

East Sussex Pension Fund

Q3 2018 Strategic and Performance Monitoring Report

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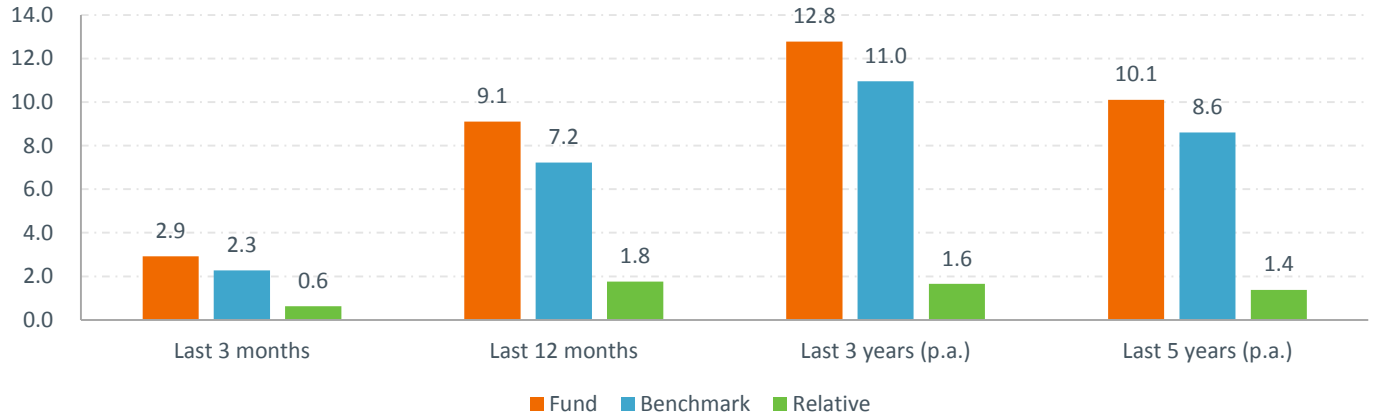
Executive Summary

- Total Fund return ahead of benchmark of the quarter.
- Top contributors to relative performance:
 - Longview
 - Newton

Key Actions

- At the September Committee meeting, the Committee agreed to sell 10% from equities and invest the proceeds into absolute return (5%) and absolute return credit (5%). This is expected to complete during Q4 2018.
- Decision on the funding of the 3% allocation to private debt due at the November Committee meeting.
- Infrastructure investments expected to draw down capital over the next 3-4 years.

Performance



Manager Rating Changes

There were no changes to any manager ratings over the quarter.

High Level Asset Allocation

"GRIP"	Actual	Benchmark*	Relative
Growth	76.1%	71.5%	4.6%
Income	11.1%	17.0%	-5.9%
Protection	10.9%	11.5%	-0.6%

*Benchmark allocation before de-risking implementation. This will be reflected next quarter with 5% less in Growth and 5% more in Protection.

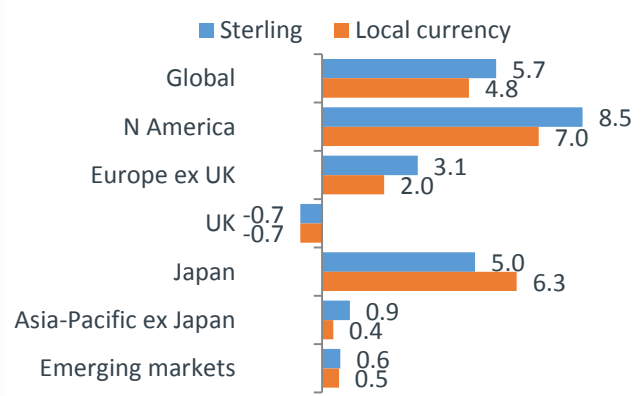
Market Returns

- Global equities continued their rise in Q3, setting new record levels ahead of the market downturn in October.
- North America was again the best regional performer.
- The UK was the worst, underperforming global averages across most sectors, which may indicate that Brexit concerns were to blame.
- Emerging markets also underperformed but indices did stabilise, following the falls in Q2.
- Value stocks continued to underperform growth, although this has reversed sharply over October.
- Oil prices rose again, as the US re-imposed sanctions on Iran, the Venezuelan economy imploded, and OPEC and Russia ignored US requests to increase output. Brent crude reached a 4-year high of \$82 a barrel in September.

