

Essex Pension Fund Strategy Board	PSB 06a
Date: 20 March 2024	

Investment Steering Committee (ISC) Quarterly Report

Report by the Head of Fund Investments

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This Report is for noting

Executive Summary

Report Type: Investments

The ISC has met on one occasion since the last Essex Pension Fund Strategy Board (the Board) meeting, on 28 February 2024. Owing to publishing deadlines the Board have written updates on the ISC meetings held on 29 November 2023 and 28 February 2024.

At both the November 2023 and February 2024 meetings, the ISC received regular reports on market returns and the global economy, quarterly investment manager monitoring and Responsible Investment (RI) engagement.

In addition, at its meeting in November 2023 the Committee received a training presentation around impact investing in real estate and a presentation from ACCESS's UK Property Manager, CBRE, following which the ISC agreed to ratify their previous decision to appoint CBRE as the Fund's new UK Property Manager. Members also agreed a 5% commitment to ACCESS's Fidelity Investment Grade Credit strategy. Members also noted progress on the development of a Net Zero Journey Plan and reviewed the Fund's Independent Investment Adviser (IIA) contract.

Executive Summary (cont.)

In February 2024, the ISC approved the 2024/25 Treasury Management Strategy. Members received training in carbon emissions and noted the outcome of the re-measurement of carbon metrics against the “metrics and targets” pillar of the Taskforce for Climate Related Financial Disclosures (TCFD) and, following training on the Fund’s Private Equity portfolio and Impact Investing in Private Equity, reviewed the Fund’s Private Equity annual 2024/25 commitment.

The Committee received a quarterly Pooling update and was briefed on the implications for the Fund of the Government’s response to the Next Steps on Investments Consultation. Finally, Members reviewed the outcome of the fourth Competition and Markets Authority (CMA) Strategic Objective Assessment for Hymans Robertson, the Fund’s Institutional Investment Consultant.

1. Purpose of the Report

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

2. Recommendations

- 2.1 The Board note the content of 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 Board.
- 3.2 Since the last quarterly report was received the ISC has met on two occasions, 29 November 2023 and 28 February 2024 and written updates on both these meetings are provided below.

4. Report of the ISC meeting on 29 November 2023

- 4.1 The Independent Investment Adviser (IIA) reported on market returns and the global economy for quarter 3 of 2023, noting that inflation, whilst coming down, remained inconsistent; rate rises appeared to have peaked but were expected to stay “higher for longer”; new geopolitical risks had emerged alongside the continuing Russia/Ukraine conflict; and although an improvement had been seen in supply and storage of gas in Europe, oil prices remained vulnerable to shocks. Looking ahead to 2024, the key question was whether the UK could expect a “soft landing” rather than a full recession in the context of an expected divergence in inflation and economic outlook globally, leading to future desynchronisation of monetary policy internationally.
- 4.2 An update was given on progress against the Fund’s RI Project Plan, highlighting that eight out of fifteen areas of activity were now complete with five further areas in progress. The Committee noted the outcome of six engagement meetings with alternatives Managers and that Officers and Advisers (O&A) had also met with Private Equity and Direct Lending Managers since the production of the agenda.
- 4.3 The IIA updated the Committee on the value of the Fund and its constituent portfolios, performance against benchmarks and assets under ACCESS Pool Governance as at 30 September 2023, explaining that the Fund was valued at £9.868bn at the end of the quarter, up £700m compared with the same period in 2022. Alternatives had performed well while active equity had underperformed and the artificial intelligence euphoria noted during the previous quarter had dissipated. The Fund was ahead of benchmark by 0.6% overall in terms of three-year annualised returns – a good news story in the context of current market conditions.

- 4.4 The Committee received an update on the development of the Fund's Net Zero Journey Plan which would form a substantial part of the 2024/25 RI Project Plan, founded on the four pillars of portfolio emissions, climate solutions and opportunities, alignment and engagement.
- 4.5 Members received a presentation from CBRE on UK property investment. Following the presentation, Members ratified their October 2023 decision to appoint the ACCESS manager, CBRE as the Fund's new UK Core Property Mandate manager. In addition, the Committee received bitesize training and a presentation on real estate impact investing.
- 4.6 Following due diligence on the options on the ACCESS platform, agreement was reached on allocating 5% of the Fund to Fidelity's Sterling Investment Grade Credit in line with the Investment Strategy.
- 4.7 The ISC agree to offer the IAA a one-year contract extension.
- 4.8 The outcome of the recent Government Consultation on the Next Steps for Investments was discussed and it was agreed that an analysis of the implications for the Fund should be brought to a future ISC meeting.

