Essex County Council

Essex Pension Fund Investment Steering Committee

13:00	**Tuesday, 21 July 2020**	**Online Meeting,**

The meeting will be open to the public via telephone or online. Details about this are on the next page. Please do not attend County Hall as no one connected with this meeting will be present.

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

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.

In accordance with the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020, this meeting will be held via online video conferencing.

Members of the public will be able to view and listen to any items on the agenda unless the Committee has resolved to exclude the press and public from the meeting as a result of the likely disclosure of exempt information as defined by Schedule 12A to the Local Government Act 1972.

How to take part in/watch the meeting:

Participants: (Officers and Members) will have received a personal email with their login details for the meeting. Contact the Compliance Team if you have not received your login.

Members of the public:

Online:
You will need the Zoom app which is available from your app store or from www.zoom.us. The details you need to join the meeting will be published as a Meeting Document, on the Meeting Details page of the Council's website (scroll to the bottom of the page) at least two days prior to the meeting date. The document will be called "Public Access Details".

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The agenda is also available on the Essex County Council website, www.essex.gov.uk From the Home Page, click on 'Running the council', then on 'How decisions are made', then 'council meetings calendar'. Finally, select the relevant committee from the calendar of meetings.

Please note that an audio recording may be made of the meeting – at the start of the meeting the Chairman will confirm if all or part of the meeting is being recorded.

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.

8 **Covid-19 Impact on Market Economies and the Fund**

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

9 **Update on Investment Managers Presenting: ISC Briefing Note on Hamilton Lane**

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

10 **Investment Manager Presentation on Private Equity - Hamilton Lane**

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

11 **Review of the Fund's Management Fees paid compared to Peers: Value for Money Review**

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

12 **Structural Reform of Local Government Pension Scheme - Pooling Quarterly update of ACCESS Joint Committee (AJC)**

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

13 **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 Pension Fund Investment Steering Committee	ISC 01
Date: 21 July 2020	

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 21 July 2020 ISC.

2. Recommendation

2.1 That the Committee should note:

- Membership as shown opposite;
- Apologies and substitutions;
- The changes in the Conservative Substitute Member representatives; and
- Declarations of Interest to be made by Members in accordance with the Members' Code of Conduct and the Essex Pension Fund's Conflict of Interest Policy.

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

4. Changes to Substitute Membership Arrangements

4.1 The Fund has been informed that Councillor Andy Erskine has stepped down from his position as Conservative Group substitute for the Essex Pension Fund Strategy Board and Investment Steering Committee.

4.2 Councillor Mark Durham and Councillor Bob Massey have been appointed as the new Conservative Group substitutes.

4.3 Cllr Allan Davies is unaffected by this change and continues in his role as Labour Group substitute.

**Non-Aligned Group have indicated that they do not wish to take their place on this Committee, so it is for the Council to decide the allocation. The Conservative Group, as the majority Group, have indicated that they wish to take the vacancy.*

Essex Pension Fund Investment Steering Committee	ISC 02
Date: 21 July 2020	

Confirmation of the Annual Arrangements for the Appointment of the Chairman and Vice Chairman of the Essex Pension Fund and Terms of Reference

Report by the Compliance Manager

Enquiries to Amanda Crawford on 03330 321763

1. Purpose of the Report

1.1 To provide the Committee with an update in regard to the annual arrangements of the appointment of the Chairman and Vice Chairman of the Essex Pension Fund.

1.2 To note the Committee's Terms of Reference (ToR).

2. Recommendation

2.1 That the Committee note:

- the continuation of the Chairman and Vice Chairman current arrangements; and
- the Investment Steering Committee (ISC) Terms of Reference, as set out overleaf in Appendix A to this report.

3. Background

3.1 Each year at the Council's Annual Meeting the Essex County Council (ECC) Chairmen appointments are confirmed for the forthcoming municipal year. The Pension Fund Strategy Board and Investment Steering Committee Chairman is then reaffirmed at their respective first meetings.

3.2 In addition, at this first meeting the Vice Chairman is also elected.

3.3 The Council's Annual meeting was due to take place in May 2020. Unfortunately, due to the circumstances around Covid-19, this meeting has been deferred to later in the year.

4. Chairman and Vice Chairman Arrangements

4.1 Fund Officers have been advised by Essex's Democratic Services Team, that all existing arrangements will remain in place until such time that the Annual Meeting can be held.

4.2 As such, Councillor Susan Barker and Cllr Mark Platt will continue to perform the role of Chairman and Vice Chairman of the Pension Fund respectively.

5. Terms of Reference (ToR)

5.1 The ToR of the Essex Pension Fund ISC, as reflected within the Constitution of ECC are set out in Appendix A.

5.2 It is recommended that these are noted.

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.

Minutes of the Meeting of the Essex Pension Fund Investment Steering Committee (ISC) held in Committee Room 2, on 19 February 2020

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 L Scordis		
Cllr C Souter		

Scheme Employer Representative

Cllr C Riley	(Observer)	Left 4pm

Scheme Member Representative

Sandra Child (UNISON)	(Observer)

The following Officers and Advisers were also present in support:

Jody Evans	Interim Director for Essex Pension Fund
Samantha Andrews	Investment Manager
Amanda Crawford	Compliance Manager
Helen Pennock	Compliance Analyst
Mark Stevens	Independent Adviser
John Dickson	Hymans Robertson
Matt Woodman	Hymans Robertson

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

Andrew Coburn	UNISON

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

Opening Remarks

The Chairman welcomed the Committee and Andrew Coburn, PAB Observer.

Apologies for Absence

It was noted that Cllr A Erskine and PAB Members, Debs Hurst, James Durrant, James Sheehy and Stuart Roberts were unable to attend the meeting.

Cllr A Hedley and Cllr M Maddocks were also not present at 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 S Barker also declared that she sits on the Foreign Travel Committee.

Cllr A Goggin stated that his wife, sister and brother-in-law were in receipt of an Essex LGPS pension.

Cllr C Riley and Sandra Child declared they were in receipt of an Essex LGPS pension.

Cllr M Platt declared that he is the Deputy Cabinet Member for Environment & Climate Change Action.

Resolved:
The Committee noted the report.

2. Minutes

Minutes of the meeting of the ISC held on 27 November 2019 were approved as a correct record and signed by the Chairman.

3. Schedule of Meetings

The Committee received a report from the Compliance Manager detailing the remaining planned Committee and Board meetings for this municipal year along with the planned Committee and Board meetings for 2020/21.

It was reconfirmed that the ISC meeting on 25 March 2020 would commence 1.00pm and the 4 March 2020 PSB meeting 10am.

Members were also reminded that Committee and Board meetings for 2020/21 would all now commence at 10.00am unless otherwise stated.

The Chairman notified the Committee of the events/conferences that were on the horizon. Members were advised to contact the Investment Manager if they would like to attend any of the events discussed, by the given deadlines in order for approval of travel to be sought from the Foreign Travel Committee if required.

In regard to the ACCESS Investor Day the Chairman informed that on this occasion she would be unable to attend. It was noted that due to potentially limited number of places available, places would be offered to ISC Members in the first instance.

Investment Steering Committee

25 March 2020 – 1.00pm
21 July 2020 – 11.00am
21 October 2020 – 10.00am
20 January 2021 – 10.00am
24 March 2021 – 10.00am

Pension Strategy Board

4 March 2020 – 10.00am
17 June 2020 – 10.00am
23 September 2020 – 10.00am
16 December 2020 – 10.00am
17 March 2021 – 10.00am

Resolved:
The Committee noted the schedule of meetings and events for the remainder of 2019/20 and the schedule of meetings and events for 2020/21.

4. Capital Markets Outlook

Matt Woodman from Hymans Robertson provided a verbal update in relation to the market's in particular, the reaction post Brexit and the initial reactions to the Coronavirus outbreak.

Resolved:
The Committee noted the update.

5. Investment Strategy Statement (ISS) Review of Responsible Investment Policy

The Committee were reminded of the process undertaken to date in regard to the review of the Investment Strategy Statement (ISS) and Responsible Investment (RI). In particular the outcome from the RI workshop held on 25 October 2019 whereby a set of RI beliefs were articulated and subsequently ratified at the November meeting.

It was explained that the beliefs had now been translated into a RI Policy.

The Committee were informed that once agreed, the RI Policy would be incorporated within the revised ISS and would be shared with the Fund's Investment Managers for comment.

The Investment Manager updated the Committee on the results of the RI Priority survey that was undertaken on a sample of stakeholders.

It was noted that a statement providing an update on the review of the ISS was on the Essex Pension Fund website.

Resolved:
The Committee agreed:

- the RI beliefs ratified at the November ISC meeting were an accurate reflection and have been translated fully into the RI Policy outlined in the report (agreed by a show of hands);
- the RI Policy outlined in the report be incorporated into the revised ISS;
- the RI Policy be issued to the Fund's Investment Managers for comment and for feedback to be brought back to the next ISC meeting; and
- the priority areas identified for RI be shared with the LAPFF and the Fund's Investment Managers as the basis for engagement.

Resolved:
The Committee noted:

- the priority areas for RI consideration and engagement; and
- the content of the report.

6. 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.

7. PART TWO Minutes of ISC meeting 27 November 2019

The Chairman drew the Committee's attention to a small amendment that had been made to the ISC's 27 November 2019 Part Two minutes. The revised Part Two minutes of the meeting of the ISC held on 27 November 2019 were subsequently approved as a correct record and signed by the Chairman.

8. Structure Review – De-risking

a. Strategy Implementation Tracker

The Committee received a report from Hymans Robertson on the progress made to date in regard to the strategy implementation.

Resolved:
The Committee noted the presentation, progress made to date and the content of the report.

b. Bitesize Training – Timber

The Interim Director for Essex Pension Fund reminded the Committee that the approach in regard to Member's training was in the process of being reviewed by Fund Officers in consultation with the Independent Governance & Administration Adviser (IGAA).

Following initial feedback, Bitesize Training had been identified as a useful approach to refresh Member's knowledge prior to deliberations.

It was also confirmed that training days had been incorporated into the ISC 2020/21 calendar.

The Committee received a training presentation from Hymans Robertson whereby an overview of the Essex Pension Fund's current Timber Allocation was provided.

Resolved:
The Committee noted the presentation.

c. Timber Allocation

The Committee received a report from Hymans Robertson in consultation with the Interim Director for Essex Pension Fund and the Independent Investment Adviser on considerations in regard to the Fund's Timber allocation.

Resolved:
The Committee noted the content of the report.

Resolved:
The Committee agreed:

- to increase the strategic allocation to timber from 2% to 4% of the Fund by increasing the target allocation of the existing manager, Stafford Capital Partners;
- a £100m commitment be made to Stafford International Investment Timberland (SIT) IX Fund;
- that consideration be given to Stafford's co-investments as and when suitable opportunities arise; and
- Officers in consultation with Advisers review and complete the necessary subscription documentation.

d. Bitesize Training – Direct Lending

The Committee received a training presentation from John Dickson from Hymans Robertson whereby an overview of the Direct Leading asset class was provided.

Resolved:
The Committee noted the presentation.

e. Structure Review

John Dickson provided an update on the strategic allocation structure review. Discussions were had in regard to the final decisions required to complete Stage 2, reducing the equity allocation by 10% to 50% target allocation and the commencement of Stage 3, reducing the equity allocation by a further 5% to 45% target allocation.

Resolved:
Following discussions, the Committee agreed:

- the decision made at the 15 November 2017 ISC to transfer up to 15% of the strategic allocation from equities to return seeking alternative assets continues to remain appropriate;
- the recommendations in regard to Stage 2 as set out on page 53 and 54 of the report;
- that further consideration would be required in regard to Stage 3; and
- to note the content of the report.

9. Competition and Market Authority Objectives

Members were reminded that at their November ISC meeting a set of strategic objectives were agreed for the Fund's Institutional Investment Consultants. This was subsequently followed up on 10 January 2020 with a meeting with the ISC Chairman, Vice Chairman, Hymans Robertson and Fund Officers to discuss the objectives and the initial baseline assessment.

Resolved:
The Committee noted the update.

Resolved:
The Committee agreed:

- the baseline assessment, as set out in Annex A of the report, of the strategic objectives of the Fund's Institutional Investment Consultant, Hymans Robertson;
- Fund Officers to periodically monitor and review Hymans Robertson's progress and establish next steps as and when applicable;
- a formal assessment be undertaken annually with Hymans Robertson, and the outcome to be reported back to the ISC in Q4 2020/21.

10. Structural Reform of LGPS Pooling Quarterly Joint Committee Update of ACCESS Joint Committee (AJC)

The Committee received an update from the Interim Director for Essex Pension Fund outlining the latest developments in respect of the structural reform of the LGPS.

Further to the resignation of Cllr Andrew Reid, ACCESS Joint Committee (AJC) Chairman in October 2019, Members were informed that at the recent AJC held in December 2019, Cllr Mark Kemp-Gee (Hampshire) and Cllr Susan Barker (Essex) were elected AJC Chairman and Vice Chairman respectively for a term of two years.

Updates were provided in regard to: the Inter-Authority Agreement; the launch of 4a sub funds; the progress to date of Phase 2 sub-fund seeding arrangements; and the successful appointment of *bfinance* to assist ACCESS with pooling illiquid assets.

The Chairman also provided an update on the meeting held between each Pool's Joint Committee Chairmen and the Scheme Advisory Board Chairman during January 2020.

Resolved:
The Committee noted:

- Cllr Andrew Reid's resignation on 15 October 2019 as Chairman of AJC;
- the election of Cllr Mark Kemp-Gee (Hampshire) as Chairman of the AJC for a term of two years;
- the election of Cllr Susan Barker (Essex) as Vice Chairman of the AJC for a term of two years;
- the progress in regard to Monitoring Officers review of the revised Inter-Authority Agreement (IAA) and timetable for progressing through each authority's respective governance processes;
- an update in respect of the launch of tranche 4a sub funds;
- the progress to date of Phase 2 sub-fund seeding arrangements;
- the appointment of *bfinance* to provide consultancy support in regard to pooling ACCESS's illiquid assets;
- the presentation from Link Fund Solutions;
- the contract management update;
- update on progress made against 2019/20 Business Plan deliverables and Budget Forecast;
- S151 approval of the ACCESS 2020/21 Budget and Business Plan for recommendation back to individual ACCESS authorities;
- ACCESS Pool's key risks, changes to risk profile and risk ratings
- the request from the Scheme Advisory Board Chairman to meet the Chairmen of each of the Pool Joint Committees; and
- agenda of 9 December 2019 AJC.

Resolved:
The Committee agreed:

- ACCESS Authorities S151 Officers' and AJC recommendation to accept the 2020/21 ACCESS Budget totalling £1.080m (£98k per Authority) to support the 2020/21 ACCESS Business Plan.

The Chairman asked for Hymans Robertson and the Independent Investment Adviser to leave the room in order for the next agenda item to be discussed.

11. Independent Investment Consultant Arrangements

The Committee received a report from the Interim Director for Essex Pension Fund and the Investment Manager on the Independent Investment Adviser (IIA) contract arrangements.

Consideration was given to the proposal and rationale for re-tendering of the IIA. It was explained that the current incumbent, Mark Stevens, had undertaken the IIA role for almost five years and with the ISC now being well established and to adhere to best practice, it was now felt appropriate to put the IIA contract out for tender.

The Committee were also advised that there was not a National LGPS Framework or similar in place to assist with this tender.

Resolved:
The Committee noted the content of the report.

Resolved:
The Committee agreed:

- a re-tender of the IIA contract takes place before July 2020;
- an ISC Appointment Sub Committee be established; and
- the Interim Director for Essex Pension Fund make the necessary arrangements for the procurement of an Independent Investment Adviser.

12. Urgent Exempt Business

No matters arising.

13. Closing Remarks

There being no further business the meeting closed at 4:28pm

Chairman
21 July 2020

Essex Pension Fund Investment Steering Committee	ISC 04
Date: 21 July 2020	

Essex Pension Fund Treasury Management Strategy 2020/21

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

Enquiries to Jody Evans on 03330 138489

1. Purpose of the Report

1.1 To present the 2020/21 Essex Pension Fund Treasury Management Strategy.

2. Recommendation

2.1 That the 2020/21 Essex Pension Fund Treasury Management Strategy be approved.

3. Background

3.1 The CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (referred to as the Treasury Management Code) and Statutory Guidance 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 Statutory Guidance.

4. Essex Pension Fund Treasury Management Strategy

4.1 The 2020/21 Treasury Management Strategy for the Essex Pension Fund, attached at Appendix B, 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.

4.4 Officers have taken the opportunity to revisit the limits for the Northern Trust and BNP Paribas Global Liquidity Funds (GLF), noting that the limits were originally set in March 2013 when the Fund was valued at £3.6bn. It is therefore proposed that the limits be increased from £80m to £120m (on an operational basis) and £130m to £200m (on a temporary basis) to reflect the growth in the value of the Fund and to facilitate the deployment of assets.

4.5 Furthermore, a series of questions highlighting operational aspects of the custodian cash management arrangements form Annex 2 of the attached Strategy.

4.6 Section C, Cashflow Management Arrangements has been updated to reflect the revised Finance Schedule, attached at Appendix A. The final outturn for 2019/20 was a shortfall of c£21m. Plans to address this using balances and investment income are currently in place and are reviewed periodically.

4.7 The forecast for 2020/21 predicts a surplus for the year. This is largely attributable to an increase in employer contribution income and reflects the decisions by a number of tax-raising bodies to exercise the option within the

Funding Strategy Statement allowing payment of three years' deficit at the start of the valuation period.

4.8 A clean copy of the Treasury Management Strategy has also been provided at Appendix C.

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 March 2019.

5.5 Finance Schedule updated as at 31 March 2020.

Appendix A

Finance Schedule

		2018/19 actual £ (000)	2019/20 actual £ (000)	2020/21 forecast £ (000)
EXPENDITURE	Retirement Pensions	200,611	211,869	223,560
	Retirement Lump Sums	38,334	41,130	43,393
	Death Benefits	5,599	7,178	7,150
	Leavers benefits	31,024	24,233	26,275
	Expenses	3,253	3,704	4,198
	Pooling expenses	116	74	98
TOTAL		**278,937**	**288,188**	**304,674**
INCOME	Employees Contributions	57,799	60,772	60,831
	Employers Contributions			
	Ongoing	146,065	154,216	192,532
	Deficit	30,313	33,141	44,560
	Financial Strain	5,609	4,363	4,697
	Transfer Values in	10,796	12,253	12,464
	Other income	2,423	2,318	3,135
TOTAL		**253,005**	**267,063**	**318,219**
Net cash flow excl. Investment Income		**(25,932)**	**(21,125)**	**13,545**

Appendix B

Essex Pension Fund

Treasury Management Strategy for ~~2019/20~~2020/21

Investment Steering Committee ~~27 March 2019~~ 21 July 2020

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 Investment Strategy Statement 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-Sectoral Guidance Notes (the Treasury Management Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and Statutory Guidance.

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 Essex Pension Fund Strategy 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~~ Finance and Technology 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~~	~~2018-19 (Current)~~	~~2019-20 Estimate~~	~~2020-21 Estimate~~	~~2021-22 Estimate~~
~~Bank rate (at each 31 March)~~ ~~Source : Link Asset Services (December 2018)~~	~~0.75%~~	~~1.25%~~	~~1.50%~~	~~2.00%~~

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Expected Movements in Interest Rates	2020-21 as at 30 Jun 20	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate
Bank Rate Source: Link Asset Services (Mar 20)	0.10%	0.10%	0.10%	0.10%

The estimated average balance for "In house cash" is around ~~£33m~~£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 Advisers

Essex County Council currently employs **Link Asset Services** (Treasury Solutions) as its treasury management adviser.

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~~ Finance and Technology.

The services received from the Treasury Management Advisers 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 ~~11 March 2019~~ 29 May 2020 the Fund held ~~£ 146.1m~~ £160.2m in cash at the Custodian. The details are set out in the table below.

