



Essex County Council

Essex Pension Fund Investment Steering Committee

13:00	Wednesday, 28 November 2018	Committee Room 2, County Hall, Chelmsford, CM1 1QH
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For information about the meeting please ask for:

Amanda Crawford, Compliance Manager

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Email: Amanda.crawford@essex.gov.uk

		Pages
1	Membership, Apologies and Declaration of Interest To note the content of the report	5 - 6
2	Minutes of ISC Meeting 17 October 2018 unsigned To approve as a correct record the minutes of the Committee meeting held on 17 October 2018	7 - 12
3	Market Commentary To receive a report from Hymans Robertson	13 - 30
4	Schedule of Meetings To receive a presentation from the Director for Essex Pension Fund on future meetings and event dates	
5	Revised Investment and Funding Risks To receive a report from the Compliance Manager	31 - 34
6	Urgent 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.	

Exempt Items

(During consideration of these items the meeting is not likely to be open to the press and public)

To consider whether the press and public 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 or it being confidential for the purposes of Section 100A(2) of that Act.

In each case, Members are asked to decide whether, in all the circumstances, the public interest in maintaining the exemption (and discussing the matter in private) outweighs the public interest in disclosing the information.

7 Investment Tables end September 2018

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

8a Structural Reform of the Local Government Pension Scheme - Pooling update progress to date

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

8b Structural Reform of the LGPS - Pooling update next steps Phase 1 Tranche 2

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

9a Investment Manager Update Traffic Light Report

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

9b ISC Briefing Note on Managers Presenting

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

10 Investment Manager Presentation - Longview

To receive a presentation from Longview

11 Investment Manager Presentation - M&G Investments

To receive a presentation from M&G Investments

12 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.

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Essex Pension Fund Investment Steering Committee	ISC 01
Date: 28 November 2018	

Essex Pension Fund Membership, Apologies and Declarations of Interest

Report by the Compliance Manager for Essex Pension Fund

Enquiries to Amanda Crawford on 03330 321763

1. Purpose of the Report

- 1.1 To present Membership, apologies and Declarations of Interest for the 28 November 2018 ISC.

2. Recommendation

- 2.1 That the Committee should note:

- Membership as shown below;
- Apologies and substitutions;
- Declarations of interest to be made by Members in accordance with the Members' Code of Conduct.

3. Membership

(Quorum: 4)

5 Conservative Group: 1 Labour Group: 1 Non-aligned Group (Vacant)

Membership

Councillor S Barker

Councillor M Platt

Councillor A Goggin

Councillor A Hedley

Councillor L Scordis

Councillor C Souter

Representing

Essex County Council (Chairman)

Essex County Council (Vice Chairman)

Essex County Council

Essex County Council

Essex County Council

Essex County Council

Observers

Councillor C Riley

Sandra Child

Castle Point Borough Council

Scheme Members

Minutes of the meeting of the Essex Pension Fund Investment Steering Committee (ISC) held in Committee Room 2, on 17 October 2018

1. Membership, Apologies and Declarations of Interest.

The report of the Membership, Apologies and Declarations of Interest were received.

Membership Present:

Essex County Council

Cllr S Barker	(Chairman)
Cllr M Platt	(Vice Chairman)
Cllr A Goggin	
Cllr C Pond	Left at 2:50pm
Cllr C Souter	
Cllr L Scordis	

Scheme Member Representatives

Sandra Child (UNISON) (Observer)

The following officers and advisors were also present in support:

Kevin McDonald	Director for Essex Pension Fund
Jody Evans	Head of Essex Pension Fund
Samantha Andrews	Investment Manager
Amanda Crawford	Compliance Manager
Helen Pennock	Compliance Analyst
Mark Stevens	Independent Advisor
Matt Woodman	Hymans Robertson
John Dickson	Hymans Robertson
Jessica Hynes	Mercer Sentinel (presentation only)

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

Paul Hewitt	Scheme Member Representative
Andrew Coburn	Scheme Member Representative
Debs Hurst	Scheme Member Representative

Members noted that the meeting would be recorded to assist with the minutes for the meeting.

The Chairman welcomed PAB observers Paul Hewitt, Andrew Coburn and Debs Hurst.

Opening Remarks

The Chairman notified the Committee that emails have been distributed by the Compliance Manager to notify members of the training (CIPFA and Pension Regulator Modules) they are required to complete on a two-year rolling programme.

The Chairman notified the Committee that a business case is going forward in November for Essex County Council to improve the guest Wi-Fi within County Hall to enable non-Essex CC Members of Boards and Committees to view the meeting packs online to help enforce the paperless policy.

Resolved:

The Committee noted the update.

Apologies for Absence

Apologies were received from Cllr A Hedley (Essex CC), Cllr M Maddocks (Essex CC), Cllr A Erskine (Essex CC) and Cllr C Riley (Castle Point Borough Council).

It was noted that PAB members Mark Paget, Nicola Mark and Cllr Walsh were unable to attend.

Declarations of Interest

Declarations were received from Cllr S Barker who stated they were in receipt of an Essex LGPS pension and that her son was also in receipt of an LGPS Essex pension. Cllr A Goggin declared his wife, sister and brother-in-law were in receipt of an Essex LGPS pension.

2. Minutes

Minutes of the meeting of the ISC held on 18 July 2018 were approved as a correct record and signed by the Chairman.

The Chairman asked for an update on the following items within the minutes:

- Item 13 – the Director for Essex Pension Fund informed the Committee that the due diligence in relating to AVIVA and LaSalle was completed and the consent letter has been signed.

Resolved:

The Committee noted the update.

3. Urgent Part I Business

The Chairman informed the Committee that the Essex Pension Fund were Highly Commended in the Fund of the Year category at September 2018's Local Authority Pension Funds (LAPF) Awards.

Resolved:

The Committee noted the update.

Exclusion of the Public and Press

That, having reached the view that, in each case, the public interest in maintaining the exemption (and discussing the matter in private) outweighed the public interest in disclosing the information, the public (including the press) be excluded from the meeting during consideration of the following items of business on the grounds that they involved the likely disclosure of exempt information as specified in paragraphs 3 and 5 of Part 1 of Schedule 12A of the Local Government Act 1972.

Resolved:

The Chairman brought to the attention the above statement.

The Chairman recommended item 7 be taken prior to item 4.

**7. Structural Reform of Local Government Pension Scheme (LGPS)
Pooling**

a) Quarterly Joint Committee Update

The Director for Essex Pension Fund gave an update on Pooling since the last Committee meeting.

A presentation was delivered highlighting the themes from paper 7. The latest developments in respect of the structural reform of the LGPS were outlined and it was noted that, during August 2018, the Financial Conduct Authority (FCA) approved the Authorised Contractual Scheme (ACS) and one sub-fund. The first sub-fund would go live end October 2018.

The Director for Essex Pension Fund notified the Committee of the different phases and tranches of the process. An update was also provided in relation to the ACCESS Support Unit (ASU) recruitment.

Resolved:

The Committee noted the content of the report.

b) Securities Lending

The Chairman welcomed and introduced Jessica Hynes from Mercer Sentinel who provided the Committee with a presentation in relation to Securities Lending.

Resolved:

The Committee noted the presentation.

Jessica Hynes then left the meeting.

4. Current Equity Portfolio Structure Training

The Committee received a training presentation from Matt Woodman from Hymans Robertson whereby an overview of the Essex Pension Fund's current equity portfolio structure was provided.

Resolved:

The Committee noted the presentation.

5. Equity Portfolio Structure Review

The Committee received a paper and presentation from Matt Woodman from Hymans Robertson. The Committee were asked to agree:

- the revised equity structure;
- the rebalancing of the Baillie Gifford Long Term Global Growth (BGLTGG) portfolio back down to 7%.
- the transfer of the remaining BGLTGG balance to the ACCESS pool sub fund.
- To allocate the proceeds of rebalancing BGLTGG (approx. £100m.) to the M&G active bond mandate.
- To delegate to Officers, in conjunction with Advisers, responsibility to implement the necessary arrangements.

Resolved:

The Committee agreed:

- the revised equity structure;
- the rebalancing of the Baillie Gifford Long Term Global Growth (BGLTGG) portfolio back down to 7%.
- the transfer of the remaining BGLTGG balance to the ACCESS pool sub fund.
- To allocate the proceeds of rebalancing BGLTGG (approx. £100m.) to the M&G active bond mandate.
- To delegate to Officers, in conjunction with Advisers, responsibility to implement the necessary arrangements.

6. Global Property Manager Selection

The Committee received a paper and presentation from Matt Woodman from Hymans Robertson. The Committee were asked to agree:

- the mandate criteria as detailed within the report.

Resolved:

The Committee agreed the mandate criteria as detailed within the report.

8. Urgent Exempt Business

None.

