

# 1 Action Log and Investment Workplan

## Introduction

This paper is addressed to the Officers and Pensions Committee (“the Committee”) of the East Sussex Pension Fund (“the Fund”). The intention is for this paper to bring together all investment issues relating to the Fund.

This first section will be prepared on a quarterly basis and act as a summary of current investment priorities and proposed work to be carried out. It provides the following:

- A list of actions agreed at Committee meetings; and
- An Investment Workplan detailing areas of work expected over the following 12 months.

It should not be released or otherwise disclosed to any third party except with our prior written consent, in which case it should be released in its entirety. We accept no liability to any other party unless we have accepted such liability in writing.

We look forward to discussing this paper with you at the September Committee meeting.

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For and on behalf of Hymans Robertson LLP

## General Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

## Action Log

The action log is a reference point of 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.

Action	Owner	Current Position	Comments
Conduct fund selection exercise for active impact equity allocation	Working Group / Hymans Robertson		Desktop search took place in July and shortlist interviewed in August. Recommended funds circulated to Committee.
Conduct fund selection exercise for passive climate-tilted equity allocation	Working Group / Hymans Robertson		Desktop search took place in July and shortlist interviewed in August. Recommended funds circulated to Committee.
Conduct fund selection exercise for listed infrastructure allocation	Working Group / Hymans Robertson		Desktop search took place in July and shortlist interviewed in August. Recommended funds circulated to Committee.
Prepare recommendation for a 2% unlisted infrastructure allocation, including a recommendation on whether to fund from Newton or M&G credit	Working Group / Hymans Robertson		To be considered at Q4 Committee meeting alongside wider annual private markets review
Test the current arrangements for implementing agreed strategic changes for the Fund and also test the arrangements with ACCESS when up and running	Officers		Recommendation made in the Governance Review paper prepared by the Independent Adviser
Review the quarterly report provided by Hymans and consider any potential changes	Pension Committee / Officers / Hymans		Recommendation made in the Governance Review paper prepared by the Independent Adviser
Review the manager performance benchmarks and targets paper produced by Hymans in 2018	Pension Committee		Recommendation made in the Governance Review paper prepared by the Independent Adviser
Engage with ACCESS partners to agree measures to mitigate concerns over pool governance	Officers		Recommendation made in the Governance Review paper prepared by the Independent Adviser

Develop an investment risk register to link in to the main risk register	Officers		Recommendation made in the Governance Review paper prepared by the Independent Adviser
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### Investment Workplan

The Investment Workplan details the areas of work that are anticipated over the next 12 months, with corresponding ownership and estimated timescale for completion.

Item	Comment	Action	Responsibility	Timescale
<b>Strategy</b>				
Private market commitments	<ul style="list-style-type: none"> <li>Commit 2% Fund assets to an unlisted infrastructure fund</li> <li>The Committee has currently agreed to invest amounts equivalent to £235m into infrastructure and £60m into real estate debt</li> </ul>	<ul style="list-style-type: none"> <li>Recommend funds for future commitments</li> <li>Meet capital call requests as they are made</li> </ul>	<ul style="list-style-type: none"> <li>Hymans Robertson</li> <li>Officers</li> </ul>	Q4 20 Committee meeting  Ongoing
Currency Hedging	<ul style="list-style-type: none"> <li>Establish a policy on approach to currency hedging</li> </ul>	<ul style="list-style-type: none"> <li>Discuss within the Investment Working Group and prepare a recommended policy</li> </ul>	<ul style="list-style-type: none"> <li>Hyman Robertson in conjunction with Working Party</li> </ul>	Q4 20
<b>Structure</b>				
Rebalancing	<ul style="list-style-type: none"> <li>Protection allocation in breach of upper limit</li> <li>Alternatives allocation in breach of lower limit</li> <li>Multi-asset and M&amp;G Alpha Opps holdings in breach of limits</li> </ul>	<ul style="list-style-type: none"> <li>No action proposed at this time</li> <li>Drawdowns into infrastructure and real-estate debt will increase alternatives allocation</li> </ul>	n/a	n/a

Equity Structure	<ul style="list-style-type: none"> <li>Implement new equity structure</li> </ul>	<ul style="list-style-type: none"> <li>Transition assets from UBS equities to newly appointed equity managers</li> </ul>	<ul style="list-style-type: none"> <li>Transition manager likely to be appointed</li> <li>Officers to lead with support from Hymans</li> </ul>	Q4 20
Listed infrastructure	<ul style="list-style-type: none"> <li>Invest in listed infrastructure fund</li> </ul>	<ul style="list-style-type: none"> <li>Transition assets from UBS Index-Linked Gilts to the newly appointed listed infrastructure manager</li> </ul>	<ul style="list-style-type: none"> <li>Officers to lead with support from Hymans</li> </ul>	Q4 20
Corporate Bond exposure	<ul style="list-style-type: none"> <li>Uncertain outlook for credit investment in current environment</li> </ul>	<ul style="list-style-type: none"> <li>Review current investments in conjunction with M&amp;G, as part of the recommendation for funding the 2% unlisted infrastructure allocation</li> </ul>	<ul style="list-style-type: none"> <li>Hymans Robertson in conjunction with Working Party</li> </ul>	Q4 20
Private equity programme	<ul style="list-style-type: none"> <li>Periodic review of private equity strategy is recommended</li> </ul>	<ul style="list-style-type: none"> <li>Carry out detailed review of objectives against current programme</li> </ul>	<ul style="list-style-type: none"> <li>Hymans Robertson</li> </ul>	Q4 2020
<b>ESG</b>				
UK Stewardship Code	<ul style="list-style-type: none"> <li>Consider the Fund becoming a signatory to the revised UK Stewardship Code</li> </ul>	<ul style="list-style-type: none"> <li>Understand the requirements under the UK Stewardship Code with a view to the Fund signing up</li> </ul>	<ul style="list-style-type: none"> <li>Officers to consider requirements</li> </ul>	Q3 2020
Transition Pathway Analysis	<ul style="list-style-type: none"> <li>Understand the Fund's equity resilience to a transition to a low carbon economy</li> </ul>	<ul style="list-style-type: none"> <li>Conduct the transition pathway analysis on the Fund's equity holdings</li> </ul>	<ul style="list-style-type: none"> <li>Hymans Robertson / Officers to consider once new mandates in place</li> </ul>	Q1 2021

