



# PENSION COMMITTEE

TUESDAY, 19 SEPTEMBER 2023

10.00 AM COUNCIL CHAMBER, COUNTY HALL, LEWES

MEMBERSHIP - Councillor Gerard Fox (Chair)  
Councillors Ian Hollidge, Paul Redstone, David Tutt and Georgia Taylor

## A G E N D A

1. Minutes (*Pages 3 - 12*)
2. Apologies for absence
3. Disclosure of Interests  
Disclosures by all Members present of personal interests in matters on the agenda, the nature of any interest and whether the Members regard the interest as prejudicial under the terms of the Code of Conduct.
4. Urgent items  
Notification of items which the Chair considers to be urgent and proposes to take at the appropriate part of the agenda.
5. Pension Board Minutes (*Pages 13 - 26*)
6. Governance Report (*Pages 27 - 30*)
7. Pensions Administration report (*Pages 31 - 42*)
8. Risk Register (*Pages 43 - 54*)
9. Investment Report (*Pages 55 - 242*)
10. Work Programme (*Pages 243 - 264*)
11. Any other non-exempt items previously notified under agenda item 4
12. Exclusion of the public and press  
To consider excluding the public and press from the meeting for the remaining agenda item on the grounds that if the public and press were present there would be disclosure to them of exempt information as specified in paragraph 3 of Part 1 of the Local Government Act 1972 (as amended), namely information relating to the financial or business affairs of any particular person (including the authority holding that information).
13. Investment Report (*Pages 265 - 434*)
14. Risk Register - exempt (*Pages 435 - 438*)
15. East Sussex Pension Fund (ESPF) Breaches Log (*Pages 439 - 454*)

16. Employer Admissions and Cessations (*Pages 455 - 460*)
17. Supplier Contract update (*Pages 461 - 464*)
18. Any other exempt items previously notified under agenda item 4

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11 September 2023

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*NOTE: As part of the County Council's drive to increase accessibility to its public meetings, this meeting will be broadcast live on its website and the record archived. The live broadcast is accessible at: [www.eastsussex.gov.uk/yourcouncil/webcasts/default](http://www.eastsussex.gov.uk/yourcouncil/webcasts/default)*

## PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at Council Chamber, County Hall, Lewes on 16 June 2023.

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PRESENT Councillors Gerard Fox (Chair), Councillors Ian Hollidge, Paul Redstone, Colin Swansborough and Georgia Taylor

ALSO PRESENT Ian Gutsell, Chief Finance Officer  
Sian Kunert, Head of Pensions  
Russell Wood, Pensions Manager: Investment and Accounting  
Andrew Singh, ISIO  
Paul Punter, Head of Pensions Administration  
Michael Burton, Pensions Manager: Governance and Compliance  
Danny Simpson, Principal Auditor  
Mya Khine, Pensions Accountant  
Paul Linfield, Pensions Communications Manager  
Paula Jenner, Employer Engagement Officer  
Dave Kellond, Compliance and Local Improvement Partner  
Bekki Freeman, Solicitor  
Ray Martin, Chair of the Pension Board  
Sophie Webb, Governance and Democracy Officer

### 1. MINUTES

1.1 The Committee RESOLVED to agree the minutes of the meeting held on 22 February 2023 as a correct record.

### 2. APOLOGIES FOR ABSENCE

2.1 Apologies for absence were received from Councillor Tutt.

2.2 It was noted that Councillor Swansborough was in attendance as a substitute for Councillor Tutt.

### 3. DISCLOSURE OF INTERESTS

3.1 Councillor Redstone declared a personal interest as the Chair of the East Sussex Fire and Rescue Pension Board. He did not consider this to be prejudicial.

3.2 Councillor Taylor declared a personal interest as a consultant who has recently liaised with The Institutional Investors Group on Climate Change on unrelated business. She did not consider this to be prejudicial.

### 4. URGENT ITEMS

4.1 There were no urgent items.

## 5. PENSION BOARD MINUTES

5.1 The Committee RESOLVED to note the minutes of the Pension Board meeting held on 30 May 2023.

## 6. GOVERNANCE REPORT

6.1 The Committee considered a report introduced by Michael Burton who drew the Committee's attention to the following points:

- 1) There has been a further consultation on the McCloud remedy and officers are currently working through the questions and the information provided in the draft regulations with a view to provide a response by the end of June 2023. An update will be sent to chairs of Pension Board and Pension Committee along with the McCloud working group.
- 2) There have been developments regarding membership of the Pension Board including candidates put forward for the positions previously held by Councillor Illingworth and Councillor Druitt. These positions are likely to be filled by the next round of meetings. There is a new employer representative on the Board, Tim Oliver from the University of Brighton who has taken the position previously held by Stephen Osborn.

6.2 The Committee discussed the alternative approach to cessation calculation methodology, the definition of the term 'proper advice' and noted that future breaches on admissions will be included within future reports as requested by the Pension Board.

6.3 The Pension Committee RESOLVED to:

- 1) Note the governance updates
- 2) Approve the Breaches Policy (appendix 3)
- 3) Approve the Governance and Compliance Statement (appendix 5)
- 4) Approve the Contribution Policy and Deferred Debt and Debt spreading agreement Policies (appendix 7&8)
- 5) Approve the revised Pension Administration Strategy (appendix 9)
- 6) Approve the changes to the Funding Strategy Statement on the Cessation Methodology
- 7) Approve the change to the Administering Authority Discretions Policy

## 7. PENSIONS ADMINISTRATION REPORT

7.1 The Committee considered a report introduced by Paul Punter who drew the Committee's attention to the following points:

- 1) Performance of the Pensions Administration team has remained consistently high.
- 2) The red and amber activities for May 2023 at Appendix 1 relate to transfers and people changing roles.
- 3) Help desk performance as seen at Appendix 2 relates to the service currently being delivered by Orbis however Surrey is keen to end this service and therefore from April 2024, the service will be brought in-house.



- 4) The annual benefits statements project is one of the biggest annual projects undertaken by the team and of the 140 active employers, 120+ active employers are fully on i-Connect.
- 5) There have only been 12 end of year returns this year with data fully collected for 9 and therefore targeting the end of July for completion of statements which is ahead of the statutory date at the end of August.

7.2 The Committee discussed bringing the help desk in-house and its potential effect on the Pensions Administration team.

7.3 The Committee RESOLVED to note the updates.

## 8. INTERNAL AUDIT REPORTS

8.1 The Committee considered a report introduced by Danny Simpson who drew the Committee's attention to the following points:

- 1) Of the four completed audit reports, two provided an opinion of reasonable assurance and two provided an opinion of substantial assurance.
- 2) Overall for the year of 2022/23, there have been three reports that provided an opinion of reasonable assurance and three that provided an opinion of substantial assurance.

8.2 The Committee discussed set up of a Service Level Agreement (SLA) between the Pension Fund and East Sussex County Council for Treasury Management functions and noted that the SLA will cover what actions what both Council teams will do and how recharges will take place and will link through to the Cash Management strategy to ensure roles and responsibilities are clear.

8.3 The Committee discussed the cyber security report and what provisions are in place regarding incident response and business continuity in the event of a complete system failure and noted that a report into this subject area is likely to be ready for consideration at the Pension Committee meeting in September.

8.4 The Committee discussed the systems in place to ensure that approval of payments are approved by the correct officer with authorisation to approve payments at different levels and noted that there are multiple checks in the followed process.

8.5 The Committee RESOLVED to note the:

- 1) Pension Fund Cash Management Audit report (Appendix 1);
- 2) Pension Fund Cyber Security Arrangements Audit report (Appendix 2);
- 3) Pension Fund Investments and Accounting Audit report (Appendix 3); and
- 4) Administration of Pension Benefits Audit Report (Appendix 4).

## 9. QUARTERLY BUDGET REPORT

9.1 The Committee considered a report which provided the financial outturn of the East Sussex Pension Fund for the 2022/23 financial year.

9.2 The Committee RESOLVED to note the report.

## 10. EXTERNAL AUDIT WORK PLAN

10.1 The Committee considered a report which informed the Pension Committee of the content of the East Sussex Pension Fund external audit plan for 2022/23.

10.2 The Committee RESOLVED to note the external audit plan for the East Sussex Pension Fund for 2022/23.

## 11. RISK REGISTER

11.1 The Committee considered a report introduced by Sian Kunert who drew the Committee's attention to one minor change made to risk A1 regarding skills gaps within the admin team and have produced an exempt report regarding the risk register to be considered by the Committee at a later agenda item.

11.2 The Committee discussed the escalation of the employer data risk from amber to red which is due to an event regarding a specific employer rather than considering all employers and their overall impact on the risk and noted that there are a number of different data aspects that are affecting the fund and are considered within the employer data risk.

11.3 The Committee discussed mitigation of risk I7 – Climate Change including escalation plans for when engagement is not effective which includes disinvesting from the high carbon or fossil fuel company and noted that there have been examples of this in the past and this information is within the engagement reports and a report that will be considered by the Committee at the strategy day in July.

11.4 The Committee RESOLVED to review and note the Pension Fund Risk Register.

## 12. INVESTMENT REPORT

12.1 The Committee considered a report introduced by Russell Wood and Andrew Singh who drew the Committees attention to the following points:

- 1) The work plan for the Committee is likely to change following the strategy day in July.
- 2) Quarter 1 for 2023 was a lot more stable than the last two quarters in 2022 which was driven by more optimistic investor sentiment.
- 3) The significant wobble across the globe towards the end of the quarter following stresses in the US banking sector however there was quick reaction from the US Fed and other US banks.
- 4) For the UK, the returns for long-term gilts and long-term inflation linked gilts were slightly positive following very negative returns at the end of last year therefore have seen interest rates fall slightly in quarter 1 and have now started to increase again.
- 5) The performance across the Fund in quarter 1 was mixed with Wellington and Schroders Property being the most significant under-performers and strong performances from Osmosis, Storebrand and ATLAS.
- 6) Quarter 1 has been challenging in terms of achieving a 1.5% return compared to a benchmark of 3% however over the long-term there are stronger returns.
- 7) In January, the Fund implemented the strategic decision to appoint IFM to manage the Fund's infrastructure equity mandate which brings the strategy more in line with the target benchmark.
- 8) The liquid credit implementation was discussed earlier this year and the decision was to delay further discussion or implementation until after the strategy day in July.

- 9) The formal asset allocation review is due to take place in July 2023 and a paper will be presented to the Committee at the next meeting.
- 10) The key piece of work regarding fossil fuel divestment and engagement is due to be presented to the Committee in July at their strategy workshop.
- 11) There was an investment made in mid-May to reduce the equity actual position by 1% by taking 1% from Longview and purchasing index linked gilts following a previous decision by the Pension Committee to implement a phased trigger framework to increase index linked gilts.
- 12) There have been manager updates for Ruffer and Wellington. Ruffer has undergone an organisational change to spread the ownership structure across 50 other partners within the business however Jonathon Ruffer is still involved in decision making. Wellington has undergone a change in portfolio management team with the portfolio manager who will be managing another Wellington product and one of the analysts in the team will be stepping up to manage the fund without his position being backfilled.

12.2 The Committee noted that the report will be reissued to show Newton and Ruffer in the chart on individual manager performance showing volatilities versus returns.

12.3 The Committee discussed the performance of the Fund versus its benchmark following substantial changes to the Fund Strategy and noted that it would be useful to discuss what is causing the changes to the Fund's performance in relation to its benchmark at the strategy day in July.

12.4 The Committee discussed private equity valuations and noted that public market funds tend to overshoot however it is important to look for independent valuations.

12.5 The Committee requested more detail at the strategy day regarding how valuations are taking place, the divergence between private and public markets and to look more closely at the commercial property assets including what the risks are.

12.6 The Committee noted that Wellington has been downgraded to amber and there will be an update provided to the Committee in September.

12.7 The Committee RESOLVED to note the report.

### 13. WORK PROGRAMME

13.1 The Committee considered its work programme.

13.2 The Committee RESOLVED to agree the work programme.

### 14. EXCLUSION OF THE PUBLIC AND PRESS

14.1 The Committee RESOLVED to exclude the public and press from the meeting for the remaining agenda item on the grounds that if the public and press were present there would be disclosure to them of exempt information as specified in paragraph 3 of Part 1 of the Local Government Act 1972 (as amended), namely information relating to the financial or business affairs of any particular person (including the authority holding that information).

14.2 The Committee agreed that Ray Martin, Chair of the Pension Board be present for the exempt section of the meeting.

15. INVESTMENT REPORT - EXEMPT INFORMATION

15.1 The Committee considered a report introduced by Russell Wood who provided an update on exempt information regarding investment activities undertaken by the East Sussex Pension Fund.

15.2 The Committee RESOLVED to note the report.

16. RISK REGISTER - EXEMPT INFORMATION

16.1 The Committee considered a report introduced by Sian Kunert who provided an update on the exempt information regarding the Pension Fund Risk Register.

16.2 The Committee RESOLVED to note the report.

17. EAST SUSSEX PENSION FUND (ESPF) BREACHES LOG

17.1 The Committee considered a report introduced by Michael Burton who provided an update on outstanding or new Internal Dispute Resolution Procedure (IDRP) cases.

17.2 The Committee RESOLVED to:

- 1) Note the breaches of law and steps being taken; and
- 2) Note the new IDRP complaint raise.

18. EMPLOYER ADMISSIONS AND CESSATIONS

18.1 The Committee considered a report which provided an update on the latest admissions and cessations of employers within the Fund.

18.2 The Committee RESOLVED to:

- 1) Note the ongoing proceedings for the admission of admitted bodies to the Fund; and
- 2) Note the ongoing proceedings for the cessation of employers from the Fund.

The meeting ended at 12.35 pm.

Councillor Gerard Fox (Chair)

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## PENSION BOARD

MINUTES of a meeting of the Pension Board held at County Hall, Lewes on 6 September 2023.

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PRESENT Ray Martin (Chair), Tim Oliver, Zoe O'Sullivan, Neil Simpson, Councillor Andrew Wilson and Councillor Bharti Gajjar (virtually via MS Teams)

ALSO PRESENT Ian Gutsell, Chief Finance Officer  
Sian Kunert, Head of Pensions  
Michael Burton, Pensions Manager: Governance and Compliance  
Russell Wood, Pensions Manager: Investment and Accounting  
Paul Punter, Head of Pensions Administration  
Dave Kellond, Compliance and Local Improvement Partner  
Tim Hillman, Pensions Manager: Employer Engagement  
Jennie Shuttleworth, Pensions Service Delivery Manager  
Georgina Seligmann, Governance and Democracy Manager  
Cllr Paul Redstone  
Cllr Gerard Fox

### 59. MINUTES

59.1 The Board agreed the notes of the previous meeting held on 30 May 2023 as a correct record.

### 60. APOLOGIES FOR ABSENCE

60.1 No apologies were received.

60.2 RM welcomed the new members to the meeting; Cllr Andrew Wilson, Cllr Bharti Gajjar and Zoe' Sullivan.

### 61. DISCLOSURE OF INTERESTS

61.1 There were no disclosures of interests.

62. URGENT ITEMS

62.1 There were no urgent items.

63. PENSION COMMITTEE AGENDA

63.1 The Board considered a report containing the draft agenda for the Pension Committee meeting due to be held on 19 September 2023 and noted that:

- The Pension Committee will receive an investment report which will consider the efficacy of divestment over engagement for information
- The Pension Committee will be approving an investment strategy statement and a draft will be circulated after the meeting
- The Pensions Committee will receive a copy of the draft consultation response relating to LGPS investment pooling

63.2 SK invited the Board to attend the Pension Committee meeting to hear the discussion and offered to meet with Board members to discuss the revisions to the Investment Strategy and consultation response if required by Board members.

63.3 The Board RESOLVED to:

- 1) Note the agenda.
- 2) Request that a summary of the next Pension Committee meeting be prepared for the Board for its next meeting.
- 3) Request that for all future Board meetings a summary of the previous Pension Committee meeting form part of its agenda.

64. GOVERNANCE REPORT

64.1 The Board considered a report providing an update on various governance workstreams completed and changes affecting LGPS and the ESPF.

**Membership of the Pension Board**

64.2 Michael Burton (MB) set out the Board membership changes and welcomed the new members.

64.3 MB set out the requirement to take a report to the Governance Committee to recommend a Vice Chair. Cllr Wilson (AW) confirmed his nomination as an Employer



Representative and Neil Simpson (NS) confirmed his nomination at the Employee Representative.

### **Working groups**

64.4 The Board considered whether the McCloud Working Group should remain as a separate group and were advised by officers that its work could now be absorbed into the Administration Working Group. Board agreed this approach would be desirable.

64.5 Tim Oliver (TO) and Zoe O'Sullivan (ZO) confirmed they would join the Administration Working Group

64.6 Ray Martin (RM) outlined the context of the recommendation to dissolve the Communications Group, this was agreed by the Board.

### **ACCESS**

64.7 NS and RM provided an update on the most recent ACCESS meeting, they agreed that it demonstrated that the ACCESS Joint Committee is well governed and that the current focus is the Government's review of the pooling arrangements.

64.8 NS referenced the governance discussion about ACCESS at the Board meeting of 30 May and asked whether it was possible for the ESCC Monitoring Officer to express a view on the ACCESS arrangements.

64.9 SK confirmed that an independent review has been undertaken to look at the governance arrangements and there are recommendations from that which would be shared with the Board.

64.10 RM, NS and Cllr Fox (GF) agreed to meet with SK to give input into the Governance review and the recommendations.

64.11 AW asked about mechanisms to raise concerns about ACCESS governance arrangements.

64.12 SK confirmed that the Board can feed back to ACCESS and officers can report issues however SK reminded Board Members that there are 11 Local Authorities involved in ACCESS and ESPF concerns may not always be shared by other members and therefore it can be challenging to reach consensus on issues.

64.13 SK confirmed that ACCESS has a quarterly agenda pack and the intention is to discuss this when required within the exempt part of the Board meeting, due to the potential nature of the discussions.

64.14 NS requested that observers be able to see full agenda and exempt papers for the meeting during the year, including the ones where they are not in attendance to give them an idea of what has been discussed at previous meetings. He noted that the majority of the items were exempt and therefore it was difficult to follow some of the matters discussed when the previous exempt reports were not available ahead of the meeting, RM endorsed this view.

64.15 SK confirmed that RM and GF have written to ACCESS to highlight concerns that observation arrangements are not consistent.

## **Consultations**

64.16 NS asked if it had been considered to challenge the legitimacy for the Fund to bear the cost of corrections to the LGPS as a result of the decisions made by central government, which had now been determined by the McCloud judgement to be unlawful.

64.17 SK understands that this has been raised by other bodies. The consultation gives opportunities to comment on the arrangements. Officers will not miss the opportunity to seek funding if it becomes available.

64.18 Discussions took place on the LGPS pooling consultation. Officers confirmed ACCESS will provide a formal response along with ESPF and officers will keep the Board updated accordingly.

64.19 The Board RESOLVED to:

- 1) note the report;
- 2) nominate Neil Simpson as member representative vice chair and Cllr Andrew Wilson as employer representative vice chair;
- 3) dissolve the Communications working group;
- 4) absorb the McCloud working group into the Administration working group; and
- 5) request that RM and NS are given copies of all meeting papers during the year for the ACCESS Joint Committee, including exempt papers.

## 65. EMPLOYER ENGAGEMENT AND CONTRIBUTIONS REPORT

65.1 The Board considered an update on employer engagement tasks that directly affect the East Sussex Pension Fund (ESPF or the Fund).

### **iConnect**

65.2 Tim Hillman (TH) gave the Board some background information about iConnect and informed them that the East Sussex College Group has been re-onboarded to iConnect, there were some challenges with the employer following a payroll change which required re-onboarding.

65.3 The University of Brighton had a manual system this year to produce annual benefit statements as they are not yet onboarded to iConnect. The onboarding process has started and it is hoped the employer will be on i-Connect before the end of the year.

65.4 The Board noted that the project has slowed due to the issues with the data received from Brighton and Hove and the remaining queries which require resolution.

65.5 Officers notified the Board that ESCC will be changing payroll provider and cannot yet give confidence that this will not impact the use of iConnect. Officers are mitigating this through early engagement to facilitate a smooth transition.

65.6 TO asked whether the manual forms would be eliminated with the use of iConnect.

65.7 TH confirmed that iConnect removes the need for joiner and leaver forms however forms are still required in the case of death in service or retirement as these are special cases that the PAT gives urgent focus to. Some employers need to be treated differently but from April no leaver or joiner forms will be required and officers will be able to start to reconcile contributions through iConnect. The forms cannot be removed entirely as they facilitate a more agile response e.g. death in service can be addressed urgently rather than waiting for a monthly return of all forms.

### **Engagement**

65.8 TH informed the Board that training and learning for employers has been a significant focus with Pensions Awareness Week for ESCC commencing next week. The intention is to then roll out a similar programme more widely once piloted.

65.9 The Board noted there is an Employer Forum in November and board members will receive an invitation to attend.

65.10 The Board noted that the late payment of Employer contributions has reduced significantly during the last year and he confirmed that the Board were pleased with the efforts made by the Employer engagement team.

65.11 RM asked if there were any employers who were consistently late or whether they all were different employers.

65.12 TH confirmed that issues tend to be one-off a result of change of staff or payroll providers, and officers are implementing more control checks to ensure correct submissions to reduce issues.

65.13 The Board RESOLVED to note the report.

### **66. COMMUNICATIONS REPORT**

66.1 The Board considered an update on communication tasks that directly affect the East Sussex Pension Fund; activities have included newsletters and annual updates, website improvements and revisions to written communications to members; this information has also been fed through the Communications Working Group

66.2 TH informed the Board of the improved Communication strategy and volume of activity, the recent communications have been well received by fund members particularly the hard copy annual update.

66.3 There has been increased traffic to the website and the helpdesk which are an encouraging indication of improved communications.

66.4 AW asked about where technology will be used for Fund members to access information and wanted assurance on accessibility for all members.

66.5 TH confirmed that hard copies are available for members and where preferred this is noted against their record. There is significant appetite for more electronic communications from users, particularly post pandemic, but the option for physical copies will remain. There has been lots of communication to drive people to use the portal to log in to check benefits and members are surveyed to find out how they want to receive communications.

66.6 GF asked about contact data and the progress in ensuring it is updated.

66.7 Paul Punter (PP) confirmed that this remains challenging as people move house and jobs more frequently than in the past and can overlook previous fund membership but there are good mechanisms which are used to ensure data is kept up to date. The introduction of the helpdesk has supported the retention of more accurate information and ensures quicker responses. The planned Pension Dashboard will also improve the accuracy of the data held along with the use of iConnect.

66.8 PP confirmed that an address tracing exercise is undertaken every few years for inactive members, the last exercise was conducted last year and a third party is now looking at the data. Pensioners are issued information regularly so if a payment bounces back officers can get in touch, monthly mortality checks on pensions also provides additional access to information. Errors in email addresses are captured and resolved wherever possible after each newsletter but officers are reliant on individuals providing up to date email information.

66.9 The Board RESOLVED to note the report.

## 67. PENSIONS ADMINISTRATION REPORT

67.1 The Board considered a report providing an update on matters relating to Pensions Administration activities for the period June 2022 to June 2023.

67.2 Paul Punter (PP) drew the Board's attention to the following points:

- New board members were provided with an explanation of how the administration team works and recent changes.
- PAT performance numbers are on target at 95%, the helpdesk has seen increased volume in traffic with lots of data now received monthly rather than annually.
- Appendix 1 gives annual breakdown of the KPI targets and achievement. PAT recently started reporting a KPI for aggregation where the KPIs are below target levels due to the volume of aggregations in this period. Projects have resulted in significant resource deployment and therefore performance numbers are expected to be lower for next few months as staff are stretched to deal with the multiple requests. The work to resolve the data issues with the B&H member details continues to present significant resource issues. Further, Actuarial factors have been delayed by central government and this has impacted the ability to meet the JPI target dates.
- Appendix 2 data highlights how things have improved with regards to the Helpdesk since the administration has been brought in house. The helpdesk is currently provided by Surrey County Council, however will be transferred to ESCC from April.

- Staffing levels are in an improved position with some key appointments made and advertising undertaken for apprenticeship roles.
- With regard to annual benefit statements to be issued by 31 August 2023, PP provided a verbal update on the issuance which were not available in time for the publication of the written report to the Board. 99.76% of Annual benefit statements were produced for deferred members. 95.9% of Annual Benefit Statements were produced for active Fund members which is considered a real achievement in the context of the volume of B&H data issues and the transition to iConnect. 125 of the 141 employers' data was collected through iConnect. RM noted that the Board will need to consider at the November meeting if the failure to provide 100% of the Annual Benefits Statement is a material breach of legislation that would require a report to the Pensions Regulator to be made.
- Process reviews have been delivered over the past year with some work still outstanding.
- The Pension Dashboard implementation date has been pushed back by Government.
- The reconciliation and rectification of Guaranteed Minimum Pensions was back on track and the Board were advised the contractor carrying out this work was going through a management buyout.

67.3 RM highlighted the slippage on notification of death benefits to members' dependents.

67.4 PP confirmed that the number of cases is low so any missed notifications will impact the percentage figure significantly and that the reason for delays this quarter had been down to holiday of the senior officers who approve payments. These cases are prioritised and cases can be complex.

67.5 RM requested that in future the Helpdesk KPI figures should be presented as a one page document for the Board.

67.6 TO raised a query about some of the University of Brighton data not being picked up which had led to a number of unnecessary queries.

67.7 PP confirmed that next year's return would be completed through iConnect which will resolve this issue.

67.8 The Board RESOLVED to note the report and requested that Paul Punter circulate the headline numbers for the Annual Benefit Statements by email after the meeting.

## 68. PENSION FUND RISK REGISTER

68.1 The Board considered the updated risk register presented by SK.

68.2 The Board considered the following risks:

1) Risk E2 – Employer Data – this has had its post mitigation likelihood reduced, changing the overall risk scoring down to an amber risk.

2) Risk A3 – Production of Statutory Returns – this has had its post mitigation likelihood reduced to an amber risk.

3) Risk 12: Officers recommend risk 12 – Changes to International Trade - be removed from the register and will be monitored through market risk

4) Risk 19: Officers recommend a new risk be added to the risk register. Money purchase AVC – which relates to the Additional Voluntary Contributions (AVC) options available to members and reflects the requirement of the Fund to provide a suitable AVC offering to scheme members. SK confirmed that the administering authority is responsible for ensuring there is a service in place. Currently Prudential are the service providers, the Fund must ensure something suitable is being offered to the members.

68.3 RM stated that it would be helpful to know how much AVCs are being used by members alongside the other options they have, e.g. Added Years.

68.4 PP confirmed that the report from last year will be refreshed as it did not cover how well the funds were performing so the Board can make a better judgement on suitability and will give a breakdown on how they are being used. It is intended that this report will be taken to the Board at its next meeting.

68.5 The Board RESOLVED to note the report.

## 69. WORK PROGRAMME

69.1 The Board considered the report on the work programme and advised of any training completed.

69.2 The Board noted that it would receive the annual report and accounts report at the November meeting.

69.3 NS requested that the Ill Health insurance review be added and RM reminded SK to provide further detail on the Prudence Level for the Cessations Policy at the November meeting.

69.4 TO asked for further information about induction and expectations for training for new members

69.5 MB confirmed that new Board members should undertake self-learning which will be directed to them by Officers which includes videos of previous sessions with providers.

69.6 MB reminded members that the self-assessments are key to producing a training plan each year to address high priority areas.

69.7 NS requested an updated on the Pension Regulator single code of practice.

69.8 MB confirmed that officers had not received any updated information about when to expect it but they will inform the Board once anything is known.

69.9 The Board RESOLVED to note the work programme.

70. ANY OTHER NON-EXEMPT ITEMS PREVIOUSLY NOTIFIED UNDER AGENDA ITEM 4

70.1 There were no items.

71. EXCLUSION OF THE PUBLIC AND PRESS

71.1 The Board RESOLVED to exclude the public and press from the meeting for the remaining agenda item on the grounds that if the public and press were present there would be disclosure to them of exempt information as specified in paragraph 3 of Part 1 of the Local Government Act 1972 (as amended), namely information relating to the financial or business affairs of any particular person (including the authority holding that information).

72. PENSION FUND RISK REGISTER - EXEMPT

72.1 The Board considered the exempt risk register.

72.2 A summary of the discussion is set out in an exempt minute.

72.3 The Board RESOLVED to note the report.

73. PENSION FUND BREACHES LOG

73.1 The Board considered a report providing an update on the Breaches Log and outstanding or new Internal Dispute Resolution Procedure (IDRP) cases.

73.2 A summary of the discussion is set out in an exempt minute.

73.3 The Board RESOLVED to note the report.

74. EMPLOYER ADMISSIONS AND CESSATIONS REPORT

74.1 The Board considered a report on the latest admissions and cessations of employers within the Fund.

74.2 A summary of the discussion is set out in an exempt minute.

74.3 The Board RESOLVED to agree the actions set out in the exempt minute.

75. SUPPLIER UPDATE REPORT

75.1 The Board considered a Supplier update report.

75.2 A summary of the discussion is set out in an exempt minute.

75.3 The Board RESOLVED to note the report.



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**Report to:** Pension Committee

**Date of meeting:** 19 September 2023

**By:** Chief Finance Officer

**Title:** Governance Report

**Purpose:** To provide an update on governance workstreams and changes effecting Local Government Pension Schemes and the East Sussex Pension Fund

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## RECOMMENDATIONS

The Pension Committee is recommended to:

- 1) note the nomination of a member representative vice chair and an employer representative vice chair for the Pension Board;
  - 2) note the decision to dissolve the Communications working group;
  - 3) consider the continuation of the McCloud working group.
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### 1 Background

1.1 This report is brought to the Pension Committee to provide an update on the steps being taken to adopt good practice and ensure compliance with regulatory requirements for the East Sussex Pension Fund (the Fund or ESPF).

1.2 This report outlines changes to Pension Fund policy for comment and noting.

### 2 Consultations

2.1 In April 2023 the UK Government announced an intention to abolish the Lifetime Allowance (LTA). In July 2023 the Government commenced a consultation on this topic. The consultation will be completed in October 2023. In place of LTA there will be a new maximum tax-free lump sum amount which will match the current LTA, payments over this amount will attract a tax charge at the beneficiary's marginal rate.

2.2 In July 2023 the Department of Levelling Up, Housing and Communities issued a consultation on investment pooling. This covers the Government intention for Pension Funds to accelerate and expand the use of pooling and to transition liquid assets by 31 March 2025. The Government is seeking 5% of assets to be allocated to UK levelling up; 10% investment in high growth venture companies; the implementation of a training policy for Committee members, requirements to set objectives for Investment Consultants and a technical change to the definition of investments. In addition the consultation suggests the Government want to see a transition towards fewer pools to maximise the benefits of scale.

2.3 A response to the consultation is in draft and will be considered later in this agenda. The submission date is 2 October 2023.

### 3 Pension Board membership

3.1 Since the last meeting three members were appointed to the Pension Board at the Governance Committee on 18 July 2023. Cllr Gajjar and Cllr Wilson have been appointed as employer representatives and are drawn from Brighton and Hove City Council and the Borough and District Councils respectively. Zoe O'Sullivan has been appointed as a member representative.

3.2 Lynda Walker has left her position with East Sussex County Council and will no longer continue on the Pension Board. Officers have been in contact with Unison to seek nominations for a new member representative and a recommendation is being made to Governance Committee for a suggested appointment.

3.3 Under the Terms of Reference for the Pension Board there is a requirement to have a permanent Independent Chair together with a Vice Chair drawn from both the Employer and Member Representatives. The vice chair should then alternate at each Board meeting. Following the changes in membership, the previously appointed vice chairs have now stepped down from the Pension Board. Under the East Sussex County Council Constitution, appointments to the Pension Board, and the allocation of material roles within it, are reserved to the Governance Committee. Pension Board were asked to nominate to the vacancies of member representative vice chair and employer representative vice chair for approval at Governance Committee. Neil Simpson was nominated as member representative vice chair and Cllr Andrew Wilson was nominated as employer representative vice chair.

3.4 The recent changes in membership of the Pension Board has led to a review being required of the various Working Groups. The McCloud Working Group's terms of reference has now expired and a number of the representatives of this group have now left the Board. Pension Board has suggested that this group be merged with the Administration Working Group and Officers support this recommendation.

3.5 The Administration Working Group non-officer participants are Ray Martin, Neil Simpson and, from the Committee, Councillor Fox. The Board was asked to consider whether an employer representative would like to join this working Group. Zoe O'Sullivan and Tim Oliver both agreed to join this working group.

3.6 The Communications Working Group was set up by the Pension Board following a number of recommendations presented in March 2021 from the ESCC Head of Communications on their findings from a detailed communications review. The terms of reference for the group were approved in November 2021 with a recommendation to reassess in 2023 whether this group had completed its primary objectives or continue. There are currently no employer or employee representative on this working group following the changes in membership. The communications working group was commended by Board and Committee members in May and June 2023, for its work on improvements to the member experience with the introduction of a refreshed website, changes to forms, establishment of a programme of surveys, significant improvements in newsletters and the production of a member booklet which was issued in April / May 2022. It was agreed at the Board meeting on 6 September 2023 that this Group should now stand down, with the continuation of a report to the Board quarterly on communications developments.

#### **4 McCloud**

4.1 Since the last meeting of the Pension Committee, the Department for Levelling Up, Housing and Communities has issued a consultation on the proposed remedy. Officers provided a response to the Consultation, as did the Local Government Association. The LGA response can be accessed here - [https://lgpslibrary.org/assets/cons/lgpsew/20230530\\_LR.pdf](https://lgpslibrary.org/assets/cons/lgpsew/20230530_LR.pdf) The Funds response is included as **Appendix 1**.

4.2 The application of the McCloud remedy is anticipated to commence in October 2023, in line with previous expectations. In relation to the work being done by the Fund, data was sought from Employers to allow Officers to make the necessary calculations and this was received from most employers by July 2023. A test file has been created and was due to be provided to Officers for review. One employer has provided partial data, with part time history still outstanding, and a second employer has provided some data using the American date format, in error; delaying the information being put into a usable state.

4.3 Officers have been in contact with its software provider to discuss the uploading of the data received. Discussions are taking place to ensure safe transfer of data to the provider through a secure portal. Until the upload takes place Officers will not be able to carry out testing or perform calculation.

#### **5 ACCESS pool**

5.1 The ACCESS Joint Committee met on 4 September, members can access the public agenda pack on <https://democracy.kent.gov.uk/ieListMeetings.aspx?Committeeld=898>. The East Sussex Pension Board Observers (Neil Simpson and Ray Martin) attended this meeting. Feedback from the observers at the Board meeting on 6 September 2023 was the view that the ACCESS Joint

Committee was well governed, it had structure and there was good debate on the report papers. It was noted that the arrangements by which the observers are attending is due for the one-year review and the Board members continue to believe that the arrangements could be better governed with some consistency in attendance. The Board continued to highlight concerns on the wider governance of the pool and were keen to see the results from the independent governance review and resulting actions.

## **6 Conclusion**

6.1 The Committee is asked to note this report; note the nomination of member and employer representative vice chairs; note the dissolution of the Communications working group; and consider the continuation and membership of the McCloud working group.

**IAN GUTSELL**  
**Chief Finance Officer**

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**Report to:** Pension Committee  
**Date of meeting:** 19 September 2023  
**By:** Chief Finance Officer  
**Title:** Pension Administration - updates  
**Purpose:** To provide an update to the Pension Committee on matters relating to Pensions Administration activities.

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## RECOMMENDATION

The Committee is recommended to note the updates.

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### 1. Background

1.1 The in-house Pensions Administration Team (PAT) carries out the operational, day-to-day tasks on behalf of the members and employers of the East Sussex Pension Fund (the Fund, ESPF) and for the Administering Authority. They also lead on topical administration activities, projects and improvements that may have an impact on members of the Local Government Pension Scheme (LGPS).

### 2. Key Performance Indicators (KPI)

2.1 The Performance Report, for the period July 2022 to June 2023 can be found at **Appendix 1**. The PAT saw performance numbers during quarter two 2023, average at 94.67% (volume completed 3,515) which were like the previous quarter (96.30% with a volume of 3,768).

The June 2023 performance was down to 90.42% which was caused by a combination of things:

- A knock-on result of the impact of completing the large volumes of BHCC 2021/22 member movements in the quarter.

- A backlog of transfers was also created by the GAD freeze due to the Actuarial Factors review.
- Some PAT resources had been redirected to focus on completing projects such as the historical Annual Allowance, Deferred member address tracing & mortality exercise, i-Connect onboarding plus the process reviews & robotics.

As a result, less important tasks such as aggregation & combining, refunds and deferred benefits were deprioritised, hence the lower performance achieved in these areas. The low death grants performance should be a one-off month were a few cases missed due to managerial holidays and delays for complex cases. A small number of late cases have an impact due to the low volumes of these tasks.

The July and August 23 performance will be formally reported at the next meeting but are both likely to be closer to 90% than the normal 95%. These were impacted by more projects:

- Focus on Annual Benefit Statements
- Data cleansing
- Printing and Postage services transfer to the postal hub
- Development of the next day transfer task

As at the start of September 23 the PAT team have 3,300 tasks allocated. In addition to this there are reply due tasks and post-dated tasks (up to March 24) resulting in 6,000 tasks to be processed. The two main areas of backlog are:

- BHCC member movements for 2022/23 that were provided via the March 23 i-Connect file on 18 August 2023.
- Aggregations/combining's, of which there are 486 quotations and 135 actual set-up's ready to be processed.

As a result, we expect the performance to be lower for a few more months.

2.2 The Fund have a gold standard service provision for the Pensions Helpdesk and the results are included in **Appendix 2**. The Helpdesk is currently supported by Surrey County Council, however this service will not be supported after March 2024, so the ESPF Pensions Helpdesk service will be brought in-house on 1 April 2024. A project is underway to ensure a smooth transfer for this service, with staff TUPE transferring to ESCC, where applicable.

### **3. Pension Administration Staffing Update**

3.1 The new Projects Manager started on 26 June 2023. The vacant Project Officer post has been filled by an internal candidate. The Fund is currently advertising for two new Pension Administration Apprentices. One of the existing Apprentices has passed his exams and has been made permanent. One Pensions Administrator left in August 2023.

### **4. Projects update**

#### 4.1 Annual Benefits Statements – 2023

The majority of employers (125) are using i-Connect which provides data of the Annual Benefit Statement (ABS) production, with only 16 completing manual end of year returns. All employer data has been submitted and validated. Some resulting queries remain outstanding with the employers. A summary of the result of the number of ABS issued as at the statutory deadline are included in **Appendix 3**.

#### 4.2 Process Reviews

The PAT have now completed a number of process reviews of the major activities carried out by the team to ensure the Fund is providing best practice service and has clearly documented robust processes, with a few ongoing. The reviews included revisions to member letters. The project has been closely linked to the Robotics projects, where the first robot is now complete and being used to coordinate the deferred to normal retirement quotations and associated letters ready for checking with seven further proposals for automation with the robotics team.

#### 4.3 Pensions Dashboards

Pension Dashboards are digital services (websites, apps or other tools) which individuals will be able to use to see all their pension information in one place, including their State Pension.

The Pensions Dashboard Programme (PDP) has been set up by Money and Pensions Service (MaPS) who are responsible for developing the dashboard ecosystem which enables individuals to view their pension data online. MaPS will host its own dashboard on the MoneyHelper website and other organisations will host their own dashboards, subject to approval and regulation by the Financial Conduct Authority (FCA).

Pension Funds scheme-specific staging dates have been removed and all schemes now have to connect by October 2026, but further guidance is expected. The date dashboards will be launched to the public (known as the “Dashboards Available Point”) will be advised by DWP.

Heywood are preparing a Dashboard data cleansing report for the Fund and this is expected in September 2023.

#### 4.4 Printing & Postage services

With effect from 1 September 2023 elements of the printing and postage service for the Fund will be transferred to the East Sussex Digital Postal Hub. The function will allow letters and documents to be placed in a central hub for processing, then the Post Hub will automatically print, envelope and frank in the post room and send via Royal Mail the same or next day. This will reduce costs, increase efficiency, and facilitate new working styles.



The service requires the documents to be placed in a window envelope rather than a printed envelope so the exact positioning of the address on all existing documents have to be manually reviewed. Officers are also using the project as an opportunity to update the bank of 500+ letter templates to incorporate the Fund branding, include electronic signatures and checked for compliance with accessibility requirements and plain English.

PAT are on target to get the high volume use letters completed in August and further work will continue post go live. Solutions are being considered for sizing of the margins to support the need for bar coding.

#### 4.5 Guaranteed Minimum Pension – Reconciliation & Rectification

The data was provided to Mercers to recommence the project in May 23 and their project plan suggests it should be completed by February 2024.

Due to a change in the Mercer business ownership officers have been asked to complete a deed of novation. This is being considered by Procurement and Legal.

## 5 **Conclusion and reasons for recommendation**

5.1 The Pension Committee is asked to note the report.

**IAN GUTSELL**  
**Chief Finance Officer**

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APPENDIX 1

East Sussex Pensions Administration - Key Performance Indicators

Activity	Impact	Target	Target (since Oct 21)	Jun-23	May-23	Apr-23	Mar-23	Feb-23	Jan-23	Dec-22	Nov-22	Oct-22	Sep-22	Aug-22	Jul-22		
Scheme members	Pensioners, Active & Deferred			83,939	83,857	83,910	84,074	84,394	84,232	84,067	83,333	83,208	82,472	82,526	82,476		
New starters set up	Bulk, i-Connect & New Starter Task			357	332	311	402	530	373	1,045	519	382	297	215	430		
				Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score		
1a	Death notification acknowledged, recorded and documentation sent	M	95%	within 2 days	26	100%	26	100%	30	100%	28	100%	35	100%	31	100%	
1b	Award dependent benefits (Death Grants)	H	95%	within 5 days	21	86%	8	100%	11	100%	25	100%	32	100%	29	100%	
2a	Retirement notification acknowledged, recorded and documentation sent	M	95%	within 7 days	121	99%	200	99%	137	98%	190	98%	203	99%	155	99%	
2b	Payment of lump sum made	H	95%	within 5 days	133	99%	132	99%	145	98%	141	100%	115	100%	105	100%	
3	Calculation of spouses benefits	M	90%	within 5 days	14	100%	13	100%	14	100%	12	100%	26	100%	26	100%	
4a	Transfers In - Quote (Values)	L	90%	within 10 dys, aggregation 15	47	98%	48	98%	33	91%	63	96%	48	98%	70	99%	
4b	Transfers In - Payments	L	90%	within 10 dys, aggregation 25	20	100%	22	100%	21	100%	28	100%	19	100%	22	100%	
5a	Transfers Out - Quote	L	90%	within 10 dys, aggregation 15	53	87%	29	73%	22	96%	65	97%	72	99%	76	100%	
5b	Transfers Out - Payments	L	90%	within 10 dys, aggregation 25	12	100%	19	85%	7	100%	40	98%	22	100%	30	100%	
6a	Employer estimates provided	M	95%	within 15 days	27	100%	21	100%	19	100%	17	100%	33	100%	13	100%	
6b	Employee projections provided	L	95%	within 15 days	21	100%	24	100%	15	100%	17	100%	15	100%	15	100%	
7	Refunds (inc frozen refunds wef Aug 22)	L	95%	within 10 dys, settle 5 days	173	92%	172	100%	132	97%	182	96%	125	96%	245	87%	
8	Deferred benefit notifications	L	95%	within 15 days	282	99%	308	98%	257	97%	229	98%	203	99%	431	99%	
9a	Aggregation Quote	M	95%	within 15 days	89	64%	42	70%	62	51%	93	96%	295	99%	251	95%	
9b	Aggregation Actual	M	95%	within 10 days	68	70%	115	96%	324	98%	423	93%					
<b>TOTAL TASKS COMPLETED</b>					<b>1,107</b>	<b>90.42%</b>	<b>1,179</b>	<b>96.70%</b>	<b>1,229</b>	<b>96.90%</b>	<b>1,553</b>	<b>98.39%</b>	<b>950</b>	<b>97.47%</b>	<b>1,265</b>	<b>96.76%</b>	
Figures for the previous year					669	97.76%	806	98.01%	782	97.95%	844	96.68%	792	97.85%	722	98.34%	
Figures for two years ago					664	94.73%	643	96.89%	481	94.59%	550	91.45%	557	90.84%	617	93.70%	
Figures for three years ago					394	96.70%	359	98.61%	617	93.70%	598	99.00%	642	99.53%			
Missed target cases					106		39		38		76		24		41		
Complaints received					2		2		3		7		2		6		
Compliments received					0		0		0		1		1		0		
<b>Summary for failed cases</b>					<b>Jun-23</b>	<b>May-23</b>	<b>Apr-23</b>	<b>Mar-23</b>	<b>Feb-23</b>	<b>Jan-23</b>	<b>Dec-22</b>	<b>Nov-22</b>	<b>Oct-22</b>	<b>Sep-22</b>	<b>Aug-22</b>	<b>Jul-22</b>	
Award dependent benefits (Death Grants)																	
Retirement notification acknowledged, recorded and documentation sent					3 over by average 6.67 days						15 over by average 2.87 days		8 over by average 6.9 days				
Payment of lump sum made																	
Calculation of spouses benefits																	
4a Transfers In - Quote (Values)										5 over by average 3 days		5 over by average 19 days					
4b Transfers In - Payments																	
5a Transfers Out - Quote					7 over by average 6.43 days		8 over by average 4.25 days			8 over by average 5 days		8 over by average 5.3 days					
5b Transfers Out - Payments						3 over by average 4.33 days			4 over by average 21 days		9 over by average 4 days						
6a Employer estimates provided																	
6b Employee projections provided													1 over by 10 days				
7 Refunds (inc frozen refunds wef Aug 22)					14 over by average 3.5 days			18 over by average 1.2 days		34 over by average 2 days		18 over by average 9.11 days		26 over by average 6 days		17 over by average 5.4 days	
8 Deferred benefit (DBSE)					28 over by average 6.36 days							37 over by average 29 days		21 over by average 4 days		15 over by average 8.3 days	
9a Aggregation Quote					30 over by average 38.42 days		13 over by average 48.05 days		12 over by average 8.08 days								
9b Aggregation Actual					20 over by average 6.90 days												
New KPI/SLA MI from Altair Insights not completed yet. Backlog on Aggregations being cleared and the BHC 2021/22 cases all at once (plus creating & testing new next day transfer process). GAD Actuarial Factor review creating additional backlog																	
New KPI/SLA MI from Altair Insights not completed yet. Interviewing for Project Manager role in Jan 23. Process reviews continue. GAD Actuarial Factor review. March was impacted by the Pension Increase exercise.																	
New KPI/SLA MI from Altair Insights not completed yet. Lots of interviewing throughout the quarter. Process reviews continue. October new starters begin some intensive training.																	
New KPI/SLA MI from Altair Insights not completed yet. Key resources retained to work on ABS & i-Connect Employers. Plus Julie full time on Annual Allowance in Sept. Lots of time consuming interviewing undertaken in August. In Sept two staff begin working on i-Connect without BAU backfill. A lot of team time being allocated to process reviews (the outstanding 2021/22 internal audit action). Sept included additional training for promoted staff. BAU time allocated to mortality exercises.																	
Project Manager started 26/6																	
Two vacancies					Three vacancies	Three vacancies	Three vacancies	Three vacancies	Five vacancies	Seven vacancies	Six vacancies	Six vacancies	Six vacancies	Ten vacancies	Ten vacancies	Ten vacancies	

Performance for the year Apr 22 to Mar 23 inclusive		
Total	Fails	% pass
396	0	100.0
218	3	98.6
1,655	47	97.2
1,507	6	99.6
219	0	100.0
529	29	94.5
256	1	99.6
642	45	93.0
243	22	90.9
178	0	100.0
210	1	99.5
1,835	139	92.4
3,193	136	95.7
286	77	73.1
930	61	93.4
<b>12,297</b>	<b>567</b>	<b>95.4</b>

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## Appendix 2

### Helpdesk performance

KPI	A	B	C	D
	<b>First time fix</b>	<b>Call answer time</b>	<b>Abandoned call rate</b>	<b>Email response time</b>
Gold	85% of enquiries dealt with at first point of contact	75% of calls answered in 20 seconds	Less than 5% of calls abandoned	100% of emails answered within 3 working days
Silver	80% of enquiries dealt with at first point of contact	50% of calls answered in 20 seconds	Less than 10% of calls abandoned	75% of emails answered within 3 working days
Bronze	70% of enquiries dealt with at first point of contact	30% of calls answered in 20 seconds	Less than 15% of calls abandoned	75% of emails answered within 10 working days
Below Bronze	<70% of enquiries dealt with at first point of contact	<30% of calls answered in 20 seconds	>15% of calls abandoned	<75% of emails answered within 10 working days

Quarterly performance assessed against the scoring mechanism with rectification plan for underperformance including penalty clauses for sustained underperformance.

#### Main Helpline for ESPF

Period	First time fix	Call answer time	Abandoned call rate	Email response time
<b>GOLD TARGETS</b>	<b>85%</b>	<b>75%</b>	<b>5%</b>	<b>100%</b>
April 21	96%	53%	5%	100%
May 21	95%	44%	7%	100%
June 21	95%	56%	5%	100%
July 21	91%	43%	9%	100%
August 21	88%	31%	9%	100%
September 21	86%	23%	6%	100%
October 21	80%	37%	2%	100%
November 21	87%	36%	1%	100%
December 21	81%	36%	0%	100%
January 22	83%	39%	0%	100%
February 22	80%	39%	0%	100%
March 22	86%	37%	1%	100%
April 22	84%	28%	2%	100%
May 22	84%	21%	4%	100%
June 22	86%	19%	2%	100%
July 22	87%	74%	3%	100%
August 22	91%	61%	4%	100%
September 22	92%	67%	4%	100%
October 22	85%	47%	8%	68%
November 22	82%	73%	1%	60%
December 22	85%	92%	0%	66%
January 23	87%	86%	1%	97%
February 23	84%	88%	1%	96%
March 23	86%	86%	1%	100%
April 23	87%	82%	1%	100%
May 23	87%	88%	1%	100%
June 23	85%	92%	0%	100%

The "call answer time" SLA on the mainline was investigated with BT and results between Sept 21 & June 22 were not reported correctly. The SLA% could not be recreated for that period.

### Website Helpline (all six Pension Funds until October 21 then ESPF only)

Period	First time fix	Call answer time	Abandoned call rate	Email response time
<b>GOLD TARGETS</b>	<b>85%</b>	<b>75%</b>	<b>5%</b>	<b>100%</b>
April 21	N/A	30%	18%	N/A
May 21	N/A	31%	15%	N/A
June 21	N/A	48%	10%	N/A
July 21	100%	39%	10%	100%
August 21	100%	49%	21%	100%
September 21	100%	67%	6%	100%
October 21	91%	64%	9%	100%
November 21	100%	63%	6%	100%
December 21	100%	76%	2%	100%
January 22	100%	84%	2%	100%
February 22	100%	78%	1%	100%
March 22	100%	76%	6%	100%
April 22	100%	74%	2%	100%
May 22	100%	68%	2%	100%
June 22	100%	47%	10%	100%
July 22	100%	76%	3%	100%
August 22	100%	61%	10%	100%
September 22	100%	63%	14%	100%
October 22	100%	51%	15%	70%
November 22	95%	51%	5%	100%
December 22	100%	69%	0%	100%
January 23	100%	80%	2%	100%
February 23	100%	77%	2%	100%
March 23	100%	76%	1%	100%
April 23	100%	66%	2%	100%
May 23	100%	60%	3%	100%
June 23	100%	82%	2%	100%

### Monthly transaction volumes

Month	Telephone Calls	Email's Processed	Call Back's	Total
April 21	1,080	287	13	1,380
May 21	855	475	11	1,341
June 21	807	944	15	1,766
July 21	929	1,795	13	2,737
August 21	936	1,329	5	2,270
September 21	858	1,470	8	2,336
October 21	767	1,241	16	2,024
November 21	815	1,206	0	2,021
December 21	513	968	4	1,485
January 22	777	1,175	19	1,971
February 22	797	1,377	17	2,191
March 22	819	1,293	17	2,129
April 22	898	1,114	24	2,036
May 22	911	1,335	25	2,271
June 22	801	1,017	21	1,839
July 22	722	988	16	1,726
August 22	1,154	1,813	28	2,995
September 22	817	1,166	18	2,001
October 22	736	1,050	17	1,803
November 22	513	1,660	25	2,148
December 22	518	875	6	1,399

January 23	1,064	1,302	15	2,381
February 23	923	1,308	10	2,241
March 23	1,077	1,439	13	2,529
April 23	1,037	?	?	?
May 23	1,073	?	?	?
June 23	939	?	?	?

### Top five reasons for calls

Month	Self Service Activation	Login issues	Claim form guidance	Option guidance – member	Update Address	Leaver form received	Progress check - Actual	Progress check - Quote	Document or Form enquiry	Other
Jul 21	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	5 <sup>th</sup>					
Aug 21	1 <sup>st</sup>	2 <sup>nd</sup>	4 <sup>th</sup>	5 <sup>th</sup>		3 <sup>rd</sup>				
Sep 21	1 <sup>st</sup>	2 <sup>nd</sup>	5 <sup>th</sup>		4 <sup>th</sup>	3 <sup>rd</sup>				
Oct 21	3 <sup>rd</sup>		2 <sup>nd</sup>		4 <sup>th</sup>	1 <sup>st</sup>	5 <sup>th</sup>			
Nov 21		1 <sup>st</sup>	4 <sup>th</sup>		3 <sup>rd</sup>	2 <sup>nd</sup>	5 <sup>th</sup>			
Dec 21		4 <sup>th</sup>	2 <sup>nd</sup>		3 <sup>rd</sup>	1 <sup>st</sup>	5 <sup>th</sup>			
Jan 22	3 <sup>rd</sup>	4 <sup>th</sup>	1 <sup>st</sup>			2 <sup>nd</sup>		5 <sup>th</sup>		
Feb 22		2 <sup>nd</sup>	3 <sup>rd</sup>	5 <sup>th</sup>	4 <sup>th</sup>	1 <sup>st</sup>				
Mar 22	4 <sup>th</sup>	2 <sup>nd</sup>	1 <sup>st</sup>					5 <sup>th</sup>	3 <sup>rd</sup>	
Apr 22		1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	5 <sup>th</sup>				
May 22		3 <sup>rd</sup>	1 <sup>st</sup>		2 <sup>nd</sup>	4 <sup>th</sup>				5 <sup>th</sup>
Jun 22	1 <sup>st</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	5 <sup>th</sup>	2 <sup>nd</sup>					
Jul 22		3 <sup>rd</sup>	1 <sup>st</sup>		5 <sup>th</sup>	2 <sup>nd</sup>			4 <sup>th</sup>	
Aug 22		1 <sup>st</sup>	3 <sup>rd</sup>	4 <sup>th</sup>			5 <sup>th</sup>		2 <sup>nd</sup>	
Sep 22	3 <sup>rd</sup>	1 <sup>st</sup>	2 <sup>nd</sup>	5 <sup>th</sup>					4 <sup>th</sup>	
Oct 22		3 <sup>rd</sup>	2 <sup>nd</sup>	4 <sup>th</sup>		1 <sup>st</sup>			5 <sup>th</sup>	
Nov 22	4 <sup>th</sup>	3 <sup>rd</sup>	2 <sup>nd</sup>		5 <sup>th</sup>				1 <sup>st</sup>	
Dec 22	4 <sup>th</sup>	5 <sup>th</sup>	2 <sup>nd</sup>			3 <sup>rd</sup>			1 <sup>st</sup>	
Jan 23	1 <sup>st</sup>	2 <sup>nd</sup>	4 <sup>th</sup>		3 <sup>rd</sup>				5 <sup>th</sup>	
Feb 23	4 <sup>th</sup>	2 <sup>nd</sup>	1 <sup>st</sup>			3 <sup>rd</sup>			5 <sup>th</sup>	
Mar 23	2 <sup>nd</sup>	3 <sup>rd</sup>	1 <sup>st</sup>			4 <sup>th</sup>				5 <sup>th</sup>
Apr 23	5 <sup>th</sup>	2 <sup>nd</sup>	1 <sup>st</sup>		3 <sup>rd</sup>				4 <sup>th</sup>	
May 23	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>		4 <sup>th</sup>					
Jun 23	5 <sup>th</sup>	2 <sup>nd</sup>	1 <sup>st</sup>		3 <sup>rd</sup>					4 <sup>th</sup>

We are initiating a possibility of using a Chatbot (robot) as an online support tool to help with FAQs.

### Telephone survey

This is a new service starting in December 21.

Questions raised by email within 24hrs of call where a caller says they are willing to complete a short survey:

1. How easy was it for you to contact the Pensions Helpdesk today?
2. How confident are you that your question was resolved or will be resolved in the relevant timelines?
3. Based on your recent experience how strongly would you recommend using the Helpdesk to a colleague?
4. How satisfied were you with your overall experience today?

Question No.	1					2					3					4				
	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
December 21	0	0	0	4	23	1	1	0	5	20	1	0	1	4	21	0	2	1	2	21
January 22	0	0	0	10	49	4	0	0	7	48	0	1	2	5	51	2	1	1	4	51
February 22	0	0	1	1	25	0	0	0	2	25	0	0	0	2	25	0	0	0	2	25
March 22	0	0	2	8	29	1	1	3	8	26	0	2	1	3	33	1	1	1	6	30
April 22	0	0	0	6	39	0	0	1	6	38	0	0	2	6	37	0	0	0	6	39
May 22	0	0	0	7	44	0	1	1	5	44	0	0	1	6	44	0	1	2	2	46

June 22	1 1 5 8 39	0 2 6 11 35	0 2 5 5 42	0 2 5 7 40
July 22	0 0 1 3 16	0 0 1 4 15	0 0 1 2 17	?
August 22	0 1 1 5 20	0 1 0 6 20	0 1 0 4 22	0 1 0 5 21
September 22	?	?	?	?
October 22	N/A	N/A	N/A	N/A
November 22	0 0 0 2 6	0 0 0 2 6	0 0 0 1 7	0 0 1 1 6
December 22	0 0 0 3 54	0 1 3 9 44	1 0 2 5 49	1 1 1 8 46
January 23	1 1 7 10 98	3 4 6 21 83	0 5 2 16 91	1 6 1 19 92
February 23	0 0 6 25 96	7 3 12 18 87	2 5 11 12 97	2 4 15 13 93
March 23	1 0 6 18 112	7 3 10 22 95	1 5 8 18 104	1 5 8 18 105
April 23	?	?	?	?
May 23	?	?	?	?
June 23	?	?	?	?

*Note: 5 Star is the highest and therefore best rating*

An additional question was asked about how many times have your called in connection with your enquiry?

Month	First Call	Second Call	Third Call	Fourth or more
December 21	17	4	2	4
January 22	44	9	3	3
February 22	21	4	2	0
March 22	25	12	0	2
April 22	35	8	0	2
May 22	37	9	3	2
June 22	42	7	3	2
July 22	13	6	1	0
August 22	21	2	3	1
September 22	?	?	?	?
October 22	N/A	N/A	N/A	N/A
November 22	?	?	?	?
December 22	40	12	2	3
January 23	99	11	7	1
February 23	91	26	6	4
March 23	100	29	3	6
April 23	?	?	?	?
May 23	?	?	?	?
June 23	?	?	?	?

The Surrey Pensions Helpdesk was taken in-house from 25 November 2022.

ESPF have agreed to bring the Pensions Helpdesk in-house on 1 April 2024.



## Appendix 3 - Annual Benefit Statement Summary

2023

EAST SUSSEX PENSION FUND - ABS as at 01/09/2023 - analysis of Deferred Members						
Total number produced	Total number of errors	Total number of errors - breakdown				
		No Address Present on Altair	Not eligible for statement (deferred after 31 March)	Error on record (calc not allowed)	Record missing Requisite Spouse's pension from GMP details data view	Other
31,808	2,072	1,731	263	29	24	25
		1,994		78		

31,808/31,886 =  
**99.76%**

2022

EAST SUSSEX PENSION FUND - ABS as at 01/09/2022 - analysis of Deferred Members						
Total number produced	Total number of errors	Total number of errors - breakdown				
		No Address Present on Altair	Not eligible for statement (deferred after 31 March)	Error on record (calc not allowed)	Record missing Requisite Spouse's pension from GMP details data view	Other
30,694	2,254	1,796	392	27	25	14

30,694/30,760 =  
**99.79%**

**2023**

EAST SUSSEX PENSION FUND - ABS as at 01/09/2023 - analysis of Active Members								
i-Connect & EOY return		Employer Queries		Number Outstanding			Totals	
Total Employers	No of Employers Queried	Number of individual member Queries	Number resolved	Brighton & Hove CC	University of Brighton	Other	No. of active statements produced	Total no of active records that are yet to have a statement run
141	58	1,796	839	210	258	489	22,609	957

**95.9%**

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**2022**

EAST SUSSEX PENSION FUND - ABS as at 01/09/2022 - analysis of Active Members								
EOY return		Employer Queries			Outstanding issues breakdown		Totals	
No of employers - Year End Return not received	No of employers queried	Number of individual member queries from Year End Returns	Queries Resolved	Records outstanding	Payroll references	Other (assumed casual workers etc.)	Active record statements run	Total active records that are eligible to have a statement run
1	34	2,775	2,258	517	373	144	15,223	15,740

**96.7%** (excluding BHCC)

**Report to:** Pension Committee

**Date of meeting:** 19 September 2023

**By:** Chief Finance Officer

**Title:** Pension Fund Risk Register

**Purpose:** To consider the Pension Fund Risk Register

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## **RECOMMENDATIONS:**

**The Pension Committee is recommended to review and note the Pension Fund Risk Register.**

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### **1. Background**

1.1 Risk management is the practice of identifying, analysing and controlling in the most effective manner all threats to the achievement of the strategic objectives and operational activities of the Pension Fund. It is not a process for avoiding or eliminating risks. A certain level of risk is inevitable in achieving the Fund objectives, but it must be controlled.

1.2 Effective risk management is an essential part of any governance framework as it identifies risks and actions required to mitigate their potential impact. For a pension fund, those risks will come from a range of sources, including the funding position, Local Government Pension Scheme (LGPS) Pooling, General Data Protection Regulation (GDPR), investment performance, membership changes, benefits administration, costs, communications and financial systems. Good information is important to help ensure the complete and effective identification of significant risks and the ability to monitor those risks.

1.3 Since the last meeting of the Pension Board and Pension Committee, officers have continued to review the Risk Register to ensure all appropriate risks and mitigations have been identified.

1.4 It is accepted that whilst mitigations are put in place for identified risks, it will not always be possible for all risk to be eliminated. In these cases, a level of risk is tolerated and kept under review.

### **2. Supporting Information**

2.1 The Risk Register is included at **Appendix 1**.

### **3 Changes to the Risk Register**

3.1 Risk E2 – Employer Data - has had its post mitigation likelihood reduced, changing the overall risk scoring down to an amber risk. This risk had previously been scored more likely due to the ongoing issues with a single employer who has been identified as a standalone high risk employer on the exempt risk register. Data is received from other scheme employers and is generally in good order.

3.2 Risk A3 – Production of Statutory Returns - has had its post mitigation likelihood reduced to an amber risk. This risk had previously been scored more likely due to the ongoing issues with a single employer which is not systemic of the wider ability of the Fund to produce statutory member returns. Necessary data has been provided by the remaining employers and work on producing annual benefit statements was able to begin as planned.

3.3 Officers recommend risk I2 – Changes to International Trade - be removed from the register. This risk has its origins in the market uncertainty following the Brexit referendum and the ongoing negotiations between the Government and the European Union. Officers believe this is no longer a priority risk and market risk is covered by risk I1 – Funding Risk.

