.1
Japan Equity Index	11.3	9.8 – 12.8
Asia Pacific ex Japan Index	6.5	5.75 – 7.25
Total equities	100	
Bonds		
UK Index-linked (Over 5 Year Index-linked Gilts Index)	100	
Total bonds	100	

Investment Restrictions
Legal and General may not invest in unlisted securities. The manager may invest up to 100% of its mandate in pooled life funds. The manager can invest up to 35% of the total Fund in life policies, assets held over and above this limit must be held on a segregated basis.

Legal and General Investment Management
Global Equity Passive Mandate - 7% of the Fund

Investment Objective
The objective is to match the Benchmark gross of fees over rolling three year periods. The benchmark being the L&G FTSE RAFI AW 3000.

Legal and General Investment Management
Passive Currency Mandate
The mandate requires Legal & General to hedge 50% of the estimated value of the exposure to certain overseas equity markets. The hedge is adjusted on a quarterly basis with the new positions calculated using estimated values as at close of business two days before the quarter end.

Baillie Gifford
Global Equity Mandate – 7% of the Fund

Investment Objective
The objective is to seek to outperform the MSCI AC World Index by 3%, gross of fees, per annum over rolling 5 year periods.

Investment Restrictions
The investment restrictions on the manager's discretion in the management of the mandate are set out in full in the Investment Management agreement. The main restrictions are set out below:

The manager aims to ensure adequate diversification, holdings between 30 and 60 stocks. No more than 10% of the portfolio is held in any individual stock and a minimum of six sectors are represented at all times

The Manager takes a pragmatic approach to risk the greatest risk is an absolute loss of capital, therefore, on an ongoing basis the manager reviews themes and stock concentrations in the portfolio as well as how stocks might perform in different scenarios, and levels of correlation between them

Consistent with their long-term investment philosophy the portfolio turnover is low.

Longview Partners
Global Equity Mandate – 7% of the Fund

Investment Objective
The objective is to seek to outperform the MSCI AC World Index by 3%, gross of fees, per annum over rolling 3 year periods.

Investment Restrictions
The investment restrictions on the manager's discretion in the management of the mandate are set out in full in the Investment Management agreement. The main restrictions are set out below:

The manager aims to ensure adequate diversification, holdings between 30 and 50 stocks. No more than 7% of the portfolio is held in any individual stock and a range of sectors will be represented at all times

No restrictions are placed on companies domiciled in a country included within the benchmark. A maximum of 20% of the portfolio at time of purchase may be invested in companies domiciled in countries not included within the benchmark

Longview may not lend any stock, fund, share or asset forming part of the portfolio or borrow cash and/or securities for leveraging of the Portfolio.

Marathon Asset Management

Global Equity Mandate – 7% of the Fund

Investment Objective

The objective is to seek to outperform the MSCI AC World Index by 3%, gross of fees, per annum over rolling 3 year periods.

Investment Restrictions

The investment restrictions on the manager's discretion in the management of the mandate are set out in full in the Investment Management agreement. The main restrictions are set out below:

Investment will be permitted in ordinary share, preference shares, convertible bonds, warrants and cash

The Fund will be diversified, containing a minimum of 100 securities

The Fund will not hold more that 3% of the issued share capital of any one security

The maximum percentage of the Fund which may be invested in anyone share is 10% of the Fund or its benchmark weighting whichever is the greater.

Cash and Cash equivalent securities will not exceed 10% of the Fund's value expect for short periods when rebalancing is taking place

M&G Investments

Global Equity Mandate – 7% of the Fund

Investment Objective

The objective is to seek to outperform the MSCI AC World Index by 3%, gross of fees, per annum over rolling 3 year periods.

The fund aims to deliver a dividend yield above the market average, by investing mainly in a range of global equities. The fund aims to grow distributions over the long term whilst also maximising total return (the combination of income and growth of capital).

Investment Restrictions

There are no investment restriction's placed on the manager as this investment is in M&G Global Dividend pooled fund. The Fund itself has built in restrictions, but offers flexibility to allocate across sectors and geographies without constraints.

Stewart Investors

Global Equity Mandate – 5% of the Fund

Investment Objective

The objective is to seek to outperform the MSCI EM Index by 4%, gross of fees, per annum over rolling 3 year periods.

Investment Restrictions

The investment restrictions on the manager's discretion in the management of the mandate are set out in full in the Investment Management agreement. The main restrictions are set out below:

Investment will be permitted in ordinary share, preference shares, convertible bonds, warrants and cash

The Fund will be diversified, containing a minimum of 30 securities

The Fund will not hold more that 3% of the issued share capital of any one security

Cash and Cash equivalent securities will not exceed 10% of the Fund's value expect for short periods when rebalancing is taking place

Aviva

Property Mandate – 12% of the Fund

Investment Objective

The objective is to seek to outperform the Benchmark by 1% per annum gross of fees over rolling three year periods. The Benchmark is the weighted average of the IPD PPFI All Balanced Property Funds Index.

This objective is to be achieved by investing in a combination of direct and indirect property portfolios.

Investment Restrictions

The Fund is managed on a discretionary basis and the manager shall transition the Fund to comply with the target allocation and permitted ranges as below.

Asset allocation and control ranges

Aviva will invest in a range of property investments, subject to the following constraints.

Asset Allocation	**Target Allocation**	**Range**
	%	%
Direct Property	75	50 - 100
Indirect Property	25	25 - 50
Cash*	0	0 - 20
Total	100	

*In times of severe market stress there is flexibility to hold up to a maximum of 20% in cash

M & G
Fixed Income Mandate – 5.5% of the Fund

Investment Objective
The Fund seeks a total return of 1 month Libor +2% net of fees p.a. over the medium term.

Investment Restrictions
There are no specific investment restriction's placed on the manager as this investment is in M&G's Alpha Opportunities Fund which aims to take advantage of highly diversified opportunities in public and private credit markets, including but not limited to investment grade and high yield corporate bonds, leveraged loans, asset-backed, and mortgage backed securities.

Goldman Sachs Asset Management
Fixed Income Mandate – 5.5% of the Fund

Investment Objective
The Fund seeks a total return of 3 month Libor +2% gross of fees p.a. over the medium term.

Investment Restrictions
There are no specific investment restriction's placed on the manager as this investment is in its STAR I Fund which aims to take advantage of highly diversified opportunities in public and private credit markets, including but not limited to investment grade and high yield corporate bonds, leveraged loans, asset-backed, and mortgage backed securities.

Hamilton Lane
Private Equity Mandate - 4% of the Fund

Investment Objective
The Fund seeks a total return of 3% - 5% p.a. above quoted equity markets.

Investment Restrictions
Hamilton Lane has a global investment mandate in primary partnerships, secondary partnerships and co-investments within private equity. No restrictions have been placed on the fund other than prior approval will need to be sought if the manager wishes the Fund to co-invest.

Partners Group
Infrastructure Mandate - 4% of the Fund

Investment Objective
The Fund seeks an IRR of 8% to 10% p.a.

Investment Restrictions
There are no specific restrictions placed on the manager as this is a pooled investment in Partner's Group Global Infrastructure and Partner's Direct fund which seeks investment opportunities in direct, secondary and primary infrastructure markets.

M&G Infracapital

Infrastructure Mandate - 2% of the Fund

At present this investment is being wound up and capital is being returned.

Investment Objective

The Fund seeks a total return of CPI + 4% p.a. and IRR of 10% -15% p.a.

Investment Restrictions

There are no specific restrictions placed on the manager as this Infracapital is a pooled investment in which seeks investment opportunities in direct, secondary and primary infrastructure space.

IFM Investors

Infrastructure Mandate - 1% of the Fund

Investment Objective

The Fund seeks an expected return of 8% to 12% p.a. net.

Investment Restrictions

There are no specific restrictions placed on the manager as this is a pooled open ended investment in IFM Investors Global Infrastructure Fund which seeks investment opportunities in global core infrastructure assets over a broad sector.

JPMorgan

Infrastructure Mandate - 1% of the Fund

Investment Objective

The Fund seeks an expected return of 8% to 12% p.a. net.

Investment Restrictions

There are no specific restrictions placed on the manager as this is a pooled open ended investment in JPMorgan IFF fund which seeks investment opportunities in OECD regions of core and core plus infrastructure assets concentrating on transportation regulated utilities and contracted power assets.

Stafford Timberland

Timberland Mandate - 2% of the Fund

Investment Objective

The Fund seeks an IRR of 10% p.a.

Investment Restrictions

There are no specific restrictions placed on the manager as this is a pooled investment in its Stafford International Timberland VI Fund and its Stafford International Timberland VII Fund (no2) which seeks investment opportunities in direct, secondary and primary timberland.

Alcentra Limited

Illiquid Debt Mandate – 2.5% of the Fund

Investment Objective

The Fund invests both indirectly and directly and seeks 7% -9% net returns and 10% -12% net returns respectively

Investment Restrictions

There are no specific restrictions placed on the manager as this is a pooled investment in which seeks both direct and indirect investment opportunities in the illiquid debt space.

M&G

Financing Mandate – 0.5% of the Fund

Investment Objective

The Fund seeks a return of LIBOR +4-6% (net of fees) p.a.

Investment Restrictions

There are no specific restrictions placed on the manager as this is a pooled investment in its Stafford International Timberland VI Fund and its Stafford International Timberland VII Fund (no2) which seeks investment opportunities in direct, secondary and primary timberland.

Appendix E – Investment and funding risk register: key

			Impact (Negative)			
			Minor	Moderate	Major	Critical
			1	2	3	4
Probability	4	Almost Certain	Medium (4)	High (8)	VeryHigh (12)	Very High (16
	3	Likely	Medium (3)	High (6)	High (9)	Very High (12)
	2	Possible	Low (2)	Medium (4)	High (6)	High (8)
	1	Unlikely	Low (1)	Low (2)	Medium (3)	Medium (4)

Essex Pension Fund Risk Register

Risk Area: Essex Pension Fund **Date:** 01/03/2017

Objectives Area at Risk	Objective at Risk	Risk Ref	Description of Risk of not Achieving the Objectives	Gross Impact	Gross Probability	Gross Risk score	Possible Actions	Residual Impact	Residual Probability	Residual Risk Score
Investment Risks										
Investments	To maximise the returns from investments within reasonable risk parameters	I1	If investment return is below that assumed by the Actuary in funding the plan this could lead to an increasing deficit and additional contribution requirements. The larger the level of mismatch between assets and liabilities the bigger this risk.	4	3	12	Diversified portfolio; Annual Strategy Review; Asset Liability Study, extended recovery periods to smooth contribution increases.	3	3	9
Investments	To maximise the returns from investments within reasonable risk parameters	I2	Inefficiencies within the portfolio can result in unintended risks	3	3	9	Diversified portfolio; Annual Strategy Review; Quantification of individual components of financial risks, Hedging of some risks, Obtain expert advice	2	1	2
Investments	To maximise the returns from investments within reasonable risk parameters	I3	If investment returns are below peer group funds, or risk levels are excessive relative to peer group, this could lead to reputational damage for the Fund or member/admitted body dissatisfaction.	3	3	9	Regular monitoring; Annual Strategy Review; Targeting most efficient portfolio	2	2	4
Investments	To maximise the returns from investments within reasonable risk parameters	I4	Risk of missing opportunities to maximise returns	2	3	6	Regular monitoring; more than one investment adviser; dialogue with existing managers to encourage new ideas; peer group dialogue	2	2	4
Investments	To maximise the returns from investments within reasonable risk parameters	I5	If investment strategy is inconsistent with Funding Plan then it can lead to employers paying the incorrect contribution rate	4	3	12	Triennial Reviews linked with Funding Strategy & Investment Strategy. Asset Liability Study; SIP; Interim Reviews; co-ordination between actuary and investment consultant. A specific scorecard measure on this matter is in place.	2	1	2

Objectives Area at Risk	Objective at Risk	Risk Ref	Description of Risk of not Achieving the Objectives	Gross Impact	Gross Probability	Gross Risk score	Possible Actions	Residual Impact	Residual Probability	Residual Risk Score
Investment Risks										
Investments	To maximise the returns from investments within reasonable risk parameters	I6	Fund managers underperform their benchmarks	2	2	4	Manager selection process and due diligence; manager monitoring across wide range of issues; diversified portfolio of managers; setting of appropriate benchmarks	2	1	2
Investments	To ensure the Fund is properly managed	I7	Inappropriate or uninformed decisions e.g. due to lack of understanding / training	3	3	9	Training and experience of ISC members; monitoring of knowledge and understanding; an institutional investment adviser and an independent adviser have been appointed; training and experience of in house team; papers prepared in advance of decisions being made; Annual Strategy Review sets plan for year	1	2	2
Investments	To ensure the Fund is properly managed	I8	Insufficient management information about the position of the Fund e.g. level of risk; amount of assets; performance of managers	2	3	6	Regular quarterly reporting on assets, performance and managers; Annual Strategy Review	1	1	1
Investments	To ensure the Fund is properly managed	I9	Failure to take expert advice or risk of poor advice	2	3	6	Appointment of institutional investment consultant and an independent investment adviser, who regularly attend meetings	1	1	1
Investments	To ensure the Fund is properly managed	I10	Delays in implementation of decisions reduces the effectiveness of the decision	2	3	6	In house team; use of passive manager to implement change; delegation of implementation to officers and advisers	1	2	2

Objectives Area at Risk	Objective at Risk	Risk Ref	Description of Risk of not Achieving the Objectives	Gross Impact	Gross Probability	Gross Risk score	Possible Actions	Residual Impact	Residual Probability	Residual Risk Score
Investment Risks										
Investments	To ensure the Fund is properly managed	I11	If liquidity is not managed correctly, assets may need to be sold at unattractive times or investment opportunities missed as cash is unavailable.	2	2	4	Limit on illiquid assets and level of diversification from equities and bonds; projection of expected cash flows. A specific scorecard measure is in place on this matter.	1	1	1
Investments	To ensure the Fund is properly managed	I12	Insufficient scrutiny of manager mandates and terms of business may lead to inappropriate fee levels or other costs.	2	3	6	Quarterly monitoring; review of fees versus peer group; selection criteria include fees and other costs	1	2	2
Investments	To ensure the Fund is properly managed	I13	Failure of manager or custodian	3	1	3	Quarterly monitoring; AAF0106 audit reports; investment consultant on-going research; diversification of manager mandates; diversification of custody via pooled funds	2	1	2
Investments	To ensure the Fund is properly managed	I14	Failure to react to major change in market / economic conditions	3	2	6	Quarterly monitoring, setting appropriate mandates for managers, appointment of investment consultant and independent advisers, review of market conditions at each meeting, regular engagement with investment managers	2	1	2

Objectives Area at Risk	Objective at Risk	Risk Ref	Description of Risk of not Achieving the Objectives	Gross Impact	Gross Probability	Gross Risk score	Possible Actions	Residual Impact	Residual Probability	Residual Risk Score
Investments	Ensure all significant Fund investment issues are communicated properly to all interested parties	I15	Inappropriate communication of risks involved in the pension fund and strategy adopted and actions taken by the ISC may lead to questions and challenge and unexpected increases in contributions	2	3	6	Resourcing of in house team; discussion forums and surgeries; statement of investment principles; funding strategy statement	1	2	2
Investments	To ensure the Fund is properly managed	I16	The implementation of MiFiD II (January 2018) leads to the Fund being categorised by some / all of its service providers as a 'retail client' - the result of which could reduce the range of sub asset classes in which the Fund is able to invest, and may even require divestment from the current portfolio.	4	3	12	1. Representations at national level aimed towards LGPS retaining professional client status. 2. Fund Officers working with Fund Managers & Investment Advisers aimed towards the Essex Fund retaining professional client status. Developments continue to be monitored.	4	2	8

