



East Sussex Pension Fund

Q2 2019 Investment Monitoring Report

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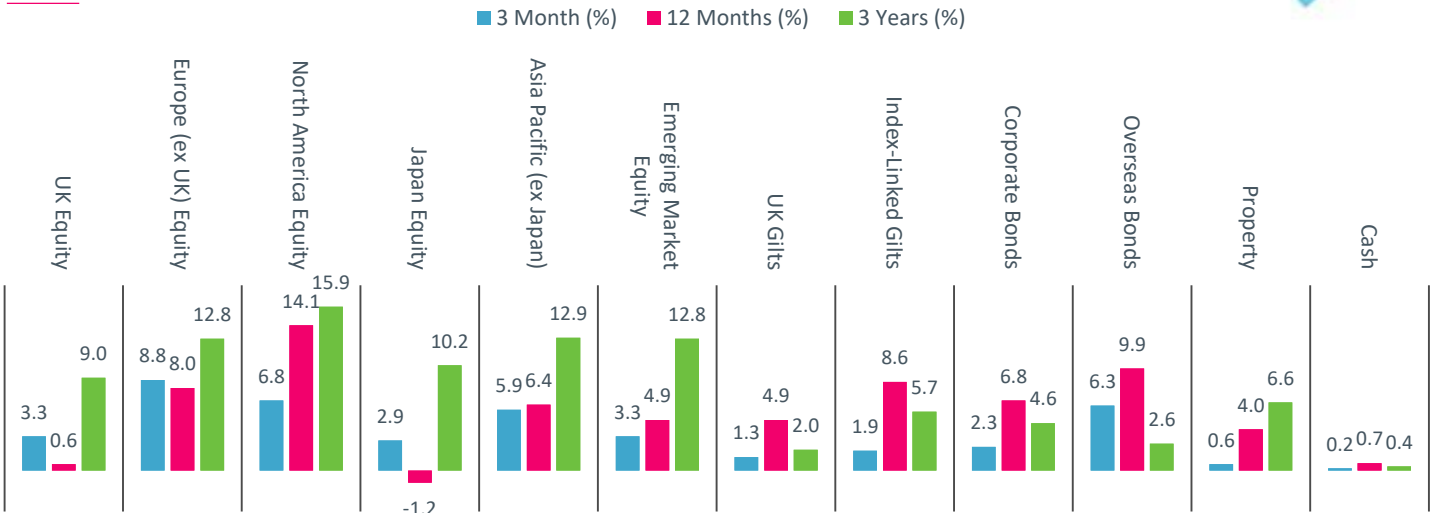
Market Background

While US GDP growth remained resilient in Q1, Q2 data suggests a large share of this growth was spurred by inventory building amid trade uncertainty. Indications in the UK also suggest that the economy might stagnate or even contract in the second quarter as stockpiling provided a temporary boost to Q1 figures. Weaker external demand has impacted the large export and manufacturing oriented portions of the Eurozone and Japanese economies. Amidst the heightened UK political uncertainty, Sterling has depreciated against the major developed currencies over the quarter, weakening by around 3.5% in trade weighted terms.

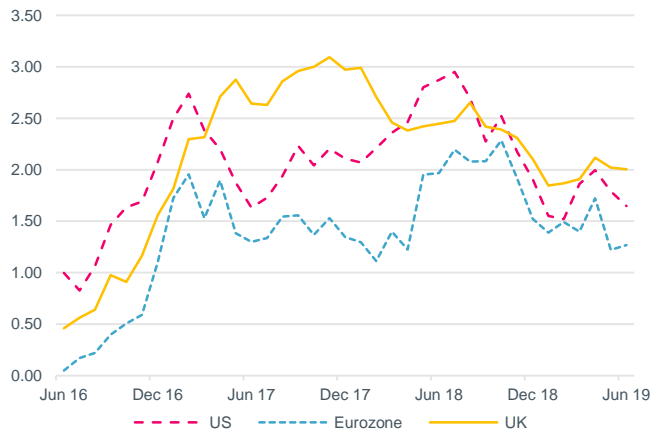
A shift in the messaging from global central banks towards looser monetary policy to support their economies, if required, has been well established. The Bank of England has been more equivocal, reluctant to commit to tightening or easing amidst the Brexit uncertainty. In the US, markets continue to price in a greater extent of interest rate cuts than the most recent Fed rate-setter's voting intentions suggest.

It was a positive quarter for financial markets with both risk seeking assets and government bonds delivering a positive return to investors. Yields on UK conventional gilts and index-linked gilts continued to fall over the quarter with the latter touching new record lows in early June.

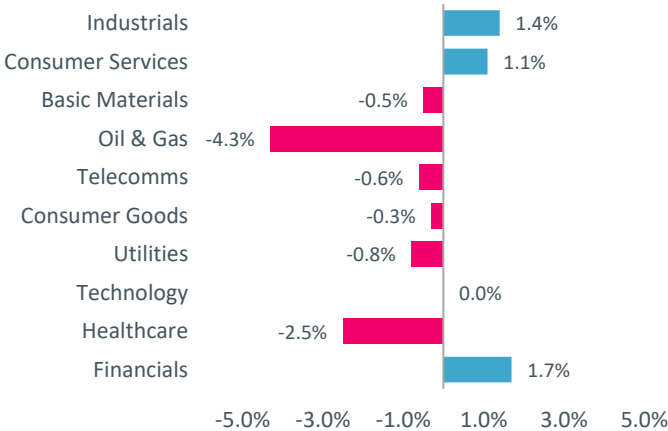
Historic returns for world markets [1]



Annual CPI Inflation (% p.a.)



Global equity sector returns (%) [3]



[1] All returns are in Sterling terms. Indices shown (from left to right) are as follows: FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, S&P/IFCI Composite, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds, MSCI UK Monthly Property Index; UK Interbank 7 Day. [2] FTSE All World Indices [3] Relative to FTSE All World Indices.