~~11-Mar-19~~	~~£m~~	~~%~~
~~Sterling~~	~~96.5~~	~~66%~~
~~Dollar~~	~~41.2~~	~~28%~~
~~Euro~~	~~7.3~~	~~5%~~
~~Other~~	~~1.1~~	~~1%~~
	~~146.1~~	~~100%~~

29-May-20	£m	%
Sterling	95.7	59.7
Dollar	42.5	26.5
Euro	21.1	13.2
Other	0.9	0.6
	160.2	100.0

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 a 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 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 Statement, 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 going forward ~~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 ~~2019/20~~2020-21 are set out below and ~~reflect~~ show an increase for both the Northern Trust GLF and BNP Paribas GLF to reflect the circumstances outlined above and have also been adjusted to take account of the increase in the Fund value over the last few years:

Northern Trust GLF - ~~£80m~~ £120m (~~no~~ change on an operational basis, previously £80m)

Northern Trust GLF - ~~£150m~~ £200m (on a temporary basis to facilitate the redeployment of assets, previously £150m)

BNP Paribas GLF - ~~£60m~~ £120m (~~no~~ change on an operational basis, previously £60m)

BNP Paribas GLF - ~~£130m~~ £200m (on a temporary basis to facilitate the redeployment of assets, previously £130m)

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

	~~2017/18 actual £ (000)~~	~~2018/19 estimate £ (000)~~	~~2019/20 forecast £ (000)~~
~~Expenditure (benefits, transfers out and expenses)~~	~~245,621~~	~~260,134~~	~~272,528~~
~~Income (ongoing contributions, deficit contributions and transfers in)~~	~~289,150~~	~~238,338~~	~~246,207~~
~~Net cashflow excl. Investment Income~~	~~43,529~~	~~(21,795)~~	~~(26,321)~~

	2018/19 actual £ (000)	2019/20 actual £ (000)	2020/21 forecast £ (000)
Expenditure (benefits, transfers out and expenses)	**278,937**	**288,188**	**304,674**
Income (ongoing contributions, deficit contributions and transfers in)	**253,005**	**267,063**	**318,219**
Net cashflow excl. Investment Income	**(25,932)**	**(21,125)**	**13,545**

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 Passive UK assets and Aviva property portfolio, when required.

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 a 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 advisers. 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~~, Finance and Technology in consultation with the Chairman of the Pension Fund Investment Steering Committee~~Board~~ (or ~~Deputy~~Vice 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 an 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 (as at February 2019)~~

-	-	-	-	-
~~Counterparty~~			~~Investment Limit (£m)~~	~~Maximum Duration~~
-			-	-
~~**UK BANKS**~~	-	-	-	-
-	~~**Barclays Bank**~~		-	-
-	-	~~**Group limit**~~	~~**5.00**~~	-
-	-	~~Barclays - CALL acct~~	~~5.00~~	~~Call~~
-	-	~~Barclays - fixed term~~	~~5.00~~	~~364 Days~~
-	-	-	-	-
-	~~**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~~
-	-	-	-	-
-	~~**Santander UK**~~		-	-
-	-	~~**Santander Group Limit**~~	~~**5.00**~~	-
-	-	~~Santander - CALL account~~	~~5.00~~	~~Call~~
-	-	-	-	-
~~**UK BUILDING SOCIETIES**~~			-	-
-	~~**Nationwide**~~	-		
		~~**Nationwide Group Limit**~~	~~**5.00**~~	
		~~Nationwide – Fixed Term~~	~~5.00~~	~~6 months~~
-	-	-	-	-
~~**FOREIGN BANKS (Country limit £5m)**~~			-	-
	~~**Sweden**~~			
-	-	~~**Total country limit**~~	~~**5.00**~~	~~364 days~~
-	-	~~Svenska Handelsbanken – CALL account~~	~~5.00~~	~~Call~~
-	-	-	-	-
~~**OTHER**~~	-	-	-	-
-	~~**Money Market Funds**~~		-	-
		~~**Standard MMFs (limit £20m)**~~	~~**20.00**~~	
-	-	~~Black Rock - Inst. Sterling Liquidity~~	~~10.00~~	~~364 days~~
-	-	-	-	-
-	~~**Local Authorities**~~		-	-
-	~~Top Tier Local Authorities~~		~~**7.50**~~	-
-	-	~~- Identified at time of investment~~	~~7.50~~	~~364 days~~
-	-	-	-	-
-	~~Lower Tier Local Authorities~~		~~**5.00**~~	-
-	-	~~- Identified at time of investment~~	~~5.00~~	~~364 days~~

Current Institutional Lending List as at June 2020

Jun-20 ESSEX PENSION FUND COUNTERPARTY LIST	Investment limit £m	Maximum Duration
UK BANKS		
HSBC	5	364 days
Lloyds Banking Group	5	364 days
Royal Bank of Scotland	5	364 days
Santander UK	5	3 months
UK BUILDING SOCIETIES		
Nationwide	5	364 Days
FOREIGN BANKS		
Sweden — **Total Country Limit**	5	364 days
Svenska Handelsbanken - call a/c	5	364 days
OTHER		
UK Government		
Debt Management Office (Unlimited)	9999	364 days
Debt Management Office via ECC	9999	364 days
Money Market Funds		
Black Rock - Govmnt Sterling Fund	10	364 days
LGIM - Sterling Liquidity Fund	10	364 days

Appendix C

Essex Pension Fund

Treasury Management Strategy for 2020/21

Investment Steering Committee

21 July 2020

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 Investment Strategy Statement 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-Sectoral Guidance Notes (the Treasury Management Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and Statutory Guidance.

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 Essex Pension Fund Strategy 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, Finance and Technology 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 Movements in Interest Rates	2020-21 as at 30 Jun 20	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate
Bank Rate Source: Link Asset Services (Mar 20)	0.10%	0.10%	0.10%	0.10%

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.

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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 a 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 in **Annex 3.1** and **3.2.**

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The limits for 2020-21 are set out below and show an increase for both the Northern Trust GLF and BNP Paribas GLF to reflect the circumstances outlined above and have also been adjusted to take account of the increase in the Fund value over the last few years:

Northern Trust GLF	-	£120m (change on an operational basis, previously £80m)
Northern Trust GLF	-	£200m (on a temporary basis to facilitate the redeployment of assets, previously £150m)
BNP Paribas GLF	-	£120m (change on an operational basis, previously £60m)
BNP Paribas GLF	-	£200m (on a temporary basis to facilitate the redeployment of assets, previously £130m)

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).

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- Pooled investment vehicles (i.e. Money Market Funds) that have been awarded a 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 advisers. 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, Finance and Technology in consultation with the Chairman of the Pension Fund Investment Steering Committee (or Vice Chairman 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 an 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 as at June 2020

Jun-20 ESSEX PENSION FUND COUNTERPARTY LIST		Investment limit £m	Maximum Duration
UK BANKS			
HSBC		5	364 days
Lloyds Banking Group		5	364 days
Royal Bank of Scotland		5	364 days
Santander UK		5	3 months
UK BUILDING SOCIETIES			
Nationwide		5	364 Days
FOREIGN BANKS			
Sweden	Total Country Limit	5	364 days
	Svenska Handelsbanken - call a/c	5	364 days
OTHER			
UK Government			
	Debt Management Office (Unlimited)	9999	364 days
	Debt Management Office via ECC	9999	364 days
Money Market Funds			
	Black Rock - Govmnt Sterling Fund	10	364 days
	LGIM - Sterling Liquidity Fund	10	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 29 May 2020 are set out below.

29-May-20	£m	%
Sterling	95.7	59.7
Dollar	42.5	26.5
Euro	21.1	13.2
Other	0.9	0.6
	160.2	100%

How is this cash managed?
Sterling: Sterling cash balances are swept into the (sterling) Northern Trust Global Liquidity Fund (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 European Union (EU) or Organisation for Economic Cooperation and Development (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 can be 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 29 May 2020?

	BNP Paribas GLF **£m**	**Northern Trust GLF** **£m**
Aviva	66.2*	-
Stewart Investors	-	22.3
Hamilton Lane	18.1	-
Marathon	-	7.2
UBS	-	0.1
Cash Account	-	14.1
Total	**84.3**	**43.7**

**Aviva sold a couple of properties during February this has resulted in them temporarily holding a larger cash balance than normal.*

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

- Northern GLF - £120m (change on an operational basis, previously £80m)
- Northern GLF - £200m (on a temporary basis to facilitate the redeployment of assets, previously £150m)

- BNP Paribas GLF - £120m (change on an operational basis, previously £60m)
- BNP Paribas GLF - £200m (on a temporary basis to facilitate the redeployment of assets, previously £130m)

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 31 May 2020 on the four sub funds currently 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	0.61%	0.52%
US Dollar	2.33%	1.62%

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 – July 2020

Annex 3.1

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

Extract from Northern Trust Global Cash Fund Prospectus – 30 November 2018

Annex 3.2

BNP PARIBAS INSTICASH – GLOBAL LIQUIDITY FUND

INVESTMENT RESTRICTIONS

1. Money Market Instruments:

Money market instruments including financial instruments issued or guaranteed separately or jointly by a Sovereign Eligible Issuer.

A money market instrument shall be eligible for investment by a sub-fund provided that it fulfils all of the following requirements:

1.1 It falls within one of the categories below as in compliance with the provisions of Directive 2009/65:

- a) it is listed or traded on an official stock exchange, or on a regulated market (a market that operated regularly, is recognised and is open to the public) in an eligible state (i.e. a Member State or a Third Country);
- b) it does not meet the requirements of point (a) but it is subject (at the securities or issuer level) to regulation aimed at protecting investors and savings, provided that they are:

    - i. issued or guaranteed by a central, regional or local authority or central bank of a Member State, the European Central Bank, the European Union or the European Investment Bank, a Third Country or a member of a federation; or
    - ii. issued by an undertaking any securities of which are dealt in on regulated markets referred to in point (a); or
    - iii. issued or guaranteed by an establishment subject to, and which complies with European Unionprudential supervision rules or others rules at least considered to be stringent; 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) above, 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.

1.2 It displays one of the following alternative characteristics:

1. it has a legal maturity at issuance of 397 days or less;
2. it has a residual maturity of 397 days or less.

1.3 The issuer of the money market instrument and the quality of the money market instrument has received a favourable assessment pursuant to the section “Internal Credit Quality Assessment procedure” of Book 1.

1.4 Notwithstanding point 1.2, a standard MMF shall also be allowed to invest in money market instruments with a residual maturity until the legal redemption date of less than or equal to 2 years, provided that the time remaining until the next interest rate reset date is 397 days or less. For that purpose, floating-rate money-market instruments and fixed-rate money-market instruments hedged by a swap arrangement shall be reset to a money market rate or index.

2. Deposits with credit institutions

A deposit with a credit institution is eligible for investment by a sub-fund provided that all of the following conditions are fulfilled:

a) the deposit is repayable on demand or is able to be withdrawn at any time;
b) the deposit matures in no more than 12 months;
c) the credit institution has its registered office in a Member State or, where the credit institution has its registered office in a Third Country, it is subject to prudential rules considered by the CSSF as equivalent to those laid down in European legislation.

3. Financial derivative instruments

A financial derivative instrument (such as IRS, forwards and futures) is eligible for investment by a sub-fund provided it is dealt in on a regulated market as referred to in point 1.1 (a) above, or OTC derivatives and provided that all of the following conditions are fulfilled:

a) the underlying of the derivative instrument consists of interest rates
b) the derivative instrument serves only the purpose of hedging the interest rate of the sub-fund;
c) the counterparties to OTC derivative transactions are institutions subject to prudential regulation and supervision and belonging to the categories approved by the CSSF;
d) 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 at their fair value at the Company’s initiative.

The acceptable collateral received by a sub-fund for financial derivative transactions will only be cash (typically from 100% to 105% after haircut).

At the date of the Prospectus, cash collateral received in the context of financial derivative instruments are not subject to reuse.

The Company does not use TRS for any of its sub-funds.

4. Repurchase agreements

A repurchase agreement shall be eligible to be entered into by a sub-fund provided that all of the following conditions are fulfilled:

a) it is used on a temporary basis, for no more than seven working days, only for liquidity management purposes and not for investment purposes other than as referred to in point c) below;

b) the counterparty receiving assets transferred by the sub-fund as collateral under the repurchase agreement is prohibited from selling, investing, pledging or otherwise transferring those assets without the sub-fund's prior consent;

c) the cash received by the sub-fund as part of the repurchase agreement is able to be:

   (i) placed on deposits in accordance with point 2)

   (ii) invested in assets referred to point 5.5, but shall not otherwise be invested in eligible assets as referred in point 1), 2), 3) and 6), transferred or otherwise reused; and

d) The cash received by a sub-fund as part of the repurchase agreement shall not exceed 10% of its assets;

e) the sub-fund has the right to terminate the agreement at any time upon giving prior notice of no more than two working days.

Any sub-fund other than a public debt CNAV sub-fund may use repurchase agreements under these conditions within the limits of 5% (expected) and 10% (maximum) of the assets.

5. Reverse repurchase agreements

5.1 A reverse repurchase agreement shall be eligible to be entered into by a sub-fund provided that all of the following conditions are fulfilled:

a) the sub-fund has the right to terminate the agreement at any time upon giving prior notice of no more than two working days;

b) the market value of the assets received as part of the reverse repurchase agreement is at all times at least equal to the value of the cash paid out.

5.2 The assets received by a sub-fund as part of a reverse repurchase agreement shall be money market instruments that fulfil the requirements set out in point 1. and shall not be sold, reinvested, pledged or otherwise transferred.

5.3 The assets received by a sub-fund as part of a reverse repurchase agreement shall be sufficiently diversified with a maximum exposure to a given issuer of 15% of the NAV of the sub-fund, except where those assets take the form of money market instruments that fulfil the requirements of point 2 (ii) of Diversification Rules below. The assets received in this context shall be issued by an entity that is independent from the counterparty and is expected not to display a high correlation with the performance of the counterparty.

5.4 A sub-fund that enters into a reverse repurchase agreement shall ensure that it is able to recall the full amount of cash at any time on either an accrued basis or a mark-to-market basis. When the cash is recallable at any time on a mark-to-market basis, the mark-to-market value of the reverse repurchase agreement shall be used for the calculation of the NAV of the sub-fund.

5.5 By way of derogation from point 5.2 above, a sub-fund may receive as part of a reverse repurchase agreement liquid transferable securities or money market instruments other than those that fulfil the requirements set out in point 1. provided that those assets comply with one of the following conditions:

a) they are issued or guaranteed by the European Union, a central authority or central bank of a Member State, the European Central Bank, the European Investment Bank, the European Stability Mechanism or the European Financial Stability Facility provided that a favourable assessment has been received regarding the credit quality assessment. The assets received as part of a reverse repurchase agreement in this respect shall be disclosed to the shareholders and shall fulfil the requirements of point 2 (ii) of Diversification Rules below.

b) they are issued or guaranteed by a central authority or central bank of a Third Country, provided that a favourable assessment has been received regarding the credit quality assessment.

5.6 The maximum proportion of assets that can be subject to reverse repurchase agreements and the expected proportion of assets that are subject to them are mentioned in Book 2 for each sub-fund.

6. Units or Shares of other MMF

6.1 A sub-fund may acquire the units or shares of any other MMF (‘targeted MMF”) provided that all of the following conditions are fulfilled:

a) the targeted MMF is authorised under Regulation 2017/1131;

b) the targeted MMF does not hold units or shares in the acquiring sub-fund;

c) where the targeted MMF is managed, whether directly or under a delegation, by the same manager as that of the acquiring MMF or by any other company to which the manager of the acquiring MMF is linked by common management or control, or by a substantial direct or indirect holding, the manager of the targeted MMF, or that other company, is prohibited from charging subscription or redemption fees on account of the investment by the acquiring MMF in the units or shares of the targeted MMF.

d) no more than 10% of the assets of the targeted sub-fund are able, according to its fund rules or instruments of incorporation, to be invested in aggregate in units or shares of other sub-funds.

6.2 Short-term sub-funds may only invest in units or shares of other short-term MMFs

6.3 Standard VNAV sub-funds may invest in units or shares of short-term MMFs and standard MMFs

7. Ancillary liquid Assets

In addition to deposits with credit institutions, any sub-fund may hold ancillary liquid assets, such as cash in a bank account accessible at any time. The holding of such ancillary liquid assets could be justified, inter alia, in order to cover current or exceptional payments, in the case of sales, for the time necessary to reinvest in other Eligible Assets above.

PROHIBITED ACTIVITIES

A sub-fund shall not undertake any of the following activities:

- a) investing in assets other than Eligible Assets as defined above;
- b) short sale of any of the following instruments: money market instruments, securitisations, ABCPs and units or shares of other MMFs;
- c) taking direct or indirect exposure to equity or commodities, including via derivatives, certificates representing them, indices based on them, or any other means or instrument that would give an exposure to them;
- d) entering into securities lending agreements or securities borrowing agreements, or any other agreement that would encumber the assets of the sub-fund;
- e) borrowing and lending cash.

DIVERSIFICATION RULES

To ensure diversification, a sub-fund cannot invest more than a certain percentage of its assets in one issuer or single body. In this respect:

1. A sub-fund may invest no more than:
   - a) 5% of its assets in money market instruments issued by the same body
   - b) 10% of its assets in deposits made with the same credit institution;

2. **By way of derogation from point 1.a):**
   (i) a VNAV sub-fund may invest up to 10 % of its assets in money market instruments, issued by the same body provided that the total value of such money market instruments, held by the VNAV sub-fund in each issuing body in which it invests more than 5 % of its assets does not exceed 40 % of the value of its assets;
   (ii) the CSSF may authorise a sub-fund to invest, in accordance with the principle of risk-spreading, up to 100 % of its assets in different money market instruments issued or guaranteed separately or jointly by a Sovereign Eligible Issuer provided that all of the following requirements are met:
   - **the sub-fund holds money market instruments from at least six different issues by the issuer;**
   - **the sub-fund limits the investment in money market instruments from the same issue to a maximum of 30 % of its assets;**

3. The aggregate risk exposure to the same counterparty of a sub-fund stemming from eligible OTC derivative transactions shall not exceed 5 % of the assets of the sub-fund;

4. The aggregate amount of cash provided to the same counterparty of a sub-fund in reverse repurchase agreements shall not exceed 15 % of the assets of the sub-fund;

5. Notwithstanding the individual limits laid down in points 1.a) and 3 a sub-fund shall not combine, where to do so would result in an investment of more than 15 % of its assets in a single body, any of the following:
   - a) investments in money market instruments, issued by that body;
   - b) deposits made with that body;

c) OTC financial derivative instruments giving counterparty risk exposure to that body;

6. A sub-fund may:
   a) acquire units or shares of other MMFs, provided that no more than 5 % of its assets are invested in units or shares of a single MMF;
   b) in aggregate, invest no more than 10 % of its assets in units or shares of other MMFs;

7. Notwithstanding the individual limits laid down in point 1.), a sub-fund may invest no more than 10 % of its assets in bonds issued by a single credit institution that has its registered office in a Member State and is subject by law to special public 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 the paragraph above issued by a single issuer, the total value of those investments shall not exceed 40 % of the value of the assets of the sub-fund.

8. Notwithstanding the individual limits laid down in point 1., a sub-fund may invest no more than 20 % of its assets in bonds issued by a single credit institution where the requirements set out in point (f) of Article 10(1) or point (c) of Article 11(1) of Delegated Regulation (EU) 2015/61 are met, including any possible investment in assets referred to in point 8. above.

   Where a sub-fund invests more than 5 % of its assets in the bonds referred to in the paragraph above issued by a single issuer, the total value of those investments shall not exceed 60 % of the value of the assets of the sub-fund, including any possible investment in assets referred to in point 8., respecting the limits set out therein.

9. Companies which are included in the same group for the purposes of consolidated accounts under Directive 2013/34/EU or in accordance with recognised international accounting rules, shall be regarded as a single body for the purpose of calculating the limits referred to in points 1. to 6.

PORTFOLIO RULES

1. Short-term sub-funds

General rules

The maximum WAM (interest rate risk) of a short-term sub-fund will be 60 days.

The maximum WAL (credit risk) will be 120 days. This will be calculated on the basis of the legal maturity unless the sub- fund holds a put option. if the limits referred to in this section are exceeded for reasons beyond the control of the Company, or as a result of the exercise of subscription or redemption rights, the Company shall adopt as a priority objective the correction of that situation, taking due account of the interests of the shareholders.

A short-term sub-fund will only hold money market instruments with a residual maturity until the legal redemption date of less than or equal to 397 days, taking into account the related financial instruments or the applicable terms and conditions.

Specific provisions for Public debt CNAV and LVNAV sub-funds

(i) At least 10% of the assets of a public debt CNAV or LVNAV sub-fund are to be comprised of daily maturing assets, reverse repurchase agreements which are able to be terminated by giving prior notice of one working day, or cash which is able to be withdrawn by giving prior notice of one working day. Such a sub-fund is not to acquire any asset other than a daily maturing asset when such acquisition would result in that sub-fund investing less than 10% of its portfolio in daily maturing assets.

(ii) At least 30% of its assets are to be comprised of weekly maturing assets, reverse repurchase agreements which are able to be terminated by giving prior notice of five working days, or cash which is able to be withdrawn by giving prior notice of five working days. Such a sub-fund is not to acquire any asset other than a weekly maturing asset when such acquisition would result in that sub-fund investing less than 30% of its portfolio in weekly maturing assets.

Money market instruments issued or guaranteed by an Eligible Issuer may be included within the weekly maturing assets up to a limit of 17.5 % of the sub-fund’s assets provided they have a residual maturity of up to 190 days and that they are highly liquid and can be redeemed and settled within one working day.

