

Minutes of the Meeting of the Essex Pension Fund Investment Steering Committee (ISC), held in Committee Room 2 at 10:00am on 30 November 2022**1. Membership, Apologies and Declarations of Interest**

The report of the Membership, Apologies and Declarations of Interest were received.

Membership**Present:****Essex County Council (ECC)**

Cllr S Barker	(Chairman)
Cllr M Platt	(Vice Chairman)
Cllr A Goggin	
Cllr A Hedley	
Cllr M Hoy	
Cllr D King	
Cllr C Souter	

Scheme Employer Representative

Cllr C Riley	(Observer)
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Scheme Member Representative

Sandra Child (UNISON)	(Observer)
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Cllr M Durham, Conservative Substitute Member, also attended as an Observer of the meeting along with Essex Pension Fund Strategy Board (PSB) Member Cllr S George.

The following Officers and Advisers (O&A) were also present in support of the meeting:

Jody Evans	Director for Essex Pension Fund
Samantha Andrews	Investment Manager
Amanda Crawford	Compliance Manager
Daniel Chessell	Retirement Team Manager
Debbie Hadley	Business Support Administration (via Zoom)
Marcia Wong	Compliance Officer
Mark Stevens	Independent Investment Adviser (IIA)
John Dickson	Hymans Robertson
Matt Woodman	Hymans Robertson

The following Essex Pension Fund Advisory Board (PAB) Members were present as Observers of the meeting:

Andrew Coburn	Pensioner, Ex Essex County Council, UNISON
James Durrant	Employer Representative (Zoom)

Members noted that the meeting would be recorded to assist with the production of the Minutes for the meeting.

Opening Remarks

The Chairman welcomed the Committee, Observers and Advisers to the meeting.

A typo within the Membership report was noted by the Committee with Cllr S Hoy, as stated in the report, was subsequently corrected to Cllr M Hoy.

Apologies for Absence

It was noted that PSB Member: Rachel Hadley, and PAB Members: Nicola Mark; Debs Hurst; and Stuart Roberts had sent their apologies.

Declarations of Interest

Declarations were received from:

Cllr S Barker declared she was in receipt of an Essex LGPS pension and is a Member on the Audit, Governance and Standards Committee. In addition, she declared that her son was also a member of the Essex Pension Fund and was employed by Essex County Council as a Sustainability Manager;

Cllr Platt is a Deputy Cabinet Member and is a Member on the Audit, Governance and Standards Committee;

Cllr A Goggin declared that his wife and sister were in receipt of an Essex LGPS Pension;

Cllr A Hedley declared that he was in receipt of an Aviva Group Pension, and he is the Chairman of the Audit, Governance and Standards Committee;

Cllr Hoy declared that his brother-in-law and nephew are members of the LGPS; and

Cllr Riley and Sandra Child declared that they are in receipt of an Essex LGPS Pension.

Resolved:

The Committee noted the report.

2. Minutes of ISC Meeting held on 12 October 2022

The Minutes of the meeting of the ISC held on 12 October 2022 were approved as a correct record and signed by the Chairman.

The Chairman brought to the attention the Matters Arising, it was noted that:

- Fund Officers issued a press release on 14 November 2022 via ECC in regard to the Fund's signatory status of the Financial Reporting Council (FRC) 2020 UK Stewardship Code:
- the baseline position for the Fund's equity allocation as at 30 June 2021 reporting against the Task Force for Climate Related Financial Disclosures (TCFD) agreed metrics and targets would be provided at Agenda Item 9b; and
- Stafford Capital Partners had been informed of the ISC's decision to commit £100m to Stafford's Carbon Offset Opportunities Fund, which was subsequently followed up by a joint press release which to date had attracted positive press coverage including Pensions Age publication's request to publish a two-page feature on this news story.

Resolved:

The Committee noted the updates from the matters arising.

3. Market Commentary Quarter 3 2022

The Committee received a report from Hymans Robertson detailing the Market returns and their latest views about the global economy.

