

Minutes of the Meeting of the Essex Pension Fund Investment Steering Committee (ISC), held in Committee Room 2 at 10.00 am on 29 November 2023

1. Membership, Apologies and Declarations of Interest

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

Membership

Present:

Essex County Council (ECC)

Cllr S Barker	(Chairman)
Cllr M Durham	(substitute for Cllr M Platt)
Cllr A Goggin	
Cllr A Hedley	(arrived 10.04 am)
Cllr D King	(arrived 10.32 am)
Cllr C Souter	

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

Jody Evans	Director for Essex Pension Fund
Samantha Andrews	Head of Fund Investments
Amanda Crawford	Head of Fund Compliance and Governance
Suzanne Sinclair	Compliance Analyst
Senita Kaur	Compliance Analyst
Aleya Miah	Compliance Officer

Mark Stevens	Independent Investment Adviser (IIA)
John Dickson	Hymans Robertson
Matt Woodman	Hymans Robertson
Hannah Marshall	CBRE (Item 11b only)
Chris Tucker	CBRE (Item 11b only)
Barney Rowe	Orchard Street (Item 12b only)
Sarah O'Connell	Orchard Street (Item 12b only)

The following ISC Member, Essex Pension Advisory Board (PAB) Member and Fund Officers were present via Zoom as Observers of the meeting:

Cllr M Platt	ISC Member and Vice Chairman
James Durrant	PAB Member, Employer Representative
Jamie Dougal	Investment Officer
Leah Eade	Graduate Pension Trainee
Sara Maxey	Head of Actuarial and Funding
Mick Smith	Investment Analyst
Kelly Thomas	Investment Officer

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, including Cllr M Durham, substituting for Cllr M Platt (who would be observing via Zoom). Members were made aware that Cllr Hedley and Cllr King would arrive shortly.

Apologies for Absence

It was noted that Scheme Member Representative, Sandra Child; Pension Strategy Board (PSB) Member, Cllr J Lamb; and PAB Members, Nicola Mark and Andrew Coburn had sent their apologies.

Cllr M Hoy was absent from the meeting.

Declarations of Interest

The following Declarations were received:

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 holds a deferred Essex LGPS pension;

Cllr M Durham declared he is a Cabinet Member and a Member of Maldon District Council;

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 that he is the Chairman of the Audit, Governance and Standards Committee; and

Cllr D King declared that he is also a Member of the Audit, Governance and Standards Committee.

Resolved:

The Committee noted the content of the report.

2. Minutes of the previous Meeting

The Minutes of the ISC meeting held on 11 October 2023 were approved as a correct record and signed by the Chairman.

The Chairman brought to Members' attention one matter arising from the minutes. It was noted that the Investment Strategy Statement (ISS) agreed at

the meeting on 11 October 2023 had been published on the Fund's website on 10 November 2023.

Resolved:

The Committee noted the update from the matter arising.

3. Market Commentary: Quarter 2 2023

The Committee received a report from Hymans Robertson and a verbal update from the Independent Investment Adviser (IIA), Mark Stevens.

Mark Stevens shared his view that the themes of last year continued to be relevant:

- inflation was coming down yet remains inconsistent;
- rate rises appeared to have peaked, however they were expected to stay "higher for longer";
- new geopolitical risks had emerged alongside the existing Russia/Ukraine conflict;
- oil prices remained vulnerable to shocks, but an improvement had been seen in supply and storage of gas in Europe.

Looking ahead to 2024, he noted that the global economy was more resilient than expected with only one or two countries in recession. Corporate margins were robust with tight labour markets and strong wages. However, there is always a lag in the impact of monetary tightening so this might still be felt in the coming months and whilst signs of stress in the banking sector had eased, some weaker banks remained vulnerable as credit growth slowed and repayment capacity reduced. Although a "soft landing" was anticipated for the US, the International Monetary Fund expected divergence in inflation and economic outlook potentially leading to future desynchronisation of global monetary policy.

Equity Price Earnings valuations would not be stretched if there was no recession, but earnings yields were expensive compared with bonds and credit was offering better yields than had been available for many years. John Dickson, Hymans Robertson, added that inflated interest rates were just starting to bite, curtailing prospects for earnings growth and potentially heralding a "doldrums" period.

