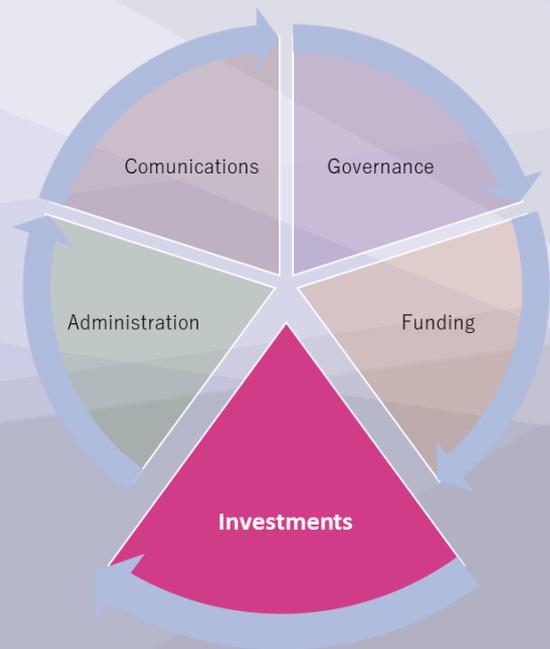


Essex Pension Fund

# Draft Investment Strategy Statement

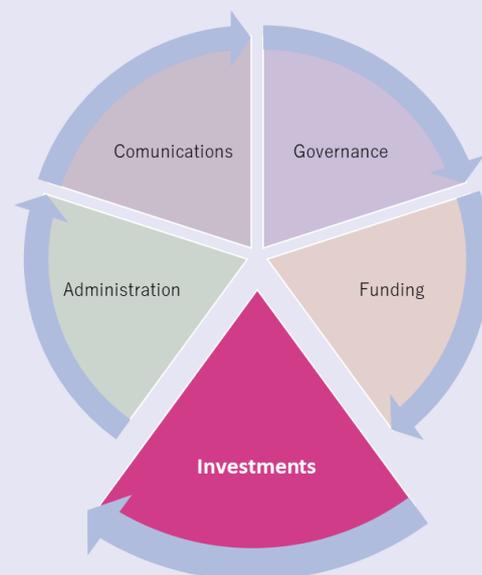
July 2020



# Essex Pension Fund

## Investment Strategy Statement

### CONTENTS



Introduction and background	Page 3
Investment strategy and the process for ensuring suitability of investments	Page 3
Risk Measurement and Management	Page 7
Asset Pooling	Page 8
Environmental, Social & Governance Considerations	Page 10
Appendix A – Responsibilities	Page 13
Appendix B – Core Investment Beliefs	Page 16
Appendix C – Funding Strategy and Structure	Page 20
Appendix D – Fund Manager Mandates and Objectives	Page 21
Appendix E – RI Investment Beliefs	Page 23
Appendix F – Statement of Compliance: Six Myners Principles of good investment practice	Page 25
Definition of Terms	Page 31

# Essex Pension Fund

## Investment Strategy Statement

### Introduction and background

This is the Investment Strategy Statement (the “Statement”) of the Essex Pension Fund, which is administered by Essex County Council (the “Scheme Manager”) as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the “2016 Regulations”) in accordance with the guidance issued by Secretary of State.

Essex County Council is the Administering Authority for the Fund under the Regulations. In 2008, a Pension Board was established to exercise on behalf of Essex County Council all the powers and duties of the Council in relation to its functions as Administering Authority of the Essex Pension Fund, except where they have been specifically delegated by the Council to another Committee or an Officer. Responsibility for setting and monitoring investment strategy has been specifically delegated to the Essex Pension Fund Investment Steering Committee (“ISC”). Responsibility for the day to day management of the Fund has been delegated to the Section 151 Officer (“s151O”) and the Director for Essex Pension Fund.

This statement has been prepared by the ISC having taken appropriate advice from the Fund’s Institutional Consultant, Hymans Robertson LLP, and its Independent Investment Adviser, Mark Stevens. The responsibilities of relevant parties are set out in appendix A.

The Statement is subject to periodic review at least every three years and from time to time on any material change in investment policy or other matters as required by law. The ISC has consulted on the content of this Statement with its stakeholders. The Statement is also subject to review by the Essex Pension Fund Advisory Board (PAB) which was established as the Local Pension Board for Essex in accordance with section 5 of the Public Service Pension Act 2013 and Part 3 of the LGPS Regulations 2013.

### Investment strategy and the process for ensuring suitability of investments

#### Fund Objective

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

The funding objective adopted for the Essex Pension Fund is to ensure that the assets of the Pension Fund, when taken in conjunction with future contributions, are sufficient to ensure that all future pension and retirement benefits will be fully covered by the Fund's assets when they fall due.

This primary objective has been converted to a number of funding objectives, as set out in the Fund’s Funding Strategy Statement (FSS).

# Essex Pension Fund

## Investment Strategy Statement

The purpose of the FSS is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the desirability of maintaining as nearly constant employer contribution rates as possible as defined in Regulation 62 (5) of the LGPS regulations 2013;
- to ensure that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the fund are met; and
- to take a prudent longer-term view of funding those liabilities.

The funding position will be reviewed by the Essex Pension Fund Strategy Board (PSB) at each triennial actuarial valuation, with interim reviews occurring in the years between triennial valuations.

### Funding Level

The Funding level of the Pension Fund is the value of the Fund's assets expressed as a percentage of the Fund's liabilities at the most recent actuarial valuation of the Fund. The Funding level at March 2019 was 97% (March 2016 was 89%). The Funding Strategy provides for the Fund to return to a fully funded position over a period of 12 years. In accordance with the Funding Strategy Statement, the PSB determined the rate of contributions payable by each of the employers in the Fund for the three years starting 1 April 2020.

### Investment Beliefs

The Committee has adopted core investment beliefs covering the four following areas:

- Long Term Approach;
- Diversification;
- Benchmarks; and
- Active vs Passive Management.

Details are set out in appendix B.

### Investment Strategy

The Fund is maturing and analysis has been undertaken to forecast when new contributions (employees and employers including the secondary rate) are not enough to meet all benefit payments falling due. This is normal for a pension scheme and reflects the purpose of the Fund (accumulate monies and then pay it out in benefits).