Specific provisions for Short term VNAV sub-funds

(i) At least 7.5% of the assets of a short term VNAV sub-fund are to be comprised of daily maturing assets, reverse repurchase agreements which are able to be terminated by giving prior notice of one working day, or cash which is able to be withdrawn by giving prior notice of one working day. Such a sub-fund is not to acquire any asset other than a daily maturing asset when such acquisition would result in that sub-fund investing less than 7.5% of its portfolio in daily maturing assets.

(ii) At least 15% of its assets are to be comprised of weekly maturing assets, reverse repurchase agreements which are able to be terminated by giving prior notice of five working days, or cash which is able to be withdrawn by giving prior notice of five working days. Such a sub-fund is not to acquire any asset other than a weekly maturing asset when such acquisition would result in that sub-fund investing less than 15% of its portfolio in weekly maturing assets.

(iii) Money market instruments issued or guaranteed by an Eligible Issuer may be included within the weekly maturing assets up to a limit of 7.5% of the sub-fund’s assets provided they have a residual maturity of up to 190 days and that they are highly liquid and can be redeemed and settled within one working day.

2. Standard VNAV sub-funds

The maximum WAM (interest rate risk) of a standard sub-fund will be 6 months.

The maximum WAL (credit risk) will be 12 months. This will be calculated on the basis of the legal maturity unless the sub-fund holds a put option.

A standard sub-fund will only hold securities that, at the time of acquisition by the sub-fund, have an initial or residual maturity of up to 2 years, taking into account the related financial instruments or the applicable terms and conditions. The time to next reset of these securities will not exceed 397 days.

At least 7.5% of the assets of the sub-fund are to be comprised of daily maturing assets, reverse repurchase agreements which are able to be terminated by giving prior notice of one working day, or cash which is able to be withdrawn by giving prior notice of one working day.

At least 15% of its assets are to be comprised of weekly maturing assets, reverse repurchase agreements which are able to be terminated by giving prior notice of five working days, or cash which is able to be withdrawn by giving prior notice of five working days.

Longer dated money market instruments or units or shares of other MMFs may be included within the weekly maturing assets up to a limit of 7.5% of the sub-fund assets provided they are able to be redeemed and settled within five working days.

LIMIT TO PREVENT CONCENTRATION OF OWNERSHIP

1. A sub-fund shall not hold more than 10% of the money market instruments issued by a single body.

2. This limit does not apply in respect of holdings of money market instruments issued or guaranteed by a Sovereign Eligible Issuer.

GLOBAL EXPOSURE

1. Determination of global exposure

According to the Circular 11/512, the management company must calculate the sub-fund’s global exposure at least **once a day**. The limits on global exposure must be complied with on an ongoing basis.

It is the responsibility of the Management Company to select an appropriate methodology to calculate the global exposure. More specifically, the selection should be based on the self-assessment by the Management Company of the sub-fund’s risk profile resulting from its investment policy (including its use of financial derivative instruments).

2. Risk measurement methodology according to the sub-fund’s risk profile

The sub-funds are classified after a self-assessment of their risk profile resulting from their investments policy including their inherent derivative investment strategy that determines two risk measurements methodologies:

- The advanced risk measurement methodology such as the Value-at-Risk (VaR) approach to calculate global exposure where:
  a) The sub-fund engages in complex investment strategies which represent more than a negligible part of the sub- funds’ investment policy;
  b) The sub-fund has more than a negligible exposure to exotic financial derivative instruments; or
  c) The commitment approach doesn’t adequately capture the market risk of the portfolio.

There is currently no sub-fund under VAR

- The commitment approach methodology to calculate the global exposure should be used in every other case.

3. Commitment approach methodology

The commitment conversion methodology for standard derivatives is always the market value of the equivalent position in the underlying asset. This may be replaced by the notional value or the price of the futures contract where this is more conservative.

Currently, all the sub-funds use the commitment approach method.

Extract from BNP Paribas InstiCash - Prospectus – March 2019

Essex Pension Fund Investment Steering Committee	**ISC 05**
Date: 21 July 2020	

Investment Strategy Statement (ISS)

Joint Report by the Interim Director for Essex Pension Fund and Investment Manager in consultation with Hymans Robertson and the Independent Investment Adviser, Mark Stevens

Enquiries to Jody Evans on 03330 138489

1. Purpose of the Report

1.1 To present a draft Investment Strategy Statement (ISS) for the Committee's consideration.

1.2 To provide an update in regard to the initial feedback received from the Investment Managers on the Fund's RI Policy, which outlines the Fund's approach to Environmental, Social and Governance (ESG), engagement and RI Priorities.

1.3 To outline a timetable for consultation with stakeholders and further steps.

2. Recommendation

2.1 It is recommended that the Committee note:

- the requirement to produce and publish an ISS and the timetable, as highlighted in section 5;
- the initial feedback on the Fund's RI Policy and RI Priorities from the Fund's Investment Managers;
- the next steps detailed in Section 6 of this report; and
- the content of the report.

2.2 It is recommended that the Committee **agree**:

- the draft ISS;
- that the draft ISS be circulated to stakeholders for consultation;

- that the ISS be passed to the Pension Advisory Board (PAB) to note;
- the outcome of the stakeholder consultation be brought back to the Committee at the next meeting;
- the Officers and Advisers undertake a review of Managers’ ESG and voting policies, how these are aligned with the Fund’s RI Policy and ascertain the implications if any, for the Fund’s investments and strategy and for the outcome to be brought back to a future meeting;
- that Officers and Advisers develop an Engagement Plan outlining how the Committee and Officers will engage with the Fund’s Investment Managers on matters relating to Responsible Investment and Good Stewardship to be brought back to a future meeting; and
- that an exploratory piece of work be undertaken in regard to the revised UK Stewardship Code released in 2020 to ascertain what this means for the Fund’s Investment Managers and the Fund itself.

3. Background

3.1 The Fund is required to maintain an Investment Strategy Statement setting out its principles for governing the Fund's assets. The four main areas 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 considerations.

3.2 Over the last 18 months the focus of attention has been in regard to the first three areas, however, a process is well underway with regard to the fourth, ESG considerations and will continue to evolve over time.

3.3 Following some preparatory work in the summer, the ISC convened a workshop in October specifically on ESG to enable a more in-depth discussion.

3.4 At its November meeting an update was provided on the outcome of the RI Workshop, which lead the Committee to articulate and agree a set of RI beliefs. Members, in line with their belief to work collaboratively with other pension funds, agreed to join the Local Authority Pension Fund Forum (LAPFF). Initial consideration was also given in regard to RI Priorities.

3.5 Following the meeting, the ISC agreed that further consideration should be made in relation to the RI Priorities. As a consequence, the ISC and a sample of the Fund's stakeholders were surveyed to ascertain their RI Priorities.

3.6 The RI beliefs articulated have now been translated into a RI Policy which at the recent ISC meeting in February, agreement was made for it to be shared with the Fund's Investment Managers for their feedback and comment. Members also noted the outcome of the survey undertaken and agreed that the RI Priorities identified should form the basis of any future engagement with the Fund's Investment Managers and LAPFF.

4. Investment Managers Feedback in regard to the RI Policy and RI Priorities

4.1 Following February's ISC meeting, the RI Policy and Priorities were shared with all the Fund's Investment Managers for their comment. The initial feedback received back thus far has been positive.

4.2 Responses have indicated that ESG considerations is one of the factors that is taken into account in determining stock selection and is therefore very much integrated into their investment process. As such, it is not envisaged that the Fund's Policy will be out of alignment. They have all also indicated that the RI Priorities identified by the Fund are all areas they consider important when engaging with companies on the Fund's behalf.

5. Investment Strategy Statement

5.1 Officers in consultation with the Fund's Institutional Investment Consultant and Independent Investment Adviser have updated the ISS and the RI Policy has now been incorporated with the document. The draft revised ISS is attached at Appendix A.

5.2 Tracked additions are highlighted in coloured text and deletions highlighted in strikethrough ~~coloured text~~.

5.3 A clean copy of the ISS has also been provided at Appendix B.

5.4 The table below provides a suggested timetable for stakeholder consultation and publishing the ISS:

Meeting	Action	Date
ISC	Discuss the draft ISS	21 July 2020
-	Released for full Stakeholder consultation	July 2020
PAB	PAB discussion	23 September 2020
ISC	Outcome of consultation and agreement of final ISS	21 October 2020
-	Publication on the Fund's Website and within the Fund's Annual Report and Accounts	November 2020

6. Next Steps

Following the release of the ISS for stakeholder consultation the suggested next steps are as follows:

- the outcome of the stakeholder consultation be brought back to the October ISC meeting;
- that Officers and Advisers undertake a review of Managers' ESG and voting policies, how these are aligned with the Fund's RI Policy and ascertain the implications if any, for the Fund's investments and strategy and for the outcome to be brought back to a future meeting;
- that Officers and Advisers develop an Engagement Plan outlining how the Committee and Officers will engage with the Fund's Investment Managers on matters relating to Responsible Investment and Good Stewardship to be brought back to a future meeting; and
- an exploratory piece of work be undertaken in regard to the revised UK Stewardship Code released in 2020 to ascertain what this means for the Fund's Investment Managers and the Fund itself.

7. Background Papers

7.1 Investment Strategy Statement – Responsible Investment (RI) Policy, ISC 05, 19 February 2020.

7.2 Responsible Investment (RI) Workshop – Outcome and Investment Strategy Statement (ISS) Review, ISC 04, 27 November 2019.

7.3 Investment Strategy Statement (ISS) Review: Responsible Investment, ISC 03, 17 July 2019.

7.4 Investment Strategy Review -Implementing the transition from equity to alternatives, ISC 16, 21 February 2018

7.5 Review of Investment Strategy – Equity to Alternative Asset Switch, ISC 11, 15 November 2017.

Appendix A

Essex Pension Fund

INVESTMENT STRATEGY STATEMENT

July 2020

INVESTMENT STRATEGY STATEMENT

ESSEX PENSION FUND

~~MARCH~~ JULY ~~2017~~ 2020

CONTENTS

Introduction and background

This is the Investment Strategy Statement (the “Statement”) of the Essex Pension Fund, which is administered by Essex County Council (the “Scheme Manager”) as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the “2016 Regulations”) in accordance with the guidance issued by Secretary of State.

Essex County Council is the Administering Authority for the Fund under the Regulations. In 2008, a Pension Board was established to exercise on behalf of Essex County Council all the powers and duties of the Council in relation to its functions as Administering Authority of the Essex Pension Fund, except where they have been specifically delegated by the Council to another Committee or an Officer. Responsibility for setting and monitoring investment strategy has been specifically delegated to the Essex Pension Fund Investment Steering Committee (“ISC”). Responsibility for the day to day management of the Fund has been delegated to the Section 151 Officer (“s151O”) and the Director for Essex Pension Fund.

This statement has been prepared by the ISC having taken appropriate advice from the Fund’s Institutional Consultant, Hymans Robertson LL~~P~~P, and its Independent Investment Adviser, Mark Stevens. The responsibilities of relevant parties are set out in appendix A.

The Statement is subject to periodic review at least every three years and from time to time on any material change in investment policy or other matters as required by law. The ISC has consulted on the content of this Statement with its stakeholders. The Statement is also subject to review by the Essex Pension Fund Advisory Board (PAB) which was established as the Local Pension Board for Essex in accordance with section 5 of the Public Service Pension Act 2013 and Part 3 of the LGPS Regulations 2013.

Investment strategy and the process for ensuring suitability of investments

Fund Objective

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

The funding objective adopted for the Essex Pension Fund is to ensure that the assets of the Pension Fund, when taken in conjunction with future contributions, are sufficient to ensure that all future pension and retirement benefits will be fully covered by the Fund's assets when they fall due.

This primary objective has been converted to a number of funding objectives, as set out in the Fund’s Funding Strategy Statement (FSS). The purpose of the FSS is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the desirability of maintaining as nearly constant employer contribution rates as possible as defined in Regulation 62 (5) of the LGPS regulations 2013; ~~and~~
- to ensure that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the fund are met; and
- to take a prudent longer-term view of funding those liabilities.

The funding position will be reviewed by the Essex Pension Fund Strategy Board (PSB) at each triennial actuarial valuation, with interim reviews occurring in the years between triennial valuations.

Funding Level

The Funding level of the Pension Fund is the value of the Fund's assets expressed as a percentage of the Fund's liabilities at the most recent actuarial valuation of the Fund. The Funding level at March 201~~6~~9 was 97% (March 2016 was 89%). The Funding Strategy provides for the Fund to return to a fully funded position over a period of ~~15~~12 -years. In accordance with the Funding Strategy Statement, the PSB determined the rate of contributions payable by each of the employers in the Fund for the three years starting 1 April ~~2017~~2020.

Investment Beliefs

The ~~ISC~~Committee has adopted ~~4~~ core investment beliefs covering the four following areas:

- Long Term Approach;
- Diversification;
- Benchmarks; and
- Active vs Passive Management.

Details are set out in appendix B.

Investment Strategy

The Fund is maturing and analysis has been undertaken to forecast when new contributions (employees and employers including the ~~deficit~~secondary rate) 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).

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 its ~~L&G's~~ UK passive assets and Aviva's property portfolio.

Realised income may be held in cash short term in order to meet a proportion of benefit payments.

The initial requirements are small (c. 0.5% of total Fund assets) and is expected to be more than met by the income on assets. There should be no need to disinvest the capital value of any asset currently for cashflow purposes. The time at which the sale of assets for cashflow purposes will become a requirement will be subject to periodic review.

The Fund is therefore still in a position to target a predominantly growth-based strategy, with the aim of maximising asset ~~value~~ growth in the long term within agreed risk levels, which takes into account liquidity requirements.

There ~~are varying levels of~~is also diversification between different asset classes to manage risk levels and better ensure that the value of the Pension Fund, when taken in conjunction with current expectations of future contributions, is sufficient to ensure that all future pension and retirements benefits will be fully covered by the Fund's assets when they fall due, whilst managing the Fund within the ISC's risk appetite.

Asset Allocation

In 2017, t~~T~~he Fund ~~in 2017~~ undertook an Asset/Liability Study following the results of the 2016 Actuarial Valuation. The conclusion of the Study found that the Fund had a high probability of achieving the Fund's Funding objectives and this could continue to be maintained at a lower risk by reducing its equity allocation and increasing its allocation into diversifying income generating alternative assets. The ISC have agreed a strategic medium-term plan whereby its equity allocations will be trimmed as and when suitable opportunities arise to reallocate to alternative assets.

The Fund is moving towards ~~has~~ an ~~87%~~84% allocation to 'growth' (equities and alternatives) assets in order to meet the long-term funding assumptions set out in the ~~2016~~2019 actuarial valuation.

The Fund's investments are allocated across a range of asset classes. The largest allocation is to equities which also accounts for the majority of the investment risk taken by the Fund. Over the long term, equities are expected to outperform other liquid asset classes, particularly bonds. Allocation to asset classes other than equities and bond~~s,~~ allows the Fund to gain exposure to other forms of return which can help to reduce the overall volatility of the portfolio. These assets are in the main ~~negatively~~ lower correlated to equities and are expected to generate returns broadly similar over the long term and so allocation to these can maintain the expected return and assist in the management of volatility.

The ~~13%~~16% allocation to bonds is designed to manage overall levels of funding volatility within agreed levels.

Investment Allocation

The Committee has translated its objectives into a suitable strategic asset allocation benchmark and structure for the Fund (set out in appendix C), taking into account both the liability structure and the objectives set out above. The Fund benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

The Committee monitors investment strategy relative to the agreed asset allocation benchmark. In addition to on-going monitoring, the investment strategy is formally reviewed every six months at Committee meetings set aside for that purpose. Furthermore, specific consideration is given to investment strategy in the light of information arising from each triennial actuarial valuation.

Investment managers

The Committee ~~has appointed~~ utilises a number of active and passive investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Committee has commenced using the ACCESS Pool solutions to meet its strategic objectives migrating its assets into ACCESS ACS.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. Fund benchmarks are continually kept under periodic review. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles and a mix of asset types across a range of geographies in order to provide diversification of returns.

The managers appointed, and the mandates they manage, are detailed in appendix C. This includes the investments made via the ACCESS pool. Appendix D details the objectives and investment rationale of the mandates.

Types of investment to be held

The investment managers are required to comply with LGPS investment regulations. The Fund may invest in quoted and unquoted securities of UK and overseas markets, including equities, fixed interest and index linked bonds, cash, property, commodities, infrastructure, timber and loans either directly, through pooled funds or via partnership agreements.

The Fund may also make use of contracts for difference and other derivatives either directly or in pooled funds when investing in these products, for the purpose of efficient portfolio management or to hedge specific risks. The Committee considers all of these classes of investment to be suitable in the circumstances of the Fund.

Currency hedging

T~~he Fund, t~~o reduce the volatility associated with fluctuating currency rates (currency risk), the Fund utilises hedged versions of the overseas equity indic~~ex~~es which are managed by the Fund's passive manager.~~has put in place a passive currency programme which is managed by Legal and General Investment Management. The Fund hedges 50% of its major overseas currency exposure within the equity portfolio.~~

Investment Managers have discretion to utilise currency hedg~~es~~ing for risk management purposes.

Risk measurement and management

Risk

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. These risks are set out and monitored as part of the Fund's ~~a~~ formal ~~r~~Risk ~~r~~Register. ~~An extract of the risk register relating to funding and investment is included in Appendix E. However, i~~ In summary, the principal risks affecting the Fund and mitigations ~~(including their reference code within the risk register)~~ are:

Funding risks:

- Financial mismatch – ~~F1.~~ The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities~~. F8~~. The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- Changing demographics – ~~F4.~~ The risk that longevity improves and other demographic factors change ~~increasing the cost of Fund benefits~~ resulting in increased Fund liabilities, reduced solvency levels and increased employer contributions.
- Systemic risk - ~~I2 & F3~~. The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Fund liabilities.

Asset risks:

- Concentration – ~~I1 & I2.~~ The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

- Illiquidity – ~~I11.~~ The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Manager underperformance ~~– I6.~~ The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

Other provider risks~~ – I13~~:

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the ISC takes professional advice and considers the appointment of specialist transition managers.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

Mitigations:

~~The approach the ISC adopts to managing these risks is also addressed in Appendix E. However, i~~In general terms, the risks are managed via a combination of:

- The appointment of professional advisers to assist the ISC in managing these risks;
- Agreed processes and guidelines for consideration and monitoring of the investments;
- Specific limits on individual investments;
- Ensuring the expected return from the Investment Strategy is consistent with the assumptions made by the Actuary in valuing the Fund;
- Assessments of the levels of risk taken by the Fund;
- Diversification across asset classes and managers; and
- Regular review and monitoring.

~~Full descriptions of these risks, including the mitigating actions taken by the ISC, are set out in appendix E.~~

Expected return on investments

Over the long term, the overall level of investment return is expected to exceed the rate of return assumed by the Actuary in valuing the Fund and setting funding requirements.

Realisation of investments

The majority of assets held within the Fund may be realised quickly if required. The Committee monitors both the level of liquid assets and the liquidity requirements of the Fund.

Asset pooling

Overview

The Fund is one of eleven participating Fund's in the ACCESS Pool (A Collaboration of Central, Eastern & Southern Shires) along with Cambridgeshire, East Sussex, Hampshire, Hertfordshire, Isle of Wight, Kent, Norfolk, Northamptonshire, Suffolk and West Sussex.

All eleven funds are committed to collaboratively working together to meet the government's criteria for pooling and have signed ~~a~~an ~~Memorandum of Understanding~~ Inter-Authority Agreement to underpin their partnership.

The proposed structure and basis on which the ACCESS Pool will operate in order to meet the Governments criteria was set out in the July 2016 submission to Government. A copy of the submission and the progress made against the timetable is available on the ACCESS website at www.accesspool.org

The participating authorities have a clear set of objectives and principles that will drive decision-making and help shape the design of the Pool. These underpin the design of the project plan that the ACCESS Funds are working towards.

~~The first arrangements to be brought under the ACCESS structure will be the passively managed assets. Arrangements are due to be put in place over the course of 2017.~~
In 2018 a joint procurement was undertaken by ACCESS for a passive provider, UBS Asset Management was appointed as the preferred provider. In addition, in March 2018 Link Solutions Limited (Link) was appointed to act as operator of the ACCESS's Authorised Contractual Scheme (ACS).

Assets to be invested inside the Pool

The Fund's intention is to invest its assets through the ACCESS Pool as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government. The key criteria for assessment of Pool solutions will be as follows:

1. That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.
2. That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

The Fund is monitoring developments with a view to transitioning liquid assets across to the Pool when are suitable sub-funds to meet the Fund's Investment Strategy requirements are in place. As at 31 March 2020, the Fund had around 50% of its assets invested in the ACCESS pool, invested in global equity sub-funds and passive regional equity and index linked bond pooled funds.

