

Minutes of the Meeting of the Essex Pension Fund Investment Steering Committee (ISC), held in Committee Room 2 at 10:00am on 15 June 2022**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 A Goggin
Cllr A Hedley
Cllr M Hoy
Cllr D King
Cllr M Platt
Cllr C Souter

Scheme Employer Representative

Cllr C Riley (Observer)

Scheme Member Representative

Sandra Child (UNISON) (Observer)

The following Officers and Advisers (O&A) were also present in support of the meeting:

Jody Evans	Director for Essex Pension Fund
Samantha Andrews	Investment Manager
Amanda Crawford	Compliance Manager
Ajai Ajith	Compliance Analyst (via Zoom)
Marcia Wong	Compliance Officer (via Zoom Observer)
Peter Herring	Essex Pension Fund Graduate Trainee (Observer)
Mark Stevens	Independent Investment Adviser (IIA)
John Dickson	Hymans Robertson
Matt Woodman	Hymans Robertson
Samuel Hampton	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
Christopher Downes	Scheme Member Representative
James Durrant	Employer Representative

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 and congratulated Cllr King on becoming the Council Leader for Colchester Borough Council.

Apologies for Absence

It was noted that Substitute Members' Cllr Durham and Cllr Mackrory had sent their apologies along with PSB Members' Cllr George and Rachel Hadley and PAB Members' Nicola Mark, Andrew Coburn, Debs Hurst and Cllr Duffin.

Declarations of Interest

Declarations were received from:

Cllr S Barker declared she was in receipt of an Essex LGPS pension and is a 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 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 the Chairman of the Audit, Governance and Standards Committee;

Cllr Hoy declared that his brother-in-law is in receipt of a LGPS Pension and his nephew is a member of the LGPS. In addition, Cllr Hoy 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;

Cllr M Platt declared that he is a Deputy Cabinet Member and is Vice Chairman of the Audit, Governance and Standards Committee; and

Cllr Riley and Sandra Child declared that they are in receipt of an Essex LGPS Pension.

Resolved:

The Committee noted the report.

2. Confirmation of the Appointment of the Essex Pension Fund (EPF) Investment Steering Committee (ISC) Chairman and the Appointment of the Fund's Representative on the ACCESS Joint Committee (JC)

The Committee received a report from the Compliance Manager outlining the process in regard to the annual Chairman arrangements of the ISC and the appointment of the Fund's representative on the ACCESS JC.

It was noted that at the ECC's Full Council meeting held on 10 May 2022, Councillor Susan Barker was re-appointed as the Chairman of the ISC for the Essex Pension Fund. In addition, it was agreed that the Chairman would be the Fund's representative at the ACCESS JC.

Resolved:

The Committee noted the re-appointment of Councillor Susan Barker as Chairman of the ISC as agreed at the ECC Full Council meeting held on 10 May 2022.

The Committee **agreed** that the Chairman of the ISC act as the Fund's representative on the ACCESS JC and that in her absence the Vice Chairman will act as the Fund's representative.

3. Appointment of Vice Chairman of the Essex Pension Fund (EPF) Investment Steering Committee (ISC)

The Chairman invited Committee Members to make nominations for the appointment of the Vice Chairman. One nomination was received and then seconded; Councillor Mark Platt was re-appointed as Vice Chairman of the ISC.

Resolved:

Councillor Mark Platt be re-appointed as the Vice Chairman of the ISC.

4. Minutes of ISC Meeting 23 February 2022

The Minutes of the meeting of the ISC held on 23 February 2022 were approved as a correct record and signed by the Chairman.

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

- the Fund's Financial Reporting Council (FRC) UK Stewardship Code Submission was approved by the Chairman and Vice Chairman of the ISC on 28 April 2022 and was subsequently emailed to all Committee Members for noting prior to onward submission to the FRC on 29 April 2022. Members were made aware the outcome was still pending;
- the O&A had undertaken an Engagement meeting with the Fund's Timber manager and will schedule the remaining meetings with the Fund's Private Equity and Direct Lending managers in the next few months;
- further detail in regard to the Investment Strategy Decision Framework and its implementation would be discussed as part of Agenda item 7;

- the O&A have provided the Committee with further proposals for consideration as part of Agenda item 9a in regard to the proposed new UBS global ESG index tracking fund; and
- further consideration in regard to impact Investing would be considered as part of Agenda item 10.