Essex Pension Fund Risk Register

Risk Area: Essex Pension Fund **Date:** 01/03/2017

Objectives Area at Risk	Objective at Risk	Risk Ref	Description of Risk of not Achieving the Objectives	Gross Impact	Gross Probability	Gross Risk score	Possible Actions	Residual Impact	Residual Probability	Residual Risk Score
Funding Risks										
Funding	Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	F1	Investment markets perform below actuarial assumptions resulting in reduced assets, reduced solvency levels and increased employer contributions	4	2	8	Use of a diversified portfolio which is regularly monitored against targets and reallocated appropriately. At each triennial valuation assess funding position and progress made to full funding. Full annual interim reviews to enable consideration of the position. A specific scorecard measure is in place on this matter.	2	2	4
Funding	Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	F2	Markets move at variance with actuarial assumptions resulting in increases in deficits, reduced solvency levels and increased employer contributions	4	3	12	Annual interim reviews to enable consideration of the position and the continued appropriateness of the funding/investment strategies and to monitor the exposure to unrewarded risks.	3	3	9
Funding	Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	F3	Investment managers fail to achieve performance targets (i.e. ensure funding target assumptions are consistent with funding objectives) which reduces solvency levels and increases required in employers' contributions	3	3	9	Diversified investment structure and frequent monitoring against targets with potential for a change of managers where considered appropriate.	2	2	4
Funding	Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	F4	Mortality rates continue to improve, in excess of the allowances built into the evidence based actuarial assumptions, resulting in increased liabilities, reduced solvency levels and increased employer contributions	3	3	9	Monitoring of mortality experience factors being exhibited by the Fund members by Fund Actuary and consequent variation of the actuarial assumptions based on evidential analysis.	2	2	4

Objectives Area at Risk	Objective at Risk	Risk Ref	Description of Risk of not Achieving the Objectives	Gross Impact	Gross Probability	Gross Risk score	Possible Actions	Residual Impact	Residual Probability	Residual Risk Score
Funding Risks										
Funding	Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy	F5	Frequency of early retirements increases to levels in excess of the actuarial assumptions adopted resulting in increases required in employers' contributions	3	3	9	Employers required to pay capital sums to fund costs for non-ill health cases. Regular monitoring of early retirement (including on the grounds of ill health) experience being exhibited by the Fund members by Fund Actuary and consequent variation of the actuarial assumptions based on evidential analysis. Ensure that employers are made aware of consequences of their decisions and that they are financially responsible.	2	2	4
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F6	Failure to apply and demonstrate fairness in the differentiated treatment of different fund employers by reference to their own circumstances and covenant	4	3	12	At each triennial actuarial valuation an analysis is carried out to assess covenant and affordability on a proportional basis. On-going dialogue with employers.	2	2	4
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F7	Mismatch in asset returns and liability movements result in increased employer contributions	4	3	12	Diversified investment structure and frequent monitoring against targets to adjust funding plans accordingly through the FSS. Employers are kept informed as appropriate.	3	2	6

Objectives Area at Risk	Objective at Risk	Risk Ref	Description of Risk of not Achieving the Objectives	Gross Impact	Gross Probability	Gross Risk score	Possible Actions	Residual Impact	Residual Probability	Residual Risk Score
Funding Risks										
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F8	Pay and consumer price inflation significantly different from actuarial assumptions resulting in increases required in employers' contributions	3	2	6	At each triennial actuarial valuation an analysis is carried to ensure that the assumptions adopted are appropriate and monitor actual experience. Discussions with employers over expected progression of pay in the short and long term.	2	2	4
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F9	Potential for significant increases in contributions to levels which are unaffordable. Ultimate risk is the possibility of the employers defaulting on their contributions	3	3	9	Risk profile analysis performed with a view on the strength of individual employer's covenant being formed when setting terms of admission agreement (including bonds) and in setting term of deficit recovery whilst attempting to keep employers' contributions as stable and affordable as possible. Pursue a policy of positive engagement with a view to strengthening employer covenants wherever possible.	2	2	4
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F10	Adverse changes to LGPS regulations resulting in increases required in employers' contributions or Fund cash flow requirements.	4	2	8	Ensuring that Fund concerns are considered by the Officers/Board as appropriate and raised in consultation process with decision makers lobbied. Employers and interested parties to be kept informed. Monitor potential impact for employers in conjunction with Actuary.	3	1	3

Objectives Area at Risk	Objective at Risk	Risk Ref	Description of Risk of not Achieving the Objectives	Gross Impact	Gross Probability	Gross Risk score	Possible Actions	Residual Impact	Residual Probability	Residual Risk Score
Funding Risks										
Funding	To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible	F11	Adverse changes to other legislation, tax rules, etc. resulting in increases required in employers' contributions	3	2	6	Ensuring that Fund concerns are considered by the Officers/Board as appropriate and raised in consultation process with decision makers lobbied. Employers and interested parties to be kept informed. Monitor potential impact for employers in conjunction with Actuary.	3	1	3
Funding	To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives	F12	Administering authority unaware of structural changes in an employer's membership, or not being advised of an employer closing to new entrants, meaning that the individual employer's contribution level becomes inappropriate requiring review and increase	3	3	9	Ensure that employers are reminded of their responsibilities, monitor and send reminders of employers' responsibilities re this where appropriate, investigate the adoption of an administration strategy to clarify employer responsibilities. Employer analysis work and officer dialogue with employers concerned (including guarantors as appropriate)	2	2	4
Funding	To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives	F13	Not recognising opportunities from changing market, economic or other circumstances (e.g. de-risking or strengthening of covenant)	3	3	9	At each triennial valuation pursue a policy of positive engagement with a view to strengthening employer covenants wherever possible.	2	2	4
Funding	To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives	F14	Adoption of either an inappropriately slow or rapid pace of funding in the specific circumstances for any particular employer	3	4	12	At each triennial actuarial valuation an analysis is carried out to assess covenant and affordability on a proportional basis. On-going dialogue with employers.	2	2	4

Objectives Area at Risk	Objective at Risk	Risk Ref	Description of Risk of not Achieving the Objectives	Gross Impact	Gross Probability	Gross Risk score	Possible Actions	Residual Impact	Residual Probability	Residual Risk Score
Funding Risks										
Funding	To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives	F15	Failure to ensure appropriate transfer is paid to protect the solvency of the Fund and equivalent rights are acquired for transferring members in accordance with the regulations.	2	3	6	Follow the standardised approach to bulk transfers of liabilities as part of admission policy framework, complying with any statutory requirements and protecting the interests of the Fund's employers by measuring the solvency of the Fund and relevant employers before and after transfer.	2	1	2
Funding	To have consistency between the investment strategy and funding strategy	F16	Over or under cautious determination of employer funding requirements due to the impact of the investment strategy on funding	3	3	9	Measurement will look at expected return projections vs actuarial assumptions in order to test the continued appropriateness and consistency between the funding and investment strategy.	2	2	4
Funding	Maintain liquidity in order to meet projected net cash-flow outgoings	F17	Illiquidity of certain markets and asset classes and difficulty in realising investments and paying benefits as they fall due	3	3	9	Holding liquid assets and maintain positive cash flows. Reviews performed to monitor cash flow requirements	2	1	2

Objectives Area at Risk	Objective at Risk	Risk Ref	Description of Risk of not Achieving the Objectives	Gross Impact	Gross Probability	Gross Risk score	Possible Actions	Residual Impact	Residual Probability	Residual Risk Score
Funding Risks										
Funding	Maintain liquidity in order to meet projected net cash-flow outgoings	F18	Unanticipated onset of cash-flow negative position, potentially requiring ad hoc repositioning of assets	3	3	9	Holding liquid assets and maintain positive cash flows. Reviews performed to monitor cash flow requirements. In Spring 2015 the ISC agreed to divert a portion of UK equity dividend income (L&G) & property rental income (AVIVA) to supplement contribution income in order to meet pension benefit expenditure.	2	1	2
Funding	Minimise unrecoverable debt on termination of employer participation	F19	An employer ceasing to exist with insufficient funding, adequacy of bond or guarantee. In the absence of all of these, the shortfall will be attributed to the Fund as a whole with increases being required in all other employers' contributions	4	3	12	Assess the strength of individual employer's covenant and/or require a guarantee when setting terms of admission agreement (including bonds) and in setting term of deficit recovery. Annual monitoring of risk profiles and officer dialogue with employers concerned (including guarantors as appropriate) through employer analysis. Positive dialogue with employers with a view to strengthening employer covenants wherever possible. Same mitigations for both risks F19 & F20	3	2	6

Objectives Area at Risk	Objective at Risk	Risk Ref	Description of Risk of not Achieving the Objectives	Gross Impact	Gross Probability	Gross Risk score	Possible Actions	Residual Impact	Residual Probability	Residual Risk Score
Funding Risks										
Funding	Minimise unrecoverable debt on termination of employer participation	F20	Failure to monitor leading to inappropriate funding strategy and unrecovered debt on cessation of participation in the fund	4	3	12	Assess the strength of individual employer's covenant in conjunction with the Actuary and/or require a guarantee when setting terms of admission agreement (including bonds) and in setting term of deficit recovery. Annual monitoring of risk profiles and officer dialogue with employers concerned (including guarantors as appropriate) through employer analysis. Positive dialogue with employers with a view to strengthening employer covenants wherever possible	3	2	6
Funding	Maintain liquidity in order to meet projected net cash-flow outgoings	F21	Employee participation in the Essex LGPS reduces (possibly in response to changes in contribution rate / benefit structure or changes in patterns of service delivery)	4	3	12	Communications with both Employers and Employees over the benefits of the LGPS, both before and after any structural change. In July 2011, following discussion on liquidity and fund maturity, the ISC set a 27% limit on exposure to alternative assets.	3	2	6

Appendix F – Statement of Compliance: the six Myners principles of good investment practice

Description of Principle	Essex Pension Fund's position	Future actions
1. Effective decision making Administering Authorities should ensure that: • Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation and • Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	Responsibility for approval and review of the investment strategy of the Essex Pension Fund has been delegated to the Investment Steering Committee (ISC). Every quarter, the ISC reports its activity to the Essex Pension Strategy Board (the Strategy Board), the body with overall responsibility for the Essex Pension Fund. The day to day running of the Fund has been delegated to the S151O. The ISC is supported by the S151O, the Director for Essex Pension Fund and other Fund officers. Institutional investment advice to the ISC and Fund officers is commissioned from Hymans Robertson. Furthermore Mark Stevens acts as an independent investment adviser. An on-going programme of training for Members of the ISC and Strategy Board is in place based on the CIPFA Knowledge & Skills Framework. Launch of infoBOARD (an online document repository for ISC/ Strategy Board Members) in July 2013. Member training is also recorded and feeds into the scorecard on quarterly basis Fund officers hold relevant qualifications and maintain appropriate on-going professional development (CPD). The Essex Pension Fund is a member of the CIPFA Pensions Network.	On-going Member and Fund officer training.

Description of Principle	Essex Pension Fund's position	Future actions
2. Clear objectives An overall investment objective(s) should be set for the fund that takes account of the scheme liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be communicated to advisers and investment managers.	The Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS) set out the Essex Pension Fund's primary funding objectives. Specific investment objectives are in place for each mandate in the portfolio, and these are regularly monitored by the ISC. The Strategy Board has also agreed a series of objectives across five areas: Governance, Investment, Funding, Administration & Communications. Progress against objectives is monitored regularly by the Fund's scorecard. These objectives include: • Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise • To maximise the returns from investments within reasonable risk parameters • To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives • To recognise in drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible • Communicate in a friendly, expert and direct way to our stakeholders, treating all our stakeholders equally	Continual monitoring and review of objectives.

Description of Principle	Essex Pension Fund's position	Future actions
3. Risk & liabilities • In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of their liabilities. • These include the implications for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	Following each triennial valuation, the ISC re-assess the investment strategy in light of the updated information on the structure of liabilities. Asset / Liability studies have been used in the past. Whilst it is accepted that investment underperformance due to certain market conditions can occur, the ISC measures active managers against longer term benchmark outperformance targets. The strength of covenant of participating employers is considered in the formulation of the FSS. The admission of new employers into the Fund is not granted unless appropriate guarantees are put in place. Investment risks are highlighted within the ISS. A register of risks of not achieving each of the Funds objectives is maintained and reviewed on a quarterly basis.	The ISC is scheduled to consider an asset liability study based on the outcomes of the 2016 Valuation, in early 2017.

Description of Principle	Essex Pension Fund's position	Future actions
4. Performance assessment Arrangements should be in place for the formal measurement of investments, fund managers and advisers Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme Members.	The performance of the Fund and fund managers is monitored each quarter by the ISC, and all fund managers are held to account through meetings with the ISC and/or the Fund's officers and advisers. Performance data is provided by a specialist provider, independent from the fund managers. The Fund's contracts with its advisers are market tested when appropriate. The most recent effectiveness review of both the Strategy Board and ISC was undertaken in March 2017. The outcome of this review was reported back to the Strategy Board at their 8 March 2017 meeting. This included an assessment of both the Strategy Board & ISC's effectiveness and that of the support received from Fund officers and advisers. Strategy Board & ISC attendance and training outcomes are measured in the quarterly scorecard.	. A further effectiveness review is scheduled for 2017/18.

Description of Principle	Essex Pension Fund's position	Future actions
5. Responsible ownership Administering authorities should: Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. Include a statement of the authority's policy on responsible ownership in the Statement of Investment Principles. Report periodically to members on the discharge of such responsibilities.	The Institutional Shareholders' Committee Statement of Principles has been superseded by the Financial Reporting Council's (FRC) UK Stewardship Code and it is now the standard for the investment management industry The Fund's Investment Strategy Statement includes the following: *"The Fund fully supports the UK Stewardship Code and requires those of its investment managers who hold shares on its behalf to comply with it or to provide the ISC with an explanation of why it is not appropriate to do so, in the exercise of the mandate that they have been given, and how they will instead achieve and demonstrate the same level of responsible share ownership."* Investment Manager reports circulated to ISC Members include details of voting records.	

Description of Principle	Essex Pension Fund's position	Future actions
6. **Transparency & reporting** Administering authorities should: Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and Provide regular communication to members in the form they consider most appropriate.	Each quarterly meeting of the Board includes a review of the Fund's business plan and risk register. Furthermore a detailed scorecard is used to monitor progress against the stated objectives. Agenda papers are published on the internet and the meetings are open to the public. An Employers' Forum is held every year and includes presentations from the Board Chairman, Fund officers and advisers as well as the opportunity for questions to be raised. The Fund's web site is www.essexpensionfund.co.uk and includes the: • Annual Report and Accounts • Funding Strategy Statement • Investment Strategy Statement • Governance Compliance Statement; and • Communications Policy Individual scheme members receive newsletter updates throughout the year in addition to annual benefit statements.	

Investment Steering Committee	AGENDA ITEM 6
date: 4 April 2017	

Essex Pension Fund Treasury Management Strategy 2017/18

Report by the Director for Essex Pension Fund

Enquiries to Kevin McDonald on 0333 0138 488

1. Purpose of the Report

1.1 To present the 2017/18 Essex Pension Fund Treasury Management Strategy.

2. Recommendation

2.1 That the 2017/18 Essex Pension Fund Treasury Management Strategy be approved.

3. Background

3.1 The Treasury Management Code issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) requires an annual Treasury Management Strategy to be agreed. The attached Treasury Management Strategy for the Essex Pension Fund has been prepared having regard to the Treasury Management Code and informal guidance issued by the DCLG.

4. Essex Pension Fund Treasury Management Strategy

4.1 The 2017/18 Treasury Management Strategy for the Essex Pension Fund replicates to a large extent the Treasury Management Strategy already approved for Essex County Council, but has been adapted to reflect the limited borrowing requirements, use of global custodian and the separate governance arrangements of the Pension Fund.

4.2 Tracked additions are highlighted in coloured text and deletions highlighted in strikethrough ~~coloured text.~~

4.3 The Fund's global custodian is Northern Trust. The principles of the custodian cash management arrangements are highlighted in Section B of the attached strategy. Furthermore a series of questions highlighting operational aspects of the custodian cash management arrangements form Annex 2 of the attached strategy.

4.4 Section C, Cashflow Management Arrangements has been updated to reflect the revised Finance Schedule, attached at appendix 1. The current position, in broad terms, is that the Fund is "cash neutral" with modest variances between income and expenditure. The forecast for 2017/18's income reflects the decisions by a number of tax raising bodies to exercise the option within the Funding Strategy allowing payment of three years' deficit at the start of the valuation period.

5. Background Papers

5.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

5.2 Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code) issued by CIPFA.