3.4 Officers recommend a new risk be added to the risk register. Risk I9 - Money purchase AVC – which relates to the Additional Voluntary Contributions (AVC) options available to members and reflects the requirement of the Fund to provide a suitable AVC offering to scheme members. All LGPS Funds have an arrangement with an AVC provider to enable scheme members to invest money in an in-house AVC. This

enables the scheme member to build up a pot of money which is used to provide benefits on top of their LGPS benefits. As the Fund is responsible for setting up the arrangement with the provider it needs to ensure it is providing a safe place for members to invest and provide appropriate investment options to the members at a reasonable cost. There is the risk that if the Fund does not review the AVC offering to its members and ensure the risk of investment options is clear, the available investment opportunities could be high cost or highly volatile and detrimentally impact the additional pensions the members can draw when they retire.

3.5 Officers have also made some alterations to the mitigation actions listed to bring the risk register up to date.

#### **4. Conclusion**

4.1 The Pension Committee is recommended to review and note the Pension Fund Risk Register.

**IAN GUTSELL**  
**Chief Finance Officer**

Contact Officer: Sian Kunert, Head of Pensions  
Email: Sian.Kunert@EastSussex.gov.uk

# Appendix 1

## Summary Post Mitigation Risk scores

Reference	Strategic Risk	Feb-22	Jun-22	Sep-22	Nov-22	Feb-23	May-23	Sep-23	Change from February
<b>Employer</b>									
E1	<b>Contributions Funding</b> Failure to collect contributions from employers in line with Funding strategy requirements and Rates and Adjustment Certificate	4	4	4	4	4	4	4	↔
E2	<b>Employer data</b> Employers fail to provide accurate and timely data to the PAT team	9	9	9	12	12	12	9	↓
E3	<b>Employer Covenant</b> Delay in employers agreeing Admission Agreement, risk of insufficient security	4	4	4	4	4	4	4	↔
<b>Administration</b>									
A1	<b>Pensions service Delivery</b> Inadequate delivery of Pensions Administration	6	6	6	6	6	6	6	↔
A2	<b>Regulatory Change</b> Risk that new benefit structures can not be set up correctly or in time	6	6	6	6	6	6	6	↔
A3	<b>Production of Statutory member returns</b> Risk of failure to produce ABS, annual allowance and event reports	6	6	10	10	10	10	6	↓
A5	<b>Transfer Scams</b> Failure to comply with CETV anti scam checks	2	2	2	2	2	2	2	↔
A7	<b>MBOS Project</b> Failure to deliver the new ERP system to effectively deliver for Pension Fund accounting and payroll requirements	3	3	3	3	3	3	3	↔
<b>Governance</b>									
G1	<b>Key Person risk</b> Risk of loss of key / senior staff resulting in lost knowledge and skills with in the Pensions Team	4	4	4	4	4	4	4	↔
G2	<b>Committee / Board Member</b> Lack of decision making caused by loss of Pension Committee/Pension Board members or insufficient knowledge and skills of members	6	6	6	9	9	9	9	↔
G3	<b>Cyber Security</b> Risk of Loss of data or systems breaches through cyber attacks	8	8	8	8	8	8	8	↔
G4	<b>Governance and Compliance</b> Inadequate governance arrangements and controls to discharge powers & duties	3	3	3	3	6	6	6	↔
G5	<b>Data Breach</b> Failure to comply with General Data Protection Regulations	4	4	4	4	4	4	4	↔
G6	<b>Fraud</b> Internal and External fraud risk	3	6	6	4	4	4	4	↔
<b>Investment/Funding</b>									
I1	<b>Funding risk - poor investment returns</b> Risk that investment strategy fails to result in performance required to meet the needs of the Funding strategy discount rate	4	4	4	4	4	4	4	↔
I2	<b>Changes to International Trade</b> The changing of Regulations and International Trading relationships along with the trading environment, impact on investments in affected businesses	4	4	4	4	4	4	4	↔
I3	<b>Regulatory risk</b> Failure to comply with regulations, legislation and guidance from an accounting and investment perspective	2	2	2	2	2	2	2	↔
I4	<b>Investment Pooling</b> Inability to comply with government direction on pooling, insufficient sub funds to implement investment strategy, poor management of the pool	6	6	6	6	12	12	12	↔
I5	<b>Funding risk - higher inflation</b> Risk of inflation leading to increased liabilities, lower asset returns and a funding gap	2	6	6	6	6	6	6	↔
I6	<b>Environmental, Social and Governance</b> Risk of EGS factors within Investment strategy, underlying holdings and implementations of investment decisions	4	4	4	4	4	4	4	↔
I7	<b>Climate change</b> Risk to assets and liabilities associated with Climate Change	4	4	4	4	4	4	4	↔
I8	<b>Liquidity</b> Insufficient cash to pay benefits as they fall due	4	4	4	4	4	4	4	↔

Ref	Strategic Risks	Pre-mitigation on RAG	Risk Control / Response	Post-mitigation on RAG	Risk Owner
<b>Employer Risk</b>					
E1	Contributions Funding Failure to collect contributions from employers in line with Funding strategy requirements and Rates and Adjustment Certificate	9	<ul style="list-style-type: none"> <li>•Monthly Employer contribution monitoring completed</li> <li>•Monitoring of late payments by Employer engagement team to address breaches for late payment. Chasers are sent out during the lead up to the deadline to prompt employers providing information and payment on time</li> <li>•Contributions recorded in Finance system for each employer to track employer cashflows in line with actuarial requirements for Valuation and FRS17/IAS19 reporting requirements. Also enables ability to see trends in contributions collected</li> <li>•Pension Administration strategy in place from January 2021 clearly outlining ability to charge employers for late payment, late receipt of remittance advice or poor quality of data. Late payment charges are now being administered as a deterrent and to cover the impact on the Fund for late payment. This strategy was refreshed in February 2023</li> <li>•Implementation of i-Connect is improving the quality of contribution data received to better aid reconciliation of payments and drill into the accuracy of employers' contribution payments, however functionality is still being improved by the software provided</li> <li>•Report produced for Pensions Board meetings to highlight any late payment of contributions and Employer engagement actions from February 2021</li> <li>•Covenant review undertaken helps identify employers most likely to have financial difficulties. Engagement with those posing most risk is ongoing</li> <li>•Triennial valuation process aims to stabilise contribution rates where possible and senior management involved in detailed discussions on funding assumptions. Triennial Valuation complete for 2022 and new rates set for April 2023 onwards. LGPS31 forms issued to all employers with new rates.</li> <li>•Guide to Employers on implications of Pensions on Outsourcing published and issued to all employers</li> <li>•Contribution deferral policy approved by Committee in June 2020</li> <li>•Deferred debt and debt spreading policies drafted for approval in June 2023</li> <li>•Employer engagement team are confirming the correct signatories for contribution submissions to ensure they are signed off at an appropriate management level</li> <li>•Regular communication with Employers through Employer engagement team</li> <li>•Cash Management covered by internal audit in 2022/23 year looking at contribution collection and cash management strategy</li> <li>•Cash Management and Contribution rate collection both identified in the 2023/24 internal audit programme for further investigation</li> </ul>	4	Head of Pensions
E2	Employer data Employers fail to provide accurate and timely data to the PAT team	12	<ul style="list-style-type: none"> <li>•Pension Administration Strategy approved in operation from January 2021 and refreshed in February 2023 with consultation with employers April 2023</li> <li>•Employing authorities are contacted for outstanding/accurate information</li> <li>•User Guide and Training provided to Employers for outsourcing implications with LGPS</li> <li>•Regular communication and meeting with administration services regarding service updates and additional data, when required</li> <li>•Employer engagement team established from January 2021 to support employers and provide training where required</li> <li>•Issuance of a quarterly employer newsletter to support employers in their understanding of current pensions issues and activity for the Pension Fund</li> <li>•A data cleansing plan was completed in June 2020 lead by Hymans. The PAT look at Data Improvement as part of BAU and is a regular item on the Administration working group. Data is also cleansed where appropriate as part of other projects</li> <li>•Introduction of i-Connect system will limit employer ability to submit incorrect data. Data is received monthly rather than annually to allow for regular cleansing and discussion with employers</li> <li>•Meetings held between senior pensions Management team and employers where there are current or historic data concerns</li> <li>•As part of the lead into the 2022 triennial valuation data cleansing and challenge was conducted by the Actuary with PAT to ensure the integrity of data</li> </ul>	9	Head of Pensions

E3	Employer Covenant Delay in employers agreeing Admission Agreement, risk of insufficient security	6 <ul style="list-style-type: none"> <li>•Full suite of admission agreements in place to ensure the Fund can provide comprehensive admission agreements at the outset of negotiations in line with the risk sharing arrangements agreed with the letting employer. New templates have been developed for pooling rate. Fixed rate template and Bond template in place. These templates are shared with the employers early in the process to speed up the agreeing of new admission agreements</li> <li>•The Fund will consider moving to a template portal which will automatically populate the variable data in the admission agreement ensuring no addition terms are changed and provides assurance from external legal term that the agreement is comprehensive and enforceable. However, the functionality is not yet sufficient to make the processes easier for letting employers and contractors</li> <li>•Guide to outsourcing is publicly available and distributed to all employers with coverage in both Employer forum in November 2020 and 2021. This guide directs employers of all the activities and considerations they need to take on any outsourcing arrangement with TUPE staff implications</li> <li>•Officers meet regularly to review status and movement on each in progress admission and an update is provided at team meetings monthly to ensure the admission is complete and effective at all stages</li> <li>•A new data flow and process map has been written to ensure officers request and communicate all the required information in a timely manner and on execution of the agreements data is required in line with the Administration strategy</li> <li>•Admissions in progress are reported quarterly to Board and Committee to ensure awareness of status</li> <li>•Security obtained for new admissions in form of bond or a guarantee from an appropriate body which has the means to support the guarantee</li> </ul>	4 Head of Pensions
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**Administration**

A1	Pensions service Delivery The scheme is not administered correctly resulting in the wrong benefits being paid or benefits not being paid, including the result of poor data	9	<ul style="list-style-type: none"> <li>•The PAT team is an in-house provision since December 2020 and enables the management team to have complete control over service delivery</li> <li>•Annual internal audit report on the administration of pensions including regular reporting and monitoring of "red" recommendations to ensure the service is acting in line with best practice. The Fund has received reasonable assurance since bring inhouse</li> <li>•Quarterly Reports to Pension Board and Committee on areas of work and KPIs</li> <li>•New service level KPI's now reportable within the Administration software</li> <li>•Awareness of the Pension Regulator Guidance by all team members, with training provided at team meetings or through provision of courses</li> <li>•Task workflow is managed by the Senior Pension Officers to all PAT staff and helpdesk add all tasks to the workflow system, to ensure all tasks completed as planned and to a high standard. PAT staff also add tasks as appropriate.</li> <li>•Checklists in place and all activity impacting members recorded on member records for other teams members to access</li> <li>•All tasks are peer reviewed. Constant monitoring / checking by team managers and senior officers for more junior staff members</li> <li>•In house risk logs covering projects</li> <li>•SAP / Altair reconciliation monthly to ensure pension payment records complete and correct *Most calculations automated to reduce manual error risk</li> <li>•Task management systems built into Altair to ensure activity is completed and monitored</li> <li>•Regular meetings with payroll, HR, ICT and PAT</li> <li>•Pensions Admin working group in place to discuss service delivery issues on a regular basis</li> <li>•Pensions Admin Team has skills matrix to identify training needs for particular processes</li> </ul>	6	Head of Pensions Administration
A2	Regulatory Change Risk that new benefit structures can not be set up correctly or in time	9	<ul style="list-style-type: none"> <li>•Projects and/or working groups in place to deal with current regulatorily benefit changes</li> <li>•Attendance at networks and officer groups to stay on top of upcoming changes in regulation</li> <li>•Reports to Pension Board and Committee to ensure knowledge is shared to decision makers</li> <li>•Oversight via Pension Admin Working Group</li> </ul>	6	Head of Pensions Administration
A3	Production of Statutory member returns Risk of failure to produce ABS, annual allowance and event reports	15	<ul style="list-style-type: none"> <li>•Regular contact with employers to get data</li> <li>•Clear project plan with early communications and planning with milestones to ensure Statements created in time to allow time for distribution to staff</li> <li>•Roll out of I-Connect for employer roll out as monthly interfaces system, to ease year end requirements and correct errors throughout the year. Currently many leavers are not being notified until year-end. This will also cleanse data relating to Annual Allowance</li> <li>•Structure of Pensions team includes Employer Engagement team to support Pensions Administration Team with end of year returns liaising and supporting employers through the process</li> <li>•Breaches policy in place and Breach reporting to Committee and Board quarterly to raise and consider breach reporting levels</li> </ul>	6	Head of Pensions Administration
A5	Transfer Scams Failure to comply with CETV anti scam checks	6	<ul style="list-style-type: none"> <li>•Process in place for making checks required by law and/or recommended by TPR. Appropriate training to be identified and offered to staff to build understanding of risk and appropriate mitigations</li> <li>•Process mapping process has taken place to ensure transfers are fully documented with clear guidance to staff in carrying out this activity</li> <li>•Member informed of "red flags" identified</li> <li>•Scorpion campaign material provided to members seeking a CETV</li> <li>•Quality assurance checks ensure appropriate checks carried out</li> </ul>	2	Head of Pensions Administration
A7	MBOS Project Failure to deliver the new ERP system to effectively deliver for Pension Fund accounting and payroll requirements	9	<ul style="list-style-type: none"> <li>•Officers are part of the project roll out and involved in testing. Needs of the Pension Fund are therefore being considered</li> <li>•Officers produced process mapping for all functions within the existing finance system</li> <li>•A specific stream of planning has been identified in the project for the interface with Altair</li> <li>•S151 officer on the programme board and will make go/no go decision</li> <li>•Heywood's paid to produce a scheme specific payroll data output report for transfer to Oracle</li> </ul>	6	Head of Pensions

**Governance**



G1	Key Person risk Risk of loss of key / senior staff resulting in lost knowledge and skills with in the Pensions Team	12	<ul style="list-style-type: none"> <li>•Diversified staff / team</li> <li>•Attendance at pension officers' user groups to network and exchange information</li> <li>•Procedural notes which include new systems, section meetings / appraisals</li> <li>•Succession planning within team structure, building from within the team</li> <li>•Robust business continuity processes in place around key business processes, including a disaster recovery plan</li> <li>•Knowledge of all tasks shared by at least two team members within PAT and in addition can be covered by senior staff in all areas</li> <li>•Training requirements are set out in training strategy, job descriptions and reviewed prior to recruitment processes</li> <li>•Training officer post within team structure since 2021</li> <li>•Training strategy in place and regularly reviewed with training log where required</li> <li>•Recruitment project to fill to vacant positions coming to an end with nearly all posts now filled</li> <li>•Utilisation of apprenticeships allow for bring new staff into to train in advance of vacancies</li> </ul>	4	Head of Pensions / Head of Pensions Administration
G2	Committee / Board Member Lack of decision making/functionality caused by loss of Pension Committee/Pension Board members or insufficient knowledge and skills of members	9	<ul style="list-style-type: none"> <li>•Record kept of terms of Office</li> <li>•Pension Board terms of Office staggered</li> <li>•Vice Chairs in place to cover chair absence</li> <li>•Officers aware of election cycles and request for officers as a preference over elected members is communicated to employers</li> <li>•Robust Terms of reference in place that is clear and comprehensive</li> <li>•Training plans in place for new members to build knowledge to required levels</li> </ul>	9	Head of Pensions
G3	Cyber Security Risk of Loss of data or systems breaches through cyber attacks	16	<ul style="list-style-type: none"> <li>• ICT defence - in-depth approach.</li> <li>• Utilising firewalls, passwords and ICT control procedures including system access and account deletion protocols. Network activity is monitored to identify security threats.</li> <li>• Email and content scanners</li> <li>• Using anti-malware which is regularly updated, together with other protective software</li> <li>• ICT performs penetration and security tests on regular basis</li> <li>• Encryption used on all data transfers</li> <li>• Service level agreement with termination clause</li> <li>• Regular reports SAS 70/AAF0106</li> <li>• Industry leaders providing services to the fund with data protection and cyber defence systems</li> <li>• Risk assessment completed with all new contracts with data transfer and new associated systems including penetration testing at outset</li> <li>• Pensions Team specific BCP in development</li> <li>• Engagement with ICT to understand and receive reports on monitoring for successful cyber attacks. Cyber training is provided to all staff around techniques and methods used to launch cyber attacks</li> </ul>	8	Head of Pensions
G4	Governance and Compliance Inadequate governance arrangements and controls to discharge powers & duties	9	<ul style="list-style-type: none"> <li>••Training strategy in place which covers Pension Committee, Pensions Board and officers</li> <li>•100 days of internal audit commissioned for each calendar year to 2022/23 and 75 days from 2023/24 with regular reporting from IA to committee and board, including areas Governance and Compliance</li> <li>•External auditor provides audit plan at planning stage for each financial year and this is discussed by Audit committee as well as Pension Committee and Board</li> <li>•Investment regulations require proper advice</li> <li>•Procurement processes in place to ensure quality within replacement advisers</li> <li>•Review carried out against TPR COP14 requirements to identify any governance gaps</li> <li>•Specialist legal advisers and governance advisers to provide clear and accurate advice to the Fund on point of law or regulation</li> <li>•Publication of annual Governance and Compliance Statement explaining governance arrangements and reviewed and approved by Board / Committee</li> <li>•Training coordinator appointed. This officer liaises with chair of Pension Board and Committee to identify training needs</li> <li>•Working groups in place, with own terms of reference, which report findings to full Board and Committee</li> <li>•Governance of meetings supported by Democratic Services</li> <li>•Governance structures held within ESCC constitution</li> <li>•Conflict of interest policy in place</li> </ul>	6	Head of Pensions

G5	Data Breach Failure to comply with General Data Protection Regulations	9	<ul style="list-style-type: none"> <li>•Contracts with external parties where there is a data role have clear terms and conditions as part of the data processing agreements</li> <li>•Data Impact assessment is carried out on all new tenders where data is involved</li> <li>•DPO is in place via ESCC</li> <li>•Privacy notice is on the website - the privacy statements have been refreshed in August 2021 and April 2022</li> <li>•Memorandum of Understanding in place with employers within the fund</li> <li>•All staff are required to complete an information governance course on joining the Council and this is refreshed annually</li> <li>•Information governance Internal audit completed in Q4 2020/21 with a reasonable assurance level and all recommendations were completed</li> <li>•Pensions Manager for Governance and Compliance completed review on GDPR in Q4 2020/21 resulting in a newly designed webpage, new privacy notices and change to the retention period</li> </ul>	4	Head of Pensions
G6	Fraud Internal and External fraud risk	12	<ul style="list-style-type: none"> <li>•Quarterly review of log in credentials</li> <li>•Senior officers have sight of bank account</li> <li>•Senior officers are signatories to bank account</li> <li>•Multiple sign off needed to make payment, with appropriate seniority levels</li> <li>•Mortality checks, Tell us once and NFI data</li> <li>•Contract in place with a third party to support with mortality and address training</li> <li>•Journals over £1m have to be signed off by Head of Pensions</li> </ul>	4	Head of Pensions

**Investment/Funding**

I1	<p>Funding risk - poor investment returns                  Risk that investment strategy fails to result in performance required to meet the needs of the Funding strategy discount rate</p>	9	<ul style="list-style-type: none"> <li>•Strategy is supported by expert Investment consultants. Challenge to Consultants through Independent Adviser</li> <li>•Triennial valuation ensures funding position is known and contribution rates are stabilised</li> <li>•Quarterly Performance monitoring, investment manager monitoring from consultants and Link for ACCESS sub funds. Officers have a rolling programme to meet and challenge investment managers</li> <li>•Annual Investment Strategy Review, with interim rebalancing</li> <li>•Quarterly Reporting to Pensions Committee, with decisions approved by committee, including Fund Manager performance</li> <li>•Training strategy in place to ensure officers and committee members have sufficient knowledge and skills to implement and change the investment strategy</li> <li>•Investment decisions are made in compliance with the ISS/FSS</li> <li>•All investment decisions made, based on proper advice</li> <li>•Diversified strategy to reduce correlation of manager volatility</li> <li>•Changes to investment strategy are discussed with the actuary to ensure anticipated implications on funding aligned</li> <li>•Revision of the Asset Liability Model to support a viable Strategic Asset Allocation for the new valuation</li> </ul>	4	Head of Pensions
I2	<p>Changes to International Trade                  The changing of Regulations and International Trading relationships along with the trading environment, impact on investments in affected businesses                   Recommended for removal</p>	9	<ul style="list-style-type: none"> <li>•Diversification of the Fund's investments across the world</li> <li>•Regular monitoring of investment performance and reports on potentially problematic trends</li> <li>•Diversification of the Fund's investments across multiple asset classes</li> <li>•Currency Hedging requirements considered within the investment strategy</li> <li>•Officers receive regular briefing material on regulatory changes and attend training seminars and ensure any regulatory changes are implemented</li> </ul>	4	Head of Pensions
I3	<p>Regulatory risk                  Failure to comply with regulations, legislation and guidance from an accounting and investment perspective</p>	9	<ul style="list-style-type: none"> <li>•Pensions Officers are kept up to date with changes to legislative requirements via network meetings, professional press, training and internal communication procedures</li> <li>•Pension Fund financial management and administration processes are maintained in accordance with the CIPFA Code of Practice, International Financial Reporting Standards (IFRS), and the ESSC Financial Regulations</li> <li>•Regular reconciliations are carried out between in-house records and those maintained by the custodian and investment managers</li> <li>•Internal Audits - carried out in line with the Pension Audit strategy</li> <li>•External Audit review the Pension Fund's accounts annually</li> <li>•Specialist legal advisers to provide clear and accurate advice to the Fund on point of law or regulation</li> <li>•Breaches policy in place to ensure breaches mapped and reported</li> </ul>	2	Head of Pensions

14	Investment Pooling Inability to comply with government direction on pooling, insufficient sub funds to implement investment strategy, poor management of the pool	16	<ul style="list-style-type: none"> <li>•ACCESS Support Unit team provide support to the pool</li> <li>•Operator contract provided by Link for assets held within the ACS</li> <li>•The ACCESS Contracts Manager will monitor Link's progress closely. If Link cannot resolve issues in a reasonable timeframe, then alternative options may be considered, e.g. Funds may continue to hold the sub fund outside the ACS</li> <li>•KPI's introduced within revised operator agreements</li> <li>•Consultants involved in analysing the creation of sub-funds and transitioning of assets into the pool, under a variety of scenarios</li> <li>•Opportunities to transfer securities in 'specie'. Reducing cost on transition</li> <li>•Transition manager in place to preserving asset values, managing risk and project managing the transition process to ensure that costs are monitored and controlled</li> <li>•Due Diligence completed by legal advisers to ensure no hidden costs or governance issues not known at time of decision to invest</li> <li>•S151, chair of pension committee and monitoring officer representation on respective committees, working groups or distributions to ensure ESPF involved in all decisions and concerns and questions can be raised early in processes</li> <li>•Regular meetings between officers and ACCESS pool with officers on a number of working groups to ensure involvement in decision making</li> </ul> <p>Further Red level risk responses (See also exempt risk register for more details) Risk rating increased due to a commulation of various smaller factors relating to the operator Link Fund Solutions going through a sale process, the market conditions around transitioning of illiquid assets onto possible ACCESS solutions in the near term, a delay in government guidance and a number of projects and work that will require a draw on resources to impliment. The Fund will work with the ACCESS pool and participating Funds to work through market conditions and uncertainty around the anticipated government pooling consultation and help ensure the business plan and actions stay on track with a drive to increase investment on the ACCESS pool where possible.</p>	12	Head of Pensions
15	Funding risk - higher inflation Risk of inflation leading to increased liabilities, lower asset returns and a funding gap	12	<ul style="list-style-type: none"> <li>•Investment strategy include weighting to index linked gilts, infrastructure and real estate which are all inflation correlated to mitigate increases in liabilities from inflation</li> <li>•Potential to further increase infrastructure weightings</li> <li>•Fund monitor portfolio sensitivity to inflation via expert investment consultants</li> <li>•Triennial Valuation assumptions include local knowledge of the Administering authority on anticipated pay inflation</li> <li>•Flexibility in the DGF mandates to react to the market and adapt the investment portfolio</li> <li>•Report received in Feb 22 on inflation possibilities with possible actions to take in the medium term. To be considered as part of the strategy review day</li> <li>•Quarterly monitoring of funding position helps identify risk early</li> <li>•2022 Triennial Valutaion completed - inflation models used to estimate the average inflation across a 20 year time horizon, including consideration of the current high inflation environment. Index linked gilt triggers introduced to benefit from market opportunities which provide alignment with changing liabilities</li> </ul>	6	Head of Pensions
16	Environmental, Social and Governance Risk of EGS factors within Investment strategy not being properly considered affecting underlying holdings and implementations of investment decisions	6	<ul style="list-style-type: none"> <li>•Statement of Responsible Investment Principles outline responsible investment beliefs within ESG, implementation of decisions and monitoring of ESG factors</li> <li>•Investment Working Group and ESG working group consolidated into a single group to ensure ESG is in the heart of all investment decisions</li> <li>•Trim unconscious exposure to companies with poor ESG rating through removal of traditional index funds ensuring active managers have a strong conviction in the underlying companies including on ESG matters and less traditional passive indexes / smart beta funds have robust screening processes in place to ensure ESG principles are taken into account</li> <li>•Tracking of the portfolio as underweight in fossil fuel exposure to benchmarks</li> <li>•Production of annual reports on the carbon footprint of the Fund and review of managers from EGS perspective including transition pathway of underlying companies</li> <li>•2020 Stewardship code submission approved in February 2023 for the 2021 reporting year</li> <li>•Membership of collaborative groups to help drive policy change</li> <li>•Challenging managers on their holdings with regard ESG issues</li> <li>•Introduction of an ESG impact assessment for all managers reported in July 2021 including improvement actions for each manager on ESG methodology, reporting or collaboration. This will be updated and reported annually</li> <li>•Engaging via managers and investor groups including LAPFF with companies and driving them forward to comply with key ESG concerns using the greater voice by combined investment power</li> <li>•ESG factors incorporated into all decision making eg re-balancing the portfolio</li> </ul>	4	Head of Pensions

17	Climate change Risk to assets and liabilities associated with Climate Change	12	<ul style="list-style-type: none"> <li>•Statement of Responsible Investment Principles (SRIP) outlines investment beliefs including Climate Risk. The Fund take the SRIP into account for implementation of decisions and monitoring of investment managers, carbon emissions and climate risk to the Fund</li> <li>•Investment Working Group and ESG working group consolidated into a single group to ensure ESG is in the heart of all investment decisions</li> <li>•Restructuring of the equity portfolio removed structural exposure to fossil fuel companies to avoid high risk companies from a climate perspective</li> <li>•The Fund are able to exploit opportunities from the low energy transition by investing in climate impact funds and resource efficient companies</li> <li>•The Fund has trimmed unconscious exposure to companies with high Carbon emission, poor energy transition plans and or fossil fuel companies, through removal of traditional index funds</li> <li>•Member of Institutional Investors group on climate change (IIGCC), the Fund also expects its managers to be IIGCC members</li> <li>•The Fund carries out annual carbon foot printing to better understand the carbon exposure and energy transition plans within the portfolio. Additionally, the Fund carries out ESG impact assessment of all investment managers which includes a climate score.</li> <li>•Signatory to UN PRI •Report in line with the TCFD farmework</li> <li>•The Fund is investigating climate scenario modelling which will help better understand this risk and allow further consider approaches in tackling these risks</li> <li>•Where exposed to fossil fuels, the Fund uses its vote to drive engagement and improved practices. A number of Fund managers are Climate 100+ engagement partners, leading on this work with top emitting companies, while all managers are IIGCC members for collaborate weighting of AUM to influence action. Managers have escalation plans for when engagement is not effective which includes disinvesting from the high carbon or fossil fuel company.</li> <li>•Focus on Climate change through training to committee and officers</li> <li>•Focus on Climate Change in decision making and strategy changes</li> <li>•Immaterial impact to the Fund value from direct exposure to fossil fuel companies in the instance of carbon taxes, valuation falls or stranded assets due to the underweight, very low exposure to this sector and no structural allocation of these companies.</li> </ul>	4	Head of Pensions
18	Liquidity Insufficient cash to pay benefits as they fall due	8	<ul style="list-style-type: none"> <li>•Contributions monitored on monthly basis</li> <li>•Monitoring of members close to retirement</li> <li>•Daily cash position monitored</li> <li>•Distributing investments to ensure stream of income from investment activity</li> <li>•Income from investments is considered as a key risk in all investment strategy decisions and the income profile managed</li> <li>•Liaison between administration and investment team on cash requirements</li> <li>•Cash Management internal audit completed in Q3 2022/23 and will be picked up in the 2023/24 IA plan for further review</li> </ul>	4	Head of Pensions
19	Money purchase AVC Inadequate offering for the scheme members on cost, return and/or risk grounds	4	<ul style="list-style-type: none"> <li>•A range of fund options provided, catering for different levels of member risk and return so they can design investment strategy for own circumstances</li> <li>•Commitment to undertake a review of continuing suitability of AVC offering regularly</li> </ul>	2	Head of Pensions

**Risk Register Risk Scores**

The risk scores are calculated using the risk matrix below:

90-100%	This week	Very High	LIKELIHOOD	5	5	10	15	20
60-90%	This Month	High		4	4	8	12	16
40-60%	This year	Medium		3	3	6	9	12
10-40%	Next 5 years	Low		2	2	4	6	8
0-10%	Next 10 years	Very Low		1	1	2	3	4
				1	2	3	4	
				IMPACT				
				Negligible No noticeable impact	Minor Minor impact, Some degradation of service	Major Significant impact, disruption to core services	Critical Disastrous impact, Catastrophic failure	
SERVICE DELIVERY	Handled within normal day-to-day routines.			Management action required to overcome short-term difficulties.	Key targets missed. Some services compromised.	Prolonged interruption to core service. Failure of key Strategic Project		
FINANCAL	Little loss anticipated.			Some costs incurred. Handled within management responsibilities.	Significant costs incurred. Service level budgets exceeded.	Severe costs incurred. Statutory intervention triggered.		
REPUTATION	Little or no publicity. Little staff comments.			Limited local publicity. Mainly within local government community. Causes staff concern.	Local media interest. Comment from external inspection agencies. Noticeable impact on public opinion.	National media interest seriously affecting public opinion		

**Report to:** Pension Committee

**Date:** 19 September 2023

**By:** Chief Finance Officer

**Title of report:** Investment Report

**Purpose of report:** This report provides Pension Committee with an update on the investment activities undertaken by the East Sussex Pension Fund.

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## RECOMMENDATION

The Pension Committee are recommended to:

1. Note the Quarterly performance of the Investment portfolio
  2. Agree to change the liquid investments where possible to distribute income back to the Fund
  3. Approve the amended asset allocation set out in paragraph 4.22
  4. Approve the revised Investment Strategy Statement Appendix 4
  5. Approve the revised Statement of Responsible Investment Principles Appendix 5
  6. Note the research into the efficacy of divestment and engagement and agree to publish on the Fund's website
  7. Delegate authority to Chief Finance Officer to take all necessary actions to give effect to the implementation of the above recommendations.
- 

## 1. Background

1.1 Under the Local Government Pension Scheme (LGPS) Regulations, the Council is required to maintain a Pension Fund for its employees and other 'scheduled bodies' as defined in the Regulations. The Pension Committee is required to maintain an Investment Strategy Statement (ISS) to govern the Funds' investments and receives a quarterly investment monitoring report, from its investment consultant, Isio.

1.2 The ACCESS Joint Committee has been established as a result of the changes implemented in the 2016 LGPS Investment regulations to facilitate the arrangements relating to the collective investment vehicles, to allow the administering authorities to pool their respective investments. The ACCESS Joint Committee meets quarterly.

## 2. Investment Workplan

2.1 **Appendix 1** shows a workplan which will act as a reference point of all actions agreed at Pension Committee meetings and the forward investment plan.

2.2 The main focus over the next 12 months is:

- Implement the strategic changes in relation to fixed income
- Implementation of remaining/amended investment strategy changes not yet implemented including private debt
- Monitoring of index link triggers for investment
- Work with ACCESS to develop the governance and investment opportunities on the pool platform
- Submission of the Principles of Responsible Investment (PRI) reporting
- Submit the Fund's stewardship code for the calendar year 2022
- Engagement with investment managers on the engagement priorities defined in the Statement of Responsible Investment Principles
- Carry out Carbon Foot printing as at 31 March 2023 (this information is delayed, and will be included in the next report)
- Produce the climate report based on the Taskforce for Climate related Financial Disclosures (TCFD) framework for 2022/23
- Further investigation into climate scenarios
- Consider the creation of a standalone climate policy and biodiversity policy

### 3. Quarterly Performance Report

3.1 The Quarterly Performance Report for Q2 2023 is attached as **Appendix 2**. Since the last reported position, the valuation of the Fund has increased from £4.564bn as at 31 March 2023 to £4.574bn as at 30 June 2023 (an increase of £0.01bn). This performance reflects a positive absolute return of 0.2% in the quarter to June. However the Fund underperformed its benchmark in the period by -1.8%.

3.2 Although performance across the Fund was positive for the period, there was mixed relative performance across equity mandates, illiquid holdings continued to see write downs in performance, and the absolute return funds disappointed.

3.3 Longview, UBS Osmosis, Storebrand, and Baillie Gifford provided strong absolute (4.6%, 4.1%, 3.6% and 3.1% respectively) but mixed relative returns (0.7%, 0.2%, -0.3% and -0.2%) for the quarter. With Ruffer, Harbourvest and Adams Street providing both negative absolute (-6.3%, -2.6% and -2.0% respectively) and relative returns (-8.0%, -6.2% and -5.6%).

3.4 The longer term returns at Fund level remain strong, with equity assets adding significant value over the last decade.

### 4. Strategy Review

4.1 The Fund has completed its March 2022 triennial valuation of the Fund to ensure that the Fund's investment strategy is suitable in relation to the funding expectations of the actuary. Isio has undertaken a detailed review of the Fund's overall investment strategy in order to quantify the inherent risks and to consider options for the evolution of the asset allocation.



4.2 Isio presented initial considerations for the investment strategy to the Pension Committee members at the July strategy day where collaborative discussions took place to identify the preferred direction of travel with the strategy.

4.3 The objectives of the Investment Strategy is to deliver a return that improves the funding level over time (to achieve future lower employer contribution rates), with as little volatility in the funding level as possible (to maintain stability of contributions as far as possible), and maintain sufficient assets to meet liabilities i.e. a minimum funding level of 100%.

4.4 The assumptions underlying the Actuary’s funding basis are important factors in determining the return requirement.

4.5 As the Fund grows, it will also be important to ensure that stability, relative to sponsor budgets, is maintained. The Fund’s current strategy is shown below:

Asset Style	Asset Type	Asset Class	Active/Passive	Asset Allocation %
Growth	Global Equities	Quality	Active	10.0
		Growth Paris Aligned	Active	5.0
		Sustainable Growth	Active	10.0
		Climate Aware Smart Beta	Passive	10.0
		Resource Efficient	Passive	5.0
	Private Equity	Global	Active	5.5
Defensive Growth	Diversified Growth	Absolute Return	Active	10.0
		Real Return	Active	7.0
	Fixed Income	Diversified Credit	Active	10.5
		Private Credit	Active	5.0
Defensive Growth / Inflation Protection	Infrastructure	Global Private	Active	10.0
		Global Listed	Active	1.0
Defensive Growth / Income / Inflation protection	Real Estate	Balanced Property	Active	7.0
Income / Inflation protection	Real Estate	Long Inflation Linked Property	Active	4.0

4.6 The current investment strategy is expected by ISIO to achieve an expected return of 7.8% per annum. The 2022 valuation has factored in a 4.8% discount rate. The discount rate is used to discount future payments to and from the Fund to value of accrued liabilities and

future contribution requirements. The discount rate is designed as a best estimate by the actuary of the investment return for each broad asset class in the Fund's long-term investment strategy, then combine these and make an overall explicit adjustment for expenses and prudence, to try and reduce the impact of volatility and assumptions not bearing true. The expected return at March 2023 of the actuary in calculating the discount rate and for setting contributions was 5.7% returns. The discount rate used to calculate the funding level and allocate assets to scheme employers moves continually and is linked to CPI inflation. To move the expected return of the strategy down i.e. to remove some of the investment risk in the portfolio would also require the Actuary to adjust the valuation calculations which could result in increased contributions from employers.

4.7 It is important to highlight the actuary and the investment consultant calculate best estimate returns differently. The actuary calculates returns based on CPI inflation but with an allowance for capital growth and in the case of equities, future dividend yield. As a result they suggest the long-term best estimate return of the current portfolio as at 31st March 2023 was 5.7%. In contract the Investment Consultant calculates returns using a gilts plus model and so the return on all asset classes will have increased as a result of the increase in gilt yields. Isio in their report suggest the current investment portfolio will generate best estimate return of 7.8%.

4.8 Changes in the investment strategy will impact on the funding level of the Fund and significant changes to the strategy need to be considered in liaison with the Fund Actuary to understand the impacts to the funding level and resulting employer contribution rates.

4.9 The Committee should consider the strategic direction of the Fund in relation to its clear principles in relation to Environmental, Social and Governance (ESG) issues which are summarised in the Statement of Responsible Investment (RI) Principles.

4.10 Based on the estimated 31 March 2023 position and median predicted outcome going forward, the expectation is the Fund will be in a surplus of c. £1,600m in 3 years' time (up from c.£795m at the end of March 2023). Ultimately any surplus could be used to bring down the future service cost of the Fund to the employers.

4.11 Given the current investment risk in the strategy, there is a 1 in 20 chance that a deficit of c.£80m or more could arise in 3 years' time –this would trigger a need for the deficit contribution rate to be paid in addition to the cost of future accrual.

4.12 Given the current strong funding position, the Investment consultant suggests there is scope to reduce investment risk and lessen the impact of any potential downside scenarios, essentially narrowing the range of potential outcomes. Reducing investment risk, and narrowing the range of potential return outcomes, would reduce the potential variability of contribution rates at future valuations. This could be done with minimal impact to expected returns.

4.13 The Fund's key risks are equity exposure. The 40% strategic allocation to equities and 7.5% to private equity means that a fall in equity valuations would result in a material decrease in the Fund's assets.

### **Proposed direction of travel**

4.14 The Committee could consider reducing allocations to the public and private equity reflecting strong funding position. By continuing the direction of travel of reducing overall investment risk and reducing potential volatility in the funding position.

4.15 The Committee should consider the underlying composition of the equity mandate allocations are reviewed now that the resource efficient passive mandate is in place, to balance the share of investment between the resource efficient mandate and the smart beta ESG plus mandate.

4.16 The Fund should consider introducing strategic allocation to index linked gilts increase inflation protection in asset portfolio to manage a key risk faced by the fund of persistently high inflation. Prevailing yields are attractive and the Fund has already started to purchase index linked gilts in line with the previously agreed trigger based framework.

4.17 The Fund should continue to progress an increased private credit allocation reflecting strong opportunity in this asset class. Private credit markets currently offer attractive yields, on an absolute basis and relative to liquid credit, and market dynamics favour those who are able to delay capital for the long term (such as the LGPS). Private credit assets will generate cashflow for the Fund over the short to medium term to meet increased cashflow needs.

4.18 The Fund should consider reinstating a more balanced approach in liquid credit given the higher interest rate sensitivity of Investment Grade Corporate Bonds as their relative attractiveness compared to Diversified Credit has increased. Retaining an Investment Grade Corporate Bonds mandate given their overall yield is appealing in the short to medium term.

### Current Income

4.19 There is a significant risk to the Fund with regard to the cashflows due to the inflation linkage to liabilities and the small reduction to contributions allowed to some employers following the triennial valuation. The Fund will see that income from activities relating to members is lower than the spend to pay pensions, so there is a need for the investments to contribute to the income of the Fund in a more significant manner going forward. The first mitigation for the Fund should be to taking income distributions where it can from its investments. This will allow the Fund to rebalance the portfolio and provide a cashflow that can be used to cover the Fund's benefit payments without having to sell assets. The Fund currently looks to hold around £40m in cash in its Northern Trust account to cover capital calls for the illiquid assets.

4.20 Currently all the illiquid assets are all set up to distribute the income generated to the Fund the closed ended investments will also be returning capital to the Fund as they mature.

4.21 By switching the Fund's liquid investments to distribute cash the Fund could receive about £50m in cash from these investments a year. It should be noted that not all the investments are able to distribute income to the Funds, officers will investigate where distributions can be released. Below is a table setting out the Fund's current income reinvestment status of our investments and income received for the period 2022/23.

Asset Type	Asset Class	Currently Distributing	Income generated 2022/23 £m
<b>Liquid assets</b>			
Global Equity	Smart Beta	No	10.5
	Active Impact	No	-
	Resource Efficient	No	4.6
	Paris Aligned	No	1.2
	Global Equity	No	5

Diversified Growth	Active Impact	No	-
	Real Return	No	7.4
	Absolute Return	No	11.5
Fixed Income	Diversified Credit	No	5.4
	Corporate Bonds	No	3.5
	Index Linked Gilts	No	-
Infrastructure	Global Listed	No	1.1
<b>Total Liquid assets</b>			<b>50.2</b>
<b>Illiquid assets</b>			
Private Equity	Global	Yes	17.3
	Global	Yes	16
Real Estate	Balanced Property	Yes	11.7
Infrastructure	Global Private	Yes	2.9
	Global Private	Yes	-
	Global Private	Yes	8.7
	Global Private	Yes	13.1
Private Credit	Private Credit	Yes	8.1
<b>Total illiquid assets</b>			<b>77.8</b>
<b>Total assets</b>			<b>128</b>

### Proposed Portfolio

4.22 Isio has provided a proposed new structure to the Fund's Strategic Asset Allocation which is anticipated to slightly decrease the expected return from 7.8% to 7.7%. This would provide a better 3 year 1 in 20 downside position from £1,680 to £1,663m (a 7% improvement). The suggested changes would also maintain the assets with a direct linkage to inflation at 18.5%. The proposed changes will slightly reduce the percentage of less liquid assets to 28.5% from the previous 32.5%. The proposed strategic asset allocation is provided below showing the movement between asset classes:

Asset Style	Asset Type	Asset Class	Active/Passive	Asset Allocation %	Change %
Growth	Global Equities	Quality	Active	10.0	-
		Growth Paris Aligned	Active	5.0	-
		Sustainable Growth	Active	10.0	-
		Climate Aware Smart Beta	Passive	7.5	(2.5)
		Resource Efficient	Passive	7.5	2.5
	Private Equity	Global	Active	5.5	-
Defensive Growth	Diversified Growth	Absolute Return	Active	10.0	-

		Real Return	Active	7.0	-
	Fixed Income	Diversified Credit	Active	7.0	(3.5)
		Corporate Bonds	Active	3.5	3.5
		Private Credit	Active	5.0	-
Defensive Growth / Inflation Protection	Infrastructure	Global Private	Active	10.0	-
		Global Listed	Active	1.0	-
Defensive Growth / Income / Inflation protection	Real Estate	Balanced Property	Active	7.0	-
Income / Inflation protection	Real Estate	Long Inflation Linked Property	Active	-	(4.0)
Inflation protection	Fixed Income	Index Linked Gilts	Passive	4.0	4.0

4.23 Isio will talk through the planned strategic changes, reasoning, and impact as they present their report in **Appendix 3**.

4.24 The Fund actuary has advised that the planned changes in the table in 4.22 will not impact on the funding level.

## 5. Investment Strategy Statement

5.1 The Fund is required to produce an Investment Strategy Statement (ISS) under regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

5.2 The Investment Strategy Statement required under Regulation 7, must include:

- A requirement to invest money in a wide variety of investments;
- The authority's assessment of the suitability of particular investments and types of investments;
- The authority's approach to risk, including the ways in which risks are to be measured and managed;
- The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- The authority's policy on the exercise of rights (including voting rights) attaching to investments.

5.3 As a result of the changes to the investment strategy proposed changes in the Investment Strategy Review, officers have reviewed and updated the Investment Strategy Statement (ISS) to reflect the proposed changes. The revised ISS can be seen in **Appendix 4** to this report.

## 6. Statement of responsible investment principles

6.1 The East Sussex Pension Fund (ESPF) Investment Strategy Statement is a statutory requirement codified in the Local Government Pension Scheme (Management and Investment of Funds) (England) Regulations 2016. The Statement of Responsible Investment Principles although not required by statute complements and amends the ESPF's Investment Strategy Statement and explains the Fund's approach to the oversight and monitoring of the Fund's investment activities from a Responsible Investment and Stewardship perspective.

6.2 As part of a review of the Investment Strategy Statement Officers have also reviewed the Statement of Responsible Investment Principles (SRIP). In refreshing the SRIP, officers have incorporated discussions at the investment strategy workshop over RI beliefs, engagement priorities suggest by Committee members, additions to the statement to align with best practice and to include areas identified from the PRI reporting where improvements can be made.

6.3 As a result the proposed changes to the statement of responsible investment principles can be seen in **Appendix 5** to this report.

## 7. ACCESS Update

7.1 Since December 2016 the East Sussex Pension Fund has been working with 10 other administering authorities through the investment pooling arrangement called ACCESS. On the 30 June 2023 there was £24.8bn invested in the authorised contractual scheme (ACS) managed by the pool operator Link Fund Solutions, with a further £10.7bn invested in the UBS passive ACCESS governance arrangements. East Sussex had a total of £2.06bn in ACCESS governed investments, £1.93bn across 6 ACS sub-funds and a further £0.13bn through the UBS passive arrangement.

7.2 The formal Joint Committee was held on 4 September 2023 the agenda is provided at appendix 9 and the following items are highlighted:

- An update on the activities that were achieved against the original business plan and outturn spend for the year were provided. The spend came in at £1.558m for 2023/24, £572 underbudget. This equates to a cost to the Fund of £0.142m for the year.
- The Joint Committee accepted the recommended 2023/24 budget to support the business plan from Section 151 Officers (totalling £1.559m or £142k per council).

7.3 The Chair of Access was re-elected for another term, and committed to continue to bear down on investment management costs, noting that cross fertilisation of funds would accelerate progress.

7.4 A third party review by Barnet Waddingham has recently concluded, and the report will be shared at the Committee's next meeting on 4 December 2023.

## 8. Divest/Engagement Report

8.1 At the July 2022 meeting the Committee requested that officers and the Fund's external advisers conduct a piece of work concurrent with the completion of the triennial valuation which:

1. Assesses the fiduciary and legal consequences of fossil fuel divestment for the Fund;
2. Examines how such a move aligns with relevant guidance and advice;
3. Explores how practical an act it would be within the context of the ACCESS pool; and
4. Reviews evidence on the efficacy of such an approach in promoting the energy transition.

8.2 Isio the Fund's investment consultant have led on the production of this piece of work with input from the Fund's legal advisers. The consultants produced three detailed chapters of analysis and research with the production of a summary report for publication for the benefit of the Funds beneficiaries. Attached to this report is the summary report (**Appendix 6**) detailing the findings of the work and a document setting out the definitions (**Appendix 7**) which set out what is meant within the report when certain phrases are used.

8.3 The research has highlighted that neither engagement nor divestment has been entirely effective to date in bringing about the low carbon transition alone, albeit there remain challenges in analysing the effectiveness of these processes (as compared with the numerous other influences in climate outcomes). It is however clear that the fossil fuel industry has not made the adjustments required to align with a low carbon future and a step change is needed to tackle the climate emergency. This requires escalation in the name of climate action, with investors working alongside companies and governments towards change through engagement with investee companies, effective governance processes for investment managers, engagement with policy makers and the ability for Investment managers to divest from holdings where there is an insufficient energy transition plan or where there is a financial risk of holding those investments.

8.4 The Pension Committee has a fiduciary duty to invest the Fund's assets in the best interests of beneficiaries – and “the fiduciaries’ investment powers must be exercised so as to yield the best return for the beneficiaries, judged in relation to the risks of the investments in question”, as well as with the aim of diversification of investments.

8.5 If the Fund were to implement a fossil fuel divestment policy, the impacts could be significant. For example, combining Isio modelling efforts and manager investment analysis, immediate divestment could cost the Fund circa £79m, including an £18m shortfall in returns (alongside a 12% increase in the 3-year 1 in 20 Value at Risk and reduction in diversification), £61m incurred in transaction costs (with £60m of this coming from infrastructure equity and private equity haircuts). The exit costs of the private markets would be reduced if managed out of the portfolio over the longer term, however this may restrict the ability to invest in best in class value for money asset classes in the future which would impact diversification of the portfolio, investment returns and correlation of the portfolio to market changes. The costs identified in the research are likely to be an underestimate, as they ignore costs, such as the losses of efficiencies of scales from pooling investments, additional custodian fees from ex-fossil fuel segregated mandates, and governance and staffing costs relating to the additional burden of implementing and monitoring the divestment strategy across the Fund, as examples.

8.6 As a result of the completion of research, the Fund will continue to focus on a robust investment strategy in line with the regulatory requirements managing all risks in line with its approved policies.

## **9. Conclusion and reasons for recommendation**

9.1 Investments are regularly monitored to ensure that the Fund's strategic asset allocation set out in the Fund's Investment Strategy Statement (ISS) is being complied with and to keep the Committee informed of any significant concerns with the investment managers, retained to implement the Fund's strategic asset allocation.

9.2 The Pension Committee are recommended to, note the Quarterly performance of the Investment portfolio; agree to change the liquid investments where possible to distribute income back to the Fund; approve the amended asset allocation set out in paragraph 4.22; Approve the revised Investment Strategy Statement Appendix 4; approve the revised Statement of Responsible Investment Principles Appendix 5; note the research into the efficacy of divestment and engagement and agree to publish on the Fund's website; delegate authority to Chief Finance Officer to take all necessary actions to give effect to the implementation of the above recommendations.

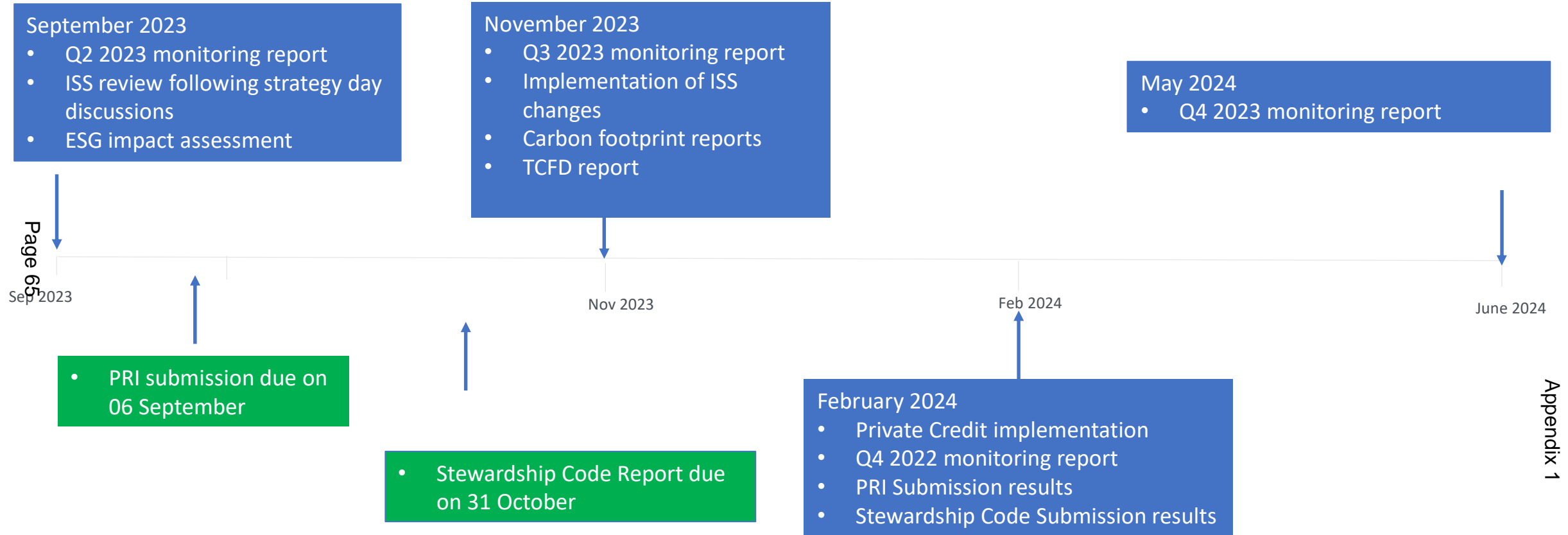
**IAN GUTSELL**  
**Chief Finance Officer**

Contact Officer: Russell Wood, Pensions Manager Investments and Accounting

Email: [Russell.Wood@eastsussex.gov.uk](mailto:Russell.Wood@eastsussex.gov.uk)



# 12 month workplan



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# East Sussex Pension Fund

Investment Performance Report

Quarter to 30 June 2023

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Isio Investment Advisory

**isio.**

Appendix 2

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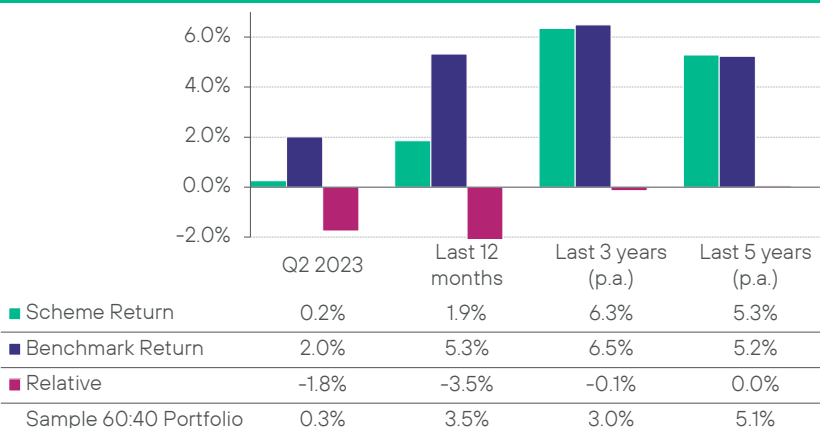
# Highlights

# Executive Summary – 30 June 2023

Access Pool	Fund	Q2 2023 Performance			Value at Quarter End	
		Fund	Benchmark	Relative	31-Mar-23	30-Jun-23
Yes	UBS Osmosis – Sustainable Equity	4.1%	3.9%	+0.2%	£237.0m	£246.8m
Yes	Longview - Global Equity	4.6%	3.9%	+0.7%	£555.7m	£529.0m
No	WHEB – Sustainable Equity	-0.6%	3.9%	-4.5%	£221.8m	£220.6m
No	Wellington – Sustainable Equity	0.0%	3.3%	-3.2%	£222.1m	£222.2m
No	Storebrand – Sustainable Equity	3.6%	3.9%	-0.3%	£501.2m	£519.2m
Yes	Baillie Gifford – Global Equity	3.1%	3.3%	-0.2%	£187.3m	£193.1m
No	Harbourvest – Private Equity <sup>1,2</sup>	-2.6%	3.6%	-6.2%	£179.5m	£179.0m
No	Adams Street – Private Equity <sup>1,2</sup>	-2.0%	3.6%	-5.6%	£195.7m	£191.3m
Yes	Newton – Absolute Return	-1.7%	1.7%	-3.4%	£340.9m	£335.2m
Yes	Ruffer - Absolute Return	-6.3%	1.7%	-8.0%	£478.9m	£448.7m
No	Schroders – Property	0.6%	0.4%	+0.2%	£348.8m	£347.8m
No	UBS – Infrastructure <sup>2</sup>	-2.5%	2.5%	-5.0%	£36.3m	£35.4m
No	Pantheon – Infrastructure <sup>2</sup>	2.2%	2.5%	-0.3%	£81.2m	£83.0m
No	M&G – Infrastructure <sup>2</sup>	0.2%	2.5%	-2.3%	£53.0m	£57.5m
No	IFM – Infrastructure <sup>3</sup>	0.6%	2.5%	-1.9%	£234.1m	£235.4m
No	ATLAS - Listed Infrastructure	-1.0%	-3.0%	+2.1%	£100.9m	£100.0m
No	M&G – Real Estate Debt <sup>2</sup>	2.0%	2.1%	-0.1%	£43.0m	£40.5m
Yes	M&G – Diversified Credit	2.5%	1.9%	+0.7%	£293.2m	£300.6m
Yes	M&G - Corporate Bonds	-4.2%	-4.1%	-0.1%	£123.6m	£118.5m
Yes	UBS - Over 5 Year Index-linked Gilts	-7.8%	-7.8%	-0.0%	£93.8m	£133.2m
<b>Total Assets</b>		<b>0.2%</b>	<b>2.0%</b>	<b>-1.8%</b>	<b>£4,528m</b>	<b>£4,536.9m</b>

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## Period returns – to 30 June 2023



## Commentary

- The Fund's assets delivered a positive absolute return over the quarter, returning 0.2% but underperformed the benchmark return of 2.0% by 1.8%.
- The public equity market managers posted largely positive returns but were mixed in terms of relative performance., with the active impact strategies WHEB and Wellington underperforming
- The Fund's illiquid holdings in private equity, which had performed very strongly over the majority of 2022 continued to see write downs in performance as underlying asset valuations fell more in line with their public market equivalents.
- The various credit mandates posted mixed results in both absolute and relative terms and gilt yields rose and spreads widened by varying degrees across credit sectors. The Schroders property mandate posted a positive return for the first time in 3 quarters, meanwhile the Absolute Return managers, particularly Newton, disappointed over the quarter.
- The longer term returns at Fund level remain strong, with equity assets adding significant value over the last decade.

The asset portfolio delivered a positive return of 0.2% over Q2, underperforming the benchmark by 1.8%.

The public equity market managers posted positive returns but had mixed relative performance as WHEB and Wellington continued to underperform.

The Fund's illiquid holdings in private equity, which had performed very strongly over the majority of 2022 continued to see write downs in performance.

The various credit mandates produced varied absolute performance but performance broadly in line with benchmark.

The Absolute Return managers disappointed over the quarter.

**Note:** Sample 60:40 portfolio consists of 60% allocation to MSCI ACWI and a 40% allocation to a bond portfolio split 20% in BofA Merrill Lynch Global Corporate Index, and 10% in FTSE Gilts (all maturities) and FTSE Index Linked Gilts (all maturities) respectively, with all portfolio returns unhedged in GBP terms.

# Manager Performance – 30 June 2023

Fund	Q2 2023 Performance			1 Year Performance			3 Year Performance			5 Year Performance		
	Fund	Benchmark	Relative	Fund	Objective	Relative	Fund	Objective	Relative	Fund	Objective	Relative
UBS Osmosis – Sustainable Equity	4.1%	3.9%	+0.2%	13.9%	13.2%	+0.7%	-	-	-	-	-	-
Longview – Global Equity	4.6%	3.9%	+0.7%	16.2%	13.2%	+3.0%	14.6%	11.1%	+3.5%	9.5%	9.7%	-0.2%
WHEB – Sustainable Equity	-0.6%	3.9%	-4.5%	10.2%	13.2%	-3.0%	-	-	-	-	-	-
Wellington – Sustainable Equity	0.0%	3.3%	-3.2%	7.4%	11.3%	-3.9%	-	-	-	-	-	-
Storebrand – Sustainable Equity	3.6%	3.9%	-0.3%	11.8%	13.2%	-1.4%	-	-	-	-	-	-
Baillie Gifford – Global Equity	3.1%	3.3%	-0.2%	10.8%	11.3%	-0.5%	-	-	-	-	-	-
Harbourvest – Private Equity <sup>1</sup>	-2.6%	3.6%	-6.2%	-13.3%	13.0%	-26.3%	23.3%	11.5%	+11.9%	18.5%	10.4%	+8.2%
Adams Street – Private Equity <sup>1</sup>	-2.0%	3.6%	-5.6%	-14.0%	13.0%	-27.0%	23.8%	11.5%	+12.4%	18.4%	10.4%	+8.0%
Newton – Absolute Return	-1.7%	1.7%	-3.4%	-3.5%	6.1%	-9.6%	1.9%	3.9%	-2.0%	2.9%	3.6%	-0.7%
Ruffer – Absolute Return	-6.3%	1.7%	-8.0%	-2.0%	6.1%	-8.1%	4.9%	3.9%	+1.0%	5.1%	3.6%	+1.4%
Sciroders – Property	0.6%	0.4%	+0.2%	-15.5%	-17.4%	+1.9%	3.8%	3.4%	+0.4%	2.3%	2.2%	+0.1%
UBS – Infrastructure	-2.5%	2.5%	-5.0%	3.8%	9.9%	-6.2%	-0.5%	8.6%	-9.1%	0.6%	6.3%	-5.7%
Pantheon – Infrastructure <sup>1</sup>	2.2%	2.5%	-0.3%	15.6%	9.9%	+5.7%	14.0%	8.6%	+5.4%	-	-	-
M&G – Infrastructure	0.2%	2.5%	-2.3%	13.8%	9.9%	+3.9%	11.9%	8.6%	+3.3%	-	-	-
IFM – Infrastructure	0.6%	2.5%	-1.9%	-	-	-	-	-	-	-	-	-
ATLAS – Listed Infrastructure	-1.0%	-3.0%	+2.1%	4.3%	-4.9%	+9.2%	-	-	-	-	-	-
M&G – Real Estate Debt	2.0%	2.1%	-0.1%	2.0%	7.6%	-5.6%	4.7%	5.4%	-0.7%	-	-	-
M&G – Diversified Credit	2.5%	1.9%	+0.7%	5.2%	6.6%	-1.4%	4.5%	4.4%	+0.2%	3.8%	4.1%	-0.4%
M&G – Corporate Bonds	-4.2%	-4.1%	-0.1%	-10.3%	-10.2%	-0.1%	-9.6%	-9.9%	+0.3%	-2.2%	-2.8%	+0.6%
UBS – Over 5 Year Index-linked Gilts	-7.8%	-7.8%	-0.0%	-20.0%	-20.0%	-0.1%	-14.9%	-14.8%	-0.1%	-5.5%	-5.5%	-0.0%
<b>Total Assets</b>	<b>0.2%</b>	<b>2.0%</b>	<b>-1.8%</b>	<b>1.9%</b>	<b>5.3%</b>	<b>-3.5%</b>	<b>6.3%</b>	<b>6.5%</b>	<b>-0.2%</b>	<b>5.3%</b>	<b>5.2%</b>	<b>0.1%</b>

**Notes:** Totals may not sum precisely due to rounding. All returns are net of fees. Unless stated otherwise, all performance figures and objectives provided by Northern Trust as at 30 June 2023.

<sup>1</sup> Valuation and performance information as at 31 March 2023.

**Source:** Investment Managers, Northern Trust, Isio calculations.

The table shows manager performance over the short, medium and long-term.

The active impact public equity mandates have continued to struggle relative to their benchmarks over the last 12 months, whilst the active mandate from Longview outperformed over this period.

The private equity mandates have delivered very strong performance over the 3 and 5 year periods, however the performance has been largely negative recently and over the last 12 months as mark downs in private valuations have come through.

Of the infrastructure mandates, Pantheon has performed particularly strongly.

Of the managers that have been in place for the longer term, UBS infrastructure have most significantly underperformed benchmark. This is primarily driven by the disappointing performance of Archmore Fund I.