Executive Summary

- Total Fund return in line with benchmark over the quarter.
- Top contributors to relative performance:
 - Newton
 - Ruffer
 - M&G Alpha Opportunities
- Top detractors to relative performance:
 - Longview
 - UBS Climate Aware Fund

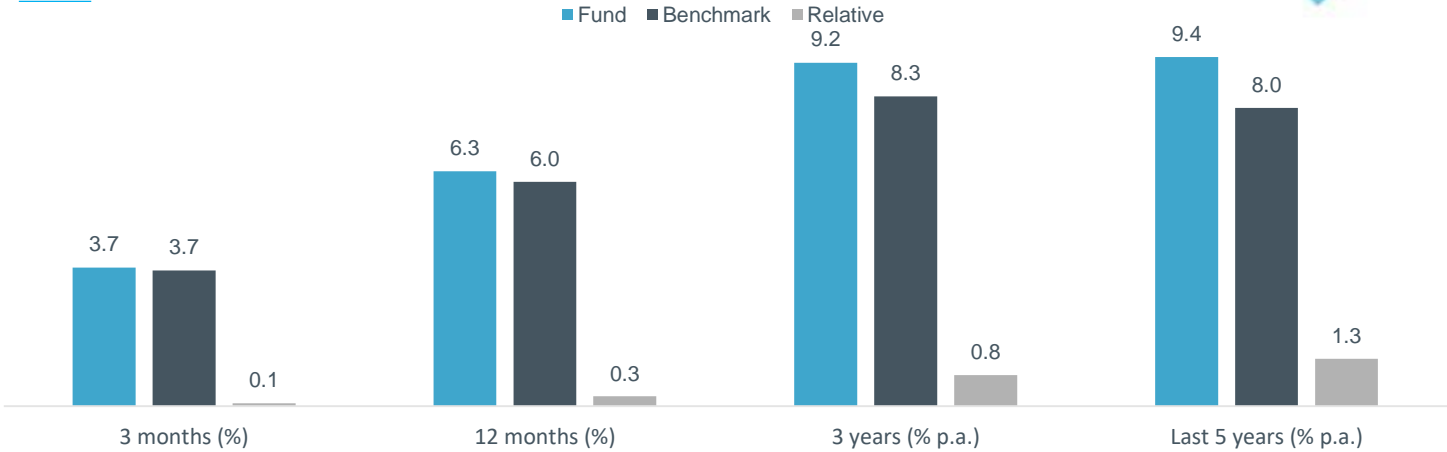
Key Actions

- Infrastructure investments expected to draw down capital over the next 3-4 years.
- Fund has committed £60m to the M&G Real Estate Debt VI Fund, which started to draw down capital during Q2.

GrIP Allocation

- Allocation to income underweight. Further drawdowns into infrastructure and real estate debt will address this over time.
- M&G Alpha Opportunities Fund also underweight at an underlying fund level.
- Protection is overweight following a fall in gilt yields and also as a result of the cash holding (1.2%). No action proposed.

Performance



Manager Rating Changes

Ruffer was downgraded from 'Preferred' to 'Positive' over the quarter. More information is provided on page 10 and in a separate paper.

GrIP Allocation

GrIP	Actual	Benchmark	Relative	Rebalancing Range
Growth	71.0%	66.5%	4.5%	60.0% - 73.0%
Income	18.4%	25.0%	-6.6%	22.0% - 28.0%
Protection	10.6%	8.5%	2.1%	7.5% - 9.5%

Key actions agreed previously

- Fund has committed £60m to the M&G Real Estate Debt VI Fund, which started to draw down capital during Q2
- Absolute return mandates due to fund draw downs into infrastructure and private debt
- Cash allocation used to meet ongoing benefit payments and will also be used as a source for meeting future infrastructure and real estate debt drawdowns
- M&G Alpha Opportunities Fund in breach of lower limit.
- Protection allocation overweight following a fall in gilt yields and also as a result of the cash holding (1.2%). No action proposed.

Asset Allocation

Manager	Valuation (£m)		Actual Proportion	Benchmark	Relative	Rebalancing Range
	Q1 2019	Q2 2019				
UBS - Regional Equities	331.3	355.3	9.4%	8.0%	1.4%	36.0% - 44.0%
UBS - Fundamental Index	429.3	452.4	12.0%	11.5%	0.5%	
UBS - UK Equity	271.3	280.2	7.4%	7.0%	0.4%	
UBS - Climate Aware	169.7	180.2	4.8%	5.0%	-0.2%	
UBS - Global EM Equity	41.7	43.3	1.1%	1.5%	-0.4%	
Longview - Global Equity	274.9	286.0	7.6%	7.0%	0.6%	3.5% - 7.5%
Harbourvest - Private Equity	98.1	104.3	2.8%	2.8%	0.0%	
Adams Street - Private Equity	115.2	122.4	3.2%	2.8%	0.5%	
Newton - Absolute Return	422.0	440.6	11.7%	10.5%	1.2%	19.0% - 23.0%
Ruffer - Absolute Return	401.6	408.8	10.9%	10.5%	0.4%	
Total Growth	2,555.1	2,673.4	71.0%	66.5%	4.5%	60.0% - 73.0%
Schroders - Property	369.3	368.1	9.8%	10.0%	-0.2%	8.0% - 12.0%
UBS - Infrastructure	19.5	20.1	0.5%	1.0%	-0.5%	2.0% - 6.0%
Pantheon - Infrastructure	14.8	22.5	0.6%	2.0%	-1.4%	
M&G - Infrastructure	2.0	9.2	0.2%	1.0%	-0.8%	
M&G - Private Debt	0.0	18.6	0.5%	3.0%	-2.5%	1.0% - 5.0%
M&G - UK Financing Fund	0.7	0.7	0.0%	0.0%	0.0%	
M&G - Absolute Return Credit	251.3	255.6	6.8%	8.0%	-1.2%	7.0% - 9.0%
Total Income	657.6	694.8	18.4%	25.0%	-6.6%	22.0% - 28.0%
M&G - Corporate Bonds	138.4	142.4	3.8%	3.5%	0.3%	2.5% - 4.5%
UBS - Over 5 Year IL Gilt Fund	207.5	211.3	5.6%	5.0%	0.6%	4.0% - 6.0%
Cash	73.3	45.1	1.2%	0.0%	1.2%	0.0% - 2.0%
Total Protection	670.4	654.4	10.6%	8.5%	2.1%	7.5% - 9.5%
Total Fund	3,631.8	3,767.0	100.0%	100.0%		

