

Minutes of the Meeting of the Essex Pension Fund Investment Steering Committee (ISC), held in Committee Room 1 at 10:00am on 23 February 2022**1. Membership, Apologies and Declarations of Interest**

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

Membership**Present:****Essex County Council (ECC)**

Cllr S Barker (Chairman)
Cllr M Platt (Vice Chairman)
Cllr A Goggin
Cllr A Hedley
Cllr D King

Scheme Employer Representative

Cllr C Riley (Observer) (left 1:07pm)

Scheme Member Representative

Sandra Child (UNISON) (Observer)

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

Jody Evans	Director for Essex Pension Fund
Samantha Andrews	Investment Manager
Amanda Crawford	Compliance Manager
Helen Pennock	Compliance Analyst
Ajai Ajith	Compliance Analyst (via zoom)
Mark Stevens	Independent Investment Adviser (IIA)
John Dickson	Hymans Robertson
Samuel Hampton	Hymans Robertson

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

Andrew Coburn	Scheme Member Representative UNISON
Stuart Roberts	Scheme Member Representative
Christopher Downes	Scheme Member Representative
Cllr Barber	Employer Representative
Cllr Bracken	Employer Representative

Members noted that the meeting would be recorded to assist with the production of the Minutes for the meeting.

Opening Remarks

The Chairman welcomed the Committee, Observers and Advisers to the meeting. It was noted that Cllr Platt would be slightly delayed due to a previous meeting over running.

Apologies for Absence

It was noted that ISC Members, Cllr Souter, Cllr Hoy and Substitute Members Cllr Durham and Cllr Mackrory had sent their apologies along with PSB Members Cllr Dent and Rachel Hadley and PAB Members Nicola Mark, Cllr Duffin, Debs Hurst and James Durrant.

Declarations of Interest

Declarations were received from:

Cllr S Barker declared she was in receipt of an Essex LGPS pension and is a Substitute Member on the Audit, Governance and Standards Committee. In addition, she declared that her son was also a member of the Essex Pension Fund and was employed by Essex County Council as a Sustainability Manager;

Cllr M Platt declared that he is a Deputy Cabinet Member and is Vice Chairman of the Audit, Governance and Standards Committee;

Cllr A Goggin declared that his wife and sister were in receipt of an Essex LGPS pension;

Cllr A Hedley declared that he was in receipt of an Aviva Group Pension and he is Chairman of the Audit, Governance and Standards Committee;

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

Cllr Riley and Sandra Child declared that they were in receipt of an Essex LGPS pension.

Resolved:

The Committee noted the report.

2. Minutes of ISC Meeting 29 November 2021

The Minutes of the meeting of the ISC held on 29 November 2021 were approved as a correct record and signed by the Chairman.

The Chairman brought to the attention the Matters Arising, it was noted that:

- a further update in regard to the progress against the Responsible Investment (RI) Project Plan was provided at agenda item 5 including the progression of the Draft Stewardship Code Submission;
- the draft Investment Engagement Strategy was provided at Agenda item 5 for approval, and a further report on the recent engagement meetings with the Fund's Property and Infrastructure Investment Managers was provided at Agenda Item 9c;
- 2% of the Fund had been disinvested from Marathon's global equity mandate and reinvested in M&G Alpha Opportunities Bond Fund, the outstanding IFM capital call of \$100m was funded from Marathon's mandate with the residual Marathon allocation to be considered at a future meeting;
- further top ups of £110m had been committed to J P Morgan Infrastructure Investment Fund and of \$180m to Partners Group Direct Infrastructure 2020 Fund respectively;
- a further £50m had been committed to the Permira Credit Solutions mandate; and
- initial discussions had taken place with the ACCESS Pool to ascertain their appetite for the approaches available in relation to Index Tracking Products.

3. Capital Markets Outlook – Quarter 4 2021 Highlights

The Committee received a report and presentation from Samuel Hampton, Hymans Robertson who gave a brief overview of the recent market and macro landscape.