In order to meet the short to medium term cashflow requirements, the Investment Steering Committee at its 23 February 2015 meeting agreed to realise income from its UK passive assets and Aviva's property portfolio.

Realised income may be held in cash short term in order to meet a proportion of benefit payments.

# Essex Pension Fund

## Investment Strategy Statement

The initial requirements are small (c. 0.5% of total Fund assets) and is expected to be more than met by the income on assets. There should be no need to disinvest the capital value of any asset currently for cashflow purposes. The time at which the sale of assets for cashflow purposes will become a requirement will be subject to periodic review.

The Fund is therefore still in a position to target a predominantly growth-based strategy, with the aim of maximising asset growth in the long term within agreed risk levels, which takes into account liquidity requirements.

There is also diversification between different asset classes to manage risk levels and better ensure that the value of the Pension Fund, when taken in conjunction with current expectations of future contributions, is sufficient to ensure that all future pension and retirements benefits will be fully covered by the Fund's assets when they fall due, whilst managing the Fund within the ISC's risk appetite.

### Asset Allocation

In 2017, the Fund undertook an Asset/Liability Study following the results of the 2016 Actuarial Valuation. The conclusion of the Study found that the Fund had a high probability of achieving the Fund's Funding objectives and this could continue to be maintained at a lower risk by reducing its equity allocation and increasing its allocation into diversifying income generating alternative assets. The ISC have agreed a strategic medium-term plan whereby its equity allocations will be trimmed as and when suitable opportunities arise to reallocate to alternative assets.

The Fund is moving towards an 84% allocation to 'growth' (equities and alternatives) assets in order to meet the long-term funding assumptions set out in the 2019 actuarial valuation.

The Fund's investments are allocated across a range of asset classes. The largest allocation is to equities which also accounts for the majority of the investment risk taken by the Fund. Over the long term, equities are expected to outperform other liquid asset classes, particularly bonds. Allocation to asset classes other than equities and bonds allows the Fund to gain exposure to other forms of return which can help to reduce the overall volatility of the portfolio. These assets are in the main lower correlated (do not necessary follow the direction) to equities and are expected to generate returns broadly similar over the long term and so allocation to these can maintain the expected return and assist in the management of volatility.

The 16% allocation to bonds is designed to manage overall levels of funding volatility within agreed levels.

### Investment Allocation

The Committee has translated its objectives into a suitable strategic asset allocation benchmark and structure for the Fund (set out in appendix C), taking into account both the liability structure and the objectives set out above. The Fund benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

# Essex Pension Fund

## Investment Strategy Statement

The Committee monitors investment strategy relative to the agreed asset allocation benchmark. In addition to on-going monitoring, the investment strategy is formally reviewed every six months at Committee meetings set aside for that purpose. Furthermore, specific consideration is given to investment strategy in the light of information arising from each triennial actuarial valuation.

### Investment managers

The Committee utilises a number of active and passive investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Committee has commenced using the ACCESS Pool solutions to meet its strategic objectives migrating its assets into ACCESS ACS.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. Fund benchmarks are continually kept under periodic review. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles and a mix of asset types across a range of geographies in order to provide diversification of returns.

The managers appointed, and the mandates they manage, are detailed in appendix C. This includes the investments made via the ACCESS pool. Appendix D details the objectives and investment rationale of the mandates.

### Types of investment to be held

The investment managers are required to comply with LGPS investment regulations. The Fund may invest in quoted and unquoted securities of UK and overseas markets, including equities, fixed interest and index linked bonds, cash, property, commodities, infrastructure, timber and loans either directly, through pooled funds or via partnership agreements.

The Fund may also make use of contracts for difference and other derivatives either directly or in pooled funds when investing in these products, for the purpose of efficient portfolio management or to hedge specific risks. The Committee considers all of these classes of investment to be suitable in the circumstances of the Fund.

### Currency hedging

To reduce the volatility associated with fluctuating currency rates (currency risk), the Fund utilises hedged versions of the overseas equity indices which are managed by the Fund's passive manager.

Investment Managers have discretion to utilise currency hedging for risk management purposes.

# Essex Pension Fund

## Investment Strategy Statement

### Risk measurement and management

#### Risk

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. These risks are set out and monitored as part of the Fund's formal Risk Register. In summary, the principal risks affecting the Fund and mitigations are:



#### *Funding risks:*

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities. The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- Changing demographics – The risk that longevity improves and other demographic factors change resulting in increased Fund liabilities, reduced solvency levels and increased employer contributions.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Fund liabilities.

#### *Asset risks:*

- Concentration – The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity – The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Manager underperformance – The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

#### *Other provider risks:*

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the ISC takes professional advice and considers the appointment of specialist transition managers.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

#### *Mitigations:*

In general terms, the risks are managed via a combination of:

- The appointment of professional advisers to assist the ISC in managing these risks;
- Agreed processes and guidelines for consideration and monitoring of the investments;
- Specific limits on individual investments;
- Ensuring the expected return from the Investment Strategy is consistent with the assumptions made by the Actuary in valuing the Fund;

# Essex Pension Fund

## Investment Strategy Statement

- Assessments of the levels of risk taken by the Fund;
- Diversification across asset classes and managers; and
- Regular review and monitoring of investment manager performance.

### Expected return on investments

Over the long term, the overall level of investment return is expected to exceed the rate of return assumed by the Actuary in valuing the Fund and setting funding requirements.

### Realisation of investments

The majority of assets held within the Fund may be realised quickly if required. The Committee monitors both the level of liquid assets and the liquidity requirements of the Fund.

### Asset pooling

#### Overview

The Fund is one of eleven participating Fund's in the ACCESS Pool (A Collaboration of Central, Eastern & Southern Shires) along with Cambridgeshire, East Sussex, Hampshire, Hertfordshire, Isle of Wight, Kent, Norfolk, Northamptonshire, Suffolk and West Sussex.



All eleven funds are committed to collaboratively working together to meet the government's criteria for pooling and have signed an Inter-Authority Agreement to underpin their partnership. This is currently in the process of being reviewed by the ACCESS Authorities.

The proposed structure and basis on which the ACCESS Pool will operate in order to meet the Government's criteria was set out in the July 2016 submission to Government. A copy of the submission and the progress made against the timetable is available on the ACCESS website at [www.accesspool.org](http://www.accesspool.org)

The participating authorities have a clear set of objectives and principles that will drive decision-making and help shape the design of the Pool. These underpin the design of the project plan that the ACCESS Funds are working towards.

