Essex County Council

Essex Pension Fund Investment Steering Committee

10:00	**Wednesday, 23 February 2022**	**Committee Room 1 County Hall, Chelmsford, CM1 1QH**

For information about the meeting please ask for:
Amanda Crawford, Compliance Manager
Telephone: 03330 321763
Email: Amanda.Crawford@essex.gov.uk

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1	**Membership, Apologies and Declarations of Interest** To receive a report from the Compliance Manager	**7 - 8**
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4	**Essex Pension Fund Treasury Management Strategy** To consider a report from the Director for Essex Pension Fund	**29 - 56**
5	**Responsible Investment (RI)**	
5a	**Responsible Investment (RI) Project Plan Update** To receive a report from the Director for Essex Pension Fund	**57 - 60**

5b	**Investment Engagement Strategy** To consider a report from the Director for Essex Pension Fund in consultation with the Institutional Investment Consultant, Hymans Robertson and the Independent Investment Adviser, Mark Stevens	**61 - 72**
5c	**Financial Reporting Council (FRC) 2020 UK Stewardship Code Submission Update** To consider a report from the Director for Essex Pension Fund in consultation with the Institutional Investment Consultant, Hymans Robertson and the Independent Investment Adviser, Mark Stevens	**73 - 76**
5d	**Introduction to Impact Investing** To receive a presentation from Hymans Robertson	
6	**Schedule of Future Meetings and Events** To consider a report from the Compliance Manager	**77 - 80**
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.

8	**Part Two Minutes of ISC Meeting 29 November 2021** • Information relating to the financial or business affairs of any particular person (including the authority holding that information);	
9	**Quarterly Investment Manager Monitoring**	

9a **Investment Tables: Quarter ended 31 December 2021**

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

9b **Traffic Light Rating Report**

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

9c **Responsible Investment (RI) Engagement Report Property and Infrastructure**

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

10 **Strategic Implementation**

10a **Investment Strategy Decision Framework**

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

10b **Aligning index tracking solutions to RI beliefs**

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

10c **Bitesize Training on Impact Investing (Workshop)**

To consider a Training Presentation from Hymans Robertson

11 **Structural Reform of the LGPS - Pooling Quarterly Update of ACCESS Joint Committee (AJC)**

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

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

- 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: 23 February 2022	

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

Report by the Compliance Manager
Enquiries to Amanda Crawford on 03330 321763

This Report is for noting

Executive Summary

No Membership changes since the last meeting.

Officers are not aware of any apologies for the meeting at the time of writing and have not been notified of any new Member Declarations of Interest.

1. Purpose of the Report

1.1 To present Membership, Apologies and Declarations of Interest for the 23 February 2022 ISC.

2. Recommendation

2.1 That the Committee should note:

- Membership as agreed as shown opposite;
- Apologies and substitutions; 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)

5 Conservative Group: 1 Liberal Democrat Group: 1 Non-Aligned 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 Hoy	Essex County Council
Councillor D King	Essex County Council
Councillor C Souter	Essex County Council
Observers	
Councillor C Riley	Castle Point Borough Council
Sandra Child	Scheme Members

Minutes of the Meeting of the Essex Pension Fund Investment Steering Committee (ISC), held in Committee Room 1 at 10:00am on 29 November 2021

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) (arrived 10:40am)
Cllr A Goggin	
Cllr A Hedley	(left 12:30pm)
Cllr D King	
Cllr C Souter	

Scheme Employer Representative

Cllr C Riley	(Observer) (left 12:30pm)

Scheme Member Representative

Sandra Child (UNISON)	(Observer)

Cllr M Durham, Substitute Member, attended the meeting via Zoom as an Observer until the adjournment of the meeting. (left 1:57pm)

The following Officers and Advisers were also present in support of the meeting:

Jody Evans	Director for Essex Pension Fund
Samantha Andrews	Investment Manager
Amanda Crawford	Compliance Manager (via zoom)
Helen Pennock	Compliance Analyst
Ajai Ajith	Compliance Analyst (via zoom)
Marcia Wong	Compliance Officer (via zoom)
Joe Hayman	Systems Analyst (left 12:30pm)
Mark Stevens	Independent Investment Adviser (IIA)
John Dickson	Hymans Robertson
Matt Woodman	Hymans Robertson (left 12:30pm)

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

Andrew Coburn	Scheme Member Representative UNISON
James Durrant	Employer Representative

The following Representatives from UBS, the Fund's Index Tracking Manager, were present via Zoom for Agenda Item 10.

James Rogers, Client Relationship Manager;
Ian Ashment, Head of Systematic & Index Investments;
Rodrigo Dupleich, Senior Portfolio Manager;
Boriana Iordanova, Index Research Analyst; and
Francis Condon, Head of Thematic Engagement & Collaboration.

In addition, UBS Observers present via Zoom were:
Malcolm Gordon, Head of UK Institutional;
Marina Sariyiannis, Essex Client Service Manager; and
Danielle Latter, Industrial Placement Intern - UK institutional Team.

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.

Cllr Goggin took the opportunity to pass on his sisters thanks to the Fund for their wonderful administration and sensitivity when dealing with a family bereavement.

Apologies for Absence

As a consequence of an urgent meeting being called at very short notice that morning, Cllr Platt confirmed that he would be late and therefore sent his apologies for the start of the meeting.

It was noted that Cllr M Hoy was absent from the meeting and that Cllr Mackrory, (Substitute Member), PSB Member Rachel Hadley and PAB Members: Nicola Mark, Cllr Bracken, Debs Hurst and Stuart Roberts had sent their apologies.

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 13 October 2021

The Minutes of the meeting of the ISC held on 13 October 2021 were approved as a correct record and signed by the Chairman.

The Chairman brought to the attention 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 4;
- Hymans Robertson had further developed the Traffic Light Rating Report to include arrows to depict movement changes of managers' ratings;
- the redemption of the investment in Alcentra's Global Multi Credit Solution Fund was due to take place 01 December 2021 with the proceeds being reinvested in M&G Alpha Opportunity Fund;
- further engagement with other Investment Managers had commenced with the review of both active Bond Managers and UBS, the Fund's Index Tracking Manager, and an update on progress was provided at agenda item 7c; and
- Fund Officers have invited UBS to present their offerings as part of agenda item 10 in the Environmental, Social and Governance (ESG) space which included exploration of the Life Climate Aware World Equity Fund and to workshop potential solutions.

3. Capital Markets Outlook – Quarter 3 2021 Highlights

The Committee received a report and presentation from Matt Woodman, Hymans Robertson summarising the market and macro events to 30 September 2021.

It was noted that it had been a mixed quarter regarding asset returns, with global equities giving up earlier Q2 gains in September as sentiment changed. It was explained that property markets continued to improve with strong transactional activity. It was also brought to the Committee's attention that higher inflation remained a concern with CPI not expecting to peak until Q3 2022.

Resolved:
The Committee discussed and noted the content of the report.

4. Responsible Investment (RI) Project Plan Update

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

It was noted that engagement meetings had now been held with all the Fund's active Equity and Bond Managers along with UBS, the Fund's Index Tracking Manager.

In addition, Members were informed that the Fund's UK Stewardship Code submission was in the process of being drafted.

Resolved:
The Committee noted:
- progress against the Fund's RI Project Plan and proposed next steps; and
- the content of the report.

5. Schedule of Future Meetings and Events

The Committee received a report from the Compliance Manager detailing the proposed schedule of future meetings for the forthcoming municipal year 2022/23 as follows:

Investment Steering Committee

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

Members were also reminded of the remaining Committee meeting for this municipal year along with the 31 January 2022 Back to Basics Training Day.

Officers alerted Members of the forthcoming LGC Investment Seminar dates and it was requested that if Members wished to attend, they were to notify the Compliance Team as soon as possible as the timing of the Seminar coincided with the 23 March 2022 PSB meeting date.

Members were also reminded of the Virtual ACCESS Investor Day which was due to take place on 30 November 2021.

Resolved:
The Committee **agreed**:
- the proposed ISC meeting dates for 2022/23 as detailed in Section 6 of the Report; and
- to note the content of the report.

6. Urgent Part I Business

The Chairman informed Members that the meeting would reconvene at 10:30am following a short adjournment.

The meeting was adjourned at 10:25am

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The Committee reconvened at 10:34am

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.

7. Quarterly Investment Manager Monitoring

7a. Investment Tables Quarter ended 30 September 2021

Mark Stevens, IIA, provided the Committee with an update of the Fund's investment performance for the quarter ended 30 September 2021. It was noted that the Fund had continued to outperform its benchmark with an absolute performance of 2% for the quarter and 20.6% over the year.

Members were also pleased to note that the Fund had now reached c.£9.4bn as at 30 September 2021, with the Fund currently standing at an all-time high of c.£9.7bn.

It was noted that Hamilton Lane's private equity mandate was the Fund's star performer in the quarter.

A discussion took place in regard to renewable energy sources such as wind power, solar and tidal within the investment managers' portfolios.

Resolved:
The Committee noted the content of the report.

7b. Traffic Light Rating Report

Matt Woodman, 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 and in particular, attention was drawn to the one notable movement since the last update, this being an investment downgrade of a Manager to 'negative'. This was discussed.

Resolved:
The Committee noted the content of the report.

7c. Responsible Investment (RI) Engagement Report

The Committee received a report from John Dickson, Hymans Robertson on the Engagement Strategy that Officers and Advisers had developed which focused on a 'bottom up' and 'top down' assessment of each manger.

It was explained that Officers and Advisers had recently engaged with the Fund's two active Bond Managers along with the Fund's Index Tracking Manager, with all three managers RI rated as 'Good'.

Members noted that the assessment of both active Bond Managers had shown that they embed wider ESG considerations and climate risks within their investment processes and were able to demonstrate that they were making good progress in regard to their engagements. In addition, the Index Tracking Manager demonstrated a strong companywide ESG culture.

It was confirmed Officers and Advisers had now concluded all their engagement meetings with the Fund's Equity and Bond Managers and the next round of engagements would tackle the alternative Investments Managers. It was acknowledged that because of unique nuances this would be challenging due to there being less data around private market investments.

Resolved:
The Committee **agreed** that:

- Officers and Advisers develop a similar Engagement Strategy used for the liquid assets for the alternative assets of the Portfolio, where possible, commencing with the Property portfolio;
- the next steps arising from each individual manager engagement meeting and the content of the report would be noted.

8. Strategic Implementation

8a. Investment Strategy Implementation Tracker Update

John Dickson, Hymans Robertson provided the Committee with an update on progress to implementing the Investment Strategy de-risking programme.

The Committee were informed that Officers and Advisers had concluded the implementation regarding the ISC's decision to appoint Permira to manage c2.5% of the Fund direct lending mandate and outlined the next steps for consideration.

Resolved:
The Committee **noted** the progress made to date and the content of the report.

8b. Essex Portfolio Rebalancing

Following on from the implementation update, Matt Woodman, Hymans Robertson outlined to the Committee the analysis undertaken of the Fund's overall Strategy which assessed the most effective approach to rebalancing the Fund's portfolio. It was recommended to accelerate the pace of disinvestment from one of the Fund's global equity managers and outlined proposals in this regard.

It was discussed and agreed that no further rebalancing to Baillie Gifford's mandate was required at this time, but the position be periodically monitored and kept under review.

Resolved:
The Committee **agreed** that:

- as the Baillie Gifford's equity mandate overweight position was broadly in-line with its proxy target as part of the overall investment strategy no immediate rebalancing be actioned and that the position continue to be monitored and kept under review;
- 2% of the Fund be disinvested from Marathon's global equity mandate and that the proceeds be reinvested in M&G's Alpha Opportunities Bond Fund as soon as reasonable;
- the outstanding IFM capital call of $100m be funded from Marathon's mandate;
- the remaining holdings within Marathon's mandate be dis-invested with the proceeds directed to other equity mandates as part of rebalancing the Fund's overall portfolio, with the amounts and mandates effected to be determined at a future meeting; and
- the content of the report be noted.

