

**Minutes of the Meeting of the Essex Pension Fund Investment Steering Committee (ISC), held in Committee Room 2 at 12:45pm on 14 June 2023****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 D King	
Cllr C Souter	

**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.

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
Sara Maxey	Head of Actuarial and Funding
Daniel Chessell	Head of Fund Administration and Operations
Amanda Crawford	Head of Fund Compliance and Governance
Suzanne Sinclair	Compliance Analyst
Senita Kaur	Compliance Analyst (Observer)
Mark Stevens	Independent Investment Adviser (IIA)
John Dickson	Hymans Robertson
Matt Woodman	Hymans Robertson
Samuel Hampton	Hymans Robertson

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

Christopher Downes	Scheme Member Representative
James Durrant	Employer representative

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.

As no members of the public had indicated their intention to observe the meeting and the morning meeting had ended early, Members agreed to commence the meeting at 12:45pm, ahead of the scheduled 1:30pm start.

### **Apologies for Absence**

It was noted that Cllr M Hoy and Substitute Member Cllr Mackrory had sent their apologies, along with PSB Members Cllr George and Rachel Hadley and PAB Members Nicola Mark, Andrew Coburn, Debs Hurst and Stuart Roberts.

### **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 Platt declared that he is a Deputy Cabinet Member and is a Member of 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 that he is the Chairman of the Audit, Governance and Standards Committee;

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

Sandra Child declared that she is in receipt of an Essex LGPS Pension.

### **Resolved:**

The Committee noted the report.

## **2. Investment Strategy Statement (ISS)**

The Committee received a report from the Head of Fund Investments who reminded Members that the Fund is required to maintain an Investment Strategy Statement (ISS) setting out its principles for governing the Fund's assets and review it at least every three years. The last review had been undertaken in 2020.

The proposed revised ISS included the following key changes:

- implementation of the Fund's de-risking programme, reducing its allocation from equities to more income generating alternatives with the medium-term aim of targeting 50% allocation to equities;
- implementation of the Fund's Responsible Investment (RI) policy, in particular reviewing each of the Fund's investment mandates against its RI policy;
- as a result, switching £2.5bn in index tracking equities, traditional market capitalisation indexes and RAFI to a new Environmental, Social and Governance (ESG) sustainable and a low carbon RAFI fund;
- agreement to invest £1bn of the Fund's "alternative bucket" allocation in "impact solutions", including £100m anchor commitment to Stafford Carbon Offset Opportunity Fund;
- termination of two active equity managers and an active bond manager;
- appointment of two active emerging markets and a replacement active bond manager;
- appointment of an additional direct lending manager;
- implementation of the Fund's Investment Engagement Strategy, including a programme of manager RI engagement meetings with outcomes reported to the ISC using an Engagement Log;
- following a baseline assessment of the 2021 portfolio, amendment of the Fund's climate metrics;
- refinements to the RI priorities;
- adoption of the Investment Strategy Decision-Making Framework; and
- achieving and maintaining signatory to the Financial Report Council's Stewardship Code.

The Committee commended Officers on a very readable Strategy.

It was also explained to Members that the Strategy reflected the position as at June 2023 and any changes to the investment portfolio agreed at the mornings meeting would not be reflected in this iteration of the ISS.

The Head of Fund Investments explained that Officers intended to promote the Strategy through new communication routes with the aim of increasing participation rates and engaging a broader range of stakeholders during the consultation process.

**Resolved:**

The Committee **agreed:**

- the draft ISS;
- that the draft ISS be circulated to stakeholders for consultation;
- that the ISS be passed to the PAB to note; and
- the outcome of the stakeholder consultation be brought back to the next meeting of the ISC on 11 October 2023.

### 3. Responsible Investment (RI) Project Plan Update

The Head of Fund Investments provided the Committee with an update on the final position of the 2022/23 RI Project Plan along with the proposed 2023/24 RI Project Plan.

It was noted that all the tasks in the 2022/23 RI Project Plan had been completed. Most notably, following the ISC's approval via the Out of Committee Decision Making Process, the Fund's Financial Reporting Council's (FRC's) Stewardship Code submission was made on 30 May 2023, ahead of the deadline of 31 May 2023. The outcome was not expected until the end of the summer.

Members also noted the 2023/24 RI Project Plan which would result in another busy year for the ISC.

**Resolved:**

The Committee **agreed** the Fund's 2023/24 RI Project Plan and noted:

- the final position in regard to progress against the Fund's 2022/23 RI Project Plan; and
- the content of the report.