## 2 Market Outlook

### Core Asset Class Views: Summary

Sentiment has improved dramatically in the second quarter as investors look through dismal expectations for Q2 data and focus on a near-term rebound that has outpaced the worst fears in recent weeks. Nevertheless, the outlook for corporate earnings and defaults remains uncertain and the potential for further waves of infection remains a risk.

Recent market moves have reduced the apparent cheapness of global equity and credit markets and they may be vulnerable to disappointment in respect of the scale and speed of the post-lockdown recovery. This leads us to retain a degree of caution and advocate holding more cash than usual.

For those reluctant to hold cash, non-directional strategies and strategies with a genuine absolute return focus may offer an attractive alternative to outright equity exposure in growth portfolios. In income portfolios, we continue to prefer investment-grade over speculative-grade credit, although private debt markets may offer opportunities to originate new deals with better terms in certain areas. Emerging market debt, particularly hard currency debt, potentially still offers some attractive relative value.

We continue to suspend our ratings for property due to the lack of transaction activity, and hence lack of pricing information.

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

Overall ratings: Negative, Cautious, Neutral, Attractive, Positive

*The ratings are intended to give a guide to our views on the prospects for markets over a period of around three years; although they are updated quarterly, they are not intended as tactical calls. The ratings reflect our expectations of absolute returns and assume no constraints on investment discretion. In practice, they need to be interpreted in the context of the strategic framework within which individual funds are managed. The property rating ignores purchase transaction costs, i.e. relevant for current holders of property.*

The table below provides a high-level overview of our key observations for each asset class.

Asset Class	Comment
Equities	<ul style="list-style-type: none"> <li>While near-term data has started to improve, much uncertainty remains over the longer-term recovery and, ultimately, the extent of the impact on corporate earnings.</li> <li>Recent market moves have reduced the apparent cheapness of global equity markets and current valuations may not adequately reflect the downside risks to the outlook.</li> <li>There remains a meaningful disparity by region – from a valuation perspective the US looks expensive, with the UK and Emerging Markets look cheaper relative to historic levels.</li> </ul>
Sterling Investment Grade Credit	<ul style="list-style-type: none"> <li>Global investment grade credit spreads have rebounded strongly and are nearing long-term median levels.</li> <li>Despite similar underlying assessments for both investment-grade and speculative-grade markets, we have a slightly more positive overall view for investment-grade, given the less sensitive nature of this market to the fundamental backdrop.</li> <li>The structural protection inherent in ABS and high stress resilience offers some additional protection relative to unsecured corporate markets.</li> </ul>
Liquid Sub-Investment Grade Credit	<ul style="list-style-type: none"> <li>Around two-thirds of the spread widening of the first quarter has been recouped (by end July) since the end of March, though spreads remain above long-term median levels.</li> <li>Default and downgrade expectations have improved; however the outlook still remains uncertain.</li> </ul>
Private Lending	<ul style="list-style-type: none"> <li>Transaction activity in private debt markets has resumed, though the fundamental backdrop has deteriorated since the beginning of 2019.</li> <li>The illiquidity premium we would typically expect has been compressed a little as spread widening in private credit markets lags that in the syndicated loan markets but there may be attractive opportunities to originate new deals in the coming months.</li> </ul>
UK Property	<ul style="list-style-type: none"> <li>UK commercial property capital values and rental growth are falling across the market as the impact of the pandemic is increasingly reflected in the data.</li> <li>A lack of transactions means the material uncertainty over the accuracy of valuations persists and is likely the data will further deteriorate over the coming months.</li> </ul>
Long Lease Property	<ul style="list-style-type: none"> <li>Given strength of tenants and contracts we would expect the typical sector mix of long lease portfolio to fare better than the core property market, albeit there may still be pockets of potential stress.</li> <li>However, valuations reflect the greater protection provided by term and tenant quality.</li> </ul>
Infrastructure	<ul style="list-style-type: none"> <li>We have seen some significant write-downs of some GDP-sensitive assets, but there is limited evidence of how it has affected broad valuations.</li> </ul>

	<ul style="list-style-type: none"><li>• Dry powder remains at an all-time high.</li></ul>
Gilts	<ul style="list-style-type: none"><li>• Gilt yields remain near record lows amid ultra-accommodative monetary policy.</li><li>• Downgrades to forecasts for UK growth and inflation improve fundamental support for gilt markets.</li><li>• Yields are expected to remain subdued for some time as major central banks expand QE programs to provide liquidity to the global financial system, pushing the normalisation of interest rates beyond the horizon of our medium-term views.</li></ul>
Index-Linked Gilts	<ul style="list-style-type: none"><li>• Implied inflation is no longer cheap versus forecast and target inflation.</li><li>• The ongoing consultation on the use of RPI as an inflation measure remains a risk for real yields.</li></ul>
Cash Strategies	<ul style="list-style-type: none"><li>• While interest rates may be as close to zero as they can get, when focused on risk adjusted returns, this feels like a sensible time to hold more cash than usual, that can be deployed into buying opportunities.</li></ul>