8c. Infrastructure Review

Members received a further report from Matt Woodman, Hymans Robertson which outlined the recent review of the Fund's three Infrastructure Managers.

The Committee were advised that in order for the Fund to achieve its target strategic allocation of 10% to infrastructure, top up commitments would be required. To this end proposals were set out within the report in order to achieve this.

Members, mindful of Stage 4 of the de-risking programme, requested Officers and Advisers investigate and explore opportunities of a specific green based infrastructure fund, in the first instance with the Fund's existing managers, and to bring back a report to a future meeting.

Resolved:
The Committee **agreed** that:
- a further amount be committed to J P Morgan Infrastructure Investment Fund;
- a further top up commitment to Partners Group Direct Infrastructure 2020 Fund and an in-principle commitment to the new Global Infrastructure Fund (due to be launched in 2022);
- no additional new commitment to IFM's Global Infrastructure Fund be required at this present time; and
- the content of the report be noted.

8d. Direct Lending Mandates

The final proposal outlined to the Committee was in regard to the Fund's 5% strategic allocation to direct leading.

In order for the Fund to maintain its 5% strategic allocation, it was recommended that the Committee consider an additional top up commitment be made to the Fund's direct lending manager.

Resolved:
The Committee **agreed** that:
- an additional commitment be made to the Permira Credit Solutions mandate; and
- the content of the report be noted.

9. Climate Metrics for Taskforce on Climate Related Financial Disclosures (TCFD)

John Dickson, Hymans Robertson provided the Committee with a report and presentation that outlined TCFD requirements. It was explained that at present, TCFD require a minimum of three climate metrics to be monitored, however, consideration was being given to introducing a fourth metric. The pros and cons of each metric was discussed by the Committee.

The report also included considerations in regard to the Fund's aspiration to having a portfolio aligned with the 2050 net zero target and how this could be implemented and monitored.

Resolved:
The Committee **agreed** that:

- in line with TCFD requirements the climate metrics as detailed in 2.1 of the Report be monitored by the ISC on an annual basis;
- the ESG momentum metric be monitored as part of the wider engagement monitoring of managers;
- in line with Essex County Council, the Fund aspire to have a portfolio that is invested in line with net zero by 2050;
- targets set for the emission-based metrics (Total GHG Emissions, Carbon Footprint and WACI) to 2030 concentrate on equities, credit and real estate in the first instance and are consistent with a net zero target of no later than 2050;
- manager engagement includes assessing the progress of the Fund's Portfolio with respect to the transition pathways as defined by the Transition Pathways Initiative for high emission industry sectors;
- the next steps include setting up the monitoring of the agreed various metrics and setting specific targets based on the baseline position; and
- the Committee note the content of the report.

The Chairman informed Members that the meeting would reconvene at 1pm, following an adjournment.

The meeting was adjourned at 12:30 pm

…………………………………………………………………………………………….

The Committee reconvened at 1:04 pm

10. Bitesize Training– UBS Workshop on the Provision and Development of Index Tracking Products

The Chairman welcomed James Rogers, the Fund's Client Manager and his colleagues from UBS, who provided a workshop session in regard to assisting the Fund in developing a RI solution around its index tracking portfolio.

UBS outlined what their current offerings were in this space and the potential approaches available should the Committee decide to go for a more bespoke solution.

Resolved:
The Committee **agreed**:

- Officers and Advisers be delegated to liaise with ACCESS to ascertain their appetite for the approaches available;
- to bring the approaches offered by UBS back to a future meeting for further discussion; and
- the Workshop session facilitated by UBS, the Fund's Index Tracking Manager, be noted.

11. ACCESS Draft Responsible Investment (RI) Guidelines

The Committee were provided with ACCESS's Draft RI Guidelines and were asked to provide any initial feedback to Officers and the Chairman ahead of the next ACCESS Joint Committee (AJC) meeting on 6 December 2021.

Initial feedback received was that the document was difficult to read due to the font and layout used. In addition, comprehensive and repetitive in places.

It was noted that these initial observations would be fed back to the ACCESS Support Unit (ASU) and that the final draft would be brought back to a future meeting as part of the Quarterly Pooling Update once all eleven ACCESS investing Authorities had been given the opportunity to consider.

Resolved:
The Committee **agreed**:

- any further feedback be provided to Officers and the Chairman ahead of the AJC meeting on 6 December 2021; and
- the content of the report be noted.

12. Urgent Exempt Business

There were none.

There being no further business the meeting closed at 2:35pm.

Chairman
23 February 2022

Essex Pension Fund Investment Steering Committee	**ISC 03**
Date: 23 February 2022	

Market Commentary: Q4 2021

Report by Hymans Robertson

Enquiries to Jody Evans on 03330 138489

This Report is for noting

Executive Summary

Key highlights include:

- Improved GDP growth in Q4 albeit still below pre-Covid 19 levels;
- Despite increased volatility as economic concerns around Omicron Covid variant come to the fore strong earnings growth aided the strengthening of global equity markets resulting in positive returns in Q4;
- With the expectation of further interest rate hikes short term bond yields are expected to rise, however, long term yields remain largely unchanged;
- Property rental growth within the industrial sector continue to be growing strongly, whilst rent in the retail sector continue to fall; and
- Inflation forecasts continue to be off the mark and higher than previously forecast, but the inflationary pressures (spending, supply chain disruptions and demand) are still expected to prove transitory and to begin to decline in the second half of 2022 and into 2023.

1. Purpose of Report

1.1 To update the ISC on recent market conditions.

2. Recommendation

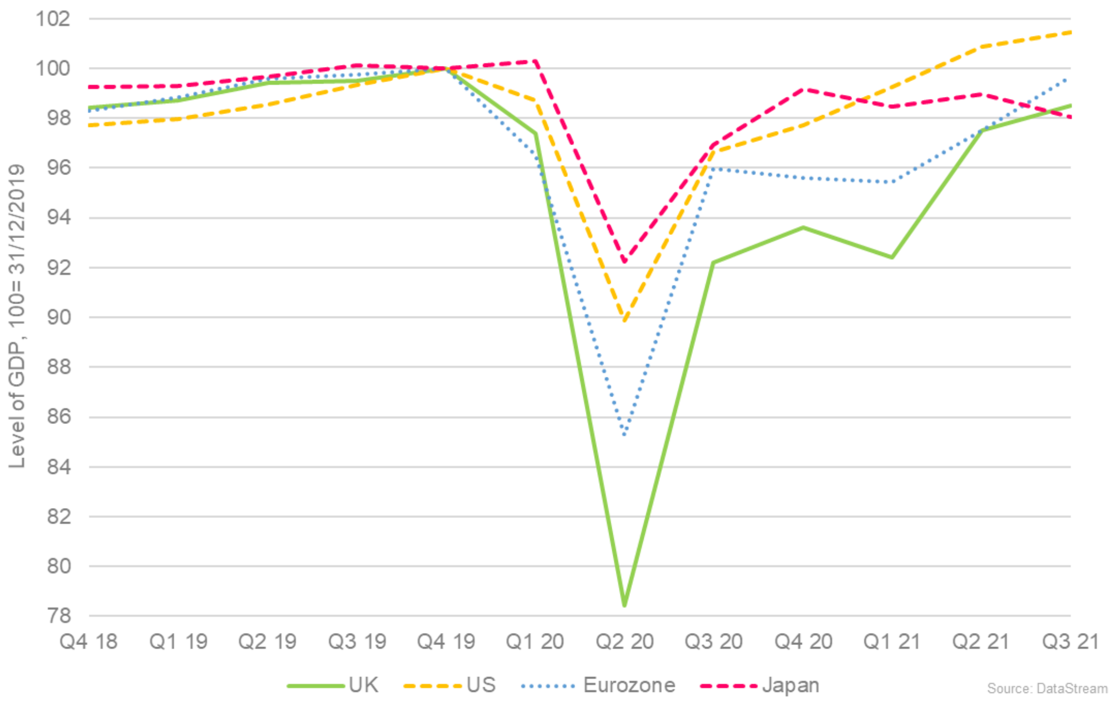
2.1 That the Committee should note the content of the report.

Market commentary Q421

Economic background

- Strong earnings growth drove global equity markets higher in Q4, despite increased volatility as economic concerns regarding the Omicron COVID variant came to the fore.
- Short-term yields moved higher to price in a faster pace of interest rate rises while longer-term yields were kept in check as investors weighed the impact of policy normalisation on both growth and inflation.
- Corporate bond yield falls in December largely reversed November's increases, leaving credit spreads (i.e. additional return for credit risk) broadly in-line with end-September levels.
- The total return on the UK Monthly Property index was 19.9% over the 12-month period. This was largely driven by the buoyant industrial sector.

Chart: GDP Growth



Market returns

Chart: Q4 '21

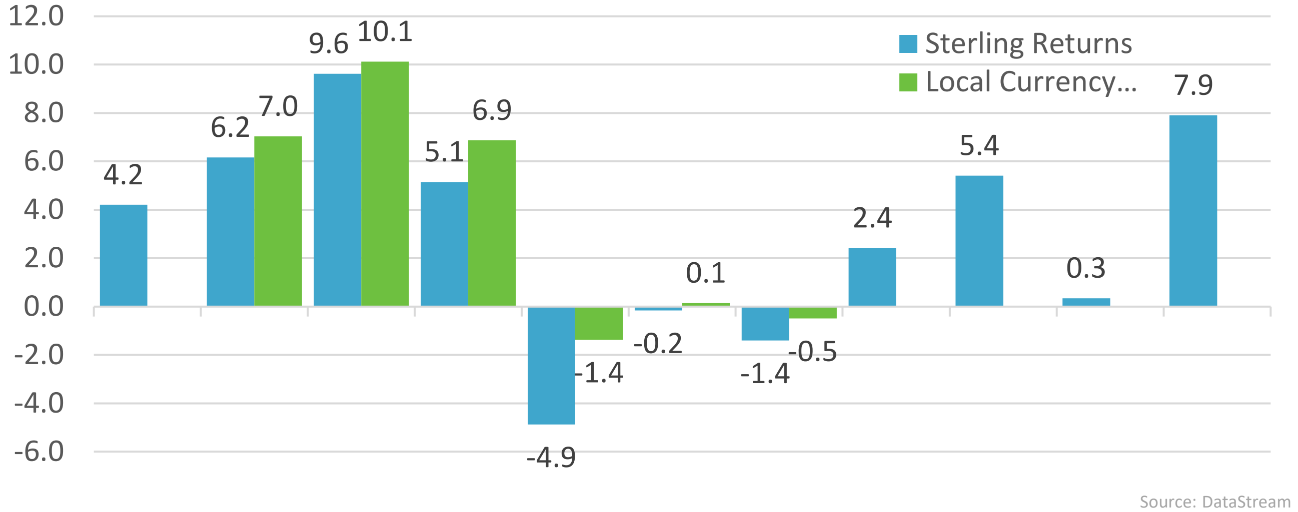
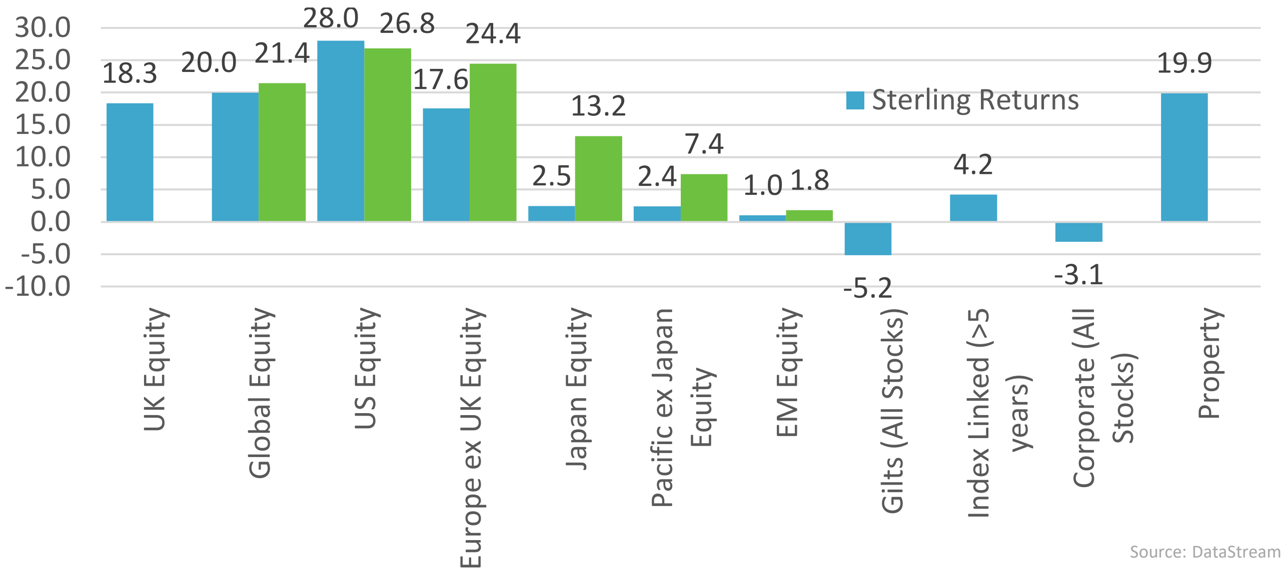


