



Essex County Council

Essex Pension Fund Investment Steering Committee

10:00	Wednesday, 21 October 2020	Online Meeting,
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The meeting will be open to the public via telephone or online. Details about this are on the next page. Please do not attend County Hall as no one connected with this meeting will be present.

For information about the meeting please ask for:

Amanda Crawford, Compliance Manager

Telephone: 03330 321763

Email: Amanda.crawford@essex.gov.uk

Essex County Council and Committees Information

All Council and Committee Meetings are held in public unless the business is exempt in accordance with the requirements of the Local Government Act 1972.

In accordance with the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020, this meeting will be held via online video conferencing.

Members of the public will be able to view and listen to any items on the agenda unless the Committee has resolved to exclude the press and public from the meeting as a result of the likely disclosure of exempt information as defined by Schedule 12A to the Local Government Act 1972.

How to take part in/watch the meeting:

Participants: (Officers and Members) will have received a personal email with their login details for the meeting. Contact the Compliance Team if you have not received your login.

Members of the public:

Online:

You will need the Zoom app which is available from your app store or from www.zoom.us. The details you need to join the meeting will be published as a Meeting Document, on the Meeting Details page of the Council's website (scroll to the bottom of the page) at least two days prior to the meeting date. The document will be called "Public Access Details".

By phone

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Please note that an audio recording may be made of the meeting – at the start of the meeting the Chairman will confirm if all or part of the meeting is being recorded.

		Pages
1	Membership, Apologies and Declarations of Interest To note the content of the report	7 - 8
2	Minutes of ISC Meeting 21 July 2020 To approve as a correct record the minutes of the Committee meeting held on 21 July 2020	9 - 18
3	Capital Markets Briefing: September highlights To receive an update from Hymans Robertson	19 - 24

- | | | |
|----------|---|----------------|
| 4 | Investment Strategy Statement (ISS) - Outcome of the Stakeholder Consultation
To consider a joint report from the Interim Director for Essex Pension Fund and Investment Manager in consultation with Hymans Robertson and the Independent Investment Adviser | 25 - 66 |
| 5 | Financial Reporting Council (FRC) UK Stewardship Code 2020
To consider a report from the Independent Investment Adviser in consultation with the Interim Director for Essex Pension Fund, Investment Manager and Hymans Robertson | 67 - 82 |
| 6 | Schedule of Future Meetings and Events
To note the future meeting and event dates and consider future events | 83 - 86 |
| 7 | Urgent Business
To consider any matter which in the opinion of the Chairman should be considered in public by reason of special circumstances (to be specified) as a matter of urgency. | |

Exempt Items

(During consideration of these items the meeting is not likely to be open to the press and public)

The following items of business have not been published on the grounds that they involve the likely disclosure of exempt information falling within Part I of Schedule 12A of the Local Government Act 1972. Members are asked to consider whether or not the press and public should be excluded during the consideration of these items. If so it will be necessary for the meeting to pass a formal resolution:

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.

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| 8 | Property Review |
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- 8a Update on Investment Managers Presenting - ISC Briefing Note - Property**
- Information relating to the financial or business affairs of any particular person (including the authority holding that information);
- 8b Manager Presentation - Aviva**
- Information relating to the financial or business affairs of any particular person (including the authority holding that information);
- 9 Structural Reform of LGPS Pooling**
- 9a ACCESS Support Unit Presentation**
- Information relating to the financial or business affairs of any particular person (including the authority holding that information);
- 9b Structural Reform of LGPS Pooling Quarterly Joint Committee Update of ACCESS Joint Committee (AJC)**
- Information relating to the financial or business affairs of any particular person (including the authority holding that information);
- 10 Investment Strategy Update**
- 10a Direct Lending Allocation**
- Information relating to the financial or business affairs of any particular person (including the authority holding that information);
- 10b Baillie Gifford Equity Portfolio Rebalancing**
- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

- 10c Investment Strategy Update: Strategy Implementation Tracker**
- Information relating to the financial or business affairs of any particular person (including the authority holding that information);
- 11 Quarterly Investment Manager Monitoring**
- 11a Quarterly Investment Manager Monitoring – Investment Scorecard Measures Review**
- Information relating to the financial or business affairs of any particular person (including the authority holding that information);
- 11b Quarterly Investment Manager Monitoring - Traffic Light Rating Report**
- Information relating to the financial or business affairs of any particular person (including the authority holding that information);
- 11c Investment Tables: Quarter ended 30 June 2020**
- Information relating to the financial or business affairs of any particular person (including the authority holding that information);
- 12 Independent Investment Adviser (IIA) Arrangements Update**
- Information relating to the financial or business affairs of any particular person (including the authority holding that information);
- 13 Urgent Exempt Business**
- To consider in private any other matter which in the opinion of the Chairman should be considered by reason of special circumstances (to be specified) as a matter of urgency.

Essex Pension Fund Investment Steering Committee	ISC 01
Date: 21 October 2020	

Essex Pension Fund Investment Steering Committee Membership, Apologies and Declarations of Interest

Report by the Compliance Manager

Enquiries to Amanda Crawford on 03330 321763

1. Purpose of the Report

- 1.1 To present Membership, Apologies and Declarations of Interest for the 21 October 2020 ISC.

2. Recommendation

- 2.1 That the Committee should note:

- Membership as shown opposite;
- Apologies and substitutions;
- The update in the Conservative Substitute Member representatives; and
- Declarations of Interest to be made by Members in accordance with the Members' Code of Conduct and the Essex Pension Fund's Conflict of Interest Policy.

3. Membership

(Quorum: 4)

6 Conservative Group: 1 Labour Group

Membership	Representing
Councillor S Barker	Essex County Council (Chairman)
Councillor M Platt	Essex County Council (Vice Chairman)
Councillor A Goggin	Essex County Council
Councillor A Hedley	Essex County Council
Councillor M Maddocks*	Essex County Council
Councillor L Scordis	Essex County Council
Councillor C Souter	Essex County Council

Observers

Councillor C Riley	Castle Point Borough Council
Sandra Child	Scheme Members

4. Update to Substitute Membership Arrangements

- 4.1 As reported at the last meeting of the ISC on 21 July 2020, Councillor Mark Durham and Councillor Bob Massey had been appointed as the new Conservative Group substitutes for the Essex Pension Fund Strategy Board and Investment Steering Committee. However, during August 2020, the Fund was subsequently notified of the withdrawal of Councillor Bob Massey in his role as substitute.
- 4.2 Cllr Allan Davies is unaffected by this change and continues in his role as Labour Group substitute.

**Non-Aligned Group have indicated that they do not wish to take their place on this Committee, so it is for the Council to decide the allocation. The Conservative Group, as the majority Group, have indicated that they wish to take the vacancy.*

Minutes of the Meeting of the Essex Pension Fund Investment Steering Committee (ISC), held as an online video conference on 21 July 2020**1. Membership, Apologies and Declarations of Interest**

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

Membership**Present:****Essex County Council**

Cllr S Barker	(Chairman)
Cllr M Platt	(Vice Chairman)
Cllr A Goggin	
Cllr A Hedley	
Cllr M Maddocks	
Cllr L Scordis	
Cllr C Souter	

Scheme Member Representative

Sandra Child (UNISON) (Observer)

The following Officers and Advisers were also present in support:

Jody Evans	Interim Director for Essex Pension Fund
Samantha Andrews	Investment Manager
Amanda Crawford	Compliance Manager
Helen Pennock	Compliance Analyst
Marcia Wong	Compliance Officer
Mark Stevens	Independent Investment Adviser
John Dickson	Hymans Robertson
Matt Woodman	Hymans Robertson

Dawn Butler (ACCESS Support Unit (ASU)) also attended Part I of the meeting to facilitate with the technical elements of running the virtual meeting.

The following Conservative Group substitutes were present as Observers of the meeting:

Cllr M Durham	Essex County Council
Cllr B Massey	Essex County Council

The following Pension Strategy Board (PSB) Member was present as an Observer of the meeting:

Rachel Hadley	Other Employing Bodies Representative
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The following Essex Pension Fund Advisory Board (PAB) Members were present as Observers of the meeting:

Andrew Coburn	Scheme Member Representative UNISON
James Durrant	Other Employer Representative
Debs Hurst	Scheme Member Representative (left at 2.55pm)
James Sheehy	Scheme Member Representative (Part I only)

The following Investment Managers presented at the meeting:

Ana Lei Ortiz	Hamilton Lane
Ewan Boosey	Hamilton Lane

Members noted that the meeting would be recorded to assist with the minutes for the meeting.

Opening Remarks

The Chairman welcomed the Committee and Observers to the meeting and took the opportunity, it being the first meeting of the ISC to be held virtually, to outline to Members the protocol on how the meeting be conducted.

The Chairman took a moment to pay tribute to her former predecessor, Rodney Bass OBE, who before his retirement in May 2017 serviced 20 years as a Member of the ISC, 16 years as Chairman, who sadly passed away on 14 July 2020.

Apologies for Absence

It was noted that Cllr C Riley, Scheme Employer Observer representative was unable to attend the meeting. In addition, PSB Member Cllr M Dent and PAB Member Cllr S Walsh also sent their apologies.

Declarations of Interest

Declarations were received from:

Cllr S Barker who stated she was in receipt of an Essex LGPS pension and that her son was also a member of the Essex LGPS pension scheme. Cllr S Barker also declared she is an ECC Cabinet Member and sits on the Foreign Travel Committee;

Cllr M Platt declared that he is the Deputy Cabinet Member for Environment & Climate Change Action;

Cllr A Goggin stated that his wife, sister and brother-in-law were in receipt of an Essex LGPS pension;

Cllr A Hedley declared that he was in receipt of an Aviva Group Pension; and

Cllr M Maddocks and Sandra Child declared they were in receipt of an Essex LGPS pension.

It was also noted that Cllr A Hedley had recently been appointed the Chairman and Cllr M Platt, the Vice Chairman of the Audit, Governance and Standards Committee respectively.

Resolved:

The Committee noted the report.

2. Confirmation of the Annual Arrangements for the Appointment of the Chairman and Vice Chairman of the Essex Pension Fund and Terms of Reference

The Committee received a report from the Compliance Manager in regard to the annual arrangements of the appointment of the Chairman and Vice Chairman of the Essex Pension Fund.

It was noted that each year at the Annual Meeting of Essex County Council the Chairman appointments are confirmed for the forthcoming municipal year. These appointments are then reaffirmed at the respective meetings.

The Chairman informed the Committee that due to the circumstances surrounding Covid-19 the Annual Meeting of Essex County Council scheduled to take place in May had been deferred, as such the existing Chairman and Vice Chairman arrangements would remain in place until such time that the Annual Meeting could be held.

Resolved:

The Committee noted:

- the continuation of the Chairman and Vice Chairman current arrangements; and
- the ISC Terms of Reference as set out in Appendix A of the report.

3. Minutes of ISC meeting 19 February 2020

Minutes of the meeting of the ISC held on 19 February 2020 were approved as a correct record and signed by the Chairman.

4. Treasury Management Strategy 2020/21

The Investment Manager apologised to the Committee for the size of the agenda pack, but explained that Officers felt there was merit in providing Members with both a tracked and clean version of the Treasury Management Strategy and the Investment Strategy Statement (ISS) (agenda item 5).

The Committee were provided with an overview of the Treasury Management Strategy and were reminded as part of the Terms of Reference it is reviewed and approved on an annual basis.

It was highlighted that the Pension Fund Treasury Management Strategy replicates to a large extent the Treasury Management Strategy approved by Essex County Council but had been adapted to reflect the separate governance arrangements of the Fund, cash managed internally by the Council's Treasury Management function and externally via the Fund's global custodian arrangements.

It was noted that in the main there was little change to the Strategy being proposed, with only minor updates made to the institutional lending list and forecasts. It was explained that Officers had, however, revisited Northern Trust and BNP Paribas Global Liquidity Funds lending limits that were originally set in March 2013 when the size of the Fund was in the region of £3.6bn. It was proposed that the limits, to reflect the growth in the Fund over recent years, be increased from £60m to £120m on an operational basis and from £130m to £200m on a temporary basis, to facilitate the redeployment of assets.

The Committee thanked the Investment Manager for her hard work in preparing the Treasury Management Strategy.

Resolved:

Following discussions, the Committee **agreed** that:

- a review be undertaken of the Treasury Management Practices and it be brought to a future meeting; and
- the 2020/21 Essex Pension Fund Treasury Management Strategy be approved.

5. Investment Strategy Statement (ISS)

The Committee were reminded of the process undertaken to date in regard to the review of the Investment Strategy Statement (ISS), including the review of the four main areas covered within it.

As background, following the outcome of the Asset Liability Study in 2017/18, the Committee agreed to a de-risking programme, whereby the Fund had aspirations to reduce the equity allocation from 60% to 45% to more income generated alternatives in a three-stage process. It was explained the medium-term programme was well underway and being steadily implemented.

This was followed by a full review of the Fund's Investment objectives, risks and Investment Manager benchmarks with the focus of attention over recent months the formulation of a Responsible Investment (RI) Policy, which Members subsequently agreed at the February Committee meeting.

It was explained since the last meeting the RI Policy had been shared with the Fund's Investment Managers to ascertain their initial thoughts. It was noted initial feedback has been very positive and it is not envisaged that the Funds RI Policy will be out of alignment.

It was explained that the work undertaken to date meant Officers and Advisers were now able to present the updated draft ISS for approval and releasing for consultation.

A brief summary of the key changes was provided. These included:

- the latest Actuarial Valuation Funding Position (as at 31 March 2019) and Funding Strategy;
- updated ISC Terms of Reference and Responsibilities (Appendix A);
- revised Investment Strategy and Strategic Allocation (Appendix C);
- revised presentation of Fund Manager Mandate Objectives (Appendix D);
- removal of the Risk Register (to be consistent with Funding Strategy Statement) (Appendix E);
- revised ESG section including:
 - the inclusion of the new RI Policy and RI Beliefs (New Appendix E);
 - ACCESS position on voting; and
- revised ACCESS Pooling position.

The Investment Manager thanked the Chairman and Vice Chairman for providing minor presentational amendments prior to the meeting and confirmed that the ISS would be updated accordingly before being released for stakeholder consultation.

The Vice Chairman thanked Officers for being able to bring the ISS to the meeting within such a short timeframe whilst working in an unprecedented environment.

It was recognised by the Committee that this was the beginning of a journey and over the forthcoming months with several in depth pieces of investment work being undertaken including: a review of all the Fund's Investment Managers ESG and Voting Policies; and exploratory work around the new UK Stewardship Code, that an exercise will need to be undertaken in regard to the level of resources required to complete this work.