Manager performance – net of fees

	Last 3 months (%)			Last 12 months (%)			Last 3 years (% p.a.)			Since Inception (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
Growth												
UBS - Regional Equities	7.3	7.2	0.0	10.1	10.0	0.1	-	-	-	6.4	6.4	0.1
UBS - Fundamental Index	5.4	5.4	0.0	6.6	6.6	0.0	-	-	-	6.4	6.4	0.0
UBS - UK Equity	3.3	3.3	0.0	0.7	0.7	0.0	-	-	-	1.2	1.2	0.0
UBS - Climate Aware	6.2	6.5	-0.3	9.7	10.3	-0.5	-	-	-	7.1	7.5	-0.4
UBS - Global EM Equity	3.6	3.7	-0.1	7.7	8.1	-0.3	-	-	-	0.5	0.6	-0.1
Longview - Global Equity	4.0	6.5	-2.4	11.0	9.0	1.9	13.9	13.2	0.6	15.1	11.9	2.8
Newton - Absolute Return	4.3	0.8	3.4	9.2	3.2	5.8	2.2	3.0	-0.7	4.4	3.0	1.4
Ruffer - Absolute Return	1.5	0.8	0.7	0.0	3.2	-3.2	2.3	3.0	-0.7	3.8	3.0	0.7
Income												
Schroders - Property	0.5	0.6	-0.1	3.1	3.4	-0.3	6.4	6.4	0.0	8.0	7.8	0.2
Protection												
M&G - Absolute Return Credit	1.8	0.9	0.8	3.2	3.7	-0.6	4.2	3.5	0.7	4.1	3.5	0.6
M&G - Corporate Bonds	2.9	2.5	0.4	8.1	7.7	0.4	5.6	4.7	0.9	7.6	7.1	0.5
UBS - Over 5 Year IL Gilt Fund	1.8	2.0	-0.2	8.9	9.0	-0.1	-	-	-	8.7	8.8	-0.1
Total	3.7	3.7	0.1	6.3	6.0	0.3	9.2	8.3	0.8			

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.

- Iain Stewart, who has been at Newton since 1985 and focuses on the strategic positioning of the Real return Fund, is retiring at the end of the year. We do not think this warrants a change in rating at this time. Please see the separate DGF manager note in the meeting pack for further details.
- The rating for Ruffer was changed from 'Preferred' to 'Positive' over the quarter. This reflects a tightening in our requirements for 'Preferred' status, rather than a change in approach at Ruffer. Please see the separate DGF manager note in the meeting pack for further details.

Manager ratings

Manager	Mandate	Hymans Rating	RI Rating
UBS	Passive Equities	Preferred	Good
Longview	Active Equities	Preferred	Adequate
HarbourVest	Private Equity	Preferred	-
Adams Street	Private Equity	Preferred	-
Newton	Absolute Return	Suitable	-
Ruffer	Absolute Return	Positive	-
Schroders	Property	Positive	-
UBS	Infrastructure	Preferred	-
InfraCapital	Infrastructure	Positive	-
Pantheon	Infrastructure	Preferred	-
M&G	Alpha Opportunities	Preferred	-
M&G	Corporate Bonds	Preferred	-
UBS	Index Linked Gilts	Preferred	-

Hymans Rating System	
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.
Not Rated	Insufficient knowledge or due diligence to be able to form an opinion.

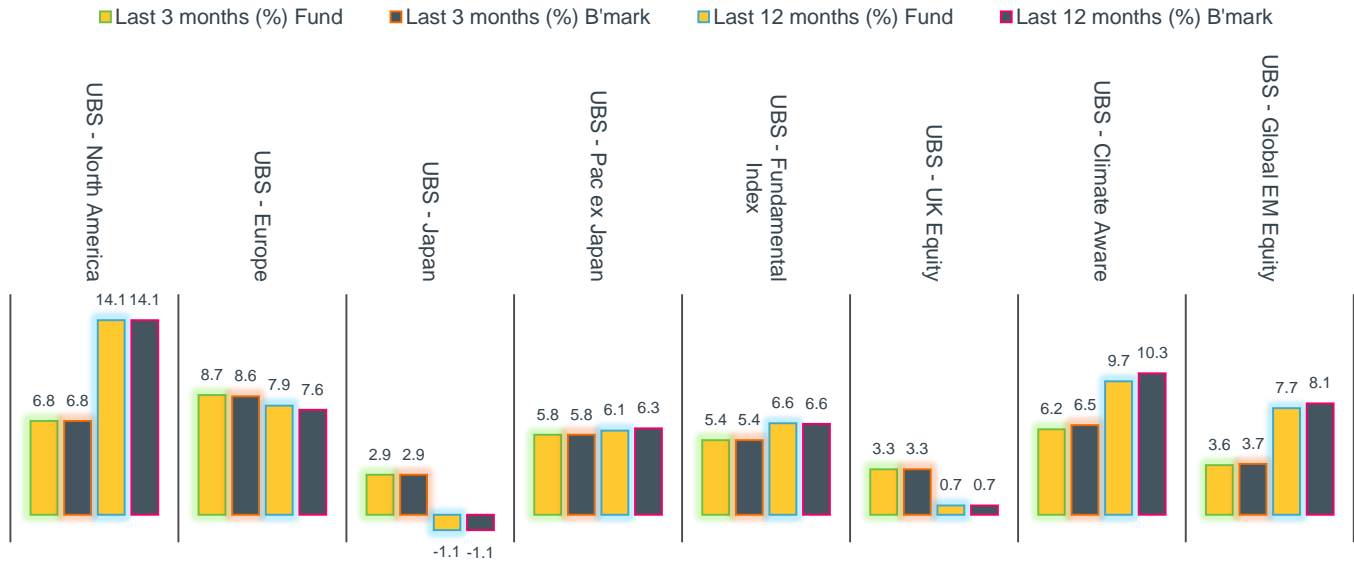
Responsible Rating System	
Strong	Strong evidence of good RI practices across all criteria and practices are consistently applied.
Good	Reasonable evidence of good RI practices across all criteria and practices are consistently applied.
Adequate	Some evidence of good RI practices but practices may not be evident across all criteria or applied inconsistently.
Weak	Little to no evidence of good RI practices.
Not Rated	Insufficient knowledge to be able to form an opinion on.

UBS Equities

- Benchmark: Various regional indices
- Objective: Match benchmark over all time periods
- UBS have successfully tracked underlying benchmarks to date

UBS Climate Aware Fund totalled £1.1bn at the end of June. The Committee has previously agreed to commit a further 5% of Fund assets (c£188m) to the Climate Aware Fund at a future date, depending upon the size of the UBS' fund. A further investment of £188m would equate to an overall holding of c34% of the fund.

