

Essex Pension Fund Strategy Board	PSB 11
Date: 23 September 2020	

Investment Steering Committee (ISC) Quarterly Report

Report by the Investment Manager

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1. Purpose of the Report

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

2. Recommendations

- 2.1 The Board agree that the report be noted.

3. Background

- 3.1 In accordance with its Terms of Reference, the ISC is required to submit quarterly reports on its activities to the Essex Pension Fund Strategy Board (the Board).
- 3.2 Since the Board's last meeting the ISC has met on one occasion, 21 July 2020. The ISC that was due to take place on 25 March 2020 was cancelled due to the circumstances that arose in regard to the Covid-19 pandemic outbreak.

4. Report of the meeting of ISC on 21 July 2020

- 4.1 The Committee reviewed the draft Treasury Management Strategy 2020/21. It was highlighted that the Strategy replicated to a large extent the Treasury Management Strategy approved by Essex County Council but had been adapted to reflect the scale of investment, use of global custodian and the separate governance arrangements of the Fund. It was agreed that a review be undertaken of the Treasury Management Practices; that the Northern Trust and BNP Paribas Global Liquidity Funds lending limits be brought in line to reflect the growth of the Fund; to accommodate the gradual move in the strategic allocation; and the Strategy be approved.
- 4.2 The Committee considered the draft Investment Strategy Statement (ISS) and the suggested timetable for consultation. It was agreed that the draft ISS be subject to stakeholder consultation and that it be included as an agenda item at the Essex Pension Fund Advisory Board (PAB) 23 September 2020 meeting, with results of the stakeholder consultation to be brought back to the 21 October ISC meeting. Further work was agreed in regard to a review of the UK Stewardship Code, the Fund's Investment Managers' Environmental, Social and Governance (ESG) and voting policies and the establishment of an Engagement Policy.
- 4.3 The main focus of the meeting's business was in regard to the impact on the Fund's investments following the recent market volatility relating to the Coronavirus pandemic. Members were encouraged to note that following a review of the Fund's portfolio and Investment Beliefs the Fund had remained resilient, and the de-risking programme put in place over the last few years was still appropriate. It was noted that whilst the Fund value had fallen from £7.027bn as at 31 March 2019 to £6.628bn as at 31 March 2020 the Fund had rebounded significantly to pre-Covid 19 levels and in some parts of the portfolio

positive outperformance for the year was achieved. There was also a recognition that the UK property landscape in particular had significantly altered over the last few months and that further analysis would be required.

- 4.4 It light of the review the Committee **agreed** to continue to implement the derisking strategy previously agreed and acknowledged that whilst the strategic allocation in overall broad terms was in in line with acceptable tolerance levels of its target, an exercise would need to be undertaken to redress some specific manager rebalancing.
- 4.5 Members were provided with a training webinar delivering an overview of private equity asset class and were encouraged to view prior to the meeting. A presentation from Hamilton Lane in respect of the Fund's Private Equity Mandate was received. Following discussions, the Committee **agreed** a further commitment of £50m to new private equity opportunities with an additional £10m to be made available should further attractive opportunities be identified during the year.
- 4.6 Members were provided with a report summarising the independent review CEM Benchmarking had undertaken of the overall fees paid by the Fund, investment returns, and net value added compared to its peers across the LGPS and global universe for the year to 31 March 2019. Agreement was given to the Fund participating in CEM's cost benchmarking review as at 31 March 2020.
- 4.7 The Committee received an update outlining the latest developments in respect of the structural reform of the LGPS.
- 4.8 Updates were provided in regard to the March 2020 ACCESS Joint Committee which included: the outcome of the recent Palestine Solidarity Campaign Supreme Court Judgement; an update on commencement of a review of ACCESS' ESG and Responsible Investment; and the quarterly Business Plan, Budget and risk update.
- 4.9 It was also highlighted that in recognition of the significant pressure ACCESS local authorities were under in responding to the Covid-19 pandemic, year-end statutory obligations and carrying out business as usual service for its members, certain ACCESS Business Plan activities had to be put on hold or progressed at a slower pace than desired. It was, however, noted that the situation had begun to improve.

5. Link to Essex Pension Fund Objectives

5.1 Investments:

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

6. Risk Implications

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

7. Communication Implications

- 7.1 The Investment Strategy Statement was subject to a six-week period of stakeholder consultation which concluded on 16 September 2020. The outcome of which, will be reported back to the 21 October 2020 ISC meeting.
- 7.2 The Fund was a signatory on the ACCESS proposal to Government in February and July 2016.

8. Finance and Resources Implications

- 8.1 In addition to the work undertaken by Officers, the cost of ACCESS pool participation per Fund is estimated to be £98,000 in 2020/21.
- 8.2 The cost to the Fund was:
- £62,866 in 2019/20;

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

9. Background Papers

9.1 ISC meeting of 21 July 2020– agenda and draft minutes.