# Looking Forward

Key issues		
Item	Action points / Considerations	Status
Overall investment strategy Page 72	<b>Liquid Fixed Income Manager Selection</b> <ul style="list-style-type: none"> <li>At the Q1 2022 Committee meeting, Isio presented a paper detailing the proposed implementation approach for selection of the manager to manage the agreed increased allocation to fixed income. The Committee subsequently reached agreement on a preferred choice of manager, Bluebay, and are due to arrange implementation once the fund is available on the ACCESS platform. We currently expect this to be Q4 2023.</li> </ul>	●
	<b>Illiquid Fixed Income Allocation</b> <ul style="list-style-type: none"> <li>The Officers and IWG group have requested Isio consider the options available to the Fund in relation to implementing the strategic allocation to illiquid fixed income. Isio prepared a briefing paper in early 2023 considering this allocation. This will be revisited later in 2023 following the formal investment strategy review currently in progress.</li> </ul>	●
	<b>Investment Strategy Review</b> <ul style="list-style-type: none"> <li>Following the completion of the 2022 Actuarial Valuation and the shift in market regime to a higher interest rate environment over 2022, Isio was asked to perform a formal investment strategy review for the Fund. Isio prepared a paper considering the broad strategic allocation of the Fund and the ongoing appropriateness in the current market environment, for the July strategy day. Discussion will continue at the September meeting when the Committee will be asked to formally agree the new asset allocation.</li> </ul>	●
	<b>Engagement vs Divestment of Fossil Fuels</b> <ul style="list-style-type: none"> <li>Isio have been working with the Officers and Committee on a detailed paper covering the broad merits of engagement vs divestment of fossil fuels, with specific reference to the Fund's circumstances and available options. The findings of which were presented at the July meeting. The final report will be presented at the September Committee meeting.</li> </ul>	●
	<b>Mansion House Speech and Pooling Consultation</b> <ul style="list-style-type: none"> <li>Via the Mansion House speech in July 2023, the UK government is at the early stages of discussing reforms which may encourage LGPS funds to increase private equity allocations in the future. Alongside this, a wide ranging LGPS investment consultation was launched seeking views on proposals relating the areas of asset pooling, levelling up, opportunities in private equity, investment consultancy services and the definition of investments.</li> </ul>	●
Investment Managers	<ul style="list-style-type: none"> <li>Wellington – following a material change in team, Isio are refreshing due diligence on the manager and will share views on this shortly.</li> <li>M&amp;G AOF Sustainable Version – Isio are in the process of researching and forming a view on the newly launched sustainable version of the Fund's existing holding AOF. Isio will share views on this shortly.</li> </ul>	●

## Summary

This page sets out the main action / discussion points.

## Status key

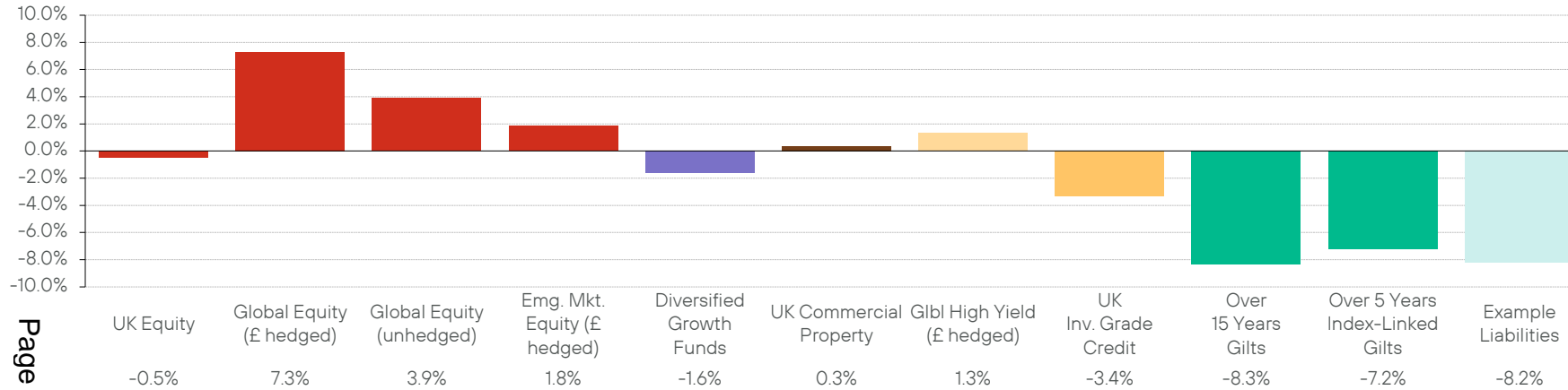
- Action
- Decision
- Discussion
- Information only



# Market Background

# Market Background – Overview Q2 2023

## Returns by Asset Class – Q2 2023



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## Key Upcoming Events

- The dates for the Bank of England's Monetary Policy Committee (MPC) announcements in Q3 2023 are 3 August and 21 September.
- The dates for the US Federal Reserve's Federal Open Market Committee (FOMC) announcements in Q3 2023 are 26 July and 20 September.

## Commentary

- Growth markets delivered mixed returns over Q2 2023, as there was a notable dispersion in performance across asset classes, sub-sectors, and geographies.
- Global equity markets delivered positive performance over Q2, despite continued interest rate hikes by major central banks. Strong returns were largely driven by developed markets (most notably the US), which benefitted from a rally in technology stocks, driven by growing enthusiasm over Artificial Intelligence.
- Over Q2, global bond market performance was mixed, as volatility somewhat stabilised after the previous quarter's banking crisis, though there was a dispersion in performance across underlying credit sub-sectors.
- Government bond yields rose over the quarter, with the UK being impacted the most due to higher-than-expected inflation.

## Summary

Equity markets saw broadly positive performance over the quarter, while returns were generally mixed across the major credit markets.

Over April and May, market jitters around the US regional banking crisis and the potential for it to spread to the European banking sector subsided.

However, as the quarter progressed, major central bank policies diverged, with the US Federal Reserve raising base rates once in May, by 25bps, ending at 5.25%, while the Bank of England announced two base rate hikes of 25bps (May) and a further 50bps (June), bringing the UK interest rate to 5.0% at the end of Q2 2023.

Investor sentiment was relatively positive as a soft landing scenario in the US became market consensus boosting equity performance, particularly mega-cap tech stocks.

Notes: Please see the 'Explanation of Market Background' appendix for details of the returns representing each asset class.

Sources: Refinitiv, DGF investment managers, Isio calculations.

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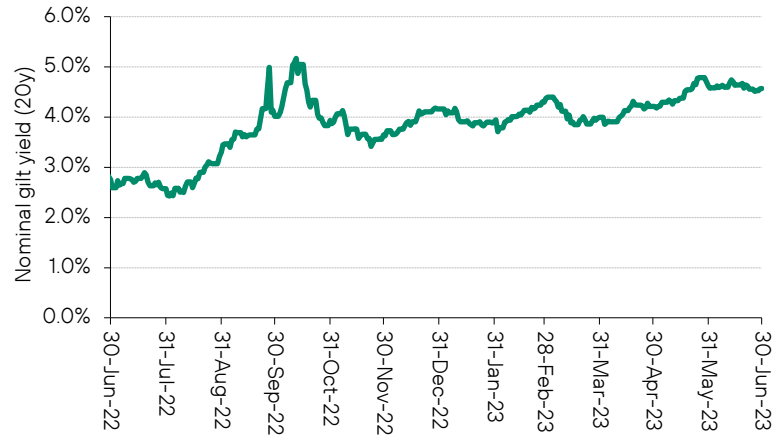
# Market Background – Yields

Real Gilt Yields – Last 12 months

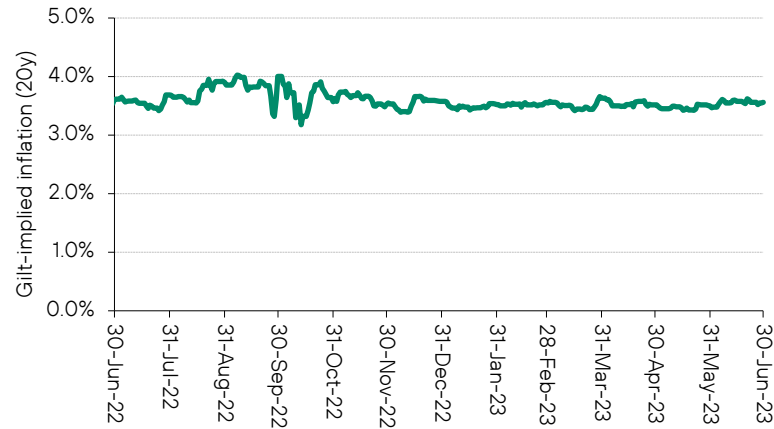


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Nominal Gilt Yields – Last 12 months



Gilt-Implied Inflation – Last 12 months



Example Liabilities

- The liabilities for an example DB pension scheme decreased by c.8.2% over the quarter. This can be broken down into the following components:
  - c. 6.3% decrease, due to the increase in real yields;
  - c. 2.9% decrease, due to the increase in nominal yields; and
  - c. 1.0% increase due to the “unwinding” effect (also known as “interest” on the liabilities).
- The liabilities for an example DB pension scheme decreased by c.20.6% over the last 12 months.

These charts show yield movements at the 20-year tenor over the past year.

The “Example Liabilities” indicate how a typical scheme’s past-service liabilities may have moved.

## Gilt Yield and Implied Inflation Changes

### 20-year Real Gilt Yield

April	0.33%
May	0.41%
June	-0.11%
<b>Quarter</b>	<b>0.62%</b>

### 20-year Nominal Gilt Yield

April	0.22%
May	0.41%
June	-0.05%
<b>Quarter</b>	<b>0.57%</b>

### 20-year Gilt-Implied Inflation

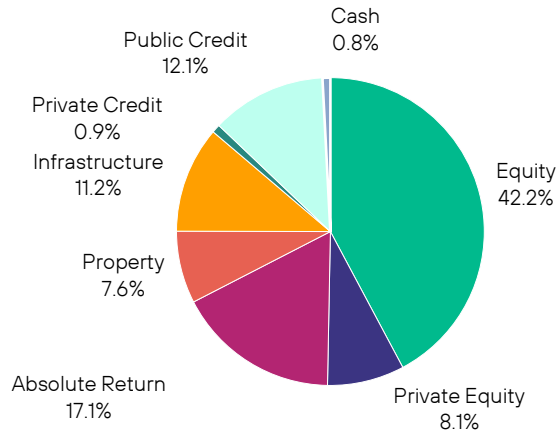
April	-0.12%
May	-0.01%
June	0.06%
<b>Quarter</b>	<b>-0.07%</b>

Notes: Please see the ‘Explanation of Market Background’ appendix for details of the example liabilities. Monthly yield changes may not sum to quarterly changes, due to rounding. Zero coupon rates are shown.  
Sources: Bank of England, Isio calculations.

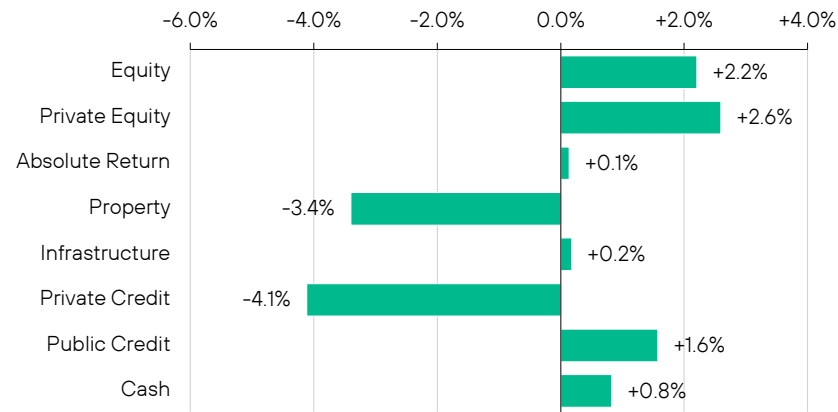
# Strategy Overview

# Asset Allocation – at 30 June 2023

## Asset Allocation – 30 June 2023

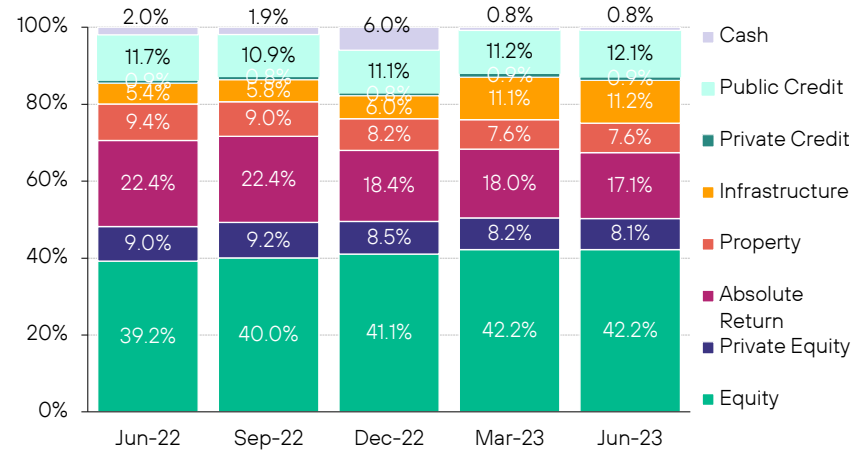


## Assets Relative to Benchmark – 30 June 2022



**Note:** Totals may not sum due to rounding.  
**Source:** Investment managers, Isio calculations.

## Asset Allocation Changes Since 30 June 2022



## Commentary

- As at June 2023, the Fund's asset allocation remained off-benchmark relative to the target asset allocation; though steps are being taken to address this through continued implementation of the agreed target investment strategy.
- The absolute return, equity (public and private) and cash allocations continue to be overweight; while the private credit allocation remains underweight.
- Subject to any changes following the ongoing investment strategy review, the allocations will be brought more closely in line with the strategic benchmark as the new mandates are agreed and implemented going forward.
- More specifically, a commitment to private credit is expected to be made in the coming quarters, with capital drawn into the chosen fund following this.
- A formal asset allocation review took place in July, with a decision on the final revised target asset allocation will be taken in the September meeting.

## Summary

As at June 2023, the Fund's asset allocation was off-benchmark following strategic changes to the Fund's asset allocation agreed by the Committee but which are yet to be implemented.

Notwithstanding any changes agreed as part of the ongoing investment strategy review, allocations will be brought more closely in line to the revised benchmark as managers for the new mandates are agreed and implemented over the coming quarters.

A formal asset allocation review took place in July, with a decision on the final revised target asset allocation will be taken in the September meeting.

## Total Assets

Start of quarter £4,564m  
 End of quarter £4,575m

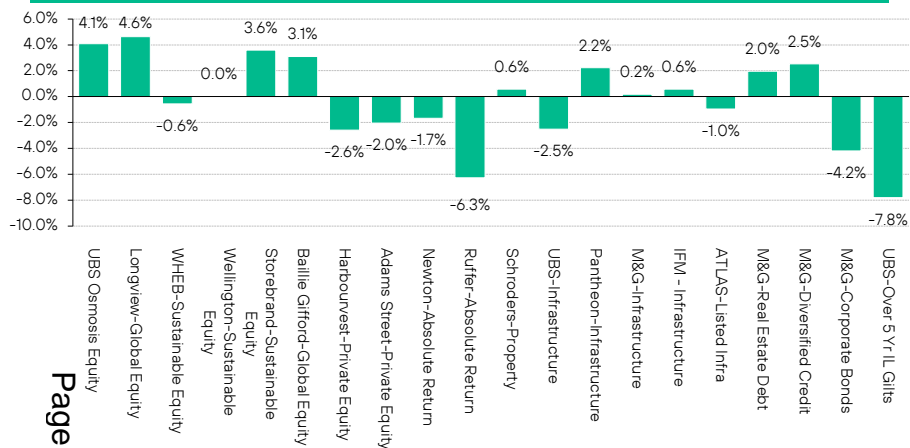
## Agreed long-term allocation

Equity	40.0%
Private Equity	5.5%
Absolute Return	17.0%
Balanced Property	7.0%
Inflation-Linked Property	4.0%
Infrastructure	11.0%
Public (Diversified) Credit	10.5%
Private Credit	5.0%

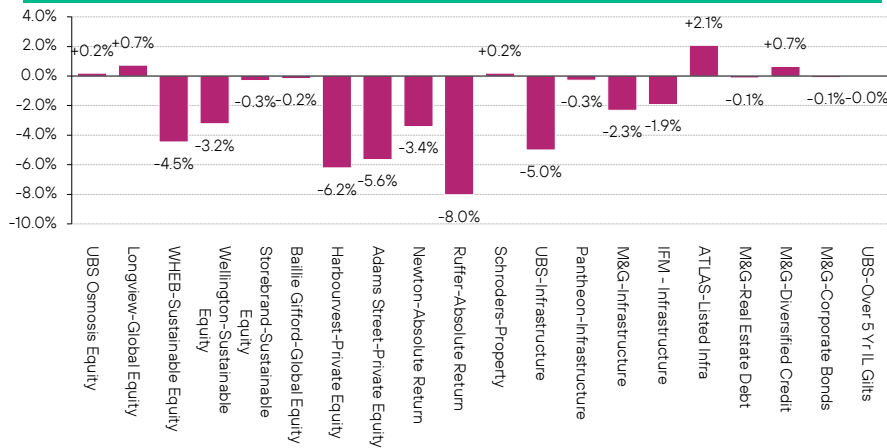
# Investment Managers

# Performance Summary – to 30 June 2023

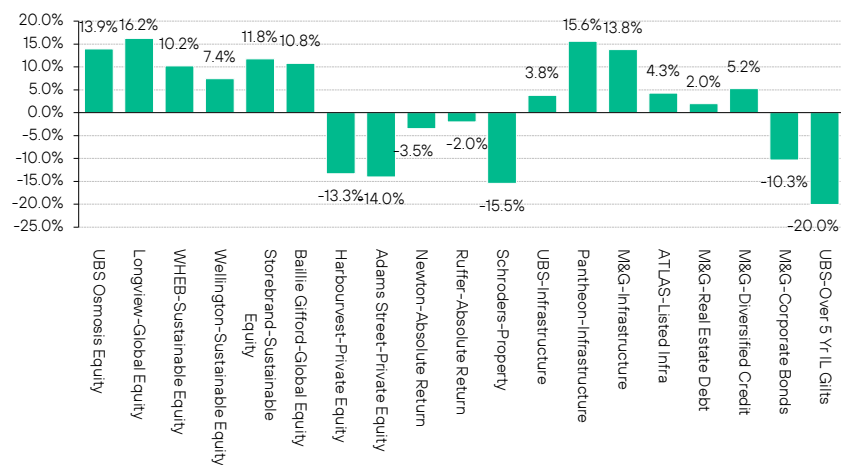
Absolute Return – Q2 2023



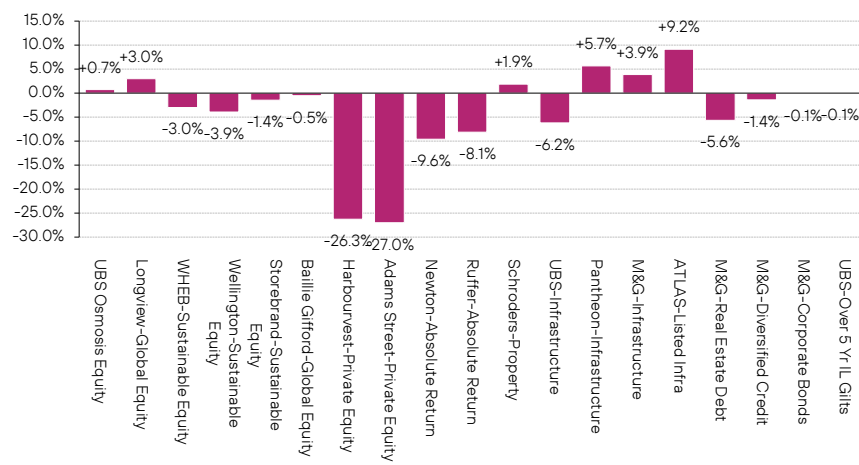
Relative Return – Q2 2023



Absolute Return – 12 months



Relative Return – 12 months



## Summary

The Fund's mandates delivered mixed absolute performance over Q2, with private equity funds producing negative returns as valuations were marked to market on a lagged basis relative to public markets. The absolute return funds and the index-linked gilts delivering the most notable negative absolute performance.

The Fund's listed equity, infrastructure and diversified credit produced positive contributions within the portfolio over Q2 in terms of absolute return levels.

On a relative basis over Q2 Wellington equity, WHEB equity, Newton, Ruffer absolute return and UBS infrastructure all underperformed and Atlas was the stand out outperformer.

Private equity relative returns over the year have been particularly poor, although longer term relative returns remain been strong.

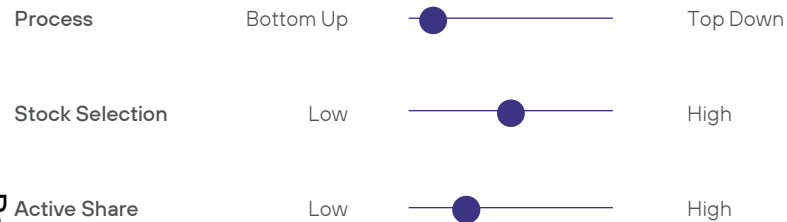
**Note:** Returns net of fees. 12 month relative and absolute returns are not available for the UBS Osomosis mandate as it was inception post 30 September 2021.

**Source:** Investment Managers, Northern Trust, Isio calculations.

# UBS / Osmosis – Sustainable Equity

## Overview

The Fund adopts an optimised, smart beta approach, investing in global equities with the aim of approximating the performance and risk profile of the index, with an explicit incorporation of ESG and climate-related risks.



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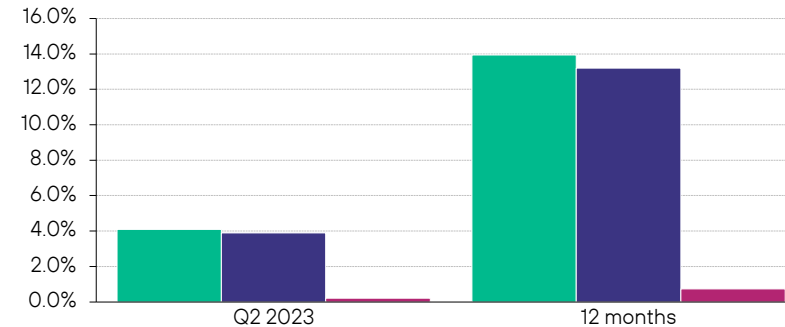
Key area	Comments
Key contributors/detractors	<ul style="list-style-type: none"> <li>Strongest contributors were Advanced Micro Devices (US IT), Carrier Global Corp (US Industrials) and Nvidia (US IT), Key detractors were Alphabet (US IT), Lilly Eli (US Health Care) and Hershey (US Consumer Staples).</li> </ul>
Portfolio positioning	<ul style="list-style-type: none"> <li>Intuit (US IT) was added to the portfolio. Sainsbury were sold.</li> <li>The overall sector and country weights have remained similar to the previous quarter, maintaining the targeted tight factor exposures to the MSCI World benchmark.</li> </ul>
Outlook	<ul style="list-style-type: none"> <li>Low active risk means that future relative returns will continue to be low, with performance versus the index driven by fossil fuel returns and the success of the resource efficiency signal (which has added value in line with expectations since the Fund's inception).</li> </ul>

**Note:** Totals may not sum due to rounding. Performance quoted net of fees. Performance shown since inception of the Fund's investment on 3 March 2022.

**Source:** Investment manager, Northern Trust, Isio calculations.

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## Performance to 30 June 2023



Return	4.1%	13.9%
Benchmark	3.9%	13.2%
Relative	+0.2%	+0.7%

Metrics	Current Quarter	Last Quarter	View/change
Stocks (no.)	573	511	Material decrease, but in line with quant process
12m turnover	24%	24%	Remained constant
Active share	45%	49%	Low, in line with expectations
Top 3 sectors	Information Technology (24%), Financials (16%), Health Care (13%).		
Top 3 stocks	Apple Inc (6%), Microsoft Corp (5%), NVIDIA Corp(2%).		
Top 3 regions	North America (73%), Europe (18%), Asia (9%).		

**Mandate:** Sustainable Passive Global Equities

**Current Value:** £246.8m

**Current Weighting:** 5.4%

**Inception:** March 2022

**Benchmark:** MSCI World

**Objective:** Achieve superior risk-adjusted returns by targeting maximum resource efficiency exposure while maintaining a tight tracking error to the MSCI World.

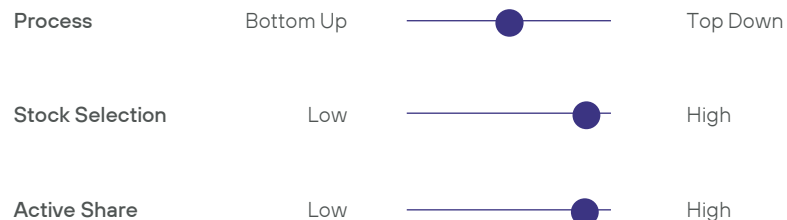
**Pooled:** Via Access Pool



# Longview - Global Equity

## Overview

The strategy utilises a bottom-up approach to invest in 30-35 high quality global companies which have strong business fundamentals and a market capitalisation greater than \$5 billion.



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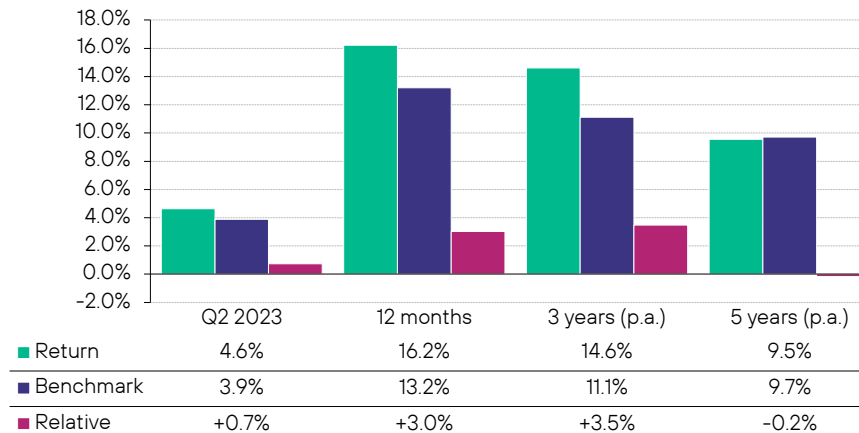
Key area	Comments
Key contributors/detractors	
Portfolio positioning	
Outlook	

**Note:** Totals may not sum due to rounding. Performance quoted net of fees.

**Source:** Investment manager, Northern Trust, Isio calculations.

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## Performance to 30 June 2023



Metrics	Current Quarter	Last Quarter	View/change
Stocks (no.)	31	30	In line with expectations
12m turnover	21%	24%	Low relative to peers
Active share	90%	91%	High relative to peers
Top 3 sectors	Financials (31%), Health Care (22%), Consumer Staples (14%)		
Top 3 stocks	Oracle (5%), Microsoft (4%), HCA Healthcare (4%)		
Top 3 regions	US (84%), UK (7%), Netherlands (6%)		

**Mandate:** Active Global Equities

**Current Value:** £529.0m

**Current Weighting:** 11.7%

**Inception:** April 2013

**Objective:** Outperform benchmark by 3% (gross) p.a. over rolling 3 year periods.

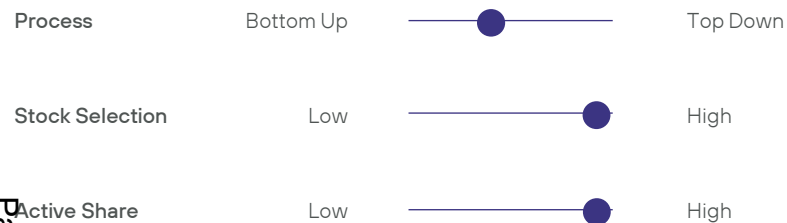
**Benchmark:** MSCI AC World

**Pooled:** Via Access Pool

# WHEB – Impact Equity

## Overview

The Fund utilises an unconstrained global equity approach which focuses on investing in companies capitalising on opportunities created by the transition to healthy, low carbon and sustainable economies, across nine broad sustainability themes.



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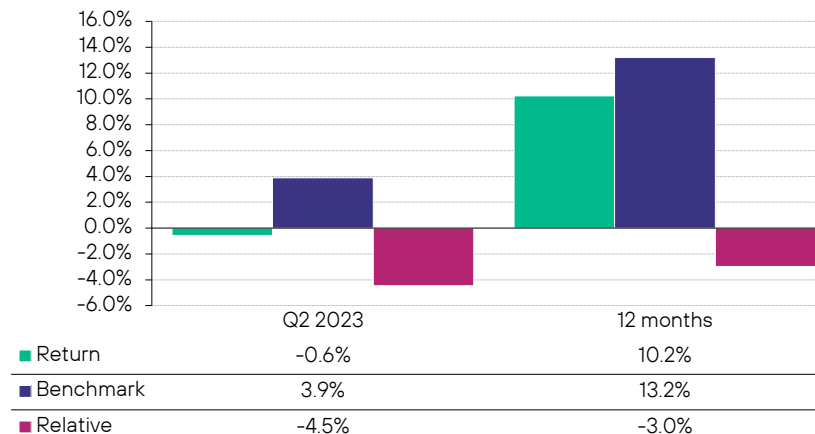
Key area	Comments
Key contributors/detractors	<ul style="list-style-type: none"> <li>Underperformance was driven by not holding some of the names benefiting from AI.</li> <li>Health and Cleaner Energy were the weakest performing themes over the quarter. Largest detractors were Agilent Technologies, First Solar and SolarEdge.</li> </ul>
Portfolio positioning	<ul style="list-style-type: none"> <li>No new additions or exits during the quarter.</li> </ul>
Outlook	<ul style="list-style-type: none"> <li>WHEB are cautious about market volatility, but believe the diversification and the quality of the portfolio will provide resilience in the medium to long-term.</li> <li>With the mandate's higher active share, we expect it to continue to deliver relative return volatility.</li> </ul>

**Note:** Totals may not sum due to rounding. Performance quoted net of fees.

**Source:** Investment manager, Northern Trust, Isio calculations.

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## Performance to 30 June 2023



Metrics	Current Quarter	Last Quarter	View/change
Stocks (no.)	41	41	Relatively concentrated – low end of target
12m turnover*	31%	28%	Further detail on right
Active share	97%	97%	High relative to peers
Top 3 sectors	IT (30%), Healthcare (27%), Industrials (26%)		
Top 3 stocks	Icon (3%), MSA Safety (3%), Advanced Drainage Systems (3%)		
Top 3 regions	North America (66%), Western Europe (16%), Japan (8%)		

**Mandate:** Active Impact Global Equity

**Current Value:** £220.6m

**Current Weighting:** 4.9%

**Inception:** December 2020

**Benchmark:** MSCI World

**Objective:** To achieve capital growth over the medium to longer term.


**Pooled:** No


**\*12m turnover:** The manager has confirmed that the higher turnover is as a result of the higher market volatility, which led to more upgrades and downgrades and ad hoc redemptions, which resulted in higher trading activity. They expect it to come down in future.

# Wellington – Impact Equity

## Overview

The Fund aims to invest in innovative companies whose core products and services addresses the world's major social and environmental challenges. Wellington choose stocks from the universe list which has been derived from a number of sources such as internal and field research, company meetings, conferences or third party research.

Process Bottom Up  Top Down

Stock Selection Low  High

Active Share Low  High

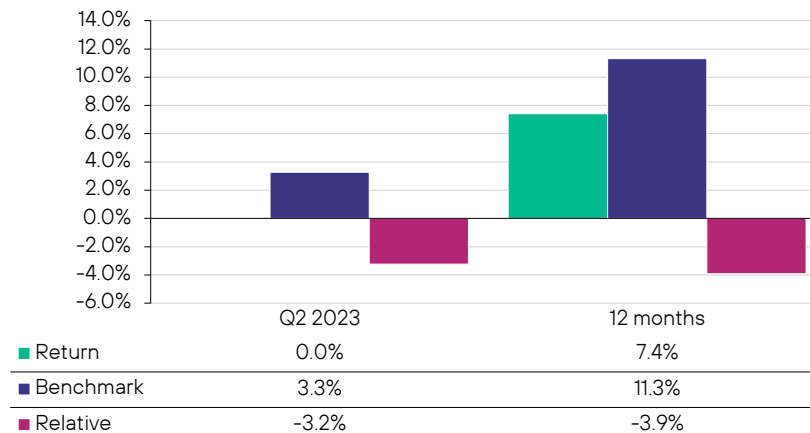
Key area	Comments
Key contributors/detractors	<ul style="list-style-type: none"> <li>Stock selection detracted over Q2; specifically, the Fund's lack of exposure to certain US large-cap technology firms weighed on relative returns (Apple and Nvidia were two of the largest three detractors from relative performance) as market returns were driven by a narrow range of stocks.</li> </ul>
Portfolio positioning	<ul style="list-style-type: none"> <li>Wellington swapped their position in Acciona (Alternative Energy, Spain) for a new position in EDP Renovaveis (Alternative Energy, Portugal), due to expected headwinds in Spanish policy and promising growth prospects of EDPR.</li> <li>Wellington completed three purchases and two sales.</li> </ul>
Outlook	<ul style="list-style-type: none"> <li>The team continue to find opportunities in healthcare and alternative energy, and to identify firms which provide solutions to meet the rising demand for affordable housing. The fund has a tilt towards high growth and small firms, two factors which drive active risk relative to the benchmark.</li> </ul>

Sources: Investment manager, Isio calculations.

Notes: Returns net of fees. \*Please note this may include sales/purchases which were in the process of being completed as at the quarter end.

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## Performance to 30 June 2023



Metrics	Current Quarter	Last Quarter	View/change
Stocks (no.)	66	66*	High end of 50-70 range
12m turnover	30%	27%	Higher than typical, to be monitored.
Active share	98%	98%	High, in line with expectations
Top 3 sectors	Clean Water & Sanitation (6%), Alternative Energy (5%), Affordable Housing (4%)		
Top 3 stocks	Xylem Inc (4%), Hubbell Inc (3%), Boston Scientific (3%)		
Top 3 regions	North America (62%), Europe ex UK (19%), Emerging markets (10%)		

**Mandate:** : Active Impact Global Equities

**Current Value:** £222.2m

**Current Weighting:** 4.9%

**Inception:** December 2020

**Benchmark:** MSCI AC World

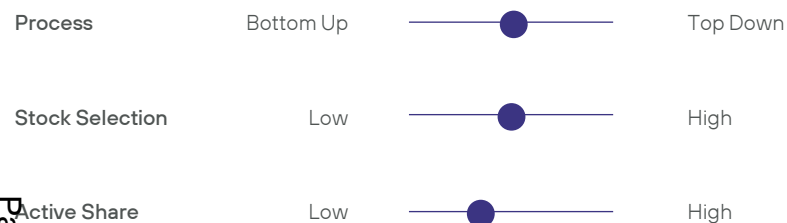
**Objective:** To outperform the MSCI All Country World Index over the long-term.

**Pooled:** No

# Storebrand – Sustainable Equity

## Overview

The Fund adopts an optimised, smart beta approach, investing in global equities with the aim of approximating the performance and risk profile of the index, with an explicit incorporation of ESG and climate-related risks.



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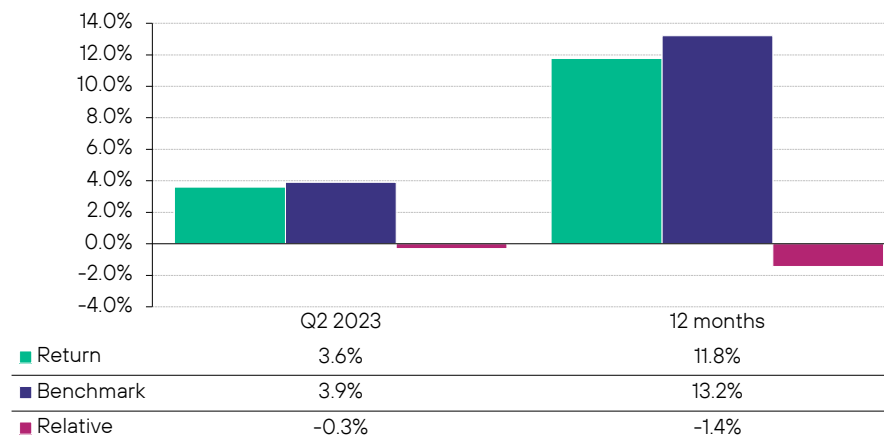
Key area	Comments
Key contributors/detractors	<ul style="list-style-type: none"> <li>The fossil fuel screen, which was the main detractor in 2022, added +0.7% to relative returns in Q2.</li> <li>While oil and gas was by far the best-performing sector in the MSCI World index last year, with relative outperformance of 64%, it has been the biggest laggard in the first half of 2023, with a -7% relative return.</li> </ul>
Portfolio positioning	<ul style="list-style-type: none"> <li>Close to ninety percent of the fund is invested in a broad selection of companies which are neither part of the investment screens, nor climate solutions companies. Climate solutions companies remain about 11% of the portfolio.</li> </ul>
Outlook	<ul style="list-style-type: none"> <li>Store brand is working on carbon intensity data and implementing change into how this information is used in portfolio construction.</li> </ul>

**Note:** Totals may not sum due to rounding. Performance quoted net of fees.

**Source:** Investment manager, Northern Trust, Isio calculations.

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## Performance to 30 June 2023



Metrics	Current Quarter	Last Quarter	View/change
Stocks (no.)	752	710	Slight increase
12m turnover	9%	11%	Stable
Active share	42%	44%	Low, as expected
Top 3 sectors	IT (25%), Financials (14%), Industrials (14%)		
Top 3 stocks	Apple (6%), Microsoft (5%), Amazon (2%)		
Top 3 regions	United States (68%), Japan (7%), UK (4%)		

**Mandate:** Sustainable Passive Global Equities

**Current Value:** £519.2m

**Current Weighting:** 11.4%

**Inception:** December 2020

**Benchmark:** MSCI World

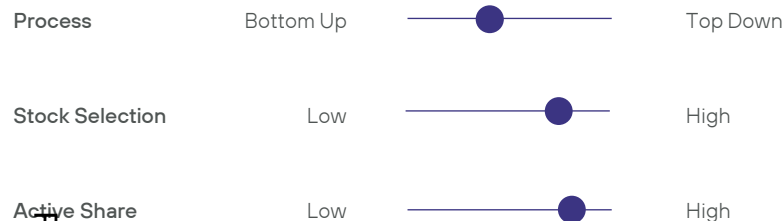
**Objective:** Reproduce risk-return profile of the MSCI World Index

**Pooled:** No

# Baillie Gifford – Global Paris Aligned Equity

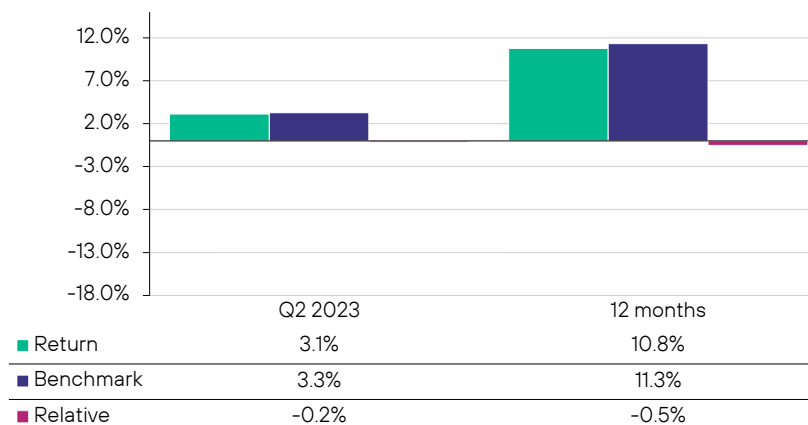
## Overview

The Fund utilises an unconstrained global equity approach which focuses on investing in companies displaying above average earnings growth and sustainable competitive advantages in their respective industries, whilst aligning to the UN Paris Agreement climate commitments.



Key area	Comments
Key contributors/detractors	<ul style="list-style-type: none"> <li>The Fund performed broadly in line with the parent Global Alpha Fund, which marginally underperformed the index.</li> <li>As long-term investors, BG is taking advantage of investments where valuations appear anomalous (as opposed to being driven by short-term fear and uncertainty). BG has been supporting transaction-based online platforms; as well as, the search for returns on advertising spend.</li> </ul>
Portfolio positioning / transactions	<ul style="list-style-type: none"> <li>BG made 5 purchases (Advanced Micro Devices Inc, ASM International, NVIDIA, Samsung Electronics and Sartorius Stedim Biotech) and 3 sales (Axon Enterprise Inc, Booking Holdings Inc and Meituan).</li> </ul>
Outlook	<ul style="list-style-type: none"> <li>BG note that they will continue to back the winners in the portfolio and leverage their ability to invest across the growth spectrum.</li> </ul>

## Performance to 30 June 2023



Metrics	Current Quarter	Last Quarter	View/change
Stocks (no.)	90	88	Broadly unchanged
12m turnover	14%	23%	Slight decrease
Active share	84%	86%	In line with expectation
Top 3 sectors	Consumer Disc (21%), Financials (19%), IT (16%).		
Top 3 stocks	Microsoft (4%), Amazon.com (3%), Elevance Health (3%),		
Top 3 regions	North America (62%), Europe ex UK (16%), Emerging Markets (10%)		

**Mandate:** Global Equities

**Current Value:** £193.1m

**Current Weighting:** 4.3%

**Inception:** August 2021

**Benchmark:** MSCI AC World

**Objective:** Outperform benchmark by 2.0% p.a. (net of fees) over rolling 5-year periods

**Pooled:** Via Access Pool

**Note:** Totals may not sum due to rounding. Performance quoted net of fees. The Fund switched into the Paris-aligned version of the Global Alpha Fund over Q2 2022 and performance is combined.

**Source:** Investment manager, Northern Trust, Isio calculations.

# Harbourvest – Private Equity

## Overview

HarbourVest manage a global private equity portfolio for the Fund, invested globally across a range of subclasses (buyout, venture, debt/credit, among others).

Style	Multiple: Buyout, venture, credit
Stage	Multiple: Primary, secondary
Access	Fund-of-Funds
Vintage Year	Multiple: 2004-2021
Regional Focus	Global

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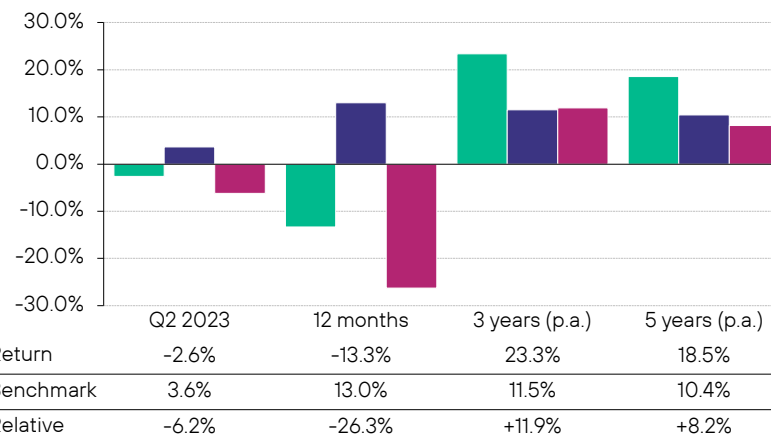
Key area	Comments (3 month lagged)
Performance	<ul style="list-style-type: none"> <li>Similarly to last quarter, the portfolio produced negative returns over the quarter as private valuations were marked down; however, long term performance remains very strong.</li> </ul>
Developments over quarter	<ul style="list-style-type: none"> <li>Several funds distributed proceeds back to investors during Q1, with the most sizeable distributions coming from HIPEP VI and VII Partnership Funds.</li> </ul>
Outlook	<ul style="list-style-type: none"> <li>HarbourVest has not provided specific outlook for the portfolio.</li> </ul>

**Note:** Totals may not sum due to rounding. Performance quoted net of fees.

**Source:** Investment manager, Northern Trust, Isio calculations.

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## Performance to 30 June 2023



Metrics (3m lag)	Current Quarter	Last Quarter	View/change
IRR (net)	10.8%	10.8%	As expected
Capital Deployed/Raised	70%	68%	Slight increase
DPI	0.99x	1.0x	Slight decrease
TVPI	1.7x	1.7x	No change
Top 3 subclasses	Buyout (54%), Venture (45%), Credit (1%)		
Top 3 regions	North America (58%), Europe (24%), Asia (15%)		

**Mandate:** Private Equity

**Current Value:** £179.0m

**Current Weighting:** 3.9%

**Inception:** January 2003

**Benchmark:** MSCI World + 1.5%

**Objective:** MSCI World + 3.0%

**Pooled:** No

# Adams Street – Private Equity

## Overview

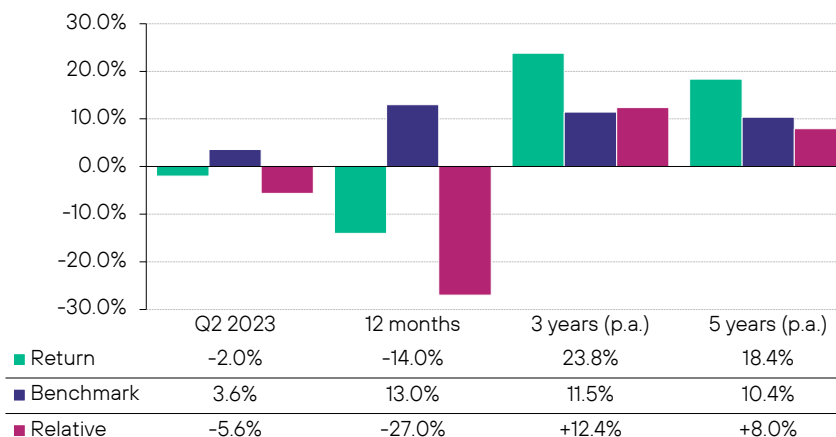
Adams Street manage a global private equity portfolio for the Fund, combining Partnerships and Co-investments, invested globally across a range of subclasses (buyout, venture, energy, debt/credit, among others).

Style	Multiple: Buyout, venture, debt
Stage	Multiple: Primary, secondary, co-investment
Access	Fund-of-Funds
Vintage Year	Multiple: 2003-2021
Regional Focus	Global

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Key area	Comments (3 month lagged)
Performance	<ul style="list-style-type: none"> <li>Similarly to last quarter, there was a small reduction in IRR, which is in line with expectations as private equity valuations continue to be adjusted downwards in line with public markets.</li> </ul>
Developments over quarter	<ul style="list-style-type: none"> <li>No significant developments over the quarter</li> <li>c. \$3.3m in distributions over Q1</li> <li>c. \$2.9m capital called over Q1</li> </ul>
Outlook	<ul style="list-style-type: none"> <li>Adams Street have highlighted that there has been a resurgence in equity markets in the first-half of 2023, with pricing and valuations being seen to revert towards historical means. They see the environment to be more compelling for Venture, with Venture capital firms seeing a lot of potential value creation due to the pace of technological developments.</li> </ul>

## Performance to 30 June 2023



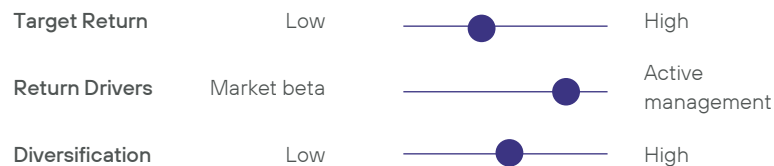
Metrics (3m lag)	Current Quarter	Last Quarter	View/change
IRR (net)	11.8%	11.9%	Slight reduction
Capital Deployed/Raised	81%	80%	Slight increase
DPI	1.1x	1.1x	Unchanged
TVPI	1.8x	1.8x	Unchanged
Top 3 subclasses (Partnerships)	Buyout (61%), Venture (29%), Other (7%)		
Top 3 regions (Partnerships)	United States (59%), Western Europe (27%), Asia (11%)		

**Mandate:** Private Equity  
**Current Value:** £191.3m  
**Current Weighting:** 4.2%  
**Inception:** March 2003  
**Benchmark:** MSCI World + 1.5%  
**Objective:** MSCI World + 3.0%  
**Pooled:** No

# Newton – Absolute Return

## Overview

The Fund aims to generate returns by investing in a wide universe of global securities. The Fund allocates between return seeking, and risk reducing positions, dynamically changing asset allocations over time in order to add value. The primary aim is to deliver positive risk adjusted returns in all market economic environments.

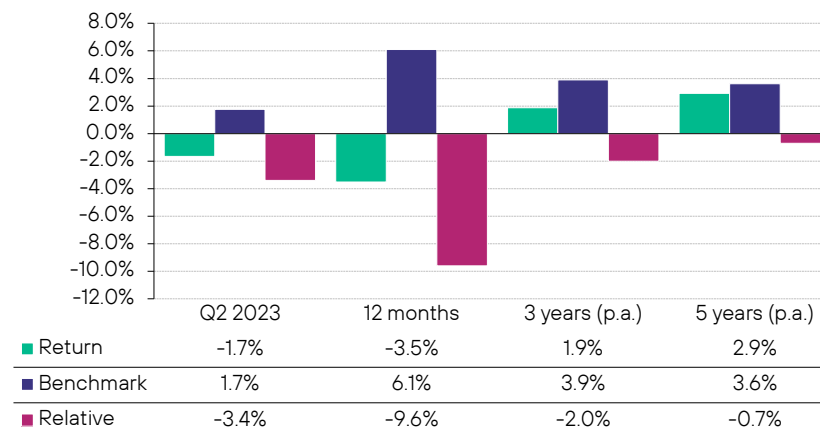


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Key area	Comments
Key contributors/detractors	<ul style="list-style-type: none"> <li>Negative absolute return was driven by the stabilising layer, with the equity hedges in place detracting from overall returns as markets began continued to rally over the period.</li> <li>Within the return seeking part of the portfolio, equities were a contributor to performance with names in areas such as technology benefitting from the rally in specific sectors.</li> </ul>
Portfolio positioning	<ul style="list-style-type: none"> <li>Newton simplified the strategy somewhat by lowering gross equity exposure as well as hedging strategies. This left the overall exposures relatively unchanged, however freed up a small amount of capital that Newton will deploy if they see an attractive opportunity.</li> </ul>
Outlook	<ul style="list-style-type: none"> <li>The team retain a cautious stance and believe that whilst recent 'mini-crisis' have been contained, there will be a correction ahead and are positioned accordingly.</li> </ul>

Sources: Investment manager, Isio calculations.  
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## Performance to 30 June 2023



Metrics	Current Quarter	Last Quarter	View/change
Correlation to equity (1 year)	55%	59%	In line with expectations
Volatility (1 year)	6.0%	5.7%	In line with expectations
Top 3 asset-classes	Equities (29%), Alternatives (18%), Government bonds (16%)		
Equity sector breakdown	Healthcare (6.2%), Technology (5.6%), Consumer Discretionary (4.7%),		

**Mandate:** Diversified Growth Fund

**Current Value:** £335.2m

**Current Weighting:** 7.3%

**Inception:** April 2010

**Benchmark:** 3-month SONIA + 2.5%

**Objective:** 3-month SONIA + 4% p.a. (gross) over rolling 5 years

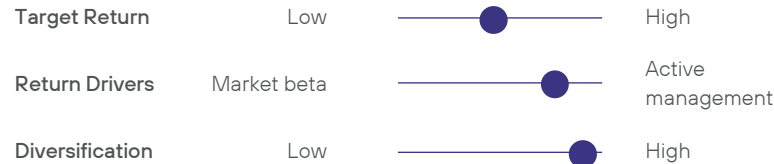
**Pooled:** Via Access Pool



# Ruffer – Absolute Return

## Overview

The Fund has two investment aims; to deliver positive returns in any rolling twelve month period and ahead of the risk-free rate. The strategy has a strong focus on capital preservation, the core investment objective of the Fund.



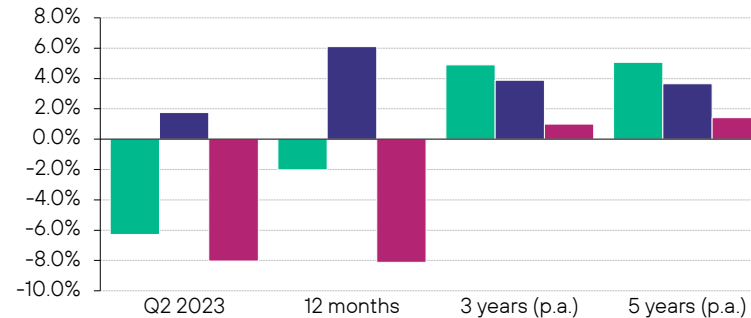
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Key area	Comments
Key contributors/detractors	<ul style="list-style-type: none"> <li>Negative returns were primarily attributable to the fact that investment markets diverged from Ruffer's central view that challenges lie ahead</li> <li>Protective strategies were the largest detractor as these positions performed weakly amidst global markets providing positive returns.</li> <li>The equity exposure lagged the broader market as a result of the underweights to certain sectors (i.e. technology).</li> </ul>
Portfolio positioning	<ul style="list-style-type: none"> <li>The Fund remains defensively positioned, with a high allocation to index linked gilts reflecting the view that inflation will remain above-target over the medium term.</li> </ul>
Outlook	<ul style="list-style-type: none"> <li>Ruffer believe there will be a sharp reversal in valuations and are positioned accordingly. However they are wary that their view may lead to short term underperformance.</li> </ul>

Sources: Investment manager, Isio calculations.

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## Performance to the end of the quarter



	Q2 2023	12 months	3 years (p.a.)	5 years (p.a.)
Return	-6.3%	-2.0%	4.9%	5.1%
Benchmark	1.7%	6.1%	3.9%	3.6%
Relative	-8.0%	-8.1%	+1.0%	+1.4%

Metrics	Current Quarter	Last Quarter	View/change
Correlation to equity (1 year)	10%	41%	Low Reflects portfolio positioning
Volatility (1 year)	5.4%	6.1%	In line with expectations
Top 3 asset-classes	Short-dated bonds (34.3%), Index linked gilts (8.8%) Cash (9.3%)		
Top 3 detractors to return	Currency exposure (-2.2%), Protective strategies (-1.5%), inflation linked bonds (-1.0%).		

**Mandate:** Diversified Growth Fund

**Current Value:** £448.7m

**Current Weighting:** 9.8%

**Inception:** April 2010

**Benchmark:** 3-month SONIA + 2.5%

**Objective:** 3-month SONIA + 4% p.a. (gross) over rolling 5 years

**Pooled:** Via Access Pool

# Schroders - Balanced Property

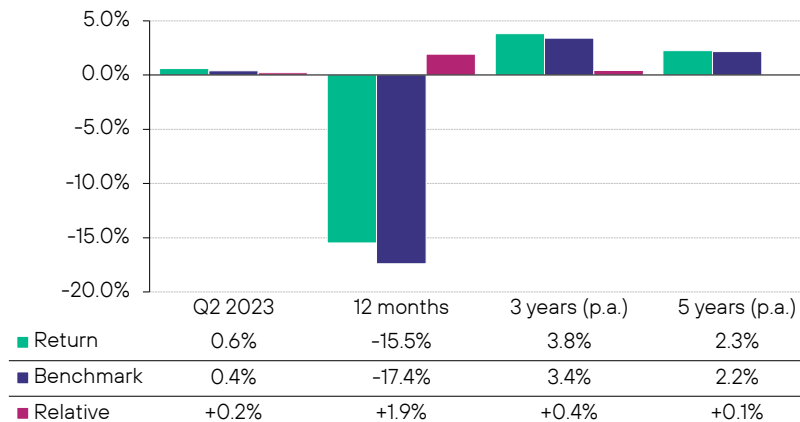
## Overview

The Schroders Property Fund is a medium risk balanced property fund investing across the retail, offices, industrials and alternative property sectors.

Expected volatility	Low		High
Lease Length	Short		Long
Shape of outcomes	0% Contractual		100% Contractual
Diversification	Low		High

Key area	Comments
Key contributors / detractors	<ul style="list-style-type: none"> <li>Based on the latest figures available from Schroders, East Sussex's portfolio marginally outperformed the benchmark due to its defensive relative positioning.</li> <li>The Industrial Property Investment Fund was the most accretive holding in the portfolio over the quarter. Other strong performing funds were all of Schroders Partnership Funds.</li> <li>The weakest performing funds over the quarter were Schroders Capital UK Real Estate Fund, UK Retail Warehouse Fund and the UK Retirement Living Fund.</li> </ul>
Portfolio positioning	<ul style="list-style-type: none"> <li>Over the last few years, the Portfolio has been structured with downside protection provided via the defensive holdings in convenience retail.</li> </ul>
Outlook	<ul style="list-style-type: none"> <li>Schroders believe the portfolio is well positioned to continue to outperform the benchmark. This is largely driven by portfolio structure. Going forward, they are expecting strong performance to come through from their three opportunistic strategies.</li> </ul>

## Performance to 30 June 2023



Metrics	Current Quarter	Last Quarter	View/Change
Net acquisitions / (Sales)	£4.7m	£0.4m	Increase
Cash yield	3.1%	3.1%	No change
No of assets	18	18	No change
Top 3 sectors	Industrial, Alternatives (via student accommodation, social supported housing, retirement living and care homes) and Regional Offices.		

**Note:** Totals may not sum due to rounding. Performance quoted net of fees  
**Source:** Investment manager, Northern Trust, Isio calculations.

**Mandate:** Balanced Property

**Current Value:** £347.8m

**Current Weighting:** 7.7%

**Inception:** December 2009

**Benchmark:** IPD All Balanced Fund Index

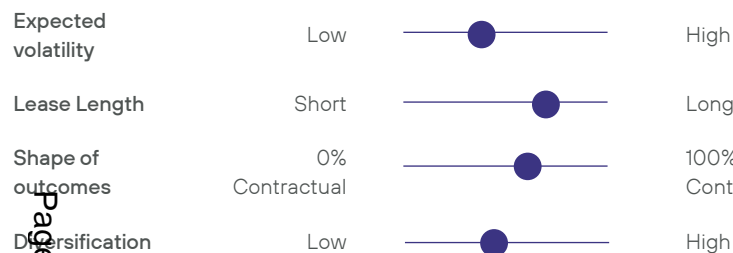
**Objective:** Outperform benchmark by 0.75% p.a. (net) over rolling 3 years

**Pooled:** No

# UBS - Infrastructure

## Overview

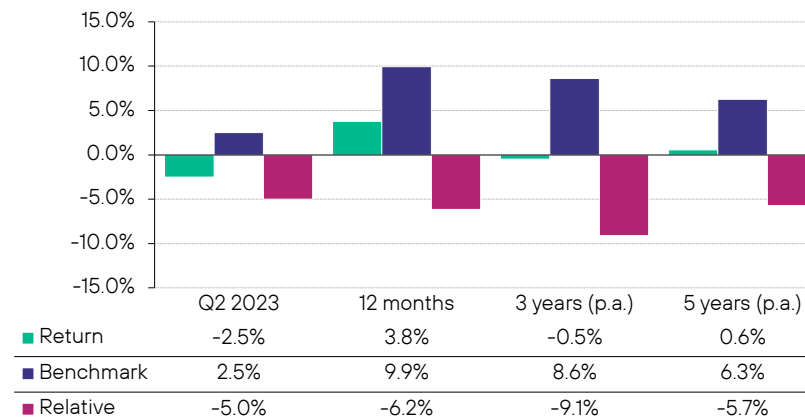
The fund provides investors with access to a diversified portfolio across Fund I and Fund III infrastructure assets. Fund I remains in the value realisation phase and is paying capital back to Investors, whilst Fund III is in its investment phase and continues to draw capital for investment. Fund III has a significant tilt to ESG assets compared to Fund I.



Key area	Comments (3m lag)
Portfolio positioning	<ul style="list-style-type: none"> <li>Net return since inception for Fund I remained at 3.0% (significantly below target); Saubermacher (waste management) continued to underperform and UBS have appointed advisors to support a sales process for the asset during Q3 and Q4 2023.</li> <li>Northern Star Generation (NSG)'s operational performance was in line with expectations; as they executed a contract extension with Nevada Cogeneration Associates, their largest power off-taker.</li> <li>Southern Water raised a £400m bridge facility during Q1 and are working with Evercore and consulting shareholders to raise an additional £550m equity over the period Q2 2023 and Q2 2024.</li> </ul>
Outlook	<ul style="list-style-type: none"> <li>Fund III continues to drawdown committed capital, however there was no change to the \$139.3m drawn from the total \$185.0m committed relative to Q4 2022.</li> <li>Fund I distributed £23.3m in Q1 2023.</li> </ul>

**Note:** Totals may not sum due to rounding. Performance quoted net of fees. SI is since inception.  
**Source:** Investment manager, Northern Trust, Isio calculations.

## Performance to 30 June 2023



Metrics (3m lag)	31 Mar 2023	31 Dec 2022	View/Change
Net SI return (Fund I)	3.0%	3.0%	Unchanged
Net SI return (Fund III)	17.7%	18.3%	Slight decrease
Total value to paid-in (Fund I)	1.28x	1.28x	Unchanged
Total value to paid-in (Fund III)	1.28x	1.25x	Small increase
Top 3 sectors (Fund I – current quarter)	Power generation (59%), Water (25%), Wastewater (16%)		

**Mandate:** Infrastructure

**Current Value:** £35.4m

**Current Weighting:** 0.8%

**Inception:** January 2008

**Benchmark:** CPI + 2%

**Objective:** CPI + 3%

**Pooled:** No

### Notable Actions

The UBS infrastructure funds should be monitored closely going forward given weak historical performance.

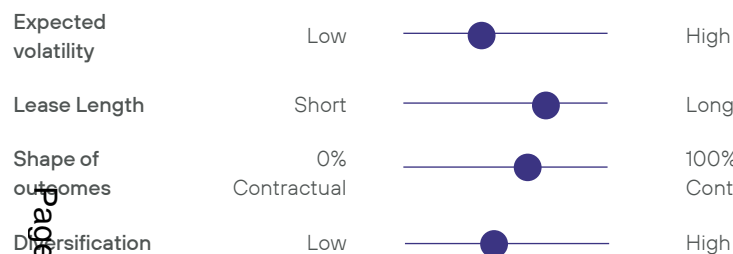
Isio have engaged UBS to present a summary of the additional monitoring they are able to provide.

UBS have discussed with Officers and are in the process of implementation of a final version of this.

# Pantheon - Infrastructure

## Overview

The fund provides investors with access to a diversified portfolio of infrastructure assets. It focuses on investments which provide a contracted or regulated income stream, which enables the Fund to generate robust cash yields which are inflation-linked, making it attractive to pension scheme investors.