9. Schedule of Future meetings

The Committee confirmed the schedule of meetings for the municipal year 2018/19.

Investment Steering Committee

28 November 2018

20 February 2019

27 March 2019

Pension Strategy Board

19 December 2018 – 9.30am

6 March 2019

Pension Advisory Board

16 January 2019 – 1.00pm

10. Closing Remarks

The Chairman also mentioned that interviews would take place shortly for an Independent Governance & Administration Adviser (IGAA) as the current contract was coming to an end.

The Chairman reaffirmed that the next PSB would take place on Wednesday 19 December 2018 at the earlier start time of 9.30am.

The Chairman reaffirmed that the next ISC would take place on Wednesday 28 November 2018 at 1pm.

There being no further business the meeting closed at 3.30pm.

Chairman
28 November 2018

Essex Pension Fund Investment Steering Committee	ISC 03
Date: 28 November 2018	

Q3 2018 Capital Markets 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.

Capital Markets Outlook

Q3 2018

Essex Pension Fund

October 2018

Matt Woodman, Senior Investment Consultant
Sam Hampton, Investment Analyst

For and on behalf of Hymans Robertson LLP

1.1 Core asset class views: summary

While global economic growth is relatively robust and inflationary pressures subdued, risks to the outlook are coming increasingly to the fore. Some recognition of these concerns has been reflected with market setbacks at the start of October, although we would argue that the valuations adjustments over October that have occurred are unlikely to be sufficient to fully reflect these risks across markets. This feels like a sensible time to hold more cash as 'dry powder' to exploit better buying opportunities. As before, we would be looking for options that reduce risk.

There are two changes in our overall views to note since last quarter:

- We have nudged up our overall rating on conventional gilts to cautious as our valuation and technical assessment scored higher than index-linked gilts. Our marginally less negative assessment for conventional gilts reflects the relatively high levels of implied inflation, following a rise in implied inflation pricing over the quarter, and current investor demand for conventional gilts. We acknowledge that a Brexit "no deal" could place additional upward pressure on inflation pricing.
- We have downgraded our overall view on Core UK Property, reflecting a combination of ongoing yield compression and a deteriorating technical picture.

	Equities	Sterling investment grade debt	Sub investment grade debt	UK Property	Long Lease Property	Infrastructure	Gilts	Index-linked gilts
Fundamentals	N	N	N	N → U	N	N → A	N	N
Valuation	N → U	N	U	U	U	N → U	U	VU
Technicals	N	U	N	N → A	A	A	N → A	N
Overall view	Neutral to Cautious. More neutral with protection	Cautious	Cautious for public. Neutral for private lending	Neutral to cautious	Neutral	Neutral to Attractive	Cautious	Cautious to Negative
Previous quarter	Neutral to Cautious. More neutral with protection	Cautious	Cautious for public. Neutral for private lending	Neutral	Neutral	Neutral to Attractive	Cautious to Negative	Cautious to Negative

F/V/T ratings: VU – very unattractive; U – unattractive; N – neutral; A – attractive; VA – very attractive

Overall ratings: Negative, Cautious, Neutral, Attractive, Positive

Green signifies positive change since last quarter. Red signifies negative change since last quarter.

The ratings are intended to give a guide to our views on the prospects for markets over a period of around three years; although they are updated quarterly, they are not intended as tactical calls. The ratings reflect our expectations of absolute returns and assume no constraints on investment discretion. In practice, they need to be interpreted in the context of the strategic framework within which individual schemes are managed. The property rating ignores purchase transaction costs, i.e. relevant for current holders of property.

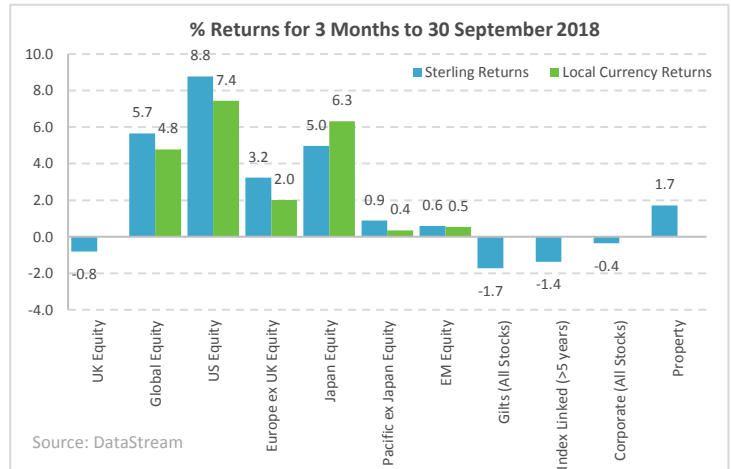
The table below provides a high level overview of our key observations for each asset class.

Equities	<ul style="list-style-type: none"> Equity fundamentals look strong over the short term, although current earnings growth rates are unlikely to prove sustainable over the medium-term. Strong equity fundamentals are fully reflected in end September valuation multiples for US and global equities, which are above historical averages on most metrics. Investor sentiment could be vulnerable to the impact of the withdrawal of liquidity and any escalation in the global trade disputes.
Sterling non-government bonds	<ul style="list-style-type: none"> Following a period of widening, IG credit spreads narrowed slightly over the quarter, and are below long term medians. Coupled with low underlying interest rates, yields are unattractive. Corporate fundamentals remain positive, albeit earnings growth is unsustainable. Central policy and trade tensions may provide a potential headwind to global investor sentiment.
Sub-investment grade debt	<ul style="list-style-type: none"> Corporate fundamentals remain positive and default rates remain below historic levels. However, valuation in both the liquid loans and bond markets are stretched. Following currency weakness and price declines, EMD looks more attractive, particularly local issuance. However, technical factors and sentiment remain weak. The direct lending market has experienced some margin compression, but less than traded markets and continues to provide an attractive illiquidity premium. There has been some deterioration in covenants, including some “cov-lite” issuance. We continue to have a preference for managers focused on senior secured lending with sufficient size and who are better placed to negotiate stronger terms.
Core UK property	<ul style="list-style-type: none"> Relative to history, UK property yields are low both in absolute terms and when compared to equity dividend yields. Brexit remains a technical risk. Sector divergence is increasing from both a fundamental and technical perspective; in particular, the background for industrials remains robust, but support for retail continues to deteriorate.
Long Lease Property	<ul style="list-style-type: none"> Although valuations are even more stretched than for core property, the defensive nature of long lease and more robust investor demand make it less exposed to the increasing uncertainties across the broader market.
Infrastructure	<ul style="list-style-type: none"> With dry powder at an all-time high, infrastructure assets across the risk spectrum continue to be highly bid. We continue to favour implementations where managers focus on deals with a degree of complexity or areas where they have a competitive edge.
Conventional gilts	<ul style="list-style-type: none"> Valuations remain unattractive, although with higher implied inflation over the quarter, conventional gilts now look more attractive relative to index-linked gilts. The market is susceptible to volatility depending on Brexit news flow, but it is far from clear how gilts will react to changing assessments of the type of deal that seems likely.
Index-linked gilts	<ul style="list-style-type: none"> The pressures that keep yields low may well be sustained, but current valuations imply poor returns for long-term investors. Real yields on long-dated index-linked gilts remain unattractively low.
Cash strategies	<ul style="list-style-type: none"> This feels like a sensible time to hold more cash as ‘dry powder’ to exploit better buying opportunities in the future.

2.1 Market Background

Data releases confirm the pick-up in global growth experienced in Q2 has been sustained. The US, boosted by recent tax cuts, led the way, recording its highest Purchasing Manufacturer's Index in August. Elsewhere PMIs remain above 50%, but have trended lower over 2018.

The downward trend in UK CPI inflation was interrupted by an unexpected jump in August. Before that had been released, the Bank of England had, as expected, raised interest rates from 0.5% p.a. to 0.75% p.a., citing a limited degree of 'slack' in the UK economy.



The Fed's preferred measure of inflation rose above its 2% target. US interest rates were raised again in September, the third time this year and the eighth since 2015.

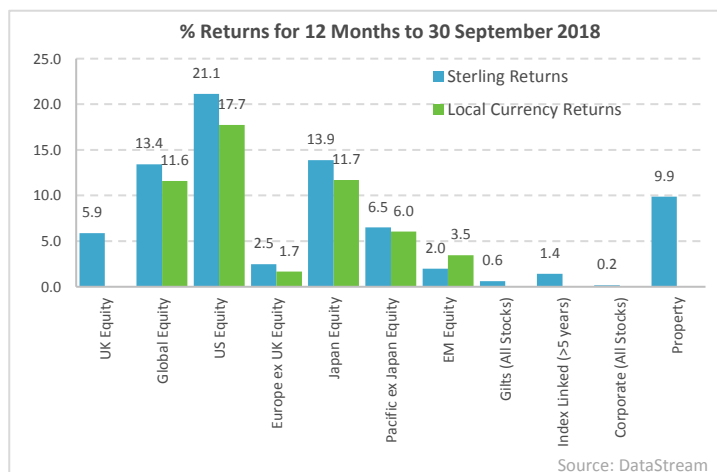
Long-dated gilt yields rose over the quarter, matching similar moves in the US. The rise in index-linked gilt yields was a little less, perhaps reflecting August's inflation surprise and rising concerns about Brexit.