5. Essex Pension Fund Investment Steering Committee Terms of Reference

The Committee was presented with their Terms of Reference (TOR) and it was explained that in order for this Agenda item to be noted, all Members were invited to attend a Governance Training session on 14 June 2022.

The Compliance Manager informed Members that after review of the TOR by Fund Officers, no changes had been recommended for the Committee's consideration however, noted that there may be a requirement to revisit again during the year.

Resolved:

The Committee noted the TOR as set out in Appendix A 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. Strategic Review June 2022

John Dickson, Hymans Robertson reminded the Committee of the three pillars that were agreed as part of the Investment Strategy Decision Framework at the prior ISC meeting and explained how these would shape the Strategic part of the day's meeting.

It was explained that each of the subsequent strategic papers were linked to one of the three Pillars of:

- Pillar 1 – Implementing and maintaining the existing strategic targets;
- Pillar 2 – Evolving existing allocations; and

- Pillar 3 – Exploring changes to existing or new mandates.

It was explained that the Framework provided a long-term equilibrium mechanism to reduce risk in order to assist the Fund in being able to achieve sufficient returns that would ultimately make the Scheme affordable to both Scheme Members and Employers.

Resolved:

The Committee noted the content of the Report.

8. Strategic Implementation Framework - Pillar 1 - Implementing and maintaining existing strategic targets within the investment strategic decision framework

8a. Rationalising the current strategic implementation

The Committee received a presentation from John Dickson, Hymans Robertson. It was explained that Members as part of their 2018 strategic review could maintain the same expected return by derisking and shifting a portion of the Fund's equity portfolio into the alternative portfolio. It was agreed that this be implemented in 3 stages.

As part of their 2021 review Members tentatively agreed to a further stage 4 at their 29 November 2021 meeting but were apprehensive that decisions made in earlier stages were not then reversed or unwound in later stages. It was agreed that the adoption of the new Investment Strategy Decision Framework would enable a new long-term target approach to be adopted replacing the stage-based approach as previously agreed.

Members were provided with an overview of the current asset class targets and the suggested amalgamated long-term targets. These being: equities 40% to 45%; bonds 18% to 23%; and alternatives 37%. It was explained that adopting the long-term approach would smooth out the planned growth in the alternative allocation and removes the possibility of having to unwind any commitments as the target allocation to alternatives would remain constant. It was further explained that these targets would be revisited after the Triennial Valuation which would enable the Committee to reassess the long-term equilibrium going forward.

Resolved:

The Committee **agreed:**

- that the ISC replace the existing Strategic Implementation (derisking) stage-based process to a Framework that focuses solely on the current target and the long-term target as outlined on page three of the report; and
- the content of the report be noted.

8b. ISC Briefing Note – Alternative Asset Annual Commitment Review

Samuel Hampton, Hymans Robertson provided a detailed report outlining the recent review undertaken of the private equity, infrastructure and the timber strategic allocations.

It was explained that an analysis was conducted to determine whether further top-up commitments would be needed to ensure that the long-term target allocations could be achieved.

Resolved:

The committee **agreed:**

Private equity

- the annual commitment to Hamilton Lane be increased in line with the appreciation of the Fund;

Infrastructure

- to proceed with the additional commitment to the Partners Group Global Infrastructure 2022 fund as agreed at the November 2021 ISC meeting, once launched; and
- no further commitment be required for both the IFM and JPM infrastructure mandates at this present time;

Timber

- a further commitment to Stafford Capital Partners with a further proposal be brought back to a future meeting following the conclusion of appropriate due diligence;
- to invite Stafford Capital Partners to the next meeting to discuss the new Carbon Offset Opportunities fund;
- to review the commitment to each of these asset classes again in twelve months; and
- the content of the report be noted.

