



Essex County Council

Essex Pension Fund Investment Steering Committee

10:00	Monday, 29 November 2021	Committee Room 2 County Hall, Chelmsford, CM1 1QH
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For information about the meeting please ask for:

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		Pages
1	Essex Pension Fund Investment Steering Committee Membership, Apologies and Declarations of Interest To receive a report from the Compliance Manager	5 - 6
2	Minutes of ISC Meeting 13 October 2021 To approve as a correct record the Minutes of the Investment Steering Committee Meeting held on 13 October 2021	7 - 16
3	Capital Markets Outlook: Q3 2021 highlights To receive a report from Hymans Robertson	17 - 40
4	Responsible Investment (RI) Project Plan Update To receive a report from the Director for Essex Pension Fund	41 - 44
5	Schedule of Future Meetings and Events To consider a report from the Compliance Manager	45 - 48

6 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.

7 Quarterly Investment Manager Monitoring

7a Investment Tables: Quarter ended 30 September 2021

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

7b Traffic Light Rating Report

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

7c Responsible Investment (RI) Engagement Report

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

8 Strategic Implementation

8a Investment Strategy Implementation Tracker Update

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

- 8b Essex Portfolio Rebalancing**
- Information relating to the financial or business affairs of any particular person (including the authority holding that information);
- 8c Infrastructure Review**
- Information relating to the financial or business affairs of any particular person (including the authority holding that information);
- 8d Direct Lending Mandates**
- Information relating to the financial or business affairs of any particular person (including the authority holding that information);
- 9 Climate Metrics for Taskforce on Climate Related Financial Disclosures (TCFD)**
- Information relating to the financial or business affairs of any particular person (including the authority holding that information);
- 10 UBS Workshop on the Provision and Development of Index Tracking Products**
- Information relating to the financial or business affairs of any particular person (including the authority holding that information);
- 11 ACCESS Draft Responsible Investment (RI) Guidelines**
- Information relating to the financial or business affairs of any particular person (including the authority holding that information);
- 12 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: 29 November 2021	

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 29 November 2021 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 13 October 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)
Cllr A Goggin	
Cllr A Hedley	
Cllr M Hoy	
Cllr D King	
Cllr C Souter	

Scheme Employer Representative

Cllr C Riley	(Observer)
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Scheme Member Representative

Sandra Child (UNISON)	(Observer)
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Cllr M Durham, Substitute Member, attended the meeting via Zoom as an Observer until the adjournment of the meeting.

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
Helen Pennock	Compliance Analyst
Mark Stevens	Independent Investment Adviser (IIA)
John Dickson	Hymans Robertson
Matt Woodman	Hymans Robertson

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

Cllr M Bracken	Employer Representative
James Durrant	Employer Representative

The following Representative from Northern Trust, the Fund's Global Custodian, was present for Agenda Item 10.

Stephen Shearing, Vice President, Relationship Manager.

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. Members were advised that Officers had taken on board their feedback and had provided an Executive Summary for each report including a clear indication as to whether the report was for just noting or if a decision was required.

In addition, any Agenda Items that linked to the Two-Year Training Plan, would be clearly referenced on the front of each report by a 'star' symbol.

Apologies for Absence

It was noted that Cllr Mackrory and PAB Members: Nicola Mark, Andrew Coburn, Cllr Barber, Cllr Duffin, 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 that her son was also a member of the Essex Pension Fund. In addition, is a Substitute Member on the Audit, Governance and Standards Committee;

Cllr M Platt declared that his daughter is in receipt of a LGPS Pension, in addition is a Deputy Cabinet Member and is Vice Chairman of the Audit, Governance and Standards Committee;

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

Cllr A Hedley declared that he was in receipt of an Aviva Group Pension, is Chairman of the Audit, Governance and Standards Committee; and in his capacity as a Basildon District Council Councillor, is Chairman of the Regeneration and Economic Development Committee where the Director of Fiserv, a company within one of the Fund's equity portfolio's, mentioned at Agenda Item 8c, sits on that Committee as a non-voting member;

Cllr M Hoy declared that his brother-in-law and nephew are members of the LGPS and that he is a Member 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 16 June 2021

The Minutes of the meeting of the ISC held on 16 June 2021 were approved as a correct record and signed by the Chairman.

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

- following the development of the Responsible Investment (RI) Project Plan, a RI workshop took place on the 16 September 2021 and an update provided at agenda item 5; and
- Fund Officers confirmed that Cllr Scordis as requested had been written to, thanking him for his contribution to the Pension Strategy Board and ISC since 2017.

3. Capital Markets Outlook – Quarter 2 2021 Highlights

The Committee received a report and presentation from Hymans Robertson summarising the market and macro events to 30 June 2021.

It was noted that assets classes generally had a good quarter. GBP growth saw improvement during quarter two, however, it was still below pre-Covid 19 levels. It was also brought to the Committee's attention that higher inflation remains a concern in the short to medium term and this was discussed.

Resolved:

The Committee noted the content of the report.

4. Schedule of Future Meetings and Events

The Chairman brought to the attention the dates of the planned Committee meetings for the remainder of the municipal year.

Members were provided with an update in respect to Essex County Council's (ECC) current position in regard to Member's attendance at Meetings, Conferences and Seminars, noting that only decision-making meetings could take place face to face within County Hall, but the situation would be reviewed in the new year. As such, it was noted that the Training Day scheduled for 03 November 2021 had been put back to 31 January 2022.

Resolved:

The Committee noted the content of the report.

5. Responsible Investment (RI) Project Plan Progress including Outcome of Training Day

The Committee were provided with an overview of the RI Workshop that took place on 16 September 2021, which covered five main areas. These included:

- Refresher on the RI journey to date;
- Introduction to Task Force on Climate related Financial Disclosures (TCFD);
- Discussion of net zero targets;
- Manager engagement; and
- Review of the Fund's index tracking approach.

An update was provided on the current position against the RI Project Plan noting that some milestones were further progressed than others but in the round the Fund was roughly where it needed to be.

The Director for Essex Pension Fund informed the Committee that at the recent ECC's Full Council meeting held on 12 October 2021 some initial Environmental targets had been presented and confirmed that the Fund would need to be mindful of these when reviewing climate rated metrics for TCFD and any net zero targets.

It was confirmed that the Local Government Pension Scheme (LGPS) are not currently required to report under TCFD, however, it will assist the Fund in its Stewardship Code submission.

It was explained that the Financial Reporting Council (FRC) had started to feedback on the first wave of Stewardship Code submissions, with around two thirds of the 189 submissions being successful. The overwhelming feedback being of those rejected, their heavy reliance on high level policies and the lack of evidence to support the submissions.

Further detailed feedback from the FRC is expected in November which will be brought to a future meeting.

Resolved:

The Committee noted:

- the outcome of the RI Workshop;
- progress against the Fund's RI Project Plan and proposed next steps as set out at Appendix B of the report; and
- the content of the report.

6. Urgent Part I Business

There was none.

Exclusion of the Public and Press

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

Resolved:

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

7. Part Two Minutes of ISC Meeting 16 June 2021

Part Two Minutes of the meeting of the ISC held on 16 June 2021 were approved as a correct record and signed by the Chairman.

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

- Hymans Robertson had taken onboard Members' feedback and had further developed the Traffic Light Rating Report summary table to document changes in their ratings on Managers, as set out at Agenda Item 8b;
- the £60m commitment to new private equity opportunities in 2021/22 had been completed as part of the annual commitment programme;
- an update in regard to the bottom-up review of the Aviva UK direct property portfolio was provided at Agenda Item 8b; and
- the new Global Custodian Services contract arrangements commenced on 01 September 2021 with Northern Trust Company (Northern Trust).

8. Quarterly Investment Manager Monitoring

8a. Investment Manager Monitoring – Investment Tables Quarterly Review as at 30 June 2021

The Committee received an update from the IIA on details of the Fund's investment performance for the quarter ended 30 June 2021. It was noted that the Fund had outperformed its benchmark with an absolute performance of 5.4% for the quarter and 22.2% over the year.

