

<b>Essex Pension Fund Strategy Board</b>	<b>PSB 10</b>
<b>Date: 11 September 2019</b>	

## **Investment Steering Committee (ISC) Quarterly Report**

Report by the Interim 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 Essex Pension Fund Strategy Board meeting.

### **2. Recommendations**

- 2.1 The Board agree:
- that the report be noted.

### 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, 26 June and 17 July 2019.

### 4. Report of the meeting of ISC on 26 June 2019

- 4.1 The Committee noted the appointment of Cllr Susan Barker as the Chairman of the Board and ISC as agreed at the Annual Meeting of Essex County Council (ECC) on 14 May 2019.
- 4.2 The Committee **agreed** that Cllr Mark Platt be reappointed as Vice Chairman.
- 4.3 The Committee received a report in relation to their Terms of Reference (TOR) which was noted.
- 4.4 The Committee in addition received a report in relation to their revised TOR which had been reviewed in full in consultation with the Independent Governance & Administration Advisor (IGAA) and the Director of Legal & Assurance (Monitoring Officer) for ECC. A minor amendment to the draft was requested and subsequently approved for onward transition to the Board for formal approval.
- 4.5 Details of the Baillie Gifford Seminar, due to take place in October 2019 were presented to the Committee for noting.
- 4.6 A report on the quarter end 31 March 2019 Investments Tables, which detailed the Fund's market value and investment manager performance, was discussed. It was noted that the Fund's value had increased to just over £7bn as at 31 March 2019 compared to a value of £6.651bn as at 31 December 2018.
- 4.7 It was also noted that the Fund value had increased further to an all-time high of £7.2bn to date. The Committee **agreed** that officers in consultation with advisers undertake a review of the investment tables format, presentation and content to incorporate: the revised changes in strategic asset allocation; the migration of assets into the ACCESS Pool and appropriateness of benchmarks.
- 4.8 A report tracking progress made to date in regard to the strategy implementation was noted.

- 4.9 The Committee received an update outlining the latest developments in respect of the structural reform of the LGPS. It was highlighted that at the 18 March AJC meeting, Members discussed and agreed a revised ACCESS Consultation response to which Essex agreed to be a joint signatory to the Minister of Housing, Communities and Local Government (MHCLG) consultation on the draft investment pooling guidance. An update was provided on the sub-fund seeding arrangements, illiquid assets and the ACCESS Support Unit (ASU) recruitment.
- 4.10 The Committee were provided with a report summarising the current views from Hymans Robertson on some of the Fund's managers.
- 4.11 The Committee also received Investment Manager Presentations from Stewart Investors and M&G Investments in relation to their global emerging markets (GEM) and active bond mandates respectively.

## **5. Report of the meeting of ISC on 17 July 2019**

- 5.1 The Committee received a report in relation to the Investment Strategy Statement (ISS) Review and Responsible Investment (RI). It was highlighted that a review of both the ISS and Funding Strategy would take place during the municipal year by the ISC and the Board respectively, with both subject to stakeholder consultation.
- 5.2 The Committee was provided with an outline on the four keys areas that the ISS review would focus on and in particular the approach to the responsible investment aspects contained within the ISS. Members were advised that a RI workshop would be arranged for October 2019 to kick off this review.
- 5.3 The Committee **agreed**:
- the timeline for reviewing the ISS with a focus on agreeing an approach to the RI aspects contained in the ISS; and
  - that a presentation from Local Authority Pension Fund Forum (LAPFF) on collaborative responsible investment take place at the ISC's November meeting.
- 5.4 The main focus of the meeting's business was the yearly review of the Fund's investment managers.
- 5.5 The Committee received a report and presentation summarising the investment performance for the year ended 31 March 2019 of the Investment Managers of the Fund, along with a synopsis of the market conditions during the year.