Resolved:

The Committee noted:

- the requirement to produce and publish an ISS and the timetable, as highlighted in section 5 of the report;
- the initial feedback on the Fund's RI Policy and RI Priorities from the Fund's Investment Managers;
- the next steps detailed in Section 6 of the report; and
- the content of the report.

The Committee **agreed:**

- the draft ISS;
- that the draft ISS be circulated to stakeholders for consultation;
- that the ISS be passed to the Pension Advisory Board (PAB) to note;
- the outcome of the stakeholder consultation be brought back to the Committee at the next meeting;
- the Officers and Advisers undertake a review of Managers' ESG and voting policies, how these are aligned with the Fund's RI Policy and ascertain the

implications if any, for the Fund's investments and strategy and for the outcome to be brought back to a future meeting;

- that Officers and Advisers develop an Engagement Plan outlining how the Committee and Officers will engage with the Fund's Investment Managers on matters relating to RI and Good Stewardship to be brought back to a future meeting; and
- that an exploratory piece of work be undertaken in regard to the revised UK Stewardship Code released in 2020 to ascertain what this means for the Fund's Investment Managers and the Fund itself.

6. Urgent Part I Business

The Chairman requested that the Committee receive an update on McCloud following the recent publication by the Ministry of Housing, Communities and Local Government (MHCLG) of the consultation on proposals to address the McCloud Judgement. It was explained that several other consultations had been released on the same day including the £95k cap.

The Interim Director for Essex Pension Fund confirmed that responses to these consultations will be brought to the September PSB and a paper will follow outlining the estimated impact to the Fund and its ability to undertake the additional work required to meet its statutory duty.

The Chairman notified the Committee that the issue of Pension Fund resources had been raised with the S151 Officer.

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.

The Chairman informed that the meeting would reconvene at 1:45pm following a short adjournment.

The meeting was adjourned at 1:26pm.

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The Committee reconvened at 1:45pm.

Opening Remarks

The Chairman welcomed back the Committee and Observers.

The Chairman welcomed Rachel Hadley, the new PSB Other Employing Representative and Cllr Mark Durham and Cllr Bob Massey, the new Conservative Group substitutes who were observing their first ISC meeting.

7. Part Two Minutes of ISC meeting 19 February 2020

Part Two Minutes of the meeting of the ISC held on 19 February 2020 were approved as a correct record and signed by the Chairman.

8. Covid-19 Impact on Market Economies and the Fund

The Committee received a report and presentation from Hymans Robertson and Mark Stevens, the Independent Investment Adviser on a review undertaken of the impact on the Fund's investments following the recent market volatility relating to the Coronavirus pandemic.

John Dickson, Hymans Robertson provided an overview to the Committee of the economic impact since March and how markets and Government's around the world had reacted to the pandemic crisis.

It was explained that a deep dive review of the Fund's portfolio had been undertaken in conjunction with a review of the Fund's Investment Beliefs. It was noted that despite the unprecedented market volatility experienced since March the Fund had remained resilient, assisted by the derisking programme put in place over the last few years. Members were encouraged to hear that the Fund had since recovered back to near pre-Covid levels and that the path that the Fund is travelling continues to remain appropriate along with the Investment Beliefs.

It was highlighted as a result of the recent recovery, some of the Fund's mandates may be out of alignment with target and may need to be rebalanced. As such it was proposed that once June figures were available an exercise be undertaken in this regard and if required proposals be brought back for the Committee's attention ahead of the next ISC meeting.

Mark Stevens provided the Committee with his thoughts on the recent geo-political trends and explained going forward, where appropriate, further trend pieces will be brought to the Committee for discussion.

Resolved:

The Committee noted the content of the report.

Resolved:

The Committee agreed:

- to continue to implement the steady diversification strategy previously agreed;

- that following the release of the 30 June figures, the Officers and Advisers (O&A) bring recommendations to the ISC regarding any specific manager rebalancing;
- that the O&A undertake further investigation of the evolution of the property portfolio and bring a report summarising any recommendations to the ISC at a future meeting;
- to ratify the previous decision to make a further allocation to Direct Lending and delegate investigation of the implementation approach to the O&A with further recommendations to be brought to a future meeting;
- to consider separately (Agenda item 9 to this pack) proposals in regard to the rolling commitment to private equity; and
- to receive when appropriate, further reports on long-term market trends at future ISC meetings.

9. Update on Investment Managers presenting: ISC Briefing Note on Hamilton Lane

The Committee received a report from Hymans Robertson in relation to Hamilton Lane, the Fund's Private Equity manager.

Resolved:

The Committee noted the content of the report.

10. Investment Manager Presentation on Private Equity – Hamilton Lane

The Chairman welcomed Ana Lei Ortiz and Ewan Boosey from Hamilton Lane who provided the Committee with a presentation in respect of Fund's Private Equity mandate.

Following the presentation, the Chairman expressed her appreciation on behalf of the Committee to Ana and her team for producing the recent training webinar which Members found most informative.

Resolved:

The Committee noted the presentation.

Resolved:

Following discussions, the Committee **agreed** a further £50m to be committed to new private equity opportunities in 2020/2021 with an additional 'in principle' decision to allocate a further £10m should further attractive opportunities be identified during the year.

11. Review of the Fund's Management Fees paid compared to Peers: Value for Money Review

The Committee received a report from Hymans Robertson 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 universe for the year to 31 March 2019.

Resolved:

The Committee noted the content of the report.

Resolved:

The Committee **agreed** that the Fund participate in CEM's cost benchmarking review as at 31 March 2020.

12. Structural Reform of LGPS - Pooling Quarterly update of ACCESS Joint Committee (AJC)

The Committee received an update from the Interim Director for Essex Pension Fund outlining the latest developments in respect of the structural reform of the LGPS.

It was explained that since the Agenda pack was issued a further AJC had taken place on 17 July 2020. An update on the main items of discussion of the meeting included: the quarterly Business Plan, Budget and Risk update; outcome of the recent Supreme Court Judgement and confirmation that an exploratory piece of work had commenced by ACCESS in regard to ESG and RI.

It was also noted the a further one-year extension had been agreed with Kent County Council to continue to carry out the role of AJC Secretariat.

Resolved:

The Committee noted:

- the revised timetable for completion of Phase 3 governance deliverables including the update in regard to the completion of the Inter Authority Agreement (IAA) process and the initial discussions in relation to the restructure of the Officer sub-groups;
- the outline for implementing ACCESS' approach to communication and the production of ACCESS' Annual Report;
- an update in respect of the launch of tranche 4a and 4b sub funds and the progress in regard to tranche 5a and 5b;
- the request to Link to undertake a search for an investment manager(s) to manage a balanced mandate;
- the performance of sub-funds against benchmark, income generated from stock lending and voting by the investment managers;
- the presentation from Link Fund Solutions;
- the contract and supplier relationship management update;
- the recent engagement with the Scheme Advisory Board (SAB), in particular the exchange of letters in relation to Scheme Member representation, the SAB Chairman meeting with Pool Joint Committee Chairmen and the ACCESS response to the recent SAB's consultation on draft Responsible Investment guidance;
- the update on progress made against 2019/20 Business Plan deliverables and Outturn;
- ACCESS Pool's key risks, the changes to risk profile and risk ratings;
- the update in respect of activities taken place thus far in regard to pooling alternative assets and forthcoming plans;

- the presentation from *bfinance*; and
- agenda of 9 March 2020 AJC.

13. Urgent Exempt Business

The Chairman requested the Committee liaise with the Compliance Manager in regard to disposing appropriately the confidential papers contained in today's Agenda pack.

14. Closing Remarks

There being no further business the meeting closed at 3:36pm

Chairman
21 October 2020

Essex Pension Fund Investment Steering Committee	ISC 03
Date: 21 October 2020	

Capital Markets Briefing: September highlights

Report by Hymans Robertson

Enquiries to Jody Evans on 0333 0138 489

1. Purpose of Report

1.1 To update the ISC on recent market conditions.

2. Recommendation

2.1 That the Committee should note the content of the report.

Market Brief

September's highlights

- Led by declines in big US tech stocks, global equity markets handed back at least some of their quarterly gains in September. Global credit spreads rose while UK gilt yields fell over the month and US treasury yields were little changed.
- A rapid resurgence of COVID-19 infections in Europe became increasingly apparent leading to a re-imposition of some localised lockdown restrictions.
- Oil prices fell close to 10% in September on fears of the impact on demand from renewed restrictions and Gold slipped back from record-highs with the dollar spot-price falling 3.4%.
- There was a meaningful move lower in Sterling in September, with a lack of progress in Brexit negotiations the most likely explanation. Meanwhile, the US dollar reversed some of its recent weakness amid a return of volatility and risk aversion.
- After having risen to 1.0% in July, headline UK CPI inflation fell to 0.2% in August, its lowest level since December 2015.
- Purchasing Managers Indices and high frequency data still point to continued recovery in Q3 but suggest its pace slowed towards the end of the quarter.

Q3 Update

Market Performance

UK	Q3 20*	Q2 20	Q1 20	GLOBAL	Q3 20*	Q2 20	Q1 20
EQUITIES	-2.9	10.2	-25.1	EQUITIES	7.0	18.4	-20.0
BONDS				North America	9.3	21.2	-19.6
Conventional gilts	-1.2	2.5	6.3	Europe ex UK	2.1	15.4	-20.9
Index-linked gilts	-2.2	10.3	1.6	Japan	4.8	11.8	-17.2
Credit	1.2	7.0	-3.4	Dev. Asia ex Japan	2.7	14.8	-20.6
PROPERTY**	0.3	-2.3	-1.4	Emerging Markets	8.7	17.6	-20.2
STERLING				GOVERNMENT BONDS	0.4	1.0	3.2
v US dollar	4.6	-0.4	-6.4	HEDGE FUNDS***	4.4	6.2	-9.0
v Euro	0.2	-2.7	-4.2	COMMODITIES	10.4	12.4	-25.6
v Japanese yen	2.3	-0.4	-7.0	Oil	-0.6	82.5	-65.9

Percentage returns in local currency (\$ for Gold and Oil). *All returns to 30/09/2020, apart from property (31/08/2020).

- Equity and credit markets rose in Q3 amid a post-lockdown rebound in economic activity, a better than expected earnings season, optimism over vaccine trials and declining COVID-19

infections in the US and Europe. However, political uncertainty, on both sides of the Atlantic, and a resurgence of COVID-19 infections saw markets slip back in September. Nonetheless, global equity markets produced strong positive total returns over the quarter while sovereign bond yields rose, and credit spreads moved well below end-June levels.

- GDP data will likely reveal record-breaking growth rates for many economies in Q3, following Q2's record-breaking declines. However, while high frequency data, such as travel and navigation app usage, point to a continued recovery in activity in the major advanced economies, they suggest the pace of improvement slowed markedly towards the end of Q3.
- Full-year forecasts for global GDP growth appear to have passed their nadir but most advanced economies are not expected to return to pre-pandemic levels of output for several years. September's Consensus Forecasts point to a 4.6% fall in global GDP in 2020 to be followed by a 5.0% expansion in 2021, largely owing to the secular momentum of the Chinese economy
- Composite Purchasing Managers' Indices, which combine manufacturing and services, signalled the recovery in global activity continued in September. Regional indices generally remained at levels consistent with month-on-month expansion, though did point to more moderate expansion in some regions. The labour market continues to improve in the US, albeit at a slower pace. While job markets had initially remained more resilient in Europe and the UK, job cuts are accelerating and may face further pressure as government support schemes are scaled back.
- Second waves of COVID-19 are increasingly evident and though mortality rates have fallen, this may simply reflect increased testing capturing milder and asymptomatic cases. Infection rates are rising rapidly in Europe, particularly in the UK, Spain and France, whilst other economies, such as Latin America and Southern Asia, are yet to see an end to their first wave. However, most countries appear keen to avoid the large-scale national lockdowns seen in the first two quarters.
- UK CPI inflation reached its lowest level since December 2015 in August, falling down to 0.2%, below flat expectations, having reached 1.0% in July. The main drivers behind this were the fall in restaurant and café prices following the government's 'Eat Out to Help Out' scheme. Lower air fares and clothing prices also put downward pressure on inflation over the month.
- The Fed's shift to "flexible" average inflation targeting likely means interest rate rises are even further away than previously envisaged. The Bank of England continues to send mixed messages on the potential use of negative interest rates, but an operational review is ongoing and market pricing, at least, suggests negative interest rates may be introduced 2021.
- US 10-year treasury yields were little changed, ending the quarter at 0.68% p.a. Equivalent UK yields rose 0.06% p.a. to 0.23% p.a. while German bund yields drifted 0.07% p.a. lower to -0.52% p.a. Equivalent Index-linked gilt yields edged below end-June levels resulting in a rise in 10-year implied inflation to 3.3% p.a.
- Despite rising towards the end of the quarter, global investment grade credit spreads fell from 1.6% p.a. to 1.4% p.a. and global speculative-grade spreads fell from 6.4% p.a. to 5.6% p.a.

Defaults continued to rise but have so far mostly been contained in the troubled US energy and retail sectors. Meanwhile, expectations for peak default rates eased over the quarter as supportive market conditions has allowed companies to raise new finance, bolstering their ability to navigate the downturn.


- The GBI-EM Traded Index returned 0.6% in dollar terms reflecting a marginal fall in yield which was partly offset by a fall in the in the major index currencies, in aggregate, versus the dollar. Hard currency debt returned 2.3%, primarily driven by a fall in spreads from 4.9% p.a. to 4.4% p.a., as treasury yields were little changed.
- Despite a return of volatility in September, global equity indices produced a total return of 7%. Even though US tech stocks were at the heart of recent declines, the US region once again out-performed and the UK was again a stand-out underperformer. Emerging markets also outperformed, helped by a strong rally in Chinese equities early on in the quarter.
- With regards the sectoral pattern of performance: with the exception of oil & gas and financials, cyclical stocks generally outperformed more defensive stocks. Technology once again outperformed, extending its large year-to-date lead at the top of the performance rankings while oil & gas massively underperformed, cementing its place at the bottom.
- Despite slipping back in September as trade talks faltered, sterling still partially reversed some of its losses of the first half of 2020, rising 1.7% in trade-weighted terms since the end of June. Even allowing for September's gains, the US dollar fell 2.8% in trade-weighted terms in Q3. The dollar's losses have mostly been against advanced economy currencies, unwinding the gains of March and April amid an easing of global risk aversion and narrowing interest rate differentials.
- The rolling 12-month performance of the MSCI UK Monthly Property Index continues to fall and is now -2.9% to the end of August. Capital values are, in aggregate, 7.9% lower over the same period This is predominantly due to a 18.9% fall in capital values in the retail sector over the last year, but values in the office and industrial sectors have also fallen 3.7% and 1.3%, respectively. Material uncertainty clauses were removed from the vast majority of the UK property market in September, reflecting valuers increased confidence in valuations amid increased transaction activity.