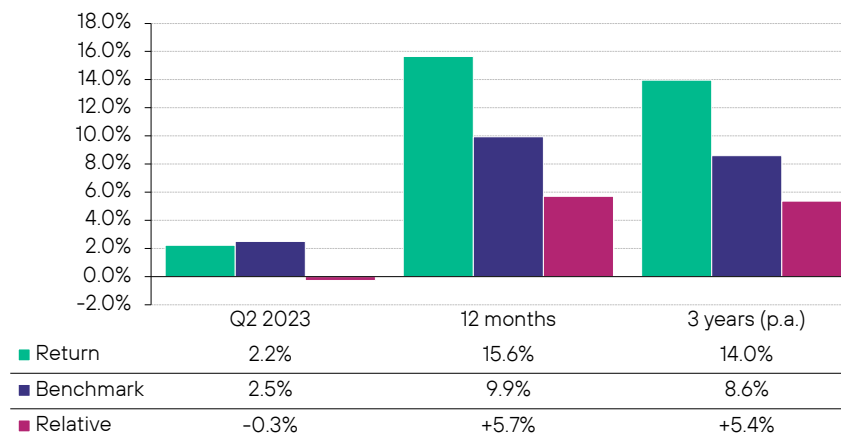
Key area	Comments (3 month lag)
Key contributors/detractors	<ul style="list-style-type: none"> <li>Since inception performance has been strong (13.4% net IRR).</li> <li>Over Q1 2023, the Fund's valuation was up 4.4%, with largest contributors being co-investments Gas Natural Fenosa (+25%), MapleCo (+121.4%) and secondary Gemini Aero (+16.1%).</li> <li>There were ten detractors over the period with co-investments Astound (-9.8%) and Fairway (-3%) being the largest detractors while the other eight detractors each fell less than 2%.</li> </ul>
Portfolio positioning	<ul style="list-style-type: none"> <li>There were no purchases nor full asset realisations over the quarter, though there was one underlying asset realisation.</li> <li>The majority of total asset distributions over the quarter (\$3.3m) were driven by a secondary asset, Kapany (\$2.2m).</li> </ul>
Outlook	<ul style="list-style-type: none"> <li>The Fund has \$12.3m of undrawn capital remaining, but has moved to a net cash outflow position (i.e. distributions greater than calls) as of Q3 2022 and this will likely remain the case.</li> </ul>

**Note:** Totals may not sum due to rounding. Performance quoted net of fees. Manager data is lagged by one quarter.

**Source:** Investment manager, Northern Trust, Isio calculations.

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## Performance to 30 June 2023



Metrics (3m lag)	Current Quarter	Last Quarter	View/change
Cash yield	15.4%	8.3%	Due to distributions over the quarter
Acquisitions/sales	-\$8.1m	\$9.7m	Due to distributions and a sale related to a co-investment position, Telxius
Initial secondaries discount rate	3.0%	3.0%	No change as Fund is not investing
Remaining number of assets	45	45	No change
Top 3 sectors	Digital, Transport and Logistics, Renewables / Efficiency		

**Mandate:** Infrastructure

**Current Value:** £83.0m

**Current Weighting:** 1.8%

**Inception:** May 2018

**Benchmark:** CPI + 2.5%

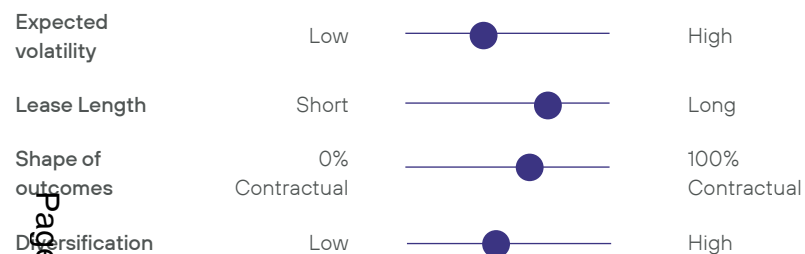
**Objective:** CPI + 3%

**Pooled:** No

# M&G - Infrastructure

## Overview

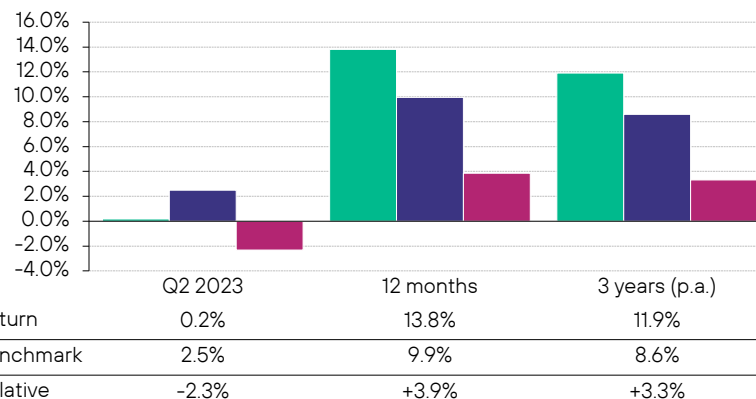
The fund provides investors with access to a diversified portfolio (Brownfield III and Greenfield II) of infrastructure assets. It focuses on investments which provide a contracted or regulated income stream, which enables the Fund to generate robust cash yields which are inflation-linked, making it attractive to pension scheme investors.



Key area	Comments (3 month lag)
Key contributors/detractors	<ul style="list-style-type: none"> <li>The Brownfield Fund returned 0.3% over Q1, which was driven by near-term valuation pressures on Neos, Recharge and GBRf. Last Mile was the largest contributor to returns (+2.2%) while Recharge was the largest detractor (-2.8%).</li> <li>The Greenfield Fund returned 2.3% over Q1, with a steady performance across all assets. The largest contributors were Speed Connect Austria (+3.8%) and Energy Nest (3.7%).</li> </ul>
Portfolio positioning	<ul style="list-style-type: none"> <li>The Greenfield Fund continues its strong deployment across all portfolio companies and are considering future capital requirements to sustain their growth.</li> <li>The Brownfield Fund has over 83% of capital committed to investments, looking at strategic initiatives at an asset level e.g. delivering growth business plans to help grow these businesses</li> </ul>
Outlook	<ul style="list-style-type: none"> <li>Both funds expected to continue to draw capital over the coming quarters into current companies rather than new investments.</li> </ul>

Source: Investment manager, Northern Trust, Isio calculations. Manager information has a one quarter lag.  
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## Performance to 30 June 2023



Metrics (3m lag)	Brownfield	Greenfield
Portfolio Value to current paid in capital	1.3x	1.4x
Number of assets	6 investments	7 investments
Top sectors	Fibre Telecoms (30%), Transport (34%) and Energy (19%)	Energy Transition (24%), Telecoms (32%) and Transport (18%)

Mandate: Infrastructure

Current Value: £57.5m

Current Weighting: 1.3%

Inception: October 2018

Benchmark: CPI + 2.5%

Objective: CPI + 3%

Pooled: No

# IFM - Infrastructure

## Overview

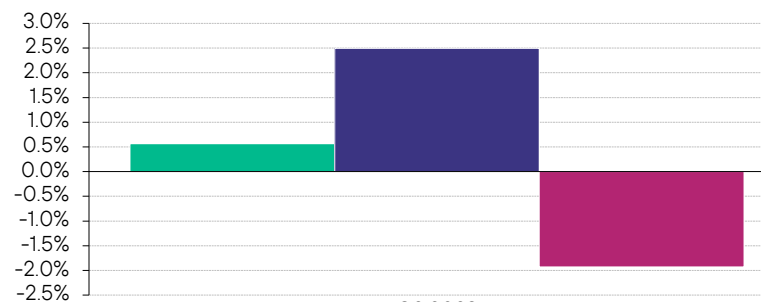
The Fund is a large, global open-ended infrastructure fund, launched on 1 December 2004. Due to the scale of the Fund and strong existing sourcing relationships, IFM are able to focus on investing in larger deals or deals with high barriers to entry.

The Fund has a diverse portfolio of 24 companies across a variety of sectors, largely focussed on North America and Europe. The Fund focusses on purchasing primarily operational assets with strong contractual income-producing characteristics, and the team aim to add value across financing, operations and business strategy.

Expected volatility	Low		High
Lease Length	Short		Long
Shape of outcomes	0% Contractual		100% Contractual
Diversification	Low		High

Key area	Comments
Key contributors/detractors	<ul style="list-style-type: none"> <li>Q2 returns were driven by outperformance of assets such as Vienna Airport (+22.6%, increased travel levels) and Mersin International Port (+7.4%; lower perceived country specific risk for Turkey).</li> <li>Assets such as Atlas Arteria (-4.8%), Enwave Energy Corporation (-4.5%) and Naturgy Energy Group S.A. (-3.1%) detracted from returns.</li> </ul>
Portfolio positioning	<ul style="list-style-type: none"> <li>IFM increased its shareholding in Atlas Arteria ("Atlas") from 18.7% to 21.0%, a listed global toll road owner and operator.</li> <li>No other sales or acquisitions were made in Q2.</li> </ul>
Outlook	<ul style="list-style-type: none"> <li>IFM expects infrastructure assets to remain resilient across key sectors due to positive inflation-resilient revenue streams and steady demand profiles, with continued attention on energy security/transition and transportation boosting investment and interest in infrastructure assets.</li> </ul>

## Performance to 30 June 2023



Return	0.6%
Benchmark	2.5%
Relative	-1.9%

Metrics	Q2 2023	Q1 2023	View/change
Cash yield (Trailing p.a)	1.5% annual yield 5.4% p.a. SI	1.1% annual yield 5.4% p.a. SI	Small increase in Q2
Net acquisitions/sales	-	-\$0.3bn	None over quarter
Average discount rate	10%	10%	No change
Number of assets	24 investments 150+ assets	24 investments 150+ assets	No change
Top 3 sectors	Utilities, Transport, Energy (14+ underlying sub sectors)		

**Mandate:** Infrastructure Equity (higher risk)

**Current Value:** £235.4m

**Current Weighting:** 5.2%

**Inception:** January 2023

**Benchmark:** 10% p.a. net of all fees over the long term

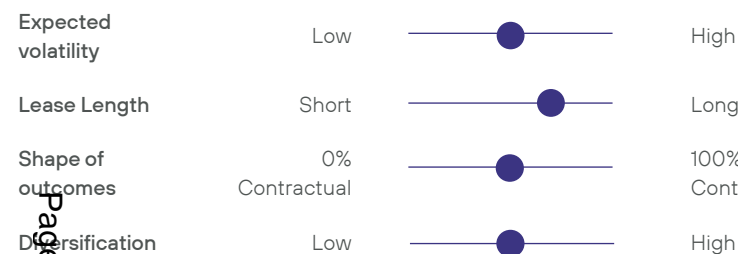
**Objective:** CPI +2%

**Pooled:** No

# Atlas - Listed Infrastructure

## Overview

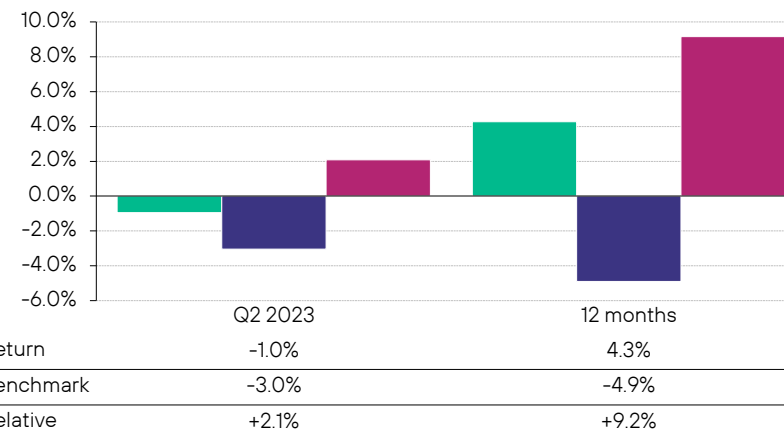
The fund provides investors with access to a diversified portfolio of brownfield and greenfield infrastructure assets. It focuses on investments which provide a contracted or regulated income stream, which enables the Fund to generate robust cash yields which are inflation-linked, making it attractive to pension scheme investors.



Key area	Comments
Key contributors/detractors	<ul style="list-style-type: none"> <li>At a stock level, there were strong positive returns from holdings in Enel (European Utilities), Terna (European Utilities) and Norfolk Southern Corporation (North American Railways).</li> <li>SES (European Comunicaciones), Severn Trent (UK Water) and United Utilities (UK Water) were key detractors.</li> </ul>
Portfolio positioning	<ul style="list-style-type: none"> <li>The Global Strategy has continued to reduce its GDP exposure and consistent with this also has reduced its recession exposure over the past four months. The strategy has materially increased its positive Fast Transition delta (ie. a higher return under FT).</li> </ul>
Outlook	<ul style="list-style-type: none"> <li>Atlas note that the market at the end of the quarter is pricing in the worst of the interest rate cycle in North America, with positive signals ahead, while Europe still faces further tightening.</li> </ul>

**Note:** Totals may not sum due to rounding. Performance quoted net of fees. Cash yield is Prospective portfolio yield, pre cash, pre withholding  
**Source:** Investment manager, Northern Trust, Isio calculations.  
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## Performance to 30 June 2023



Metrics	Current Quarter	Last Quarter	View/change
Cash yield	4.4%	4.4%	Within expectations
Net acquisitions/sales	3 new positions established and 1 position up weighted. 4 positions exited.	1 new position established / 2 positions exited and 3 reduced.	Within expectations
Number of individual positions in portfolio	21	21	Within expectations
Top 3 sectors	Electric utilities (48%), Water (11%), Railway (9%)		

**Mandate:** Global Infrastructure Equity

**Current Value:** £100.0m

**Current Weighting:** 2.2%

**Inception:** December 2020

**Benchmark:** FTSE Developed Core 50/50 Infrastructure Index

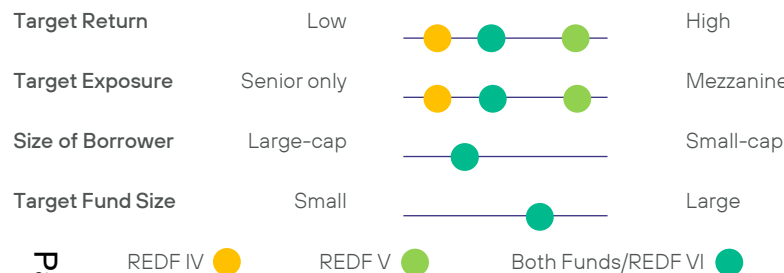
**Objective:** CPI + 3%

**Pooled:** No

# M&G - Real Estate Debt

## Overview

The Funds directly originate private loans that are secured by commercial real estate. REDF VI invests directly in whole loans, while REDF IV and V obtain senior and junior exposure, respectively. The Funds are UK and Europe focused but have scope to invest in the US. The Funds' investment periods ended in June 2021 and reinvestment periods ended December 2022. Wind up is expected in December 2027.



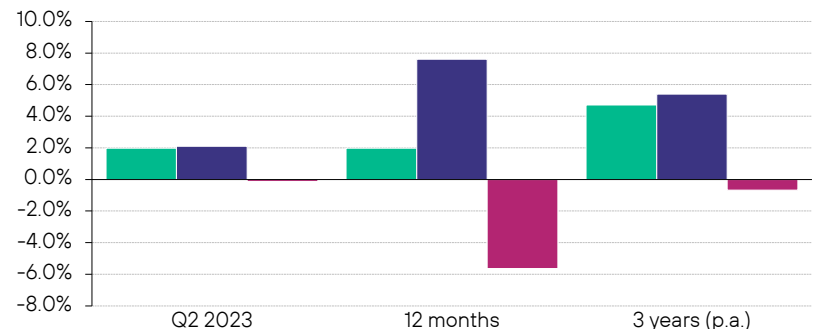
Key area	Comments
Capital Activity	<ul style="list-style-type: none"> <li>2 new deals (Project Archer in Fund IV and Winter in Fund V) were funded – both in the leisure sector on the back of softening market sentiment for this sector.</li> </ul>
Minor/Major Watchlist Names	<ul style="list-style-type: none"> <li><b>Project Carlton</b> (Minor): Construction issues have persisted leading to an extension of the loan maturity to December 2023, with a further 6-month provision if issues continue.</li> <li><b>Project Pontiac</b> (Minor): There are concerns around the loan being refinanced in time (August 2023), failing which, the chargeable interest rate will rise leading to a technical default.</li> <li><b>Project Genesis</b> (Major): The asset is now in a position to be sold however, the co-lender has blocking rights on any sale till Q1 24 (which have been exercised). M&amp;G expect to sell the asset after Q1 24, with the expectation of a loss.</li> </ul>
Outlook	<ul style="list-style-type: none"> <li>M&amp;G are confident that they are on the stronger side of the capital structure given the fall in real estate valuations.</li> </ul>

Notes: REDF VI figures are inclusive of this Fund's allocations to REDF IV and V (and vice versa). Gross projected IRRs are based on M&G's assumptions on performance of the existing portfolios. Total Capital Invested includes capital drawn from investors, capital used to fund investments by way of the subline, and capital expected to be drawn over time. \*Cashflow profile is an estimate using analysis produced in May 2023, including actual capital called during Q1 2023.

Sources: M&G, Isio calculations.

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## Performance to 30 June 2023



	Q2 2023	12 months	3 years (p.a.)
Return	2.0%	2.0%	4.7%
Benchmark	2.1%	7.6%	5.4%
Relative	-0.1%	-5.6%	-0.7%

(IV / V / VI)	Q1 2023	Q4 2022	View/change
IRR (gross projected)	3.7% / 12.1% / 6.5%	3.7% / 11.9% / 6.2%	Stable
Total capital invested	123% / 126% / 113%	119% / 104% / 105%	One new position added to IV/VI
Positions outstanding	29 / 16 / 52	29 / 15 / 51	Positions repaid + 2 new deals
Watchlist	3 / 3 / 3	3 / 3 / 3	Project Pontiac added
Top 3 sectors	REDF IV: Retail (25%), Office (24%), Residential (19%) REDF V: Retail (46%), Office (22%), Hotel (14%) REDF VI: Office (31%), Retail (30%), Residential (14%)		
Phase	Distribution period – due to end December 2027. Reinvestment period has now ended.		

**Mandate:** Private Debt

**Current Value:** £40.5m

**Current Weighting:** 0.9%

**Inception:** April 2019

**Benchmark:** 3-month SONIA + 4%

**Objective:** 3-month SONIA + 5%

**Pooled:** No

## Notable Developments

- We downgraded the Funds to Partially Meets Criteria in mid-2021 following the resignation of four senior members within M&G's Real Estate Debt business in April 2021.
- There was a capital call in REDF IV in Q2 however, this was used to clear a subline in addition to meeting future funding commitments for Project Grey. No further capital calls are expected for REDF



# M&G – Diversified Credit

## Overview

The Fund aims to take advantage of diversified opportunities in public credit markets, such as investment grade bonds, high yield bonds, leveraged loans and asset backed securities. M&G will seek to protect capital when the Fund is not being adequately compensated for taking risk. Currency and interest rate risks are typically hedged out of the portfolio.



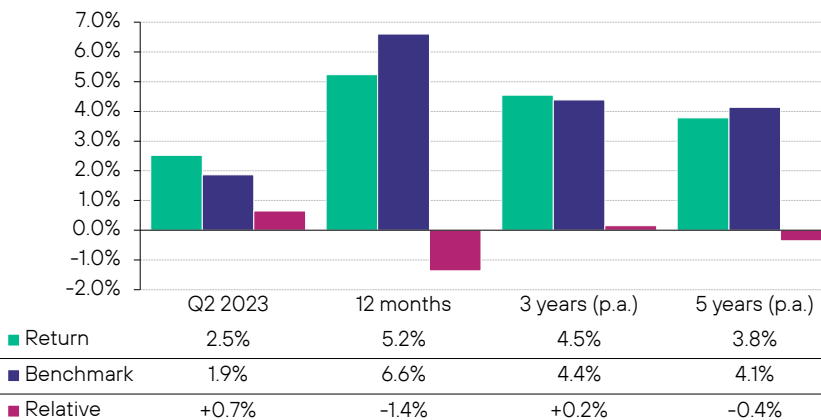
Key area	Comments
Key contributors/detractors	<ul style="list-style-type: none"> <li>Industrial corporate bonds, primarily core holdings such as supermarkets, were the main driver of returns over the quarter (+0.9%)</li> <li>Financials also contributed (+0.7%) as credit spreads tightened across the sector following a turbulent Q1 2023.</li> </ul>
Portfolio positioning	<ul style="list-style-type: none"> <li>M&amp;G are marginally decreasing the risk of the portfolio and allocating to more defensive and liquid assets as the market begins to reprice.</li> <li>There has been a focus on scaling back exposure to selective high yield positions following strong performance from a number of assets.</li> </ul>
Outlook	<ul style="list-style-type: none"> <li>M&amp;G continue retain a preference for European credit valuations over the U.S. given that the yield on investment grade credit remains attractive.</li> </ul>

Notes: Returns net of fees (based on share class A (GBP)). Benchmark used is 1 month LIBOR from fund inception to 30 June 2021 and 1 month SONIA thereafter. Objective shown is benchmark +2.5% p.a. The Fund was launched on 26 April 2007. Performance attribution based on the performance of the Euro denominated A share class gross of fees.

Sources: Investment manager, Isio calculations.

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## Performance to 30 June 2023



Metrics	Current Quarter	Last Quarter	View/change
Yield	9.0%	8.7%	Increased due to rising gilt yields
Average credit rating	BBB	BBB	No change
Modified duration (years)	-0.05	0.02	Slight decrease
Spread duration (years)	3.9	4.1	No significant change
Number of issuers	385	396	Decreased as expected

**Mandate:** Multi Asset Credit

**Current Value:** £300.6m

**Current Weighting:** 6.6%

**Inception:** November 2009

**Benchmark:** 3-month SONIA +3%

**Objective:** 3-month SONIA +5% (gross)

**Pooled:** Via Access Pool

# M&G - Corporate Bonds

## Overview

The Fund invests in a variety of UK Corporate Bonds, including but not limited to Industrial, Financial, Sovereign and Utility bonds.

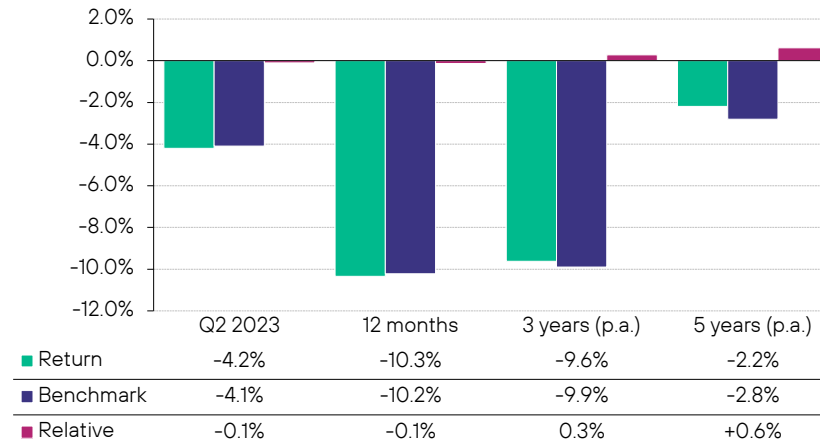


Key area	Comments
Key contributors/detractors	<ul style="list-style-type: none"> <li>Duration and FX hedging was the strongest contributor to performance, from both a sector and security selection perspective, whilst Industrial Corporate bonds detracted the most.</li> </ul>
Portfolio positioning	<ul style="list-style-type: none"> <li>Overall, the manager maintained the levels of risk in the portfolio and remains marginally overweight in terms of credit risk relative to the benchmark.</li> <li>The team continues to marginally increase exposure to real estate companies in response to further price weakness.</li> </ul>
Outlook	<ul style="list-style-type: none"> <li>M&amp;G note despite the sharp rise in interest rates economies continue to grow and inflation is generally falling. A recession remains possible but does not seem imminent at this stage.</li> <li>The overall yield available on investment grade bonds remains attractive.</li> </ul>

**Note:** Totals may not sum due to rounding. Performance quoted net of fees

**Source:** Investment manager, Northern Trust, Isio calculations.

## Performance to 30 June 2023



Metrics	Current Quarter	Last Quarter	View/change
Yield	6.5%	6.0%	In line with expectations
Average credit rating	A	BBB	Slight increase
Modified duration	9.4	9.7	In line with expectations

**Mandate:** Corporate Bonds

**Current Value:** £118.5m

**Current Weighting:** 2.6%

**Inception:** December 1996

**Benchmark:** Benchmark: - 50% iBoxx Non-Gilts Over 15Y - 50% iBoxx Non-Gilts

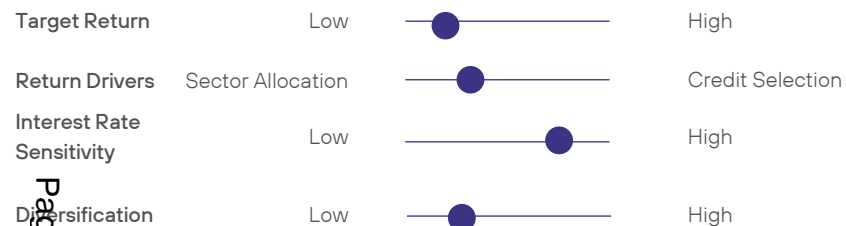
**Objective:** Outperform benchmark by 0.8% p.a. (gross)

**Pooled:** Via Access Pool

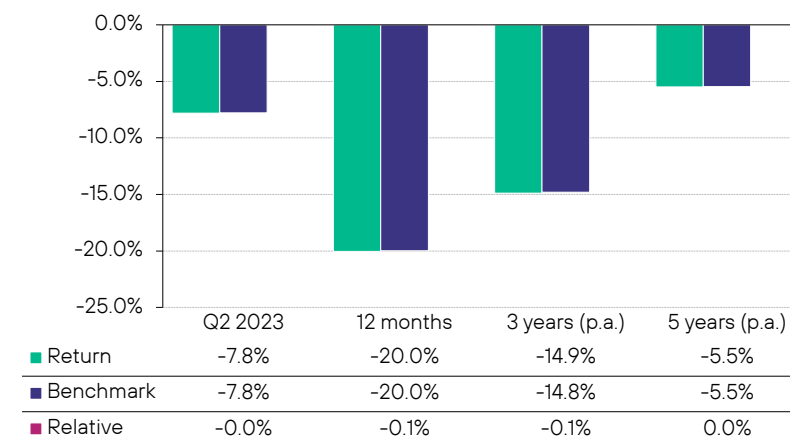
# UBS – Over 5 Year Index-linked Gilts

## Overview

The Fund has defensive characteristics, providing the Fund with protection against the impact of both interest rates and inflation expectations on the value placed on the liabilities.



## Performance to 30 June 2023



**Mandate:** Index Linked Gilts

**Current Value:** £133.2m

**Current Weighting:** 2.9%

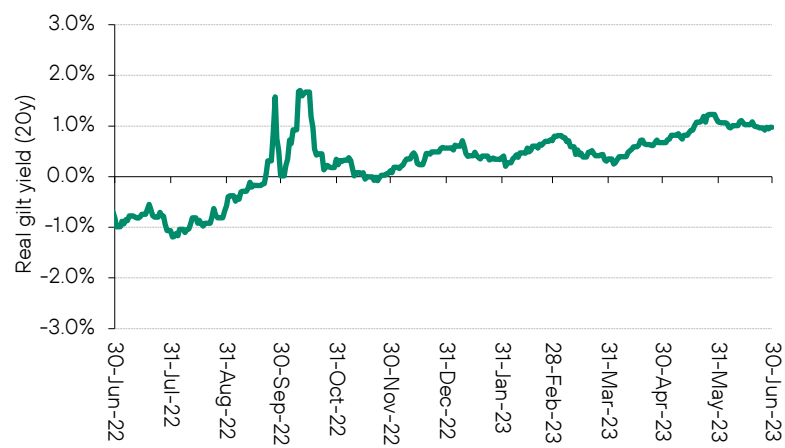
**Inception:** February 2018

**Benchmark:** FTSE Index-Linked Gilts Over 5 Years

**Objective:** Match benchmark

**Pooled:** Via Access Pool

## Real Gilt Yields – Last 12 months



**Note:** Totals may not sum due to rounding. Performance quoted net of fees.

**Source:** Investment manager, Northern Trust, Isio calculations.

# Appendices

**A1:** Market Background: Global Equity, Absolute Return, Real Assets, Credit & Yields

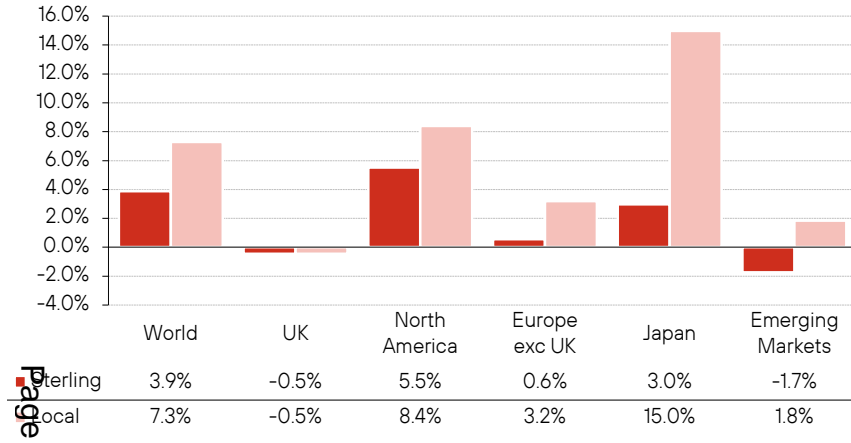
**A2:** Explanation of Market Background

**A3:** How to Read the Fund Manager Pages

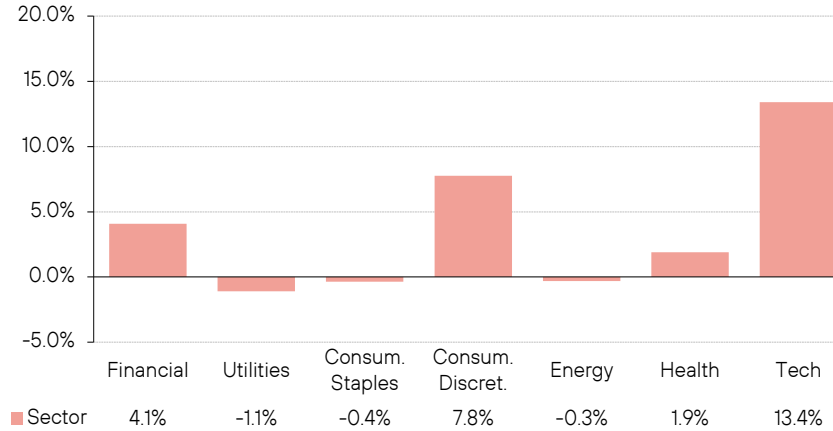
**A4:** Disclaimers

# Market Background – Global Equity

## Regional Returns – Q2 2023



## Sector Returns – Q2 2023 (Local)



## Volatility Index – Last 12 months



## Commentary

- The US market performed strongly, as inflation showed signs of slowing; meanwhile, the UK and Emerging Markets lagged. The significant rally in a relatively small number of mega-cap stocks boosted the technology sector, as companies benefited from growing enthusiasm around artificial intelligence. Financial stocks also performed well, with expectations for European banks' near-term earnings improving over the period.
- The Japanese market hit its highest level in 33 years, with foreign investor demand underpinned by corporate governance reforms and macroeconomic developments; non-currency hedged returns were eroded by a material weakening of the Yen.
- Continued tightening of monetary policy in the UK negatively impacted sectors with a domestic focus. Resource-focused UK firms also underperformed, amidst weakness in global commodity prices.
- Emerging Markets lagged developed counterparts, partially due to the ongoing tensions between the US and China, coupled with ongoing concerns around the performance of the Chinese economy.

## Summary

Global equity markets delivered positive performance over Q2, despite continued interest rate hikes by major central banks. Strong returns were largely driven by developed markets (most notably the US), which benefitted from a rally in a select number of mega-cap technology stocks.

UK equities fell over the quarter, largely driven by persistent inflation, which resulted in the Bank of England implementing two rate hikes over the period.

Emerging Markets lagged other markets, as the largest component of the index – China – continued to struggle economically.

Currency-hedged mandates outperformed their unhedged equivalents over the quarter, as Sterling strengthened against a number of major currencies.

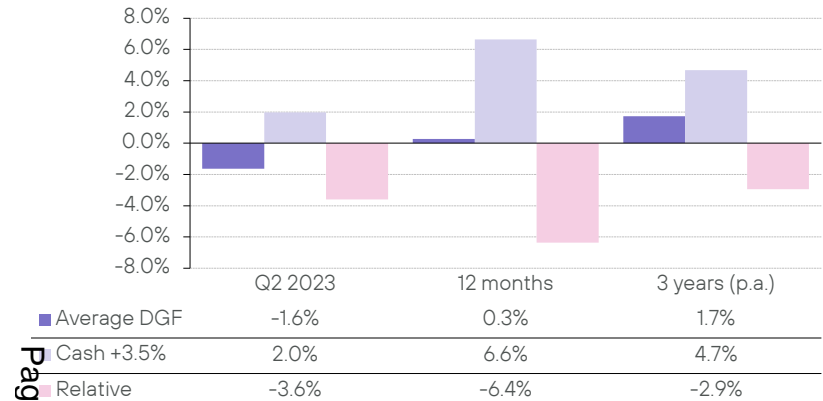
Notes: Please see the 'Explanation of Market Background' appendix for details of the underlying indices. Please note that sector returns are based on local USD pricing.

Sources: Refinitiv.

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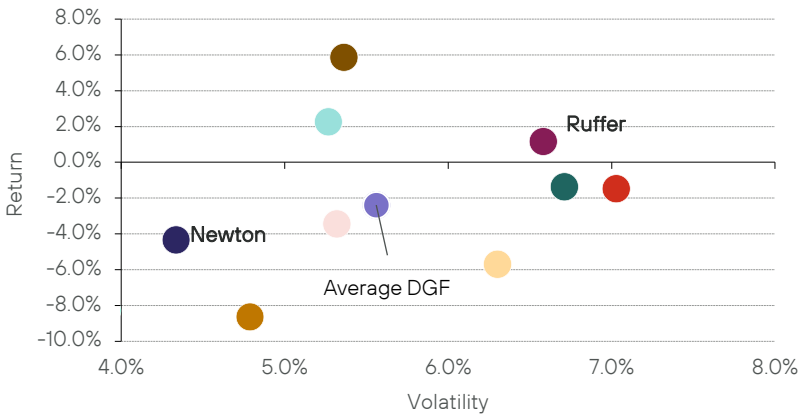
# Market Background – Absolute Return

Sample Manager Average Returns – Q2 2023

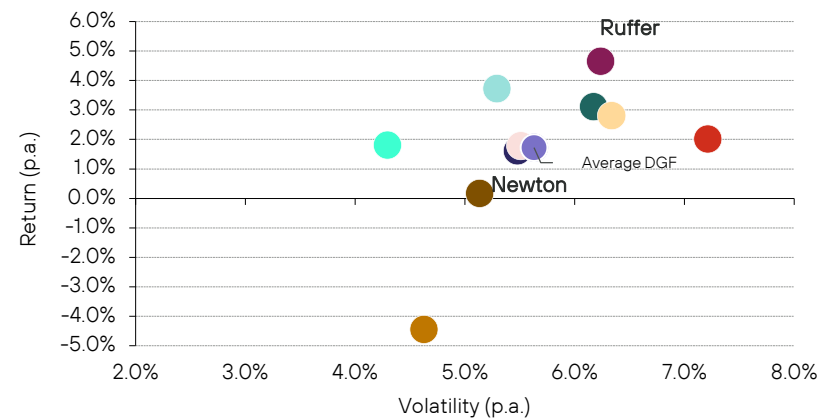


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Sample Manager Returns and Volatility – 12 months



Sample Manager Returns and Volatility – 3 years (p.a.)



## Commentary

- The average DGF underperformed the cash plus target over Q2 2023, and over the longer-term measures.
- In a sharp reversal from Q1, government bond yields moved higher again following signs that inflation may remain more persistent than many investors had hoped for. This is on the back of fixed income holdings hindering performance over the long run due to the sharp rise in yields experienced over 2022.
- Returns in equity markets were broadly positive, although emerging market allocations proved to be a headwind to performance due to concerns over the performance of the Chinese economy.
- The majority of DGF managers remain aware to geopolitical tensions, as well as the potential impact of moving into a recessionary economic environment and are positioned accordingly.

## Summary

Within our sample of managers we have incorporated the performance of ten DGFs with various manager styles, aiming to give a balanced view of the market.

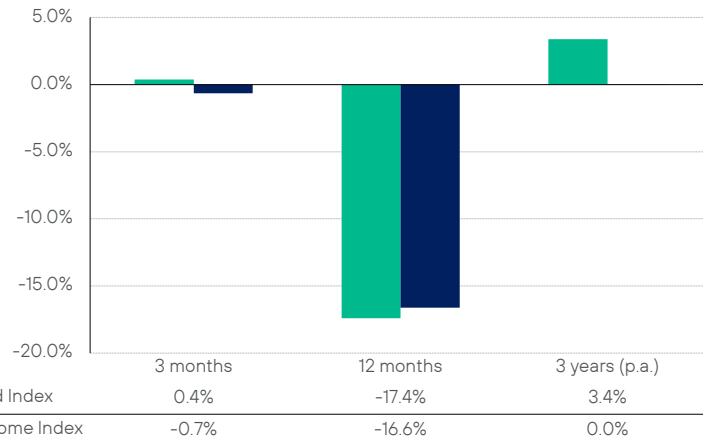
Notes: Please see the 'Explanation of Market Background' appendix for details of the underlying indices. All returns quoted are net of management fees.

Sources: Investment Managers, Isio calculations

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# Market Background – Real Assets

## UK Commercial Property - Balanced and Long Lease (GBP)



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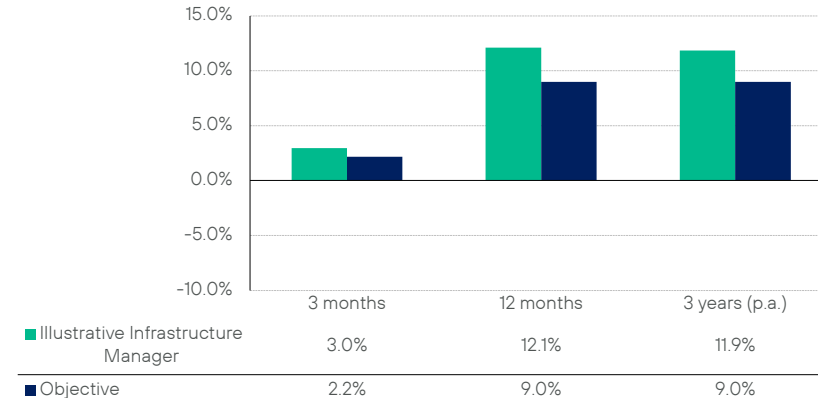
### Commentary

- The overall property market saw slight positive performance (0.3% over Q2 2023) but there was a disparity between balanced property, where performance was marginally positive while long lease property performance was marginally negative.
- Balanced property outperformance was driven by relatively higher exposure to industrials and retail warehouses, which outperformed due to the occupational resilience of these sectors.
- While the quarter began positively as property markets stabilised, this turned when the Bank of England raised rates in June by 50bps to 5.00% (after inflation surprise on the upside) and restated their intention to continue hiking should they need to.
- Higher rates and greater inflation uncertainty led to a slowdown in transactions.
- The Office sector fared the worst over Q2. The Retail sector was broadly flat as Shopping Centres and High Street Retail continued to struggle while Retail Warehouses continued to do well. Industrials performed relatively better than other sectors, with Alternatives performing well for a lot of the same reasons as Industrials.
- Redemption requests continued to be deferred by a number of asset managers, and as such, asset sales remain a key focus for them for liquidity purposes.

Note: Please see the 'Explanation of Market Background' appendix for details of the underlying indices. Source: MSCI / IPD and Investment Managers.

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## Global Core Unlisted Infrastructure (USD)



- Objective: 9.0% p.a. net of all fees over the long term, ranging between 8%-12% depending on market cycle stage.

### Commentary

- Infrastructure continued to perform well over the quarter and continued to outperform its benchmark over the long-term, largely due to its ability to pass through inflation as well as structural earnings growth.
- The key risk for infrastructure assets is the impact of steep interest rate changes on asset valuations, but so far this is being offset by declining equity risk premiums and higher dividend forecasts.
- Transportation continued its recovery with global aviation traffic increasing as demand remains strong despite high energy prices and broader economic headwinds while toll roads are seeing increased levels of work-related commute.
- Digital assets lagged with towers specifically underperforming due to rising concerns of a moderation in investment as some carriers' initial 5G coverage nears completion.
- The defensive utilities / renewables sector delivered broadly flat returns.
- Demand for infrastructure assets continues to be strong as investor appetite grows for more defensive sectors with high quality businesses that can offer positive inflation links and are resilient to changes in interest rates.

### Summary

#### UK Commercial Property

After a period of significant volatility in 2022, the markets have begun to show signs of stabilising with the commercial property market experiencing small positive performance. This was driven by a growth in demand for industrial assets, in particular, as investors now prefer investments with higher resilience to market volatility. However, some uncertainty remains in the market due to high and potentially rising interest rates.

Going forward, Isio believe property markets will continue to recover and begin to move upwards and sectors that will drive this are those with strong, long-term fundamentals such as industrials, logistics and retail warehouses. However, we do note that this recovery is likely to be gradual rather than a spike in asset valuations.

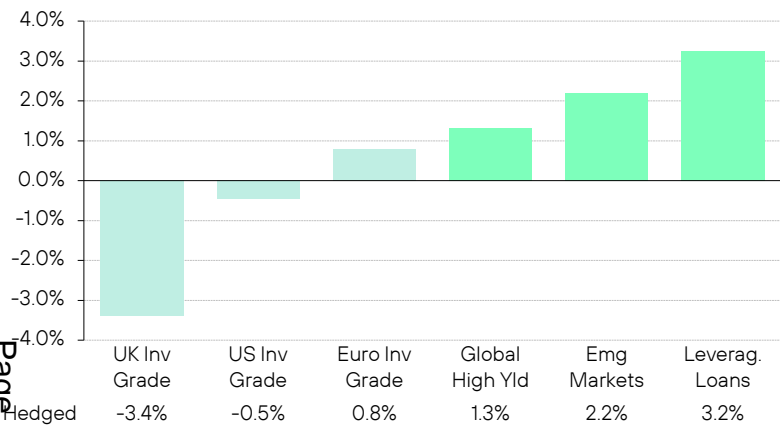
Moreover, the rapid and significant repricing to the downside in UK commercial property relative to the rest of the world is beginning to encourage foreign investors to the UK real estate market.

#### Infrastructure

Infrastructure performed well over Q2 largely due to its ability to pass through inflation to the end-consumer. Positive returns were driven by the transportation sector, utilities/renewable were flat as digital infrastructure, particularly towers, lagged. However, we remain cautious that infrastructure could come under pressure due to the impact of rising interest rates on asset valuations. Given the current environment, we continue to believe a focus on a prudent approach, targeting assets that are well underwritten, with high inflation-linkage in contracted revenues and low levels of leverage will serve investors well.

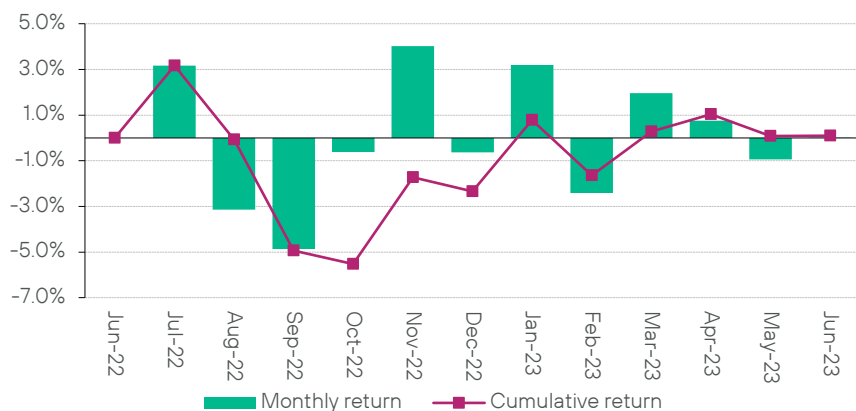
# Market Background – Credit

Credit Market Returns – Q2 2023

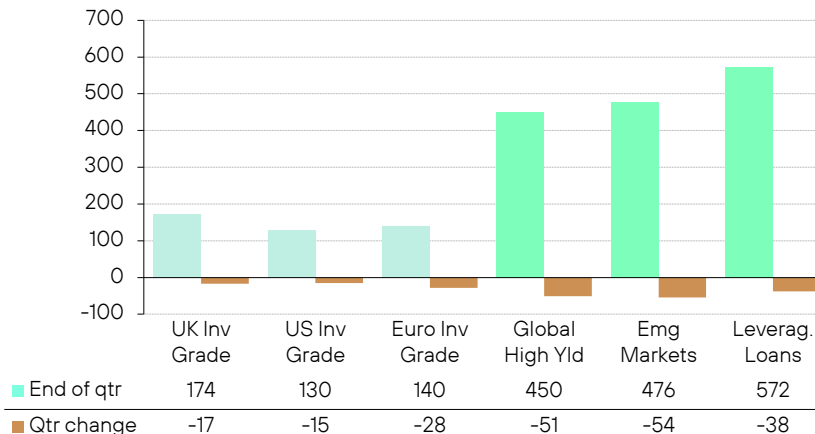


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Global broad credit market return – Last 12 months



Credit spreads – Q2 2023



Commentary

Over Q2 2023, global bond market performance was flat, as volatility somewhat stabilised after the previous quarter's banking crisis, though there was a dispersion in performance across underlying credit sub-sectors. Government bond yields rose over the quarter, with the UK being impacted the most due to higher-than-expected inflation.

- **Investment grade ('IG') bond** spreads tightened over Q2, however, IG bonds underperformed other fixed income sub-sectors due to former's greater sensitivity to rising government bond yields. The UK fared the worst due to the rise in gilt yields being more pronounced than in other regions.
- **High yield ('HY') bonds** produced positive returns over the quarter, largely due to the broader market recovery following the previous quarter's fallout from the banking crisis, in addition to limited new HY issuance supporting returns.
- **Emerging market ('EM') debt** also posted positive returns over the quarter as EM central banks remained accommodative, particularly in China, where its central bank surprisingly cut the main interest rate.

## Summary

Performance was mixed across different credit sub-sectors in Q2 2023. This was due to two opposing factors impacting returns, whereby rising interest rates (and the associated increase in government bond yields) were partially offset by tightening spreads.

Global high yield bonds outperformed investment grade bonds as markets stabilised over the quarter, which led to a more risk-on environment.

At the start of the quarter, market jitters around the US regional banking crisis and the potential for it to spread to the European banking sector subsided. This was largely due to extensive government support in the U.S., in addition to regulatory authorities allaying fears around the risk of any potential contagion.

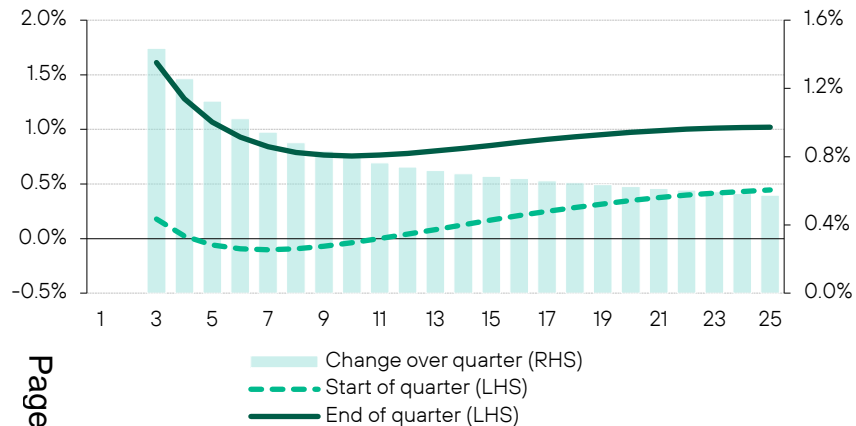
As the quarter progressed, central bank policy started to diverge - with the Fed pausing its increase in interest rates, whilst the BoE and the ECB raised interest rates due to lingering concerns over high inflation in their respective regions.

Notes: Please see the 'Explanation of Market Background' appendix for details on the underlying indices shown. Credit spreads are shown in basis points (100bps = 1%) and correspond to the incremental yield available on corporate bonds above government bonds of a similar maturity. Sources: Thomson Reuters, PIMCO, Fidelity.  
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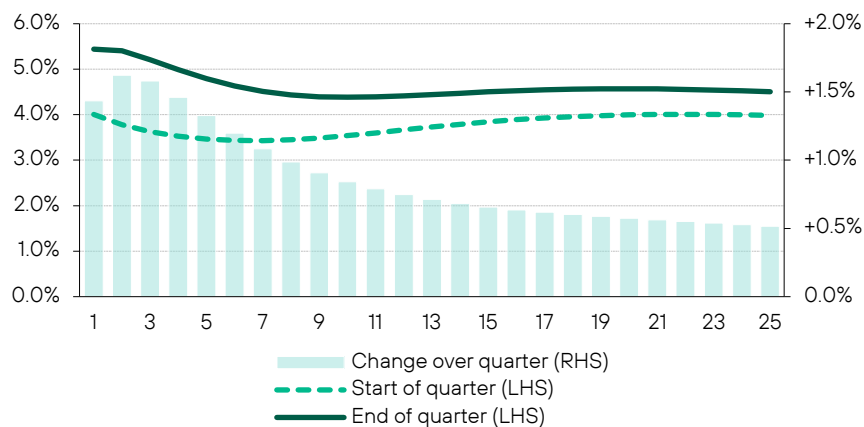
# Market Background – Yields

## Real Gilt Yields – Q2 2023

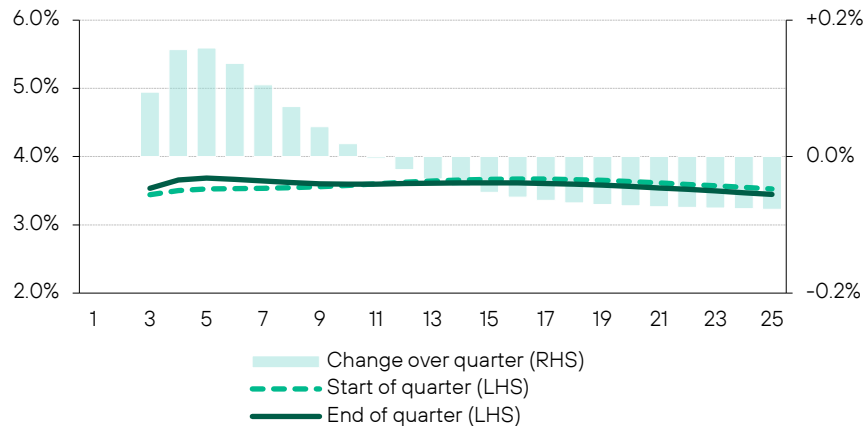


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## Nominal Gilt Yields – Q2 2023



## Gilt-Implied Inflation – Q2 2023



## Commentary

- Long-dated (20-year) yields at the quarter-end were:
  - Real gilt yield: 1.0%
  - Nominal gilt yield: 4.6%
  - Gilt-implied inflation expectation: 3.6%

These curves show gilt yields and inflation expectations at varying time horizons. The horizontal axis represents the number of years.

# Explanation of Market Background

## Market Background – Overview

- Returns by Asset Class – The market indices underlying this chart are as follows:
  - UK Equity: FTSE All-Share
  - Global Equity: FTSE World (Unhedged and Hedged)
  - Emerging Market Equity: MSCI Emerging Markets
  - Absolute Return Funds: mean of a sample of managers
  - Property: IPD Monthly UK
  - Global High Yield: BoAML Global High Yield (GBP Hedged)
  - UK Inv. Grade Credit: BoAML Sterling Non-Gilt
  - Over 15 Years Gilts: FTSE Over 15 Year Gilt
  - Over 5 Years Index-Linked Gilts: FTSE Over 5 Year Index-Linked Gilt
  - Example Liabilities: a simplified calculation illustrating how a typical pension scheme’s past-service liabilities may have moved

## Market Background – Global Equity

- Regional Returns – The market indices underlying this chart are as follows:
  - World: FTSE World
  - UK: FTSE All Share
  - North America: FTSE North America
  - Europe ex UK: FTSE Europe ex UK
  - Japan: FTSE Japan
  - Emg Mkts: MSCI Emerging Markets
- Sector Returns – The market indices underlying this chart are the relevant sectors from the MSCI All-Countries index.
- VIX Volatility Index – This is a forward-looking indicator. It represents the expected range of movement (in percentage terms) in the S&P 500 index (i.e. US equities in dollar terms) over the next year, at a 68% confidence level. It is calculated using options prices over a 30-day horizon.

This glossary explains the components of the Market Background charts in Appendix 1.

All returns are in Sterling terms, unhedged, unless otherwise stated. Where “hedged” returns are quoted, these are local currency returns (i.e. any costs and imprecisions in hedging are assumed to be negligible).

# Explanation of Market Background (cont.)

## Market Background – Absolute Return

- **Absolute Return Funds** – Due to the lack of a market index for Absolute Return, we illustrate the performance of this by showing the returns of 10 of the largest funds by assets under management. Specifically:
  - Aberdeen Standard Global Absolute Return Strategies
  - Aviva Multi-Strategy Target Return
  - Baillie Gifford Diversified Growth
  - BlackRock Dynamic Diversified Growth
  - Invesco Perpetual Global Targeted Returns
  - L&G Diversified
  - Newton Real Return
  - Nordea Stable Return
  - Ruffer Absolute Return
  - Schroder Diversified Growth
- The 'Average Absolute Return Fund' performance is an equally-weighted average of the sample of 10 managers' performance figures.
- Returns are shown net of each manager's standard fee. While every effort has been taken to select vehicles with institutional/clean fee structures, the impact may not necessarily reflect any particular client's fee arrangements.
- Volatility is calculated by annualising the volatility of daily returns.
- As clients have specific selection criteria, the managers listed here may not meet any given client's criteria.
- Absolute Return encompass a range of investment approaches, return targets, and risk profiles. Consequently, different managers' returns are not necessarily a like-for-like comparison.

## Market Background – Real Assets

- Real Assets – The market indices underlying these charts are:
  - Core UK Property: IPD Monthly UK Index
  - Long Lease UK Property: IPD Long Income Property Fund Index

This glossary explains the components of the Market Background charts in Appendix 1.

All returns are in Sterling terms, unhedged, unless otherwise stated. Where "hedged" returns are quoted, these are local currency returns (i.e. any costs and imprecisions in hedging are assumed to be negligible).

# Explanation of Market Background (cont.)

## Market Background – Credit

- Sector Returns and Credit Spreads – The market indices underlying this chart are as follows:
  - UK Inv Grade: BoAML Sterling Non-Gilt
  - US Inv Grade: BoAML US Corporate (GBP Hedged)
  - Euro Inv Grade: BoAML Euro Corporate (GBP Hedged)
  - Global High Yield: BoAML Global High Yield (GBP Hedged)
  - Emerging Markets: JP Morgan EMBI Global (GBP Hedged)
  - Leveraged Loans: S&P/LSTA US Leveraged Loan Equity (GBP Hedged)
- Global broad credit market return – The market index underlying this chart is the BoAML Global Broad Market Corporate Index (GBP Hedged):
  - The Global Broad Market Index tracks the performance of investment grade public debt issued in the major domestic and eurobond markets, including 'global' bonds.
  - Qualifying bonds must have at least one year remaining term to maturity and a fixed coupon schedule. Bonds must be rated investment grade and be domiciled in a country having an investment grade foreign currency long-term debt rating (based on a composite of Moody's and S&P).

## Market Background – Yields

- Yields – Yields shown are annual yields (i.e. they have been converted from the "continuously compounded" basis quoted by the Bank of England).
- Example Liabilities – This illustrates how a typical scheme's past-service liabilities may have moved.
  - It is based on a simplified calculation assuming a scheme with duration 20 years and liabilities split 70% inflation-linked and 30% fixed.
  - Liability movement is calculated using yield changes and unwinding (short-term interest rate with no premium) only, with no accrual, outgo, or inflation experience.
  - A rise in yields equates to a fall in the calculated value of the liabilities (due to the higher discount rate at which the future cashflows are valued); conversely, a fall in yields means a rise in liabilities.

This glossary explains the components of the Market Background charts in Appendix 1.

All returns are in Sterling terms, unhedged, unless otherwise stated. Where "hedged" returns are quoted, these are local currency returns (i.e. any costs and imprecisions in hedging are assumed to be negligible).

# How to Read the Fund Manager Pages

## How to Read the “Overview” Section

- Expected Volatility**                      Low                                      High
- This is a standard quantitative measure of our expectation of absolute annual volatility of the fund.
  - The measure ranges from 1% p.a. for the least volatile strategies (e.g. Cash) to 30% p.a. for the most volatile strategies (e.g. Emerging Markets Equity).
- Shape of Outcomes**                      0% Contractual                                      100% Contractual
- This is an Isio-specific measure of how “contractual” the expected return from the fund is.
  - The measure ranges from 0% for strategies that have no fixed return component and are instead based on a share of any profits (e.g. Global Equity) to 100% for strategies where the return in normal conditions is fixed and predictable (e.g. Corporate Bonds).
- Diversification**                      Low                                      High
- This Isio-specific measure shows how diversified we consider the fund to be, in terms of broad market risk drivers.
  - The measure ranges from “low” for mandates that invest in a single asset class that is concentrated in other respects, such as geography (e.g. European Direct Lending) to “high” for mandates that invest in a wide range of diversified asset classes (e.g. Diversified Growth Funds).

## Manager Ratings

We show two ratings for a manager:

**Research View:** This comprises our opinion of the manager as a whole, judged against the client’s specific selection criteria (which usually include ESG considerations). The possible ratings are:

- Meets Criteria
- Partially Meets Criteria
- Significantly Fails to Meet the Criteria
- Not Evaluated

**ESG View:** This is a narrower opinion focusing specifically on the manager’s treatment of ESG (Environmental, Social, and Governance) issues. The possible ratings are:

- Green
- Amber
- Red
- Not Evaluated

This page contains guidance on how to read the fund manager pages

# Disclaimers

## Performance, Opinions, and Estimated Liabilities

- This report sets out the past performance of various asset classes and fund managers. It should be noted that past performance is not a guide to the future.
- Our opinions (and comparison vs criteria) of the investment managers stated in this report are based on Isio's research and are not a guarantee of future performance. These are valid at the time of this report but may change over time.
- Our opinions of investment products are based on information provided by the investment management firms and other sources. This report does not imply any guarantee as to the accuracy of that information and Isio cannot be held responsible for any inaccuracies therein. The opinions contained in this report do not constitute any guarantees as to the future stability of investment managers which may have an effect on the performance of funds.
- Funds that make use of derivatives are exposed to additional forms of risk and can result in losses greater than the amount of invested capital.
- The estimated liabilities (where quoted) have been "rolled forward" from the last actuarial valuation and/or funding update, by taking current bond yields and inflation expectations into account. The methodology underlying the actuarial assumptions (e.g. discount-rate premium, mortality, real salary growth etc.) is assumed to remain constant for this estimate. Due to the approximate nature of the calculations, the Fund's actual experience and changes in future valuation assumptions may mean that the liabilities and funding position calculated at the next actuarial valuation (or funding update) could be significantly different from the quoted estimate.

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## Addressee and Isio Relationships

- This report has been prepared for the sole benefit of the East Sussex County Council as Administering Authority of the East Sussex Pension Fund and based on their specific facts and circumstances and pursuant to the terms of Isio Group/Isio Services Ltd's Services Contract. It should not be relied upon by any other person. Any person who chooses to rely on this report does so at their own risk. To the fullest extent permitted by law, Isio Group/Isio Services Ltd accepts no responsibility or liability to that party in connection with the Services.
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# East Sussex Pension Fund

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Investment strategy Review  
July 2023

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Appendix 3

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# Introduction

## Addressee

- This report is addressed to the East Sussex County Council (“the Council”) as Administering Authority of the East Sussex Pension Fund (“the Fund”).

## Background

- The Council has engaged Isio to undertake a detailed review of the Fund’s target investment strategy in order to quantify the inherent risks and to consider options for the evolution of the asset allocation. As well as high level asset allocation, Isio has been asked to focus on certain key specific areas of the portfolio, and to provide recommendations on how these should evolve.
- The chart below highlights the key stages in our approach for assessing overall investment strategy. This paper includes stages 1-4.



## Scope of Report

- This report provides a detailed review of the Fund’s current investment strategy, asset allocation and investment structure, including:
  - Portfolio risk/return characteristics;
  - The projected evolution of the funding position;
  - An overview of the Fund’s cash flow requirements, asset income and liquidity profile; and how these are expected to evolve;
  - An overview of potential asset class opportunities which we believe could be attractive for the Fund;
  - Analysis of alternative strategies which we believe may be better aligned to the Fund’s objectives.
- We have integrated environmental, social and governance (‘ESG’) considerations throughout our review, including in our assessment of how the strategy could evolve going forwards. Such considerations have been evaluated with the Fund’s ESG policies in mind.

# Objectives

## Financial Objectives

- The Fund's objectives, as outlined in the draft 2023 Funding Strategy Statement, are:
  - Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
  - Ensure the solvency of the Fund;
  - Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
  - Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
  - Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.
- These objectives are to deliver a return that improves the funding level over time (with the aim of achieving future lower employer contribution rates in the long term), with as little volatility as possible (to maintain the stability of contributions), and also to maintain sufficient assets to meet liabilities. The assumptions underlying the Actuary's funding basis are important factors in determining the return requirement. As the Fund grows, it is also important to ensure that affordability, relative to sponsor budgets (which are not growing at the same rate as the Fund) is maintained.

## Evolution

- The Fund is open to new members and is growing due both to interest accruing on past service liabilities and new liability accrual. The liabilities are also gradually 'maturing' (the proportion of pensioner members is growing), which changes the anticipated cashflow profile of the Fund over time. Ultimately more cash will be paid out than is received in cash contributions, making income from the investments an increasingly important consideration.

## ESG

- Alongside the funding objectives, the Fund has clear policies in relation to ESG issues which are summarised in the Statement of Responsible Investment ("RI") Principles. These are as follows:
  1. Apply long-term thinking to deliver long-term sustainable returns
  2. Seek sustainable returns from well-governed assets.
  3. Use an evidence-based long term investment appraisal to inform decision-making in the implementation of RI principles and consider the costs of RI decisions consistent with fiduciary duties.
  4. Evaluate and manage carbon exposure in order to mitigate risks to the Fund from climate change.
- It is important to ensure the strategy is aligned with these principles and that these are considered in any changes being agreed.

# What return is required?

## What Return is Required?

- The Fund Actuary, Barnet Waddingham, produced an Actuarial Funding Update Report as at 31 March 2023. This showed a funding position of 121%. This is a broadly similar position to the formal Actuarial Valuation Date at 31 March 2022 (when the funding level was 123%).
- The discount rate used to value the liabilities as at 31 March 2023 was 4.8% p.a.

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The discount rate assumption is derived based upon the absolute level of returns that the asset portfolio is expected to achieve, with a level of actuarial prudence applied.

As at the date of the modelling in this report, 31 March 2023, the expected return of the Fund's investment strategy is 7.8%. This is measured on a best estimate basis and is in excess of the discount rate (4.8% p.a.).

- The investment returns quoted, along with the Actuarial discount rate are long term (10 yr) assumptions. They do not consider risks such as geopolitical risk or other external factors which could negatively impact outcomes.

