

Essex Pension Fund Strategy Board	EPB/13/16
date: 13 July 2016	

Investment Steering Committee (ISC) Quarterly Report

Report by the Director for Essex Pension Fund

Enquiries to Kevin McDonald on: 0333 0138 488

1. Purpose of the Report

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

2. Recommendations

2.1 That the Board should note the report.

3. Background

- 3.1 In accordance with its Terms of Reference, the ISC is required to submit quarterly reports on its activities to the Essex Pension Fund Strategy Board (the Board).
- 3.2 Since the Board's last meeting the ISC has met on two occasions on 23 March 2016 and on 21 June 2016. In addition a ISC briefing was also held on 7 June 2016.

4. Report of the meeting of ISC on 23 March 2016

- 4.1 Kevin McDonald, Director for Essex Pension Fund provided an update on the implications to the Pension Fund arising from the 2016 Budget. In particular clarity on the statement in respect of public service pensions Superannuation Contribution Adjusted for Past Service Experience (SCAPE) and the impact of the increase in Stamp Duty Land Tax (SDLT) on the Fund's property portfolio.
- 4.2 The Committee received an update outlining the latest developments in respect of the structural reform of the LGPS. Kevin McDonald highlighted, as agreed at the 22 February meeting, the Essex Pension Fund as part of the ACCESS participating group, formally responded to the Government's consultation on 23 February 2016. As at the meeting date no formal response to the ACCESS submission on the consultation had been issued by DCLG.
- 4.3 The Committee reviewed the draft Statement of Investment Principles (SIP) and agreed in light of no material changes to the principles and in view of the pending Investment Strategy Statement (ISS) the SIP be passed to the Pension Advisory Board (PAB) for familiarisation and to note and that it be approved and published.
- 4.4 The Committee reviewed the draft Treasury Management Strategy 2016/17. It was agreed that the Fund's cash flow situation be kept under review and it be approved.
- 4.5 The Committee received an update informing them that Officers had commissioned a review to be undertaken by Hymans Robertson of the Fund's global custody arrangements carried out by the Northern Trust Company and that findings and a recommendation would be brought back to the next meeting.
- 4.6 A report on the Q3 December 2015 Investments Tables, which detailed investment manager performance, was discussed. It was noted that the Fund's value had risen from £4,724.6bn as at 30 September 2015 to £4,963.3bn as at 31 December 2015.
- 4.7 The Committee noted the traffic light report on investment managers.
- 4.8 Presentations were received from Goldman Sachs Asset Management (GSAM) and Hamilton Lane on the on the bond portfolio and private equity portfolio respectively. The Committee agreed to a further commitment of £50m to new private equity opportunities during 2016/17.

5. Report of the meeting of ISC on 21 June 2016

- 5.1 The main focus of the meeting's business was the developments in respect of the structural reform of the LGPS and the six monthly review of strategy.
- 5.2 Kevin McDonald, Director for Essex Pension Fund gave a presentation outlining the latest developments in respect of structural reform of the LGPS. This presentation highlighted progress since the last meeting of the Committee, and summarised many of the areas of detail covered at the pooling briefing on 7 June. Specific attention was drawn to the regular meetings of ACCESS Chairman, the exchange of letters with the Minister and developments around legal structures. An outline was also given of the key elements of the emerging draft July submission.
- 5.3 Regular dialogue between Government and ACCESS has continued. On 9 June, Cllr Andrew Reid (Chairman of the Suffolk Pension Fund) led a delegation of ACCESS officers (from Funds including Essex) to present to a Government panel consisting of HM Treasury, Cabinet Office, DCLG, the Government Actuaries Department & an independent specialist.
- 5.4 It was highlighted that Cllr Bass will present the Fund's annual report to Essex County Council on 12 July. This will make reference to pooling developments and highlight to full Council that a decision to formalise Essex's membership of the finalised ACCESS structure will be required later this year.
- 5.5 The Committee were subsequently taken through the strategy review undertaken by officers and advisers.

The Committee noted:

- that the overall structure of the Fund remains appropriate but some ongoing management was required to bring the Fund in line with target; and
- that following GSAM's presentation at the last ISC meeting GSAM be invited to the next Officer and Adviser meeting to follow up on aspects of their use of derivatives in the management of the Fund's portfolio.

The Committee **agreed**:

- that the additional £25m earmarked for property, but yet to be drawdown be redirected to an Alcentra direct lending fund, subject to due diligence;
- that the Fund's current equity overweight position be trimmed and that c£35m be redirected to an Alcentra direct lending fund, subject to due diligence;
- that Officers and Advisers investigate Stafford's next fund offering (SIT VIII);
- that further due diligence by Officers and Advisers be undertaken to look at alternative options for the 2% allocation into Infrastructure;

- that a report be brought back to a future meeting on the concept of ‘active tilting’; and
- that further investigation be undertaken by Officers and Advisers regarding the impact of new collateral requirements on the currency overlay mandate.

6. Link to Essex Pension Fund Objectives

6.1 Investments

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

7. Risk Implications

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

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

8. Communication Implications

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

9. Finance and Resources Implications

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

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

10. Background Papers

10.1 ISC meetings of 23 March 2016 and 21 June 2016 – agenda and draft minutes.

10.2 DCLG consultation “Opportunities for collaboration, cost saving and efficiencies” – May 2014

10.3 Fund response agreed 9 July 2014

10.4 PricewaterhouseCoopers report on establishing Collective Investment Vehicles

- 10.5 25 November 2015 publications released with the Chancellor's Autumn Statement documents :
- (i) criteria for LGPS investment reform
 - (ii) a consultation on revised LGPS Investment Regulations and
 - (iii) Government's response to the May 2014 consultation on "*Opportunities for collaboration, cost saving and efficiencies*"
- 10.6 Findings of "Project Pool"
- 10.7 23 February 2016 ACCESS group submission
- 10.8 24 March 2016 Minister's letter of response to February submission
- 10.9 7 April 2016 ACCESS Chairmen's letter to Minister
- 10.10 20 April 2016 Minister's letter of reply
- 10.11 29 April 2016 ACCESS Chairmen's letter of Minister
- 10.12 Government Panel meeting 9 June 2016