For and on behalf of Hymans Robertson LLP

Additional Notes

Risk Warnings

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.



This paper should be released or otherwise disclosed to any third party except as required by law or regulatory obligation or without our prior written consent. We accept no liability where the paper is used by, or released or otherwise disclosed to, a third party unless we have expressly accepted such liability in writing. Where this is permitted, the paper may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

Essex Pension Fund Investment Steering Committee	ISC 04
Date: 21 October 2020	

Investment Strategy Statement (ISS) – Outcome of the Stakeholder Consultation

Joint Report by the Interim Director for Essex Pension Fund and Investment Manager in consultation with Hymans Robertson and the Independent Investment Adviser, Mark Stevens

Enquiries to Samantha Andrews on 03330 138501

1. Purpose of the Report

- 1.1 To update the Committee on the outcome of the stakeholder consultation on the Fund's draft ISS.
- 1.2 To present an updated ISS for approval and publication.

2. Recommendation

- 2.1 It is recommended that the Committee **agree**:
 - the minor presentational changes made to the ISS, as detailed in section 6 to this report;
 - approve the updated ISS for publication as shown in Appendix A.
- 2.2 It is recommended that the Committee note:
 - that the ISS was passed to the Essex Pension Fund Advisory Board (PAB) for noting; and
 - the content of the report.

3. Background

- 3.1 The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 (“2016 Regulations”) were introduced in November 2016 and require local authority pension funds to prepare and publish an ISS.
- 3.2 The Fund’s Investment Strategy Statement sets out its principles for governing the Fund’s assets.
- 3.3 The ISS must be reviewed, and if necessary revised, following any material change in the factors which are judged to have a bearing on the stated investment policy, and at least every three years. The ISS was first published in April 2017.

4. Investment Consultation Process

- 4.1 At its meeting on 21 July 2021, the Committee agreed a draft ISS be released for a full stakeholder consultation. In addition, it was also agreed that it be passed to the PAB for noting. The ISS was received by the PAB at their 23 September 2020 meeting.
- 4.2 On 5 August 2020 the ISS was shared with the following stakeholders:
 - All Essex Pension Fund Strategy Board (PSB) and PAB Members;
 - All Fund Investment Managers, including the ACCESS Operator, Link Asset Solutions;
 - The Fund’s Custodian;
 - The Fund’s Institutional Investment Consultant, Hymans Robertson and the Independent Investment Adviser, Mark Stevens;
 - The Fund Actuary, Barnett Waddingham;
 - The Fund’s Independent Governance & Administration Adviser;
 - All Essex Pension Fund and Essex County Council staff;
 - All Employers;
 - All Active Members via the letter accompanying the Annual Benefit Statement; and
 - Posted to the Essex Pension Fund website.

4.3 The six-week consultation concluded on 16 September 2020.

5. Investment Strategy Statement Responses

5.1 16 responses were received from a variety of stakeholders. A summary of the feedback is shown opposite:

Number of Respondents by Stakeholder Type

Stakeholder	Number of Responses
Investment Manager/Custodian	4
Fund's Advisers	1
Member of the PSB	1
Fund Employers	1
Scheme Members	7
Non-Scheme Members	2
Total	16

Summary of responses

RESPONDEE	CONSULTATION FEEDBACK	FUND RESPONSE	REVISION TO ISS
Fund Managers/Custodian			
IFM Investors	Compliments the Fund on a very well written and composed document. Suggest reviewing the GIF investment objective to state <i>"the GIF has a target performance range of 8-12 net p.a."</i> .	<p>We acknowledge the response from IFM Investors.</p> <p>In regard to point raised the ISC at its 17 July 2019 meeting undertook a review of all its investment manager benchmarks which are reflected in the ISS we are therefore comfortable that the benchmark agreed and used as an internal monitoring measure of 8% p.a. is appropriate given the range specified.</p>	No change
	Suggest that the restrictions be updated to reflect the granular restrictions the GIF fund has in place.	The Fund is invested into a pooled fund rather than directly we therefore believe this level of detail is not necessary for the ISS.	No change
Aviva Investors	Happy with the references within the ISS in regard to direct property and the mandate they manage.	<p>Noted.</p> <p>No further consideration.</p>	No change
Stewart Investors	Provided evidence in relation to emerging markets and how their views fit with the Fund's Investment Beliefs outlined on Appendix B (p16) of the ISS.	<p>Noted.</p> <p>No further consideration.</p>	No change
Northern Trust	No comment.	<p>Noted.</p> <p>No further consideration.</p>	No change

RESPONDEE	CONSULTATION FEEDBACK	FUND RESPONSE	REVISION TO ISS
Fund's Actuary			
Barnett Waddingham	Some minor presentational revisions. See Section 6 of this report.	The Fund agrees with the revisions.	The ISS has been updated accordingly.
Fund Employers			
Academy Trust	Observations made in regard to the current market volatility and whether 12 years to achieve a fully fund position still achievable?	Following the outcome of the 2019 Actuarial Valuation an Asset Liability Study has been commissioned with the outcome to be brought to a future ISC meeting in 2021.	No change
	Observations in regard to short and medium cashflow requirements and the arrangement put in place to realise income from the property portfolio and passive assets as and when it is required – have lessons been learnt from this, and risk mitigated from this happening again in the future?	<p>The primary objective of the Fund is to pay benefits as and when they become due. In 2017 the ISC, in light of the increase in Funding level and maturing nature of the Fund agreed a de-risking programme moving away from equities into more income generating alternatives, thus allowing the Fund to tap into income sources as and when required.</p> <p>Cashflow is periodically monitored and action is taken as and when necessary.</p>	No change
	Observation that no actual vs benchmark data shown within the document. Has sensitivity been carried out to ascertain where benchmarks are achievable given the current climate and does this effect the Fund's current plan to be fully funded in 12 years' time?	<p>ISC recently reviewed the appropriateness of each of the Fund's Investment Managers benchmarks. Performance is reported to the ISC on a quarterly basis and a further review is undertaken on an annual basis. Members regularly receive presentations from Investment Managers on all aspects of the mandates they manage.</p> <p>The outcome of the Asset Liability Study will be brought to a future meeting in 2021.</p>	No change

RESPONDEE	CONSULTATION FEEDBACK	FUND RESPONSE	REVISION TO ISS
Essex Pension Fund Board/Committee Members			
PSB Member	<p>Impressed with the drafting of the Investment Strategy Statement but has reservations around the section on responsible investment (RI).</p> <p>In essence believes that the statement <i>“the ISC will only exclude stocks in limited or specified instances”</i> does not go far enough. Also believes that the Fund should look to move away from fossil fuels into cleaner renewable investments and similarly move away from investments in socially controversial companies.</p>	<p>The Fund acknowledges the points raised and is prioritising these important considerations.</p> <p>The Fund’s direct investment in fossil fuels has been steadily decreasing as at 30 September 2020 it was 0.04% of the Fund compared to 0.22% as at 30 September 2015. Similarly, the Fund’s investments in sustainable timber and renewable energy increased from 4.1% as at 30 June 2019 to 5.1% as at 31 March 2020.</p> <p>The ISC has recently agreed an increase in the Fund’s strategic allocation to Infrastructure and Timber of an additional 4% and 2% respectively. It is expected as commitment is drawn down over the next few years the Fund’s exposure to sustainable timber and renewable energy will continue to rise.</p> <p>The Fund in consultation with its Investment Advisers has undertaken a robust process which included engaging with various stakeholders throughout. The result was the formulation of a new RI Policy based on a set of RI Investment Beliefs (which included climate change).</p>	No change

RESPONDEE	CONSULTATION FEEDBACK	FUND RESPONSE	REVISION TO ISS
Essex Pension Fund Board/Committee Members (cont.)			
		<p>The Fund sees this as the start of a journey. The ISC have agreed that further work be commissioned which will be considered at their next round of meetings with regard to reviewing the Fund's Investment Managers' Environmental, Social and Governance (ESG), voting policies and approach to investment and stock selection and how they are aligned with the Fund's RI Policy as well as develop an Engagement Policy.</p> <p>The outcome of this work will then inform the ISC as to how the RI Policy will be implemented in terms of the assets held, monitored and measured going forward.</p>	
Scheme Members/Non-Scheme Members			
Scheme Members	<p>5 responses were received echoing the sentiment stated above.</p> <p>One of these responses went further questioning how the Fund will monitor and ensure ESG responsibilities are being met.</p> <p>They believe that the RI Policy and RI beliefs are not strong enough, open to interpretation and not fit for purpose and that the Policy should be rewritten and stakeholders reconsulted.</p>	<p>The Fund acknowledges the points raised and is prioritising these important considerations.</p> <p>The Fund's direct investment in fossil fuels has been steadily decreasing as at 30 September 2020 it was 0.04% of the Fund compared to 0.22% as at 30 September 2015. Similarly, the Fund's investments in sustainable timber and renewable energy increased from 4.1% as at 30 June 2019 to 5.1% as at 31 March 2020.</p>	No change

RESPONDEE	CONSULTATION FEEDBACK	FUND RESPONSE	REVISION TO ISS
<i>Scheme Members/Non-Scheme Members (cont.)</i>			
		<p>The ISC has recently agreed an increase in the Fund's strategic allocation to Infrastructure and Timber of an additional 4% and 2% respectively. It is expected as commitment is drawn down over the next few years the Fund's exposure to sustainable timber and renewable energy will continue to rise too.</p> <p>The Fund in consultation with its Investment Advisers has undertaken a robust process which included engaging with various stakeholders throughout. The result, the formulation of a new RI Policy based on a set of RI Investment Beliefs (which included climate change).</p> <p>The Fund sees this as the start of a journey. The ISC have agreed that further work be commissioned which will be considered at their next round of meetings with regard to reviewing the Fund's Investment Managers' ESG, voting policies and approach to investment and stock selection and how they are aligned with the Fund's RI Policy as well as develop an Engagement Policy.</p>	

RESPONDEE	CONSULTATION FEEDBACK	FUND RESPONSE	REVISION TO ISS
<i>Scheme Members/Non-Scheme Members (cont.)</i>			
		<p>The outcome of this work will then inform the ISC as to how the RI Policy will be implemented in terms of the assets held, monitored and measured going forward.</p> <p>As part of the Fund's Business Plan the ISS will be reviewed annually by the ISC and consulted on at least every three years or more frequent if there is a material change.</p>	
<i>Non Scheme Members</i>	1 respondent commented on how pleased they were to see the section on priorities of RI consideration and engagement and hoped it would be part of the approved published version.	The Fund acknowledges the positive feedback and confirm this section remains unchanged in the final version of the ISS to be approved.	No change

- 5.2 A further 3 responses were received: two from scheme members in regard to how the ISS consultation will impact their future benefit entitlement; and one from a non-scheme member on whether it was common for LGPS pension funds to consult on their ISS. A response has been provided to these individuals separately.

6. Updates to the ISS since the consultation

- 6.1 There are some minor presentational changes to the ISS since the consultation was issued. These are detailed below.

Page 3 – “Investment” inserted for Institutional **Investment** Consultant.

Page 3 – ‘dependents’ changed to ‘dependants’.

Page 6 & 31 – ACS defined

Page 16 – ‘21’ amended to ‘12’.

- 6.2 The final version of the ISS can be found at Appendix A

7. Communication implications

- 7.1 Taken on board the comments received as part of this consultation exercise the Fund will look to provide a summary note to accompany any future ISS consultations outlining the purpose of the consultation, material editorial changes and the key areas of consideration.
- 7.2 The Fund as part of its digital transformation is looking into the possibility of the potential to have the capability of uploading 'news items' on Member online. This potentially will expand the communications channels that could be utilised for future consultations.

8. Recommendations

- 8.1 It is recommended that the Committee **agree** to:
- all minor presentational changes made to the ISS, as detailed in Section 6 to this report;
 - approve the updated ISS for publication as shown in Appendix A;
- 8.2 It is recommended that the Committee note:
- that the ISS was passed to the PAB for noting; and
 - the content of the report.

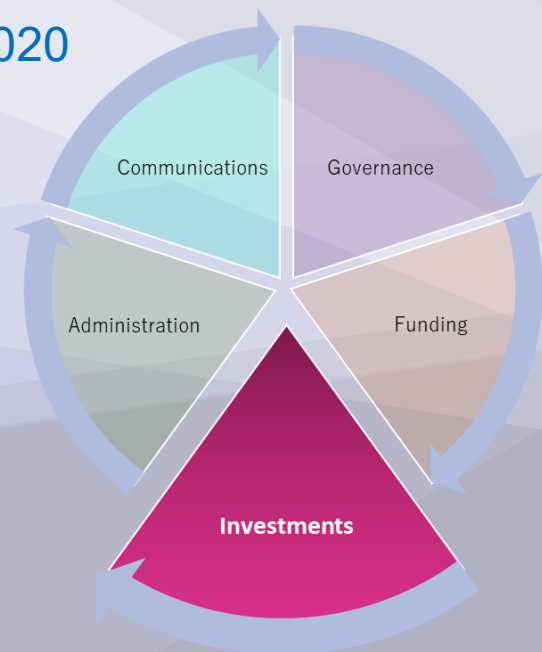
9. Background Papers

- 9.1 Investment Strategy Statement – ISC05, 21 July 2020
- 9.2 Investment Strategy Statement – Responsible Investment (RI) Policy, ISC05, 19 February 2020.
- 9.3 Responsible Investment (RI) Workshop – Outcome and Investment Strategy Statement (ISS) Review, ISC04, 27 November 2019.
- 9.4 Investment Strategy Statement (ISS) Review: Responsible Investment, ISC03, 17 July 2019.
- 9.5 Investment Strategy Review -Implementing the transition from equity to alternatives, ISC16, 21 February 2018
- 9.6 Review of Investment Strategy – Equity to Alternative Asset Switch, ISC11, 15 November 2017.