It was noted that inflation was currently around 5% which was above the Bank rate forecast of 2%.

The Equity market remained strong in quarter 4 despite the economic concerns over the Omicron variant. Further increases in interest rates were expected, which had led to an increase in short term bond yields, however, long-term bonds yields remain largely unchanged.

Rental growth within the industrial property sector continued to grow, whilst rent within the retail sector continued to fall but not at the same rate as previously witnessed.

Resolved:

The Committee noted the content of the report.

4. Essex Pension Fund Treasury Management Strategy

The Committee were provided with an overview of the Treasury Management Strategy. It was highlighted that the Strategy reflected the separate governance arrangements of the Fund.

Members were informed that the content was largely unchanged from the Strategy approved by Members at their March 2021 meeting. However, the following was noted:

- minor revisions had been made to the Treasury Management Practices (TMPs);
- temporary Global Liquidity Fund limits were increased from £200m to £220m to keep in line with the appreciation of the Fund's Value; and
- forecasts had been revised throughout, projecting a small surplus cashflow for both 2021/22 and 2022/23.

Following feedback received from the Chairman, Officers would make a small revision to the Strategy to provide further clarity of the S151 Officer's role with regard to the Pension Fund.

Members praised the documents layout and presentation.

Resolved:

The Committee **approved** the 2022/23 Essex Pension Fund Treasury Management Strategy and noted the content of the report.

5. Responsible Investment (RI)

5a. RI Project Plan Update

An update was provided on the current position against the RI Project Plan noting progress continued to be broadly in line with the agreed targets.

It was noted that since the last ISC meeting engagement meetings had now been held in addition to all the Fund's Equity, and Bond Managers with the Fund's Infrastructure and Property Managers. Members were also advised that O&A would shortly meet with the remaining private equity, timberland and direct leading mandate Managers.

In addition, Members were informed that the Fund had developed an Investment Engagement Strategy and had drafted an initial response to the Fund's UK Stewardship Code Submission which would be discussed at Agenda Item 5b and Item 5c respectively.

Resolved:

The Committee noted:

- progress against the Fund's RI Project Plan and proposed next steps; and
- the content of the report.

5b. Investment Engagement Strategy

The Committee received a report from the Investment Manager which presented the Fund's Investment Engagement Strategy for approval.

It was explained that the Strategy reflected the Fund's RI Policy and its Priorities and formulated the process and approach adopted by O&A and the ISC when undertaking the recent RI engagements with Investment Managers.

In addition, it was noted that included within the Strategy was the Fund's Escalation Policy, outlining the approach that could be taken by the Fund should the engagement progress not be achieving its strategic objectives or in the best interests on the Fund in the long term.

Resolved:

The Committee **approved** the Essex Pension Fund Investment Engagement Strategy and noted the content of the report.

5c. Financial Reporting Council (FRC) 2020 UK Stewardship Code Submission Update

An update was provided on the progress made to date in regard to the Fund's 2020 FRC UK Stewardship Code Submission.

It was noted that a first draft had been shared with the Fund's Institutional Investment Consultant, Hymans Robertson and the Independent Investment Adviser. In addition, Hymans Robertson RI Specialists had undertaken an independent review to ensure that the Submission covered all aspects and requirements under each of the twelve principles.

The next steps were discussed which included:

- Officers take on board the comments from the independent review undertaken by Hymans Robertson;
- inserting further examples as evidence from the recent engagements undertaken with the alternative asset classes investment managers; and
- making reference and include the Fund's Investment Engagement Strategy approved by the Committee at agenda item 5b.

The Committee were asked for their agreement to utilise the Out of Committee Decision Making Process to approve the final Submission in order that the Fund could meet the FRC deadline of the 30 April 2022.

Resolved:

The Committee **agreed** that the Fund adopt the Out of Committee Decision Making process to agree the final Submission in order to meet the FRC's application deadline of 30 April 2022.

The Committee noted:

- the progress to date, the proposed next steps; and
- the content of the report.

