

Essex Pension Fund Strategy Board	EPB/27/15
date: 16 December 2015	

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 Board.
- 3.2 Since the Board's last meeting the ISC has met once on 25 November 2015.

4. Report of the meeting of ISC on 25 November 2015

- 4.1 The Committee received an update from the Chairman on the recent Local Government Association (LGA) event held for LGPS Pension Fund Committee Chairs. This was followed by an update outlining the other latest developments regarding the potential structural reform of the LGPS.
- 4.2 The Committee noted the proposed introduction by the European Commission of the Markets in Financial Instruments Directive II (MiFiD II) due to take effect in January 2017 and its potential impact on the Essex Pension Fund. The Committee agreed that a new risk, reflecting the potential impact of the introduction of MiFiD II to the Fund, be added to the Fund's risk register.

Objectives Area at Risk	Objective at Risk	Risk Ref	Description of Risk of not Achieving the Objectives	Gross Impact	Gross Probability	Gross Risk score	Possible Actions	Residual Impact	Residual Probability	Residual Risk Score
Investments	To ensure the Fund is properly managed	I16	The implementation of MiFiD II leads to the Fund being categorised by some / all of its service providers as a 'retail client' - the result of which could reduce the range of sub asset classes in which the Fund is able to invest, and may even require divestment from the current portfolio.	4	3	12	1. Negotiations led by CIPFA/Interim Advisory Board/LGA aimed towards LGPS nationally retaining professional client status. 2. Fund Officers working with Fund Managers & Investment Advisers aimed towards the Essex Fund retaining professional client status.	4	2	8

- 4.3 A verbal update on Q2 September 2015 market conditions was discussed followed by a report on Q2 2015 Investments Tables, which detailed investment manager performance. It was noted that the Fund's value had decreased £4.887bn as at 30 June 2015 to a value of £4.725bn as at 30 September 2015. It was noted that the value of the Fund has since recovered.
- 4.4 The Committee noted the traffic light report on investment managers and the report of the meeting that officers & advisers had held with M&G Infracapital on 26 October 2015. It was agreed that Officers in conjunction with Advisers explore the options highlighted in the report in more detail, with a view to bring back a recommendation to the February 2016 Strategy meeting.

- 4.5 The Committee received an update on progress regarding the global equity rebalancing of Baillie Gifford's mandate back to within 1% of its strategic allocation. It was noted that the transition strategy was highly effective, completing on schedule and was well within the pre-trade cost estimation.
- 4.6 A report was received by the Committee on the review of the global custody services provided by Northern Trust. It was agreed that a further report be brought back in the first quarter of 2016 reviewing the global custody services provided by Northern Trust.
- 4.7 Presentations were received from Longview Partners on the global equity portfolio and Stewart Investors on the emerging market portfolio. On the emerging market portfolio, discussion covered areas of potential new investment, and Stewart Investors agreed to provide further background detail on the limits that would apply in these circumstances.

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 In addition to those already identified those already identified as part of the Fund's investment strategy (and detailed in the Statement of Investment Principles) a new risk associated with MiFiD II is set out at 4.2.

7. Communication Implications

- 7.1 None

8. Finance and Resources Implications

- 8.1 None other than those already identified as part of the Fund's investment strategy.

9. Background Papers

- 9.1 ISC meetings of 25 November 2015 – agenda and draft minutes.
- 9.2 LGA pensions team briefing Note 16 October 2015