



Essex County Council

Essex Pension Fund Investment Steering Committee

13:30	Wednesday, 15 June 2022	Committee Room 2 County Hall, Chelmsford, CM1 1QH
-------	----------------------------	---

For information about the meeting please ask for:

Amanda Crawford, Compliance Manager

Telephone: 03330 321763

Email: Amanda.Crawford@essex.gov.uk

Essex County Council and Committees Information

All Council and Committee Meetings are held in public unless the business is exempt in accordance with the requirements of the Local Government Act 1972.

Members of the public will be able to view and listen to any items on the agenda unless the Committee has resolved to exclude the press and public from the meeting as a result of the likely disclosure of exempt information as defined by Schedule 12A to the Local Government Act 1972.

ECC Guest Wifi

For members of the public, you can now access free wifi in County Hall.

- Please log in to 'ECC Guest'
- Follow the instructions on your web browser

Attendance at meetings

Most meetings are held at County Hall, Chelmsford, CM1 1QH. [A map and directions to County Hall can be found on our website.](#)

Access to the meeting and reasonable adjustments

County Hall is accessible via ramped access to the building for people with physical disabilities.

The Council Chamber and Committee Rooms are accessible by lift and are located on the first and second floors of County Hall.

Induction loop facilities are available in most Meeting Rooms. Specialist headsets are available from Reception.

Accessing Documents

If you have a need for documents in, large print, Braille, on disk or in alternative languages and easy read please contact the Democratic Services Officer before the meeting takes place. For further information about how you can access this meeting, contact the Democratic Services Officer.

The agenda is also available on the Essex County Council website, www.essex.gov.uk. From the Home Page, click on 'Running the council', then on 'How decisions are made', then 'council meetings calendar'. Finally, select the relevant committee from the calendar of meetings.

Audio recording of meetings

Please note that in the interests of improving access to the Council's meetings, a sound recording is made of the public parts of many of the Council's Committees. The Chairman will make an announcement at the start of the meeting if it is being recorded.

Should you wish to record the meeting, please contact the officer shown on the agenda front page.

		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	Market Commentary - Quarter 1 2022 To receive a report from Hymans Robertson and a presentation from the Independent Investment Adviser, Mark Stevens	7 - 14
3	Responsible Investment (RI) Project Plan Update To consider a report from the Director for Essex Pension Fund	15 - 20
4	Schedule of Future Meetings and Events To receive a report from the Compliance Manager	21 - 24
5	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.

- 6 Annual Investment Manager Monitoring**
- 6a Investment Monitoring Report for year ended 31 March 2022**
 - Information relating to the financial or business affairs of any particular person (including the authority holding that information);
- 6b Investment Scorecard Performance for year ended 31 March 2022**
 - Information relating to the financial or business affairs of any particular person (including the authority holding that information);
- 6c CEM Benchmarking: Value for Money Review**
 - Information relating to the financial or business affairs of any particular person (including the authority holding that information);
- 7 Structural Reform of the LGPS - Pooling Quarterly Update of ACCESS Joint Committee (AJC)**
 - Information relating to the financial or business affairs of any particular person (including the authority holding that information);
- 8 Summary of Decisions**

To receive a summary of the decisions made at today's meeting by Hymans Robertson

9

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: 15 June 2022	

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

Report Type: Governance

No Membership changes since the last meeting.

Two apologies have been received from Councillor C Riley and Substitute Member Councillor M Durham. No other apologies were received for the meeting at the time of writing.

1. Purpose of the Report

- 1.1 To present Membership, Apologies and Declarations of Interest for the 15 June 2022 ISC.