Chart: 12 Months



Equity markets

Despite falling in November over Omicron variant concerns, global equities produced a total return of 7.0% in Q4, propelled higher by strong earnings growth. Sterling strength reduced returns to unhedged UK investors to 6.2% in sterling terms.

All sectors produced positive returns except telecoms. Outside telecoms, energy and financials were the main underperformers, weighed on by demand expectations and flatter yield curves, respectively. Technology was the notable outperformer, bolstered by strong earnings releases and the prospect of further lockdowns spurring demand for tech.

North America posted double digit returns on the back of tech outperformance. Japan, which reintroduced strict border restrictions shortly after the Omicron variant was made public, is at the bottom of the regional performance rankings over the quarter. Asian and emerging markets also continued their underperformance versus developed markets.

Bond markets

US and UK bond yield curves flattened with short-term yields rising to reflect expectations of further interest rate hikes. Long-term yields remained largely unchanged.

The trend in monetary policy is likely to put upwards pressure on long-term bond yields to rise but, if inflation does fall over the course of the year, limiting the need for aggressive monetary policy tightening, the rise in yields is likely to be limited and gradual.

Core sovereign bond yields, particularly at the front-end of the curve, are pricing in a reasonable path of interest rate rises, but yields are very low in absolute terms and provide little protection against any persistence in current inflationary pressures.

Property

UK commercial property rents are growing strongly within the industrial sector, but more slowly in the office sector. Rents in the retail sector continue to fall, albeit at a slower rate.

In aggregate, tenant demand is rising while the availability of stock falls, helping to underpin improved rental expectations and allowing landlords to offer fewer inducements to secure tenants. However, rent collection remains lower than normal as rent moratoriums delay payments to landlords.

Outside of the traditional core market, the leisure and hotel sub-sectors continue to face near-term disruption stemming from the pandemic.

Reversionary (full rental) yields have fallen further in recent months as demand, from both domestic and overseas buyers, remains strong.

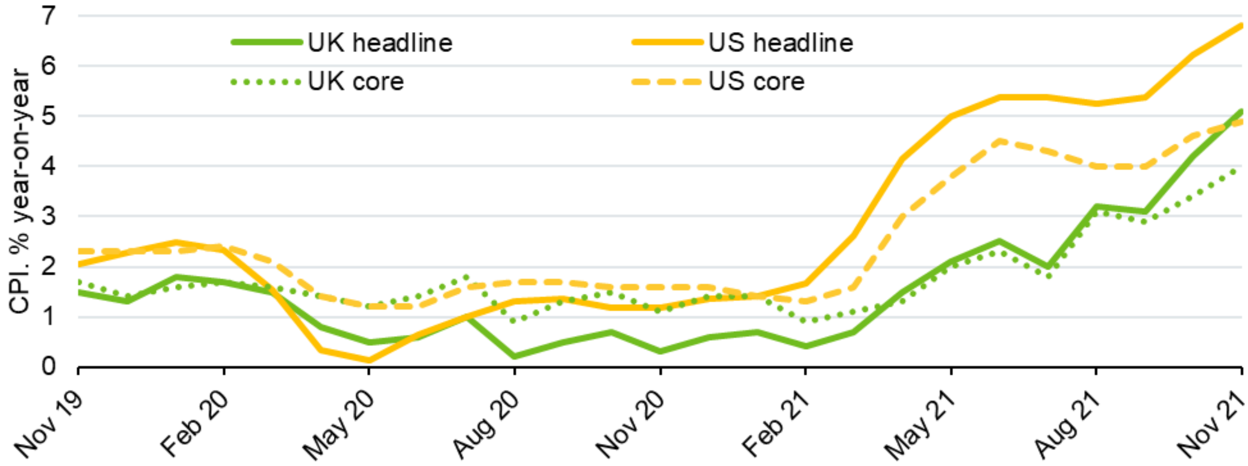
In a time of inflation uncertainty, we prefer long-lease funds with a high degree of inflation-linked rents. Lower exposure to the retail sector is also supporting demand for long-lease funds, which continue to have queues in place.

Subject of interest – Inflation

Inflation is a key factor for the Fund as both the liabilities of the Fund are linked to it and it impacts the prospective return on assets.

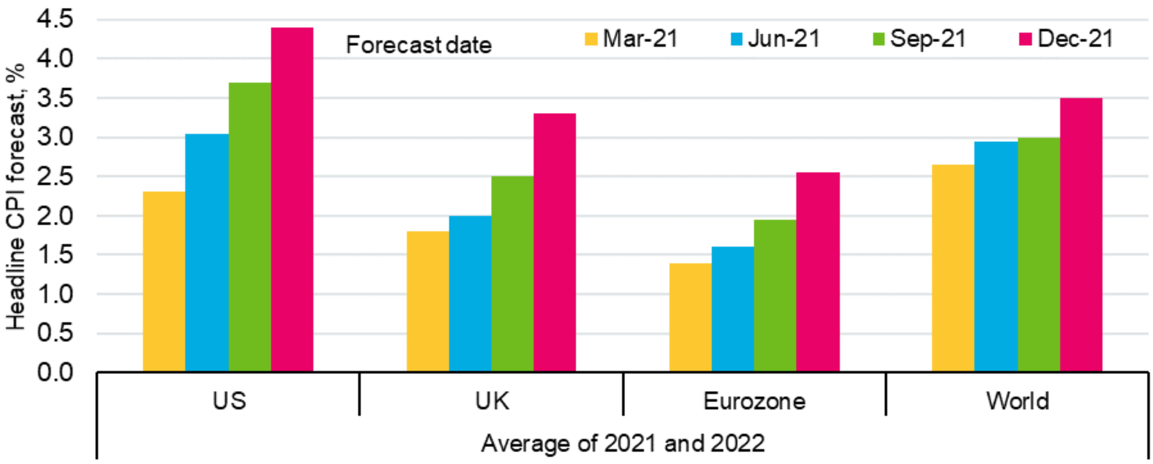
In terms of the recent news stories, while business surveys in the major advanced economies continue to point to a strong expansion in economic activity, measures such as the manufacturing purchasing managers indices are flattered by lengthening supplier delivery times and output is constrained by supply chain disruptions and staff shortages. Supply-side problems are seeing input cost and output price growth running at, or near, record highs. This, alongside a steep rise in energy prices is contributing to inflationary pressures which are proving to be far more stubborn than most forecasters initially expected. Even core inflation, which excludes energy prices as well as food, is exceeding central bank targets in many major advanced economies (Chart 1). Indeed, demand factors are clearly playing a role too, particularly in the US. Strong fiscal stimulus, latent demand from the lock-down period and the shift in demand from services to goods are all demand-pull pressures, which are more appropriately combatted with monetary policy than potentially temporary supply side issues.

Chart 1: Headline and Core CPI have risen strongly across many major advanced economies



Supply and demand imbalances are likely to place ongoing upwards pressure on consumer prices, before moderating gradually in the second half of 2022 and in to 2023. As a result, inflation forecasts, for this year and next, continue to see upwards revisions (Chart 2).

Chart 2: Inflation releases have confounded expectations with forecasts repeatedly revised higher



The labour market will ultimately determine how persistent inflation is.

Most forecasters and central bankers still expect inflationary pressures to prove transitory and are expecting steep declines in year-on-year readings in the second half of 2022 and in to 2023. That some market participants are growing increasingly sceptical of this stance is unsurprising given the extent of upside inflation surprises and the scale of upwards revisions to previous forecasts.

Though forecaster's numbers may have been well off target, their logic is sound. Ultimately, there are three broad causes of recent inflationary pressures:

1 Forgone spending, generous fiscal and monetary support and accumulated savings saw disposable incomes rise rapidly.

2 Supply chains ground to halt as the global economy was shut down and have been strained as economic activity rapidly rebounded; and,

3 Supply chain disruptions have been exacerbated by an unprecedented shift in consumer spending from services to goods, which are more resource-intensive to produce, due to a combination of lockdowns and elevated savings.

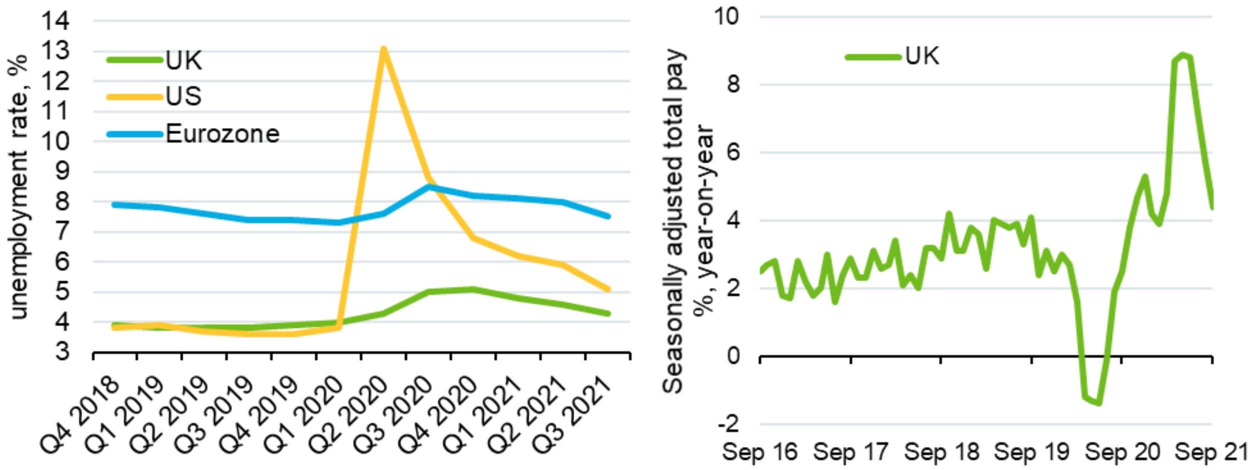
While the near-term risks to inflation remain skewed to the upside, the most intense inflationary pressures should ease in 2022. Base effects and a peak in energy prices should mean the headline numbers necessarily see less upwards pressure. At the same time, the factors described above should reverse as monetary and fiscal policy become less supportive, supply chain disruptions dissipate as production rises to meet demand and spending patterns normalise as consumers rotate back towards services from goods.