Speculative grade credit markets outperformed investment grade over the quarter. Total returns were less impacted by rising underlying government yields, given the lower duration of the high yield market.

Oil prices rose again, as the US re-imposed sanctions on Iran, the Venezuelan economy imploded, and OPEC and Russia ignored US requests to increase output. Brent crude reached a 4-year high of \$82 a barrel in September.

Despite some Brexit-induced fluctuations, sterling ended the quarter only marginally lower on a trade-weighted basis. Moves among the major currencies were fairly subdued, while many emerging market currencies regained their composure towards the end of the period.

Global equities continued their rise in Q3, setting new record levels ahead of the market downturn in October. Returns to UK investors were again boosted by currency weakness, but the effect was more muted than in Q2. North America was again the best regional performer. The UK was the worst, underperforming global averages



across most sectors, which may indicate that Brexit concerns were to blame. Emerging markets also underperformed but indices did stabilise, following the falls in Q2.

Value stocks continued to underperform growth, although this has reversed sharply over October.

The UK commercial property market carried on with its steady advance. Sector divergence has, if anything, increased: retail values have fallen over the last year, while industrial values are 16% higher.

2.2 Key market data

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

	30.09.17	31.12.17	31.03.18	30.06.18	30.09.18
UK Equity yield	3.7%	3.6%	3.9%	3.6%	3.8%
UK Equity P/E ratio (FTSE)	24.4x	21.2x	12.8x	13.6x	12.9x
Over 15 year gilt yield (p.a.)	1.8%	1.7%	1.6%	1.7%	1.9%
Over 5 year index-linked gilt yield (p.a.)	-1.5%	-1.7%	-1.7%	-1.6%	-1.5%
iBoxx Over 10 year Non-gilt yield (p.a.)	2.9%	2.8%	2.9%	3.0%	3.2%

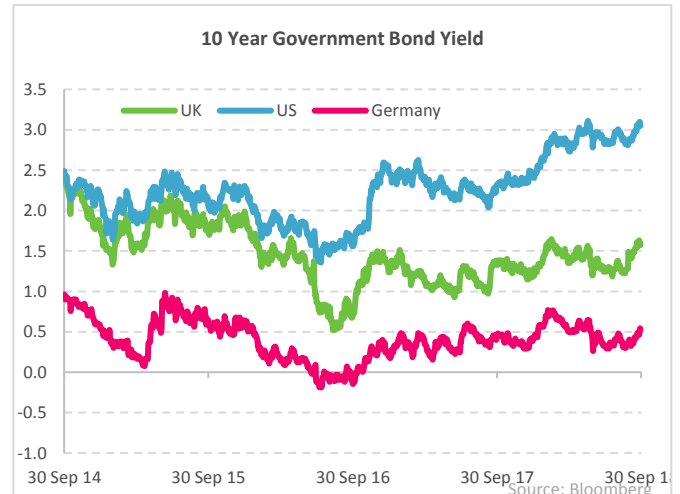
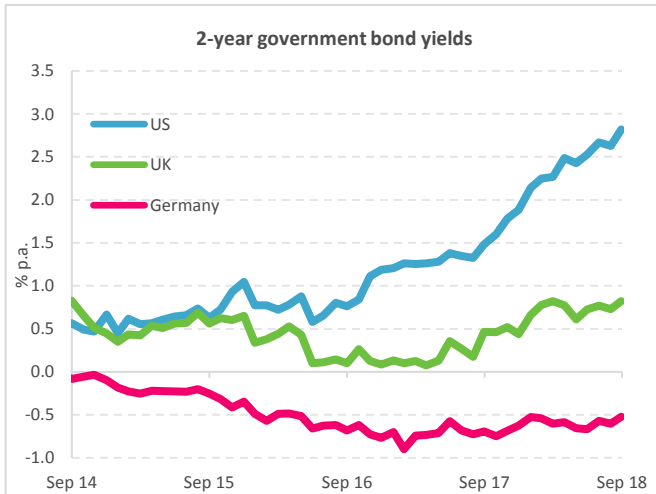
Source: DataStream

	Year to 30.09.18	Quarter to 31.12.17	Quarter to 31.03.18	Quarter to 30.06.18	Quarter to 30.09.18	October ^[1]
FTSE All Share	5.9%	5.0%	-6.9%	9.2%	-0.8%	-6.6%
Global Equity	13.4%	5.1%	-4.4%	6.9%	5.7%	-7.9%
Over 15 year gilts	1.3%	3.7%	1.5%	-0.4%	-3.3%	1.5%
Over 5 year index linked gilts	1.4%	3.9%	0.2%	-1.2%	-1.4%	2.9%
All Stocks Non-Gilts	0.2%	1.8%	-1.2%	-0.1%	-0.4%	0.8%
IPD Monthly Index	9.9%	3.4%	2.3%	2.2%	1.7%	n/a

Source: DataStream.

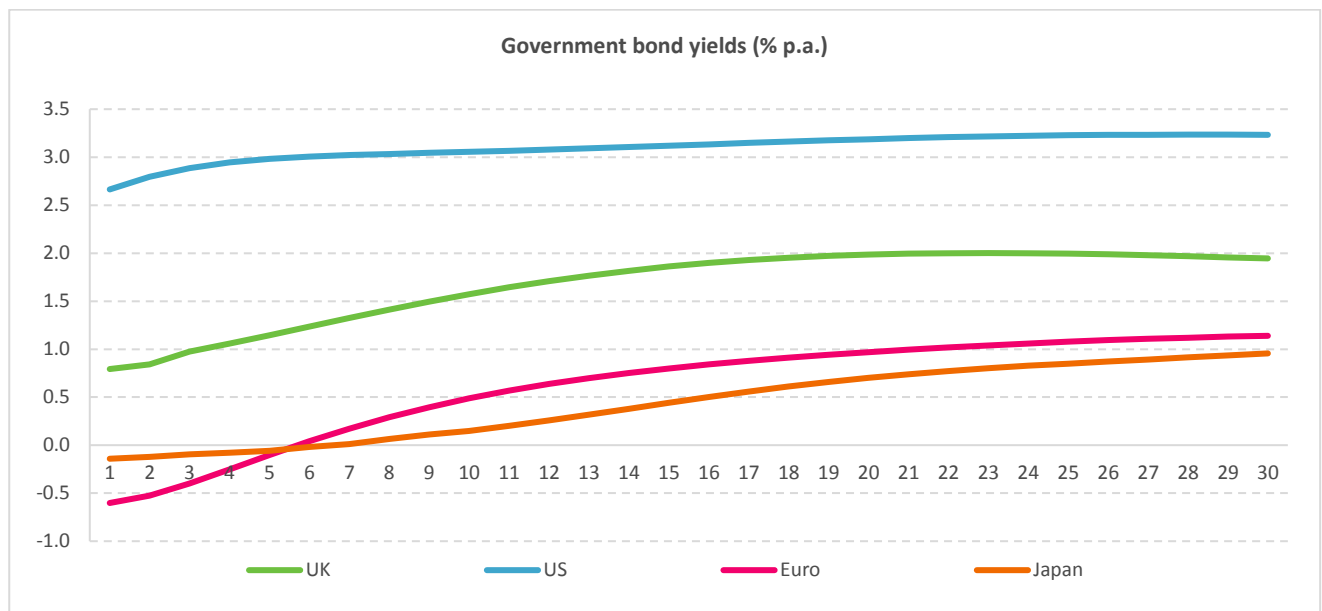
[1] 30 September to 29 October 2018.