Mark Stevens, IIA, presented to Members his perspective on the current market conditions advising markets had stabilised since the last meeting.

It was explained that the economy to keep watch on going forward would be the US, as its recovery would be important to the European economy noting that the US housing market was still causing concern. In addition, China's continued zero Covid lockdown policy was adversely affecting the economy too.

In the UK there were still some concerns over leisure companies; middle end retailers; as well as the ongoing energy situation however, it was believed that inflation had now peaked.

Members were reassured that the Fund, as a global investor, had been resilient over this volatile period and was sitting at £9.156bn at 30 September 2022 compared to £9.357bn as reported at 30 September 2021.

Resolved:

The Committee noted the update and content of the report.

4. Responsible Investment (RI) Project Plan Update

Members were provided with an update of the progress made against the Fund's 2022/23 RI Project Plan as agreed at their 15 June 2022 meeting. It was explained that five out of seventeen areas of activity were now complete, with eight areas currently in progress.

The Committee were made aware that the second round of RI engagement meetings with the Fund's global equity investments managers had now been completed.

Resolved:

The Committee noted progress against the Fund's RI Project Plan and the content of the report.

5. Schedule of Future Meetings and Events

The Chairman reminded Members the RI Workshop had been arranged for Wednesday 18 January 2023.

The Chairman also made Members aware that the ISC February 2024 meeting date mentioned in the report should read 28 February 2024 and not 27 February 2024 as written.

Members were requested to notify the Compliance Manager if they wish to attend the LGC Investment Seminar taking place on Thursday 30 and Friday 31 March 2023.

Resolved:

The Committee **agreed** the proposed date change for the February 2024 meeting and noted the content of the report.

6. Urgent Part I Business

The Chairman informed the Committee that the Fund had been shortlisted for two LAPF Investment awards: "Best Approach to Responsible Investment"; and "LGPS Investment Strategy of the Year". Members were advised that the Awards Ceremony would take place on 15 December 2022.

Exclusion of the Public and Press

That the press and public are excluded from the meeting during the consideration of the remaining items of business on the grounds that they involve the likely disclosure of exempt information falling within Schedule 12A to the Local Government Act 1972, the specific paragraph(s) of Schedule 12A engaged being set out in the report or appendix relating to that item of business.

Resolved:

The Chairman brought to the attention the above statement and the Committee **agreed** to proceed.

7. Part II Minutes of ISC meeting 12 October 2022

The Part II Minutes of the meeting of the ISC held on 12 October 2022 were approved as a correct record and signed by the Chairman.

The Chairman brought to the attention the Matters Arising, noted that:

- the Janus Henderson multi asset credit sub fund had launched within the ACCESS Pool and that Officers were making the necessary arrangements for the sale proceeds to be transitioned from GSAM to Janus Henderson in two tranches, the first on 30 November; and
- that GSAM had notified Fund Officers that as a consequence of Essex's disinvestment they would be terminating their Star 1 Absolute Return Bond fund by the end of the year.

Resolved:

The Committee noted the updates from the matters arising.

8. Quarterly Investment Manager Monitoring

8a. Investment Tables: Quarter ended 30 September 2022

Members received an update from Mark Stevens, IIA, in regard to the Fund's investment performance for the quarter ended 30 September 2022.

The Committee were advised that the Fund Value fell by 0.2% in the quarter to £9.156bn and by 2.1% for the year but despite this the value was almost back up to where the Fund was just over a year ago.

It was explained the Fund's global infrastructure managers had delivered some strong returns despite their investments suffering from the outset of the pandemic. It was felt that this asset class has proved resilient in terms of its economic exposure and long-term outlook.

The Committee were advised that the Fund's exposure to bonds out of favour for the last few years was now proving to be a useful investment for the Fund.

Resolved:

The Committee noted the content of the report.

8b. Traffic Light Rating Report

Matt Woodman, Hymans Robertson advised Members that since the last ISC meeting in October 2022, there had been no change to either Investment Manager ratings or RI ratings for the Fund's Investment Managers.

