



Essex County Council

Essex Pension Fund Investment Steering Committee

13:00	Wednesday, 27 November 2019	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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1	Membership, Apologies and Declarations of Interest To note the content of the report	5 - 6
2	Minutes of ISC Meeting 17 July 2019 To approve as a correct record the minutes of the Committee meeting held on 17 July 2019	7 - 14
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5	LAPFF Collaboration To receive a presentation from LAPFF	27 - 42
6	Capital Markets Outlook To receive an update from Hymans Robertson	43 - 60

7 Schedule of Future Meetings and Events 61 - 64
To note the future meeting and event dates and consider future events

8 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)

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.

9 Investment tables Quarter ended 30 September 2019

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

10 Investment Manager Update Traffic Light Report

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

11 ISC Briefing Note on Managers Presenting

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

12 Stewart Investors Presentation

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

13a Strategy Implementation Tracker

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

13b Infrastructure Allocation

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

14 Structural Reform of LGPS pooling quarterly Joint Committee of ACCESS Joint Committee (AJC)

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

15 Competition and Markets Authority (CMA) Objectives

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

16 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](#) and by then following the links from [Running the Council](#) or you can go directly to the [Meetings Calendar](#) to see what is happening this month.

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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

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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 November 2019	

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

Report by the Compliance Manager

Enquiries to Amanda Crawford on 03330 321763

1. Purpose of the Report

- 1.1 To present Membership, apologies and Declarations of Interest for the 27 November 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 M Maddocks

Essex County Council

Councillor L Scordis

Essex County Council

Councillor C Souter

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 17 July 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 C Souter	
Cllr L Scordis	
Cllr A Hedley	
Cllr M Maddocks	

arrived 1:08pm
left at 3:00pm

Scheme Employer Representatives

Cllr C Riley	(Observer)
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arrived 1:05pm

Scheme Member Representatives

Sandra Child (UNISON)	(Observer)
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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
Marcia Wong	Compliance Officer
Mark Stevens	Independent Advisor
John Dickson	Hymans Robertson
Matt Woodman	Hymans Robertson

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

Opening Remarks

The Chairman welcomed the Committee.

Apologies for Absence

It was noted that Cllr Goggin, Cllr Davies and Cllr Erskine, along with PAB members Nicola Mark and Debs Hurst were unable to attend the meeting.

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 Hedley stated that he was in receipt of an Aviva Group pension. Cllr C Riley and Cllr M Maddocks declared they were also in receipt of an Essex LGPS Pension.

Resolved:

The Committee noted the report.

2. Minutes

Minutes of the meeting of the ISC held on 26 June 2019 were approved as a correct record and signed by the Chairman.

3. Investment Strategy Statement (ISS) Review: Responsible Investment (RI)

The Director for Essex Pension Fund introduced this item to the Committee setting out the requirements and timeline to review the Fund's Investment Strategy Statement.

It was highlighted that a review of both the ISS and Funding Strategy would take place during the municipal year by the ISC and Essex Pension Fund Strategy Board respectively, with both subject to stakeholder consultation.

Hymans Robertson outlined for the Committee the four key areas that the ISS review will focus on and in particular the approach to the responsible investment aspects contained within the ISS.

Members were advised that a RI workshop would be arranged for October 2019 to kick off this review.

Resolved:

The Committee agreed:

- the timeline for reviewing the ISS with a focus on agreeing an approach to the RI aspects contained in the ISS;
- that a presentation from Local Authority Pension Fund Forum (LAPFF) on collaborative responsible investment take place at the ISC's November meeting; and
- to note the report.

4. Schedule of Meetings

The Committee received a presentation from the Compliance Manager detailing the planned Committee and Board meetings for the municipal year.

The Compliance Manager also notified the Committee of the events/conferences that were on the horizon during 2019/20. Members were advised to contact the Compliance Manager if they would like to attend any of the events discussed.

Investment Steering Committee

8, 9 & 10 October 2019 – Baillie Gifford Conference (Edinburgh)
27 November 2019
19 February 2020
25 March 2020

Pension Strategy Board

11 September 2019
18 December 2019
4 March 2020

Resolved:

The Committee noted the schedule of meetings for 2019/20.

5. Urgent Part I Business

No matters arising.

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.

6. Review of Investment Performance for the year ended 31 March 2019

The Committee received a report and presentation from Hymans Robertson summarising the investment performance for the year ended 31 March 2019 of the Investment Managers of the Fund, along with a synopsis of the market conditions during the year.

It was noted that the Fund's performance for the year ended 31 March 2019 of 8.5% was ahead of benchmark and was again above the Actuary's investment return assumption used for the triennial valuation.

Resolved:

The Committee noted the report.

The Chairman informed the Committee that item 8 would be taken prior to item 7 on the agenda.

8. Review of the Fund's fees compared to Peers

The Committee received a report from Hymans Robertson summarising the independent review CEM Benchmarking had undertaken of the overall fees paid by the Fund, investment returns and net value added compared to its peers across the LGPS and global universal for the year to 31 March 2018. Separately a review was also undertaken by Hymans Robertson of the fees paid by the Fund in respect of the management of alternative assets classes.

Resolved:

The Committee agreed:

- CEM undertake a cost benchmarking review as at 31 March 2019; and
- noted the content of the report.

7. Review of Investment Manager Benchmarks

The Committee received a report and presentation from Hymans Robertson, in consultation with the Independent Investment Advisor and Director for Essex Pension Fund. Members were provided with an overview on current benchmarks for equity, bond and alternative investments.

Suggested amendments to current benchmarks was discussed and considered by the Committee.

Resolved:

The Committee agreed;

Equity Benchmark

- no changes to the equity passive and active benchmarks would be taken forward;

Bond Benchmarks

- no change to the passive index linked bond benchmark would be taken forward;
- to amend the benchmark for the active cash plus bond mandates from 1-month LIBOR with an outperformance target of 2% p.a. to now include the target within the benchmark to be now 1-month LIBOR + 2% p.a.;

Alternative Benchmarks

- to adopt the following benchmarks for assessing the short term, long term and the proxy component for the composition of the total Fund quarterly benchmark for the alternative mandate benchmarks;

Infrastructure

- long term benchmark: Absolute return of 8% p.a. (reflecting income + expected growth);
- short term benchmark: For JP Morgan and IFM only, 6% p.a. (reflecting income only);
- proxy component for total Fund quarterly benchmark: 6% p.a.;

Private equity

- long term benchmark: MSCI World PME Index + 3% p.a.;
- short term benchmark: n/a;
- proxy component for total Fund quarterly benchmark: MSCI AC World Index (TR Gross);

Timberland

- long term benchmark: Absolute IRR of 8% p.a. (reflecting income + expected growth);
- short term benchmark: n/a;
- proxy component for total Fund quarterly benchmark: NCREIF Timberland Index (if available);

UK Property

- IPD PPFI All Balanced Funds Index with a performance target of +1% p.a. for all assessment periods;

Global Property

- long term benchmark: IRR of 9% p.a. (reflecting income + expected growth);
- short term benchmark: n/a;
- proxy component for total Fund quarterly benchmark: 6% p.a. (reflecting income only);

Direct lending

- long term benchmark: IRR of 8% p.a.;
- short term benchmark: n/a;
- proxy component for total Fund quarterly benchmark: LIBOR + 6% p.a.

9. Strategy De-risking Plans

The Committee received a report and presentation from Hymans Robertson, in consultation with the Independent Investment Advisor and Director for Essex Pension Fund. Members were reminded of the de-risking progress made in respect of reducing the Fund's strategic allocation to equities outlining the strategic decisions previously agreed over the last 18 months and the timetable for decisions still pending agreement.

Resolved:

The Committee agreed:

- that in light of changing market conditions to proceed with the 2% disinvestment from Marathon with 1% of the monies being transferred into the passive equity strategies managed by UBS in line with the central benchmark allocation and 1% to M&G Alpha Opportunities rather than redirect the full amount to the passively managed UBS equities strategies as previously agreed; and
- to note the progress made to date and the content of the report.

10. Currency Hedge Review

The Committee received a report and presentation from Hymans Robertson in consultation with the Independent Investment Advisor and Director for Essex Pension Fund on the Fund's currency hedge arrangements.

Resolved:

Following discussions, the Committee agreed:

- to take no action in relation to the currency hedge central target of 50% as currently the currency hedge is within the desired zone at a total Fund level;
- to consider the currency hedge target at a total Fund level rather than the equity portfolio only;
- to consider switching to the GBP hedged share classes for IFM and JPM as and when further allocations are made to their funds;
- that a report outlining the above considerations be brought to a future meeting; and
- to note the content of the report.

11. Structural Reform of LGPS Pooling Quarterly Joint Committee Update

The Head of Essex Pension Fund gave an update on recent development in relation to Pooling.

It was noted that the agenda included the latest Joint Committee meeting Agenda Pack of which Members may recall that due to timing, a verbal update was provided at their last meeting.

The Committee were informed that representatives of ACCESS met with civil servants on 4 July 2019 to discuss ACCESS's response to the Ministry of Housing, Communities and Local Government (MHCLG) informal consultation in regard to guidance on LGPS asset pooling. It was noted that a formal consultation is now expected to be issued after the summer recess.

The Committee were advised that Link were organising in consultation with ACCESS Officer Working Group an ACCESS Investor Day. Members were asked to note the potential date of 16 October 2019 and that Officers of the Fund will share more information with the ISC when it becomes available.

The Head of Essex Pension Fund updated the Committee that the current S151 Officer, Margaret Lee, would be stepping down in August 2019 and her S151 role would be filled by Nicole Wood.

An update was also provided in regard to the recruitment of the ACCESS Director. It was noted that following interviews a suitable candidate had been identified and a recommendation has been put forward to the Host Authority to appoint the candidate on a secondment basis. Officers of the Fund will notify the ISC when this has been formally agreed.

Resolved:

The Committee noted:

- progress on MHCLG consultation on the draft investment pooling guidance and meeting with Civil Servants on 4 July 2019;
- launch of tranche 3 sub funds;
- progress to date of Phase 2 sub-fund seeding arrangements;
- progress to date in respect of pooling ACCESS illiquid assets;
- final sign off of the ACCESS Governance manual and the revised Inter-Authority Agreement (IAA) for referral back to administering authorities monitoring officers to progress through each authority's respective governance processes;
- progress of the permanent ACCESS Support Unit and host authority arrangements;
- update on the appointment of the ACCESS Director;
- contract management update;
- the draft ACCESS Annual Report and arrangements for final sign off;
- 2018/19 budget outturn and update on business plan deliverables; and
- agenda of 11 June 2019 AJC.

12. Urgent Exempt Business

No matters arising.

13. Closing Remarks

There being no further business the meeting closed at 3:17pm.

Chairman
27 November 2019

Essex Pension Fund Investment Steering Committee	ISC 03
Date: 27 November 2019	

Investment Steering Committee Revised Terms of Reference

Joint Report by the Interim Director for Essex Pension Fund and the Independent Governance & Administration Advisor (IGAA)

Enquiries to Jody Evans on 0333 0138 489

1. Purpose of the Report

- 1.1 To provide the Committee with the agreed revised Terms of Reference (TOR) for the ISC.

2. Recommendation

- 2.1 That the Committee note the revised terms of reference for the ISC, approved by Full Council on 8 October 2019.

3. Background

- 3.1 During the March PSB meeting, the PSB agreed that the TOR for each of the Pension Strategy Board, Investment Steering Committee and Pension Advisory Board would be reviewed and that the review would be done in accordance with the following timetable:

Board/Committee	Meeting Date	To agree
PAB	June 2019	PAB TOR
ISC	June 2019	ISC TOR
PSB	July 2019	PAB, ISC & PSB TORs
Constitution Working Group	September 2019	PAB, ISC & PSB TORs
Full Council	October 2019	PAB, ISC & PSB TORs

- 3.2 The revised ISC TOR at Annex A, was approved by Full Council on 8 October 2019 and the ECC's constitution has been amended accordingly.
- 3.3 In addition, the revised ISC TOR will also be incorporated into the Fund's Governance Policy and Compliance Statement, which in turn will be published in the Fund's Annual Report and Accounts.