In 2018 a joint procurement was undertaken by ACCESS for a passive provider, UBS Asset Management was appointed as the preferred provider. In addition, in March 2018 Link Solutions Limited (Link) was appointed to act as operator of the ACCESS's Authorised Contractual Scheme (ACS).

#### Assets to be invested inside the Pool

The Fund's intention is to invest its assets through the ACCESS Pool as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government.

# Essex Pension Fund

## Investment Strategy Statement

The key criteria for assessment of Pool solutions will be as follows:

1. That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.
2. That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

The Fund is monitoring developments with a view to transitioning liquid assets across to the Pool when suitable sub-funds to meet the Fund's Investment Strategy requirements are in place. As at 31 March 2020, the Fund had around 50% of its assets invested in the ACCESS pool, invested in global equity sub-funds and passive regional equity and index linked bond pooled funds.

The Essex Pension Fund is working towards the expectation that over time all investments will be pooled with the exception of direct property and operational cash. The table below sets out the rationale.

### Assets to be invested outside the Pool

Asset Class	Manager	Strategic Allocation %	Reason for not investing in the ACCESS Pool
Direct Property	Aviva Investors	Up to 10%	<ul style="list-style-type: none"> <li>• Investment manager skill is a major determinant of returns. The availability of quality investment managers for a large mandate is untested</li> <li>• The portfolio has been built to specific risk and return requirements</li> <li>• Portfolio designed to account for target holding sizes, to reflect the total portfolio size and achieve the required level of diversification</li> <li>• Moving holdings to part of a bigger direct portfolio would have significant cost implications such as Stamp Duty Land Tax (SDLT)</li> <li>• To reshape the portfolio to meet new objectives would be inconsistent with the value for money criteria</li> <li>• Project Pool analysis showed that increasing direct mandate size does not result in incremental cost savings</li> </ul>
Operational Cash	In-house	n/a	A reasonable level of operational cash will be required to maintain efficient administration of scheme. This will be held in house as ECC will need to manage cashflow to meet statutory liabilities, including monthly pension payroll payments.

# Essex Pension Fund

## Investment Strategy Statement

Any assets not currently invested in the ACCESS Pool will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money.

### Environmental, Social & Governance Considerations



#### Fiduciary duty

The fundamental responsibility of the Fund is to ensure that it has adequate monies available to pay pensions as they fall due. This objective must be achieved in a cost-effective way for members, employers and the taxpayer. Moreover, in reaching decisions, the Fund must comply with its fiduciary responsibilities.

#### Responsible Investment (RI) Policy

The ISC recognises that environmental, social and governance (ESG) factors (including those related to climate risk) can influence long term investment performance and the ability to achieve long term sustainable returns. To this end the Committee identified four key headline responsible investment beliefs, with a number of sub beliefs sitting underneath these headings. The Committee in formulating the Responsible Investment Policy below have incorporated the Fund's investment beliefs articulated in appendix E.

#### Investment Strategy

1. The RI Policy should be integral to the investment strategy and not considered in isolation.
2. The Fund should minimise exposure to securities where environmental or social aspects could be financially detrimental to the portfolio.
3. Investments expected to deliver positive environmental or social benefit are encouraged as long as they are not expected to dilute overall returns.

#### Engagement and Voting

4. The ISC will only exclude stocks in limited or specific instances but will actively encourage engagement and work collaboratively with other investors to increase the impact of engagement.

#### Managers/implementation

5. The ISC will seek to implement mandates in line with its RI Policy.
6. ESG factors should (amongst others) be an integral component in the consideration of investment in a stock by active managers.
7. For passive allocations, in choosing the reference benchmark, careful consideration will be given to the ESG aspects of that benchmark. Although it is recognised that the passive manager has no choice of stocks within the benchmark index, the passive manager will be expected to actively engage with companies held to the benefit of the Fund and its members.
8. The ISC will seek to utilise mandates in line with its RI Policy and expects these to be made available via the ACCESS Pool.

# Essex Pension Fund

## Investment Strategy Statement

### Monitoring/governance

9. The ISC will monitor and challenge their providers on their ESG implementation and any intended changes over time.
10. The ISC will take a long-term view on RI, including the direction of travel as well as the current implementation

### Collaborative working

In line with their belief and Policy to work collaboratively with other pension funds to increase the strength of its voice in RI matters, the Committee agreed at its November 2019 meeting to join Local Authority Pension Fund Forum ('LAPFF') as part of a drive to work collaboratively with others on RI issues.

### Priority for RI consideration and engagement

The Committee recognises that there are a range of interested parties all of whom will have differing interests in the Fund and as such have identified the following areas which it expects the Fund's investment managers to treat as priorities when engaging with companies invested in on the Fund's behalf:

- Climate change
- Resource scarcity
- Pollution
- Weapons
- Remuneration
- Labour Practices
- Employee relations
- Company governance
- Manage board structure
- Gender diversity

### Exercise of voting rights

#### Assets outside the ACCESS Pool

The Fund has instructed its investment managers to vote in accordance with their in-house policies and practices within the framework of the ISC's agreed policies which has been shared with the investment managers as set out above.

#### Assets inside the ACCESS Pool

The ACCESS pool has formulated a voting guidance which it expects each of the underlying investment managers managing sub funds on its behalf to comply with or when this is not the case to provide an explanation.

The Fund fully supports the UK Stewardship Code and requires those of its investment managers who hold shares on its behalf to comply with it or to provide the ISC with an explanation of why it is not appropriate to do so, in the exercise of the mandate that they have been given, and how they will instead achieve and demonstrate the same level of responsible share ownership.

# Essex Pension Fund

## Investment Strategy Statement

---

The majority of the Fund's investment managers are signatories to the UK Stewardship Code and have all gained a Tier 1 status (demonstrating a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary).

### Engagement

The Fund expects its investment managers to take account of social, environmental and ethical considerations in the selection, retention and realisation of investments as an integral part of the normal investment research and analysis process. The Fund also expects its investment managers to be engaged with companies held on all matters in regard to Good Stewardship. The Fund believes taking account of such considerations forms part of the investment managers' normal fiduciary duty.

