

<b>Essex Pension Fund Investment Steering Committee</b>	<b>ISC 05</b>
<b>Date: 21 July 2020</b>	

## **Investment Strategy Statement (ISS)**

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

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Enquiries to Jody Evans on 03330 138489

### **1. Purpose of the Report**

- 1.1 To present a draft Investment Strategy Statement (ISS) for the Committee's consideration.
- 1.2 To provide an update in regard to the initial feedback received from the Investment Managers on the Fund's RI Policy, which outlines the Fund's approach to Environmental, Social and Governance (ESG), engagement and RI Priorities.
- 1.3 To outline a timetable for consultation with stakeholders and further steps.

### **2. Recommendation**

- 2.1 It is recommended that the Committee note:
  - the requirement to produce and publish an ISS and the timetable, as highlighted in section 5;
  - the initial feedback on the Fund's RI Policy and RI Priorities from the Fund's Investment Managers;
  - the next steps detailed in Section 6 of this report; and
  - the content of the report.
- 2.2 It is recommended that the Committee **agree**:
  - the draft ISS;
  - that the draft ISS be circulated to stakeholders for consultation;

- that the ISS be passed to the Pension Advisory Board (PAB) to note;
- the outcome of the stakeholder consultation be brought back to the Committee at the next meeting;
- the Officers and Advisers undertake a review of Managers' ESG and voting policies, how these are aligned with the Fund's RI Policy and ascertain the implications if any, for the Fund's investments and strategy and for the outcome to be brought back to a future meeting;
- that Officers and Advisers develop an Engagement Plan outlining how the Committee and Officers will engage with the Fund's Investment Managers on matters relating to Responsible Investment and Good Stewardship to be brought back to a future meeting; and
- that an exploratory piece of work be undertaken in regard to the revised UK Stewardship Code released in 2020 to ascertain what this means for the Fund's Investment Managers and the Fund itself.

### **3. Background**

- 3.1 The Fund is required to maintain an Investment Strategy Statement setting out its principles for governing the Fund's assets. The four main areas are:
- 1 The Fund's investment strategy and the process for determining suitability;
  - 2 Risk measurement and management;
  - 3 Asset pooling; and
  - 4 Approach to Environmental, Social and Governance considerations.
- 3.2 Over the last 18 months the focus of attention has been in regard to the first three areas, however, a process is well underway with regard to the fourth, ESG considerations and will continue to evolve over time.
- 3.3 Following some preparatory work in the summer, the ISC convened a workshop in October specifically on ESG to enable a more in-depth discussion.
- 3.4 At its November meeting an update was provided on the outcome of the RI Workshop, which lead the Committee to articulate and agree a set of RI beliefs. Members, in line with their belief to work collaboratively with other pension funds, agreed to join the Local Authority Pension Fund Forum (LAPFF). Initial consideration was also given in regard to RI Priorities.
- 3.5 Following the meeting, the ISC agreed that further consideration should be made in relation to the RI Priorities. As a consequence, the ISC and a sample of the Fund's stakeholders were surveyed to ascertain their RI Priorities.
- 3.6 The RI beliefs articulated have now been translated into a RI Policy which at the recent ISC meeting in February, agreement was made for it to be shared with the Fund's Investment Managers for their feedback and comment. Members also noted the outcome of the survey undertaken and agreed that the RI Priorities identified should form the basis of any future engagement with the Fund's Investment Managers and LAPFF.

### **4. Investment Managers Feedback in regard to the RI Policy and RI Priorities**

- 4.1 Following February's ISC meeting, the RI Policy and Priorities were shared with all the Fund's Investment Managers for their comment. The initial feedback received back thus far has been positive.

- 4.2 Responses have indicated that ESG considerations is one of the factors that is taken into account in determining stock selection and is therefore very much integrated into their investment process. As such, it is not envisaged that the Fund's Policy will be out of alignment. They have all also indicated that the RI Priorities identified by the Fund are all areas they consider important when engaging with companies on the Fund's behalf.

## 5. Investment Strategy Statement

- 5.1 Officers in consultation with the Fund's Institutional Investment Consultant and Independent Investment Adviser have updated the ISS and the RI Policy has now been incorporated with the document. The draft revised ISS is attached at Appendix A.
- 5.2 Tracked additions are highlighted in **coloured text** and deletions highlighted in strikethrough ~~coloured text~~.
- 5.3 A clean copy of the ISS has also been provided at Appendix B.
- 5.4 The table below provides a suggested timetable for stakeholder consultation and publishing the ISS:

Meeting	Action	Date
ISC	Discuss the draft ISS	21 July 2020
-	Released for full Stakeholder consultation	July 2020
PAB	PAB discussion	23 September 2020
ISC	Outcome of consultation and agreement of final ISS	21 October 2020
-	Publication on the Fund's Website and within the Fund's Annual Report and Accounts	November 2020

## **6. Next Steps**

Following the release of the ISS for stakeholder consultation the suggested next steps are as follows:

- the outcome of the stakeholder consultation be brought back to the October ISC meeting;
- that Officers and Advisers undertake a review of Managers' ESG and voting policies, how these are aligned with the Fund's RI Policy and ascertain the implications if any, for the Fund's investments and strategy and for the outcome to be brought back to a future meeting;
- that Officers and Advisers develop an Engagement Plan outlining how the Committee and Officers will engage with the Fund's Investment Managers on matters relating to Responsible Investment and Good Stewardship to be brought back to a future meeting; and
- an exploratory piece of work be undertaken in regard to the revised UK Stewardship Code released in 2020 to ascertain what this means for the Fund's Investment Managers and the Fund itself.

## **7. Background Papers**

- 7.1 Investment Strategy Statement – Responsible Investment (RI) Policy, ISC 05, 19 February 2020.
- 7.2 Responsible Investment (RI) Workshop – Outcome and Investment Strategy Statement (ISS) Review, ISC 04, 27 November 2019.
- 7.3 Investment Strategy Statement (ISS) Review: Responsible Investment, ISC 03, 17 July 2019.
- 7.4 Investment Strategy Review -Implementing the transition from equity to alternatives, ISC 16, 21 February 2018
- 7.5 Review of Investment Strategy – Equity to Alternative Asset Switch, ISC 11, 15 November 2017.