Members were also pleased to note that the Fund had risen by 5% in the quarter, and 23.3% over the year to reach £9.175bn as at 30 June 2021, with the Fund now at an all-time high of c.£9.4bn.

It was noted that Baillie Gifford's Long Term Growth Equity Fund had continued to be the Fund's star performer and of the two underperformers flagged the IIA outlined the reasons behind this and stated that there was no cause for concern at the present time.

Members were also informed that meetings had been held with Managers to discuss Environmental, Social and Governance (ESG) factors and that all these meetings had been positive and would be discussed later in the agenda.

Resolved:

The Committee noted the content of the report.

8b. Investment Manager Monitoring – 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. As requested at the previous meeting the report had been revised to include rating movements since the last meeting.

Members were provided with a brief overview of each manager and in particular, attention was drawn to the two notable movements since the last update, one positive and one negative. These were discussed.

The Committee were also informed that Officers and Advisers had met with Aviva on a couple of occasions and were pleased to report that positive progress was being made.

Resolved:

The Committee **agreed:**

- that the investment in Alcentra's Global Multi Credit Solution Fund be redeemed at the first available opportunity and that the proceeds be reinvested in M&G's Alpha Opportunity Fund; and
- to note the content of the report.

8c. Investment Manager Monitoring – Responsible Investment (RI) Engagement Report

The Committee received a report from John Dickson, Hymans Robertson on the Engagement Strategy that Officers and Advisers had started to formulate. It was explained that the focus was based on a holistic approach to engagement including both a 'bottom up' and 'top down' assessment of the mandates. With the former, looking at the individual companies invested in the portfolio and the latter, the wider culture of the investment manager's business and philosophy.

It was explained that the Strategy had been piloted with the Fund's five active equity Managers with the initial assessment showing that whilst each Manager had different approaches, capability and capacity when dealing with engagement and stewardship the overall view was positive.

Members welcomed the Engagement Reports praising the efforts of the Officers and Advisers. It was requested that, going forward, to aid the Committee if these reports included a description of the Company's business and sector.

Resolved:

The Committee **agreed** that:

- the O&A start to formulate an Engagement Policy based on the initial work undertaken;
- the Engagement Strategy developed and implemented for the active equity managers be extended to the Fund's other investment managers, commencing with the Fund's bond managers;
- the next steps arising from each individual manager engagement meeting; and
- the content of the report be noted.

9. Review of the Index Tracking Approaches

Matt Woodman, Hymans Robertson presented a report to the Committee outlining the market universe review undertaken by Officers and Advisers of the index tracking approaches adopted in the current market. It was explained that of the forty-eight products deemed as suitable, eight were subsequently investigated further.

It was concluded that of these eight products, two broad approaches were evident, 'wider ESG focussed' and 'climate only'.

A discussion in regard to the Fund's Passive Manager was held in the context of both these approaches.

Resolved:

The Committee **agreed**:

- the importance of a wider ESG focussed approach relative to a narrower climate focussed product;
- the Fund's Passive Manager be invited to present their Life Climate Aware World Equity Fund and to carry out a wider workshop to review potential solutions;
- to continue to engage with other ACCESS colleagues on reviewing the approach to index tracking mandates and manager arrangements;
- to note the review undertaken on the wider universe of approaches to index tracking, including those currently offered by the Fund's current manager; and
- the content of the report be noted.

The Chairman informed Members that the meeting would reconvene at 12:13pm following a short adjournment.

The meeting was adjourned at 12:03pm

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The Committee reconvened at 12:14pm

10. Bitesize Training – The Role of the Global Custodian

The Chairman welcomed Stephen Shearing, the Fund's Relationship Manager from Northern Trust, who provided a bitesize training session in regard to the role of the Global Custodian and how they ensure the Fund's assets are kept safe.

Resolved:

The Committee undertook the Training and noted the presentation.

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

The Director for Essex Pension Fund outlined the latest developments in respect of the structural reform of the LGPS.

It was noted that the AJC had met twice since the last ISC meeting, on the 25 June 2021 informally and on 06 September 2021. The Summary Reports from both meetings were provided at Appendices A and B of the report for noting.

It was explained that the main areas of business included:

- the resolution to the Link Fund Solutions (Link) professional assurance arrangement;
- the outcome of the BAU Evaluation including the recommendation to establish a timetable clearing articulating milestones; and
- the outcome of the Emerging Market Review undertaken by the Task and Finish Group and the agreement of seven recommendations.

Resolved:

The Committee noted:

AJC Informal Briefing 25 June 2021

- the membership of the AJC including four new Chairmen representatives;
- 2020/21 Budget Outturn underspend of £217k against a Budget of £1,080k and the update on progress made against 2020/21 Business Plan deliverables;
- the approval of Kevin McDonald as the permanent Director of the ACCESS Support Unit and the appointment of Paul Tysoe as the ACCESS Client Manager;
- the update from Engine MHP on progress in regard to fulfilling the roles of Elected Member ACCESS communications spokespeople;
- an update from Minerva's in regard to progress drafting the Pool's ESG/RI guidelines;
- the performance of sub-funds against benchmark, income generated from stock lending and voting by the investment managers as at 31 March 2021;
- the update in regard to professional indemnity insurance arrangements put in place by Link commencing 30 April 2021;
- the update in regard to the establishment of the Task and Finish Group to undertake the Emerging Market Review;

- progress on sub fund implementation;
- the contract and supplier relationship management update;
- the move to a new '4x4' matrix style approach to the assessment of risk;
- the presentation from Link Fund Solutions; and
- the Summary Note of 25 June 2021 AJC Informal Briefing.

AJC Summary Update 06 September 2021

- the reappointment of Cllr Mark Kemp-Gee (Hampshire) and Cllr Susan Barker (Essex) as Chairman and Vice Chairman of the AJC respectively for a further term of two years;
- the update on progress made against the 2021/22 Business Plan deliverables and Budget forecast;
- ACCESS Pool's key risks, changes to risk profile and risk ratings;
- the nominated Elected Member communication spokespeople and the update in regard to their training arrangements;
- the outcome of the Implementation Adviser procurement process and the identification of ACCESS's preferred provider in advising ACCESS in pooling its illiquid assets subject to the conclusion of the standstill period;
- an update in regard to the launch of a UK equity sub fund, taking the total number of sub funds launched to twenty-three and progress in regard to future launches;
- the outcome of the BAU review previously reported and the agreement of some further recommendations;
- the performance of sub-funds against benchmark, income generated from stock lending and voting by the investment managers as at 30 June 2021;
- the progress in regard to the Ministry of Housing, Communities and Local Government Annual Return;
- ACCESS's Annual Report for recommendation for publication in each of ACCESS Authorities Report and Accounts;
- the outcome of the Emerging Market Review and the initial response to the seven recommendations outlined within the Review;
- the contract and supplier relationship management update including the outcome of the recent Service Review with Link Fund Solutions; and
- the Summary Note of 06 September 2021 AJC.

12. Urgent Exempt Business

There were none.

There being no further business the meeting closed at 12:55pm.

Chairman
29 November 2021

Essex Pension Fund Investment Steering Committee	ISC 03
Date: 29 November 2021	

Capital Markets Outlook: Q3 2021 highlights

Report by Hymans Robertson

Enquiries to Jody Evans on 03330 138489

This Report is for noting

Executive Summary

Key highlights include:

- Mixed quarter regarding asset class returns. Global equities gave up earlier Q2 gains in September as investors contemplated easing economic momentum, continued supply chain disruptions, higher inflation, and the prospect of fading monetary support;
- UK bond yields rose, and prices fell, as upside inflation surprises led to expectations of earlier rate rises than first predicted;
- With economic momentum easing, the global economy continue to forecast growth at a healthy pace. Whilst concerns around coronavirus have subsided, as signposted in Q2, supply-side risks and China's economic slowdown intensified;
- Outlook for asset classes remains neutral to cautious given price rises in the backdrop of an uncertain economic environment; and
- Persistent higher inflation continues to remain a concern, although markets appear to have priced a return towards target levels in the medium term.