Mark Stevens expressed some concern about Government debt cost, which remained high, and a forthcoming Treasury sell-off post quarter-end. The US Government would be refinancing \$9 trillion – one-third of its entire debt. Meanwhile, in the UK gilts yields had spiked with 30-year gilts hitting a 20-year high.

The key question was whether the UK could expect a soft landing – i.e. slow growth and inflation leading to a drop in interest rates without triggering a recession - or a recession proper where inflation falls and unemployment increases.

Resolved:

The Committee noted the content of the report.

4. Responsible Investment (RI) Project Plan Update

The Head of Fund Investments provided the Committee with an update on progress against the Fund's RI Project Plan.

It was noted that eight out of fifteen areas of activity were now complete, with five areas currently in progress – on target to complete all areas by the end of 2023/24.

Details of six engagement meetings with alternatives Managers were included with the agenda pack, and this week Officers and Advisers had met with Private Equity and Direct Lending Managers. Outcomes from these meetings would be reported to the next ISC.

Resolved:

The Committee noted:

- the progress made against the Fund's 2023/24 RI Project Plan; and
- the content of the report.

5. Schedule of Future Meetings and Events

Members were reminded that the next ISC meeting would be held on 28 February 2023 and about the forthcoming ACCESS Investor Day due to be held on Thursday 30 November 2023. Members wishing to attend were asked to notify Amanda Crawford during the break so that she could register them with Waystone online.

At the 28 February meeting, Members would be reminded of agreed meeting dates for 2024/25 and proposed dates for 2025/26 would be shared.

Resolved:

The Committee noted the content of the report.

6. Urgent Part I Business

There was none.

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 the above statement to Members' attention and the Committee **agreed** to proceed.

7. Part II Minutes of ISC meeting 11 October 2023

The Minutes of the Part II ISC meeting held on 11 October 2023 were approved as a correct record and signed by the Chairman.

8. Quarterly Investment Manager Monitoring**a. Investment Tables: Quarter ended 30 September 2023**

Mark Stevens, IIA, provided the Committee with an update on the value of the Fund and its constituent portfolios, performance against benchmarks, and assets under ACCESS pool governance as at 30 September 2023.

The Fund was valued at £9.868bn at the end of the quarter, up £700m compared with the same period in the previous year. This represented good performance in the current economic climate. (It was noted that at the time of the meeting, and for the preceding 7 days, the value of the Fund had increased further to over £10bn, a new Fund high.)

Alternatives Managers, JP Morgan (infrastructure), Hamilton Lane (private equity) and Partners Group had performed well during Q3 with valuations holding up despite the turndown in markets.

Active equity Managers had performed less well, however. Baillie Gifford were experiencing a tricky time; Longview had encountered stock issues, notably in the US-based Dollar Tree business; and M&G Global Dividends had also underperformed. It was noted that the Artificial Intelligence euphoria noted during the previous quarter had since diffused.

Looking at three-year annualised returns, overall the Fund was ahead of benchmark by 0.6% (over £50m) with two out of three active equity Managers outperforming. Also outperforming were bonds and, in the alternative space, property, infrastructure and private equity. However, private lending and timber alternatives, although still generating sizeable positive returns, were underperforming against their own benchmarks.

Overall, the IAA characterised the position as a good news story, particularly in the context of current market conditions.

Resolved:

The Committee noted the content of the report.

b. Traffic Light Rating Report

Matt Woodman, Hymans Robertson advised Members that since the last ISC meeting in October 2023, there had been no change to either Investment Manager ratings or RI ratings for Managers who had been in place for some time. The two new emerging markets Managers, Robeco and Columbia Threadneedle, had been rated as “good” for RI. Investment ratings for these Managers were currently being updated and would be added to the report going forward.

As requested, a new column had been added to the report on the far right, indicating ESG data coverage for each mandate. Equity Managers’ coverage was very high but Bond Managers’ lower, reflecting data availability and the types of products invested in. Coverage would be reviewed on an annual basis. It was proposed that targets be set for a number of the mandates during engagement meetings as part of the Fund’s Net Zero Journey Plan.

Resolved:

The Committee noted the content of the report.

9. Investment Manager Monitoring – Responsible Investment (RI) Engagement Reports**a. JP Morgan Asset Management (JPM) – Infrastructure Mandate**

Matt Woodman, Hymans Robertson reported on the second RI engagement meeting with JP Morgan on its infrastructure mandate.