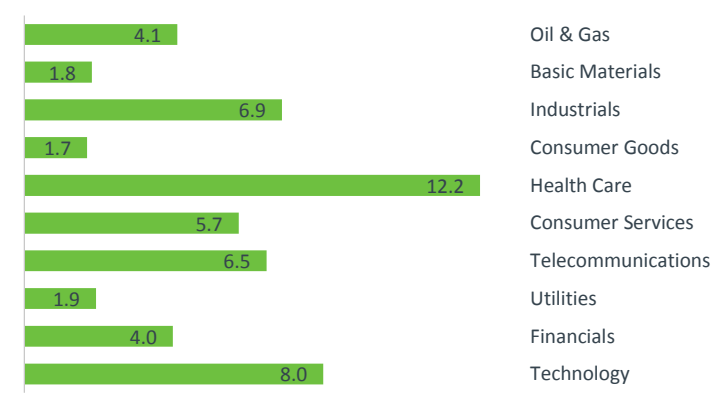
Historic returns for world markets



Regional equity returns



Global sector performance



Key actions agreed previously

- Implement equity disinvestment (10%) and invest the proceeds into absolute return (5%) and absolute return credit (5%)
- Absolute return mandates earmarked for future infrastructure and private debt capital calls

Asset Allocation

Manager	Value (£m)		Actual Proportion	Benchmark	Relative Weight	Rebalancing Range	Asset Class Views 30.9.18
	Q2 2018	Q3 2018					
UBS - Regional Equities	484.6	511.2	14.0%	11.0%	3.0%	45.0% - 55.0%	Neutral to Cautious
UBS - Fundamental Indexation	480.6	504.2	13.8%	15.0%	-1.2%		
UBS - UK Equity Fund	390.3	387.1	10.6%	10.5%	0.1%		
UBS - Climate Aware	164.2	174.4	4.8%	5.0%	-0.2%		
UBS - Global EM Equity Fund	70.8	71.1	1.9%	1.5%	0.4%		
Longview - Global Equity	256.8	278.8	7.6%	7.0%	0.6%		
HarbourVest - Private Equity	93.9	98.4	2.7%	2.8%	-0.1%	3.5% - 7.5%	Neutral to cautious
Adams Street - Private Equity	105.1	107.6	2.9%	2.8%	0.2%	17.0% - 23.0%	-
Newton - Absolute Return	315.7	322.1	8.8%	8.0%	0.8%		
Ruffer - Absolute Return	320.5	319.3	8.8%	8.0%	0.8%		
Total Growth	2682.5	2774.3	76.1%	71.5%	4.6%		-
Schroder - Property	367.5	371.3	10.2%	10.0%	0.2%	7.0% - 13.0%	Neutral to Cautious
UBS - Infrastructure	20.7	19.9	0.5%	1.0%	-0.5%	0.0% - 4.0%	Neutral to Attractive
Pantheon - Infrastructure	8.8	10.9	0.3%	2.0%	-1.7%		
M&G - Infrastructure Fund	0.0	0.0	0.0%	1.0%	-1.0%	0.0% - 2.0%	Neutral
M&G - Private Debt	0.0	0.0	0.0%	3.0%	-3.0%		
M&G - UK Financing Fund	1.0	1.0	0.0%	0.0%	0.0%		
Total Income	398.0	403.2	11.1%	17.0%	-5.9%		-
M&G - Absolute Return Credit	74.2	74.4	2.0%	2.5%	-0.5%	0.0% - 4.0%	Cautious
M&G - Corporate Bonds	131.6	130.6	3.6%	4.0%	-0.4%	2.5% - 4.5%	Cautious
UBS - Over 5 year IL Gilt Fund	193.8	191.2	5.2%	5.0%	0.2%	4.0% - 6.0%	Cautious to negative
Total Protection	399.5	396.2	10.9%	11.5%	-0.6%		-
Cash account	65.0	72.1	2.0%	0.0%	2.0%		-
Total Fund	3545.1	3645.8	100.0%	100.0%			

*Benchmark allocation before de-risking implementation. This will be reflected next quarter with 5% less in Growth and 5% more in Protection.

Manager performance – net of fees

- Benchmark performance of each mandate reflects the updated benchmarks agreed at the September Committee meeting.
- Total Fund is ahead of benchmark over all time periods
- UBS performed in line with their respective benchmarks
- Longview outperformed
- Newton and outperformed the LIBOR+2.5% benchmark while Ruffer lagged it
- Schroder outperformed their benchmark over the quarter
- M&G corporate bonds was slightly behind benchmark
- M&G Alpha Opportunities marginally underperformed the LIBOR+3% benchmark

	UBS - Regional Equities	UBS - Climate Aware	UBS - Global EM Equity	UBS - Fundamental Indexation	UBS - UK Equity	Longview - Global Equity	Newton - Absolute Return	Ruffer - Absolute Return	Schroder - Property	M&G UK Corporate	M&G Alpha Opps	UBS - 5Y ILG	Total Fund	
3 Months (%)	Absolute	5.5	6.2	0.4	4.9	-0.8	8.6	2.0	-0.2	1.8	-0.8	0.8	-1.4	2.9
	Benchmark	5.6	6.2	0.5	4.9	-0.8	5.6	0.8	0.8	1.6	-0.6	0.9	-1.4	2.3
	Relative	-0.0	-	-0.1	-	0.0	2.9	1.1	-1.0	0.2	-	-	-	0.6
12 Months (%)	Absolute	N/A	N/A	N/A	N/A	N/A	17.2	1.8	1.1	9.4	0.2	1.6	N/A	9.1
	Benchmark	N/A	N/A	N/A	N/A	N/A	12.9	3.0	3.0	8.9	-0.3	3.5	N/A	7.2
	Relative	-	-	-	-	-	3.8	-	-	0.5	0.5	-	-	1.8
3 Years (% p.a.)	Absolute	N/A	N/A	N/A	N/A	N/A	19.8	3.2	3.1	7.3	6.9	4.3	N/A	12.8
	Benchmark	N/A	N/A	N/A	N/A	N/A	19.2	2.9	2.9	7.1	5.6	3.4	N/A	11.0
	Relative	-	-	-	-	-	0.5	0.3	0.1	0.2	1.2	0.8	-	1.6
Since Inception (% p.a.)	Absolute	3.7	5.5	-6.1	8.0	0.4	17.3	3.7	4.1	8.6	7.6	4.2	2.6	
	Benchmark	3.7	5.5	-6.2	8.0	0.4	12.5	3.0	3.0	8.4	6.8	3.5	2.6	
	Relative	-0.0	-	0.0	-0.1	0.0	4.2	0.7	1.0	0.1	0.8	0.7	-0.0	