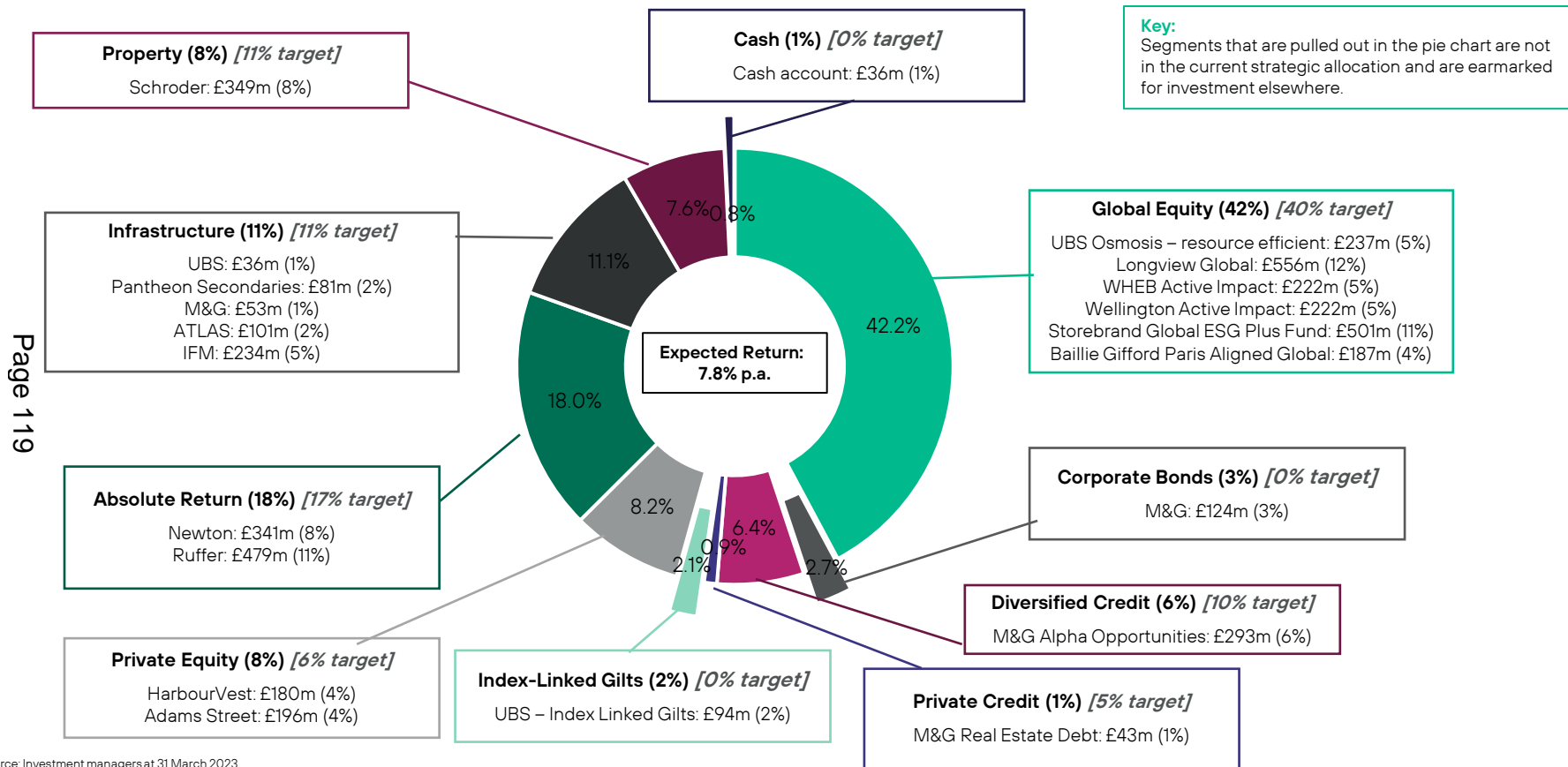
- The difference between the expected return of 7.8% p.a. and required return of 4.8% reflects the prudence in the Actuarial funding assumptions. If the expected return is achieved, this should support a potential move towards lower contribution rates in future.
- Long dated UK government bonds now 4.5% and investment grade corporate bonds are yielding c6%. The latter yield is in excess of the discount rate.
- Given the significant surplus achieved and margin between the expected and required return, we believe, if desired, there is scope to reduce overall risk whilst still maintaining a sufficient level of return to satisfy the Actuarial assumptions.
- Any change in the expected return will need to be discussed in detail with the Scheme Actuary prior to implementation to ensure this does not materially impact the funding methodology.

# Current strategy analysis

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# Asset allocation – as at 31 March 23



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Source: Investment managers at 31 March 2023.

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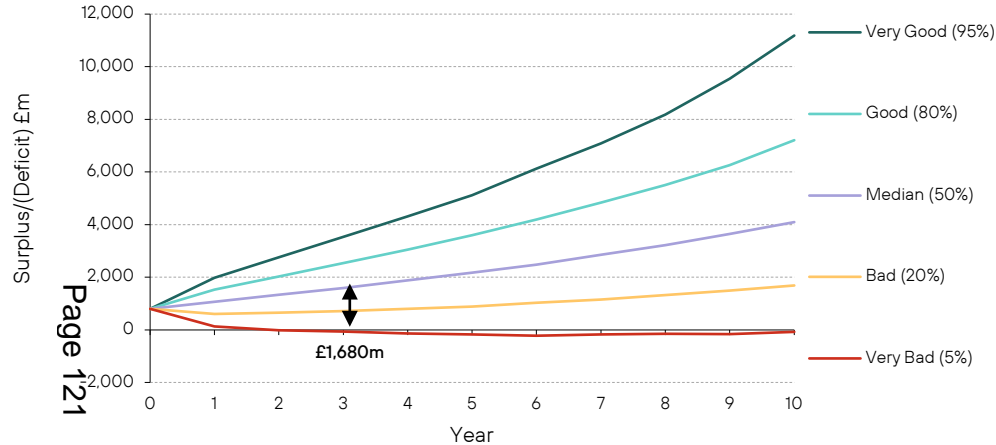
# Investment strategy building blocks - target allocation

Mandate	Manager(s)	Strategic Allocation	Growth (45.5%)	Defensive Growth (50.5%)	Income (11.0%)	Inflation Protection (18.5%)
Global Equity	Storebrand, Wellington, UBS, Baillie Gifford, Longview & WHEB	40.0%	●			
Private Equity	Adam Street & Harbourvest	5.5%	●			
Diversified Growth	Newton & Ruffer	17.0%		●		
Balanced Property	Schroders Property	7.0%		●	●	●
Long Inflation Linked Property	Schroders Property	4.0%			●	●
Infrastructure Equity	Atlas, IFM, M&G, Pantheon and UBS	11.0%		●		●
Private Credit	M&G Real Estate	5.0%		●		
Diversified Credit	M&G Alpha Opportunities	10.5%		●		



# Funding trajectory

## Current Funding Trajectory



## Comments

- The central expectation is for the funding position to continue to improve and increase gradually over time – the expected investment return is higher than the interest accruing on liabilities.
- Based on the estimated 31 March 2023 position, we expect the Fund to be in a surplus of c. £1,600m in 3 years' time (up from c. £795m at the end of March 2023). Ultimately any future surplus could be used to bring down the cost of the Fund to the employers.
- The chart highlights the degree of variation (both upside and downside) that the Fund is exposed to by the current investment strategy. This volatility could have a material impact on the funding position and the future cash funding requirements.
- Given the investment risk in the current strategy, there is a 1 in 20 chance that the surplus could be eliminated and a deficit of c.£80m or more could arise in 3 years' time
- Given the current strong funding position, we believe there is scope to reduce investment risk to better secure the current strong funding position and lessen the impact of any potential downside scenarios, essentially (narrowing the range of potential outcomes).
- Reducing investment risk, and narrowing the range of potential return outcomes, would place the Fund in a strong position.
- We believe this can be done whilst still targeting sufficient return to satisfy the Actuarial basis.

### Funding Position – 31 March 2023

Discount rate	4.8%
Current surplus	£795m
Current funding level	c.121%

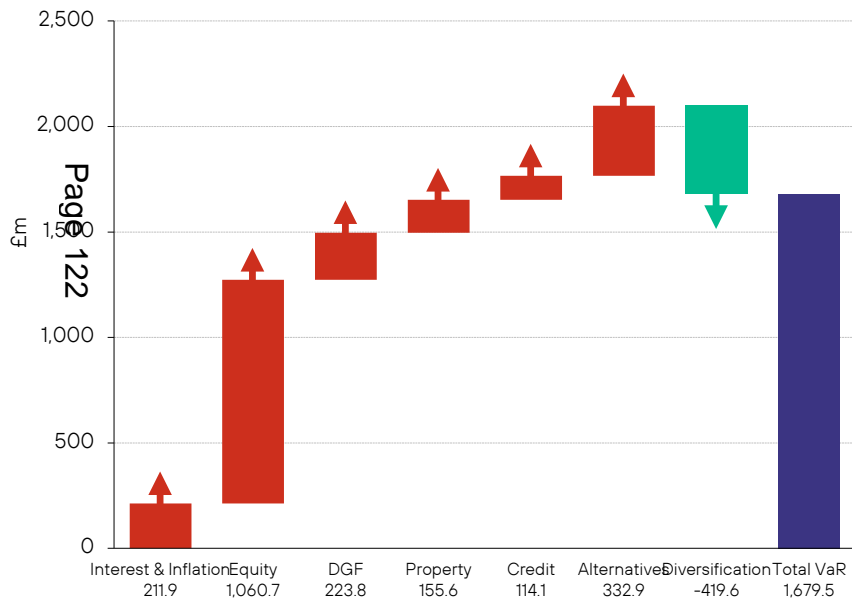
### Forecast Funding Position – 3 Years' Time

Expected (deficit) / surplus	£1,599m
Expected funding level	c. 139%
Estimated Funding Deficit 1 in 20 chance (5%)	(£81m)

Source: Barnett Waddingham, Isio calculations.

# Risk analysis

## Value at Risk (3 year, 95%) Breakdown - Strategic Allocation



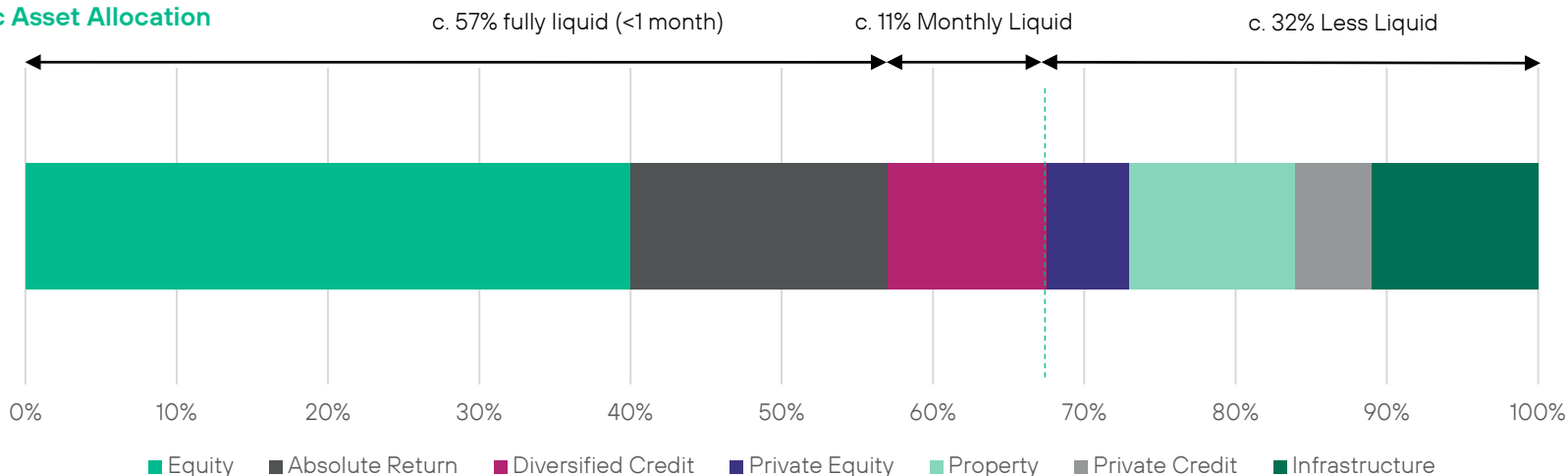
Source: Barnett Waddingham, Isio calculations.

## Equity and inflation are the most significant risks

- The chart to the left illustrates the overall level, and composition of investment risk in the strategic asset allocation, as measured by the 1 in 20, 3 year Value at Risk ("VaR"). The VaR represents the difference in the funding in three years' time between the expected outcome and a 1 in 20 outcome.
- This analysis does not consider risks such as geopolitical risk or other external factors which could negatively impact outcomes.
- The total investment risk (3 year, 1 in 20 VaR) is c.£1.7bn, i.e. there is a 1 in 20 chance that the Fund could be c.£1.7bn or more behind (or ahead) of the expected position in 3 years time.
- The Fund's key risk is equity exposure. The c.40% strategic allocation to listed equities (and 8% allocation to private equity) means that a fall in equity valuations would result in a material decrease in the Fund's assets.
- The risk from inflation is due to the majority of the pension benefits in the Fund being directly linked to inflation. This link is uncapped to rises in inflation.
- We believe the Fund should be aware of these risks and consider how these are managed as part of any strategic changes. In particular, we believe it will be beneficial for the Fund to
  - Continue to increase the Fund's exposure to assets which provide a direct link to inflation;
  - Continue to focus on building exposure to assets with a contractual payoff profile which offer diversification from listed equity within the growth portfolio.

# Liquidity profile

## Strategic Asset Allocation



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Source: Northern Trust with Isio calculations.

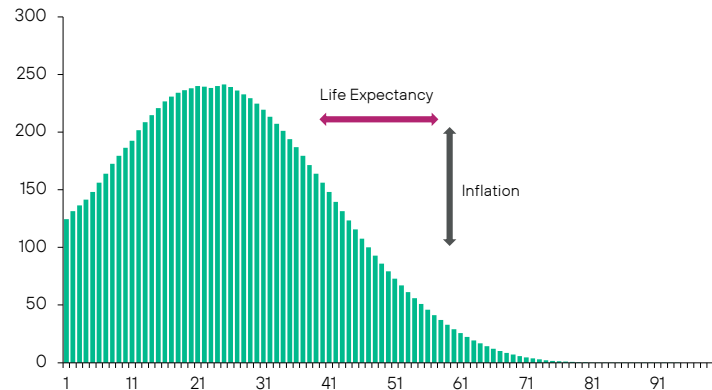
- Based on the target strategic allocation, the asset strategy retains significant liquidity, with an estimated 68% of assets (c £3.1bn) able to be liquidated within a month and a significant proportion of these in a matter of days. The remaining assets are well diversified across a range of less liquid asset classes. Whilst the Fund is large, much of the portfolio could be liquidated relatively quickly with limited market impact. We cannot currently envisage any circumstances where the Fund should need this level of liquidity or flexibility.
- We believe the Fund is able to meet the expected short and long term cashflow requirements as and when they arise (see overleaf) and the Fund does have some scope to invest more in less liquid assets if desired, and if there is a strong return premium for doing so..
- We would typically recommend a practical limit of c. 40% to less liquid asset classes to enable effective liquidity management. We note the outcome of the current pooling consultation may mandate the Fund to invest more in less liquid asset classes e.g. Private Equity and this should be considered as part of any change.

# Cashflow profile (1)

## Long term cashflow

- The Fund is expected to have cash outflows over the coming years. There are three core elements to this:
  - Monthly pension payroll (which is relatively predictable);
  - Lump sum / death grant member payments (there is a degree of uncertainty over such benefits as they are more variable in nature);
  - Expenses e.g., manager fees, transaction costs and miscellaneous charges.
- The Fund Actuary has shared details of the Fund's expected long term pension payments. We note that these do not make any allowance for any transfers out of the Fund – historically the magnitude of these has been small (though a bulk transfer could change this).
- The analysis indicates that the contributions are expected to largely offset the outgo, though there is likely to be a small shortfall each year. There are some factors that could increase this and we consider these overleaf.
- The shortfall can currently largely be met using investment income from existing mandates (property and Infrastructure income) - expected to be c.£26m next year.
- There is variability in timing of receiving investment income and paying pension benefits and this is met from any existing cash balances/ by rebalancing other liquid mandates. The Fund can draw income from other mandates (though this has not been required to date).

## Liability Profile



Cashflows (£m)	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Income</b>	<b>£115m</b>	<b>£119m</b>	<b>£124m</b>	<b>£129m</b>	<b>£134m</b>
Employer contributions	£83m	£86m	£89m	£93m	£96m
Employee contributions	£33m	£34m	£35m	£36m	£38m
<b>Outgo</b>	<b>(£141m)</b>	<b>(£148m)</b>	<b>(£153m)</b>	<b>(£158m)</b>	<b>(£165m)</b>
Pension Payments	(£141m)	(£148m)	(£153m)	(£158m)	(£165m)
<b>Net Cashflow</b>	<b>(£26m)</b>	<b>(£29m)</b>	<b>(£29m)</b>	<b>(£29m)</b>	<b>(£31m)</b>

Source: Barnett Waddingham, Isio calculations, Investment managers. For these purposes, contributions have been assumed to rise at 3.9% p.a.

# Cashflow profile (2)

## Short term Cashflow

- We understand in the short term the forecast contributions and benefit payments will alter as follows:
  - The change in employers contribution rates will reduce income by circa £370k a month
  - The Actuary has assumed a pay award of 5% increases income by around £690k per month
  - Pension increases (due to inflation) will increase outgoings by £920k per month
- This gives a net deficit in the short term of £600k deficit each month or £7.2m per year.
- Until a pay award is agreed, the short term shortfall is expected to be higher at £1.2m-£1.3m per month. This could increase the shortfall over Year 1 to c£42m (assuming no agreement is reached).
- The Fund has sufficient liquidity to deal with this, but the position should be monitored to determine whether additional income should be drawn from other mandates (particularly those that are overweight vs target).
- We propose the amounts needed in the short term are met efficiently with ongoing cashflow where possible, and beyond that from rebalancing other liquid mandate allocations (e.g. equities are currently overweight relative to target.).
- It will be beneficial for the Fund to agree a short term cashflow policy to manage

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## Private Equity cashflows

- Cashflows from the Private Equity holdings can vary in amount and timing. Forecasted cashflows from Adams Street and Harbourvest are below. These amounts are in addition to the asset income shown on the previous slide and can help bridge the short term shortfall.

Year	Harbourvest capital call (£m)	Harbourvest distribution (£m)	Adams Street capital call (£m)	Adams Street distribution (£m)	PE Net cashflow (£m)
2023	(25.4)	24.0	(16.1)	75.2	<b>57.7</b>
2024	(32.0)	51.9	(12.0)	67.1	<b>75.0</b>
2025	(21.2)	66.1	(9.0)	59.5	<b>95.4</b>
2026	(14.6)	57.5	(4.1)	50.9	<b>89.7</b>
2027	(9.2)	51.2	(3.0)	47.3	<b>86.3</b>
2028	(3.2)	40.7	(1.5)	41.1	<b>77.1</b>
2029	(1.9)	35.6	(1.0)	35.3	<b>68.0</b>
2030		31.5	(0.5)	27.2	<b>58.2</b>
2031		28.8	(0.3)	19.8	<b>48.3</b>
2032		22.0	(0.1)	13.0	<b>34.9</b>
2033		16.6			<b>16.6</b>
2034		10.3			<b>10.3</b>
2035		6.5			<b>6.5</b>
2036		2.4			<b>2.4</b>

# 2021 strategy review and previously agreed direction of travel

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# Previously agreed direction of travel

(July 2021)

Strategic change	Strategic rationale	Previously agreed Recommendation	Key considerations based on current market environment
Increase exposure to assets with a direct link to inflation	Rising inflation was highlighted as a key risk to the Fund given the liability structure, and increasing the allocation to assets with a direct and indirect inflation linkage would help address this risk.	<ul style="list-style-type: none"> <li>➤ Increase allocation to infrastructure equity and inflation-linked property to harvest yield with inflation linkage</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Inflation risk remains and the outlook is volatile</b></li> <li>• <b>Index-linked gilt yields now +c. 1.0% pa (vs -2.5% pa in 2021)</b></li> <li>• <b>Property valuations under pressure due to rising interest rates and muted economic outlook in the UK</b></li> </ul>
Increase exposure to less liquid assets <div style="position: absolute; left: -40px; top: 50%; transform: translateY(-50%); font-size: 24px; font-weight: bold;">Page 127</div>	Given the Fund's long term horizon, and the overall level of liquidity in the asset portfolio, it was agreed there was scope to target less liquid opportunities.	<ul style="list-style-type: none"> <li>➤ Introduce private debt allocation to harvest illiquidity premium</li> <li>➤ Implement infrastructure equity and inflation-linked property allocations (noted above)</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Funding position significantly improved and requirement to drive returns not as high</b></li> <li>• <b>Private debt remains a good opportunity given current market dynamics</b></li> <li>• <b>Potential for mandated higher Private Equity allocation make increase less liquid assets</b></li> </ul>
Increase diversification in portfolio	<ul style="list-style-type: none"> <li>• Diversify the sources of growth exposure at a strategy and manager level.</li> <li>• Introduces a greater flexibility for managers and mandates – especially in credit to allow a broader set of the credit markets to be accessed.</li> <li>• Corporate bonds offering very low yield.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Switch from low yielding investment grade corporate bonds to a more flexible multi asset credit mandate (implementation delayed as Pool has not yet launched fund).</li> <li>➤ Implement infrastructure equity, inflation-linked property and private debt allocation to improve diversification.</li> </ul>	<ul style="list-style-type: none"> <li>• Investment grade corporate bonds fallen in value and yields have increased making prospective returns much more attractive.</li> <li>• Multi asset credit mandates have increased yields and remain well placed to navigate volatility through active management, including views on rates.</li> <li>• <b>The timing of change is now not as compelling as it was.</b></li> </ul>
Increase alignment to the Fund's Responsible Investment policy	The Fund has made strong progress incorporating ESG considerations into its investment strategy and should continue to build on this.	<ul style="list-style-type: none"> <li>➤ Revise equity portfolio to implement further ESG focused mandates</li> </ul>	<ul style="list-style-type: none"> <li>• The market continues to evolve and provide alternatives in this space. Osmosis index implemented.</li> </ul>

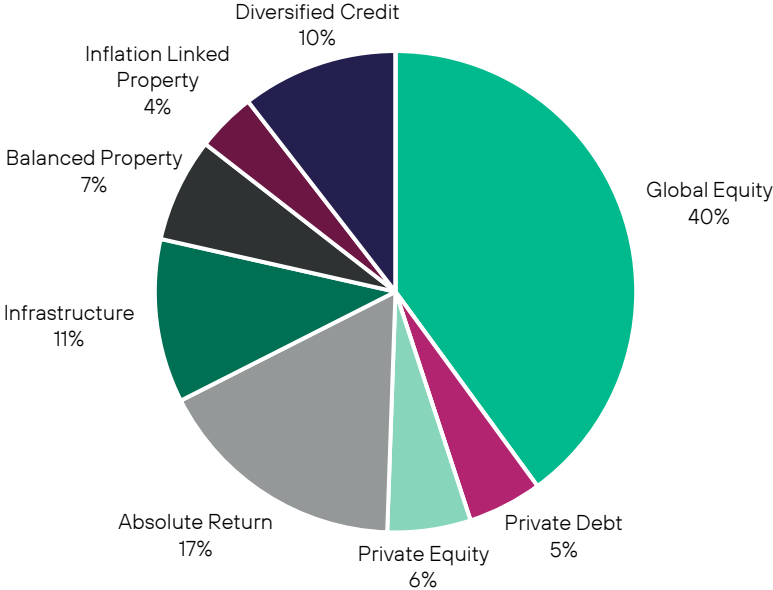
# Previously agreed direction of travel

(July 2021)

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- The revised strategy agreed in 2021 was expected to deliver a slightly higher expected return with a level of downside risk broadly similar to the previous strategy.
- It was expected that the revised strategy would be implemented in a phased manner over the following 12-18 months, depending on the availability of assets via the ACCESS pool and the timing to deploy capital into less liquid mandates. To date the Fund has implemented the following:
  - Equity allocations via the ACCESS Pool through the Baillie Gifford Global Alpha Paris Aligned Fund and the UBS Osmosis Resource Efficient Fund.
  - Increased allocation to infrastructure was implemented via a mandate with IFM which currently sits off pool.
  - The multi-asset credit fund was selected, with BlueBay agreed as the preferred fund. This has not yet been implemented as the Fund is waiting on the ACCESS pool launching this fund which has taken quite some time.
- The previously agreed allocations to inflation-linked property and private debt are yet to be implemented. The ACCESS pool does not currently offer products in these areas.

Agreed Target Strategy – July 2021



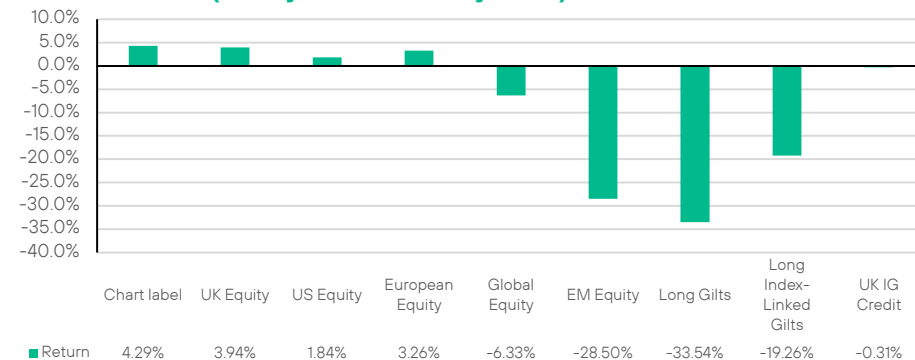


# Current market conditions

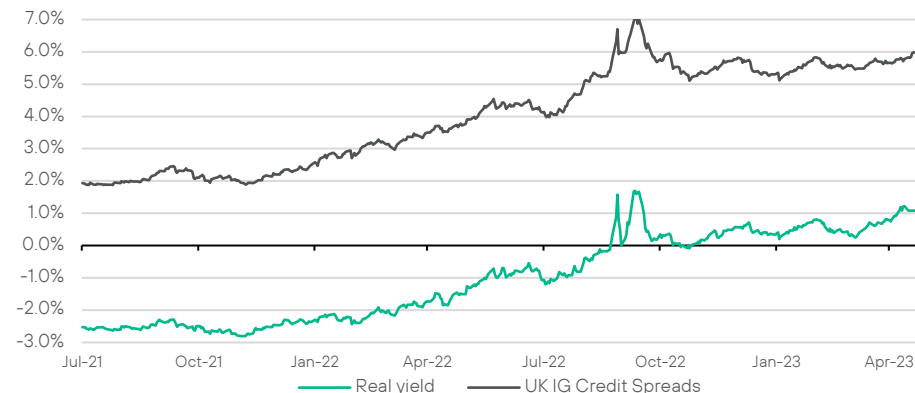
## Recent market conditions

- Market conditions over 2022 and 2023 year-to-date have been extremely volatile, in part due to surging inflation and a significant rise in global interest rates following Russia's invasion of Ukraine.
- Over the last year, gilt yields have risen as global central banks have raised interest rates. Increasing pessimism around the global economy, and the likelihood of a 'hard landing' to monetary tightening, led to volatility in risk assets. These factors combined to drive negative returns over 2022 for credit, equity and gilt markets.
- Since the beginning of the 2023, investors have regained confidence in markets, hoping that inflation will slow and central banks will moderate interest rate rises. This sentiment is reflected in positive year-to-date returns of all major asset classes (except for gilts which have sold off as yields have risen).
- The real yield available gilts has moved dramatically. Purchasing a 20 year index linked gilt in 2021 would have delivered an ongoing yield of RPI-2.5 % p.a. The same gilt now will deliver a return of RPI + 1.0% p.a. The 15 year fixed gilt now yields 4.5% vs 0.5% at the start of 2021. This is a dramatic shift.
- The yield available on a broad range of fixed income investments has increased correspondingly. The yield on UK Investment Grade Corporate Bonds has increased from c.2.0% in July 21 to c.6.0% today (chart on bottom right).
- UK property valuations are under pressure due to rising interest rates and a muted economic outlook in the UK.

## Market Returns (31 July 2021 to 31 May 2023)



## Gilt yields (20 year Real Yield and UK IG Credit yields)



# What does this mean?

Evolution	Impact	Action to Consider
<p>Improved funding position</p>	<ul style="list-style-type: none"> <li>Return requirement for Fund to maintain strong funding position is lower.</li> </ul>	<ul style="list-style-type: none"> <li>Scope to de-risk the investment strategy, whilst still meeting the minimum expected return required by the funding strategy.</li> </ul>
<p>Index-linked Gilt yields now offer a positive inflation linked yield (c.RPI+1.0%)</p>	<ul style="list-style-type: none"> <li>This increases their attractiveness as a strategic asset for the Fund to hold.</li> <li>They provide direct uncapped inflation linkage (a rare investment characteristic) and now a more comparable yield (though still lower) when compared to the inflation-linked property allocation previously agreed</li> </ul>	<ul style="list-style-type: none"> <li>Consider increasing the allocation to Index-linked Gilts.</li> </ul>
<p>Public and private market credit spreads (and overall yield) have increased</p>	<ul style="list-style-type: none"> <li>Credit allocations are now more attractive due to the higher expected total return.</li> <li>Credit offers a lower risk return profile than other growth assets e.g. equity</li> </ul>	<ul style="list-style-type: none"> <li>Continue to increase private credit allocation.</li> <li>Continue to increase public credit allocation.</li> <li>Consider the timing of the move from Corporate Bonds to Diversified Credit, with a view to retaining the corporate bonds whilst the overall yield remains attractive.</li> </ul>
<p>UK Residential and Commercial property valuations under pressure</p>	<ul style="list-style-type: none"> <li>There is scope for further capital value falls and muted capital growth from here.</li> <li>We believe returns in the coming years will be primarily driven by rental income and likely to be lower than prior years</li> </ul>	<ul style="list-style-type: none"> <li>Revisit the previously agreed allocation (yet to be implemented) to Inflation-Linked property given the increase in index linked gilt yields.</li> <li>Consider if there are opportunities to tactically purchase at a significant discount to current prevailing value.</li> </ul>

# Proposals today

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# Revised direction in light of where we are

Strategic change	Strategic rationale
<p><b>Consider reducing allocations to the public and private equity reflecting strong funding position</b></p>	<ul style="list-style-type: none"> <li>Continue direction of travel of reducing overall investment risk and reducing potential volatility in the funding position</li> <li>We propose the underlying composition of the equity mandate allocations are reviewed now that Osmosis is in place.</li> </ul>
<p><b>Introduce strategic allocation to index linked gilts</b></p>	<ul style="list-style-type: none"> <li>Increase inflation protection in asset portfolio to manage a key risk faced by the fund of persistently high inflation. Prevailing yields are attractive and the Fund has already started to purchase index linked gilts in line with the previously agreed trigger based framework.</li> </ul>
<p><b>Continue to progress an increased private credit allocation reflecting strong opportunity</b></p>	<ul style="list-style-type: none"> <li>Private credit markets currently offer attractive yields, on an absolute basis and relative to liquid credit, and market dynamics favour those who are able to delay capital for the long term (such as the Fund).</li> <li>Private credit assets will generate cashflow for the Fund over the short to medium term to meet increased cashflow needs.</li> </ul>
<p><b>Consider reinstating a more balanced approach in liquid credit</b></p>	<ul style="list-style-type: none"> <li>Given the higher interest rate sensitivity of Investment Grade Corporate Bonds their relative attractiveness compared to Diversified Credit has increased.</li> <li>Retaining an Investment Grade Corporate Bonds given their overall yield is appealing in the short to medium term.</li> </ul>

We believe the changes highlighted above are an appropriate evolution to the long-term investment strategy in order to better align the strategy to the Fund's objective.

# Alternative portfolios (1)

Key:  
 ● Growth  
 ● Defensive Growth  
 ● Income  
 ● Inflation Protection

%	Building Blocks	Current Strategic	Current Actual	Evolution	Reduced Risk
Global Equity	●	40.0	42.2	40.0	33.5 (-6.5)
Private Equity	●	5.5	8.2	5.5	5.5
Diversified Growth	●	17.0	18.0	17.0	17.0
Property – Balanced	● ● ●	7.0	7.6	7.0	5.0 (-2.0)
Property – Long inflation linked	● ●	4.0	-	- (-4.0)	- (-4.0)
Infrastructure equity	● ●	11.0	11.1	11.0	11.0
Private Credit	●	5.0	0.9	5.0	2.5 (-2.5)
Diversified Credit	●	10.5	6.4	10.5	13.0 (+2.5)
Corporate Bonds	●	-	2.7	-	-
Index-linked Gilts	●	-	2.1	4.0 (+4.0)	12.5 (+12.5)
Cash		-	0.8	-	-
Expected return (% p.a.)		7.8%	7.8%	7.7% (-0.1%)	7.3% (-0.5%)
VaR (3 yr, 1 in 20 chance)		£1,680m	£1,784m	£1,663m (-7%)	£1,485m (-17%)
% of assets with direct inflation linkage		c. 18.5%	c.17.0%	c. 18.5%	c. 26.0%
% of less liquid assets (liquidity1 available is lower than 1 month)		32.5%	27.9%	28.5%	24.0%

Source: Barnett Waddingham, Isio Calculations.

Notes: Direct inflation linkage assumed to be 100% of Long – Lease property, 100% of infrastructure equity, 50% of balanced property, 100% of private rented property, and 100% of index-linked gilts. Change in asset allocations expressed relative to strategic target. Change in expected return and risk expressed relative to current.

# Alternative portfolios (2)

- Via the Mansion House speech in July 2023, the UK government is at the early stages of discussing reforms which may encourage LGPS funds to increase private equity allocations in the future. This introduces significant uncertainty to the regulatory environment the Fund could soon be operating in.
- As such we recommend any strategy changes are considered in this context, with the outcome of the consultation in mind, and phased in terms of implementation

## Private Equity

- Recognising that the evolution of the private equity allocation takes time, and the live consultation is proposing a target Private Equity allocation of 10% for LGPS (versus the Fund's current target of 5.5%), we propose the current holdings are not "topped up" and left to drift lower from the current allocation of 8.2% to a level of c.7.5% until there is further clarity on the consultation outcome. Any changes to the private equity allocation can be phased and should take into account expected cashflows from the current private equity holdings.

## Credit

- Given the relatively high prevailing yield on corporate bonds, we believe that considering the allocation to corporate bonds and Diversified Credit together is helpful and that this mix should evolve as market conditions change. We note, however, that the Committee have already taken the decision to appoint BlueBay to manage part of the Fund's Diversified Credit allocation alongside M&G. ACCESS are due to make the BlueBay fund available on the pool shortly in October 2023.
- Given the market and pool dynamics noted above, and the Fund's current positioning relative to the relative to the proposed "Evolution" strategy, we believe a pragmatic starting point would be to rebalance the credit portfolio to 2/3 Diversified Credit and 1/3 Corporate Bonds, with the view of phasing fully out of Corporate Bonds over time as and when market conditions dictate. Within Diversified Credit we propose splitting the allocation 50/50 between M&G and BlueBay. Given the overall strategic target to liquid credit is 10.5% this would result in a 3.5% allocation to each of the three underlying mandates.

## Index-linked Gilts

- Increasing an allocation to index-linked gilts using trigger levels at 1.0%, 1.25% and 1.5% index linked gilt yield triggers has previously been discussed and agreed with the Committee. This decision was taken in the context of a 0% strategic allocation and the Fund looking to exploit opportunities in the market.
- If the Committee agree to implement the proposed "Evolution" strategy we propose the 4% target allocation should be implemented immediately (noting yields remain above 1.0%) and additional 1% increments should be added using the framework previously agreed. i.e. an additional 1.0% allocation at a yield of 1.25% and a further 1.0% at a yield of 1.50%.
- Further information on fixed income market levels are given in the appendix.

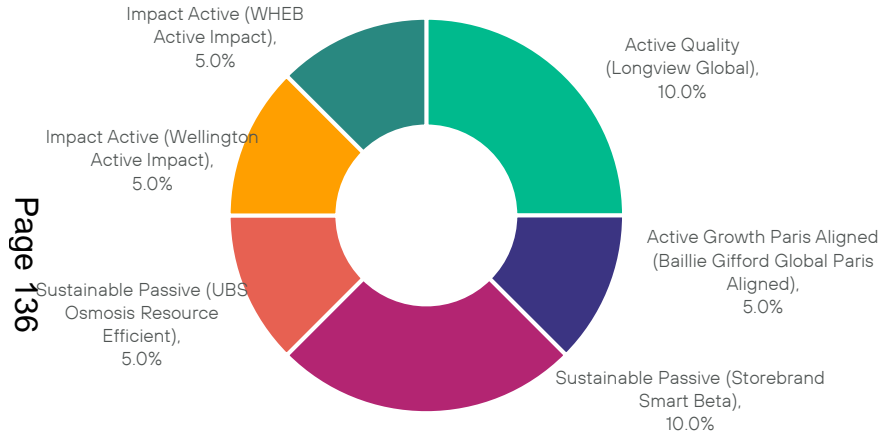
# Equity portfolio – proposed evolution (1)

	Current Strategic allocation	Approach	31 March 2023 actual allocation	1 year Fund performance (%)	1 year benchmark performance (%)	SI year Fund performance (% p.a.)	SI year benchmark performance (% p.a.)
UBS Osmosis Resource Efficient Equity (Passive)	5%	Sustainable Passive	237m (5.2%)	-0.5%	-1.0%	4.0	3.6
Longview Global Equity (Active)	10%	Active - Quality	556m (12.2%)	5.7%	-1.0%	12.8	10.7
WHEB Active Impact Equity (Active)	5%	Impact Active	222m (4.9%)	-3.6%	-1.0%	0.6	8.1
Wellington Active Impact Equity (Active)	5%	Impact Active	222m (4.9%)	-6.8%	-1.4%	1.2	6.4
Prebrand Smart Beta Equity (Passive)	10%	Sustainable Passive	501m (11.0%)	-1.8%	-1.0%	6.7	8.3
Baillie Gifford Global Equity Paris Aligned (Active)	5%	Active – Paris Aligned Growth	187m (4.1%)	-5.1%	-1.4%	-11.7	-12.6

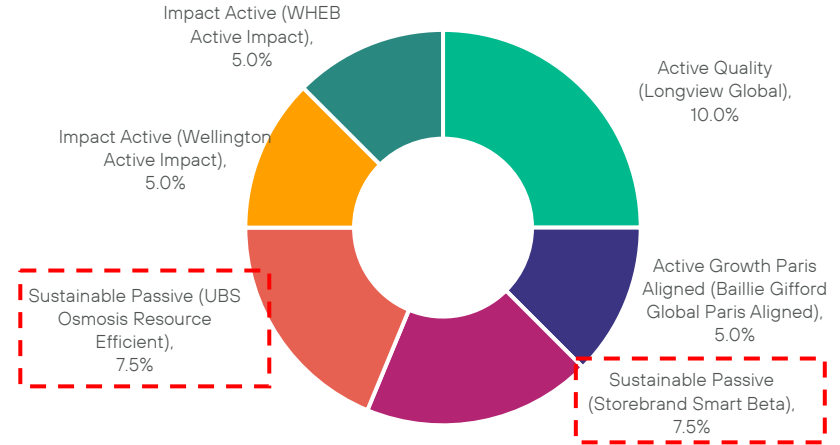
- The Fund's equity portfolio is a core driver of long term returns as well as the largest contributor to overall investment risk in the asset portfolio. The public equity allocation is currently split across 6 mandates with both actively and sustainable passively managed approaches. The bias is currently towards active management with 25% of the 40% overall target allocation allocated to actively managed strategies.
- Within the actively managed allocation there is a 10% allocation to Longview (Active – Quality) and 5% to each of Wellington (Impact Active), WHEB (Impact – Active) and Baillie Gifford (Active – Paris Aligned Growth), The Longview fund has delivered strong performance relative to peers over the last 12 months and the period invested. Wellington has performed poorly versus benchmark and peers as it lacks exposure to the mega cap stocks that led the market. The Baillie Gifford strategy has underperformed, particularly throughout 2022 due largely to its bias to growth focussed companies which lagged the market. Although Baillie Gifford's defined investment style has seen strong headwinds in recent times, more broadly, active equity managers have struggled to outperform their respective indices on a consistent basis.

# Equity portfolio – proposed evolution (2)

## Current Target Public Equity Portfolio



## Proposed Target Public Equity Portfolio



- Within the passive allocation consists of a 15% allocation to sustainable passive strategies split 10% to Storebrand and 5% to UBS Osmosis. The UBS Osmosis fund performance has been strong (relative the other similar index tracking fund peers and Storebrand). The scale of the allocations to Storebrand and Osmosis were largely a function of timing, with Storebrand implemented first and UBS Osmosis second (funded from the legacy passive UBS equity holding allocation). **We believe there is rationale to rebalance the passive managed allocation to make the exposures to Storebrand and UBS Osmosis equal and provide a better balance between the approaches taken.**
- Given the disappointing performance of the active equity managers to date, the Committee may also wish to undertake a separate equity structure review to consider the underlying equity holdings in more detail, including, detailed performance analysis, style analysis and currency hedging analysis.
- Within the global equity portfolio, c.4.8% of assets were allocated to the UK as at 31 March 2023. We consider this overall allocation as reasonable given the global market cap weighting of UK equities is currently c.4%, while also noting the actively managed portfolios can have tactical weightings in regional exposures.



# ESG considerations

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# ESG Considerations

Consideration	Comments
<p>The Fund has a defined Responsible Investment Policy containing explicit ESG Objectives which outlines how the Committee consider ESG factors through the investment decision making process and how these are implemented in the Fund's portfolio.</p>	<ul style="list-style-type: none"> <li>• The Fund has made significant strides in improving the ESG profile of the investment strategy. The primary asset class when considering ESG sustainable or impact investing is equity, and the Fund's holdings reflect this. The Fund's equity portfolio have placed it at the forefront of the shift towards sustainable investing.</li> <li>• In order to further the alignment with the Responsible Investment Policy, any new mandates under consideration should be reviewed fully from an ESG perspective prior to implementation – at both the asset class and manager level. We have outlined below how ESG considerations should be viewed in relation to the proposed strategic changes for the Fund:             <ol style="list-style-type: none"> <li>1. <b>Increase in Private Credit</b> – there is currently limited scope to apply ESG considerations at fund level; however we believe the Committee should evaluate how well any potential new managers integrate ESG analysis into their 'bottom-up' deal level due diligence process e.g. some managers have begun to negotiate ESG specific covenants in their deals. The market is evolving with new 'sustainable' products starting to become established.</li> <li>2. <b>Increase in Diversified Credit</b> – the Committee has selected (yet to be implemented) a sustainably focused Diversified Credit mandate managed by BlueBay. M&amp;G (the Fund's existing Diversified Credit manager) are due to launch a sustainable version of their fund in 2023. This is something we believe the Committee should consider. We view both managers as very strong in this space.</li> <li>3. <b>Increase in Index-Linked Gilts</b> – passive UK Gilts currently offer very limited scope to implement ESG beliefs at fund level.</li> <li>4. <b>Increase in Corporate Bonds</b> – the M&amp;G corporate bond fund has held a consistently higher structural fossil fuel allocation than the M&amp;G Diversified Credit Fund, and likely other Diversified Credit Funds available. Maintaining or adding to this allocation would increase this fossil fuel exposure. Sustainable corporate bond funds are available, but these may need to be accessed outside of the ACCESS pool.</li> <li>5. <b>Reduction in Equity</b> – As noted above the Committee has already taken significant steps in improving the ESG profile of their equity holdings, Reducing the overall allocation to equities would reduce the overall impact of this on the Fund's portfolio.</li> <li>6. <b>Reduction in Property</b> – this asset class is relatively flexible in terms of specific implementation method, covering multiple asset classes, such as UK Balanced (where the Fund currently has an allocation) and Long Lease UK Commercial Property, and Residential Property. In UK Balanced and Long Lease UK Commercial Property there is relatively little scope for fund level ESG integration, however the market is evolving and we expect to see some development in the coming years.</li> </ol> </li> <li>• We note the ACCESS pool currently has limited (two) sustainable products available. The Fund is invested or already has plans to invest in both of these.</li> </ul>

# Implementation considerations

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# Implementation – Example transactions “Evolution”

- The table below details example high-level transactions proposed to fund a transition to the ‘Evolution’ strategy. The ‘target strategic allocations’ shown under ‘Start Position’ therefore reflect that of the ‘Evolution’ strategy.
- Across the numbers which show ‘deviation from strategic allocation’, the colour coding highlights where allocations are within 1.0% of their strategic target, are less than 3% away, or equal to or greater than 3% away.
- The colour coding within the ‘funding cashflows’ rows is used to match disinvestment and investments.

		Global Equity	Private Equity	Diversified Growth	Property - balanced	Property - LL & PR	Infrastructure Equity	Private Credit	Diversified Credit	Corporate bonds	Index Linked gilts	Cash
Start position	Value (£m)	£1,925	£375	£820	£349	£0	£506	£43	£293	£124	£94	£36
	Actual allocation (% of total assets)	42.2%	8.2%	18.0%	7.6%	0.0%	11.1%	0.9%	6.4%	2.7%	2.1%	0.8%
	Target strategic allocations	40.0%	5.5%	17.0%	7.0%	0.0%	11.0%	5.0%	7.0%	3.5%	4%	0.0%
	Deviation from strategic allocations	(2.2%)	(2.7%)	(1.0%)	(0.6%)	-	(0.1%)	+4.1%	+0.6%	+0.8%	+1.9%	(0.8%)
Funding cashflows	Disinvestments	-£99m	-£124m	-£44m	-£29m		-£4m					-£9m
	Investments							£157m	£27m	£36m	£36m	£53m
End position	Value (£m)	£1,826	£251	£776	£320	£0	£502	£200	£320	£160	£183	£27
	Actual allocation	40.0%	5.5%	17.0%	7.0%	0.0%	11.0%	5.0%	7.0%	3.5%	4.0%	0.6%
	Deviation from strategic allocations	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.6%	0.0%	0.0%	0.0%	0.6%

- We suggest the Storebrand and Osmosis equity holdings are equalised. As the Storebrand holding is currently overweight in this pairing, we suggest the equity disinvestment for rebalancing is sourced from the Storebrand fund.

# Implementation Considerations

Consideration	Description	Comments
Aligning the illiquid mandates with the strategic benchmark	The Fund's allocations to property and private equity are overweight relative to target. The allocation to Private Credit is underweight.	<ul style="list-style-type: none"> <li>There can be significant time and cost associated with reducing property allocations, this should be borne in mind when considering the pace of restructuring the portfolio.</li> <li>The Private Equity allocation is expected to reduce over time as distributions are made from the funds. Future cashflows can vary in time and amount. Harbourvest expects approximately half of the allocation to be distributed by c.2028. Adams Street expects approximately half of the allocation to be distributed by c.2026.</li> <li>The private credit allocation is in the process of being built up, with options regarding the structure of the underlying exposure previously discussed with the Committee.</li> </ul>
Increased credit	The Fund's allocation to credit is currently underweight relative to the proposed strategic target.	<ul style="list-style-type: none"> <li>Given market conditions the Committee should consider how best to structure the underlying credit holdings.</li> <li>The Committee has selected a Diversified Credit mandate with Bluebay but this is yet to be implemented.</li> </ul>
Restructuring the public and private equity holdings	The proposed new strategy rebalances the holdings within the global equity allocation	<ul style="list-style-type: none"> <li>This public transfer is a relatively simple action, but will incur a spread on transaction costs.</li> <li>Via the Mansion House speech in July 2023, the UK government is at the early stages of discussing reforms which may encourage LGPS funds to increase private equity allocations in the future. Although we do not believe this is a key consideration today, it may become more relevant in the future.</li> </ul>
Overall Fund Governance and Pool Implementation	The Fund currently has investments with 15 different managers.	<ul style="list-style-type: none"> <li>Any restructuring of the Fund's assets should be done with a view to minimising any increase to the number or complexity of existing investment arrangements, to avoid further increasing the overall governance burden.</li> <li>Recent strategy changes have been slow to implement as the ACCESS pool can have long lead in times to add new propositions to the platform. This increases the risk of "opportunity cost" when implementing the chosen investment strategy. Consideration should be given to investing via alternative routes where appropriate.</li> <li>This consultation for LGPS to seek views on proposals relating the areas of asset pooling, levelling up, opportunities in private equity, investment consultancy services and the definition of investments was released on 11 July. This should be monitored during the implementation of any strategic changes.</li> </ul>
Transaction Costs	There are often explicit transition costs associated with the movement of assets.	<ul style="list-style-type: none"> <li>The round trip transaction costs of any movement in assets should be considered ahead of implementation. While we do not anticipate that the majority of the asset class changes proposed would incur transition costs, we do note that the sale of public credit assets is likely to incur a spread cost of c0.3-0.7%, while the sale of property assets on the primary market will incur trade costs of c. 2%. Given the illiquid nature property allocations can also take significant time to exit.</li> </ul>

# ACCESS current product range (1)

● Currently invested

Fund	Size	Number of Investors
<b>Equity</b>		
ACCESS Long Term Global Growth (Baillie Gifford)	£1,772m	4
ACCESS Global Equity Core (Baillie Gifford)	£1,071m	1
ACCESS Global Dividend (M&G)	£1.338m	2
ACCESS Global Equity Ex UK (Fidelity)	£710m	1
ACCESS Global Stock (Dodge & Cox)	£1,694m	3
ACCESS Global Equity (Newton)	£981m	3
ACCESS Global Equity (Longview)	£2,044m	4
ACCESS Global Equity – JOHCM (J O Hambro)	£471m	1
ACCESS Global Equity Fund (Capital Group)	£414m	1
ACCESS Global Equity (Mondrian)	£299m	1
ACCESS Global Managed Volatility Equity Fund (Arcadian)	£639m	1
ACCESS Global Active Value Fund (Schroders)	£405m	1
ACCESS Global Alpha Paris Aligned Fund (Baillie Gifford)	£2,496m	4
ACCESS Global Equity Fund (Macquarie)	£1,261m	1
ACCESS UK Equity (Schroders)	£1,184m	1
ACCESS UK Equity Core (Baillie Gifford)	£699m	2
ACCESS UK Equity Fund (Liontrust)	£301m	1
ACCESS UK Select Fund (Blackrock)	£406m	2

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# ACCESS current product range (2)

● Currently invested

Fund	Size	Number of Investors
<b>Diversified Growth</b>		
ACCESS Diversified Growth (Baillie Gifford)	£307m	2
ACCESS Absolute Return (Ruffer)	£671m	2
ACCESS Real Return (Newton)	£341m	1
<b>Fixed income</b>		
ACCESS Long Sterling Core Bond (Royal London)	£395m	1
ACCESS Sterling Corporate Bond (M&G)	£124m	1
ACCESS Sterling Aggregate Bond Fund (Baillie Gifford)	£783m	1
ACCESS Sterling Investment Grade Credit Fund (Fidelity)	£725m	1
ACCESS Alpha Opportunities Fund (M&G)	£1,855	5
ACCESS MAC (Janus Henderson)	£1,091m	3
<b>Passive investments</b>		
UBS funds (including Osmosis Resource Efficient Index and Passive Index-linked Gilts)	£9,940m	9

Source: ACCESS

# A3: ACCESS near term pipeline

Fund	Size	Number of Investors
Alcentra Fixed income	£484m	1
Barings Fixed income	£399m	1
Columbia Threadneedle Global Emerging Markets	£477m	3
Robeco Global Emerging Markets	£338m	1
GHIOF High Yield Credit Fixed income	£108m	1
24 AM Asset Backed Securities	£550m	1
BlueBay Fixed income	£640m	3

- In 2022 the Committee selected BlueBay as a preferred provider for Fund's Diversified Credit allocation and intend to implement the allocation once the BlueBay sustainable fund is available on the ACCESS platform



# Summary and next steps

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# Summary and next steps

## Summary

- The results of the March 2022 Actuarial valuation process indicate the Fund is 123% funded with a significant surplus. We have reviewed the Fund's investment strategy in light of this position, and the agreed strategic objectives, using a rolled forward funding position and market conditions as at 31 March 2023. We estimate a funding position of c.121% and a surplus of £795m at this date.
- The Fund's current strategy is expected to generate a long term return of 7.8% p.a. which we believe is more than sufficient to meet the Actuary's assumed return requirements under the current funding basis. There is scope to reduce risk if the committee are minded to do so whilst still targeting sufficient return to meet the actuarial basis.
- We understand the Fund wishes to continue to pursue long term returns in order to continue to build up a surplus within the Fund over the long term (which would enable contribution rates to be reduced) whilst also pursuing a market leading ESG strategy.
- We have presented a range of alternative asset allocations for consideration. We believe the changes highlighted above are an appropriate evolution to the long-term investment strategy in order to better align the strategy to the Fund's objective.
- Via the Mansion House speech in July 2023, the UK government is at the early stages of discussing reforms which may encourage LGPS funds to increase private equity allocations in the future. This introduces significant uncertainty to the regulatory environment the Fund could soon be operating in. As such we recommend any strategy changes are considered in this context, with the outcome of the consultation in mind, and phased in terms of implementation.
- The Fund should also consider both the governance implications of the availability of options on ACCESS, number of mandates/managers and the potential ongoing management costs before making any final decisions.

- Previously agreed strategy changes have been slow to implement as the ACCESS pool can have long lead in times to add new propositions to the platform. This increases the risk of "opportunity cost" when implementing the chosen investment strategy. Consideration should be given to investing via alternative routes where appropriate.
- As with all investment activity there is an element of geopolitical risk or other external factors which could negatively impact outcomes.

## Next Steps

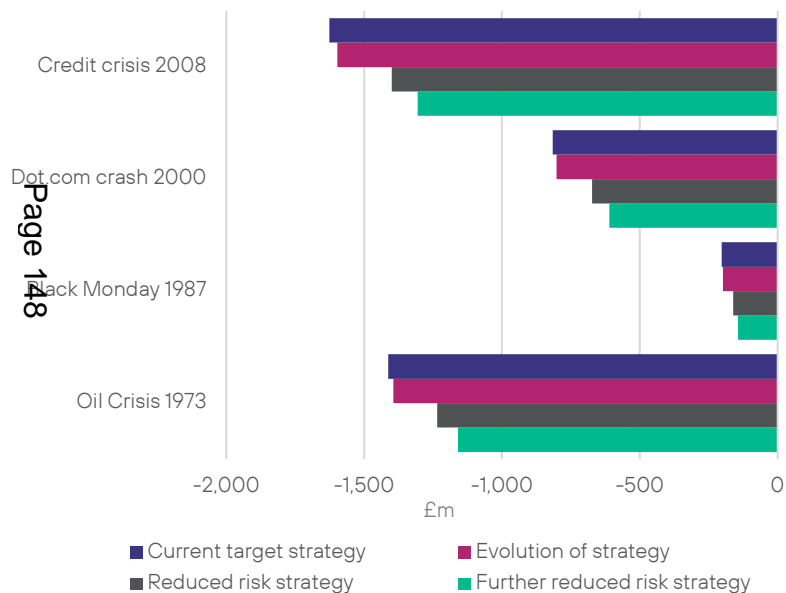
- The Committee should consider its views on:
  - the alternative asset allocations put forward in this paper, and whether there is any appetite to make change;
  - the make-up of the Fund's equity allocation and whether there is merit in rebalancing the passive allocations and/or a further implementation review of the equity structure;
  - Whilst secondary to the decision on the strategic asset allocation, the Fund will also need to consider the implementation of any changes, including the impact of pooling, in further detail.
- We look forward to discussing this report with the Committee.

# Appendices

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# A1: Scenario analysis

## How Would the Fund have Performed (Approximate) – 4 crises



Source: Barnett Waddingham, Isio calculations. Notes: Start funding position has been assumed to be 121% as at 31 March 2023.

## Comments

- Based on the current strategic allocation and asset value, we illustrate the funding level of the Fund would have changed under four historical market stress scenarios. These measure the impact across each specific event:
  - During the 2008 credit crisis, equity markets fell c. 50%, credit spreads widened materially, and long dated interest rates fell. Such moves would materially impact the Fund, given its equity exposure, and relatively low interest rate protection. The impact of these moves would have been partially offset by a c.0.5% fall in long dated inflation expectations, which would push down the value placed on liabilities.
  - The Fund would have suffered a significant drawdown during the 1973 Oil Crisis, with a c. 42% fall in equity markets, and a drop in long dated interest rates damaging the overall funding level.
  - The 2000 Dot.com crash saw a c. 35% fall in equity markets, but limited other negative market impacts for pension funds. However, we expect such an event to still have a material impact on the Fund, given the 40% equity allocation.
  - A repeat of 'Black Monday' would have a negative impact on funding level, albeit not to the same extent as the other scenarios considered. In this scenario, equity markets fell c. 10%, however long dated interest rates increased – pushing down the value placed on pension fund liabilities.
  - The scenarios suggest that the 1 in 20 risk illustrated previously (occurring over a three year period) is not unrealistic given the quantum that was observed during past market crises.

# A2: Index-linked gilts - overview

- Index-linked Gilts are bonds issued by the UK Government and usually have a AAA-AA credit rating (depending on rating agency). The default rate is generally considered to be very low given that the issuer (UK Government) has the ability to print money if needed, to pay debts in the event tax receipts are insufficient.
- Index-linked Gilts pay out a coupon and principal that is linked to the Retail Prices Index ("RPI") inflation. They therefore provide direct protection against changes in inflation expectations. This is a rare and attractive investment characteristic.
- **Index-linked Gilts** prices have risen materially over the 15 years to 2022 as interest rates steadily declined. Rising interest rates, combined with steady long term inflation over 2022 and 2023 have caused prices to fall.
- The real yield available has grown correspondingly in recent years and this is shown in the chart above. Purchasing a 20 year index linked gilt in 2021 would have delivered an ongoing yield of **RPI -2.5 % p.a.** The same gilt now will deliver a return of **RPI + 1.0% p.a.**

Long Term Real Gilt Yield Movements Since 2008 – 20yr UK Index-linked Gilt Yield



Gilt yields change since the last strategy review

# A2: Index-linked gilts – proposed trigger levels

## Trigger Structure

Updating the current trigger mechanism in place, we propose that in order to opportunistically take advantage of market movements, the purchase of additional Index-Linked Gilts is done in tranches according to market triggers and these triggers are updated following changes to the strategic benchmark.

As the currently yield is above the first trigger of 1.0%, we propose the full 4% strategic allocation is implemented.

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Following this, we propose implementing triggers to invest further in Index-Linked Gilts to an overweight position, structured as follows:

Real Gilt Yield Trigger	Investment (% of total Fund value)
1.25%	1%
1.5%	1%

If both of these triggers were breached, and two tranches implemented, this would represent an allocation of index linked gilts up to 6%, from the current 4% strategic allocation.

## Real Gilt yields – Year to 31 July 2023



## Fund Source

We propose that rebalancing be done via a disinvestment from the most appropriate overweight liquid position e.g. equities or DGF at the time of the trigger being breached, based on rebalancing the allocations towards strategic benchmark

# A2: What is Private Credit?

Private credit involves investment managers providing directly originated loans which historically would have been made by banks before the financial crisis. These loans are typically made to middle market private companies but can also be backed by assets such as property. The underlying loans are illiquid, meaning they cannot typically be sold at short notice, and are therefore usually accessed via a closed-ended fund structure

Returns in private debt are driven by interest payments and fees; investors typically expect a higher expected return to compensate for the illiquid nature of the holdings, as well as return of principal at the end of the loan period.

Examples of types of private credit include:

- Corporate Direct Lending (most common)
- Real Estate Debt
- Infrastructure Debt
- Private Asset Backed Securities

The main risk in private credit is credit risk relating to the underlying borrowers (i.e. the risk that they do not repay as promised). This is mitigated by manager due diligence into underlying borrowers and negotiating covenants to protect investors' interests. In addition, specific managers may choose defensive positioning, such as senior secured loans within less cyclical sectors, to reduce risk.

Given the illiquid nature of the underlying loans, private credit is typically accessed via closed-ended funds with typical fund terms of c.7 years, during which disinvestments are not permitted, but capital is returned as loans are repaid. Access therefore requires a long term investor time horizon and broader liquidity planning to facilitate allocations.

Most private credit strategies tend to invest in 'floating rate' positions, meaning the interest rate earned increases as underlying base interest rates increase, which has been an attractive feature to increase returns over recent periods.

## Typical closed-ended fund structure

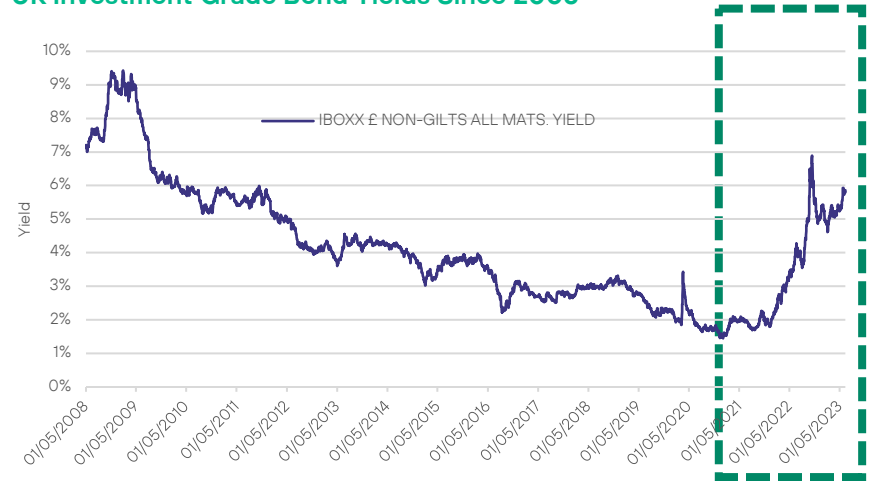
General Partner (investment manager)
Limited Partner (i.e. investor) 1
LP 2
LP 3
LP 4
LP 5
LP 6
LP 7
LP 8

# A2: Investment Grade Corporate Bonds – overview

- Corporate bonds are debt instruments issued by companies which typically pay periodic interest coupons until the principal amount is repaid at maturity. Investment Grade (“IG”) bonds are issued by companies considered to be relatively lower risk and the bonds are rated from AAA to BBB.
- Corporate bond investments by pension schemes play a dual role in the portfolio:
  - To serve as a matching asset class - Interest rate exposure through bond investments can be used to match some interest rate risk related to pension scheme liabilities
  - To provide a source of excess returns - Corporate bonds carry a credit spread. The excess yield above government bonds that compensates investors for the risk of investing in bonds.
- Investment in corporate bonds can be on a passive basis, whereby the investment manager seeks to replicate the return of a benchmark index or on an active basis, whereby the manager seeks to provide a return in excess of a benchmark.
- IG corporate bonds typically have a lower sensitivity to changes in interest rates (lower duration) than pension scheme liabilities. However, they are expected to provide higher returns compared to UK Gilts, in line with the higher risk.

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## UK Investment Grade Bond Yields Since 2008



Yield change since the last strategy review

- The yield available has grown correspondingly in recent years and this is shown in the chart above. Purchasing IG bonds in 2021 would have delivered an ongoing yield of **1.9% p.a.** The same bond now will deliver a return of **5.9% p.a.**



# A3: Timberland – overview

Timberland investments comprise a diverse range of forestry assets, from softwood forests in the south-eastern United States to eucalyptus plantations in Brazil and South Africa. Timberland is expected to provide a steady stream of returns with low correlation to traditional asset classes and low volatility. However, the non-contractual cashflows, the illiquidity of the funds and the performance fee structure means it may only be suitable for certain schemes.

Timberland funds buy and manage forestland with the aim of maximizing harvest yields, and selling the timber to the construction and paper/soft goods industries. At the end of the fund's life, the land is sold.

The asset class has historically produced a steady stream of returns with low correlation to traditional asset classes (see chart opposite) and low volatility.

Timber Investment Management Organisations ("TIMO") are specialised entities that are set up with the sole purpose of investing in timberland on behalf of large institutional clients such as pension schemes, insurance companies and university endowments.

TIMOs can be accessed via closed and open-end vehicles, as well as a few listed vehicles. Our preference is for closed-end vehicles.

- Closed-end pooled funds - These funds typically require minimum investments of £5m and have long-term lock-ups. These funds are suitable for most medium sized schemes (total assets >£100m);
- Segregated mandates: Mandate sizes are typically required to be £50m or more. Thus, schemes with over £500m of total assets could consider allocating on a segregated basis.

Manager skill in selecting and managing investments as well as timing the harvest of timber (from which up to 25% of returns are derived) is an important consideration.