JP Morgan was targeting 42% of AUM to be net zero by 2030 and progress had been made against interim targets. They had achieved FRC Stewardship Code signatory status in the last 12 months and made further enhancements to their ESG scorecard. While this had been a little slow to bed in, improvement had been demonstrated. Their presentation had been judged too generic and this would be addressed at future meetings.

In response to questions, it was reported that JP Morgan was disinvesting from Southern Water following sewage leaks as they did not believe Southern Water was fully committed to correcting the problems that had contributed to leaks.

Overall, it was reported that Officers & Advisers were satisfied with progress.

Resolved:

The Committee noted:

- the next steps arising from the engagement meeting; and
- the content of the report.

b. IFM Investors (IFM) – Infrastructure Mandate

IFM had also been included in the second round of meetings.

IFM had set 2050 net zero targets and interim expectations. Emissions reductions were being closely tracked and were generally on target. 90% of the portfolio (20-30 companies representing c 100 underlying businesses) now had targets set, compared with 50% at the last engagement meeting. Timeliness and quality of emissions data remained an issue across the industry, but IFM had demonstrated that they were taking it very seriously. John Dickson noted the potential to use IFM's positive progress to apply "competitive tension" to their competitor, JP Morgan.

On the subject of water companies, IFM invested in SouthWest Water. Unlike Southern Water, SouthWest Water had shown that they were taking the risk of leaks seriously and were committed to resolving the issues. Therefore, IFM had continued to invest and the investment aligned with their resource scarcity ambitions. This process exemplified effective engagement.

Overall, IFM had demonstrated good progress.

Resolved:

The Committee noted:

- the next steps arising from the engagement meeting; and
- the content of the report.

c. Partners Group: Global Property and Infrastructure Mandates

The final Manager in the second round of RI engagement meetings was Partners Group, covering both the global property and infrastructure mandates.

Since the previous meeting, Partners Group had achieved Stewardship Code signatory status. They had also implemented a new sustainability strategy, leading to a significant improvement in data and reporting. A key consideration for Members in the future would be to consider the balance between direct investment and indirect investment whereby the former, Partners Group would have greater influence in engagement.

Overall, the direction of travel was encouraging.

Resolved:

The Committee noted:

- the next steps arising from the engagement meeting; and
- the content of the report.

The Chairman noted that the Fund had agreed to expand its diversity priority from gender diversity to diversity, which would include ethnic diversity, and asked when this would be reflected in the reports. It was explained that gender diversity was easier to measure and that data on black and minority ethnic board membership

was starting to be monitored; this was the beginning of the journey.

10. Net Zero Journey Plan

John Dickson, Hymans Robertson presented the process being developed following the training day to develop a Net Zero Journey Plan which would form a substantial part of the 2024/25 RI Project Plan. It was noted that this was a dynamic and iterative process that would develop as opportunities and data evolved.

The first step would be to establish a baseline for carbon emissions reporting, identifying data gaps and the approach to data and engagement. Focus areas would then be created after which objectives and targets could be set, an implementation plan developed, and the net zero strategy documented in the Climate Transition Plan.

Progress had been made at a strategic, portfolio level through investment. However, at an asset level, significant work was required to assess how well-aligned mandates were with the Fund's ambitions and how to improve alignment where required. Specifically, the focus needed to be on mandates' pathway to net zero and how that would contribute to the Fund's overall pathway.

At present, the focus was on measuring Scope 3 and 4 emissions but there was not yet full data coverage. In the short term, the plan was to develop measurement of avoided emissions.

Four pillars had been identified:

1. **Portfolio emissions.** Action would include training on what is captured via different carbon emissions and refreshing carbon footprint analysis across equities, bonds and alternatives.
2. **Climate solutions and opportunities.** A consistent framework was required but this was not the highest priority. Action would include exploring how existing impact solutions fed into the Net Zero Journey Plan and discussing the introduction of climate related targets for specific impact mandates.
3. **Alignment.** This was the biggest gap with a need to set targets and map pathways on a mandate-by-mandate basis. Initial action would include undertaking net zero baselining analysis for listed assets and understanding current alignment relative to a 1.5 degree scenario.
4. **Engagement.** Once pillars 1 and 3 were mapped this would be the by-product, including discussion of alignment priorities and how to link them to engagement activity, and reviewing net zero engagement specifics.

In the 2024 action plan, each pillar would be tackled in succeeding quarters but the sequence of pillars 2 and 3 had been flipped as more work was required on pillar 3.