5. Report of the ISC meeting on 28 February 2024

- 5.1 The IIA reported that quarter 4 of 2023 had seen a turnaround with global growth driven by the resilience of the US market and stimulus in China but that was still expected to slow in 2024. Equity markets had rallied, giving their best return since 2019, and inflation had fallen more than expected across major advanced economies, boosting hopes of rate cuts, improving sentiment towards conventional bonds and the fundamental outlook for UK commercial property.
- 5.2 The Committee approved the Fund's Treasury Management Strategy for 2024/25. This was largely unchanged from the 2023/24 Strategy. However, forecasts had been revised throughout with a surplus cashflow projection for 2023/24 and 2024/25 and the Institutional Counterpart Lending List had also been revised in line with recommendations from Essex County Council's (ECC's) Treasury Management Team.

- 5.3 An update was received on the RI Project Plan, noting that eleven out of sixteen areas of activity were now complete and the remaining areas were in progress and expected to be completed by the end of the year. Members noted the outcomes of four engagement meetings with the Fund's Private Equity, Direct Lending, Timberland and Index Tracking Equity Managers and that O&A were due to meet the Fund's three Global Equity and two Emerging Market Equity managers during March and April 2024 respectively.
- 5.4 Members reviewed the Fund's RI engagement priorities and agreed to continue to focus on the subset of RI Priorities of: climate change; resource scarcity; employee relations; and company board structure over the medium term to allow meaningful progress to be tracked and monitored. The Committee was updated on progress with the Fund's FRC UK Stewardship Code Submission for 2024 and approved the use of the Out of Committee Decision Making Process to agree the final Submission and all annual Submissions thereafter.
- 5.5 Members received a training presentation on carbon emissions from Hymans Robertson. Members were updated on the re-measurement versus 2021 baseline for the Fund's overall carbon baseline in line with the same "metrics and targets" pillar of the Taskforce for Climate Related Financial Disclosures (TCFD) for the calendar year 2023.
- 5.6 The outcome of the 2023 assessment showed that the Fund has made substantial progress in decarbonising the portfolio as compared to the 2021 Baseline, in that it had reached its 2030 target of 50% decarbonisation compared to its 2021 Fund baseline and was just shy of reaching its target of 50% decarbonisation versus the 2021 baseline benchmark. It was explained that this progress was largely driven by the ISC's decision to move to more sustainable/low carbon index tracking strategies and the replacement of Stewart Investors, the emerging market manager, with Columbia Threadneedle and Robeco emerging market mandates.
- 5.7 The assessment also showed a large variation in carbon intensities and coverage for the alternative assets, making it difficult to draw overall conclusions. It was noted that data quality and coverage for these assets would continue to be a key point of engagement with the Fund's investment managers during 2024.

- 5.8 Representatives from Hamilton Lane joined the meeting and delivered a training presentation on impact investing in Private Equity along with a market update and outline of the performance of Essex's portfolio after which the Committee reviewed its annual Private Equity commitment, agreeing a further top up of £70m for 2024/25.
- 5.9 The Director for Essex Pension Fund summarised activity at the ACCESS Joint Committee (AJC) meeting on 4 December 2023, noting that the AJC had approved the budget to support the proposed 2024/25 Business Plan for recommendation back to each ACCESS Local Authority. The Committee agreed the AJC's recommendation of its contribution to the ACCESS 2024/25 Budget. The AJC received updates on the Third-Party Review and the forthcoming Operator re-procurement. A discussion was also held on the Government's response to the Pooling Consultation and ACCESS's next steps.
- 5.10 The ISC was taken through an initial assessment of the impact on the Fund of the Government's proposals for Pooling. Fund Officers expressed the view that the Fund was able clearly to demonstrate its commitment to pooling with around 77% of its assets pooled to date and a further 7% to be pooled imminently. In regard to the other proposals, the Members noted that the Fund was in a good place as and when new guidance is released.
- 5.11 The Committee noted the outcome of the 2023 assessment of the strategic objectives of the Fund's Institutional Investment Consultant, Hymans Robertson.

6. Link to Essex Pension Fund Objectives

- 6.1 Investments:
- to maximise returns from investments within reasonable risk parameters;
 - to ensure the Fund's investments are properly managed before, during and after pooling is implemented; and
 - 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.
- 8.2 The Fund has maintained signatory status to the FRC UK Stewardship Code for 2023.

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 £141,727 in 2023/24.
- 9.2 The cost to the Fund was:
- £106,832 in 2022/23;
 - £98,184 in 2021/22;
 - £78,426 in 2020/21;
 - £62,866 in 2019/20;
 - £116,000 in 2018/19;
 - £94,000 in 2017/18; and
 - £80,000 in 2016/17.

10. Background Papers

10.1 ISC meeting of 29 November 2023 – Agenda and Minutes.

10.2 ISC meeting of 28 February 2024 – Agenda and Draft Minutes.