

**Essex Pension Fund
Investment Steering
Committee**

ISC 02



Date: 14 June 2023

Investment Strategy Statement (ISS)

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

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This Report requires a decision

Executive Summary

Report Type: Strategic

The Fund is required to maintain an Investment Strategy Statement (ISS) setting out its principles for governing the Fund's assets. The Committee are required to review the ISS at least every three years. The ISS was last approved in October 2020.

Since its publication, the Committee has reviewed all the Fund's investment mandates for alignment to the Fund's Responsible Investment (RI) Policy. This included: transitioning £2.5bn of index tracking assets to sustainable low carbon alternatives; the ISC's agreement to allocate £1bn to impact investing solutions which lead to the Fund's first such investment with a £100m commitment to Stafford's Carbon Offset Opportunity Fund; and the termination of several investment managers mandates for strategies that are better aligned with the Fund's RI Policy and direction of travel.

The ISC formalised its Strategic Decision-Making Framework and developed and adopted its Investment Engagement Strategy, an RI Framework and refined its reporting of its RI Engagement meetings.

The Fund in 2022 was also successful in achieving signatory to the Financial Reporting Council's (FRC) 2020 UK Stewardship Code.

The draft ISS has been updated to reflect these developments and the ISC are therefore requested to approve the release of the draft ISS for a full stakeholder consultation.

1. Purpose of the Report

- 1.1 To present a draft Investment Strategy Statement (ISS) for the Committee's consideration.
- 1.2 To outline a timetable for consultation with stakeholders and further steps.

2. Recommendation

- 2.1 It is recommended that the Committee note:
 - the requirement to produce and publish an ISS and the timetable, as highlighted in section 5;
 - the next steps detailed in Section 6 of this report; and
 - the content of the report.
- 2.2 It is recommended that the Committee **agree**:
 - the draft ISS;
 - that the draft ISS be circulated to stakeholders for consultation;
 - that the ISS be passed to the Essex Pension Fund Advisory Board (PAB) to note; and
 - the outcome of the stakeholder consultation be brought back to the Committee for the next meeting.

3. Background

3.1 The Fund is required to maintain an ISS setting out its principles for governing the Fund's assets. The four main areas are:

1. The Fund's investment strategy and the process for determining suitability;
2. Risk measurement and management;
3. Asset pooling; and
4. Approach to Environmental, Social and Governance (ESG) considerations.

4. Strategic changes since the ISS last publication

4.1 Since the ISS publication in October 2020, the ISC has been implementing its de-risking programme, as and when opportunities arise reducing its allocation from equities to more income generating alternatives with the medium-term aim to target 50% allocation to equities. In addition, the ISC has undertaken considerable work in implementing its RI Policy, in particular reviewing each of the Fund's investment mandates in turn to ascertain their alignment to the Fund's RI Policy.

4.2 This resulted in switching 22.3% (£2.5bn) allocation in index tracking equities traditional market capitalisation indexes and RAFI to both a new ESG sustainable and a low carbon RAFI fund.

4.3 The ISC has also agreed £1bn (25%) of its 'alternative bucket' allocation be invested in 'impact solutions', i.e. *strategies that deliver both positive environmental and social benefits that would not otherwise happen*. To this end, £100m anchor commitment was made to Stafford Carbon Opportunity Fund.

4.4 Termination of two active equity managers and an active bond manager, Marathon Asset Management, Stewart Investors and Goldman Sachs Asset Management respectively.

4.5 Appointment of two active emerging markets managers, Columbia Threadneedle and Robeco (sub fund due to be launched Summer 2023) along with one active bond manager, Janus Henderson.

4.6 The ISC also appointed an additional direct lending manager.

- 4.7 The Fund has implemented its Investment Engagement Strategy and has been carrying out a programme of manager RI engagement meetings with the outcomes reported back to the ISC. This has been enhanced by the adoption of an outcomes-based Engagement Log.
- 4.8 Having agreed climate metrics and undertaken a baseline assessment of the portfolio for 2021, the ISC recently agreed some amendments.
- 4.9 The review of the RI Priorities also resulted in refinement with ‘weapons’ now reading ‘controversial weapons’ and ‘gender diversity’ revised to ‘diversity’. Agreement was also given to focus annually on a subset of priorities with 2023 priorities being: Resource Scarcity (E); Employee Relations (S); Company Board Structure (G); and Climate Change.
- 4.10 The ISC has adopted its Investment Strategy Decision-Making Framework, designed to assist the Committee in making clear, structured, context-based decisions for the Fund and its RI Framework used for integrating the Fund’s RI Beliefs into the overall portfolio construction.
- 4.11 The Fund in September 2022 achieved signatory to Financial Report Council’s 2020 UK Stewardship Code and on 30 May 2023 the Fund submitted its 2023 Submission.

5. Investment Strategy Statement

- 5.1 In light of these strategic changes Officers in consultation with the Fund’s Institutional Investment Consultant and Independent Investment Adviser have updated the ISS. The draft revised ISS is attached at Appendix A.
- 5.2 The table below provides a suggested timetable for the stakeholder consultation and publishing the ISS:

Meeting	Action	Date
ISC	Discuss the draft ISS	14 June 2023
-	Released for a full Stakeholder consultation	July 2023
PAB	PAB discussion	5 July 2023

ISC	Outcome of consultation and agreement of final ISS	11 October 2023
-	Publication on the Fund's Website and within the Fund's Annual Report and Accounts	October 2023

6. Next Step

- 6.1 The Fund will use various methods to communicate the commencement of the consultation period to its stakeholders.
- 6.2 Following its conclusion, the next step is for the outcome to be brought back to the October ISC meeting for Members' consideration.

7. Background Papers

- 7.1 Essex Pension Fund (EPF) - Three Year Business Plan and 2023/24 Budget, PSB 04a, 22 March 2023.
- 7.2 Investment Strategy Statement (ISS) – Outcome of the Stakeholder Consultation, ISC 04, 21 October 2020.
- 7.3 [Investment Strategy Statement October 2020.](#)