Essex County Council

Essex Pension Fund Investment Steering Committee

11:00	**Wednesday, 27 March 2019**	**Committee Room 2, County Hall, Chelmsford, CM1 1QH**

For information about the meeting please ask for:
Amanda Crawford, Compliance Manager
Telephone: 03330 321763
Email: Amanda.crawford@essex.gov.uk

Exempt Items

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

The following items of business have not been published on the grounds that they involve the likely disclosure of exempt information falling within Part I of Schedule 12A of the Local Government Act 1972. Members are asked to consider whether or not the press and public should be excluded during the consideration of these items. If so it will be necessary for the meeting to pass a formal resolution:

That the press and public are excluded from the meeting during the consideration of the remaining items of business on the grounds that they involve the likely disclosure of exempt information falling within Schedule 12A to the Local Government Act 1972, the specific paragraph(s) of Schedule 12A engaged being set out in the report or appendix relating to that item of business.

7 Minutes of ISC Meeting - PART TWO - 20 February 2019

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

8 Investment Tables Quarter ended 31 December 2018

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

9 Investment Manager Update - Traffic Light Report

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

10 MHCLG Guidance on LGPS Asset Pooling – Informal Consultation

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

11 **Strategy Implementation Tracker**

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

12 **Global Property Mandate RfP Analysis Report**

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

13 **Global Property Selection Training**

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

14 **Global Property Selection Shortlist**

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

No. **LUNCH**

15 **Investment Manager Presentation – CBRE Global Investment Partners**

To receive a presentation from CBRE Global Investment Partners

16 **Investment Manager Presentation – La Salle Global Investment Management**

To receive a presentation from La Salle Global Investment Management

17 **Investment Manager Presentation – Partners Group**

To receive a presentation from Partners Group

18 **Evaluation and selection of Investment Managers**

To discuss and agree the appointment of Investment Managers

19 **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.

Essex County Council and Committees Information

All Council and Committee Meetings are held in public unless the business is exempt in accordance with the requirements of the Local Government Act 1972. If there is exempted business, it will be clearly marked as an Exempt Item on the agenda and members of the public and any representatives of the media will be asked to leave the meeting room for that item.

The agenda is available on the Essex County Council website, https://www.essex.gov.uk. From the Home Page, click on 'Your Council', then on 'Meetings and Agendas'. Finally, select the relevant committee from the calendar of meetings.

Attendance at meetings
Most meetings are held at County Hall, Chelmsford, CM1 1LX. A map and directions to County Hall can be found at the following address on the Council's website: http://www.essex.gov.uk/Your-Council/Local-Government-Essex/Pages/Visit-County-Hall.aspx

Access to the meeting and reasonable adjustments
County Hall is accessible via ramped access to the building for people with physical disabilities.

The Council Chamber and Committee Rooms are accessible by lift and are located on the first and second floors of County Hall.

Induction loop facilities are available in most Meeting Rooms. Specialist headsets are available from Reception.

With sufficient notice, documents can be made available in alternative formats, for further information about this or about the meeting in general please contact the named officer on the agenda pack or email democratic.services@essex.gov.uk

Audio recording of meetings
Please note that in the interests of improving access to the Council's meetings, a sound recording is made of the public parts of many of the Council's Committees. The Chairman will make an announcement at the start of the meeting if it is being recorded.

If you are unable to attend and wish to see if the recording is available you can visit this link https://cmis.essexcc.gov.uk/Essexcmis5/CalendarofMeetings any time after the meeting starts. Any audio available can be accessed via the 'On air now!' box in the centre of the page, or the links immediately below it.

Should you wish to record the meeting, please contact the officer shown on the agenda front page

Essex Pension Fund Investment Steering Committee	ISC 01
Date: 27 March 2019	

Essex Pension Fund Investment Steering Committee Membership, Apologies and Declarations of Interest

Report by the Compliance Officer
Enquiries to Helen Pennock on 03330 138544

1. Purpose of the Report

1.1 To present Membership, apologies and Declarations of Interest for the 27 March 2019 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)

6 Conservative Group: 1 Labour Group

Membership	Representing
Councillor S Barker	Essex County Council (Chairman)
Councillor M Platt	Essex County Council (Vice Chairman)
Councillor A Goggin	Essex County Council
Councillor A Hedley	Essex County Council
Councillor L Scordis	Essex County Council
Councillor C Souter	Essex County Council
Councillor M Maddocks	Essex County Council

