

Essex Pension Fund Strategy Board	PSB 09a
Date: 07 July 2021	

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 the ISC activity since the last Essex Pension Fund Strategy 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 Essex Pension Fund Strategy Board (the Board).
- 3.2 Since the Board's last meeting the ISC has met on two occasions, 24 March 2021, and 16 June 2021.

4. Report of the meeting of ISC on 24 March 2021

- 4.1 The Committee were provided with the outcome of the Responsible Investment (RI) workshop held on 12 March 2021. The Committee **agreed** that the RI Policy and Beliefs remain appropriate and that the RI Priorities should be viewed holistically and not in isolation. Further discussions were held in regard to the assessment of each of the Fund's Investment Manager Mandates to determine their alignment with the Fund's Policy. Agreement was given that there was merit, considering the size of the equity 'bucket' that the UBS's passive manager mandate and in particular the market indices utilised be reviewed in the first instance. Members were keen to work with UBS and the ACCESS Pool to seek suitable solution(s).
- 4.2 The Investment Manager presented the Treasury Management (TM) Strategy for 2021/22 and informed that Committee that whilst the content was largely unchanged from the Strategy approved in July 2020, Officers had taken the opportunity to revamp in line with the Fund's new style of presentation and review the appropriateness of the TM Policy and Practices. Members were advised that the Practices had been updated to reflect revised guidance and were now included as appendices to the Strategy. No further revisions were required to the Policy which was subsequently **approved** by the Committee.
- 4.3 The main focus of the meeting's business was in regard to the Direct Leading Procurement where Hymans Robertson delivered a bitesize training session and provided details of the process undertaken, along with an overview of the three shortlisted candidates.
- 4.4 Following presentations and deliberation, Permira was appointed as the Fund's new Direct Lending Manager.

- 4.5 A verbal update was provided in regard to the 08 March 2021 ACCESS Joint Committee (AJC) meeting with confirmation that the full Agenda would be circulated once the Agenda Pack and Summary Note became available.
- 4.6 Details of the Fund's investment manager performance for the quarter ended 31 December 2020 was presented to the Committee along with an update on provisional value of the Fund as at 31 December 2020. Members were pleased to note that the Fund value had reached a new high and had surpassed £8.6bn.
- 4.7 It was confirmed that the Baillie Gifford's overweight position was broadly in-line with its proxy target and as such no immediate rebalancing was needed, but the position would be monitored.
- 4.8 Following an update in relation to the Strategy Implementation Tracker, the Chairman informed the Committee of a discussion held with the Vice Chairman and Officers over the timing of presenting Stage 4, in principle, decisions to this meeting. It was agreed that Stage 4 recommendations be deferred to such time that Stage 2 and 3 investment decisions had time to bed down sufficiently.
- 4.9 Members received an update and the outcome in regard to the procurement of the Institutional Investment Consultant (IIC) Arrangements. It was noted that of the five suppliers invited to participate, two had submitted responses. Both were invited to attend an interview by the ISC Appointment Sub Committee on 10 March 2021. Following full deliberation Hymans Robertson were reappointed to the position for a term of 5 years commencing 01 April 2021.

5. Report of the meeting of ISC on 16 June 2021

- 5.1 The Independent Investment Adviser provided the Committee with a presentation outlining his initial thoughts on some key investment themes for the medium term. This included discussions on the longer-term investment impacts arising from the COVID-19 pandemic, debt levels, interest rates and inflation. In addition, the growth of RI and Environmental, Social and Governance (ESG) factors within institutional investor decision making and asset allocation was discussed.

- 5.2 The main focus of the meeting was around RI, in regard to the proposed RI Project Plan. Hymans Robertson, for the benefit of new ISC Members, provided the Committee with a bitesize training presentation of the work undertaken so far. The Committee **agreed** the Project Plan which outlined the key dates when deliverables would need to be completed and reported in order that the Fund could achieve this year's Business Plan areas of activity: the sign up to the Financial Reporting Council (FRC) UK Stewardship Code 2020; and the development of Task Force on Climate-related Financial Disclosures (TCFD).
- 5.3 Members received training in regard to the Fund's Investment Strategy and its composition. A high-level summary of the Annual Performance Review was provided. Attention was drawn to the dashboard which showed the Fund achieving an absolute annual performance return of c30% as at 31 March 2021. Members were pleased to note the Fund had now reached a new high of £9bn.
- 5.4 The Committee received a summary from Hymans Robertson rating the Fund's Investments Managers and their RI capability. The Committee **agreed** that a further £60m be committed to new private equity opportunities in 2021/22 as part of the annual commitment programme. In addition, a bottom up review be undertaken by Officers and Advisers in regard to the property mandate.
- 5.5 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 2020. Agreement was given to the Fund participating in CEM's cost benchmarking review as at 31 March 2021.
- 5.6 An update was provided of the process and outcome regarding the procurement of the Provision of Global Custodian Services Arrangements. The Committee **agreed** to accept the findings within the report which identified the preferred bidder and that they be appointed the Fund's new provider subject to the successful conclusion of the standstill period.

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 24 March 2021– Agenda and draft Minutes.

10.2 ISC meeting of 16 June 2021 – Agenda and draft Minutes