5.3 Northern Trust Global Funds PLC prospectus December 2016.

5.4 BNP Paribas Insticash prospectus October 2016.

5.5 Finance Schedule updated March 2017

Appendix 1

Finance Schedule

		2015/16 actual £'000	2016/17 estimate £'000	2017/18 forecast £'000
EXPENDITURE	Retirement Pensions	177,467	182,144	196,156
	Retirement Lump Sums	31,935	37,912	43,481
	Death Benefits	6,344	5,459	7,546
	Leavers benefits	6,153	5,274	6,815
	Administration expenses	2,126	2,276	2,390
	Pooling expenses	12	95	300
TOTAL		**224,037**	**233,160**	**256,687**
INCOME	Employees Ctbns	53,964	52,666	52,930
	Employers Ctbns			
	Ongoing	114,743	119,854	128,100
	Deficit	48,247	43,540	68,136
	Financial Strain	5,453	4,496	5,453
	Transfer Values in	8,231	9,060	7,936
TOTAL		**230,638**	**229,617**	**262,555**
Net cashflow excl. Investment Income: positive / (negative)		6,601	(3,544)	5,867

Essex Pension Fund

Treasury Management Strategy for 2017/18

Investment Steering Committee 4 April 2017

Introduction

The treasury management activities covered by this document are comprised of three separate areas:

Section A

- The day to day management of the Pension Fund's cash flows and associated short term cash investments known as "In house cash". These activities are undertaken by Essex County Council on behalf of the Pension Fund under a service level agreement.

Section B

- The cash held and managed by the Global Custodian as part of the Fund's investment strategy.

Longer term investments are administered separately by external fund managers and these activities are covered in the Pension Fund Statement of Investment Principles agreed by the Investment Steering Committee each year.

Section C

- The requirement to realise investment income in order to meet a shortfall in income to meet a proportion of future benefit payments.

Section A – "In House Cash" Treasury Management Arrangements

In undertaking the treasury management activities for the Essex Pension Fund, in the absence of any specific guidance on treasury management for Local Government Pension Scheme funds, Essex County Council will comply with the Treasury Management in the Public Services: Code of Practice and Cross-Sectorial Guidance Notes (the Treasury Management Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A fundamental aim of treasury management is to effectively control the risks associated with treasury management activities and to pursue value for money, in so far as this is consistent with the effective management of risk.

The Treasury Management Code requires the following:

- A **Policy Statement** which states treasury management policies, objectives and approach to risk management.
- **Treasury Management Practices** (TMPs) which set out the manner in which the organisation will seek to achieve those policies and objectives, and prescribe how these activities will be managed and controlled.
- An annual **Treasury Management Strategy** that outlines the expected treasury activity. The strategy must define the organisation's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The Policy Statement and TMP's were updated and approved by the Board in March 2010. As no further changes or updates are considered necessary, neither have been reproduced in this report.

Treasury Management Strategy

The Treasury Management Strategy is set out in the subsequent paragraphs.

Short Term Cash Investment Strategy

- **Key objectives**

  The primary objectives of investment activities are:

  - Firstly, to **safeguard** the principal sums invested;
  - Secondly, to ensure adequate **liquidity**; and
  - Lastly, to consider investment returns or **yield**.

Surplus cash balances will only be invested on a short term basis (up to a maximum period of 364 days) until the funds are next required. Longer term investments are outside the scope of this document.

- **Investment counterparty selection criteria**

  Funds will be invested according to the Secretary of State's definition of specified investments, these being sterling deposits made for periods of less than one year, offering high security and high liquidity. Specified investments may include deposits with the UK Government, other local authorities, money market funds and bodies of high credit quality.

  A lending list will be compiled to include counterparties satisfying the criteria set out within **Annex 1**. The lending limits that will be applied to counterparties satisfying these criteria are also set out within **Annex 1**. Additional operational market information (e.g. Credit Default Swaps, negative rating watches/outlooks) will also be considered before making any specific investment decisions.

  The criteria for choosing counterparties provide a sound approach to investment in normal market circumstances. However, the Executive Director for Corporate and Customer Services will determine the extent to which the criteria set out within **Annex 1** will be applied in practice (i.e. according to prevailing market circumstances).

- **Liquidity**

  Liquidity is defined as having adequate, but not excessive cash resources, borrowing arrangements and overdraft or standby facilities to ensure that funds are available, at all times, for the achievement of the Pension Fund's objectives. In this respect, the Pension Fund will seek to maintain a contingency of at least **£1m** of cash available with a week's notice. This will be in excess of amounts available at short notice for managing expected cash flows.

- **Performance**

  Investment performance will be measured against the 7 Day London Interbank Bid Rate (LIBID); the aim being to achieve investment returns that are equivalent to, or greater than, the average 7 Day LIBID rate for the year (i.e. subject to security and liquidity considerations being fully satisfied).

Interest Rates

An estimate of the movement in interest rates over the forthcoming three years is provided below :-

Expected movement in interest rates	~~2015~~2016-~~16~~17 Latest estimate	~~2016~~2017-~~17~~18 Estimate	~~2017~~2018-~~18~~19 Estimate	~~2018~~2019-~~19~~20 Estimate
Bank rate (at each 31 March) Source : Capita (February ~~2016~~2017)	0.~~50~~25%	0.~~75~~25%	~~1~~0.25%	~~0~~1.75%

The estimated average balance for "In house cash" is around **£20m**. A **1%** movement in interest rates would affect the level of income earned from short term investments by **£200,000**.

Given the short term nature of "In house cash", no limits are proposed on the maximum exposure to fixed or variable rates of interest.

Borrowing

The administering authority does not have the power to borrow on behalf of the Pension Fund, other than temporary borrowing for the following specific purposes detailed in section 5 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 :-

- paying benefits due under the Scheme, or
- to meet investment commitments arising from the implementation of a decision by the Fund to change the balance between different types of investment.

In the context of this Strategy, short term borrowing will only be undertaken in exceptional circumstance to manage unexpected cash flow fluctuations which occur as a result of the above circumstances.

If short term borrowing is necessary, this will be secured via an overdraft facility with the Fund's bankers or by borrowing from the money markets or other local authorities.

Treasury Management Advisors

Essex County Council currently employs **Capita Asset Services** (Treasury Solutions) as its treasury management advisor.

Capita provide a range of services, including technical advice on treasury matters, economic and interest rate analysis and credit worthiness information. Notwithstanding this, the final decision on treasury matters remains vested with the Essex Pension Fund Investment Steering Committee, and for day to day treasury management, with the Executive Director for Corporate and Customer Services.

The services received from the Treasury Management Advisors are subject to regular review.

Section B – Custodian Cash Management Arrangements

One of the functions provided by the Fund's custodian, Northern Trust, is a banking service. A separate bank account is set up in each currency required by each mandate. At 1 March the Fund held £ 114.6m in cash at the custodian. The details are set out in the table below.

01-Mar-17	£m	%
Sterling	86	75%
Dollar	21.6	19%
Euro	4.8	4%
Other	2.2	2%
	114.6	100%

If no other action were taken, these monies would remain on deposit with Northern Trust earning interest at the Custodian's rates.

However, in order to maximise the interest earned where possible, a "cash sweep" is in place for amounts held in sterling and US dollar. This ensures that balances (not required to settle trades) in these currencies across the Funds are swept each day into Global Liquidity Funds (GLFs) managed by either BNP Paribas Investment Partners UK Limited or Northern Trust Global Funds PLC where they earn a higher rate of interest. The three currencies subject to the sweep typically constitute in excess of 95% of all custodian cash balances.

The Fund is also able to utilise the Euro GLF sweep, however due to its adoption of negative interest rates in May 2015 this facility is not currently in use. The GLF vehicles used have obtained, and seek to maintain an Aaa/Mf+ rating from Moody's and an AAA rating from Standard & Poor's. The GLFs operates a soft limit of 10% in any single security, although there are circumstances in which higher holding levels are permitted. A listing of the investment restrictions for both the Northern Trust GLFs and BNP Paribas GLFs are shown are shown in **Annex 3.1** and **3.2.**

The GLFs are open-ended collective investment companies (OEIC). This means that in placing monies in the GLFs via the cash sweep, the Essex Pension Fund becomes a shareholder and has a share in the pool of investments. A GLF must appoint a board of directors, an investment manager, an administrator and custodian. Clients invest, not with the fund manager, but in the fund run by the fund manager. The manager manages the investments of the fund, an administrator runs the back office and the assets are kept in safe-keeping for the fund by the custodian. The GLFs' overall ratings have two components: a credit risk rating (normally AAA) and a market risk rating. To achieve and maintain the rating, the funds must meet rigorous standards on investment quality, diversification and liquidity profile. Both internal management and the rating agencies ensure compliance with regulatory, prudential, investment and credit policy guidelines. The processes are monitored further by administrators, custodians and auditors.

In order to limit the exposure of the Fund to any single financial institution a maximum limit is set for both the Northern Trust and BNP Paribas GLFs.

A series of detailed questions on the how the GLFs operate in practice are shown in **Annex 2** of this document.

Impact of lump sum deficit contributions and income realisation

In addition to the working balances of the investment managers, cash management arrangements now need to accommodate the impact of lump sum deficit payments and income realisation.

Under the terms of the current Funding Strategy, it is possible for certain fund employers to opt to pay deficit "up front" in April (rather than the traditional 12 monthly instalments). Furthermore, as highlighted in Section C, it is forecast that some investment income will need to be used rather than automatically reinvested in order to finance part of the Fund's benefit expenditure from 201~~6~~7/1~~7~~8.

As a consequence the GLFs will be used in order to allow the most effective management of monies immediately prior to being allocated to fund managers or directed to pay benefits.

GLF Limits

Revised employer contribution rates are payable from April 2017 owing to the outcomes of the 2016 triennial actuarial valuation. In line with the Funding Strategy agreed by the Pension Strategy Board on 8 March 2017, a number of non-pooled employers were offered a series of options which included up front annual and triennial deficit repayments. Twelve of the seventeen major tax raising bodies have chosen to make a triennial deficit payment in April 2017 which in turn is the major reason behind estimated deficit income of over £60m due in that month.

The limits for 2017/18 are set out below and reflect a temporary increase for the Northern Trust GLF at the start of the year to reflect the circumstances outlined above:

Northern Trust GLF	-	£140m (April & May 2017)
Northern Trust GLF	-	£80m (remainder of year and in line with 2016/17)
BNP Paribas GLF	-	£60m (no change)

Section C – Cashflow Management Arrangements

The Fund is maturing and analysis has been undertaken to forecast when new contributions (employees and employers including deficit) are not enough to meet all benefit payments falling due. This is normal for a pension scheme and reflects the purpose of the Fund (accumulate monies and then pay it out in benefits).

The current position is that the Fund is broadly cash neutral, with modest differences between the income and expenditure in the years analysed in the table below.

Table: Fund cashflow forecast

	2015/16 actual £'000	2016/17 estimate £'000	2017/18 forecast £'000
Expenditure: benefits, transfers out and expenses	**224,037**	**233,160**	**256,687**
Income: employee/employer contributions and transfers in	**230,638**	**229,617**	**262,555**
Net cashflow excl. Investment Income: positive / (negative)	**6,601**	**(3,544)**	**5,867**

The cashflow forecast will be subject to regular periodic review.

Income Realisation Strategy

In order to meet the short to medium term cashflow requirements, the Investment Steering Committee at its 23 February 2015 meeting agreed to realise income from L&G's UK assets and Aviva property portfolio.

Realised income may be held in cash short term in order to meet a proportion of benefit payments.

The income realisation strategy will be subject to regular periodic review.

Counterparty Criteria for Investments – In House Cash Annex 1

Lending List

The Pension Fund will only invest its short term funds with UK banks and building societies, and non UK banks domiciled in a country with a minimum sovereign long term rating of AA, that have credit ratings equivalent to or better than the following:

Rating category	Credit rating agencies		
	Fitch	Standard and Poor	Moody's
Short term rating	F1	A-1	P-1
Long term rating	A	A	A2

The above ratings will be used to determine the pool of counterparties with whom the Pension Fund can transact. Where the counterparty is rated by more than one credit rating agency, the lowest ratings will be used to determine whether or not it is included on the counterparty list. However, financial institutions will only be considered for inclusion if they have a credit rating in both of the rating categories.

The criteria outlined above will ensure that funds are only invested with high quality counterparties. The short and long term ratings will be used to determine the maximum amount that can be invested with each of these counterparties, and for what period – see lending limits section.

In addition, the Pension Fund may invest its funds with:

- The UK Government.
- Other local authorities.
- Pooled investment vehicles (i.e. Money Market Funds) that have been awarded an AAA credit rating.
- Financial institutions fully or part nationalised by the UK Government whose credit ratings do not meet the above criteria.
- Bank subsidiaries and treasury operations which do not have a full set of credit ratings, provided the parent bank has the necessary ratings outlined above. In addition, the subsidiary must itself have a short and long term rating meeting the above criteria or have an unconditional guarantee from the parent bank.

In the event that the Pension Fund's own banker falls below the minimum credit rating criteria outlined above, and is not nationalised or part nationalised, the bank will be used for transactional purposes only, and not as an active outlet for investments.

Notes:

- There are three main credit rating agencies that assign ratings to financial institutions, namely Fitch, Standard and Poor and Moody's. When these agencies assign ratings, they take account of any country specific circumstances. Ratings are therefore applicable worldwide; hence the risk of investing with two different counterparties that have similar ratings is the same, irrespective of their country of origin.
- Definitions of the credit ratings of the three main credit rating agencies are summarised in Annex 2. Full details are available upon request.
- Credit ratings are continually monitored, with changes in credit ratings being notified by the Council's treasury management advisors. Counterparties will be removed from the Pension Fund's lending list in the event that they receive a downgrading to their credit rating status below the minimum criteria outlined above.
- Counterparties that are placed on 'negative ratings watch' will remain on the Pension Fund's lending list at the discretion of the Executive Director for Corporate and Customer Services, in consultation with the Chairman of the Pension Fund Board (or Deputy Chairman of the Pension Fund Board if the Chairman is unavailable).
- Money Market Funds (MMFs) are short term pooled investments that are placed, by a manager, in a wide range of money market instruments. The size of the investment pool of a MMF enables the manager to not only offer the flexibility of overnight and call money, but also the stability and returns of longer dated deposits. Strict rules and criteria are set down by the official rating agencies, covering the types of investment counterparties used, the maturity distribution of the funds and investment concentrations. The MMFs that the Pension Fund uses will be denominated in sterling and be regulated within the EU.

Lending Limits

For banks and building societies satisfying the 'lending list' criteria, lending limits will be determined with reference to the counterparties' short and long term credit ratings, as follows:

- Investment limit of **£7.5m** for investments of up to **1** year:

Rating category	Credit rating agencies		
	Fitch	Standard and Poor	Moody's
Short term rating	F1+	A-1+	P-1
Long term rating	AA-	AA-	Aa3

- Investment limit of **£5m** for investments of up to **1** year:

Rating category	Credit rating agencies		
	Fitch	Standard and Poor	Moody's
Short term rating	F1	A-1	P-1
Long term rating	A	A	A2

Lending limits for other counterparties will be as follows:

- No restrictions will be placed on the amounts that can be invested with the UK Government (i.e. Debt Management Office). It is not possible to set up a separate Pension Fund account with the DMO so funds would be placed via the County Council, although the credit risk would remain with the Pension Fund.
- An investment limit of **£10m** will be applied for investments of up to **one** year with individual Money Market Funds.
- An investment limit of **£7.5m** will be applied for investments of up to **one** year with individual top tier local authorities. Top tier local authorities will include county councils, unitary and metropolitan authorities and London boroughs.
- An investment limit of **£5m** will be applied for investments of up to **one** year with individual lower tier local authorities. Lower tier local authorities will include district / borough councils, and police and fire authorities.
- In addition to the limits outlined above, a further restriction will be applied in respect of investments with non UK financial institutions; that is, a country limit of **£5m** will be applied. The country limit will restrict the total amount that can be invested within any one country outside of the UK at any one time.