2. Recommendation

- 2.1 That the Committee should note:
 - Membership as agreed at the meeting of Essex County Council Full Council held on 10 May 2022 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 A Goggin

Essex County Council

Councillor A Hedley

Essex County Council

Councillor M Hoy

Essex County Council

Councillor D King

Essex County Council

Councillor M Platt

Essex County Council

Councillor C Souter

Essex County Council

Observers

Councillor C Riley

Castle Point Borough Council

Sandra Child

Scheme Members

Essex Pension Fund Investment Steering Committee	ISC 02
Date: 15 June 2022	

Market Commentary: Q1 2022

Report by Hymans Robertson

Enquiries to Jody Evans on 03330 138489

This Report is for noting

Executive Summary

Report Type: Monitoring

Key highlights include:

- Global growth forecast revised downwards, UK GDP remains higher than its long-term average, however, growth forecasts are expected to moderate sharply by the end of 2023;
- Headline inflation reached 7.0% in March 2022, the expectation that this will continue to rise during 2022 and will moderate to 3.6% year on year by mid 2023;
- Expectation of further interest rate hikes as monetary policy tightening continuing to be employed to combat higher inflation;
- Global equities largely rebounded from the initial sell-off following Russia's invasion of Ukraine, but high inflation, expectations of monetary tightening, geopolitical tensions, and slowing earnings momentum have all contributed to a -4.6% Q1 global equity return (local currency); and
- Property investment market remains strong supported by domestic and overseas demand. Significant sectoral divergence remains within the industrial sector continue to be stronger, masking the weaker retail sector.

1. Purpose of Report

- 1.1 To update the ISC on recent market conditions.

2. Recommendation

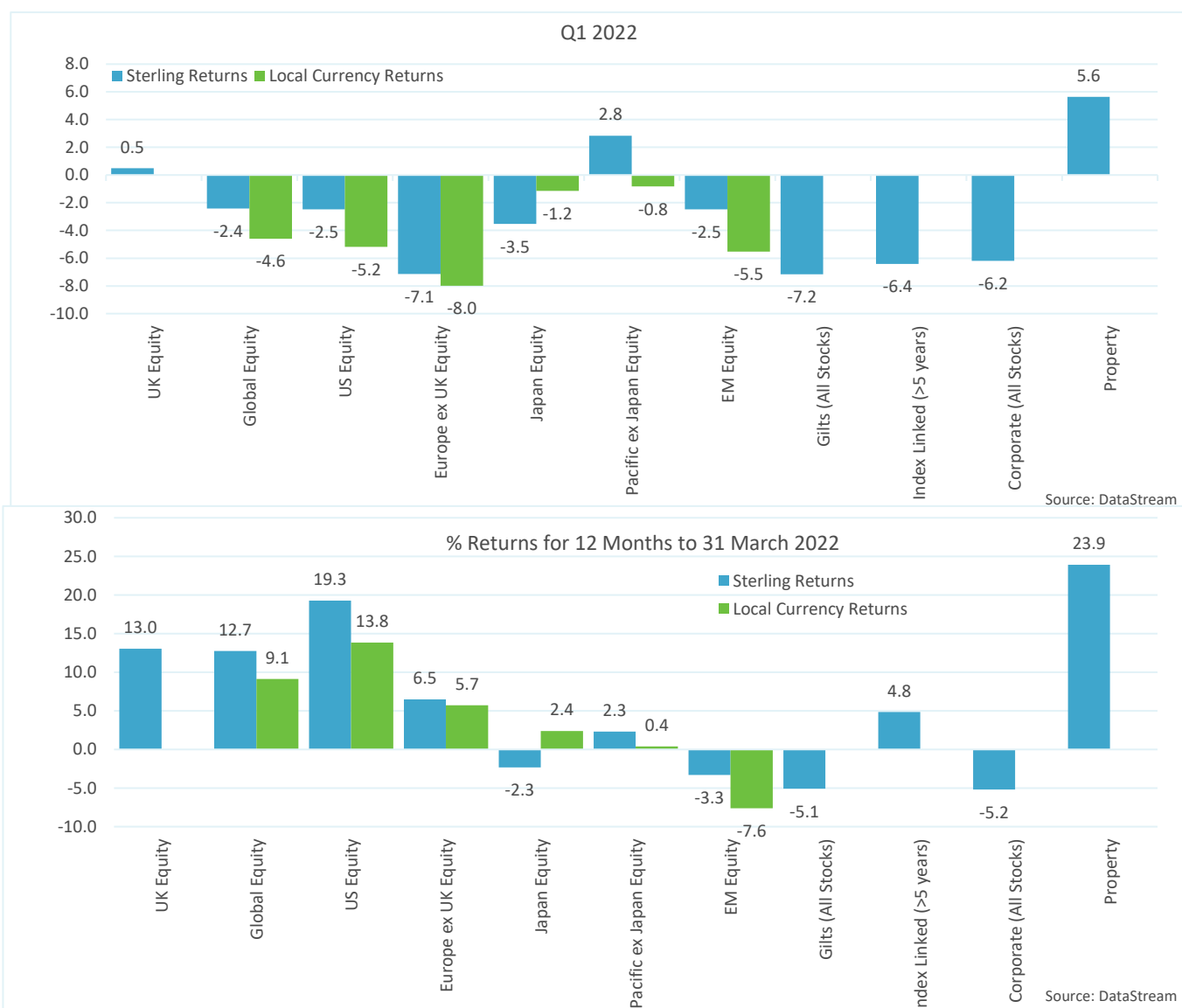
- 2.1 That the Committee should note the content of the report.