Essex Pension Fund

Investment Strategy Statement

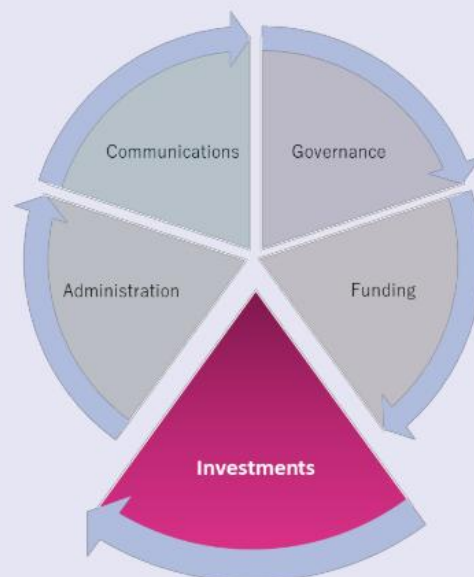
October 2020



Essex Pension Fund

Investment Strategy Statement

CONTENTS



Introduction and background	Page 3
Investment strategy and the process for ensuring suitability of investments	Page 3
Risk Measurement and Management	Page 7
Asset Pooling	Page 8
Environmental, Social & Governance Considerations	Page 10
Appendix A – Responsibilities	Page 13
Appendix B – Core Investment Beliefs	Page 16
Appendix C – Funding Strategy and Structure	Page 20
Appendix D – Fund Manager Mandates and Objectives	Page 21
Appendix E – RI Investment Beliefs	Page 23
Appendix F – Statement of Compliance:	Page 25
Six Myners Principles of good investment practice	
Definition of Terms	Page 31

Essex Pension Fund

Investment Strategy Statement

Introduction and background

This is the Investment Strategy Statement (the “Statement”) of the Essex Pension Fund, which is administered by Essex County Council (the “Scheme Manager”) as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the “2016 Regulations”) in accordance with the guidance issued by Secretary of State.

Essex County Council is the Administering Authority for the Fund under the Regulations. In 2008, a Pension Board was established to exercise on behalf of Essex County Council all the powers and duties of the Council in relation to its functions as Administering Authority of the Essex Pension Fund, except where they have been specifically delegated by the Council to another Committee or an Officer. Responsibility for setting and monitoring investment strategy has been specifically delegated to the Essex Pension Fund Investment Steering Committee (“ISC”). Responsibility for the day to day management of the Fund has been delegated to the Section 151 Officer (“s151O”) and the Director for Essex Pension Fund.

This statement has been prepared by the ISC having taken appropriate advice from the Fund’s Institutional Investment Consultant, Hymans Robertson LLP, and its Independent Investment Adviser, Mark Stevens. The responsibilities of relevant parties are set out in appendix A.

The Statement is subject to periodic review at least every three years and from time to time on any material change in investment policy or other matters as required by law. The ISC has consulted on the content of this Statement with its stakeholders. The Statement is also subject to review by the Essex Pension Fund Advisory Board (PAB) which was established as the Local Pension Board for Essex in accordance with section 5 of the Public Service Pension Act 2013 and Part 3 of the LGPS Regulations 2013.

Investment strategy and the process for ensuring suitability of investments

Fund Objective

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis.

The funding objective adopted for the Essex Pension Fund is to ensure that the assets of the Pension Fund, when taken in conjunction with future contributions, are sufficient to ensure that all future pension and retirement benefits will be fully covered by the Fund's assets when they fall due.

This primary objective has been converted to a number of funding objectives, as set out in the Fund’s Funding Strategy Statement (FSS).

Essex Pension Fund

Investment Strategy Statement

The purpose of the FSS is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the desirability of maintaining as nearly constant employer contribution rates as possible as defined in Regulation 62 (5) of the LGPS regulations 2013;
- to ensure that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the fund are met; and
- to take a prudent longer-term view of funding those liabilities.

The funding position will be reviewed by the Essex Pension Fund Strategy Board (PSB) at each triennial actuarial valuation, with interim reviews occurring in the years between triennial valuations.

Funding Level

The Funding level of the Pension Fund is the value of the Fund's assets expressed as a percentage of the Fund's liabilities at the most recent actuarial valuation of the Fund. The Funding level at March 2019 was 97% (March 2016 was 89%). The Funding Strategy provides for the Fund to return to a fully funded position over a period of 12 years. In accordance with the Funding Strategy Statement, the PSB determined the rate of contributions payable by each of the employers in the Fund for the three years starting 1 April 2020.

Investment Beliefs

The Committee has adopted core investment beliefs covering the four following areas:

- Long Term Approach;
- Diversification;
- Benchmarks; and
- Active vs Passive Management.

Details are set out in appendix B.

Investment Strategy

The Fund is maturing and analysis has been undertaken to forecast when new contributions (employees and employers including the secondary rate) are not enough to meet all benefit payments falling due. This is normal for a pension scheme and reflects the purpose of the Fund (accumulate monies and then pay it out in benefits).

In order to meet the short to medium term cashflow requirements, the Investment Steering Committee at its 23 February 2015 meeting agreed to realise income from its UK passive assets and Aviva's property portfolio.

Realised income may be held in cash short term in order to meet a proportion of benefit payments.

Essex Pension Fund

Investment Strategy Statement

The initial requirements are small (c. 0.5% of total Fund assets) and is expected to be more than met by the income on assets. There should be no need to disinvest the capital value of any asset currently for cashflow purposes. The time at which the sale of assets for cashflow purposes will become a requirement will be subject to periodic review.

The Fund is therefore still in a position to target a predominantly growth-based strategy, with the aim of maximising asset growth in the long term within agreed risk levels, which takes into account liquidity requirements.

There is also diversification between different asset classes to manage risk levels and better ensure that the value of the Pension Fund, when taken in conjunction with current expectations of future contributions, is sufficient to ensure that all future pension and retirements benefits will be fully covered by the Fund's assets when they fall due, whilst managing the Fund within the ISC's risk appetite.

Asset Allocation

In 2017, the Fund undertook an Asset/Liability Study following the results of the 2016 Actuarial Valuation. The conclusion of the Study found that the Fund had a high probability of achieving the Fund's Funding objectives and this could continue to be maintained at a lower risk by reducing its equity allocation and increasing its allocation into diversifying income generating alternative assets. The ISC have agreed a strategic medium-term plan whereby its equity allocations will be trimmed as and when suitable opportunities arise to reallocate to alternative assets.

The Fund is moving towards an 84% allocation to 'growth' (equities and alternatives) assets in order to meet the long-term funding assumptions set out in the 2019 actuarial valuation.

The Fund's investments are allocated across a range of asset classes. The largest allocation is to equities which also accounts for the majority of the investment risk taken by the Fund. Over the long term, equities are expected to outperform other liquid asset classes, particularly bonds. Allocation to asset classes other than equities and bonds allows the Fund to gain exposure to other forms of return which can help to reduce the overall volatility of the portfolio. These assets are in the main lower correlated (do not necessary follow the direction) to equities and are expected to generate returns broadly similar over the long term and so allocation to these can maintain the expected return and assist in the management of volatility.

The 16% allocation to bonds is designed to manage overall levels of funding volatility within agreed levels.

Investment Allocation

The Committee has translated its objectives into a suitable strategic asset allocation benchmark and structure for the Fund (set out in appendix C), taking into account both the liability structure and the objectives set out above. The Fund benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

Essex Pension Fund

Investment Strategy Statement

The Committee monitors investment strategy relative to the agreed asset allocation benchmark. In addition to on-going monitoring, the investment strategy is formally reviewed every six months at Committee meetings set aside for that purpose. Furthermore, specific consideration is given to investment strategy in the light of information arising from each triennial actuarial valuation.

Investment managers

The Committee utilises a number of active and passive investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Committee has commenced using the ACCESS Pool solutions to meet its strategic objectives migrating its assets into ACCESS Authorised Contractual Scheme (ACS).

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. Fund benchmarks are continually kept under periodic review. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles and a mix of asset types across a range of geographies in order to provide diversification of returns.

The managers appointed, and the mandates they manage, are detailed in appendix C. This includes the investments made via the ACCESS pool. Appendix D details the objectives and investment rationale of the mandates.

Types of investment to be held

The investment managers are required to comply with LGPS investment regulations. The Fund may invest in quoted and unquoted securities of UK and overseas markets, including equities, fixed interest and index linked bonds, cash, property, commodities, infrastructure, timber and loans either directly, through pooled funds or via partnership agreements.

The Fund may also make use of contracts for difference and other derivatives either directly or in pooled funds when investing in these products, for the purpose of efficient portfolio management or to hedge specific risks. The Committee considers all of these classes of investment to be suitable in the circumstances of the Fund.

Currency hedging

To reduce the volatility associated with fluctuating currency rates (currency risk), the Fund utilises hedged versions of the overseas equity indices which are managed by the Fund's passive manager.

Investment Managers have discretion to utilise currency hedging for risk management purposes.

Essex Pension Fund

Investment Strategy Statement

Risk measurement and management

Risk

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. These risks are set out and monitored as part of the Fund's formal Risk Register. In summary, the principal risks affecting the Fund and mitigations are:



Funding risks:

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities. The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- Changing demographics – The risk that longevity improves and other demographic factors change resulting in increased Fund liabilities, reduced solvency levels and increased employer contributions.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Fund liabilities.

Asset risks:

- Concentration – The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity – The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Manager underperformance – The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

Other provider risks:

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the ISC takes professional advice and considers the appointment of specialist transition managers.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

Mitigations:

In general terms, the risks are managed via a combination of:

- The appointment of professional advisers to assist the ISC in managing these risks;
- Agreed processes and guidelines for consideration and monitoring of the investments;
- Specific limits on individual investments;
- Ensuring the expected return from the Investment Strategy is consistent with the assumptions made by the Actuary in valuing the Fund;

Essex Pension Fund

Investment Strategy Statement

- Assessments of the levels of risk taken by the Fund;
- Diversification across asset classes and managers; and
- Regular review and monitoring of investment manager performance.

Expected return on investments

Over the long term, the overall level of investment return is expected to exceed the rate of return assumed by the Actuary in valuing the Fund and setting funding requirements.

Realisation of investments

The majority of assets held within the Fund may be realised quickly if required. The Committee monitors both the level of liquid assets and the liquidity requirements of the Fund.

Asset pooling

Overview

The Fund is one of eleven participating Fund's in the ACCESS Pool (A Collaboration of Central, Eastern & Southern Shires) along with Cambridgeshire, East Sussex, Hampshire, Hertfordshire, Isle of Wight, Kent, Norfolk, Northamptonshire, Suffolk and West Sussex.



All eleven funds are committed to collaboratively working together to meet the government's criteria for pooling and have signed an Inter-Authority Agreement to underpin their partnership. This is currently in the process of being reviewed by the ACCESS Authorities.

The proposed structure and basis on which the ACCESS Pool will operate in order to meet the Governments criteria was set out in the July 2016 submission to Government. A copy of the submission and the progress made against the timetable is available on the ACCESS website at www.accesspool.org

The participating authorities have a clear set of objectives and principles that will drive decision-making and help shape the design of the Pool. These underpin the design of the project plan that the ACCESS Funds are working towards.

In 2018 a joint procurement was undertaken by ACCESS for a passive provider, UBS Asset Management was appointed as the preferred provider. In addition, in March 2018 Link Solutions Limited (Link) was appointed to act as operator of the ACCESS's Authorised Contractual Scheme (ACS).

Assets to be invested inside the Pool

The Fund's intention is to invest its assets through the ACCESS Pool as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government.

Essex Pension Fund

Investment Strategy Statement

The key criteria for assessment of Pool solutions will be as follows:

1. That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.
2. That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

The Fund is monitoring developments with a view to transitioning liquid assets across to the Pool when suitable sub-funds to meet the Fund's Investment Strategy requirements are in place. As at 31 March 2020, the Fund had around 50% of its assets invested in the ACCESS pool, invested in global equity sub-funds and passive regional equity and index linked bond pooled funds.

The Essex Pension Fund is working towards the expectation that over time all investments will be pooled with the exception of direct property and operational cash. The table below sets out the rationale.

Assets to be invested outside the Pool

Asset Class	Manager	Strategic Allocation %	Reason for not investing in the ACCESS Pool
Direct Property	Aviva Investors	Up to 10%	<ul style="list-style-type: none"> • Investment manager skill is a major determinant of returns. The availability of quality investment managers for a large mandate is untested • The portfolio has been built to specific risk and return requirements • Portfolio designed to account for target holding sizes, to reflect the total portfolio size and achieve the required level of diversification • Moving holdings to part of a bigger direct portfolio would have significant cost implications such as Stamp Duty Land Tax (SDLT) • To reshape the portfolio to meet new objectives would be inconsistent with the value for money criteria • Project Pool analysis showed that increasing direct mandate size does not result in incremental cost savings
Operational Cash	In-house	n/a	A reasonable level of operational cash will be required to maintain efficient administration of scheme. This will be held in house as ECC will need to manage cashflow to meet statutory liabilities, including monthly pension payroll payments.

Essex Pension Fund

Investment Strategy Statement

Any assets not currently invested in the ACCESS Pool will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money.

Environmental, Social & Governance Considerations

Fiduciary duty

The fundamental responsibility of the Fund is to ensure that it has adequate monies available to pay pensions as they fall due. This objective must be achieved in a cost-effective way for members, employers and the taxpayer. Moreover, in reaching decisions, the Fund must comply with its fiduciary responsibilities.



Responsible Investment (RI) Policy

The ISC recognises that environmental, social and governance (ESG) factors (including those related to climate risk) can influence long term investment performance and the ability to achieve long term sustainable returns. To this end the Committee identified four key headline responsible investment beliefs, with a number of sub beliefs sitting underneath these headings. The Committee in formulating the Responsible Investment Policy below have incorporated the Fund's investment beliefs articulated in appendix E.

Investment Strategy

1. The RI Policy should be integral to the investment strategy and not considered in isolation.
2. The Fund should minimise exposure to securities where environmental or social aspects could be financially detrimental to the portfolio.
3. Investments expected to deliver positive environmental or social benefit are encouraged as long as they are not expected to dilute overall returns.

Engagement and Voting

4. The ISC will only exclude stocks in limited or specific instances but will actively encourage engagement and work collaboratively with other investors to increase the impact of engagement.

Managers/implementation

5. The ISC will seek to implement mandates in line with its RI Policy.
6. ESG factors should (amongst others) be an integral component in the consideration of investment in a stock by active managers.
7. For passive allocations, in choosing the reference benchmark, careful consideration will be given to the ESG aspects of that benchmark. Although it is recognised that the passive manager has no choice of stocks within the benchmark index, the passive manager will be expected to actively engage with companies held to the benefit of the Fund and its members.
8. The ISC will seek to utilise mandates in line with its RI Policy and expects these to be made available via the ACCESS Pool.