### Ongoing Monitoring

The Committee actively monitors the Fund's investment managers' approaches. As part of this regular manager monitoring, the ISC will challenge their managers on how they consider and manage all financial risks faced by their investments, including those that arise from ESG considerations. The Committee also strives to improve and develop their knowledge and understanding on how ESG factors will impact the Fund's investments in the future.

### Stock Lending

The policy on stock lending (below) reflects the nature of the mandates awarded to investment managers by the ISC, which include both pooled and segregated mandates:

#### Assets within the ACCESS Pool

The Fund participates in ACCESS's stock lending programme for investments under ACCESS Pool governance.

#### Segregated Investments

The Fund does not participate in stock lending schemes nor allow its stock to be lent.

#### Pooled Investments

In regard to the Fund's pooled investments, where the Fund is buying units in a pooled vehicle, stock lending is outside the control of the Fund and undertaken at the discretion of the pooled fund manager.

# Essex Pension Fund

## Investment Strategy Statement

### Appendix A – Responsibilities

#### ISC Responsibilities

- to approve and review the asset allocation benchmark for the Fund;
- to determine, review and monitor the Fund's aims, objectives, policies, strategies and procedures relating to investment of the Fund's assets including the Investment Strategy Statement and any environmental, social and governance matters;
- to appoint and terminate Investment Managers (in relation to non-pooled assets), Custodians and Advisers to the Fund solely relating to investment matters;
- In relation to the LGPS ACCESS Pension Fund Pool;
  - a) to consider pooling matters including recommendations by the ACCESS Joint Committee;
  - b) to determine the transition of the assets held by Essex Pension Fund in relation to the Pool and the funds or sub-funds operated by the Operator;
  - c) to appoint the elected councillor for Essex County Council to the Joint Committee as and when required;
  - d) to advise the representative on the Joint Committee on such matters as may be required;
  - e) to monitor the performance of the LGPS ACCESS Pool and its Operator and recommending actions to the ACCESS Joint Committee or ACCESS Support Unit, as appropriate;
  - f) to receive and consider reports from the LGPS ACCESS Joint Committee and the Operator;
  - g) to undertake any other decisions or matters relating to the operation or management of the LGPS ACCESS Pool as may be required.
- to assess the quality and performance of each Investment Manager and the relevant ACCESS Operator annually in conjunction with Essex Pension Fund investment advisers and the Section 151 Officer;
- to monitor compliance of the investment arrangements with the Investment Strategy Statement;
- to monitor and review the Fund's compliance with the LGPS Scheme Advisory Board adopted Code of Transparency and UK Stewardship Code;
- to assess the risks assumed by the Fund at a global level as well as on a manager by manager basis;
- to approve and to review annually the content of the Pension Fund Treasury Management Strategy; and
- to submit quarterly reports on its activities to the Pension Strategy Board.



# Essex Pension Fund

## Investment Strategy Statement

### Section 151 Officer ('S151O') Responsibilities

- To manage the Pension Fund including the power to seek professional advice and to devolve day-to-day handling of the Fund to professional advisers within the scope of the Pensions Regulations.
- To provide a training plan for the members of the ISC (and the Strategy and Advisory Boards).

### Custodian Responsibilities

- To safeguard all segregated assets (excluding direct property holdings, unitised holdings and cash held separately with either the Administering Authority or investment managers) within the Fund and ensure that all associated income is collected, including dividends and tax reclaims. Also, to ensure that corporate actions affecting the securities are dealt with, including rights issues, bonus issues and acquisitions.
- To provide regular statements of transactions, corporate actions, income and asset valuations as required by the Administering Authority.
- To report to the ISC in person on the assets of the Fund if required.
- To inform the Fund of any areas of concern which arise in its dealings with investment managers.
- To report the performance of the Fund's assets.

### External Advisers

- To provide advice to the Fund on investment strategy, asset allocation, benchmark selection and design, investment management structure, legislative changes impacting on the Fund and current emerging issues.
- To prepare and present a report, based on information supplied by the Fund's custodian, on the annual investment performance of the Fund.
- To carry out on behalf of the Fund, when required, the functions of manager selection and manager monitoring.
- To carry out asset/liability modelling studies when required.
- To provide expert commentary on the economy and investment market.
- To attend and advise at all meetings of the ISC and all meetings arranged between its officers, advisers and managers.
- To assist the ISC in its annual review of asset allocation, investment management structure, Investment Strategy Statement and Funding Strategy Statement.

### Independent Investment Adviser

- To assist the Officers of the Fund in the determination of agendas and papers for the meetings of the ISC.
- In consultation with the Officers of the Fund, to identify investment issues of strategic importance to the Fund and arrange for their consideration by the ISC e.g. asset allocation, and investment, management structure.

# Essex Pension Fund

## Investment Strategy Statement

- In conjunction with the Officers of the Fund, to keep under review the individual investment managers and where necessary put forward proposals for their management, including where appropriate their dismissal.
- To assist the Officers of the Fund, where requested, in manager searches and other Fund procurement exercises.
- To assist the ISC in keeping under review its statutory publications.
- When requested by the Officers, to attend and participate in monitoring, reviewing and briefing meetings arranged with investment managers, limited partners etc.

### Audit Responsibilities

The Fund is subject to review by both the County Council's External Auditors BDO LLP and internally by Internal Audit.

The Pension Fund financial statements contained in the Council's Annual Statement of Accounts present fairly:

- the financial transactions of its Pension Fund during the year; and
- the amount and disposition of the Fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

The External Auditor audits the Pension Fund financial statements and gives their opinion, including:

- whether they present fairly the financial position of the Pension Fund and its expenditure and income for the year in question; and
- whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards;

In carrying out their audit of the financial statements, auditors will have regard to the concept of materiality.

Additionally, the Council must prepare a Pension Fund annual report which should contain the Pension Fund Account and Net Asset Statements with supporting notes and disclosures. External Audit will review the annual report as a whole and the accounts contained in it and then report:

- whether the accounts contained in the annual report are consistent with the financial statements on which the audit opinion was given; and
- that other information in the annual report is not inconsistent with the financial statements on which the audit opinion was given.

Internal Audit carry out a programme of work designed to reassure the S151O that Fund investment systems and records are properly controlled to safeguard the Fund's assets.

