

Essex Pension Fund Strategy Board	PSB 05a
Date: 15 December 2021	

Investment Steering Committee (ISC) Quarterly Report

Report by the Investment Manager

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This Report is for noting

Executive Summary

The ISC have met on two occasions since the last Essex Pension Fund Strategy Board (the Board) meeting on 13 October and 29 November 2021 respectively.

The focus of both meetings was the progress against the Fund's Responsible Investment (RI) Project Plan and the outcome of numerous investment manager Engagement Meetings with the Fund's equity, bond and index tracking managers. Significant time was dedicated to the exploration, in conjunction with the Fund's index tracking manager, UBS of possible solutions to aligning the index tracking mandate with the Fund's current RI Policy.

The 29 November 2021 meeting also focussed on the Investment Strategy Implementation Programme, with several recommendations for consideration in regard to maintaining the strategic allocation to the three assets 'buckets' of: Equities; Bonds and Alternatives.

1. Purpose of the Report

- 1.1 To provide a report on the ISC activity since the last Board meeting.

2. Recommendations

- 2.1 The Board note the content of the report.

3. Background

- 3.1 In accordance with its Terms of Reference, the ISC is required to submit quarterly reports on its activities to the Board.
- 3.2 Since the Board's last meeting the ISC have met on two occasions, 13 October and 29 November 2021 respectively.

4. Report of the meeting of ISC on 13 October 2021

- 4.1 Details of the Fund's investment manager performance for the quarter ended 30 June 2021 was discussed. Members were pleased to note that the Fund value as of October had reached a new high of c.£9.4bn.
- 4.2 The Committee **agreed** to disinvest from a small investment in Alcentra's Global Multi Credit Solution Fund and to reinvest the proceeds in M&G's Alpha Opportunity Fund.
- 4.3 The main area of business was in regard to RI. Hymans Robertson provided the Committee with an overview of the RI Workshop that took place on 16 September 2021. In addition, an update was provided on the current position against the RI Project Plan. It was noted that some milestones were further progressed than others, but the Fund was broadly on target.
- 4.4 It was noted that the Financial Reporting Council (FRC) had issued feedback on the 189 Stewardship Code submissions that they had received in regard to the new 2020 Stewardship Code, with approximately two thirds being successful.
- 4.5 Following an update in relation to the RI Engagement Meetings with the Fund's active equity investment managers, the Committee **agreed** that Officers and Advisers formulate an Engagement Strategy based on the initial work undertaken and adopt this approach with the Fund's other investment managers going forward, commencing with the bond mandates.
- 4.6 A key area of focus was the review by Hymans Robertson of the Index Tracking mandate and how that aligned with the Fund's RI Policy. It was **agreed** that UBS, the Fund's Index Tracking Manager be invited to the next meeting to workshop potential solutions.

- 4.7 The Fund's Global Custodian provided a training session on the Role of a Custodian and how they protect the Fund's assets, as part of the ISC's Two-Year Training Plan.
- 4.8 A verbal update was provided in regard to the 25 June 2021 informal meeting and the 06 September 2021 ACCESS Joint Committee (AJC) meeting. It was explained that the main areas of business discussed 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.

5. Report of the meeting of ISC on 29 November 2021

- 5.1 Details of the Fund's investment manager performance for the quarter ended 30 September 2021 was discussed and Members were pleased to note that the Fund value had yet again surpassed the high reported at their 13 October 2021 meeting, now standing at c.£9.7bn.
- 5.2 The main areas of business were around RI and the review of the Fund's strategic allocation.
- 5.3 In regard to the former, a further update on progress with the RI Project Plan was noted by the Committee.
- 5.4 The outcomes of the RI Engagement Meetings with the Fund's two active bond and index tracking investment managers was noted. In addition, the Committee, recognising the unique nuances **agreed** that Officers and Advisers develop a similar Engagement Strategy that was used for the liquid assets for the alternative assets of the Portfolio focussing, in the first instance, on the Property portfolio.
- 5.5 Another key focus for Members was the report and presentation in relation to the Taskforce on Climate Related Financial Disclosures (TCFD). It was

explained that TCFD requires a minimum of three climate metrics. The Committee following a discussion on the pros and cons of various measures **agreed** several climate metrics be taken forward and monitored on an annual basis. Members also **agreed**, that in line with Essex County Council's pledge, the Fund should aspire to have a portfolio that was invested in line with net zero by 2050.

- 5.6 As a result of the 13 October 2021 ISC where index tracking approaches were discussed, UBS, the Fund's Index Tracking Manager, was invited to hold a Workshop with the Committee on the provision and development of Index Tracking Products. Following the Workshop, the Committee discussed the options available.
- 5.7 Hymans Robertson outlined to the Committee the analysis undertaken of the Fund's overall Investment Strategy. The Committee **agreed** that 2% of the Fund's value be disinvested from Marathon, one of the Fund's global equity managers and be reinvested in the M&G Alpha Opportunity Fund as soon as reasonably possible. In addition, that the outstanding IFM capital call also be funded from the Marathon mandate, with the mandate's remaining holdings be disinvested in the near future as part of the Fund's de-risking programme.
- 5.8 A further report outlined the recent review of the Fund's three Infrastructure Managers and the top up commitments required for the Fund to achieve their asset class target allocation. The Committee **agreed** top up commitments to JP Morgan Infrastructure Fund and Partners Group Direct Infrastructure 2020 Fund, along with an in-principle commitment to Partners new Global Infrastructure Fund (due for launch in 2022).
- 5.9 The final proposal, in relation to the strategic allocations was in regard to the Fund's 5% allocation to direct lending. The Committee **agreed** an additional top up commitment be made to Permira Credit Solutions.
- 5.10 The Committee were also provided first sight of ACCESS's draft RI Guidelines.

6. Link to Essex Pension Fund Objectives

- 6.1 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.

7. Risk Implications

- 7.1 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.
- 7.2 No new risks have been identified during the quarter.

8. Communication Implications

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

9. Finance and Resources Implications

- 9.1 In addition to the work undertaken by Officers, the cost of ACCESS pool participation per Fund is estimated to be £113,000 in 2021/22.
- 9.2 The cost to the Fund was:
- £78,426 in 2020/21;
 - £62,866 in 2019/20;
 - £116,000 in 2018/19;
 - £94,000 in 2017/18; and

- £80,000 in 2016/17.

10. Background Papers

- 10.1 ISC meeting of 29 November 2021 – Agenda and Draft Minutes.
- 10.2 ISC meeting of 13 October 2021– Agenda and Minutes.