Annex A

ESSEX PENSION FUND

Statement of Investment Principles

26~~7~~ November 2014~~3~~

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ESSEX PENSION FUND

Statement of Investment Principles

This is the Statement of Investment Principles (the "Statement") of the Essex Pension Fund as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the "2009 Regulations").

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 Investment Steering Committee ("ISC"). Responsibility for the day to day management of the Fund has been delegated to the Executive Director for Corporate Services.

This statement has been adopted by the ISC.

The Statement is subject to review at least annually and from time to time on any material change in investment policy or other matters as required by law. In preparing this statement, the Committee has consulted with the Fund's employers, investment managers, custodian, actuary, internal & external auditors and has considered advice from the Investment Practice of Hymans Robertson LLP.

The responsibilities of relevant parties are set out in appendix B.

The core investment beliefs, adopted by the ISC are set out in appendix D.

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.

This primary objective has been converted to a funding objective (as set out in the Fund's Funding Strategy Statement) which includes ~~states~~ the following objectives ~~in relation to the investment strategy~~:

- Within reasonable risk parameters ~~T~~to achieve and then maintain assets equal to 100% of liabilities within the timescales determined in the Funding Strategy Statement. ~~reasonable risk parameters~~;
- To recognise in drawing up its Funding Strategy the desirability of maintaining as nearly constant employer contributions as possible;
- To have consistency between the investment strategy and funding strategy;
- To maintain liquidity in order to meet projected net cash-flow outgoings; and
- To maximise returns within reasonable risk parameters.~~an acceptable risk profile~~.

The~~is~~ funding position will be reviewed at each triennial actuarial valuation, with interim reviews occurring in the years between triennial valuations.

Investment Strategy

The Committee has translated its objectives into a suitable strategic asset allocation benchmark and structure for the Fund (set out in appendix A) 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.

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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 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, 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. 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 A.

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~~s~~ 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.

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 a formal risk register. An extract of the risk register relating to funding and investment is included in Appendix E. However, in summary, the principal risks affecting the Fund (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.

- 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.

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- 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, 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 of 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. In addition, the investment limits the Fund operates within ~~to~~ are set out in appendix C.

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.

Realisation of investments

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

~~Social, Environmental and Ethical Considerations~~ Environmental, Social & Governance Considerations

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 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 the manager is appointed.

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~~The~~ However, the ISC will ~~intervene if~~ allow investment managers to consider non-financial factors in selecting investments providing that such decisions are ~~made in companies whose behaviour is seen as unacceptable because~~ not expected to:

1 Be financially detrimental to the Fund (either in terms of expected return or risk) or; ~~environmental considerations and other social implications. Intervention is likely to be extremely rare as companies are aware of the increasing sensitivity of investors.~~

2 Represent significant opportunity cost if not held.

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

Exercise of Voting Rights

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.

Stock Lending

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

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.

List of appendices

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Appendix A – Fund Strategy and structure

Summary

~~Equities~~	~~Manager~~	~~Target %~~
~~UK~~	~~LGIM~~	~~5.0~~
~~Regional~~	~~LGIM~~	~~16.0~~
~~Global~~	~~Marathon~~	~~35.0~~
	~~LGIM~~	
	~~Fidelity~~	
	~~Baillie Gifford~~	
	~~RAFI~~	
~~Emerging~~	~~First State~~	~~5.0~~
~~Total~~		~~61.0~~

~~Bonds~~	~~Manager~~	~~Target %~~
~~Index-linked gilts~~	~~LGIM~~	~~2.5~~
~~Active Cash plus~~	~~GSAM~~	~~5.5~~
	~~M&G~~	~~5.5~~
~~-~~	~~-~~	~~-~~
~~-~~	~~-~~	~~-~~
~~-~~	~~-~~	~~-~~
~~-~~	~~-~~	~~-~~
~~Total~~		~~13.5~~

~~Alternatives~~	~~Manager~~	~~Target %~~
~~Property~~	~~Aviva~~	~~15.0~~
~~Private equity~~	~~Hamilton Lane~~	~~4.0~~
~~Infrastructure~~	~~M&G~~	~~4.0~~
	~~Partners Group~~	
~~Timber~~	~~Stafford~~	~~2.0~~
~~Loans~~	~~M&G~~	~~0.5~~
~~-~~	~~-~~	~~-~~
~~Total~~		~~25.5~~

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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	6.0
	Partners Group	
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 hedging mandate with L&G.