4. Background Papers

- 4.1 Governance Policy and Compliance Statement & PAB review paper, PSB 06, 06 March 2019.
- 4.2 ISC Revised Terms of Reference, ISC 05, 26 June 2019.

Essex Pension Fund Investment Steering Committee

Membership

There are nine Members of the Investment Steering Committee.

All Investment Steering Committee Members shall be drawn from Pension Strategy Board membership as follows:

Members	How Nominated or Appointed
7 Members of the Council (voting members)	All Council members of the Pension Strategy Board
1 member representing Employers in Essex (non-voting member)	The Member of the Pension Strategy Board nominated by Essex Borough and District Leaders/Chief Executives
1 member representing Scheme Members (non-voting member)	The Member of the Pension Strategy Board nominated to represent Scheme Members

The Chairman and Vice-Chairman of the Investment Steering Committee shall be the Chairman and Vice-Chairman of the Pension Strategy Board respectively.

Essex Pension Fund Advisory Board

Members of the Essex Pension Fund Advisory Board are permitted to attend the Investment Steering Committee, including during any items of private business. Comments may also be made by these persons subject to permission to speak being granted by the Chairman. In accordance with the Fund's Conflicts of Interest Policy, a member of the Essex Pension Fund Advisory Board may be asked to leave the room during an item where they have a potential conflict of interest.

Role and Function

- (i) to approve and review the asset allocation benchmark for the Fund;
- (ii) to determine, review and monitor the Fund's aims, objectives, policies, strategies and procedures relating to investment of the Fund's assets including the Investment Strategy Statement and any environmental, social and governance matters;
- (iii) to appoint and terminate Investment Managers (in relation to non-pooled assets), Custodians and Advisors to the Fund solely relating to investment matters;
- (iv) In relation to the LGPS ACCESS Pension Fund Pool;
 - a) to consider pooling matters including recommendations by the ACCESS Joint Committee;
 - b) to determine the transition of the assets held by Essex Pension Fund in relation to the Pool and the funds or sub-funds operated by the Operator;
 - c) to appoint the elected councillor for Essex County Council to the Joint Committee as and when required;
 - d) to advise the representative on the Joint Committee on such matters as may be required;
 - e) to monitor the performance of the LGPS ACCESS Pool and its Operator and recommending actions to the ACCESS Joint Committee or ACCESS Support Unit, as appropriate;
 - f) to receive and consider reports from the LGPS ACCESS Joint Committee and the Operator;
 - g) to undertake any other decisions or matters relating to the operation or management of the LGPS ACCESS Pool as may be required.
- (v) to assess the quality and performance of each Investment Manager and the relevant ACCESS Operator annually in conjunction with Essex Pension Fund investment advisers and the Section 151 Officer;
- (vi) to monitor compliance of the investment arrangements with the Investment Strategy Statement;
- (vii) to monitor and review the Fund's compliance with the LGPS Scheme Advisory Board adopted Code of Transparency and UK Stewardship Code;

- (viii) to assess the risks assumed by the Fund at a global level as well as on a manager by manager basis;
- (ix) to approve and to review annually the content of the Pension Fund Treasury Management Strategy; and
- (x) to submit quarterly reports on its activities to the Pension Strategy Board.

Training

The Essex Pension Fund has a dedicated Knowledge and Skills Policy which applies to all members of the Committee and which includes the expectation to attend regular training sessions in order they may maintain an appropriate level of knowledge and skills to perform their role effectively.

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

Responsible Investment (RI) Workshop – Outcome and Investment Strategy Statement (ISS) Review

Joint Report by the Investment Manager, Interim Director for Essex Pension Fund and Hymans Robertson

Enquiries to Jody Evans on 0333 0138 489

1. Purpose of the Report

- 1.1 To provide the Committee with an update on the outcome of the RI Workshop held on 25 October 2019 and the review of the Investment Strategy Statement (ISS).

2. Recommendation

- 2.1 The Committee **agree** that:
- the responsible investment beliefs outlined in the attached report are an accurate reflection of the outcome of the RI Workshop;
 - Officers and Advisers translate the RI beliefs into policy statements for inclusion into the revised ISS; and
 - the content of the report be noted.

Responsible Investment Beliefs

Addressee

This paper has been prepared for the Investment Steering Committee ("ISC") of the Essex Pension Fund ("the Fund")¹.

Background

The ISC is required to maintain an Investment Strategy Statement ('ISS') setting out its principles for governing the Fund's assets.

The four main areas for setting its principles are:

- 1 The Fund's investment strategy and the process for determining suitability;
- 2 Risk measurement and management;
- 3 Asset pooling; and
- 4 Approach to Environmental, Social and Governance ('ESG') considerations.

The first three of these are a relatively straightforward documentation of an existing process. However, ESG is far more qualitative and depends on an individual's viewpoint. The area of ESG has also experienced far more scrutiny from action groups and the media recently.

Reflecting the above, the ISC undertook a workshop on 25 October 2019 to receive training and agree their beliefs in relation to ESG policies.

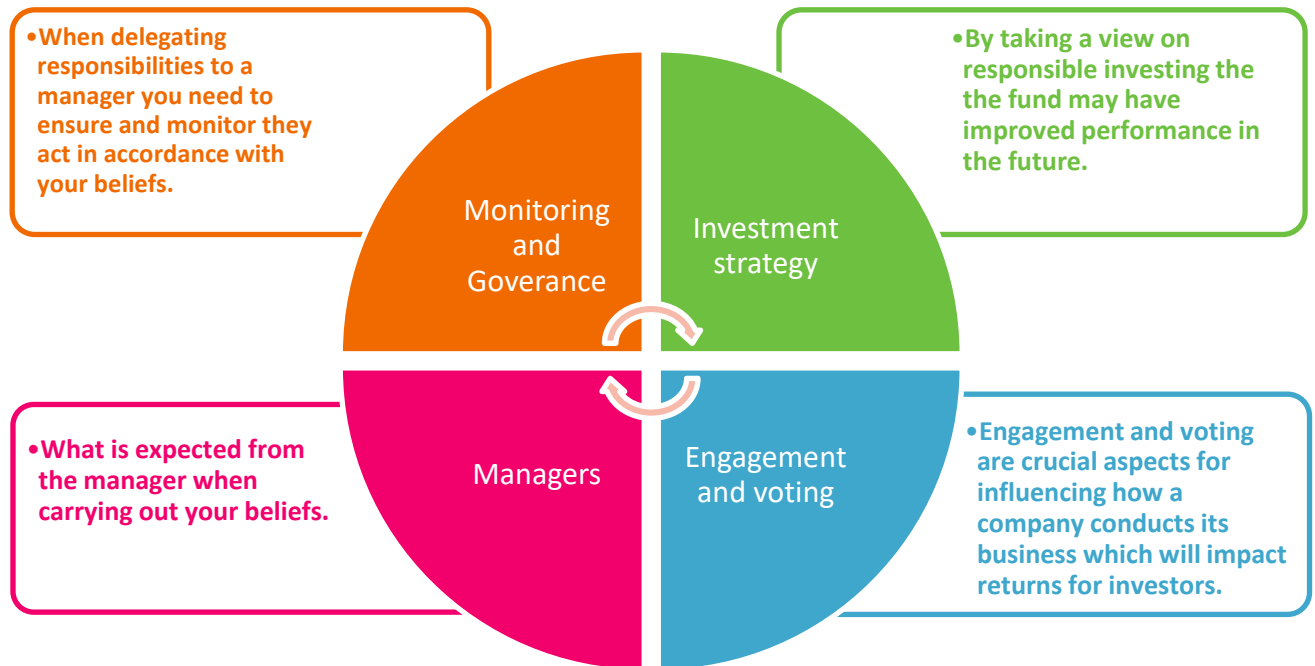
This paper documents the beliefs articulated at that workshop for ratification at the November ISC meeting and sets out the next steps for documenting these as principles to guide their investment approach in the ISS.

Responsible investment beliefs

As part of the workshop the ISC members were asked to complete a questionnaire to elicit their views around ESG and Responsible Investment ('RI') issues alongside a decision tree to help guide the views articulated into a coherent set of beliefs. The full decision tree, including progress made to date, is included in Appendix 1 to this note. The next area for consideration is circled.

¹ This paper should not be released or otherwise disclosed to any third party without our prior written consent except as required by law or regulatory obligation. We accept no liability to any other party unless we have expressly accepted such liability in writing.

Chart 1: Headline beliefs



Beliefs articulated

Breaking down the beliefs articulated at the meeting under the main areas above.

Investment strategy

- 1 Having a responsible investment policy **will** lead to better financial outcomes.
- 2 Having a responsible investment policy **could** lead to better outcomes for society.
- 3 Long term, businesses with more sustainable practices should outperform.
- 4 Allowing for the impact of ESG issues has many dimensions to it.
- 5 The Fund should avoid/limit exposure to securities where environmental or social aspects will be financially detrimental to the portfolio.
- 6 Environmental and social investing only needs to **not** be detrimental to returns.
- 7 Poor management of ESG risks has led to financially material losses in the past and is expected to do so in the future.
- 8 ESG is a factor, but not the only factor in choosing investments.

Engagement and voting

- 1 Engagement in a company is more effective than disinvesting from the company.
- 2 Engagement and voting are influential and can be effective in changing behaviour and improving the Fund's performance as well as having a positive impact on the environment/society.
- 3 Collaboration with other investors gives the Fund a stronger voice.

Managers

1 *Passive managers*

- 1.1 The only influence an investor has on a passive manager is the choice of benchmark and level of engagement.
- 1.2 The choice of benchmark is important as it defines the investment portfolio.
- 1.3 The Fund should be an active owner seeking to influence behaviour in investee companies.
- 1.4 The Fund should consider alternative indices that reflect ESG factors.

2 *Active managers*

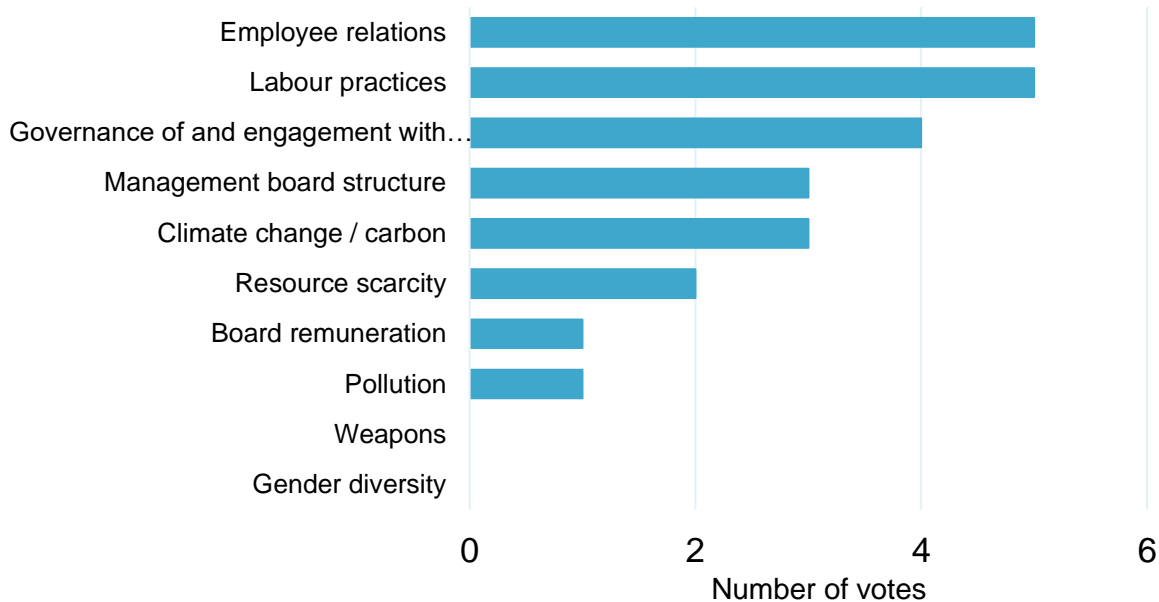
- 2.1 The social cost of companies will eventually need to be self financed.
- 2.2 Managers should try as far as possible to price in the potential future impact of ESG risk in asset selection.
- 2.3 Active managers can take into account forward-looking metrics better than passive managers.
- 2.4 The Fund's investment managers should embed the consideration of ESG factors into their investment process and decision making.