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.

Q3 2021 Capital Markets Outlook

November 2021

Essex County Council

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Overview of asset class views

Page 20 of 48

Summary

The ratings are intended to give a guide to our views on the prospects for markets over a period of around three years; although they are updated quarterly, they are not intended as tactical calls.

The ratings reflect our expectations of absolute returns and assume no constraints on investment discretion. In practice, they need to be interpreted in the context of the strategic framework within which individual schemes are managed. The property rating ignores purchase transaction costs, i.e. relevant for current holders of property.

Summary views

	Equities	Sterling IG debt	Liquid Sub-IG debt	Private lending	UK Property	Long Lease Property	Gilts	Index-linked gilts
Fundamentals	N → A	N	N	N	N	N	N → U	N → U
Valuation	U	U	U	N (relative)	U	U	N → U	U
Technicals	N	N	N	N	N	A	N	N
Overall view	Neutral	Cautious	Cautious	Neutral to Cautious	Neutral to Cautious	Neutral	Neutral to cautious	Cautious
Previous quarter	Neutral	Cautious	Cautious	Neutral to Cautious	Cautious	Neutral to Cautious	Neutral to cautious	Cautious

F/V/T ratings: VU – very unattractive; U – unattractive; N – neutral; A – attractive; VA – very attractive
 Overall ratings: Negative, Cautious, Neutral, Attractive, Positive
 Green signifies positive change since last quarter. Red signifies negative change since last quarter.

Overview of views

Equities	The earnings recovery shows little sign of flagging yet, but valuation multiples based on cyclically-adjusted earnings remain stretched versus history. Perhaps the only lens through which global equity valuations do not look exceptional is that of real yields.
Investment grade credit	Spreads in investment-grade markets remain well below long-term median levels given strong technical support from central bank purchases, improving fundamentals and robust corporate earnings. Current valuations warrant caution as recent fundamental improvements are already reflected in spreads and future downside risks remain. Long-duration, low spread, investment-grade credit markets are susceptible to potential rate rises, particularly if inflation turn out to be less transitory than thought. We continue to have a preference for ABS which offer an attractive spread premium and provide insulation against interest-rate volatility.
Liquid Sub-investment grade debt	The rebound in growth and earnings is improving the fundamental backdrop with leverage levels falling and interest coverage increasing. Defaults and distress levels continue to decline, and defaults are expected to remain below long-term average levels over 2021 and 2022. However, our cautious view is predicated on spreads which are well below long-term median levels and are already fully pricing in the more favourable environment. We have a preference for loans over high yield given the more attractive valuations.
Private Lending	A post-Covid rebound in earnings has improved fundamentals with most managers taking assets off watchlists. Valuations remain neutral, relative to traded loan spreads, but given loan spreads are below long-term median levels we retain some caution. There remains a very high level of activity in the market with most managers achieving high levels of deployment over the quarter, which is expected to continue in Q4.

Overview of views (cont.)

Core UK property	The fundamentals for the UK property market have improved of late, principally from a stronger occupier market. The recovery in transaction activity continues to gather pace although it remains too early to conclude that this will be sustained despite tentative improvements in fundamentals.
Long Lease Property	On an absolute basis, valuations appear less attractive than wider property market but are supported by marginally stronger fundamentals as are less exposed to the most troubled sectors. Improved market fundamentals may create a more bullish outlook for the sector, although it is still at an early stage.
Conventional gilts	The pace at which markets now imply interest rates will rise over the next few years does not feel unreasonable. Although the risks still seem skewed to an even faster pace, which would be bad for bond markets. The shorter end of the gilt market looks reasonable, however longer-dated yields remain expensive.
Index-linked gilts	We see inflation pricing at terms between 10 and 30 years as being the most expensive. In the context of near-term inflation risks, implied inflation up to 10 years is perhaps less expensive than at first glance.

Portfolio positioning

- Economic momentum may have eased, but the global economy is forecast to grow at a healthy pace. Concerns about coronavirus have diminished, but supply-side risks and China's economic slowdown have intensified.
- Though central banks are adopting a slightly less accommodative stance, financial conditions are easy and negative real yields are expected to persist for some time. However, even a moderate rise in real yields could pose a challenge, with an obvious potential trigger being interest rate increases in response to persistence in current inflationary pressures.
 - The risk of a faster pace of rate rises leaves us cautious on bond markets in general. Front-end nominal yields continue to look more fairly valued than longer-term yields. Implied inflation looks expensive across all maturities, but particularly so between 10 and 30 years. Implied inflation up to 10 years is perhaps less expensive in the context of near-term inflation risks.
 - It is becoming increasingly difficult to identify attractive opportunities in credit markets – certainly in absolute terms, but increasingly also relative to risk-free alternatives. Within investment-grade markets, we favour asset-backed securities over corporate bonds, while loans and hard-currency emerging market debt look less stretched than high-yield bonds.
 - Equity and property valuations reflect a lot of good news and valuations lean heavily on low bond yields. However, positive earnings momentum and relative value still lend short-term support to equities, which we prefer to bonds and property (where any improvement in fundamentals is more tentative).
 - Given the absolute level of valuations across most asset classes, we still advocate holding elevated levels of cash.



Economic background

Page 25 of 48

Market returns

Global equities gave up earlier gains in September as investors weighed easing economic momentum, continued supply chain disruptions, higher inflation, and the prospect of fading monetary support.

UK bond yields rose, and prices fell, as upside inflation surprises led to expectations of earlier rate rises.

Despite fears over a potential default by Evergrande, a heavily indebted Chinese property developer, global investment grade spreads were little changed and speculative-grade spreads rose only marginally.

Rising oil demand, and low global natural gas inventories, maintained pressure on energy prices.

Market Returns

UK	Q3 21	Q2 21	YTD
EQUITIES	2.2	5.6	13.6
BONDS			
Conventional gilts	-1.8	1.7	-7.4
Index-linked gilts	2.3	3.6	-0.7
Credit	-1.0	1.7	-3.4
PROPERTY	4.6	3.9	11.1
STERLING			
v US dollar	-2.4	0.1	-1.4
v Euro	-0.1	-0.8	4.1
v Japanese yen	-1.9	0.6	6.6

GLOBAL	Q3 21	Q2 21	YTD
EQUITIES	-0.2	7.1	13.5
North America	0.3	8.8	15.4
Europe ex UK	0.3	7.2	16.4
Japan	5.0	0.1	14.8
Dev. Asia ex Japan	-4.2	5.5	7.2
Emerging Markets	-5.6	4.1	2.3
Government Bonds	0.1	0.7	-1.8
High Yield	0.2	2.4	3.3
Gold	-0.3	3.6	-7.2
Oil	4.4	18.5	51.4

