

Essex Pension Fund Strategy Board	PSB 09
Date: 04 March 2020	

Investment Steering Committee (ISC) Quarterly Report

Report by the Investment Manager

Enquiries to Samantha Andrews: 0333 0138 501

1. Purpose of the Report

- 1.1 To provide a report on ISC activity since the last Essex Pension Fund Strategy Board meeting.

2. Recommendations

- 2.1 The Board agree:
 - that the report be noted.

3. Background

- 3.1 In accordance with its Terms of Reference, the ISC is required to submit quarterly reports on its activities to the Essex Pension Fund Strategy Board (the Board).
- 3.2 Since the Board's last meeting the ISC has met on one occasion, 19 February 2020.

4. Report of the meeting of ISC on 19 February 2020

- 4.1 A report on Capital Markets outlook was presented to the Committee for noting.
- 4.2 A report was received detailing the process undertaken to date in regard to the review of the Investment Strategy Statement and Responsible Investment (RI). The Committee were reminded of the outcome from the RI workshop held on 25 October 2019 whereby RI beliefs were articulated.
- 4.3 The Committee **agreed** that the RI beliefs subsequently ratified at the November ISC meeting were an accurate reflection and that they had been fully translated into the RI Policy which was presented by Hymans Robertson at the meeting.
- 4.4 It was also **agreed** that the RI Policy presented be incorporated within the revised Investment Strategy Statement and be shared with the Fund's Investment Managers for comment and that the priority areas identified for RI be shared with the Local Authority Pension Fund Forum (LAPFF) and the Fund's Investment Managers as the basis for engagement.
- 4.5 A report tracking progress made to date in regard to the strategy implementation was noted.
- 4.6 The focus of the meeting's business was in regard to the strategic allocation structure review. In particular the completion of Stage 2, *reducing the equity allocation by 10% to 50% target allocation* and commencing consideration of Stage 3, *reducing the equity allocation by a further 5% to 45% target allocation*. This was supplemented with bitesize training presentations from Hymans Robertson of the Fund's current portfolio structure, timber and direct lending asset classes.
- 4.7 It was reaffirmed that in light of the 2019 Actuarial Valuation total Fund results the transfer of up to 15% of the strategic allocation from equities to return seeking alternative assets continues to remain appropriate.

- 4.8 The Committee **agreed**: the increase in the strategic allocation to timber from 2% to 4% of the Fund by increasing the target allocation of the existing manager, Stafford Capital Partners; a £100m commitment to Stafford International Investment Timberland (SIT) IX Fund; and that further consideration be given to Stafford's co-investments as and when suitable opportunities arise.
- 4.9 Consideration was also given to the remaining 2.5% allocation to complete stage 2, with the agreement to increase the strategic allocation to direct lending from 2.5% to 5%, by commencing a procurement process for a new direct lending manager to manage the new 2.5% allocation. Shortlisted candidates will be interviewed by Committee Members at a future ISC meeting.
- 4.10 In regard to Stage 3 considerations, Members requested that further information be brought to a future meeting and that there being benefit in inviting one of the Fund's investment managers to give further training.
- 4.11 Members were reminded of the recent Competition and Markets Authority requirement, that at their November ISC meeting, strategic objectives were agreed for the Fund's Institutional Investment Consultants. Members were notified that on 10 January 2020 a meeting was held with the Chairman, Vice Chairman of the ISC along with Hymans Robertson and Fund Officers to discuss the objectives and agree a baseline assessment. It was noted that progress against these objectives would be periodically monitored by Fund Officers and a formal assessment would be brought back to the ISC in Q4 2020/21.
- 4.12 The Committee received an update outlining the latest developments in respect of the structural reform of the LGPS. Further to the resignation of Cllr Andrew Reid, ACCESS Joint Committee (AJC) Chairman in October, Members were informed that at the recent AJC held in December, Cllr Mark Kemp-Gee (Hampshire) and Cllr Susan Barker (Essex) were elected AJC Chairman and Vice Chairman respectively for a term of two years.
- 4.13 Updates were provided in regard to: the Inter-Authority Agreement; the launch of 4a sub funds; the progress to date of Phase 2 sub-fund seeding arrangements; and the successful appointment of *bfinance* to assist ACCESS with pooling illiquid assets.
- 4.14 The ISC **agreed** ACCESS Authorities S151 Officers' and AJC recommendation to accept the 2020/21 ACCESS Budget totalling £1.080m (£98k per Authority) to support the 2020/21 ACCESS Business Plan.

- 4.15 The Chairman provided an update on the meeting held between each Pool's Joint Committee Chairmen and the Scheme Advisory Board Chairman during January 2020.
- 4.16 Consideration was given to the proposal and rationale for re-tendering of the Fund's Independent Investment Adviser (IIA) arrangements. It was noted that Mark Steven's had undertaken the IIA role for almost five years with the ISC now being well established and to adhere to best practice it was appropriate to put the IIA contract out for tender. It was, therefore, **agreed** that Officers proceed with the necessary arrangements and that an ISC Appointment Sub Committee be established.

5. Link to Essex Pension Fund Objectives

5.1 Investments:

- To maximise the returns from investments within reasonable risk parameters;
- To ensure the Fund's investments are properly managed before, during and after pooling is implemented; and
- Ensure investment issues are communicated appropriately to the Fund's stakeholders.

6. Risk Implications

- 6.1 The current investment risks associated with the Fund's investment strategy are those detailed in the Investment Strategy Statement and the Fund's Risk Register.
- 6.2 No new risks have been identified during the quarter.

7. Communication Implications

- 7.1 The Fund was a signatory on the ACCESS proposal to Government in February and July 2016.

8. Finance and Resources Implications

- 8.1 In addition to the work undertaken by Officers, the cost of ACCESS pool participation per Fund is estimated to be £98,000 in 2020/21 and £109,000 in 2019/20.

8.2 The cost to the Fund was;

- £116,000 in 2018/19
- £94,000 in 2017/18
- £80,000 in 2016/17

9. Background Papers

9.1 ISC meeting of 19 February 2020 – agenda and draft minutes.