Current Institutional Lending List

Counterparty **ESSEX PENSION FUND**	Investment limit £m	Maximum duration
UK BANKS		
HSBC		
HSBC Group limit	7.5	
HSBC - fixed term	7.5	364 days
HSBC - BIBCA (call account)	7.5	call
Lloyds Banking Group		
Lloyds Group limit	5	
Lloyds TSB Bank - fixed term	5	364 days
Lloyds TSB current account	5	call
Royal Bank of Scotland		
RBS Group Limit	5	
RBS - fixed term	5	364 days
RBS - CALL account	5	call
Santander UK		
Santander Group Limit	5	
Santander - CALL account	5	364 days
UK BUILDING SOCIETIES		
Nationwide	5	6 mnths
FOREIGN BANKS (Country limit £5m)		
Australia		
Commonwealth Bank of Australia	5	364 days
Canada		
Bank of Montreal	5	364 days
Bank of Novia Scotia	5	364 days
Netherlands		
Rabobank	5	364 days
Singapore		
Development Bank of Singapore	5	364 days
Overseas Chinese Banking Corporation	5	364 days
Sweden		
Svenska Handelsbanken - call a/c	5	call
OTHER		
Money Market Funds		
Standard MMFs (limit £20m)	20	
Black Rock - Inst. Sterling Liquidity	10	364 days
Standard Life - Sterling Liquidity Fund	10	364 days
LOCAL AUTHORITIES		
Top Tier Local Authorities	7.5	364 days
- [Name of Authority]	7.5	364 days
Lower Tier Local Authorities	5	364 days
- [Name of Authority]	5	364 days

~~Santander have been added to the lending list and the maximum duration for lending to Nationwide has been increased, both due to upgrades in their credit ratings.~~

Annex 2

Pension Fund Treasury Management
Custodian Cash Balances Arrangements

A number of *questions* are set and answered within this note, and the questions are grouped into four sections:

1. Background
2. Risk Management
3. Interest
4. Ratings

1. Background

The Pension Fund's Global Custodian is Northern Trust. Details of the Fund's cash balances held at the Custodian as at 1 March 2017 are set out below.

01-Mar-17	£m	%
Sterling	86	75%
Dollar	21.6	19%
Euro	4.8	4%
Other	2.2	2%
	114.6	100%

How is this cash managed?
Sterling: sterling cash balances are swept into the (sterling) Northern Trust GLF and the BNP Paribas Insticash Fund.
Dollar: dollar balances are swept into the (dollar) Northern Trust GLF and the BNP Paribas Insticash Fund.
Euro: the Fund is also able to utilise the Euro GLF sweep, however due to its adoption of negative interest rates in May 2015 this facility is not currently in use.

As a consequence, the Fund's cash is placed in a total of four separate sub funds.

How are GLFs constituted?
The GLFs are established as Investment Companies qualifying under the terms of the European Undertakings for Collective Investments in Transferable Securities (UCITS)

Regulations/Directives. The BNP Paribas GLF is incorporated in Luxembourg and Northern Trust Global Fund is incorporated in Ireland.

What are the objectives?
The investment objective of the funds is to maximise current income to the extent consistent with the preservation of capital and maintenance of liquidity by investing in a range of high quality fixed and adjustable rate instruments.

Are the GLFs actively managed?
Yes.

How do the GLFs invest?
The Funds allow for investment in Tier I securities issued or guaranteed by EU or OECD governments, agencies or instrumentality's, commercial banks and corporations.

The most commonly used are listed below:

Government backed securities: debt instruments issued by Governments

Corporate paper: short term obligations with maturities ranging from overnight to 180 days issued by banks, corporations and other borrowers.

Certificates of deposit: debt instruments issued by banks that pay interest – periodically or at maturity – and principal at maturity.

Time deposits: A deposit in an interest paying account that requires the money to remain on account for a specific length of time.

2. Risk management

What investment restrictions are placed on the Funds?
A soft limit of no more than 10% in any single security, although there are circumstances in which higher holdings are permitted.

Each sub fund typically has at least 50 separate investments.

Are the sub funds separated?
Yes, each sub fund has a separate portfolio of assets. In other words the Fund's custodian cash in the three major currencies is spread across five separate sub funds, each typically with at least 50 underlying investments.

In the worst case scenario, what is the maximum loss the Pension Fund could incur?

In the event that one of the underlying investments in one of the sub funds failed, then the maximum loss suffered by the Essex Pension Fund would be its proportionate share of that underlying investment.

Does that value of the GLF form part of the balance sheet of BNP Paribas (the bank) or Northern Trust (the bank)?
No. The pension funds cash placed in the GLF will be reflected in the balance sheet of the sub fund.

How are the Essex Fund's mandates distributed between the two GLFs as at 1 March 2017?

	BNP Paribas GLF £m	Northern Trust GLF £m
Aviva	30.4	-
Baillie Gifford	-	5.1
First State	-	20.1
Hamilton Lane	-	7.9
Legal & General	-	-
Longview	-	15.0
Marathon	-	13.4
Cash Account	-	6.3
Total	**30.4**	**67.8**

Is there a maximum amount allowed in one GLF?
Yes. The Pension Fund Treasury Management Strategy (page 7, Section B) states:

- Northern GLF - £80m (no change)
- BNP Paribas GLF - £60m (no change)

What notice period is required to withdraw funds?
Each Fund has a daily cut off time for dealing. To withdraw Funds on the same day would require notice prior to the cut off deadline.

3. Interest

What interest rate is payable?
Net annualised interest rates (gross of fees) based on year ended 28 February 2017 on the four sub funds used are set out in the table below. If the GLFs were not used, the cash balance (referred to as "idle cash") would attract interest from the Custodian.

	BNP Paribas GLF	Northern Trust GLF
Sterling	0.54%	0.45%
US Dollar	0.77%	0.71%

4. Ratings

How are the GLFs rated?
In summary all are AAA rated.

BNP Paribus
The Funds have obtained and will seek to maintain the following:

AAA by Standard and Poor's
AAA/mmf by Fitch ratings
Aaa-mf by Moody's.

Northern Trust
The Funds have obtained and will seek to maintain the following:

AAAf S1+ by Standard and Poor's
Aaa-mf by Moody's

What is the definition of the ratings?

Standard & Poor's AAA rating: *"An obligation rated 'AAA' has the highest rating assigned by Standard & Poor. The obligor's capacity to meet its financial commitment on the obligation is extremely strong".*
Standard & Poor's Short Term rating (A-1): "An obligor rated 'A-1' has strong capacity to meet its financial commitments. It is rated in the highest category by Standard & Poor's. Within this category, certain obligors are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitments is extremely strong".
Moody's Aaa-mf rating: *"Money market funds rated Aaa-mf have very strong ability to meet the dual objectives of providing liquidity and preserving capital".*
Fitch AAA/mmf rating: *"Denote extremely strong capacity to achieve money market fund's investment objective of preserving principal and providing shareholder liquidity through limiting credit, market, and liquidity risk. This capacity is strongly protected from foreseeable events".*

Investment Team
March 2017

Annex 3.1

NORTHERN TRUST GLOBAL FUNDS PLC

INVESTMENT RESTRICTIONS

The investment restrictions applying to each Fund of the Company under the Regulations are set out below. These are, however, subject to the qualifications and exemptions contained in the Regulations and in the Central Rules. Any additional investment restrictions for other Funds will be formulated by the Directors at the time of the creation of such Fund with the prior approval of the Central Bank and detailed in the relevant Supplement.

Where a Fund inadvertently breaches the limitations set out below, due to unforeseen events arising following the purchase of the securities, the Investment Adviser will sell such securities as soon as practicable taking into account the best interests of the Shareholders.

The Directors may from time to time impose such further investment restrictions as shall be compatible with or in the interest of the Shareholders.

1. Permitted Investments

Investments of a Fund are confined to:

1.1. transferable securities and Money Market Instruments which are either admitted to official listing on a stock exchange in an EU Member State or non-EU Member State or which are dealt on a market which is regulated, operates regularly, is recognised and open to the public in an EU Member State or non-EU Member State;

1.2. recently issued transferable securities which will be admitted to official listing on a stock exchange or other market (as described above) within a year;

1.3. Money Market Instruments other than those dealt on a regulated market;

1.4. units of UCITS;

1.5. units of AIFs;

1.6. deposits with credit institutions; and

1.7. FDIs.

2. Investment Restrictions

2.1. A Fund may invest no more than 10% of net assets in transferable securities and Money Market Instruments other than those referred to in paragraph 1.

2.2. A Fund may invest no more than 10% of net assets in recently issued transferable securities which will be admitted to official listing on a stock exchange or other market (as described in paragraph 1.1) within a year. This restriction will not apply in relation to investment by the Fund in certain US securities known as Rule 144A securities provided that:

2.2.1. the securities are issued with an undertaking to register with the US Securities and Exchanges Commission within one year of issue; and

2.2.2. the securities are not illiquid securities i.e. they may be realised by the Fund within seven days at the price, or approximately at the price, at which they are valued by the Fund.

2.3. A Fund may invest no more than 10% of net assets in transferable securities or Money Market Instruments issued by the same body provided that the total value of transferable securities and Money Market Instruments held in the issuing bodies in each of which it invests more than 5% is less than 40%.

2.4. The limit of 10% (in 2.3) is raised to 25% in the case of bonds that are issued by a credit institution which has its registered office in an EU Member State and is subject by law to special public supervision designed to protect bond-holders. If a Fund invests more than 5% of its net assets in these bonds issued by one issuer, the total value of these investments may not exceed 80% of the Net Asset Value of the Fund.

2.5. The limit of 10% (in 2.3) is raised to 35% if the transferable securities or Money Market Instruments are issued or guaranteed by an EU Member State or its local authorities or by a non-EU Member State or public international body of which one or more EU Member States are members.

2.6. The transferable securities and Money Market Instruments referred to in 2.4. and 2.5 shall not be taken into account for the purpose of applying the limit of 40% referred to in 2.3.

2.7. A Fund may not invest more than 20% of net assets in deposits made with the same credit institution.

Deposits with any one credit institution, other than credit institutions authorised in the EEA or credit institutions authorised within a signatory state (other than an EEA Member State) to the Basle Capital Convergence Agreement of July 1988 (Switzerland, Canada, Japan, US) or credit institutions located in Jersey, Guernsey, the Isle of Man, Australia or New Zealand held as ancillary liquidity, must not exceed 10% of net assets.

This limit may be raised to 20% in the case of deposits made with the Depositary.

2.8. The risk exposure of a Fund to a counterparty to an OTC derivative may not exceed 5% of net assets.

This limit is raised to 10% in the case of credit institutions authorised in the EEA; credit institutions authorised within a signatory state (other than an EEA member state) to the Basle

Capital Convergence Agreement of July, 1988 or a credit institution authorised in Jersey, Guernsey, the Isle of Man, Australia or New Zealand.

2.9. Notwithstanding paragraphs 2.3, 2.7 and 2.8 above, a combination of two or more of the following issued by, or made or undertaken with, the same body may not exceed 20% of net assets:

2.9.1. investments in transferable securities or Money Market Instruments;

2.9.2. deposits; and/or

2.9.3. counterparty risk exposures arising from OTC derivatives transactions.

2.10. The limits referred to in 2.3, 2.4, 2.5, 2.7, 2.8 and 2.9 above may not be combined, so that exposure to a single body shall not exceed 35% of net assets.

2.11. Group companies are regarded as a single issuer for the purposes of 2.3, 2.4, 2.5, 2.7, 2.8 and 2.9. However, a limit of 20% of net assets may be applied to investment in transferable securities and Money Market Instruments within the same group.

2.12. A Fund may invest up to 100% of net assets in different transferable securities and Money Market Instruments issued or guaranteed by any EU Member State, its local authorities, non-EU Member States or public international bodies of which one or more EU Member States are members or any of the following:

OECD Governments (provided the relevant issues are investment grade)
European Investment Bank
European Bank for Reconstruction and Development
International Finance Corporation
International Monetary Fund
Euratom
The Asian Development Bank
European Central Bank
Council of Europe
Eurofima
African Development Bank
International Bank for Reconstruction and Development (The World Bank)
The Inter American Development Bank
European Union
Federal National Mortgage Association (Fannie Mae)
Federal Home Loan Mortgage Corporation (Freddie Mac)
Government National Mortgage Association (Ginnie Mae)
Student Loan Marketing Association (Sallie Mae)
Federal Home Loan Bank

Federal Farm Credit Bank
Tennessee Valley Authority
Government of Brazil (provided the issues are of investment grade)
Government of India (provided the issues are of investment grade)
Government of Singapore

The Fund must hold securities from at least 6 different issues, with securities from any one issue not exceeding 30% of net assets.

3. Investment in Collective Investment Schemes ("CIS")

3.1. A Fund may not invest more than 10% of net assets in any one CIS.

3.2. Investment in AIFs may not, in aggregate, exceed 30% of net assets.

3.3. Any CIS in which a Fund invests must be prohibited from investing more than 10% of net assets in other open-ended CIS.

3.4. When a Fund invests in the units of other CIS that are managed, directly or by delegation, by the Fund's management company or by any other company with which the Fund's management company is linked by common management or control, or by a substantial direct or indirect holding, that management company or other company may not charge subscription, conversion or redemption fees on account of the Fund's investment in the units of such other CIS.

3.5.Where a commission (including a rebated commission) is received by the Fund's investment adviser by virtue of an investment in the units of another CIS, this commission must be paid into the property of the Fund.

4. Index Tracking UCITS

4.1. A Fund may invest up to 20% of net assets in shares and/or debt securities issued by the same body where the investment policy of the Fund is to replicate an index which satisfies the criteria set out in the Central Bank Rules and is recognised by the Central Bank.

4.2. The limit in 4.1 may be raised to 35%, and applied to a single issuer, where this is justified by exceptional market conditions.

5. General Provisions

5.1. An investment company, or management company acting in connection with all of the CIS it manages, may not acquire any shares carrying voting rights which would enable it to exercise significant influence over the management of an issuing body.

5.2. A Fund may acquire no more than:

5.2.1. 10% of the non-voting shares of any single issuing body;

5.2.2. 10% of the debt securities of any single issuing body;

5.2.3. 25% of the units of any single CIS;

5.2.4. 10% of the Money Market Instruments of any single issuing body.

The limits laid down in 5.2.2, 5.2.3 and 5.2.4 above may be disregarded at the time of acquisition if at that time the gross amount of the debt securities or of the Money Market Instruments, or the net amount of the securities in issue cannot be calculated.

5.3. 5.1 and 5.2 shall not be applicable to:

5.3.1. transferable securities and Money Market Instruments issued or guaranteed by an EU Member State or its local authorities;

5.3.2. transferable securities and Money Market Instruments issued or guaranteed by a non-EU Member State;

5.3.3. transferable securities and Money Market Instruments issued by public international bodies of which one or more EU Member States are members;

5.3.4. shares held by a Fund in the capital of a company incorporated in a non-EU Member State which invests its assets mainly in the securities of issuing bodies having their registered offices in that state, where under the legislation of that state such a holding represents the only way in which the Fund can invest in the securities of issuing bodies of that state. This waiver is applicable only if in its investment policies the company from the non-EU Member State complies with the limits laid down in 2.3 to 2.11, 3.1, 3.2, 5.1, 5.2, 5.4, 5.5 and 5.6 and provided that where these limits are exceeded, paragraphs 5.5 and 5.6 below are observed;

5.3.5. shares held by an investment company in the capital of subsidiary companies carrying on only the business of management, advice or marketing in the country where the subsidiary is located, in regard to the repurchase of shares at Shareholders' request exclusively on their behalf.

5.4. The Company need not comply with the investment restrictions herein when exercising subscription rights attaching to transferable securities or Money Market Instruments which form part of their assets.

5.5. The Central Bank may allow recently authorised Funds to derogate from the provisions of 2.3 to 2.12, 3.1, 3.2 4.1 and 4.2 for six months following the date of their authorisation, provided they observe the principle of risk spreading.

5.6. If the limits laid down herein are exceeded for reasons beyond the control of the Company, or as a result of the exercise of subscription rights, the Company must adopt as a priority objective for its sales transactions the remedying of that situation, taking due account of the interests of its Shareholders.

5.7. Neither the Company nor a Fund, may carry out uncovered sales of:

5.7.1. transferable securities;

5.7.2. Money Market Instruments;

5.7.3. units of CIS; or

5.7.4. FDIs.

5.8. A Fund may hold ancillary liquid assets.

6. FDIs

6.1. The Fund's global exposure relating to FDI must not exceed its total Net Asset Value (this provision may not be applicable to Funds that calculate their global exposure using the VaR methodology as disclosed in the relevant Supplement).