Returns to 30 September 2021

Source: DataStream

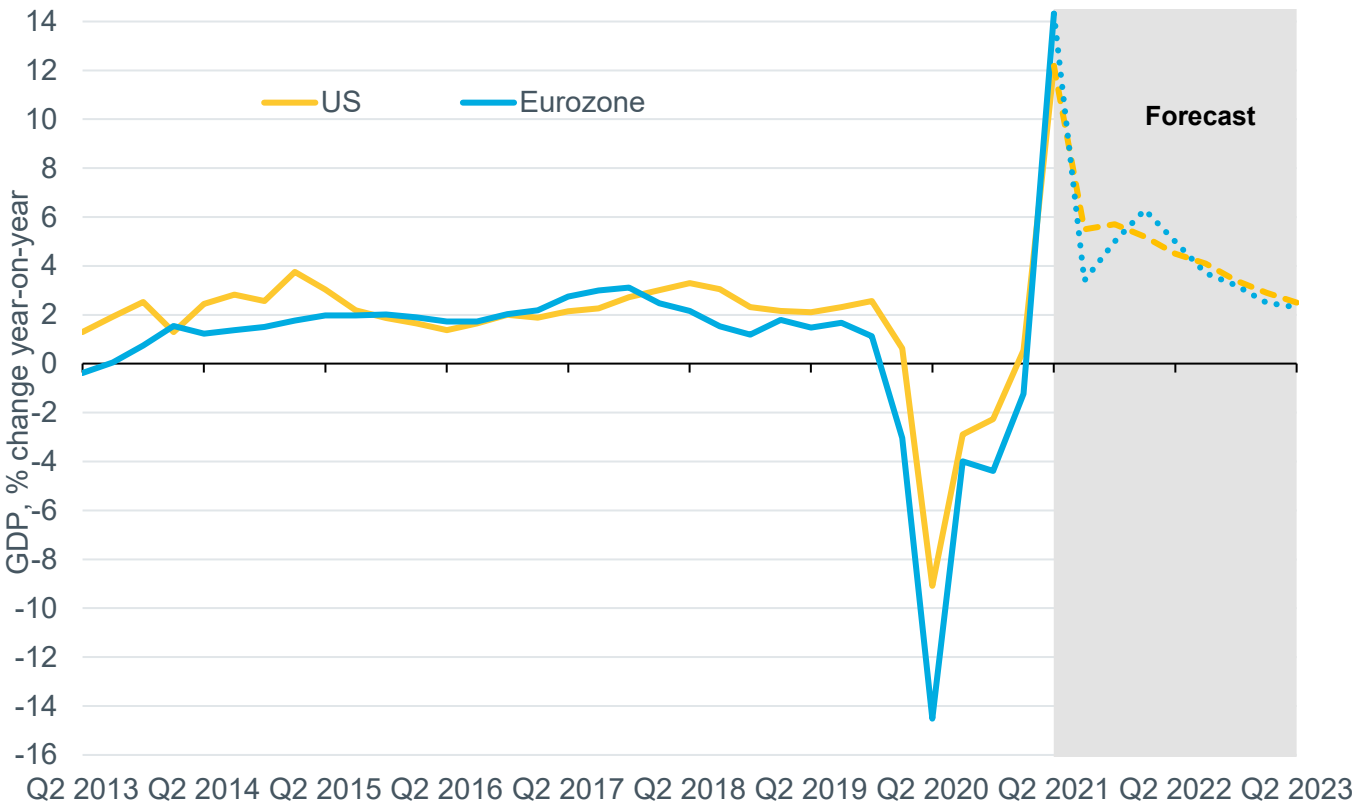
*Global Equity and Government Bond returns - Local Currency; High Yield, Gold and Oil - USD.

Growth momentum has started to ease as the initial impact of re-opening late last year fades.

Q2 likely represented a peak in the quarterly pace of global growth with strong growth figures released in Q3 across the major advanced economies.

US output increased 1.6% in Q2, regaining pre-pandemic levels; the eurozone economy expanded by 2%, exceeding expectations, as the recovery gained momentum; and, the UK's upwardly revised expansion of 5.5% left UK output at the end of Q2 just 3.3% below its level in the fourth quarter of 2019, before the pandemic struck.

GDP Growth

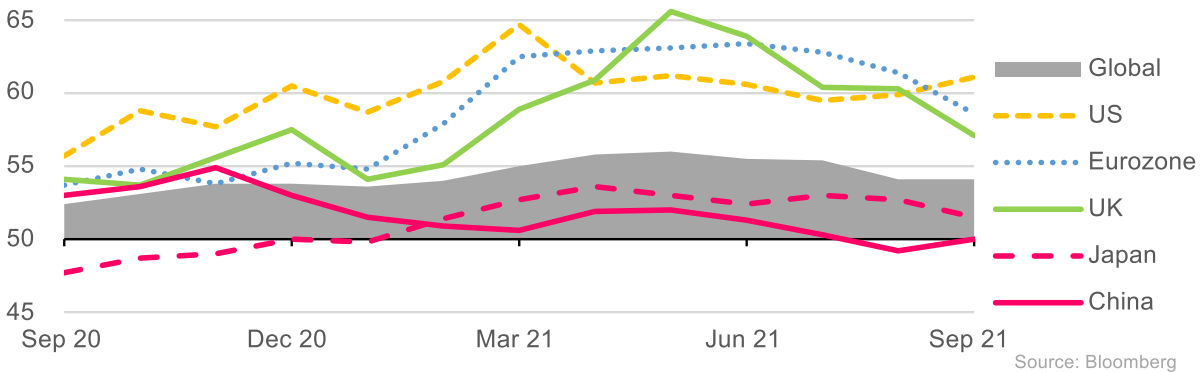


PMI data for US, UK, and eurozone suggest that, while the overall rate of expansion remains solid, the pace of growth eased over Q3, reflecting a combination of peaking demand, supply chain disruptions and labour shortages.

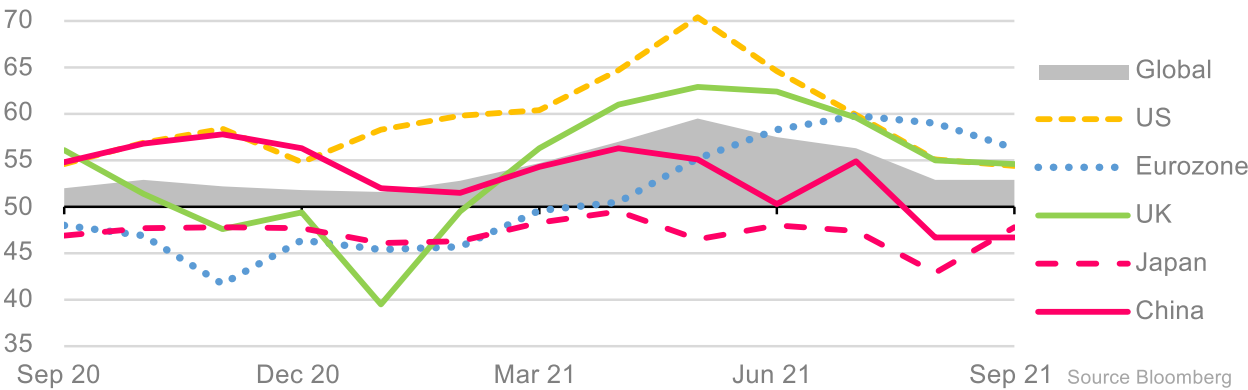
Demand in the service sector has been impacted by the Delta variant spread and, while manufacturing has seen far more resilient demand, factories face growing problems in sourcing supplies and labour to meet orders.

Despite businesses reporting difficulty in filling vacancies and an ongoing fall in unemployment on both sides of the Atlantic, employment at a global level remains well below pre-pandemic levels.

