

# **Report to the Finance and Performance Management Cabinet Committee**



**Epping Forest  
District Council**

**Report Reference: FPM-002-2017/18**

**Date of meeting: 22 June 2017**

**Portfolio: Finance**

**Subject: Essex Pension Fund Investment Strategy Statement – Consultation**

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## **Recommendations/Decisions Required:**

**To consider the draft Investment Strategy Statement and agree any response that the Committee wishes to make to the consultation.**

## **Executive Summary:**

Essex County Council is the administering authority for the local government pension scheme for employers based in Essex. This function is discharged through a Pension Board, which in turn has delegated the responsibility for setting and monitoring the investment strategy to the Investment Steering Committee. The Investment Strategy Statement is reviewed every three years and as part of the review stakeholders are consulted on the content of the Statement.

The draft Investment Strategy Statement is attached and Member's views are requested.

## **Reasons for Proposed Decisions:**

To determine if the Committee agrees with the proposals set out in the draft Investment Strategy Statement.

## **Other Options for Action:**

Members may decide not to respond to the consultation.

## **Report:**

1. On 27 April Essex County Council issued the attached draft Investment Strategy Statement (ISS) to stakeholders for consultation. The consultation was set to close on 31 May and this meant it would not be possible for the document to be formally considered by a Member meeting. The Director of Resources raised this with the Director of the Pension Fund and the consultation period has now been extended to 26 June.
2. The draft ISS has been prepared by the Investment Steering Committee based on advice from the Pension Fund's consultant, Hyman Robertson LLP, and its investment adviser, Mark Stevens. The most significant changes in the draft strategy, compared to the current strategy, are set out below.
3. The Government has instructed pension funds to work together to reduce the costs of administration and the fees paid to external fund managers. Essex is one of eleven funds participating in the ACCESS Pool (A Collaboration of Central, Eastern and Southern Shires).

These new arrangements will be put in place during 2017 and are set out on pages 5 and 6 of the draft ISS.

4. The Local Government Pension Scheme Regulations 2016 have required an expansion of the section covering Environmental, Social and Governance Considerations. These are set out on pages 7 and 8 of the draft ISS. The first section setting out the fiduciary duty of the fund is new. An additional paragraph has been added to the end of the Policy section, this makes it clear that investment decisions will be left to investment managers to take based on purely financial grounds. The Investment Steering Committee will not seek to restrict new investments or require investment managers to divest existing holdings.

5. The section on the exercise of voting rights has been expanded, with the first and third paragraphs being new. There is a new section on Engagement which sets out the Fund's expectations for the factors that investment managers will take into account in making their decisions. This section further emphasises the point that divesting should not be pursued as the Fund can more effectively influence the behaviour of big companies by remaining invested over the long term. The final addition is a section covering Ongoing Monitoring which sets out how the ISC will monitor and challenge investment managers.

6. In considering the proposed changes Members should bear in mind the effectiveness of the fund management. The most recent actuarial valuation of the fund as at March 2016 showed a funding level of 89% (89% of the liabilities were covered by the assets) which was a significant improvement from the 2013 position of an 80% funding level. The fund has also won several awards in recent years, including the Pension Administration Award in February 2017, the Public Sector Pension Scheme of the Year in September 2015 and the LGC Investment Award for Fund of the Year in February 2014.

7. Member's views on the draft ISS are requested.

**Resource Implications:**

No additional resource requirements.

**Legal and Governance Implications:**

The Pension Fund is required to consult with stakeholders when amending its Investment Strategy Statement.

**Safer, Cleaner, Greener Implications:**

An argument could be made that the Pension Fund should more actively seek to influence the behaviour of big companies to be more environmentally friendly. The Engagement section states the expectation that investment managers will take account of social, environmental and ethical considerations in the selection, retention and realisation of investments.

**Consultation Undertaken:**

None.

**Background Papers:**

None.

**Impact Assessments:**

Risk Management

It is evident from the draft ISS that the Pension Fund has a prudent and well thought out approach to risk management.