# Essex Pension Fund

## Investment Strategy Statement

### Appendix B - Core Investment Beliefs

#### Long term approach

##### Local authority (LA) funds take a long-term view of investment strategy

This is largely based on covenant. Unlike the private sector, the covenant underlying the Fund is effectively gilt-edged. This means that short term volatility of returns can be acceptable in the pursuit of long-term gain. Whilst there is a need to consider stability of contributions, at current maturity levels and with deficits spread over 21 years, it is largely the future service rate which is expected to drive instability. One of the best ways to avoid this is to build in margins over the long term. More recently, the ISC has noted the increasing maturity of the Fund and potential change in cashflow position on the horizon. It is therefore also taking this into consideration in decision making.

##### Over the long term, equities are expected to outperform other liquid asset classes, particularly bonds

Given the above, there is a preference for a significant allocation to equities in the Fund as over the long-term as they are expected (but not guaranteed) to outperform other asset classes.

##### Allocations to asset classes other than equities and bonds expose the Fund to other forms of risk premium

Investors with a long-term investment horizon and little need for immediate liquidity can use this to their benefit as it offers the ability to capture the illiquidity premium on many asset classes, such as private equity and infrastructure.

#### Diversification

##### Diversification into alternative asset classes (including property) is also expected to reduce overall volatility of the Fund's funding level

Given that the returns from different asset classes are expected to be delivered in different cycles (i.e. not be directly correlated with equity returns), the use of alternative assets can reduce overall volatility in the delivery of Fund returns without leading to a significant reduction in overall expected return, therefore increasing efficiency.

##### In the context of LA funds (open, long duration, not maturing quickly and with high equity content), an allocation to bonds does not offer a match to liabilities, but additional diversification.

Where bonds are not used for liability matching purposes, an allocation to these assets can be beneficial from an overall risk/return perspective improving the overall efficiency of the Fund. The corollary to this is that bond benchmarks do not necessarily have to reflect the nature and duration of the liabilities (see benchmark section below) but should be set to provide managers with the sufficient scope to add value.

# Essex Pension Fund

## Investment Strategy Statement

---

The overweight to UK equities in most UK pension funds is historic and loosely based on currency exposures, rather than a preference for the UK market

Although historically the UK may have benefited from better corporate governance, and therefore a higher return, increasingly the rest of the world is catching up and UK equities are not expected to outperform overseas equities over the long term. Given the concerns over market concentration in the UK market and an increased opportunity set overseas a move towards increased overseas allocation relative to the UK seems appropriate. Concerns about currency risk can be addressed by a separate currency hedging programme.

### Benchmarks

Where appropriate, benchmarks should represent the full opportunity set

For example, for a global equity mandate, a market capitalisation (“market cap”) weighted benchmark reflects a passive allocation to the market (analogous to investing in a passive equity mandate and investing in each stock according to its size). It therefore reflects the investable universe of stocks available and represents the starting point for an equity benchmark.

To some extent market cap weighted indices reflect past winners, so should be treated with caution

The regional exposures in the World Index are a function of the relative market cap of the regional stock markets. In turn, these are a function of the size of the economy as a whole and how well companies have performed in that economy. One measure of the size of the economy could be its overall contribution to global GDP. However, as has been seen in the UK, many companies in the market have little exposure to the domestic economy and, again, this should not be adhered to too slavishly. At the total fund level a fixed weights regional benchmark is therefore preferred in order to maintain an appropriate level of diversification across markets. This is particularly the case when the allocations are maintained by a passive “swing” manager.

Emerging market economies may be expected to outperform over the long term as the economy develops and the risk premium falls

As emerging markets develop both politically and economically, become more robust and less dependent on the fortunes of a small number of developed economies (such as the US), the risk of investing in these countries should decrease. The return demanded by investors for investing in these ‘riskier’ countries will therefore fall reflecting the increased security. This reduction in required return would tend to lead to a systematic increase in stock prices. As a result, a strategic allocation to emerging markets of at least the market cap weight if not slightly above is favoured.

Bond benchmarks do not need to reflect the nature and duration of the liabilities

As discussed in the diversification section above, if bonds are not held for liability matching purposes, benchmarks should be set in order to maximise the scope for adding value.

# Essex Pension Fund

## Investment Strategy Statement

---

### Active versus passive management

Passive management is appropriate for obtaining a low-cost allocation to efficient markets

Where markets offer little scope for adding value through active management (such as individual allocations to UK equities, US equities and gilts) passive management is preferred as a low-cost way of accessing the market. This does not include emerging markets where the risk inherent in the market (although improving as stated above) and inefficiency of the market lends itself to active management.

Active management is appropriate where a market is relatively inefficient offering opportunities for active managers to add value

Where markets offer substantial scope for added value active management would seem appropriate as a way of increasing overall expected return (after fees) without significantly increasing the overall level of volatility in the funding level.

Constraints on active managers reduce their ability to add value

Active managers should not be unnecessarily constrained (within appropriate risk limits) and should be given the maximum scope to implement their active views. There is therefore a preference for unconstrained mandates e.g. unconstrained global equity mandates and unconstrained bond mandates such as M&G's LIBOR plus approach. This also suggests that, within reason, managers' requests for additional scope should be acceded to.

A degree of diversification of managers improves the efficiency of the overall structure (i.e. improves the expected return per unit of risk)

Active manager performance is expected to be cyclical and therefore by appointing a number of managers the delivery of returns is expected to be less volatile. However, too much diversification can lead to expensive index tracking.

A rigorous approach to active manager selection improves the chance of appointing an active manager who will add value over the long-term

An active manager must outperform their benchmark after fees to add value. The selection of an active manager must assess more than just past performance and look into the infrastructure supporting the performance including; business and ownership, philosophy and process, people, risk controls and fees.

The Fund does not have the governance structure in place to take tactical views and market timing is very difficult

Both timing investments into the market and taking tactical views are very difficult given the governance structure in place and the time taken to agree and implement decisions. Where possible these decisions are left to professional investment managers who are closer to the market and can implement tactical views in a more timely fashion. This highlights the importance of not unnecessarily constraining active managers and providing them with appropriate scope.

# Essex Pension Fund

## Investment Strategy Statement

---

The assessment of active management performance should be taken with a long-term view and take account of the market environment in which returns are delivered

Active management is cyclical and periods of underperformance from investment managers should be expected so the structure should be such that when the market cycle is unfavourable for some managers it is favourable for others and vice versa. This is expected to deliver added value over the long-term whilst smoothing the overall performance at the total Fund level. Churning of managers leads to additional costs; however, where the ISC no longer views an investment manager's prospects as positive over the long-term, action should be implemented as soon as possible due to the potential downside risk.