We have estimated net returns based on each manager's expected fee levels. Total Fund performance was provided by WM until 31 March 2016, including private market returns. In Q2 2016, total Fund performance was calculated excluding private market investments. From Q3 2016 to Q3 2017 total Fund performance has been calculated using estimated valuations for private market investments. From Q4 2017 total Fund performance has been provided by Northern Trust. From Q4 2018, Northern Trust applied updated benchmarks across several of the Fund's managers, but this was not back-dated.

- No change to any manager ratings over the quarter
- We have recently developed Responsible Investment ratings for equity managers. UBS have been rated as 'Good' and Longview as 'adequate'

Manager ratings

Manager/Mandate	Manager Rating	Change over quarter?
UBS Passive Equities	Preferred	No
Longview Active Equities	Preferred	No
HarbourVest Private Equity	Preferred	No
Adams Street Private Equity	Preferred	No
Newton Absolute Return	Suitable	No
Ruffer Absolute Return	Preferred	No
Schroders Property	Suitable	No
UBS Infrastructure	Preferred	No
InfraCapital Infrastructure	Positive	No
Pantheon Infrastructure	Preferred	No
M&G Alpha Opportunities	Preferred	No
M&G Corporate Bonds	Preferred	No
UBS Index Linked Gilts	Preferred	No

Preferred. One of our highest rated strategies within this asset class. **Positive.** We have a positive opinion on the strategy and believe it has a high possibility of reaching its objectives. But we believe there are superior strategies available. **Suitable.** We believe the strategy is suitable for pension scheme investors from a regulatory perspective, but we have no strong view on its forward-looking prospects. **Negative.** We have a negative outlook for the strategy relative to peers.

Responsible Investment manager ratings

Equity Manager	RI Rating	Change over quarter?
UBS Passive Equities	Good	No
Longview Active Equities	Adequate	No

Strong. Strong evidence of good RI practices across all criteria and practices are consistently applied.
Good. Reasonable evidence of good RI practices across all criteria and practices are consistently applied.
Adequate. Some evidence of good RI practices but practices may not be evident across all criteria or applied inconsistently.
Weak. Little to no evidence of good RI practices.

UBS Equities

- The UBS targets and rebalancing ranges shown are due to come into force once the de-risking exercise is completed
- UBS Climate Aware Fund totalled £736m at the end of September. The Committee has previously agreed to commit a further 5% of Fund assets (c£180m) to the Climate Aware Fund at a future date (depending upon the size of the UBS' fund. An investment of £180m would equate to an overall holding of c40% of the fund.
- Benchmark: Various regional indices
- Objective: Match benchmark over all time periods
- UBS have successfully tracked underlying benchmarks to date

Equity Allocation

Region/Fund	Value	Allocation	Target	Rebalancing Range
UK	387.1	23.5%	21.0%	19% - 23%
North American	228.4	13.9%	12.5%	11% - 14%
Europe ex UK	207.2	12.6%	10.5%	9.5% - 11.5%
Japanese	40.1	2.4%	1.5%	1% - 2%
Pacific ex Japan	35.5	2.2%	1.5%	1% - 2%
Global EM	71.1	4.3%	3.0%	2.5% -3.5%
RAFI	504.2	30.6%	35.0%	31.5% - 38.5%
Climate Aware	174.4	10.6%	15.0%	13.5% - 16.5%
Total	1,648.0	100.0%	100.0%	

Fund Performance vs benchmark/target

	UK	Global EM	Climate Aware	RAFI	Europe ex UK	Japanese	North American	Pacific ex Japan
3 Months (%)	-0.8	0.4	6.2	4.9	3.3	5.0	8.5	0.9
Benchmark (%)	-0.8	0.5	6.2	4.9	3.2	5.0	8.5	0.9
Relative (%)	0.0	-0.1	0.0	0.0	0.1	0.0	0.0	0.0
Since Inception (%)	0.4	-6.1	5.5	8.0	1.1	2.4	7.2	-2.4
Benchmark (%)	0.4	-6.2	5.5	8.0	1.1	2.4	7.2	-2.4
Relative (%)	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0

