
Essex Pension Fund Investment Steering Committee (ISC)

Minutes of a meeting of the Essex Pension Fund Investment Steering Committee held at 2:00pm at County Hall, Chelmsford on 18 June 2014

Present

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|-----------------------------------|----------|
| Cllr R L Bass (Chairman) | Essex CC |
| Cllr N Hume | Essex CC |
| Cllr S Barker | Essex CC |
| Cllr K Clempner | Essex CC |
| Cllr N Le Gresley | Essex CC |
| Cllr J Whitehouse | Essex CC |
| Cllr K Bobbin (Labour substitute) | Essex CC |

Keith Blackburn (Observer representing scheme members) UNISON

The following Essex Pension Fund Board members were present;
Charles Garbett Essex Pension Fund Board

The following Advisers were present in support of the meeting;

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|--------------|---------------------|
| Keith Neale | Independent Adviser |
| John Dickson | Hymans Robertson |
| Matt Woodman | Hymans Robertson |

The following officers were present in support of the meeting;

| | |
|------------------|---------------------------------|
| Kevin McDonald | Director for Essex Pension Fund |
| Samantha Andrews | Investment Manager |
| Shani Ominiyi | Investment Accountant |

1 Membership

The Committee's membership, as agreed at the annual meeting of Essex County Council on 13 May 2014 was noted as follows:

(3 Conservative* : 1 Labour : 1 Liberal Democrat : 1 UKIP)

* The Conservative Group has indicated it does not intend to take up its entitlement to a majority of seats on this Committee

Cllr Rodney Bass - Conservative
Cllr Susan Barker - Conservative
Cllr Karen Clempner - Labour
Cllr Norman Hume - Conservative
Cllr Nigel Le Gresley - UKIP
Cllr Jon Whitehouse - Liberal Democrat

Conservative substitute : Cllr John Spence

Labour substitutes : Cllr Bill Archibald, Cllr Keith Bobbin

Liberal Democrat substitute : Cllr Mike Mackrory

UKIP substitute : Cllr Jamie Huntman

In addition the Committee also has the following observers:

Cllr John Archer – representing employers

Mr Keith Blackburn – representing scheme members

2 Chairman

It was noted that on 13 May 2014, Cllr Rodney Bass was formally appointed at the annual meeting of Essex County Council, Chairman of the Essex Pension Fund Board and the Essex Pension Fund Investment Steering Committee.

3 Appointment of Vice Chairman

It was agreed that Cllr Norman Hume be appointed Vice Chairman.

4 Apologies for absence

Apologies were received from Margaret Lee (Executive Director for Corporate Services & Corporate Operations)

5 Terms of Reference

The Committee received a report from Kevin McDonald, the Director for Essex Pension Fund outlining the Essex Pension Fund Investment Steering Committee Terms of Reference formally approved by Essex County Council on 6 May 2008.

At the 13 May 2014 meeting, Essex County Council formally amended the Terms of Reference to include the following responsibility:

‘To approve and review annually the content of the Pension Fund Treasury Management Strategy.’

The report was noted.

6 Declaration of Interest

There were none

7 Minutes

Kevin McDonald drew attention to Item 6, the Fund’s Treasury Management Strategy. He highlighted that the internally managed Counterparty Lending List had been included as an Annex to the Treasury Management Strategy in line with the ISC’s discussion of this matter on 26 March 2014.

In addition, it was noted that the Chairman agreed on 17 April 2014 to a temporary variation to the Pension Fund Treasury Management Strategy, increasing the upper limit on funds placed with the Northern Trust Global Liquidity fund from £60m to £80m. The temporary limit was effective from 17 April to 12 May 2014. The purpose, to accommodate the receipt of deficit contributions in April and the reallocation of £120m between the Bond mandates.

The minutes of the meeting of the Committee which took place on 26 March 2014 were approved as a correct record.

8 Structural Reform of LGPS _DCLG consultation: “Opportunities for collaboration, cost saving and efficiencies”

Kevin McDonald, Director for Essex Pension Fund introduced a report updating the Committee on the developments regarding the potential structural reforms of the Local Government Pension Scheme.

The Committee were informed that on 1 May 2014 DCLG published the consultation document “Opportunities for collaboration, cost saving and efficiencies” along with the analysis undertaken by Hymans Robertson.

He explained that the consultation asked a series of questions around four key areas:

- establishing common investment vehicles (CIV’s) as a mechanism to access economies of scale;
- the use of passive management for listed assets;
- keeping asset allocation decisions at local fund level; and
- the call for greater transparency and comparable data.

He highlighted that at present no proposal was put forward within the consultation documentation for fund mergers.