Furthermore, the structural forces which have weighed on inflation in the advanced economies will likely re-assert their influence in the coming years: globalisation (although the pace may continue to slow) and technological advance.

In addition, populations in advanced economies will continue to age, and working age proportions decline, which places downwards pressure on inflation by lowering expectations of future growth and increasing the level of savings.

In our opinion, the main route to a persistence in current high inflation would be via labour market tightness and shifting expectations leading to meaningfully higher wage growth. Unemployment has fallen rapidly (Chart 3), business surveys are increasingly highlighting labour shortages, and vacancies and quit rates, which correlate closely to future wage rises, are at all-time highs. However, recent wage data suggests increases are concentrated in lower-income sectors and those most impacted by the pandemic. It is too early to tell how the pandemic will affect longer-term trends in participation and productivity and whether wages and inflation will ease as pandemic disruption fades.

Charts 3 & 4: Unemployment has fallen rapidly but is yet to regain pre-pandemic levels



There are also a number of longer-term trends which may have inflationary consequences. The green transition may increase energy price volatility, and the frequency of price squeezes, as investment in fossil fuels reduces and renewable replacements are scaled-up. The increasing adoption and regulation of carbon prices may lead to broad input cost inflation while specific commodities crucial to the greening of the economy (e.g. copper and lithium), may see acute price rises. Furthermore, political shifts in the major advanced economies and the widespread adoption of ESG investing are seeing social equality move up the agenda – one positive, albeit inflationary, consequence may be the adoption of more generous and widespread minimum wages.

We have also observed mission creep in the mandates of central banks (the Fed officially adopted a new Flexible Average Inflation Targeting framework in August 2020). Not only does this mean central banks are adopting a less pre-emptive stance, they now have greater wiggle room to prioritise full employment and growth over price stability. Indeed, the consequences of raising interest rates, given elevated public and corporate debt levels, may give central banks more reason to emphasise the growth side of their mandates.

We would warn against leaning too heavily on the suggestion that current inflationary pressures are entirely due temporary supply disruptions and base effects – supply is still growing, just not enough to keep up with surging demand. Our central view is that higher inflation will be transitory, partly because supply and the pattern of demand will normalise, but also because central banks will gradually tighten monetary policy to rein in excess demand. However, we acknowledge that upside inflation risks have risen. Even if persistently high inflation is not the base case, current elevated levels of realised inflation, ongoing upwards revisions to forecasts and upside inflation surprises merit discussion.

Asset considerations

In terms of what this means for the assets and strategic approach, we are not proposing immediate change.

Inflation linked gilts that provide a direct hedge of inflation are expensive verses history and therefore do not help with affordability. Although not providing short term 'hedges' to inflation, the significant allocations to 'real' assets within the Fund such as equity, property, and infrastructure are expected to provide long term-inflation linked cashflows and are expected to provide a sensile approach should inflation become more persistent.

Essex Pension Fund Investment Steering Committee	ISC 04 20
Date: 23 February 2022	

Essex Pension Fund Treasury Management Strategy 2022/23

Report by the Director for Essex Pension Fund
Enquiries to Jody Evans on 03330 138489

This Report requires a decision

Executive Summary

The Essex Pension Fund Treasury Management Strategy has been updated in line with the 2021 CIPFA Treasury Management Code. The Strategy's content is largely unchanged from last year. However, the following can be observed:

- Minor revisions have been made to the Treasury Management Practices (TMPs);
- Temporary Global Liquidity Fund limits increased from £200m to £220m in line with the appreciation of the Fund Value; and
- Forecasts have been revised throughout with a surplus cashflow projection for both 2021/22 and 2022/23.

1. Purpose of the Report

1.1 To present the 2022/23 Essex Pension Fund Treasury Management Strategy.

2. Recommendation

2.1 That the 2022/23 Essex Pension Fund Treasury Management Strategy be **approved,** and the content of the report be noted.

3. Essex Pension Fund Treasury Management Strategy

3.1 The 2021 CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (referred to as the Treasury Management Code) and Statutory Guidance requires an annual Treasury Management Strategy to be agreed. The Treasury Management Strategy for the Essex Pension Fund has been prepared having regard to the Treasury Management Code and Statutory Guidance.

3.2 The 2022/23 Treasury Management Strategy for the Essex Pension Fund, attached at Appendix B, replicates to a large extent the Treasury Management Strategy already approved for Essex County Council but has been adapted to reflect the limited borrowing requirements, use of global custodian and the separate governance arrangements of the Pension Fund.

3.3 Section A of the attached Strategy reflects the arrangements in place with Essex County Council in managing ‘in house’ cash.

3.4 The Fund’s global custodian is Northern Trust. The principles of the custodian cash management arrangements are highlighted in Section B.

3.5 Section C, Cashflow Management Arrangements has been updated to reflect the revised Finance Schedule, attached at Appendix A. The forecast for 2021/22 predicts a surplus of c£15m. This is largely attributable to an increase in employer contribution income following the new rates set at the 2019 Triennial Valuation, offset by an increase in the estimated costs of retirement pensions as well as the expected reduction in employer deficit payments.

3.6 The forecast for 2022/23 predicts a surplus for the year. This is largely driven by employer ongoing contribution income and again reflects the new primary rates set at the 2019 Triennial Valuation, partially offset by an increase in the estimated costs of retirement pensions.

4. TM Strategy Revisions

4.1 CIPFA published an updated Code in December 2021. Officers have taken the opportunity to amend the Pension Fund’s Treasury Management Strategy in line with the updated Code. Whilst the content is largely unchanged from last year, with the exception of revised forecasts and Global Liquidity Funds temporary limits, a review of both the Treasury Management Policy Statement (the Statement) and Treasury Management Practices (TMPs) has been completed.

4.2 The Statement sets out the treasury management activities, the policies and objectives around these activities and the TMPs outlines the manner in which the Fund will seek to manage and achieve these policies and objectives.

4.3 Following Officers review of the updated Code it was concluded that the TMPs, needed some minor revisions to reflect the 2021 Guidance. Whilst they cover the same 12 practices as previously agreed, where necessary minor amendments have been made to their contents. In particular *TMP1 - Risk management – Credit and counter party risk management* has been expanded to take into account environmental, social and governance (ESG) considerations.

4.4 Both the Statement and the revised TMPs have been incorporated within the TM Strategy and are detailed in the annexes: Annex 1 and Annex 2 respectively.

4.5 As the value of the Fund's assets have been increasing steadily over 2021/22 and currently stands at c£9.5bn. Officers recommend that the temporary Global Liquidity Funds (GLF) limits be increased to £220m (previously £200m) in line with the Fund's asset value appreciation, to facilitate the redeployment of assets in line with the Fund's de-risking programme.

5. Recommendation

5.1 That the 2022/23 Essex Pension Fund Treasury Management Strategy be approved.

6. Financial and Resource Implications

6.1 The cost of Essex County Council providing Treasury Management provision for the Fund for 2022/23 will be met within the 2022/23 Budget. The cost of this provision is estimated to be £29k for 2022/23 (£28k for 2021/22).

7. Background Papers

7.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

7.2 2021 Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code) issued by CIPFA.

7.3 Northern Trust Global Funds PLC prospectus November 2018.

7.4 BNP Paribas Insticash prospectus December 2021.

7.5 Finance Schedule updated February 2022 (Appendix A).

7.6 Treasury Management Strategy 2021/22.

Appendix A

Finance Schedule

		2020/21 actual £ (000)	2021/22 estimate £ (000)	2022/23 forecast £ (000)
EXPENDITURE	Retirement Pensions	219,711	224,275	231,228
	Retirement Lump Sums	30,649	35,132	35,636
	Death Benefits	6,948	4,350	4,568
	Leavers benefits	11,120	16,096	16,901
	Expenses	4,665	4,315	4,321
	Pooling expenses	93	97	124
TOTAL		**273,186**	**284,265**	**292,778**
INCOME	Employees Contributions	64,677	64,136	64,042
	Employers Contributions			
	Ongoing	194,738	201,646	212,773
	Deficit	52,094	6,386	6,341
	Financial Strain	2,217	1,934	2,031
	Transfer Values in	21,226	22,364	23,482
	Other income	2,533	3,024	3,175
TOTAL		**337,485**	**299,490**	**311,844**
Net cash flow excl. Investment Income		**64,299**	**15,225**	**19,066**

Note: cashflow positive /(cashflow negative)

Essex Pension Fund

Treasury Management Strategy

2022/23

lgps
for you, for now, for the future

Introduction

The treasury management activities covered by this Document are comprised of three separate areas:

Section A

The day to day management of the Pension Fund's cash flows and associated short term cash investments known as "In house cash". These activities are undertaken by Essex County Council on behalf of the Pension Fund under a service level agreement.

Section B

The cash held and managed by the Global Custodian as part of the Fund's Investment Strategy.

Longer term investments are administered separately by external fund managers and these activities are covered in the Pension Fund Investment Strategy Statement (ISS) agreed by the Investment Steering Committee.

A copy of the latest ISS can be found on the Fund's website at:

https://www.essexpensionfund.co.uk/resources/investment-strategy-statement-2020/

Section C

The requirement to realise investment income in order to meet a shortfall in income to meet a proportion of future benefit payments.

Section A – "In House Cash" Treasury Management Arrangements

In undertaking the treasury management activities for the Essex Pension Fund, in the absence of any specific guidance on treasury management for Local Government Pension Scheme funds, Essex County Council will comply with the Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and Statutory Guidance.

A fundamental aim of treasury management is to effectively control the risks associated with treasury management activities and to pursue value for money, in so far as this is consistent with the effective management of risk.

The Treasury Management Code requires the following:

- A **Policy Statement** which states treasury management policies, objectives and approach to risk management. This is shown at **Annex 1**.

- **Treasury Management Practices (TMPs)** which set out the manner in which the organisation will seek to achieve those policies and objectives and prescribe how these activities will be managed and controlled.

  The TMPs have been revised for 2022/23. They are based on the guidance included in the 2021 edition of CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes. Whilst covering the same 12 practices as previously agreed, wording has been updated. In particular TMP1 - Risk management has been expanded to now also cover environmental, social and governance (ESG) investment considerations. The revised TMPs are detailed in **Annex 2**.

- An annual **Treasury Management Strategy** that outlines the expected treasury activity. The strategy must define the organisation's policies for managing its investments and for giving priority to the security and liquidity of those investments.

  The Treasury Management Strategy is set out in the subsequent paragraphs.

Treasury Management Strategy

Short Term Cash Investment Strategy

Key objectives

The primary objectives of investment activities are:

- ◊ Firstly, to **safeguard** the principal sums invested;
- ◊ Secondly, to ensure adequate **liquidity**; and
- ◊ Lastly, to consider investment returns or **yield**.

Surplus cash balances will only be invested on a short-term basis (up to a maximum period of 364 days) until the funds are next required. Longer term investments are outside the scope of this document.

Investment counterparty selection criteria

Funds will be invested according to the Secretary of State's definition of specified investments, these being sterling deposits made for periods of less than one year, offering high security and high liquidity. Specified investments may include deposits with the UK Government, other local authorities, money market funds and bodies of high credit quality.

A lending list will be compiled to include counterparties satisfying the criteria set out within **Annex 3**. The lending limits that will be applied to counterparties satisfying these criteria are also set out within **Annex 3**. Additional operational market information (e.g. Credit Default Swaps, negative rating watches/outlooks) will also be considered before making any specific investment decisions.