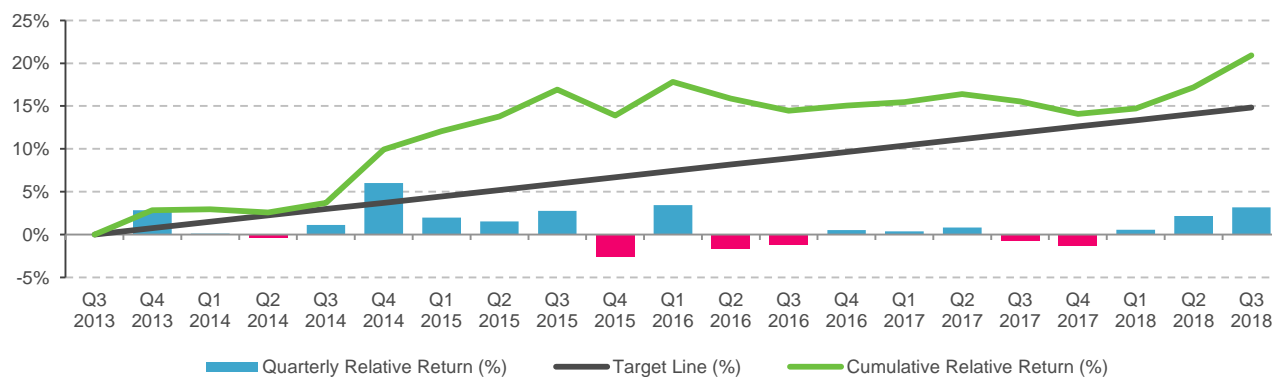
Longview Global Equities

- Benchmark: MSCI ACWI
- Objective: Outperform benchmark by 3% (gross) p.a. over rolling 3 year periods
- Performance ahead of benchmark over all time periods
- Performance also ahead in line with target over last 5 years
- Performance shown gross of fees
- Manager's style is tilted away from Value - beneficial over recent years

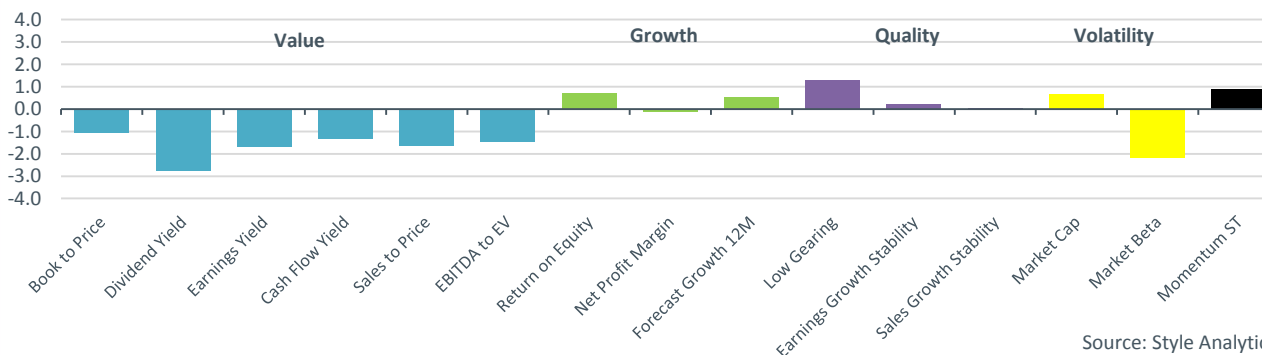
Fund Performance vs benchmark/target

Period	Performance (%)	Benchmark (%)	Relative to Benchmark (%)	Target (%)	Relative to Target (%)
Last 3 months	8.7	5.6	3.0	6.3	2.3
Last 12 months	17.9	12.9	4.4	15.9	1.7
Last 3 years (p.a.)	20.6	19.2	1.2	22.2	-1.3
Last 5 years (p.a.)	17.8	13.5	3.8	16.5	1.2

Historic Quarterly Performance



Pooled Fund Skyline (as at 30 June 2018)