## Typical Characteristics

<b>Expected Return</b>	Low		High	<b>Gilts + 5.0%</b>
<b>Expected Volatility</b>	Low		High	<b>15.0% p.a.</b>
<b>Shape of Outcomes</b>	0% Contractual		100% Contractual	<b>&lt;50%-contractual</b>
<b>Liquidity</b>	Immediate		Long	<b>Long</b>
<b>Diversification</b>	Concentrated		Highly Diversified	<b>Concentrated</b>
<b>Management Fee</b>	Low		High	<b>c.0.75-1.5% p.a.</b>
<b>Performance Fee</b>	No		Yes	<b>c.20% p.a.</b>

## Implementation Considerations

<b>Availability</b>	Depending on funds' fundraising cycles
<b>Governance</b>	High due to drawdown structure
<b>Trading costs</b>	Secondaries market in infancy
<b>Turnover</b>	Low
<b>Lock-ins</b>	Typically 10-15 years
<b>Active/Passive</b>	Active
<b>Geography</b>	Mostly in the US, Australia and South America, some EM exposure (highly fund-specific)

## Past Performance

Performance Indicator	2021	2020	2019	2018
<b>Timber Index<sup>1</sup></b>	16.7%	20.4%	19.2%	-17.7%

Note: Totals may not sum to 100% due to rounding. <sup>1</sup>S&P Global Timber & Forestry Index, performance refers to net total return in USD. Source: Sample investment managers, S&P Dow Jones Indices

# A3: Private debt secondaries – overview

Private debt secondaries ('PDS') strategies involve buying private debt assets on the secondary market from both Limited Partners (LPs) and General Partners (GPs) seeking liquidity. We prefer strategies which focus on performing senior debt where excess returns are largely driven by a 5-15% discount to fair value. Some managers may also seek modestly levered positions and utilise mezzanine/distressed positions to increase returns; however the latter should form the minority of an overall portfolio.

Private debt secondaries strategies are a new opportunity that have evolved from the growth of the private debt market. As fundraising in private debt has increased, the turnover of these assets has naturally started to rise providing investors with an alternative entry point to access the private debt universe.

A PDS strategy allocates across both General Partner ('GP') and Limited Partner ('LP') stakes of direct lending funds. These are characterised as follows:

- In a **GP-led deal**, the underlying fund manager will be seeking a liquidity solution on behalf of all Limited Partners (i.e. fund investors), such as a continuity solution as a fund reaches the end of its life. The PDS manager can negotiate which of the GP's assets it wants to purchase or exclude. As a result, these deals can be quite complex but PDS managers may have less negotiating power, especially in an auction process.
- In an **LP-led deal**, a specific investor seeks liquidity by selling their individual fund holding. The PDS manager must take the full exposure of the fund, unlike in GP-led deals. A PDS manager may have greater negotiating power on price but less scope to negotiate fee discounts directly with the GP.

GP-led deals tend to be driven by portfolio management considerations such as accelerating liquidity to investors, fund restructurings and continuation vehicles. Conversely LP-led deals tend to be driven by liquidity considerations such as rebalancing wider portfolios, managing cashflows or offloading illiquid assets as investors approach their long term targets.

The benefits of a PDS strategy can be best viewed relative to a traditional primary direct lending ('DL') fund. Potential advantages include:

- **Visibility** – ability to evaluate how loans have been performing given the sight of the operating history of the portfolio being acquired.
- **Deployment** – quicker deployment relative to a DL fund as the PDS manager has immediate access to funded portfolios rather than spending time sourcing individual deals.
- **Immediate Yield** – as PDS managers invest approximately 3 years into the life of individual positions, underlying positions tend to be income generating, providing a yield upon the first investment.
- **Diversification** – as an example, where a DL fund will have one GP and c.30-50 loans, a PDS fund may have c.10 GPs and 500+ underlying loans, increasing manager style and underlying issuer diversification.

## Typical Characteristics

<b>Expected Return</b>	Low		High	<b>8-10% Net IRR</b>
<b>Expected Volatility</b>	Low		High	<b>c.8-10% p.a.</b>
<b>Shape of Outcomes</b>	0% Contractual		100% Contractual	<b>Mostly contractual</b>
<b>Liquidity</b>	Immediate		Long	<b>Long</b>
<b>Diversification</b>	Concentrated		Highly Diversified	<b>Diversified</b>
<b>Management Fee</b>	Low		High	<b>1.0% to 1.25% p.a.</b>
<b>Performance Fee</b>	No		Yes	<b>5.0% – 15.0% p.a. subject to return hurdle</b>

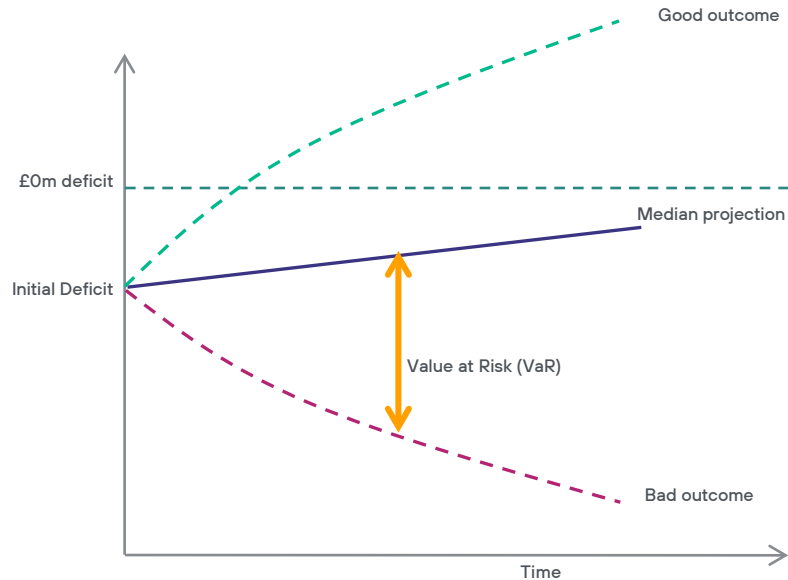
## Implementation Considerations

<b>Availability</b>	Limited number of pooled funds currently available
<b>Governance</b>	Moderate, drawdowns plus standard quarterly monitoring
<b>Trading costs</b>	None
<b>Turnover</b>	Low
<b>Lock-ins</b>	Withdrawals are not permitted. Income and capital will be distributed throughout the Fund's life.
<b>Active/Passive</b>	Active
<b>Geography</b>	Global
<b>Asset Allocation</b>	80%-100% Senior/Unitranche Debt; 0%-20% Subordinated Loans
<b>Past Performance</b>	Due to the infancy of the asset class, it is too early to draw meaningful conclusions from past performance.

# A4: Value at Risk – an explanation

## Value at Risk (“VaR”)

- The 1 in 20 value at risk is the difference between the 5th percentile outcome and the expected (median) outcome. The VaR measure gives a sense of how much better or worse the funding position could be relative to the central expectation for different market conditions. This is important when comparing investment strategies and setting contribution rates.



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Note: the above chart is for illustrative purposes only.

# A5: Return and volatility assumptions (1)

## Introduction to the Assumptions

- These are our “best estimate” asset class return, volatility and correlation assumptions. We believe there is a 50:50 chance that the actual outcome will be above/below our assumptions.
- The assumptions are long-term, for a 10-year period, expressed in Sterling terms.
- Return assumptions are:
  - Annualised (i.e. geometric averages), rounded to the nearest 0.1%.
  - Expressed relative to the yield on fixed interest gilts (the annual yield at the 10-year tenor on the Bank of England spot curve). This yield was 3.5% at 31 March 2023.
    - Net of management fees.
    - Before tax. UK pension schemes are exempt from tax on investments. The impact of taxation may reduce returns for other investors.
- Volatility assumptions are based on the standard deviation of annual returns over a 10-year period, rounded to the nearest 0.5%.
- Bond volatilities are sensitive to the duration of the index. Our Fixed Interest Gilts (FIG) and Index-Linked Gilts (ILG) assumptions both relate to Over 15 Year indices, but the cashflow profile of the ILG index is considerably longer than the FIG index. Hence the difference in volatilities is partly explained by the different index durations.
- Correlation assumptions are based on the correlation of annual returns over a 10-year period, rounded to the nearest 5%.

## Limitations and Risk Warnings

- There can be no guarantee that any particular asset class or investment manager will behave in accordance with the assumptions.
- The assumption-setting process is subjective and based on qualitative assessments rather than a wholly quantitative process. Newer asset classes can be harder to calibrate due to the lack of a long-term history. Some asset classes may rely on active management to help deliver the assumed return. The returns on illiquid assets may vary by vintage; in these cases the quoted return expectation is necessarily an estimate encompassing multiple vintages.
- Where these assumptions are used within asset-liability modelling, please note that the model's projections are sensitive to the econometric assumptions. Changes to the assumptions can have a material impact upon the modelling output.

# A5: Return and volatility assumptions (2)

Asset Class	Sector <sup>1</sup>	Return <sup>2</sup>	Volatility <sup>3</sup>
Equity	Developed Markets – Passive	4.0%	20.0%
	Developed Markets – Core Active	4.5%	20.5%
	Global Unconstrained	5.0%	21.0%
	Developed – SmallCap Passive	4.6%	24.0%
	Emerging Markets – Passive	5.5%	28.0%
Property	UK Balanced Property	2.4%	13.0%
	Long Lease Property	2.5%	8.0%
	Private Rented Sector	3.0%	13.0%
	Global Property Secondaries	6.0%	30.0%
Hedge Funds	Multi-Strategy Fund of Funds	2.5%	10.0%
	Global Macro	3.0%	13.0%
Diversified Growth Funds	DGF (lower risk) <sup>5</sup>	2.8%	10.0%
	DGF (higher risk) <sup>5</sup>	3.5%	12.5%
Alternatives	Private Equity	6.5%	26.0%
	Diversified Alternatives	6.0%	18.0%
	Infrastructure Equity (lower risk) <sup>5</sup>	4.2%	10.0%
	Infrastructure Equity (higher risk) <sup>5</sup>	4.9%	15.0%

Notes: Please refer to full explanations and caveats on previous pages.

<sup>1</sup> Includes active management except where specified as passive.

<sup>2</sup> Expected return per annum, net of fees, relative to the yield on fixed-interest gilts.

<sup>3</sup> Expected standard deviation of absolute annual returns.

<sup>4</sup> Includes allowances for downgrades and defaults.

<sup>5</sup> "Lower risk" and "higher risk" are relative descriptions within the asset category only, with no wider meaning.

Source: Isio

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Asset Class	Sector <sup>1</sup>	Return <sup>2</sup>	Volatility <sup>3</sup>
Credit <sup>4</sup>	Corp. Bonds (IG All-Stk) – Passive	1.1%	8.0%
	Corp. Bonds (IG All-Stk) – Active	1.4%	8.0%
	Corp. Bonds (IG >15y) – Passive	0.9%	11.0%
	Corp. Bonds (IG >15y) – Active	1.2%	11.0%
	Absolute Return Bonds	1.5%	4.0%
	Asset-Backed Securities (IG)	2.0%	5.0%
	CLO	2.6%	9.0%
	Direct Lending	4.2%	10.5%
	Distressed Debt	7.0%	18.0%
	Diversified Credit	2.5%	11.0%
	Diversified Private Credit	4.2%	10.0%
	High Yield Credit	3.0%	11.0%
	Infrastructure Debt – Senior	2.0%	6.0%
	Infrastructure Debt – Junior	3.3%	9.5%
	Multi-Asset Credit (lower risk) <sup>5</sup>	2.6%	6.5%
	Multi-Asset Credit (higher risk) <sup>5</sup>	3.3%	9.0%
	Real Estate Debt – Senior	1.8%	6.0%
Real Estate Debt – Junior	5.0%	14.0%	
Real Estate Debt – Whole Loan	3.5%	9.0%	
Secured Finance	3.3%	8.5%	
Semi-Liquid Credit	3.5%	9.0%	
Gilts	Fixed Int. Gilts (>15y) – Passive	0.0%	11.0%
	Index-Linked Gilts (>15y) – Passive	0.0%	12.0%
Cash	Cash	0.0%	1.5%

# A6: Modelling methodology (1)

## Data and Sources

- Information on characteristics of the Fund's liability profile, including the split between membership types, was taken from information provided by Barnett Waddingham as at 31 March 2023.

## Modelling Principles

- SOFIA is a stochastic model that simulates a large number of possible future economic outcomes, in which financial conditions develop in a number of different ways defined by assumptions for average outcomes, range of variability, and inter-dependency between different markets.
- The high-level market scenarios are generated by a third-party Economic Scenario Generator (ESG) provided by Moody's Analytics. The ESG is an industry-standard tool that is widely used by financial institutions (e.g. insurers, asset managers, and investment banks).
- Based on the scenarios generated by the ESG, SOFIA simulates asset-class returns calibrated to Isio's asset-class assumptions.
- SOFIA takes the initial starting position of the assets and the liabilities, and projects these values forward under the simulated scenarios, taking into account any relevant inflows and outflows.
- Different investment strategies are modelled in order to illustrate the effects of different allocations. In each case, SOFIA assumes that the strategy remains constant over the full projection period. Assets are annually rebalanced back to the original allocations.

## Modelling Results

- The results of the projections are shown by ranking the calculated results from best to worst in each year, and presenting the following outcomes:
- Median: this is the middle outcome and can be thought of as the "expected result". Half of the modelled outcomes are better than this and half are worse.
- Bad: this splits the results so that there is a one in five (20%) chance of having a worse outcome. This is a measure of risk.
- Very Bad: this splits the results at a one in twenty (5%) chance of having a worse result. This is a more extreme measure of downside risk.
- Good and Very Good (where shown): these illustrate possible positive outcomes at the 20% and 5% levels respectively.
- The "Value at Risk", where shown, is defined as the difference between the Median outcome and the Very Bad outcome, i.e. it represents the variability of funding outcomes and shows the magnitude of the possible downside from the expected result. Please note that this is not the same as the possible downside loss from the starting position.

# A6: Modelling methodology (2)

## Compliance Statement

- This report, and the work relating to it, complies with “Technical Actuarial Standard 100: Principles for Technical Actuarial Work” (“TAS 100”).
- This report has been prepared for the purpose of assisting the addressee in their review of the investment strategy. If you intend to use it for any other purpose or make any other decisions after considering this report, please inform Isio and we will consider what further information or work is needed to assist you in making those decisions.

## Material Assumptions

- Isio’s central asset-class assumptions are assessed and revised at each calendar quarter-end. The assumptions used within this modelling exercise are set out in the Appendix.
- Certain assumptions are sourced directly from the Moody’s Analytics ESG and available market data, or set via adjustments to these sources. Where required or deemed to be more appropriate, assumptions are entirely determined by Isio. The assumption setting process is subjective and based on qualitative assessments rather than a wholly quantitative process. Where judgement is required, input is received from Isio’s internal asset-class research teams.

## Limitations and Risk Warnings

- The only risk factors considered in our modelling are those that affect the values of pension schemes’ assets and the financial assumptions used to value schemes’ liabilities. Some of the risks that are not reflected include demographic risks (e.g. uncertainty of life expectancy), future changes to members’ benefits, and legislative risks. The modelling results should therefore be viewed alongside those risks, as well as other qualitative considerations including portfolio complexity, governance burden, and liquidity risk.
- The model’s projections are sensitive to the starting position and the econometric assumptions. Changes to the assumptions can have a material impact upon the output. There can be no guarantee that any particular asset class or investment manager will behave in accordance with the assumptions. Newer asset classes can be harder to calibrate due to the lack of a long-term history.
- The modelling analysis is based on portfolios containing a range of asset classes and different approaches to fund management. Clients should not make decisions to invest in these asset classes or approaches to fund management based solely on the modelling analysis.
- Portfolios that make use of derivatives are exposed to additional forms of risk and can experience losses greater than the amount of invested capital.
- No guarantee can be offered that actual outcomes will fall within the range of simulated results. Actual outcomes may be better than the simulated 95th percentile or worse than the simulated 5th percentile.

# A6: Modelling methodology (3)

## Liability Basis

- Where the model illustrates a scheme-specific funding basis (e.g. Technical Provisions), the funding basis is calculated in the same way across all the investment portfolios modelled. We therefore focus on the effect of investment strategies on asset values and hence surplus/deficits, without the distorting effect of differing discount rates. However, in cases where the discount rate allows for a risk premium, the magnitude of the risk premium may depend on the proportion of return-generating assets in the portfolio, and therefore in practice the funding basis may be different under different investment strategies.
- In addition to the deficit contributions, the model also calculates contributions required to fund future service accrual, if there are active members accruing additional pension entitlements. In this case a small amount of variability arises from the range of possible future inflation projections. Therefore the “fixed contribution” projections may still show minor differences in contributions between, for example, Median and Bad outcomes.

## Contribution Basis

- The model's projections may be based on either fixed or variable contributions:
- “Fixed contributions” means that the current schedule of deficit contributions is assumed to remain in place for the full projection period. The purpose of this is to illustrate pure investment risk, showing the effect of differing investment strategies without the distorting impact of different amounts of money being contributed. In practice, however, the long-term downside outcomes would be less likely to be reached, as poor intermediate outcomes would lead to a requirement for additional contributions after future valuations.
- “Variable contributions” means that the model simulates future actuarial valuations every three years, and calculates the future deficit contributions that might be required under the particular situations being projected. This illustrates the range of possible future contribution requirements.



# A7: Disclaimers

- This report has been prepared for the sole benefit of East Sussex County Council as Administering Authority of the East Sussex Pension Fund and based on their specific facts and circumstances and pursuant to the terms of Isio Group/ Isio Services Ltd's Services Contract. It should not be relied upon by any other person. Any person who chooses to rely on this report does so at their own risk. To the fullest extent permitted by law, Isio Group/ Isio Services Ltd accepts no responsibility or liability to that party in connection with the Services.
- The information contained within the report is available only to relevant persons, and any invitation, offer or agreement to purchase or otherwise acquire investments referred to within the report will be engaged in only with relevant persons. Any other person to whom this communication is directed, must not act upon it.
- In the United Kingdom, this Report is intended solely for distribution to Professional Clients as defined by the Financial Conduct Authority's Conduct of Business Sourcebook.
- This report has not therefore been approved as a financial promotion under Section 21 of the Financial Services and Markets Act 2000 by an authorized person.
- Isio Service Limited is authorised and regulated by the Financial Conduct Authority FRN 922376.
- The output from our modelling is based on a large number of underlying assumptions. Changes to these assumptions can have a material impact on the results of the modelling.
- The outcomes shown above are not intended to be the best possible, or worst possible outcomes. The actual outcome could be worse than the 5th percentile, or better than the 95th percentile.
- The modelling analysis is based on portfolios containing a wide range of asset classes and different approaches to fund management. Clients should not make decisions to invest in these asset classes or approaches to fund management based solely on the modelling analysis.
- The only risk factors we have considered in our modelling are those that affect the values of pension schemes' assets and the financial assumptions used to value schemes' liabilities. Some of the risks we have not considered include demographic risks such as the life expectancy of pension schemes' members and future changes to members' benefits.

# Thank you

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# Investment Strategy Statement

September 2023

## Introduction and background

This is the Investment Strategy Statement (ISS) of the East Sussex Pension Fund (the Fund), which is administered by East Sussex County Council, (the Administering Authority). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Regulations).

The ISS has been prepared by the Pension Committee (“the Pension Committee”) having taken advice from the Fund’s investment adviser, Isio. The Pension Committee acts on the delegated authority of the Administering Authority. The ISS, which was approved by the Pension Committee on 28 September 2021, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Pension Committee has consulted on the contents of the Fund’s investment strategy with such persons it considers appropriate.

The Pension Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Funding Strategy Statement.

## Investment Principles

The Fund has set the following Investment Principles

**Long-term investors** We are long-term investors with a focus on ensuring we can pay pensions to our beneficiaries now and into the future. We will invest in a wide range of assets to ensure strong diversification and can be defensive to market changes.

**Responsible investors** We are responsible investors and believe we can reduce risk and generate enhanced returns by investing in companies and assets that are sustainable and well governed. We strive to be active stewards of our investments and hold our investment managers and underlying companies to account.

**Evidence based approach** We ensure all investment decisions are based on evidence and expert advice to ensure we can protect the interest of the Funds beneficiaries and comply with our fiduciary duties.

**Collaborative** We are keen collaborators with our peers and industry partners to drive forward best practice and improve efficiencies.

**Robust Governance** The Fund has a robust governance framework and ensures that all decisions within the Fund are made with appropriate oversight and we are transparent and accountable.

**Risk and return** The Fund recognises that it needs to balance risk with return and ensures Environment Social and Governance (ESG) factors are taken into account in determining risk.

## The suitability of particular investments and types of investments

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. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Pension Committee aims to manage the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions are agreed by the Fund employers to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases in line with the relevant LGPS scheme rules.

The Pension Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Pension 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. The Pension Committee discuss the appropriateness of the Fund's strategic asset allocation at least once a year.

The Fund carries out an asset liability modelling exercise in conjunction with each actuarial valuation. A number of different contribution and investment strategies are modelled and the future evolution of the Fund considered under a wide range of different scenarios. The Pension Committee considers the chances of achieving their long term funding target and also considers the level of downside risk in the various strategies by identifying the low funding levels which might emerge in the event of poor outcomes.

This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding basis used).

In addition, the Pension Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns
- Environmental Social and Governance factors

## Investment of money in a wide variety of investments

### Asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index linked bonds, cash, property, credit and infrastructure, either directly or through the ACCESS LGPS pool. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Pension Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Pension Committee seeks and considers written advice from a suitably qualified person in undertaking such a review, in line with the LGPS

(Management and Investment of Funds) Regulations 2016. If, at any time, investment in a security or product not previously known to the Pension Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification and training is provided, if relevant.

The Fund's target investment strategy is set out below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the 2016 Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of Fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

The maximum invested figures can be seen in the rebalancing ranges agreed by the Pension Committee within its rebalancing policy. Whilst strategy allocation changes are to be implemented or commitments made and yet to be called, some positions may be out of the anticipated ranges.

**Table 1: Fund allocation**

Asset Type	Asset Class	Active/Passive	Liquid/Illiquid	Previous SAA %	Asset Allocation %	Change %	Role within the strategy
Global Equities	Quality	Active	Liquid	10	10	-	Growth
Global Equities	Growth Paris Aligned	Active	Liquid	5	5	-	Growth
Global Equities	Sustainable Growth	Active	Liquid	10	10	-	Growth
Global Equities	Climate Aware Smart Beta	Passive	Liquid	10	7.5	-2.5	Growth
Global Equities	Resource Efficient	Passive	Liquid	5	7.5	2.5	Growth
Private Equity	Global	Active	Liquid	5.5	5.5	-	Growth
Diversified Growth	Absolute Return	Active	Liquid	10	10	-	Defensive Growth
Diversified Growth	Real Return	Active	Liquid	7	7	-	Defensive Growth
Fixed Income	Diversified Credit	Active	Liquid	10.5	7	-3.5	Defensive Growth
Fixed Income	Corporate Bonds	Active	Liquid	0	3.5	3.5	Defensive Growth
Fixed Income	Index Linked Gilts	Passive	Liquid	0	4	4	Inflation protection
Fixed Income	Private Credit	Active	Illiquid	5	5	-	Defensive Growth
Infrastructure	Global Listed	Active	Liquid	1	1	-	Defensive Growth / Inflation Protection
Infrastructure	Global Private	Active	Illiquid	10	10	-	Defensive Growth / Inflation Protection
Real Estate	Balanced Property	Active	Illiquid	7	7	-	Defensive Growth / Income / Inflation protection
Real Estate	Long Inflation Linked Property	Active	Illiquid	4	-	-4	Income / Inflation protection

## Flexibility and Evolution

To enable the Fund to implement the investment strategy and move flexibility in response to risk and opportunities, the Fund has a range of acceptable positions in each asset class which is laid out in the rebalancing policy in Appendix I. By monitoring the actual allocation on a regular basis the Fund can ensure it does not notably deviate from the target allocation. Where appropriate the Fund will set trigger limits in which investment should be made to benefit from market opportunities. The S151 officer has the delegated authority to make investment decisions outside of the approved strategy of up to 5% to respond quickly to market opportunities and risks.

## Managers

The Pension Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

Each investment manager has an agreed benchmark to compare returns against, so that in aggregate, they are consistent with the overall asset allocation for the Fund. As the Fund does not invest in any segregated mandate these benchmarks are considered when assessing the appropriateness of a sub fund within the LGPS pool or on selection of a new pooled fund. The Fund's investment managers will hold a mix of underlying holdings 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.

When the Pension Committee approves a change to the investment strategy, the Pension Committee instructs officers and the investment consultants to implement the strategic asset allocation investment decision. This can be by accessing a suitable sub fund from the ACCESS LGPS pool, where manager selection sits at pool level; or where there is no solution to implement the strategy through the LGPS pool, officers will carry out a manager selection process led by the Investment Consultant to short list the options available and assess these against the best strategic fit for the Fund. A recommendation is then laid out to the Pension Committee as to the most suitable implementation solution to meet the approved investment strategy.

## The approach to risk, including the ways in which risks are to be measured and managed

The Fund has a detailed Risk Management process in place which is documented in the Fund's Risk Management Policy. A Risk Register is reported to Pension Committee and Pension Board quarterly for review and consideration, identifying the risk and the mitigations in place.

The principal risks affecting the Fund are set out below.

### Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics – The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- 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 the Fund's liabilities.



The Fund measures and manages financial mismatch in two ways. As indicated above, the Pension Committee has set a strategic asset allocation benchmark for the Fund, which is reviewed on at least an annual basis. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk.

The results from the 2023 valuation highlighted that the Fund is fully funded and has a good chance of retaining this fully funded position in future without adopting an over prudent approach towards its investment strategy. The Pension Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns quarterly. The Pension Committee also assesses risk relative to liabilities by monitoring the funding position regularly.

The Pension Committee reviews the demographic assumptions of the Fund every three years as part of its triennial valuation, to mitigate the risk that changes to longevity and other factors would have on the Fund. In addition, Fund officers meet regularly with the Fund Actuary to ensure any major swings in longevity assumptions due to environmental or medical changes can be identified early.

The Pension Committee seeks to mitigate systemic risk through a diversified portfolio; across asset classes, sectors, geographical region, investment manager styles and considers correlation of risk and return across different asset classes in construction of the investment strategy. It is not possible to make specific provision for all possible eventualities that may arise under this heading.

### Asset risks

- Concentration - The risk that a 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.
- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance (“ESG”) – The risk that ESG related factors reduce the Fund's ability to generate the long-term returns. The Fund believes that climate change poses material risks to the Fund but that it also presents positive investment opportunities.
- Climate Risk – The risk to asset values and liabilities in response to climate change from physical or transition risk including regulatory changes.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.
- Pooling risk – The risk that the LGPS investment pool is unable to offer suitable investment opportunities or the risk around the ability to liquidate assets to meet liabilities.

The Fund measures and manages these assets risks through the Fund's investment performance monitoring processes including through the strategic asset allocation benchmark which invests in a diversified range of asset classes. The Pension Committee has put in place rebalancing arrangements to ensure the Fund's “actual allocation” does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property, the Pension Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Pension Committee also assesses the Fund's currency risk during their risk analysis.

Details of the Fund's approach to managing ESG risks are set out later in this document.

The Pension Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager for various asset classes. In addition, the Fund has an allocation to passive mandates which have a lower tracking error to the market; the Fund accesses these through products that have an ESG tilt. The Pension Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists or there are other concerns with the investment management or philosophy.

### Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Pension Committee seeks suitable professional advice.
- 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.
- Stock Lending- The Fund will participate in any stock-lending arrangements in the future as part of the LGPS ACCESS pool. The Fund will ensure that robust controls are in place to protect the security of assets before entering into any stock lending arrangements. The manager(s) of pooled funds may undertake a certain amount of stock lending on behalf of unit-holders. Where a pooled fund engages in this activity the extent is fully disclosed by the manager (unless the assets are invested in LGPS pooled arrangements in which case this will be delegated to the Pool Operator).

The Fund monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts, or has delegated such monitoring and management of risk to the appointed investment managers or ACCESS LGPS pool as appropriate (e.g. custody risk in relation to pooled funds). The Pension Committee has the power to replace a provider should serious concerns exist.

### The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a participating scheme in the ACCESS Pool. The ACCESS pool was set up following the 2015 Investment reform criteria and pooling guidance published in 2015.

### Assets to be invested in the Pool

The Fund's intention is to invest its assets through the ACCESS Pool as and when suitable Pool investment solutions become available. The ACCESS Pool has launched numerous sub-funds in which the East Sussex Pension Fund now participates and there are further launches in the pipeline, which the Fund plan to be involved with. As the ACCESS pool is managed through a procured operator service there will be a pause in new asset sub fund launches while the operator re-procurement activities take place.

The Fund holds investments with Longview, Ruffer, Newton, Baillie Gifford and M&G through the ACCESS Authorised Contractual Scheme (ACS). In addition, the Fund has passive exposure to UBS who administer the Osmosis index for the Fund which was procured and is governed through the ACCESS pool.

An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government. 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.

At the time of preparing this statement the Fund has elected not to invest the following assets via the ACCESS Pool for the following reasons:

**Table 2 – Assets held outside the Pool**

<b>Asset class</b>	<b>Manager</b>	<b>Target % of Fund assets</b>	<b>Benchmark</b>	<b>Reason for not investing via the ACCESS Pool</b>
<b>ESG tilted passive equity</b>	Storebrand	7.50%	MSCI All Countries World	This strategy is not currently available through the ACCESS funds platform. This should be a temporary position outside the pool. The ACCESS Joint Committee agreed in September 2023 that a sub fund meeting these criteria should be added to the ACS. This has now been passed to the pool operator to consider how this will be implemented.
<b>Active Sustainable Equity</b>	WHEB /Wellington	10.00%	MSCI All Countries World	Currently, there are no impact funds available through the ACCESS funds platform that satisfy the Funds Responsible Investment requirements for active sustainable equity. These will be held outside the pool temporarily until the pool is able to launch RI investment options that meets the Fund impact criteria. The pool is continually amending sub funds and providing new opportunities which may provide an option for these to be moved to the pool in the near future The Fund will work with the Pool to try and add products of this nature to the offerings through the Pool
<b>Private Equity</b>	Harbourvest Partners / Adam Street Partners	5.50%	MSCI All Countries World	Existing illiquid asset programmes will run off at normal lifecycle to avoid crystallising exit costs and loss of illiquidity premium earned. The Fund will work with the Pool to offer this asset class for new investments.

<b>Infrastructure</b>	M & G Infracapital / UBS Infrastructure / Pantheon	4.00%	GBP 3 Month LIBOR	Existing illiquid asset programmes will run off at normal lifecycle to avoid crystallising exit costs and loss of illiquidity premium earned. The Fund will work with the Pool to offer this asset class for new investments.
<b>Private Debt</b>	M & G	3.00%	GBP 3 Month LIBOR	Existing illiquid asset programmes will run off at normal lifecycle to avoid crystallising exit costs and loss of illiquidity premium earned. The Fund will work with the Pool to offer this asset class for new investments.
<b>Operational cash</b>	East Sussex County Council	0.00%	N/A	East Sussex Pension Fund needs to manage its cash flow to meet statutory liabilities, including monthly pension payroll payments, therefore, a reasonable level of operational cash will be required to maintain efficient administration of schemes and would be held outside the Pool.

Any assets not currently invested in the 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. The next such review will take place no later than 2026.

## Structure and governance of the ACCESS Pool

East Sussex is a member of the ACCESS pool along with the following 10 other pension funds:

Cambridgeshire  
Kent  
Essex  
Norfolk  
Hampshire  
West Northamptonshire  
Hertfordshire  
Suffolk  
Isle of Wight  
West Sussex

All eleven funds are committed to collaboratively working together to meet the criteria for pooling and have signed an Inter Authority Agreement to underpin their partnership. ACCESS is working to a business plan in order to create the appropriate means to pool investments.

The ACCESS Funds have set out how they meet the pooling criteria, the pool's structure, governance arrangements and services to be shared in the submission made to the Government in July 2016, which is available on ACCESS's website <http://www.accesspool.org/>. The pool make further representations to the Government annually to report savings achieved by the LGPS pool.

The "ACCESS Pool" is not a legal entity. However, a Joint Committee (JC), comprising elected Pension Committee representative from each Administering Authority and supported by the Officer Working Group has been established via an Inter Authority Agreement. Papers from previous and future ACCESS JC meetings papers can be found using the following link: <https://democracy.kent.gov.uk/mgOutsideBodyDetails.aspx?ID=898>

ACCESS has taken advice on its sub-fund design and development of investment opportunities available. The pool appointed Link Fund Solutions to establish and operate the ACS carrying out all the FCA regulated aspects of the pool on liquid assets. Link are responsible for the overall management of the ACS including the creation of investment sub funds and the appointment of Investment managers on this platform. A thorough due diligence process is undertaken before the Investment Managers are appointed and robust monitoring and governance is applied to the managers on an ongoing basis including an annual assessment of value. The ACS manages a significant portion of participating Authorities' liquid assets.

Passive assets are pool aligned Investments managed under the Pool Governance processes. The value of assets held within the Pool includes passively managed assets which are held in Life Policies. The Life Policies themselves will necessarily remain an agreement between the participating Authority and the appointed external investment manager. This was acknowledged as an acceptable outcome by Government. All passive assets will therefore be held outside the ACS and will not be managed or administered by the Pool Operator.

## How social, environmental or corporate governance (ESG) considerations are taken into account in the selection, non-selection, retention and realisation of investments

To clearly define the approach adopted by the Pension Committee to these issues, the Pension Committee approved a Statement of Responsible Investment Principle (SRIP) which is available in Appendix B. Within this statement it is recognised that environmental, social and corporate governance factors can influence long term investment performance and the ability to achieve long term sustainable returns.

The Fund's responsible investment (RI) principles are:

- a. We will apply **long-term thinking** to deliver **long-term sustainable returns**.
- b. We will seek **sustainable returns** from **well-governed assets**.
- c. We will use an **evidence-based** long term investment appraisal to inform **decision-making** in the implementation of RI principles and consider the costs of RI decisions consistent with our fiduciary duties.
- d. We will evaluate and manage **carbon exposure in order to mitigate risks to the Fund from climate change**.
- e. We will be **active stewards** of our assets to ensure **value to our beneficiaries**
- f. We will achieve ESG improvements through **collaborate engagement**
- g. We will be **transparent** in our RI reporting

The Committee takes RI matters very seriously with a designated policy which is reviewed annually. In addition the Fund conducts a review its investment managers' approach to RI and discusses a range of ESG issues at each manager review meeting.

ESG policies are reviewed before investments are made with a detailed set of ESG criteria for manager selection, to ensure the longevity of the investment portfolio. Managers are then assessed annually through carbon foot printing and an annual impact assessment where each manager is allocated an ESG score and a climate score with an action plan set out.

The Committee have made a number of sustainable investments as part of the Investment strategy which address environmental and societal challenges while generating competitive financial returns. These investments seek to generate return through climate opportunities. These include for example, energy efficiency companies, renewable energy projects, companies or products that improve access to basic life essentials, companies that reduce inequality and companies or products that mitigate the effects of climate change.

At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments.

## The exercise of rights (including voting rights) attaching to investments

### Voting rights

The Pension Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard, which is considered as part of the appointment of an investment manager process. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Fund's investment managers are also expected to file or co-file shareholder resolutions on important issues at the investee companies in the interests of agitating for better governance. For investments held through the ACCESS pool in a segregated sub-fund, investment managers are required to vote in line with the ACCESS pool voting guidelines, whereas where investments are in a pooled vehicle the Pension Fund accepts the investment manager will vote in line with its own policy. There is a requirement for the investment manager to explain the rationale for its decisions and ultimately the Pension Committee has the option to disinvest from the investment fund if it is dissatisfied with the manager's decisions and actions.

The Fund believes that Collaboration with other asset owners and Investment Managers is an effective way to help improve the effectiveness when exercising their rights and responsibilities on engagement with the invested companies; to this end the Fund are members of the LAPFF, IIGCC and the PRI. The Fund encourages all of its Investment Managers to be signed up to the PRI and IIGCC collaborations and to demonstrate effective stewardship through submissions of the UK Stewardship Code 2020.

As a member of the Local Authority Pension Fund Forum (LAPFF) the Fund send Investment managers voting alerts from LAPFF to take into consideration on their voting for the Fund and to either vote in line with the recommendations or explain why they have voted differently based on their specific research considerations. The Fund recognise that the research teams of the investment managers may have a different insight to the research team at LAPFF and they may not always agree on the best approach, so an explanation is expected in these cases.

The Fund produce and publish a voting and engagement report, quarterly, to demonstrate implementation of the Funds exercise of rights and engagement activities. The ACCESS pool collate and report the voting of all the managers within the pool and advise of any votes against the ACCESS voting guidelines. This information is then discussed as part of the investment performance report at each Joint Committee meeting.

### Stewardship

The Fund understands that stewardship aims to promote the long term success of companies in such a way that the ultimate providers of capital also prosper. The Pension Committee has formally agreed to adhere to the Stewardship Code as published by the Financial Reporting Council, and was approved as a signatory under 2020 Stewardship code requirements in February 2023. The Stewardship Code sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. A copy of the Funds Stewardship Report



can be found on the Funds website <https://www.eastsussexpensionfund.org/forms-and-publications/>  
The Fund seeks to retain status every year.

In addition to its own commitment to the Stewardship code the Fund expects its investment managers to also be signatories or comply with the Stewardship Code.

In addition to the Fund's views on the Stewardship Code, the Fund believes in collective engagement and is a member of the LAPFF, the UN Principles of Responsible Investment (PRI) and the Institutional Investors Group on Climate Change (IIGCC), to collectively exercise a voice across a number of ESG principles including climate change benefiting from the scale of investment compared to engaging alone. The Fund expects as a minimum, all its liquid investment managers to also be signatories of IIGCC and PRI.

The Fund expect Investment Managers to engage with investee companies on material ESG issues and discusses engagement issues with Investment Managers at each review meeting. Investment Manager engagement is reported in the Funds quarterly report alongside activities that the Fund has achieved through its collaborative groups or own action.

#### Investment Management Stewardship Code and collaborative engagement membership

Manager	PRI Signatory date	Stewardship Code 2020	IIGCC
Longview Global Equity	08/04/2010	Yes - 2021	Yes
Baillie Gifford - Paris Aligned Fund	26/06/2007	Yes - 2021	Yes
Wellington – Global Impact Fund	26/04/2012	Yes - 2021	Yes
WHEB - Sustainability Fund	31/05/2012	Yes - 2021	Yes
Storebrand – Global ESG Plus Fund	27/04/2006	Yes - 2022	Yes
UBS - Osmosis	22/04/2009	Yes - 2021 (both UBS and Osmosis)	Yes
M&G Absolute Return	11/01/2013	Yes - 2021	Yes
M&G Corporate Bonds	11/01/2013	Yes - 2021	Yes
Newton Absolute Return	13/02/2007	Yes - 2021	Yes
Ruffer Absolute Return	15/01/2016	Yes - 2021	Yes
Pantheon Infrastructure	05/10/2007	No	No
ATLAS Global Infrastructure Equity Fund	18/03/2019	No	Yes
Harbourvest – Private Equity	25/11/2013	No	No
Adams Street – Private Equity	29/10/2010	No	No
Schroders – Property	29/10/2007	Yes - 2021	Yes
M&G Infrastructure	11/01/2013	Yes - 2021	Yes

#### Appendices

Appendix A – Rebalancing Policy

Appendix B – Statement of Responsible Investment Principle.



# Rebalancing Policy

September 2023

## Introduction

This is the policy outlining the parameters and process for Rebalancing of the East Sussex Pension Fund (the Fund) investment portfolio in line with the Funds Investment Strategy Statement (ISS).

## Regulatory Basis

The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”) and prepared by the Pension Committee (“the Committee”) having taken advice from the Fund’s investment adviser.

The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. This Re-Balancing policy will be used to ensure excess Fund money is invested in line with the ISS and that the investment portfolio continues to follow the Committee’s strategic asset allocation.

## Rebalancing

The Committee has set a strategic benchmark for the Fund that identifies three main classes of investment strategy, which the Committee considers has the appropriate risk and reward characteristics for the employers in the Fund. These high level strategic benchmarks are Growth, Income and Protection. These are then underpinned by a strategic asset allocation, for the asset classes the Fund invests in to gain diversification and manage the risk appropriately. The asset class targets are subsequently met by the appointments of individual managers who are set a portfolio to provide exposure to the asset classes in the strategic benchmark. The managers are expected to provide the market return (beta) for the asset classes in their mandates plus (for the actively managed mandates) additional returns from their active management (alpha) of the investments.

Over time the differential of relative performance between the asset classes and managers results in actual asset allocations (both at a strategic and portfolio level) which deviates from the agreed targets. Deviations from the targets result in tracking error, and a shift in the risk/return profile of the Fund which can have an impact on the Funding level as calculated by the Fund Actuary. Therefore, rebalancing is required to ensure that the appropriate risk is being taken by the Fund.

Rebalancing of asset weightings, entails portfolio transactions, so the benefit has to be weighed against the costs incurred, both in trading and indirectly in the market. Costs of rebalancing are broadly linear (selling twice as much of an asset will cost roughly twice as much). The net benefit of rebalancing is therefore the impact of tracking error less the costs of rebalancing. The exception to this is certain pooled funds where a dilution levy may be triggered if a seller is liquidating a significant holding in the Fund.

The trigger point for a rebalance should be when the benefits of the switch outweigh the costs involved.

The trigger determines when to rebalance, but not by how much. To rebalance all the way to the target allocation is not considered to be cost effective, as the costs of rebalancing all the way tend to outweigh the benefits. The Fund’s policy is therefore to rebalance to midpoint from the target allocation and the trigger point in graduated steps were possible.

### In normal market conditions

The key risk being run within a pension fund is the proportion invested between the growth, protection and income generating assets. Then to a lesser extent the mix of asset classes that makes up these strategic positions. The Fund’s rebalancing procedures will work on the basis that if a trigger

point is passed on the strategic positions, this will result in a rebalancing event to take place, following the rules set out below.

If a trigger point is reached by an asset class this will then trigger a rebalance, which may or may not be within the same strategic level looking to bring the most underweight position back in line. The rebalancing will take into consideration if this needs to be done on multiple asset classes to offer the best cost effective rebalancing is actioned.

This policy does not go into the lower level of detail in terms of which investment manager money will be moved from or provide triggers for these as this may cause too much unwanted movements that are not beneficial to the Fund.

### In periods of heightened market volatility

The rebalancing policy will be temporarily suspended or slowed if market conditions enter a period of heightened market volatility or other uncertainty as this could force the Fund to sell positions that it does not want to at a price that is not of benefit to the Funds members. That is to say that the cost benefit calculation that this policy is set on may not be valid in these situations and no rebalancing will take place until more certainty on the cost benefit can be derived.

In the situation where the market moves into an advantageous position which enables the Fund to invest outside the Investment Strategy Statement or this rebalancing policy. This would be where the Fund is able to lower the risk in the portfolio whilst maintaining the appropriate the return profile, the Chief Finance Officer will have the ability to invest 5% of the Fund outside the ISS and rebalancing policy.

### Liquidity

Rebalancing decisions will be made with due consideration of the liquidity of the underlying assets. In the case of illiquid assets the total commitment will be considered as part of the rebalancing calculation as these can take several years to manifest into actual investments. The uncalled commitments will often be held in a low volatility liquid asset classes in the interim and these funding arrangements will not be subject to rebalancing. Details of liquidity arrangements of the Funds' investments are held in a separate operational document.

## Rebalancing Ranges

The following ranges have been agreed by the Committee to set as points at which rebalancing should take place.

Strategic Area	Strategic target (%)	Range (%)
Growth	62.5	51.5 – 73.5
Income	27.0	18.0 – 36.0
Protection	10.5	8.5 – 14.5
<b>Total</b>	<b>100.0</b>	

Asset class	Liquid/Illiquid	Strategic target (%)	Range (%)
Listed Equities	Liquid	40.0	35.0 – 45.0
Private Equity	Illiquid	5.5	2.5 – 8.5
Absolute Return	Liquid	17	14.0 – 20.0
<b>Total Growth</b>		<b>62.5</b>	<b>52.5 – 72.5</b>

Asset class	Liquid/Illiquid	Strategic target (%)	Range (%)
Balanced Property	Illiquid	7.0	5.0 – 9.0
Index Linked Gilts	Liquid	4.0	2.0 – 6.0
Infrastructure	Illiquid	11.0	8.0 – 14.0
Private Credit	Illiquid	5.0	3.0 – 7.0
<b>Total Income</b>		<b>27.0</b>	<b>18.0 – 36.0</b>

Asset class	Liquid/Illiquid	Strategic target (%)	Range (%)
Diversified Credit	Liquid	10.5	7.0 - 12.0
Cash	Liquid	0.0	0.0 – 2.0
<b>Total Protection</b>		<b>10.5</b>	<b>7.0 – 14.0</b>

## Principles of Rebalancing

The following principles will determine how the rebalancing process for the Fund will operate.

- **Rebalancing would be monitored on a quarterly basis via the investment monitoring report** - Authority to rebalance will be delegated to, and implemented by, Head of Pensions in liaison with the Investment Implementation Working Group. The Officers and advisers will consider transaction costs and current market conditions ahead of implementation.
- **Quarterly rebalancing will apply only to liquid assets** - Due to the transaction costs and illiquidity associated with the other investments such as property, infrastructure, private debt and private equity rebalancing for those asset classes will be considered on an annual/ad hoc basis;
- **Each benchmark allocation would have a weighted tolerance range** – A tolerance range will be defined for growth and matching assets and each underlying mandate; these tolerance ranges will be used in determining when rebalancing will be considered;
- **Cash holdings to be used for rebalancing** - Where possible any net investments or disinvestments should be used to manage allocations, for example, by investing any surplus cash into the most underweight asset class.
- **Rebalancing will occur at two levels; at the growth, income and protection level, and at the mandate level** – The rebalancing process will determine if rebalancing is required between growth, income and protection assets, and separately if rebalancing is required between asset classes. However, it is more important to be willing to incur transaction costs if necessary to rebalance between bonds and equities, for example, than switching between managers with similar mandates (e.g. active and passive global equities).
- **Rebalancing transactions will aim to rebalance allocations out with their tolerance ranges to the midpoint (at least) of the tolerance range** – The mid-point of the tolerance range is the mid-point between a benchmark allocation and its upper or lower tolerance limit. Assuming an asset class with a 40% allocation and a 35%-45% tolerance range, the upper mid-point would be the halfway point between 40-45% (i.e. 42.5%). The lower mid-point would be the halfway point between 35% and 40% (i.e. 37.5%). Historical analysis suggests that this is the best way of balancing the impact of transaction costs against returns.
- **Illiquid asset rebalancing** - The allocations to illiquid assets such as private equity and infrastructure will vary with general market movements and are not easily altered, due to the illiquid nature of the asset classes. Therefore, we will also consider commitments made and cashflows to drive any rebalancing being carried out in relation to the Fund's illiquid investments. Due to the nature of illiquid assets with timeliness of access to the market and long commitment call down periods, the illiquid assets will often be adrift of the strategic asset allocation while money is awaiting to be called by the investment managers, so these allocations will often be held in a low volatility liquid asset classes in the interim.
- **The long-term strategic target allocation implementation** – where a long-term strategic target allocation has been agreed but not yet fully implemented we will not look to rebalance any current asset class allocation that is in breach of the defined tolerance ranges if the breach is in the desired direction of travel of the Fund's long-term target allocation. This will avoid unnecessary transaction costs.
- **5% allowance to the Chief Finance Officer** – With advice provided by the Investment Implementation Working Group the Chief Finance Officer has the delegation to invest 5% of the Fund outside of the ISS, implementation plan and rebalancing policy. Any investment made through this delegation will be reported to the Committee at the next available opportunity. This will also trigger a review of the investment strategy of the Fund.
- Beyond this rebalancing policy and in line with the Council Constitution the Chief Finance officer has the delegated authority to take action or decide any other Pension Fund related matter

on behalf of the Administering Authority in special or emergency situations, in consultation with the Chair of the Pension Committee, including but not limited to where delay in the purchase or sale of investments might be detrimental to the interests of the East Sussex Pension Fund.

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**E S East Sussex  
P F Pension Fund**

**STATEMENT OF  
RESPONSIBLE  
INVESTMENT  
PRINCIPLES**

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**September 2023**

# Statement of Responsible Investment Principles

## Introduction

At East Sussex Pension Fund (**ESPF, the Fund**), we believe that Responsible Investment (**RI**) supports the purpose of the Local Government Pension Scheme (**LGPS**) to provide retirement income for individuals. We believe that RI can reduce the risk associated with the invested assets that the Fund owns to allow it to pay pensions when they are due. Responsible investment is therefore a significant factor driving returns alongside other investment considerations.

This Statement of Responsible Investment Principles (**SRIP**) complements ESPF's Investment Strategy Statement (**ISS**). The SRIP explains the Funds approach to the oversight and monitoring of the Fund's investment activities from an RI and Stewardship perspective.

### What is Responsible Investment?

RI is an approach to investing that aims to incorporate environmental, social and governance (**ESG**) factors into investment decisions, to better manage risk and to generate sustainable, long-term returns (according to Principles for Responsible Investment). Stewardship is the responsible allocation and management of capital across the institutional investment community to create sustainable value for beneficiaries, the economy and society.

While acknowledging the potential benefits of incorporating ESG factors into the investment process, the Fund recognises that there are many different approaches, there is no universally agreed standard of ESG measurement or assessment, and some methodologies may enhance returns while others may not. There may also be inherent conflicts between the Environmental, Social and Governance factors forming the ESG framework.

As a consequence, while acknowledging the opportunities for ESG factors to reduce risk and provide opportunity, careful attention is required in manager or index selection to methodologies which incorporate both qualitative, quantitative and forward-looking approaches.

RI is not the same as Ethical Investment. Ethical Investment is an approach determined by an investor's specific views, usually based on a set of personal values. These values can take precedence over financial considerations of an individual. The power to invest the assets of the Fund must be made for the investment purpose of ensuring that benefits can be paid to members and their contingent beneficiaries when due, as a result the Fund will identify and mitigate material financial risk when making decisions and not based on personal or political values. Instead of being considered as either an "Ethical" or an "Unethical" investor, the Fund will be a responsible steward of capital. At ESPF, we are guided in our roles as quasi-trustees, executive officers and investment managers by the legal principle of fiduciary duty.

The Pension Committee (**the Committee**), comprising five East Sussex County Council councillors, is the decision making body of the Fund and is responsible for Fund oversight and policy setting. In carrying out its obligations, this group of quasi-trustees must take into consideration the views of its main stakeholders, members and employers.

As a global long-term investor, ESPF recognises that climate change presents significant long-term risks to the value and security of pension scheme investments and capital markets more broadly. As a result the Fund recognises climate risk to be a significant financial risk and addresses climate risk separately to wider ESG factors.

## About this document

East Sussex Pension Fund's Statement of Responsible Investment Principle was approved by the Fund's Pension Committee in September 2023. It will be reviewed and updated at least every three years.

The objectives of this Statement of Responsible Investment Principles is to:

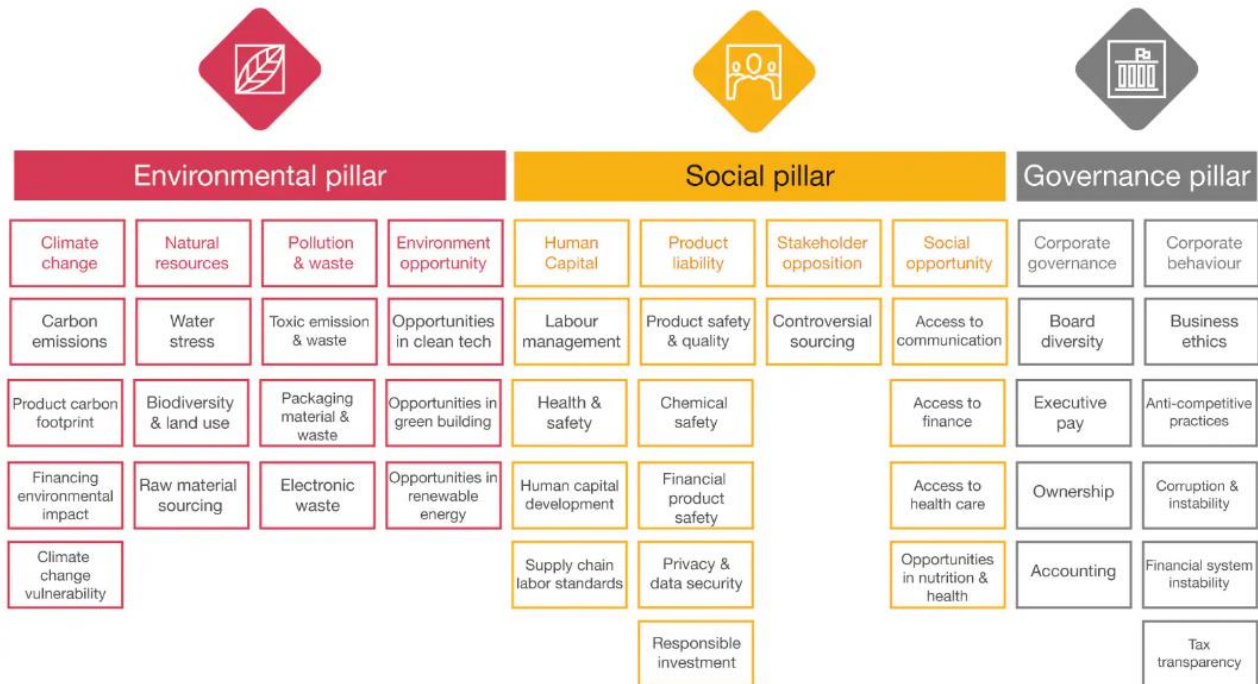
- reduce the likelihood that ESG factors, including climate risk, will negatively impact asset values and returns;
- set out a framework to inform stakeholders on the action ESPF is taking to address and manage ESG and climate risks.

The Fund will report on its progress against the principles in our Annual Report against the Taskforce on Climate Related Financial Disclosures framework.



## Pillars of ESG

Sustainability is about creating long-term value by implementing strategies that incorporate environmental, social and governance (ESG) factors as well as financial factors. ESG is wider than just environmental issues which are often a key focus, sustainability requires the social and governance factors to also be considered. ESG reporting requires disclosure of information, data and metrics to represent the long term added value across the three pillars.



Source: [www.pwc.com/mt/en/publications/sustainability/esg-what-is-it-all-about.html](http://www.pwc.com/mt/en/publications/sustainability/esg-what-is-it-all-about.html)

## Responsible Investment Beliefs

The following beliefs underpin the Fund's Responsible Investment principles and policies:

- ESG factors, including climate risk, can present material financial risks to asset values and returns;
- Implementation of effective RI policies can reduce risk and has potential to enhance returns;
- Engagement with investment managers ("IMs") and investee companies can be effective in protecting and enhancing the long-term value of investments;
- Collaboration with other asset owners and IMs will help improve the effectiveness of engagement;
- Effective oversight of RI requires monitoring of ESG and CR metrics and the actions of IMs and investee companies;
- RI is aligned with ESPF's fiduciary responsibilities in the management and oversight of ESPF's investments.
- ESG opportunities may be found in Impact Funds investing in companies whose profits are derived from providing solutions to some of the World's more serious environmental,



sustainability and social challenges e.g. cleaner products and processes, renewable energy, health, nutrition, sustainable agriculture, shelter, clean water and sanitation etc.

- Resource efficient companies can drive increased returns for the benefit of the scheme members and stability of contribution rates for Scheme Employers, as resource efficiency reduces dependency on natural resources resulting in reduced input costs and less dependence on volatile commodity prices.

## ESG Themes

### Climate Change

As an LGPS Fund we are long-term investors with liabilities reaching beyond the year 2100. The objective of the Fund is to meet the current and future pension benefits of our members now and when they fall due. The Committee believe that, over the expected lifetime of the Fund, climate-related risks and opportunities will be financially material to the performance of the investment portfolio. As such, we consider climate change issues across the Fund and specifically in areas such as Strategic Asset Allocation, Investment Strategy, Investment Manager Selection and Risk Management with the aim of minimising adverse financial impacts and maximising the opportunities for long-term economic returns on our assets.

Climate change risks and opportunities are a primary focus of the Fund's investment strategy with strategic asset allocations to sustainable impact funds and funds with alignment to the Paris Agreement. The Fund engages with Investment Managers on holdings where there are high emissions or climate physical or transition risks to ensure there is a robust rationale for investment and an understanding of transition plans of the investee company and where relevant a clear engagement plan.

### Human Rights

As a responsible institutional investor, the Fund uses its influence to encourage the promotion and protection of human rights around the world. This is achieved through regular direct engagement with a variety of stakeholders including policy makers, investment managers, and investee companies to ensure that corporate practices are in line with the Fund's human rights commitments.

The Fund remains diligent in its responsibility to ensure effective oversight and governance surrounding human rights in all companies in which it invests. With a view towards ending practices such as forced labour and human trafficking, ESPF pushes for supply chain transparency across its investment portfolio. By directly engaging with companies and investment managers, the Fund aims to drive the improvement of corporate human rights practices around the world.

As detailed in the Fund's Stewardship Report, human rights stewardship is directly integrated into our investment strategies. To this end, ESPF continually assesses and reports on its underlying exposure to companies with human rights concerns. An example of this can be found in the Fund's Statement on Israel and the Occupied Territories, which annually reviews the human rights situation in the Occupied Palestinian Territories in relation to our investment strategies.

## Biodiversity

Amid the ongoing climate crisis, the Fund recognises the strong interlinkages between climate change and biodiversity. As such, ESPF considers it a priority to enhance biodiversity and contribute towards the regeneration of wildlife habitats. With nearly a third of all monitored species currently under threat of extinction due to human pressures, the importance of biodiversity regeneration is unmistakable.

Engagement on the topic of biodiversity is a vital tool in the Fund's broader strategy to combat environmental risks. The Fund believes that the ongoing renewable energy transition must account for potential detrimental impacts on biodiversity, and actively contribute towards environmental regeneration.

Through direct engagement with investment managers, the Fund has driven positive outcomes on the development of biodiversity strategies in its investee companies. Additionally, the Fund carefully considers sustainability practices (including strategies for biodiversity regeneration) in its manager selection processes.

ESPF remains steadfast in its commitment to tackle the loss of biodiversity and considers this to be a top priority in its investment strategy.

## Corporate Governance

As one of the key pillars of ESG, the Fund is committed to the promotion of good corporate governance practices across its portfolio. These practices include (but are not limited to) board diversity, fair pay, tax transparency, and business ethics.

ESPF views good corporate governance as the root of responsible investment. The Fund incorporates these beliefs into its broader investment approach, making use of voting, shareholder resolutions, corporate engagement, and manager monitoring to ensure good governance practices are being implemented across its portfolio.

Through its investment managers, the Fund encourages and facilitates investee companies to meet targets in areas such as gender representation, diverse recruitment, and financial transparency. Additionally, the Fund encourages its investee companies to improve their reporting standards on governance strategies.

ESPF continually reviews the corporate governance practices of its investee companies to ensure compliance with our core values of good governance.

## Sustainable Production and Consumption

With climate concerns being at the forefront of the Fund's responsible investment strategy, ESPF is devoted to encouraging practices of sustainable production and consumption across its portfolio. At its core, this entails the prevention of pollution, reduction of waste, and the promotion of a circular economy.

To provide a comprehensive approach to the various sustainability challenges that the earth faces, the Fund heavily invests in climate impact funds which aim to encourage sustainable methods of production and consumption. In line with these priorities, the Fund is invested in critical infrastructure to support the shift to sustainable production and consumption such as water recycling centres and renewable energy solutions.

Through direct and collective engagement through the Local Authority Pension Fund Forum (LAPFF), the Fund encourages investee companies to implement sustainable business practices in their operations. ESPF remains committed to tackling climate risk in all forms, which includes the promotion of sustainable production and consumption practices.

## Obligations of the Pension Committee and duty to our members

The Committee is subject to fiduciary duties with respect to investment matters. As a result, the Fund must only use its power to invest the assets for investment purposes, to generate the best realistic return over the long-term, given the need to control for risks, to enable benefits to be paid to members when due. Investment decisions must be taken prudently, with a reasonable level of skill and care, and on the basis of proper advice, acting in the members' best (financial) interests.

To ensure the Pension Committee can do this, the Fund recognises that ESG issues can positively and negatively impact on financial performance. In addition, the Fund recognise that climate risk is a financial risk and support the view that limiting global warming to 1.5 degree could help curb the catastrophic impacts to the financial standing of the Fund and our members wellbeing of climate change. The Fund want its members to be proud that it has a focus on climate change and the actions it has, and will continue to take, to work towards a better future.

The Fund will aim to understand the evidence in light of research and policy developments to inform the investment approach applying long-term thinking to integrate ESG, including climate risk and opportunities, into investment decision making.

## ESPF and the ACCESS pool

The Fund is a participating scheme Fund in the ACCESS LGPS Pool alongside 10 other partner Funds. Individually and collectively the Councils that make up the ACCESS pool believe that investments made on behalf of scheme members should be sustainable in the short, medium and long-term through the fundamental identification and integration of ESG factors into the investment selection, monitoring and deselection process. The ACCESS pool has published a set of RI guidelines for the pool to follow and implement reporting at the pool level.



While ESPF and the other ACCESS Councils have an overriding fiduciary and public law duty to act in the best long-term interests of their LGPS stakeholders to achieve the best possible financial returns with an appropriate level of risk, the 11 Funds collectively recognise that RI considerations increasingly reflect real financial risks, and so these factors should also be embedded in the investment decision-making process.

There are four levels where the ACCESS pool will consider how RI issues can be addressed both through the pool and individually -

- Investment level Integration: Incorporating ESG & RI issues into the everyday individual investment selection, monitoring and engagement processes.
- Manager level Expectations: Setting explicit expectations at the investment manager mandate level.
- Council level Policy: Setting an overarching policy, generated from core investment beliefs, which shapes the direction of travel.
- Pool level Guidelines: Incorporating the common policies and beliefs of the Councils to create a set of Guidelines summarising the Pool's approach.

ESPF remains responsible for deciding which asset classes it wants to invest in and the size of the allocation. This is set out in the Investment Strategy Statement (ISS). The ACCESS pool, invest our money in line with our strategy by selecting Investment Managers to implement the risk and return criteria of the Fund's investment strategies. Where investment options to implement the ISS, are not on the ACCESS pool platform, ESPF will work with the pool to provide investable products that meet the Funds ISS requirements.



ESPF will work with the pool to drive improvements in the stewardship activities of the pool, aim for a best in class voting policy and ensure the pool can support the underlying Funds in their reporting requirements, through participation in the ESG working group, decision making through the ACCESS Joint Committee representation and other opportunities within the pool that arise.

## Integrating RI into Strategy Implementation

At ESPF we are committed to acting as responsible investors and fully integrating our approach to ESG, including climate risk, into investment processes.

The Fund's approach is to invest in companies that have a high and sustainable return on investment. The Fund does not exclude sectors from its investible universe on the basis of their participation in certain industries, instead the emphasis is on assessing the sustainability and financial risk of a holding.

Fully integrating ESG into the Fund's investment process means that the Pension Committee, is in possession of all the facts to determine how ESG impacts the investment case, including valuation and is in a position to engage with the investment managers.

ESPF will review annually all strategy mandates and managers against climate metrics (e.g. impact on portfolio, manager compliance, exposure to certain sectors). For all new mandates we will consider climate-related risks and objectives explicitly as part of the selection criteria.

The Fund is committed to carrying out engagement with Investment Managers on specific issues and risks identified by the climate related data and engagement priorities.

The Fund will consider options for scenario analysis and how this will provide an enhanced understanding of portfolio risk to integrate into investment decision making. All decision making, and investment monitoring, considers climate related risk and opportunities. We will develop regular reporting of ESG and CR metrics to inform decision making and help assess and monitor progress towards our RI objectives.

# Principles for Responsible Investment Approach

The Fund is a signatory to the United Nations Principles for Responsible Investment (**PRI**), an organisation which supports and enables asset owners and asset managers to work collaboratively towards RI best practice.

As a signatory, ESPF has committed to implement the six principles with the aspiration of contributing to the development of a more sustainable global financial system. We outline the ESPF approach to the six principles.

## Principle 1 - We will incorporate ESG issues into investment analysis and decision-making processes.

The implementation of ESPF's investment strategy is delegated by the Pension Committee to officers and external investment managers (IMs) to invest the Fund's assets. How ESG factors are incorporated into investment analysis and decision-making processes varies according to the asset category and manager. All investments are externally managed through pooled vehicles, either directly with the Investment Manager or through the LGPS ACCESS pool. Investment Managers are expected to report to the Taskforce for Climate related Financial Disclosures (TCFD) framework and support the Funds production of its climate reporting.

