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| <b>Essex Pension Fund Board</b> | <b>EPB/04/15</b> |
| <b>date: 4 March 2015</b>       |                  |

**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 met once, on 23 February 2015.

### **4. Investment Steering Committee 23 February 2015 – strategy meeting**

- 4.1 The Committee received a verbal update on the latest developments in respect of potential structural reform of the LGPS, agreed dates for meetings for the municipal year 2015/16 and noted the commencement of work in relation to the procurement of a new independent investment adviser.
- 4.2 The main focus of the meeting's business was the six monthly review of strategy. By way of backgrounds, this commenced with a presentation from Gilberto Marcheggianno, economist at Goldman Sachs.
- 4.3 The committee received a report from Hymans Robertson in conjunction with the Independent Investment Adviser and the Director for Essex Pension Fund.
- 4.4 After due consideration of the report the committee noted:
  - the Fund's continued use of investment beliefs to set the key strategic allocation remains appropriate. Supplementing the investment beliefs by more regular updates of relative market pricing to tilt the portfolio in certain directions also remains useful in terms of adding incremental value;
  - it is inflation that is the key risk for the liabilities of the Fund, and hedging interest rates (gilt yields) that do not have an impact on the amount the Fund will eventually pay-out has limited value (especially at current levels). Therefore achieving asset returns in excess of inflation to manage contribution levels should be the basis for future risk management;
  - the Fund does exhibit differences from the allocation of the average LGPS Fund, these are not fundamental and are explained by the high level of governance implemented by the ISC and the desire to increase the efficiency of the investment strategy;
  - the overall structure of the Fund remains robust and no changes are proposed to the equity or bond portfolios;
  - within the alternatives portfolio, agreements on rolling commitments to both Private Equity and Infrastructure are required to keep the allocations up to target weight;
  - the cash flow position of the Fund is changing and action is now required to start taking income from assets to meet a shortfall between contribution receipts and benefit payments. This is expected to occur next year.

The Committee agreed:

- to meet both Hamilton Lane (Private Equity) and Partners Group (Infrastructure) at the March ISC meeting to review their portfolios and agree future commitments;
- review the structure of the currency hedge portfolio at the July strategy meeting;
- that income should begin to be taken from L&G's UK assets and Aviva property portfolio to provision for cash flow requirements. The Committee requested that additional ongoing detail of income realisation should be brought to future meetings; and
- that Officers in consultation with Advisers review the Fund's treasury management policy given the requirement to realise income which will be held in cash for certain periods in order to meet a proportion of benefit payments and develop proposals for consideration at a future meeting of the Committee.

## **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 23 February 2015 – agenda and draft minutes.