Source: Style Analytics

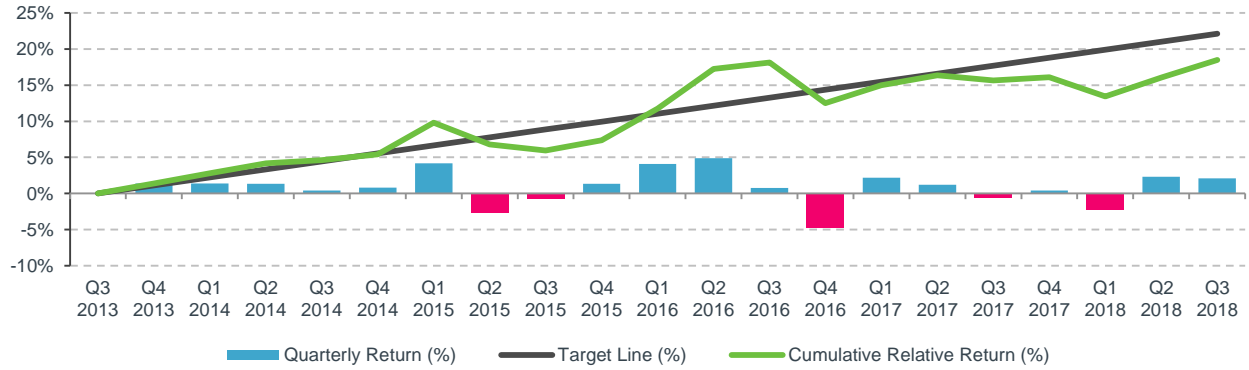
Newton Real Return Fund

- Benchmark: 3-month LIBOR + 2.5% p.a.
- Objective: 3-month LIBOR + 4% p.a. (gross) over rolling 5 years
- Performance ahead of benchmark over longer time periods, but behind target
- Performance shown gross of fees
- Equity markets drove performance over the quarter
- Index-linked gilts and precious metals detracted

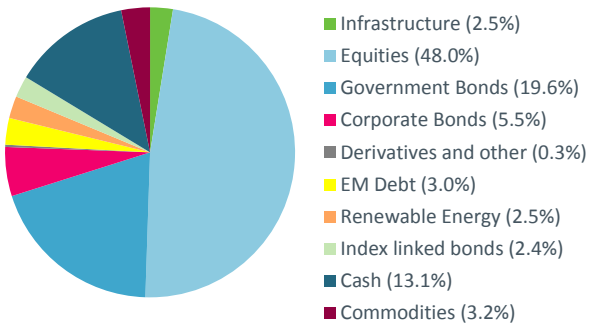
Fund performance vs benchmark/target

Period	Performance (%)	Benchmark (%)	Relative to Benchmark (%)	Target (%)	Relative to Target (%)
Last 3 months	2.1	0.8	1.3	1.2	0.9
Last 12 months	2.5	3.0	-0.5	4.5	-2.0
Last 3 years (p.a.)	3.8	2.9	0.9	4.4	-0.6
Last 5 years (p.a.)	3.5	2.9	0.5	4.4	-0.9

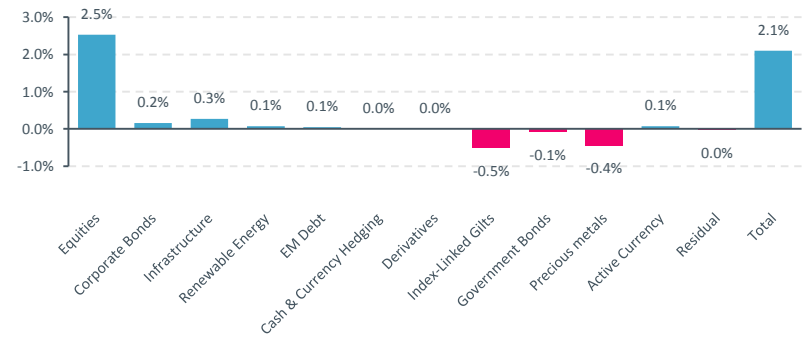
Historic Quarterly Performance



Asset allocation



Performance Attribution



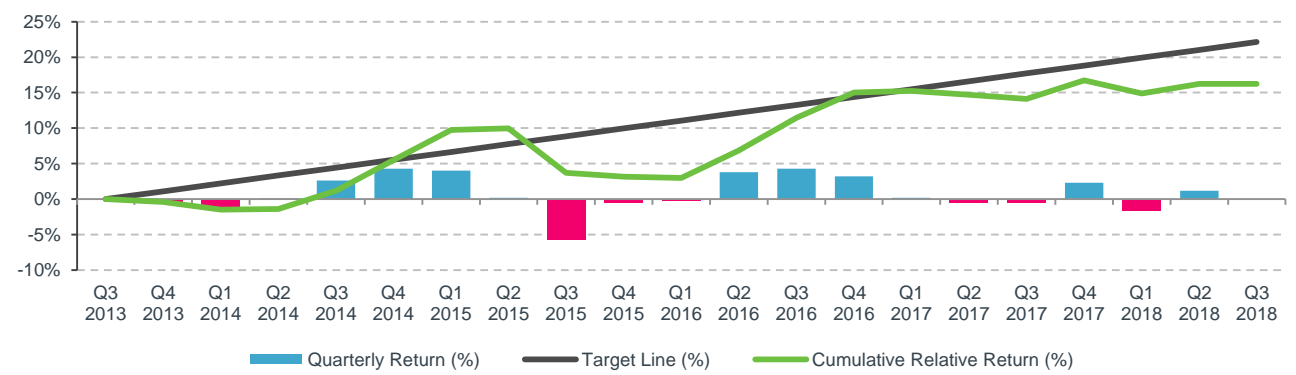
Ruffer Absolute Return

- Benchmark: 3-month LIBOR + 2.5%
- Objective: 3-month LIBOR + 4% p.a. (gross) over rolling 5 years
- Performance ahead of benchmark over longer time periods, but behind target
- Performance shown gross of fees
- Equity markets drove performance over the quarter
- Gold, multi-strategies, and options detracted