Essex Pension Fund

Investment Strategy Statement

Monitoring/governance

9. The ISC will monitor and challenge their providers on their ESG implementation and any intended changes over time.
10. The ISC will take a long-term view on RI, including the direction of travel as well as the current implementation

Collaborative working

In line with their belief and Policy to work collaboratively with other pension funds to increase the strength of its voice in RI matters, the Committee agreed at its November 2019 meeting to join Local Authority Pension Fund Forum ('LAPFF') as part of a drive to work collaboratively with others on RI issues.

Priority for RI consideration and engagement

The Committee recognises that there are a range of interested parties all of whom will have differing interests in the Fund and as such have identified the following areas which it expects the Fund's investment managers to treat as priorities when engaging with companies invested in on the Fund's behalf:

- Climate change
- Resource scarcity
- Pollution
- Weapons
- Remuneration
- Labour Practices
- Employee relations
- Company governance
- Manage board structure
- Gender diversity

Exercise of voting rights

Assets outside the ACCESS Pool

The Fund has instructed its investment managers to vote in accordance with their in-house policies and practices within the framework of the ISC's agreed policies which has been shared with the investment managers as set out above.

Assets inside the ACCESS Pool

The ACCESS pool has formulated a voting guidance which it expects each of the underlying investment managers managing sub funds on its behalf to comply with or when this is not the case to provide an explanation.

The Fund fully supports the UK Stewardship Code and requires those of its investment managers who hold shares on its behalf to comply with it or to provide the ISC with an explanation of why it is not appropriate to do so, in the exercise of the mandate that they have been given, and how they will instead achieve and demonstrate the same level of responsible share ownership.

Essex Pension Fund

Investment Strategy Statement

The majority of the Fund's investment managers are signatories to the UK Stewardship Code and have all gained a Tier 1 status (demonstrating a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary).

Engagement

The Fund expects its investment managers to take account of social, environmental and ethical considerations in the selection, retention and realisation of investments as an integral part of the normal investment research and analysis process. The Fund also expects its investment managers to be engaged with companies held on all matters in regard to Good Stewardship. The Fund believes taking account of such considerations forms part of the investment managers' normal fiduciary duty.

Ongoing Monitoring

The Committee actively monitors the Fund's investment managers' approaches. As part of this regular manager monitoring, the ISC will challenge their managers on how they consider and manage all financial risks faced by their investments, including those that arise from ESG considerations. The Committee also strives to improve and develop their knowledge and understanding on how ESG factors will impact the Fund's investments in the future.

Stock Lending

The policy on stock lending (below) reflects the nature of the mandates awarded to investment managers by the ISC, which include both pooled and segregated mandates:

Assets within the ACCESS Pool

The Fund participates in ACCESS's stock lending programme for investments under ACCESS Pool governance.

Segregated Investments

The Fund does not participate in stock lending schemes nor allow its stock to be lent.

Pooled Investments

In regard to the Fund's pooled investments, where the Fund is buying units in a pooled vehicle, stock lending is outside the control of the Fund and undertaken at the discretion of the pooled fund manager.

Essex Pension Fund

Investment Strategy Statement

Appendix A – Responsibilities

ISC Responsibilities

- to approve and review the asset allocation benchmark for the Fund;
- to determine, review and monitor the Fund's aims, objectives, policies, strategies and procedures relating to investment of the Fund's assets including the Investment Strategy Statement and any environmental, social and governance matters;
- to appoint and terminate Investment Managers (in relation to non-pooled assets), Custodians and Advisers to the Fund solely relating to investment matters;
- In relation to the LGPS ACCESS Pension Fund Pool;
 - a) to consider pooling matters including recommendations by the ACCESS Joint Committee;
 - b) to determine the transition of the assets held by Essex Pension Fund in relation to the Pool and the funds or sub-funds operated by the Operator;
 - c) to appoint the elected councillor for Essex County Council to the Joint Committee as and when required;
 - d) to advise the representative on the Joint Committee on such matters as may be required;
 - e) to monitor the performance of the LGPS ACCESS Pool and its Operator and recommending actions to the ACCESS Joint Committee or ACCESS Support Unit, as appropriate;
 - f) to receive and consider reports from the LGPS ACCESS Joint Committee and the Operator;
 - g) to undertake any other decisions or matters relating to the operation or management of the LGPS ACCESS Pool as may be required.
- to assess the quality and performance of each Investment Manager and the relevant ACCESS Operator annually in conjunction with Essex Pension Fund investment advisers and the Section 151 Officer;
- to monitor compliance of the investment arrangements with the Investment Strategy Statement;
- to monitor and review the Fund's compliance with the LGPS Scheme Advisory Board adopted Code of Transparency and UK Stewardship Code;
- to assess the risks assumed by the Fund at a global level as well as on a manager by manager basis;
- to approve and to review annually the content of the Pension Fund Treasury Management Strategy; and
- to submit quarterly reports on its activities to the Pension Strategy Board.

Essex Pension Fund

Investment Strategy Statement

Section 151 Officer ('S151O') Responsibilities

- To manage the Pension Fund including the power to seek professional advice and to devolve day-to-day handling of the Fund to professional advisers within the scope of the Pensions Regulations.
- To provide a training plan for the members of the ISC (and the Strategy and Advisory Boards).

Custodian Responsibilities

- To safeguard all segregated assets (excluding direct property holdings, unitised holdings and cash held separately with either the Administering Authority or investment managers) within the Fund and ensure that all associated income is collected, including dividends and tax reclaims. Also, to ensure that corporate actions affecting the securities are dealt with, including rights issues, bonus issues and acquisitions.
- To provide regular statements of transactions, corporate actions, income and asset valuations as required by the Administering Authority.
- To report to the ISC in person on the assets of the Fund if required.
- To inform the Fund of any areas of concern which arise in its dealings with investment managers.
- To report the performance of the Fund's assets.

External Advisers

- To provide advice to the Fund on investment strategy, asset allocation, benchmark selection and design, investment management structure, legislative changes impacting on the Fund and current emerging issues.
- To prepare and present a report, based on information supplied by the Fund's custodian, on the annual investment performance of the Fund.
- To carry out on behalf of the Fund, when required, the functions of manager selection and manager monitoring.
- To carry out asset/liability modelling studies when required.
- To provide expert commentary on the economy and investment market.
- To attend and advise at all meetings of the ISC and all meetings arranged between its officers, advisers and managers.
- To assist the ISC in its annual review of asset allocation, investment management structure, Investment Strategy Statement and Funding Strategy Statement.

Independent Investment Adviser

- To assist the Officers of the Fund in the determination of agendas and papers for the meetings of the ISC.
- In consultation with the Officers of the Fund, to identify investment issues of strategic importance to the Fund and arrange for their consideration by the ISC e.g. asset allocation, and investment, management structure.

Essex Pension Fund

Investment Strategy Statement

- In conjunction with the Officers of the Fund, to keep under review the individual investment managers and where necessary put forward proposals for their management, including where appropriate their dismissal.
- To assist the Officers of the Fund, where requested, in manager searches and other Fund procurement exercises.
- To assist the ISC in keeping under review its statutory publications.
- When requested by the Officers, to attend and participate in monitoring, reviewing and briefing meetings arranged with investment managers, limited partners etc.

Audit Responsibilities

The Fund is subject to review by both the County Council's External Auditors BDO LLP and internally by Internal Audit.

The Pension Fund financial statements contained in the Council's Annual Statement of Accounts present fairly:

- the financial transactions of its Pension Fund during the year; and
- the amount and disposition of the Fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

The External Auditor audits the Pension Fund financial statements and gives their opinion, including:

- whether they present fairly the financial position of the Pension Fund and its expenditure and income for the year in question; and
- whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards;

In carrying out their audit of the financial statements, auditors will have regard to the concept of materiality.

Additionally, the Council must prepare a Pension Fund annual report which should contain the Pension Fund Account and Net Asset Statements with supporting notes and disclosures. External Audit will review the annual report as a whole and the accounts contained in it and then report:

- whether the accounts contained in the annual report are consistent with the financial statements on which the audit opinion was given; and
- that other information in the annual report is not inconsistent with the financial statements on which the audit opinion was given.

Internal Audit carry out a programme of work designed to reassure the S151O that Fund investment systems and records are properly controlled to safeguard the Fund's assets.

Essex Pension Fund

Investment Strategy Statement

Appendix B - Core Investment Beliefs

Long term approach

Local authority (LA) funds take a long-term view of investment strategy

This is largely based on covenant. Unlike the private sector, the covenant underlying the Fund is effectively gilt-edged. This means that short term volatility of returns can be acceptable in the pursuit of long-term gain. Whilst there is a need to consider stability of contributions, at current maturity levels and with deficits spread over 12 years, it is largely the future service rate which is expected to drive instability. One of the best ways to avoid this is to build in margins over the long term. More recently, the ISC has noted the increasing maturity of the Fund and potential change in cashflow position on the horizon. It is therefore also taking this into consideration in decision making.

Over the long term, equities are expected to outperform other liquid asset classes, particularly bonds

Given the above, there is a preference for a significant allocation to equities in the Fund as over the long-term as they are expected (but not guaranteed) to outperform other asset classes.

Allocations to asset classes other than equities and bonds expose the Fund to other forms of risk premium

Investors with a long-term investment horizon and little need for immediate liquidity can use this to their benefit as it offers the ability to capture the illiquidity premium on many asset classes, such as private equity and infrastructure.

Diversification

Diversification into alternative asset classes (including property) is also expected to reduce overall volatility of the Fund's funding level

Given that the returns from different asset classes are expected to be delivered in different cycles (i.e. not be directly correlated with equity returns), the use of alternative assets can reduce overall volatility in the delivery of Fund returns without leading to a significant reduction in overall expected return, therefore increasing efficiency.

In the context of LA funds (open, long duration, not maturing quickly and with high equity content), an allocation to bonds does not offer a match to liabilities, but additional diversification.

Where bonds are not used for liability matching purposes, an allocation to these assets can be beneficial from an overall risk/return perspective improving the overall efficiency of the Fund. The corollary to this is that bond benchmarks do not necessarily have to reflect the nature and duration of the liabilities (see benchmark section below) but should be set to provide managers with the sufficient scope to add value.

Essex Pension Fund

Investment Strategy Statement

The overweight to UK equities in most UK pension funds is historic and loosely based on currency exposures, rather than a preference for the UK market

Although historically the UK may have benefited from better corporate governance, and therefore a higher return, increasingly the rest of the world is catching up and UK equities are not expected to outperform overseas equities over the long term. Given the concerns over market concentration in the UK market and an increased opportunity set overseas a move towards increased overseas allocation relative to the UK seems appropriate. Concerns about currency risk can be addressed by a separate currency hedging programme.

Benchmarks

Where appropriate, benchmarks should represent the full opportunity set

For example, for a global equity mandate, a market capitalisation (“market cap”) weighted benchmark reflects a passive allocation to the market (analogous to investing in a passive equity mandate and investing in each stock according to its size). It therefore reflects the investable universe of stocks available and represents the starting point for an equity benchmark.

To some extent market cap weighted indices reflect past winners, so should be treated with caution

The regional exposures in the World Index are a function of the relative market cap of the regional stock markets. In turn, these are a function of the size of the economy as a whole and how well companies have performed in that economy. One measure of the size of the economy could be its overall contribution to global GDP. However, as has been seen in the UK, many companies in the market have little exposure to the domestic economy and, again, this should not be adhered to too slavishly. At the total fund level a fixed weights regional benchmark is therefore preferred in order to maintain an appropriate level of diversification across markets. This is particularly the case when the allocations are maintained by a passive “swing” manager.

Emerging market economies may be expected to outperform over the long term as the economy develops and the risk premium falls

As emerging markets develop both politically and economically, become more robust and less dependent on the fortunes of a small number of developed economies (such as the US), the risk of investing in these countries should decrease. The return demanded by investors for investing in these ‘riskier’ countries will therefore fall reflecting the increased security. This reduction in required return would tend to lead to a systematic increase in stock prices. As a result, a strategic allocation to emerging markets of at least the market cap weight if not slightly above is favoured.

Bond benchmarks do not need to reflect the nature and duration of the liabilities

As discussed in the diversification section above, if bonds are not held for liability matching purposes, benchmarks should be set in order to maximise the scope for adding value.

Essex Pension Fund

Investment Strategy Statement

Active versus passive management

Passive management is appropriate for obtaining a low-cost allocation to efficient markets

Where markets offer little scope for adding value through active management (such as individual allocations to UK equities, US equities and gilts) passive management is preferred as a low-cost way of accessing the market. This does not include emerging markets where the risk inherent in the market (although improving as stated above) and inefficiency of the market lends itself to active management.

Active management is appropriate where a market is relatively inefficient offering opportunities for active managers to add value

Where markets offer substantial scope for added value active management would seem appropriate as a way of increasing overall expected return (after fees) without significantly increasing the overall level of volatility in the funding level.

Constraints on active managers reduce their ability to add value

Active managers should not be unnecessarily constrained (within appropriate risk limits) and should be given the maximum scope to implement their active views. There is therefore a preference for unconstrained mandates e.g. unconstrained global equity mandates and unconstrained bond mandates such as M&G's LIBOR plus approach. This also suggests that, within reason, managers' requests for additional scope should be acceded to.

A degree of diversification of managers improves the efficiency of the overall structure (i.e. improves the expected return per unit of risk)

Active manager performance is expected to be cyclical and therefore by appointing a number of managers the delivery of returns is expected to be less volatile. However, too much diversification can lead to expensive index tracking.

A rigorous approach to active manager selection improves the chance of appointing an active manager who will add value over the long-term

An active manager must outperform their benchmark after fees to add value. The selection of an active manager must assess more than just past performance and look into the infrastructure supporting the performance including; business and ownership, philosophy and process, people, risk controls and fees.

Essex Pension Fund

Investment Strategy Statement

The Fund does not have the governance structure in place to take tactical views and market timing is very difficult

Both timing investments into the market and taking tactical views are very difficult given the governance structure in place and the time taken to agree and implement decisions. Where possible these decisions are left to professional investment managers who are closer to the market and can implement tactical views in a more timely fashion. This highlights the importance of not unnecessarily constraining active managers and providing them with appropriate scope.

The assessment of active management performance should be taken with a long-term view and take account of the market environment in which returns are delivered

Active management is cyclical and periods of underperformance from investment managers should be expected so the structure should be such that when the market cycle is unfavourable for some managers it is favourable for others and vice versa. This is expected to deliver added value over the long-term whilst smoothing the overall performance at the total Fund level. Churning of managers leads to additional costs; however, where the ISC no longer views an investment manager's prospects as positive over the long-term, action should be implemented as soon as possible due to the potential downside risk.