Monitoring and Governance

- 1 The ISC should not rely on the pool for leadership on ESG issues.
- 2 The ISC should expect the pool to be able to implement investments in line with its RI policy.
- 3 Engagement and voting are influential and can be effective in changing behaviours and improving outcomes.
- 4 The Fund needs to engage and challenge managers on integrating ESG issues in their investment process in line with the RI policy.
- 5 An RI policy focussed on improving financial outcomes will be to the benefit of Fund stakeholders.
- 6 It is best to engage stakeholders on the overall approach to managing the Fund rather than on RI policy only.

Priority areas for responsible investing

As part of the questionnaire, ISC members were asked to select three priority areas to be addressed by their RI policy. The chart below sets out the results:



Next steps

- 1 The ISC are asked to ratify the beliefs outlined in this paper are an accurate reflection of those agreed at the October workshop.
- 2 Once ratified, the O&A will translate these beliefs into policy statements for inclusion in the ISS. These will be brought to the ISC in draft for agreement early in 2020 prior to consultation on the revised ISS.
- 3 Incorporate beliefs into a Responsible Investment policy in this ISS (February ISC).

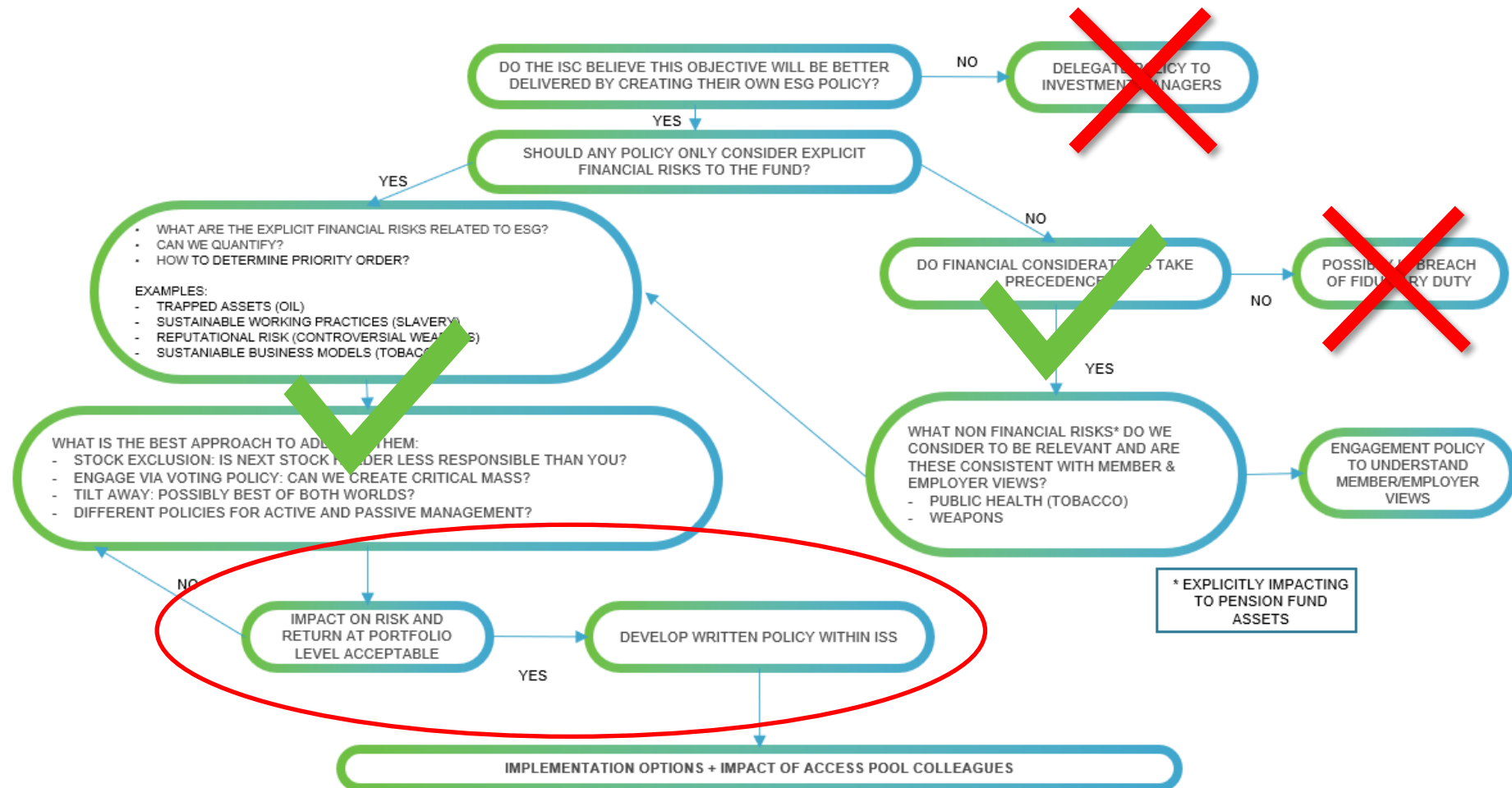
Prepared by:

Matt Woodman, Senior Investment Consultant

Greg Illingworth, Investment Analyst

For and on behalf of Hymans Robertson LLP

Appendix 1 – Decision Tree





Protecting Shareholder Value the Role of the LAPFF

Keith Bray

Forum Officer, LAPFF

27 November 2019

The Role and Structure of the LAPFF

The Forum seeks to **protect and enhance the value of our members' shareholdings** by way of shareholder engagement with the companies in which they invest by promoting the highest standards of corporate social responsibility, with a view to improving long term returns.

It is a voluntary association of 82 LGPS funds and 6 LGPS Pools.

The Forum has a quarterly members' meeting preceded by a quarterly Executive meeting.

The Executive is a mix of councillors and officers which is elected by the membership annually. It is currently chaired by an independent councillor and includes councillors from all three major parties.

The Forum's Annual Conference is held at Bournemouth in December.

LAPFF - Membership

Currently (82) UK Local Authority pension funds

- 29 English Counties
 - 30 London Authorities
 - 8 English/ Metropolitan/Unitary Authorities
 - 8 Welsh Authorities
 - 4 Scottish Authorities
 - 2 Passenger Transport Authorities
 - The Environment Agency
-
- £250 billion in value
 - 6 Pools
 - **Membership open to all LGPS pension funds and pools**

LAPFF – What we are about

In pursuing its aim to protect and enhance shareholder value for its LGPS members, the Forum

- facilitates commissioning of research into and engagement with investee companies (where concerns have been identified) more efficiently and effectively than individual members.
- issues occasional voting alerts for members to discuss with their fund managers
- provides a forum for consultation on shareholder initiatives, information exchange and discussion about investment issues.
- facilitates collaboration with other institutional investors both nationally and internationally.
- provides a forum to consider **any** issues of common interest to all pension fund administrators and trustees (e.g. climate change issues).

Areas of concern for responsible owners

Environmental, Social & Governance (ESG) issues

- Environmental issues (e.g. Climate change, mineral exploration, waste disposal)
- Supply chain labour standards – reputational risks
- Boardroom structures
- Directors' remuneration
- Accounting standards (particularly as applied to banks)
- Appointment of and role of auditors
- Tax transparency

The Context

- The LGPS in England and Wales has assets under management of £275bn
- It has 5.8m members
- It has 14,800 employers
- It is the 6th largest funded pension scheme in the world

In short, the LGPS is a very significant institutional investor both nationally and internationally.

Fiduciary Responsibility of LGPS Pension Fund Committees

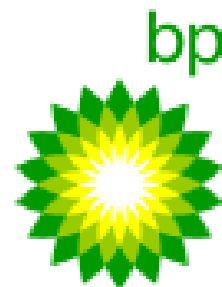
- When making investment decisions, administering authorities **must** take proper advice and act prudently. In the context of the local government pension scheme (LGPS), a prudent approach to investment can be described as a duty to discharge statutory responsibilities with care, skill, prudence and diligence. This approach is the standard that those responsible for making investment decisions must operate.

However

- The law is generally clear that schemes **should** consider any factors that are financially material to the performance of their investments, including social, environmental and corporate governance factors

(Source: Department of Communities and Local Government)

Some engagement results





Financial Reporting Council

- The LAPFF has been lobbying strenuously for the replacement of the FRC for several years, on grounds of it being “unfit for purpose.”
- A recent review of the FRC led by Sir John Kingman (former Treasury Official and Chairman of Legal and General) called for the “ramshackle house” to be closed.
- In March 2019 Business Secretary, Greg Clark announced that the FRC will be replaced by a new regulator – Audit, Reporting and Governance Authority – ARGA
- Sr Jon Thompson, CEO of HMRC has been appointed as CEO of the FRC and will be the first CEO of ARGA.



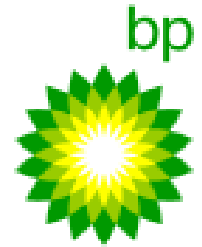
Remuneration at Barclays

- In 2015, despite unimpressive performance, Barclays paid out more in bonuses than in dividends to investors
- The Forum lobbied aggressively about this, and eventually secured the removal of Sir John Sutherland as Chairman of the Barclays Remuneration Board



Shell & BP

Carbon Management



- The boards of **Shell**, and **BP** recommended shareholders support the resolutions filed by a number of LAPFF member funds in conjunction with the Aiming for A coalition of which LAPFF is part. The resolutions addressed ‘strategic resilience to 2035 and beyond’ focusing on carbon management, strategy and disclosure.
- **For a company to recommend voting in favour of a shareholder resolution is unprecedented in the UK and reflects the positive nature of engagement undertaken by the coalition. At the BP and Shell AGMs the resolution received votes of 98% and 99% in support.**



- Following a period of unsuccessful engagement about Sir Stuart Rose's occupation of the roles of both Chairman and Chief Executive, the LAPFF tabled a resolution at the 2009 M&S AGM requiring the company to bring forward the separation these roles.
- The resolution was supported by 37.7% of M&S shareholders.
- Marc Bolland appointed as Chief executive – M&S share price rises 5.5% on news of appointment..

Where are we now?

- Really beginning to make a difference
- Public support is growing
- Cross party political support
- Constant media interest
- Always more to do

The future?