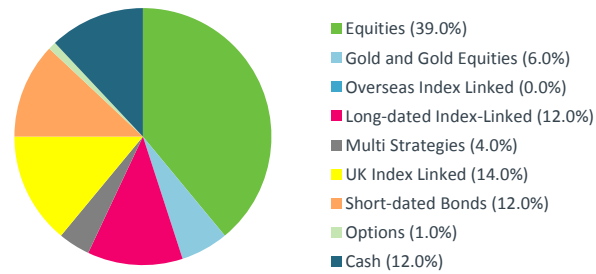
Fund performance vs benchmark/target

Period	Performance (%)	Benchmark (%)	Relative to Benchmark (%)	Target (%)	Relative to Target (%)
Last 3 months	-0.0	0.8	-0.8	1.2	-1.2
Last 12 months	1.9	3.0	-1.1	4.5	-2.5
Last 3 years (p.a.)	3.9	2.9	0.9	4.4	-0.5
Last 5 years (p.a.)	3.1	2.9	0.1	4.4	-1.3

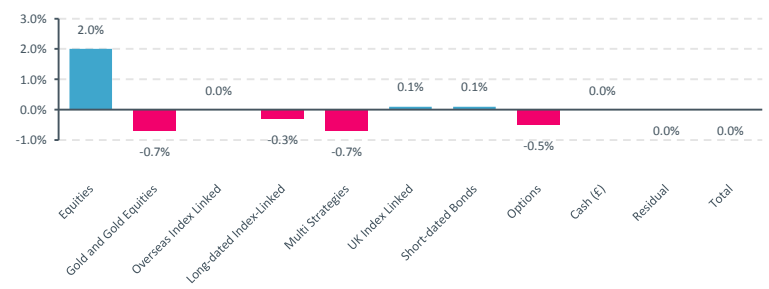
Historic quarterly performance



Sector Allocation



Performance Attribution



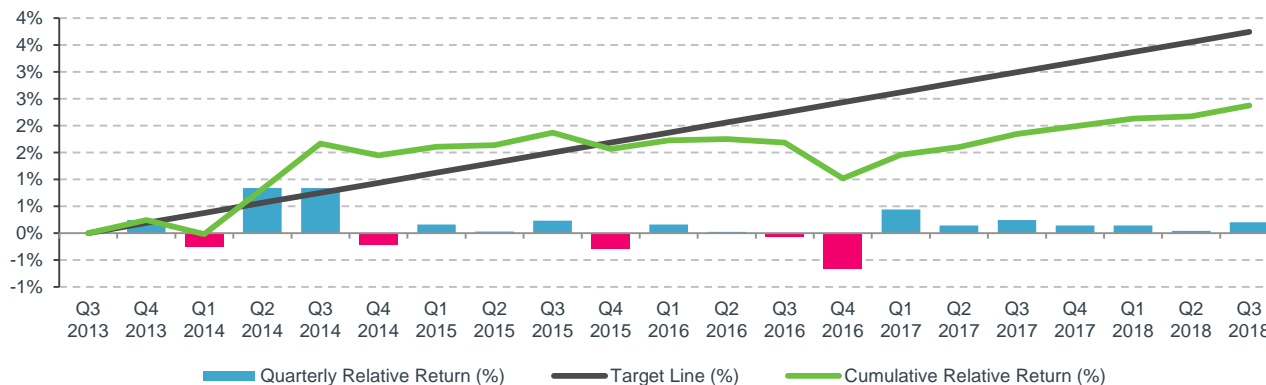
Schroders Property

- Benchmark: IPD All Balanced Funds
- Objective: Outperform benchmark by 0.75% p.a. (net) over rolling 3 years
- Performance ahead of benchmark over all time periods, but behind target
- Performance slightly behind target over last 5 years
- Performance shown net of fees

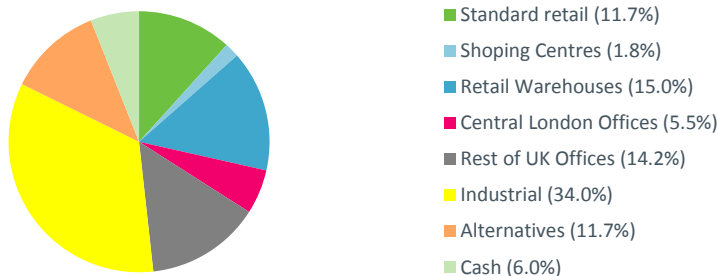
Fund performance vs benchmark/target

Period	Performance (%)	Benchmark (%)	Relative to Benchmark (%)	Target (%)	Relative to Target (%)
Last 3 months	1.8	1.6	0.2	1.8	0.0
Last 12 months	9.4	8.9	0.5	9.6	-0.2
Last 3 years (p.a.)	7.3	7.1	0.2	7.9	-0.5
Last 5 years (p.a.)	11.0	10.5	0.5	11.2	-0.2