Essex Pension Fund

Investment Strategy Statement

Appendix C – Fund Strategy and Structure

Summary

The table below shows the target strategic allocation of the Fund:

Equities			Bonds			Alternatives		
	Manager	Target %		Manager	Target %		Manager	Target %
UK	UBS	3.7	Index-linked gilts	UBS	2.0	Property	Aviva	10.0
Regional	UBS	11.3		GSAM	5.5		Partners Group	4.0
Global	Link - M&G	6.3	Active Cash plus	M&G	5.5	Private equity	Hamilton Lane	4.0
	Link – Longview	6.3		New manager *	3.0	Infrastructure	IFM	3.0
	Link - Baillie Gifford	6.3					JP Morgan	3.0
	RAFI	7.3					Partners Group	4.0
Emerging	Stewart	3.8				Timber	Stafford	4.0
							Alcentra	2.5
						Direct lending	New manager *	2.5
							New manager *	2.0
Total		45.0	Total		16.0	Total		39.0

* The Fund will in the first instance look to work with the ACCESS pool to provide a suitable solution

Essex Pension Fund

Investment Strategy Statement

Appendix D – Fund Manager Mandate Objectives

Active/ Passive	Mandate	% of Fund	Manager	Benchmark	Investment Objectives	Investment Restrictions
Passive	Regional Equity Indexes	15.0%	UBS Asset Management	FTSE Regional	Match BM gross of fees over rolling 3 -year period	May not invest in unlisted Securities
Passive	Global Equity	7.3%	UBS Asset Management	FTSE RAFI AW 3000	Match BM gross of fees over rolling 3 -year period	May not invest in unlisted Securities
Active	Global Equity	6.3%	Link Asset Solutions - LP ACCESS Long Term Global Growth Fund	MSCI AC World Index	BM + 3%, gross of fees, per annum over rolling 5- year Periods	Discretionary mandate
Active	Global Equity	6.3%	Link Asset Solutions – LP ACCESS Global Equity Fund	MSCI AC World Index	BM + 3%, gross of fees, per annum over rolling 3- year Periods	Discretionary mandate
Active	Global Equity	6.3%	Link Asset Solutions – LP ACCESS Global Dividend Fund	MSCI AC World Index	BM + 3%, gross of fees, per annum over rolling 3- year Periods	Discretionary mandate
Active	Emerging Equity	3.8%	Stewart Investors	MSCI EM Index	BM + 4%, gross of fees, per annum over rolling 3- year periods	Discretionary mandate
Passive	Index Linked Bonds	2.0%	UBS Asset Management	FTSE Act. Gov't Securities Index-Linked Over 5 Years Index	Match BM gross of fees over rolling 3 -year period	n/a

Essex Pension Fund

Investment Strategy Statement

Active/ Passive	Mandate	% of Fund	Manager	Benchmark	Investment Objectives	Investment Restrictions
Active	Fixed Interest	5.5%	Goldman Sachs Asset Management	1-month Libor	BM +2%p.a.	n/a
Active	Fixed Interest	5.5%	M&G Investment	1-month Libor	BM +2%p.a.	n/a
Active	Fixed Interest	3.0%	Not yet assigned*	TBC	TBC	TBC
Active	UK Property	10.0%	Aviva Investors	IPD PPFI All Balanced Funds Index	BM +1% p.a.	Target allocation of Direct 75% Indirect 25% No direct investment in the County of Essex
Active	Global Property	4.0%	Partners Group	IRR	9% p.a.	n/a
Active	Private Equity	4.0%	Hamilton Lane	MSCI World PME Index	BM +3% p.a.	Prior approval to be sought for co-investments
Active	Infrastructure	3.0%	IFM Investors	Absolute	BM + 8% p.a.	n/a
Active	Infrastructure	3.0%	JPMorgan	Absolute	BM + 8% p.a.	n/a
Active	Infrastructure	4.0%	Partners Group	Absolute	BM + 8% p.a.	n/a
Active	Timber	4.0%	Stafford Capital Partners	IRR	BM + 8% p.a.	n/a
Active	Direct Lending	2.5%	Alcentra Limited	IRR	8% p.a.	n/a
Active	Direct Lending	4.5%	Not yet assigned*	TBC	TBC	TBC

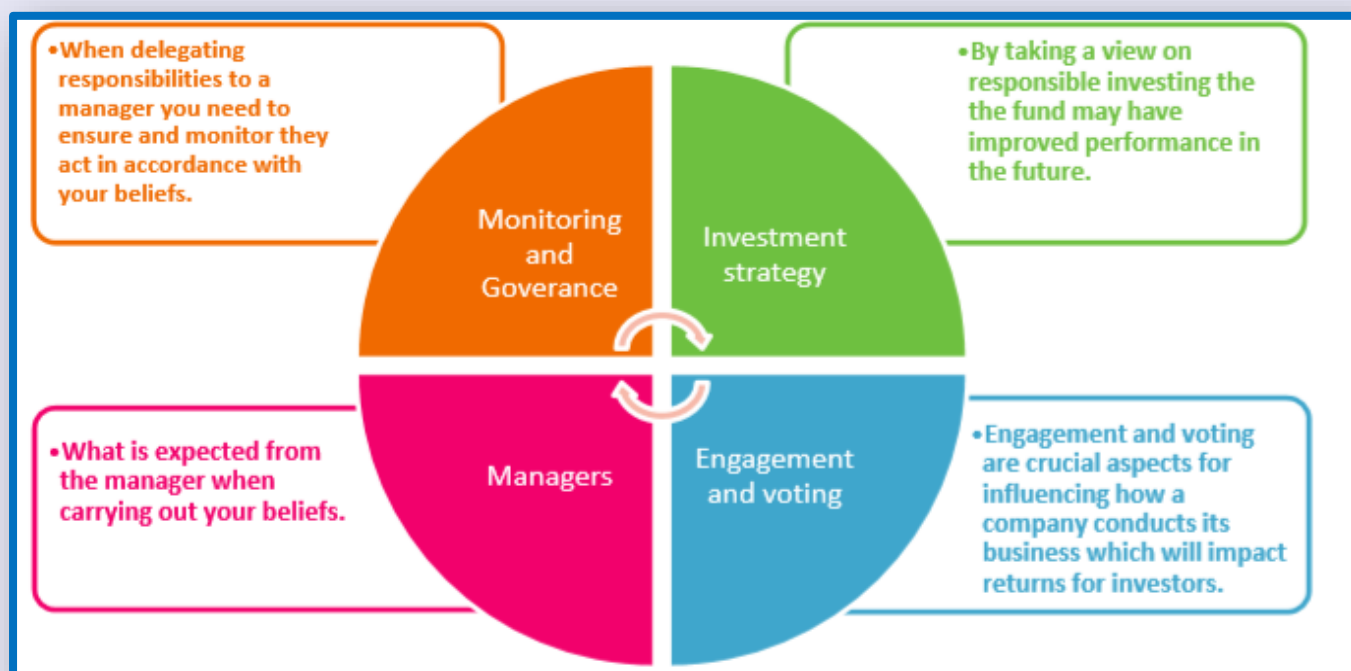
* The Fund will in the first instance look to work with the ACCESS pool to provide a suitable solution

Essex Pension Fund

Investment Strategy Statement

Appendix E – RI Investment Beliefs

The Committee have articulated a set of RI investment beliefs based on the four key headline beliefs below:



Investment strategy (IS)

1. Having a responsible investment policy could lead to better financial outcomes.
2. Having a responsible investment policy could lead to better outcomes for society.
3. Long term, businesses with more sustainable practices should outperform.
4. Allowing for the impact of ESG issues has many dimensions to it.
5. The Fund should avoid/limit exposure to securities where environmental or social aspects will be financially detrimental to the portfolio.
6. Environmental and social investing only needs to not be detrimental to returns.
7. Poor management of ESG risks has led to financially material losses in the past and is expected to do so in the future.
8. ESG is a factor, but not the only factor in choosing investments.

Engagement and voting (EV)

1. Engagement in a company is more effective then disinvesting from the company.
2. Engagement and voting are influential and can be effective in changing behaviour and improving the Fund's performance as well as having a positive impact on the environment/ society.
3. Collaboration with other investors gives the Fund a stronger voice.

Essex Pension Fund

Investment Strategy Statement

Managers (M)

1 Passive managers

- 1.1. The only influence an investor has on a passive manager is the choice of benchmark and level of engagement.
- 1.2. The choice of benchmark is important as it defines the investment portfolio.
- 1.3. The Fund should be an active owner seeking to influence behaviour in investee companies.
- 1.4. The Fund should consider alternative indices that reflect ESG factors.
- 1.5. The direction of travel of the investee companies is even more important than their current scoring on ESG factors.

2 Active managers

- 2.1. The social cost of companies will eventually need to be self-financed.
- 2.2. Managers should try as far as possible to price in the potential future impact of ESG risk in asset selection.
- 2.3. Active managers can take into account forward-looking metrics better than passive managers.
- 2.4. The Fund's investment managers should embed the consideration of ESG factors into their investment process and decision making, taking into account the direction of travel and not only current scoring.

Monitoring and Governance (MG)

1. The ISC should not rely on the Pool for leadership on ESG issues.
2. The ISC should expect the Pool to be able to implement investments in line with its RI policy.
3. The Fund needs to engage and challenge managers on integrating ESG issues in their investment process in line with the RI policy.
4. An RI policy focussed on improving financial outcomes will be to the benefit of Fund stakeholders.
5. It is best to engage stakeholders on the overall approach to managing the Fund rather than on RI policy only.
6. ESG factors should be incorporated into manager reporting in due course.

Essex Pension Fund

Investment Strategy Statement

Appendix F – Statement of Compliance: the six Myners principles of good investment practice

Description of Principle	Essex Pension Fund's position	Future actions
<p>1. Effective decision making</p> <p>Administering Authorities should ensure that:</p> <ul style="list-style-type: none"> Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation <p>and</p> <ul style="list-style-type: none"> Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest. 	<p>Responsibility for approval and review of the Investment Strategy of the Essex Pension Fund has been delegated to the Investment Steering Committee (ISC). Every quarter, the ISC reports its activity to the Essex Pension Fund Strategy Board (the Strategy Board), the body with overall responsibility for the Essex Pension Fund.</p> <p>The day to day running of the Fund has been delegated to the S1510. The ISC is supported by the S1510, the Director for Essex Pension Fund and other Fund officers.</p> <p>Institutional investment advice to the ISC and Fund Officers is commissioned from Hymans Robertson. Furthermore, the Fund is supported by Mark Stevens, the independent investment adviser.</p> <p>An on-going programme of training for Members of the ISC and Strategy Board is in place based on the CIPFA Knowledge & Skills Framework. The Training Strategy is periodically reviewed to ensure it is fit for purpose. Member training is also recorded and feeds into the scorecard which is reported to the Strategy Board on quarterly basis.</p> <p>Fund Officers hold relevant qualifications and maintain appropriate on-going professional development (CPD).</p> <p>The Essex Pension Fund is a member of the CIPFA Pensions Network.</p>	<p>On-going Member and Fund officer training.</p>

Essex Pension Fund

Investment Strategy Statement

Description of Principle	Essex Pension Fund's position	Future actions
<p>2. Clear objectives</p> <p>An overall investment objective(s) should be set for the fund that takes account of the scheme liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be communicated to advisers and investment managers.</p>	<p>The Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS) set out the Essex Pension Fund's primary funding and investment objectives.</p> <p>Specific investment objectives are in place for each mandate in the portfolio, and these are regularly monitored by the ISC.</p> <p>The Strategy Board has also agreed and reviews periodically a series of objectives across five areas: Governance, Investment, Funding, Administration & Communications. Progress against objectives is monitored regularly by the Fund's scorecard. These objectives include:</p> <ul style="list-style-type: none"> • Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise; • Maximise the returns from investments within reasonable risk parameters; • Manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption, where necessary, of employer specific funding objectives; • Recognise in drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible; and • Communicate in a friendly, expert and direct way to our stakeholders, treating all our stakeholders equally. 	<p>Continual monitoring and review of objectives.</p>

Essex Pension Fund

Investment Strategy Statement

Description of Principle	Essex Pension Fund's position	Future actions
3. Risk & liabilities <ul style="list-style-type: none"> In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of their liabilities. These include the implications for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk. 	<p>Following each triennial valuation, the ISC re-assess the investment strategy in light of the updated information on the structure of liabilities. Asset / Liability studies have been used in the past.</p> <p>Whilst it is accepted that investment underperformance due to certain market conditions can occur, the ISC measures active managers against longer term benchmark outperformance targets.</p> <p>The strength of covenant of participating employers is considered in the formulation of the FSS.</p> <p>The admission of new employers into the Fund is not granted unless appropriate guarantees are put in place.</p> <p>Investment risks are highlighted within the ISS. A Register of risks of not achieving each of the Funds objectives is maintained and reviewed on a quarterly basis.</p>	<p>The ISC is scheduled to consider an asset liability study based on the outcomes of the 2019 Valuation, in 2020.</p>

Essex Pension Fund

Investment Strategy Statement

Description of Principle	Essex Pension Fund's position	Future actions
<p>4. Performance assessment</p> <p>Arrangements should be in place for the formal measurement of investments, fund managers and advisers</p> <p>Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members</p>	<p>The performance of the Fund and fund managers is monitored each quarter by the ISC, and all fund managers are held to account through meetings with the ISC and/or the Fund's officers and advisers.</p> <p>Performance data is provided by a specialist provider, independent from the fund managers.</p> <p>The Fund's contracts with its advisers are market tested when appropriate.</p> <p>An effectiveness review of both the Strategy Board and ISC is undertaken periodically with the outcome of this review reported back to the Strategy Board. Included are an assessment of both the Strategy Board & ISC's effectiveness and that of the support received from Fund Officers and Advisers.</p> <p>As part of the Competition and Markets Authority (CMA) requirement the Fund in November 2019 set strategic objectives for its Institutional Investment Advisers, Hymans Robertson which they will be measured against using established long-term investment objectives for the Fund as the basis. Progress will be monitored periodically, and a formal assessment undertaken on an annual basis.</p> <p>Strategy Board & ISC attendance and training outcomes are measured in the quarterly scorecard.</p>	<p>A further effectiveness review is scheduled for 2020/21</p> <p>A formal assessment is scheduled for Q4 2020/21</p>