Manufacturing PMI



Services PMI



Economic Background

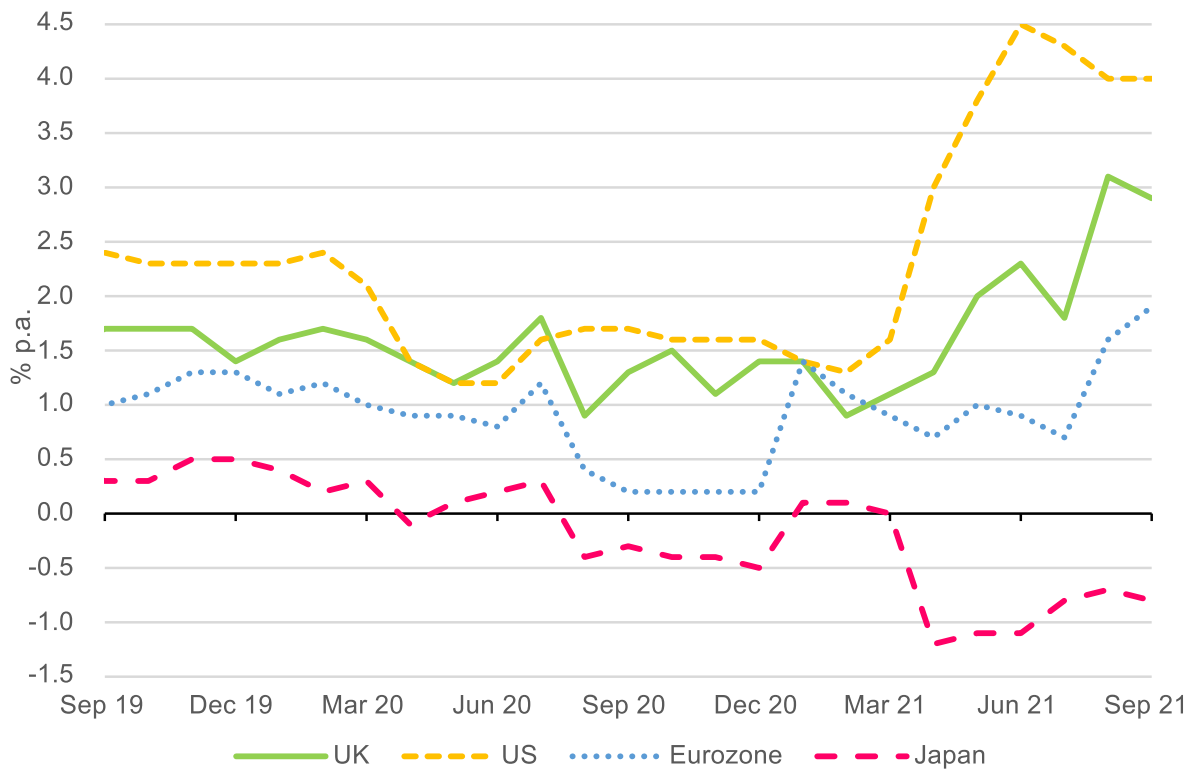
Simultaneously, supply constraints are pushing prices higher and inflation pressures are evident in many economies.

Rising gas and oil prices are driving up headline measures but even core inflation, which excludes those prices as well as food, is exceeding central bank targets in the major advanced economies.

While most forecasters still expect the inflationary spike to prove transitory, inflation forecasts, for this year and next, continue to see upwards revisions.

Consensus forecasts annual US headline CPI inflation will fall to 2.5% by Q3 2022. Expectations are that UK headline CPI inflation will peak at 3.6% year-on-year in Q1 2022, but consensus forecasts it will moderate to 2.6% by Q3 2022.

Core CPI Inflation



Source: DataStream



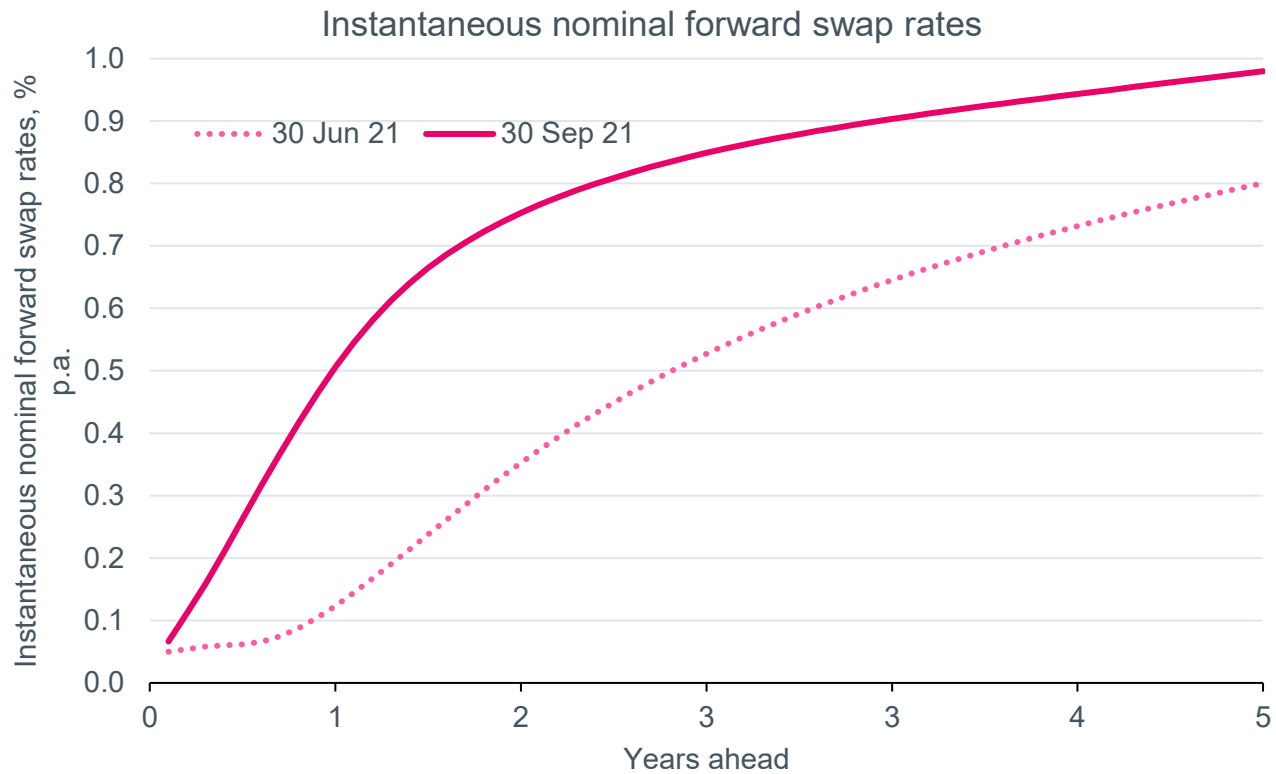
Asset class views

UK gilt yields rose 0.3% p.a. in Q3, with steep rises coming in the wake of the Bank of England's September meeting.

A combination of strong growth and high inflation, even if it is temporary, has resulted in indications from central banks that rates will rise a little faster than previously thought and markets have adjusted accordingly (see chart).

The pace at which markets now imply interest rates will rise over the next few years does not feel unreasonable. Although the risks still seem skewed to an even faster pace – which would be bad for bond markets – we do not think the shorter end of the gilt market is particularly expensive.

Conventional government bonds



	Fundamentals	Valuations	Technicals	Overall
Gilts	Neutral to Unattractive	Neutral to Unattractive	Neutral	Neutral to Cautious

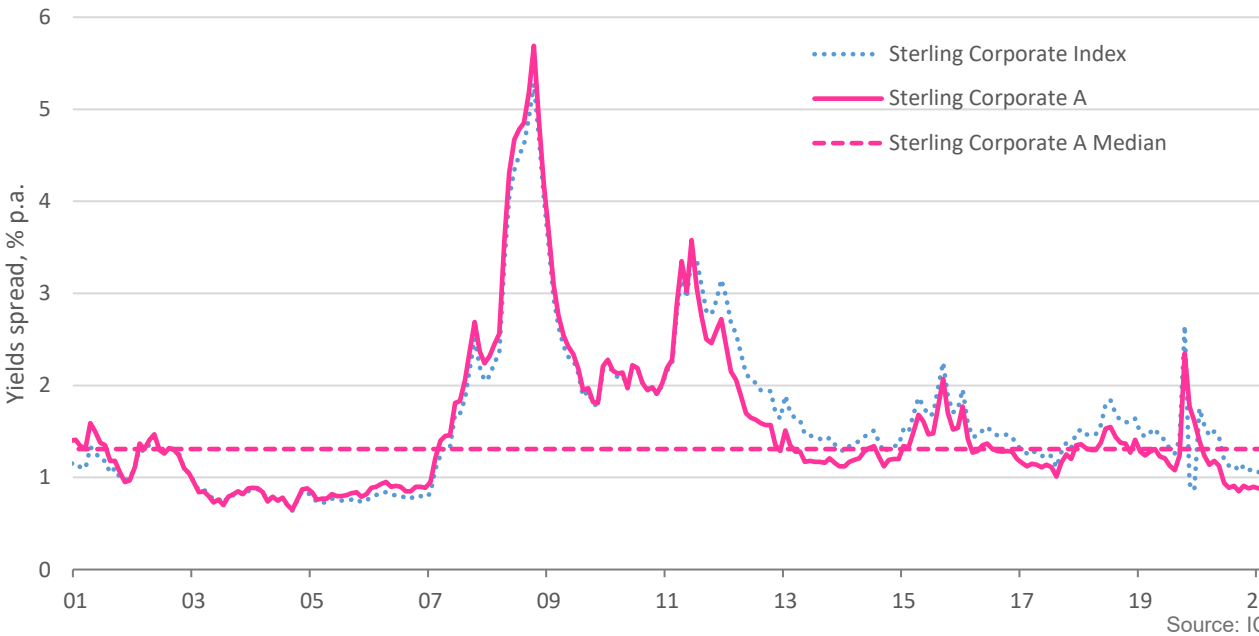
Investment-grade corporate credit

Global investment-grade spreads were little changed in Q3. Sterling investment grade spreads moved marginally tighter over the quarter whilst US and Euro spreads moved marginally wider.