Following discussions **it was agreed:**

- That Officers draft a response taking into account the following observations:
 - **CIVs**
 - The Committee envisaged a number of operational concerns.
 - Monitor developments within the London CIV.
 - **Passive vs. Active**
 - The Committee believes passive management has a role with LGPS. 30%+ of Fund assets already invested in this way.
 - Strong opposition to any compulsion that Funds must manage 100% of listed assets in a passive way.
 - **The Fund’s Approach**
 - The Fund has had a set of investment beliefs for some years which are reviewed annually and included within the Statement of Investment Principles. These beliefs form the basis for setting the strategic allocation of the Fund.
 - This good practice should be shared with the wider LGPS.

- **Fund Deficits**

- It was felt that there was merit in highlighting the factors that contributed to Fund deficits:
 - Reduction in employer contribution requirements which coincided with the introduction of the community charge.
 - The abolition of tax relief on ACT.
 - Sharp rises in longevity.
 - Global Quantitative Easing.
- That the Essex Pension Fund's draft response to the consultation be brought to the next Essex Pension Fund Board meeting on 9 July 2014 for consideration.

9 Market Commentary

John Dickson introduced a report by Hymans Robertson on the markets as at 31 March 2014.

The report was noted.

10 Matters of Interest

Kevin McDonald was pleased to inform the Committee that on 20 May 2014 the Essex Pension Fund won another prestigious award, that of *Professional Pensions* "Public sector Scheme of the Year".

The Chairman on behalf of the Committee expressed his thanks to everyone involved in the Fund for their contribution in achieving this award.

The report was noted.

11 Urgent Part 1 Business

There were none.

12 Exclusion of the Public

Resolved:

That the Public (including the press) be excluded from the meeting during consideration of the following items on the grounds that they involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972:

- Q1 2014 Investment Tables;
- Traffic Light Report;
- Update on transition to revised bond mandates;
- Investment Structure considerations;

- Update on Investment Managers presenting – First State and Aviva Investors;
- Investment Manager Presentation – First State
- Investment Manager Presentation – Aviva Investors

13 Q4 2013 Investment Tables

(Press & public excluded)

The Committee received a report from Kevin McDonald, Director for Essex Pension Fund in consultation with Keith Neale Independent Investment Adviser, which gave details of the Fund's investment performance for the quarter ending 31 March 2014.

The value of the Fund increased from £4.253bn as at 31 December 2013 to a value of £4.287bn.

The report was noted.

14 Traffic Light Report

(Press & public excluded)

The Committee received a report which summarised the current views of Hymans Robertson on each of the Fund's managers.

Specific reference was made to Legal & General relocating their North American operations to Chicago and the retirement of one of the co-founding partners of Longview which resulted in a change in their partnership arrangements.

Matt Woodman highlighted that the report showed no specific concerns with respect to these changes. The result of this was no changes had been made to the Fund Manager overall ratings.

The report was noted.

15 Update of transition to revised bond mandates

(Press & public excluded)

The Committee received a report from Kevin McDonald, Director for Essex Pension Fund updating the Committee on the progress with regard to rebalancing the bond mandates back to their strategic allocation.

£120m was reallocated, £70m to M&G Alpha Opportunities and £50m to GSAM. The rebalancing was financed by deficit contributions paid in April of £40m and the remainder from the index linked portfolio managed from Legal & General. The rebalancing took place at the end of April and was completed on 12 May 2014.

The report was noted.

16 Investment Structure Consideration

(Press & public excluded)

Matt Woodman introduced a report following on from the ISC discussions on 26 February about the possibility of allocating 2% (£80m -£100m) of assets to an illiquid debt opportunity pooled fund.

Following discussions **it was agreed:**

- that a shortlist of preferred managers be interviewed at the Strategy meeting of 23 July 2014; and
- that the report be noted.

17 Update on Investment Manager presenting – First State and Aviva Investors

(Press & public excluded)

The Committee received a report from Hymans Robertson on First State and Aviva Investors

Following discussions the report was noted.

18 Investment Manager Presentation – First State

(Press & public excluded)

The Committee received a presentation from Fraser Wood and Alan Nesbitt on the emerging market portfolio held by First State.

The presentation was noted.

19 Investment Manager Presentation – Aviva Investors

(Press & public excluded)

The Committee received a presentation from Sarah Emberson, Anna Rule and Alistair Dryer on the property mandate managed by Aviva Investors.

Following questions **it was agreed:**

- that the £25m that had still yet to be drawn down be released to Aviva as and when required; and
- that the presentation be noted.

20 Urgent Exempt Business

(Press and public excluded)

There was none.

There being no further business, the meeting closed at 4:25pm.

Chairman
23 July 2014