Any assets not currently invested in the ACCESS Pool will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money.

The Essex Pension Fund is working towards the expectation that over time all investments will be pooled with the exception of direct property and operational cash. The table below sets out the rationale.

Assets to be invested outside the Pool

Asset Class	Manager	Strategic Allocation %	Reason for not investing in the ACCESS Pool
Direct Property	Aviva Investors	Up to ~~12%~~10%	• Investment manager skill is a major determinant of returns. The availability of quality investment managers for a large mandate is untested~~.~~ • The portfolio has been built to specific risk and return requirements • Portfolio designed to account for target holding sizes, to reflect the total portfolio size and achieve the required level of diversification

			• Moving holdings to part of a bigger direct portfolio would have significant cost implications such as Stamp Duty Land Tax (SDLT) • To reshape the portfolio to meet new objectives would be inconsistent with the value for money criteria • Project Pool analysis showed that increasing direct mandate size does not result in incremental cost savings
Operational Cash	In-house	n/a	A reasonable level of operational cash will be required to maintain efficient administration of scheme. This will be held in house as ECC will need to manage cashflow to meet statutory liabilities, including monthly pension payroll payments.

This will be reviewed periodically by the ISC.

Environmental, Social & Governance Considerations

Fiduciary duty

The fundamental responsibility of the Fund is to ensure that it has adequate monies available to pay pensions as they fall due. This objective must be achieved in a cost-effective way for members, employers and the taxpayer. Moreover, in reaching decisions, the Fund must comply with its fiduciary responsibilities.

Responsible Investment (RI) Policy

The ISC recognise that environmental, social and governance (ESG) factors (including those related to climate risk) can influence long term investment performance and the ability to achieve long term sustainable returns. To this end the Committee identified four key headline responsible investment beliefs, with a number of sub beliefs sitting underneath these headings. The Committee in formulating the Responsible Investment Policy below have incorporated the Fund's investment beliefs articulated in appendix E.

Investment Strategy

1. The RI Policy should be integral to the investment strategy and not considered in isolation.
2. The Fund should minimise exposure to securities where environmental or social aspects could be financially detrimental to the portfolio.
3. Investments expected to deliver positive environmental or social benefit are encouraged as long as they are not expected to dilute overall returns.

Engagement and Voting

4. The ISC will only exclude stocks in limited or specific instances but will actively encourage engagement and work collaboratively with other investors to increase the impact of engagement.

Managers/implementation

5. The ISC will seek to implement mandates in line with its RI Policy.
6. ESG factors should (amongst others) be an integral component in the consideration of investment in a stock by active managers.
7. For passive allocations, in choosing the reference benchmark, careful consideration will be given to the ESG aspects of that benchmark. Although it is recognised that the passive manager has no choice of stocks within the benchmark index, the passive manager will be expected to actively engage with companies held to the benefit of the Fund and its members.
8. The ISC will seek to utilise mandates in line with its RI Policy and expects these to be made available via the ACCESS Pool.

Monitoring/governance

9. The ISC will monitor and challenge their providers on their ESG implementation and any intended changes over time.
10. The ISC will take a long-term view on RI, including the direction of travel as well as the current implementation

Collaborative working

In line with their belief and Policy to work collaboratively with other pension funds to increase the strength of its voice in RI matters, the Committee agreed at its November 2019 meeting to join Local Authority Pension Fund Forum ('LAPFF') as part of a drive to work collaboratively with others on RI issues.

Priority for RI consideration and engagement

The Committee recognise that there are a range of interested parties all ~~with~~of whom will have differing interests in the Fund and as such have identified the following areas which it expects the Fund's investment managers to treat as priorities when engaging with companies invested in on the Fund's behalf:

- Climate change
- Resource scarcity
- Pollution
- Weapons
- Renumeration
- Labour Practices
- Employee relations
- Company governance
- Manage board structure
- Gender diversity

Exercise of voting rights

Assets outside the ACCESS Pool

The Fund has instructed its ~~Fund Managers~~investment managers to vote in accordance with their in-house policies and practices within the framework of the ISC's agreed policies which has been shared with the investment managers as set out above.

Assets inside the ACCESS Pool

The ACCESS pool has formulated a voting guidance which it expects each of the underlying investment managers managing sub funds on its behalf to comply with or when this is not the case to provide an explanation.

The Fund fully supports the UK Stewardship Code and requires those of its investment managers who hold shares on its behalf to comply with it or to provide the ISC with an explanation of why it is not appropriate to do so, in the exercise of the mandate that they have been given, and how they will instead achieve and demonstrate the same level of responsible share ownership.

The majority of the Fund's ~~equity~~ investment managers are signatories to the UK Stewardship Code and have all gained a Tier 1 status (demonstrating a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary).

Engagement

The Fund expects its investment managers to take account of social, environmental and ethical considerations in the selection, retention and realisation of investments as an integral part of the normal investment research and analysis process. ~~This is insofar as these matters are regarded as impacting on the current and future valuations of individual investments~~. The Fund also expects its investment managers to engage with companies held on all matters in regard to Good Stewardship. The Fund believes taking account of such consideration's forms part of the investment managers' normal fiduciary duty.

~~Instead of divesting, the ISC believes that they will have greater influence on the future direction of companies if they remain invested. Overall engagement activities are viewed by the Committee as a key element of the broader approach to responsible investment. Remaining invested provides the Fund with a voice on how companies are generating their revenues and how they will change in the future.~~

~~The Fund is a long term investor and therefore has an interest in the long term direction and success of the companies in which it invests. Divestment reduces the Fund's ability to influence how big companies change in the future.~~

Ongoing Monitoring

The Committee actively monitors the Fund's investment managers' approaches. As part of this regular manager monitoring, the ISC will challenge their managers on how they consider and manage all financial risks faced by their investments, including those that arise from ESG considerations. The Committee also strives to improve and develop their knowledge and understanding on how ESG factors will impact the Fund's investments in the future.

Stock Lending

The policy on stock lending (below) reflects the nature of the mandates awarded to investment managers by the ISC, which include both pooled and segregated mandates:

Assets within the ACCESS Pool

The Fund participates in ACCESS's stock lending programme for investments under ACCESS Pool governance.

Segregated Investments

The Fund does not participate in stock lending schemes nor allow its stock to be lent.

Pooled Investments

In regard to the Fund's pooled investments, where the Fund is buying units in a pooled vehicle, stock lending is outside the control of the Fund and undertaken at the discretion of the pooled fund manager.

Appendix A – Responsibilities

ISC Responsibilities

- ~~To approve and annually review the content of the ISS.~~
- ~~To appoint and review investment managers, custodian and advisors.~~
- ~~To assess the quality and performance of each investment manager annually in conjunction with investment advisers and Section 151 Officer.~~
- ~~To set the investment parameters within which the investment managers can operate and review these annually.~~
- ~~To monitor compliance of the investment arrangements with the ISS.~~
- ~~To assess the risks assumed by the Fund at a global level as well as on a manager by manager basis.~~
- ~~To approve and review the asset allocation benchmark for the Fund.~~
- ~~To submit quarterly reports on its activities to the Essex Pension Fund Strategy Board.~~
- ~~To approve and annually review the content of the Pension Fund Treasury Management Strategy~~

- to approve and review the asset allocation benchmark for the Fund;
- 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;
- to appoint and terminate Investment Managers (in relation to non-pooled assets), Custodians and Advisers to the Fund solely relating to investment matters;
- 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.

- 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;
- to monitor compliance of the investment arrangements with the Investment Strategy Statement;

- to monitor and review the Fund's compliance with the LGPS Scheme Advisory Board adopted Code of Transparency and UK Stewardship Code;
- to assess the risks assumed by the Fund at a global level as well as on a manager by manager basis;
- to approve and to review annually the content of the Pension Fund Treasury Management Strategy; and
- to submit quarterly reports on its activities to the Pension Strategy Board.

Section 151 Officer ('S151O') Responsibilities

- To manage the Pension Fund including the power to seek professional advice and to devolve day-to-day handling of the Fund to professional advisers within the scope of the Pensions Regulations.
- To provide a training plan for the members of the ISC (and the Strategy and Advisory Boards).

Custodian Responsibilities

- To safeguard all segregated assets (excluding direct property holdings, unitised holdings and cash held separately with either the Administering Authority or investment managers) within the Fund and ensure that all associated income is collected, including dividends and tax reclaims. ~~Also~~Also, to ensure that corporate actions affecting the securities are dealt with, including rights issues, bonus issues and acquisitions.
- To provide regular statements of transactions, corporate actions, income and asset valuations as required by the Administering Authority.
- To report to the ISC in person on the assets of the Fund if required.
- To inform the Fund of any areas of concern which arise in its dealings with investment managers.
- To report the performance of the Fund's assets

External Advisers

Hymans Robertson

- To provide advice to the Fund on investment strategy, asset allocation, benchmark selection and design, investment management structure, legislative changes impacting on the Fund and current emerging issues.
- To prepare and present a report, based on information supplied by the Fund's custodian, on the annual investment performance of the Fund.
- To carry out on behalf of the Fund, when required, the functions of manager selection and manager monitoring.
- To carry out asset/liability modelling studies when required.
- To provide expert commentary on the economy and investment market.
- To attend and advise at all meetings of the ISC and all meetings arranged between its officers, advisers and managers.
- To assist the ISC in its annual review of asset allocation, investment management structure, ~~SIP~~ Investment Strategy Statement and Funding Strategy Statement.

Independent Investment Adviser

- To assist the Officers of the Fund in the determination of agendas and papers for the meetings of the ISC.

- In consultation with the Officers of the Fund, to identify investment issues of strategic importance to the Fund and arrange for their consideration by the ISC e.g. asset allocation, and investment, management structure.
- In conjunction with the Officers of the Fund, to keep under review the individual investment managers and where necessary put forward proposals for their management, including where appropriate their dismissal.
- To assist the Officers of the Fund, where requested, in manager searches and other Fund procurement exercises.
- To assist the ISC in keeping under review its statutory publications.
- When requested by the Officers, to attend and participate in monitoring, reviewing and briefing meetings arranged with investment managers, limited partners etc.

Audit Responsibilities

The Fund is subject to review by both the County Council's External Auditors ~~(EY)~~ BDO LLP and internally by Internal Audit.

The Pension Fund financial statements contained in the Council's Annual Statement of Accounts present fairly:

- the financial transactions of its Pension Fund during the year; and
- the amount and disposition of the Fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

The External Auditor audits the Pension Fund financial statements and gives their opinion, including:

- whether they present fairly the financial position of the Pension Fund and its expenditure and income for the year in question; and
- whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards;

In carrying out their audit of the financial statements, auditors will have regard to the concept of materiality.

~~Additionally~~Additionally, the Council must prepare a Pension Fund annual report which should contain the
Pension Fund Account and Net Asset Statements with supporting notes and disclosures. External Audit will review the annual report as a whole and the accounts contained in it and then report:

- whether the accounts contained in the annual report are consistent with the financial statements on which the audit opinion was given; and
- that other information in the annual report is not inconsistent with the financial statements on which the audit opinion was given.

Internal Audit carry out a programme of work designed to reassure the S151O that Fund investment systems and records are properly controlled to safeguard the Fund's assets.

Appendix B - Core Investment Beliefs

Long term approach

Local authority (LA) funds take a long-term view of investment strategy

This is largely based on covenant. Unlike the private sector, the covenant underlying the Fund is effectively gilt-edged. This means that short term volatility of returns can be acceptable in the pursuit of long-term gain. Whilst there is a need to consider stability of contributions, at current maturity levels and with deficits spread over ~~20~~21 years, it is largely the future service rate which is expected to drive instability. One of the best ways to avoid this is to build in margins over the long term. More recently, the ISC has noted the increasing maturity of the Fund and potential change in cashflow position on the horizon. It is therefore also taking this into consideration in decision making.

Over the long term, equities are expected to outperform other liquid asset classes, particularly bonds

Given the above, there is a preference for a significant allocation to equities in the Fund as over the long-term as they are expected (but not guaranteed) to outperform other asset classes.

Allocations to asset classes other than equities and bonds expose the Fund to other forms of risk premium

Investors with a long-term investment horizon and little need for immediate liquidity can use this to their benefit as it offers the ability to capture the illiquidity premium on many asset classes, such as private equity and infrastructure.

Diversification

Diversification into alternative asset classes (including property) is also expected to reduce overall volatility of the Fund's funding level

Given that the returns from different asset classes are expected to be delivered in different cycles (i.e. not be directly correlated with equity returns), the use of alternative assets can reduce overall volatility in the delivery of Fund returns without leading to a significant reduction in overall expected return, therefore increasing efficiency.

In the context of LA funds (open, long duration, not maturing quickly and with high equity content), an allocation to bonds does not offer a match to liabilities, but additional diversification.

Where bonds are not used for liability matching purposes, an allocation to these assets can be beneficial from an overall risk/return perspective improving the overall efficiency of the Fund. The corollary to this is that bond benchmarks do not necessarily have to reflect the nature and duration of the liabilities (see benchmark section below) but should be set to provide managers with the sufficient scope to add value.

The overweight to UK equities in most UK pension funds is historic and loosely based on currency exposures, rather than a preference for the UK market

Although historically the UK may have benefited from better corporate governance, and therefore a higher return, increasingly the rest of the world is catching up and UK equities are not expected to outperform overseas equities over the long term. Given the concerns over market concentration in the UK market and an increased opportunity set overseas a move towards increased overseas allocation relative to the UK seems appropriate. Concerns about currency risk can be addressed by a separate currency hedging programme.

Benchmarks

Where appropriate, benchmarks should represent the full opportunity set.

For example, for a global equity mandate, a market capitalisation ("market cap") weighted benchmark reflects a passive allocation to the market (analogous to investing in a passive equity mandate and investing in each stock according to its size). It therefore reflects the investable universe of stocks available and represents the starting point for an equity benchmark.

To some extent market cap weighted indices reflect past winners, so should be treated with caution

The regional exposures in the World Index are a function of the relative market cap of the regional stock markets. In turn, these are a function of the size of the economy as a whole and how well companies have performed in that economy. One measure of the size of the economy could be its overall contribution to global GDP. However, as has been seen in the UK, many companies in the market have little exposure to the domestic economy and, again, this should not be adhered to too slavishly. At the total fund level a fixed weights regional benchmark is therefore preferred in order to maintain an appropriate level of diversification across markets. This is particularly the case when the allocations are maintained by a passive "swing" manager.

Emerging market economies may be expected to outperform over the long term as the economy develops and the risk premium falls

As emerging markets develop both politically and economically, become more robust and less dependent on the fortunes of a small number of developed economies (such as the US), the risk of investing in these countries should decrease. The return demanded by investors for investing in these 'riskier' countries will therefore fall reflecting the increased security. This reduction in required return would tend to lead to a systematic increase in stock prices. As a result, a strategic allocation to emerging markets of at least the market cap weight if not slightly above is favoured.

Bond benchmarks do not need to reflect the nature and duration of the liabilities

As discussed in the diversification section above, if bonds are not held for liability matching purposes, benchmarks should be set in order to maximise the scope for adding value.

Active versus passive management

Passive management is appropriate for obtaining a low-cost allocation to efficient markets

Where markets offer little scope for adding value through active management (such as individual allocations to UK equities, US equities and gilts) passive management is preferred as a low-cost way of accessing the market. This does not include emerging markets where the risk inherent in the market (although improving as stated above) and inefficiency of the market lends itself to active management.

Active management is appropriate where a market is relatively inefficient offering opportunities for active managers to add value

Where markets offer substantial scope for added value active management would seem appropriate as a way of increasing overall expected return (after fees) without significantly increasing the overall level of volatility in the funding level.

Constraints on active managers reduce their ability to add value

Active managers should not be unnecessarily constrained (within appropriate risk limits) and should be given the maximum scope to implement their active views. There is therefore a preference for unconstrained mandates e.g. unconstrained global equity mandates and unconstrained bond mandates such as M&G's LIBOR plus approach. This also suggests that, within reason, managers' requests for additional scope should be acceded to.

A degree of diversification of managers improves the efficiency of the overall structure (i.e. improves the expected return per unit of risk)

Active manager performance is expected to be cyclical and therefore by appointing a number of managers the delivery of returns is expected to be less volatile. However, too much diversification can lead to expensive index tracking.

A rigorous approach to active manager selection improves the chance of appointing an active manager who will add value over the long-term

An active manager must outperform their benchmark after fees to add value. The selection of an active manager must assess more than just past performance and look into the infrastructure supporting the performance including; business and ownership, philosophy and process, people, risk controls and fees.

The Fund does not have the governance structure in place to take tactical views and market timing is very difficult

Both timing investments into the market and taking tactical views are very difficult given the governance structure in place and the time taken to agree and implement decisions. Where possible these decisions are left to professional investment managers who are closer to the market and can implement tactical views in a more timely fashion. This highlights the importance of not unnecessarily constraining active managers and providing them with appropriate scope.

The assessment of active management performance should be taken with a long-term view and take account of the market environment in which returns are delivered

Active management is cyclical and periods of underperformance from investment managers should be expected so the structure should be such that when the market cycle is unfavourable for some managers it is favourable for others and vice versa. This is expected to deliver added value over the long-term whilst smoothing the overall performance at the total Fund level. Churning of managers leads to additional costs; however, where the ISC no longer views an investment manager's prospects as positive over the long-term, action should be implemented as soon as possible due to the potential downside risk.

Appendix C – Fund Strategy and Structure

Summary

Equities	Manager	Target %
UK	LGIM	5.0
Regional	LGIM	15.0
Global	Marathon	35.0
	M&G	
	Longview	
	Baillie Gifford	
	RAFI	
Emerging	First State	5.0
Total		60.0

Bonds	Manager	Target %
Index-linked gilts	LGIM	2.0
Active Cash plus	GSAM	5.5
	M&G	5.5
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
Total		13.0

Alternatives	Manager	Target %
Property	Aviva	12.0
Private equity	Hamilton Lane	4.0
Infrastructure	M&G Partners Group	6.0
Timber	Stafford	2.0
Loans	M&G	0.5
Direct lending	Alcentra	2.5
-	-	-
Total		27.0

~~The Fund also hedges 50% of the currency risk arising from its investment in overseas equities via a currency overlay mandate with Legal and General~~

Equities	Manager	Target %
UK	UBS	3.7
Regional	UBS	11.3
Global	Link - M&G	6.3
	Link – Longview	6.3
	Link - Baillie Gifford	6.3
	RAFI	7.3
Emerging	Stewart	3.8
Total		45.0

Bonds	Manager	Target %
Index-linked gilts	UBS	2.0
Active Cash plus	GSAM	5.5
	M&G	5.5
	New manager	3.0
Total		16.0

Alternatives	Manager	Target %
Property	Aviva	10.0
	Partners Group	4.0
Private equity	Hamilton Lane	4.0
Infrastructure	IFM	3.0
	JP Morgan	3.0
	Partners Group	4.0
Timber	Stafford	4.0
Direct lending	Alcentra	2.5
	New manager	2.5
	New manager	2.0
Total		39.0

		Swing			Equity					Bonds		Alternatives					
					Active global mandates					Active mandates							
	Effecive Benchmark	L&G Equity	L&G Bonds	L&G RAFI	Longview	Marathon	Baillie Gifford LTGG	M&G	First State	GSAM	M&G	Property	Timber	Direct lending	Infrastructure	Financing	Private Equity
Fund Weighting	100.0	20.0	2.0	7.0	7.0	7.0	7.0	7.0	5.0	5.5	5.5	12.0	2.0	2.5	6.0	0.5	4.0
UK equities (All Cap)	3.6	18.2															
UK equities (Mid/Small Cap)	1.8	9.1															
Global equities	35.0			100.0	100.0	100.0	100.0	100.0									
North America	6.4	31.8															
Europe	4.5	22.7															
Japan	2.3	11.4															
Pacific ex-Japan	1.4	6.8															
Emerging markets	5.0								100.0								
Total Equities	60.0	100.0		100.0	100.0	100.0	100.0	100.0	100.0								
UK index linked	2.0		100.0														
UK Gilts																	
UK Corps																	
Libor+	11.0									100.0	100.0						
Total bonds	13.0		100.0							100.0	100.0						
Infrastructure	6.0														100.0		
Timber	2.0												100.0				
Private equity	4.0																100.0
Property	12.0											100.0					
Financing	0.5															100.0	
Direct Lending	2.5													100.0			
Total alternatives	27.0											100.0	100.0	100.0	100.0	100.0	100.0
Total	100.0	100.0	100.0		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Appendix D – Fund Manager Mandate Objectives