Observers

Councillor C Riley	Castle Point Borough Council
Sandra Child	Scheme Members

Minutes of the meeting of the Essex Pension Fund Investment Steering Committee (ISC) held in Committee Room 2, on 20 February 2019

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 Souter	
Cllr L Scordis	
Cllr A Hedley	
Cllr M Maddocks	

Scheme Employer Representatives

Cllr C Riley	(Observer)

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
Samuel Hampton	Hymans Robertson
Ana Lei Ortiz	Hamilton Lane (presentation only)

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

Andrew Coburn	Scheme Member Representative
Debs Hurst	Scheme Member Representative (left at 3pm)

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

Opening Remarks

The Chairman welcomed Cllr M Maddocks to his first meeting as a substantive ISC Member. She also welcomed PAB observers Debs Hurst and Andrew Coburn to the meeting. Samuel Hampton from Hymans Robertson introduced himself to the Committee.

Apologies for Absence

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

Declarations of Interest

Declarations were received from Cllr S Barker who stated she was in receipt of an Essex LGPS pension and that her son was also a member of the Essex LGPS pension scheme. Cllr A Goggin declared his wife, sister and brother-in-law were in receipt of an Essex LGPS pension. Cllr A Hedley stated that he was in receipt of an Aviva Group pension. Cllr C Riley and Cllr M Maddocks both declared they were in receipt of an Essex LGPS Pension.

2. Minutes

Minutes of the meeting of the ISC held on 28 November 2018 were approved as a correct record and signed by the Chairman.

3. Market Commentary

The Committee received a presentation from Matt Woodman from Hymans Robertson. A verbal overview of the markets in relation to GDP growth, equities, bonds and property was provided.

Resolved:
The Committee noted the update.

4. Schedule of Meetings

The Committee received a presentation from the Director for Essex Pension Fund detailing the planned Committee and Board meetings for the current and next municipal year.

The Director for Essex Pension Fund also notified the Committee of the events/conferences that were on the horizon during 2019/20. Committee Members' particular attention was drawn to the three-yearly Baillie Gifford event in Edinburgh during October 2019. The Committee were reminded that this would replace the October 2019 ISC meeting.

Resolved:
The Committee noted the schedule of meetings for the municipal years 2018/19 and 2019/20 as follows:

Investment Steering Committee
27 March 2019 – 1.00pm
26 June 2019 – 1.00pm
17 July 2019 – 1.00pm
9 & 10 October 2019 – Baillie Gifford Conference (Edinburgh)
27 November 2019 – 1.00pm
19 February 2020 – 1.00pm
25 March 2020 – 1.00pm

Pension Strategy Board
6 March 2019 – 1.00pm
3 July 2019 – 1.00pm
11 September 2019 – 1.00pm
18 December 2019 – 1.00pm
4 March 2020 – 1.00pm

In relation to the Ballie Gifford conference, Officers would be in touch in due course in relation to the travel arrangements.

5. Revised Investment and Funding Risks

The Committee received a report from the Compliance Manager. An overview of the work carried out to date was provided to the Committee along with the revised Investment and Funding risks for comment.

The Chairman asked if matters such as separation and Government intervention in Fund asset allocation decisions had been considered as part of the review. The Director for Essex Pension Fund provided the Committee with a brief overview in relation to separation and Government intervention.

The Director for Essex Pension Fund provided the Committee with a brief presentation on the two main risks that the Committee should focus on, namely I1 and I2.

The Committee were advised that the Essex Pension Fund Strategy Board (PSB) would receive the full revised Risk Register at their 6 March 2019 meeting.

Resolved:
Officers would report back to the Chairman in relation to her feedback on separation and Government intervention risks.

No further comments were provided at the meeting and therefore the Committee was asked to provide any further feedback to the Compliance Manager for consideration at the next PSB meeting, due to be held on 6 March 2019.

The Committee noted the report and update.

6. Urgent Part I Business

The Director for Essex Pension Fund brought to the attention to the Committee recent press coverage in relation to the Fund's investment Strategy. Members were informed of the statement the Committee's Chairman provided in response. The released statement confirmed that the Investment Strategy Statement is due to be reviewed later this year, and in line with the approach used in 2017, will be subject to a public consultation.

The Director for Essex Pension Fund highlighted that the Fund had been successful in the "Best use of Private Equity" category at the recent Alternative Investment Institute Peer-to-Peer Awards. It was also noted that later on the Committee's agenda was a presentation from the Fund's private equity manager, Hamilton Lane.