Detail OLD version: UPDATED on following page

		Swing			Equity					Bonds		Alternatives				
					Active global mandates					Active mandates						
	Effecive Benchmark	L&G Equity	L&G Bonds	L&G RAFI	Fidelity	Marathon	Baillie Gifford LTGG	L&G	First State	GSAM	M&G	Property	Timber	Infrastructure	Financing	Private Equity
Fund Weighting	**100.0**	**21.0**	**2.5**	**7.0**	**7.0**	**7.0**	**7.0**	**7.0**	**5.0**	**5.5**	**5.5**	**15.0**	**2.0**	**4.0**	**0.5**	**4.0**
UK equities (All Cap)	**3.5**	16.8														
UK equities (Mid/Small Cap)	**1.8**	8.6														
Global equities	**35.0**			100.0	100.0	100.0	100.0	100.0								
North America	**6.9**	32.7														
Europe	**5.1**	24.1														
Japan	**2.4**	11.3														
Pacific ex-Japan	**1.4**	6.5														
Emerging markets	**5.0**								100.0							
Total Equities	**61.0**	**100.0**		**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**							
UK index linked	**2.5**		100.0													
UK Gilts																
UK Corps																
Libor+	**11.0**									100.0	100.0					
Total bonds	**13.5**		**100.0**							**100.0**	**100.0**					
Infrastructure	**4.0**													100.0		
Timber	**2.0**												100.0			
Private equity	**4.0**															100.0
Property	**15.0**											100.0				
Financing	**0.5**														100.0	
Currency																
Total alternatives	**25.5**											**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**

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Detail NEW version:

		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

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Appendix B – Responsibilities

ISC Responsibilities

- To approve and annually review the content of the SIP.
- 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 Executive Director for Corporate Services.
- 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 SIP.
- 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 Board.
- To approve and annually review the content of the Pension Fund Treasury Management Strategy

Executive Director for Corporate Services ('EDCS') 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 Board).

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 ~~independent performance monitoring~~ provider, 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 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 (Ernst & Young) 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 statement 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 Section 151 Officer that Fund investment systems and records are properly controlled to safeguard the Fund's assets.

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Appendix C – Investment Limits

The overriding limits that apply for the different types of pension fund investments are set out in the Regulations. These regulations allow an administering authority to increase some of those limits up to specified amounts. When deciding to increase or review limits, the Administering Authority must:

- take account of proper advice and of the factors in Regulation 9 (3) of the Regulations (the advisability of investing fund money in a wide variety of investments and the suitability of particular investments and types of investments); and
- the decision must specify certain matters and those matters must be published in a revised S~~s~~tatement of I~~i~~nvestment P~~p~~rinciples before they can take effect.

Having taken proper advice, from both external investment advisers and its own officers, and having taken account of the factors in Regulation 11(2) of the Regulations, the ISC has decided to increase the following investment limits as set out below:

the description of the investment	**all contributions to any single partnership**	**all contributions to partnerships**	**investment in any single insurance contract**
the limit on the amount of the investment	limit increased from 2% of total fund to 3% of total fund	limit increased from 15% of total fund to 30% of total fund	from 25% of the total fund to 35% of the total fund
the reason for the decision	to permit up to 3% of the total fund to be invested in a single infrastructure fund organised as a partnership	to permit additional investment in private equity, infrastructure, shareholder activism and property partnerships	to permit additional investment in the pooled funds of the Fund's passive index tracking manager
the period for which the decision will apply;	for a period of 10 years from 31 March 2008.	for a period of 10 years from 31 March 2008.	~~for a period of 10 years from 27 July 2005~~ for a period of 10 years from 26 November 2014

The above decisions comply with the Regulations.

General Fund Investment Restrictions

The Fund is subject to the overall restrictions specified in the Regulations, modified in certain instances by the Administering Authority as set out above. In addition the Council has determined that the following restrictions should be applied:-

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For the Fund as a whole

- Asset allocation benchmarks will be set by the ISC to ensure that the Fund's assets are adequately diversified.
- The cash holdings of individual investment managers will be monitored and reported upon.
- Residual cash held in house by the Administering Authority on behalf of the Fund shall not normally exceed £5m unless in line with investment policy.

For each individual Investment Manager

Approval must be sought by each individual investment manager for any new investments in the unlisted securities of companies, in-house unit trusts, open-ended investment companies or insurance contracts, including sub-underwriting contracts.

Individual investment managers must not hold more than 5% of equity capital of an individual company on behalf of the Fund. However, in exceptional circumstances, the EDCS may increase this limit to 10%, but details of these must be reported to the next ISC meeting. Managers are responsible for reporting any possible exceptions before they occur.

The use of derivatives is restricted to efficient portfolio management in circumstances where the impact on any mandate or on the fund overall is tightly controlled by explicit limits on risk that have been explicitly agreed by the ISC. A cap of 10% of the total value of each investment manager's portfolio on the total economic exposure to derivatives must not be exceeded without the prior consent of the EDCS.