### 4. Schedule of Future Meetings and Events

Members were reminded of the agreed schedule of future meetings and were made aware of the forthcoming Local Government Chronicle (LGC) Investments and Pensions Summit on Wednesday 06 and Thursday 07 September 2023.

The Head of Fund Compliance and Governance asked Members to notify the team by Friday 16 June 2023 if they wished to attend the summit.

Members were also advised that no refunds would be issued if a cancellation were to be made.

A date for the September 2023 RI Workshop would be agreed in due course.

**Resolved:**

The Committee noted the content of the report.

### 5. 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.

## **6. Annual Investment Manager Monitoring**

### **6a. Investment Monitoring Report for year ended 31 March 2023**

The Committee received a report from Matt Woodman, Hymans Robertson, providing an overview of each of the Fund's investment manager mandates and performance over the last twelve months.

Key highlights as at 31 March 2023 included:

- the Fund's assets totalled £9.666bn, a small increase of £102m from the same period a year ago;
- the Fund's 12-month performance was 1.1% above its benchmark, with the three years outperforming by 2.2%;
- three of the Fund's investment managers rated as "negative" by Hyman's Robertson in the previous year mandates were terminated during the year and all investment managers were now rated "green".

Analysis of the year's market conditions showed that performance in equities was broadly flat to negative, index-linked gilts were negative (reflecting interest rate increases) and property was also negative. As these are all asset classes the Fund invested in, the overall positive returns represented a significant achievement in what were difficult market conditions.

Individual managers' performance was reviewed with most performing well, supporting the Fund's diversification strategy. The Fund was now well-placed to rotate into higher-yielding investments.

### **Resolved:**

The Committee noted the content of the report.

### **6b. Investment Scorecard Performance for year ended 31 March 2023**

The Head of Fund Investment presented the Investment Scorecard for the year ended 31 March 2023.

Members were reminded that the Investment Scorecard had been introduced three years previously to monitor thirty-four measures associated with the Fund's three Investment Objectives and to help the Fund assess whether it was on track to achieve these Objectives. The report compared performance for the year ended 31 March 2023 with the previous year.

It was noted that:

- thirty-one measures were rated green (compared with thirty-two as at 31 March 2022);
- one was rated amber (compared with 0 as at 31 March 2022);
- one was rated red (0 as at 31 March 2022; and
- one was not applicable (2 as at 31 March 2022).

The measure rated not applicable was around legislative changes. It was noted that the expected consultation around pooling had yet to be issued.

The red measure related to the annual management costs incurred by the Fund versus LGPS peers as measured by CEM benchmarking for the year ended 31 March 2022. In summary, due to strong performance in alternative asset classes, performance hurdles had been met resulting in significant performance-related fees for the year which had driven up investments costs over the assessment year.

**Resolved:**

The Committee noted the content of the report.

**6c. CEM Benchmarking: Value for Money (VfM) Review**

The Committee received a report from Mark Stevens, Independent Investment Adviser in regard to the CEM Benchmarking Value for Money review.

It was explained that CEM was a Canadian analytical company with \$4 trillion worth of clients which had conducted an independent review comparing fees paid by the Fund, investment returns and the net value added with its peers in the LGPS and the wider pensions marketplace. This was the eighth consecutive year that the Fund had participated in the CEM benchmarking exercise and the report related to figures from the financial year ending 31 March 2022.

It was noted that the Fund had achieved an eight-year net return of 10.2%, above the LGPS median of 8.8% and paid a lower-than-average fee for the asset classes it held while achieving a positive net added value – a good result on both counts. The cumulative eight-year added value, it was noted, had benefited the Fund by £896.3m.

On the VfM chart included in the report, the 1 year's Fund's 2022 performance placed it in the positive value added/high-cost quadrant. It was noted that the outcome was driven by investment manager costs increasing significantly for the year, £76m compared with £58m in the previous year because the Fund had paid substantial performance fees. It was explained that alternative assets are more

costly, especially with performance fees embedded. It was highlighted that this trend was likely to continue given the direction of travel the Fund was going with its investment strategy.

**Resolved:**

The Committee **agreed** that:

- CEM undertake a cost benchmarking review as at 31 March 2023; and
- the content of the report be noted.