Essex Pension Fund

Investment Strategy Statement

Description of Principle	Essex Pension Fund's position	Future actions
<p>5. Responsible ownership</p> <p>Administering authorities should:</p> <p>Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.</p> <p>Include a statement of the authority's policy on responsible ownership in the Statement of Investment Principles.</p> <p>Report periodically to members on the discharge of such responsibilities.</p>	<p>The Institutional Shareholders' Committee Statement of Principles has been superseded by the Financial Reporting Council's (FRC) UK Stewardship Code and it is now the standard for the investment management industry</p> <p>The Fund's Investment Strategy Statement includes the following:</p> <p><i>"The Fund fully supports the UK Stewardship Code and requires those of its investment managers who hold shares on its behalf to comply with it or to provide the ISC with an explanation of why it is not appropriate to do so, in the exercise of the mandate that they have been given, and how they will instead achieve and demonstrate the same level of responsible share ownership."</i></p> <p>Investment Manager reports circulated to ISC Members include details of voting records.</p>	<p>Undertake a review of the revised UK Stewardship Code</p>

Essex Pension Fund

Investment Strategy Statement

Description of Principle	Essex Pension Fund's position	Future actions
<p>6. Transparency & reporting</p> <p>Administering authorities should:</p> <p>Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives;</p> <p>and</p> <p>Provide regular communication to members in the form they consider most appropriate.</p>	<p>Each quarterly meeting of the Board includes a review of the Fund's Business Plan and Risk Register. Furthermore, a detailed scorecard is used to monitor progress against the stated objectives. Agenda papers are published on the internet and the meetings are open to the public.</p> <p>An Employers' Forum is held periodically either in person or by use of webinar technology and includes presentations from the Board Chairman, Fund Officers and Advisers as well as the opportunity for questions to be raised.</p> <p>The Fund's website is www.essexpensionfund.co.uk and includes the:</p> <ul style="list-style-type: none"> • 3 Year Business Plan • Annual Report and Accounts • Funding Strategy Statement • Investment Strategy Statement • Governance Policy and Compliance Statement; and • Communications Policy <p>Individual scheme members receive newsletter updates throughout the year in addition to annual benefit statements.</p>	

Essex Pension Fund

Investment Strategy Statement

Definition of Terms

AAF0106	Internal Control report undertaken by an external auditor
ACCESS	A Collaboration of Central, Eastern and Southern Shires
ACS	Authorised Contractual Scheme
CIPFA	Chartered Institute of Public Finance and Accountancy
CPD	Continuing Professional Development
CPI	Consumer Price Index
ECC	Essex County Council, Administering Authority of Essex Pension Fund also known as Scheme Manager
ESG	Environmental, Social & Governance
EY	Ernst & Young
FRC	Financial Reporting Council
FSS	Funding Strategy Statement
FTSE	Financial Times Stock Exchange
GDP	Gross Domestic Product
IPD PPFI	Pooled Property Fund Index
IRR	Internal Rate of Return
ISC	Investment Steering Committee
ISS	Investment Strategy Statement
LA	Local Authority
LAPFF	Local Authority Pension Fund Forum
LGPS	Local Government Pension Scheme
LIBOR	London Inter-Bank Offer Rate
MiFiD II	Markets in Financial Instruments Directive
MSCI AC	Morgan Stanley Capital Index All Countries
MSCI EM	Morgan Stanley Capital Index Emerging Markets
OECD	Organisation for Economic Cooperation and Development
PAB	Essex Pension Fund Advisory Board
PSB	Essex Pension Fund Strategy Board
S151O	Section 151 Officer
SDLT	Stamp Duty Land Tax
SIP	Statement of Investment Principles

Essex Pension Fund Investment Steering Committee	ISC 05
Date: 21 October 2020	

Financial Reporting Council (FRC) UK Stewardship Code 2020

Report by the Independent Investment Adviser, Mark Stevens in consultation with the Interim Director for Essex Pension Fund, Investment Manager and Hymans Robertson

Enquiries to Jody Evans 03330 138489

1. Purpose of the Report

- 1.1 To provide the Committee with an overview of the updated Financial Reporting Council (FRC) UK Stewardship Code 2020 as it relates to asset holders.
- 1.2 The report consists of an introduction to the Code followed by an itemised “RAG” table indicating the estimated current readiness of Essex Pension Fund (EPF) against each of the twelve principles and the necessary enhancements required to become a signatory.
- 1.3 The report also provides an outline of the potential next steps for the EPF to build the necessary stewardship reporting framework suitable to become a signatory to the Code for 2022.
- 1.4 Appendix 1 details each of the Code principles and provides analysis on the type of information and data the Code requires EPF to submit to be compliant.

2. Recommendation

- 2.1 That the committee should:
 - note the report and the accompanying summary table and appendix;
 - discuss the scope of the new Code and the implications for EPF;
 - discuss the resources that will need to be deployed in order to become signatories; and
 - recommend that EPF commit to becoming a signatory of the Code for March 2022.

3. Introduction and background information

- 3.1 This report sets out the necessary steps to be undertaken by the Essex Pension Fund (EPF) in order to become a founder signatory to the new 2020 UK Stewardship Code. Introduced by the Financial Reporting Council (FRC), the 2020 Code is more comprehensive than the original 2012 Code and sets higher stewardship standards for signatories.
- 3.2 The new Code took effect from 1st January 2020 and organisations may begin applying the principles embedded in the Code from that date. The deadline for those organisations wishing to be considered for the first list of signatories is 31st March 2021.
- 3.3 The report submitted at this time will cover the period 1st January-31st December 2020. It is anticipated that the FRC will complete their assessment of the submitted reports over the summer 2021. Signatories that meet the FRC's expectations will be included in a single list published for each type of applicant. EPF will be assessed as an asset owner. The FRC have stated that the initial signatories will not be graded or tiered in anyway. It is not anticipated that EPF will seek to submit a report for March 2021. Rather information will be documented during 2021 for a submission in 2022. Although not confirmed the FRC may have introduced some grading or tiered structure by this date.
- 3.4 There are a number of new features for the 2020 Code that make it significantly more demanding to become a signatory than the 2012 Code. Stewardship is newly defined as "the responsible allocation, management and oversight of capital to create long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society".
- 3.5 The new Code is wider in scope and covers issues such the signatories' culture, values and business model. It includes all asset types and geographies and has a focus on outcomes and actions (not just policies). The reporting requirements for listed equity have been enhanced and expanded.

4. Information on the 2020 UK Stewardship Code for asset owners such as the Essex Pension Fund

- 4.1 The updated 2020 Stewardship Code sets high stewardship standards for three distinct groups: asset owners; asset managers; and service providers. If the EPF decided to become a signatory, it will report on the principles set out in the Code for asset owners.

- 4.2 The Code comprises a set of twelve 'apply and explain' principles for asset owners. The report is expected to contain information in the following format.
- Context (why are we doing this?)
 - Activities (what are we doing, how are we engaging?)
 - Outcomes (what are the desired consequences, have these been achieved?)
- 4.3 The Code is not prescriptive in terms of approach and allows organisations to tailor their submission aligned with their own business model. It will be necessary for EPF Officers and Committee Members to agree an approach to applying the Code that is suitable to the organisation in terms of resource allocation and working with the various stakeholders.
- 4.4 The submission to the FRC is expected to be a single document, which gives a clear picture of how EPF has applied the Code over the previous twelve-month period. The focus of the report should be on activities and outcomes rather than on policies. It may be necessary to provide details such as case studies and relevant data where this will help provide a good understanding to the reader.
- 4.5 As an asset owner EPF will be outsourcing the specific engagement activities to asset managers who are employed by the Fund. It will be necessary to define a set of reporting criteria with each of the managers that will in turn feed into the overall reporting process going forward. The new Code is focused on outcomes achieved and activities undertaken rather than simply reporting on policies, this will need to be reflected in the reporting criteria agreed.
- 4.6 It also extends the scope of the Code beyond listed UK equity to all asset classes. This will in turn require that asset owners develop policies and engagement practises with all mangers employed including alternative assets and private market investments where these are owned.
- 4.7 Over the recent past the Committee together with Officers and Advisers have undertaken a substantial amount of work to develop a set of Responsible Investment (RI) beliefs and priorities. These have been incorporated into an updated Investment Strategy Statement (ISS).
- 4.8 In order to comply with the Code, it will be necessary to document how the principles that are incorporated into the ISS/RI policy of the Fund are monitored and implemented by the asset managers employed by the Fund. It will also be necessary to have the ability to demonstrate where the

implementation of the RI policy by the underlying managers has delivered positive outcomes over the period.

- 4.9 The Code reporting should be fair, balanced and understandable. This includes information on setbacks experienced and lessons learnt and information on where desired outcomes are expected to take longer than a year.
- 4.10 The table below sets out the twelve principles of the FRC 2020 Stewardship Code listed as P1 to P12 in three sections. Full explanation of the Principles can be found at Appendix 1. The RAG colour coding is an estimate of the current progress of the EPF in relation to completing a submission for each principle. The additional columns give a brief description of each principle and its objective. There follows, some high-level comments on the current status of EPF in fulfilling the principle and an estimate of the level of resource required to complete the outstanding work (low, moderate or substantial).

Purpose and Governance	Principle description	Stewardship Objective	Current Status	Resource Requirement	Comments
P1	Purpose of EPF and investment beliefs	Understanding of the strategy and culture of the signatory	Updated ISS and /RI workshops completed	Low: as majority of information already available	Anticipated to be a one-off documentation exercise, with periodic review
P2	EPF internal governance structure and resources	Identification of the governance structure and resources	Documentation of the governance structure and personnel and training will be required much already exists	Low: this will be a matter of formalising and documenting the various governance roles	Much of this documentation already exists it will be a matter of making it Code ready
P3	Management of conflicts of interests	Detail how any actual or potential conflicts are handled	Managers will need to be contacted about how conflicts are managed on behalf of the Fund	Moderate: initial documentation of process will be available with minimum updates needed for future submissions	ACCESS will need to provide updated information on this principle for pooled assets

Purpose and Governance	Principle description	Stewardship Objective	Current Status	Resource Requirement	Comments
P4	Identification / monitoring of systemic risks	Detail role played in industry initiatives in improvement of financial system	Mainly for fund manager input although integration into risk register seems appropriate	Moderate: another input from manager monitoring templates	Risk controls and fund rebalancing can be documented for this principle
P5	Review of effectiveness	Requirement to review and monitor policies for effectiveness	A review process will need to be agreed with managers	Substantial: requirement in the build out phase also impacts P10	A review structure will need to be agreed with every manager employed by the Fund
Investment Approach					
P6	Communication of stewardship approach to beneficiaries	EPF need to communicate why the stewardship activities adopted are appropriate for beneficiaries	Much of this can be derived from the ISS and the included in regular updates	Low: in terms of additional workload, some enhancements may be required to website or newsletters	The regular communication to beneficiaries either directly or via website can be repurposed to fulfil this principle
P7	Integration of Environment, Social and Governance (ESG) / RI policy in appointment of managers	Need for the integration of ESG/RI policies into mandate awards and on-going monitoring	Although this principle is partly implemented more work on evidencing will need to be carried out	Moderate: This work will form part of building of the manager reporting templates and a review of ITT processes	The on-going integration will be included on manager reporting templates. ACCESS will ultimately be involved.
P8	Monitoring, accountability and holding to account of managers and service providers on RI/ESG policy issues	Requirement to hold managers to account confirmation that assets run in line with RI policy	The existing process will need to be enhanced, documented and implemented	Substantial: Development of the enhanced monitoring process and reporting template will evolve into a regular review and engagement process with managers	Linked with P7 This can be thought of as the core BAU outcome of becoming a signatory to the Code.

Purpose and Governance	Principle description	Stewardship Objective	Current Status	Resource Requirement	Comments
Engagement					
P9	Engagement with issuers	Signatories via representatives should engage with issuers	Details of manager engagement and outcomes will need to be documented and evidenced	Substantial: although the data will be provided by managers a substantial amount of collation and documentation required	Linked to P7 and P8 This one of the major on-going tasks for signatories
P10	Collaborative engagement	Covering both direct EPF collaboration i.e. LAPFF and manager collaboration i.e. Climate 100+ UN PRI	Reporting and evidence process will need to be developed with managers	Moderate: the submission will need to provide specific examples of collaboration and outcomes	This will need to be incorporated in the manager monitoring template
P11	Escalation policy towards issuers	Explain the expectations for escalation set for asset managers of the Fund	This has not been formally agreed and will need to be included in the review policies developed with managers	Low: the additional information required for this principle can be included in the manager templates	Thought will need to be given for how different asset types are treated in this regard
Exercising rights & responsibilities					
P12	Exercising of rights including voting policy	Signatories must actively exercise rights across all geographies	Although voting policy is in place additional work will be required for other asset classes. Also, an important role for ACCESS	Moderate: a process and policy will need to be agreed with all managers including an on-going review process	This principle will form part of the extensive ESG/RI template used for monitoring external managers across multiple principles

5. Possible next steps for Essex Pension Fund for the period Q4 2020- Q1 2021

- 5.1 Although there are twelve principles and a large amount of reporting required to become a signatory, it is entirely feasible and a worthy aspiration for EPF to become a signatory of the Code.
- 5.2 A submission by the first deadline date of 31st March 2020 would put a very significant strain on Officers and existing resources particularly in the presence of other major developments in the LGPS including McCloud, the new £95,000 cap, Goodwin and the Scheme Advisory Board Cost Cap Review. Becoming a signatory for March 2022, however, remains a realistic target.
- 5.3 There are a number of factors that make such an undertaking possible, although still very demanding in terms of resources and time. Although there are twelve separate principles a number of these overlap to some extent and procedures developed and information gathered for some of the principles can be applied to others where appropriate. The initial information gathering, development and collation of manager data will be a substantial task and will be the first phase of the project. This process will need to start during early 2021 at the latest in order to deliver the required information throughout the year.
- 5.4 There will be other LGPS funds that are in the process of assessing the feasibility of becoming signatories to the Code. In preparation of this paper there has been some anecdotal evidence that a number of funds have found that the amount of work and preparation required in becoming a signatory is prohibitive at this time. It would be beneficial that as an early step in the process of scoping this project that as much information as possible is gathered from other LGPS funds and pools, about possible pitfalls, expected workload and resource requirements.

6. Suggestions and observations for the initial phase of the project

- 6.1 Suggested actions for the initial phase of the project include:
 - Scope out the resource requirements for the initial preparatory work; development of the reporting process, collation of data and on-going activities.
 - Obtain approval for resource allocation if required.