Exclusion of the Public and Press

That the press and public are excluded from the meeting during the consideration of the remaining items of business on the grounds that they involve the likely disclosure of exempt information falling within Schedule 12A to the Local Government Act 1972, the specific paragraph(s) of Schedule 12A engaged being set out in the report or appendix relating to that item of business.

Resolved:
The Chairman brought to the attention the above statement and the Committee agreed to proceed.

7. Current Bond 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 Bond Portfolio Structure was provided.

Resolved:
The Committee noted the presentation.

8. Bond Portfolio Structure Review

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

- the overall structure of the bond mandate remains appropriate, a combination 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; and
- a further report be brought back to a future meeting once the suite of bond sub fund options become available.

Resolved:
The Committee noted the report and presentation. In addition, the Committee agreed:

- the overall structure of the bond mandate remains appropriate, a combination 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; and
- a further report be brought back to a future meeting once the suite of bond sub fund options become available.

9a. Structural Reform of the Local Government Pension Scheme – Pooling Quarterly update of ACCESS Joint Committee (AJC)

The Committee received a report and presentation from the Director for Essex Pension Fund. Their attention was brought to pages 76 & 77 of the report. The Committee were asked to note:

- Hymans Robertson update;
- Minister's meeting of 6 November 2019;
- launch of ACCESS first sub fund: Baillie Gifford Long Term Global Growth;
- progress to date of Phase 1 and Phase 2 sub-fund seeding arrangements;
- progress and timeline for completing the Governance manual and Inter-authority Agreement (IAA) review;
- timeline for the governance training;
- engagement with S151 Officers;
- progress of the permanent ACCESS Support Unit;
- successful appointment of the ACCESS contract manager;
- Communication plan;
- ACCESS budget for 2018/19 against business plan deliverables; and
- agenda of 10 December 2018 AJC.

Resolved:
The Committee noted the report and update.

9b. Structural Reform of the Local Government Pension Scheme – Pooling Update - Phase 1 Tranche 2 progress update and Tranche 3 Sub funds next steps

The Committee received a report and presentation from the Director for Essex Pension Fund.

It was explained that M&G and Longview assets were successfully transferred on 29 January 2019 and 4 February 2019 respectively, to the ACCESS pool sub funds.

It was also 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 prospects for tranche 3 was currently with the FCA for approval with an expected launch date of May 2019.

Resolved:
The Committee noted the report and update.

9c. Ministry of Housing, Communities and Local Government (MHCLG) Guidance on LGPS Asset Pooling – Informal Consultation with interested parties

The Committee received a report from the Director for Essex Pension Fund.

The Committee were asked to note:

- the consultation issued by MHCLG on the new LGPS Statutory Guidance on Asset Pooling;
- the timetable for formalising a response to the consultation; and
- the content of the report.

The Committee were asked to agree:

- Essex be a signatory on the joint ACCESS response to the Government's consultation; and
- the final ACCESS response would come back to the March 2019 ISC meeting for noting.

Resolved:
The Committee agreed:

- Essex be a signatory on the joint ACCESS response to the Government's consultation; and
- the final ACCESS response would come back to the March 2019 ISC meeting for noting.

The Committee noted the report and update.

10. Marathon Disinvestment update

The Committee received a report from Hymans Robertson in consultation with the Independent Investment Advisor and the Director for Essex Pension Fund.

An update was provided of the Officer and Advisor discussions with Marathon in respect of beginning the process of disinvesting from the global equity mandate.

The Committee were asked to agree:

- that 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.

Resolved:
The Committee agreed:

- that 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.

The Committee noted the report and update.

11. ISC Briefing Note – Partners Group

The Committee received a report from Hymans Robertson in consultation with the Independent Investment Advisor and the Director for Essex Pension Fund.

An update was provided on the Fund’s infrastructure manager, Partners Group. Consideration was given to maintaining its target allocation of 4%.

The Committee were asked to agree:

- 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.

Resolved:
The Committee 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.

The Committee noted the report and update.

12. Investment Manager update – ISC Briefing Note on Manager Presenting

The Committee received a report from Hymans Robertson on Hamilton Lane.

The Committee were asked to agree:

- a further £50m be committed to new private equity opportunities in 2019/2020.

Resolved:
The Committee noted the report.