As part of the governance arrangements with the IM's, where the manager carries out scenario analysis, the Fund will ask for details of the scenarios as well as the output of the analysis in relation to the Fund's portfolio. Where portfolio-level analysis is not available, the Fund will ask for the results of any other analysis that the asset manager is using to identify and assess climate-related risks in relation to the portfolio, such as carbon footprint data. The Fund will ask what the asset managers are doing differently as a result of the analysis, to mitigate the risks. Where no scenario analysis is taking place, the Fund will ask about asset managers' plans for adopting scenario analysis and encourage faster action if this is not ambitious enough.

The Fund gains its exposure to equity markets by recourse to a combination of Active managers and Passive index funds. The holdings of Active Managers are by their nature transitory and subject to continual change through the manager's stock selection process. Managers of passive index funds replicate an index and so have a longer run exposure to companies and sectors over which limited due diligence is performed. The choice of passive index is therefore an important deliberation. Where possible, the Fund seeks to acquire exposure to indices that are tilted in favour of companies that benefit from greener revenues, are less carbon intensive, and are better positioned than their peers to adapt to the Energy Transition. In some markets this option is not possible.

The ESPF have the following categories of asset managers:

**Active Equity managers (pooled funds):** As a part of the appointment process, we ensure that Managers demonstrate that they incorporate ESG filters into their investment analysis and asset acquisition processes. We monitor the managers' performance on a quarterly basis alongside all

other investment matters, and review the PRI transparency reports of external managers, where available. Managers are encouraged to join PRI, IIGCC and Climate Action 100+ as signatories, where they are not already members.

**Passive Index Funds with ESG tilts:** Passive indices offer a low-cost complement to Active Managers. We select Passive indices based on the index's ability to reduce exposure to climate risks and to capture opportunities for investment in companies that are forward looking, generating green revenues, and better aligned to navigating the Energy Transition.

**Corporate Credit managers:** during the appointment process, we assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes. We monitor the managers' implementation of the approach on a quarterly basis alongside all other investment matters, and review the PRI transparency reports of external managers, where available. It is our ambition to appoint managers who devote greater focus in providing finance to companies or projects that are more compatible with the aims of the Paris Agreement.

**Property managers:** The capacity for Managers to incorporate ESG factors into the investment process alongside other key investment criteria will be required, monitored, and regularly reviewed. Managers will be encouraged to adopt PRI Transparency and GRESB reporting and take an active approach in assessing physical climate risks to the portfolio assets, retrofitting costs and biodiversity challenges of the sector.

**Real Asset management (infrastructure) managers:** during the appointment process, we assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes. We monitor the managers' implementation of the approach on a quarterly basis alongside all other investment matters, and review PRI transparency and GRESB reports of external managers, where available. The Fund expects its infrastructure managers to ensure all investment assets are future proofed from a climate change perspective with assessment of physical climate risk and decarbonisation of existing infrastructure assets.

**Principle 2 - We will be active owners and incorporate ESG issues into our ownership policies and practices.**

The Fund implements this principle through a range of activities –

**Voting:** The Fund's asset managers vote on resolutions at the Annual General Meetings (AGM) and Extraordinary General Meetings (EGM) of the Fund's equity holdings.

**Shareholder resolutions:** The Fund's asset managers also file or co-file shareholder resolutions on important issues at the Fund's investee companies in the interests of agitating for better governance.

**Stock lending:** ESPF does not participate in direct stock lending but may invest in investment funds which use stock-lending.

**Corporate engagement:** The Fund's managers engage with our investee companies on material ESG issues. The Fund are members of the LAPFF, IIGCC and PRI.

**Government engagement:** we engage with government through responding to government consultations and aim to influence policy makers through the Funds collaborative engagement groups initiatives.

**Manager monitoring:** we actively and regularly monitor the approach of our investment managers to ESG issues, and what portfolio activity has occurred as a result of managing ESG risks. In addition, the Fund considers its ESG impact assessment report annually and propose initiatives or actions for managers to consider as enhancements to their ESG practices.

**Principle 3 - We will seek appropriate disclosure on ESG issues by the entities in which we invest.**

As an indirect investor, investing into pooled investment vehicles through the ACCESS pool or directly with Investment managers it will approach this principle through its relationship with the Investment managers. The approach we take on disclosure at the company and manager level is -

**Investee companies:** through our investment managers we encourage the companies, whose shares the Fund owns, to report on relevant ESG metrics. These include the reporting of greenhouse gas emissions in line with the recommendations of TCFD. Company weighting in the Resource Efficient passive index will be skewed to those companies who do report ESG information.

**Investment Managers:** we encourage the Fund's investment managers to provide transparency by reporting relevant and accessible ESG-related information. This includes their commitments to and alignment with the UK Stewardship Code, TCFD, PRI and GRESB, where appropriate.

**Principle 4 - We will promote acceptance and implementation of the Principles within the investment industry.**

The Fund aims to be transparent about being a signatory to the PRI and about how we implement the Principles. The Pension Committee monitors its carbon footprint and energy transition at portfolio level and asset manager level. ESPF also review asset manager voting and engagement on a quarterly basis. The quarterly reports on voting and engagement activity are published on the Fund's website to demonstrate implementation of the Principles and to promote them.

**Investment Managers:** we endorse the PRI Principles to our managers and encourage them to become full signatories to PRI. Where this is not possible, we encourage our managers to use the six principles to guide their RI approach.

**Partnership with PRI:** we partner with PRI to promote the universal use of the principles, and work with PRI during any consultations to improve the effectiveness of the principles and further improve RI adherence across the industry.

### Principle 5 - We will work together to enhance our effectiveness in implementing the Principles.

The Fund are committed to working collaboratively to increase the reach, efficiency and effectiveness of RI. We work with a host of like-minded partner funds, service providers and related organisations striving to attain best practice in the industry and to improve industry standards. A list of the collaborative groups we work with are included later in this document.

### Principle 6 - We will each report on our activities and progress towards implementing the Principles.

The Fund have committed to reporting through a number of routes including -

**PRI Assessment:** we will provide extensive details of our investment activities annually to the PRI for its independent assessment of our approach to RI.

**PRI Reports:** we will publish our PRI transparency report annually on our website and publish our PRI assessment results on our website and in our annual report.

**TCFD:** we are committed to report annually in accordance with Taskforce for Climate-related Financial Disclosures (TCFD) recommendations.

**Stewardship Code:** we are a signatory to the FRC Stewardship Code, and we are committed to reporting and retaining this status annually.

## Engagement

The Fund scrutinises governance at every stage of the investment process and aims to influence governance through voting and engagement. This is an integral part of what makes a business sustainable, successful and a suitable investment target.

The Fund carry out engagement through its investment managers where Fund officers provide challenge to manager decisions, engagement actions and policy. The Investment Manager carries out the direct engagement investee companies. Where material risks remain following engagement activity, managers retain the ability to divest, since the failure to engage destroys value in the longer term. The issue of engagement is a vital aspect of ownership. In addition, the Fund engages through its collaborative partnerships including LAPFF who carry out direct engagement with the underlying companies across the LGPS investment portfolios.

The Fund entrusts its assets to investment managers whose duty it is to represent the Fund's interest. Representing the Fund's interests, as owners, through engagement increases knowledge and understanding of the company and leads to more accurate assessment of the firm's risks and opportunities and therefore the valuation assumption. Engagement through voting can effect corporate change and improve businesses to derive a broader social benefit.

The Fund are committed to review the weakest mandates based on the carbon data, metrics and analysis and determine what action will be taken in engagement with investment managers.

The engagement priorities for the Fund are -

#### Environmental

1. Climate change –emission reporting and reduction, sector transition pathways and investment in renewable energy and technical solutions
2. Enhancing biodiversity, regeneration and protection of forests and conservation of oceans and marine resources
3. Sustainable consumption and production. Preventing pollution and waste including plastic waste and promoting circular economy
4. Agriculture, food security and Food Waste

#### Social

1. Human rights including forced labour, companies operating in conflict zones and destruction to communities
2. Promoting gender equality and social inclusion
3. Inclusive and equitable education
4. Water security and access to sanitation
5. Eradicate poverty and hunger

#### Governance

1. Executive pay or dividend linked to sustainable and growth performance
2. Business / Company leadership with experts on boards
3. Company board focus on providing products, goods or a service through effective and sustainable corporate governance
4. Diversity of boards, workforce and policies
5. Anti-bribery and corruption

## View on Voting rights

Investment Managers are expected to report on performance, engagement and voting activity quarterly to the Fund and its advisers. The Fund then consider

- How managers have integrated ESG in their investment activities
- How managers have exercised the Funds voting rights and to explain where there is deviation from voting guidelines or voting alerts from the LAPFF.
- What engagement activities have been completed in the quarter.

The Fund carry out meetings with investment managers in addition to the ongoing review and engagement that the investment consultant carries out for the Fund to ensure the Investment Managers are complying with the requirements on them set by the Fund and ability of the manager to invest in the best interest of the Fund beneficiaries. During direct manager meetings with the Fund discussions take place on voting and engagement, rational of, specific holdings to understand physical and transition risk as well as transparency of the Fund's exposure to carbon emissions and other ESG data sets.

For investments held through the ACCESS pool in a segregated sub-fund the expectation is that investment managers will vote in line with the pool's RI policy, whereas, where investments are in a pooled vehicle the Pension Fund accepts the investment manager will vote in line with its own policy. Under both approaches the Fund requires for the investment manager to explain the rationale for its decisions.

As a member of LAPFF the Fund share voting alerts from the research team of LAPFF to ask Investment Manager to consider the view and recommendations in their voting on behalf of the Fund. Where IM's vote differently to the LAPFF recommendations the Fund ask for explanations and basis of the voting decision.

## Collaboration

We work individually, and with our collaborative partners, to drive for openness and transparency on climate related issues affecting our investments.

There are limits to the influence that we achieve as a single investor and the resources we can reasonably commit. We recognise that progress can be best achieved on ESG issues through collaboration with other investors and organisations. We are an active member and supporter of several Global and Industry ESG Initiatives including



Principles for Responsible Investment (PRI). We have been a signatory to the PRI since 2020 and are working on our first submission on how we implement the six Principles of Responsible Investment into our everyday work to be good stewards of capital, which is due to be submitted in 2023. PRI is an important partner, providing excellent guidance on responsible investment and we work closely with them on the future direction of the organisation.



Institutional Investors Group on Climate Change (IIGCC) has the collective weight of over €51 trillion from over 350 members and is leading the way on a global stage for investors to help realise a low carbon future. IIGCC helps shape sustainable finance policy and regulation for key sectors of the economy and supports members in adopting active ownership and better integrated climate risks and opportunities into investment processes. The Fund's Pension Committee Chair is currently a representative on the IIGCC Corporate Programme Advisory Group. The corporate programme focuses on supporting investors to engage with companies to align portfolios with the goal of net zero by 2050. In addition to the Fund's own membership of IIGCC, the Fund asks its managers to also be members providing a double lock on engagement.





[LAPFF | The leading voice for local authority pension funds across the UK](#)

[lapfforum.org](http://lapfforum.org)

As a member of LAPFF the Fund works together with the majority of LGPS funds and pools across the UK, through the forum, to promote high corporate governance standards to protect the long-term value of local authority pensions. With member fund assets exceeding £350bn, the forum engages with companies and regulators to deliver reforms advancing corporate responsibility and responsible investment. In October 2021 the Funds Head of Pensions was appointed to the executive committee as an LAPFF Officer Member.



[Home | Pensions For Purpose](#)

Pensions For Purpose is a bridge between asset managers, pension funds and advisers, to encourage the flow of capital towards impact investment. Pensions For Purpose provide high quality expertise and training to Funds on ESG issues. The Fund joined as an affiliate member in September 2021.



The Financial reporting council sets UK Accounting, Audit and Actuarial standards. The Fund is a signatory to the FRC's Stewardship code, pledging to manage capital in a way that creates long term value and leads to sustainable benefits for the economy, the environment and society.



[Home | Task Force on Climate-Related Financial Disclosures](#)

The TCFD was set up to develop recommendations on the types of information that companies should disclose to support its stakeholders in appropriately assessing and pricing risks related to climate change. The fund has committed to report under the TCFD initiative.



UK Sustainable Investment  
and Finance Association

We are a member of the UK Sustainable Investment and Finance Association (UKSIF) - the leading membership organisation for sustainable and responsible finance in the UK



# Climate Change Commitments and Reporting

ESPF recognises the importance of the Paris Agreement of the United Nations Framework Convention on Climate Change. The central aim of the agreement is to strengthen the response to the global threat of climate change by:

- keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius;
- strengthening the ability of countries to deal with the impacts of climate change through appropriate financial flows, a new technology framework and an enhanced capacity building framework;
- enhancing transparency of action and support through a more robust transparency framework.

ESPF understands that the Paris Agreement is creating change that represents both significant risks to, and opportunities for, the Fund.

As such we make the following commitments to climate monitoring and action:

- To continue to measure and report on carbon-equivalent emissions throughout the listed portfolios and illiquid asset classes where possible.
- To continue our work with IIGCC and Climate Action 100+ indirectly via our IIGCC membership and Investment Managers.
- To continue to research and support the deployment of new impact capital into projects set to benefit from the transition to a low carbon economy
- To assess the carbon intensity of all assets (using estimates if necessary) supported by external managers and GPs
- Using data from the Transition Pathway Initiative (TPI) to help assess company transition plans to engage with our Investment Managers and alongside our collaborative partners to encourage companies to adopt business models and strategies that are in line with the aims of the Paris agreements.
- Climate reporting in line with Taskforce for Climate Related Financial Disclosures (TCFD) recommendations on mandatory reporting and governance requirements related to climate risk as they are expected to apply to the LGPS.
- The Fund is a signatory to the FRC Stewardship Code and commits to annually publishing its Stewardship Report to maintain its signatory status. The Stewardship Report monitors the stewardship activities and outcomes of the Fund's management of its investment portfolio and active ownership of the Fund assets. This includes reporting on RI issues and specific climate-related risks and opportunities.

The Pension Committee:

- affirms the Fund's commitment to integrate ESG factors, such as carbon efficiency trends into its decision-making;
- delegates scrutiny and engagement with investment managers to Fund officers, with advice from the Investment Working Group, to ensure that they take ESG issues, including climate change and carbon risk, into account;
- affirms the Fund's policy of not divesting solely on the grounds of non-financial factors;

- notes that the Fund will monitor research on the link between climate risk and financial performance to inform future investment strategy, such as stock selection criteria for quantitative strategies;
- agrees that the Fund will use its shareholdings in companies that perform poorly on carbon efficiency measures to influence engagement activity.

### Data Metrics and Targets

The Fund subscribe to data services and analytical tools, including company and industry specific data, to help understand and manage the climate risk within the Fund. The Fund commit to an assessment of all existing mandates against quantitative risk metrics based on carbon footprinting reports annually.

The Fund have committed to select at least one absolute Green House Gas (GHG) emission metric and as far as able, report Scope 1, 2 and 3 GHG emissions, one emissions intensity metric, if able, this will be the carbon footprint, a Data Quality metric, reporting the proportion the value of its assets for which its total reported emissions were Verified, Reported, Estimated or Unavailable and one non-emissions metric, if able, this will Paris Alignment Metric, reporting the percentage of the value of their assets for which there is a public net zero commitment by 2050 or sooner against which to assess Fund assets on climate related risks and opportunities. At least annually, we will set one target to manage climate related risk with respect to the chosen metrics and measure performance against this target.

We note that carbon-equivalent foot printing produces simple metrics that can be misinterpreted. It encourages selective divestment of the shares of high emission companies as some investors 'greenwash' their portfolios. Rather than divesting, we encourage our managers to incorporate an analysis of carbon output into their risk assessment of individual companies and their stocks. In addition, we actively engage with companies to align their business strategies with the targets of the Paris Agreement. Where analysis of carbon risk (or any other risk) points to poor financial outcomes, divestment is, of course, an option.

### Energy Transition

The Fund recognises that an Energy Transition is under way. It seeks to balance that the world's primary energy demand will grow. Where viable opportunities arise, the Fund will seek to increase its exposure to renewable infrastructure assets. Where the Fund's investment managers hold exposures to fossil fuel assets, it expects its managers through escalating engagement to elicit transition plans from those companies such that their engineering expertise, cashflows, and capital convening powers are increasingly deployed in support of the energy transition.

The Fund is aware that there are a range of possible transition scenarios, evolving physical climate related risks and potential opportunities. There are also many uncertainties. This makes portfolio construction around such scenarios very challenging. Instead, ESPF seeks to broadly align its investment approach with the objectives of IIGCC and Climate Action 100+ initiatives.

## Training and Resources

The work on Responsible Investment and climate change is led at Pension Committee level as decision makers in setting ambitious aims and targets. Addressing the financial risks from climate change is a constant in our approach and in all Pension Committee meetings and is included in the Funds risk register that is considered at each committee meeting. Responsible Investment implementation and reporting responsibilities sit within the Investments Team with full oversight by the Head of Pensions.

Pension Committee and Pension Board are committed to undertake a comprehensive CPD programme on RI issues and climate change-related risks and opportunities to ensure decision makers and those implementing decisions are knowledgeable in ESG matters including climate change. A training plan is in place for the Fund and reported on annually. Once a year a specific climate change training session will be provided; Committee Members and Officers will be provided with access to a range of training, webinars and conferences throughout the year, as set out in monthly training communications from the training coordinator.

The Pension Committee consistently challenge advisers and officers on issues of climate change to ensure that due process and attention is given to this issue by the Fund. Officers ensure that ESG methodology and implementation is challenges at all Investment manager meetings.

Budget is allocated for RI consultancy and data services annually. Where possible these will be procured through the LGPS Stewardship framework.

## Conflicts of Interest

The Fund has a Conflicts of Interest Policy that sets out how we manage conflicts of interest in our day-to-day business. The Policy is applicable to Committee Members, Board Members, Fund Officers and suppliers and advisers to the Fund, setting out the necessary principles to manage and mitigate key risks and safeguard the Fund. A copy of the Conflicts of Interest policy is available on the Fund website. All Fund officers undertake regular training, conflicts of interest forms a core part of the annual corporate training requirements. The Fund recognises the importance of managing potential conflicts of interest. Declaration of conflict of interests is a standing agenda item at the start of all Pension Committee meetings. A public register of Pension Committee members' declaration of interests is also maintained and audited annually. We also record any outside business interests that officers may have, and where these may cause of conflict with business decision making these are monitored closely.

With respect to Stewardship, it is possible that actual or perceived conflicts of interest may arise through the normal course of business in relation to the execution of our Stewardship activity. The more we engage with managers and investee companies, vote at AGMs, vote on shareholder resolutions and engage or communicate with policy makers and governments in jurisdictions within which we invest, the greater the potential for conflicts of interest or the perception of them to arise. These conflicts relate to potential tensions between our fiduciary duties as asset

owners on behalf of our members, our role as a public sector pensions service provider, the responsibility of East Sussex County Council as Administering authority and individual political or personal views of the Pension Committee members or officer team.

As laid out in the obligations of the Pension Committee section above, the Fund's primary responsibility is to act in the interests of its beneficiaries, who are the members of the scheme on whose behalf we invest their pension contributions. As a Stewardship Code signatory, the Fund are aligned and report against the 12 stewardship principles with the aim to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders.

The day-to-day delivery of the voting and engagement activity is delegated to the Investment Managers. Where the investment is made through the ACCESS pool the Investment Managers will follow the ACCESS voting guidelines.

From time to time the Fund responds to consultations from the UK government and UK regulators in relation to corporate governance and stewardship activity. This is part of the Fund's active stewardship priorities in supporting the efficient functioning of markets and promoting higher standards of corporate governance, reporting and transparency. Engagements and representations will be in line with Fund policies and major consultation responses will be approved at the Committee level.

The Fund will only partake in open letters to governments where these are researched and lead by the Fund's collaborative partners where there is no political bias or conflict from the wider political pressure on the County Council as Administering Authority.

There will be instances where the interests of the Fund's scheme employers, scheme members and wider County Council beliefs will diverge, in these instances when exercising our stewardship responsibilities only the interests the Fund's beneficiaries will be taken into account in line with the Fund's fiduciary duties and under advise from its consultants or advisers.



East Sussex Pension Fund

# Summary: Engagement vs Divestment

September 2023

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# Disclaimers

- This report has been prepared for the sole benefit of East Sussex County Council as Administering Authority of the East Sussex Pension Fund and based on their specific facts and circumstances and pursuant to the terms of Isio Group/ Isio Services Ltd's Services Contract. It should not be relied upon by any other person. Any person who chooses to rely on this report does so at their own risk. To the fullest extent permitted by law, Isio Group/ Isio Services Ltd accepts no responsibility or liability to that party in connection with the Services.
- The information contained within the report is available only to relevant persons, and any invitation, offer or agreement to purchase or otherwise acquire investments referred to within the report will be engaged in only with relevant persons. Any other person to whom this communication is directed, must not act upon it.
- In the United Kingdom, this Report is intended solely for distribution to Professional Clients as defined by the Financial Conduct Authority's Conduct of Business Sourcebook.
- This report has not therefore been approved as a financial promotion under Section 21 of the Financial Services and Markets Act 2000 by an authorized person.
- Isio Service Limited is authorised and regulated by the Financial Conduct Authority FRN 922376.

## Modelling limitations and risk warnings

- The only risk factors considered in our modelling are those that affect the values of pension fund assets. The modelling results should be viewed alongside other qualitative considerations including portfolio complexity, governance burden, and liquidity risk.
- The model's projections are sensitive to the starting position and the econometric assumptions. Changes to the assumptions can have a material impact upon the output. There can be no guarantee that any particular asset class or Investment Manager will behave in accordance with the assumptions. Newer asset classes can be harder to calibrate due to the lack of a long-term history.
- The modelling analysis is based on portfolios containing a range of asset classes and different approaches to fund management. Clients should not make decisions to invest in these asset classes or approaches to fund management based solely on the modelling analysis.
- Portfolios that make use of derivatives are exposed to additional forms of risk and can experience losses greater than the amount of invested capital.
- No guarantee can be offered that actual outcomes will fall within the range of simulated results. Actual outcomes may be better than the simulated 95th percentile or worse than the simulated 5th percentile.

# Background

## Climate action

In 2015, global governments agreed the Paris Agreement, to achieve a well below 2°C scenario with ambition towards 1.5°C (with the latter associated with a ~2050 net zero commitment). Since then, there has been an acceleration in global decarbonisation commitments – with 88 percent of global emissions occurring within jurisdictions covered by a net zero commitment<sup>1</sup>, alongside increasing investor commitments. Whilst these commitments are promoting decarbonisation action, the United Nations are also calling on investors to support the scaling up of climate financing, including investments in low carbon opportunities (e.g. renewables and electric vehicles) and nature-based solutions (e.g. forests).<sup>2</sup>

## Fossil fuels

There has been increasing public scrutiny on fossil fuel companies, in light of global climate ambitions. As public oil and gas majors continue to set out ambitious climate aims, their fossil fuel-related capex continues.<sup>3</sup> Private market companies are increasingly integrated in the fossil fuel sector.<sup>4</sup> Private firms should not be the only focus, as national oil companies (fully or majority government owned) account for over half of oil and gas production, and a greater proportion of fossil fuel reserves.<sup>5</sup>

Meanwhile, rising inflationary forces, alongside the Russian war in Ukraine, Covid-19 pandemic and other factors are contributing to rising fossil fuel prices and returns,<sup>6</sup> resulting in new fossil fuel exploration and production.

## Overview of the East Sussex Pension Fund

The East Sussex Pension Fund's (the Fund's) strategy on climate is a market leading one looking across the LGPS peer group and also broader corporate pension plans,

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<sup>1</sup> Net Zero Tracker. *Homepage*. [Net Zero Tracker | Welcome](#)

<sup>2</sup> Including reference in: United Nations Environment Programme (UNEP). (2022) *State of Finance for Nature*. [State of Finance for Nature 2022 | UNEP - UN Environment Programme](#). And: United Nations (UN). *Financing Climate Action*. [Climate Finance | United Nations](#)

<sup>3</sup> Wilson, C., Limburg, A., & Caldecott, B. (2022). *Implications of the International Energy Agency Net Zero Emissions by 2050 Scenario for Net Zero Committed Financial Institutions*. [Implications-of-the-International-Energy-Agency-Net-Zero.pdf \(ox.ac.uk\)](#)

<sup>4</sup> Environmental Defence Fund (EDF). *Transferred Emissions: How risks in oil and gas M&A could hamper the energy transition*. [Transferred-Emissions-How-Oil-Gas-MA-Hamper-Energy-Transition.pdf \(edf.org\)](#)

<sup>5</sup> IEA. (2020). *The oil and gas industry in energy transitions*. [The Oil and Gas Industry in Energy Transitions – Analysis - IEA](#) And: IEA. (2022) *Share of government/SOE ownership in global energy investment by sector, 2015 compared to 2019*. [Share of government/SOE ownership in global energy investment by sector, 2015 compared to 2019 – Charts – Data & Statistics - IEA](#). And: Armour, J., Enriques, L. and Wetzler, T. (2022) *Dark and Dirty Assets: Greening Climate-Driven Asset Partitioning*. [Dark and Dirty Assets: Greening Climate-Driven Asset Partitioning | Oxford Law Blogs](#)

<sup>6</sup> International Energy Agency (IEA). (2021) *What is behind soaring energy prices and what happens next?* [What is behind soaring energy prices and what happens next? – Analysis - IEA](#)



having made significant progress to decarbonise its portfolio and increase allocations to low carbon impact opportunities (amongst other sustainability objectives). Currently, there is minimal structural exposure to fossil fuels within the strategy, with some explicit fossil fuel exclusions in place within certain liquid mandates.

The current regulation for Local Government Pension Schemes (LGPS) has directed the English and Welsh LGPS funds to combine assets into investment pools, to deliver increased value to their members. The Fund forms part of the ACCESS Pool, which currently offers its members just two sustainable funds, with an equity fund available and a credit fund in the process of being launched.

The ACCESS Pool's climate approach needs to be agreed by the broader LGPS fund participants in the Pool. These participants include the East Sussex County Council, alongside 10 others: Cambridge County Council, Essex County Council, Hampshire County Council, Hertfordshire County Council, Isle of Wight Council, Kent County Council, Norfolk County Council, Suffolk County Council, West Northamptonshire Council, West Sussex County Council. Consensus in this respect may be challenging to achieve, and to divest from fossil fuel companies fully, the Fund would most likely have to move away from the Pool. This would be a move against the current government direction (which will likely be strengthened as a result of the currently live pooling consultation), may result in government intervention, and not be in members best interests given the loss of efficiencies of scale sought from pooling.

The Fund also owns a range of private market investments. These assets are invested with the intention of holding them for the long term. Many of these are very long term in nature and were invested many years ago. Divestment within these mandates is a particular challenge given the nature of the investments and the costs involved in making changes where there is no liquid market in which to trade existing holdings.

## Market Context

The Fund is operating in the context of wider industry and market developments, in relation to climate commitments and fossil fuels.

Decarbonisation commitments are on the rise, and currently, 88 percent of global emissions are within jurisdictions covered by a net zero commitment<sup>7</sup>, alongside increasing company and investor commitments. A 2050 net zero outcome would align with the most ambitious temperature goal of the Paris Agreement. The UN is calling on investors to scale up climate financing in support of this aim.<sup>8</sup>

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<sup>7</sup> Net Zero Tracker. *Homepage*. [Net Zero Tracker | Welcome](#)

<sup>8</sup> Including references to private financing in:

United Nations Environment Programme (UNEP). (2022) *State of Finance for Nature*. [State of Finance for Nature 2022 | UNEP - UN Environment Programme](#)

And: United Nations (UN). *Financing Climate Action*. [Climate Finance | United Nations](#)

At the same time, rising inflationary forces, alongside the Russian war in Ukraine, Covid-19 pandemic and other factors have contributed to rising fossil fuel prices,<sup>9</sup> resulting in new fossil fuel exploration and production. There is increasing scrutiny on public firms, as fossil fuel-related capex continues for oil and gas majors.<sup>10</sup> A sole focus on public companies is unlikely to be sufficient, as national oil companies (fully or majority owned by governments) account for a significant proportion of oil and gas production and fossil fuel reserves.<sup>11</sup> Private market investments in fossil fuel projects are also rising in importance, with potentially fewer environmental commitments<sup>12</sup> and a risk of reduced responsiveness to engagement (albeit this may be changing in the context of the Taskforce on Climate-related Financial Disclosures for pension schemes).

Beyond fossil fuels, and as part of a broader sustainability focus, there have been wider ethical forces resulting in investor divestment movements targeting other sectors, such as tobacco and controversial weapons.

## Summary Paper Overview

In this summary paper, we provide an overview of the research undertaken for the Fund, with a focus on key recommendations. This follows an assessment of the following four key areas, as requested by the Pension Committee at its meeting on 20 July 2022.

1. Assessment of the fiduciary and legal consequences of fossil fuel divestment for the Fund.
2. A review of the industry evidence on the efficacy of either approach [of divestment vs engagement] in promoting the energy transition.
3. Exploration of the financial implications of divestment within the context of the ACCESS pool and the Fund's wider operating environment.

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<sup>9</sup> International Energy Agency (IEA). (2021) *What is behind soaring energy prices and what happens next? What is behind soaring energy prices and what happens next? – Analysis* - IEA

<sup>10</sup> Wilson, C., Limburg, A., & Caldecott, B. (2022). *Implications of the International Energy Agency Net Zero Emissions by 2050 Scenario for Net Zero Committed Financial Institutions*. Briefing Paper. Oxford Sustainable Finance Group, Smith School of Enterprise and the Environment, University of Oxford. [Implications-of-the-International-Energy-Agency-Net-Zero.pdf \(ox.ac.uk\)](#)

<sup>11</sup> IEA. (2020). *The oil and gas industry in energy transitions. The Oil and Gas Industry in Energy Transitions – Analysis* - IEA

And: IEA. (2022) *Share of government/SOE ownership in global energy investment by sector, 2015 compared to 2019. Share of government/SOE ownership in global energy investment by sector, 2015 compared to 2019 – Charts – Data & Statistics* - IEA

And: Armour, J., Enriques, L. and Wetzler, T. (2022) *Dark and Dirty Assets: Greening Climate-Driven Asset Partitioning. Dark and Dirty Assets: Greening Climate-Driven Asset Partitioning | Oxford Law Blogs*

<sup>12</sup> Environmental Defense Fund (EDF). *Transferred Emissions: How risks in oil and gas M&A could hamper the energy transition. Transferred-Emissions-How-Oil-Gas-MA-Hamper-Energy-Transition.pdf (edf.org)*

4. Consideration of how either course of action [divestment vs engagement] aligns with any relevant industry regulation, guidance, and advice.

The definitions used in this report are provided in the accompanying background paper on definitions.

# Fiduciary, Regulatory and Legal Consequences of Fossil Fuel Divestment

Chapter one of the report provides the legal Fiduciary responsibilities of the Pension Committee, the regulations in which investment decisions must and should be made, financial and non-financial factors for decision making, whether maximum returns are required, what sources of information or guidance on divestment that the Pension Committee must or should follow and the legal requirement associated with the ACCESS Pool.

The detailed report which was prepared for the Pension Committee (and of which this document is a summary) was compiled from various legal documents.

This summary has been prepared for the Pension Committee to provide a list of the key issues the Committee need to take into account in its decision making. A key observation that the Pension Committee has identified is the need for the Fund to deliver benefits as laid down in statute which are affordable.

Chapter one of the report aims to provide the information requested by the Pension Committee to enable them to assess the fiduciary and legal consequences of fossil fuel divestment for the Fund and examines how such divestment would align with relevant guidance and advice. The below section summarises Chapter one of the report.

## Fiduciary Duties

The Pension Committee is subject to fiduciary duties in the discharge of its functions in relation to the Fund, including with respect to investment matters.

Accordingly, the Pension Committee must act in accordance with the following when taking decisions in relation to the investment of the Fund's assets:

- the power to invest the assets of the Fund must be made for investment purposes only (and not for any collateral purpose, such as a political view)<sup>13</sup>;
- the core purpose of the investment power is to generate returns to enable benefits to be paid to members and their contingent beneficiaries when due<sup>14</sup>;
- investment decisions must be taken prudently<sup>15</sup>, with a reasonable level of skill and care, and on the basis of proper advice<sup>16</sup>;
- these three principles are often encapsulated by referring to the need to act in members' best (financial) interests<sup>17</sup>;
- the Pension Committee's primary investment objective is to secure the

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<sup>13</sup> Paragraph 6.12(1) of the Law Commission's Report on the Fiduciary Duties of Investment Intermediaries (2014).

<sup>14</sup> Paragraph 6.6 of the Law Commission's Report on the Fiduciary Duties of Investment Intermediaries (2014).

<sup>15</sup> Re Whiteley (1886) 33 Ch D 347.

<sup>16</sup> Martin v City of Edinburgh District Council [1989] Pens LR 9 and Regulations 7(1) and 9(4) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

<sup>17</sup> Paragraph 6.15 of the Law Commission Report.

- best realistic return over the long-term given the need to control for risks<sup>18</sup>;
- any factor which goes to this primary investment objective is financial in nature and should be considered by the Pension Committee<sup>19</sup>;
  - any factor which does not go to the primary investment objective is non-financial and can only be considered if certain conditions are met<sup>20</sup>; these are that the Pension Committee is satisfied that:
    - a) there is good reason to think the Fund's beneficiaries would share the concern<sup>21</sup>,
    - b) acting in accordance with the non-financial factor would not involve a risk of significant financial detriment to the Fund<sup>22</sup>, and
    - c) it is otherwise appropriate, in the round, to act in accordance with the non-financial factor<sup>23</sup>; and
 all of this is a question of proper process and balanced judgment – there is no single right approach and decisions cannot be criticised simply in hindsight<sup>24</sup>.

## Regulation

In addition to these fiduciary duties in relation to investment, the Pension Committee must also comply with numerous other applicable legal duties, including:

- Statutory duties under the various primary and secondary legislation relating to the LGPS<sup>25</sup>; and public law duties to act rationally (and not perversely) – albeit these are unlikely to require anything different or additional to the fiduciary duties<sup>26</sup>.
- The Fund must take proper advice.
- The Fund must invest in a wide range of assets, properly diversified to avoid excessive reliance on any particular asset, issuer, or group of undertakings and to avoid accumulations of risk in the portfolio as a whole.

<sup>18</sup> Paragraph 5.56 of the Law Commission Report.

<sup>19</sup> Paragraph 6.24 of the Law Commission Report.

<sup>20</sup> Paragraph 6.33 of the Law Commission Report.

<sup>21</sup> Paragraph 6.34(1) of the Law Commission Report.

<sup>22</sup> *Harries v Church Commissioners* [1992] 1 WLR 1241 and paragraph 6.34(2) of the Law Commission Report. Note that, in *R (on the application of Palestine Solidarity Campaign Ltd and another) v Secretary of State for Communities and Local Government* [2020] UKSC 16, the Supreme Court referred to the test as requiring no "significant risk of financial detriment" (rather than no risk of significant financial detriment).

<sup>23</sup> Paragraph 6.78 of the Law Commission Report.

<sup>24</sup> Paragraphs 5.56 and 6.23 of the Law Commission Report

<sup>25</sup> This includes the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

<sup>26</sup> Paragraph 8 of the Opinion which Nigel Giffin KC prepared for the Local Government Association on the Duties of Administering Authorities under the Local Government Pension Scheme (25 March 2014).

- The powers of investment must be exercised in a manner calculated to ensure the security, quality, liquidity, and profitability of the portfolio as a whole, and not for any other purpose including political.
- The Fund must set out its approach to pooling investments.
- The Fund must set out its policy on how social, environmental, and corporate governance considerations are taken into account.
- The Fund must set out its policy on the exercise of rights attaching to investments.
- The Secretary of State has the power to intervene in the investment function of an administering authority if satisfied that it is failing to act in accordance with regulations and guidance.
- The UK government currently advocates collaboration with business, as opposed to divestment for Pension Funds.<sup>27</sup>

## Responsibilities of the Pension Committee

One important aspect of being a fiduciary is that the law requires fiduciaries to be scrupulous about conflicts of interest and potential conflicts of interest whether, in each case, those conflicts are actual or perceived. The Pension Committee is subject to the statutory obligation to have political balance in their membership, in accordance with the provisions contained in s.15 Local Government and Housing Act (LGHA) 1989. Whilst all Pension Committee Members bring with them their own knowledge and experience, political views must form no part of the consideration of issues or of the decision-making process. Pension Committee members must act as fiduciaries, safeguarding the interests of those to whom they owe their duties – beneficiaries of the Fund.

In 2014, the Local Government Association on behalf of the LGPS Shadow Scheme Advisory Board obtained legal advice from Nigel Giffin King’s Counsel about whether and to whom an LGPS administering authority owes a fiduciary duty and how the wider functions, aims or objectives of the administering authority should influence the discharge of its LGPS investment duties.

The opinion concluded that the administering authority’s power of investment must be exercised for investment purposes, and not for any wider purposes. Investment decisions must therefore be directed towards achieving a wide variety of suitable investments, and to what is best for the financial position of the Fund and ultimately beneficiaries (balancing risk and return in the normal way). The opinion recognised that investment decisions are for administering authorities to take and that authorities are under no legal obligation to consider investment decisions from any other perspective than the maximization of returns, whatever scope there may be for wider matters to be taken into account if they choose. An example provided

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<sup>27</sup> Taking action on climate risk: improving governance and reporting by occupational pension schemes - GOV.UK ([www.gov.uk](http://www.gov.uk))

highlighted that an administering authority may take account of social housing needs but only if an investment in a particular opportunity in this asset class stands up as an investment in its own right and the administering authority can demonstrate that it is not preferring its own interests over other scheme employers in making the investment.

## Maximum, Reasonable or Realistic Returns?

The Law Commission concluded that the primary purpose of the investment power given to pension trustees is to *secure the best realistic return over the long-term, given the need to control for risks* and emphasised that this is a question of broad judgment rather than mathematical formulae – and must be judged at the time of the decision, not in hindsight<sup>28</sup>

### Risk

The courts have recognised that the concept of risk must adapt to current economic conditions and contemporary understanding of markets and investment. Those subject to duties of care are now required to manage risk by diversification and by considering the suitability of investments.<sup>29</sup> Accordingly, modern trustees acting within their investment powers: are entitled to be judged by the standards of current portfolio theory, which emphasises the risk level of the entire portfolio rather than the risk attaching to each investment taken in isolation.<sup>30</sup>

Assets which may individually be hazardous may be offset by safer investments to form a balanced portfolio. The theory is that: The risk of a portfolio is wholly distinct from the risk of a particular investment contained in the portfolio. The risk of a portfolio is a function of the interrelation of its component investments. Thus, a trustee can use securities and instruments that are highly risky viewed in isolation to assemble a portfolio that is safe.<sup>31</sup>

The legal position indicates that it is likely to be appropriate for the Fund to gain exposure to investments which may be riskier over the long-term if the exposure is relatively small and can be reduced (potentially to nil) when necessary, without losing value. There is no fiduciary duty for the Fund to invest only in assets which can be bought and held into the long-term without any subsequent dynamism or right-sizing.

It is possible an asset which is not currently considered suitable for long-term investment has the potential to change its characteristics over time. It may then be advantageous to be holding that asset before market demand rises. And the asset

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<sup>28</sup> Paragraph 5.56 of the Law Commission report.

<sup>29</sup> *Nestle v National Westminster Bank plc* [1993] 1 WLR 1260 at 1282. See also the standard investment criteria in section 4 of the Trustee Act 2000.

<sup>30</sup> *Nestle v National Westminster Bank plc* (1996) 10(4) *Trust Law International* 112 at 115, by Hoffmann J.

<sup>31</sup> J Gordon, "The Puzzling Persistence of the Constrained Prudent Man Rule" (1987) 62 *New York University Law Review* 52 at 67.

could then present opportunities which were not presented before. It is not inconsistent with fiduciary duty to hold an asset on the basis that this could happen. An example could be an equity holding in an oil and gas producer which is expected to make a successful transition, in time, to clean energy. It is legitimate for the Fund to consider that such a change in the characteristics of an asset could be achieved through the stewardship actions which potentially enable it to cause changes which ultimately result in less risk and more return. However, the investment must not be made to avoid a disengaged investor taking on the investment, the quality and suitability of the investment must take primacy over the stewardship opportunities.

## Quality of Life

Funds should take financial considerations into account. Financial factors are any factors which are relevant to trustees' primary investment duty of balancing returns against risks<sup>32</sup> while, Funds may take non financial considerations into account if two tests are met – that there is good reason to think beneficiaries support the decision and where there is no significant financial detriment from the decision. A non-financial factor is one motivated by other concerns, such as improving members' quality of life or showing disapproval of certain industries. Financial factors will be ones that have a direct bearing on the ability of the portfolio to generate the targeted level of risk-adjusted return over that time horizon. Accordingly, a desire to invest the Fund's assets to ensure that Fund beneficiaries can live in a world which, for example, avoids the most deleterious effects of climate change is not a financial factor, but a non-financial one. An investment decision made on that basis would be closer to what the Law Commission has described as the non-financial factor of being motivated by a concern to improve members' quality of life<sup>33</sup>.

As such, it would only be permissible for that motivation to influence the Fund's investment strategy if the Pension Committee is satisfied of the three matters set out above – namely:

- (a) the Pension Committee has good reason to think Fund beneficiaries would share the concern;
- (b) acting in accordance with that particular non-financial factor would not involve a risk of significant financial detriment to the Fund; and
- (c) it would be appropriate, in the round, for the Pension Committee to act in accordance with this non-financial factor.

It is likely to be necessary for the Pension Committee to be satisfied that the parties ultimately responsible for funding the Fund would not only:

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<sup>32</sup> Paragraph 6.30 of the Law Commission Report - [Fiduciary Duties of Investment Intermediaries - Law Commission](#)

<sup>33</sup> Paragraph 6.33 of the Law Commission's Report on the Fiduciary Duties of Investment Intermediaries (2014).



- (a) be sufficiently accepting of an investment approach which sought to ensure that Fund beneficiaries can live in a world which avoids the most deleterious effects of climate change, but would also
- (b) be able to repair any funding deficit that might emerge in the Fund if some significant financial detriment did ultimately emerge.

# Industry Evidence on the Efficacy of Engagement versus Divestment

This section provides a summary of the academic and industry literature on the efficacy of engagement and divestment. It has been prepared to provide an accessible summary of the key points in the various literature. We have also produced a reference document for those that wish to read further on more of the detail on the reference made in this executive summary.

The research indicates that neither engagement nor divestment have been entirely effective to date in delivering a low carbon transition,<sup>34</sup> and that a step change is needed.

We summarise below the key points from the review of the literature, including the areas where focus is required, the key actors in the fossil fuel markets and the arguments for divestment and engagement. We also touch on some broader issues highlighted by the literature that we believe are also relevant for the Fund.

## Literature review

### Climate action – areas of focus

The research indicates that approximately ninety percent of fossil fuel external financing comes from debt investments,<sup>35</sup> and therefore a focus beyond listed equity holdings is essential.

The literature also highlights that fossil fuel investment is flowing from listed into private markets, at an increasing rate, and that this carries the risk of fewer environmental commitments,<sup>36</sup> lower emissions transparency,<sup>37</sup> and lower receptiveness to stewardship activities. Engagement with listed entities will be an important factor in managing the potential risks posed by this trend, whereas divestment may reduce the engagement required.

The literature highlights the importance of new and additional financing in primary markets, and the need to focus on venture capital, private equity, and later IPOs to tackle high carbon expansion.<sup>38</sup> It also highlights that these financial investments in private markets and infrastructure assets have an impact in terms of support for new fossil fuel developments or expansion.<sup>39</sup>

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<sup>34</sup> Various sources, including: Quigley, E., Bugden, E. and Odgers, A. (2021) *Divestment: Advantages and Disadvantages for the University of Cambridge*. [sm6 divestment report.pdf \(cam.ac.uk\)](#)

And: Broccardo, E., Hart, O., and Zingales, L. (2020) *Exit vs. Voice*. [exit vs voice 1230 \(harvard.edu\)](#)

<sup>35</sup> Quigley, E and Davies, S. (2021) *Stock picking for humanity*. [Here are responsible shareholder tactics that actually work | Aeon Essays](#)

<sup>36</sup> Environmental Defense Fund (EDF). *Transferred Emissions: How risks in oil and gas M&A could hamper the energy transition*. [Transferred-Emissions-How-Oil-Gas-MA-Hamper-Energy-Transition.pdf \(edf.org\)](#)

<sup>37</sup> There is debate as to the extent of transparency amongst privately owned energy companies. For example, see: MSCI. (2021) *2022 ESG Trends to Watch: Private-Company Emissions Under Public Scrutiny*. [Private-Company Emissions Under Public Scrutiny - MSCI](#)

<sup>38</sup> Quigley, E and Davies, S. (2021) *Stock picking for humanity*. [Here are responsible shareholder tactics that actually work | Aeon Essays](#)

<sup>39</sup> Quigley, E and Davies, S. (2021) *Stock picking for humanity*. [Here are responsible shareholder tactics that actually work | Aeon Essays](#)

## Actors

The literature points to the importance of moving beyond a siloed focus on corporates – given fully or majority owned public oil companies account for well over half of global production and an even greater proportion of reserves.<sup>40</sup> A broader engagement with Governments is needed.

Banks' loan origination provides circa two-thirds of new capital for fossil fuels and underwrites new fossil fuel-related bond issues and IPOs.<sup>41</sup>

The literature suggests that collective engagement with fossil fuel companies remains essential (and some argue that a focus on capital expenditures should be central to this<sup>42</sup>).

## Divestment

Divestment has had some success in reducing financing to fossil fuel companies,<sup>43</sup> This is often a key driver for a divestment strategy being introduced. However, the literature notes that domestic divestment pressures can simply result in the re-allocation of fossil fuel financing overseas given the global nature of markets.<sup>44</sup> The impact of this on fossil fuel companies is therefore **limited unless a global approach is taken**.

The literature highlights that whilst significant divestment may result in higher fossil fuel prices, it may not ultimately impact on fossil fuel demand. Without tackling a change in underlying demand, divestment **can lead to stronger returns for investors and encourage more capital into the sector**.<sup>45</sup> Arguably, the experience of the past 18 months, with the shock to fossil fuel prices arising from the war in Ukraine, has illustrated this dynamic (with strong returns for investors in fossil fuels and increased investment). Therefore demand-side reduction needs to be front and centre of any climate change response.

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<sup>40</sup> IEA. (2020). *The oil and gas industry in energy transitions*. [The Oil and Gas Industry in Energy Transitions – Analysis - IEA](#)

<sup>41</sup> Quigley, E. and Davies, S. (2021) *Stock-picking for humanity*. [Here are responsible shareholder tactics that actually work | Aeon Essays](#)

<sup>42</sup> IEA. (2020). *The oil and gas industry in energy transitions*. [The Oil and Gas Industry in Energy Transitions – Analysis - IEA](#)

<sup>43</sup> This focuses on bond and loan financing, or the majority of fossil fuel financing. Source: Cojoianu, T. Ascui, F. Clark G, Hoepner, A. and Wojcik, D. (2021) *Does the fossil fuel divestment movement impact new oil and gas fundraising?* [Does the fossil fuel divestment movement impact new oil and gas fundraising? | Journal of Economic Geography | Oxford Academic \(oup.com\)](#)

<sup>44</sup> Caldecott, B., Ansar, A. and Tilbury, J. (2013) *Stranded assets and the fossil fuel divestment campaign: what does divestment mean for the valuation of fossil fuel assets?* [SAP-divestment-report-final.pdf \(ox.ac.uk\)](#)

<sup>45</sup> Carlyle. (2022) *Global Insights: Energy Transition*.

[Carlyle Global Insights Energy Transition Jason Thomas May 25 2022.pdf](#)

Within the literature, an exit from company offenders is not seen to be effective in bringing about the desired societal change (versus broader engagement).<sup>46</sup> It is noted that the **indirect implications of divestment can be more impactful in influencing market norms, with downward pressure on fossil fuel prices because of stigmatisation.**<sup>47</sup>

The literature does indicate that investors could consider a more nuanced exclusion approach on select fossil fuels or projects, depending on when different fossil fuel projects are expected to become uneconomic (or stranded). For example, investors adopting exclusions on thermal coal, whilst continuing to engage with oil and gas producers on decarbonisation. – given peak coal production should have occurred in 2020 to align with a 2050 net zero outcome.<sup>48</sup> There is inherent risk that rising oil and gas prices result in harmful substitutions of oil and gas with more emissions intensive coal. As well as general moves of funds (particularly tactical funds) into fossil fuel opportunities, as a resulting of rising fossil fuel prices.

**A major concern in the literature is that divestment could leave capital in the hands of less climate conscious investors.**<sup>49</sup> Ultimately this could slow down the transition to a low carbon economy.

### Engagement

The **attribution of climate action gains to make the case for engagement activity remains difficult to demonstrate.**<sup>50</sup>

With broad passive investments on the rise,<sup>51</sup> investors are potentially less exposed to active ownership approaches (albeit the largest UK passive managers in the UK market have significant engagement programmes).<sup>52</sup> A range of passive strategies (such as those used by the Fund) now exclude certain sectors.

There are concerns a significant amount of oil and gas majors' shareholder capital is being deployed to climate branding and lobbying.<sup>53</sup> With the mismatch between discourse and action leading to accusations of greenwashing,<sup>54</sup> and requiring the

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<sup>46</sup> Broccardo, E., Hart, O. and Zingales, L. (2020) *Exit vs Voice*. [exit vs voice 1230 \(harvard.edu\)](https://www.harvard.edu)

<sup>47</sup> Caldecott, B., Ansar, A. and Tilbury, J. (2013) *Stranded assets and the fossil fuel divestment campaign: what does divestment mean for the valuation of fossil fuel assets?* [SAP-divestment-report-final.pdf \(ox.ac.uk\)](https://www.ox.ac.uk)

<sup>48</sup> International Energy Agency (IEA) (2021) *Net Zero by 2050*. [Net Zero by 2050 – Analysis - IEA](https://www.iea.org)

<sup>49</sup> James, C. (2022) *Don't Sell Your Fossil-Fuel Stock If You Want to Make a Climate-Change Difference in 2022*. [Don't Sell Your Fossil-Fuel Stock If You Want to Make a Climate-Change Difference in 2022 | TIME](https://www.time.com)

<sup>50</sup> Cited by various investment managers, with which Isio continue to engage with on an annual basis, on behalf of our clients.

<sup>51</sup> Bloomberg. (2021) *Passive likely overtakes passive by 2026, earlier if bear market*. [Passive likely overtakes active by 2026, earlier if bear market | Insights | Bloomberg Professional Services](https://www.bloomberg.com)

<sup>52</sup> "a passive investment style is not a barrier to having a leading approach to responsible investment". See report: ShareAction. (2022) *Point of No Returns 2023*. [Point-of-No>Returns-2023-General-Findings\\_2023-03-01-115320\\_htgw.pdf \(assets-servd.host\)](https://www.shareaction.com)

<sup>53</sup> Influence Map. (2019) *Big Oil's Real Agenda on Climate Change*. [InfluenceMap Big Oil's Real Agenda on Climate Change](https://www.influencemap.com)

<sup>54</sup> Li, M., Trencher, G. and Ausaka, J. (2022) *The clean energy claims of BP, Chevron, ExxonMobil and Shell: A mismatch between discourse, actions and investments*. [The clean energy claims of BP](https://www.bp.com)

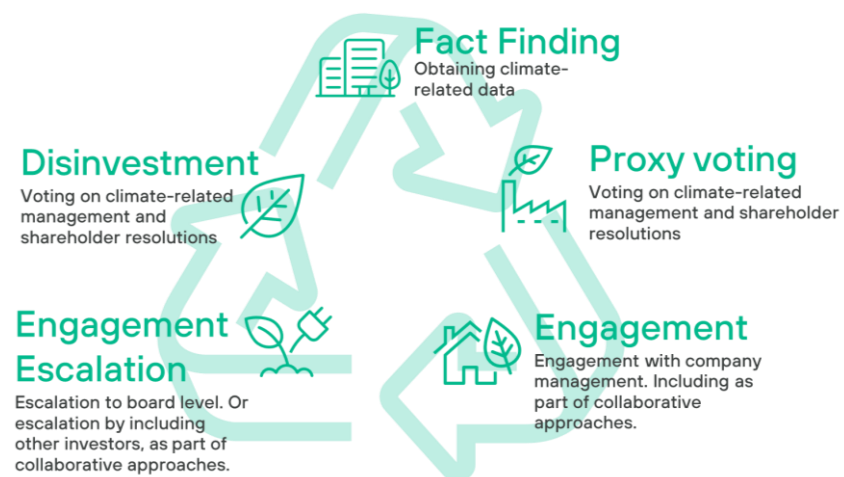
assessment of the credibility of companies' climate claims. **Focussed engagement by asset owners will be important to hold companies to account.**

The literature highlights that **collective engagement action is helpful in exerting influence**, representing more material investment ownership, even if only to pool knowledge and the costs of engagement.<sup>55</sup> If the full weight of pensions influence being brought to bear on the issue, and further actors, this could help to shift investment norms and influence regulatory developments more quickly.

### Combining engagement with divestment

The literature indicates the **need for an emphasis on the escalation of stewardship activities to improve traction** – moving from voting activities to engagement meetings with management (including the setting of measurable KPIs).

Chart: Example escalation approach<sup>56</sup>



Escalation policies often include the threat of divestment. This threat appears to be necessary to ensure some companies are receptive to engagement. However, for others, the knowledge that vocal shareholders may eventually divest could disincentivise them from acting on shareholder concerns, believing they can wait these shareholders out.<sup>57</sup>

[Chevron, ExxonMobil and Shell: A mismatch between discourse, actions and investments | PLOS ONE](#)

<sup>55</sup> For example: The Investor Forum. (2019) *Collective Engagement: An essential stewardship capability*. [The-case-for-collective-engagement-211119.pdf](#) ([investorforum.org.uk](#))

And: PRI. (2013) *Getting Started with Collaborative Engagement: How Institutional Investors Can Effectively Collaborate in Dialogue with Companies*. [download](#) ([unpri.org](#))

<sup>56</sup> Adapted from: Lazard Asset Management. *Active Ownership*. [Active Ownership | Lazard Asset Management](#)

<sup>57</sup> Principles for Responsible Investment (PRI). (2022) *Discussing divestment: Developing an approach when pursuing sustainability outcomes in listed equity*. [download](#) ([unpri.org](#))

The literature notes that where companies' decarbonisation position changes over time, **this warrants a circular approach to provide an incentive for companies to improve.**

## Broader issues to consider

Alongside the efficacy of divestment vs. engagement, the review of the literature highlighted a range of broader considerations. This includes consideration of the regulatory framework, the risks posed by stranded assets and the broader implications of any strategy that is adopted, which can trigger other consequences.

### Regulation

The UK regulatory landscape does not directly touch on engagement versus divestment. The UK Government is ramping up pension scheme stewardship expectations over time,<sup>58</sup> which **places an emphasis on engagement.**

When looking to other countries, the French government is gearing up to recommend exclusions on Article 9 Funds,<sup>59</sup>. The UK Government has sought to set the tone on climate action via decarbonisation commitments,<sup>60</sup> carbon pricing,<sup>61</sup> and the Taskforce on Climate-related Financial Disclosures (TCFD) for pension schemes.<sup>62</sup>

### Stranded assets

Stranded assets could be a significant risk for financial markets as the "switch away from fossil fuels to renewables, if not actioned in an orderly and planned way, risks stranding at least \$100 trillion of assets across financial markets".<sup>63</sup> The discounting of future cashflow projections into present value terms may significantly underrepresent the risk set out in asset valuations. This may lead to a lower responsiveness to asset stranding risk, across the industry.

A potential first step to address this could be to address thermal coal mining/power exposure, given coal should have been in decline since 2020 (assuming 2050 net

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<sup>58</sup> Recent stewardship regulation includes: UK Government. (2022). *Reporting on Stewardship and Other Topics through the Statement of Investment Principles and Implementation Statement: Statutory and Non-Statutory Guidance*. [Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance – GOV.UK \(www.gov.uk\)](#)

<sup>59</sup> According to the EU SFDR rules. See: AMF. (2023) SFDR: The AMF proposes a targeted review to include environmental criteria. [The Sustainable Finance Disclosure Regulation: the AMF proposes a targeted review to include minimum environmental criteria | AMF \(amf-france.org\)](#)

<sup>60</sup> UK Parliament. (2023) *Net zero transformation: Industry and Regulators Committee report*. [Net zero transformation: Industry and Regulators Committee report – House of Lords Library \(parliament.uk\)](#)

<sup>61</sup> Ember Climate. (2023) *Carbon Price Tracker*. [Carbon Price Tracker | Ember \(ember-climate.org\)](#)

<sup>62</sup> UK Government Legislation. (2021) *The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021*. [The Occupational Pension Schemes \(Climate Change Governance and Reporting\) Regulations 2021 \(legislation.gov.uk\)](#)

<sup>63</sup> Carbon Tracker Initiative. (2023) *ExxonMobil, Shell and systemic risk – prisoners of their assets?* [ExxonMobil, Shell and systemic risk – prisoners of their assets? - Carbon Tracker Initiative](#)

zero alignment).<sup>64</sup> Fossil fuel stranding may be delayed by carbon capture, usage, and storage (CCUS), as well as offsetting (nature) solutions..

### Broader environmental and social implications

A holistic view on the direct and indirect implications of decarbonisation can help to influence investor engagement versus divestment decisions. The decisions are inherently complex and need broader consideration.

For example, where fossil fuel divestment in favour of renewables results in increased exposure to the metals and mining industry. The latter is associated with significant emissions,<sup>65</sup> human rights violations,<sup>66</sup> as well as the decline of the high carbon industry with associated job losses,<sup>67</sup> albeit some potential health-related gains from cleaner air.<sup>68</sup>

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<sup>64</sup> Wilson, C., Limburg, A., & Caldecott, B. (2022). *Implications of the International Energy Agency Net Zero Emissions by 2050 Scenario for Net Zero Committed Financial Institutions*. [Implications-of-the-International-Energy-Agency-Net-Zero.pdf \(ox.ac.uk\)](#)

<sup>65</sup> McKinsey. (2022) *The raw materials challenge: How the metals and mining sector will be at the core of enabling the energy transition*. [The raw-materials challenge: How the metals and mining sector will be at the core of enabling the energy transition | McKinsey](#)

<sup>66</sup> Business and Human Rights Resource Centre. *Transition Minerals Tracker*. [Transition Minerals Tracker - Business & Human Rights Resource Centre \(business-humanrights.org\)](#)

<sup>67</sup> World Economic Forum (WEF). (2022) *What's the price of a green economy? Transitioning to a green economy will cost the world another \$3.5 trillion a year* | World Economic Forum [\(weforum.org\)](#)

<sup>68</sup> IISD. (2019) *Tackling Coal-Driven Air Pollution in China and India: Lessons learned for Indonesia*. [Tackling Coal-Driven Air Pollution in China and India: Lessons learned for Indonesia \(iisd.org\)](#)

# Fossil Fuel Exposure and the Implications of Fund Divestment

## Fossil Fuel Exposure

As at 31 March 2023, 3.3% of the Fund's investments had fossil fuel exposure (equivalent to £151.9m across the ~£4.5bn fund). We estimate that 63% of exposure is structural (2.1% of the Fund) and 37% is 'short term tactical' (1.2%) in nature.

Mandates:	Asset class (public vs private market)	Definition alignment	Proportion of the Fund's exposure (%)	Size of fossil fuel investment (£m)	Nature of Exposure	Type of fossil fuel exposure	Manager response
IFM Global Infrastructure Fund	Infrastructure (private)	Aligned (real assets) - >10% mandate investments	45%	67.9	Structural	Primary exposure to Buckeye Partners LP and Naturgy Energy Group SA, Freeport Train 2 and VTTI, amongst others.	The manager is investing in assets deemed to be aligned to transition opportunities, with a 2050 net zero objective.
Ruffer Absolute Return (ACCESS)	Multi asset (public)	Aligned (companies) – companies with >10% revenues	28%	42.2	Tactical	Primary exposure to Wisdom Tree Brent Crude Oil, followed by e.g. BP, Shell and other small allocations.	Long-term positions require credible transition plans (vs short-term positions temporarily held).
Newton Absolute Return (ACCESS)	Multi asset (public)	Aligned (companies) – companies with >10% revenues	9%	13.3	Tactical	Approximately half of the exposure is Shell, followed by other smaller allocations.	Internal framework assesses transition plans to inform investments and engagements.
M&G Alpha Opportunities (ACCESS)	Multi credit (public)	Aligned (companies) – companies with >10% revenues	6%	9.3	Structural	Small exposures, including BP, ENI, Repsol, ENGIE E.ON and others.	Invests in climate transition leaders and engages on decarbonisation. Thermal coal exclusions apply.
M&G Sterling Corporate Bonds*	Corporate bonds (public)	Aligned (companies) – companies with >10% revenues	4%	6.1	Structural	<i>(Not assessed further given planned divestment)</i>	
UBS Infrastructure Archmore 1**	Infrastructure (private)	Aligned (real assets) - >10% mandate investments	4%	5.6	Structural	Primary exposure at Northern Star Generation, which makes up >50% of the Fund. Assets run primarily on natural gas, with one asset burning fuel oil as a backup fuel.	Northern Star Generation has forward sold three of the five assets. The remaining two assets are important components to the energy transition. The Fund has been reporting greenhouse gas data since 2016 and UBS directly engages with NSG on transition risks.
Adams Street private equity fund-of-funds	Private equity fund-of-funds (private)	Not aligned (companies) – GICS sectors	3%	4.0	Structural	Highest exposure in underlying Adams Street 2014 Global Fund LP and Adams Street 2018 Global Fund (EU Inv) LP, etc.	All portfolio companies will be exited over lifetime of Fund. Developing climate strategy in 2023.
Harbourvest private equity fund-of-funds	Private equity fund-of-funds (private)	Not aligned (companies) – GICS sectors	2%	3.4	Structural	Highest exposure in the underlying HIPEP VIII Partnership and Fund XI-Combined.	Assess GPs for their climate risk management, including asset stranding and low carbon opportunities.

**Table: Summary of the Fund's Fossil Fuel Exposure as at 31 March 2023**

Notes: Totals may not sum due to rounding. All data provided by managers. We provide a more comprehensive overview of the definitions in the background paper (for corporates, this is any company with >10% of revenue from fossil fuels, whilst for real assets, this is where mandates hold >10% of investments in fossil fuels). We also provide further detail of the Fund's holdings in the Appendix. \*The Fund is in the process of divesting from the M&G Sterling Corporate Bond Fund and we have excluded the fund from further analysis. The column "Proportion of the Fund exposure (%)" represents the East Sussex total portfolio absolute exposure.



## Fossil Fuel Exposure – extraction only

As at 31 March 2023, 0.6% of the Fund's investments had fossil fuel *extraction* exposure (equivalent to £28.2m across the ~£4.5bn fund). We estimate that 27% of exposure is structural (0.2% of the Fund) and 73% is 'short term tactical' (0.4%) in nature.

