

<b>Essex Pension Fund Strategy Board</b>	<b>EPB/02/16</b>
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**Investment Steering Committee (ISC) Quarterly Report**

Report by the Director for Essex Pension Fund

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**1. Purpose of the Report**

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

**2. Recommendations**

2.1 That the Board should note the report.

### **3. Background**

3.1 In accordance with its Terms of Reference, the ISC is required to submit quarterly reports on its activities to the Essex Pension Fund Strategy Board (the Board).

3.2 Since the Board's last meeting the ISC has met once on 22 February 2016.

### **4. Report of the meeting of ISC on 22 February 2016**

4.1 A draft schedule of meetings for the municipal year 2016/17 was tabled for Members consideration.

4.2 The Committee noted the work undertaken on the Fund's Investment Cost compared to its peer group.

4.3 The main focus of the meeting's business was the developments in respect of the structural reform of the LGPS and the six monthly review of strategy.

4.4 By way of background, Kevin McDonald, Director for Essex Pension Fund updated the Committee on the findings of "Project Pool", a collaborative joint working group of officers of over 25 LGPS Fund's, the emerging pooling group arrangements and the Fund's proposed draft response to the draft LGPS investment regulations.

4.5 The Committee agreed that:

- the Fund's response to the draft investment Regulations be based on the points made in section 7 of the report and updated (as shown in italics) as follows:
  - welcome removing the old investment limits and the introduction of prudential approach;
  - support for the inclusion of an explicit reference to fiduciary duty within the Regulations;
  - oppose *absolutely* the Secretary of State's power to direct investments without *rigorous* checks and balances;
  - strongly reaffirm the fundamental principle that LGPS investment decisions, including those made with regard to infrastructure, must be based upon each Fund's risk/return objectives; and
  - argue for more time to prepare new ISS (current deadline 1 October).
- the Essex Pension Fund, as administered by Essex County Council, is a signatory on the joint ACCESS submission;
- the Essex Pension Fund participates exclusively within the ACCESS pooling group of funds at this time;

- Officers go back to the ACCESS pooling group and request that the Memorandum of Understanding (MOU) reference the Chairman's Steering Group; and
  - further details on the approach to pooling are brought to future Committee meetings for ongoing consideration.
- 4.6 The Committee received a report from Hymans Robertson in conjunction with the Independent Investment Adviser and the Director for Essex Pension Fund which provided a high level health check of the overall Fund structure and addressed outstanding issues with the Fund's Investment Managers.
- 4.7 After discussion of the report the Committee noted that:
- the overall structure, now well established remains appropriate given both the Committee's stated investment beliefs and objectives set as part of the 2013 Valuation and as a consequence no changes were proposed to the equity or bond portfolios; and
  - the continuing disappointing performance of M&G Investments global equity mandate.
- 4.8 The Committee also received an update on cash flow arrangements which highlighted that existing arrangements were forecast to generate sufficient investment income to supplement contribution income to pay benefits during 2016/17.
- 4.9 The Committee agreed that:
- Baillie Gifford's existing remit of permissible investments be retained and the manager's request to expand this to include unlisted investments be declined at this time;
  - a c.1% allocation to Infracapital's continuation fund be made in principle, subject to further investigation by the Officers & Advisors on the final terms of the deal;
  - Officers & Advisors undertake additional due diligence on Infracapital's greenfield proposal;
  - Officers & Advisors bring back to a future meeting proposals for a longer term approach to realising income over the next 3 to 5 years and in the short/medium term monitor, in particular, the Fund's allocation to property does not become diluted as income continues to be drawn; and
  - Hamilton Lane be requested to attend the March ISC meeting in order that the Committee can review the Fund's private equity portfolio and agree future commitments.

## **5. Link to Essex Pension Fund Objectives**

### **5.1 Investments**

- To maximise the returns from investments within reasonable risk parameters.
- To ensure the Fund is properly managed.

## **6. Risk Implications**

6.1 The current investment risks associated with the Fund's investment strategy are those detailed in the Statement of Investment Principles.

6.2 Officers and advisers will examine the potential risks associated with pooling once the structures and timescales for the migration of Fund assets are better understood. These will then be brought to a future meeting of the ISC for consideration.

## **7. Communication Implications**

7.1 The Fund was a signatory on the ACCESS proposal to Government in February. A further submission is required in July 2016.

## **8. Finance and Resources Implications**

8.1 In addition to the work undertaken by Officers, it is expected that the Fund will make a contribution of £17,000 to the costs of the JWG initiative (project POOL).

8.2 In addition to the work undertaken by Officers, it is anticipated that the costs of participating in ACCESS will be £25,000 per Fund for the period between February and July 2016.

8.3 Further costs, of a significant nature, will be incurred in the development and establishment of pools.

## **9. Background Papers**

9.1 ISC meetings of 22 February 2016 – agenda and draft minutes.

9.2 DCLG consultation "Opportunities for collaboration, cost saving and efficiencies" – May 2014

9.3 Fund response agreed 9 July 2014

- 9.4 PricewaterhouseCoopers report on establishing Collective Investment Vehicles
- 9.5 25 November 2015 publications released with the Chancellor's Autumn Statement documents :
  - (i) criteria for LGPS investment reform
  - (ii) a consultation on revised LGPS Investment Regulations and
  - (iii) Government's response to the May 2014 consultation on "*Opportunities for collaboration, cost saving and efficiencies*"
- 9.6 Findings of "Project Pool".