One manager was still rated as 'red' noting that this mandate was soon to be terminated as agreed previously by the ISC.

Resolved:

The Committee noted the content of the report.

9. Responsible Investment (RI) Monitoring Engagement

9a. Global Equity Management Engagement Summary

The Committee received a report and presentation from Matt Woodman, Hymans Robertson detailing that the second round of RI Engagement meetings had taken place with the O&A meeting with the Fund's three global equity managers.

It was explained that overall, the view was that meaningful progress had been made since last year.

However, a reflection of one of the Manager meetings was it missed the mark and it was felt that they had not perhaps dedicated sufficient preparation time for the meeting and despite having a dedicated RI team, were too general in their demonstration of their RI implementations concentrating more on firm-wide initiatives than portfolio specific areas of engagement. As a consequence, O&A had sought further clarification.

It was felt that the other Managers were better able to demonstrate effective integration of RI considerations into their portfolio construction with one Manager's portfolio in particular, showing significant reductions in carbon emissions and its carbon footprint in that the climate metric outcomes now calculated were significantly below that of the MSCI All World benchmark.

Resolved:

The Committee noted the next steps from each individual engagement meetings and the content of the report.

9b. Equity Allocation Climate Risk Report as at 30 June 2021: Task Force for Climate Related Financial Disclosures (TCFD) Metrics Baseline Results

Members were reminded of the Strategic Implementation Framework being:

- Pillar 1 - Implementing and maintaining existing strategic targets;
- Pillar 2 - Evolving existing allocations; and
- Pillar 3 - Exploring changes to existing or new mandates.

John Dickson, Hymans Robertson provided a training presentation and report outlining the baseline position for the Fund's equity allocation in regard to the metrics and targets pillars of TCFD agreed by the ISC.

It was explained that the June 2021 baseline position highlighted that the Fund's equity allocation was more carbon intensive than the combined benchmark and that the individual equity mandates differed significantly.

It was noted that the largest contributors to carbon intensity were UBS's mandate (regional equity index tracking) and that of Stewart Investors (emerging markets) contributing 73.4% to the Fund's equity allocation Weighted Average Carbon Intensity (WACI) measure. This, however, was not a surprise given the type of

strategy they both managed. Whilst the total equity allocation climate figures were above the combined equity benchmark, the Fund's recent strategic decisions to align these mandates to the Fund's RI Policy would result in the Fund's making significant progress in terms of reducing its carbon footprint.

Members were also advised that the metrics agreed could be changed and evolve so long as an explanation was provided as to why these changes are required.

The metrics agreed by the Fund would become obligatory with the introduction of TCFD for the Fund's Investment Managers to report on going forward therefore it is expected that the quality of the data would improve over time.

In addition, it was explained that four discretionary metrics agreed by the ISC could not all be measured as at 30 June 2021 noting that data around these should also improve. It was highlighted that the Fund would work with ACCESS so that there may be a consistent approach to reporting on TCFD.

The Committee were advised that property would be the next to be assessed following the O&A engagements.

Resolved:

The Committee **agreed** the next steps arising from the initial baseline measurement of the Fund's equity allocation against TCFD and noted the content of the report.

The Chairman informed Members the meeting would break for a short adjournment.

The meeting was adjourned at 11:38am.

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The Committee reconvened at 11:47am.

10. Strategic Implement Framework – Pillar 2 – Evolving existing allocations: Review of the Responsible Investment (RI) approach within the RAFI allocation

The Committee received a training presentation and report from Matt Woodman, Hymans Robertson around the RAFI allocation, UBS's remaining index tracking equity portfolio and the potential investment solutions that are available to better align this portfolio to the Fund's RI Policy.

It was explained that during September 2022 assets to the value of c£1.5bn held in the regional market capitalisation tracking indexes were successfully transitioned into the new sustainable equity transition fund.