The criteria for choosing counterparties provide a sound approach to investment in normal market circumstances. However, the Executive Director, Corporate Services will determine the extent to which the criteria set out within **Annex 3** will be applied in practice (i.e. according to prevailing market circumstances).

Liquidity

Liquidity is defined as having adequate, but not excessive cash resources, borrowing arrangements and overdraft or standby facilities to ensure that funds are available, at all times, for the achievement of the Pension Fund's objectives. In this respect, the Pension Fund will seek to maintain a contingency of at least **£1m** of cash available with a week's notice. This will be in excess of amounts available at short notice for managing expected cash flows.

Performance

Performance on cash invested short term, in order to maintain liquidity of funds, will be benchmarked against the Sterling Overnight Index Average (SONIA) rate; the aim being to achieve investment returns that are equivalent to, or greater than, the average SONIA rate for the year.

Interest Rates

An estimate of the movement in interest rates over the forthcoming three years is provided below:

Expected movement	2021/22 (@ Jan 22)	2022/23	2023/24	2024/25
Bank rate (at each 31 March)	0.50%	0.75%	1.00%	1.25%

Source: Link Asset Services (January 2022)

The estimated average balance for "In house cash" is around **£38m**. A **0.25%** movement in interest rates would affect the level of income earned from short term investments by **£95,000**.

Given the short-term nature of "In house cash", no limits are proposed on the maximum exposure to fixed or variable rates of interest.

Borrowing

The Administering Authority does not have the power to borrow on behalf of the Pension Fund, other than temporary borrowing for the following specific purposes detailed in Section 5 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016:

- paying benefits due under the Scheme, or
- to meet investment commitments arising from the implementation of a decision by the Fund to change the balance between different types of investment.

In the context of this Strategy, short term borrowing will only be undertaken in exceptional circumstance to manage unexpected cash flow fluctuations which occur as a result of the above circumstances.

If short term borrowing is necessary, this will be secured via an overdraft facility with the Fund's bankers or by borrowing from the money markets or other local authorities.

Treasury Management Advisers

Essex County Council currently employs **Link Asset Services** (**Treasury Solutions)** as its Treasury Management Adviser. Link Asset Services provide a range of services, including technical advice on treasury matters, economic and interest rate analysis and credit worthiness information. Notwithstanding this, the final decision on treasury matters remains vested with the Essex Pension Fund Investment Steering Committee, and for day to day treasury management, with the Executive Director, Corporate Services.

The services received from the Treasury Management Advisers are subject to regular review.

Section B – Custodian Cash Management Arrangements

One of the functions provided by the Fund's custodian, Northern Trust, is a banking service. A separate bank account is set up in each currency required by each mandate. At 31 January 2022 the Fund held £160.6m in cash at the Custodian. The details are set out in the table below:

	£m	%
Sterling	73.7	45.9%
Dollar	65.0	40.5%
Euro	21.5	13.4%
Other	0.4	0.2%
Total	**160.6**	**100%**

If no other action were taken, these monies would remain on deposit with Northern Trust earning interest at the Custodian's rates.

However, to maximise the interest earned where possible, a "cash sweep" is in place for amounts held in sterling and US dollar. This ensures that balances (not required to settle trades) in these currencies across the Funds are swept each day into Global Liquidity Funds (GLFs) managed by either BNP Paribas Investment Partners UK Limited or Northern Trust Global Funds PLC where they earn a higher rate of interest. The two currencies subject to the sweep typically constitute in excess of 95% of all custodian cash balances.

The Fund is also able to utilise the Euro GLF sweep, however due to its adoption of negative interest rates in May 2015 this facility is not currently in use. The GLF vehicles used have obtained and seek to maintain an Aaa/Mf+ rating from Moody's and an AAA rating from Standard & Poor's. The GLFs operates a soft limit of 10% in any single security, although there are circumstances in which higher holding levels are permitted. A listing of the investment restrictions for both the Northern Trust GLFs and BNP Paribas GLFs are available on request.

The GLFs are open-ended collective investment companies (OEIC). This means that in placing monies in the GLFs via the cash sweep, the Essex Pension Fund becomes a shareholder and has a share in the pool of investments. A GLF must appoint a board of directors, an investment manager, an administrator, and custodian. Clients invest, not with the fund manager, but in the fund run by the fund manager. The manager manages the investments of the fund, an administrator runs the back office, and the assets are kept in safe keeping for the fund by the custodian.

The GLFs' overall ratings have two components: a credit risk rating (normally AAA) and a market risk rating. To achieve and maintain the rating, the funds must meet rigorous standards on investment quality, diversification, and liquidity profile. Both internal management and the rating agencies ensure compliance with regulatory, prudential, investment and credit policy guidelines. The processes are monitored further by administrators, custodians, and auditors.

In order to limit the exposure of the Fund to any single financial institution a maximum limit is set for both the Northern Trust and BNP Paribas GLFs.

Further details on the how the GLFs operate in practice are available on request.

Impact of lump sum deficit contributions and income realisation

In addition to the working balances of the investment managers, cash management arrangements now need to accommodate the impact of lump sum deficit payments and income realisation.

Under the terms of the current Funding Strategy Statement, it is possible for certain Fund employers to opt to pay deficit "up front" in April (rather than the traditional 12 monthly instalments). Furthermore, as highlighted in Section C, it is forecast that some investment income will need to be used rather than automatically reinvested in order to finance part of the Fund's benefit expenditure going forward.

As a consequence, the GLFs will be used in order to allow the most effective management of monies immediately prior to being allocated to fund managers or directed to pay benefits.

GLF Limits

At its meeting of 21 February 2018, the ISC agreed principles in respect of any reallocation of equities to the alternative and bond mandates. It was agreed that up to 1% of the Fund's assets can be held in cash (separate to that the managers may hold for efficient portfolio management) in expectation of a drawdown notice or other cash flow requirement for the Fund.

The limits for 2022-23 are set out below for both the Northern Trust GLF and BNP Paribas GLF to reflect the circumstances outlined:

Northern Trust GLF	-	**£120m**	(no change on an operational basis)
Northern Trust GLF	-	**£220m**	(on a temporary basis to facilitate the redeployment of assets)
BNP Paribas GLF	-	**£120m**	(no change on an operational basis)
BNP Paribas GLF	-	**£220m**	(on a temporary basis to facilitate the redeployment of assets)

Section C – Cashflow Management Arrangements

The Fund is maturing, and analysis has been undertaken to forecast when new contributions (employees and employers including deficit) 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).

The current position is that the Fund is broadly cash neutral, with differences between the income and expenditure in the years analysed in the table below.

Table: Fund cashflow forecast

	2020/21 actual £ (000)	2021/22 estimate £ (000)	2022/23 forecast £ (000)
Expenditure (benefits, transfers out and expenses)	273,186	284,265	292,778
Income (ongoing contributions, deficit contributions and transfers in)	337,485	299,490	311,844
Net cashflow excl. Investment Income	**64,299**	**15,225**	**19,066**

Positive cash flow/(Negative cash flow)

The cashflow forecast will be subject to regular periodic review.

Income Realisation Strategy

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 Passive UK assets and Aviva property portfolio, when required.

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

The income realisation strategy will be subject to regular periodic review.

Treasury Management Policy Statement — Annex 1

Purpose

The purpose of the **Treasury Management Policy Statement** is to define the policies and objectives of the Pension Fund's treasury management activities.

Definition of treasury management activities

Treasury management activities are defined as the:

- Management of the Pension Fund's cash flows and associated short-term investments, its banking, money market and capital market transactions;
- Effective control of the risks associated with those activities; and
- Pursuit of optimum performance consistent with those risks.

Policies and objectives

The Pension Fund regards the successful identification, monitoring and control of risks to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Pension Fund.

The Pension Fund acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance management techniques, within the context of effective risk management.

Treasury Management Practices (TMPs) Annex 2

The Treasury Management Practices below are based on the guidance included in the 2021 edition of CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes.

Policy	Details
TMP1	**Risk Management**

Arrangements are in place for the identification, management, and control of treasury management risk. Specifically:

1. Credit and counter party risk management

The Pension Fund (the Fund) will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in **TMP4 Approved instruments, methods and techniques**.

It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

The Fund's credit and counterparty policies should set out its policy and practices relating to environmental, social and governance (ESG) investment considerations. This is a developing area, and it is not implied that the Fund's ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level.

2. Liquidity risk management

The Fund will ensure it has adequate though not excessive cash resources, borrowing arrangements, and overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

The Fund will only borrow in advance of need where there is a clear business case for doing so and will only do so for the achievement of its objectives.

3. Interest rate risk management

The Fund will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs, or revenues; in accordance with its treasury management policy and strategy and in accordance with **TMP6 Reporting requirements and management information arrangements**.

Policy	Details
TMP1	Risk Management (cont.)

3. Interest rate risk management (cont.)

It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs, and that the policy for the use of derivatives is clearly detailed in the annual strategy.

4. Exchange rate risk management

It will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

5. Inflation risk management

The Fund will keep under review the sensitivity of its treasury management assets and liabilities to inflation and will seek to manage the risk accordingly in the context of its wider exposure to inflation.

6. Refinancing risk management

The Fund will ensure that its borrowing and other long-term liabilities are negotiated, structured and documented, and the maturity profile of the monies so raised is managed, with a view to obtaining offer terms for renewal or refinancing, if required, that are competitive and as favourable to the Fund as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

7. Legal and regulatory risk management

The Fund will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities.

Policy	Details
TMP1	**Risk Management (cont.)**

7. Legal and regulatory risk management (cont.)

In framing its credit and counterparty policy under **TMP1[1] Credit and counterparty risk management**, it will ensure that there is evidence of counterparties' powers, authority, and compliance in respect of the transactions they may affect with the Fund, particularly with regard to duty of care and fees charged.

The Fund recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to manage to risks of these impacting adversely.

8. Operational Risk, including fraud, error and corruption

The Fund will ensure that it has identified the circumstances that may expose it to the risk of loss through inadequate or failed internal processes, people and systems or from external events.

Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

9. Price risk management

The Fund will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sum it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

Policy	Details
TMP2	**Performance Measurement**

The Fund is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management Policy Statement (Annex 1).

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Pension Fund's business or service objectives and performance will be measured against relevant benchmarks.

Policy	Details
TMP3	**Decision making and analysis**

The Fund will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past and for accountability, e.g. demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were considered.

Policy	Details
TMP4	**Approved instruments, methods and techniques**

The Fund will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in its Investment Strategy, and within the limits and parameters defined in **TMP1 Risk management**.

The Fund has reviewed its classification with financial institutions under MIFID II and will set out in its Investment Strategy those organisations with which it is registered as a professional client.

Policy	Details
TMP5	**Organisation, clarity and segregation of responsibilities, and dealing arrangements**

The Fund considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when it is intended, as a result of lack of resources or other circumstances, to depart from these principles, the Executive Director, Corporate Services will ensure that the reasons are properly reported in accordance with **TMP6 Reporting requirements and management information arrangements**, and the implications properly considered and evaluated.

The Executive Director, Corporate Services will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. They will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out.

Policy	Details
TMP5	**Organisation, clarity and segregation of responsibilities, and dealing arrangements (cont.)**

The Executive Director, Corporate Services will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

The delegations to the Executive Director, Corporate Services in respect of treasury management are set out in the Council's Financial Regulations and Scheme of Delegation for Financial Management. The Executive Director, Corporate Services will fulfil all such responsibilities in accordance with the Council's Policy Statement and TMPs and the CIPFA Standard of Professional Practice on Treasury Management.

Policy	Details
TMP6	**Reporting requirements and management information arrangements**

The Fund will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum: The Investment Steering Committee will receive an annual report on the strategy and plan to be pursued in the coming year.

The Investment Steering Committee may receive reports on the performance of the treasury management function, and on any circumstances of non-compliance with the Treasury Management Policy Statement and TMP's, as part of its reporting.

