

Essex Pension Fund Strategy Board	PSB/22/15
date: 16 September 2015	

Investment Steering Committee (ISC) Quarterly Report

Report by the Director for Essex Pension Fund

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1. Purpose of the Report

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

2. Recommendations

2.1 That the Board should note the report.

3. Background

- 3.1 In accordance with its Terms of Reference, the ISC is required to submit quarterly reports on its activities to the Essex Pension Fund Board.
- 3.2 Since the Board's last meeting the ISC has met once on 22 July 2015.

4. Report of the meeting of ISC on 22 July 2015

- 4.1 The Committee received an update outlining the latest developments regarding the potential structural reform of the LGPS as a result of the Budget 2015 announcement.
- 4.2 The main focus of the meeting's business was the yearly review of the Fund's investment managers and the half yearly review of strategy. The meeting commenced with an investment review and economic update from James Sparshott and Tim Drayson from Legal & General.
- 4.3 The Committee received a presentation from Hymans Robertson on the Fund's investment performance to 31 March 2015. This was followed by a presentation which summarised their current views on the capability of each of the Fund's managers relative to their peer group universe.
- 4.4 The Committee were subsequently taken through the review undertaken by officers and advisers of the investment strategy and structure of the Fund. This was followed by an update on the cash flow forecast.

The Committee noted that:

- the overall structure of the Fund remains robust and no fundamental changes were proposed;
- the Fund's equity allocation to Baillie Gifford had risen above its strategic target by c. 3% over the past few years due to very strong performance;
- index-linked gilts were c 2% overweight;
- within the alternatives portfolio, the Fund's allocation to Infracapital's infrastructure fund is now in run-off and a potential replacement and/or extension will be required in order to achieve and maintain the Fund's strategic target; and
- that the rental income received from Aviva Investors and dividend income received from the UK pooled funds managed by L&G will be sufficient to supplement the contribution income receivable to meet benefit payments during 2015/16.

The Committee **agreed**:

- to rebalance the Fund's current overweight portfolio managed by Baillie Gifford back to within 1% of its strategic target (consistent with the overall Fund rebalancing policy) and use the proceeds c. £100m to increase the

allocation of the global equity mandates managed by L&G (RAFI fund) and MG Investments by c. £50m each; and

- that the implementation be delegated to officers in consultation with the advisers;
- that no rebalancing of the index-linked gilt portfolio was required at this time, but this will remain under review;
- that the currency hedge portfolio remains appropriate and that a 50% currency hedge continue to operate;
- that officers & advisers investigate the potential options open to the Fund to replace the Infracapital allocation and that a recommendation be brought back to a future ISC meeting;
- that officers & advisers consider a longer term approach to realising income over the next 3 to 5 years in combination with overall risk levels as part of the 2016 funding discussions; and
- that the Pension Strategy Board scorecard measure 3.5.1. effective from September 2015 be amended from:

3.5.1 Contribution income adequate to meet benefit payments

to:

3.5.1 Sufficient investment income is available to supplement contribution income to meet benefit payments.

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 meetings of 22 July 2015 – agenda and draft minutes.