- LAPFF to remain a Fund based organisation
- Building relationships with the new LGPS Pools
- Continuing to engage with companies and issue occasional voting alerts. (It is for individual funds to discuss these with their fund managers)
- More collaboration - more effectiveness

Benefits of LAPFF membership

Value for money

- Research costs spread over 82 Forum member funds with assets of around £250 billion – strength in numbers
 - Assists members in reacting to pressure groups advocating divestment in particular sectors.
 - Facilitates collaboration nationally and internationally with other institutional investors
 - Forum for discussion and networking about **any** related local government pension fund issues.
 - Saves officer time and cost in researching issues
- Page 41 of 64
- Annual Subscription £9500p.a. (now £2375 for 2019/20)

Protecting Shareholder Value Acting together -Achieving more

Essex Pension Fund



Essex Pension Fund Investment Steering Committee	ISC 06
Date: 27 November 2019	

Capital Markets Outlook Q3 2019

Report by Hymans Robertson

Enquiries to Jody Evans on 0333 0138 489

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 2019

Essex Pension Fund

November 2019

Matt Woodman, Senior Investment Consultant
Sam Hampton, Associate Investment Consultant
Greg Illingworth, Investment Analyst

For and on behalf of Hymans Robertson LLP

1.1 Core asset class views: summary

A slowdown in global growth is well established and broad-based, as the trade conflict between America and China takes its toll on the world economy. Global central banks are turning more accommodative to help prevent a more protracted slowdown but traditional, and in some cases not-so traditional, monetary policy toolkits are looking increasingly bare. Until now, manufacturing has borne the brunt of the slowdown, most likely as a direct result of the trade wars, but there are signs the contagion is spreading to the services sector.

While sovereign bond market yields were marked significantly lower reflecting the gloomier outlook, valuations on risk assets, in general, potentially reflect economic outcomes that may increasingly be viewed as optimistic rather than a reasonable base case. The deterioration in the economic outlook is beginning to impact credit and equity market fundamentals, without any commensurate impact on valuations, and we are growing more cautious here as a result. As such, we would continue to advocate holding a little more cash than usual.

	Equities	Sterling investment grade debt	Liquid Sub investment grade debt	Private lending	UK Property	Long Lease Property	Gilts	Index-linked gilts
Fundamentals	N → U	N	N → U	N → U	N → U	N	N	N
Valuation	N	N	U	N	U	VU	VU	VU
Technicals	N	N	N	N	U	N	N	N
Overall view	Neutral to cautious	Cautious	Cautious to negative	Neutral to cautious	Cautious	Neutral to cautious	Cautious to negative	Cautious to Negative
Previous quarter	Neutral	Cautious	Cautious	Neutral	Cautious	Neutral to cautious	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"> • A sharp slowdown in the manufacturing sector and some signs of weakening in services suggests a less supportive backdrop for equity markets as we move towards 2020. • Valuations remain at the lower end of neutral, however there remains a significant disparity in regional views. • Equity sentiment would be vulnerable if central bank policy turned to be less accommodating than markets are expecting.
Sterling non-government bonds	<ul style="list-style-type: none"> • Global corporate spreads remain near long-term median levels but our overall rating is driven by our view on underlying risk-free yields. • The continued search for yield is a positive technical in the short-term. • We continue to prefer floating-rate credit assets, such as Asset Backed Securities as we think underlying risk-free returns will be better for floating-rate assets than fixed rate.
Liquid Sub-investment grade debt	<ul style="list-style-type: none"> • The deterioration in economic outlook is beginning to impact credit market fundamentals. Leverage has drifted higher while interest coverage has fallen in 2019, and high yield defaults are forecast to rise. • Valuations look stretched, particularly in the high yield market and we have concerns that investors are not being rewarded for the deterioration in fundamentals.
Private Lending	<ul style="list-style-type: none"> • The direct lending market continues to offer an attractive illiquidity premium over the traded market. • Despite the presence of covenants in direct lending markets, we have shaded down our fundamental view in line with liquid speculative-grade markets.
Core UK property	<ul style="list-style-type: none"> • Property yields remain close to historic lows and appear stretched relative to equities, although remain attractive relative to government bonds. • Significant sector divergence remains, with retail remaining weak. Office rental growth has been more volatile than the other sectors, but increasing overall on a 12 month basis.
Long Lease Property	<ul style="list-style-type: none"> • Valuations remain stretched, but demand for long-term secure income streams remains high from pension funds and other investors.
Infrastructure	<ul style="list-style-type: none"> • Evidence from proprietary indicators suggests that valuations remain high. • Technical drivers remain strong and investor demand is high. The uncertain economic outlook is a positive fundamental for long-term infrastructure assets.
Conventional gilts	<ul style="list-style-type: none"> • Continued falls in gilt yields over the quarter keeps valuations well below our assessment of neutral levels at all maturities. • However, downbeat economic news, hedging demand and uncertainty, both domestic and global, may prevent a rise in UK yields in the short-term.
Index-linked gilts	<ul style="list-style-type: none"> • Index-linked gilt yields remain well below equivalent US yields and the BoE's long-term assessment. • Implied inflation is lower for longer dated index-linked gilts, but uncertainty over changes to RPI may lead to further weakness.
Cash strategies	<ul style="list-style-type: none"> • This feels like a sensible time to hold more cash than usual to try and exploit better buying opportunities in the future.

2.1 Market Background

The ongoing trade war between the US and China, and its disruption to external demand and global supply chains, particularly in the manufacturing sector, continued to impact global growth. Consensus forecasts still suggest most major economies will avoid technical recession next year but GDP growth for many countries has slowed.

UK GDP growth is expected to achieve a modest recovery in Q3, however forecasts have slumped, with increasing downside risk posed by acute Brexit uncertainty and its negative impact on business investment. The US economy has continued to outperform its developed market peers, but its manufacturing PMI fell to its lowest level since June 2009 in September.

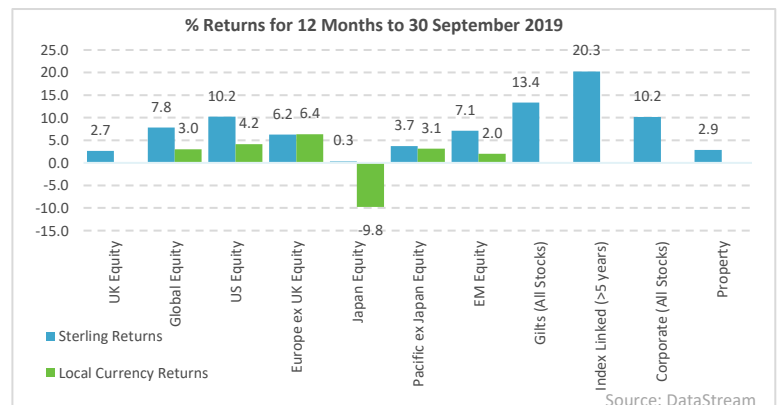
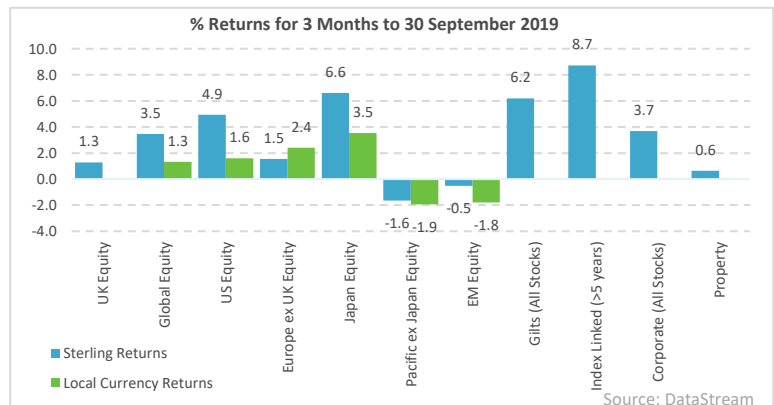
Inflation pressures remain elusive despite real wage growth on the back of low unemployment. In-line with the weaker economic backdrop and subdued inflationary environment, sovereign bond yields were marked significantly lower over the quarter. UK Implied inflation fell at longer maturities, but rose at shorter terms potentially reflecting fears of a near-term spike in inflation on the back of a potential post-Brexit sterling depreciation coupled with concerns over future RPI methodology affecting long-term RPI. Despite prices spiking significantly, following an attack on Saudi production facilities, oil prices ended the quarter around 9% lower.

Investment-grade credit spreads continued to move in lock-step over the period across the US, Europe and Sterling markets and finished the period broadly unchanged. Global high yield spreads were also little changed over the quarter, though leveraged loan spreads have moved wider as interest rate cuts have made floating-rate assets less attractive to prospective investors.

Global equities ended the period in marginally positive territory as the impact of global trade relations and softening economic data was ultimately outweighed by central bank policy and supportive corporate earnings. Sterling-denominated returns were enhanced by the currency's continued depreciation amid the ongoing Brexit saga. Trade-weighted dollar was up c.3.1% over the quarter and Yen strength appears to remain a feature in-line with a bid for safe assets.

Japan was the top performing region in both local currency and Sterling terms. This was in part a reversal of some the poor performance from the first half of the year, as well as the improved performance of value investing. Asia Pacific (ex-Japan) and Emerging Market equities continued to lag global equities as the ongoing trade tensions weighed on investor sentiment.

Within UK property marginal positive rental growth and return from income compensated for capital declines.



2.2 Key market data

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

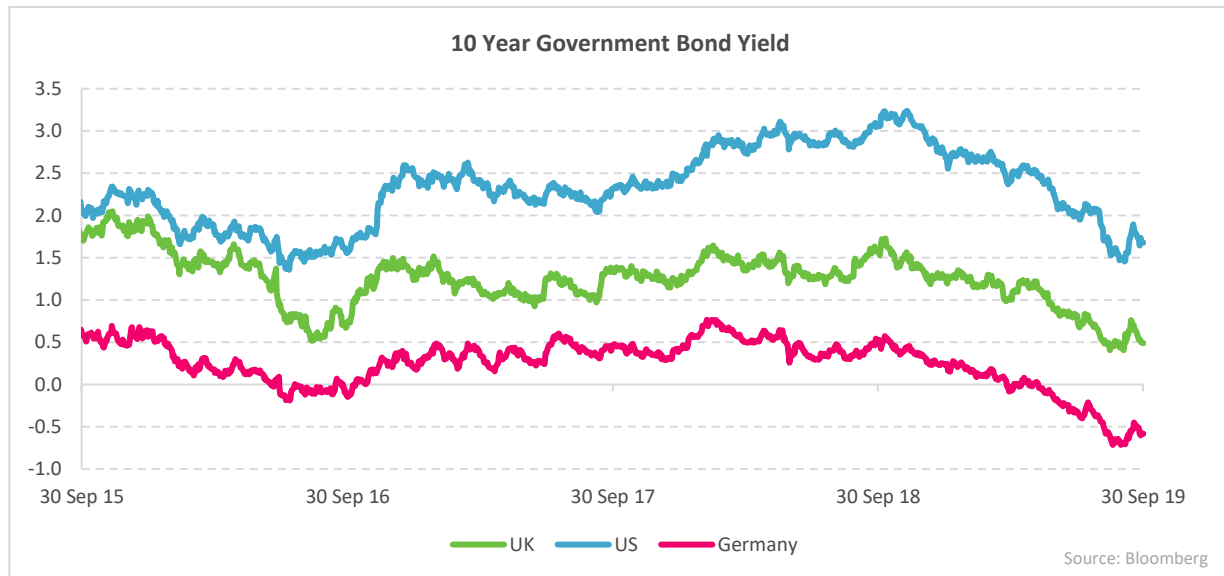
	30.09.18	31.12.18	31.03.19	30.06.19	30.09.19
UK Equity yield	3.8%	4.5%	4.2%	4.1%	4.2%
UK Equity P/E ratio (FTSE)	12.9x	11.7x	16.3x	17.1x	16.1x
Over 15 year gilt yield (p.a.)	1.9%	1.8%	1.5%	1.4%	0.9%
Over 5 year index-linked gilt yield (p.a.)	-1.5%	-1.6%	-1.9%	-1.9%	-2.2%
iBoxx Over 10 year Non-gilt yield (p.a.)	3.2%	3.2%	2.8%	2.7%	2.3%

Source: DataStream

	Year to 30.09.18	Year to 30.09.19	Quarter to 31.12.18	Quarter to 31.03.19	Quarter to 30.06.19	Quarter to 30.09.19
FTSE All Share	5.6%	2.7%	-10.3%	9.4%	3.3%	1.3%
Global Equity	13.4%	7.8%	-10.5%	9.6%	6.2%	3.5%
Over 15 year gilts	1.3%	23.0%	2.6%	6.0%	2.0%	11.0%
Over 5 year index linked gilts	1.4%	20.3%	2.0%	6.3%	2.0%	8.7%
All Stocks Non-Gilts	0.2%	10.2%	0.1%	4.1%	2.0%	3.7%
IPD Monthly Index	9.9%	2.9%	1.1%	0.5%	0.6%	0.6%

Source: DataStream.