Historic Quarterly Performance



Sector Allocation



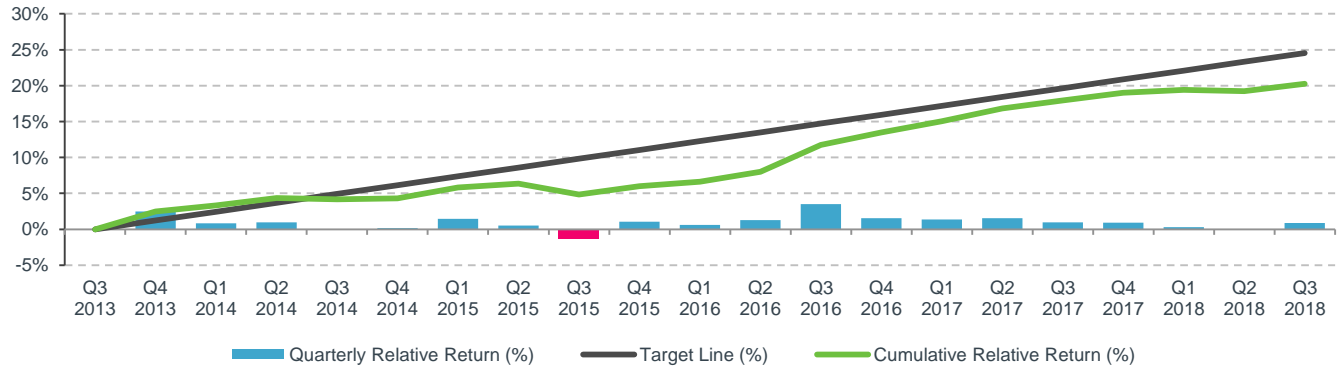
M&G Alpha Opportunities

- Benchmark: 3 Month Libor + 3%
- Objective: 3 Month Libor + 5% (gross)
- Performance ahead of benchmark over longer periods, but behind target
- Performance shown gross of fees

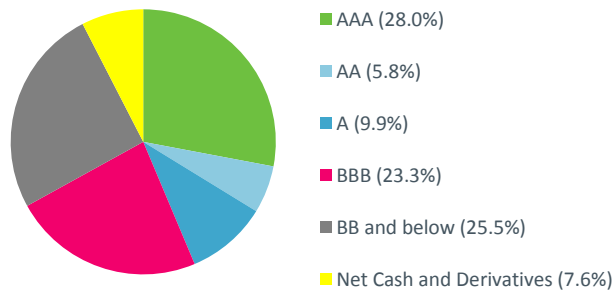
Fund performance vs benchmark/target

Period	Performance (%)	Benchmark (%)	Relative to Benchmark (%)	Target (%)	Relative to Target (%)
Last 3 months	0.9	0.9	-0.0	1.4	-0.5
Last 12 months	1.9	3.5	-1.5	5.5	-3.4
Last 3 years (p.a.)	4.7	3.4	1.2	5.4	-0.7
Last 5 years (p.a.)	3.8	3.4	0.3	5.4	-1.6

Historic Quarterly Performance



Credit Ratings



- Most of the fund has an underlying credit quality of investment grade (c75%)

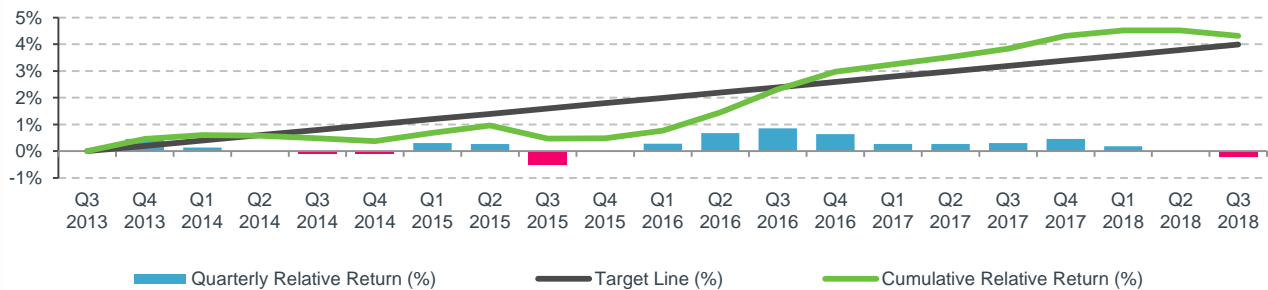
M&G Corporate Bonds

- Benchmark:
- 50% iBoxx Non-Gilts Over 15Y
- 50% iBoxx Non-Gilts
- Objective: Outperform benchmark by 0.8% p.a. (gross)
- Performance shown gross of fees
- Performance ahead of benchmark and target over longer time periods
- Average credit rating broadly in line with benchmark

