

Essex Pension Fund Strategy Board

PSB 09a

Date: 06 July 2022

Investment Steering Committee (ISC) Quarterly Report

Report by the Investment Manager

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This Report is for noting

Executive Summary

Report Type: Investments

The ISC have met on one occasion since the last Essex Pension Fund Strategy Board (the Board) meeting on 15 June 2022.

The meeting was split into two meetings to allow the Committee to focus on the strategic decisions in the morning and the normal quarterly business in the afternoon.

At the February 2022 meeting, the ISC agreed the Investment Strategy Decision Framework which documents and outlines an approach to enable the ISC to make clear, structured, context based strategic decisions for the Fund.

Pillar 1	Pillar 2	Pillar 3
Implementing and maintaining the existing strategic targets	Evolving existing allocations	Exploring changes to existing or new mandates

The strategic decisions at the June morning meeting were based around the three pillars described above and included: reviewing alternative assets allocations and further top up commitments; finalising the Fund's ESG index tracking solution; reviewing bond and emerging market strategies available via the ACCESS Pool and the final step to disinvesting from Marathon global equity mandate.

Executive Summary (cont.)

In addition the ISC reviewed its approach to implementing its long-term strategic targets and a Framework for integrating its Responsible Investment (RI) Approach within its Strategic Decision-Making Framework.

The focus of the afternoon's meeting was the outcome of the Annual Investment Monitoring of the Fund's Managers, the Investment Scorecard and CEM benchmarking assessment and the update in regard to the Fund's Responsible Project Plan.

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 one occasion, 15 June 2022.

4. Report of the meeting of ISC on 15 June 2022

- 4.1 The ISC held two meetings on 15 June 2022, the morning a Strategic meeting and the afternoon meeting to review the investment monitoring reports as part of normal business.
- 4.2 The Committee were made aware of Cllr Susan Barker's re-appointment of Chairman of ISC as agreed at Full Council on 10 May 2022. As a consequence, the ISC **agreed** the ISC Chairman be the Fund's representative on the ACCESS Joint Committee (AJC) and in her absence the Vice Chairman would deputise.
- 4.3 Members nominated, voted, and **agreed** Cllr Mark Platt be re-appointed as the Vice Chairman of the ISC.
- 4.4 Members were presented with their Terms of Reference (TOR) this being the first meeting of the municipal year. A Governance Training session was offered on 14 June 2022 to all ISC Members to enable the TOR to be noted. In addition, Members were made aware that amendments may be required to AJC TOR pending agreed changes to the Inter-Authority Agreement (IAA).
- 4.5 The strategic meeting was split into three sections aligning to the three pillars of the Fund's recently agreed Investment Strategy Decision Framework.
- 4.6 Pillar 1 reviewed the current strategic implementation process. It was **agreed** that a long-term target Framework approach replace the previous stage-based process going forward.
- 4.7 Following a review to the current allocations in private equity, infrastructure and timber, recommendations to top up and maintain strategic allocations were made and **approval** was given by the ISC to:

- increase the annual top-up to Hamilton Lane (private equity);
- proceed with the commitment to Partners Group Global Infrastructure 2022 once launched (infrastructure); and
- make a further commitment to Stafford Capital Partners and invite them to next ISC meeting to present their new Carbon Offset Opportunities Fund (timber).