Active/Passive	Mandate	% of Fund	Manager	Benchmark	Investment Objectives	Investment Restrictions
Passive	Regional Equity Indexes	15.0%	UBS Asset Management	FTSE Regional	Match BM gross of fees over rolling 3-year period	May not invest in unlisted securities
Passive	Global Equity	7.3%	UBS Asset Management	FTSE RAFI AW 3000	Match BM gross of fees over rolling 3-year period	May not invest in unlisted securities
Active	Global Equity	6.3%	Link Asset Solutions - LP ACCESS Long Term Global Growth Fund	MSCI AC World Index	BM + 3%, gross of fees, per annum over rolling 5-year periods	Discretionary mandate
Active	Global Equity	6.3%	Link Asset Solutions – LP ACCESS Global Equity Fund	MSCI AC World Index	BM + 3%, gross of fees, per annum over rolling 3-year periods	Discretionary mandate
Active	Global Equity	6.3%	Link Asset Solutions – LP ACCESS Global Dividend Fund	MSCI AC World Index	BM + 3%, gross of fees, per annum over rolling 3-year periods	Discretionary mandate

Active/Passive	Mandate	% of Fund	Manager	Benchmark	Investment Objectives	Investment Restrictions
Active	Emerging Equity	3.8%	Stewart Investors	MSCI EM Index	BM + 4%, gross of fees, per annum over rolling 3-year periods	Discretionary mandate
Passive	Index Linked Bonds	2.0%	UBS Asset Management	FTSE Act. Gov't Securities Index-Linked Over 5 Years Index	Match BM gross of fees over rolling 3-year period	n/a
Active	Fixed Interest	5.5%	Goldman Sachs Asset Management	1-month Libor	BM +2%p.a.	n/a
Active	Fixed Interest	5.5%	M&G Investment	1-month Libor	BM +2%p.a.	n/a
Active	Fixed Interest	3.0%	Vacant	TBC	TBC	TBC
Active	UK Property	10.0%	Aviva Investors	IPD PPFI All Balanced Funds Index	BM +1% p.a.	Target allocation of Direct 75% Indirect 25% No direct investment in the County of Essex
Active	Global Property	4.0%	Partners Group	IRR	9% p.a.	n/a

Active/Passive	Mandate	% of Fund	Manager	Benchmark	Investment Objectives	Investment Restrictions
Active	Private Equity	4.0%	Hamilton Lane	MSCI World PME Index	BM+3% p.a.	Prior approval to be sought for co-investments
Active	Infrastructure	3.0%	IFM Investors	Absolute	BM + 8% p.a.	n/a
Active	Infrastructure	3.0%	JPMorgan	Absolute	BM + 8% p.a.	n/a
Active	Infrastructure	4.0%	Partners Group	Absolute	BM + 8% p.a.	n/a
Active	Timber	4.0%	Stafford Capital Partners	IRR	BM + 8% p.a.	n/a
Active	Direct Lending	2.5%	Alcentra Limited	IRR	8% p.a.	n/a
Active	Direct Lending	4.5%	Vacant	TBC	TBC	TBC

~~**Legal and General Investment Management**~~
~~Passive Mandate - 22% of the Fund~~

~~Investment Objective~~
~~The objective is to match the Benchmark gross of fees over rolling three year periods. The Benchmark is the average of the respective FTSE indices for each of the asset classes and markets in which the mandate is invested and weighted in accordance to the proportions in the mandate's asset allocation shown below:~~

~~Investment Allocations:~~
~~The asset allocations are as below:~~

~~**Asset Class**~~	~~**Target Allocation**~~	~~**Range**~~
~~Equities~~	~~%~~	~~%~~
~~UK Equities Index~~	~~25.4~~	~~23.4 - 27.4~~
~~North America Equity Index~~	~~32.7~~	~~30.7 - 34.7~~
~~Europe Equity Index~~	~~24.1~~	~~22.1 - 26.1~~
~~Japan Equity Index~~	~~11.3~~	~~9.8 – 12.8~~
~~Asia Pacific ex Japan Index~~	~~6.5~~	~~5.75 – 7.25~~
~~**Total equities**~~	~~100~~	
~~Bonds~~		
~~UK Index-linked (Over 5 Year Index-linked Gilts Index)~~	~~100~~	
~~**Total bonds**~~	~~100~~	

~~Investment Restrictions~~
~~Legal and General may not invest in unlisted securities. The manager may invest up to 100% of its mandate in pooled life funds. The manager can invest up to 35% of the total Fund in life policies, assets held over and above this limit must be held on a segregated basis.~~

~~**Legal and General Investment Management**~~
~~Global Equity Passive Mandate - 7% of the Fund~~

~~Investment Objective~~
~~The objective is to match the Benchmark gross of fees over rolling three year periods. The benchmark being the L&G FTSE RAFI AW 3000.~~

~~**Legal and General Investment Management**~~
~~Passive Currency Mandate~~
~~The mandate requires Legal & General to hedge 50% of the estimated value of the exposure to certain overseas equity markets. The hedge is adjusted on a quarterly basis with the new positions calculated using estimated values as at close of business two days before the quarter end.~~

~~**Baillie Gifford**~~
~~Global Equity Mandate – 7% of the Fund~~

~~Investment Objective~~
~~The objective is to seek to outperform the MSCI AC World Index by 3%, gross of fees, per annum over rolling 5 year periods.~~

~~Investment Restrictions~~
~~The investment restrictions on the manager's discretion in the management of the mandate are set out in full in the Investment Management agreement. The main restrictions are set out below:~~

~~The manager aims to ensure adequate diversification, holdings between 30 and 60 stocks. No more than 10% of the portfolio is held in any individual stock and a minimum of six sectors are represented at all times~~

~~The Manager takes a pragmatic approach to risk the greatest risk is an absolute loss of capital, therefore, on an ongoing basis the manager reviews themes and stock concentrations in the portfolio as well as how stocks might perform in different scenarios, and levels of correlation between them~~

~~Consistent with their long-term investment philosophy the portfolio turnover is low.~~

~~Longview Partners~~
~~Global Equity Mandate – 7% of the Fund~~

~~Investment Objective~~
~~The objective is to seek to outperform the MSCI AC World Index by 3%, gross of fees, per annum over rolling 3 year periods.~~

~~Investment Restrictions~~
~~The investment restrictions on the manager's discretion in the management of the mandate are set out in full in the Investment Management agreement. The main restrictions are set out below:~~

~~The manager aims to ensure adequate diversification, holdings between 30 and 50 stocks. No more than 7% of the portfolio is held in any individual stock and a range of sectors will be represented at all times~~

~~No restrictions are placed on companies domiciled in a country included within the benchmark. A maximum of 20% of the portfolio at time of purchase may be invested in companies domiciled in countries not included within the benchmark~~

~~Longview may not lend any stock, fund, share or asset forming part of the portfolio or borrow cash and/or securities for leveraging of the Portfolio.~~

~~Marathon Asset Management~~
~~Global Equity Mandate – 7% of the Fund~~

~~Investment Objective~~
~~The objective is to seek to outperform the MSCI AC World Index by 3%, gross of fees, per annum over rolling 3 year periods.~~

~~Investment Restrictions~~
~~The investment restrictions on the manager's discretion in the management of the mandate are set out in full in the Investment Management agreement. The main restrictions are set out below:~~

~~Investment will be permitted in ordinary share, preference shares, convertible bonds, warrants and cash~~

~~The Fund will be diversified, containing a minimum of 100 securities~~

~~The Fund will not hold more that 3% of the issued share capital of any one security~~

~~The maximum percentage of the Fund which may be invested in anyone share is 10% of the Fund or its benchmark weighting whichever is the greater.~~

~~Cash and Cash equivalent securities will not exceed 10% of the Fund's value expect for short periods when rebalancing is taking place~~

~~M&G Investments~~
~~Global Equity Mandate – 7% of the Fund~~

~~Investment Objective~~
~~The objective is to seek to outperform the MSCI AC World Index by 3%, gross of fees, per annum over rolling 3 year periods.~~

~~The fund aims to deliver a dividend yield above the market average, by investing mainly in a range of global equities. The fund aims to grow distributions over the long term whilst also maximising total return (the combination of income and growth of capital).~~

~~Investment Restrictions~~
~~There are no investment restriction's placed on the manager as this investment is in M&G Global Dividend pooled fund. The Fund itself has built in restrictions, but offers flexibility to allocate across sectors and geographies without constraints.~~

~~Stewart Investors~~
~~Global Equity Mandate – 5% of the Fund~~

~~Investment Objective~~
~~The objective is to seek to outperform the MSCI EM Index by 4%, gross of fees, per annum over rolling 3 year periods.~~

~~Investment Restrictions~~

~~The investment restrictions on the manager's discretion in the management of the mandate are set out in full in the Investment Management agreement. The main restrictions are set out below:~~

~~Investment will be permitted in ordinary share, preference shares, convertible bonds, warrants and cash~~

~~The Fund will be diversified, containing a minimum of 30 securities~~

~~The Fund will not hold more that 3% of the issued share capital of any one security~~

~~Cash and Cash equivalent securities will not exceed 10% of the Fund's value expect for short periods when rebalancing is taking place~~

~~Aviva~~

~~Property Mandate – 12% of the Fund~~

~~Investment Objective~~

~~The objective is to seek to outperform the Benchmark by 1% per annum gross of fees over rolling three year periods. The Benchmark is the weighted average of the IPD PPFI All Balanced Property Funds Index.~~

~~This objective is to be achieved by investing in a combination of direct and indirect property portfolios.~~

~~Investment Restrictions~~

~~The Fund is managed on a discretionary basis and the manager shall transition the Fund to comply with the target allocation and permitted ranges as below.~~

~~Asset allocation and control ranges~~

~~Aviva will invest in a range of property investments, subject to the following constraints.~~

~~Asset Allocation~~	**~~Target Allocation~~**	**~~Range~~**
	~~%~~	~~%~~
~~Direct Property~~	~~75~~	~~50 - 100~~
~~Indirect Property~~	~~25~~	~~25 - 50~~
~~Cash*~~	~~0~~	~~0 - 20~~
~~Total~~	~~100~~	

~~*In times of severe market stress there is flexibility to hold up to a maximum of 20% in cash~~

~~M & G~~
~~Fixed Income Mandate – 5.5% of the Fund~~

~~Investment Objective~~
~~The Fund seeks a total return of 1 month Libor +2% net of fees p.a. over the medium term.~~

~~Investment Restrictions~~
~~There are no specific investment restriction's placed on the manager as this investment is in M&G's Alpha Opportunities Fund which aims to take advantage of highly diversified opportunities in public and private credit markets, including but not limited to investment grade and high yield corporate bonds, leveraged loans, asset-backed, and mortgage backed securities.~~

~~Goldman Sachs Asset Management~~
~~Fixed Income Mandate – 5.5% of the Fund~~

~~Investment Objective~~
~~The Fund seeks a total return of 3 month Libor +2% gross of fees p.a. over the medium term.~~

~~Investment Restrictions~~
~~There are no specific investment restriction's placed on the manager as this investment is in its STAR I Fund which aims to take advantage of highly diversified opportunities in public and private credit markets, including but not limited to investment grade and high yield corporate bonds, leveraged loans, asset-backed, and mortgage backed securities.~~

~~Hamilton Lane~~
~~Private Equity Mandate - 4% of the Fund~~

~~Investment Objective~~
~~The Fund seeks a total return of 3% - 5% p.a. above quoted equity markets.~~

~~Investment Restrictions~~
~~Hamilton Lane has a global investment mandate in primary partnerships, secondary partnerships and co-investments within private equity. No restrictions have been placed on the fund other than prior approval will need to be sought if the manager wishes the Fund to co-invest.~~

~~Partners Group~~
~~Infrastructure Mandate - 4% of the Fund~~

~~Investment Objective~~
~~The Fund seeks an IRR of 8% to 10% p.a.~~

~~Investment Restrictions~~
~~There are no specific restrictions placed on the manager as this is a pooled investment in Partner's Group Global Infrastructure and Partner's Direct fund which seeks investment opportunities in direct, secondary and primary infrastructure markets.~~

~~M&G Infracapital~~
~~Infrastructure Mandate - 2% of the Fund~~
~~At present this investment is being wound up and capital is being returned.~~

~~Investment Objective~~
~~The Fund seeks a total return of CPI + 4% p.a. and IRR of 10% -15% p.a.~~

~~Investment Restrictions~~
~~There are no specific restrictions placed on the manager as this Infracapital is a pooled investment in which seeks investment opportunities in direct, secondary and primary infrastructure space.~~

~~IFM Investors~~
~~Infrastructure Mandate - 1% of the Fund~~

~~Investment Objective~~
~~The Fund seeks an expected return of 8% to 12% p.a. net.~~

~~Investment Restrictions~~
~~There are no specific restrictions placed on the manager as this is a pooled open ended investment in IFM Investors Global Infrastructure Fund which seeks investment opportunities in global core infrastructure assets over a broad sector.~~

~~JPMorgan~~
~~Infrastructure Mandate - 1% of the Fund~~

~~Investment Objective~~
~~The Fund seeks an expected return of 8% to 12% p.a. net.~~

~~Investment Restrictions~~
~~There are no specific restrictions placed on the manager as this is a pooled open ended investment in JPMorgan IFF fund which seeks investment opportunities in OECD regions of core and core plus infrastructure assets concentrating on transportation regulated utilities and contracted power assets.~~

~~Stafford Timberland~~
~~Timberland Mandate - 2% of the Fund~~

~~Investment Objective~~
~~The Fund seeks an IRR of 10% p.a.~~

~~Investment Restrictions~~
~~There are no specific restrictions placed on the manager as this is a pooled investment in its Stafford International Timberland VI Fund and its Stafford International Timberland VII Fund (no2) which seeks investment opportunities in direct, secondary and primary timberland.~~

~~Alcentra Limited~~
~~Illiquid Debt Mandate – 2.5% of the Fund~~

~~Investment Objective~~
~~The Fund invests both indirectly and directly and seeks 7% -9% net returns and 10% -12% net returns respectively~~

~~Investment Restrictions~~
~~There are no specific restrictions placed on the manager as this is a pooled investment in which seeks both direct and indirect investment opportunities in the illiquid debt space.~~

~~M&G~~
~~Financing Mandate – 0.5% of the Fund~~

~~Investment Objective~~
~~The Fund seeks a return of LIBOR +4-6% (net of fees) p.a.~~

~~Investment Restrictions~~
~~There are no specific restrictions placed on the manager as this is a pooled investment in its Stafford International Timberland VI Fund and its Stafford International Timberland VII Fund (no2) which seeks investment opportunities in direct, secondary and primary timberland.~~

~~Appendix E – Investment and funding risk register: key~~

			Impact (Negative)			
			Minor	Moderate	Major	Critical
			1	2	3	4
Probability	4	Almost Certain	Medium (4)	High (8)	VeryHigh (12)	Very High (16
	3	Likely	Medium (3)	High (6)	High (9)	Very High (12)
	2	Possible	Low (2)	Medium (4)	High (6)	High (8)
	1	Unlikely	Low (1)	Low (2)	Medium (3)	Medium (4)

Essex Pension Fund Risk Register

Risk Area:	Essex Pension Fund	Date:	01/03/2017	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
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
Investment Risks		-	-	-	-	-	-	-	-	-
Investments	To maximise the returns from investments within reasonable risk parameters	I1	If investment return is below that assumed by the Actuary in funding the plan this could lead to an increasing deficit and additional contribution requirements. The larger the level of mismatch between assets and liabilities the bigger this risk.	4	3	12	Diversified portfolio; Annual Strategy Review; Asset Liability Study, extended recovery periods to smooth contribution increases.	3	3	9
Investments	To maximise the returns from investments within reasonable risk parameters	I2	Inefficiencies within the portfolio can result in unintended risks	3	3	9	Diversified portfolio; Annual Strategy Review; Quantification of individual components of financial risks, Hedging of some risks, Obtain expert advice	2	1	2
Investments	To maximise the returns from investments within reasonable risk parameters	I3	If investment returns are below peer group funds, or risk levels are excessive relative to peer group, this could lead to reputational damage for the Fund or member/admitted body dissatisfaction.	3	3	9	Regular monitoring; Annual Strategy Review; Targeting most efficient portfolio	2	2	4
Investments	To maximise the returns from investments within reasonable risk parameters	I4	Risk of missing opportunities to maximise returns	2	3	6	Regular monitoring; more than one investment adviser; dialogue with existing managers to encourage new ideas; peer group dialogue	2	2	4
Investments	To maximise the returns from investments within reasonable risk parameters	I5	If investment strategy is inconsistent with Funding Plan then it can lead to employers paying the incorrect contribution rate	4	3	12	Triennial Reviews linked with Funding Strategy & Investment Strategy. Asset Liability Study; SIP; Interim Reviews; co-ordination between actuary and investment consultant. A specific scorecard measure on this matter is in place.	2	1	2

~~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~~
~~Investment Risks~~		-	-	-	-	-	-	-	-	-
~~Investments~~	~~To maximise the returns from investments within reasonable risk parameters~~	~~I6~~	~~Fund managers underperform their benchmarks~~	~~2~~	~~2~~	~~4~~	~~Manager selection process and due diligence; manager monitoring across wide range of issues; diversified portfolio of managers; setting of appropriate benchmarks~~	~~2~~	~~1~~	~~2~~
~~Investments~~	~~To ensure the Fund is properly managed~~	~~I7~~	~~Inappropriate or uninformed decisions e.g. due to lack of understanding / training~~	~~3~~	~~3~~	~~9~~	~~Training and experience of ISC members; monitoring of knowledge and understanding; an institutional investment adviser and an independent adviser have been appointed; training and experience of in house team; papers prepared in advance of decisions being made; Annual Strategy Review sets plan for year~~	~~1~~	~~2~~	~~2~~
~~Investments~~	~~To ensure the Fund is properly managed~~	~~I8~~	~~Insufficient management information about the position of the Fund e.g. level of risk; amount of assets; performance of managers~~	~~2~~	~~3~~	~~6~~	~~Regular quarterly reporting on assets, performance and managers; Annual Strategy Review~~	~~1~~	~~1~~	~~1~~
~~Investments~~	~~To ensure the Fund is properly managed~~	~~I9~~	~~Failure to take expert advice or risk of poor advice~~	~~2~~	~~3~~	~~6~~	~~Appointment of institutional investment consultant and an independent investment adviser, who regularly attend meetings~~	~~1~~	~~1~~	~~1~~
~~Investments~~	~~To ensure the Fund is properly managed~~	~~I10~~	~~Delays in implementation of decisions reduces the effectiveness of the decision~~	~~2~~	~~3~~	~~6~~	~~In house team; use of passive manager to implement change; delegation of implementation to officers and advisers~~	~~1~~	~~2~~	~~2~~

~~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~~
~~Investment Risks~~		-	-	-	-	-	-	-	-	-
~~Investments~~	~~To ensure the Fund is properly managed~~	~~I11~~	~~If liquidity is not managed correctly, assets may need to be sold at unattractive times or investment opportunities missed as cash is unavailable.~~	~~2~~	~~2~~	~~4~~	~~Limit on illiquid assets and level of diversification from equities and bonds; projection of expected cash flows. A specific scorecard measure is in place on this matter.~~	~~1~~	~~1~~	~~1~~
~~Investments~~	~~To ensure the Fund is properly managed~~	~~I12~~	~~Insufficient scrutiny of manager mandates and terms of business may lead to inappropriate fee levels or other costs.~~	~~2~~	~~3~~	~~6~~	~~Quarterly monitoring; review of fees versus peer group; selection criteria include fees and other costs~~	~~1~~	~~2~~	~~2~~
~~Investments~~	~~To ensure the Fund is properly managed~~	~~I13~~	~~Failure of manager or custodian~~	~~3~~	~~1~~	~~3~~	~~Quarterly monitoring; AAF0106 audit reports; investment consultant on-going research; diversification of manager mandates; diversification of custody via pooled funds~~	~~2~~	~~1~~	~~2~~
~~Investments~~	~~To ensure the Fund is properly managed~~	~~I14~~	~~Failure to react to major change in market / economic conditions~~	~~3~~	~~2~~	~~6~~	~~Quarterly monitoring, setting appropriate mandates for managers, appointment of investment consultant and independent advisers, review of market conditions at each meeting, regular engagement with investment managers~~	~~2~~	~~1~~	~~2~~

~~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~~	~~Ensure all significant Fund investment issues are communicated properly to all interested parties~~	~~I15~~	~~Inappropriate communication of risks involved in the pension fund and strategy adopted and actions taken by the ISC may lead to questions and challenge and unexpected increases in contributions~~	~~2~~	~~3~~	~~6~~	~~Resourcing of in house team; discussion forums and surgeries; statement of investment principles; funding strategy statement~~	~~1~~	~~2~~	~~2~~
~~Investments~~	~~To ensure the Fund is properly managed~~	~~I16~~	~~The implementation of MiFiD II (January 2018) 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. Representations at national level aimed towards LGPS retaining professional client status.~~ ~~2. Fund Officers working with Fund Managers & Investment Advisers aimed towards the Essex Fund retaining professional client status. Developments continue to be monitored.~~	~~4~~	~~2~~	~~8~~

