

Essex Pension Fund Strategy Board	PSB 08
Date: 6 March 2019	

Investment Steering Committee (ISC) Quarterly Report

Report by the Director for Essex Pension Fund

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1. Purpose of the Report

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

2. Recommendations

2.1 The Board agree:

- that the report be noted.

3. Background

- 3.1 In accordance with its Terms of Reference, the ISC is required to submit quarterly reports on its activities to the Essex Pension Fund Strategy Board (the Board).
- 3.2 Since the Board's last meeting the ISC has met on one occasion 20 February 2019.

4. Report of the meeting of ISC on 20 February 2019

- 4.1 The Committee agreed a schedule of meeting dates for the municipal year 2019/20.
- 4.2 The Committee received an update from the Director for Essex Pension Fund on the progress made to date on the review of the investment and funding risks of the Fund.
- 4.3 The Committee received an update outlining the latest developments in respect of the structural reform of the LGPS. The progress on the Phase 1 and 2 sub-fund construction, seeding arrangements, governance arrangements and ACCESS Support Unit recruitment was outlined.
- 4.4 Following on from the successful launch in November of ACCESS first sub fund; Baillie Gifford Long Term Global Growth, Members were informed that ACCESS had successfully launched a further seven sub funds in January and February as part of tranche 2. At its November meeting the ISC agreed to invest in two further global equity sub funds; M&G and Longview.
- 4.5 It was explained that M&G assets was successfully transferred on 29 January to the ACCESS M&G global equity dividend fund.
- 4.6 It was also noted in January the overweight position of Longview global equity mandate had been rebalanced back successfully to within agreed tolerance of its strategic allocation with the proceeds used to top up the regional and RAFI indexes managed by the Fund's passive manager, UBS back in line with its target allocation. The remaining Longview assets was successfully transferred on 4 February to the ACCESS Longview global equity sub fund.
- 4.7 It was explained that commercial discussions had also concluded with investment managers in relation to populating Phase 1 tranche 3 sub funds. It was noted that the prospectus for tranche 3 sub funds was currently with the FCA for approval with an expected launch date of May 2019.

- 4.8 An update was also provided in relation the ACCESS Support Unit recruitment.
- 4.9 The focus of the meetings business was the bond portfolio structure review which was supplemented with a training presentation from Hymans Robertson of the Fund's current portfolio structure.
- 4.10 Consideration was given to the current structure of the Fund's bond portfolio reflecting on recent developments within the ACCESS pool.

The Committee agreed:

- the overall structure of the bond mandate remains appropriate, a combination of two active bonds mandates complimented by an allocation to index linked gilts passively managed;
 - the absolute return strategy remains appropriate in terms of delivering the required characteristics in terms of return, risk and diversification;
 - in the interim the bond managers are retained by the Fund whilst ACCESS brings further bond managers onto the pool and procures other managers;
 - a further report be brought back to a future meeting once the suite of bond sub fund options become available.
- 4.11 Further consideration was given to Marathon's global equity mandate. An update was provided of the Officer and Adviser discussions with Marathon in respect of beginning the process of disinvesting from the global equity mandate.

The Committee agreed:

- in light of changing market conditions to proceed with the 2% disinvestment from Marathon with the monies being transferred into the passive equity strategies managed by UBS, rather than index linked gilts as previously agreed by the ISC at their November meeting; and
 - to rebalance the passive equity strategies managed by UBS in line with the central regional benchmarks.
- 4.12 An update was provided on the Fund's infrastructure manager, Partners Group. Consideration was given to maintaining its target allocation of 4%. It was agreed a further £60m be committed to the 2018 Partners Group Global

Infrastructure fund and that a further £60m be committed in principle to the 2019 Direct Infrastructure fund due to be launched later in the year.

- 4.13 A presentation was received from Hamilton Lane on the private equity portfolio. The Committee agreed to a further commitment of £50m to new private equity opportunities during 2019/20.

5. Link to Essex Pension Fund Objectives

5.1 Investments

- To maximise the returns from investments within reasonable risk parameters.
- To ensure the Fund's investments are properly managed before, during and after pooling is implemented.

6. Risk Implications

- 6.1 The current investment risks associated with the Fund's investment strategy are those detailed in the Investment Strategy Statement.
- 6.2 The examination of the potential risks associated with pooling and the migration of Fund assets into the Pooled structure are currently under review. The review will then be brought to a future meeting of the ISC for consideration.

7. Communication Implications

- 7.1 The Fund was a signatory on the ACCESS proposal to Government in February and July 2016.

8. Finance and Resources Implications

- 8.1 In addition to the work undertaken by Officers, the cost of ACCESS pool participation per Fund is estimated to be £105,000 in 2018/19. The cost to the Fund was £94,000 and £80,000 in 2017/18 and 2016/17 respectively.

9. Background Papers

- 9.1 ISC meeting of 20 February 2019 – agenda and draft minutes.