3.1 Global Bond Markets

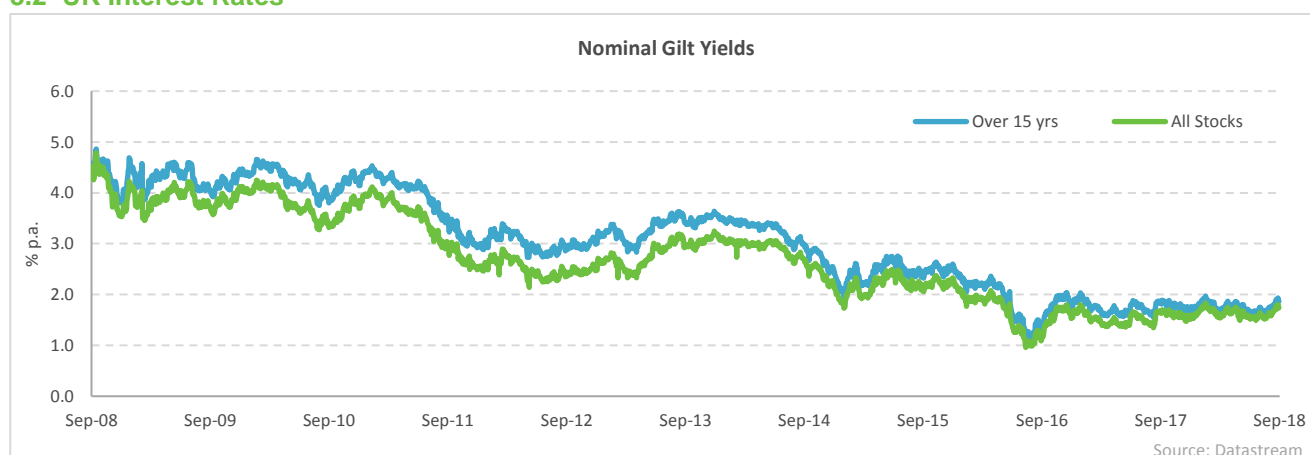


Global government bond yields edged higher over the third quarter on the back of continued positive economic data, particularly from the US. 10-year US treasury yields rose back to May's high of 3.1% p.a. at the end of September, a level that hasn't been surpassed since mid-2011. US real yields remained in lock-step with nominal yields, suggesting that economic strength and continued monetary tightening were the main drivers rather than fears about inflation.

Equivalent German government bond yields also rose over the quarter, as did 10-year UK gilt yields, which rose to 1.6% p.a. Italian government bond spreads reached their highest level in several years as the government's budget proposed looser fiscal policy.



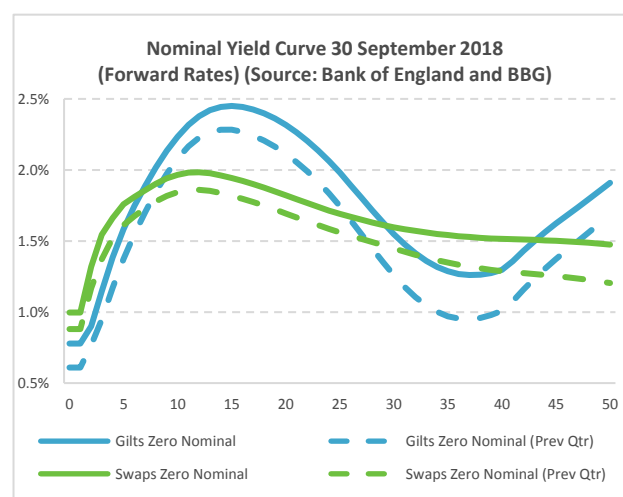
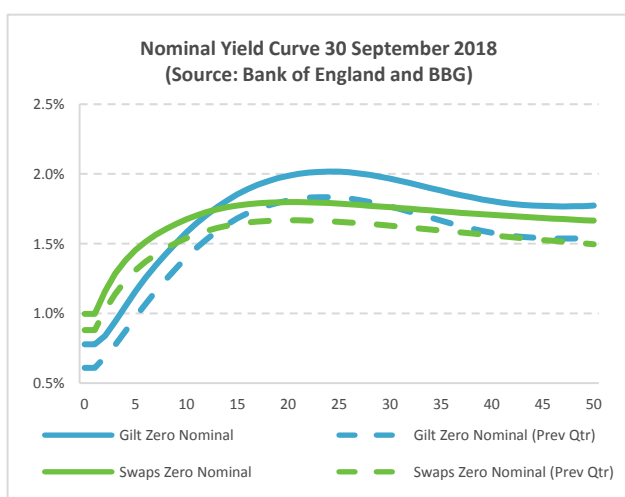
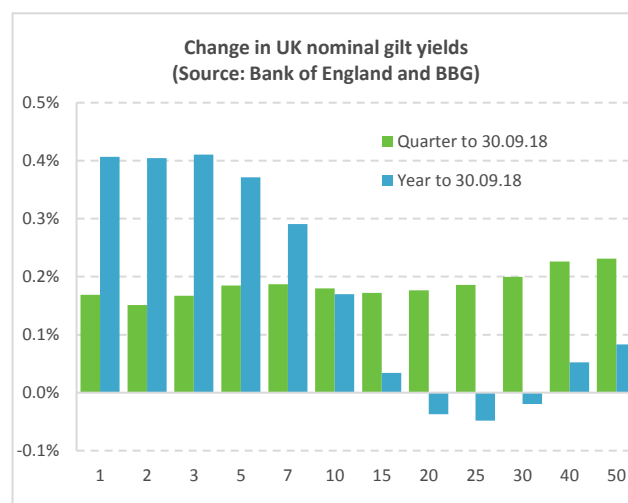
3.2 UK Interest Rates



Domestic influences continue to dominate moves in UK gilt yields which moved more than 15bps higher across the curve over the quarter. Moves over the last twelve months have flattened the shape of the conventional gilt curve.

Implied inflation (the gap between conventional and index-linked gilt yields) has drifted up to its highest level since April last year.

From a valuation perspective we now have a modest bias towards conventional gilts over inflation linked gilts.

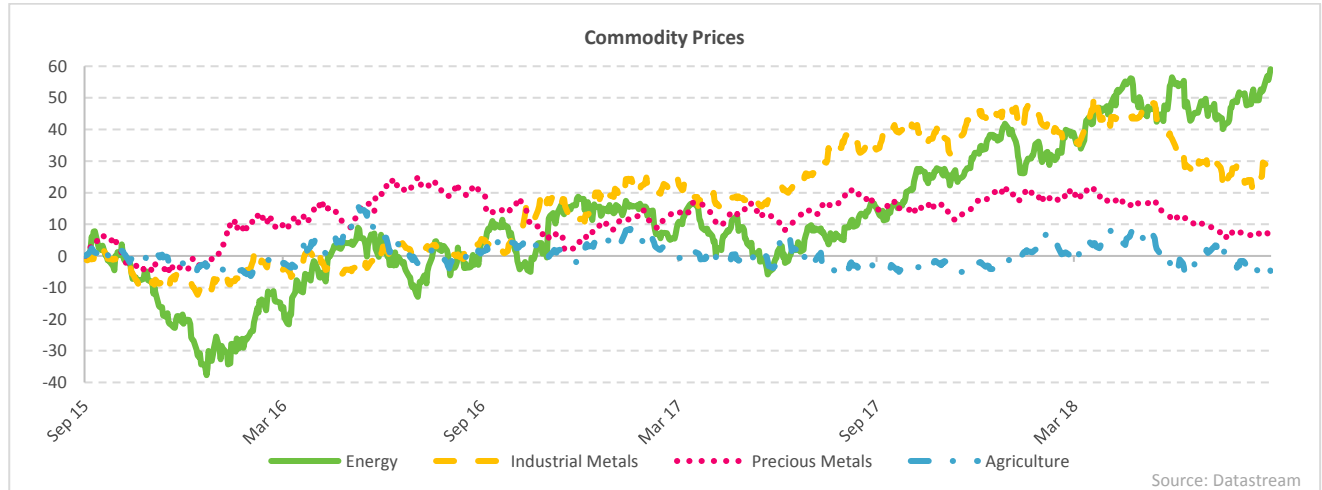


There is still significant variation by maturity in forward-dated gilt yields and we would continue to minimise exposure to the most expensive long maturities when hedging interest rates.

Overall	Fundamentals	Valuations	Technicals
Cautious	Neutral	Unattractive	Neutral to attractive

3.3 Inflation and real rates

Oil prices rose again, as the US re-imposed sanctions on Iran; the Venezuelan economy imploded; and OPEC and Russia ignored US requests to increase output. Brent crude reached a 4-year high of \$82 a barrel in September.