Market commentary Q1 2022

Economic background

- Russia and Ukraine represent a small share of global GDP and trade but produce a disproportionate share of key global commodity exports.
- Physical disruptions and sanctions have triggered broad commodity price rises which, alongside existing inflationary pressures, are increasing input costs and weighing on consumer's real incomes.
- The rapid spread of Omicron in China, which has led to large-scale lockdowns, has also been a factor, weighing on Chinese domestic demand and compounding existing supply chain issues.
- Global growth has been revised down from a relatively robust pace, but forecasts still point to relatively strong growth over the next couple of years, by the standards we've seen since the global financial crisis.

Market returns to 31 March 2022



Equity markets

Global equities have largely rebounded from the initial sell-off following Russia's invasion of Ukraine, but high inflation, expectations of monetary tightening, geopolitical tensions, and slowing earnings momentum have all contributed to a -4.6% year-to-date global equity return (local currency).

The UK was the only region to deliver a positive return, benefiting from above-average exposure to energy, metals, and miners. Europe fell to the bottom of the performance rankings, whilst Emerging Markets fell further as new COVID-19 lockdowns and broader geopolitical concerns weighed on Chinese markets.

Earnings growth in 2022 will inevitably slow sharply from an expected 54% in 2021. But demand and revenue growth remain strong and there is evidence that businesses expect to be able to pass on most of their higher costs. Business surveys highlight the share of firms raising, or planning to raise, average selling prices at record highs. Consensus forecasts show earnings growing by almost 10% this year, reflecting only a modest margin squeeze.

Nevertheless, there are risks, and the inflationary backdrop may favour sectors that benefit from more inelastic demand and greater industry concentration, both of which are key in maintaining pricing power and margins.

Bond markets

Investment-grade spreads largely reversed the sharp rises following the invasion of Ukraine towards the end of the quarter but remain considerably higher than the start of the year amid rates volatility, diminishing policy support, and inflation concerns.

Global investment-grade credit spreads have risen 0.3% p.a. since end-Dec to 1.3% p.a. Corporate fundamentals are in decent shape, particularly interest coverage given the scale of refinancing in recent years at extremely low rates. However, high current and forecast inflation, and its corrosive effect on nominal fixed income coupons, sees us retain a degree of caution.

Normalisation of monetary policy and rising cost of living may lead to some deterioration in collateral performance, though high inflation is offset, to some extent, by decent wage growth and strong house price rises, resulting in benign defaults and arrears and higher potential recovery values.

Property

The property market appears to have reasonably strong fundamental and technical foundations to support further recovery.

Nominal property rents, in aggregate, have been rising for the past year, though rental growth continues to fall short of inflation. The most recent RICS Commercial Property Survey showed that respondents expect further rent increases as availability reduces.

The investment market is in good health, supported by overseas demand and a resurgence in the number of domestic buyers – transaction volumes reached their highest quarterly volume since 2015 at the end of 2021. Within the market, there is still significant sectoral divergence, with strong industrial fundamentals masking weaker sectors, such as retail.