Fund performance vs benchmark



Region/Fund	Value	Allocation	Target	Rebalancing Range
UBS - North America	171.6	13.1%	12.5%	11% - 14%
UBS - Europe	141.9	10.8%	10.5%	9.5% - 11.5%
UBS - Japan	20.1	1.5%	1.5%	1% - 2%
UBS - Pac ex Japan	21.7	1.7%	1.5%	1% - 2%
UBS - Fundamental Index	452.4	34.5%	35.0%	31.5% - 38.5%
UBS - UK Equity	280.2	21.4%	21.0%	19% - 23%
UBS - Climate Aware	180.2	13.7%	15.0%	13.5% - 16.5%
UBS - Global EM Equity	43.3	3.3%	3.0%	2.5% -3.5%
Total	1,311.4	100.0%	100.0%	

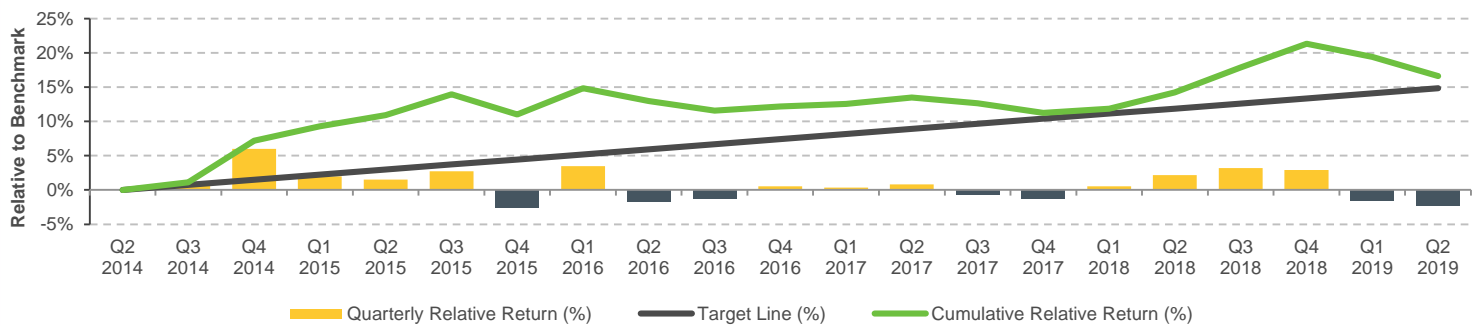
Longview Global Equities

- Benchmark: MSCI ACWI
- Objective: Outperform benchmark by 3% (gross) p.a. over rolling 3 year periods
- Performance ahead of benchmark and target over all time periods
- Performance shown gross of fees
- This Fund transferred into the Access pool on 4 February 2019. Performance data until this date is taken from Longview and after this date from Link, the Access pool operator.

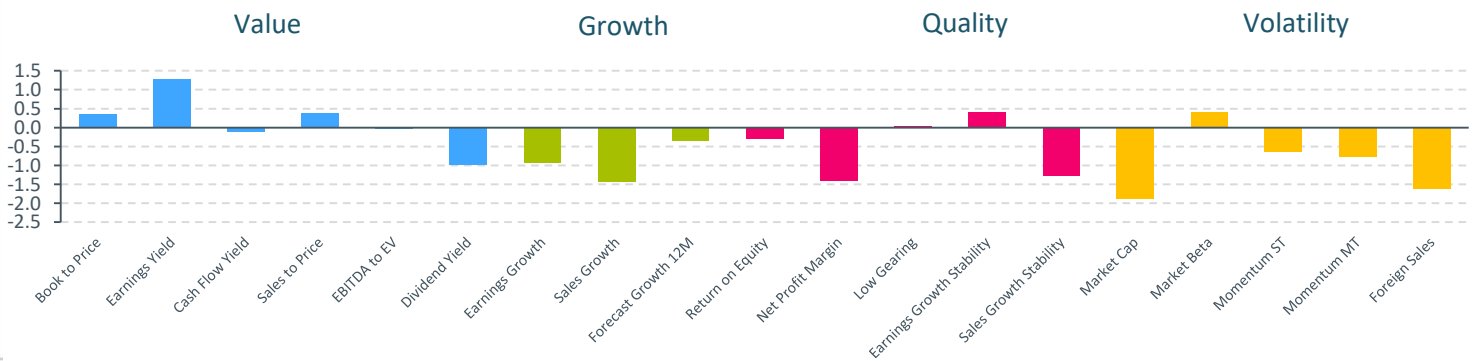
Fund performance vs benchmark

Period	Performance (%)	Benchmark (%)	Relative to Benchmark (%)	Target (%)	Relative to Target (%)
Last 3 months	4.1	6.5	-2.2	7.2	-2.9
Last 12 months	11.7	9.0	2.5	12.0	-0.3
Last 3 years (p.a.)	14.5	13.2	1.2	16.2	-1.5
Last 5 years (p.a.)	16.0	12.5	3.2	15.5	0.5

Historic quarterly performance



Pooled Fund Skyline (as at 30 June 2019)



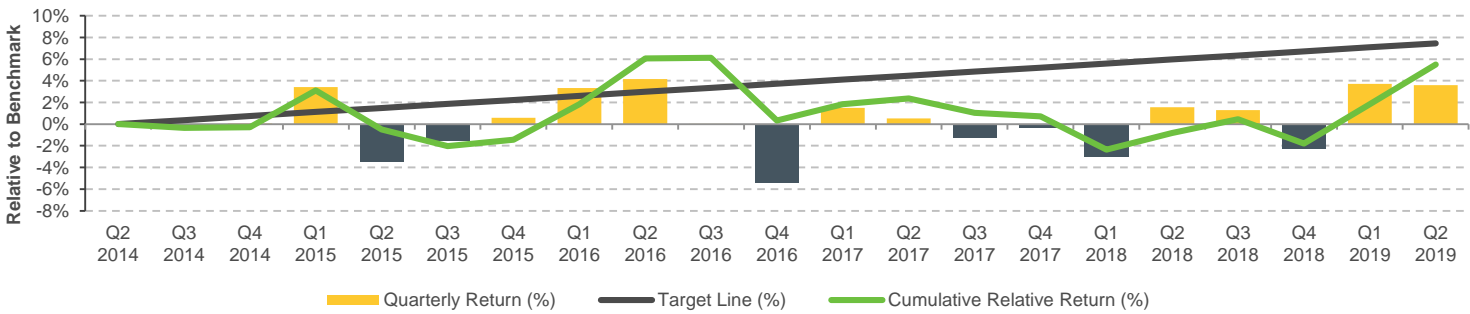
Newton Real Return Fund

- 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 all time periods but behind target over 3 and 5 years.
- Performance shown gross of fees
- Outperformance largely driven by strong equity market returns, although other asset classes contributed positively.
- Gilt yields fell over the quarter and government bonds contributed meaningfully
- Newton's protective derivative strategies detracted over the quarter, as the market rallied