6.2. Position exposure to the underlying assets of FDIs, including embedded FDIs in transferable securities or Money Market Instruments, when combined where relevant with positions resulting from direct investments, may not exceed the investment limits set out in the Central Bank Rules. (This provision does not apply in the case of index based FDIs provided the underlying index is one which meets with the criteria set out in the Central Bank Rules.)

6.3. A Fund may invest in FDIs dealt in OTC derivatives provided that the counterparties to OTC transactions are institutions subject to prudential supervision and belonging to categories approved by the Central Bank.

6.4. Investment in FDIs is subject to the conditions and limits laid down by the Central Bank

Annex 3.2

BNP PARIBAS INSTICASH – GLOBAL LIQUIDITY FUND

For the purpose of this Appendix 1, the following definitions apply:

"Member State": Means member state of the European Union. The states that are contracting parties to the Agreement creating the European Economic Area other than the Member States of the European Union, within the limits set forth by this Agreement and related acts are considered as equivalent to Member States of the European Union.
"Third Country": Means a country other than a Member State.

1. A sub-fund's investments shall comprise only one or more of the following:

a) transferable securities and money market instruments admitted to or dealt in on a regulated market as defined by Directive 2004/39;

b) transferable securities and money market instruments dealt in on another regulated market in a Member State, which operates regularly and is recognised and open to the public;

c) transferable securities and money market instruments admitted to official listing on a stock exchange in a country which is not a European Union Member State or dealt in on another regulated market in a country which is not a European Union Member State which operates regularly and is recognised and open to the public;

d) recently issued transferable securities and money market instruments, provided that:

(i) the terms of issue include an undertaking that an application will be made for admission to official listing on a stock exchange or to another regulated market which operates regularly and is recognised and open to the public; and

(ii) the admission is secured within one year of the issue;

e) units or shares in UCITS authorised according to Directive 2009/65 and/or other UCIs within the meaning of Article 1(2)(a) and (b) of the Directive 2009/65, whether or not established in a Member State, provided that:

(i) such other UCIs are authorised under laws which provide that they are subject to supervision considered by the CSSF to be equivalent to that laid down in EU legislation, and that cooperation between authorities is sufficiently ensured;

(ii) the level of protection to unitholders or shareholders in these other UCIs is equivalent to that provided for unitholders or shareholders in a UCITS, and in particular that the rules on assets segregation, borrowings, lending, and uncovered sales of transferable securities and money market instruments are equivalent to the requirements of Directive 2009/65;

(iii) the business of these other UCIs is reported in semi-annual interim and annual reports to enable an assessment to be made of the assets and liabilities, income and operations over the reporting period; and

(iv) no more than 10% of the assets of the UCITS or of the other UCIs whose acquisition is contemplated, can, according to their management regulations or articles of association, be invested in aggregate in units or shares of other UCITS or other UCIs;

f) deposits with credit institution which are repayable on demand or have the right to be withdrawn and maturing in no more than 12 months, provided that the credit institution has its registered office in a Member State or, if the credit institution has its registered office in a Third Country, provided that it is subject to prudential rules considered by the CSSF as equivalent to those laid down in EU legislation;

g) financial derivative instruments, including equivalent cash-settled instruments, dealt in on a regulated market referred to in points a), b) and c) above or financial derivative instruments dealt in over-the-counter (OTC) derivatives, provided that:

(i) the underlying of the derivative consists of instruments covered by this paragraph1., financial indices, interest rates, foreign exchange rates or currencies, in which the corresponding sub-fund may invest according to its investment objectives as stated in the Company's Articles of Association.

(ii) the counterparties to OTC derivatives transactions are institutions subject to prudential supervision and belonging to the categories approved by the CSSF, and

(iii) the OTC derivatives are subject to reliable and verifiable valuation on a daily basis and can be sold, liquidated or closed by an offsetting transaction at any time and at their fair value at the Company's initiative;

h) money market instruments other than those dealt in on a regulated market, which fall under Article 1 of the Law, if the issue or issuer of such instruments is itself regulated for the purpose of protecting investors and savings, provided that they are:

(i) issued or guaranteed by a central, regional or local authority, by a central bank of a Member State, the European Central Bank, the European Union or the European Investment Bank, a Third Country or, in the case of a Federal State, by one of the members making up the federation or, by a public international body to which one or more European Union Member States belong;

(ii) issued by a company any securities of which are dealt in on regulated markets referred to in Section 1. paragraph a), b) or c) above;

(iii) issued or guaranteed by an establishment subject to prudential supervision, in accordance with criteria defined by EU law, or by an establishment which is subject to and complies with prudential rules considered by the CSSF to be at least as stringent as those laid down by EU legislation; or

(iv) issued by other bodies belonging to the categories approved by the CSSF provided that the investments in such instruments are subject to investor protection equivalent to that laid down in points (i), (ii) or (iii)first, second or third sub-clauses immediately preceding, and provided that the issuer is a company whose capital and reserves amount to at least EUR 10 000 000 and which presents and publishes its annual accounts in accordance with the Directive 78/660, is an entity which, within a group of companies which includes one or several listed companies, is dedicated to the financing of the group or is an entity which is dedicated to the financing of securitisation vehicles which benefit from a banking liquidity line.

2. A sub-fund shall not, however:

a) invest more than 10% of its assets in transferable securities, or money market instruments other than those referred to in Section 1.; or

b) acquire either precious metal or certificates representing them.

A sub-fund may hold ancillary liquid assets.

3. The Company may acquire movables and immovable property indispensable for the direct performance of its activity.

4.
a) A sub-fund shall not invest no more than:

(i) 10% of its assets in transferable securities or money market instruments issued by the same body; or

(ii) 20% of its assets in deposits made with the same body.

The risk exposure to a counterparty of a sub-fund in an OTC derivative transaction shall not exceed either:

(i) 10% of its assets when the counterparty is a credit institution referred to Section 1. paragraph f); or

(ii) 5% of its assets, in other cases.

b) The total value of the transferable securities and the money market instruments held by a sub-fund in the issuing bodies in each of which it invests more than 5% of its assets shall not exceed 40% of the value of its assets. That limitation shall not apply to deposits or OTC derivative transactions made with financial institutions subject prudential supervision. Notwithstanding the individual limits laid down in paragraph a), a sub-fund shall not combine, where this would lead to investment of more than 20% of its assets in a single body, any of the following:

(i) investments in transferable securities or money market instruments issued by that body;
(ii) deposits made with that body; or

(iii) exposure arising from OTC derivatives transactions undertaken with that body.

c) The 10% limit laid down in the paragraph a) point (i) may be raised to a maximum of 35% if the transferable securities or money market instruments are issued or guaranteed by a Member State, by its local authorities, by a Third Country or by public international body to which one or more Member States belong.

d) The 10% limit laid down in the paragraph a) point (i) may be raised to a maximum of 25% where bonds are issued by a credit institution which has its registered office in a Member State and is subject by law to special supervision designed to protect bond-holders. In particular, sums deriving from the issue of those bonds shall be invested in accordance with the law in assets which, during the whole period of validity of the bonds, are capable of covering claims attaching to the bonds and which, in the event of failure of the issuer, would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest.

Where a sub-fund invests more than 5% of its assets in the bonds referred to in paragraph a) which are issued by a single issuer, the total value of these investments shall not exceed 80% of the value of the assets of the sub-fund.

e) The transferable securities and money market instruments referred to in paragraphs c) and d) shall not be taken into account for the purpose of applying the limit of 40% referred to in paragraph b).

The limits provided in paragraph a), b), c) and d) shall not be combined, and thus investments in transferable securities or money market instruments issued by the same body or in deposits or derivative instruments made with this body carried out in accordance with paragraph a), b), c) and d) shall not exceed in total 35% of the assets of the sub-fund. Companies which are grouped together into a consolidated accounting entity as defined by Directive 83/349 or in accordance with recognised international accounting rules are considered as a single entity for the calculation of the limits stipulated in this Section 4.

A single sub-fund may invest a cumulative total of up to 20% of its assets in the transferable securities and money market instruments of a single group.

5. Without prejudice to the limits laid down in Section 8., the limits laid down in Section 4. are raised to a maximum of 20% for investments in shares or debt securities issued by the same body, when the aim of the sub-fund's investment policy is to replicate the composition of a certain stock or debt securities index which is recognised by the CSSF, on the following basis:

(i) its composition is sufficiently diversified;
(ii) the index represents an adequate benchmark for the market to which it refers; and
(iii) it is published in an appropriate manner.

This limit of 20% shall be raised to a maximum 35% where that proves to be justified by exceptional market conditions(such as, but not limited to, disruptive market conditions or extremely volatile markets) in particular in regulated markets where certain transferable securities or money market instruments are highly dominant. The investment up to that limit shall be permitted only for a single issuer.

6. As an exception to Section 4., in accordance with the principle of risk-spreading, a sub-fund shall invest up to 100% of its assets in different transferable securities and money market instruments issued or guaranteed by a Member State, one or more of its local authorities, a Third Country part of the OECD, Brazil, Russia, Singapore and South Africa, or a public international body to which one or more Member States belong.
Such a sub-fund shall hold securities from at least six different issues, but securities from any single issue shall not account for more than 30% of its total assets.

7.
a) A sub-fund may acquire the units or shares in UCITS or other UCIs referred to in Section 1. paragraph e), provided that no more than 20% of its assets are invested in units or shares of a single UCITS or other UCI. For the purposes of the application of this investment limit, each sub-fund in a multi-sub-fund UCI, as defined by Article 181 of the Law, is considered as a separate issuer, provided that the principle of segregation of the commitments of the different sub-funds with regard to third parties is assured.

b) Investments made in units or shares of UCIs other than UCITS shall not exceed, in aggregate, 30% of the assets of a sub-fund. Where a sub-fund has acquired units or shares of another UCITS or UCIs, the assets of the respective UCITS or other UCIs are not combined for the purposes of the limits laid down in Section 4.

c) Due to the fact that the Company may invest in UCI units, or shares, the investor is exposed to a risk of fees doubling (for example, the management fees of the UCI in which the Company is invested).

A sub-fund may not invest in a UCITS, or other UCI (underlying), with a management fee exceeding 3% per annum.

Where a sub-fund invests in the units or shares of other UCITS or UCIs that are managed, directly or by delegation, by the same management company or by any other company with which the management company is linked by common management or control, or by a substantial direct or indirect holding, the sub-fund will not incur any entry or exit costs for the units or shares of these underlying assets.

The maximum annual management fee payable directly by the sub-fund is defined in Book II.

8.
a) The Company shall not acquire any shares carrying voting rights which would enable it to exercise significant influence over the management of an issuing body.

b) A sub-fund may acquire no more than:

(i) 10% of the non- voting shares of a single issuing body;

(ii) 10% of debt securities of a single issuing body;

(iii) 25% of units or shares of a single sub-fund of UCITS or other UCI within the meaning of Article 2 Paragraph 2 of the Law; or

(iv) 10% of the money market instruments of a single issuing body.

The limits laid down in points (ii), (iii) and (iv) may be disregarded at the time of acquisition if, at that time, the gross amount of debt securities or of the money market instruments, or the net amount of the securities issued, cannot be calculated.

c) Paragraph a) and b) above do not apply with regard to:

(i) transferable securities and money market instruments issued or guaranteed by a Member State or its local authorities;

(ii) transferable securities and money market instruments issued or guaranteed by a country which is not a European Union Member State;

(iii) transferable securities and money market instruments issued by a public international body to which one or more European Union Member State belong;

(iv) shares held by the Company in the capital of a company incorporated in a Third Country not member of the European Union investing its assets mainly in securities of issuing bodies having their registered offices in that country, where under the legislation of that country, such a holding represents the only way in which the Company can invest in the securities of issuing of that country. This derogation shall apply only if in its investment policy the company from the Third Country not member of the European Union complies with the limits laid down in Sections 3, 6 and 7 paragraph a) and b). Where the limits set in Sections 4. and 7. are exceeded, Section 9. shall apply mutatis mutandis;

9. The sub-funds are not required to comply with the limits laid down in this Appendix when exercising subscription rights attaching to transferable securities or money market instruments which form part of their assets.

While ensuring observance of the principle of risks spreading, recently authorised sub-funds are allowed to derogate from Section 4, 5, 6 and 7 for six months following the date of their authorisation.

If these limits are exceeded for reasons beyond the control of the sub-fund or as a result of the exercise of subscription rights, the sub-fund shall adopt as a priority objective for its sales transactions the remedying of that situation, taking due account of the interests of its shareholders.

10. A sub-fund can acquire currencies through back-to-back loans.
A sub-fund may borrow the following, provided that these loans:

a) are temporary and represent a maximum of 10% of its assets;

b) allow the acquisition of immovable property indispensable to the direct exercise of its activities and represent a maximum of 10% of its assets.

If a sub-fund is authorised to borrow under points a) and b), these loans must not exceed 15% of its total assets.

11. Without prejudice to the application of Sections 1., 2. and Appendix 2, a sub-fund shall not grant loans or act as a guarantor on behalf of third parties.
This shall not prevent a sub-fund from acquiring transferable securities, money market instruments or other financial instruments referred to in Section 1. paragraph e), g) and h), which are not fully paid.

12. A sub-fund shall not carry out uncovered sales of transferable securities, money market instruments or other financial instruments referred to in Section 1. paragraph e), g) and h).

13. By way of derogation of the above restriction, a sub-fund designed as "the Feeder" may invest:

a) at least 85% of its assets in units, or shares of another UCITS or another sub-fund of UCITS (the "Master");

b) up to 15% of its assets in one or more of the following:
- ancillary liquid assets,
- financial derivative instruments, which may be used only for hedging purpose, in accordance with Section 1. paragraph g) and Appendix 2;
- movable and immovable property which is essential for the direct pursuit of its business.

14. A sub-fund may acquire shares of one or more other sub-funds of the Company (the target sub-fund), provided that:
- the target sub-fund does not, in turn, invest in the sub-fund;
- the proportion of assets that each target sub-fund invests in other target sub-funds of the Company does not exceed 10%;
- any voting rights attached to the shares of the target sub-funds are suspended for as long as they are held by the sub-fund and without prejudice to the appropriate treatment in the accounts and the periodic reports; and
- in any event, for as long as these target sub-fund shares are held by the Company, their value shall not be taken into consideration for the calculation of

the net assets of the Company for the purposes of verifying the minimum threshold of net assets required by the law.

As a general rule, the Board of Directors reserves the right to introduce other investment restrictions at any time when indispensable for conforming to the laws and regulations in force in certain states where the Company's shares may be offered and sold. On the other hand, where permitted by current regulations applicable to the Company, the Board of Directors reserves the right to exempt one or more sub-funds from one or more of the investment restrictions specified above. These exceptions will be mentioned in the investment policies summarised in Book II for each of the sub-funds concerned.