**7. Investment Manager Monitoring – Responsible Investment (RI) Engagement Reports**

**7a. Emerging Market Active Equity Manager Engagement Summary**

Matt Woodman, Hymans Robertson reported on the outcome of the latest round of engagement meetings under the Fund's Investment Engagement Strategy with the Fund's prospective emerging market equity managers, Columbia Threadneedle Investments (CTI), launching in July, and Robeco, launching mid-August, to replace the outgoing mandate previously managed by Stewart Investors.

The pre-engagement meetings had been scheduled with both managers to allow Officer & Advisers (O&A) to gain a greater insight in how they embed Environments, Social and Governance (ESG) factors and climate risk into their processes and to assess the baseline position in advance of the launch.

It was reported that one of the managers was especially impressive and were able to demonstrate that they were best in class. No concerns were identified and the O&A were keen to see how the process evolved.

It was confirmed that both managers had shown themselves very willing to report on the measures required by the Fund and to engage fully, demonstrating that they take RI and engagement seriously and that it was very much a firm-wide priority for both.

**Resolved:**

The Committee noted:

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

**7b. ACCESS**

Matt Woodman, Hymans Robertson updated the Committee on the first engagement meeting with the ACCESS Support Unit (ASU).

The O&A had met with the ASU to better understand its approach to embedding RI, the direction of travel and how these aligned with the Fund's approach. It was noted that collectively O&A came away with a better understanding of the roles and responsibilities of different entities within the ACCESS pool.

No specific concerns had been identified. It was noted that the ASU had a small

team and that its approach to RI was developing. A RI Adviser was in the process of being procured to undertake Phase II of ACCESS's work deliverables and ACCESS was at the start of the process, having issued RI guidelines and begun exploring Key Performance Indicators (KPIs).

O&A would continue to monitor and follow up areas identified in the Engagement Log, in particular around the delivery of universal reporting in line with ACCESS's RI guidelines.

**Resolved:**

The Committee noted:

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

## **8. Summary of Decisions**

John Dickson, Hymans Robertson summarised the decisions made at the morning and afternoon ISC meetings:

### **Pillar 1 – Implementing and maintaining existing strategic targets**

Key outcomes of the Strategic Review:

- the current plan still makes investment sense and there was scope to move to the lower end of the current target equity range (40%) without compromising achievement of the Fund's objectives and with a lower risk of a deficit re-emerging; and
- there was scope to go beyond the current plans based purely on a risk and return assessment but there are practical reasons to hold off, including allowing time to implement current plans and the potential impact on the liability discount rate.

Agreed actions:

- maintain the current course of a 50% equity target and building the alternative allocations to target; and
- plot details of the next steps for the October ISC meeting, including the proposed structure of the increase to bond portfolios and the implications for the equity portfolio structure as the allocation reduces.

Explore potential further steps and their implications, around:

- RI approach; and
- liability discount rate and future service cost.

### **Pillar 3 – Exploring changes to existing or new mandates**

UK Property mandate review:

- it was agreed to review the next stage around the UK Property mandate.



Partners Group impact allocation:

- commit to the LIFE II fund as part of the Fund's impact investment ambitions;
- increase the proposed commitment to the fund to £100m;
- aim to complete documentation before 31 August 2023 to benefit from an early bird fees discount.

**Other actions:**

- agreed to circulate the draft ISS to stakeholders for consultation, including the PAB;
- agreed the 2023/24 RI project plan; and
- agreed to participate in the CEM cost benchmarking review as at March 2023.

**Resolved:**

The Committee noted the summary of decisions made at the morning and afternoon meetings.

**9. Structural Reform of the Local Government Pension Scheme – Pooling Quarterly update of ACCESS Joint Committee (AJC)**

The Director of Essex Pension Fund reported on the two meetings of the AJC since the last ISC meeting.

At the meeting on 07 March 2023 the following key activities had been progressed:

- CBRE had been awarded both ACCESS's UK Core and Global Property mandates;
- to work towards a Stewardship Code submission;
- approval for ACCESS to become a pool member of the Local Authority Pension Fund Forum (LAPFF), noting the Fund was already a member in its own right;
- developments around the sale of Link Fund Solutions (Link); and
- the appointment of Barnet Waddingham to undertake an independent third-party review.

A verbal update was provided in regard to the 05 June 2023 meeting.

**Resolved:**

The Committee **agreed:**

- the RI Guidelines for ACCESS be formally adopted; and
- Officers enact the Deed of Novation in regard to Link's Operator contract.

The Committee also noted the items listed under section 2.2 of the report.

**10. Urgent Exempt Business**

There being none, the meeting closed at 1.50pm.

**Chairman**  
**11 October 2023**

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