

Essex Pension Fund Investment Steering Committee	ISC 04
Date: 21 October 2020	

Investment Strategy Statement (ISS) – Outcome of the Stakeholder Consultation

Joint Report by the Interim Director for Essex Pension Fund and Investment Manager in consultation with Hymans Robertson and the Independent Investment Adviser, Mark Stevens

Enquiries to Samantha Andrews on 03330 138501

1. Purpose of the Report

- 1.1 To update the Committee on the outcome of the stakeholder consultation on the Fund's draft ISS.
- 1.2 To present an updated ISS for approval and publication.

2. Recommendation

- 2.1 It is recommended that the Committee **agree**:
 - the minor presentational changes made to the ISS, as detailed in section 6 to this report;
 - approve the updated ISS for publication as shown in Appendix A.
- 2.2 It is recommended that the Committee note:
 - that the ISS was passed to the Essex Pension Fund Advisory Board (PAB) for noting; and
 - the content of the report.

3. Background

- 3.1 The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 (“2016 Regulations”) were introduced in November 2016 and require local authority pension funds to prepare and publish an ISS.
- 3.2 The Fund’s Investment Strategy Statement sets out its principles for governing the Fund’s assets.
- 3.3 The ISS must be reviewed, and if necessary revised, following any material change in the factors which are judged to have a bearing on the stated investment policy, and at least every three years. The ISS was first published in April 2017.

4. Investment Consultation Process

- 4.1 At its meeting on 21 July 2021, the Committee agreed a draft ISS be released for a full stakeholder consultation. In addition, it was also agreed that it be passed to the PAB for noting. The ISS was received by the PAB at their 23 September 2020 meeting.
- 4.2 On 5 August 2020 the ISS was shared with the following stakeholders:
 - All Essex Pension Fund Strategy Board (PSB) and PAB Members;
 - All Fund Investment Managers, including the ACCESS Operator, Link Asset Solutions;
 - The Fund’s Custodian;
 - The Fund’s Institutional Investment Consultant, Hymans Robertson and the Independent Investment Adviser, Mark Stevens;
 - The Fund Actuary, Barnett Waddingham;
 - The Fund’s Independent Governance & Administration Adviser;
 - All Essex Pension Fund and Essex County Council staff;
 - All Employers;
 - All Active Members via the letter accompanying the Annual Benefit Statement; and
 - Posted to the Essex Pension Fund website.

4.3 The six-week consultation concluded on 16 September 2020.

5. Investment Strategy Statement Responses

5.1 16 responses were received from a variety of stakeholders. A summary of the feedback is shown opposite:

Number of Respondents by Stakeholder Type

Stakeholder	Number of Responses
Investment Manager/Custodian	4
Fund's Advisers	1
Member of the PSB	1
Fund Employers	1
Scheme Members	7
Non-Scheme Members	2
Total	16

Summary of responses

RESPONDEE	CONSULTATION FEEDBACK	FUND RESPONSE	REVISION TO ISS
Fund Managers/Custodian			
IFM Investors	Compliments the Fund on a very well written and composed document. Suggest reviewing the GIF investment objective to state <i>"the GIF has a target performance range of 8-12 net p.a."</i> .	<p>We acknowledge the response from IFM Investors.</p> <p>In regard to point raised the ISC at its 17 July 2019 meeting undertook a review of all its investment manager benchmarks which are reflected in the ISS we are therefore comfortable that the benchmark agreed and used as an internal monitoring measure of 8% p.a. is appropriate given the range specified.</p>	No change
	Suggest that the restrictions be updated to reflect the granular restrictions the GIF fund has in place.	The Fund is invested into a pooled fund rather than directly we therefore believe this level of detail is not necessary for the ISS.	No change
Aviva Investors	Happy with the references within the ISS in regard to direct property and the mandate they manage.	<p>Noted.</p> <p>No further consideration.</p>	No change
Stewart Investors	Provided evidence in relation to emerging markets and how their views fit with the Fund's Investment Beliefs outlined on Appendix B (p16) of the ISS.	<p>Noted.</p> <p>No further consideration.</p>	No change
Northern Trust	No comment.	<p>Noted.</p> <p>No further consideration.</p>	No change