InflationWatch

Since the pandemic, inflation has risen further and for longer than most market participants expected in many countries including the UK. Strong demand, ongoing supply chain constraints and rampant energy and commodity price inflation continue to push prices higher. How high will inflation go, and will it persist? Has the era of respectable growth rates and low inflation finally come to an end?

We have introduced “InflationWatch” to help clients assess the outlook for inflation, and we plan to publish it quarterly. This provides:

- An update on the latest position on inflation
- Consensus forecasts on future inflation rates
- Our view on whether the risks to the consensus view are tilted to the upside or downside.

We focus on the UK and the outlook over the next 2-3 years. Our primary measure of inflation is the change, year-on-year, in the headline Consumer Price Index (“CPI”).

Inflation in a modern, open economy is determined by a complex set of macroeconomic factors including aggregate demand, input costs, inflation expectations and monetary policy stance.

Current Situation¹



- Headline UK CPI reached 7.0% in March 2022, the highest level since inflation targets were introduced in October 1992
- Latest consensus forecast is that inflation will moderate to 3.6% year-on-year by mid-2023 and then gradually fall back towards the 2% target over the next 5 years.

Outlook indicators²

Driver		Metric	Latest	-3m	median/neutral
Inflation		UK headline CPI, % y-o-y	7.0	5.4	2.0
		UK core CPI, % y-o-y	5.7	4.2	1.7
Aggregate demand		UK GDP growth, % y-o-y	6.7	6.8	2.2
Input costs	Goods	UK PPI, % y-o-y	11.8	9.4	2.3
	Energy	Gas prices, £/MMBTU, % y-o-y	460.8	118.0	4.6
	Energy	Oil prices \$/barrel, % y-o-y	69.2	51.1	4.3
	Labour	UK unemployment rate (%)	3.8	4.1	5.5
	Labour	Average weekly earnings, 3-month average, % y-o-y	4	3.8	3.0
	Labour	UK vacancies (index, average = 100)	199.4	191.6	96.9
	Exchange rates	UK £ effective trade-weighted index, % y-o-y	-1.0	4.4	0.0
Expectations	Consensus forecast	UK headline CPI in 2-years' time, % y-o-y	2.8	2.2	2.0
	Consensus forecast	UK GDP growth in 2-years, % y-o-y	1.4	2.4	2.2
	Market-implied inflation	UK 5y spot inflation in 5y time, % p.a.	4.0	2.8	2.3
	Inflation surprises	UK Citigroup inflation surprises, > 0 = upside surprise	85.0	88.2	4.1
Monetary policy	Money supply	UK M4 ex-IOFC (12m growth rate %)	3.9	2.6	2.0
	Current interest rates	Base rate % p.a.	0.75	0.3	2.0
	Market-implied interest rates	UK overnight index swaps, % p.a. in 24 months	2.2	1.3	2.0

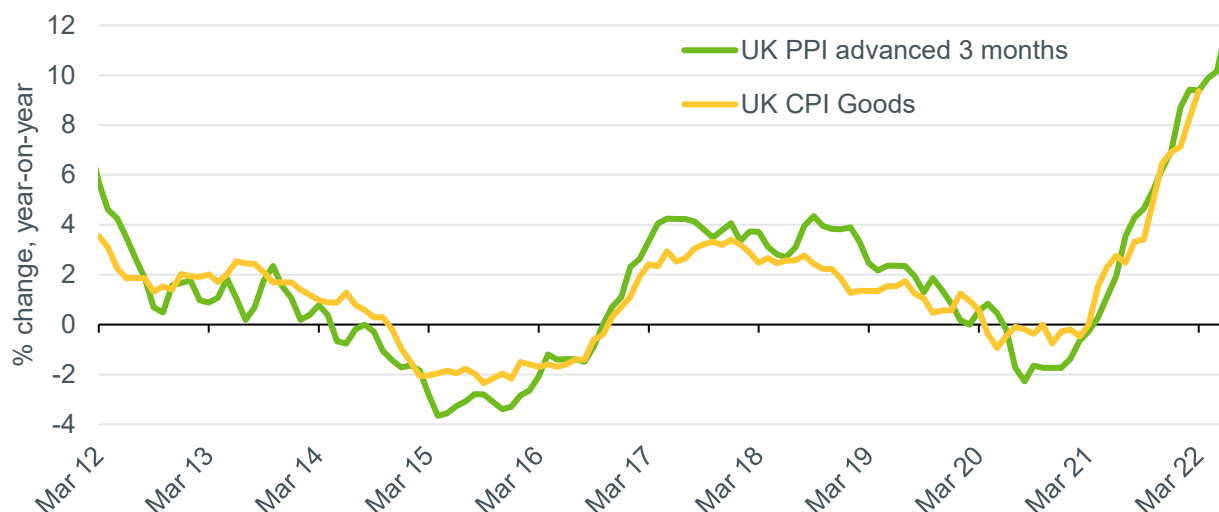
The dashboard above shows the latest reading for each indicator, and the reading 3 months ago, and compares them with the long-term median, or assessed neutral, value. The tone of the colour indicates the strength of the signal. A darker tone indicates either a stronger inflationary or disinflationary signal, depending on whether red or blue, respectively.