The Investment Steering Committee will have responsibility for the scrutiny of treasury management policies and practices.

Policy	Details
TMP7	**Budgeting, accounting and audit arrangements**

The annual Pension Fund Business Plan's Budget will include provision for the annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the Budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with **TMP1 Risk management, TMP2 Performance Measurement**, and **TMP4 Approved instruments, methods and techniques**.

Policy	Details
TMP7	**Budgeting, accounting and audit arrangements (cont.)**

The Executive Director, Corporate Services will exercise effective controls over this Budget and will report upon and recommend any changes required in accordance with **TMP6 Reporting requirements and management information arrangements**.

The Fund will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

Policy	Details
TMP8	**Cash and cash flow statement**

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Fund will be under the control of the Executive Director, Corporate Services and will be aggregated for cash flow and investment management purposes.

Cash flow projections will be prepared on a regular and timely basis, and the Executive Director, Corporate Services will ensure that these are adequate for the purposes of monitoring compliance with **TMP1[2] liquidity risk management**.

Policy	Details
TMP9	**Money Laundering**

The Fund is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the of the Officer to whom reports should be made, are in the Council's Anti-Money Laundering Policy.

Policy	Details
TMP10	**Training and Qualifications**

The Fund recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge, and skills. The responsible officer will recommend and implement the necessary arrangements.

Policy	Details
TMP10	Training and Qualifications (cont.)

The responsible officer will ensure that the committee members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

Policy	Details
TMP11	Use of External Service Providers

The Fund recognises the responsibility for treasury management decisions remains with the Pension Fund at all times. However, the Fund recognises that there may be value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources.

When it employs such service suppliers, it will do so following a full evaluation of the costs and benefits and will also ensure that the terms of their appointment are properly agreed and documented, and subject to regular review.

When services are subject to formal tender or re-tender arrangements, legislative requirements will also be observed.

The monitoring of such arrangement's rests with the Executive Director, Corporate Services.

Policy	Details
TMP12	Corporate Governance

The Fund is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity, and accountability.

The Fund has adopted and has implemented the key principles of the CIPFA Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Counterparty Criteria for Investments – In House Cash Annex 3

Lending List

The Pension Fund will only invest its short term funds with UK banks and building societies, and non UK banks domiciled in a country with a minimum sovereign long term rating of **AA**, that have credit ratings equivalent to or better than the following:

Rating category	Credit rating agencies		
	Fitch	Standard and Poor	Moody's
Short term rating	F1	A-1	P-1
Long term rating	A	A	A2

The above ratings will be used to determine the pool of counterparties with whom the Pension Fund can transact. Where the counterparty is rated by more than one credit rating agency, the lowest ratings will be used to determine whether or not it is included on the counterparty list. However, financial institutions will only be considered for inclusion if they have a credit rating in both of the rating categories.

The criteria outlined above will ensure that funds are only invested with high quality counterparties. The short and long-term ratings will be used to determine the maximum amount that can be invested with each of these counterparties, and for what period (see lending limits section).

In addition, the Pension Fund may invest its funds with:

- The UK Government.
- Other local authorities.
- Pooled investment vehicles (i.e. Money Market Funds) that have been awarded an **AAA** credit rating.
- Financial institutions fully or part nationalised by the UK Government whose credit ratings do not meet the above criteria.
- Bank subsidiaries and treasury operations which do not have a full set of credit ratings, provided the parent bank has the necessary ratings outlined above. In addition, the subsidiary must itself have a short and long-term rating meeting the above criteria or have an unconditional guarantee from the parent bank.

In the event that the Pension Fund's own banker falls below the minimum credit rating criteria outlined above, and is not nationalised or part nationalised, the bank will be used for transactional purposes only, and not as an active outlet for investments.

Notes:

There are three main credit rating agencies that assign ratings to financial institutions, namely Fitch, Standard and Poor and Moody's. When these agencies assign ratings, they take account of any country specific circumstances. Ratings are therefore applicable worldwide; hence the risk of investing with two different counterparties that have similar ratings is the same, irrespective of their country of origin.

Credit ratings are continually monitored, with changes in credit ratings being notified by the Council's Treasury Management Advisers. Counterparties will be removed from the Pension Fund's lending list in the event that they receive a downgrading to their credit rating status below the minimum criteria outlined above.

Counterparties that are placed on 'negative ratings watch' will remain on the Pension Fund's lending list at the discretion of the Executive Director, Corporate Services in consultation with the Chairman of the Pension Fund Investment Steering Committee (or Vice Chairman if the Chairman is unavailable).

Money Market Funds (MMFs) are short term pooled investments that are placed, by a manager, in a wide range of money market instruments. The size of the investment pool of a MMF enables the manager to not only offer the flexibility of overnight and call money, but also the stability and returns of longer dated deposits. Strict rules and criteria are set down by the official rating agencies, covering the types of investment counterparties used, the maturity distribution of the funds and investment concentrations. The MMFs that the Pension Fund uses will be denominated in sterling and be regulated within the EU.

Full details of definitions of the credit ratings of the three main credit rating agencies and the Custodian cash balance arrangements are available upon request.

Lending Limits

For banks and building societies satisfying the 'lending list' criteria, lending limits will be determined with reference to the counterparties' short and long-term credit ratings, as follows:

Investment limit of **£7.5m** for investments of up to **1** year:

Rating category	Credit rating agencies		
	Fitch	Standard and Poor	Moody's
Short term rating	**F1+**	**A-1+**	**P-1**
Long term rating	AA-	AA-	Aa3

Investment limit of **£5m** for investments of up to **1** year:

Rating category	Credit rating agencies		
	Fitch	Standard and Poor	Moody's
Short term rating	**F1**	**A-1**	**P-1**
Long term rating	A	A	A2

Lending limits for other counterparties will be as follows:

No restrictions will be placed on the amounts that can be invested with the UK Government (i.e. Debt Management Office). It is not possible to set up a separate Pension Fund account with the DMO so funds would be placed via the County Council, although the credit risk would remain with the Pension Fund.

An investment limit of **£10m** will be applied for investments of up to **one** year with individual Money Market Funds.

An investment limit of **£7.5m** will be applied for investments of up to **one** year with individual top tier local authorities. Top tier local authorities will include county councils, unitary and metropolitan authorities, and London boroughs.

An investment limit of **£5m** will be applied for investments of up to **one** year with individual lower tier local authorities. Lower tier local authorities will include district / borough councils, and police and fire authorities.

In addition to the limits outlined above, a further restriction will be applied in respect of investments with non-UK financial institutions; that is, a country limit of **£5m** will be applied. The country limit will restrict the total amount that can be invested within any one country outside of the UK at any one time.

Institutional Counterparty Lending List as at January 2022

Essex Pension Fund Counterparty List			Investment Limit £m	Maximum Duration
UK BANKS				
		HSBC	5.0	364 days
		Lloyds Banking Group	5.0	364 days
		Royal Bank of Scotland	5.0	364 days
		Santander UK	5.0	364 days
UK BUILDING SOCIETIES				
		Nationwide	5.0	3 months
FOREIGN BANKS (Country limit £5m)				
	Sweden	**Total country limit**	5.0	364 days
		Svenska Handelsbanken	5.0	364 days
OTHER				
	Money Market Funds			
		Black Rock - Institutional Sterling Liquidity Fund	10.0	364 days
LOCAL AUTHORITIES				
	Top Tier Local Authorities			
		Individual authority considered at point of trade	7.5	364 days
	Lower Tier Local Authorities			
		Individual authority considered at point of trade	5.0	364 days

Further Information

If you require further information about anything in or related to this Strategy, please contact:

Jody Evans, Director for Essex Pension Fund

Samantha Andrews, Investment Manager

Email: *Fund.Manager@essex.gov.uk*

Essex Pension Fund
Seax House
Chelmsford
Essex
CM1 1QH

Essex Pension Fund Investment Steering Committee	**ISC 05a** 17
Date: 23 February 2022	

Responsible Investment (RI) Project Plan Update

Report by the Director for Essex Pension Fund
Enquiries to Jody Evans on 03330 138489

This Report is for noting

Executive Summary

- Overall progress is in line with the RI Project Plan;
- Manager engagement meetings have now been held with all the Fund's Equity, Bond, Property, and Infrastructure Managers. The remaining mandates of private equity, timberland and direct lending are next on the agenda for Officers & Advisers to meet with; and
- The Fund has developed an Investment Engagement Strategy which outlines its Escalation Policy and has prepared an initial draft of its 2020 Financial Reporting Council UK Stewardship Code Submission.

1. Purpose of the Report

1.1 To provide an update and progress against the Fund's RI Project Plan and proposed next steps.

2. Recommendation

2.1 The Committee note**:**

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

3. Background

3.1 At the 16 June 2021 ISC meeting the Committee agreed a RI Project Plan including the workstreams, timings and steps required to be undertaken to achieve this year's Business Plan areas of activity in relation to RI and Stewardship.

3.2 Areas of activity includes:

- the development of the submission to become a signatory to the 2020 Financial Reporting Council (FRC) UK Stewardship Code;
- the commencement of the annual review of all investment managers' compliance with the Fund's RI and Stewardship Policy; and
- the development of Climate Change Policy Objectives and Metrics (Task Force for Climate related Financial Disclosures (TCFD)).