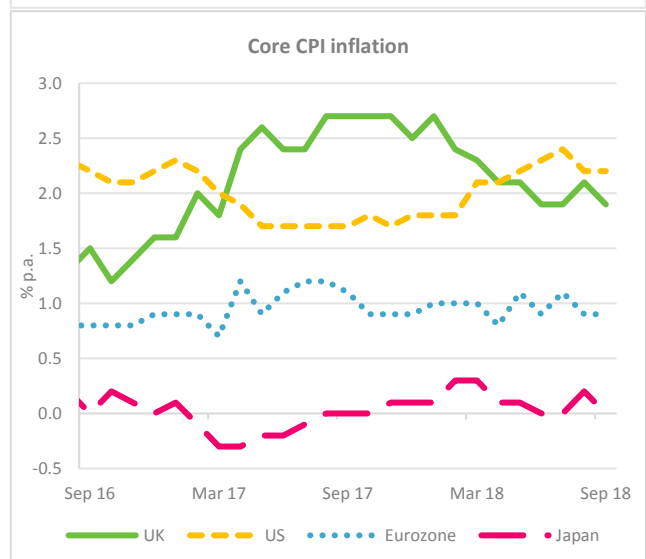
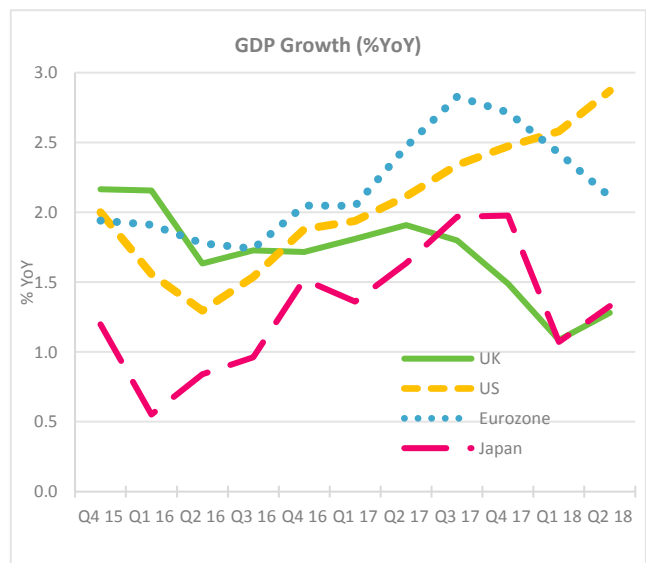


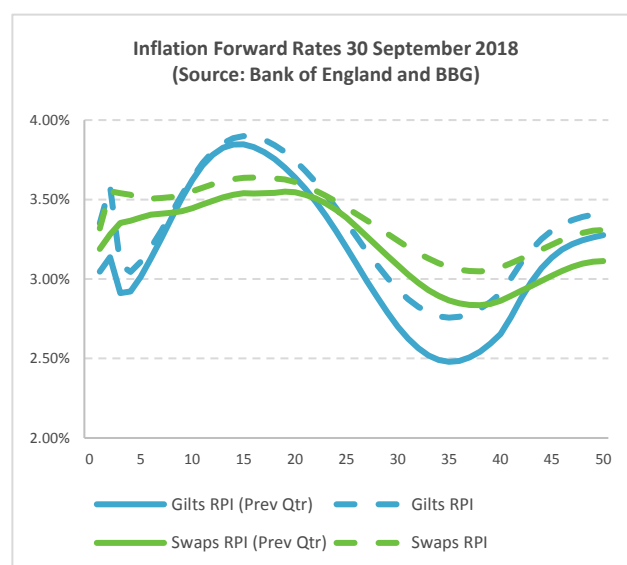
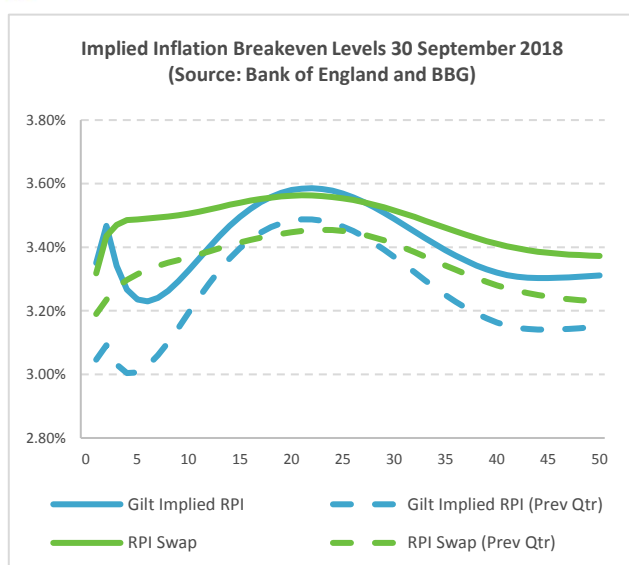
In general, Q2 GDP growth saw a pick-up from Q1 with the US leading the way, where GDP growth is close to 3% year-on-year and growth is expected to be sustained broadly at current levels through the start of 2019, as fiscal stimulus continues to provide a tailwind. Year-on-year growth elsewhere also remains firm and stable, albeit with some slowing down in Europe.

Risks to the outlook came in to greater focus in Q3 - trade rhetoric between the US and China escalated into the imposition of tariffs on both sides and domestic concerns over Brexit talks appeared to escalate, following the EU's rejection of May's Chequers Plan. Nevertheless, PMIs remained firmly in expansionary territory in Q3, falling only in the Eurozone and reaching a 14-year high in the US.

Inflation was little changed over the quarter, although the UK did see an unexpected jump higher in August which quickly reversed in September.

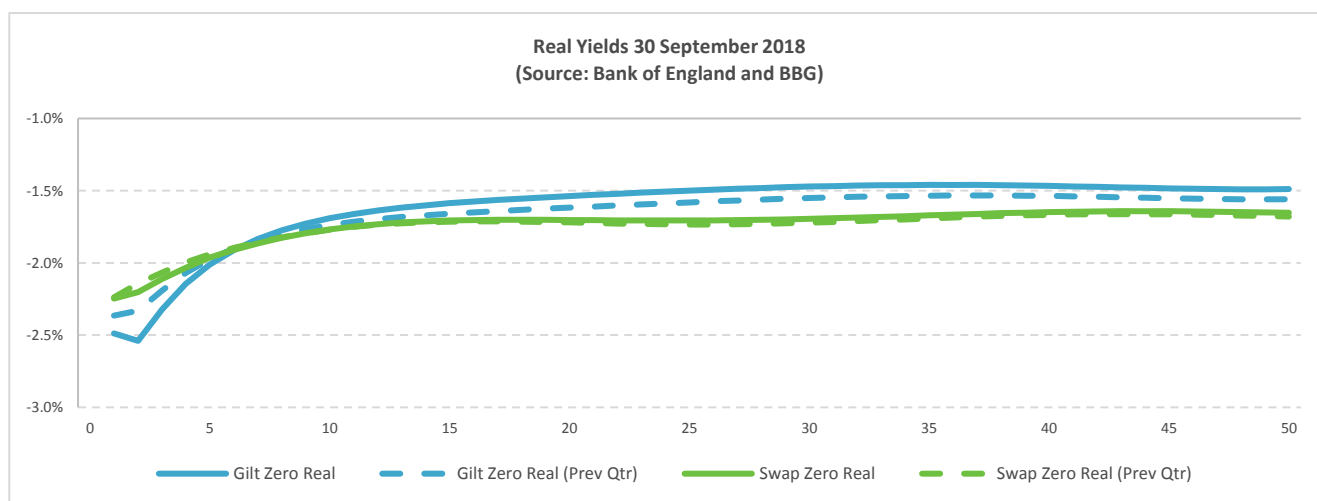
In general, headline inflation remains above core measures as a result of rising oil prices. Core inflation in the US is continuing to drift higher with the Fed's preferred measure now above the 2% target.





Upward moves in UK real yields were more muted than the moves in conventional yields, possibly affected by September's release of an unexpectedly high August inflation number, as well as rising concerns over Brexit. At -1.5% p.a., long-dated index-linked gilt yields are as high as they have been since late 2016, but still guarantee a negative real return for long-term investors. Economic uncertainty and hedging demand are likely to keep yields contained in the short to medium term, but valuation remains the main reason for our negative view on index-linked gilts. Implied inflation (the gap between conventional and index-linked gilt yields) has drifted up, on average, to its highest level since April last year.

The UK government bond market is susceptible to periods of volatility over the coming months depending on Brexit news flow, but it is far from clear how gilts will react to changing assessments of the type of deal that seems likely.