13. Investment Manager Presentation – Hamilton Lane

The Chairman welcomed and introduced Ana Lei Ortiz from Hamilton Lane who provided the Committee with a presentation in relation to the private equity portfolio.

Resolved:
The Committee noted the presentation.
The Fund's recent private equity award was noted, and the Chairman expressed the Committee's thanks to Hamilton Lane.

Ana Lei Ortiz then left the meeting.

Resolved:
The Committee agreed:

- a further £50m be committed to new private equity opportunities in 2019/2020.

14. Urgent Exempt Business

None.

15. Closing Remarks

The Chairman asked for the Fund to provide the Committee with a forward work plan of what Investment Managers would be seen at which meetings. The Director for Essex Pension Fund stated that this is being considered as part of the revised Business Plan.

The Chairman reaffirmed that the next PSB would take place on Wednesday 6 March 2019 at 1pm.

The Chairman reaffirmed that the next ISC would take place on Wednesday 27 March 2019 at 1pm.

There being no further business the meeting closed at 3.52pm.

Chairman
27 March 2019

Essex Pension Fund Investment Steering Committee	ISC 04
Date: 27 March 2019	

Essex Pension Fund Treasury Management Strategy 2019/20

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 2019/20 Essex Pension Fund Treasury Management Strategy.

2. Recommendation

2.1 That the 2019/20 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 2019/20 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 forecast for 2019/20 predicts a shortfall of £26m. Plans to address this using balances and investment income are in place.

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 November 2018.

5.4 BNP Paribas Insticash prospectus May 2018.

5.5 Finance Schedule updated March 2019.

Appendix 1

Finance Schedule

		2017/18 actual £ (000)	2018/19 estimate £ (000)	2019/20 forecast £ (000)
EXPENDITURE	Retirement Pensions	189,425	199,843	209,835
	Retirement Lump Sums	35,072	38,308	39,074
	Death Benefits	5,526	5,853	6,146
	Leavers benefits	12,266	12,365	12,983
	Expenses	3,242	3,650	4,380
	Pooling expenses	90	115	110
TOTAL		**245,621**	**260,134**	**272,528**
INCOME	Employees Ctbns	56,186	57,614	57,943
	Employers Ctbns			
	Ongoing	140,926	143,753	149,363
	Deficit	75,342	18,223	19,939
	Financial Strain	3,664	5,409	5,409
	Transfer Values in	10,877	11,332	11,445
	Other income	2,155	2,007	2,108
TOTAL		**289,150**	**238,338**	**246,207**
Net cash flow excl. Investment Income		**43,529**	**(21,795)**	**(26,321)**

Essex Pension Fund

Treasury Management Strategy for 2018/19

Investment Steering Committee 28 March 2018

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		**2017-18 Latest Estimate**	**2018-19 Estimate**	**2019-20 Estimate**	**2020-21 Estimate**
Bank rate (at each 31 March) Source : Link Asset Services (February 2018)		0.50%	1.00%	1.25%	1.50%

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 **Link Asset Services** (Treasury Solutions) as its treasury management advisor.

Link Asset Services 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 £ 139.5m in cash at the custodian. The details are set out in the table below.

01-Mar-18	£m	%
Sterling	79.6	57%
Dollar	49.1	35%
Euro	9.8	7%
Other	1.0	1%
	139.5	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 2018/19.

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

As its meeting of 21 February 2018 the ISC agreed principles in respect of any reallocation of equities to the alternative and bond mandates. It was agreed that up to 1% of the Fund's assets can be held in cash (separate to that the managers may hold for efficient portfolio management) in expectation of a drawdown notice or other cash flow requirement for the Fund.

The limits for 2018/19 are set out below and reflect an increase for both the Northern Trust GLF and BNP Paribas GLF to reflect the circumstances outlined above:

Northern Trust GLF	-	£80m (no change on an operational basis))
Northern Trust GLF	-	£150m (on a temporary basis to facilitate the redeployment of assets)
BNP Paribas GLF	-	£60m (no change on an operational basis)
BNP Paribas GLF	-	£130m (on a temporary basis to facilitate the redeployment of assets)

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 differences between the income and expenditure in the years analysed in the table below.