9. Strategic Implementation Framework – Pillar 2 – Evolving existing allocations: UBS index tracking equity solution

The Committee received a report from Samuel Hampton, Hymans Robertson detailing the work undertaken to date with UBS in regard to the Fund's ESG index tracking equity solution.

Following the Committee's decision at the February meeting where it was agreed that indicative solution 2 was more aligned with the Fund's RI beliefs and direction of travel for the Fund's investment strategy. Officers and Advisers had liaised with UBS to establish a set of investment guidelines to achieve the intended objective of the ISC's preferred solution.

Options for consideration were presented to Members and full discussion took place. Key highlights of the discussion included:

- the solution would be aligned to the EU climate transition benchmark which is aligned to the Paris Agreement and focuses on successfully navigating the transition to a low carbon economy;
- its design will track Economic, Social and Governance (ESG) credentials;
- it will be measured against FTSE Developed Markets Index, therefore, the new ESG fund will seek to deliver returns in line with global developed equity markets; and
- this approach being consistent with the agreement the Committee made at their 23 February 2022 meeting.

Members further considered whether they wish to retain the Fund's regional equity exposure via standalone regional allocations or move towards a global approach. Various options were discussed. Members expressed that the entire regional index tracking equity portfolio should move to the global ESG option so that the Fund's RI Priorities can be fully incorporated.

Mark Stevens, IIA, encouraged this approach and expressed that this would be a further step forward for the Fund in regard to delivering its RI Policy and evidencing within its next Stewardship Code submission.

Resolved:

The Committee **agreed:**

- subject to O&A final review and agreement of the solution's full guideline details to adopt the UBS ESG index tracking equity proposed approach;
- the new ESG index tracking equity fund have all currency exposure hedged back to GBP;
- to transfer all of the index tracking regional equity assets into the new ESG global equity fund once launched and delegate the necessary arrangements to Officers in consultation with Advisers;
- to benchmark the new ESG Fund against the FTSE developed Index for performance purposes;
- O&A bring back a report to a future meeting in regard to proposed options that will better align the Fund's remaining index tracking equity investment with UBS, the RAFI fund with its RI Policy;
- to note the content of the Report.

The Chairman informed Members that the meeting would reconvene at 11:26am following a short adjournment.

The meeting was adjourned at 11:21am

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The Committee reconvened at 11:29am

10. Strategic Implementation Framework – Pillar 3 – Exploring changes to existing or new mandates

10a. Strategic Framework for Responsible Investment (RI)

Members were reminded of their bitesize training session on impact investing presented at their 23 February 2022 meeting. It was explained that a Framework could be used to assist the embedding of RI into the long-term investment strategy for the Fund by integrating the RI Framework into the overall Investment Strategy Decision Framework.

It was noted that within the Framework, the Committee have already established their RI beliefs and have set objectives to support these. However, the discussion was now focussed on assessing the options available and implementation.

The Committee were presented with three criteria to consider when assessing the impact of impact investing, which included:

- additionality;
- intentionality; and
- measurability.

It was explained that within the public markets, engagement with managers will be key to monitoring the strategy. The Committee also agreed that their focus was on the alternative assets allocation and to achieve a long-term target of 10% of the Fund in impact solutions, commencing with assessing options within the timber and real estate space in the first instance, followed by infrastructure.

Implementation options were also discussed in regard to establishing a core and satellite approach and to whether there was need to add explicit articulation of this approach into the Fund's RI Policy at its next review.

Resolved:

The Committee **agreed:**

- the proposed Framework for integrating the Fund's RI Beliefs into the overall portfolio construction;
- updating the Fund's RI Policy explicitly articulating this approach at its next review; and
- the content of the Report be noted.

10b. Bond Manager Review

Matt Woodman, Hymans Robertson provided the Committee with a report on the review undertaken of the Bond allocation.

It was explained that the O&A had carried out a review of the bond strategies currently within the ACCESS Pool and those in the current pipeline to be launched. Options were presented to the Committee to consider.

A full discussion took place on the rota of managers reviewed.