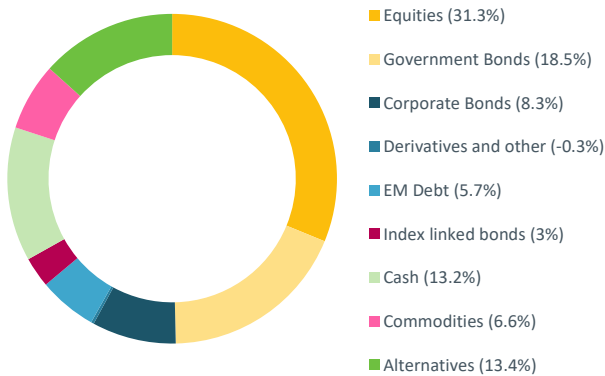
Fund performance vs benchmark/target

Period	Performance (%)	Benchmark (%)	Relative to Benchmark (%)	Target (%)	Relative to Target (%)
Last 3 months	4.4	0.8	3.6	1.2	3.2
Last 12 months	9.8	3.2	6.3	4.7	4.8
Last 3 years (p.a.)	2.8	3.0	-0.2	4.5	-1.6
Last 5 years (p.a.)	4.1	3.0	1.1	4.5	-0.4

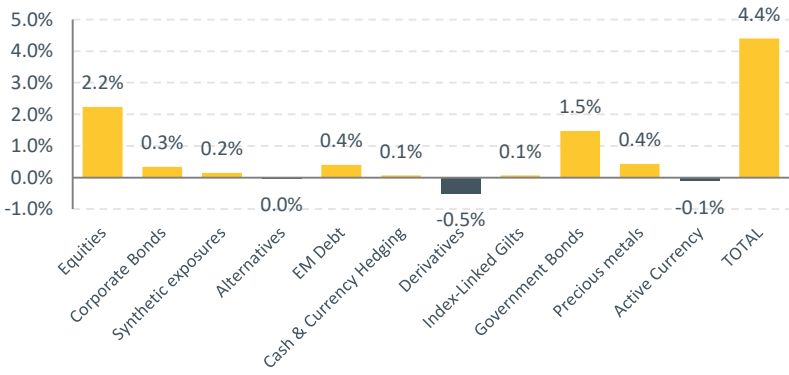
Historic Quarterly Performance



Asset Allocation



Performance Attribution



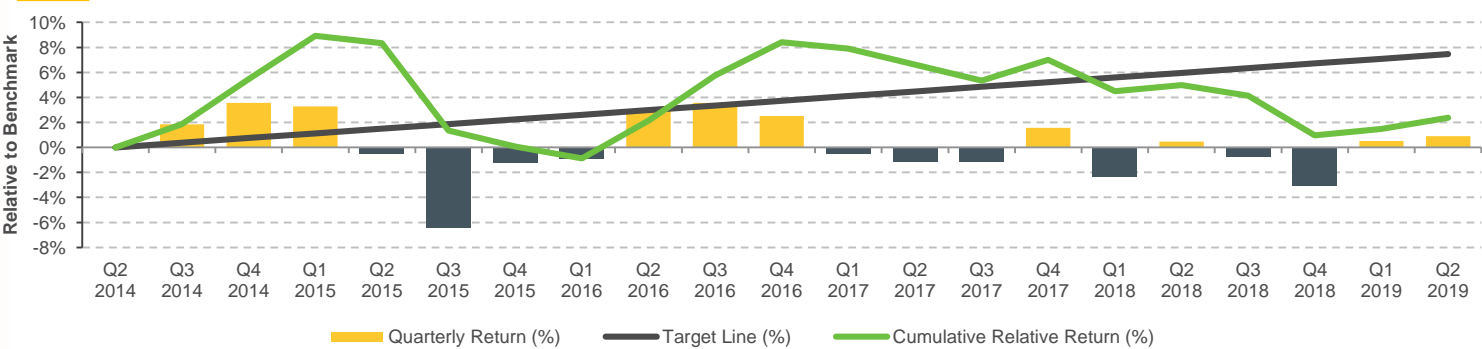
Ruffer Absolute Return Fund

- 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
- Gold was the strongest contributor over the quarter
- Equities contributed positively, though the large allocation to Japan meant the fund's equity allocation lagged wider equity markets
- The multi-strategy and option strategies detracted from performance. These are protection strategies designed to contribute positively when markets fall, but can detract when markets rally.

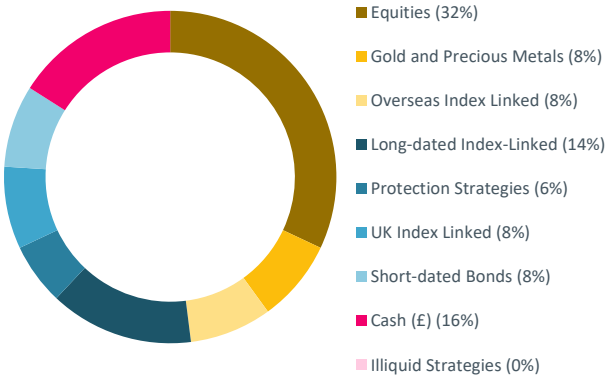
Fund performance vs benchmark/target

Period	Performance (%)	Benchmark (%)	Relative to Benchmark (%)	Target (%)	Relative to Target (%)
Last 3 months	1.7	0.8	0.9	1.2	0.5
Last 12 months	0.8	3.2	-2.4	4.7	-3.8
Last 3 years (p.a.)	3.1	3.0	0.1	4.5	-1.3
Last 5 years (p.a.)	3.5	3.0	0.5	4.5	-1.0