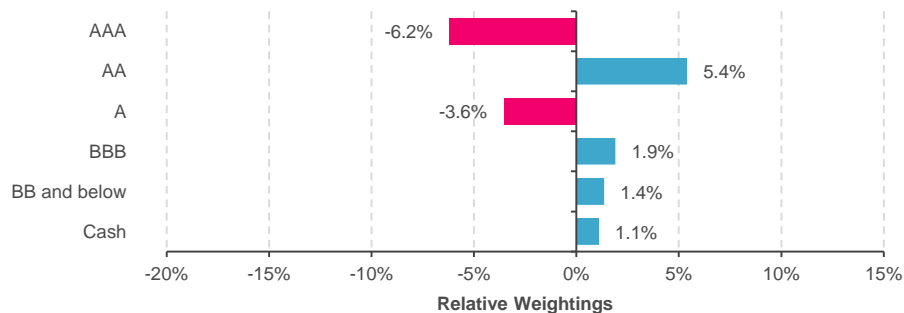
Fund performance vs benchmark/target

Period	Performance (%)	Benchmark (%)	Relative To Benchmark (%)	Target (%)	Relative To Target (%)
Last 3 months	-0.7	-0.6	-0.1	-0.4	-0.3
Last 12 months	0.5	-0.3	0.8	0.5	0.0
Last 3 years (p.a.)	7.3	5.6	1.6	6.4	0.8
Last 5 years (p.a.)	7.4	6.1	1.2	6.9	0.4

Historic Quarterly Performance



Credit rating allocation relative to benchmark





UBS Index-Linked Gilts

- Benchmark: FTSE Index-Linked Gilts Over 5 Years
- Objective: Match benchmark
- Performance broadly matched benchmark since inception
- Real yields rose over the quarter but remain low by historic standards

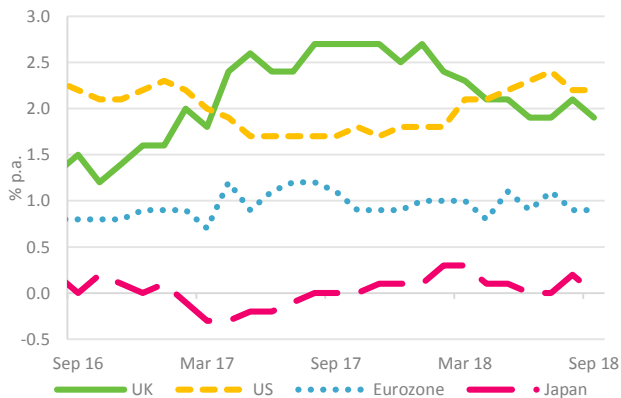
Fund performance vs benchmark/target

Period	Performance (%)	Benchmark (%)	Relative (%)
Last 3 months	-1.4	-1.4	-0.0
Since Inception	2.6	2.6	-0.0

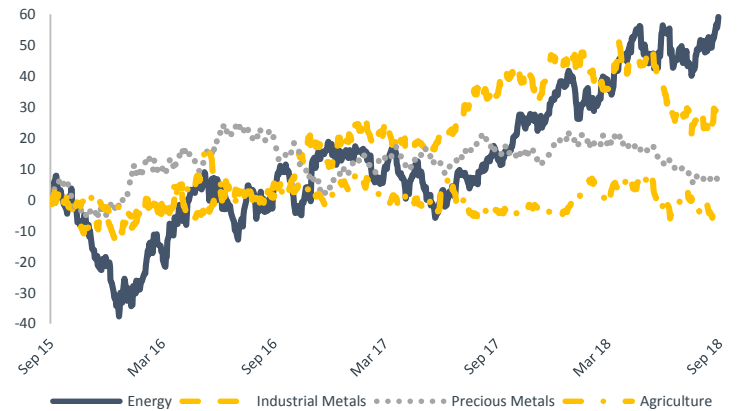
Market Returns

- Long-dated gilt yields rose over the quarter, matching similar moves in the US.
- The rise in index-linked gilt yields was a little less, perhaps reflecting August's inflation surprise and rising concerns about Brexit.
- Speculative grade credit markets outperformed investment grade over the quarter. Total returns were less impacted by rising underlying government yields, given the lower duration of the high yield market.
- The Fed's preferred measure of inflation rose above its 2% target. US interest rates were raised again in September, the third time this year and the eighth since 2015.

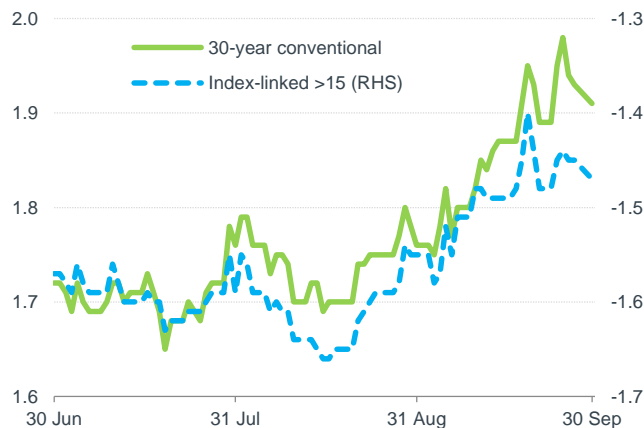
Annual CPI Inflation (% p.a.)



Commodity Prices



Gilt yields chart



Sterling trend chart (% change)