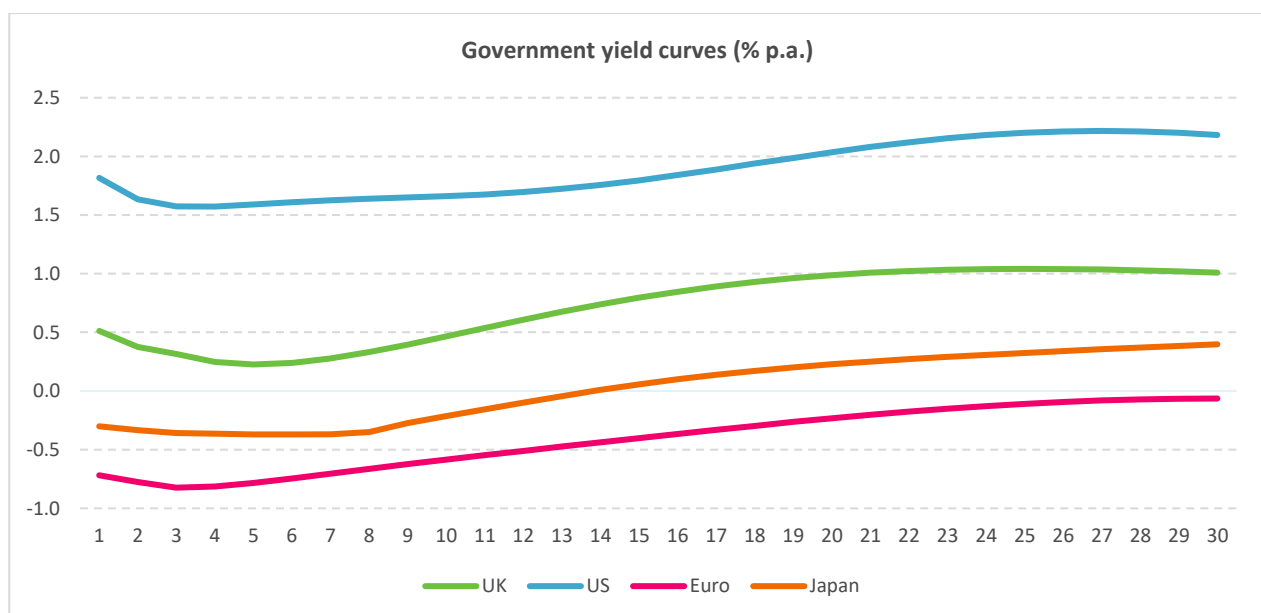
3.1 Global Bond Markets



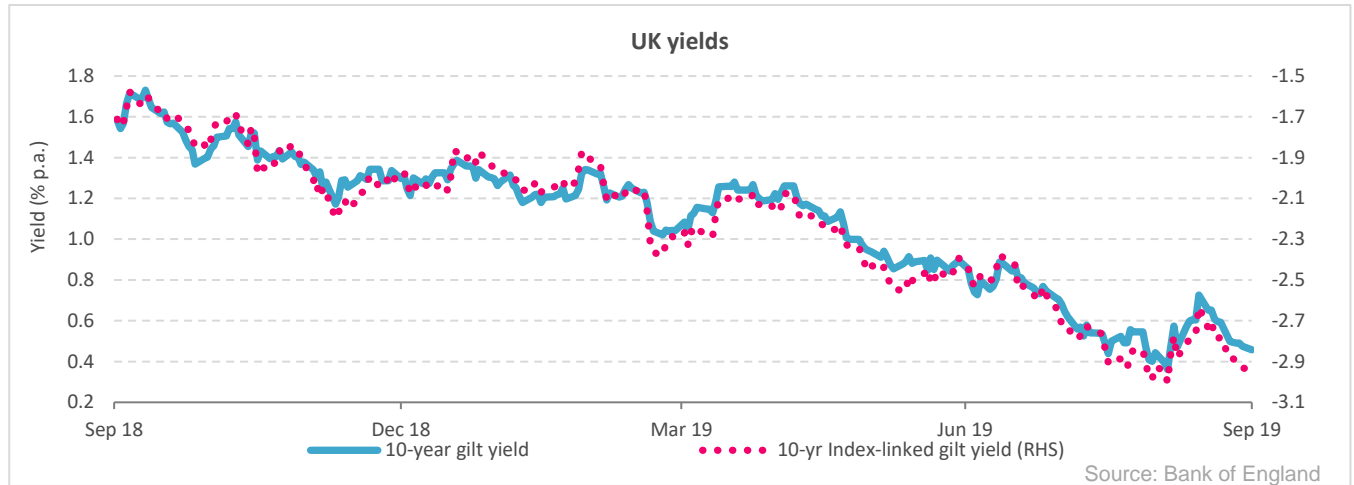
Against the weaker economic backdrop and with inflationary pressures still largely absent, the shift towards more accommodative monetary policy is now well established – 60% of central banks cut rates in Q3. Global sovereign bond yields continued their slide, touching record low levels in the UK and Germany in August. US and UK 10-year nominal yields both fell around 0.35% p.a. over the quarter, while equivalent German bund yields slipped 0.24% p.a. further in to negative territory.

While rate cuts may help buoy consumer sentiment and potentially prevent a deeper economic slowdown, the potential effectiveness may be questioned, given there is little headroom to deliver the level of monetary stimulus seen in previous downturns.

Inflation expectations, as implied by the difference between the yields on nominal and inflation-linked bonds of the same maturity, continued to fall in the US as real yields fell to a lesser extent than nominal yields. The opposite was true in the front end of the curve in the UK – spot implied inflation rose at terms of up to around 15 years, but fell at longer terms.

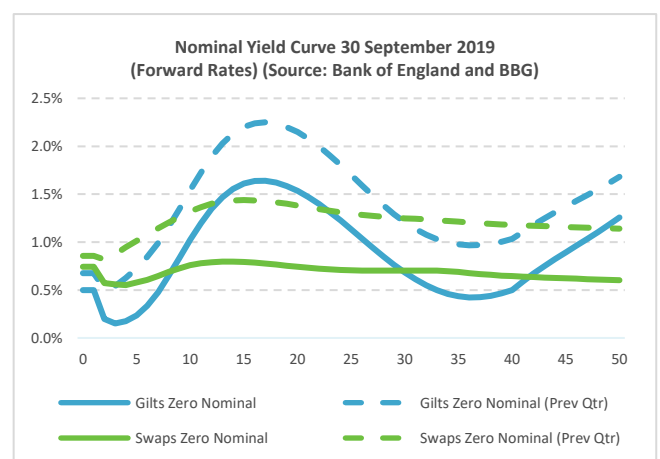
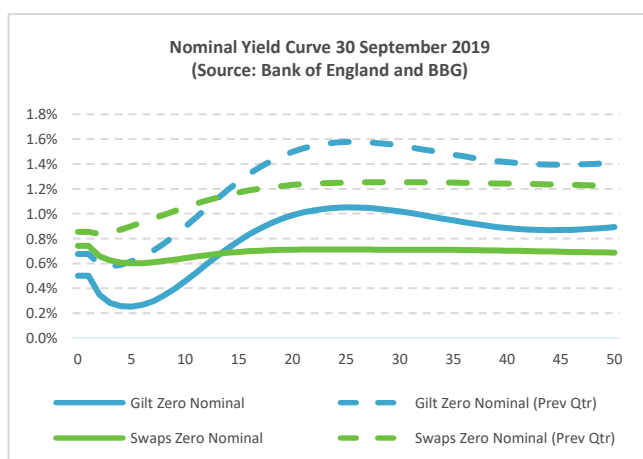
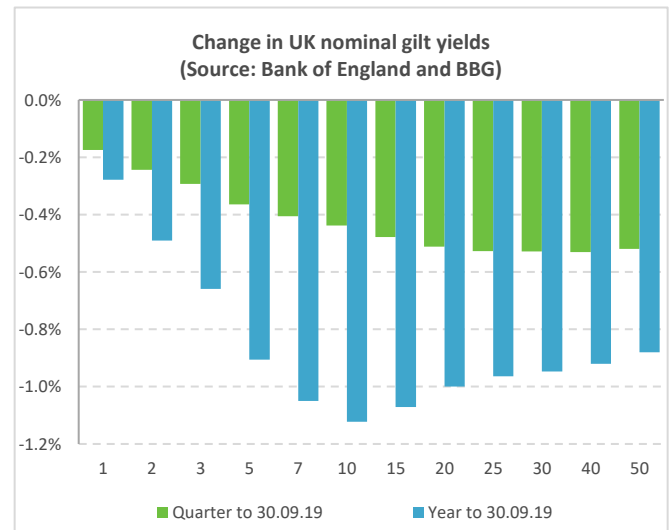


3.2 UK Interest Rates



Recent downgrades to UK GDP growth forecasts, now 1.2% for 2019 and 1.1% in 2020, improves the fundamental support for gilt markets, but forecasts are subject to heightened Brexit-related volatility.

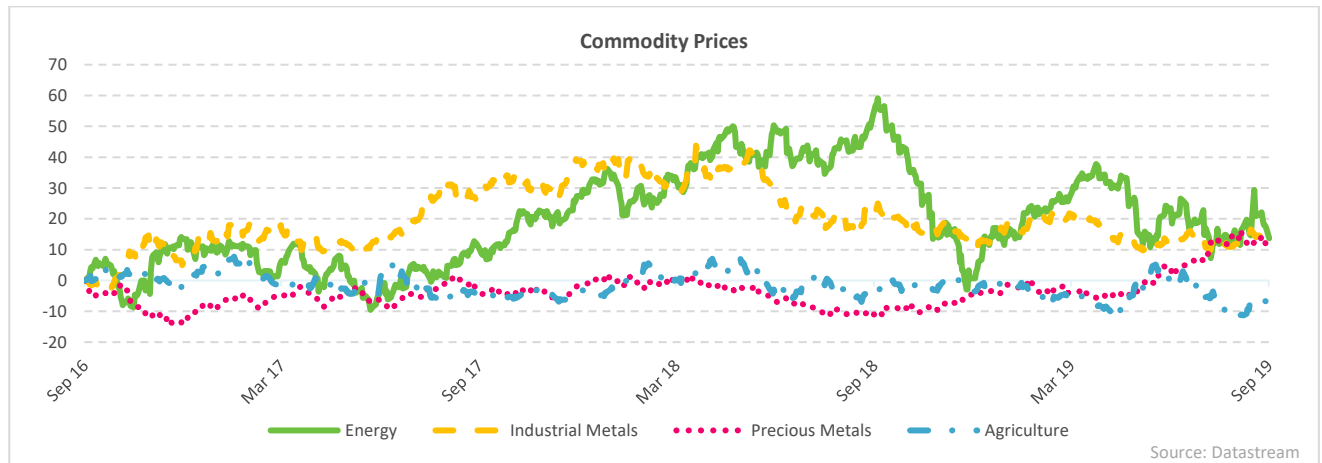
Continued falls in gilt yields over the quarter keeps valuations at very unattractive levels. While economic growth uncertainty, both domestic and global, and hedging demand may prevent a rise in UK yields in the short term, we continue to see little medium-term value offered by current yields.