# Essex Pension Fund

## Investment Strategy Statement

### Appendix C – Fund Strategy and Structure

#### Summary

The table below shows the target strategic allocation of the Fund:

Equities			Bonds			Alternatives		
	Manager	Target %		Manager	Target %		Manager	Target %
UK	UBS	3.7	Index-linked gilts	UBS	2.0	Property	Aviva	10.0
	UBS	11.3		GSAM	5.5		Partners Group	4.0
Global	Link - M&G	6.3	Active Cash plus	M&G	5.5	Private equity	Hamilton Lane	4.0
	Link – Longview	6.3		New manager *	3.0		IFM	3.0
	Link - Baillie Gifford	6.3				Infrastructure	JP Morgan	3.0
	RAFI	7.3			Partners Group		4.0	
Emerging	Stewart	3.8			Timber	Stafford	4.0	
						Alcentra	2.5	
						Direct lending	New manager *	2.5
							New manager *	2.0
<b>Total</b>		<b>45.0</b>	<b>Total</b>		<b>16.0</b>	<b>Total</b>		<b>39.0</b>

\* The Fund will in the first instance look to work with the ACCESS pool to provide a suitable solution

# Essex Pension Fund

## Investment Strategy Statement

### Appendix D – Fund Manager Mandate Objectives

Active/ Passive	Mandate	% of Fund	Manager	Benchmark	Investment Objectives	Investment Restrictions
Passive	Regional Equity Indexes	15.0%	UBS Asset Management	FTSE Regional	Match BM gross of fees over rolling 3 -year period	May not invest in unlisted Securities
Passive	Global Equity	7.3%	UBS Asset Management	FTSE RAFI AW 3000	Match BM gross of fees over rolling 3 -year period	May not invest in unlisted Securities
Active	Global Equity	6.3%	Link Asset Solutions - LP ACCESS Long Term Global Growth Fund	MSCI AC World Index	BM + 3%, gross of fees, per annum over rolling 5- year Periods	Discretionary mandate
Active	Global Equity	6.3%	Link Asset Solutions – LP ACCESS Global Equity Fund	MSCI AC World Index	BM + 3%, gross of fees, per annum over rolling 3- year Periods	Discretionary mandate
Active	Global Equity	6.3%	Link Asset Solutions – LP ACCESS Global Dividend Fund	MSCI AC World Index	BM + 3%, gross of fees, per annum over rolling 3- year Periods	Discretionary mandate
Active	Emerging Equity	3.8%	Stewart Investors	MSCI EM Index	BM + 4%, gross of fees, per annum over rolling 3- year periods	Discretionary mandate
Passive	Index Linked Bonds	2.0%	UBS Asset Management	FTSE Act. Gov't Securities Index-Linked Over 5 Years Index	Match BM gross of fees over rolling 3 -year period	n/a

# Essex Pension Fund

## Investment Strategy Statement

Active/ Passive	Mandate	% of Fund	Manager	Benchmark	Investment Objectives	Investment Restrictions
Active	Fixed Interest	5.5%	Goldman Sachs Asset Management	1-month Libor	BM +2%p.a.	n/a
Active	Fixed Interest	5.5%	M&G Investment	1-month Libor	BM +2%p.a.	n/a
Active	Fixed Interest	3.0%	Not yet assigned*	TBC	TBC	TBC
Active	UK Property	10.0%	Aviva Investors	IPD PPFI All Balanced Funds Index	BM +1% p.a.	Target allocation of Direct 75% Indirect 25%  No direct investment in the County of Essex
Active	Global Property	4.0%	Partners Group	IRR	9% p.a.	n/a
Active	Private Equity	4.0%	Hamilton Lane	MSCI World PME Index	BM+3% p.a	Prior approval to be sought for co-investments
Active	Infrastructure	3.0%	IFM Investors	Absolute	BM + 8% p.a.	n/a
Active	Infrastructure	3.0%	JPMorgan	Absolute	BM + 8% p.a.	n/a
Active	Infrastructure	4.0%	Partners Group	Absolute	BM + 8% p.a.	n/a
Active	Timber	4.0%	Stafford Capital Partners	IRR	BM + 8% p.a.	n/a
Active	Direct Lending	2.5%	Alcentra Limited	IRR	8% p.a.	n/a
Active	Direct Lending	4.5%	Not yet assigned*	TBC	TBC	TBC

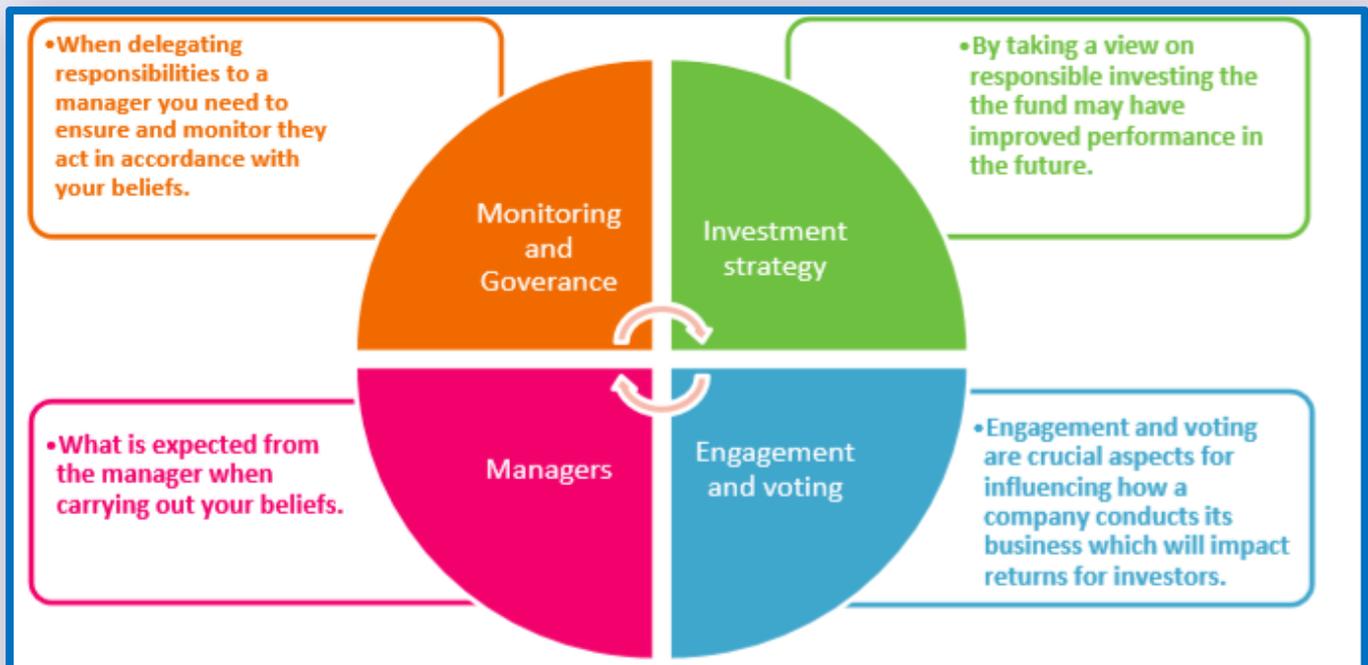
\* The Fund will in the first instance look to work with the ACCESS pool to provide a suitable solution