Highlights:

- GDP growth remains higher than its long-term average as the recovery from the pandemic continues; this could be inflationary if there is no surplus capacity in the economy. However, growth forecasts are expected to moderate sharply, and fall below long-term median levels by the end of 2023.
- Producer price inflation ("PPI") is well above its long-term average which points to more upward pressure on consumer prices if companies pass on increases in their costs.
- Increases in wholesale energy costs, which are close to all-time highs, are unparalleled outside the gyrations and base effects of the pandemic in 2021. These increases have been driven by strong growth, as well as sanctions and potential disruption of the supply of Russian oil and gas. The UK economy is less energy intensive than it once was but increases in energy costs will raise headline inflation measures.
- The unemployment rate is close to its all-time minimum. Earnings growth has fallen back from its recent peak of 7.3% in June 2021 but remains above its long-term average. Low unemployment, above-target wage growth and vacancies at extremely elevated levels, point to inflationary capacity constraints.
- Expectations of higher inflation can be self-fulfilling. Consensus forecasts are that inflation will moderate from current levels but still remain above target at the end of 2023. Longer-term market-implied inflation has risen sharply over the past 3 months and is pricing inflation nearly double the central banks' target.

- Growth in the money supply remains above longer-term levels and there remains a significant “overhang” from rapid expansion in the monetary base in 2020; this is typically inflationary.
- Base rates have risen three times in recent months and the markets expect monetary policy to tighten further to combat higher inflation, with market-implied rates rising to restrictive levels over the next 2 years.


Focus Chart: UK producer prices index and CPI goods³



- PPI advanced by 3 months is closely correlated with CPI for goods which suggests PPI is a good leading indicator of consumer price inflation. As noted above, PPI is currently much higher than its long-term average.

Our View

- Inflation is expected to remain high in the near-term before moderating sharply in 2023 and then gradually return to target over the next few years.
- We believe near-term inflation risks are skewed to the upside due to supply chain issues, increasing energy, raw material and input costs, and tight labour markets, all of which are inflationary. In which case, interest rates may need to rise further in the short-term than the market expects to bring inflation under control.
- However, high energy prices and inflation are weighing on real disposable incomes and monetary policy is rapidly turning less accommodative, both of which are seeing aggregate demand forecasts revised downwards. We believe inflation may therefore fall faster in the medium-term than currently forecast.
- Deflationary factors such as demographics, technological innovation and globalisation are expected to drive inflation down to its target level. However, we believe the probability of a switch to a period of higher inflation has increased.

Essex Pension Fund Investment Steering Committee	ISC 03	
Date: 15 June 2022		

Responsible Investment (RI) Project Plan Update

Report by the Director for Essex Pension Fund

Enquiries to Jody Evans on 03330 138489

This Report requires a decision

Executive Summary

Report Type: Monitoring

All of 2021/22 RI Project Plan deliverables were completed. Most notably following the Chairman and Vice Chairman approval the Fund's Financial Reporting Council UK Stewardship Code Submission was submitted on 29 April ahead the deadline of 30 April 2022. However, the outcome is not expected until the end of the Summer.