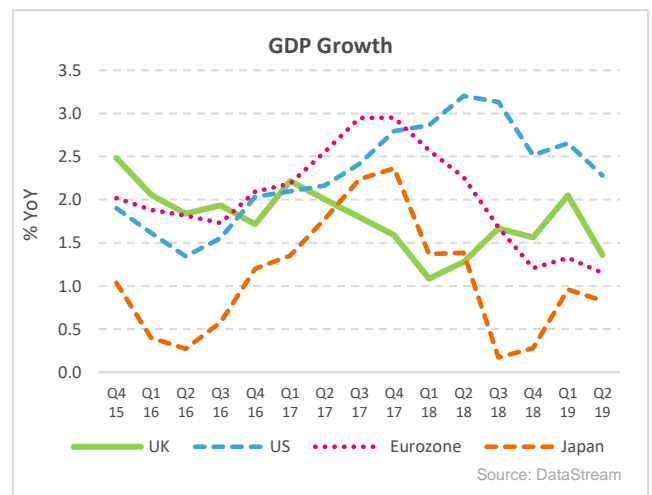
Overall	Fundamentals	Valuations	Technicals
Cautious to negative	Neutral	Very unattractive	Neutral

3.3 Inflation and real rates

Commodities posted negative returns, amid a strengthening US Dollar. The Energy sector was the biggest detractor as oil prices sold off during the quarter.

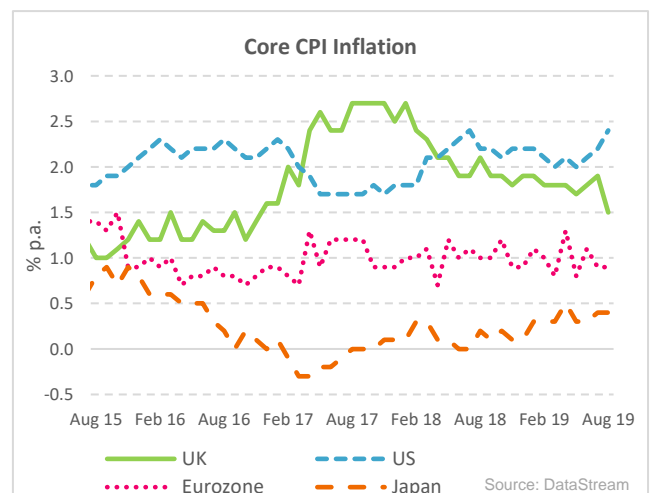


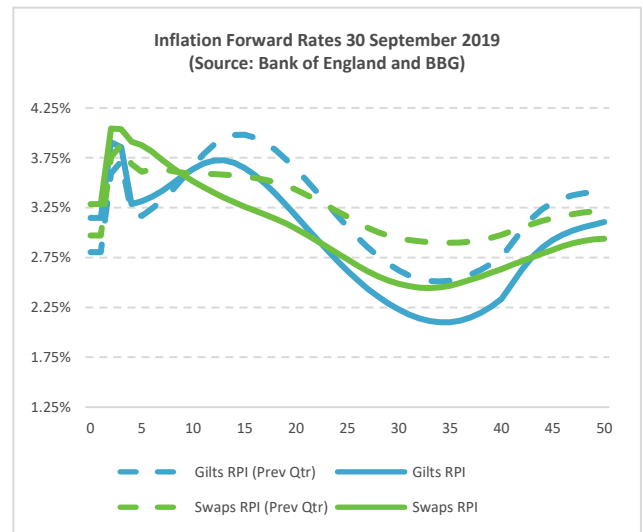
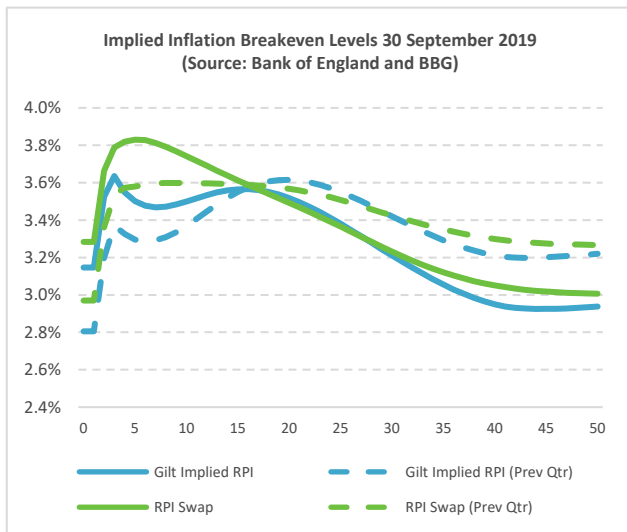
The ongoing trade dispute between the US and China, and its disruption to global supply chains, continues to impact both realised and forecast global growth. The US economy is expected to continue to outperform but, here too, a slow-down is expected. The German economy may enter technical recession in Q3, following Q2's contraction and a continued plunge in activity in its critical manufacturing sector. Though the UK is expected to avoid entering technical recession in Q3, following the expected contraction in Q2, forecasts have slumped, reflecting acute Brexit uncertainty and increasing evidence of its negative impact on business investment.



Highlighting the weakness in investment and trade, the Global Manufacturing PMI has continued to drift lower and is now below 50 (indicating contraction). Notably, these indices in the US and Germany have fallen to their lowest levels in a decade in Q3. The avoidance of a further slowdown in global growth may become increasingly dependent on the health of the consumer which, so far, has been supported by buoyant labour markets and household spending.

Real wage growth, on the back of generally low levels of unemployment has continued to move higher in the US, but the impact of rising wages on broader inflation measures remains elusive. Forecasts indicate CPI-inflation around target in the US and UK over the next couple of years, but significantly below target in the Eurozone.

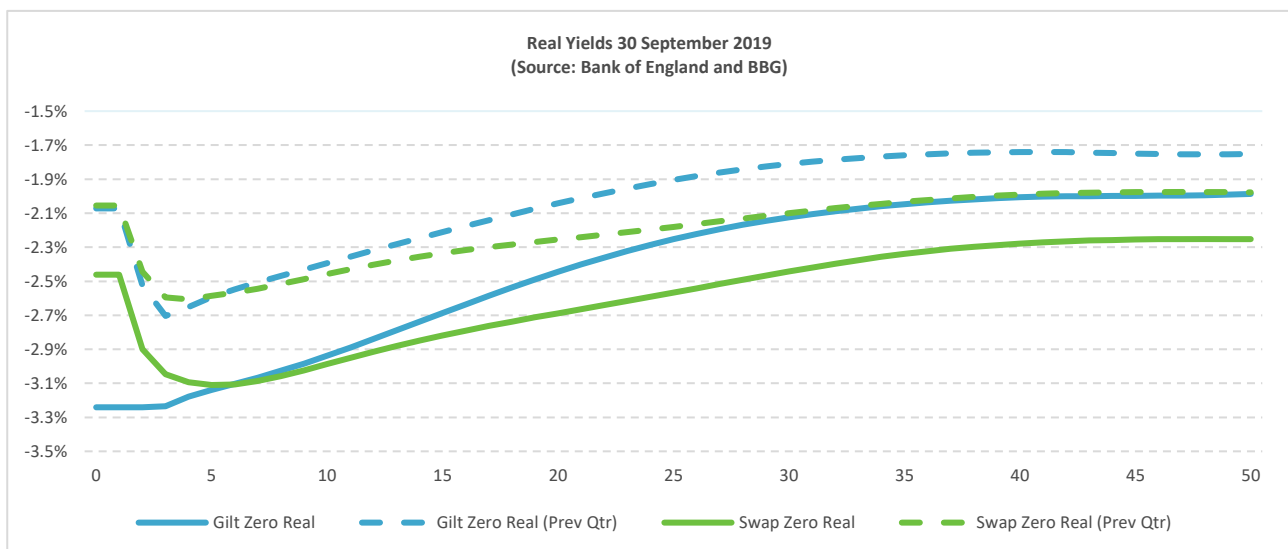




UK implied inflation (the difference between conventional and index-linked gilt yields) has fallen at longer-terms but remains elevated at the short end, potentially reflecting fears of a near-term spike in inflation on the back of potential post-Brexit Sterling depreciation.

A steeper fall in implied inflation at longer terms reflects moves in nominal yields, but also captures the Government's response to the House of Lords report, which recommended statistical deficiencies with RPI be "fixed", pushing down longer-term implied inflation, resulting in upwards pressure on real yields. Regardless, the variation in inflation pricing by term remains a notable feature of UK gilt markets.

While long-term implied inflation is lower, uncertainty over future RPI methodology makes it less obvious index-linked gilts offering better relative value at ultra-long maturities.



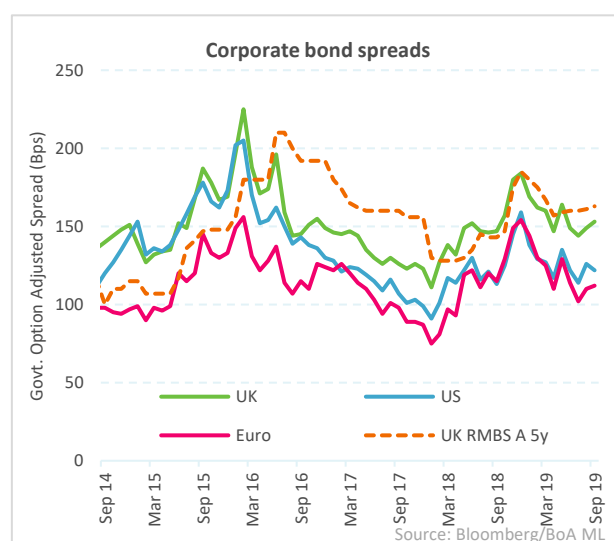
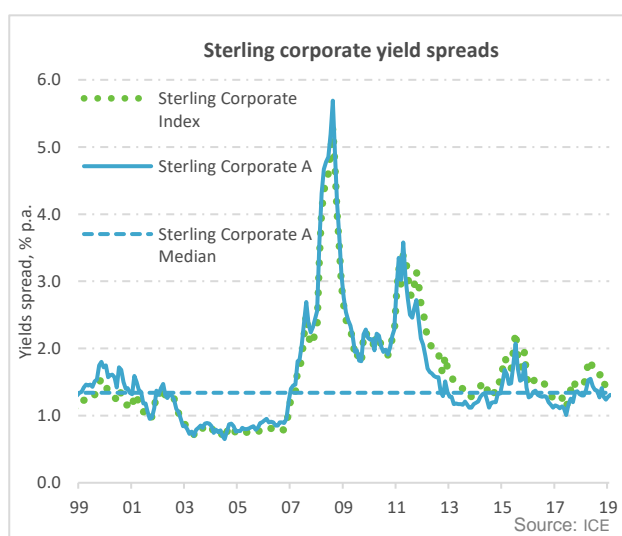
Overall	Fundamentals	Valuations	Technicals
Cautious to negative	Neutral	Very unattractive	Neutral

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 2019	113	128	137
30 September 2019	120	139	146
Median spread over last 5 years	121	125	141
Average spread over last 5 years	124	125	143
Median spread over last 15 years	134	126	147
Average spread over last 15 years	146	136	175

[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.