# Essex Pension Fund

## Investment Strategy Statement

### Appendix E – RI Investment Beliefs

The Committee have articulated a set of RI investment beliefs based on the four key headline beliefs below:



### Investment strategy (IS)

1. Having a responsible investment policy could lead to better financial outcomes.
2. Having a responsible investment policy could lead to better outcomes for society.
3. Long term, businesses with more sustainable practices should outperform.
4. Allowing for the impact of ESG issues has many dimensions to it.
5. The Fund should avoid/limit exposure to securities where environmental or social aspects will be financially detrimental to the portfolio.
6. Environmental and social investing only needs to not be detrimental to returns.
7. Poor management of ESG risks has led to financially material losses in the past and is expected to do so in the future.
8. ESG is a factor, but not the only factor in choosing investments.

### Engagement and voting (EV)

1. Engagement in a company is more effective than disinvesting from the company.
2. Engagement and voting are influential and can be effective in changing behaviour and improving the Fund's performance as well as having a positive impact on the environment/society.
3. Collaboration with other investors gives the Fund a stronger voice.

# Essex Pension Fund

## Investment Strategy Statement

---

### Managers (M)

#### 1 Passive managers

- 1.1. The only influence an investor has on a passive manager is the choice of benchmark and level of engagement.
- 1.2. The choice of benchmark is important as it defines the investment portfolio.
- 1.3. The Fund should be an active owner seeking to influence behaviour in investee companies.
- 1.4. The Fund should consider alternative indices that reflect ESG factors.
- 1.5. The direction of travel of the investee companies is even more important than their current scoring on ESG factors.

#### 2 Active managers

- 2.1. The social cost of companies will eventually need to be self-financed.
- 2.2. Managers should try as far as possible to price in the potential future impact of ESG risk in asset selection.
- 2.3. Active managers can take into account forward-looking metrics better than passive managers.
- 2.4. The Fund's investment managers should embed the consideration of ESG factors into their investment process and decision making, taking into account the direction of travel and not only current scoring.

### Monitoring and Governance (MG)

1. The ISC should not rely on the Pool for leadership on ESG issues.
2. The ISC should expect the Pool to be able to implement investments in line with its RI policy.
3. The Fund needs to engage and challenge managers on integrating ESG issues in their investment process in line with the RI policy.
4. An RI policy focussed on improving financial outcomes will be to the benefit of Fund stakeholders.
5. It is best to engage stakeholders on the overall approach to managing the Fund rather than on RI policy only.
6. ESG factors should be incorporated into manager reporting in due course.

# Essex Pension Fund

## Investment Strategy Statement

### Appendix F – Statement of Compliance: the six Myners principles of good investment practice

Description of Principle	Essex Pension Fund's position	Future actions
<p><b>1. Effective decision making</b></p> <p>Administering Authorities should ensure that:</p> <ul style="list-style-type: none"> <li>Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation</li> </ul> <p>and</p> <ul style="list-style-type: none"> <li>Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.</li> </ul>	<p>Responsibility for approval and review of the Investment Strategy of the Essex Pension Fund has been delegated to the Investment Steering Committee (ISC). Every quarter, the ISC reports its activity to the Essex Pension Fund Strategy Board (the Strategy Board), the body with overall responsibility for the Essex Pension Fund.</p> <p>The day to day running of the Fund has been delegated to the S1510. The ISC is supported by the S1510, the Director for Essex Pension Fund and other Fund officers.</p> <p>Institutional investment advice to the ISC and Fund Officers is commissioned from Hymans Robertson. Furthermore, the Fund is supported by Mark Stevens, the independent investment adviser.</p> <p>An on-going programme of training for Members of the ISC and Strategy Board is in place based on the CIPFA Knowledge &amp; Skills Framework. The Training Strategy is periodically reviewed to ensure it is fit for purpose. Member training is also recorded and feeds into the scorecard which is reported to the Strategy Board on quarterly basis.</p> <p>Fund Officers hold relevant qualifications and maintain appropriate on-going professional development (CPD).</p> <p>The Essex Pension Fund is a member of the CIPFA Pensions Network.</p>	<p>On-going Member and Fund officer training.</p>

# Essex Pension Fund

## Investment Strategy Statement

Description of Principle	Essex Pension Fund's position	Future actions
<p><b>2. Clear objectives</b></p> <p>An overall investment objective(s) should be set for the fund that takes account of the scheme liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be communicated to advisers and investment managers.</p>	<p>The Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS) set out the Essex Pension Fund's primary funding and investment objectives.</p> <p>Specific investment objectives are in place for each mandate in the portfolio, and these are regularly monitored by the ISC.</p> <p>The Strategy Board has also agreed and reviews periodically a series of objectives across five areas: Governance, Investment, Funding, Administration &amp; Communications. Progress against objectives is monitored regularly by the Fund's scorecard. These objectives include:</p> <ul style="list-style-type: none"> <li>• Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise</li> <li>• Maximise the returns from investments within reasonable risk parameters</li> <li>• Manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption, where necessary, of employer specific funding objectives</li> <li>• Recognise in drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible</li> <li>• Communicate in a friendly, expert and direct way to our stakeholders, treating all our stakeholders equally</li> </ul>	<p>Continual monitoring and review of objectives.</p>