5d. Introduction to Impact Investing

John Dickson, Hymans Robertson presented to the Committee a brief overview of Impact Investing.

It was explained that impact investing could be defined in terms of the spectrum of capital where at one end, the 'traditional' approach, deployment of capital was for the sole purpose of financial gain with no other considerations taken into account. Whilst the other end of the spectrum, often referred to as 'philanthropy' there was an acceptance that the investor could suffer total loss of capital, however, this was outweighed by the positive impact made to society.

Members were advised that this item would be discussed further under agenda item 10c.

Resolved:

The Committee noted the presentation.

6. Schedule of Future Meetings and Events

The Committee received a report from the Compliance Manager detailing the agreed schedule of future meetings for the forthcoming municipal year 2022/23 and the proposed provisional meeting dates for 2023/24:

Investment Steering Committee

15 June 2022	10am - 4pm
12 October 2022	10am - 1pm
30 November 2022	10am - 4pm
22 February 2023	10am - 1pm

Proposed meeting dates for 2023/24

14 June 2023	10am - 4pm
11 October 2023	10am - 1pm
29 November 2023	10am - 4pm
21 February 2024*	10am - 1pm

*Subject to change when school term dates are issued

The Committee were also made aware of the forthcoming Local Government Chronicle (LGC) and Baillie Gifford Local Government Pension Scheme (LGPS) Investment Seminar dates.

It was confirmed that once places were allocated for the Baillie Gifford Seminar due later in the year, approval would be sought from the Foreign Travel Committee.

Resolved:

The Committee **agreed**:

- the proposed provisional ISC meeting dates for 2023/24 as detailed in Section 6 of the Report; and
- to note the content of the report.

7. Urgent Part I Business

There was none.

Exclusion of the Public and Press

That the press and public are excluded from the meeting during the consideration of the remaining items of business on the grounds that they involve the likely disclosure of exempt information falling within Schedule 12A to the Local Government Act 1972, the specific paragraph(s) of Schedule 12A engaged being set out in the report or appendix relating to that item of business.

Resolved:

The Chairman brought to the attention the above statement and the Committee **agreed** to proceed.

8. Part Two Minutes of ISC Meeting 29 November 2021

The Part Two Minutes of the meeting of the ISC held on 29 November 2021 were approved as a correct record and signed by the Chairman.

9. Quarterly Investment Manager Monitoring**9a. Investment Tables Quarter ended 31 December 2021**

Mark Stevens, IIA, provided the Committee with an update of the Fund's investment performance for the quarter ended 31 December 2021.

The Committee were pleased to note that the Fund value at 31 December 2021 was £9.629bn. Despite this, however, the Fund underperformed its benchmark by 1.3% in the quarter with an absolute performance of 2.9%, but overall, long-term periods outperformed.

It was discussed that there were no immediate concerns to raise with Members in regard to the Fund's Investment Managers.

One noticeable observation reported was in relation to the Fund completing the transition on 01 December 2021 moving its M&G bond mandate into the Link managed ACCESS M&G Alpha Opportunities Fund. As a consequence, assets under Pooled governance had now increased from 53.5% as at 30 September 2021 to 61.7% as at 31 December 2021.

Resolved:

The Committee noted the content of the report.

9b. Traffic Light Rating Report

Samuel Hampton, Hymans Robertson provided a detailed Traffic Light Rating Report which included their views and RI ratings where available on the Fund's Investment Managers.

Members were provided with a brief overview of each Manager highlighting that no movements in either investment or RI ratings had been recorded since the last meeting. However, attention was drawn to two notable personnel changes since the last update which was discussed by the Committee.

Resolved:

The Committee noted the content of the report.

9c. RI Engagement Report Property and Infrastructure

The Committee received a report from Samuel Hampton, Hymans Robertson on the Engagement activities carried out with the Property and Infrastructure Investment Managers since the last meeting.