The Report also outlines the areas of activity in regard to 2022/23 RI Project Plan.

1. Purpose of the Report

- 1.1 To provide the final position in regard to progress made against the Fund's 2021/22 RI Project Plan.
- 1.2 To outline the Fund's RI Project Plan deliverables for 2022/23.

2. Recommendation

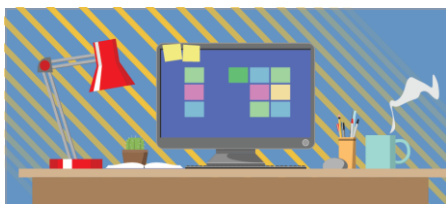
- 2.1 The Committee **agree** the Fund's 2022/23 RI Project Plan.
- 2.2 That the Committee note:
 - the final position in regard to progress against the Fund's 2021/22 RI Project Plan; and
 - the content of the report.

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 the 2021/22 Business Plan areas of activity in relation to RI and Stewardship.
- 3.2 Appendix A provides the final position in regard to progress made against the 2021/22 RI Project Plan.
- 3.3 The 2022/23 proposed RI Project Plan is set out at Appendix B.

4. Background Papers

- 4.1 Responsible Investment (RI) Project Plan Update, ISC 05a, 23 February 2022.
- 4.2 Essex Pension Fund (EPF) - Three Year Business Plan and 2022/23 Budget, PSB 05a, 18 March 2022.



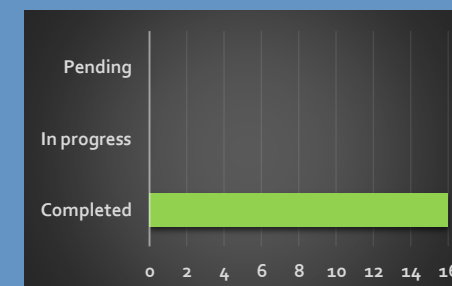
Essex Pension Fund

ISC Responsible Investment Project Plan 2021/22

PROGRESS : 30 April 2022

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	Completed
Proposed Climate Metrics and Targets (for manager monitoring and TCFD)	Agree climate metrics and targets	13 October 2021	Q3	Medium	Completed
Meet Managers with focus on RI themes (with new format Briefing Note)	Identify areas for ongoing engagement with Managers	13 October 2021	Q3	Medium	Completed
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	Completed
Initial Engagement Plan with all managers including progress to date	Agree Engagement Plan	29 November 2021	Q3	Medium	Completed
Proposal on communication and engagement with key stakeholders	Agree Communication Plan	29 November 2021	Q3	Medium	Completed
Meet manager with focus on RI themes	Identify areas for ongoing engagement with Managers	29 November 2021	Q3	Medium	Completed
Follow up Stewardship Code training, including Fund Escalation Policy	Agree Fund Escalation Policy	Training TBC	Q4	Medium	Completed
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	Completed
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	Completed
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	Completed