BNP Paribas InstiCash - Prospectus – December 2016

Essex Pension Fund Investment Steering Committee	AGENDA ITEM 7
date: 4 April 2017	

Market Background and Outlook
Report by Hymans Robertson
Enquiries to Kevin McDonald on 0333 0138 488

1. Purpose of Report

1.1 To update the ISC on recent market conditions.

2. Recommendation

2.1 That the Committee should note the content of the report.

HYMANS ROBERTSON

Market background and outlook

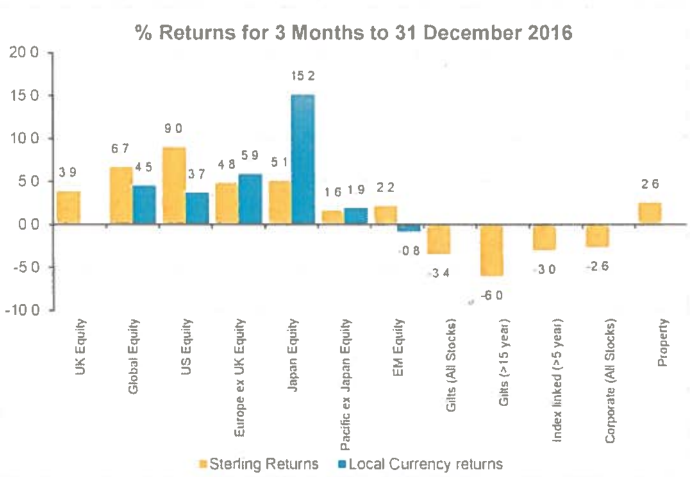
Essex Pension Fund

Q4 2016

For and on behalf of Hymans Robertson LLP

1.1 Market Background

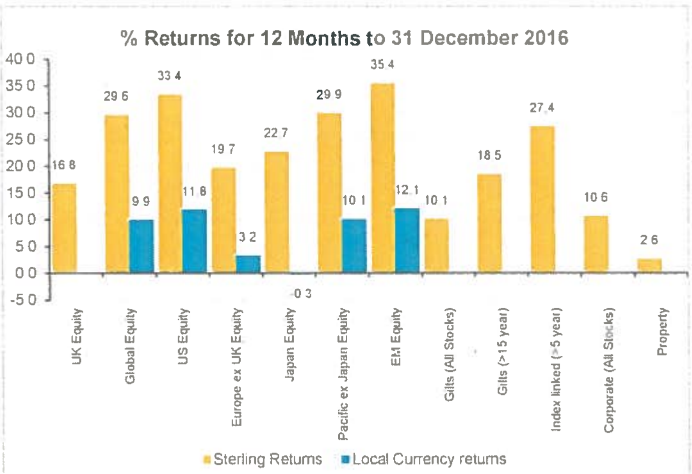
It was another resilient post-referendum performance from the UK economy – Q3 GDP growth was confirmed at 0.6% - and some fiscal easing in the Autumn Statement has lowered expectations that the Bank of England will cut interest rates again in the short term. The manufacturing PMI reached a 30 month high as weaker sterling continued to boost UK exports.



The US economic background was also buoyant – Q3 GDP growth was the strongest for 2 years. Expectations are that Donald Trump's policies are likely to be inflationary, with tax cuts and increased infrastructure spending at the forefront. The Federal Reserve raised US interest rates in December in response to these inflationary pressures. Faster economic growth combined with less immigration could see a rise in US wages, increasing inflationary pressures and increasing pressure on the Fed to make further rate rises during 2017.

It was another strong quarter for global equities, with the FTSE All-World returning 4.5%. Sterling weakness has boosted the return to global equities in 2016 for unhedged sterling investors from an impressive 10% to a spectacular 30%. US equities reached new all-time highs, but the strongest local currency performance came from Japan, where the market was boosted by currency weakness and better-than-expected economic growth. Emerging market equities bucked the trend – dipping sharply in the wake of the US election and falling over the quarter as a whole – amid concerns over Trump's protectionist stance. The strongest performing global equity sectors over the quarter were Financials – viewed as the main beneficiaries of higher rates in 2017 – and Oil & Gas – reacting to rising oil prices. It was a relatively poor quarter for defensive areas such as Healthcare, Consumer Goods and Utilities.

The prospect of a Trump presidency weighed on bond markets already struggling with the prospect of higher US interest rates. As a result global bond yields drifted higher over the quarter amid expectation that Donald Trump's polices (tax cuts and increased infrastructure spending) would lead to higher inflation.



In the UK, gilt yields rose for most of the quarter as further monetary easing seemed less likely. 30-year gilt yields rose from 1.5% p.a. to 2.1% p.a. in mid-December, before falling a little by the year-end.

Credit spreads widened over the quarter resulting in credit marginally underperforming conventional gilts on a duration-adjusted basis.

UK property prices stabilised after the third-quarter downturn. Across the market as a whole, as reflected in the IPD Monthly Index, capital values rose by 1% in the final quarter.

1.2 Key market data

The tables below provide a summary of key financial indicators over recent periods:

	31.12.15	31.03.16	30.06.16	30.09.16	31.12.16
UK Equity yield	3.70%	3.77%	3.66%	3.46%	3.47%
UK Equity P/E ratio (FTSE)	17.85x	24.31x	30.70x	31.41x	30.25x
Over 15 year gilt yield (p.a.)	2.57%	2.17%	1.61%	1.42%	1.76%
Over 5 year index-linked gilt yield (p.a.)	-0.70%	-0.97%	-1.38%	-1.78%	-1.66%
iBoxx Over 10 year Non-gilt yield (p.a.)	3.89%	3.56%	3.07%	2.50%	2.94%

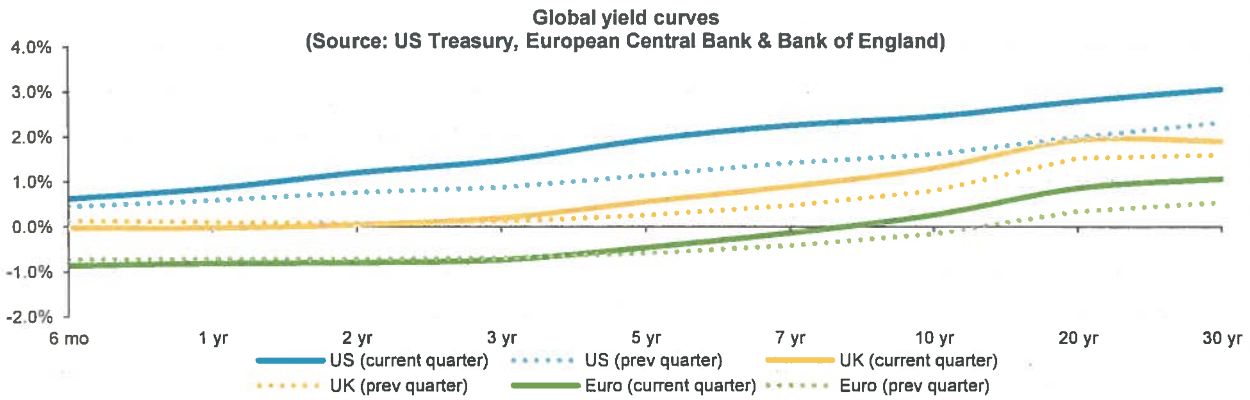
	Year to 31.12.14	Year to 31.12.15	Year to 31.12.16	Quarter to 31.03.16	Quarter to 30.06.16	Quarter to 30.09.16	Quarter to 31.12.16
FTSE All Share	1.2%	1.0%	16.8%	-0.4%	4.7%	7.8%	3.9%
Global Equity	11.3%	4.0%	29.6%	3.0%	8.8%	8.5%	6.7%
Over 15 year gilts	26.1%	0.1%	18.5%	8.2%	11.8%	4.2%	-6.0%
Over 5 year index linked gilts	21.4%	-1.2%	27.4%	6.5%	11.1%	11.0%	-3.0%
All Stocks Non-Gilts	12.2%	0.5%	10.6%	3.2%	4.3%	5.6%	-2.6%
IPD Monthly Index	19.5%	13.9%	2.6%	1.1%	1.3%	-2.3%	2.6%

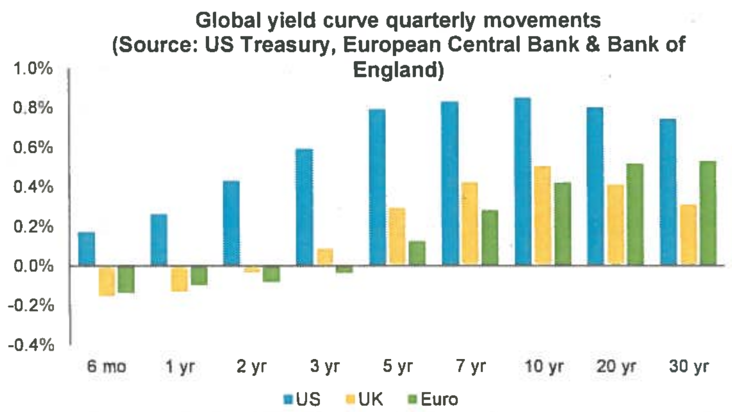
2.1 Global Bond Markets

The outlook for 2017 seems likely to be influenced by a new environment of heightened policy uncertainty against the backdrop of ongoing pressure on yields from long term de-leveraging.

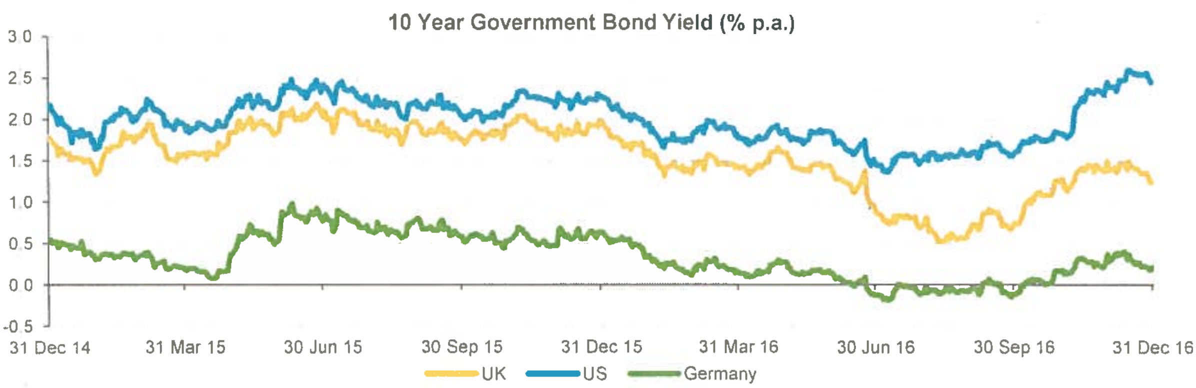
The general impact of de-leveraging has been for yields to grind lower, however political events now have the potential to disrupt this pattern. This was visible during Q4 with global bond yields drifting higher amid expectation that Donald Trump's polices (tax cuts and increased infrastructure spending) would lead to higher inflation.

With wage growth and core inflation on an upward trajectory, the Fed has hinted at a further three rate rises during 2017. Indeed, we may begin to see interest rates rise elsewhere, as higher levels of headline inflation are observed across much of the developed world. However, there is a risk that the delivery of these expansionary policies disappoint creating more downward pressure on growth and yields.



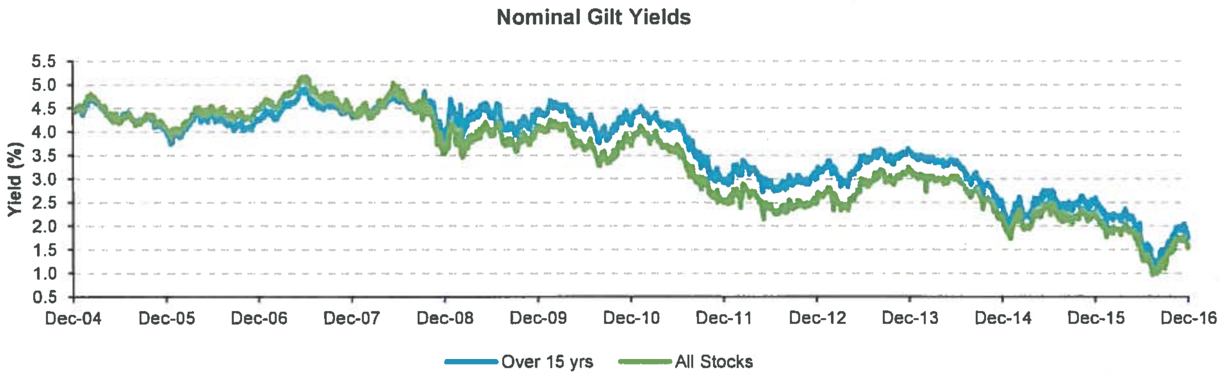


Movements were most pronounced in the US, with 10-year yields reaching 2.6% in mid-December, the highest level for over two years. The Fed responded by raising its benchmark rate for only the second time since 2008. German 10-year bund yields also rose and are now offering a positive yield, after spending much of the summer in negative territory.

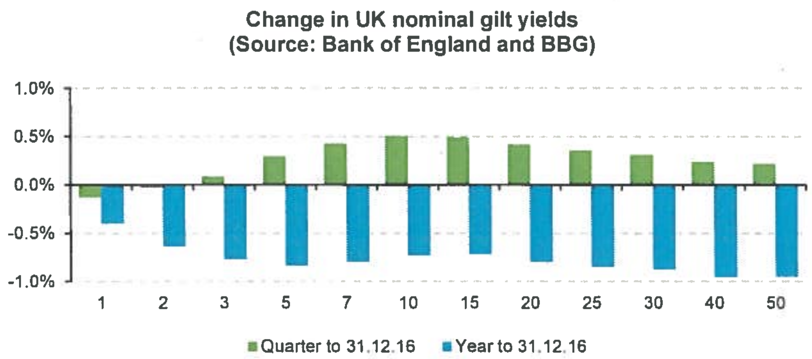


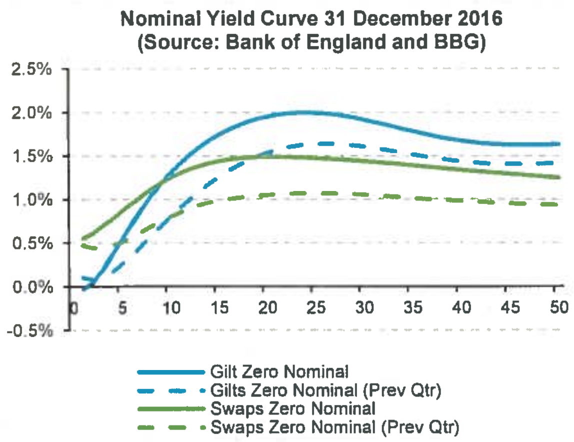
2.2 UK Interest Rates

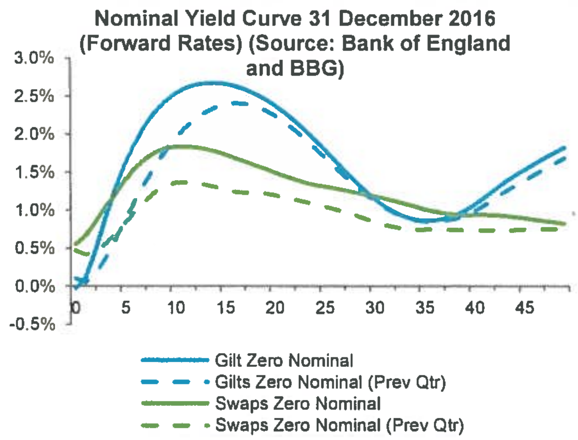
Gilt yields continued their climb back from their historic lows with 10-year gilt yields finishing the quarter at 1.4% p.a., well above August's low of 0.6% p.a. However, this has only taken gilt yields back to pre-Brexit levels and they still remain over 60bps lower than where they were 12 months ago. Over 2016, UK yields drifted further apart from US yields than at any time in the last six years.



As negotiations over a 'hard Brexit' develop the near-term outlook for the UK economy looks very uncertain. Thoughts of a further rate cut may have been abandoned for the moment, but market-implied forward rates suggest that it will be two years before interest rates are back to pre-referendum levels.



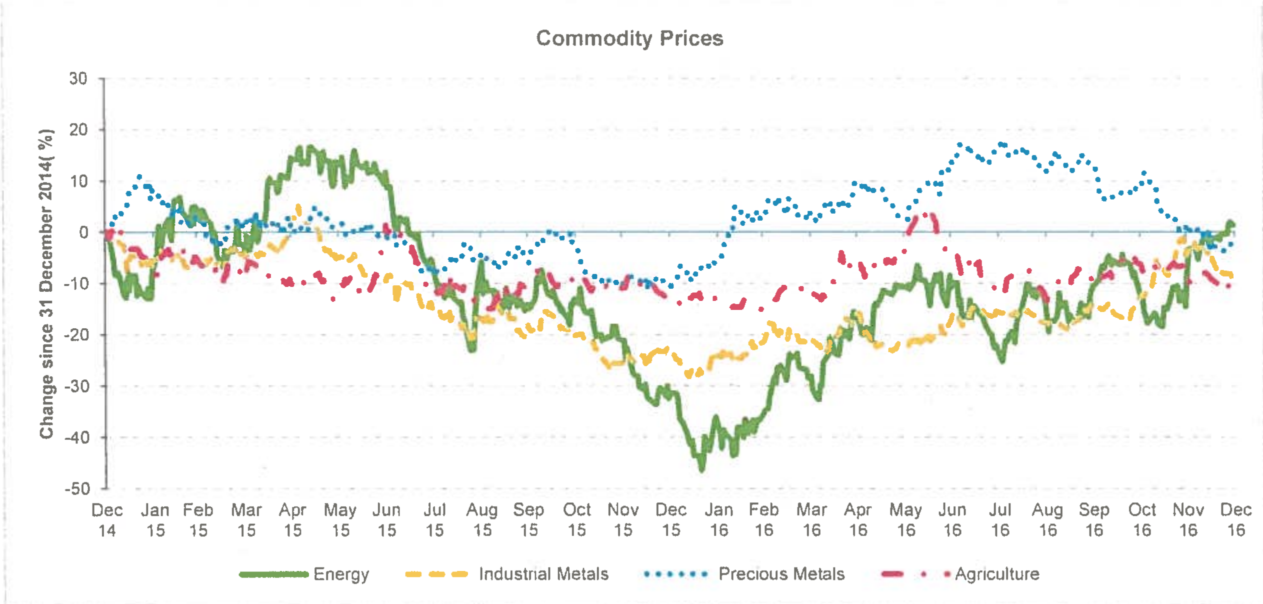




Forward rates are still only pricing in gilt yields to peak at 2.7% in 14 years, before falling to as low as 0.9% p.a. in 35 years. This continues to suggest that there is an anomaly with implied yields between 10-20 years remaining significantly higher than implied yields between 30 and 40 years. These anomalies may provide opportunities to optimise implementation strategies if increasing hedging.