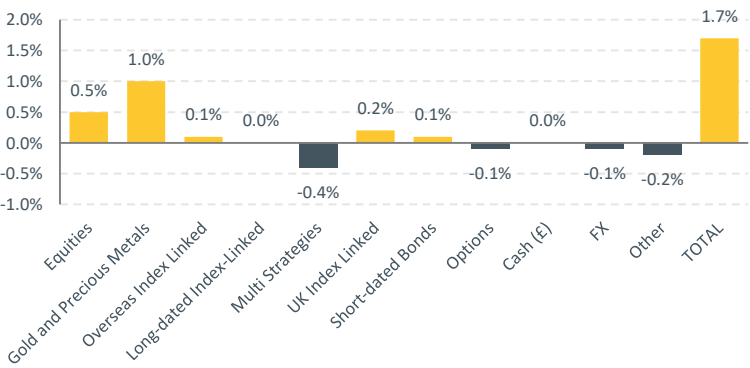
Historic Quarterly Performance



Asset Allocation



Performance Attribution



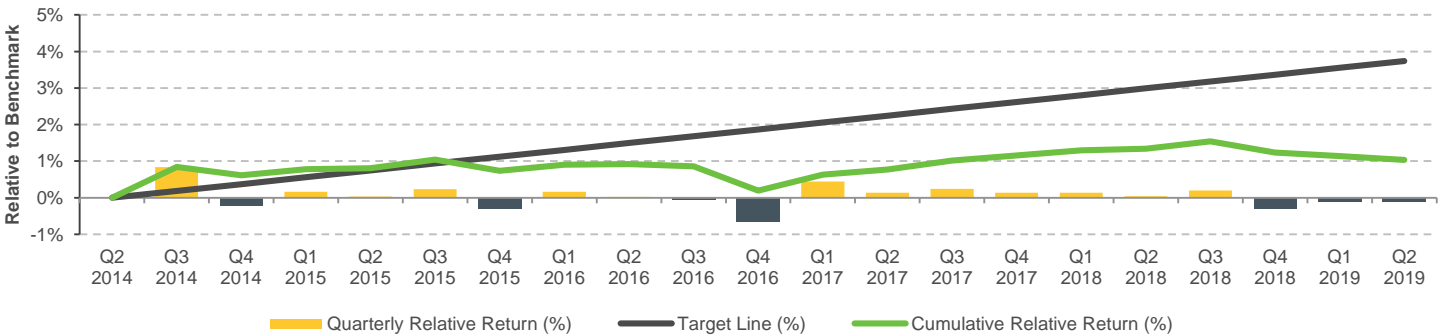
Schroders Property

- Benchmark: IPD All Balanced Funds
- Objective: Outperform benchmark by 0.75% p.a. (net) over rolling 3 years
- Performance ahead of benchmark over longer time periods, but behind target over all time periods
- Performance shown net of fees
- Strongest underlying fund performers over the quarter:
 - Industrial Property Investment Fund
 - UNITE Student Accom Fund
 - Metro Property Unit Trust
- Weakest underlying fund performers over the quarter:
 - UK Retail Warehouse Fund
 - Standard Life Pooled Pension Property Fund
 - Hercules Unit Trust

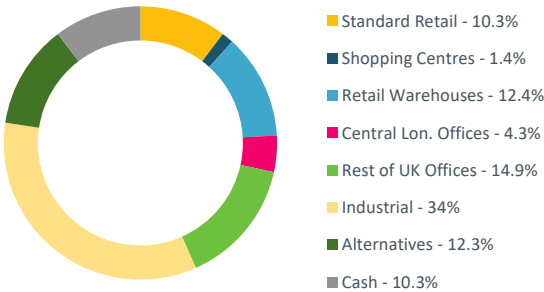
Fund performance vs benchmark/target

Period	Performance (%)	Benchmark (%)	Relative to Benchmark (%)	Target (%)	Relative to Target (%)
Last 3 months	0.5	0.6	-0.1	0.8	-0.3
Last 12 months	3.1	3.4	-0.3	4.2	-1.0
Last 3 years (p.a.)	6.4	6.4	0.0	7.1	-0.7
Last 5 years (p.a.)	8.5	8.3	0.2	9.1	-0.5

Historic Quarterly Performance



Sector Allocation



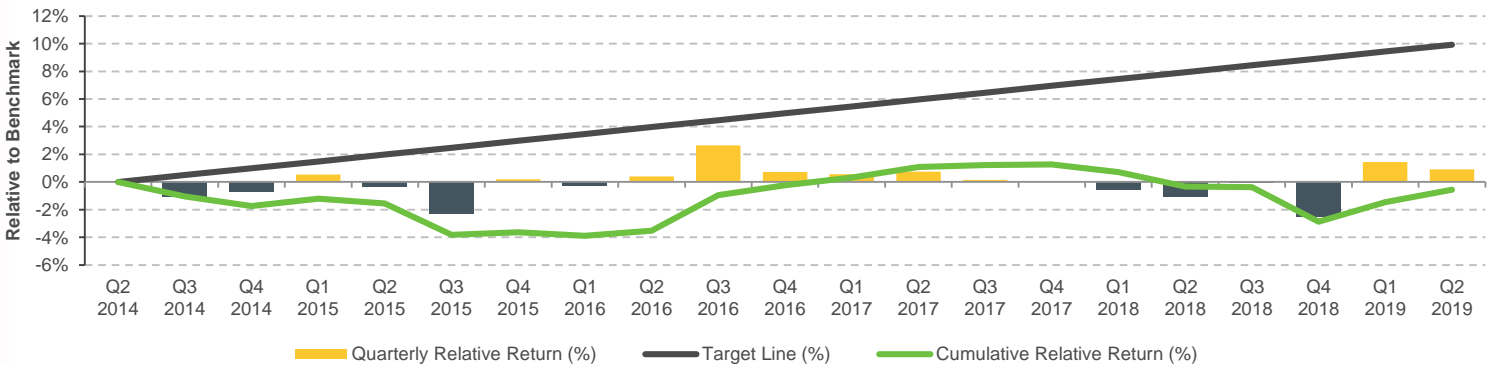
M&G Alpha Opportunities

- Benchmark: 3 Month Libor + 3%
- Objective: 3 Month Libor + 5% (gross)
- Credit spreads narrowed over the quarter as riskier asset classes continued to rally
- Performance shown gross of fees
- Corporate bonds were the top contributor to performance over the quarter, particularly industrial and financial issuers.
- Most of the fund has an underlying credit quality of investment grade (c68%)