TASKS SUMMARY





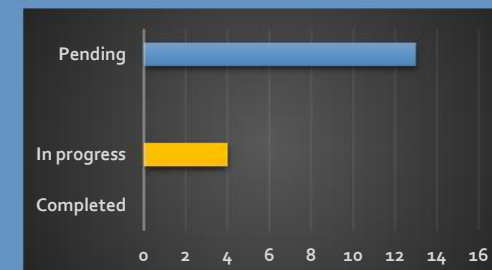
Essex Pension Fund

ISC Responsible Investment Project Plan 2022/23

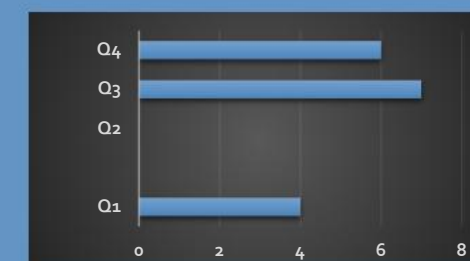
Deliverables	Decisions and actions	Meeting Date	Due	Priority	Status
RI Training	Training as and when required	as required	Q4	Medium	Pending
Proposed scope and Project Plan	Agree scope of activities and Project Plan	15 June 2022	Q1	High	In progress
Climate metrics (for manager monitoring, TCFD metrics and targets)	Establish climate metrics baseline and targets	30 November 2022	Q3	High	Pending
Climate metrics (for manager monitoring, TCFD metrics and targets)	Climate metrics targets following establishment of baseline	22 February 2023	Q4	High	Pending
Proposal on Index Tracking Equity benchmarks	Agree final solution based on the ISC's preferred approach	15 June 2022	Q1	High	In progress
Proposal on Index Tracking Equity benchmarks	Implement the ISC's preferred solution	12 October 2022	Q3	Medium	Pending
Proposal on bringing the RAFI Index Tracking Equity benchmark in line with the Fund's RI Policy	Agree approach to RAFI index tracking equity benchmark	12 October 2022	Q3	Medium	Pending
Proposal on bringing the RAFI Index Tracking Equity benchmark in line with the Fund's RI Policy	Implement the ISC's preferred solution	22 February 2023	Q4	Medium	Pending
Agree the Strategic Responsible Investment Framework	Propose Framework for integrating RI beliefs into the overall Fund construction	15 June 2022	Q1	High	In progress
Strategic Responsible Investment Framework	Commence assessment of options for more impactful investing within the existing portfolio construction	15 June 2022	Q1	High	In progress
Meet Managers with focus on RI themes	Identify areas for ongoing engagement with Managers	12 October 2022	Q3	Medium	Pending
Enact Engagement Plan with all managers including progress to date	Establish a Engagement Meeting Plan for O&A and ISC	12 October 2022	Q3	Medium	Pending
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 baseline Identify areas for ongoing engagement with manager 	30 November 2022	Q3	Medium	Pending
Meet Managers with focus on RI themes	Identify areas for ongoing engagement with Managers	30 November 2022	Q3	Medium	Pending
Final draft of Stewardship Code submission	<ul style="list-style-type: none"> Delegate completion of Stewardship Code submission to O&A for submission by 30 April 2023 Identify areas for ongoing engagement with managers 	22 February 2023	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 	22 February 2023	Q4	Medium	Pending
Meet Managers with focus on RI themes	<ul style="list-style-type: none"> Identify areas for ongoing engagement with Managers 	22 February 2023	Q4	Medium	Pending

PROGRESS : 6 June 2022

TASKS SUMMARY



ON THE HORIZON



Essex Pension Fund Investment Steering Committee	ISC 04
Date: 15 June 2022	

Schedule of Future Meetings and Events

Report by the Compliance Manager

Enquiries to Amanda Crawford on 03330 321763

This Report is for noting

Executive Summary

Members are being made aware of the forthcoming LGC Investments and Pensions Summit and Baillie Gifford's LGPS Investment Seminar dates.

1. Purpose of the Report

- 1.1 To provide the Committee with an update on the schedule of future meetings and events.

2. Recommendation

- 2.1 That the Committee 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 Fund Officers will continue to ensure a review of the advertised Conferences/Seminars 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.
- 4.2 The Compliance Team have been made aware of the following Investment Seminars:

Date	Title	Venue	Update
08 – 09 September 2022	LGC Investments and Pensions Summit	Royal Armouries & New Dock Hall, Leeds	Agenda will be issued when it becomes available
09 – 10 November 2022	Baillie Gifford LGPS Investment Seminar 2022	Edinburgh, Scotland	Allocations provided for ISC Members. ISC Member to confirm if they can/cannot attend by end July 2022

5. Schedule of Meetings

- 5.1 The schedule of meetings agreed for the new municipal year 2022/23 are as follows:

Investment Steering Committee	
Wednesday 12 October 2022	10am – 1pm
Wednesday 30 November 2022	10am – 4pm
Wednesday 22 February 2023	10am – 1pm

Training Days	
Responsible Investment Workshop	TBC

6. Finance and Resources Implications

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

7. Background Papers

- 7.1 Schedule of Future Meetings and Events, ISC 06, 23 February 2022.