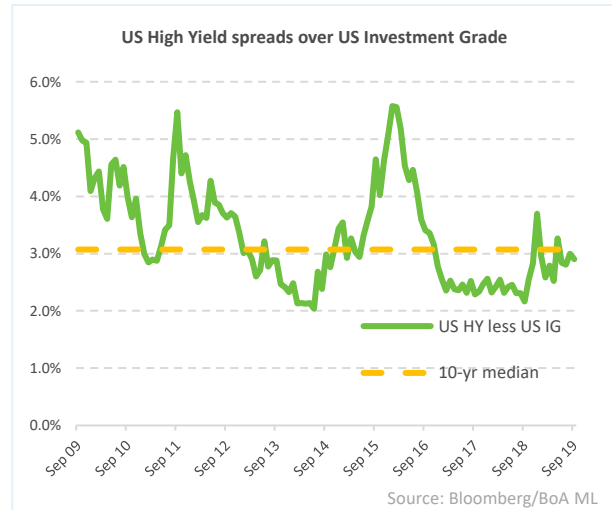
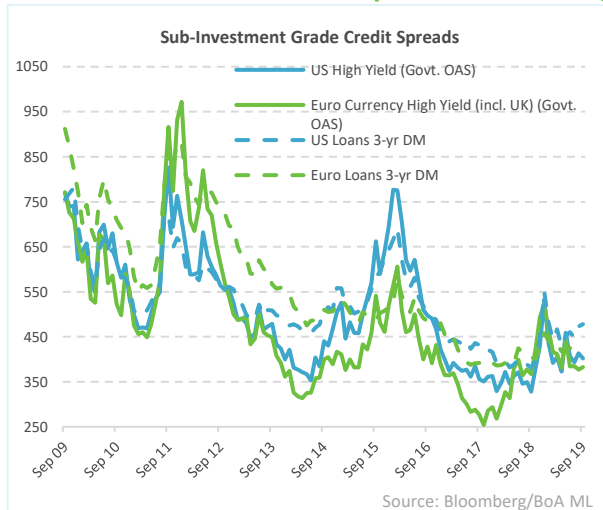
Global investment-grade credit spreads moved in lock-step over the period across the US, Europe and Sterling markets. Spreads continue to hover around long-term median levels; our overall cautious rating reflects our views on levels of underlying risk-free yields rather than views on spread levels. Fundamentals remain intact for now whilst lower underlying government bond yields underpin lower debt costs for corporates. However, if companies respond by increasing leverage, credit quality may suffer. We have upgraded our technical assessment to neutral as investors continue to search for yield in credit markets.

While investment-grade asset backed security (ABS) spreads are also in line with longer-term median levels, our overall view is more positive than for corporates primarily because we think underlying risk-free returns will be better for floating-rate than for fixed-rate assets.

Investment-grade real estate debt continues to offer a reasonable spread premium over BBB-rated corporate credit. Loan-to-values remain conservative (well below pre-crisis levels) and lending discipline remains more robust in this market than in the corporate lending markets.

	Overall	Fundamentals	Valuations	Technicals
IG corporate bonds	Cautious	Neutral	Neutral	Neutral
ABS	Neutral	Neutral	Neutral	Neutral
RED	Neutral	Neutral	Neutral	Neutral

3.5 Sub Investment Grade Corporates and Emerging Market Debt

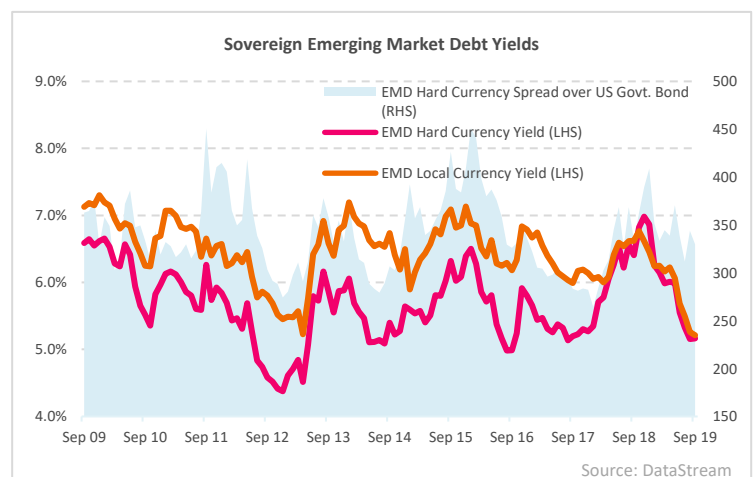


Speculative-grade credit spreads, particularly the higher quality portion of the high yield market, remain at levels which offer increasingly scarce reward, given the deteriorating fundamental backdrop. Leverage has drifted higher while interest coverage has fallen in 2019, and importantly high yield defaults are forecast to rise. As a result, we have downgraded our overall view to Cautious-Negative. We note that slightly better valuations in loans markets versus high yield are balanced against poorer credit fundamentals, and active multi-credit managers will have flexibility to allocate to less unattractive areas in markets.

We continue to prefer private credit markets, both in corporate and commercial real estate lending, where investors benefit from an illiquidity premium and structural protections for lenders. We have shaded down our fundamental view in-line with liquid speculative-grade markets as there has been some deterioration in covenants, however in general the key maintenance financial test covenants remain in place.

Local currency EMD real yields have continued to fall this year as nominal yields have rallied, in response to looser monetary policy in developed markets. Rate cuts from numerous Emerging Market (EM) central banks may provide a headwind for EM currency appreciation but the main index constituents remain slightly cheap based on longer-term averages versus the dollar. Yield spreads on hard currency indices remain around longer-term median levels.

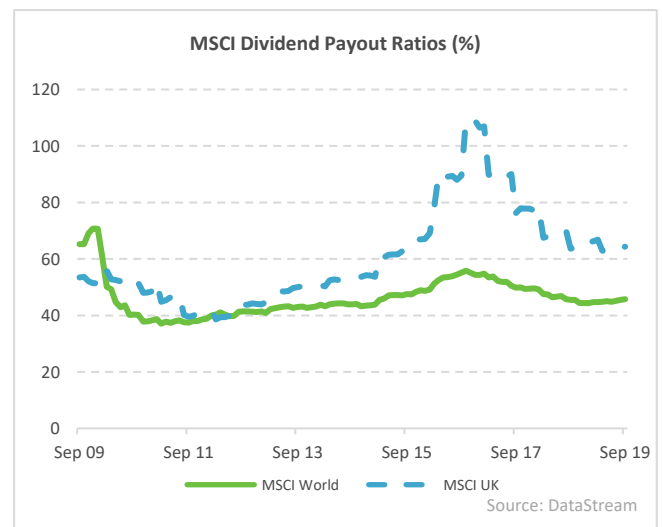
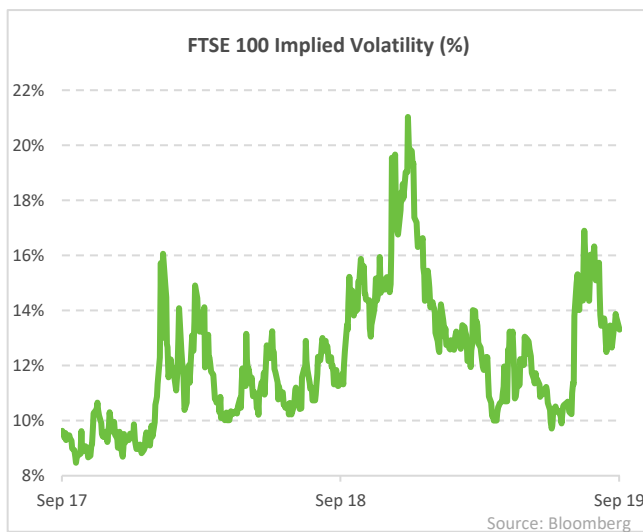
Further loosening of global financial conditions is a positive development for the flow of funds into EM assets as the higher yields in EM prove attractive. Whilst GDP growth has moderated, inflation remains relatively low.



	Overall	Fundamentals	Valuations	Technicals
Public markets	Cautious to negative	Neutral to unattractive	Unattractive	Neutral
Private markets	Neutral to cautious	Neutral to unattractive	Neutral	Neutral
EMD	Neutral	Neutral	Neutral	Neutral

3.6 UK Equity Market

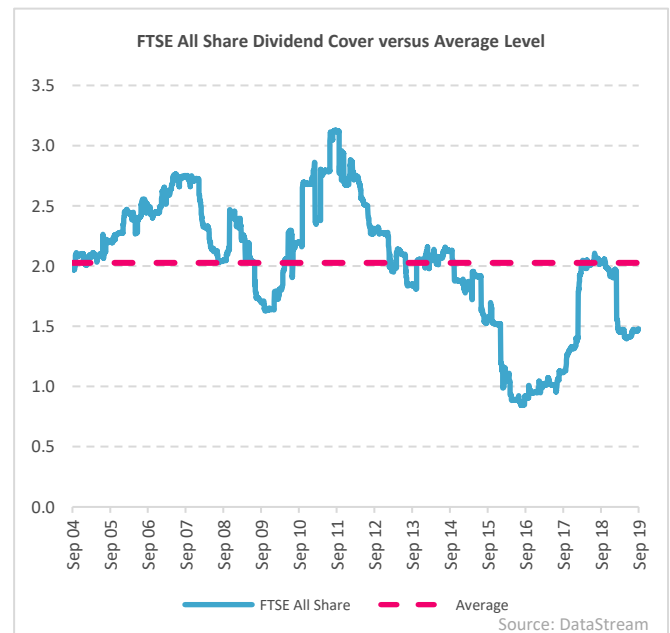
Equity Market Data (Source: Datastream)	30 June 2019	30 September 2019
FTSE All Share Dividend Yield	4.1%	4.2%
Dividend growth over the quarter	-0.2%	2.1%
Dividend growth over the year	9.5%	9.0%
FTSE All Share P/E Ratio	17.1x	16.1x
Total Return during the quarter	3.3%	1.3%
Total Return over the last 12 months	0.6%	2.7%



UK equities were impacted by global slowdown concerns and the ongoing Brexit uncertainty, returning 1.3% over the quarter. Within the market, the more domestically focused FTSE 250 Index outperformed the FTSE 100 Index, after parliamentary action decreased the probability of a no-deal Brexit.

The discount on UK equity valuations relative to global equities remains modestly wider than the historical average. The UK equity market has been cushioned from the ongoing Brexit uncertainty by a combination of its international exposure and the falling currency. However, significant political risks continue to drive outflows from the asset class and deter investors from the historically low valuations.

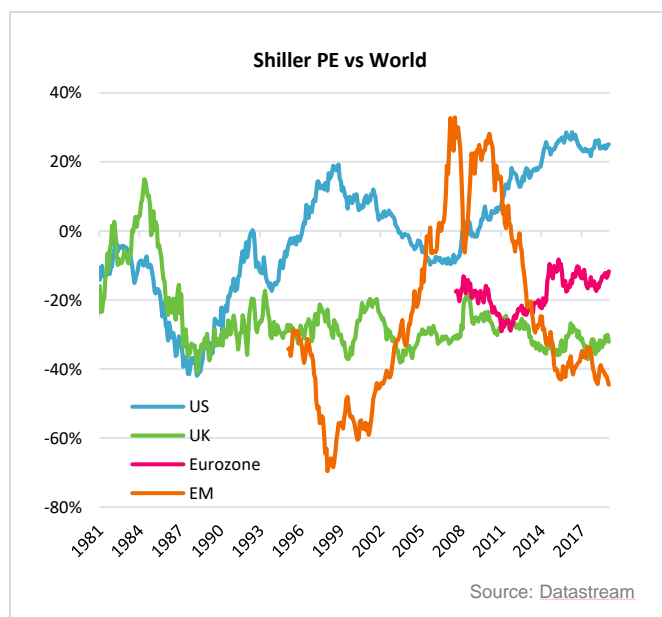
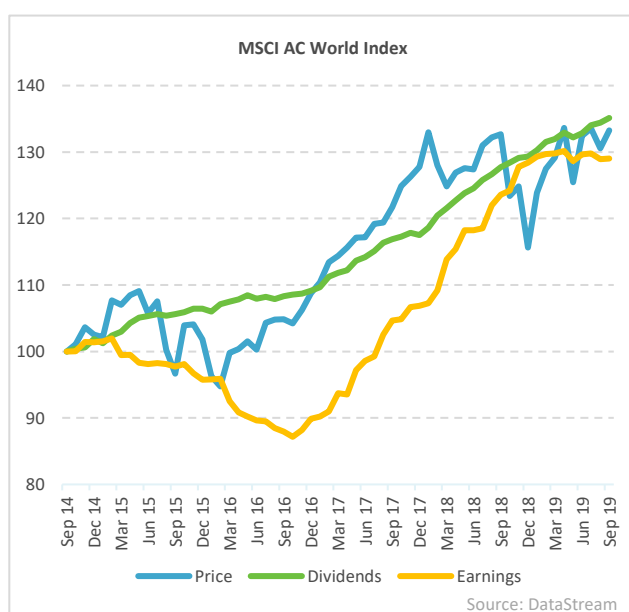
Relative to government bonds, UK equity dividend yields remain close to record highs as dividend payments from UK companies have continued to climb, some of which has been inflated by sterling weakness. As global growth slows, there will be questions over whether companies can maintain these dividends.