- 5.6 It was noted that the Fund's performance for the year ended 31 March 2019 of 8.5% was ahead of benchmark and was again above the Actuary's investment return assumption used for the triennial valuation.
- 5.7 The Committee received a report summarising the independent review CEM Benchmarking had undertaken of the overall fees paid by the Fund, investment returns and net value added compared to its peers across the LGPS and global universal for the year to 31 March 2018.
- 5.8 Separately a review was also undertaken by Hymans Robertson of the fees paid by the Fund in respect of the management of alternative assets classes. The Committee then **agreed** CEM undertake a cost benchmarking review as at 31 March 2019.
- 5.9 The Committee received an overview on current benchmarks for equity, bond and alternative investments. Suggested amendments to current benchmarks was discussed and agreed by the Committee.
- 5.10 The Committee were reminded of the de-risking progress made in respect of reducing the Fund's strategic allocation to equities outlining the strategic decisions previously agreed over the last 18 months and the timetable for decisions still pending agreement.
- 5.11 The Committee **agreed** that in light of changing market conditions to proceed with the 2% disinvestment from Marathon with 1% of the monies being transferred into the passive equity strategies managed by UBS in line with the central benchmark allocation and 1% to M&G Alpha Opportunities rather than redirect the full amount to the passively managed UBS equities strategies as previously agreed.
- 5.12 The Committee received a report and presentation on the Fund's currency hedge arrangements.
- 5.13 Following discussions, the Committee **agreed**:
- to take no action in relation to the currency hedge central target of 50% as currently the currency hedge is within the desired zone at a total Fund level;
  - to consider the currency hedge target at a total Fund level rather than the equity portfolio only;
  - to consider switching to the GBP hedged share classes for IFM and JPM as and when further allocations are made to their funds; and

- that a report outlining the above considerations be brought to a future meeting.

5.14 The Committee received an update outlining the latest developments in respect of the structural reform of the LGPS and in particular the JC activity since the last meeting.

5.15 The Committee were informed that representatives of ACCESS met with civil servants on 4 July 2019 to discuss ACCESS's response to the Ministry of Housing, Communities and Local Government (MHCLG) informal consultation in regard to guidance on LGPS asset pooling. It was noted that a formal consultation is now expected to be issued after the summer recess.

5.16 The Committee were advised that Link were organising in consultation with ACCESS Officer Working Group an ACCESS Investor Day. Members were asked to note the potential date of 16 October 2019 and that Officers of the Fund will share more information with the ISC when it becomes available.

5.17 The Head of Essex Pension Fund updated the Committee that the current S151 Officer, Margaret Lee, would be stepping down in August 2019 and her S151 role would be filled by Nicole Wood.

5.18 An update was also provided in regard to the recruitment of the ACCESS Director. It was noted that following interviews a suitable candidate had been identified and a recommendation has been put forward to the Host Authority to appoint the candidate on a secondment basis with a formal announcement imminent.

## **6. Link to Essex Pension Fund Objectives**

6.1 Investments:

- To maximise the returns from investments within reasonable risk parameters.
- To ensure the Fund's investments are properly managed before, during and after pooling is implemented.
- Ensure investment issues are communicated appropriately to the Fund's stakeholders.

## **7. Risk Implications**

7.1 The current investment risks associated with the Fund's investment strategy are those detailed in the Investment Strategy Statement and the Fund's Risk Register.

7.2 No new risks have been identified during the quarter.

## **8. Communication Implications**

8.1 The Fund was a signatory on the ACCESS proposal to Government in February and July 2016.

## **9. Finance and Resources Implications**

9.1 In addition to the work undertaken by Officers, the cost of ACCESS pool participation per Fund is estimated to be £109,000 in 2019/20.

9.2 The cost to the Fund was;

- £116,000 in 2018/19
- £94,000 in 2017/18
- £80,000 in 2016/17

## **10. Background Papers**

10.1 ISC meeting of 26 June 2019 – agenda and signed minutes.

10.2 ISC meeting of 17 July 2019 – agenda and draft minutes.