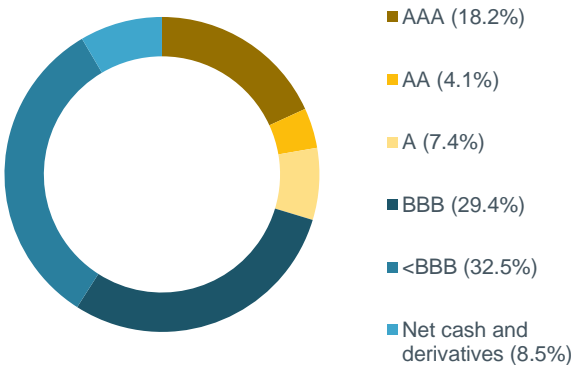
Fund performance vs benchmark/target

Period	Performance (%)	Benchmark (%)	Relative to Benchmark (%)	Target (%)	Relative to Target (%)
Last 3 months	1.8	0.9	0.9	1.4	0.4
Last 12 months	3.5	3.7	-0.2	5.7	-2.1
Last 3 years (p.a.)	4.5	3.5	1.0	5.5	-0.9
Last 5 years (p.a.)	3.4	3.5	-0.1	5.5	-2.0

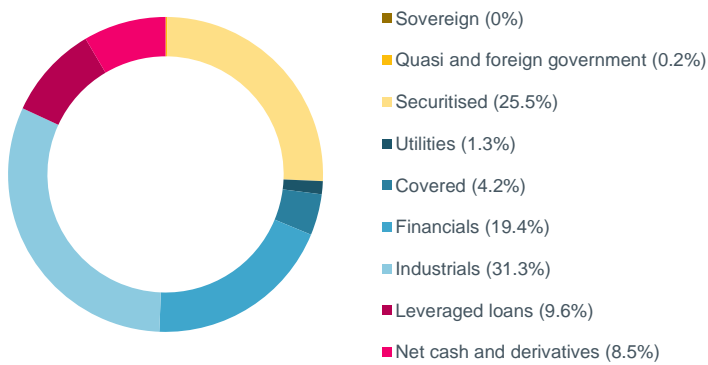
Historic Quarterly Performance



Credit Ratings



Sector Allocation



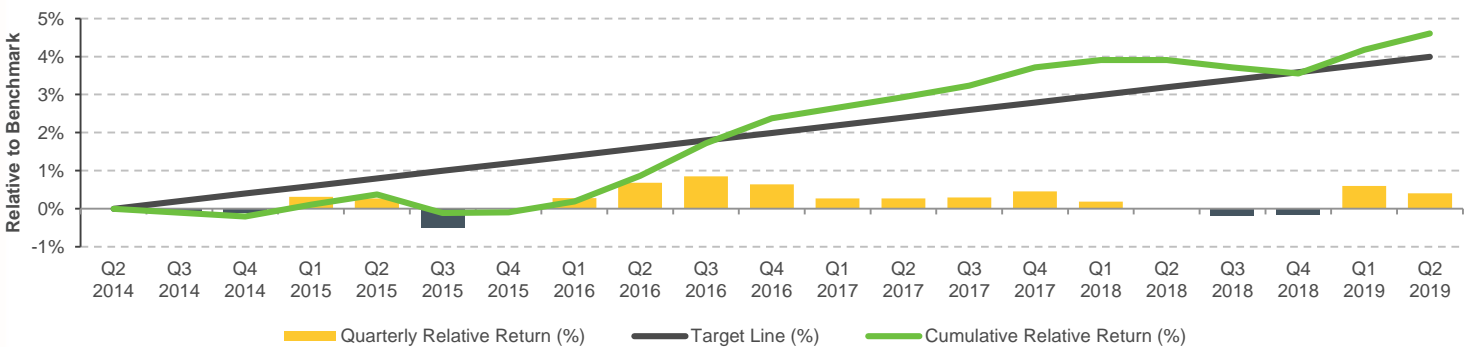
M&G Corporate Bonds

- 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 in line with target over 5 years
- M&G mandate has a marginally lower average credit quality than the benchmark

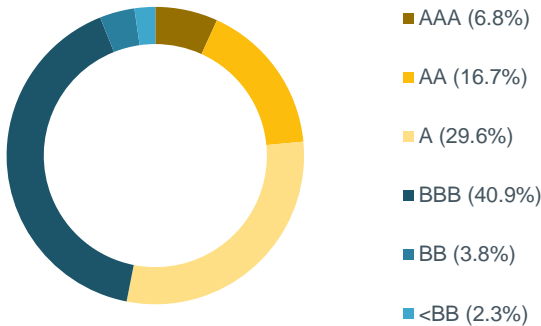
Fund performance vs benchmark/target

Period	Performance (%)	Benchmark (%)	Relative to Benchmark (%)	Target (%)	Relative to Target (%)
Last 3 months	3.3	2.5	0.8	2.7	0.6
Last 12 months	8.4	7.7	0.7	8.5	-0.1
Last 3 years (p.a.)	6.0	4.7	1.2	5.5	0.4
Last 5 years (p.a.)	7.7	6.8	0.9	7.6	0.1

Historic Quarterly Performance



Credit rating



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 fell further over the quarter and remain at historically low levels.

Fund performance vs benchmark/target

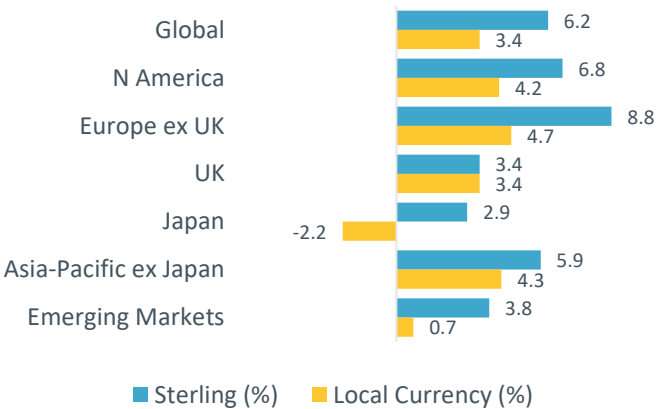


Global credit markets largely ignored the escalation in US-China trade tensions and the potential negative implications for growth as spreads continued to narrow over the quarter. The picture was more mixed across sub investment grade credit markets with European high yield experiencing the greatest tightening in spreads across corporate credit markets.