It was further explained that diversification of both active and index tracking was a key risk management tool and that index tracking provided 'cheaper' access to

markets where conviction was lower, reduces overall fee burden and that any replacement for RAFI must maintain diversification and style characteristics or additional risks would be introduced into the portfolio.

Options were presented to the Committee of the different approaches available, from an Environmental, Social and Governance (ESG) to a low carbon alternative. It was proposed that the adoption of the RAFI Low Carbon transition approach would be a good alternative to the existing RAFI mandate. It was also suggested that the Fund engage with UBS and ACCESS partners to implement the agreed strategy.

Resolved:

The Committee **agreed:**

- to adopt the Low Carbon transition approach as an alternative to the current RAFI mandate;
- O&A would engage with UBS and likeminded ACCESS partners to launch an appropriate fund;
- O&A would liaise with UBS to establish the most cost-effective way to implement the agreed solution; and
- to note the content of the report.

11. Strategic Implementation Framework – Pillar 1 – Implementing and maintaining existing strategic targets within the investment strategic decision framework: Portfolio Implementation: Global real estate strategic long-term allocation considerations

John Dickson, Hymans Robertson provided a report on the Fund's Global property allocation managed by Partners Group advising that this allocation due to the increase in the Fund value was now below its target allocation and as such would require a "top up" to bring back in line.

The Committee were informed that an additional £180m commitment would be required to maintain the Fund's strategic allocation of 4%. It was proposed that an additional commitment of £130m be made to the Fund's existing manager, Partners Group to enable the Fund to take advantage of new opportunities. With the decision regarding the remaining £50m be deferred until next year when the outcome of the ACCESS global real estate procurement and the preferred manager was known.

Resolved:

The Committee **agreed:**

- a further top up commitment of £180m be made to bring back the Fund's global real estate asset allocation within target;
- £130m be committed to Partners Group global real estate mandate in the first instance, with the remaining £50m identified to be allocated once the outcome of the global real estate ACCESS procurement process is finalised;

- following this, a further review of the global real estate allocation be undertaken to assess the merits of taking a blended approach between the existing Partners Group mandate and the core global real estate solution that will be provided by ACCESS; and
- the content of the report be noted.

12. Department for Levelling Up, Housing and Communities (DLUHC) Climate Risk Reporting Consultation

Members were informed that the Fund's consultation response in regard to the Local Government Pension Scheme (LGPS) Governance and Reporting on Climate Change Risks was submitted to DLUHC on 23 November 2022. It was recognised that approval had been sought via the Out of Committee Decision-Making Process from the ISC due to submission deadline being 24 November 2022.

Resolved:

The Committee noted Essex Pension Fund's final response to the DLUHC LGPS Governance and Reporting on Climate Change Risks Consultation.

13. Structural Reform of the LGPS – Pooling Quarterly Update of ACCESS Joint Committee

The Committee received a report from the Director for Essex Pension Fund detailing the outcome of the informal briefing meeting of the ACCESS Joint Committee which took place on 06 October 2022.

Members were reminded that a verbal update of this meeting was provided at their 12 October 2022 ISC and that the next formal ACCESS Joint Committee meeting was due to take place on Monday 05 December 2022.

Resolved:

The Committee noted the items listed under section 2.1 of the report.

14. Urgent Exempt Business

The Chairman invited Members to provide feedback from the Baillie Gifford event which took place in Edinburgh during October 2022.

Overall, Members found the event to be useful, with the breakout sessions being informative and enjoyable. They felt they had learnt more about the Fund's portfolio, and it gave them the opportunity to have meaningful discussions with other Baillie Gifford LGPS investors.

Attendees thanked Officers for making the necessary arrangements and supporting Members at the event.

Members were reminded that their attendance had been approved by the new Foreign Travel Committee and that they were to ensure a declaration was made in order for this event to be noted and subsequently reported to the Audit, Governance and Standards Committee.

There being no further business the meeting closed at 12:24pm.

Chairman
22 February 2023

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