# Essex Pension Fund

## Investment Strategy Statement

Description of Principle	Essex Pension Fund's position	Future actions
<p><b>3. Risk &amp; liabilities</b></p> <ul style="list-style-type: none"> <li>In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of their liabilities.</li> <li>These include the implications for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</li> </ul>	<p>Following each triennial valuation, the ISC re-assess the investment strategy in light of the updated information on the structure of liabilities. Asset / Liability studies have been used in the past.</p> <p>Whilst it is accepted that investment underperformance due to certain market conditions can occur, the ISC measures active managers against longer term benchmark outperformance targets.</p> <p>The strength of covenant of participating employers is considered in the formulation of the FSS.</p> <p>The admission of new employers into the Fund is not granted unless appropriate guarantees are put in place.</p> <p>Investment risks are highlighted within the ISS. A Register of risks of not achieving each of the Funds objectives is maintained and reviewed on a quarterly basis.</p>	<p>The ISC is scheduled to consider an asset liability study based on the outcomes of the 2019 Valuation, in 2020.</p>

# Essex Pension Fund

## Investment Strategy Statement

Description of Principle	Essex Pension Fund's position	Future actions
<p><b>4. Performance assessment</b></p> <p>Arrangements should be in place for the formal measurement of investments, fund managers and advisers</p> <p>Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme Members</p>	<p>The performance of the Fund and fund managers is monitored each quarter by the ISC, and all fund managers are held to account through meetings with the ISC and/or the Fund's officers and advisers.</p> <p>Performance data is provided by a specialist provider, independent from the fund managers.</p> <p>The Fund's contracts with its advisers are market tested when appropriate.</p> <p>An effectiveness review of both the Strategy Board and ISC is undertaken periodically with the outcome of this review reported back to the Strategy Board. Included are an assessment of both the Strategy Board &amp; ISC's effectiveness and that of the support received from Fund Officers and Advisers.</p> <p>As part of the Competition and Markets Authority (CMA) requirement the Fund in November 2019 set strategic objectives for its Institutional Investment Advisers, Hymans Robertson which they will be measured against using established long-term investment objectives for the Fund as the basis. Progress will be monitored periodically, and a formal assessment undertaken on an annual basis.</p> <p>Strategy Board &amp; ISC attendance and training outcomes are measured in the quarterly scorecard.</p>	<p>A further effectiveness review is scheduled for 2020/21</p> <p>A formal assessment is scheduled for Q4 2020/21</p>

# Essex Pension Fund

## Investment Strategy Statement

Description of Principle	Essex Pension Fund's position	Future actions
<p><b>5. Responsible ownership</b></p> <p>Administering authorities should:</p> <p>Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.</p> <p>Include a statement of the authority's policy on responsible ownership in the Statement of Investment Principles.</p> <p>Report periodically to members on the discharge of such responsibilities.</p>	<p>The Institutional Shareholders' Committee Statement of Principles has been superseded by the Financial Reporting Council's (FRC) UK Stewardship Code and it is now the standard for the investment management industry</p> <p>The Fund's Investment Strategy Statement includes the following:</p> <p><i>"The Fund fully supports the UK Stewardship Code and requires those of its investment managers who hold shares on its behalf to comply with it or to provide the ISC with an explanation of why it is not appropriate to do so, in the exercise of the mandate that they have been given, and how they will instead achieve and demonstrate the same level of responsible share ownership."</i></p> <p>Investment Manager reports circulated to ISC Members include details of voting records.</p>	<p>Undertake a review of the revised UK Stewardship Code</p>

# Essex Pension Fund

## Investment Strategy Statement

Description of Principle	Essex Pension Fund's position	Future actions
<p><b>6. Transparency &amp; reporting</b></p> <p>Administering authorities should:</p> <p>Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives;</p> <p>and</p> <p>Provide regular communication to members in the form they consider most appropriate.</p>	<p>Each quarterly meeting of the Board includes a review of the Fund's Business Plan and Risk Register. Furthermore, a detailed scorecard is used to monitor progress against the stated objectives. Agenda papers are published on the internet and the meetings are open to the public.</p> <p>An Employers' Forum is held periodically either in person or by use of webinar technology and includes presentations from the Board Chairman, Fund Officers and Advisers as well as the opportunity for questions to be raised.</p> <p>The Fund's website is <a href="http://www.essexpensionfund.co.uk">www.essexpensionfund.co.uk</a> and includes the:</p> <ul style="list-style-type: none"> <li>• 3 Year Business Plan</li> <li>• Annual Report and Accounts</li> <li>• Funding Strategy Statement</li> <li>• Investment Strategy Statement</li> <li>• Governance Policy and Compliance Statement; and</li> <li>• Communications Policy</li> </ul> <p>Individual scheme members receive newsletter updates throughout the year in addition to annual benefit statements.</p>	

# Essex Pension Fund

## Investment Strategy Statement

### Definition of Terms

ACCESS	A Collaboration of Central, Eastern and Southern Shires
AAF0106	Internal Control report undertaken by an external auditor
CIPFA	Chartered Institute of Public Finance and Accountancy
CPD	Continuing Professional Development
CPI	Consumer Price Index
ECC	Essex County Council, Administering Authority of Essex Pension Fund also known as Scheme Manager
ESG	Environmental, Social & Governance
EY	Ernst & Young
FRC	Financial Reporting Council
FSS	Funding Strategy Statement
FTSE	Financial Times Stock Exchange
GDP	Gross Domestic Product
IPD PFFI	Pooled Property Fund Index
IRR	Internal Rate of Return
ISC	Investment Steering Committee
ISS	Investment Strategy Statement
LA	Local Authority
LAPFF	Local Authority Pension Fund Forum
LGPS	Local Government Pension Scheme
LIBOR	London Inter-Bank Offer Rate
MiFiD II	Markets in Financial Instruments Directive
MSCI AC	Morgan Stanley Capital Index All Countries
MSCI EM	Morgan Stanley Capital Index Emerging Markets
OECD	Organisation for Economic Cooperation and Development
PAB	Essex Pension Fund Advisory Board
PSB	Essex Pension Fund Strategy Board
S151O	Section 151 Officer
SDLT	Stamp Duty Land Tax
SIP	Statement of Investment Principles