The table below shows the proportion of the East Sussex Pension Fund

Mandates:	Asset class (public vs private market)	Definition alignment	Absolute "extraction" exposure (£m)	Proportion of the Fund "extraction" exposure (%)	Nature of exposure	Type of extraction exposure
Ruffer Absolute Return (ACCESS)	Multi asset (public)	Aligned (companies) – companies with >10% revenues	10.5	37%	Tactical	Exposure to BP, Pioneer Natural Resources, EOG Resources Inc and ConocoPhillips results in extraction exposure
Newton Absolute Return (ACCESS)	Multi asset (public)	Aligned (companies) – companies with >10% revenues	10.1	36%	Tactical	Exposure to Shell, Hess Corp, Schlumberger and ConocoPhillips results in extraction exposure
Adams Street Private Equity fund-of-funds	Private equity fund-of-funds (private)	Not aligned (companies) – GICS sectors	3.3	12%	Structural	Exposure to Oil & Gas Exploration & Production, & Coal & Consumable Fuels (i.e. coal mining exposure)
M&G Alpha Opportunities (ACCESS)	Multi credit (public)	Aligned (companies) – companies with >10% revenues sectors	1.6	6%	Structural	Exposure to BP, Wintershall and Var Energi results in mandate exposure to fossil fuel extraction activities
Harbourvest Private Equity fund-of-funds	Private equity fund-of-funds (private)	Not aligned (companies) – GICS sectors	1.4	5%	Structural	Exposure to Oil & Gas Drilling, Oil & Gas Exploration & Production, & Coal & Consumable Fuels (i.e. coal mining exposure)
M&G – Corporate Bonds*	Corporate bonds (public)	Aligned (companies) – companies with >10% revenues sectors	1.2	4%	Structural	<b>(Not assessed further given planned divestment)</b>

**Table: Summary of the Fund's Fossil Fuel Extraction Exposure as at 31 March 2023**

Notes: Totals may not sum due to rounding. All data provided by managers. Definitions are similar to the previous table but focus on extraction only. We describe exposure as corporates with >10% of revenue from fossil fuel extraction, whilst for real assets, we describe this as mandates with >10% of investments in fossil fuel extraction.

\*The Fund is in the process of divesting from the M&G Sterling Corporate Bonds Fund and we have excluded the fund from further analysis. The column "Proportion of the Fund "extraction" exposure (%)" represents the East Sussex total portfolio absolute exposure.

## Fossil Fuel Divestment

In general, the Fund's managers prefer engagement (over divestment) when addressing the fossil fuel exposures present in their investments. However, in this section, we focus on divestment, and the expected financial impact blanket divestment would have on the Fund.

When implementing a fossil fuel divestment policy, there would be potential challenges (e.g. reduced investment diversification, expected returns, broader asset sales beyond fossil fuels when from exiting pooled investments, given the absence of fossil fuel-free investment options in the ACCESS pool, and associated transaction costs) and advantages (e.g. clearly defined and unambiguous constraints). These dynamics are clearly present in the ACCESS pool but not unique to ACCESS and can be witnessed more widely in LGPS asset pooling.

### Financial impact

#### Risk/return

The impact on risk and return from divestment could be potentially significant:

- Public markets only – the diversified growth mandates would need to be replaced with liquid building blocks, with an ex-fossil fuel alternative resulting in expected foregone returns of ~£5m and ~£3m, for Ruffer and Newton, respectively, over the last 12 months.<sup>69</sup>
- Total portfolio (public & private markets) – Before allowing for costs, the expected return would decline by 0.4% p.a. (£18m p.a.) and the risk (the 3-year 1 in 20 Value at Risk) would increase by 12%.<sup>70</sup> There is a reduction in diversification as the IFM and UBS infrastructure equity and private equity are replaced (with listed infrastructure and listed equity, respectively, to reflect the desire for asset pooling and associated liquidity requirements).

Developing a divestment strategy outside the Pool via segregated ex Fossil Fuel mandates or sustainable mandate allocations may result in a far lesser risk/ return impact, but also move counter to Government direction, and we have not modelled this approach.

### Costs

When allowing for the transaction costs of a fossil fuel divestment strategy, we find the below (whilst noting the subjectivity in calculating accurate cost estimates and so some of the costs may be underestimated:<sup>71</sup>

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<sup>69</sup> Data provided by the investment managers, Ruffer and Newton.

Data was not available for the M&G Sustainable Alpha Opportunities Fund, but we are chasing the manager on this.

<sup>70</sup> Isio modelling, please see below and Appendix for assumptions.

<sup>71</sup> For example, we have been unable to quantify any increased fees for direct investment (outside the Pool) vs the economies of scale of the Pool, additional custodian fees as a result of ex-fossil fuel segregated mandates, additional fees for leaving the Pool, and any additional fees from increased

- Public markets only – focusing divestment activities only on the liquid assets, we expect that the one-off costs would be around £1m.<sup>72</sup> This would mean that private market assets are allowed to run-off.
- Total portfolio (public & private markets) – if the private market assets were also divested immediately, this would incur a significant haircut. The total portfolio cost in year 1 ~£61m, with ~£60m the result of the infrastructure equity and private equity trading costs (haircuts to pricing due to exit).<sup>73</sup>
- If the target exit timeframe is increased to five years, the expected cost in relation to private markets would reduce to ~£21m (a reduction of ~£39m). While there is also partial phase down of the fossil fuel exposure in both the private equity mandates (Adams Street and Harbourvest) over the five year period as the private equity portfolio winds down over time. The Adams Street private equity portfolio is expected to fully wind down by the end of 2037, while Harbourvest is expected to fully roll off by 2036 (as provide by the managers).

Mandate	1-year expected cost	5-year projected cost (difference to 1 year)	Time to full wind down
UBS Infrastructure Archmore Fund I	~£4.2m	- (~-£4.2m)	-
Adams Street Private Equity portfolio	~£29.4m	~£11.5m (~-£17.9m)	2037
Harbourvest Private Equity portfolio	~£26.9m	~£9.6m (~-£17.3m)	2036
<b>Total</b>	<b>~£60.5m</b>	<b>~£21.1m (~-£39.4m)</b>	

Table: Expected cost related to the Fund's private market mandates as they wind down

In addition, should the divestment avenue pursued be without the Pool, there would be an upfront £140,000 outlay to cover annual pooling costs (even in the event of exit), with additional exit penalties (yet to be quantified by the Fund).<sup>74</sup> If a strategy out with the Pool was developed, we would also expect there to be some drag on overall returns as efficiencies of scale from pooling would be reduced.

Below, we present the results from the strategic modelling:

### Long term risk/ return modelling scenarios<sup>75</sup>

level of resulting due diligence, manager selection exercises, and performance monitoring. We Further note some managers (M&G, UBS Infrastructure, Adam Street and Harbourvest) were unable to provide information of alternative ex-fossil fuel offerings in order to incorporate into this analysis. As a result the estimated return and cost implications may be underestimated.

<sup>72</sup> Isio calculations. Based on data provided by the investment managers.

<sup>73</sup> Isio calculations. Based on data provided by the investment managers.

<sup>74</sup> Data provided by the Fund pensions team.

<sup>75</sup> Modelling conducted by Isio, drawing on the risk/return analysis provided by the managers with fossil fuel exposure.

Metric:	1. Current target strategy	2. Disinvest from UBS Infrastructure Archmore I Fund and IFM with listed infrastructure	3. Continue investing via ACCESS but replace current Newton and Ruffer exposure with existing Pool building blocks	4. Replace Newton and Ruffer exposure with existing Pool building blocks and replace UBS/ IFM with listed infrastructure	5. Replace Newton and Ruffer exposure, replace UBS/ IFM and replace private equity
Expected return (%) (absolute)	7.8%	-0.1%	+0.1%	-	-0.4%
Expected return difference (£m) p.a.	-	-4.5	+4.5	-	-18
Value at Risk (£m and % difference change)	1,779	+121 (+7%)	+124 (+7%)	+228 (+13%)	+211 (+12%)

**Table: Strategic modelling scenarios**

The impact to the overall strategic risk/return from excluding the private market fossil fuel investments (UBS and IFM) is relatively small in the context of the overall strategy. There is a small impact on return and an increase in risk as measured by Value at Risk. Albeit there is potentially a significant transaction cost for exiting UBS. The impact from divesting private equity and replacing this with listed equity is more significant in terms of reducing overall return.

The impact from replacing the absolute return holdings using current building blocks (equity and credit) available on the Pool also leads to a higher level of risk. This is not unexpected given the loss of diversification. The Fund's allocation to Ruffer currently represents the largest fossil fuel exposure (albeit this is a tactical position pursued for enhanced short-term returns). The Ruffer mandate has provided significant diversification benefit to the overall Fund.

#### Other considerations<sup>76</sup>

Beyond long term risk and return implications, the following are important considerations:

#### Repricing risk

A key risk analysed was re-pricing risk, impacting on the Fund's performance, with stranded asset risk considered to be an extreme case of this (where assets become uneconomic). As previously noted, the widespread discounting of impacts on future cashflow projections will significantly underestimate stranding asset risk, in current valuations. The manager responses to this risk differed slightly:<sup>77</sup>

- Ruffer and M&G conduct company (or asset) specific due diligence to inform investment decisions and ongoing monitoring, as well as assessing the management strategic response to climate change.

**Table: Strategy scenarios**

<sup>76</sup> Information provided by the Fund and its investment managers.

<sup>77</sup> Data provided by the investment managers.

- Ruffer adjusts depreciated prices on balance sheets, **to reflect its view of the potential losses from assets being written-off.**
- Newton seeks to invest with a future focus, seeking out climate change opportunities, and **avoid stranding and liabilities in the process.**

### Costs of disinvestment

Exiting Fossil Fuel exposures has an immediate transaction cost that needs to be considered.

- Transaction costs of divestment – the cost of divestment from the current fossil fuel exposure could be up to ~£61m which equates to ~£1m in trading costs (charged via a dealing spread) for the public exposures and ~£60m for secondary market discounts for the UBS Infrastructure Archmore I Fund and private equity mandates,<sup>78</sup> alongside additional transaction costs. We estimate the latter could be reduced by ~£39m, to ~£21m if the timeframe for exit was extended to 5 years as the current private market mandates wind down.
- Penalties from pool exit – if the Fund decided to fully exit the Pool (noting that only a partial disinvestment is required to re-establish Ruffer and Newton outside the Pool), the Fund would be required to pay all member costs until the membership expiry period ends (~£140k a year), as well as paying any further exit penalties (which have yet to be quantified by the Fund, given no precedent of investment pool exit).
- Non-financial costs – such as the additional costs arising from any additional scrutiny/ intervention if moving away from pooling assets.
- There are additional costs associated with loss of diversification that need to be considered as a result of divestment. These are a result of the narrowing of investment options for the strategy, given that divestment could minimise the potential strategic asset allocation that the Fund may consider (e.g. by excluding certain sectors in equity mandates, or limiting exposure to infrastructure assets with fossil fuel exposure).

## Climate Implications

Research suggests divestment from fossil fuels may not be the optimal way of lowering overall emissions. We use one of the Fund's mandates with fossil fuel exposure to illustrate this point, versus a sustainable version, and a comparable segregated mandate which excludes fossil fuels:

- The Newton Sustainable Real Return Fund focuses on picking companies with credible transition plans, as well as gaining exposure to environmental products and services and results in a -38% reduction in the weighted average carbon intensity of the Fund.
- This can be compared to a segregated fossil fuel divestment mandate run by the same team achieving a -16% reduction.

<sup>78</sup> Within the UBS Infrastructure Archmore I Fund, NSG currently provides a necessary service in the transitioning of the energy system to net zero carbon emissions.

It is also important to look beyond current reported emissions, which are inherently backward-looking and to consider how transition is supported. Whilst fossil fuel companies may be carbon intensive, today, they may have plans to align with a low carbon world, in the future. For example, the forward-looking Transition Pathway Initiative (TPI) has reviewed BP and Shell (for which there were portfolio exposures in March 2023). Whilst to 2025, these companies do not align with a low carbon future the longer term picture is more positive, by 2050, they are expected to be aligned with a 1.5°C scenario and were also awarded the highest rating of climate management quality.<sup>79</sup> (We acknowledge the recent signs of backtracking by BP and Shell, which may mean some of this analysis is subject to revision. Nevertheless, we believe it is important to use third party views to verify opinions of energy and transport companies. The TPI assessments are conducted on a semi-regular basis - and therefore it is vital to consider any significant developments which have occurred since the last available TPI assessment. This should be conducted by the managers in line with their expectations of climate responsibilities.

## ACCESS Pool – Practical Considerations

### Fossil fuel policy

The Pool does not employ a formal fossil fuel policy, which means LGPS funds investing via the Pool do not have standardised approach in this area, resulting in a fluid fund-by-fund approach. There are currently only two fossil fuel free investment options within the Pool (both of which the Fund is investing in).

This makes it very challenging for the Fund to implement a fossil fuel divestment policy via the current pooling arrangements without compromising the investment strategy in some way. Although this would be a challenge given the Fund's relationship with the ACCESS pool, these dynamics are not unique to ACCESS and can be witnessed more widely in LGPS asset pooling.

To pursue a full divestment policy, the Fund will likely need to look outside of the ACCESS Pool – with implementation costs, a potential exit penalty, reputational risk, and possible government intervention.

Manager	Investment option(s)	Key considerations
Baillie Gifford	Paris Aligned Fund	<ul style="list-style-type: none"> <li>- The Fund currently invests in this mandate via the Pool</li> <li>- Screens out carbon intensive companies where energy transition is not a key focus.</li> </ul>
Bluebay	Sustainable Multi Asset Credit (MAC)	<ul style="list-style-type: none"> <li>- The Fund has agreed to switch from M&amp;G Sterling Corporate Bonds to the Bluebay fund upon launch (over the next 6-12 months).</li> <li>- Avoids companies deriving revenues from unconventional oil and gas extraction and production, and those with exposure to thermal coal or fossil fuel exploration.</li> </ul>

<sup>79</sup> In conducting a complete "strategic assessment" of climate change A "strategic assessment" represents the presence of a climate strategy, quantitative decarbonisation targets, plans to integrate climate-related risks and opportunities, an internal shadow price applied to carbon to inform the economic forecasting of projects, and senior remuneration linked to climate-related performance. TPI. *Transition Pathway Initiative Tool*. [Tool – Transition Pathway Initiative](#)

### ACCESS Pooling Context

There is currently a live government consultation in progress in relation to LGPS investments. "Next steps on investments", is seeking views on proposals relating to asset pooling, levelling up, opportunities in private equity, investment consultancy services and the definition of investments. (The levelling up agenda focuses on boosting economic productivity, improving public services and empowering communities, particularly in those areas that need it most.)

Specifically with regards to asset pooling, the LGPS Consultation proposes an acceleration and expansion of investment pooling, with administering authorities confirming how they are investing their funds and why.<sup>80</sup> The consultation believes this will deliver further benefits (and more quickly) including improved net returns, more effective governance, increased savings, and access to more asset classes. The consultation proposes LGPS funds pool all assets by March 2025 (with a fall back on "all liquid assets". This would mean the Fund would be under increased pressure from a regulatory standpoint in the coming years to invest via the pool and therefore could potentially have reduced freedom to invest in fossil fuel free options off-pool. Considering this is the direction of travel, there may be increased pressure on the pools to add new sustainable offerings to the pool in the future, which are not currently available.

We however acknowledge that development of new sustainable investment options within the pool is not necessarily a streamlined process and can take significant time to design and launch. Particularly given the addition of any new investment options to pools requires the individual authorisation of each new fund by the Financial Conduct Authority (FCA). An example of a possible alternative route taken by the Wales Pension Partnership, in order to streamline this product approval and launch process, was to invest via a sustainable global active equity fund of fund approach advised on by a third party investment advisor. This invests across a number of underlying specialist managers and allows access to these five exposures via a single vehicle. This allow the pool to make use of the third party advisors FCA permissions which has the potential to expedite the process. This could potentially be explored as a possibility to set up a single fund on the ACCESS Pool which would provide the Fund with access to sustainable fund propositions, without requiring numerous funds to be added to the Pool. This is particularly relevant to the Fund given the good work done to date in implementing fossil fuel equity mandates, where there is risk that an increased mandate to pool assets could see a step back in this respect..

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<sup>80</sup>Gov.uk (2023) *Local Government Pension Scheme (England and Wales): Next steps on investments* [Local Government Pension Scheme \(England and Wales\): Next steps on investments - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments)

### Stewardship approach<sup>81</sup>

The Pool has an agreed set of voting guidelines<sup>82</sup> to provide a unified approach to voting across the Pool's participating LGPS schemes, with active managers also required to report on their voting activity quarterly. The expectation is that companies should publish a formal statement on the approach to dealing with environmental issues – and disclose policies and verification procedures related to auditing/reporting on environmental risks within annual reports. Therefore, votes against management are expected where significant environmental risks in relation to the company's activities are not disclosed or reported on or reporting is considered poor or inadequate.

The Pool's policy on engagement<sup>83</sup> aims to positively influence companies' ESG approach, through active ownership (votes and/or formal shareholder engagement inclusive of discussions with management). If, after several attempts there has been no evidence of constructive progress, divestment is possible. There is also an element of circularity, to reflect the ongoing process of engagement. This therefore follows an escalation process (which aligns with the approach of many of the Fund's managers, set out overleaf), The Pool however recognises engagement will be easier in some asset classes than others.

With an ongoing review of the ACCESS Pool voting and engagement policies to strengthen the stance, as well as the current consideration to procure an ESG Advisor (to deliver specific ESG advice and reporting), we detail some areas for consideration below:

- Improve the granularity of the voting guidelines by e.g. giving practical voting advice and climate change case study examples
- Consider new and innovative ways to capture the ACCESS Joint Committee views on climate-related proxy votes, implemented by managers via split voting approaches
- Establish clearer thresholds as to when to escalate an engagement and when divestment should be considered
- Publicly setting out the responsibility for stewardship activities amongst Link, the investment managers, the Pool and the ACCESS Joint Committee
- Where thematic topics are addressed, such as the Just Transition or fossil fuel divestment, the practical guidance could be strengthened
- Ensuring the new ESG advisor has a focus on ramping up public ESG and climate-related disclosures

We note that resourcing within the Fund and wider ACCESS Pool is finite, and any changes to the Pool's stance would not necessarily be straightforward, as it would

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<sup>81</sup> ACCESS Pool. (2023) *Access Responsible Investment (RI) Guidelines*. [ACCESS Responsible Investment \(RI\) Guidelines | Access Pool](#)

And: ACCESS Pool. *Voting Guidelines for Investment Managers of LGPS*. [ACCESS Voting Guidelines | Access Pool](#)

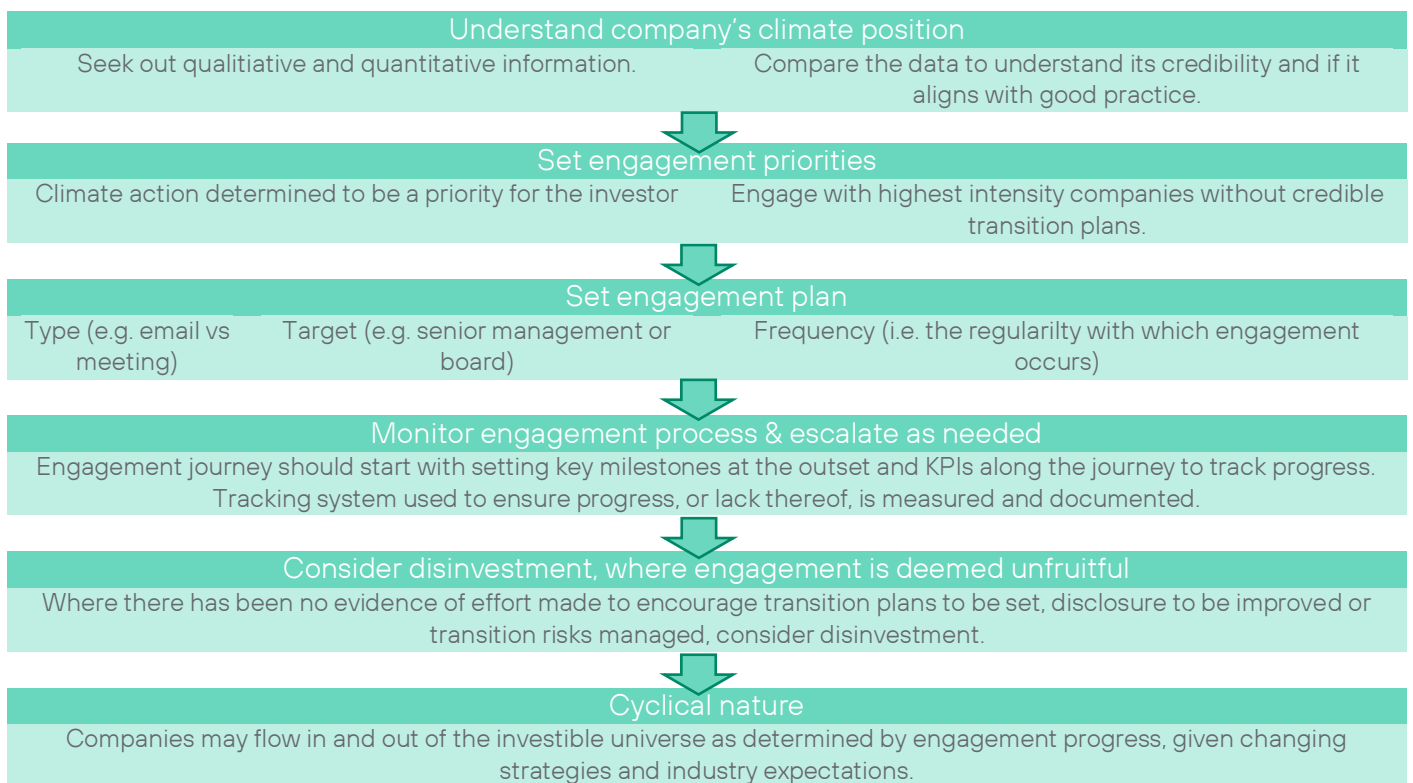
<sup>82</sup> ACCESS Pool. *Voting Guidelines for Investment Managers of LGPS*. [ACCESS Voting Guidelines | Access Pool](#)

<sup>83</sup> As set out in the following document: ACCESS Pool. (2023) *Access Responsible Investment (RI) Guidelines*. [ACCESS Responsible Investment \(RI\) Guidelines | Access Pool](#)



**Chart: Fund managers' key considerations on the engagement journey**

require extensive engagement with the other participating LGPS schemes in the Pool. An emphasis may therefore be needed on prioritisation, to focus on the most material issues for the Pool. Of the 11 Funds in the ACCESS Pool, East Sussex County Council can be seen as a leader in its considerations of sustainability and explicitly climate change. Because of the partnership nature of the pooling system, the ACCESS Pool will necessarily only progress at the speed of the slowest moving LGPS Fund. For some of the participating LGPS Funds within the ACCESS Pool, sustainability and in particular, climate change, is not a priority area. Therefore, in order to move the Pool as a whole forward, effort needs to be spent on alignment of priorities, to explicitly mention climate change.



**Considering the approaches of other LGPS Pools**

We note the direction of travel of some of the other LGPS pools who offer a range of low carbon or fossil fuel exclusion investment options, although we do observe that challenges remain. For instance, Brunel, Border to Coast, and London CIV are examples of asset pools that have worked to provide appropriate products available to their underlying LGPS clients should they choose to use them.

Brunel supports disinvestment from specific fossil fuels and other carbon-intensive companies, if they present a material investment risk (e.g. risk of stranding) based on analysis by the investment managers.<sup>84</sup> Brunel has chosen to require their

<sup>84</sup> Brunel Pension Partnership (2023) *Our approach to engagement and divestment*: Our approach to engagement and divestment - Brunel Pension Partnership

managers to analyse the companies they invest in thoroughly and justify their investments, as opposed to applying a blanket divestment on all fossil fuels.

Border to Coast have committed to engaging with all oil and gas companies they are exposed to on their decarbonisation strategies.<sup>85</sup> They encourage the use of voting and engagement (“using the strength of their collective voice”) to drive progress. They further use the TPI and Climate Action 100+ initiatives to support risk analysis and decision making.

London CIV reports on their fossil fuel exposure via extraction or energy generation activities, reporting that their exposure has reduced by 26% in recent years<sup>86</sup>. Their Sustainable Equity Exclusion Fund has a divestment policy, while other funds on their pool have retained the ability to selectively invest and continue to engage and support the (just) transition.

Strathclyde, the largest LGPS in the UK, is not required to pool assets given they operate under Scottish regulation and has experienced pressure from its members to divest in full. Their climate action plan includes a target to decarbonise 50% of assets by 2030 including the use of gas and other fossil fuels.<sup>87</sup> This tangible target, and increased flexibility from operating outside of pooling regulation, enables them to transition over time and focus on engagement targets in the meantime.

We also note there are a number of LGPS pension funds, party to different LGPS Pools in England and Wales, who have explored, or are currently exploring, the relative merits of fossil fuel divestment versus engagement. The absence of a material number of fossil fuel divestment pledges to date may be in part the result of the practical challenges of individual funds pursuing fossil fuel divestment outside of their LGPS Pools, as previously discussed. It is however likely that fossil fuel divestment pressures will continue to for LGPS funds for the foreseeable future.

For example, Oxfordshire Pension Fund has decided to reduce its exposure to UK markets that have links to oil and gas companies and have freed up funds to be invested via their pool, Brunel.<sup>88</sup> The Royal Borough of Kensington and Chelsea have also faced discussions on divestment at public meetings, while grappling with the pooling system as a whole.<sup>89</sup> Further, Leicestershire County Council has submitted documentation for consideration of divestment from fossil fuel companies and increased investment in zero carbon technology.<sup>90</sup> The discussions undertaken by each of these Funds is expected to continue as the pressure remains in place and to the regulatory background of asset pooling.

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<sup>85</sup> Border to Coast (2023) *Border to Coast Calls for Greater Climate Action from Oil Majors and Banks*; BORDER TO COAST CALLS FOR GREATER CLIMATE ACTION FROM OIL MAJORS AND BANKS - Border To Coast

<sup>86</sup> London CIV (2022) *London CIV TCFD Report 2022* London CIV - Climate Change

<sup>87</sup> Strathclyde Pension Fund (2023) *Climate Action Plan* CHttpHandler.ashx (spfo.org.uk)

<sup>88</sup> Room 151 (2023) Oxfordshire Pension Fund divests from UK and emerging markets over ESG concerns - Room 151

<sup>89</sup> Room 151 (2023) Council's climate team targets pension fund divestment - Room 151

<sup>90</sup> Leicestershire County Council (2023) Representations from Climate Action - Document.pdf (leics.gov.uk)

# Charting a Course: Engagement versus Divestment Considerations

We seek to understand how either course of action, of divestment versus engagement, aligns with any relevant industry regulation, guidance and advice:

## **Assessment of the fiduciary and legal consequences of fossil fuel divestment for the Fund**

The Pension Committee has a fiduciary duty to invest the Fund's assets in the best interests of beneficiaries – and “the fiduciaries’ investment powers must be exercised so as to yield the best return for the beneficiaries, judged in relation to the risks of the investments in question”, as well as with the aim of diversification of investments.

Under the pooling requirements for LGPS funds, the Government recognises there may be bespoke circumstances where an alternative arrangement may be more appropriate, such as for illiquid infrastructure and direct holdings in property. The Secretary of State has powers to intervene in the investments of LGPS funds in certain circumstances, but these powers have yet to be tested.

There is a general Government preference for engagement (over divestment). Where the “Government continues to believe blanket divestment from certain assets is the wrong approach – engagement with high-carbon companies, when done effectively, can reduce the climate risk to which the scheme is exposed.”<sup>91</sup>

## **A review of the industry evidence on the efficacy of either approach (of divestment versus engagement) in promoting the energy transition**

Neither engagement nor divestment has been entirely effective to date in bringing about the low carbon transition, albeit there remain challenges in analysing the effectiveness of these processes (as compared with the numerous other influences in climate outcomes). It is however clear that the fossil fuel industry has not made the adjustments required to align with a low carbon future and a step change is needed to tackle the climate emergency. This requires escalation in the name of climate action, with investors working alongside companies and governments towards change, including:

- using disinvestment as a measure of last resort, to support engagement escalation where a fossil fuel companies’ transition plans are deemed to lack credibility, and to improve traction with fossil fuel companies
- leveraging the collective influence of pension scheme investments, alongside other investors, to bring to bear greater weight on the issue
- a circular approach to incentivise companies to improve, over time

When seeking to understand key focus areas for such an approach, attention could be warranted on:

- tackling exposure to thermal coal, which has the most emissions intensive fossil fuel, carries a greater risk of asset stranding<sup>92</sup>

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<sup>91</sup> DWP Consultation outcome – Climate and investment reporting: setting expectations and empowering savers – consultation on policy, regulations and guidance. Updated 17 June 2022

<sup>92</sup> International Energy Agency (IEA) (2021) *Net Zero by 2050. Net Zero by 2050 – Analysis – IEA*

- moving beyond a focus on shareholder activism in listed equities, given the preponderance of debt in fossil fuel markets,<sup>93</sup> and tackling additional financing for fossil fuel expansion, such as in venture capital and, private equity<sup>94</sup>
- expanding the focus beyond oil and gas majors, to also focus on government-owned enterprises<sup>95</sup> and banks<sup>96</sup>, with significant links to the fossil fuel industry

### Exploration of the financial implications of divestment within the context of the ACCESS pool and the Fund's wider operating environment.

As at the 31<sup>st</sup> March 2023, circa 3.3% of the Fund's investments had fossil fuel exposure (equivalent to £151.9m across the ~£4.5bn Fund). Whilst circa 0.6% of the Fund's investments had fossil fuel *extraction* exposure (equivalent to £28.2m). The majority of fossil fuel exposure is structural, with the exception of *extraction* which falls predominantly within the tactical diversified growth mandates.

When implementing a fossil fuel divestment policy, the impacts could be significant. For example, combining Isio modelling efforts and manager investment analysis, divestment could cost the Fund circa £79m, including an £18m shortfall in returns (alongside a 12% increase in the 3-year 1 in 20 Value at Risk and reduction in diversification),<sup>97</sup> £61m incurred in transaction costs (with £60m of this coming from infrastructure equity and private equity haircuts),<sup>98</sup> and in the event of pool exit to pursue a divestment strategy incur upfront £140,000 outlay to cover annual pooling costs (even in the event of exit, with additional exit penalties not yet quantified).<sup>99</sup> This is likely to be an underestimate, as it ignores some costs, such as the losses of efficiencies of scales from pooling investments, additional custodian fees from ex-fossil fuel segregated mandates, and additional fees from the burden of implementing and monitoring the divestment strategy across the Fund's managers, for example.

Fossil fuel divestment policies in the context of the ACCESS Pool would be complicated by the lack of fossil fuel-free mandates available, the diverse climate-related views of different LGPS schemes within the pool, and the slow progress to rectify these two barriers. Pursuing this outside the pool would run counter to government guidance. Analysis suggests a divestment strategy may also not generate the greatest decarbonisation outcomes, versus alternative approaches, such as increasing exposure to low carbon opportunities.

<sup>93</sup> Quigley, E and Davies, S. (2021) *Stock picking for humanity: Here are responsible shareholder tactics that actually work* | Aeon Essays

<sup>94</sup> Quigley, E and Davies, S. (2021) *Stock picking for humanity: Here are responsible shareholder tactics that actually work* | Aeon Essays

<sup>95</sup> IEA. (2020). *The oil and gas industry in energy transitions. The Oil and Gas Industry in Energy Transitions – Analysis* - IEA

<sup>96</sup> Quigley, E. and Davies, S. (2021) *Stock-picking for humanity: Here are responsible shareholder tactics that actually work* | Aeon Essays

<sup>97</sup> Isio modelling, please see below and Appendix for assumptions.

<sup>98</sup> Isio calculations. Based on data provided by the investment managers.

<sup>99</sup> Data provided by the Fund pensions team.





East Sussex Pension Fund

# Background paper: Definitions

September 2023

# Definitions

We set out below an overview of the definitions used in our analysis of pursuing an engagement or divestment approach in relation to fossil fuel exposure. Unfortunately, there are few investment industry standard definitions of many of these terms.

## Fossil Fuel Exposure

There is no single definition of fossil fuel exposure. Throughout this work, we have defined this according to recognised external industry frameworks, as follows.

**Fossil fuel exposure:** is defined in line with the European Union Sustainable Finance Disclosures Regulation (EU SFDR) principal adverse indicators, as follows:<sup>1</sup>

- The company exposure definition is focused on share of revenues: “companies active in the fossil fuel sector’ [and] means (i) companies that derive any revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite; (ii) companies that derive any revenues from the exploration, extraction, distribution (including transportation, storage and trade) or refining of liquid fossil fuels; and (iii) companies that derive any revenues from exploring and extracting fossil gaseous fuels or from their dedicated distribution (including transportation, storage and trade)”.
- The real asset exposure definition is focused on share of investments: the “share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels”.

**Materiality of exposures:** we must also define the point at which fossil fuel exposures become material. We have aligned this definition with the Institutional Consultant Sustainability Working Group (ICSWG), a group of nineteen investment consultants (including Isio), who reached a consensus on this matter, and we take this to represent the broad UK industry view on fossil fuel exposure. This is deemed to be those companies with at least ten percent of revenues exposed to fossil fuel exploration, extraction, processing, refinement and transport activities, as well as products and services that support the exploration, extraction or processing of fossil fuels.<sup>2</sup> This could also be applied to the real assets’ definition as at least ten percent of investments involved in the aforementioned activities.

For completeness on what is included within the definition, and what is excluded, we set out the following notes on the definitions adopted (as clarified with the investment managers):

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<sup>1</sup> European Securities and Markets Authority, European Banking Authority, European Insurance and Occupational Pensions Authority and Joint Committee of the European Supervisory Authorities. (2021) *Final Report on Draft Regulatory Technical Standards*.

[jc\\_2021\\_03\\_joint\\_esas\\_final\\_report\\_on\\_rts\\_under\\_sfdr.pdf \(europa.eu\)](#)

<sup>2</sup> Institutional Consultant Sustainability Working Group (ICSWG). (2021) *ESG Metrics – November 2021. PowerPoint Presentation (icswg-uk.org)*



- We have defined fossil fuel exposure to include utilities, such as power generation from natural gas or coal sources.
- We note that the ICSWG definition includes the “products and services that support the exploration, extraction or processing of fossil fuels”, beyond direct fossil fuel exposures.<sup>3</sup>
- We have adopted a production-orientated approach, in focusing on the production (rather than the consumption) of fossil fuels.

We note that different investment managers adopt different definitions of fossil fuel exposure (including different thresholds for setting exclusions) and many of the existing systems make it challenging for them to report against different definitions. We have sought to identify each instance of this with your managers to better align data with the definitions set out above.

Many energy and transport companies are in the process of transitioning to a lower carbon economy. This should result in a significant shift from high to low carbon goods and services over time, and therefore requires regular monitoring of classifications. The transition in companies is important in reducing overall carbon emissions.

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<sup>3</sup> Institutional Consultant Sustainability Working Group (ICSWG). (2021) *ESG Metrics – November 2021*. PowerPoint Presentation ([icswg-uk.org](https://www.icswg-uk.org))

## Fossil Fuel Exclusion

We adopt the following definitions in relation to fossil fuel exclusions. These seek to differentiate between the driving forces that bring about an absence of investment in fossil fuels within a portfolio. Again, there is no industry standard definition of these terms.

**Divestment:** Divestment is defined as a situation where the owner of assets commits to a blanket removal of a specific investment class from the investable universe.

This can include the complete removal of a set of companies, sectors or regions with the intention to fully remove exposure from the undesired risk, (in this case fossil fuel exposure). This ensures no material exposure will be permitted within the portfolio, either on a temporary or long-term basis.

The divestment of the specific investment class is often undertaken to demonstrate adherence to sustainable finance practices and climate risk management.

**Disinvestment:** The specific investment class remains part of the investable universe, but an active decision is taken to completely sell down or reduce exposure for financial reasons. For example, the asset owner may disinvest from a company deemed to have an inadequate approach to managing climate risk – whilst this is removed from the portfolio, it remains in the investable universe, such that if climate risk management is improved in future, the asset owner could choose to invest again.

Disinvestment may remove fossil fuel exposure through engagement escalation, to (at least temporarily) sell out from a particular name, should engagements with the company not yield the required outcome from an engagement perspective.

**Exclusions:** Fossil fuel exclusions are defined similarly to divestment. Exclusions are often (but do not need to be) more granular than a blanket fossil fuel sector divestment.

For example, investors could opt to exclude just *select* fossil fuel companies, such as thermal coal companies, or those fossil fuel companies which undertake unconventional fossil fuel exploration, extraction and production (e.g. from oil sands or the arctic region).



## Stewardship Definitions

We defined the stewardship terms used in the Fund's divestment versus engagement papers, as follows.

**Active Ownership:** the use of the rights and position of ownership (either via debt or equity investments) to influence the activities or behaviour of investee companies. Whilst active ownership can be applied in each asset class, the avenues to do so will differ. For example, in listed equities, it includes engagement and voting activities, whilst for debt the focus is on engagement.<sup>4</sup>

**Engagement:** is a "purposeful, targeted communication with an entity (e.g. company, government, industry body, regulator) with the goal of encouraging change at an individual issuer [level] and/or the goal of addressing a market-wide or system risk (such as climate)"<sup>5</sup> via a range of approaches and methods. This definition is taken from the ICSWG definition, where the focus is on climate change engagement. Regular communication to gain information as part of ongoing research, however, is not considered as engagement (although it is worth noting some managers would classify this as such).

**Escalation:** Investment managers typically have stewardship escalation processes in place, including on climate change matters. This is a process: starting from voting activities, to bring about changes in investee firms for which they own equity holdings; to engagement activities, including the setting of specific engagement key performance indicators (KPIs) to measure progress. Many investment managers may use the threat of disinvestment as part of their escalation process if companies are not engaging with them.

**Stewardship:** We define stewardship as "the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society", in line with the definition provided by the Financial Reporting Council's 2020 UK Stewardship Code.<sup>6</sup>

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<sup>4</sup> Principles for Responsible Investment. (2018) *Introduction to active ownership in listed equity*. [Introduction to active ownership in listed equity | Technical guide | PRI \(unpri.org\)](#)

<sup>5</sup> ICSWG. (2021) *ICSWG Engagement Reporting Guide Version 2: introductory guidance*. Firm-level questions. [b25a61\\_2f1090f92f30484590358785cd7a3a34.xlsx \(live.com\)](#)

<sup>6</sup> Financial Reporting Council. (2020) *UK Stewardship Code*. [Stewardship-Code Dec-19-Final-Corrected.pdf \(frc.org.uk\)](#)

## Other Definitions

Other key definitions used in the Fund's divestment versus engagement paper series include:

**Fossil fuels:** Fossil fuels result from decomposing animal and plant matter. Fossil fuels include coal, oil and gas fuels. Coal is the most carbon intensive fossil fuel, upon burning, whilst natural gas is the least carbon intensive.<sup>7</sup>

**Just transition:** The just transition is a process of greening the economy, in a way that is fair and inclusive, with respect to everyone concerned, creating decent work opportunities, and leaving no one behind.<sup>8</sup>

**Greenhouse Gas (GHG) emissions:** GHG emissions are released into the atmosphere as a result of the burning of fossil fuels, primarily from energy, transport and industrial or manufacturing processes.

**Low carbon transition risk:** Low carbon transition risk arises from companies realigning themselves from high to low carbon goods and services. Risks arising from the transition include climate-related regulatory developments, market trends and decarbonisation action.

**Net zero emissions:** A state where the GHG emissions released into the atmosphere are balanced out by the removal of GHG emissions back out the atmosphere (e.g. using nature-based approaches, such as reforestation, or man-made technologies, such as carbon capture usage and storage).

**Stranded assets:** Stranded assets will no longer be able to generate an economic return (before the end of their economic life) due to changes in market preferences (e.g. falling costs of low carbon technology) and regulatory environment (e.g. decarbonisation policy and carbon pricing).<sup>9</sup> Whilst partial stranding is where assets will start to generate returns below anticipated levels. They will result in unanticipated devaluations or conversions into liabilities.<sup>10</sup>

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<sup>7</sup> ClientEarth. (2022) *Fossil fuels and climate change: The facts*. [Fossil fuels and climate change: the facts | ClientEarth](#)

<sup>8</sup> International Labour Organisation. (2023) *Climate change and financing a just transition*. [Climate change and financing a just transition \(ilo.org\)](#)

<sup>9</sup> Carbon Tracker Initiative. (2017) *Stranded Assets*. [Stranded Assets - Carbon Tracker Initiative](#)

<sup>10</sup> Caldecott, B., Tilbury, J. and Carey, C. (2014) *Stranded Assets and Scenarios*. [Microsoft Word - Stranded Assets and Scenarios - Discussion Paper - 27.01.14.docx \(ox.ac.uk\)](#)

**Report to:** Pension Committee

**Date of meeting:** 19 September 2023

**By:** Chief Finance Officer

**Title:** Work Programme

**Purpose:** To note the Board and Committee work programme

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## **RECOMMENDATION**

**The Pension Committee is recommended to**

- 1) note the work programme**
  - 2) advise of training completed, not recorded in the training log**
- 

### **1 Background & Supporting information**

1.1 The work programme contains the proposed agenda items for future Pension Board and Pension Committee meetings over the next year and beyond. It is included on the agenda for each quarterly meeting.

1.2 The work programme also provides an update on other work going on outside the Board and Committee's main meetings, including working groups, upcoming training and a list of any information requested by the Board or Committee that is circulated via email.

1.3 This item also provides an opportunity for Board and Committee members to reflect on any training they have attended since the last meeting.

### **2 Conclusion and reasons for recommendations**

2.1 The work programme sets out the Board and Committee's work both during formal meetings and outside of them. The Committee is recommended to consider the updated work programme including regularity of agenda items to ensure effective governance of the Fund at the scheduled meetings; advise of training completed, not recorded in the training log.

**IAN GUTSELL**  
**Chief Finance Officer**

Contact Officer: Sian Kunert, Head of Pensions

Email: Sian.Kunert@EastSussex.gov.uk

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## Pension Board and Committee – Work Programme

Future Pension Board Agenda		
Item	Description	Author
<b>Standing items (items that appear on each agenda)</b>		
Pension Committee Agenda	A consideration of the draft agenda of the Pension Committee.	Head of Pensions
Governance Report	A report on governance issues effecting the fund, developments in the LGPS, policy amendments and McCloud working group update	Pensions Manager – Governance and Compliance
Employer Engagement and Contributions Report	A report on Employer Engagement matters to note, Employer Contributions update, Communications from the Fund and Communications working group update	Pensions Manager – Employer Engagement
Pensions Administration report	An update on the performance of the Pensions Administration Team.	Head of Pensions Administration
Internal Audit reports	All internal audit reports on the ESPF are reported to the Board	Head of Internal Audit

East Sussex Pension Fund (ESPF) Quarterly budget report	An update on the ESPF's budget. This is reported in Q2-4 only.	Pensions Manager – Investment and Accounting
East Sussex Pension Fund (ESPF) Risk Register	A report on the ESPF's Risk Register	Head of Pensions
Work programme	A report on the Board and Committee's work programme	Head of Pensions
East Sussex Pension Fund (ESPF) Breaches Log	A report on the ESPF breaches log	Head of Pensions
Employer Admissions and Cessations	A report on the admission and cessation of employers to the ESPF.	Head of Pensions
<b>2 November 2023</b>		
Independent Auditors Report on the Pension Fund Accounts 2021/22	A report on the External Audit findings of the Pension Fund financial Statements for 2021/22	Head of Pensions
Additional Voluntary Contributions (AVC) Report	AVC update report on AVC offerings to members	Head of Pensions
Pension Fund Annual Report and Accounts 2021/22	2020/21 Annual Report and Accounts for approval	Head of Pensions

Employer Forum Agenda	Discussion on Pension Fund Employer Forum Agenda topics	Pensions Manager – Employer Engagement
Annual Training Plan	Report on Training completed in the year and training recommendations for the up-coming year	Governance and Compliance Pensions Manager
<b>8 February 2024</b>		
Business Plan and Budget 2024/25	Report to set the Budget for the Pension Fund for the Financial Year 2024/25 including the Business Plan with key deliverables for the year.	Pensions Manager – Investment and Accounting
External Audit Plan for the East Sussex Pension Fund 2023/24	Draft External Audit Plan for 2023/24 Pension Fund Financial Statements	Pensions Manager – Investment and Accounting
<b>5 June 2024</b>		
Governance and Compliance Statement	Annual Review of Governance and Compliance Statement	Governance and Compliance Pensions Manager
Annual Report of the Pension Board	Annual report of the Pension Board to the Scheme manager outlining the work throughout the year	Head of Pensions with the Chair of the Board
Privacy Notice and Memorandum of Understanding	Annual review of Funds Privacy Notice (summary and full) and Memorandum of Understanding to check for any changes. This will be reported as a note in the governance report if no required changes.	Governance and Compliance Pensions Manager
Training Strategy	Two year review and refresh of the Funds Training Strategy	Governance and Compliance Pensions Manager

Risk Management Policy	Three years review and refresh of the Funds Risk Management Policy	Governance and Compliance Pensions Manager
<b>11 September 2024</b>		
Supplier Update	Update on supplier contracts and procurements	Head of Pensions
<b>7 November 2024</b>		
<b>13 February 2025</b>		

<b>Actions requested by the Pensions Board</b>		
<b>Subject Area</b>	<b>Detail</b>	<b>Status</b>
Internal Audit reports	The Board requested that internal audit consider an audit of the common data sets provided to the Pensions Regulator	TBC
Scheme administration	The Board requested a report on potential recommendations from the Scheme Advisory Board (SAB) that the Scheme Manager role is removed from local authority control.	Ongoing discussions
Ill Health insurance review	The Board requested a review to be carried out on the Ill Health Insurance provision in place in terms of commercial arrangements.	TBC
Prudence in cessation policy	The Board requested further details to understand the prudence level in relation to the revision of the FSS for the Cessation Policy	TBC



## Future Pension Committee Agenda

Item	Description	Author
<b>Standing items (items that appear on each agenda)</b>		
Governance Report	A report on governance issues effecting the fund, developments in the LGPS, approval of policy amendments and McCloud working group update	Pensions Manager – Governance and Compliance
Pensions Administration report	An update on the performance of the Pensions Administration Team.	Head of Pensions Administration
Internal Audit reports	Internal audit reports on the ESPF and annual audit plan.	Head of Internal Audit
East Sussex Pension Fund (ESPF) Quarterly budget report	An update on the ESPF's budget - <i>reported Q2-4 only</i>	Pensions Manager – Investment and Accounting
East Sussex Pension Fund (ESPF) Risk Register	A report on the ESPF's Risk Register	Head of Pensions
Work programme	A report on the Board and Committee's work programme	Head of Pensions
Investment Report	A Quarterly performance report of the investment managers	Head of Pensions and Investment Consultant

East Sussex Pension Fund (ESPF) Breaches Log	A report on the ESPF breaches log – <i>reported only when a new breach is recognised, or status changed. Report goes quarterly to Board.</i>	Head of Pensions
Employer Admissions and Cessations	A report on the admission and cessation of employers to the ESPF - <i>reported only when outstanding admissions or cessations.</i>	Head of Pensions
<b>16 November 2023</b>		
Independent Auditors Report on the Pension Fund Accounts 2021/22	A report on the External Audit findings of the Pension Fund financial Statements for 2021/22	Pensions Manager – Investment and Accounting
Additional Voluntary Contributions (AVC) Report	AVC update report on AVC offerings to members	Head of Pensions
Pension Fund Annual Report and Accounts 2021/22	2020/21 Annual Report and Accounts for approval	Pensions Manager – Investment and Accounting
Employer Forum Agenda	Discussion on Pension Fund Employer Forum Agenda topics	Pensions Manager – Employer Engagement
Annual Training Plan	Report on Training completed in the year and training recommendations for the up-coming year	Governance and Compliance Pensions Manager
<b>22 February 2024</b>		
Business Plan and Budget 2024/25	Report to set the Budget for the Pension Fund for the Financial Year 2024/25 including the Business Plan with key deliverables for the year.	Pensions Manager – Investment and Accounting

External Audit Plan for the East Sussex Pension Fund 2023/24	Draft External Audit Plan for 2023/24 Pension Fund Financial Statements	Pensions Manager – Investment and Accounting
<b>19 June 2024</b>		
Governance and Compliance Statement	Annual Review of Governance and Compliance Statement	Governance and Compliance Pensions Manager
Annual Report of the Pension Board	Annual report of the Pension Board to the Scheme manager outlining the work throughout the year	Head of Pensions with the Chair of the Board
Privacy Notice and Memorandum of Understanding	Annual review of Funds Privacy Notice (summary and full) and Memorandum of Understanding to check for any changes. This will be reported as a note in the governance report if no required changes.	Governance and Compliance Pensions Manager
Training Strategy	Two year review and refresh of the Funds Training Strategy	Governance and Compliance Pensions Manager
Risk Management Policy	Three years review and refresh of the Funds Risk Management Policy	Governance and Compliance Pensions Manager
<b>17 July 2024 - Investment Strategy Workshop and training day</b>		
<b>25 September 2024</b>		
Carbon Footprinting	A report on the carbon footprint of the portfolio of ESPF including whether investments are in line with transition pathways.	Head of Pensions
ESG Impact Assessment	Annual assessment by Investment consultants on the ESG standing of Investment managers with action plan	Head of Pensions

Investment Strategy Statement	Review of the Investment Strategy Statement to take into account any revisions to the investment strategy.  Review to include Statement of Investment Principles.	Head of Pensions
Stewardship Code submission for 2022	Update on status for submitting second annual submission to FRC for Stewardship activities for calendar year 2023 prior to October submission date	Head of Pensions
Supplier Update	Update on supplier contracts and procurements	Head of Pensions
<b>21 November 2024</b>		
<b>27 February 2025</b>		

## Actions requested by the Committee

Subject Area	Detail	Status
The case for Divestment and implications on Investment Strategy	<p>Committee agreed in July 2022 to ask officers and the Fund's external advisers to conduct a piece of work concurrent with the completion of the triennial valuation which:</p> <ol style="list-style-type: none"> <li>1. Assesses the fiduciary and legal consequences of fossil fuel divestment for the Fund;</li> <li>2. Examines how such a move aligns with relevant guidance and advice;</li> <li>3. Explores how practical an act it would be within the context of the ACCESS pool; and</li> <li>4. Reviews evidence on the efficacy of such an approach in promoting the energy transition.</li> </ol>	Complete – presented to the Committee at their workshop day and included in the September investment report.
Presentations from Investment Managers	Meetings / Presentations with impact managers to understand what investments are held in the portfolios and IFM to understand the future proofing of infrastructure assets	Scheduled for late September
Training	<p>Requests were made, following the July 2023 investment workshop day, for training on the following areas</p> <ul style="list-style-type: none"> <li>• How to invest in the energy transition. Eg electric storage/batteries, renewables, nuclear, hydrogen, EV's. What is cost and access to markets for these investments.</li> <li>• How are Private Equity Companies selected for the underlying portfolios, do we know what is held, do the IM's have influence/control of the underlying companies, can we influence what is included or not? Are there Impact or ESG PE options?</li> <li>• What are the pros and cons of DGF / absolute return funds? How are they correlated to other asset classes?</li> <li>• Global sovereign gilts – access to market, pros and cons of investing in other jurisdictions rather than the UK including ESG</li> </ul>	In progress – these will be looked at and considered how to best roll out

	<ul style="list-style-type: none"><li>• How does LGPS investment strategy evolve over time, what is rebalancing, when is it done, what are the timelines associated with setting investment strategies, what are the impacts of pooling on strategy implementation</li><li>• Cost benefit implications of de-risking the portfolio</li><li>• Core responsibilities of Councillors in their role on the pension committee to ensure proper exercise of its responsibilities and powers. Readdressing the need for Governance framework role of the Committee and considering strategic investment change recommendations from expert advisers, rather than directing underlying investment holdings.</li></ul>	
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Current working groups		
Title of working group	Detail and meetings since last Pensions Board and Committee meetings	Membership
Investment Implementation Working Group (IIWG)	<p>The Investment Working Group and ESG working group have been amalgamated, as agreed at Pensions Committee 21 September 2020.</p> <p>The IIWG has an advisory role to oversee the implementation of decisions by the Pension Committee in relation to investment decisions and carry out detailed research and analysis for Pensions Committee.</p> <p>Recent IIWG meetings</p> <ul style="list-style-type: none"> <li>• 11 May 2023 (Gilt triggers, property pooling, performance, strategy review progress, PE valuations, liquid asset pooling)</li> <li>• 24 May 2023 <i>Officers and Advisers only</i> – progress on Divestment project</li> <li>• 29 June 2023 <i>Officers and Advisers only</i> – progress on Divestment project</li> </ul> <p>Scheduled</p> <ul style="list-style-type: none"> <li>• 21 August 2023 (Investment Strategy Recommendations)</li> </ul>	<p>William Bourne, Russell Wood, Sian Kunert, Representative from Investment Consultant</p> <p>Cllr Fox or substitute committee member is invited to attend</p>
Administration Working Group	<p>The Administration Working Group was set up in 2021 following the conclusion of the ABS and Data Improvement Working Group. The group discuss ongoing administration projects and areas of administration focus</p> <p>Recent meetings</p> <ul style="list-style-type: none"> <li>• 4 July 2023</li> </ul> <p>Scheduled</p> <ul style="list-style-type: none"> <li>• 24 August 2023</li> <li>• 9 October 2023</li> <li>• 5 December 2023</li> </ul>	<p>Cllr Fox, Ray Martin, Neil Simpson, Paul Punter, Sian Kunert, Ian Gutsell</p> <p>Vacancy for employer rep</p>

<p>McCloud Working Group</p>	<p>The McCloud Working Group has been established to oversee the implementation of the McCloud ruling within a prescribed timeframe and addressing any gaps and barriers preventing progress and ultimately delivery of the project.</p> <p>A high-level impact assessment has been completed to identify those members of the scheme that will be affected by this ruling.</p> <p>The Group have acknowledged there are many data requests of employers and this project needs to be managed carefully with other demands on employers time.</p> <p><b>The Terms of Reference for this working group have now ended, Board and Committee to determine if the group needs to continue.</b></p>	<p>Cllr Fox, Paul Punter, Sian Kunert, Dave Kellond, Mike Burton</p> <p><b>Board representatives needed</b></p>
<p>Communications Working Group</p>	<p>The Communications Working Group was established by the Pensions Board in February 2021 to drive forward improvements in communications with stakeholders with support from employee and employer representatives.</p> <p>Recent meetings</p> <ul style="list-style-type: none"> <li>• 17 May 2023 – TME/MSS, Member booklet</li> </ul> <p>Scheduled meetings</p> <ul style="list-style-type: none"> <li>• 12 September 2023</li> <li>• 12 December 2023</li> </ul>	<p>Ray Martin, Sian Kunert, Tim Hillman, Paul Linfield,</p> <p><b>Vacancy for employer rep &amp; employee rep</b></p> <p>Note - All Board members invited to attend</p>



## Training and Development – attendance at recent events

Date	Topic	Committee	Board
6-8 June 2023	<p style="text-align: center;">PLSA Investment Conference</p> <p>This year pensions industry leaders and aspiring leaders will discuss:</p> <ul style="list-style-type: none"> <li>• The impact of macroeconomic and political instability on the investment climate                             <ul style="list-style-type: none"> <li>• The way we identify, understand and manage the next big risks</li> </ul> </li> <li>• The investment outlook for an industry searching for growth opportunities</li> <li>• How pension funds can support positive growth for the national economy and society</li> </ul>		Ray
14 June 2023	Private Credit Training	Cllrs Redstone, Hollidge, Taylor	
29 June 2023	<p style="text-align: center;">Climate risk for investors</p> <ul style="list-style-type: none"> <li>• A brief introduction to the issues;                             <ul style="list-style-type: none"> <li>• What can pension funds do and what can't they do;</li> </ul> </li> <li>• Practical pointers regarding the identification and measurement of climate risk and how this can feed into decision making;</li> <li>• Options currently available to a pension fund to take climate change risks into account (what could we do to mitigate the risk to the Fund);                             <ul style="list-style-type: none"> <li>• What East Sussex is doing to manage this risk; and                                     <ul style="list-style-type: none"> <li>• Possible future developments.</li> </ul> </li> </ul> </li> </ul>	Cllrs Fox, Hollidge, Tutt, Taylor	

## Training and Development – Upcoming Training Offered to Pension Board

### September

Date	Topic
<p><b>Location and Dates:</b></p> <p><a href="#">12 Sep, Wolverhampton - 14:00 - 17:00</a></p> <p><a href="#">13 Sep, Leeds - 14:00 - 17:00</a></p> <p><a href="#">21 Sep, Edinburgh – 11:30 - 15:00</a></p> <p><a href="#">26 Sep, Cardiff, - 12:00 - 15:00</a></p> <p><b>Organisation:</b> LGA</p> <p><b>Cost:</b> Free</p>	<p><b><a href="#">Investment cost transparency</a></b></p> <p>These sessions will provide:</p> <ul style="list-style-type: none"> <li>• An explanation of the purpose and background of the Scheme Advisory Board’s Code of Transparency</li> <li>• a case study from an LGPS fund on how investment cost information has been used</li> <li>• a troubleshooting session on how to use the online reporting system, run in conjunction with Byhiras (the system providers), and</li> <li>• a facilitated discussion on the information that fund officers should be receiving and how this information should be reported to pension boards and committees.</li> </ul> <p>Sessions 1 - 3 for all attendees</p> <p>Sessions 4 - 5 for Officers only</p>
<p><b>13 September</b></p> <p><b>Organiser:</b> PLSA</p> <p><b>Time:</b> 11:00-11:45</p> <p><b>Location:</b> Online</p>	<p><b><a href="#">The Mansion House Reforms</a></b> - Where do we stand now?</p> <p>In this webinar:</p> <ul style="list-style-type: none"> <li>• Experts from the PLSA’s Policy team outline the key points we have been putting to the Government on issues as pensions and growth, value for money in DC, small pots and the future of LGPS pooling.</li> <li>• Scheme leaders give their perspective on what it all means in practice.</li> </ul>

<p><b>Cost:</b> Free</p>	<ul style="list-style-type: none"> <li>• We look ahead to what happens next in pensions policy, as we move towards a General Election</li> </ul>
<p><b>14 September</b></p> <p><b>Organiser:</b> Pensions Age</p> <p><b>Time:</b> 08:50 – 17:00</p> <p><b>Location:</b> London</p> <p><b>Cost:</b> Free</p>	<p><a href="#"><u>Pensions Age Autumn Conference 2023</u></a></p> <p>Topics include regulatory updates, investment, technology, administration, communication, de-risking and more</p>

## Training and Development – Upcoming Training Offered to Pension Committee

### September

Date	Topic
<p><b>7 September</b></p> <p><b>Organiser:</b> SPS</p> <p><b>Time:</b> 09:00 - 16:00</p> <p><b>Location:</b> London</p> <p><b>Cost:</b> Free</p>	<p><b><u><a href="#">Bond Strategies in the New Investment Climate</a></u></b></p> <p>Conference objectives:</p> <ul style="list-style-type: none"> <li>• Update yourself on the economic and market environment</li> <li>• Explore a range of fixed income investment strategies</li> <li>• Support your decision making</li> <li>• Answer your concerns in Q&amp;A led by investors</li> <li>• Network with peers and speakers (77% pension fund attendees SPS Bonds Jan 2023)</li> </ul>
<p><b>7-8 September</b></p> <p><b>Organiser:</b> LGC</p> <p><b>Location:</b> Leeds</p> <p><b>Cost:</b></p> <p>1 night accommodation: £1049.00</p> <p>2 nights accommodation: £1199.00</p>	<p><b><u><a href="#">LGC Investment &amp; Pensions Summit 2023</a></u></b></p> <p>The event brings together the whole LGPS community for 2 days of critical insight, topical content and high-level debate to navigate through the key and numerous challenges facing those delivering local government pensions today.</p> <p>New for this year are sessions covering some of the broader pensions issues including:</p> <ul style="list-style-type: none"> <li>• Debate on what the pensions of the future look like</li> <li>• Global outlook on an unprecedented economic landscape</li> </ul>

	The LGPS as a lever for change to boost UK growth
<p><b>Location and Dates:</b></p> <p><a href="#">12 Sep, Wolverhampton - 14:00 - 17:00</a></p> <p><a href="#">13 Sep, Leeds - 14:00 - 17:00</a></p> <p><a href="#">21 Sep, Edinburgh – 11:30 - 15:00</a></p> <p><a href="#">26 Sep, Cardiff, - 12:00 - 15:00</a></p> <p><b>Organisation:</b> LGA</p> <p><b>Cost:</b> Free</p>	<p><b><a href="#">Investment cost transparency</a></b></p> <p>These sessions will provide:</p> <ul style="list-style-type: none"> <li>• An explanation of the purpose and background of the Scheme Advisory Board’s Code of Transparency</li> <li>• a case study from an LGPS fund on how investment cost information has been used</li> <li>• a troubleshooting session on how to use the online reporting system, run in conjunction with Byhiras (the system providers), and</li> <li>• a facilitated discussion on the information that fund officers should be receiving and how this information should be reported to pension boards and committees.</li> </ul> <p>Sessions 1 - 3 for all attendees</p> <p>Sessions 4 - 5 for Officers only</p>
<p><b>13 September</b></p> <p><b>Organiser:</b> PLSA</p> <p><b>Time:</b> 11:00-11:45</p> <p><b>Location:</b> Online</p> <p><b>Cost:</b> Free</p>	<p><b><a href="#">The Mansion House Reforms</a></b> - Where do we stand now?</p> <p>In this webinar:</p> <ul style="list-style-type: none"> <li>• Experts from the PLSA’s Policy team outline the key points we have been putting to the Government on issues as pensions and growth, value for money in DC, small pots and the future of LGPS pooling.</li> <li>• Scheme leaders give their perspective on what it all means in practice.</li> <li>• We look ahead to what happens next in pensions policy, as we move towards a General Election</li> </ul>
<p><b>14 September</b></p>	<p><b><a href="#">Pensions Age Autumn Conference 2023</a></b></p>

<p><b>Organiser:</b> Pensions Age</p> <p><b>Time:</b> 08:50 – 17:00</p> <p><b>Location:</b> London</p> <p><b>Cost:</b> Free</p>	<p>Topics include regulatory updates, investment, technology, administration, communication, de-risking and more</p>
<p><b>20 September</b></p> <p><b>Organiser:</b> SPS</p> <p><b>Time:</b> 09:00 – 16:30</p> <p><b>Location:</b> London</p> <p><b>Cost:</b> Free</p>	<p><a href="#"><u>Net Zero, Impact &amp; Sustainable Investment Conference</u></a></p> <p>Conference objectives:</p> <ul style="list-style-type: none"> <li>• Explore a range of new impact and sustainable investment strategies</li> <li>• Consider manager selection – and avoid greenwashing</li> <li>• Understand the latest research on effective ESG data in different countries</li> <li>• Answer your concerns in Q&amp;A led by investors</li> <li>• Network with peers and speakers (75% investor attendees SPS ESG April 2023)</li> </ul>
<p><b>28 September*</b></p> <p><b>Organiser:</b> DG Publishing</p> <p><b>Time:</b> 08:30 – 13:50</p> <p><b>Location:</b> Loch Lomond</p> <p><b>Cost:</b> Free</p>	<p><a href="#"><u>DB Strategic Investment Forum</u></a></p> <p>This is an annual reality check on the state of the DB pensions industry, enabling senior pensions executives to compare notes in a non-competitive environment on the investment and funding challenges they all face in delivering guaranteed member outcomes. This is the ideal place for public and private sector pension schemes to exchange ideas on handling issues such as climate change, inflation protection and risk mitigation.</p> <p><i>*In the delegate pass is included: 2-nights accommodation and dinner on the 27<sup>th</sup> and 28<sup>th</sup> September.</i></p>
<p><b>October</b></p>	
<p><b>19 October</b></p>	<p><a href="#"><u>LGPS Sustainable Investment &amp; Other Topical Issues Conference</u></a></p>

**Organiser:** SPS

**Time:** 09:00 – 16:30

**Location:** London

**Cost:** Free

- Topics to be covered will include:
- Life Sciences with an impact theme
- Litigation as part of a toolkit to allow sustainability in pension fund investments
- Private Debt
- Fixed Income
- TCFD
- Plus topical LGPS issues from key industry figures

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