3.3 Appendix A provides current progress against the RI Project Plan.

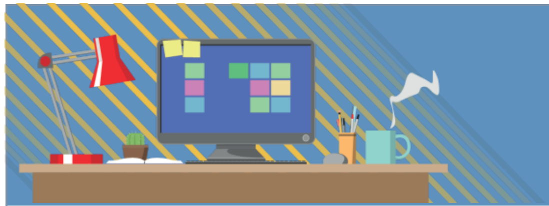
4. Background Papers

4.1 Responsible Investment (RI) Project Plan Update, ISC 04, 29 November 2021.

4.2 Responsible Investment (RI) Project Plan Progress and Outcome of Training Day, ISC 05, 13 October 2021.

4.3 Responsible Investment (RI) Project Plan, ISC 07, 16 June 2021.

4.4 Essex Pension Fund (EPF) - Three Year Business Plan and 2021/22 Budget, PSB 04a, 17 March 2021.



Essex Pension Fund

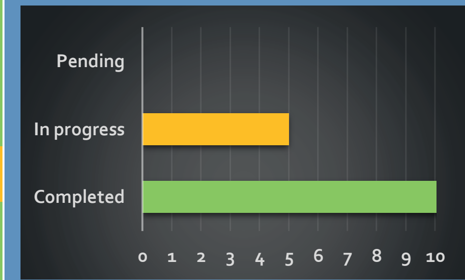
Appendix A

ISC Responsible Investment Project Plan

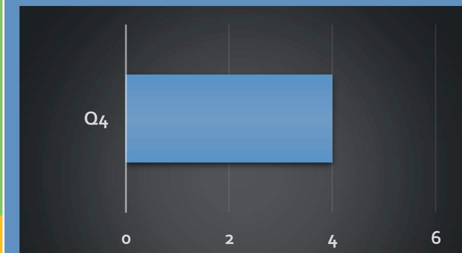
PROGRESS : 9 February 2022

Deliverables	Decisions and actions	Meeting Date	Due	Priority	Status
Training on requirement	Training	16 June 2021	Q1	High	Completed
Proposed scope and Project Plan	Agree scope of activities and Project Plan	16 June 2021	Q1	High	Completed
Training - Taskforce for Climate Related Disclosures (TCFD) framework and requirements	Training	16 September 2021	Q2	High	Completed
Training - Key climate metrics (for manager monitoring, TCFD metrics and targets)	Training	16 September 2021	Q2	High	Completed
Training - Equity benchmarks with RI credentials (for Index Tracking Equity mandate)	Training	16 September 2021	Q2	High	Completed
Proposal on Index Tracking Equity benchmarks	Agree approach to index tracking equity benchmarks and document as part of RI Policy	13 October 2021	Q3	Medium	In progress
Proposed Climate Metrics and Targets (for manager monitoring and TCFD)	Agree climate metrics and targets	13 October 2021	Q3	Medium	Completed
Meet Managers with focus on RI themes (with new format Briefing Note)	Identify areas for ongoing engagement with Managers	13 October 2021	Q3	Medium	Completed
Early draft of Stewardship Code submission (template with gaps)	• Agree approach to passive equity benchmarks and • Agree climate metrics and targets • Identify areas for ongoing engagement with manager	13 October 2021	Q3	Medium	Completed
Initial Engagement Plan with all managers including progress to date	Agree Engagement Plan	29 November 2021	Q3	Medium	Completed
Proposal on communication and engagement with key stakeholders	Agree Communication Plan	29 November 2021	Q3	Medium	Completed
Meet manager with focus on RI themes	Identify areas for ongoing engagement with Managers	29 November 2021	Q3	Medium	Completed
Follow up Stewardship Code training, including Fund Escalation Policy	Agree Fund Escalation Policy	Training TBC	Q4	Medium	In progress
Final draft of Stewardship Code submission, including Fund Escalation Policy	• Delegate completion of Stewardship Code submission to O&A for submission by 30 April 2022 • Identify areas for ongoing engagement with manager	23 February 2022	Q4	Medium	In progress
Annual review of Managers' compliance with Fund's RI and Stewardship Policy	• Identify areas for ongoing engagement with Managers	23 February 2022	Q4	Medium	In progress
Meet Managers with focus on RI themes	• Identify areas for ongoing engagement with Managers	23 February 2022	Q4	Medium	In progress

TASKS SUMMARY



ON THE HORIZON



Essex Pension Fund Investment Steering Committee	ISC 05b 17
Date: 23 February 2022	

Responsible Investment - Investment Engagement Strategy

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

Enquiries to Jody Evans on 03330 138489

This Report requires a decision

Executive Summary

The Fund has developed an Investment Engagement Strategy. It has been drafted to reflect the Fund's Responsible Investment (RI) Policy and the process that Officer and Advisers (O&A) and ISC have adopted with the recent RI engagements with the Fund's Investment Managers.

In addition, the Strategy covers the Fund's Escalation Policy.

1. Purpose of the Report

1.1 To present the Fund's Investment Engagement Strategy for approval.

2. Recommendation

2.1 That the Committee **approve** the Essex Pension Fund Investment Engagement Strategy and note the content of the report.

3. Background

3.1 At the 16 June 2021 ISC meeting the Committee agreed a Responsible Investment Policy (RI) Project Plan including the workstreams, timings and steps required to be undertaken to achieve this year's Business Plan areas of activity in relation to RI and Stewardship.

3.2 Areas of activity includes:

1. the development of the submission to become a signatory to the 2020 Financial Reporting Council (FRC) UK Stewardship Code;
2. the commencement of the annual review of all investment managers' compliance with the Fund's RI and Stewardship Policy; and
3. the development of Climate Change Policy Objectives and Metrics (Task Force for Climate related Financial Disclosures (TCFD)).

3.3 To aid the Fund with achieving areas of activity 1 & 2 stated above, the Fund has developed an Investment Engagement Strategy to formalise its approach to engagement. The Strategy is attached at Appendix A.

3.4 The Strategy has been drafted to reflect the Fund's RI Policy and the process that O&A and ISC have adopted with the recent engagements with the Fund's Investment Managers.

3.5 In addition, the Strategy includes the Fund's Escalation Policy which outlines the approach the Fund will adopt when meaningful engagement progress is not forthcoming or if the investment manager is not behaving in a matter that is in line with the Fund's RI Policy and/or in the best long-term interests of the Fund.

4. Recommendation

4.1 That the Essex Pension Fund Investment Engagement Strategy be approved.

5. Financial and Resource Implications

5.1 The cost of carrying out this Strategy going forward will be met within the Investment line of the Essex Pension Fund Budget.

6. Background Papers

6.1 The Fund's Responsible Investment (RI) Policy

Responsible Investment Policy | Essex Pension Fund

6.2 Responsible Investment (RI) Project Plan Update, ISC 04, 29 November 2021.

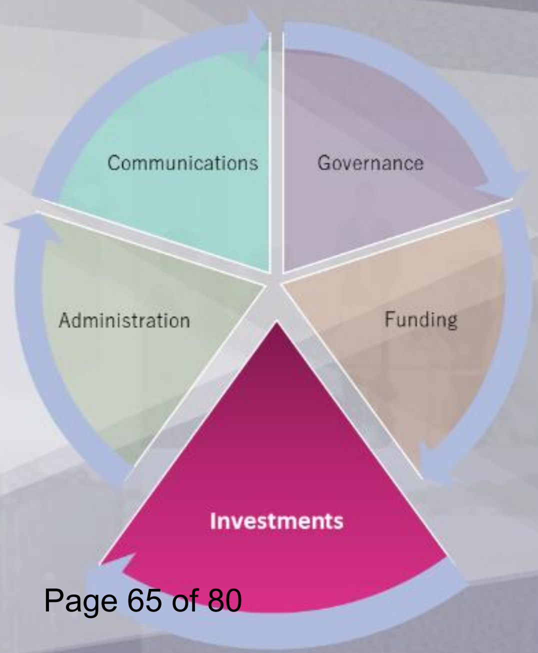
6.3 Responsible Investment (RI) Project Plan, ISC 07, 16 June 2021.

6.4 Essex Pension Fund (EPF) - Three Year Business Plan and 2021/22 Budget, PSB 04a, 17 March 2021.

Essex Pension Fund

Investment Engagement Strategy

February 2022



Essex Pension Fund

Investment Engagement Strategy

Background and Introduction

The Fund 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 Investment Steering Committee (ISC), in formulating the Fund's Responsible Investment (RI) Policy identified four key areas covered by the Fund's RI Beliefs, in addition to outlining its ten RI Engagement Priorities.

In drafting this Investment Engagement Strategy (the **"Strategy"**) the Essex Pension Fund (the **"Fund"**) has taken account of these factors and has established a Framework. This Framework outlines how Members of the ISC and the Fund will engage with its Investment Managers and the companies they engage with on the Fund's behalf; and discharges their stewardship responsibilities.

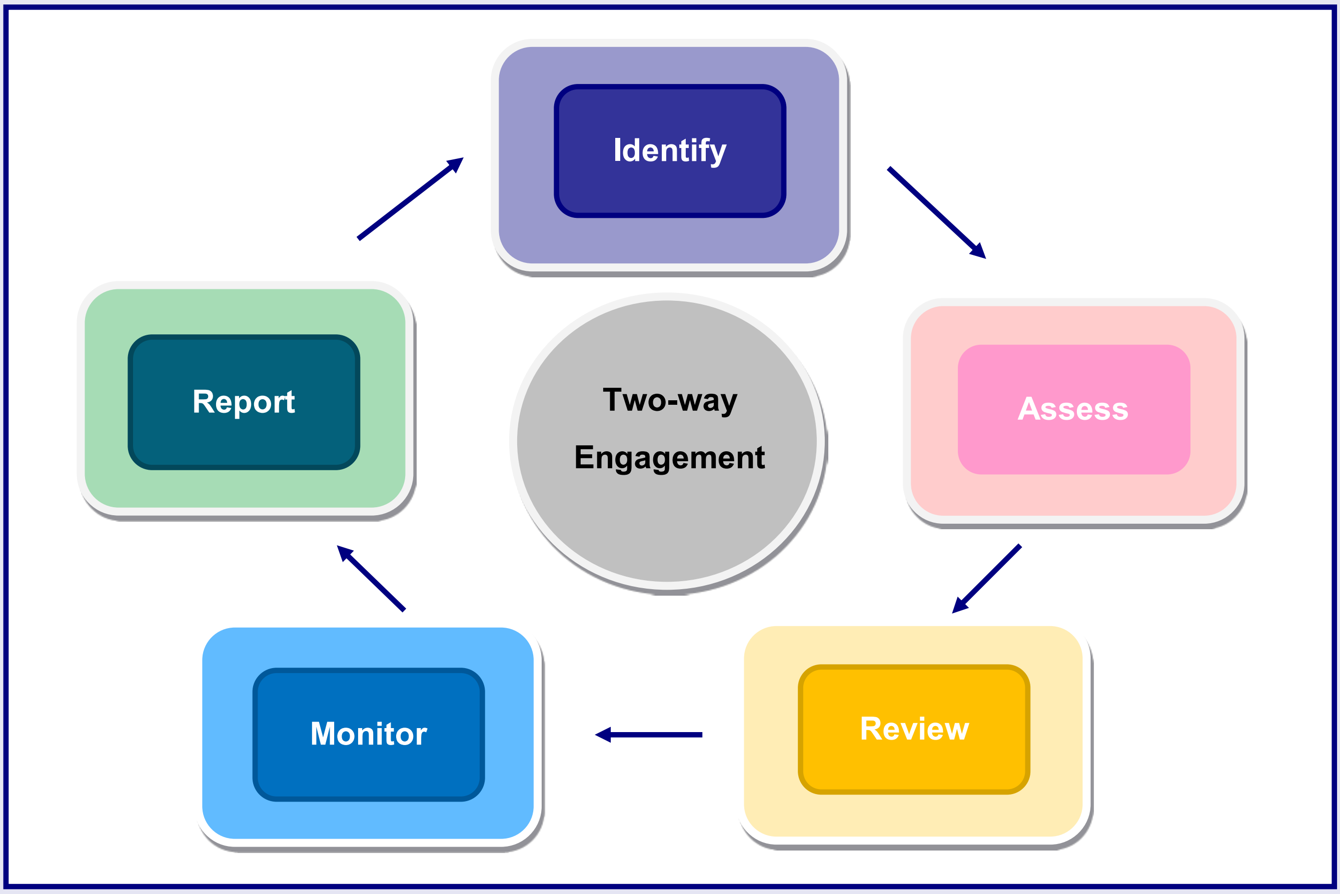
Aims and Objectives

The ***aims*** and ***objectives*** of the Strategy are:

- To establish a ***Framework*** for the Fund's engagements with its Investment Managers;
- To gain an understanding of how each of the Fund's Investment Managers ***embed*** ESG into their ***investment process***;
- To review engagement ***holistically***, recognising that all of the ***ten RI Priorities*** identified by the Fund are equally important;
- To gain an understanding of the level of Climate risk around the Portfolio and how each of the Fund's Investment Managers are ***aligning*** their mandate to meet the Fund's aspiration of ***net carbon zero emissions by 2050***;
- To gain an understanding of how the Portfolio will ***transition*** to a ***low carbon environment*** and the steps being taken;
- To get an overall understanding of the investment mandate by assessing the Investment Manager organisation and Portfolio from both a ***'Top Down'*** and '***Bottom Up'*** perspective; and
- To aid discussion, target setting, measurement, outcome and progress reporting.

Engagement Framework Process

The following illustrates the Engagement Framework process that the Fund has developed:



Engagement Meetings

The ISC will look to formally meeting each of the Fund's Active Managers on a two-year rolling basis and its Index Tracking Manager triennially.

In addition, Fund Officers along with its Institutional Investment Consultant and Independent Investment Adviser (O&A) will implement a programme of activity to meet each of the Fund's active Investment Managers periodically. However, where a Manager has been flagged or put 'on watch' through the monitoring Framework the O&A will aim to meet the Manager more frequently.