RESPONDEE	CONSULTATION FEEDBACK	FUND RESPONSE	REVISION TO ISS
Fund's Actuary			
Barnett Waddingham	Some minor presentational revisions. See Section 6 of this report.	The Fund agrees with the revisions.	The ISS has been updated accordingly.
Fund Employers			
Academy Trust	Observations made in regard to the current market volatility and whether 12 years to achieve a fully fund position still achievable?	Following the outcome of the 2019 Actuarial Valuation an Asset Liability Study has been commissioned with the outcome to be brought to a future ISC meeting in 2021.	No change
	Observations in regard to short and medium cashflow requirements and the arrangement put in place to realise income from the property portfolio and passive assets as and when it is required – have lessons been learnt from this, and risk mitigated from this happening again in the future?	<p>The primary objective of the Fund is to pay benefits as and when they become due. In 2017 the ISC, in light of the increase in Funding level and maturing nature of the Fund agreed a de-risking programme moving away from equities into more income generating alternatives, thus allowing the Fund to tap into income sources as and when required.</p> <p>Cashflow is periodically monitored and action is taken as and when necessary.</p>	No change
	Observation that no actual vs benchmark data shown within the document. Has sensitivity been carried out to ascertain where benchmarks are achievable given the current climate and does this effect the Fund's current plan to be fully funded in 12 years' time?	<p>ISC recently reviewed the appropriateness of each of the Fund's Investment Managers benchmarks. Performance is reported to the ISC on a quarterly basis and a further review is undertaken on an annual basis. Members regularly receive presentations from Investment Managers on all aspects of the mandates they manage.</p> <p>The outcome of the Asset Liability Study will be brought to a future meeting in 2021.</p>	No change

RESPONDEE	CONSULTATION FEEDBACK	FUND RESPONSE	REVISION TO ISS
Essex Pension Fund Board/Committee Members			
PSB Member	<p>Impressed with the drafting of the Investment Strategy Statement but has reservations around the section on responsible investment (RI).</p> <p>In essence believes that the statement "<i>the ISC will only exclude stocks in limited or specified instances</i>" does not go far enough. Also believes that the Fund should look to move away from fossil fuels into cleaner renewable investments and similarly move away from investments in socially controversial companies.</p>	<p>The Fund acknowledges the points raised and is prioritising these important considerations.</p> <p>The Fund's direct investment in fossil fuels has been steadily decreasing as at 30 September 2020 it was 0.04% of the Fund compared to 0.22% as at 30 September 2015. Similarly, the Fund's investments in sustainable timber and renewable energy increased from 4.1% as at 30 June 2019 to 5.1% as at 31 March 2020.</p> <p>The ISC has recently agreed an increase in the Fund's strategic allocation to Infrastructure and Timber of an additional 4% and 2% respectively. It is expected as commitment is drawn down over the next few years the Fund's exposure to sustainable timber and renewable energy will continue to rise.</p> <p>The Fund in consultation with its Investment Advisers has undertaken a robust process which included engaging with various stakeholders throughout. The result was the formulation of a new RI Policy based on a set of RI Investment Beliefs (which included climate change).</p>	No change

RESPONDEE	CONSULTATION FEEDBACK	FUND RESPONSE	REVISION TO ISS
Essex Pension Fund Board/Committee Members (cont.)			
		<p>The Fund sees this as the start of a journey. The ISC have agreed that further work be commissioned which will be considered at their next round of meetings with regard to reviewing the Fund's Investment Managers' Environmental, Social and Governance (ESG), voting policies and approach to investment and stock selection and how they are aligned with the Fund's RI Policy as well as develop an Engagement Policy.</p> <p>The outcome of this work will then inform the ISC as to how the RI Policy will be implemented in terms of the assets held, monitored and measured going forward.</p>	
Scheme Members/Non-Scheme Members			
Scheme Members	<p>5 responses were received echoing the sentiment stated above.</p> <p>One of these responses went further questioning how the Fund will monitor and ensure ESG responsibilities are being met.</p> <p>They believe that the RI Policy and RI beliefs are not strong enough, open to interpretation and not fit for purpose and that the Policy should be rewritten and stakeholders reconsulted.</p>	<p>The Fund acknowledges the points raised and is prioritising these important considerations.</p> <p>The Fund's direct investment in fossil fuels has been steadily decreasing as at 30 September 2020 it was 0.04% of the Fund compared to 0.22% as at 30 September 2015. Similarly, the Fund's investments in sustainable timber and renewable energy increased from 4.1% as at 30 June 2019 to 5.1% as at 31 March 2020.</p>	No change