Strengthening corporate finances provide a strong fundamental backdrop for credit markets: defaults and leverage levels are falling, interest coverage is rising, and liquidity is plentiful. As a result, upgrades to credit ratings increasingly outweigh downgrades.

Long-duration, low spread, investment-grade credit markets are susceptible to potential rates volatility and increases if the factors behind the recent rise in inflation turn out to be less transitory than thought.

Spreads (bps)	30 Sep	-3 Mth	-12 Mth	10-yr Median
US IG	89	86	144	135
Sterling IG	104	106	150	149
Euro IG	85	84	118	118



	Fundamentals	Valuations	Technicals	Overall
Global IG credit	Neutral	Unattractive	Neutral	Cautious
Sterling IG credit	Neutral	Unattractive	Neutral	Cautious

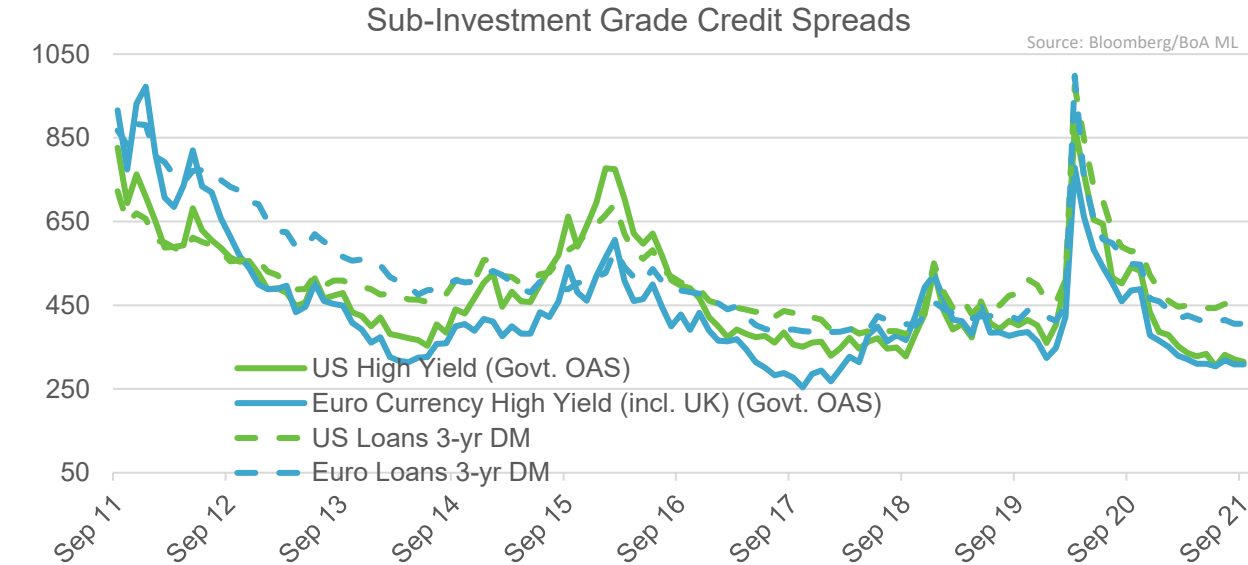
Speculative-grade credit yield

Global speculative-grade spreads fell 0.3% p.a. to 3.5% p.a. and are now below end-2019 levels and in-line with the lows of January 2020.

The rebound in growth and earnings is improving the fundamental backdrop with leverage levels falling and interest coverage increasing. Defaults and distress levels continue to decline, and defaults are expected to remain below long-term average levels over 2021 and 2022.

In private debt, a post covid-19 rebound in earnings has improved fundamentals. Valuations remain neutral, relative to traded loan spreads, but loan spreads well below long-term median levels still gives us cause for caution.

Spreads (bps)	30 Sep	-3 Mth	-12 Mth	10-yr Median
US HY	315	304	541	446
Euro Currency HY	309	304	485	405
US Loans 3-yr DM	438	443	579	498
Euro Loans 3-yr DM	406	410	548	492

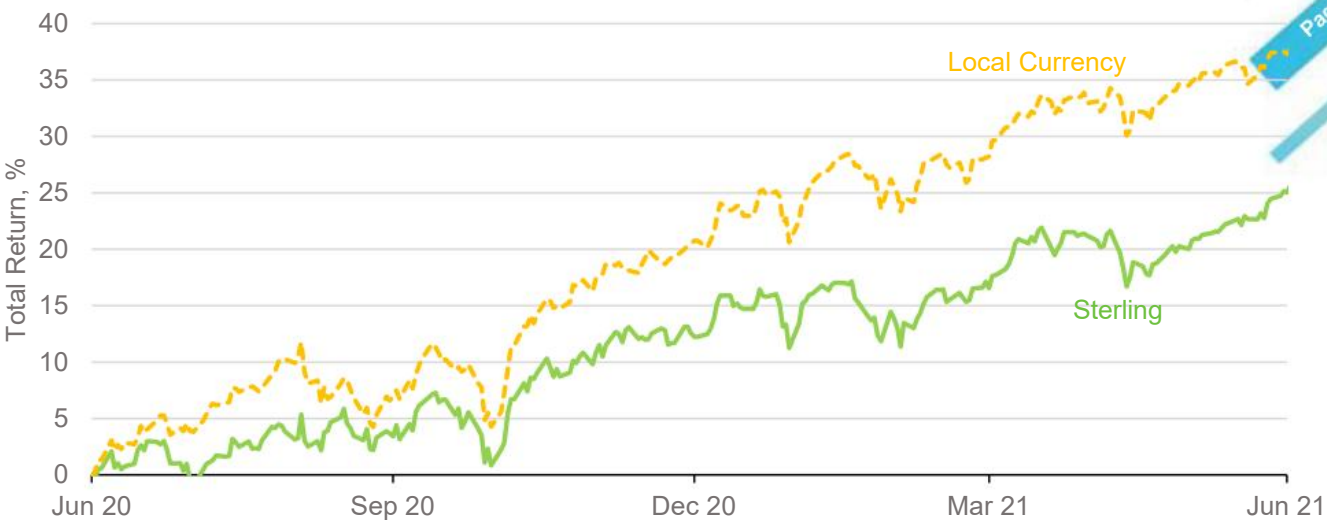


	Fundamentals	Valuations	Technicals	Overall
High yield	Neutral	Unattractive	Neutral	Cautious
Loans	Neutral	Neutral to unattractive	Neutral	Neutral to Cautious
Private debt	Neutral	Neutral (relative)	Neutral	Neural to cautious

Despite a stellar Q2 earnings season, volatility increased, and global equities handed back all of their gains in September as markets weighed easing economic momentum, the prospect of fading monetary support, and a potential debt shock in China.