The main points from the meetings were:

- overall four Investment Managers were rated as 'Good' with one rated as 'strong' in terms of RI;
- unlike previously with the liquid assets, the nature of these asset classes meant that the 'bottom up' analysis was reliant upon the data provided by the Investment Managers due to there being limited third party data suppliers. However, the data provided was not standardised and varied significantly by manager;
- O&A were content that both property Investment Managers were making progress in respect of their engagement and the integration of Environmental, Social and Governance (ESG) considerations but noted that gaining a greater understanding of the Managers' long-term goals and objectives with respect to improving their own reporting and analysis was an area for further follow up; and
- O&A were also content that all Infrastructure Managers embed ESG considerations and climate risk into their processes and were on the right track in making meaningful progress in regard to their engagements.

Resolved:

The Committee **agreed** that O&A undertake engagement meetings with the remaining Investment Managers who manage the Fund's Private Equity, Direct Lending, and Timber Mandates.

The Committee noted:

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

The Chairman informed Members that the meeting would reconvene at 11:45am following a short adjournment.

The meeting was adjourned at 11:35am

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The Committee reconvened at 11:45am

10. Strategic Implementation

10a. Investment Strategy Decision Framework

John Dickson, Hymans Robertson outlined the Investment Strategy Decision Framework to the Committee.

The Framework was designed to assist the ISC in making clear, structured, context based strategic decisions for the Fund and was based around three key components. These being:

- implementing and maintaining existing strategic targets;
- evolving existing allocations; and
- opportunity identification.

Each of the key components were discussed and in the context of two of the agenda items to be discussed further later in the meeting.

Resolved:

The Committee **approved** the proposed Investment Strategy Decision Framework and noted the content of the Report.

10b. Aligning index tracking solutions to RI beliefs

The Committee received a report from Hymans Robertson which outlined options for consideration as potential solutions to better align the index tracking mandate managed by UBS to the Funds ESG priorities.

Three options were explored and discussed by the Committee from investing in the existing UBS Climate Aware Fund to looking at a totally bespoke option, with the third a hybrid of both.

Resolved:

The Committee **agreed** that:

- the Fund implement a hybrid solution of the UBS climate aware approach and other RI scoring methodologies;
- based on the preferred approach, O&A negotiate/discuss fee, transition, and timescale for implementation points with UBS;
- O&A to bring a report back to a future ISC meeting the outcome of fee, transition and timescale negotiations and advice in relation to global versus regional stock allocations; and
- the content of the report be noted.

10c. Bitesize Training on Impact Investing

John Dickson, Hymans Robertson provided the Committee with a bitesize training workshop in regard to Impact Investing.

It was explained that there were several options open to the Fund to consider from: looking at its existing alternative asset allocations and redirecting future 'top ups' commitments; to more impactful solutions to agreeing a separate new allocation to impacting investing or implementing a combination of both.

Following the earlier introduction, there was an agreement from Members that the Fund over the last few years had moved away from the 'traditional' approach to firming being on the 'sustainable' part of the deployment of capital spectrum but felt that there was potentially opportunity for the Fund to evolve and move closer to having some impact investments.

Members agreed that their strategic approach should be evolutionary rather than revolutionary.

Following the outcome of a discussion that took place it was agreed that impact investing was something that the Committee would like to consider going forward noting that there would be no political biases on the decisions made ensuring transparency throughout.

Resolved:

The Committee **agreed:**

- O&A to ascertain the potential to invest more impactfully within the Fund's existing mandates in the first instance;
- that there was appetite to agree a monetary amount that will be directed to more impact investment over a designated period; and
- a detailed report be brought back to a future meeting for further consideration.

11. Structural Reform of the LGPS – Pooling Quarterly Update of ACCESS Joint Committee (AJC)

The Investment Manager outlined the latest developments in respect of the structural reform of the LGPS.

It was noted that the AJC had met once since the last ISC meeting on the 06 December 2021.

It was explained that the main areas of business discussed that had implications for the Fund were in regard to:

- the S151 Officer recommendation for participating Authorities to accept the 2022/23 ACCESS Budget in support of the 2022/23 Business Plan;
- the update in regard to the Emerging Market (EM) Mandate sub fund slots; and
- confirmation that the Fund had successfully transitioned the Alpha Opportunities fund investment across to ACCESS Link managed sub fund.