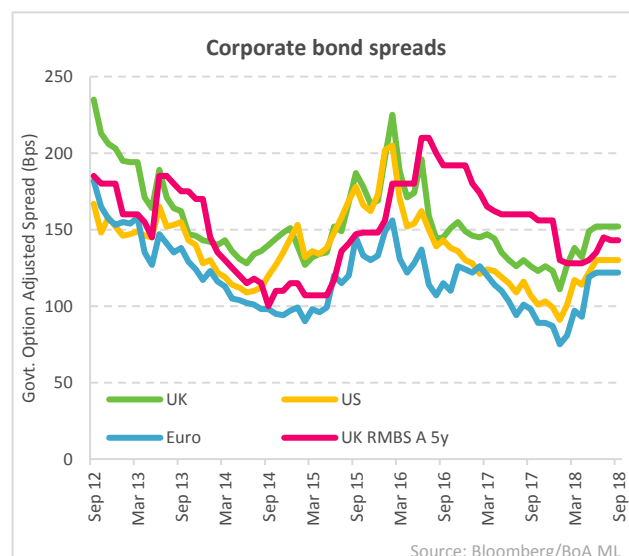
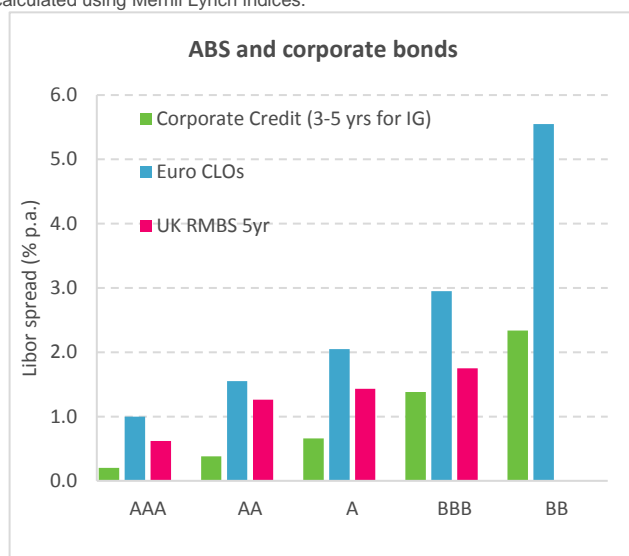
Overall	Fundamentals	Valuations	Technicals
Negative	Neutral	Very unattractive	Neutral

Note: ILG (rather than inflation) rating

3.4 Investment Grade Credit

ML Non-Gilts Spreads over Gilts (Source: Datastream)	Sterling Non-Gilts (bps)	Sterling Non-Gilts Over 10 Years (bps)	^[1] Global Broad Market Corporate (bps)
30 June 2018	123	132	152
30 September 2018	117	126	144
Median spread over last 5 years	124	116	133
Median spread over last 15 years	131	120	143
Average spread over last 15 years	143	132	171

[1] iBoxx corporate bonds. 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.



Source: Bloomberg/BoA ML

Supported by relatively low new issuance, global investment grade corporate credit spreads tightened marginally over the quarter. Globally, valuations look reasonable with yield spreads well above year-end levels and broadly in line with long-term medians. UK investment grade corporates are trading around 30bps wider than both US and Euro corporates spreads, though the additional income may largely reflect compensation for specific Brexit risks.

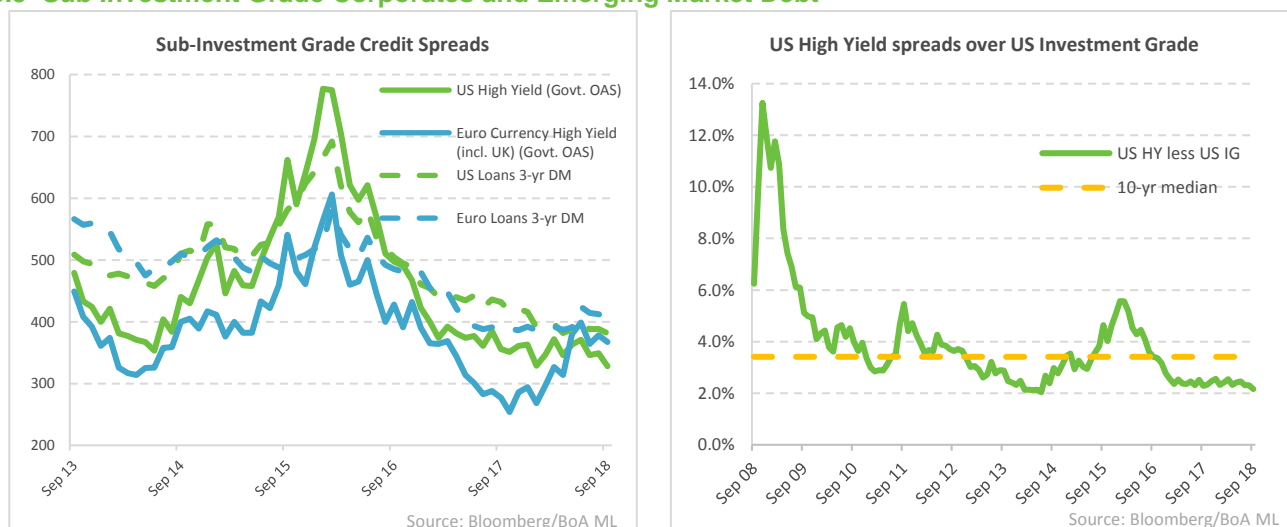
In general, corporate fundamentals continue to remain positive, although the current strong earnings growth rate is unlikely to be sustained over the medium term. Monetary policy currently remains benign, but is heading very slowly in the wrong direction and trade wars provide the potential for a more general headwind to global investor sentiment. We therefore remain cautious overall.

Our less upbeat assessment on fundamental and technical aspects reflect a riskier domestic and global economic outlook, however this is largely offset by more compelling spread levels.

Sterling asset-backed securities still offer diversification opportunities, but the yield premiums available over corporate credit are, in general, in line with a neutral level. Issuance has been uncharacteristically heavy over the typically quiet summer months, particularly in CLO and UK RMBS.

Overall	Fundamentals	Valuations	Technicals
Cautious	Neutral	Neutral	Unattractive

3.5 Sub Investment Grade Corporates and Emerging Market Debt

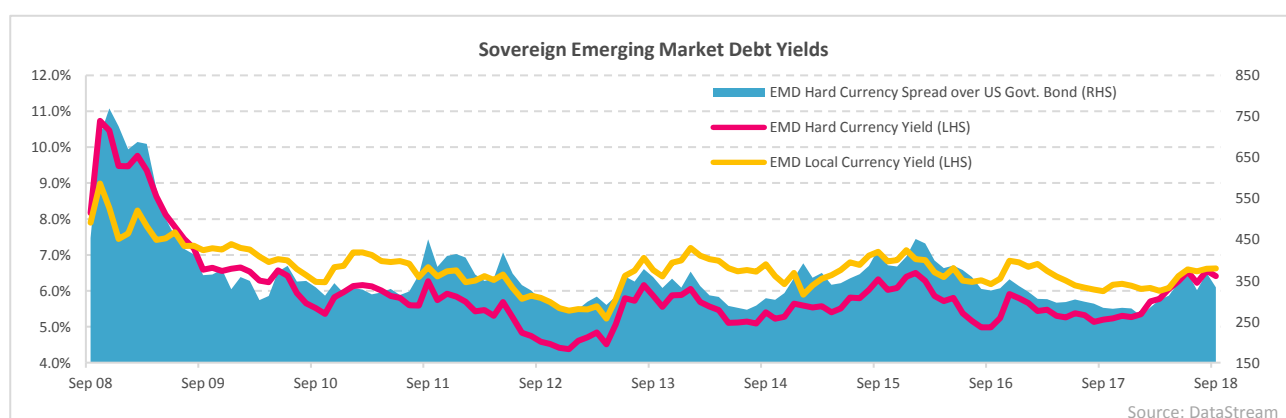


As a result of further spread compression, valuations in both the loans and bond markets look stretched on a historic basis. On a relative value basis, US markets look more expensive than Europe.

Although valuations are expensive, the fundamental background for liquid speculative-grade credit markets remains robust. Defaults in high-yield bond and loan markets remain below historic averages; interest coverage levels are close to all-time highs, which should provide a buffer against economic downturn or higher interest rates. However, the continued deterioration in lender protections and increase in leverage on new issues of syndicated loans makes us a little less positive than we were. The fundamental and technical background remains reasonable, although we have shaded down our assessment of the former.

Where illiquidity can be tolerated, we prefer direct lending, either senior secured corporate lending or speculative-grade commercial real estate debt. This reflects better protection for lenders and a yield premium over traded corporate markets.