~~Essex Pension Fund Risk Register~~

~~Risk Area:~~ ~~Essex Pension Fund~~ ~~Date:~~ ~~01/03/2017~~

~~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~~
~~**Funding Risks**~~		-	-	-	-	-	-	-	-	-
~~Funding~~	~~Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy~~	~~F1~~	~~Investment markets perform below actuarial assumptions resulting in reduced assets, reduced solvency levels and increased employer contributions~~	~~4~~	~~2~~	~~8~~	~~Use of a diversified portfolio which is regularly monitored against targets and reallocated appropriately. At each triennial valuation assess funding position and progress made to full funding. Full annual interim reviews to enable consideration of the position. A specific scorecard measure is in place on this matter.~~	~~2~~	~~2~~	~~4~~
~~Funding~~	~~Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy~~	~~F2~~	~~Markets move at variance with actuarial assumptions resulting in increases in deficits, reduced solvency levels and increased employer contributions~~	~~4~~	~~3~~	~~12~~	~~Annual interim reviews to enable consideration of the position and the continued appropriateness of the funding/investment strategies and to monitor the exposure to unrewarded risks.~~	~~3~~	~~3~~	~~9~~
~~Funding~~	~~Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy~~	~~F3~~	~~Investment managers fail to achieve performance targets (i.e. ensure funding target assumptions are consistent with funding objectives) which reduces solvency levels and increases required in employers' contributions~~	~~3~~	~~3~~	~~9~~	~~Diversified investment structure and frequent monitoring against targets with potential for a change of managers where considered appropriate.~~	~~2~~	~~2~~	~~4~~
~~Funding~~	~~Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy~~	~~F4~~	~~Mortality rates continue to improve, in excess of the allowances built into the evidence based actuarial assumptions, resulting in increased liabilities, reduced solvency levels and increased employer contributions~~	~~3~~	~~3~~	~~9~~	~~Monitoring of mortality experience factors being exhibited by the Fund members by Fund Actuary and consequent variation of the actuarial assumptions based on evidential analysis.~~	~~2~~	~~2~~	~~4~~

~~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~~
~~Funding Risks~~		-	-	-	-	-	-	-	-	-
~~Funding~~	~~Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined by the Funding Strategy~~	~~F5~~	~~Frequency of early retirements increases to levels in excess of the actuarial assumptions adopted resulting in increases required in employers' contributions~~	~~3~~	~~3~~	~~9~~	~~Employers required to pay capital sums to fund costs for non-ill health cases. Regular monitoring of early retirement (including on the grounds of ill health) experience being exhibited by the Fund members by Fund Actuary and consequent variation of the actuarial assumptions based on evidential analysis. Ensure that employers are made aware of consequences of their decisions and that they are financially responsible.~~	~~2~~	~~2~~	~~4~~
~~Funding~~	~~To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible~~	~~F6~~	~~Failure to apply and demonstrate fairness in the differentiated treatment of different fund employers by reference to their own circumstances and covenant~~	~~4~~	~~3~~	~~12~~	~~At each triennial actuarial valuation an analysis is carried out to assess covenant and affordability on a proportional basis. On-going dialogue with employers.~~	~~2~~	~~2~~	~~4~~
~~Funding~~	~~To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible~~	~~F7~~	~~Mismatch in asset returns and liability movements result in increased employer contributions~~	~~4~~	~~3~~	~~12~~	~~Diversified investment structure and frequent monitoring against targets to adjust funding plans accordingly through the FSS. Employers are kept informed as appropriate.~~	~~3~~	~~2~~	~~6~~

~~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~~
~~Funding Risks~~		~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~
~~Funding~~	~~To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible~~	~~F8~~	~~Pay and consumer price inflation significantly different from actuarial assumptions resulting in increases required in employers' contributions~~	~~3~~	~~2~~	~~6~~	~~At each triennial actuarial valuation an analysis is carried to ensure that the assumptions adopted are appropriate and monitor actual experience. Discussions with employers over expected progression of pay in the short and long term.~~	~~2~~	~~2~~	~~4~~
~~Funding~~	~~To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible~~	~~F9~~	~~Potential for significant increases in contributions to levels which are unaffordable. Ultimate risk is the possibility of the employers defaulting on their contributions~~	~~3~~	~~3~~	~~9~~	~~Risk profile analysis performed with a view on the strength of individual employer's covenant being formed when setting terms of admission agreement (including bonds) and in setting term of deficit recovery whilst attempting to keep employers' contributions as stable and affordable as possible. Pursue a policy of positive engagement with a view to strengthening employer covenants wherever possible.~~	~~2~~	~~2~~	~~4~~
~~Funding~~	~~To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible~~	~~F10~~	~~Adverse changes to LGPS regulations resulting in increases required in employers' contributions or Fund cash flow requirements.~~	~~4~~	~~2~~	~~8~~	~~Ensuring that Fund concerns are considered by the Officers/Board as appropriate and raised in consultation process with decision makers lobbied. Employers and interested parties to be kept informed. Monitor potential impact for employers in conjunction with Actuary.~~	~~3~~	~~1~~	~~3~~

~~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~~
~~Funding Risks~~		-	-	-	-	-	-	-	-	-
~~Funding~~	~~To recognise when drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible~~	~~F11~~	~~Adverse changes to other legislation, tax rules, etc. resulting in increases required in employers' contributions~~	~~3~~	~~2~~	~~6~~	~~Ensuring that Fund concerns are considered by the Officers/Board as appropriate and raised in consultation process with decision makers lobbied. Employers and interested parties to be kept informed. Monitor potential impact for employers in conjunction with Actuary.~~	~~3~~	~~1~~	~~3~~
~~Funding~~	~~To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives~~	~~F12~~	~~Administering authority unaware of structural changes in an employer's membership, or not being advised of an employer closing to new entrants, meaning that the individual employer's contribution level becomes inappropriate requiring review and increase~~	~~3~~	~~3~~	~~9~~	~~Ensure that employers are reminded of their responsibilities, monitor and send reminders of employers' responsibilities re this where appropriate, investigate the adoption of an administration strategy to clarify employer responsibilities. Employer analysis work and officer dialogue with employers concerned (including guarantors as appropriate)~~	~~2~~	~~2~~	~~4~~
~~Funding~~	~~To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives~~	~~F13~~	~~Not recognising opportunities from changing market, economic or other circumstances (e.g. de-risking or strengthening of covenant)~~	~~3~~	~~3~~	~~9~~	~~At each triennial valuation pursue a policy of positive engagement with a view to strengthening employer covenants wherever possible.~~	~~2~~	~~2~~	~~4~~

~~Funding~~	~~To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives~~	~~F14~~	~~Adoption of either an inappropriately slow or rapid pace of funding in the specific circumstances for any particular employer~~	~~3~~	~~4~~	~~12~~	~~At each triennial actuarial valuation an analysis is carried out to assess covenant and affordability on a proportional basis. On-going dialogue with employers.~~	~~2~~	~~2~~	~~4~~

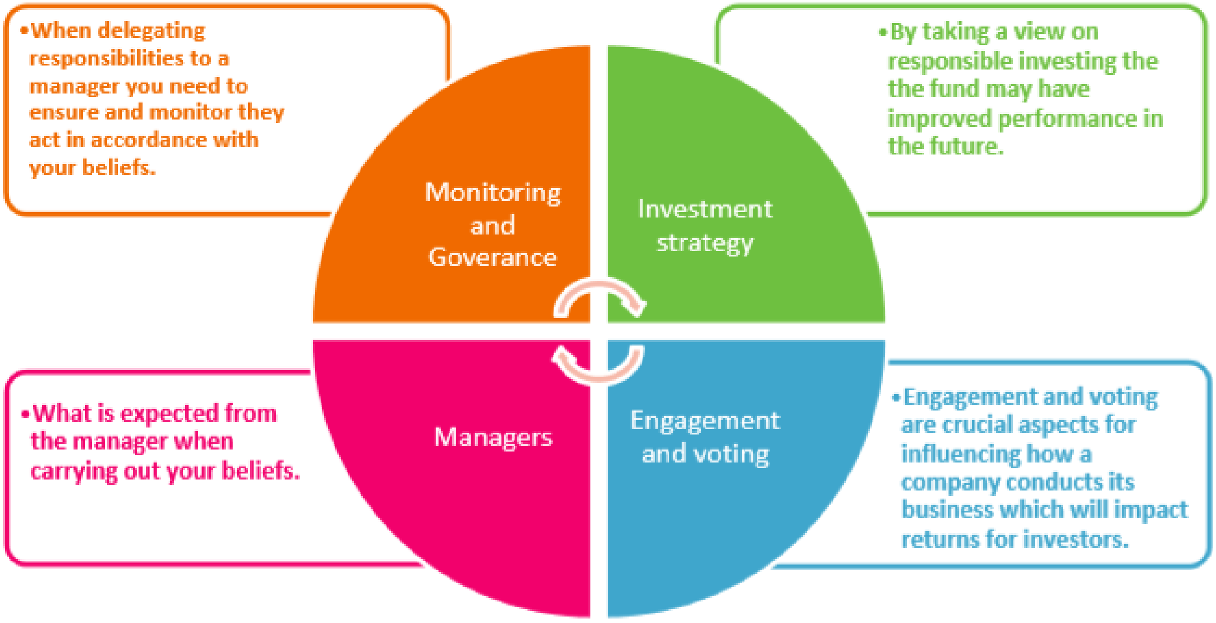
~~Objectives Area at Risk~~	~~Objective at Risk~~	~~Risk Ref~~	~~Description of Risk of not Achieving the Objectives~~	~~Gross Impact~~	~~Gross Probability~~	~~Gross Risk score~~	~~Possible Actions~~	~~Residual Impact~~	~~Residual Probability~~	~~Residual Risk Score~~
~~Funding Risks~~		~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~
~~Funding~~	~~To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives~~	~~F15~~	~~Failure to ensure appropriate transfer is paid to protect the solvency of the Fund and equivalent rights are acquired for transferring members in accordance with the regulations.~~	~~2~~	~~3~~	~~6~~	~~Follow the standardised approach to bulk transfers of liabilities as part of admission policy framework, complying with any statutory requirements and protecting the interests of the Fund's employers by measuring the solvency of the Fund and relevant employers before and after transfer.~~	~~2~~	~~1~~	~~2~~
~~Funding~~	~~To have consistency between the investment strategy and funding strategy~~	~~F16~~	~~Over or under cautious determination of employer funding requirements due to the impact of the investment strategy on funding~~	~~3~~	~~3~~	~~9~~	~~Measurement will look at expected return projections vs actuarial assumptions in order to test the continued appropriateness and consistency between the funding and investment strategy.~~	~~2~~	~~2~~	~~4~~
~~Funding~~	~~Maintain liquidity in order to meet projected net cash-flow outgoings~~	~~F17~~	~~Illiquidity of certain markets and asset classes and difficulty in realising investments and paying benefits as they fall due~~	~~3~~	~~3~~	~~9~~	~~Holding liquid assets and maintain positive cash flows. Reviews performed to monitor cash flow requirements~~	~~2~~	~~1~~	~~2~~

~~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~~
~~**Funding Risks**~~		~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~
~~Funding~~	~~Maintain liquidity in order to meet projected net cash-flow outgoings~~	~~F18~~	~~Unanticipated onset of cash-flow negative position, potentially requiring ad hoc repositioning of assets~~	~~3~~	~~3~~	~~9~~	~~Holding liquid assets and maintain positive cash flows. Reviews performed to monitor cash flow requirements. In Spring 2015 the ISC agreed to divert a portion of UK equity dividend income (L&G) & property rental income (AVIVA) to supplement contribution income in order to meet pension benefit expenditure.~~	~~2~~	~~1~~	~~2~~
~~Funding~~	~~Minimise unrecoverable debt on termination of employer participation~~	~~F19~~	~~An employer ceasing to exist with insufficient funding, adequacy of bond or guarantee. In the absence of all of these, the shortfall will be attributed to the Fund as a whole with increases being required in all other employers' contributions~~	4	~~3~~	~~12~~	~~Assess the strength of individual employer's covenant and/or require a guarantee when setting terms of admission agreement (including bonds) and in setting term of deficit recovery. Annual monitoring of risk profiles and officer dialogue with employers concerned (including guarantors as appropriate) through employer analysis. Positive dialogue with employers with a view to strengthening employer covenants wherever possible. Same mitigations for both risks F19 & F20~~	~~3~~	~~2~~	~~6~~

~~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~~
~~Funding Risks~~		~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~
~~Funding~~	~~Minimise unrecoverable debt on termination of employer participation~~	~~F20~~	~~Failure to monitor leading to inappropriate funding strategy and unrecovered debt on cessation of participation in the fund~~	~~4~~	~~3~~	~~12~~	~~Assess the strength of individual employer's covenant in conjunction with the Actuary and/or require a guarantee when setting terms of admission agreement (including bonds) and in setting term of deficit recovery. Annual monitoring of risk profiles and officer dialogue with employers concerned (including guarantors as appropriate) through employer analysis. Positive dialogue with employers with a view to strengthening employer covenants wherever possible~~	~~3~~	~~2~~	~~6~~
~~Funding~~	~~Maintain liquidity in order to meet projected net cash-f_low outgoings~~	~~F21~~	~~Employee participation in the Essex LGPS reduces (possibly in response to changes in contribution rate / benefit structure or changes in patterns of service delivery)~~	~~4~~	~~3~~	~~12~~	~~Communications with both Employers and Employees over the benefits of the LGPS, both before and after any structural change. In July 2011, following discussion on liquidity and fund maturity, the ISC set a 27% limit on exposure to alternative assets.~~	~~3~~	~~2~~	~~6~~

Appendix E – RI Investment Beliefs

The Committee have articulated a set of RI investment beliefs based on the four key headline beliefs below:



Investment strategy (IS)

1. Having a responsible investment policy could 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 (EV)

1. Engagement in a company is more effective then 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 (M)

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.
1.5. The direction of travel of the investee companies is even more important than their current scoring on 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, taking into account the direction of travel and not only current scoring.

Monitoring and Governance (MG)

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. The Fund needs to engage and challenge managers on integrating ESG issues in their investment process in line with the RI policy.
4. An RI policy focussed on improving financial outcomes will be to the benefit of Fund stakeholders.
5. It is best to engage stakeholders on the overall approach to managing the Fund rather than on RI policy only.
6. ESG factors should be incorporated into manager reporting in due course.

Appendix F – Statement of Compliance: the six Myners principles of good investment practice

Description of Principle	Essex Pension Fund's position	Future actions
1. Effective decision making Administering Authorities should ensure that: • Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation and • Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.	Responsibility for approval and review of the Investment Strategy of the Essex Pension Fund has been delegated to the Investment Steering Committee (ISC). Every quarter, the ISC reports its activity to the Essex Pension Fund Strategy Board (the Strategy Board), the body with overall responsibility for the Essex Pension Fund. The day to day running of the Fund has been delegated to the S151O. The ISC is supported by the S151O, the Director for Essex Pension Fund and other Fund officers. Institutional investment advice to the ISC and Fund Officers is commissioned from Hymans Robertson. Furthermore, the Fund is supported by Mark Stevens, ~~acts as an~~ the independent investment adviser. An on-going programme of training for Members of the ISC and Strategy Board is in place based on the CIPFA Knowledge & Skills Framework. ~~Launch of infoBOARD (an online document repository for ISC/ Strategy Board Members) in July 2013.~~ The Training Strategy is periodically reviewed to ensure it is fit for purpose. Member training is also recorded and feeds into the scorecard which is reported to the Strategy Board on quarterly basis. Fund Officers hold relevant qualifications and maintain appropriate on-going professional development (CPD). The Essex Pension Fund is a member of the CIPFA Pensions Network.	On-going Member and Fund officer training.

Description of Principle	Essex Pension Fund's position	Future actions
2. Clear objectives An overall investment objective(s) should be set for the fund that takes account of the scheme liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be communicated to advisers and investment managers.	The Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS) set out the Essex Pension Fund's primary funding and investment objectives. Specific investment objectives are in place for each mandate in the portfolio, and these are regularly monitored by the ISC. The Strategy Board has also agreed and reviews periodically a series of objectives across five areas: Governance, Investment, Funding, Administration & Communications. Progress against objectives is monitored regularly by the Fund's scorecard. These objectives include: • Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise • ~~To m~~Maximise the returns from investments within reasonable risk parameters • ~~To m~~Manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption, where necessary, of employer specific funding objectives • ~~To r~~Recognise in drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible • Communicate in a friendly, expert and direct way to our stakeholders, treating all our stakeholders equally	Continual monitoring and review of objectives.

Description of Principle	Essex Pension Fund's position	Future actions
3. Risk & liabilities • In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of their liabilities. • These include the implications for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	Following each triennial valuation, the ISC re-assess the investment strategy in light of the updated information on the structure of liabilities. Asset / Liability studies have been used in the past. Whilst it is accepted that investment underperformance due to certain market conditions can occur, the ISC measures active managers against longer term benchmark outperformance targets. The strength of covenant of participating employers is considered in the formulation of the FSS. The admission of new employers into the Fund is not granted unless appropriate guarantees are put in place. Investment risks are highlighted within the ISS. A Register of risks of not achieving each of the Funds objectives is maintained and reviewed on a quarterly basis.	The ISC is scheduled to consider an asset liability study based on the outcomes of the 2019~~6~~ Valuation, in 2020 ~~early 2017~~.

Description of Principle	Essex Pension Fund's position	Future actions
4. Performance assessment Arrangements should be in place for the formal measurement of investments, fund managers and advisers Administering authorities should also periodically make a formal assessment of their own effectiveness as a ~~decision making~~decision-making body and report on this to scheme Members.	The performance of the Fund and fund managers is monitored each quarter by the ISC, and all fund managers are held to account through meetings with the ISC and/or the Fund's officers and advisers. Performance data is provided by a specialist provider, independent from the fund managers. The Fund's contracts with its advisers are market tested when appropriate. ~~The most recent~~ An effectiveness review of both the Strategy Board and ISC is undertaken periodically~~was undertaken in March 2017. The~~ with the outcome of this review ~~was~~ reported back to the Strategy Board ~~at their 8 March 2017 meeting~~. ~~This i~~Included are an assessment of both the Strategy Board & ISC's effectiveness and that of the support received from Fund Officers and Advisers. As part of the Competition and Markets Authority (CMA) requirement the Fund in November 2019 set strategic objectives for its Institutional Investment Advisers, Hymans Robertson which they will be measured against using established long-term investment objectives for the Fund as the basis. Progress will be monitored periodically, and a formal assessment undertaken on an annual basis. Strategy Board & ISC attendance and training outcomes are measured in the quarterly scorecard.	. . A further effectiveness review is scheduled for ~~2017/18~~ 2020/21. A formal assessment is scheduled for Q4 2020/21.

Description of Principle	Essex Pension Fund’s position	Future actions
5. Responsible ownership Administering authorities should: Adopt, or ensure their investment managers adopt, the Institutional Shareholders’ Committee Statement of Principles on the responsibilities of shareholders and agents. Include a statement of the authority’s policy on responsible ownership in the Statement of Investment Principles. Report periodically to members on the discharge of such responsibilities.	The Institutional Shareholders’ Committee Statement of Principles has been superseded by the Financial Reporting Council’s (FRC) UK Stewardship Code and it is now the standard for the investment management industry The Fund’s Investment Strategy Statement includes the following: *“The Fund fully supports the UK Stewardship Code and requires those of its investment managers who hold shares on its behalf to comply with it or to provide the ISC with an explanation of why it is not appropriate to do so, in the exercise of the mandate that they have been given, and how they will instead achieve and demonstrate the same level of responsible share ownership.”* Investment Manager reports circulated to ISC Members include details of voting records.	Undertake a review of the revised UK Stewardship Code

Description of Principle	Essex Pension Fund's position	Future actions
6. **Transparency & reporting** Administering authorities should: Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and Provide regular communication to members in the form they consider most appropriate.	Each quarterly meeting of the Board includes a review of the Fund's Business Plan and Risk Register. ~~Furthermore~~Furthermore, a detailed scorecard is used to monitor progress against the stated objectives. Agenda papers are published on the internet and the meetings are open to the public. An Employers' Forum is held periodically either in person or by use of webinar technology~~every year~~ and includes presentations from the Board Chairman, Fund Officers and Advisers as well as the opportunity for questions to be raised. The Fund's web-site is www.essexpensionfund.co.uk and includes the: • 3 Year Business Plan • Annual Report and Accounts • Funding Strategy Statement • Investment Strategy Statement • Governance Policy and Compliance Statement; and • Communications Policy Individual scheme members receive newsletter updates throughout the year in addition to annual benefit statements.	