2.3 Inflation and real rates

Commodity prices strengthened over the year, with the oil price continuing its upward trend. Brent crude rose from $49 to $57 per barrel over the quarter, as OPEC and non-OPEC oil-producing nations agreed at the end of November to cut production of oil by 600,000 barrels per day

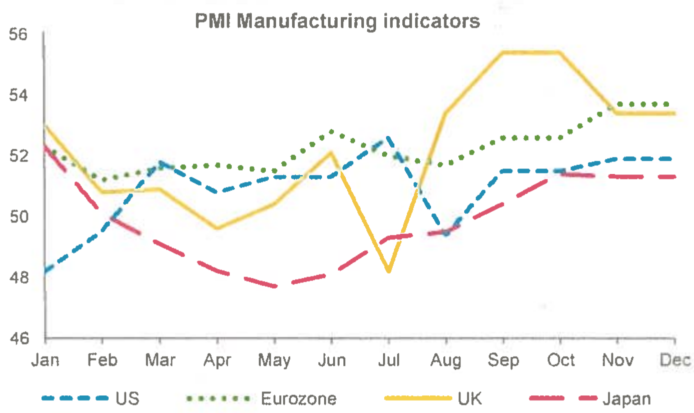


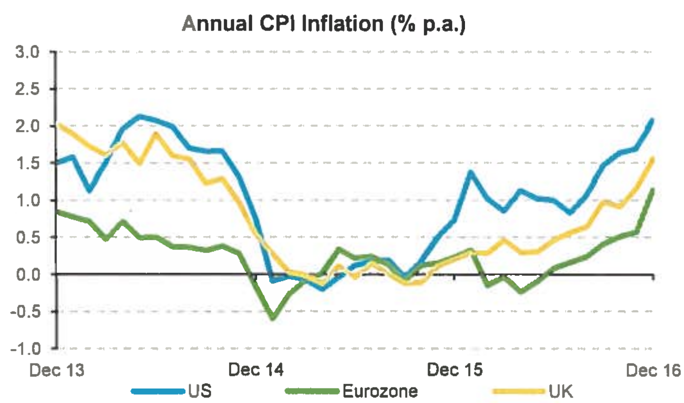
It was another resilient post-referendum performance from the UK economy, with Q3 GDP growth of 0.6% and the manufacturing PMI hitting a 30-month high.

However, the outlook for 2017 looks highly uncertain. This was reflected in November's Bank of England Inflation Report, which had more sanguine assessment of near-term growth, while remaining downbeat about the prospects for later in 2017, forecasting that GDP growth would slow to 1.4% from 2.2% in 2016.

Near-term, Brexit is expected to continue to drive inflation and this is evident in the rise in 10 year inflation pricing.

Actual CPI inflation rose to 1.6% in December, up from 1.2% in November, to reach its highest level in two years, and 0.2% ahead of expectations. The Bank of England expects inflation to surpass its 2% p.a. target this year and remain above it during 2018, accepting that an overshoot may be permitted to stimulate economic growth and employment.



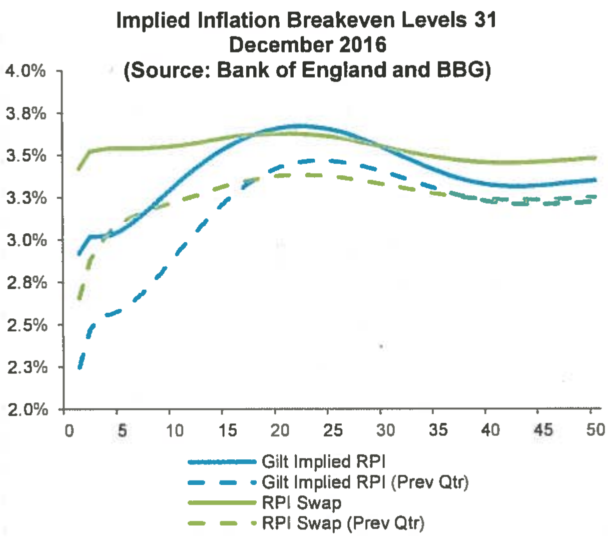


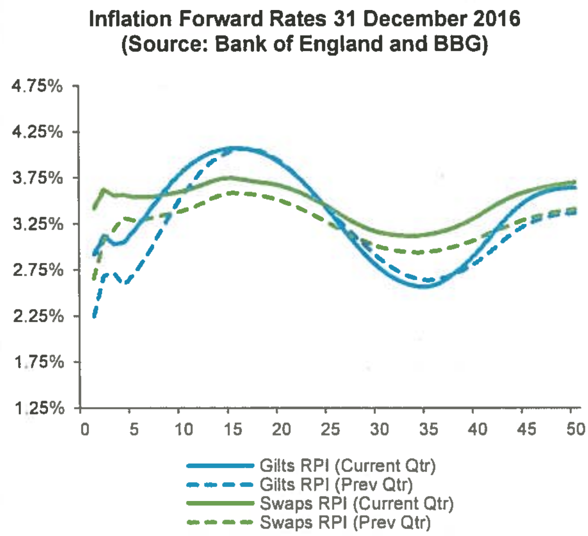
The US economy also continued to strengthen over the quarter with Q3 GDP growth reported at 3.5% year-on-year, the strongest for two years. This strength was underlined by another robust quarter of non-farm payrolls data and a decline in unemployment.

Elsewhere, further threats to EU stability from Italy and France have not derailed an admittedly subdued recovery. The ECB extended its quantitative easing programme to December 2017 but cut monthly bond purchases from €80bn to €60bn. Recession had seemed an imminent threat in Japan, but PMI survey data have picked up, perhaps benefiting from the recent Yen weakness.

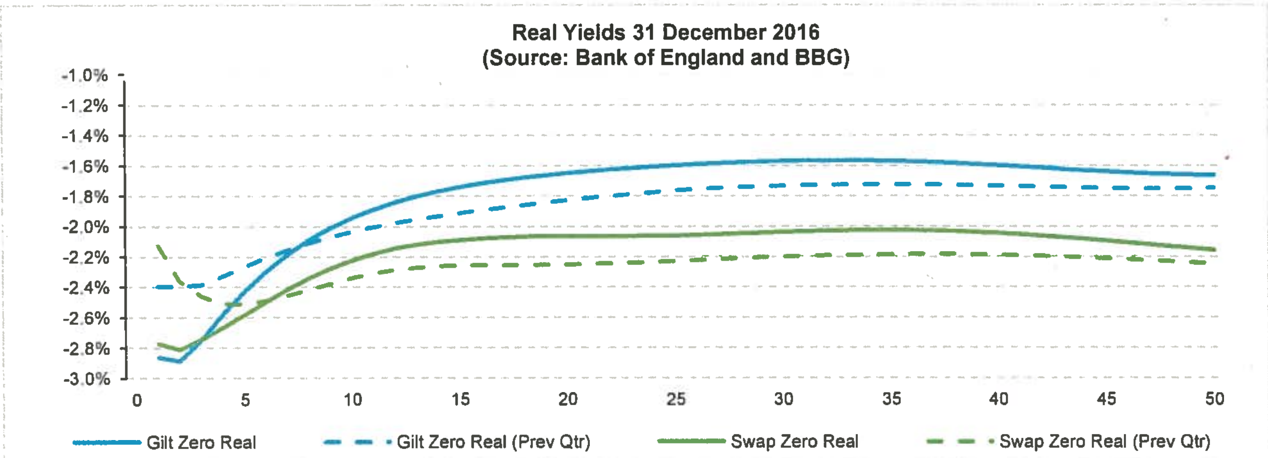
Market-implied inflation break-even levels rose across the curve over the quarter and prices drifted towards the top end of the five-year range, well above the Bank of England's target.

There are structural reasons why short-term inflation pricing has risen following the UK's vote to leave the EU and Trump's victory in the US Presidential election. However, very long-term inflation has also risen, and this appears to be more a reflection of investors paying a premium for protection and long-dated inflation protection does not look particularly attractive at these prices.





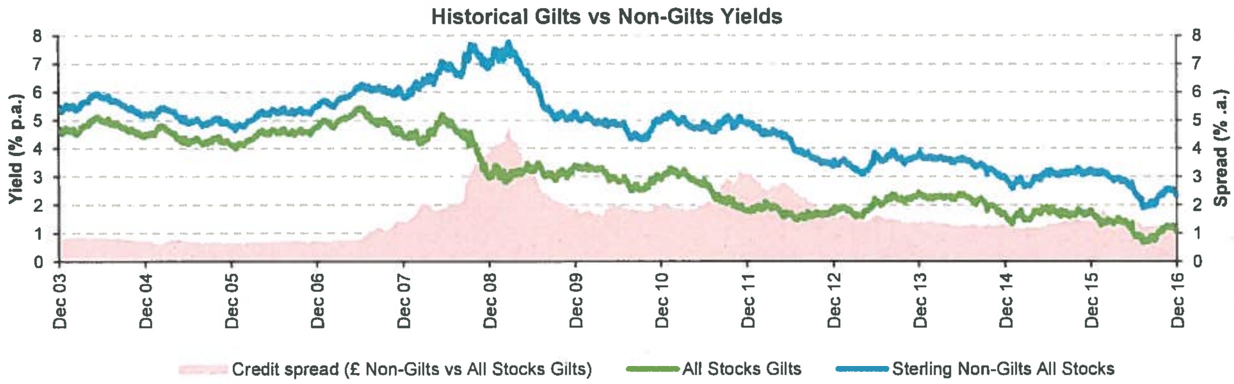
An increase in market-based inflation measures is not just a UK phenomenon: a similar picture can be seen in the US. However, in contrast to the UK, US breakeven inflation ended the year around 2% p.a., in line with the Fed's long-term target.



2.5 Investment Grade Credit

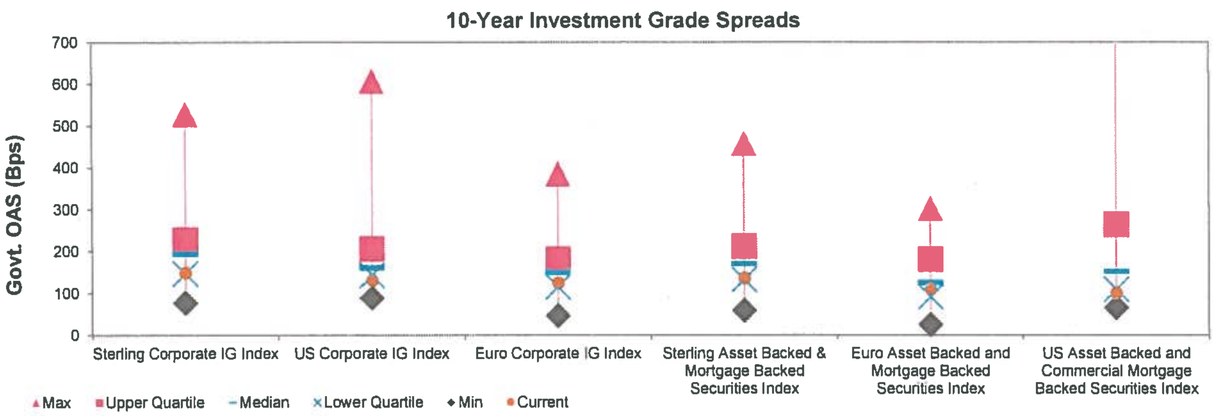
ML Non-Gilts Spreads over Gilts (Source: Datastream)	Sterling Non-Gilts (bps)	Sterling Non-Gilts Over 10 Years (bps)	Global Broad Market Corporate (bps)
30 September 2016	121	115	133
31 December 2016	126	120	138
Median since 2 April 2002	134	117	144
Average since 2 April 2002	153	132	172

Note Spreads on financials, non-financials and the broad corporate market are calculated using iBoxx indices All other spreads are calculated using Merrill Lynch indices.

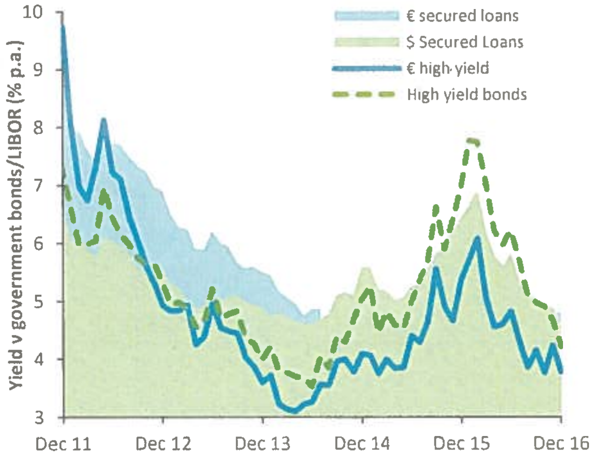


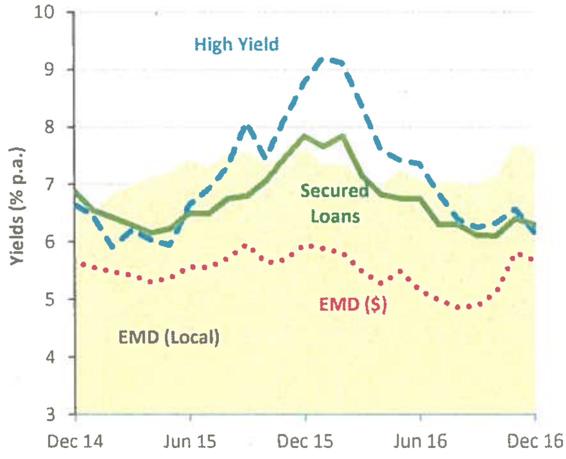
While credit markets began 2016 with compelling valuations, they ended the year lower, despite spreads widening over the final quarter. In our view, technicals are likely to remain supportive, particularly given the potential for central banks to continue their purchase programmes. Though corporate fundamentals are likely to benefit from Trump's expansionary policies in the US, we are mindful that much of the optimism may already be reflected in valuations. Moreover, a continued rise in underlying interest rates has the potential to reduce returns.

Asset Backed Securities (ABS) may offer a more compelling case over investment grade corporate bonds. ABS continue to show stable fundamentals and have little duration exposure, which should be supportive if rates start to rise. The additional credit spread available versus investment grade bonds remains intact and is the main reason we favour ABS over bonds. However, volatility through the Brexit negotiations is a key risk for the asset class in 2017.