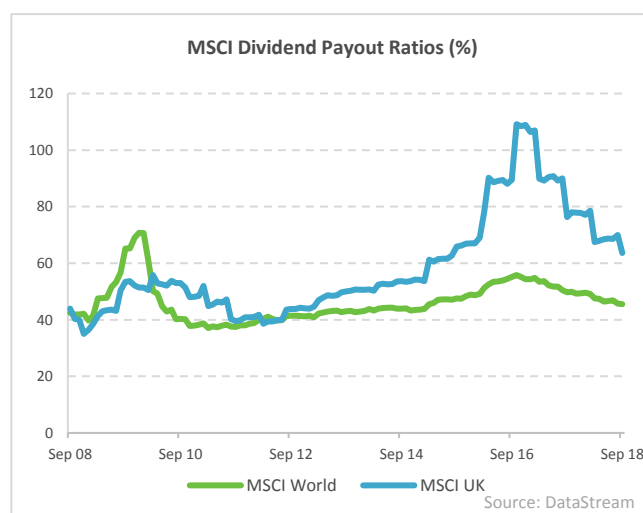
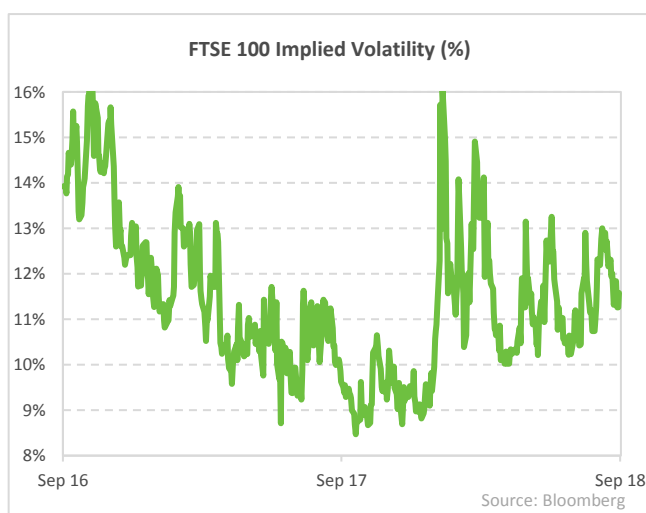
	Overall	Fundamentals	Valuations	Technicals
Public markets	Cautious	Neutral	Unattractive	Neutral
Private markets	Neutral	Neutral	Neutral	Neutral



Currency weakness and current risk aversion have affected EMD returns, but not had any real impact on fundamental economic performance of Emerging Markets. EMD yields are attractive but technical factors remain poor and will likely dominate sentiment in the short term. As a result we have shaded our overall assessment to Neutral.

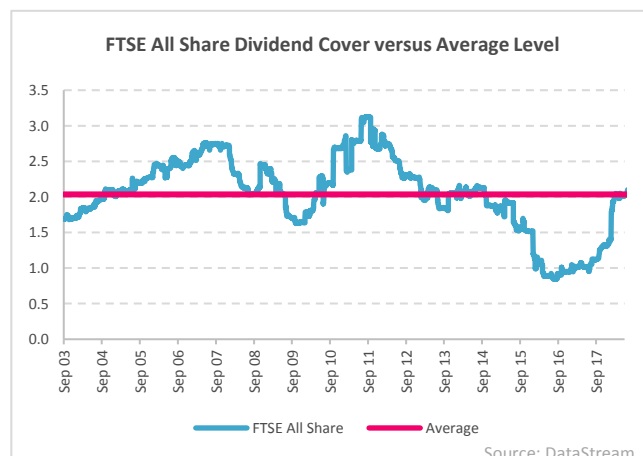
3.7 UK Equity Market

Equity Market Data (Source: Datastream)	30 June 2018	30 September 2018
FTSE All Share Dividend Yield	3.6%	3.8%
Dividend growth over the quarter	2.0%	2.5%
Dividend growth over the year	5.9%	5.3%
FTSE All Share P/E Ratio	13.6x	12.9x
Total Return during the quarter	9.2%	-0.8%
Total Return over the last 12 months	9.0%	5.9%



The UK was the worst performing equity market, significantly underperforming other regions as concerns grew over progress with Brexit negotiations. The UK market also suffered due to poor performance from some of the larger sectors (notably materials and consumer staples).

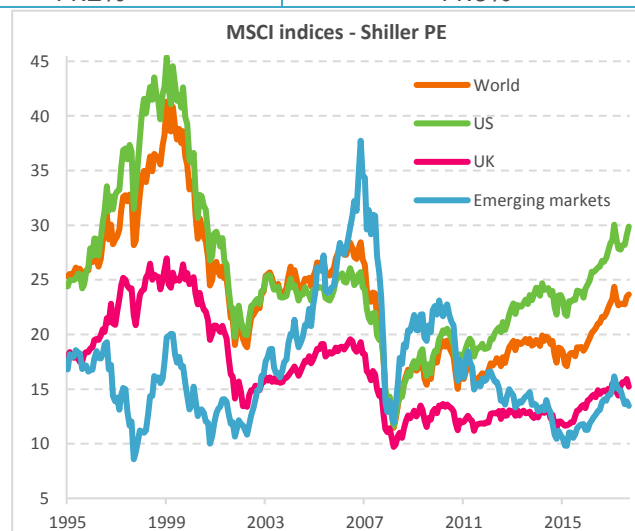
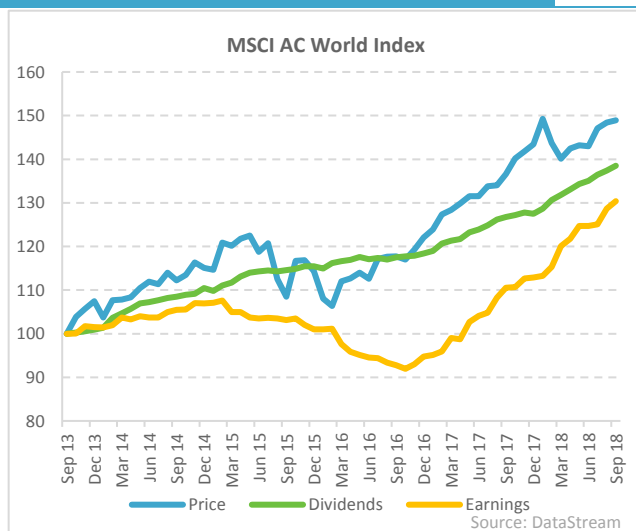
As a result UK equity markets are beginning to look cheap relative to other regions, and dividend cover is back in line with historic levels. However, the UK faces specific fundamental risks in the form of Brexit. UK equities have experienced persistent outflows since the Brexit vote and there is a risk that this continues.



It is no longer unthinkable that the UK might crash out of the EU in March next year without a withdrawal agreement or transition period. While a no-deal may undermine sentiment for risk assets generally, a further depreciation of sterling could be a positive tailwind for an equity market containing many companies with earnings denominated in foreign currency.

3.8 Overseas Equity Markets

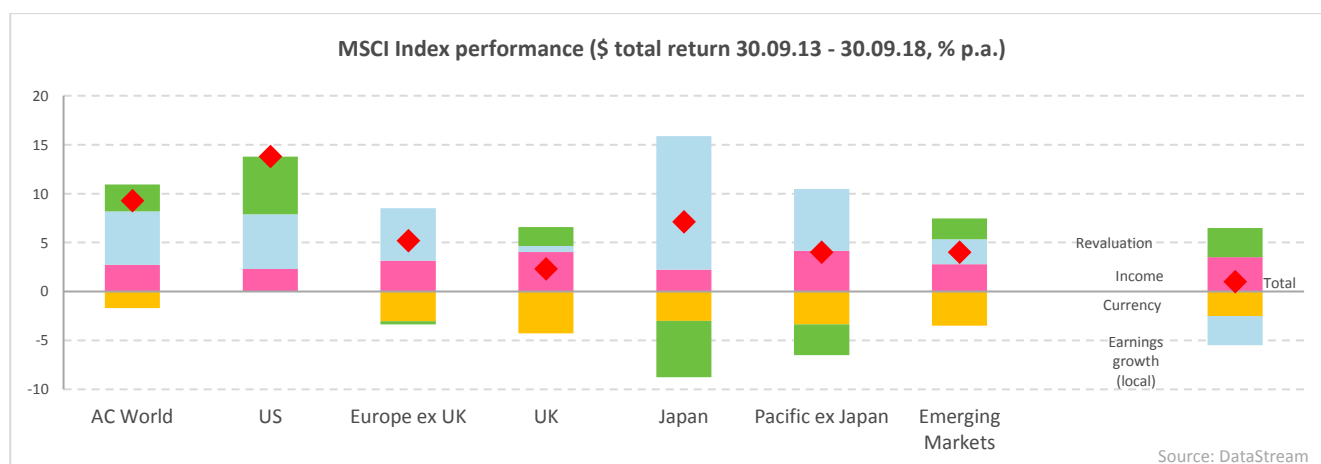
Equity Market Data (Source: Datastream)	30 June 2018	30 September 2018
Dividend Yield	2.4%	2.4%
Total Return during the quarter (£)	6.9%	5.7%
Total Return during the quarter (Local)	2.8%	4.8%
Total Return over the last 12 months (£)	9.4%	13.4%
Total Return over the last 12 months (Local)	11.2%	11.6%



The strong run in global equity markets since early 2017 has been led by growth stocks, with earnings growth close to making up the gap relative to dividend growth. However, after reaching new all-time highs in September global stock markets fell back in October and have seen an abrupt reversal in the dominance of growth, and in particular the technology giants, who have started to lag the wider market. The sharp rise in US government bond yields has also made for tougher valuation comparisons.

For the moment, the fundamental background remains favourable. Global earnings growth has been very strong over the last year and this is expected to continue for the rest of 2018. Tax cuts are driving particular strength in the US, where the earnings growth rate for 2018 is expected to be around 20%.

