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| Essex Pension Fund Board | EPB/36/14 |
| date: 10 December 2014 | |

Investment Steering Committee (ISC) Quarterly Report

Report by the Director for Essex Pension Fund

Enquiries to Kevin McDonald on 01245 431301

1. Purpose of the Report

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

2. Recommendations

2.1 That the Board should note the report.

3. Background

- 3.1 In accordance with its Terms of Reference, the ISC is required to submit quarterly reports on its activities to the Essex Pension Fund Board.
- 3.2 Since the Board's last meeting the ISC met once, on 26 November 2014.

4. Investment Steering Committee 26 November 2014

- 4.1 The Committee received a verbal update on the latest developments in respect of potential structural reform of the LGPS.
- 4.2 A report on the work undertaken by both the Law Commission and the Shadow Scheme Advisory Board into the Fiduciary Duty of Trustees. It was highlighted that both reviews broadly came to the same conclusion. The following points were noted:
- that the primary aim of the investment strategy should be secure the best realistic return over the long-term given the need to control risks, this does not necessarily mean maximising return;
 - a distinction should be made between financial and non-financial factors;
 - that trustees should always take account of financial factors;
 - that trustees may also take account of non-financial factors (quality of life or ethical issues) if two tests are met:
 1. that trustees have good reason to believe that scheme members would share the concern; and
 2. decisions should not involve a risk of significant financial detriment to the Fund.
- 4.3 Following discussions it was agreed that the SIPs wording be revised from:

“The ISC does not place restrictions on investment managers in choosing investments in quoted companies except in limiting the size of single investments. We expect the companies in which we invest to adopt and pursue socially responsible business practices.

The ISC will intervene if investments are made in companies whose behaviour is seen as unacceptable because of environmental considerations and other social implications. Intervention is likely to be extremely rare as companies are aware of the increasing sensitivity of investors.”

to:

“The ISC does not place restrictions on investment managers in choosing investments in quoted companies except in limiting the size of single investments. The ISC expects investment managers to place their primary consideration on financial factors when selecting investments for inclusion in the portfolio as an assessment of appropriate ESG capability is made before a manager is appointed.

However, the ISC will allow investment managers to consider non-financial factors in selecting investments providing that such decisions are not expected to:

- 1 Be financially detrimental to the Fund (either in terms of expected return or risk);
or*
- 2 Represent a significant opportunity cost if not held.*

In general the ISC expect the selection of stocks, based on a significant degree of non-financial reasons, to be extremely rare and reserve the right to intervene on a case by case basis.”

4.4 A revised SIP which included both the change highlighted above, and a series of other updates was agreed for consultation with stakeholders. This draft SIP:

- was included within the ISC papers sent to all Members of the Board;
- is currently on infoBOARD; and
- will shortly be loaded onto the pension fund website www.essexpensionfund.org.uk ahead of stakeholder consultation.

4.5 A report on the Fund’s investment performance for the quarter ending 30 September 2014 was received. The value of the Fund increased from £4.467bn as at 30 June 2014 to a value of £4.593bn as at 30 September 2014.

4.6 Traffic light reports, briefings of Officer & Adviser meetings held with Longview and M&G and an update on the implementation of the Alcentra mandate were noted.

4.7 Presentations were received from both Baillie Gifford and Marathon on their respective global equity mandates.

5. Link to Essex Pension Fund Objectives

5.1 Investments

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

6. Risk Implications

6.1 None other than those already identified as part of the Fund’s investment strategy.

7. Communication Implications

7.1 None

8. Finance and Resources Implications

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

9. Background Papers

9.1 ISC meeting 26 November 2014 – agenda and draft minutes.