It was also noted that any surplus that remained in the ACCESS Budget at the end of the financial year would be paid back to all ACCESS participating Authorities.

Resolved:

The Committee **agreed:**

- ACCESS's 2022/23 Business Plan;
- ACCESS Authorities S151 Officers' recommendation to accept the 2022/23 ACCESS Budget totalling £1.366m (£124k per Authority) to support the 2022/23 ACCESS Business Plan;
- an in-principle decision to transition the EM mandate that is currently managed by Stewart Investors to the ACCESS sub fund(s) when launched; and
- that a formal EM equity proposal be brought back to a future meeting following a review of both EM sub fund strategies in the context of the Fund's overall strategic equity allocation and the final outcome of Link's Fund Solutions (Link) commercial terms negotiations.

The Committee noted:

- the update on progress made against the 2021/22 Business Plan deliverables and Budget forecast;
- ACCESS Pool's key risks, changes to risk profile and risk ratings;
- the general communication update and that media training had now been completed with Engine MHP for the nominated ACCESS Elected member spokespeople;
- the update on progress on the ACCESS Responsible Investment (RI) guidelines and the agreement that the latest draft document be shared with ACCESS Authorities for their feedback;
- that the Contract Manager working alongside, Essex (as procurement Lead Authority) and Squire Patton Boggs (Squires), ACCESS's Legal Advisers were finalising contractual terms with MJ Hudson, the newly appointed Implementation Adviser;
- the performance of sub-funds against benchmark, income generated from stock lending and voting by the investment managers as at 30 September 2021;

- an update on the response to the EM Review including the agreement of the Sub Fund Guiding Principles and adoption of a Protocol in regard to new sub fund requests and that their impact on sub fund creation be subject to a formal review by S151 Officers at their November 2022 meeting;
- an update in regard to the successful launch of two new sub funds: Sterling Investment Credit fund; and M&G Global Alpha Opportunities fund, taking the total number of sub funds launched to twenty-five and progress in regard to future launches including the approval to request to Link the creation of two EM equity sub funds;
- the regular update in relation to Contract and Supplier Relationship Management;
- an update on Business-as-Usual next steps including noting the proposed timeline for the re-procurement of Operator Services when the current Operator Agreement ceases; and
- the Summary Note of 06 December 2021 AJC.

12. Institutional Consultant Review of Competition and Markets Authority (CMA) Strategic Objectives

The Committee received an update from the Investment Manager on the outcome of the annual CMA Strategic Objective Assessment meeting undertaken on 29 November 2021 with the Fund's Institutional Investment Consultant, Chairman, Vice Chairman and Officers of the Fund.

It was noted that this was now the third year of completing such Assessment. It highlighted that the contractual relationship continued to be in a good place and was working well, demonstrating good progress against strategic objectives and that there were no areas of concern identified to be brought to the Committee's attention.

It was explained that CMA requires the Fund to submit an annual Compliance Statement by 07 January 2022 to this end the Fund, submitted its Compliance Statement on 10 December 2021.

Resolved:

The Committee noted:

- the Assessment, as set out in Appendix A of the report, of the strategic objectives of the Fund's Institutional Investment Consultant, Hymans Robertson;
- Fund Officers to periodically monitor and review Hymans Robertson's progress and establish next steps as and when applicable;
- a formal assessment be undertaken in 12 months' time with Hymans Robertson, and the outcome to be reported back to the ISC in Q4 2022/23;
- the Fund's compliance with the requirement to submit a Compliance Statement to the CMA by 07 January 2022 confirming compliance with Part 7 of the CMA, by setting strategic objectives for the investment consultant and then annually thereafter; and

- the content of the report.

13. Urgent Exempt Business

There were none.

There being no further business the meeting closed at 1:13pm.

**Chairman
15 June 2022**

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