Whilst global economic growth remains on track, the lengthening geopolitical risks – global trade tensions, Brexit uncertainty and Italy's budget wrangles – could begin to weigh on investor sentiment.

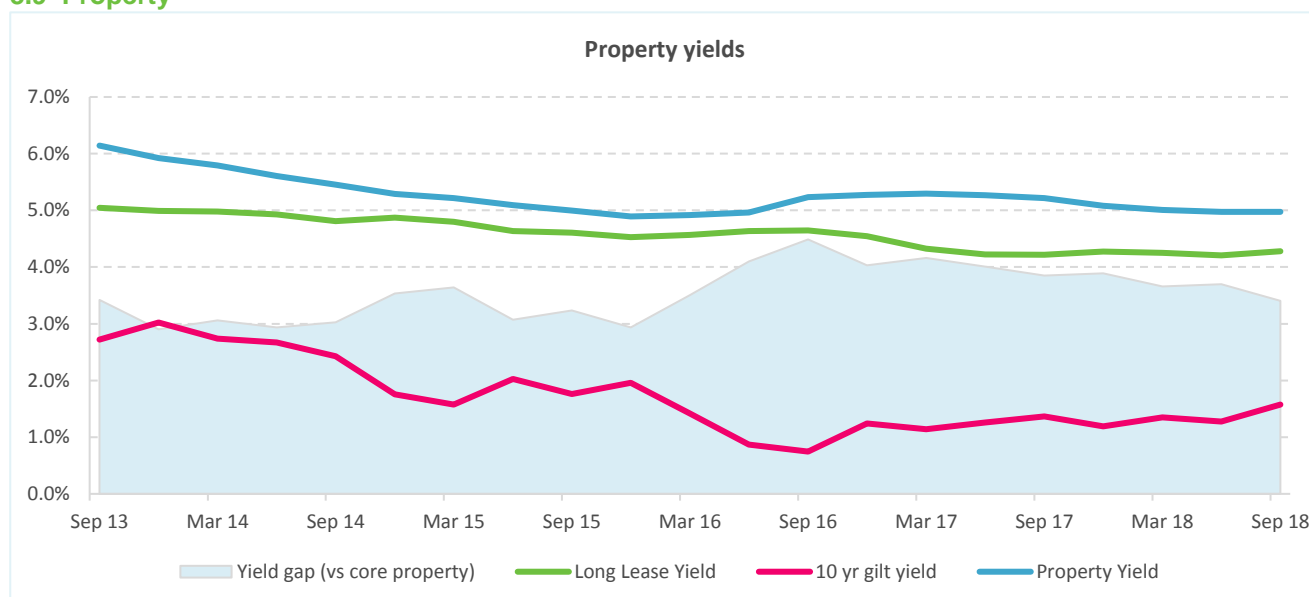


The recent falls have taken a little heat out of global equity valuations, but measures that are not flattered by the strong cyclical rise in earnings (such as the Shiller PE ratio) still remain slightly above historic averages. However, this does conceal a wide regional disparity, with the UK and Emerging Markets looking cheap on many measures. In contrast, US equities look stretched by historical comparison.

Equity technicals are mixed; investor sentiment remains positive overall, but is polarised across regions and sectors. The US remains firmly in favour, driven by very strong earnings growth this year and expectations that economic and earnings growth will continue to outpace other regions in 2019. Overall, sentiment could be vulnerable to the impact of the withdrawal of liquidity and any escalation in the global trade disputes.

Overall	Fundamentals	Valuations	Technicals
Neutral to cautious	Neutral	Neutral to unattractive	Neutral

3.9 Property



UK Property

Ongoing yield compression and a deteriorating technical background makes us a little more cautious on UK core property. Sector divergence is increasing from both a fundamental and technical perspective; in particular, the background for industrials remains robust, but support for retail continues to deteriorate.

Relative to history, property yields are low both in absolute terms and compared to equity dividend yields, however they continue to provide a reasonable income premium over gilts and corporate bonds.

Overall	Fundamentals	Valuations	Technicals
Neutral to cautious	Neutral to unattractive	Unattractive	Neutral to unattractive

Long Lease Property

We have not followed the downgrade of core property here. Although valuations are even more stretched than for core property, and its primary nature can mean prices react to liquidity calls in the short-term, the defensive nature of long lease and more robust investor demand should make it less exposed to the increasing uncertainties the broad market.

Overall	Fundamentals	Valuations	Technicals
Neutral	Neutral	Unattractive	Attractive

Infrastructure

Despite valuations looking a little more expensive we have maintained our overall view since the technical drivers remain strong and could underpin further revaluation. With the level of dry powder (undeployed capital commitments) at an all-time high, infrastructure assets across the risk spectrum continue to be highly bid. There are no signs of demand fading as capital commitments to the asset class continue to rise year-on-year.

We continue to favour implementation solutions where managers focus on deals with a degree of complexity or areas where they have a competitive edge.

Overall	Fundamentals	Valuations	Technicals
Neutral to attractive	Neutral to attractive	Neutral to unattractive	Attractive

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.

Essex Pension Fund Investment Steering Committee	ISC 05
Date: 28 November 2018	

Revised Investment and Funding Risks

Report by the Director for Essex Pension Fund

Enquiries to Kevin McDonald on 0333 0138 488

1. Purpose of the Report

- 1.1 To provide the Committee with an update on the revised Investment and Funding Risks for the Fund.

2. Recommendation

- 2.1 The Committee should note the report.

3. Background

- 3.1 Earlier this year a review was undertaken on the Fund's objectives. These objectives form the basis of the Business Plan, Risk Register and Scorecard that are presented quarterly to the Pension Strategy Board.
- 3.2 At its February meeting the Committee reviewed the Investment objectives, and made the change detailed below.

Original	Revised
To maximise the returns from investments within reasonable risk parameters	No change
To ensure the Fund is properly managed	To ensure the Fund's investments are properly managed before, during and after pooling is implemented.
Ensure investment issues are communicated appropriately to the Fund's stakeholders	No change

- 3.3 It should be highlighted at ISC meetings that the Committee uses more detailed targets to measure the performance of each manager / mandate. These are highlighted in the investment tables (specifically table 1C) and various reports from Hymans Robertson.

4. Review of Risks

- 4.1 A significant amount of work has now been undertaken on the full risk register (c. 90 risks). All risks have been reviewed by Officers, meetings have taken place with the Independent Governance & Administration Adviser in addition to dialogue with investments advisers and the Fund Actuary.
- 4.2 The format of Risk Register has been revised to align to the format of the Essex County Council (ECC) risk registers. This provides further detail on the control activities/mitigations and their owners.
- 4.3 Most of the work has been completed and final reviews are now being scheduled.
- 4.4 Members will be aware that the Investment Strategy Statement (which the Committee determines) includes the full listing of both Investment and Funding risks. An overview of developments on these areas is set out below.

5. Investment Risks

- 5.1 The previous Risk Register recorded 16 Investment Risks with 2 of those holding a residual risk rating equating to an Amber.
- 5.2 The revised Risk Register now records 10 Investment Risks with 5 of those holding a current risk rating equating to an Amber.
- 5.3 6 risks were deleted and/or merged with another risk to reduce repetition.
- 5.4 4 risks were amended to improve their risk description wording.
- 5.5 All 10 risks have revised control activities/mitigations with named control owners.

6. Funding Risks

- 6.1 The previous Risk Register recorded 22 Funding Risks with 5 of those holding a residual risk rating equating to an Amber.
- 6.2 The revised Risk Register now records 10 Funding Risks with 8 of those holding a current risk rating equating to an Amber.
- 6.3 12 risks were deleted and/or merged with another risk to reduce repetition.
- 6.4 4 risk were amended to improve their risk description wording.
- 6.5 All 10 risks have revised control activities/mitigations with named control owners.

7. Risk Scoring

- 7.1 Risk Scoring has been revised to better align to the ECC's Risk Scoring Matrix.
- 7.2 The difference to note is there will no longer be a use for the 'yellow' scoring where threats were scored as medium. In line with the ECC's matrix, low and medium are scored as 'green', high as 'amber' and very high as 'red'.

8. Next Steps

- 8.1 Final reviews are expected to take place in December and January. Details will then be brought to the Committee's February meeting.

9. Risk Implications

- 9.1 Maintaining an up to date risk register is best practice.

10. Communication Implications

- 10.1 Other than ongoing reporting to the PSB, there are no communication implications.

11. Finance and Resource Implications

- 11.1 The revision of the objectives and risk register has been a challenging piece of work with the final phase, revision of the Scorecard, still to be completed. Although significant input will still be required by officers and advisors on the development of the revised scorecard, the 2019/20 quarterly updates and annual review of objectives, risk and scorecard will be less of a burden on resources.

12. Background Papers

- 12.1 Latest Update of Pension Fund Activity provided to the PSB at its meeting held on 12 September 2018, agenda item 6.