Resolved:

The Committee:

- **agreed** the next steps and Net Zero Action Plan outlined in the report; and
- noted the content of the report.

11. Strategic Implementation Framework – Pillar 3 – Exploring changes to existing or new mandates**a. UK Property Mandate Review – Introduction from Hymans Robertson**

Matt Woodman, Hymans Robertson, delivered a Bitesize Training introductory presentation on the UK Property Mandate Review.

Matt Woodman presented a chart of UK property returns since 1998 which showed that rental income had remained relatively stable, that rental growth was expected in the future and that yield shift (changing property values) was more volatile with values falling significantly in recent years.

Core property sectors included:

- **Office.** This sector faced challenges with increasing obsolescence of existing stock and the increase in working from home;
- **Industrial**, e.g. warehouses and logistics. Recently this had become more attractive;
- **Retail**, where price entrenchment had been seen but there were still opportunities; and
- **Other.** This encompassed “alternative” types of real estate such as residential, medical facilities, hotels, student accommodation and data centres and was a growing – and potentially more stable – segment of the core property sector.

The value of the UK market overall was estimated at £1 trillion, with about one-third of this in each of the office, retail and industrial sectors.

It was noted that recent price falls meant that yields had risen but that the yield premium was historically low relative to gilts and bonds – and that when initial yield and lending costs are close together, investment becomes less attractive.

Returns are generated in a variety of ways:

- Core, where property is already rented and thereby generating a profit.
- Core + , i.e. repurposing a property by refurbishing or attracting new tenants.
- Value add, for example, changing the whole use of a building, with the potential to increase returns significantly but at higher risk.

Inherent risks included, among others, illiquidity, high transaction costs and voids.

The ISC was reminded that it had agreed at its June meeting to terminate Aviva UK who were currently managing the property mandate on a care and maintenance

basis. In addition, at the October ISC an 'in principle' decision was agreed to appoint CBRE, the ACCESS preferred UK core property manager as Aviva's replacement. It was also agreed at the October meeting to invite CBRE to present to the ISC. It was noted that Hymans Robertson's view was that CBRE was a well-established, high-quality manager with good ESG and sustainability credentials and whose proposals for the Essex portfolio made a lot of sense.

Resolved:

The Committee noted the introductory presentation.

b. Manager Presentation

The Committee received a presentation from Hannah Marshall, CIO UK Direct, and Chris Tucker, Fund Manager, representing CBRE, ACCESS's UK Core Property Manager, covering:

- the proposed Fund Manager team;
- CBRE's experience in the property space;
- the strategic approach they would apply to the Fund's portfolio;
- the target portfolio and current observations; and
- sustainability.

The Chairman thanked CBRE for their presentation.

Resolved:

The Committee noted the presentation.

Once the CBRE representatives left the meeting, Members **agreed:**

- to ratify the ISC's October decision to appoint CBRE as the Fund's replacement manager for the UK Core Property Mandate; and
- to delegate the details of the Investment Management Agreement and transition to O&A.

The meeting adjourned for lunch at 12:38 pm and resumed at 1:05 pm.

12. Strategic Implementation Framework – Pillar 3 – Exploring changes to existing or new mandates

a. Impact Investing Property – Introduction from Hymans Robertson

John Dickson, Hymans Robertson, delivered a Bitesize Training introductory presentation on Impact Investing in the property space.

He explained that there are two main routes to impact: impact investing – creating impact by investing in one company rather than another; and stewardship – using your influence as a stakeholder to achieve impact.

The Framework for assessing impact is “AIM”:

- Additionality – would the impact have happened anyway or is the action creating the impact?;
- Intentionality – the impact can't be an accidental by-product; and
- Measurability – Managers should be able to quantify and report on impact.

In the real estate space, the Strategic Framework entailed:

- establishing beliefs;
- setting objectives;
- assessing options; and
- implementation, which, for EPF, could be achieved in tandem with ACCESS.

Impact could be created in a number of themes (topic/cause areas). In real estate, the most established themes were tackling homelessness and affordability but as investment is already being made to address these concerns, the additionality criterion would not be met. Other themes to explore, therefore, might include health and well-being (e.g. quality of space and access to healthy lifestyles, leading to increased productivity).