- The allocation of resources and development of the initial process will need to be achieved under COVID-19 working protocols, which could influence the amount of resource that will need to be utilised in the initial period.
- Undertake a gap analysis against the Code for all aspects of the currently specified ESG/RI Code adopted by the EPF to determine what additional steps will need to be taken in order to become a signatory.
- Review the ACCESS manager questionnaire on ESG/RI look to incorporate relevant data and information into EPF reporting requirements.
- Develop a comprehensive reporting template and process with the fund managers across every asset class, which will provide RI ESG data that is sufficiently detailed and accessible to be included in the submission.
- Communicate with managers what the expected outcomes of the RI engagement process they undertake on behalf of the scheme are and how these should be reported. Define the expectations that EPF has in relation to the various principles.
- Review communications to stakeholders and enhance where necessary. Document exiting achievements in this area.
- Review collaborative undertakings currently in place including LAPFF and the role of ACCESS. In addition, review the external managers collaboration and gather information on activities and successes. Include other ESG related engagements that sit outside the Code including the work of United National Principles of Responsible Investment (UN PRI), Climate Action 100+ and the use of such reporting benchmarks as Global Real Estate Sustainability Benchmarks (GRESB). Establish how these additional standards will enhance the submission.
- Develop and document a strategy of escalation with the external managers and undertake any outstanding escalations.

6.2 The initial report will cover the whole of 2021 and as such evidence of achievements will need to be gathered over the entire period. It is expected that this will be a significant task for the first few quarters but will be less of a time-consuming issue as the data and information is submitted by managers on a quarterly basis over the year.

7. Initial conclusion prior to undertaking a formal scope of the project

- 7.1 Becoming a signatory to the 2020 UK Stewardship Code with a submission made in 2022 will be a significant undertaking for EPF. It will require dedicated resource in the initial set up and data-gathering phase. This phase will need to begin as soon as practicable during the final quarter of 2020 or early 2021.
- 7.2 Much of the initial work will be a data gathering exercise with the scheme's fund managers and the development of reporting templates that will provide the information required by the various principles of the Code. It would also be useful to gather as much information as possible from other LGPS funds and pools about their experience and approach to the Code. Learning from the experience of others who will be further into the process should be a very valuable exercise and could well save time and resources.
- 7.3 There will also be a substantial amount of work involved with documenting the ESG/RI policy work developed by EPF during 2020 for inclusion in the submission.

8. Financial and Resource Implications

- 8.1 Signing up to the 2020 Stewardship Code would impact on current internal resources within EPF.
- 8.2 In addition, this could potentially impact the 3rd Party Supplier Budget that has been set for 2020/21 and would need to be considered when formulating the 2021/22 Budget.

9. Communication Implications

- 9.1 A review of the EPF Communications Policy may need to take place to incorporate any potential communication requirements of signing up to the 2020 Stewardship Code.

1. Detail on the principles of the Code and the reporting requirements for signatories

- 1.1 Listed below are the twelve principles that are included in the 2020 UK Stewardship Code and relevant to an asset owner such as the Essex Pension Fund. The principles are grouped into four main sections. In producing a submission for the Code by the deadline of 31st March 2021 all the following sections will need to be included in the report.

2. Code Section 1: Purpose and Governance

Principle 1: “Signatories’ purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society”

- 2.1 The report will need to explain the purpose of the EPF, what it exists to do and the investment beliefs that are in place while carrying out this purpose. The report will require an explanation of what factors are considered important for the desired outcomes and why. Overall business model and strategy should also be included.
- 2.2 The outcome will be an explanation of how investment beliefs have guided stewardship and decision-making. Completing principle 1 would be possible in a moderate amount of time and would draw on work carried out during the RI workshops and ISS. It would remain valid for future submissions.

Principle 2: Signatories governance, resources and incentives support stewardship

- 2.3 Detail will need to be submitted on the governance structure that is in place and how resources are used to support stewardship. There will need to be a detailed report on these governance structures and why these were chosen. Mention will be made of how the stewardship function is resourced in terms of personnel, including the seniority and training of relevant staff.
- 2.4 Also detailed should be the services provided by external providers including research and analysis. The role and training of the Investment Committee will be relevant for this principle. The expected outcome will be an indication of

the effectiveness of the chosen governance structure in supporting stewardship and detail of any potential areas of improvement.

Principle 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first

- 2.5 This principle details how conflicts of interest are handled and how the best interests of beneficiaries are maintained. Signatories should explain how conflicts are identified and managed including details of any actual or potential conflicts related to stewardship.
- 2.6 This section will be fairly straightforward to complete, although it will need to include input from fund managers on how they handle such matters on behalf on the scheme. An area where some additional information will need to be obtained is in the area of conflicts that might occur with the ACCESS pool or where conflicts arise with the policies of other ACCESS members. A clear conflicts policy will need to be established with the Joint Committee and ACCESS.

Principle 4: Signatories identify and respond to market wide and systemic risks to promote a well-functioning financial system

- 2.7 Signatories need to explain how they identify, respond and monitor market-wide and systemic risks to promote a well-functioning financial system. Detail of the role played in industry initiatives and how the scheme has worked with other stakeholders to promote improvement of function in financial markets.
- 2.8 Aspects of this principle may not be relevant to EPF as an asset owner. The outcome expected from this principle is that signatories should be able to disclose an assessment of their effectiveness in identifying and responding to market and systemic risks. This sits within the area of risk control, diversification, benchmarking and hedging.
- 2.9 Details of the rebalancing process carried out by the fund would also fall into this area of disclosure. Systemic risks cover issues such as climate change and business or market failures these can be covered by the interactions and governance process applied to the individual managers.

Principle 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities

- 2.10 Signatories will need to explain how their stewardship policies are reviewed and monitored for effectiveness. What internal and external assurances are in place to demonstrate effective stewardship and why have these been chosen. How has the scheme ensured that stewardship reporting received is fair, balanced and understandable?
- 2.11 The aim here is to demonstrate that there is continual improvement in stewardship policies and practice and there is confidence in the information that is being obtained from stewardship activities carried out on behalf of the Fund (by external managers) is accurate.
- 2.12 Although this will be a time-consuming piece of work it will be achievable for EPF to put in place for the initial deadline. Internal assurance can be from Internal Audit or senior staff and external assurance can be received from independent third parties and this could include Hymans Robertson or Aon and there may also be a role for the ACCESS and Link operations.

3. Code Section 2: Investment Approach

Principle 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them

- 3.1 This principle will require the scheme to publish the details of the profile of the membership the nature of the liabilities and the investment time horizon that is used and why this is appropriate.
- 3.2 Signatories need to take account the beneficial needs of the membership and communicate activities and outcomes of their stewardship and RI approach to them. Outcomes include how the effectiveness of the RI policy is evaluated and the methods employed to form the policy. Details of the various consultations with beneficiaries that have been carried out will also need to be reported.
- 3.3 There is a lot of detail in the Code on this principle and any submission will need to include a full explanation of how the RI Policy of the Committee was formed and which stakeholders were involved in the process, which views were sought. This will be a substantial piece of work for the first year but much easier in later years. The training and workshops undertaken by the

Committee combined with the consultation with the various stakeholders will form the basis of this response.

Principle 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities

- 3.4 Signatories will need explain how they have integrated their ESG policies throughout the entire process of awarding mandates and on-going monitoring of managers including exiting of mandates. Any different approaches that have been adopted between asset classes and geographies should also be included and explained.
- 3.5 Where new tenders have been undertaken these should include all material ESG issues and a requirement to integrate stewardship into the investment process. There will need to be an explanation of the RI/ESG issues prioritised and how these issues are accounted for before making the initial investment decision/mandate award, how during the investment period these priorities remain integrated as well as their impact on decisions relating to exiting an investment.
- 3.6 This is a major principle and will be the output from a fully integrated RI/ESG policy, it will be necessary to explain how the RI/ESG policy operates and informs all aspects of the investment monitoring of managers and assets in the fund.
- 3.7 This principle is the output of all the work that will need to be in place before signing the Code. The outcome of this principle will be an explanation of how information gathered throughout the stewardship policy has informed the awarding of mandates and the on-going monitoring of managers for the scheme. Reference should also be made of how these procedures have best served the beneficiaries of the scheme.

Principle 8: Signatories monitor and hold to account managers and/or service providers

- 3.8 Signatories need to monitor and hold to account managers and or service providers. An explanation should be given in the report how the monitoring of managers is taking place it should also cover where the managers have delivered on the needs of the scheme and where they have not. The example given in the Code for asset owners reiterates the need to monitor investment

managers making sure that the assets have been run in alignment with the RI policies of the scheme.

- 3.9 This principle is similar to principle 7 above but this covers the day-to-day BAU of monitoring where principle 7 focuses more on how stewardship and ESG are integrated into mandate specification.
- 3.10 The information for principle 8 will be available from the managers and form part of on-going reporting back to the scheme that will be put in place. Pulling all this together and reviewing all the information will be a major task given the number of relationships that exist in the Fund.
- 3.11 One of the major changes to the 2020 Code from the 2012 version is the inclusion of all asset classes and geographies so every manager will need to be included. The development of the manager reporting templates and the development of the process for collection and processing will be one of the first major tasks undertaken if the Committee moves forward with the proposal to become a signatory.

4. Code Section 3: Engagement

Principle 9: Signatories engage with issuers to maintain or enhance the value of assets

- 4.1 Signatories should explain the expectations they have set for fund managers who engage on their behalf. Detail how the priorities for engagement have been arrived at and provide examples of the precise objectives of this engagement and the various methods that have been used. The reasons for the adopted approach will need to reference disclosures in principles 1 and 6 above.
- 4.2 Signatories via their representatives should engage with issuers, this could be in many different forms including meeting with the Chair and Committee Members and management, raising concerns in a written format as well as working alongside other asset owners and investor organisations.
- 4.3 This part of the report is entirely manageable and will be a formal documentation of ESG engagement activities carried out by the scheme's fund managers. However as with many of the principles it will take coordination at the EPF to document the specific outcomes achieved and the on-going status of engagement projects. These types of activity would be suitable for Hymans Robertson to collate on behalf of the Fund if resourcing was an issue.

Principle 10: Signatories, where necessary, participate in the collaborative engagement to influence issuers

- 4.4 Signatories should disclose what collaborative engagement they are involved in and why. This can be a report of both direct collaborative engagements by EPF and/or that carried out by external managers in collaboration. In terms of the written submission this would involve giving examples of where collaboration has taken place.
- 4.5 Outcomes should detail actual changes made by companies as a result of the engagement and how outcomes have informed investment decisions. Much of the emphasis here will once again be on the asset managers however for EPF it will be possible to highlight the work of Local Authority Pension Fund Forum (LAPFF) and seek to influence LAPFF in terms of activities undertaken, particularly when working with other ACCESS funds.
- 4.6 Some LGPS funds have signed up to Climate Action 100+, which would be an example of collaborative engagement. There are many initiatives that are being undertaken by the scheme's managers that would form part of this submission.

Principle 11: Signatories where necessary, escalate stewardship activities to influence issuers

- 4.7 Signatories will need to explain the expectations for escalation they have set for asset managers working on their behalf. Some examples of how the escalation policy differs between asset types and geographies should be included.
- 4.8 Outcomes will include whether any changes or action has resulted from the escalation and how the outcomes of escalation have influenced investment behaviour in terms of buy sell hold. Most escalation of this type relating to governance issues will be in the hands of the asset managers.
- 4.9 In terms of EPF reporting as a signatory it will be a matter of collecting the information from fund managers and holding them to account for how they are progressing with the various ESG issues they are tracking within their portfolios and importantly how their investment activity is being driven by the outcomes of the various escalations.
- 4.10 In addition, EPF may on occasion need to escalate issues directly with fund managers relating to the activities and culture of the managers themselves. Any such escalation would also form part of the submission on principle 11.

5. Code Section 4: Exercising rights and responsibilities

Principle 12 Signatories actively exercise their rights and responsibilities

- 5.1 Signatories must actively exercise their rights and responsibilities. For listed equity this will be a minimum of having a voting policy. But all asset classes will need to be addressed. Also, explanation will need to be given as to how rights are exercised in different geographies and for alternative assets.
- 5.2 The output of this principle is mainly in the hands of asset managers employed by the scheme, but thought will need to be given as to how to monitor this in the pooled funds of ACCESS. Work will need to be done to understand how rights and responsibilities operate in alternative assets before this submission deadline.

Essex Pension Fund Investment Steering Committee	ISC 06
Date: 21 October 2020	

Schedule of Future Meetings and Events

Report by the Compliance Manager

Enquiries to Amanda Crawford on 03330 321763

1. Purpose of the Report

- 1.1 To provide the Committee with an update on the schedule of future meetings and events.

2. Recommendation

- 2.1 That the Committee:
 - note the new date and time of the November training session;
 - advise Fund Officers which events they would like to attend; and
 - note the content of the report.

3. Background

The Committee were made aware, at their meeting on 27 November 2019, that future meetings and events would be brought to each meeting to enable, where required, the process of approval by the Foreign Travel Committee for attendance at any conferences/seminars be incorporated within the Committee's timetable.

4. Upcoming Event(s)

- 4.1 Due to the current restrictions in place as a result of the Covid-19 pandemic, there are no upcoming events that require travel to note. However, there is an increase in webinars being hosted by various organisations within the LGPS and Fund Managers. As and when any such webinars are announced, the Compliance Team will provide the Committee with a communication to invite all Members to register for the event should they wish to do so.

Date	Title	Venue	Action
Thursday 5 November	Partners Group	Virtual Conference	To notify Amanda.crawford@essex.gov.uk by COP Thursday 22 October if any Member wishes to attend
Tuesday 10 November	Longview Partners Client Conference	Virtual Conference	To notify Amanda.crawford@essex.gov.uk by COP Monday 2 November if any Member wishes to attend

5. Schedule of Meetings

- 5.1 The meeting dates/times for the Committee to note are:

Investment Steering Committee	
Wednesday 20 January 2021	10am – 4pm
Wednesday 24 March 2021	10am – 1pm

In-house Training Days	
Wednesday 11 November 2020	10am – 4pm

- 5.2 Please note that the timings of the above named meetings may change dependent on the way the meetings are hosted (Committee Room 2 or Virtual).

6. Finance and Resources Implications

- 6.1 If an event costs more than £500 for one member or £1,000 in total, then prior approval for any travel by the Foreign Travel Committee is compulsory .

7. Background Papers

- 7.1 Schedule of Future Meetings and Events, ISC 07 – 27 November 2019.