3.7 Overseas Equity Markets

MSCI index valuations as at 30 September 2019 (Source: Bloomberg, DataStream)

	P/E (trailing)		P/E (Shiller)		Price/Book		Price/Sales		EV/EBITDA	
	Current	Historic Median	Current	Historic Median	Current	Historic Median	Current	Historic Median	Current	Historic Median
World	18.6	17.9	22.1	21.4	2.4	2.2	1.7	1.3	11.1	9.8
US	21.1	19.1	27.7	20.2	3.4	2.6	2.1	1.6	12.7	10.7
EM	13.2	13.8	12.3	15.6	1.6	1.7	1.1	0.9	9.0	8.0
UK	13.8	14.3	15.0	15.0	1.7	1.9	1.1	1.1	7.8	7.6

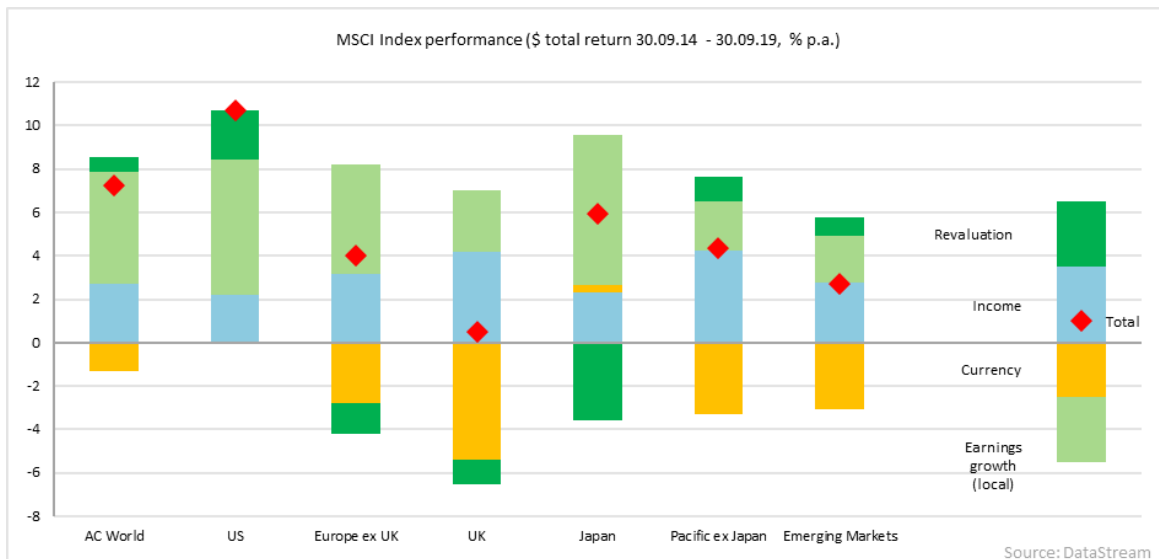


Consistent with the recent deterioration in global economic momentum, corporate earnings have come under pressure this year. While year-on-year earnings growth remains positive, the quarterly earnings growth rate has turned negative this year. Despite this, equity markets have performed well, partly in recognition of the tough year-on-year comparators of 2018 and the fact that earnings have come in above consensus forecasts. However, these forecasts have been steadily revised lower throughout the year. Consensus earnings expectations for 2020 currently point to sharp rebound of around +10% for global equities. We believe these forecasts look optimistic against a backdrop of weakening economic data and the impact of ongoing global trade disputes.

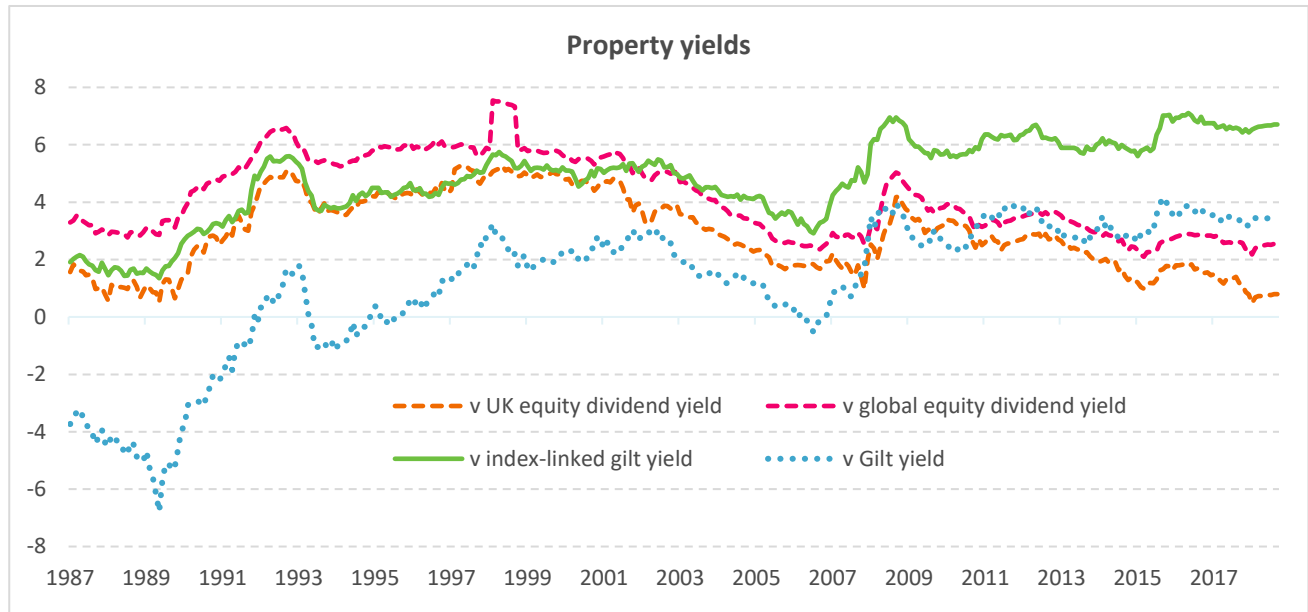
The significant shift in monetary policy has so far offset the impact of the concerns over the global economic slowdown. However, equity markets could prove vulnerable in the event that central banks do not maintain the current policy easing stance. If the economic backdrop proves less supportive than current equity valuations, whilst undemanding by historical comparison, may not reflect the rising risk to earnings. As such, we have downgraded our assessment of fundamentals, and our overall view, to reflect the more uncertain outlook.

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

By the end of Q3, the core global equity valuation metric (World Shiller P/E) remained slightly above long-term median levels. Overall global equity valuations conceal a wide regional disparity, with US equity valuations expensive by historical comparison whilst UK and emerging market equity valuations look more compelling. That said, if the global outlook continues to deteriorate, we expect the more cyclical economies (e.g. Europe ex UK, Japan and EM) to be impacted more than those markets with a more defensive earnings profile, such as the US.



3.8 Property



UK Property

Despite some very gradual yield expansion over recent quarters, absolute initial yields and reversionary yields remain low versus long-term history. Yields are at their lowest since the financial crisis relative to UK equity dividend yields. However, property yields look more compelling when compared to gilts and index-linked gilts.

Fundamentals and technical remain weak, although they have stabilised of late. Investment volumes remain below their 5 and 10 year average this year ahead of any Brexit outcome. This is the situation across all sectors and represents further weakening on the previous quarters where alternatives were above their 5 year quarterly averages.

Overall	Fundamentals	Valuations	Technicals
Cautious	Neutral to unattractive	Unattractive	Unattractive

Long Lease Property

Valuations look more stretched for properties with longer leases, however demand for long, secure income streams remains high from pension funds and other investors. Long lease funds still have queues in place, and while secondary market pricing has started to come down from offer price for some funds, others funds have experienced limited pricing movement.

Overall	Fundamentals	Valuations	Technicals
Neutral to cautious	Neutral	Very unattractive	Neutral

Infrastructure

Our view remains unchanged for infrastructure – valuations remain high, but technical drivers are strong and could underpin further revaluation. The uncertain economic outlook continues to favour long-term infrastructure assets which are typically less sensitive than other growth assets.

Overall	Fundamentals	Valuations	Technicals
Neutral to attractive	Neutral to attractive	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 07
Date: 27 November 2019	

Schedule of Future Meetings and Events

Report by the Compliance Manager

Enquiries to Amanda Crawford on 0333 0321 763

1. Purpose of the Report

- 1.1 To provide the Committee with an update on the schedule of future meetings and events incorporating the process of approval by the Foreign Travel Committee.

2. Recommendation

- 2.1 That the Committee:
 - advise Fund Officers which events they would like to attend; and to
 - note the content of the report.

3. Background

- 3.1 The training strategy for the Committee is currently under review in consultation with the Independent Governance & Administration Advisor (IGAA).
- 3.2 The Financial Conduct Authority ("FCA") issued its final policy statement setting out the rules for implementation of the Markets in Financial Instruments Directive ("MiFID II"), which was effective from 3 January 2018.
- 3.3 The result of this Directive was a requirement that local authorities administering LGPS pension funds are required to “opt up” to be treated as “professional” (rather than “retail”) clients with all their external investment managers and consultants.
- 3.4 Prior to this Directive being effective the Fund was automatically deemed to have professional status. Without the opt up the Fund would default to be treated as a retail client and as a consequence, would then not be able to invest in many of the asset classes and pooled funds it currently invests in.
- 3.5 In order to fulfil the requirements of MiFID II and to maintain “professional client” status, Committee Members are to fulfil regular training to enable decisions to be made. Therefore, Members are invited to attend the following conferences throughout the year:
 - LGPS Governance Conference (January – Annual);
 - LGC Investment Seminar (February – Annual);
 - ACCESS Investor Day (March/April and October – twice each year);
 - PLSA Local Authority Conference (May – Annual);
 - LGC Investment and Pensions Summit (September – Annual); and
 - Baillie Gifford Investment & Training Seminar (October – every three years).
- 3.6 At each ISC meeting, Members will be notified of the upcoming events and Officers will follow this up with an email. A deadline will be provided in order for a space to be reserved. If the deadline is missed, unfortunately Members will forfeit their place at the event.
- 3.7 In addition, adhoc events also take place covering the four main pension areas: Governance, Investments; Funding and Administration. Officers will be in touch with Members as and when these one-day events become available.

4. Upcoming Event(s)

4.1 The next events to take place are:

- January 2020 LGPS Governance Conference to take place on Thursday 23 and Friday 24 January in York; and
- February 2020 LGC Investment Seminar to take place on Wednesday 27 and Thursday 28 February at Carden Park, Cheshire.

4.2 If any member wishes to attend the above-named events, please send notification to compliance.team@essex.gov.uk by close of business:

- January event – 2 December 2019 to enable approval (if necessary) by the Foreign Travel Committee at their meeting on 17 December 2019; and/or
- February event – 6 January 2020 to enable approval (if necessary) by the Foreign Travel Committee at their meeting on 21 January 2020.

5. Finance and Resources Implications

5.1 If an event costs more than £500 for one member or £1,000 in total, then prior approval for any travel by the Foreign Travel Committee is compulsory.