Identify

In formulating its engagement with the Fund's Investment Managers the Fund will use its stated RI Beliefs and RI Priorities as the basis of those discussions.
These are detailed below:

Responsible Investment Beliefs

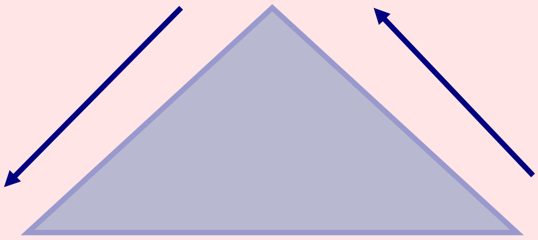
Investment Strategy	Engagement & voting	Managers	Monitoring & Governance
By investing responsibly, the Fund expects to have improved investment performance in the future	Engagement and voting are crucial aspects for influencing how a company conducts its business which will impact returns for investors	The Fund should appoint managers with mandates that are fully aligned to our RI beliefs	When delegating responsibility to a Manager, the Fund will need to ensure and monitor that they act in accordance with the Fund's RI Beliefs and Priorities

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:

Assess

‘Top Down’ and ‘Bottom Up’ Assessments



The Fund will utilise a variety of methods to assess the Fund’s Investment Managers within both ***‘Top Down’*** and ***‘Bottom Up’*** Assessments.

‘Top Down’ Assessment

A ***‘Top Down’*** assessment reviews the Investment Manager’s organisation’s overall approach to ESG risks and how they apply this to the mandate they manage on behalf of the Fund.

‘Bottom Up’ Assessment

‘Bottom Up’ assessments are deeper dives focussing on the actual implementation within the Fund’s portfolio, identifying portfolio exposures to a range of ESG themes (including climate change), the trends and the long term expectations.

A variety of key analytics are used to provide a detailed view of the portfolio. For example the Fund utilises MSCI Analytics tool to analyse their equity and bond Portfolios.

Review

An agenda is prepared for each meeting comprising of a set of questions based on the outcome and findings from both the ***’Top Down’*** and ***‘Bottom Up’*** analysis.

In each review, focus is given to overall ESG scores, climate change risk metrics and identifying the worst performing stocks in each portfolio i.e. those which score lowly on ESG. This helps to establish whether the Investment Manager has clear visibility of the reason(s) for poor scores and the likely direction of travel of the scores, to gain sufficient comfort that the overall expected long-term financial return is not comprised.

General ESG considerations are also covered in these review meetings. For example, how ESG is embedded into their investment processes, what the organisation is doing to meet ‘net zero’ within its own organisation, as well as collaborative initiatives and future ambitions.

Monitor / Measure

A ***Framework*** has been put in place to ensure that each of the Fund's Investment Managers is monitored and reviewed by the ISC on a quarterly basis in terms of its overall investment capability and its RI rating.

Where a Manager has been flagged or put 'on watch' through the monitoring Framework the Fund will aim to meet and engage with the manager more frequently and provide appropriate challenge as and when required.

The Fund has agreed a set of climate risk metrics and other ESG metrics which it will measure and monitor each of the Fund's Investment Managers against periodically, with the expectation that meaningful improvements/enhancements will be achieved over the medium term.

Report

The Fund requires each of its Investment Managers to provide written responses to questions raised within the engagement meetings. The outcomes are reported back to the ISC periodically to allow appropriate challenge and oversight.

Investments Managers are also invited to present to the ISC. At these meetings the Investment Manager will be expected to cover: performance in the context of markets conditions; organisational updates; and more specifically ESG matters.

As part of the ***two-way engagement process*** feedback is also provided to the Investment Manager.

Collaboration

The Fund actively encourages engagement and works collaboratively with other investors to increase the impact of engagement.

ACCESS
Effective • Collective • Investment

The Essex Fund is one of eleven participating Funds 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 partner funds are committed to collaboratively working together to meet the Government's criteria for pooling and to utilise its combined weight of capital of the ACCESS partnering funds to positively engage with the companies it invests with. This includes the development of ACCESS RI Guidelines.

The Fund is a member of the ***Local Authority Pension Fund Forum (LAPFF)*** which currently represents the interests of 85 out of 98 LGPS funds in the UK.

Escalation Policy

The Fund expects its Investment Managers to take the appropriate action when operating on its behalf engaging in stewardship activities. This includes documenting engagement, recording activities arising from engagement, reporting on outcomes including when engagements haven't been successful, and escalating issues when and if required.

The Fund will monitor progress periodically. If meaningful progress is not forthcoming or if the Investment Manager is not behaving in a matter that is in line with the Fund's RI Policy and/or in the best long-term interests of the Fund, the Fund will escalate this up the organisation chain. If all avenues of engagement are exhausted, then the ISC, following professional advice, may decide to divest wholly or partly its mandate from the Investment Manager.

Key Risks

The key risks to the delivery of this Strategy are contained within the Fund's Risk Register which can be found on the www.essexpensionfund.co.uk website.

Measurement of Success

The ISC will measure engagement activities, their progress, outcomes and next steps periodically as a way of measuring the success of its and its Investment Managers' engagements.

In addition, the Fund is committed to reporting annually on compliance to the ***12 Principles of the 2020 Financial Reporting Council UK Stewardship Code***.

Approval, Review and Consultation

This Strategy was approved on 23 February 2022 by the ISC. It will be formally be reviewed in line with the Fund's RI Policy and updated by the ISC at least every three years or sooner if matters included within it merit reconsideration.

Further Information

If you require further information about this Strategy, please contact:

Samantha Andrews, Investment Manager
Email – samantha.andrews@essex.gov.uk

Essex Pension Fund
Seax House, County Hall
Chelmsford
Essex, CM1 1QH

Essex Pension Fund Investment Steering Committee	**ISC 05c** 17
Date: 23 February 2022	

Responsible Investment - Financial Reporting Council (FRC) 2020 UK Stewardship Code Submission Update

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

Enquiries to Jody Evans on 03330 138489

This Report requires a decision

Executive Summary

An initial draft of the 2020 FRC UK Stewardship Code Submission has been drafted and shared with the Fund's Advisers.

The report outlines background, progress to date and the next steps for the Fund. These include:

- Incorporating some further examples from the alternative asset classes investment managers;
- Referencing the Fund's Investment Engagement Strategy;
- Updating/enhancing the Submission for the comments received out of the independent review undertaken by Hymans Robertson's Responsible Investment Team;
- A final review by Officers and Advisers (O&A); and
- Seeking approval to utilise the Out of Committee Decision Making Progress.

1. Purpose of the Report

1.1 To provide an update on the progress to date regarding drafting the Fund's 2020 FRC UK Stewardship Code Submission.

2. Recommendation

2.1 The Committee **agree**:

- 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.

2.2 The Committee note**:**

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

3. Background

3.1 At the 20 October 2020 ISC meeting, the Independent Investment Adviser provided an overview of the updated 2020 FRC UK Stewardship Code as it relates to assets holders.

3.2 The report introduced the Code and discussed how the Fund was placed at the time to meet the requirements of each of the twelve principles should it look to becoming a signatory. In addition, the report outlined the enhancements and next steps that the Fund would need to take if it wished to achieve the aspiration of becoming a signatory of the Code.

3.3 The Essex Pension Fund (EPF) Strategy Board at its 17 March 2021 meeting agreed the Three-Year Business Plan and 2021/22 Budget. This included the area of activity around the development of the Submission to become a signatory to the Code.

3.4 At the 16 June 2021 ISC meeting the Committee agreed a Responsible Investment (RI) Project Plan including the workstreams, timings and steps required to be undertaken to achieve the areas of activity in relation to RI and Stewardship.

4. FRC UK Stewardship Code Submission Progress to date

4.1 An update has been brought to each ISC meeting in respect of the Fund's progress against the RI Project Plan.

4.2 The Fund has now undertaken the majority of its RI engagement meetings with its Investment Managers and the outcomes have been subsequently reported back to the Committee. These engagements have allowed the Fund to develop its Investment Engagement Strategy and has provided it with sufficient information and to draft an initial Submission.

4.3 The draft Submission has been shared with both the Fund's Institutional Investment Consultant and Independent Investment Adviser for comment and feedback.

4.4 Should any Member wish to see the current draft this can be obtained on request.

4.5 In addition, an independent review has been undertaken by Hymans Robertson RI specialists to ensure that the Fund have covered all aspects and requirements under each of the twelve principles.

5. Next Steps

5.1 Officers along with Advisers are now reviewing the outcome of the independent review and will make the necessary revisions.

5.2 In addition, following the last round of engagement meetings with the Fund's Infrastructure Managers the Fund is now in receipt of some further examples that will be included to add weight to the Fund's Submission.

5.3 Following agreement, the O&A will also include the Fund's Investment Engagement Strategy within the Submission before undertaking a final review.

5.4 In order to meet FRC's submission deadline of 30 April 2022, O&A request that the ISC agree to the Fund utilising the Out of Committee Decision Making Process to approve the final Submission before it is submitted to the FRC.

6. Financial and Resource Implications

6.1 The cost will be met within the existing EPF Budget.

7. Background Papers

7.1 Responsible Investment (RI) Project Plan Update, ISC 05a, 23 February 2022.

7.2 Essex Pension Fund (EPF) - Three Year Business Plan and 2021/22 Budget, PSB 04a, 17 March 2021.

7.3 Financial Reporting Council (FRC) UK Stewardship Code 2020, ISC 05, 21 October 2020.

Essex Pension Fund Investment Steering Committee	ISC 06
Date: 23 February 2022	

Schedule of Future Meetings and Events

Report by the Compliance Manager

Enquiries to Amanda Crawford on 03330 321763

This Report requires a decision

Executive Summary

Following agreement of the 2022/23 ISC meeting dates at the last meeting Members are also requested to provisionally agree the 2023/24 meeting dates.

In addition, Members are being made aware of the forthcoming LGC and Baillie Gifford's LGPS Investment Seminar dates.

1. Purpose of the Report

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

1.2 To provisionally propose a schedule of ISC meetings dates for the 2023/24 municipal year.

2. Recommendation

2.1 That the Committee **agree**:

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

3. Background

3.1 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 Fund Officers will continue to ensure a review of the advertised Conferences/Seminars is carried out in line with the Knowledge and Skills Strategy taking into consideration individual's Training Needs Analysis and will communicate any suitable Conferences either through emails and/or this Agenda Item.

4.2 The Compliance Team have been made aware of the following Investment Seminars:

Date	Title	Venue	Update
23 – 24 March 2022	LGC Investment Seminar	Carden Park, Cheshire	Agenda issued to Members on 08 December 2021. If anyone wishes to attend, please contact the Compliance Manager ASAP.
09 – 10 November 2022	Baillie Gifford LGPS Investment Seminar 2022	Edinburgh, Scotland	Agenda yet to be issued. Allocations to be confirmed.

5. Schedule of Meetings

5.1 The schedule of meetings agreed for the new municipal year 2022/23 are as follows:

Investment Steering Committee	
Wednesday 15 June 2022	10am – 4pm

Wednesday 12 October 2022	10am – 1pm
Wednesday 30 November 2022	10am – 4pm
Wednesday 22 February 2023	10am – 1pm

Training Days	
Responsible Investment Workshop	TBC

6. Proposed Schedule of Future Meetings 2023/24

6.1 The proposed provisional schedule of future meetings for municipal year 2023/24 are as follows:

Investment Steering Committee	
Wednesday 14 June 2023	10am – 4pm (to be agreed)
Wednesday 11 October 2023	10am – 1pm (to be agreed)
Wednesday 29 November 2023	10am – 4pm (to be agreed)
Wednesday 21 February 2024*	10am – 1pm (to be agreed)

*Subject to change when school term dates are issued

7. Finance and Resources Implications

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

8. Background Papers

8.1 Schedule of Future Meetings and Events, ISC 05, 29 November 2021.