Table: Fund cashflow forecast

	2016/17 actual £ (000)	2017/18 estimate £ (000)	2018/19 forecast £ (000)
Expenditure (benefits, transfers out and expenses)	**240,913**	**245,782**	**257,696**
Income (ongoing contributions, deficit contributions and transfers in)	**238,544**	**272,746**	**231,149**
Net cashflow excl. Investment Income	**(2,369)**	**26,964**	**(26,547)**

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	Investment limit £m	Maximum duration
ESSEX PENSION FUND		
UK BANKS		
Barclays Bank		
Barclays Group limit	5.00	
Barclays - CALL acct	5.00	call
HSBC		
HSBC Group limit	7.50	
HSBC - BIBCA (call account)	7.50	call
Lloyds Banking Group		
Lloyds Group limit	5.00	
Lloyds current account	5.00	call
Royal Bank of Scotland		
RBS Group Limit	5.00	
RBS - CALL account	5.00	call
Santander UK		
Santander Group Limit	5.00	
Santander - CALL account	5.00	call
UK BUILDING SOCIETIES		
Nationwide	5.00	6 mnths
FOREIGN BANKS (Country limit £5m)		
Sweden		
Total country limit	5.00	364 days
Svenska Handelsbanken - call a/c	5.00	call
OTHER		
Money Market Funds		
Standard MMFs (limit £20m)	20.00	
Black Rock - Inst. Sterling Liquidity	10.00	364 days
Standard Life - Sterling Liquidity Fun	10.00	364 days
LOCAL AUTHORITIES		
Top Tier Local Authorities	7.50	
- [Name of Authority]	7.50	364 days
Lower Tier Local Authorities	5.00	
- [Name of Authority]	5.00	364 days

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 11 March 2019 are set out below.

11-Mar-19	£m	%
Sterling	96.5	66.0
Dollar	41.2	28.2
Euro	7.3	5.0
Other	1.1	0.8
	146.1	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 11 March 2019?

	BNP Paribas GLF	**Northern Trust GLF**
	£m	**£m**
Aviva	54.0*	-
Baillie Gifford	-	-
Stewart Investors	-	24.1
Hamilton Lane	11.2	-
Marathon	-	12.2
Longview	-	0.6
Cash Account	-	30.3
Total	**65.2**	**67.2**

**A £40m property purchase has been agreed the purchase is still pending*

Is there a maximum amount allowed in one GLF?
Yes. The Pension Fund Treasury Management Strategy states:

- Northern GLF - £80m (no change on an operational basis)
  Northern GLF - £150m (on a temporary basis to facilitate the redeployment of assets)

- BNP Paribas GLF - £60m (no change on an operational basis)
- BNP Paribas GLF - £150m (on a temporary basis to facilitate the redeployment of assets)

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 (i.e. net of fees) based on year ended 28 January 2019 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	0.5%	0.48%
US Dollar	2.0%	2.01%

4. Ratings

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

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

AAAm by Standard and Poor'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 2019

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 Manager 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 other than an Authorised Money Market 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 other than an Authorised Money Market 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 other than an Authorised Money Market 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 relevant Fund within seven days at the price, or approximately at the price, at which they are valued by the Fund.

2.3. A Fund other than an Authorised Money Market 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 other than an Authorised Money Market 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 other than an Authorised Money Market 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 other than an Authorised Money Market 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 Member States
Government of Brazil (provided the relevant issues are investment grade)
Government of India (provided the relevant issues are investment grade)
Government of Singapore
European Investment Bank
European Bank for Reconstruction & Development
International Finance Corporation
International Monetary Fund
Euratom
The Asian Development Bank, Council of Europe
Eurofima
African Development Bank
The World Bank
The International Bank for Reconstruction & Development
The Inter American Development Bank
European Union, European Central Bank
Federal National Mortgage Association
Federal Home Loan Mortgage Corporation

Government National Mortgage Association
Student Loan Marketing Association
Federal Home Loan Bank
Federal Farm Credit Bank
Tennessee Valley Authority and Straight-A Funding LLC

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 other than an Authorised Money Market 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 other than an Authorised Money Market 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 other than an Authorised Money Market 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 other than an Authorised Money Market 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 a Fund other than an Authorised Money Market Fund 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. Other than an Authorised Money Market Fund a Fund 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 other than an Authorised Money Market Fund 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 other than an Authorised Money Market Fund may hold ancillary liquid assets.

6. FDIs

The below additional investment restrictions in respect of FDI shall apply in respect of all Funds.

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 value at risk 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

BNP PARIBAS INSTICASH – GLOBAL LIQUIDITY FUND

INVESTMENT RESTRICTIONS
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 such borrowing:

a) is made on a 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.