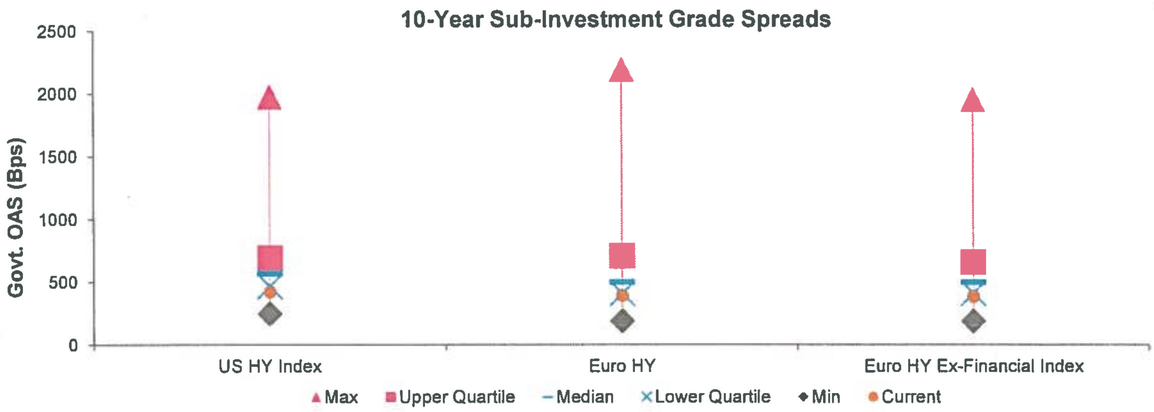
2.6 Sub Investment Grade Corporates and Emerging Market Debt





Fundamentals, in general, remain robust and default rates remain low by historic standards. However, given the significant spread compression the high yield debt and, to a lesser extent, the syndicated loans market experienced over 2016, some of the relative value has diminished. Increased volatility throughout 2017 could present attractive entry points. On a regional basis we are biased towards the US over Europe reflecting the improving macro backdrop and an expectation that the pace of Fed rate rises in 2017 is likely to be gradual.

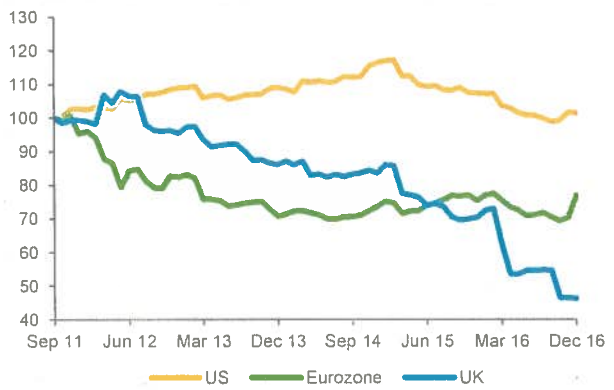
We remain positive on direct corporate lending. We have a modest bias to the asset class relative to multi asset credit reflecting the illiquidity premium it offers over the traded market where spreads have compressed, coupled with the continued retrenchment of banks from the lending market and the increased demand coming from Private Equity with significant dry powder to put to work. We have a small bias to the US reflecting current technical reduction in syndicated loans and increasing demand from the private lending market.

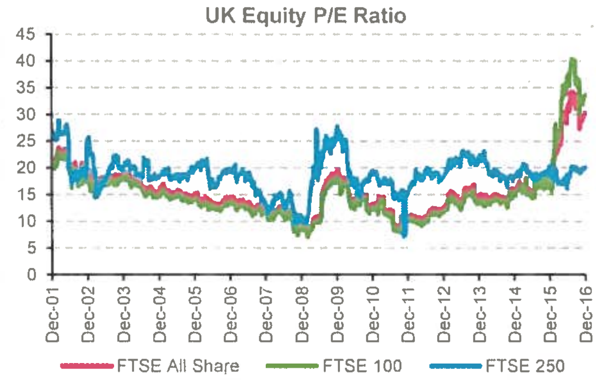


Emerging Market Debt delivered strong returns to investors over 2016 and we continue to think these markets remains reasonably attractive. Emerging market economies begin 2017 with an improved growth outlook following the decline in inflation, weaker currencies and a reduction in current deficits. We believe that EMD currently offers attractive yields relative to those on available in developed bond markets and, relative to historic average, should also continue to attract flows to what is an institutionally under owned asset class.

2.7 UK Equity Market

Equity Market Data (Source: Datastream)	30 September 2016	31 December 2016
FTSE All Share Dividend Yield	3.5%	3.5%
Dividend growth over the quarter	1.0%	3.4%
Dividend growth over the year	5.0%	5.5%
FTSE All Share P/E Ratio	31.4x	30.3x
Total Return during the quarter	7.8%	3.9%
Total Return over the last 12 months	16.8%	16.8%

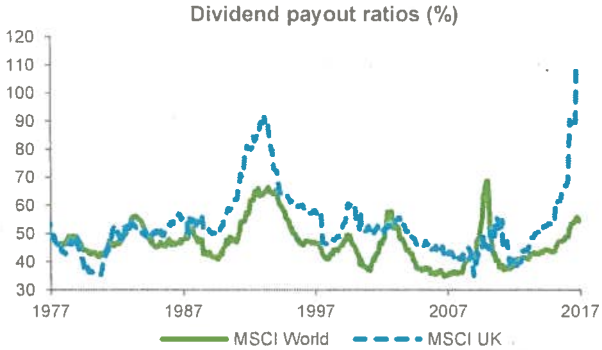


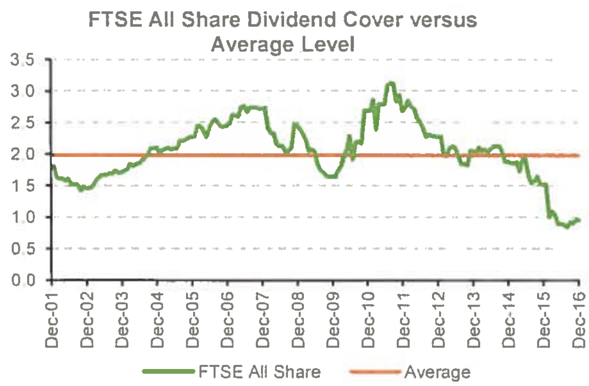


UK equities continued to rise over the period, with the FTSE All Share up 3.9%. Sterling weakness continues to support strong performance of multinational UK stocks relative to their domestic peers, and the FTSE100 has outperformed the FTSE250 over the quarter (4.3% vs 1.7%) and over the year (19.1% vs 6.7%).

Fundamentals in the energy and mining sectors have been improving althougha significant bounce back in earnings is required to support the high levels of dividends being paid out by UK companies. Dividends have continued to increase and as a result investors have supported prices, pushing P/E ratios beyond 30.

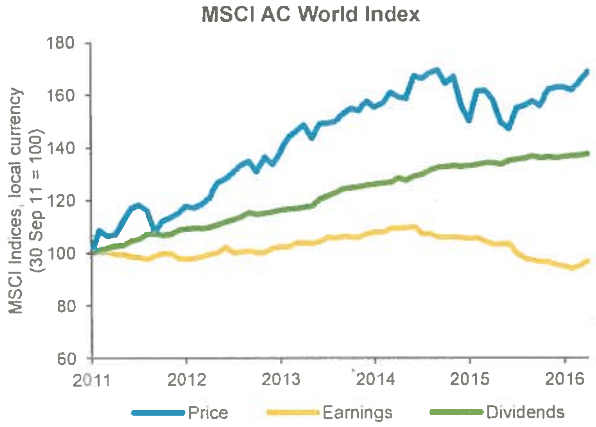
Dividend cover remains at low levels. This increases the risk of forced cuts in dividend payments going forward, although currency translation gains will provide some modest cushion.

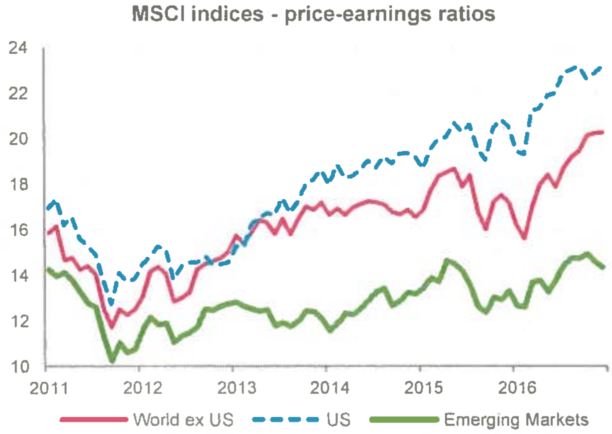




2.8 Overseas Equity Markets

Equity Market Data (Source: Datastream)	30 September 2016	31 December 2016
Dividend Yield	2.7%	2.7%
Total Return during the quarter (£)	8.5%	6.7%
Total Return during the quarter (Local)	5.1%	4.5%
Total Return over the last 12 months (£)	31.3%	29.6%
Total Return over the last 12 months (Local)	11.4%	9.9%





It was another strong quarter for global equity markets to cap a strong calendar year. Sterling weakness has boosted the return to global equities in 2016 for unhedged sterling investors from an impressive 10% to a spectacular 30%.

The immediate impact of the US Presidential election on global equity markets has been mixed. It has been unequivocally good for US equities, which have reached new highs despite another disappointing quarterly earnings season. In aggregate, earnings are well ahead of last year's numbers, but still lower than two years ago and short of pre-season expectations. Investors' enthusiasm reflects hopes of a fiscal boost in the US, the prospect of lower corporate taxes and the assumption of an "America first" tilt to trade policy. However, Emerging market equities struggled, dipping sharply in the wake of the US election and falling over the quarter as a whole, amid concerns over Trump's protectionist stance.

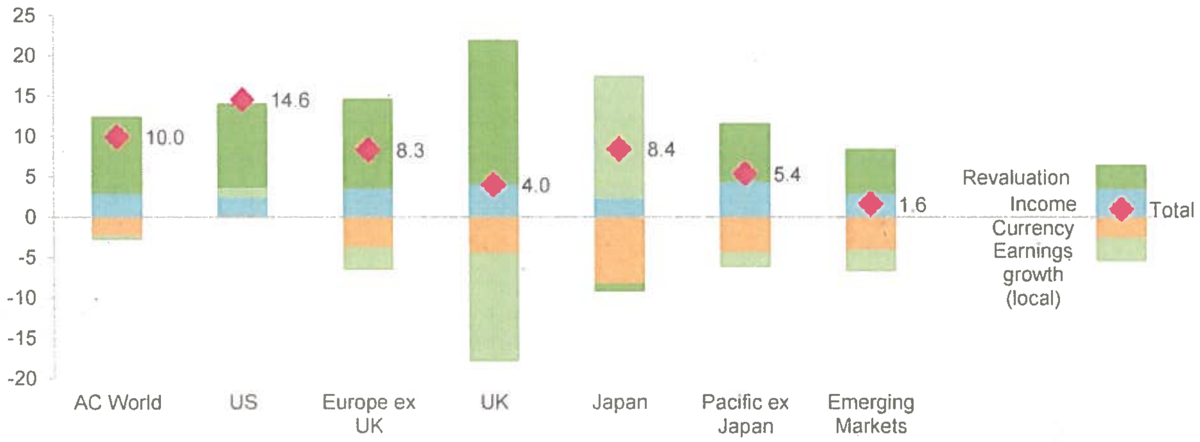
Our main concern is that in an environment of growing economic optimism, pricing gets ahead of reality; global equities will be vulnerable to devaluation if bond yields start to rise too quickly or if growth expectations turn out to be too optomistic. In terms of both high current valuations and the momentum of bond yields, the US appears particularly exposed. We find it difficult to extrapolate the pace of equity returns experienced in 2016 into 2017 year amid reflation and rich valuations.

At a sector level, recent months have seen a meaningful reversal of trend from defensives to more cyclical stocks. Value stocks and the RAFI Fundamental Index outperformed enough to recapture underperformance of the previous two years. We expect to see "value" to continue its rally for a while at the expense of sustainable growth and quality stocks, which have benefitted from the tailwinds of QE, low interest rates and low inflation.

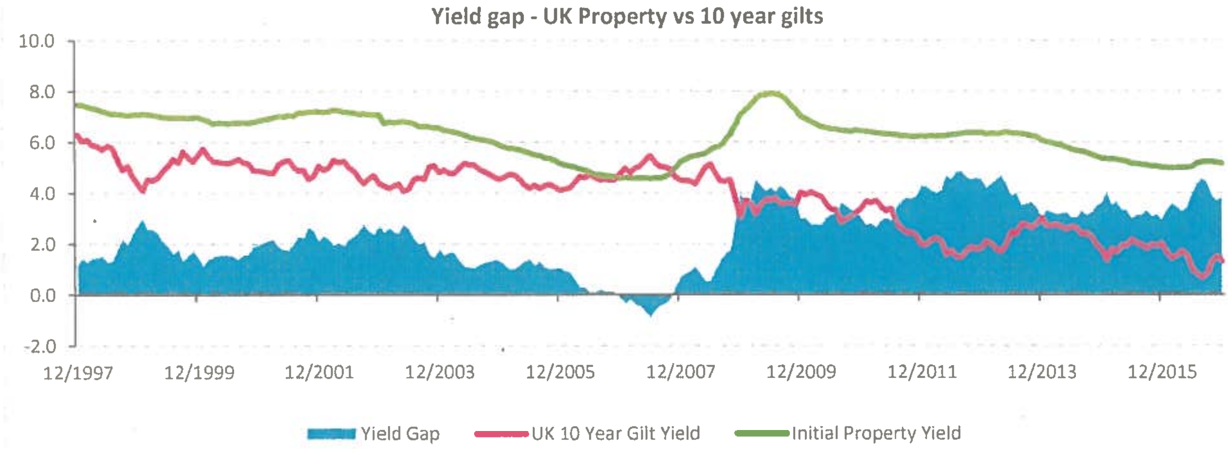
Global equity returns have been respectable over the last five years at 10.0% p.a., but excluding dividends, price rises of 7.1% p.a. have been largely dependent on revaluation. Earnings growth has been negative, and for $ investors, currency has also dragged back returns.

We believe Emerging Market equities still offer relative attraction, but may have an uncertain year ahead, with any rise in protectionism under Trump or in Europe, or a stronger dollar, resulting in further volatility and having a potential negative impact.

MSCI Index performance ($ total return 31.12.11 - 31.12.16, % p.a.)



2.9 Long Term Enhanced Income



UK Property

The disruption to the UK property market in the wake of the referendum vote proved to be short-lived. Across the market as a whole, as reflected in the IPD Monthly Index, capital values rose by 1% in the final quarter. The correction from the peak earlier in the year has been modest and does little to allay our underlying concerns that prices are not cheap. While the absolute level of income yield may look attractive relative to low gilt yields, the premium over UK equity dividend yields is still low by historic standards. A number of other factors support the UK property market: a weaker sterling will attract foreign money, and relative to its position throughout the financial crisis debt levels are much lower, while supply is tighter.

There does look to be more scope for cyclical recovery in property income – much more than there seems to be for UK equities – but the momentum of rental growth continues to weaken. Nevertheless, even if it is a hold rather than an outright buy, property's appeal as a diversifier has only increased after a year in which it has significantly underperformed equities.

Long Lease Property

By nature, the underlying strategies within secure income portfolios are more defensive and therefore should prove more resilient than the broader UK property market in this uncertain environment. Although the sector is not trading cheaply, the security of guaranteed rental increases becomes increasingly attractive as the prospects for rental growth declines in the broader property market. Any further capital declines across the broader property market would eventually filter through to the long lease market and erode the relative advantage that we believe the long lease sector currently enjoys, but we do not anticipate this sector to be impacted significantly over the shorter term.

Infrastructure

The infrastructure market has been deemed expensive in recent years due to the weight of money chasing secure operational assets, however current income yields of 5-7% on core infrastructure assets remains attractive.

Infrastructure funds have raised more dry powder in 2016 than in any previous year, combined with the growth in allocations from direct investors this number would be even higher. This highlights the importance of implementation when looking at infrastructure. We expect the outlook for infrastructure to improve as more supply is expected to come to market, at least from the UK and the US, but it may take some time for these projects to become investible.

Notes and Risk Warnings

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets.

Exchange rates may also affect the value of any investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

Private equity investments, whether held directly or in pooled fund arrangements carry a higher risk than publicly quoted securities; the nature of private equity pooling vehicles makes them particularly illiquid and investment in private equity should be considered to have a long time horizon.

Hymans Robertson LLP has relied upon third parties and may use internally generated estimates for the provision of data quoted, or used, in the preparation of this report. Whilst every effort has been made to ensure the accuracy of such estimates or data, we cannot accept responsibility for any loss arising from their use.