Definition of Terms

ACCESS	A Collaboration of Central, Eastern and Southern Shires
AAF0106	Internal Control report undertaken by an external auditor
CIPFA	Chartered Institute of Public Finance and Accountancy
CPD	Continuing Professional Development
CPI	Consumer Price Index
ECC	Essex County Council, Administering Authority of Essex Pension Fund also known as Scheme Manager
ESG	Environmental, Social & Governance
EY	Ernst & Young
FRC	Financial Reporting Council
FSS	Funding Strategy Statement
FTSE	Financial Times Stock Exchange
GDP	Gross Domestic Product
IPD PPFI	Pooled Property Fund Index
IRR	Internal Rate of Return
ISC	Investment Steering Committee
ISS	Investment Strategy Statement
LA	Local Authority
LAPFF	Local Authority Pension Fund Forum
LGPS	Local Government Pension Scheme
LIBOR	London Inter-Bank Offer Rate
MiFiD II	Markets in Financial Instruments Directive
MSCI AC	Morgan Stanley Capital Index All Countries
MSCI EM	Morgan Stanley Capital Index Emerging Markets
OECD	Organisation for Economic Cooperation and Development
PAB	Essex Pension Fund Advisory Board
PSB	Essex Pension Fund Strategy Board
S151O	Section 151 Officer
SDLT	Stamp Duty Land Tax
SIP	Statement of Investment Principles

Essex Pension Fund

INVESTMENT STRATEGY STATEMENT

July 2020

INVESTMENT STRATEGY STATEMENT

ESSEX PENSION FUND

JULY 2020

CONTENTS

Introduction and background

This is the Investment Strategy Statement (the "Statement") of the Essex Pension Fund, which is administered by Essex County Council (the "Scheme Manager") as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the "2016 Regulations") in accordance with the guidance issued by Secretary of State.

Essex County Council is the Administering Authority for the Fund under the Regulations. In 2008, a Pension Board was established to exercise on behalf of Essex County Council all the powers and duties of the Council in relation to its functions as Administering Authority of the Essex Pension Fund, except where they have been specifically delegated by the Council to another Committee or an Officer. Responsibility for setting and monitoring investment strategy has been specifically delegated to the Essex Pension Fund Investment Steering Committee ("ISC"). Responsibility for the day to day management of the Fund has been delegated to the Section 151 Officer ("s151O") and the Director for Essex Pension Fund.

This statement has been prepared by the ISC having taken appropriate advice from the Fund's Institutional Consultant, Hymans Robertson LLP, and its Independent Investment Adviser, Mark Stevens. The responsibilities of relevant parties are set out in appendix A.

The Statement is subject to periodic review at least every three years and from time to time on any material change in investment policy or other matters as required by law. The ISC has consulted on the content of this Statement with its stakeholders. The Statement is also subject to review by the Essex Pension Fund Advisory Board (PAB) which was established as the Local Pension Board for Essex in accordance with section 5 of the Public Service Pension Act 2013 and Part 3 of the LGPS Regulations 2013.

Investment strategy and the process for ensuring suitability of investments

Fund Objective

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

The funding objective adopted for the Essex Pension Fund is to ensure that the assets of the Pension Fund, when taken in conjunction with future contributions, are sufficient to ensure that all future pension and retirement benefits will be fully covered by the Fund's assets when they fall due.

This primary objective has been converted to a number of funding objectives, as set out in the Fund's Funding Strategy Statement (FSS). The purpose of the FSS is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the desirability of maintaining as nearly constant employer contribution rates as possible as defined in Regulation 62 (5) of the LGPS regulations 2013;
- to ensure that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the fund are met; and
- to take a prudent longer-term view of funding those liabilities.

The funding position will be reviewed by the Essex Pension Fund Strategy Board (PSB) at each triennial actuarial valuation, with interim reviews occurring in the years between triennial valuations.

Funding Level

The Funding level of the Pension Fund is the value of the Fund's assets expressed as a percentage of the Fund's liabilities at the most recent actuarial valuation of the Fund. The Funding level at March 2019 was 97% (March 2016 was 89%). The Funding Strategy provides for the Fund to return to a fully funded position over a period of 12 years. In accordance with the Funding Strategy Statement, the PSB determined the rate of contributions payable by each of the employers in the Fund for the three years starting 1 April 2020.

Investment Beliefs

The Committee has adopted core investment beliefs covering the four following areas:

- Long Term Approach;
- Diversification;
- Benchmarks; and
- Active vs Passive Management.

Details are set out in appendix B.

Investment Strategy

The Fund is maturing and analysis has been undertaken to forecast when new contributions (employees and employers including the secondary rate) 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).

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 its UK passive assets and Aviva's property portfolio.

Realised income may be held in cash short term in order to meet a proportion of benefit payments.

The initial requirements are small (c. 0.5% of total Fund assets) and is expected to be more than met by the income on assets. There should be no need to disinvest the capital value of any asset currently for cashflow purposes. The time at which the sale of assets for cashflow purposes will become a requirement will be subject to periodic review.

The Fund is therefore still in a position to target a predominantly growth-based strategy, with the aim of maximising asset growth in the long term within agreed risk levels, which takes into account liquidity requirements.

There is also diversification between different asset classes to manage risk levels and better ensure that the value of the Pension Fund, when taken in conjunction with current expectations of future contributions, is sufficient to ensure that all future pension and retirements benefits will be fully covered by the Fund's assets when they fall due, whilst managing the Fund within the ISC's risk appetite.

Asset Allocation

In 2017, the Fund undertook an Asset/Liability Study following the results of the 2016 Actuarial Valuation. The conclusion of the Study found that the Fund had a high probability of achieving the Fund's Funding objectives and this could continue to be maintained at a lower risk by reducing its equity allocation and increasing its allocation into diversifying income generating alternative assets. The ISC have agreed a strategic medium-term plan whereby its equity allocations will be trimmed as and when suitable opportunities arise to reallocate to alternative assets.

The Fund is moving towards an 84% allocation to 'growth' (equities and alternatives) assets in order to meet the long-term funding assumptions set out in the 2019 actuarial valuation.

The Fund's investments are allocated across a range of asset classes. The largest allocation is to equities which also accounts for the majority of the investment risk taken by the Fund. Over the long term, equities are expected to outperform other liquid asset classes, particularly bonds. Allocation to asset classes other than equities and bond allows the Fund to gain exposure to other forms of return which can help to reduce the overall volatility of the portfolio. These assets are in the main lower correlated to equities and are expected to generate returns broadly similar over the long term and so allocation to these can maintain the expected return and assist in the management of volatility.

The 16% allocation to bonds is designed to manage overall levels of funding volatility within agreed levels.

Investment Allocation

The Committee has translated its objectives into a suitable strategic asset allocation benchmark and structure for the Fund (set out in appendix C), taking into account both the liability structure and the objectives set out above. The Fund benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

The Committee monitors investment strategy relative to the agreed asset allocation benchmark. In addition to on-going monitoring, the investment strategy is formally reviewed every six months at Committee meetings set aside for that purpose. Furthermore, specific consideration is given to investment strategy in the light of information arising from each triennial actuarial valuation.

Investment managers

The Committee utilises a number of active and passive investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Committee has commenced using the ACCESS Pool solutions to meet its strategic objectives migrating its assets into ACCESS ACS.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. Fund benchmarks are continually kept under periodic review. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles and a mix of asset types across a range of geographies in order to provide diversification of returns.

The managers appointed, and the mandates they manage, are detailed in appendix C. This includes the investments made via the ACCESS pool. Appendix D details the objectives and investment rationale of the mandates.

Types of investment to be held

The investment managers are required to comply with LGPS investment regulations. The Fund may invest in quoted and unquoted securities of UK and overseas markets, including equities, fixed interest and index linked bonds, cash, property, commodities, infrastructure, timber and loans either directly, through pooled funds or via partnership agreements.

The Fund may also make use of contracts for difference and other derivatives either directly or in pooled funds when investing in these products, for the purpose of efficient portfolio management or to hedge specific risks. The Committee considers all of these classes of investment to be suitable in the circumstances of the Fund.

Currency hedging

To reduce the volatility associated with fluctuating currency rates (currency risk), the Fund utilises hedged versions of the overseas equity indices which are managed by the Fund's passive manager.

Investment Managers have discretion to utilise currency hedging for risk management purposes.

Risk measurement and management

Risk

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. These risks are set out and monitored as part of the Fund's formal Risk Register. In summary, the principal risks affecting the Fund and mitigations are:

Funding risks:

- Financial mismatch –The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities. The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- Changing demographics – The risk that longevity improves and other demographic factors change resulting in increased Fund liabilities, reduced solvency levels and increased employer contributions.
- Systemic risk -. The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Fund liabilities.

Asset risks:

- Concentration – The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity – The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Manager underperformance – The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

Other provider risks:

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the ISC takes professional advice and considers the appointment of specialist transition managers.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

Mitigations:

In general terms, the risks are managed via a combination of:

- The appointment of professional advisers to assist the ISC in managing these risks;
- Agreed processes and guidelines for consideration and monitoring of the investments;
- Specific limits on individual investments;
- Ensuring the expected return from the Investment Strategy is consistent with the assumptions made by the Actuary in valuing the Fund;
- Assessments of the levels of risk taken by the Fund;
- Diversification across asset classes and managers; and
- Regular review and monitoring.

Expected return on investments

Over the long term, the overall level of investment return is expected to exceed the rate of return assumed by the Actuary in valuing the Fund and setting funding requirements.

Realisation of investments

The majority of assets held within the Fund may be realised quickly if required. The Committee monitors both the level of liquid assets and the liquidity requirements of the Fund.

Asset pooling

Overview

The Fund is one of eleven participating Fund's in the ACCESS Pool (A Collaboration of Central, Eastern & Southern Shires) along with Cambridgeshire, East Sussex, Hampshire, Hertfordshire, Isle of Wight, Kent, Norfolk, Northamptonshire, Suffolk and West Sussex.

All eleven funds are committed to collaboratively working together to meet the government's criteria for pooling and have signed an Inter-Authority Agreement to underpin their partnership.

The proposed structure and basis on which the ACCESS Pool will operate in order to meet the Governments criteria was set out in the July 2016 submission to Government. A copy of the submission and the progress made against the timetable is available on the ACCESS website at www.accesspool.org

The participating authorities have a clear set of objectives and principles that will drive decision-making and help shape the design of the Pool. These underpin the design of the project plan that the ACCESS Funds are working towards.

In 2018 a joint procurement was undertaken by ACCESS for a passive provider, UBS Asset Management was appointed as the preferred provider. In addition, in March 2018 Link Solutions Limited (Link) was appointed to act as operator of the ACCESS's Authorised Contractual Scheme (ACS).

Assets to be invested inside the Pool

The Fund's intention is to invest its assets through the ACCESS Pool as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government. The key criteria for assessment of Pool solutions will be as follows:

1. That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.
2. That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

The Fund is monitoring developments with a view to transitioning liquid assets across to the Pool when are suitable sub-funds to meet the Fund's Investment Strategy requirements are in place. As at 31 March 2020, the Fund had around 50% of its assets invested in the ACCESS pool, invested in global equity sub-funds and passive regional equity and index linked bond pooled funds.

Any assets not currently invested in the ACCESS Pool will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money.

The Essex Pension Fund is working towards the expectation that over time all investments will be pooled with the exception of direct property and operational cash. The table below sets out the rationale.

Assets to be invested outside the Pool

Asset Class	Manager	Strategic Allocation %	Reason for not investing in the ACCESS Pool
Direct Property	Aviva Investors	Up to 10%	• Investment manager skill is a major determinant of returns. The availability of quality investment managers for a large mandate is untested • The portfolio has been built to specific risk and return requirements • Portfolio designed to account for target holding sizes, to reflect the total portfolio size and achieve the required level of diversification • Moving holdings to part of a bigger direct portfolio would have significant cost implications such as Stamp Duty Land Tax (SDLT) • To reshape the portfolio to meet new objectives would be inconsistent with the value for money criteria • Project Pool analysis showed that increasing direct mandate size does not result in incremental cost savings

Asset Class	Manager	Strategic Allocation %	Reason for not investing in the ACCESS Pool
Operational Cash	In-house	n/a	A reasonable level of operational cash will be required to maintain efficient administration of scheme. This will be held in house as ECC will need to manage cashflow to meet statutory liabilities, including monthly pension payroll payments.

This will be reviewed periodically by the ISC.

Environmental, Social & Governance Considerations

Fiduciary duty

The fundamental responsibility of the Fund is to ensure that it has adequate monies available to pay pensions as they fall due. This objective must be achieved in a cost-effective way for members, employers and the taxpayer. Moreover, in reaching decisions, the Fund must comply with its fiduciary responsibilities.

Responsible Investment (RI) Policy

The ISC recognise that environmental, social and governance (ESG) factors (including those related to climate risk) can influence long term investment performance and the ability to achieve long term sustainable returns. To this end the Committee identified four key headline responsible investment beliefs, with a number of sub beliefs sitting underneath these headings. The Committee in formulating the Responsible Investment Policy below have incorporated the Fund's investment beliefs articulated in appendix E.

Investment Strategy

1. The RI Policy should be integral to the investment strategy and not considered in isolation.
2. The Fund should minimise exposure to securities where environmental or social aspects could be financially detrimental to the portfolio.
3. Investments expected to deliver positive environmental or social benefit are encouraged as long as they are not expected to dilute overall returns.

Engagement and Voting

4. The ISC will only exclude stocks in limited or specific instances but will actively encourage engagement and work collaboratively with other investors to increase the impact of engagement.

Managers/implementation

5. The ISC will seek to implement mandates in line with its RI Policy.
6. ESG factors should (amongst others) be an integral component in the consideration of investment in a stock by active managers.
7. For passive allocations, in choosing the reference benchmark, careful consideration will be given to the ESG aspects of that benchmark. Although it is recognised that the passive manager has no choice of stocks within the benchmark index, the passive manager will be expected to actively engage with companies held to the benefit of the Fund and its members.

8. The ISC will seek to utilise mandates in line with its RI Policy and expects these to be made available via the ACCESS Pool.

Monitoring/governance

9. The ISC will monitor and challenge their providers on their ESG implementation and any intended changes over time.
10. The ISC will take a long-term view on RI, including the direction of travel as well as the current implementation

Collaborative working

In line with their belief and Policy to work collaboratively with other pension funds to increase the strength of its voice in RI matters, the Committee agreed at its November 2019 meeting to join Local Authority Pension Fund Forum (‘LAPFF’) as part of a drive to work collaboratively with others on RI issues.

Priority for RI consideration and engagement

The Committee recognise that there are a range of interested parties all of whom will have differing interests in the Fund and as such have identified the following areas which it expects the Fund’s investment managers to treat as priorities when engaging with companies invested in on the Fund’s behalf:

- Climate change
- Resource scarcity
- Pollution
- Weapons
- Renumeration
- Labour Practices
- Employee relations
- Company governance
- Manage board structure
- Gender diversity

Exercise of voting rights

Assets outside the ACCESS Pool

The Fund has instructed its investment managers to vote in accordance with their in-house policies and practices within the framework of the ISC’s agreed policies which has been shared with the investment managers as set out above.

Assets inside the ACCESS Pool

The ACCESS pool has formulated a voting guidance which it expects each of the underlying investment managers managing sub funds on its behalf to comply with or when this is not the case to provide an explanation.

The Fund fully supports the UK Stewardship Code and requires those of its investment managers who hold shares on its behalf to comply with it or to provide the ISC with an explanation of why it is not appropriate to do so, in the exercise of the mandate that they have been given, and how they will instead achieve and demonstrate the same level of responsible share ownership.

The majority of the Fund’s investment managers are signatories to the UK Stewardship Code and have all gained a Tier 1 status (demonstrating a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary).

Engagement

The Fund expects its investment managers to take account of social, environmental and ethical considerations in the selection, retention and realisation of investments as an integral part of the normal investment research and analysis process. The Fund also expects its investment managers to engaged with companies held on all matters in regard to Good Stewardship. The Fund believes taking account of such consideration's forms part of the investment managers' normal fiduciary duty.

Ongoing Monitoring

The Committee actively monitors the Fund's investment managers' approaches. As part of this regular manager monitoring, the ISC will challenge their managers on how they consider and manage all financial risks faced by their investments, including those that arise from ESG considerations. The Committee also strives to improve and develop their knowledge and understanding on how ESG factors will impact the Fund's investments in the future.

Stock Lending

The policy on stock lending (below) reflects the nature of the mandates awarded to investment managers by the ISC, which include both pooled and segregated mandates:

Assets within the ACCESS Pool

The Fund participates in ACCESS's stock lending programme for investments under ACCESS Pool governance.

Segregated Investments

The Fund does not participate in stock lending schemes nor allow its stock to be lent.

Pooled Investments

In regard to the Fund's pooled investments, where the Fund is buying units in a pooled vehicle, stock lending is outside the control of the Fund and undertaken at the discretion of the pooled fund manager.

Appendix A – Responsibilities

ISC Responsibilities

- to approve and review the asset allocation benchmark for the Fund;
- 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;
- to appoint and terminate Investment Managers (in relation to non-pooled assets), Custodians and Advisers to the Fund solely relating to investment matters;
- 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.

- 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;
- to monitor compliance of the investment arrangements with the Investment Strategy Statement;
- to monitor and review the Fund's compliance with the LGPS Scheme Advisory Board adopted Code of Transparency and UK Stewardship Code;
- to assess the risks assumed by the Fund at a global level as well as on a manager by manager basis;
- to approve and to review annually the content of the Pension Fund Treasury Management Strategy; and
- to submit quarterly reports on its activities to the Pension Strategy Board.

Section 151 Officer ('S151O') Responsibilities

- To manage the Pension Fund including the power to seek professional advice and to devolve day-to-day handling of the Fund to professional advisers within the scope of the Pensions Regulations.
- To provide a training plan for the members of the ISC (and the Strategy and Advisory Boards).

Custodian Responsibilities

- To safeguard all segregated assets (excluding direct property holdings, unitised holdings and cash held separately with either the Administering Authority or investment managers) within the Fund and ensure that all associated income is collected, including dividends and tax reclaims. Also, to ensure that corporate actions affecting the securities are dealt with, including rights issues, bonus issues and acquisitions.
- To provide regular statements of transactions, corporate actions, income and asset valuations as required by the Administering Authority.
- To report to the ISC in person on the assets of the Fund if required.
- To inform the Fund of any areas of concern which arise in its dealings with investment managers.
- To report the performance of the Fund's assets

External Advisers

Hymans Robertson

- To provide advice to the Fund on investment strategy, asset allocation, benchmark selection and design, investment management structure, legislative changes impacting on the Fund and current emerging issues.
- To prepare and present a report, based on information supplied by the Fund's custodian, on the annual investment performance of the Fund.
- To carry out on behalf of the Fund, when required, the functions of manager selection and manager monitoring.
- To carry out asset/liability modelling studies when required.
- To provide expert commentary on the economy and investment market.
- To attend and advise at all meetings of the ISC and all meetings arranged between its officers, advisers and managers.
- To assist the ISC in its annual review of asset allocation, investment management structure, Investment Strategy Statement and Funding Strategy Statement.

Independent Investment Adviser

- To assist the Officers of the Fund in the determination of agendas and papers for the meetings of the ISC.
- In consultation with the Officers of the Fund, to identify investment issues of strategic importance to the Fund and arrange for their consideration by the ISC e.g. asset allocation, and investment, management structure.
- In conjunction with the Officers of the Fund, to keep under review the individual investment managers and where necessary put forward proposals for their management, including where appropriate their dismissal.
- To assist the Officers of the Fund, where requested, in manager searches and other Fund procurement exercises.
- To assist the ISC in keeping under review its statutory publications.
- When requested by the Officers, to attend and participate in monitoring, reviewing and briefing meetings arranged with investment managers, limited partners etc.

Audit Responsibilities

The Fund is subject to review by both the County Council's External Auditors BDO LLP and internally by Internal Audit.

The Pension Fund financial statements contained in the Council's Annual Statement of Accounts present fairly:

- the financial transactions of its Pension Fund during the year; and
- the amount and disposition of the Fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

The External Auditor audits the Pension Fund financial statements and gives their opinion, including:

- whether they present fairly the financial position of the Pension Fund and its expenditure and income for the year in question; and
- whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards;

In carrying out their audit of the financial statements, auditors will have regard to the concept of materiality.

Additionally, the Council must prepare a Pension Fund annual report which should contain the Pension Fund Account and Net Asset Statements with supporting notes and disclosures. External Audit will review the annual report as a whole and the accounts contained in it and then report:

- whether the accounts contained in the annual report are consistent with the financial statements on which the audit opinion was given; and
- that other information in the annual report is not inconsistent with the financial statements on which the audit opinion was given.

