

Report to: **Pension Committee**

Date: **21 September 2020**

By: **Chief Financial Officer**

Title of report: **Quarterly Investment Report**

Purpose of report: **This report updates on the investment monitoring and strategic asset allocation activities undertaken by the East Sussex Pension Fund.**

RECOMMENDATION – The Pension Committee are recommended to:

- 1) note the Action Log and Investment Workplan (Appendix 1); and**
 - 2) note the Quarterly Investment Report from the Investment Advisor, Hymans Robertson (Appendix 2).**
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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, Hymans Robertson to monitor its investments.

1.2 The ACCESS Joint Committee has been established to facilitate the arrangements relating to the collective investment vehicles to allow the administering authorities to pool their respective investments and meets quarterly.

2. Action Log and Investment Workplan

2.1 The Fund's Investment Consultant has been asked to provide an Action Log and Investment Workplan which is the reference point for Investment Working Group chaired by Cllr Fox and which carries out with Officers all actions agreed at Pension Committee meetings. Unless otherwise stated, items in the action log are to be considered at the upcoming Committee meeting, or a comment provided explaining why the item is not to be covered at this time. This is included as Appendix 1.

2.2 Hymans Robertson has included actions agreed at the June 2020 Committee meeting. The Investment Workplan details the areas of work that are anticipated over the next 12 months, with corresponding ownership and estimated timescale for completion.

2.3 The table below, Table 1, provides ratings from Hymans Robertson of their prospects for markets over a period of around three years. Hymans Robertson will be providing these views on a quarterly basis, although they are not intended as tactical calls.

Table 1 Market views by asset class

Asset Class	Current Quarter View	Previous Quarter View
Equities	Cautious	Cautious
Sterling Investment Grade Credit	Neutral	Cautious
Liquid Sub-Investment Grade Credit	Neutral to Cautious	Cautious to Negative
Private Lending	Neutral to Cautious	N/A
UK Property	N/A	N/A
Long Lease Property	N/A	N/A
Gilts	Neutral to Cautious	Neutral to Cautious
Index-Linked Gilts	Neutral to Cautious	Neutral

* Hymans suspended their ratings for property (and previously private lending) given the lack of transaction activity within these markets and hence lack of pricing information.

3. Quarterly Performance Report

3.1 The Quarterly Performance Report is attached as Appendix 2. Since the last quarter, the valuation of the Fund increased from £3.488bn to £3.808bn (an increase of £0.32bn) which was driven mostly by the equity allocation. Other return seeking assets, with the exception of property, which also delivered positive performance, although their impact was less pronounced. The total return of the Fund was marginally below the benchmark by -0.2% over the quarter to 30 June 2020.

4. Fossil Fuel Exposure

4.1 The Fund's fossil fuel exposure at 30 June 2020 stood at £152.2m or 4% of assets under management, Table 2 below refers. The top five contributions come from the Fund's holding in the passive UK (13.1%), RAFI All World 3000 Equity (11.4%), M&G Corporate Bonds (8.8%), UBS North America (4.6%) and UBS Climate Aware (4.5%). This is a function of both the Fund's strategic allocation to these holdings and the higher fossil fuel exposure within these funds themselves.

Table 2 Fossil Fuel Exposure by Manager

	Actual Fossil Fuel Exposure (%)	Actual Fossil Fuel Exposure (£m)	Benchmark Fossil Fuel Exposure (%)	Relative (%)	Management Style
UBS - North America	4.6	8.5	4.7	0.0	Passive
UBS - Europe	5.1	7.3	5.3	-0.1	Passive
UBS - Japan	4.9	1.0	4.9	0.0	Passive
UBS - Pac ex Japan	9.5	1.9	9.9	-0.4	Passive
UBS - Fundamental Index	11.4	48.2	11.6	-0.2	Passive
UBS - UK Equity	13.1	32.3	13.2	-0.1	Passive
UBS - Climate Aware	4.5	8.7	5.6	-1.1	Passive
UBS - Global EM Equity	9.7	4.2	9.8	-0.1	Passive
Longview - Global Equity	0.0	0.0	6.9	-6.9	Active
Harbourvest - Private Equity*	3.9	4.2	6.9	-3.0	Active
Adams Street - Private Equity*	2.1	2.5	6.9	-4.9	Active
Newton - Absolute Return	1.1	4.8	-	-	Active
Ruffer - Absolute Return	1.4	6.3	-	-	Active
Schroders - Property	0.0	0.0	-	-	Active
M&G - Infrastructure	0.0	0.0	-	-	Active
Pantheon - Infrastructure	0.0	0.0	-	-	Active
M&G - Infrastructure	0.0	0.0	-	-	Active
M&G - Private Debt	0.0	0.0	-	-	Active
M&G - Alpha Opportunities	3.1	8.1	-	-	Active
M&G - Corporate Bonds	8.8	14.0	9.4	-0.7	Active
UBS - Over 5 Year IL Gilt Fund	0.0	0.0	0.0	0.0	Passive
Cash	0.0	0.0	0.0	0.0	Active
Total Fund	4.0	152.2	-	-	

4.2 Since the meeting of Committee in June 2020, there have been a number of changes to the Fund's pooled holdings in accordance with the Committee decision, which alter the Fund's Fossil Fuel exposure and is discussed in more detail in agenda item 17 in Part 2 of the agenda.

Equity Holdings by Manager	Current Benchmark	Change	Revised Benchmark
UBS - Passive Market Cap UK	7.0	-5.4	1.5
UBS North America	4.0	-0.6	3.5
UBS Europe ex UK	3.5	-1.5	2.0
UBS Japan	0.5	0.25	0.75
UBS Asia Pacific ex Japan	0.5	0.25	0.75

UBS Emerging Markets	1.0	0.5	1.5
Sub Total	16.5	-6.5	10.0
UBS - RAFI Fundamental Index	11.5	-11.5	0.0
UBS - Climate Aware	5.0	-5.0	0.0
Longview - Global Equity	7.0	3.0	10.0
Passive "smart- beta" ESG	0.0	10.0	10.0
Active ESG	0.0	10.0	10.0
Total	40.0	0.0	40.0

4.3 A revised calculation of the Fund's Fossil Fuel Exposure is expected to be available for review by the Committee in November.

5. Conclusion and reasons for recommendation

5.1 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.

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