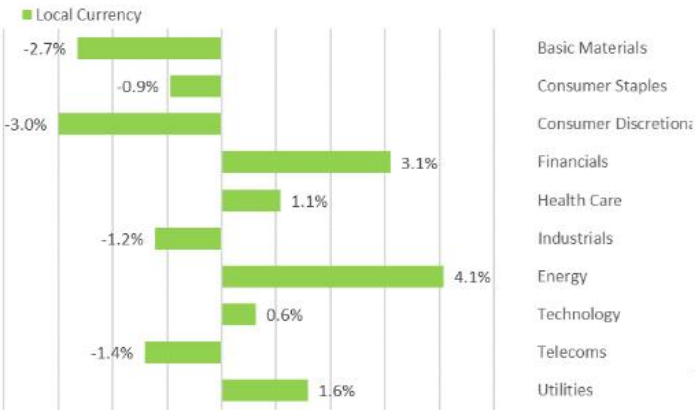
There was a rotation in sectoral performance in September relative to earlier in the quarter. Surging energy prices propelled the energy sector to the top of the performance rankings. Financials also outperformed following the rise in yields in September. Basic materials, consumer staples and consumer discretionary underperformed.

Global equity returns



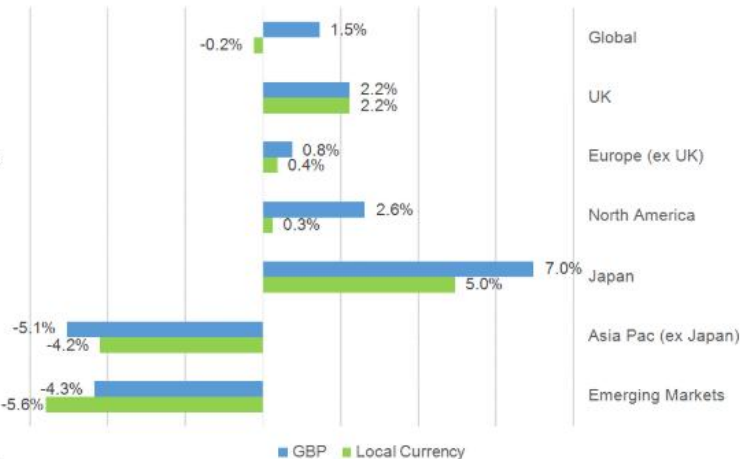
Total returns 30 Jun 2020 to 30 Jun 2021. Source: DataStream

Relative Q2 equity sector performance



Global Sector returns relative to FTSE All World Index 30 Jun 2021 to 30 Sep 2021. Source: DataStream

Q2 Regional Equity performance



Total returns 30 Jun 21 to 30 Sep 21. Source: DataStream

Equities

The stellar earnings recovery shows little sign of flagging so far, but traditional valuation metrics are stretched versus history, leaving little scope for disappointment.

Perhaps the only lens through which global equity valuations do not look bloated is that of real yields. The chart shows the global equity earnings yield, based on the average inflation-adjusted earnings of the previous 10 years, and the gap between this earnings yield and the 10-year real US treasury yield.

On this basis, equities look no more or less expensive than post-crisis averages. However, this may simply be comparing one expensive asset class with another. Even a moderate rise in real yields, to levels seen as recently as 2019, would considerably narrow the risk premium on offer.

Global equities

Region (MSCI index)	P/E (Trailing)		P/E (Shiller)		Price/Book		Price/Sales		EV/EBITDA		Dividend Yield (%)
	Current	Historic Median	Current	Historic Median	Current	Historic Median	Current	Historic Median	Current	Historic Median	
World	22.8	18.7	28.9	21.6	3.2	2.2	2.0	1.3	14.2	10.0	1.7
US	25.9	18.4	37.1	20.9	4.7	2.6	2.6	1.6	16.3	10.8	1.4
EM	15.1	14.5	15.8	15.5	1.9	1.7	1.1	0.9	11.0	8.2	2.2
UK	17.8	14.2	14.4	14.9	1.8	1.8	1.2	1.2	8.8	7.7	3.7

MSCI World and AC World cyclically adjusted price-to-earnings ratio



	Fundamentals	Valuations	Technicals	Overall
Global equity	Neutral to Attractive	Unattractive	Neutral	Neutral

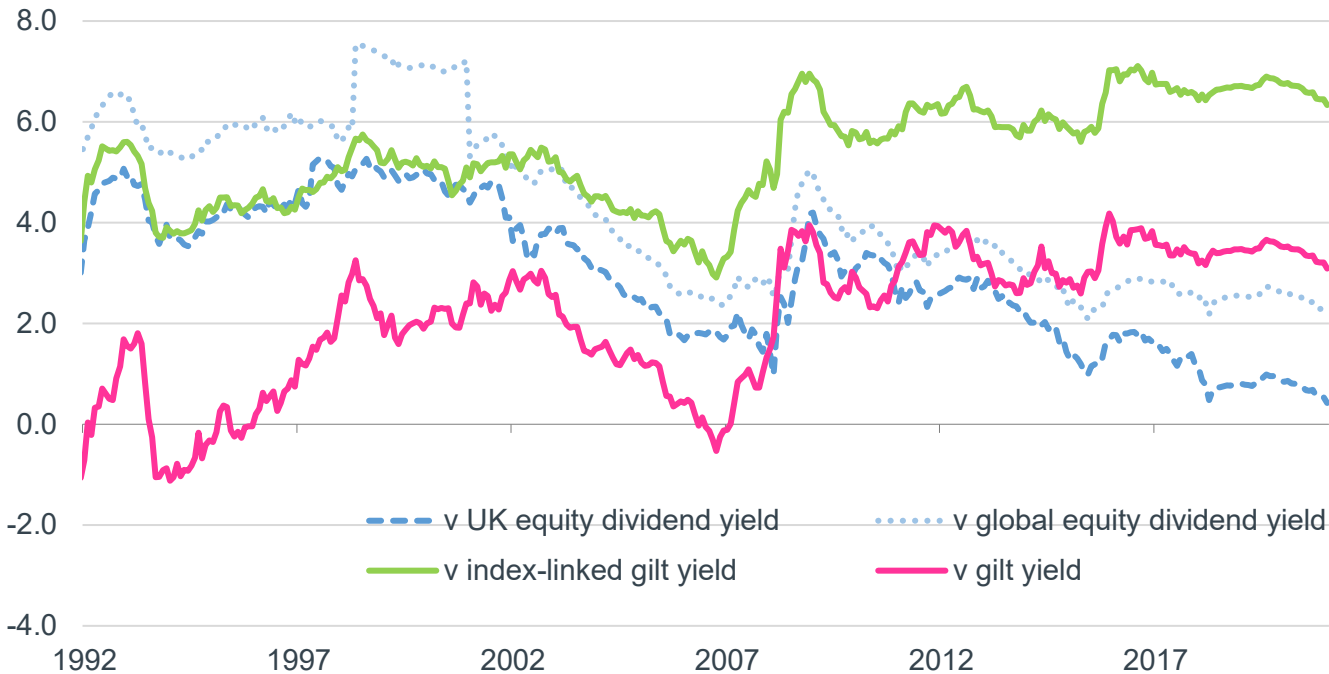
Capital values in the UK industrial and retail commercial property sectors have continued to edge higher in recent months; values in the office sector have changed little. Over the last 12-month period, only the buoyant industrial sector has seen a rise in capital values.

Property fundamentals have continued to improve in recent months, with tenant demand increasing for the first time since 2017 in Q2, according to the RICS quarterly UK commercial property survey .

Nominal annual rental growth across property sectors, in aggregate, has been increasing since February, but has still not caught up with the rising pace of inflation. However, initial (current income) and reversionary (full rental) yields remain very low versus history.

UK property

UK property initial yield



Source: MSCI

Core	Neutral	Unattractive	Neutral	Neutral to Cautious
Long Lease	Neutral	Unattractive	Attractive	Neutral

Appendix

Asset class views framework

The views are intended to give a guide to our views on markets over the medium term; although they are updated quarterly, they are not intended as tactical calls.

The views reflect our expectations of absolute returns and assume no constraints on the investment decisions. In practice, they need to be interpreted in the context of the strategic framework within which individual funds are managed.