Resolved:

The Committee **agreed:**

- that a suitable ACCESS Pool bond strategy had been recognised;
- full due diligence of the strategy be undertaken once details, terms and documentation are available and this to be delegated to Officers and Advisers;
- that the existing 5.5% strategic allocation be maintained when moved to the ACCESS Pool;
- further top up requirements be brought back to a future meeting; and
- the content of the report be noted.

10c. Emerging Markets (EM) Equity Manager Structure

Members were reminded of the in-principal decision made at their 23 February 2022 meeting to transition the EM mandate to the ACCESS sub fund(s) when launched.

Matt Woodman, Hymans Robertson updated the Committee on the progress undertaken to date highlighting that Link following a successful procurement were progressing the setting up of the two EM sub funds. It was explained that style analysis had been undertaken of both proposed strategies to determine the appropriate split to manage any style bias and improve overall risk/return expectations. The outcome of the analysis was there was limited benefit from deviating from a 50/50 split between the EM Managers.

Members were also made aware that due to a recent decision by the current EM Manager to consolidate investment teams and strategies, the Fund's current strategy would not be supported in the short to medium term. Therefore, an interim solution would need to be adopted to bridge the management gap between the current mandate ending and the ACCESS sub funds becoming available. Several interim options were discussed by the Committee.

Resolved:

The Committee **agreed:**

- that the Fund allocate to both ACCESS EM equity managers when available;
- that the split between the Managers is targeted at 50/50;
- full due diligence of the ACCESS solutions be undertaken before the allocation is implemented to ensure that the funds made available are consistent with the expectations used in assessing the Managers in this paper and this be delegated to O&A;
- the ISC delegate the implementation of the interim solution to bridge the management gap between the end of the current mandate and the beginning of the ACCESS mandates to the O&A in consultation with the Chairman and Vice Chairman from within the options suggested in the paper; and

- the content of the report be noted.

10d. Essex Pension Fund – Marathon Disinvestment Options

Matt Woodman, Hymans Robertson outlined the options available to the Committee noting the agreement at the 29 November 2021 meeting to accelerate the disinvestment of Marathon's global equity mandate in three steps.

It was explained that step's one and two had been implemented with proceeds reinvested to non-equity mandates.

A further update was provided, and options were discussed in regard to the third and final stage of the disinvestment.

Members were made aware during the meeting, that Officers had just received, earlier than expected, notice of an infrastructure draw down relating to the £110m commitment agreed at the November 2021 ISC meeting. As such it was suggested that the original recommendations made within the report be revisited.

Following a discussion, it was agreed that the recommendation be revised to take account of this latest development.

Resolved:

The Committee **agree** that:

- £110m be disinvested and the proceeds used to fund the £110m JPMorgan infrastructure drawdown;
- the remaining Marathon portfolio be disinvested with all the proceeds reinvested into ACCESS's Baillie Gifford Long Term Global Equity Fund; and
- the content of the Report be noted.

The Committee were advised that Agenda item 6a from the afternoon Agenda Pack would be discussed as part of this meeting.

6. Annual Investment Manager Monitoring

6a. Investment Monitoring Report for year ended 31 March 2022

The Committee received a report from Matt Woodman, Hymans Robertson which provided an overview of the performance of the Fund's Investment manager mandates over the last twelve months.

It was explained that the significant increase in the Fund's assets were driven by strong performance of equities and alternatives as they benefited from the recovery of markets following the Covid pandemic. The overall results meant that whilst 12 months performance was in line with its benchmark it was still ahead versus the Actuarial performance assumption. Long-term relative performance

continued to be strong; this had resulted in the Fund value increasing c£800m in the last 12 months taking it to a new high of £9.6bn.

Members also discussed the recent quarter's performance which was slightly below benchmark and the possible reasons behind it which included:

- the current conflict in Ukraine;
- rising inflation; and
- the slowing of economic momentum.

Resolved:

The Committee noted the content of the report.

11. Urgent Exempt Business

There were none.

There being no further business the meeting closed at 12.58pm.

Chairman
12 October 2022