- 4.8 Pillar 2 reviewed existing allocations. To this end, the Committee was presented with options to take forward the UBS ESG index tracking approach as agreed at the previous ISC meeting. It was explained that Officers and Advisers (O&A) had reviewed the guidelines of the UBS proposed solution. It was noted the solution recommended the ESG fund track the EU climate transition benchmark which is aligned to the Paris Agreement thus focuses on successfully navigating the transition to a low carbon economy.
- 4.9 It would also be hedged back to sterling and benchmarked against the FTSE Developed Markets Index to seek to deliver returns in line with developed equity markets. The approach being consistent with that agreed at the 23 February 2022 meeting Members therefore **agreed** to adopt the UBS ESG index tracking equity fund.
- 4.10 Following a discussion of the various options it was also **agreed** that the entire equity index tracking portfolio currently invested in separate regional indexes be moved to the new ESG global option so that the Fund's RI Priorities and Beliefs can be fully incorporated. A final review of the solution would then be carried out by the O&A and would report back to a future ISC on the outcome.
- 4.11 Pillar 3 explored changes to existing and new mandates and were held around impact investing, disinvestments and potential new mandates.
- 4.12 Hymans Robertson proposed the RI Framework be integrated into the overall Strategy Framework which was **approved** by the Committee.
- 4.13 A review was undertaken of the bond allocation and the options open to the Fund in regard to strategies that were currently launched within the ACCESS Pool and those strategies that were currently in the process of being launched by Link Fund Solutions on behalf of ACCESS. A suitable strategy was identified

and presented to Members who **agreed** subject to due diligence by the O&A 5.5% allocation be made.

- 4.14 In addition, the final disinvestment proposal for the remaining Marathon assets was **agreed** with the residual proceeds being reinvested to ACCESS's Baillie Gifford Long-Term Growth Fund.
- 4.15 The final part of the Strategic meeting saw the proposal to allocate a 50/50 split to the ACCESS EM managers when available which was **approved** by the Committee along with the delegation to the O&A to implement.
- 4.16 The afternoon meeting was deemed as normal business under the 'investment manager monitoring' umbrella. The first item was a presentation from the Independent Investment Adviser in regard to the global markets. The presentation was well received by Members noting asset prices were now under pressure with rising inflation, interest rates and geopolitical risks.
- 4.17 Furthermore, the RI Project Plan for 2021/22 was closed off noting all deliverables were completed with the highlight being the Fund's submission to the Financial Reporting Council (FRC) to be a signatory to the 2020 UK Stewardship Code, however the outcome still pending. The RI Project Plan for 2022/23 was **agreed** by the Committee.
- 4.18 The Annual Investment Manager Monitoring section included:
- the annual investment monitoring report noted the Fund's performance has remained strong with c£800m increase in Fund value in the last 12 months taking the Fund's total to £9.6bn;
 - Investment Scorecard Performance noted of the 34 Scorecard measures, 32 measures were assessed as green with the remaining 2 deemed as not applicable during the year; and
 - CEM benchmarking – the Value for Money Review showed the Fund performing strongly against its peer group and overall universe. It was noted that the Fund had achieved a 10.2% net return which was above the LGPS medium of 8.8% for the year ending 31 March 2020 and overall, both the 12 months and 7 years assessed was producing positive net performance at a lower cost than its peers. **Agreement** was given for the Fund to participate with 2021 CEM benchmarking exercise.

- 4.19 The final area of business discussed was the ACCESS Joint Committee meeting held on 07 March 2022 where the Committee **agreed** that the decision by the AJC to allow Local Pension Board observer representation at the AJC be referred to the Pension Strategy Board for their consideration.

5. Link to Essex Pension Fund Objectives

5.1 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.

6. Risk Implications

- 6.1 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.
- 6.2 No new risks have been identified during the quarter.

7. Communication Implications

- 7.1 The Fund was a signatory on the ACCESS proposal to Government in February and July 2016.
- 7.2 The Fund has submitted its submission to the FRC to become a signatory to the UK Stewardship Code.

8. Finance and Resources Implications

8.1 In addition to the work undertaken by Officers, the cost of ACCESS pool participation per Fund is estimated to be £124,000 in 2022/23.

8.2 The cost to the Fund was:

- £98,184 in 2021/22;
- £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.

9. Background Papers

9.1 ISC meeting of 15 June 2022 – Agenda and Draft Minutes.

9.2 ISC meeting of 23 February 2022 – Agenda and Draft Minutes.

9.3 ISC meeting of 29 November 2021 – Agenda and Draft Minutes.