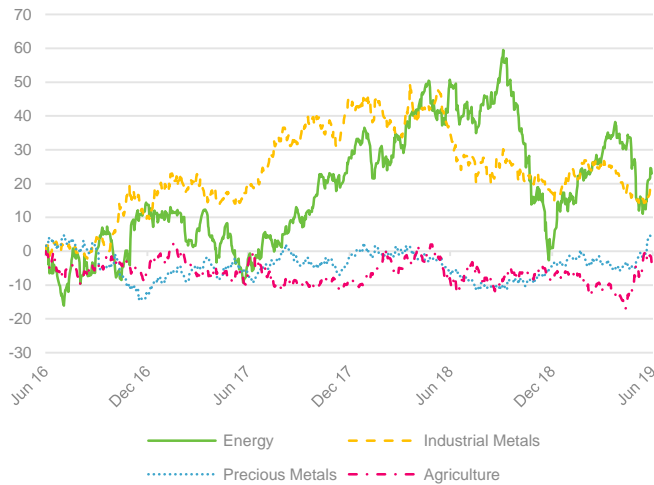
The equity market momentum of the first quarter of 2019 continued in Q2. After a brief pull-back in May, equity markets recovered in June and the US market reached another all-time high. The equity rally was broad-based, with most major equity regions producing strong returns. European (ex UK) equities were the best performing region in local currency terms as financials posted strong returns, while Japanese and Emerging Market equities lagged global indices. Japanese equities have been hindered by the strength of the yen, while Emerging Market equities suffered from their exposure to global trade.

In the two months to the end of May, UK property produced total returns of 0.5%, with the return from income more than offsetting a fall of 0.4% in the capital growth index. Rental growth has been flat over the period.

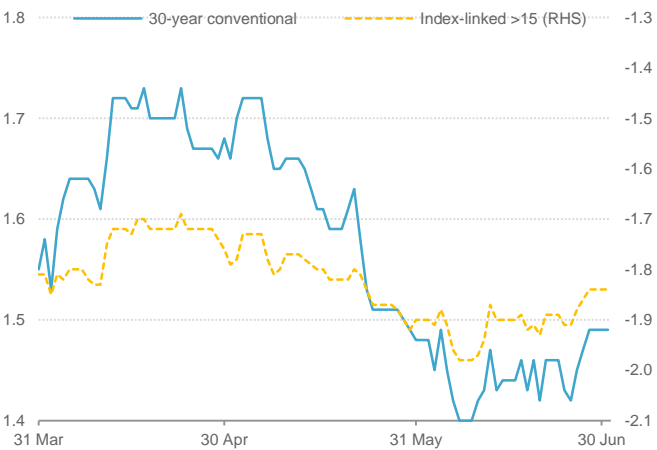
Regional equity returns ^[1]



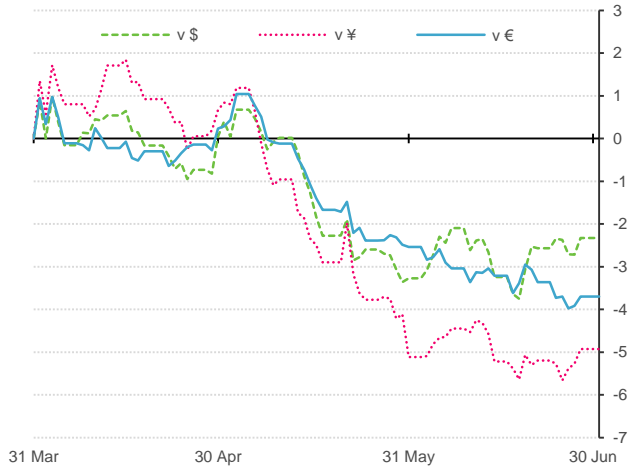
Commodity Prices



Gilt yields chart (% p.a.)



Sterling trend chart (% change)



This table sets out the benchmark and target for each mandate in which the Fund invests

Manager Benchmarks and Targets

Mandate	Benchmark	Target
UBS UK Equity	FTSE All-Share Index	FTSE All-Share Index
UBS North America	FTSE All World North America Index	FTSE All World North America Index
UBS European ex UK	FTSE All World Developed Europe ex-UK Index	FTSE All World Developed Europe ex-UK Index
UBS Japan	FTSE All World Japan Index	FTSE All World Japan Index
UBS Pacific ex Japan	FTSE All World Developed Asia Pacific ex-Japan Index	FTSE All World Developed Asia Pacific ex-Japan Index
UBS Emerging Markets	FTSE Emerging Index	FTSE Emerging Index
UBS Fundamental Indexation	FTSE RAFI All-World 3000	FTSE RAFI All-World 3000
UBS Climate Aware	FTSE Developed Index	FTSE Developed Index
Longview Equities	MSCI ACWI	MSCI ACWI + 3% p.a. (gross)
HarbourVest	MSCI All World + 1.5%	MSCI All World + 3% (gross)
Adams Street	MSCI All World + 1.5%	MSCI All World + 3% (gross)
Newton	LIBOR + 2.5% p.a.	LIBOR + 4% (gross)
Ruffer	LIBOR + 2.5% p.a.	LIBOR + 4% (gross)
Schroders Property	IPD All Balanced Index	IPD All Balanced Index +0.75% p.a. (net)
UBS Infrastructure	CPI + 2%	CPI + 3%
Infracapital Infrastructure	CPI + 2%	CPI + 3%
Pantheon Infrastructure	CPI + 2%	CPI + 3%
M&G RED VI	LIBOR + 4%	LIBOR + 5%
M&G Corporate Bonds	50% - iBoxx £ Non-Gilts Over 15 Year Index 50% - iBoxx £ Non-Gilts Index	Composite benchmark + 0.75% p.a. (net)
M&G Alpha Opportunities Fund	LIBOR + 3%	LIBOR + 5%
UBS Index-Linked Gilts	FTSE Gilt British Govt Index Linked Over 5 Year Index	FTSE Gilt British Govt Index Linked Over 5 Year Index