RESPONDEE	CONSULTATION FEEDBACK	FUND RESPONSE	REVISION TO ISS
<i>Scheme Members/Non-Scheme Members (cont.)</i>			
		<p>The ISC has recently agreed an increase in the Fund's strategic allocation to Infrastructure and Timber of an additional 4% and 2% respectively. It is expected as commitment is drawn down over the next few years the Fund's exposure to sustainable timber and renewable energy will continue to rise too.</p> <p>The Fund in consultation with its Investment Advisers has undertaken a robust process which included engaging with various stakeholders throughout. The result, the formulation of a new RI Policy based on a set of RI Investment Beliefs (which included climate change).</p> <p>The Fund sees this as the start of a journey. The ISC have agreed that further work be commissioned which will be considered at their next round of meetings with regard to reviewing the Fund's Investment Managers' ESG, voting policies and approach to investment and stock selection and how they are aligned with the Fund's RI Policy as well as develop an Engagement Policy.</p>	

RESPONDEE	CONSULTATION FEEDBACK	FUND RESPONSE	REVISION TO ISS
<i>Scheme Members/Non-Scheme Members (cont.)</i>			
		<p>The outcome of this work will then inform the ISC as to how the RI Policy will be implemented in terms of the assets held, monitored and measured going forward.</p> <p>As part of the Fund's Business Plan the ISS will be reviewed annually by the ISC and consulted on at least every three years or more frequent if there is a material change.</p>	
<i>Non Scheme Members</i>	1 respondent commented on how pleased they were to see the section on priorities of RI consideration and engagement and hoped it would be part of the approved published version.	The Fund acknowledges the positive feedback and confirm this section remains unchanged in the final version of the ISS to be approved.	No change

5.2 A further 3 responses were received: two from scheme members in regard to how the ISS consultation will impact their future benefit entitlement; and one from a non-scheme member on whether it was common for LGPS pension funds to consult on their ISS. A response has been provided to these individuals separately.

6. Updates to the ISS since the consultation

6.1 There are some minor presentational changes to the ISS since the consultation was issued. These are detailed below.

Page 3 – “Investment” inserted for Institutional **Investment** Consultant.

Page 3 – ‘dependents’ changed to ‘dependants’.

Page 6 & 31 – ACS defined

Page 16 – ‘21’ amended to ‘12’.

6.2 The final version of the ISS can be found at Appendix A

7. Communication implications

- 7.1 Taken on board the comments received as part of this consultation exercise the Fund will look to provide a summary note to accompany any future ISS consultations outlining the purpose of the consultation, material editorial changes and the key areas of consideration.
- 7.2 The Fund as part of its digital transformation is looking into the possibility of the potential to have the capability of uploading 'news items' on Member online. This potentially will expand the communications channels that could be utilised for future consultations.

8. Recommendations

- 8.1 It is recommended that the Committee **agree** to:
- all minor presentational changes made to the ISS, as detailed in Section 6 to this report;
 - approve the updated ISS for publication as shown in Appendix A;
- 8.2 It is recommended that the Committee note:
- that the ISS was passed to the PAB for noting; and
 - the content of the report.

9. Background Papers

- 9.1 Investment Strategy Statement – ISC05, 21 July 2020
- 9.2 Investment Strategy Statement – Responsible Investment (RI) Policy, ISC05, 19 February 2020.
- 9.3 Responsible Investment (RI) Workshop – Outcome and Investment Strategy Statement (ISS) Review, ISC04, 27 November 2019.
- 9.4 Investment Strategy Statement (ISS) Review: Responsible Investment, ISC03, 17 July 2019.
- 9.5 Investment Strategy Review -Implementing the transition from equity to alternatives, ISC16, 21 February 2018
- 9.6 Review of Investment Strategy – Equity to Alternative Asset Switch, ISC11, 15 November 2017.