Fundamentals

These are the underlying economic drivers of an asset class which impact returns. Examples of fundamental factors include earnings, rents, inflation, interest rates, defaults, and leverage levels.

Valuation

Valuation is concerned with the price the market places on the relevant fundamentals and how that compares with history and/or our view of fair value.

Technicals

These are shorter-term factors that may tend to move markets back towards or further away from fair value. These are often factors which impact the supply/demand balance and include asset flows, issuance, investor confidence, central bank intervention, and geopolitical risk.

Risk warnings

General risk warning


Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets.

Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance. Private equity investments, whether held directly or in pooled fund arrangements carry a higher risk than publicly quoted securities. The nature of private equity pooling vehicles makes them particularly illiquid and investment in private equity should be considered to have a long time horizon.

Disclaimer

This presentation has been prepared for Essex Pension Fund. It should not be released or otherwise disclosed to any third party except as required by law or regulatory obligation or without our prior written consent. We accept no liability where the presentation is used by, or released or otherwise disclosed, to a third party unless we have expressly accepted such liability in writing. Where this is permitted, the presentation may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

The material and charts included herewith are provided as background information for illustration purposes only. It is not a definitive analysis of the subjects covered, nor is it specific to circumstances of any person, scheme or organisation. It is not advice and should not be relied upon. It should not be released or otherwise disclosed to any third party without our prior consent. Hymans Robertson LLP accepts no liability for errors or omissions or reliance upon any statement or opinion.

Essex Pension Fund Investment Steering Committee	ISC 04	
Date: 29 November 2021		

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

- Broadly, progress is in line with the RI Project Plan;
- An approach was agreed at the 13 October 2021 ISC meeting in regard to the review of the index tracking market capitalisation funds managed by UBS;
- Manager engagement meetings have now been held with all of the Fund's active equity and bond Managers along with the Fund's index tracking provider, UBS; and
- The development and initial drafting of the Fund's Engagement Strategy and the UK Stewardship Code submission have also commenced.

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 Financial Reporting Council (FRC) UK 2020 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 Progress and Outcome of Training Day, ISC 05, 13 October 2021
- 4.2 Responsible Investment (RI) Project Plan, ISC 07, 16 June 2021.
- 4.3 Outcome of the Responsible Investment Workshop, ISC 03, 24 March 2021.
- 4.4 Essex Pension Fund (EPF) - Three Year Business Plan and 2021/22 Budget, PSB 04a, 17 March 2021.
- 4.5 Investment Strategy Statement as published on www.essexpensionfund.co.uk



Essex Pension Fund

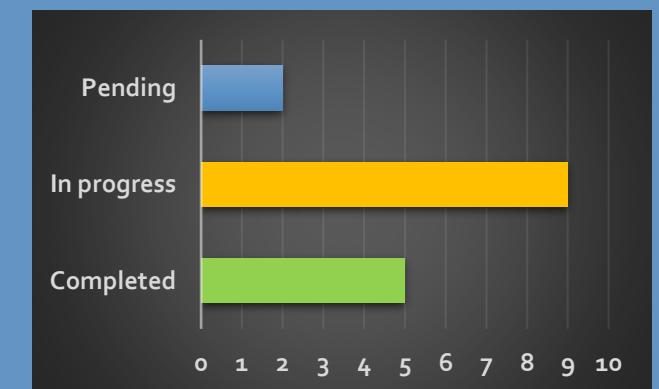
ISC Responsible Investment Project Plan

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	In progress
Meet Managers with focus on RI themes (with new format Briefing Note)	Identify areas for ongoing engagement with Managers	13 October 2021	Q3	Medium	In progress
Early draft of Stewardship Code submission (template with gaps)	<ul style="list-style-type: none"> Agree approach to passive equity benchmarks and Agree climate metrics and targets Identify areas for ongoing engagement with manager 	13 October 2021	Q3	Medium	In progress
Initial Engagement Plan with all managers including progress to date	Agree Engagement Plan	29 November 2021	Q3	Medium	In progress
Proposal on communication and engagement with key stakeholders	Agree Communication Plan	29 November 2021	Q3	Medium	In progress
Meet manager with focus on RI themes	Identify areas for ongoing engagement with Managers	29 November 2021	Q3	Medium	In progress
Follow up Stewardship Code training, including Fund Escalation Policy	Agree Fund Escalation Policy	Training TBC	Q4	Medium	Pending
Final draft of Stewardship Code submission, including Fund Escalation Policy	<ul style="list-style-type: none"> 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	Pending
Annual review of Managers' compliance with Fund's RI and Stewardship Policy	<ul style="list-style-type: none"> Identify areas for ongoing engagement with Managers 	23 February 2022	Q4	Medium	In progress
Meet Managers with focus on RI themes	<ul style="list-style-type: none"> Identify areas for ongoing engagement with Managers 	23 February 2022	Q4	Medium	In progress

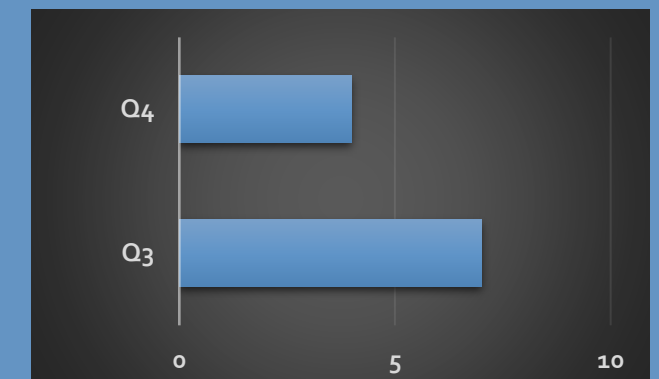
PROGRESS : 15 November 2021



TASKS SUMMARY



ON THE HORIZON



Essex Pension Fund Investment Steering Committee	ISC 05
Date: 29 November 2021	

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

The 2022/23 dates have been provided for the Committee's agreement along with a reminder of the upcoming ISC Meetings and Training day for the remaining of this municipal year.

In addition, Members are being made aware of the forthcoming LGC Investment Seminar dates. It is noted, however, that the timing of this Seminar potentially impacts the 22 March 2022 PSB meeting date.

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 propose a schedule of ISC meetings dates for the new 2022/23 municipal year.

2. Recommendation

- 2.1 That the Committee **agree**:
 - the proposed ISC meeting dates for 2022/23 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 As Covid-19 restrictions are easing, more face-to-face Conferences and Seminars are starting to be advertised. However, the Fund also needs to take into consideration the advice and guidance being communicated from Essex County Council which is to consider the nature and importance of the Conference/Seminar before advertising these to Members to attend.
- 4.2 Therefore, Fund Officers will ensure a review of the advertised Conference/Seminar 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.
- 4.3 Members should also note that the pandemic has created a new approach to some Conferences/Seminars where they are now utilising a hybrid approach or in some cases 100% virtual. As and when any appropriate Webinars and/or hybrid options are announced, the Compliance Team will provide the Committee with a communication to invite all Members to register for the event should they wish to do so.
- 4.4 The Compliance Team have been made aware of the following Investment Seminar:

Date	Title	Venue	Update
23 – 24 March 2022	LGC Investment Seminar	Carden Park, Cheshire	If anyone wishes to attend, please contact the Compliance Manager after the meeting as this Seminar takes place the day following the agreed PSB meeting date. The Agenda is yet to be published and will be issued as soon as available.

5. Schedule of Meetings

- 5.1 The schedule of meetings and training days for the remainder of the municipal year 2021/22 are as follows:

Investment Steering Committee	
Wednesday 23 February 2022	10am – 1pm

Training Days	
EPF Back to Basics	31 January 2022 (timings tbc)

6. Proposed 2022/23 Schedule of Meetings

- 6.1 The proposed schedule of meetings for the next 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

7. Finance and Resources Implications

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

8. Background Papers

- 8.1 Schedule of Future Meetings and Events, ISC 04, 13 October 2021.