Internal Audit carry out a programme of work designed to reassure the S151O that Fund investment systems and records are properly controlled to safeguard the Fund's assets.

Appendix B - Core Investment Beliefs

Long term approach

Local authority (LA) funds take a long-term view of investment strategy

This is largely based on covenant. Unlike the private sector, the covenant underlying the Fund is effectively gilt-edged. This means that short term volatility of returns can be acceptable in the pursuit of long-term gain. Whilst there is a need to consider stability of contributions, at current maturity levels and with deficits spread over 21 years, it is largely the future service rate which is expected to drive instability. One of the best ways to avoid this is to build in margins over the long term. More recently, the ISC has noted the increasing maturity of the Fund and potential change in cashflow position on the horizon. It is therefore also taking this into consideration in decision making.

Over the long term, equities are expected to outperform other liquid asset classes, particularly bonds

Given the above, there is a preference for a significant allocation to equities in the Fund as over the long-term as they are expected (but not guaranteed) to outperform other asset classes.

Allocations to asset classes other than equities and bonds expose the Fund to other forms of risk premium

Investors with a long-term investment horizon and little need for immediate liquidity can use this to their benefit as it offers the ability to capture the illiquidity premium on many asset classes, such as private equity and infrastructure.

Diversification

Diversification into alternative asset classes (including property) is also expected to reduce overall volatility of the Fund's funding level

Given that the returns from different asset classes are expected to be delivered in different cycles (i.e. not be directly correlated with equity returns), the use of alternative assets can reduce overall volatility in the delivery of Fund returns without leading to a significant reduction in overall expected return, therefore increasing efficiency.

In the context of LA funds (open, long duration, not maturing quickly and with high equity content), an allocation to bonds does not offer a match to liabilities, but additional diversification.

Where bonds are not used for liability matching purposes, an allocation to these assets can be beneficial from an overall risk/return perspective improving the overall efficiency of the Fund. The corollary to this is that bond benchmarks do not necessarily have to reflect the nature and duration of the liabilities (see benchmark section below) but should be set to provide managers with the sufficient scope to add value.

The overweight to UK equities in most UK pension funds is historic and loosely based on currency exposures, rather than a preference for the UK market

Although historically the UK may have benefited from better corporate governance, and therefore a higher return, increasingly the rest of the world is catching up and UK equities are not expected to outperform overseas equities over the long term. Given the concerns over market concentration in the UK market and an increased opportunity set overseas a move towards increased overseas allocation relative to the UK seems appropriate. Concerns about currency risk can be addressed by a separate currency hedging programme.

Benchmarks

Where appropriate, benchmarks should represent the full opportunity set.

For example, for a global equity mandate, a market capitalisation ("market cap") weighted benchmark reflects a passive allocation to the market (analogous to investing in a passive equity mandate and investing in each stock according to its size). It therefore reflects the investable universe of stocks available and represents the starting point for an equity benchmark.

To some extent market cap weighted indices reflect past winners, so should be treated with caution

The regional exposures in the World Index are a function of the relative market cap of the regional stock markets. In turn, these are a function of the size of the economy as a whole and how well companies have performed in that economy. One measure of the size of the economy could be its overall contribution to global GDP. However, as has been seen in the UK, many companies in the market have little exposure to the domestic economy and, again, this should not be adhered to too slavishly. At the total fund level a fixed weights regional benchmark is therefore preferred in order to maintain an appropriate level of diversification across markets. This is particularly the case when the allocations are maintained by a passive "swing" manager.

Emerging market economies may be expected to outperform over the long term as the economy develops and the risk premium falls

As emerging markets develop both politically and economically, become more robust and less dependent on the fortunes of a small number of developed economies (such as the US), the risk of investing in these countries should decrease. The return demanded by investors for investing in these 'riskier' countries will therefore fall reflecting the increased security. This reduction in required return would tend to lead to a systematic increase in stock prices. As a result, a strategic allocation to emerging markets of at least the market cap weight if not slightly above is favoured.

Bond benchmarks do not need to reflect the nature and duration of the liabilities

As discussed in the diversification section above, if bonds are not held for liability matching purposes, benchmarks should be set in order to maximise the scope for adding value.

Active versus passive management

Passive management is appropriate for obtaining a low-cost allocation to efficient markets

Where markets offer little scope for adding value through active management (such as individual allocations to UK equities, US equities and gilts) passive management is preferred as a low-cost way of accessing the market. This does not include emerging markets where the risk inherent in the market (although improving as stated above) and inefficiency of the market lends itself to active management.

Active management is appropriate where a market is relatively inefficient offering opportunities for active managers to add value

Where markets offer substantial scope for added value active management would seem appropriate as a way of increasing overall expected return (after fees) without significantly increasing the overall level of volatility in the funding level.

Constraints on active managers reduce their ability to add value

Active managers should not be unnecessarily constrained (within appropriate risk limits) and should be given the maximum scope to implement their active views. There is therefore a preference for unconstrained mandates e.g. unconstrained global equity mandates and unconstrained bond mandates such as M&G's LIBOR plus approach. This also suggests that, within reason, managers' requests for additional scope should be acceded to.

A degree of diversification of managers improves the efficiency of the overall structure (i.e. improves the expected return per unit of risk)

Active manager performance is expected to be cyclical and therefore by appointing a number of managers the delivery of returns is expected to be less volatile. However, too much diversification can lead to expensive index tracking.

A rigorous approach to active manager selection improves the chance of appointing an active manager who will add value over the long-term

An active manager must outperform their benchmark after fees to add value. The selection of an active manager must assess more than just past performance and look into the infrastructure supporting the performance including; business and ownership, philosophy and process, people, risk controls and fees.

The Fund does not have the governance structure in place to take tactical views and market timing is very difficult

Both timing investments into the market and taking tactical views are very difficult given the governance structure in place and the time taken to agree and implement decisions. Where possible these decisions are left to professional investment managers who are closer to the market and can implement tactical views in a more timely fashion. This highlights the importance of not unnecessarily constraining active managers and providing them with appropriate scope.

The assessment of active management performance should be taken with a long-term view and take account of the market environment in which returns are delivered

Active management is cyclical and periods of underperformance from investment managers should be expected so the structure should be such that when the market cycle is unfavourable for some managers it is favourable for others and vice versa. This is expected to deliver added value over the long-term whilst smoothing the overall performance at the total Fund level. Churning of managers leads to additional costs; however, where the ISC no longer views an investment manager's prospects as positive over the long-term, action should be implemented as soon as possible due to the potential downside risk.

Appendix C – Fund Strategy and Structure

Summary

Equities		
	Manager	*Target %*
UK	UBS	3.7
Regional	UBS	11.3
Global	Link - M&G	6.3
	Link – Longview	6.3
	Link - Baillie Gifford	6.3
	RAFI	7.3
Emerging	Stewart	3.8
Total		**45.0**

Bonds		
	Manager	*Target %*
Index-linked gilts	UBS	2.0
Active Cash plus	GSAM	5.5
	M&G	5.5
	New manager	3.0
Total		**16.0**

Alternatives		
	Manager	*Target %*
Property	Aviva	10.0
	Partners Group	4.0
Private equity	Hamilton Lane	4.0
Infrastructure	IFM	3.0
	JP Morgan	3.0
	Partners Group	4.0
Timber	Stafford	4.0
Direct lending	Alcentra	2.5
	New manager	2.5
	New manager	2.0
Total		**39.0**

Appendix D – Fund Manager Mandate Objectives

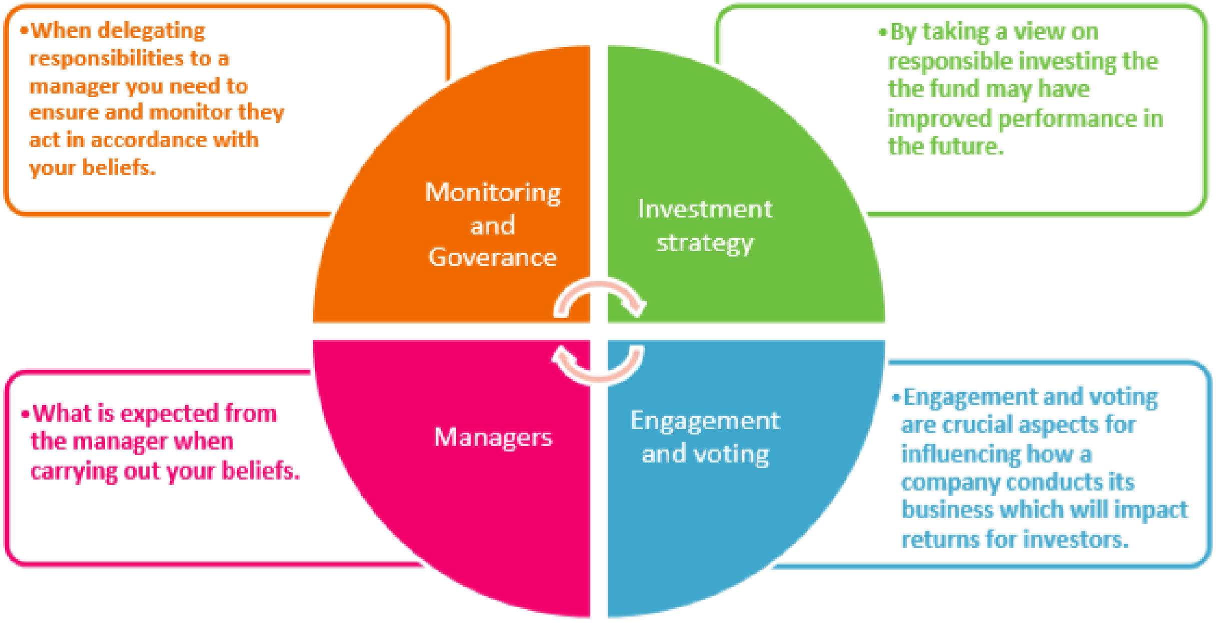
Active/Passive	Mandate	% of Fund	Manager	Benchmark	Investment Objectives	Investment Restrictions
Passive	Regional Equity Indexes	15.0%	UBS Asset Management	FTSE Regional	Match BM gross of fees over rolling 3-year period	May not invest in unlisted securities
Passive	Global Equity	7.3%	UBS Asset Management	FTSE RAFI AW 3000	Match BM gross of fees over rolling 3-year period	May not invest in unlisted securities
Active	Global Equity	6.3%	Link Asset Solutions - LP ACCESS Long Term Global Growth Fund	MSCI AC World Index	BM + 3%, gross of fees, per annum over rolling 5-year periods	Discretionary mandate
Active	Global Equity	6.3%	Link Asset Solutions – LP ACCESS Global Equity Fund	MSCI AC World Index	BM + 3%, gross of fees, per annum over rolling 3-year periods	Discretionary mandate
Active	Global Equity	6.3%	Link Asset Solutions – LP ACCESS Global Dividend Fund	MSCI AC World Index	BM + 3%, gross of fees, per annum over rolling 3-year periods	Discretionary mandate

Active/Passive	Mandate	% of Fund	Manager	Benchmark	Investment Objectives	Investment Restrictions
Active	Emerging Equity	3.8%	Stewart Investors	MSCI EM Index	BM + 4%, gross of fees, per annum over rolling 3-year periods	Discretionary mandate
Passive	Index Linked Bonds	2.0%	UBS Asset Management	FTSE Act. Gov't Securities Index-Linked Over 5 Years Index	Match BM gross of fees over rolling 3-year period	n/a
Active	Fixed Interest	5.5%	Goldman Sachs Asset Management	1-month Libor	BM +2%p.a.	n/a
Active	Fixed Interest	5.5%	M&G Investment	1-month Libor	BM +2%p.a.	n/a
Active	Fixed Interest	3.0%	Vacant	TBC	TBC	TBC
Active	UK Property	10.0%	Aviva Investors	IPD PPFI All Balanced Funds Index	BM +1% p.a.	Target allocation of Direct 75% Indirect 25% No direct investment in the County of Essex
Active	Global Property	4.0%	Partners Group	IRR	9% p.a.	n/a

Active/Passive	Mandate	% of Fund	Manager	Benchmark	Investment Objectives	Investment Restrictions
Active	Private Equity	4.0%	Hamilton Lane	MSCI World PME Index	BM+3% p.a.	Prior approval to be sought for co-investments
Active	Infrastructure	3.0%	IFM Investors	Absolute	BM + 8% p.a.	n/a
Active	Infrastructure	3.0%	JPMorgan	Absolute	BM + 8% p.a.	n/a
Active	Infrastructure	4.0%	Partners Group	Absolute	BM + 8% p.a.	n/a
Active	Timber	4.0%	Stafford Capital Partners	IRR	BM + 8% p.a.	n/a
Active	Direct Lending	2.5%	Alcentra Limited	IRR	8% p.a.	n/a
Active	Direct Lending	4.5%	Vacant	TBC	TBC	TBC

Appendix E – RI Investment Beliefs

The Committee have articulated a set of RI investment beliefs based on the four key headline beliefs below:



Investment strategy (IS)

1. Having a responsible investment policy could 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 (EV)

1. Engagement in a company is more effective then 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 (M)

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.
1.5. The direction of travel of the investee companies is even more important than their current scoring on 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, taking into account the direction of travel and not only current scoring.

Monitoring and Governance (MG)

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. The Fund needs to engage and challenge managers on integrating ESG issues in their investment process in line with the RI policy.
4. An RI policy focussed on improving financial outcomes will be to the benefit of Fund stakeholders.
5. It is best to engage stakeholders on the overall approach to managing the Fund rather than on RI policy only.
6. ESG factors should be incorporated into manager reporting in due course.

Appendix F – Statement of Compliance: the six Myners principles of good investment practice

Description of Principle	Essex Pension Fund’s position	Future actions
1. Effective decision making Administering Authorities should ensure that: • Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation and • Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.	Responsibility for approval and review of the Investment Strategy of the Essex Pension Fund has been delegated to the Investment Steering Committee (ISC). Every quarter, the ISC reports its activity to the Essex Pension Fund Strategy Board (the Strategy Board), the body with overall responsibility for the Essex Pension Fund. The day to day running of the Fund has been delegated to the S151O. The ISC is supported by the S151O, the Director for Essex Pension Fund and other Fund officers. Institutional investment advice to the ISC and Fund Officers is commissioned from Hymans Robertson. Furthermore, the Fund is supported by Mark Stevens, the independent investment adviser. An on-going programme of training for Members of the ISC and Strategy Board is in place based on the CIPFA Knowledge & Skills Framework. The Training Strategy is periodically reviewed to ensure it is fit for purpose. Member training is also recorded and feeds into the scorecard which is reported to the Strategy Board on quarterly basis. Fund Officers hold relevant qualifications and maintain appropriate on-going professional development (CPD). The Essex Pension Fund is a member of the CIPFA Pensions Network.	On-going Member and Fund officer training.

Description of Principle	Essex Pension Fund's position	Future actions
2. Clear objectives An overall investment objective(s) should be set for the fund that takes account of the scheme liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be communicated to advisers and investment managers.	The Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS) set out the Essex Pension Fund's primary funding and investment objectives. Specific investment objectives are in place for each mandate in the portfolio, and these are regularly monitored by the ISC. The Strategy Board has also agreed and reviews periodically a series of objectives across five areas: Governance, Investment, Funding, Administration & Communications. Progress against objectives is monitored regularly by the Fund's scorecard. These objectives include: • Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise • Maximise the returns from investments within reasonable risk parameters • Manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption, where necessary, of employer specific funding objectives • Recognise in drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible • Communicate in a friendly, expert and direct way to our stakeholders, treating all our stakeholders equally	Continual monitoring and review of objectives.

Description of Principle	Essex Pension Fund's position	Future actions
3. Risk & liabilities • In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of their liabilities. • These include the implications for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	Following each triennial valuation, the ISC re-assess the investment strategy in light of the updated information on the structure of liabilities. Asset / Liability studies have been used in the past. Whilst it is accepted that investment underperformance due to certain market conditions can occur, the ISC measures active managers against longer term benchmark outperformance targets. The strength of covenant of participating employers is considered in the formulation of the FSS. The admission of new employers into the Fund is not granted unless appropriate guarantees are put in place. Investment risks are highlighted within the ISS. A Register of risks of not achieving each of the Funds objectives is maintained and reviewed on a quarterly basis.	The ISC is scheduled to consider an asset liability study based on the outcomes of the 2019 Valuation, in 2020.

Description of Principle	Essex Pension Fund's position	Future actions
4. Performance assessment Arrangements should be in place for the formal measurement of investments, fund managers and advisers Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme Members.	The performance of the Fund and fund managers is monitored each quarter by the ISC, and all fund managers are held to account through meetings with the ISC and/or the Fund's officers and advisers. Performance data is provided by a specialist provider, independent from the fund managers. The Fund's contracts with its advisers are market tested when appropriate. An effectiveness review of both the Strategy Board and ISC is undertaken periodically with the outcome of this review reported back to the Strategy Board. Included are an assessment of both the Strategy Board & ISC's effectiveness and that of the support received from Fund Officers and Advisers. As part of the Competition and Markets Authority (CMA) requirement the Fund in November 2019 set strategic objectives for its Institutional Investment Advisers, Hymans Robertson which they will be measured against using established long-term investment objectives for the Fund as the basis. Progress will be monitored periodically, and a formal assessment undertaken on an annual basis. Strategy Board & ISC attendance and training outcomes are measured in the quarterly scorecard.	. A further effectiveness review is scheduled for 2020/21. A formal assessment is scheduled for Q4 2020/21.

Description of Principle	Essex Pension Fund's position	Future actions
5. Responsible ownership Administering authorities should: Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. Include a statement of the authority's policy on responsible ownership in the Statement of Investment Principles. Report periodically to members on the discharge of such responsibilities.	The Institutional Shareholders' Committee Statement of Principles has been superseded by the Financial Reporting Council's (FRC) UK Stewardship Code and it is now the standard for the investment management industry The Fund's Investment Strategy Statement includes the following: *"The Fund fully supports the UK Stewardship Code and requires those of its investment managers who hold shares on its behalf to comply with it or to provide the ISC with an explanation of why it is not appropriate to do so, in the exercise of the mandate that they have been given, and how they will instead achieve and demonstrate the same level of responsible share ownership."* Investment Manager reports circulated to ISC Members include details of voting records.	Undertake a review of the revised UK Stewardship Code

<table>
<tr><th>Description of Principle</th><th>Essex Pension Fund’s position</th><th>Future actions</th></tr>
<tr><td>6. Transparency & reporting

Administering authorities should:

Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives;

and

Provide regular communication to members in the form they consider most appropriate.</td><td>Each quarterly meeting of the Board includes a review of the Fund’s Business Plan and Risk Register. Furthermore, a detailed scorecard is used to monitor progress against the stated objectives. Agenda papers are published on the internet and the meetings are open to the public.

An Employers’ Forum is held periodically either in person or by use of webinar technology and includes presentations from the Board Chairman, Fund Officers and Advisers as well as the opportunity for questions to be raised.

The Fund’s website is www.essexpensionfund.co.uk and includes the:
3 Year Business Plan
Annual Report and Accounts
Funding Strategy Statement
Investment Strategy Statement
Governance Policy and Compliance Statement; and
Communications Policy
Individual scheme members receive newsletter updates throughout the year in addition to annual benefit statements.</td><td></td></tr>
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Definition of Terms

ACCESS	A Collaboration of Central, Eastern and Southern Shires
AAF0106	Internal Control report undertaken by an external auditor
CIPFA	Chartered Institute of Public Finance and Accountancy
CPD	Continuing Professional Development
CPI	Consumer Price Index
ECC	Essex County Council, Administering Authority of Essex Pension Fund also known as Scheme Manager
ESG	Environmental, Social & Governance
EY	Ernst & Young
FRC	Financial Reporting Council
FSS	Funding Strategy Statement
FTSE	Financial Times Stock Exchange
GDP	Gross Domestic Product
IPD PPFI	Pooled Property Fund Index
IRR	Internal Rate of Return
ISC	Investment Steering Committee
ISS	Investment Strategy Statement
LA	Local Authority
LAPFF	Local Authority Pension Fund Forum
LGPS	Local Government Pension Scheme
LIBOR	London Inter-Bank Offer Rate
MiFiD II	Markets in Financial Instruments Directive
MSCI AC	Morgan Stanley Capital Index All Countries
MSCI EM	Morgan Stanley Capital Index Emerging Markets
OECD	Organisation for Economic Cooperation and Development
PAB	Essex Pension Fund Advisory Board
PSB	Essex Pension Fund Strategy Board
S151O	Section 151 Officer
SDLT	Stamp Duty Land Tax
SIP	Statement of Investment Principles