Hedging of the overseas currency exposure of the Fund is permitted for the purpose of protecting against possible adverse fluctuations in the pounds sterling values of investments or cash in the Fund denominated otherwise than in pounds sterling. Managers will be allowed some latitude to use forward currency contracts to implement active currency views, provided that the aggregate risks across the portfolio remain within the limits explicitly agreed by the ISC under the terms of the mandate.

Underwriting of shares can only be undertaken for investment purposes and must not be entered into for short term trading.

Investments of cash by investment managers must be in line with their individual management agreements which limit the amount that can be invested in any single institution.

Controls have been agreed on the extent of the positive positions which a manager can take on individual UK equities relative to the proportion which that stock represents in the index. Where the market weighting of an individual stock exceeds 10% of the Index, exposure to that stock is limited to 2% more than the market weighting as a proportion of the overall UK equities in the mandate. The monitoring of holdings is the responsibility of the individual investment managers.

Partnership Investments

The ISC will scrutinise proposed partnership agreements and only enter into them if the terms of the agreements are appropriate and the purpose of the partnership supports the asset allocation strategy. The amount invested in any single partnership at the time of commitment must not exceed 3% of the Fund. Total investment in all partnerships at the time of commitment must not exceed 30% of the Fund.

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Appendix D - 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 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.

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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.

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Appendix E – Investment and funding risk register

Essex Pension Fund Risk Register										
Risk Area:	Essex Pension Fund	Date:	10/07/2013							
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
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

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Risk Area:	Essex Pension Fund	Date:	10/07/2013							
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	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
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; SAS70 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
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

Essex Pension Fund Risk Register

Risk Area: Essex Pension Fund **Date:** 10/07/2013

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	Achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters	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	Achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters	F2	Market yields move at variance with actuarial assumptions resulting in increases in liabilities, 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	Achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters	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	Achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters	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
Funding	Achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters	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 determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions 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

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Essex Pension Fund Risk Register										
Risk Area:	Essex Pension Fund	Date:	10/07/2013							
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 determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions 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
Funding	To determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions 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 determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions 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 determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions 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
Funding	To determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions 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

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Essex Pension Fund Risk Register										
Risk Area:	Essex Pension Fund	Date:	10/07/2013							
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 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 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 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
Funding	To manage employers' liabilities effectively 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 inconsistent approach or failing to recognise 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
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 July 2011, following discussion on liquidity and fund maturity, the ISC set a 27% limit on exposure to alternative assets.	2	1	2

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Essex Pension Fund Risk Register										
Risk Area:	Essex Pension Fund	Date:	10/07/2013							
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	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	3	2	6
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-flow 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

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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 Board (the Board), the body with overall responsibility for the Essex Pension Fund. The day to day running of the Fund has been delegated to the Executive Director for Corporate Services. The ISC is supported by the Executive Director for Corporate Services, 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 former County Treasurer Keith Neale acts as an independent adviser. An on-going programme of training for Members of the ISC and Board is in place based on the CIPFA Knowledge & Skills Framework. Launch of infoBOARD (an online document repository for ISC/ Board Members) in July 2013 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.

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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 Statement of Investment Principles (SIP) set out the Essex Pension Fund's primary funding objectives. Specific investment objectives are in place for each mandate in the portfolio, and these are regularly monitored by the ISC. The Board has also agreed a total of 22 objectives across five areas: Governance, Investment, Funding, Administration & Communications. Progress against objectives is monitored regularly by the Fund's scorecard. These 22 objectives include: • Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise • To maximise the returns from investments within reasonable risk parameters • To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives • To 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.

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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 SIP. A register of risks of not achieving each of the Funds objectives is maintained and reviewed on a quarterly basis.	The ISC will assess the outcomes of the 2013 actuarial valuation in early 2014.

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. The most recent effectiveness review of both the Board and ISC was undertaken in March 2013. This included an assessment of both the Board & ISC's effectiveness and that of the support received from Fund officers and advisers. Board & ISC attendance and training outcomes are measured in the quarterly scorecard.	. The March 2013 review of effectiveness will be reported in the 2012/13 Annual Report & Accounts.

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 Statement of Investment Principles 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.	

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 a detailed scorecard is used to monitor progress against the 22 stated objectives. Agenda papers are published on the internet and the meetings are open to the public. An Employers' Forum is held 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: • Funding Strategy Statement • Statement of Investment Principles • Governance Compliance Statement; and • Communications Policy Individual scheme members receive newsletter updates throughout the year in addition to annual benefit statements.	