20% of UK carbon emissions were from property and it was estimated that 90% of properties will fail to meet the 2030 regulations. It was noted that businesses are increasingly reluctant to lease a facility that would not comply with the 2030 environmental regulations unless there was a firm commitment to comply – and a programme of improvement with a tenant *in situ* would potentially be hugely disruptive to the tenant's business. It could be seen, therefore, that there would be lots of demand for a few compliant buildings and rent on those compliant buildings would be at a premium. There was potential, then, to look for non-compliant property and invest to create impact. This applied particularly to office space but there was also scope in industrial facilities. Some examples were shared.

It was noted that Orchard Street had been invited to present a training session to the Committee on how impact solutions worked in practice in real estate. This would help to define the brief to Apex, ACCESS's illiquid implementation adviser.

Resolved:

The Committee noted the introduction.

b. Manager Presentation

The ISC received a presentation from Barney Rowe, Partner and Portfolio Manager, and Sarah O'Connell, Associate Partner and Assistant Portfolio Manager, representing Orchard Street, a leading commercial property investment manager focused on the UK market and in particular how impact can be achieved.

The presentation included:

- why should real estate investors deliver Impact?
- why now?

- a best practice Impact Framework for real estate;
- an integrated investment and Impact screening process;
- case studies; and
- indicative Fund-level capital flows.

Resolved:

The Committee noted the presentation.

13. Strategic Implementation Framework – Pillar 1 – Implementing and maintaining strategic targets
Investment Grade Credit Review

John Dickson, Hymans Robertson reminded the Committee that, as part of the Strategic Review, it had agreed an initial allocation of 5% of assets to a credit mandate (with scope to go further later if appropriate). At the previous meeting, three potentially suitable strategies within the ACCESS pool had been identified: one had been eliminated at an early stage as not meeting the Fund's criteria, and the Committee had requested that Hyman's undertake further due diligence on the remaining two strategies.

It was explained that the difference between the two strategies was marginal, but there was enough clear water between them not to split the allocation. The deciding factors were:

- concentration risk – one manager already managed over 12% of assets for the Fund including a 5.5% allocation to a bond mandate; and
- fees – one manager was offering the strategy at a very competitive manager fee rate.

Resolved:

The Committee **agreed:**

- to invest 5% of the Fund (c £500m) to Fidelity's Sterling Investment Grade Credit Fund and this be funded by trimming the equity mandate allocations back to target;
- the implementation be delegated to Officers in consultation with Advisers; and
- the content of the report be noted.

The Chairman asked the Fund's Advisers to leave the room for the next item.

14. Independent Investment Adviser (IIA) Arrangements and Review

The Director for Essex Pension Fund explained that a review of Adviser arrangements had revealed that, partly as a result of the need to extend External Adviser contracts during the pandemic, a number of third-party contracts would be expiring at the same time. The need to procure a number of contracts

simultaneously would not only put significant pressure on Officers but would also mean if the IIA contract was extended by a further two years the Fund would be reprocurring the IIA at around the same time as reprocurring the Institutional Investment Consultant contract (expiring in early 2026).

The IIA's contract was due to expire in December 2023. It was therefore proposed that the incumbent IIA be offered a 12-month contract extension at this time to ensure continuity and that the IIA will be in place for a period of time before the Fund was required to reprocur the IIC.

Resolved:

The Committee **agreed:**

- to offer a 12-month extension to the current IIA contract;
- the proposed formal tender process to be commenced in the event that the current IIA declines the offer of a 12-month extension including the establishment of an Appointment Sub Committee; and
- noted the content of the report.

15. Urgent Exempt Business

The Director for Essex Pension Fund updated Members on the outcome of the recent Government Consultation on the next steps of Pooling.

It was noted that the Fund's submission had been sent on 02 October 2023 following the ISC approval and that the Government had on 22 November issued their response - a very rapid turnaround - indicating its expectation that:

- **all** investments (not just liquid investments as per the original Consultation) should be pooled by 2025;
- an aspiration of up to 10% of assets should be invested in Private Equity and 5% in Levelling Up;
- Funds would need to comply or be prepared to explain their approach; and
- significant additional annual reporting would be required.

The Government's Consultation response had coincided with the Autumn Statement, also issued on 22 November.

Within the Autumn Statement it was predicted that the LGPS would be valued at over £900bn by 2040. Future pools were therefore expected to have a value of £200bn which strongly implied Pool mergers in the future.

It was noted that Officers were currently working through the implications of the Consultation.

There being no further business, the meeting closed at 3.03 pm.

Chairman
28 February 2024

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