

Report to: **Pension Committee**

Date: **30 November 2020**

By: **Chief Financial 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.**

RECOMMENDATIONS

The Pension Committee is recommended to:

- 1) note the Action Log and Investment Workplan (appendix 1);**
 - 2) note the Quarterly Investment Report from the Investment Advisor, Hymans Robertson (Appendix 2);**
 - 3) agree the revised Investment Strategy Statement (appendix 4); and**
 - 4) note the content of this report**
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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 Hymans Robertson, the East Sussex Pension Fund's (ESPF or the Fund) Investment Consultant, has provided an Action Log and Investment Workplan which will act as a reference point of all actions agreed at Pension Committee meetings. Unless otherwise stated, items in the action log are to be considered by the Committee 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 September 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 below table 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 to Cautious | Neutral |
| Liquid Sub-Investment Grade Credit | Neutral to Cautious | Neutral to Cautious |
| Private Lending | Neutral to Cautious | Neutral to Cautious |
| UK Property | Cautious | N/A* |
| Long Lease Property | Neutral to Cautious | N/A* |
| Gilts | Neutral to Cautious | Neutral to Cautious |
| Index-Linked Gilts | Neutral to Cautious | Neutral to Cautious |

* Hymans had suspended their ratings for property 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 £3.807bn as at 30 June 2020 to £3.851bn as at 30 September 2020 (an increase of £0.044bn); in the main driven by the absolute return mandates Equity and Private Equity also supported returns. The total return of the Fund of 1.1% was slightly ahead 0.4% of the benchmark 0.7% over the quarter to 30 September 2020.

4. Fossil Fuel Exposure

4.1 The Fund's fossil fuel exposure at 30 September 2020 stood at £134.6m or 3.5% (£152.2m or 4% at 30 June 2020) of assets under management, Table 2 below refers. The top five contributions come from the Fund's holding in the RAFI All World 3000 Equity (32.8% of the funds exposure), passive UK (20.2%), M&G Corporate Bonds (10.5%), M&G Alpha Opportunities (5.9%) and UBS Climate Aware (5.6%). 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 | 4.1 | 6.1 | 4.1 | 0.0 | Passive |
| UBS - Europe | 4.7 | 5.8 | 4.8 | -0.1 | Passive |
| UBS - Japan | 4.9 | 0.9 | 4.9 | -0.1 | Passive |
| UBS - Pac ex Japan | 9.2 | 1.6 | 9.3 | -0.1 | Passive |
| UBS - Fundamental Index | 10.9 | 44.2 | 11.0 | 0.0 | Passive |
| UBS - UK Equity | 11.3 | 27.2 | 11.4 | -0.1 | Passive |
| UBS - Climate Aware | 4.2 | 7.6 | 5.0 | -0.7 | Passive |
| UBS - Global EM Equity | 8.7 | 3.1 | 8.9 | -0.2 | Passive |
| Longview - Global Equity | 0.0 | 0.0 | 6.9 | -6.9 | Active |
| Harbourvest - Private Equity* | 2.3 | 2.5 | 6.9 | -4.6 | Active |
| Adams Street - Private Equity* | 1.9 | 2.4 | 6.9 | -5.0 | Active |
| Newton - Absolute Return* | 1.1* | 5.0 | - | - | Active |
| Ruffer - Absolute Return* | 1.4* | 6.2 | - | - | Active |
| Schroders - Property | 0.0 | 0.0 | 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 | 3.0 | 7.9 | 9.7 | - | Active |
| M&G - Corporate Bonds | 8.8 | 14.1 | 9.4 | -0.6 | 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 | 3.5 | 134.6 | - | - | |

*fossil fuel exposure as at 30 June 2020.

Source via Hymans - Investment Managers and LINK

Note the Actual Fossil Fuel Exposure % in the table above is % of that managers holdings and different to the % of total fund exposure holdings as per paragraph 4.1

4.2 Since the meeting of Committee in September 2020, the Fund has been working with its transition manager to implement the agreed changes to the Fund's pooled holdings in accordance with the Committee decision and is discussed in more detail in agenda item 17 in Part 2 of the agenda. As a result of the transition to implement the agreed changes the fund anticipates the fossil fuel exposure to fall significantly from its current level of 3.5%, to below 2%. The fossil fuel reduction results will not be recognised in Investment report until the 2020 Q4 reporting to Pension Committee in March 2021.

5. ACCESS update

ESG Adviser procurement

5.1 In recognition of the importance of Environmental, Social and Governance (ESG) /Responsible Investment (RI) to participating ACCESS Authorities, the Joint Committee at its meeting on 7 September noted:

- that responsibility for the determination of ESG/RI policy remains the province of each ACCESS Authority;
- references within all Authorities' ESG/RI policies to both the UK FRC Stewardship Code and United Nations Principles of Responsible Investment;
- that a statement would be included on the ACCESS website to highlight that
 - All 11 investment managers are signatories to the United Nations Principles of Responsible Investment;
 - All 10 investment managers based in the UK have stated the intention to become signatories to the revised FRC UK Stewardship Code;
 - 9 of the 10 investment managers based in the UK have been assessed as a Tier 1 Asset Manager under the UK Stewardship Code; and
 - currently 6 of the ACS investment managers measure the carbon footprint of their mandate against a carbon benchmark.
- An outline specification for the provision of specialist advice to develop ACCESS's ESG/RI guidelines;
- the intention to use Lot 5 of the LGPS Stewardship framework to procure this advice.

5.2 The JC agreed that Essex County Council would act as the Lead Authority for the purposes of procuring the ESG/RI advice, and this will be conducted in line with Essex County Council procurement arrangements. The final stage of the procurement will be a recommendation to the JC when it meets on 13 January 2021 on the appointment of a preferred provider. Essex County Council will then enter into a contract with the appointed adviser on behalf of the Authorities.

5.3 An Officer Task & Finish Group has been formed of Officers. This group has met on five occasions and drawn up a set of specifications for the adviser procurement. It has been put forward that the appointment panel comprises up to three Joint Committee Members, along with S151 and Officer Working Group representation.

Joint Committee

5.4 The Joint Committee met on 12 November 2020. The agenda has been included in Appendix 3 and public papers can be located on Kent County Council website here <https://democracy.kent.gov.uk/ieListDocuments.aspx?CId=898&MId=8685&Ver=4>.

5.5 After the meeting the Joint Committee received a presentation from Hymans Robertson on the current pooling solutions that have been implemented by LGPS Pools. To help the Joint committee set criteria to evaluate these models when reviewing the future direction of ACCESS.

Sub Fund Progress

5.6 As reported previously to the Committee, Link on behalf of ACCESS Authorities, are launching a series of sub-funds representing those mandates which met criteria set by the Joint Committee relating to scale, commitment and value for money. The table below shows the progress made:

| Tranche | T1 | T2 | T3 | T3a | T4 | T5a | T4a | T5b | T6 | On hold | Total |
|--------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|
| Global equities | 1 | 5 | 1 | 1 | | 4 | 1 | | 1 | | 14 |
| UK equities | | 2 | | | | 1 | | | | 1 | 4 |
| EM Equities | | | | | | | | | 1 | | 1 |
| Fixed income | | | 1 | | 1 | | 1 | 3 | 1 | 1 | 8 |
| Diversified growth | | | | | 3 | | | | | | 3 |
| Total | 1 | 7 | 2 | 1 | 4 | 5 | 2 | 3 | 3 | 2 | 30 |

5.7 Tranches 1 – 4 are live as ACCESS pooled funds. Tranche 5a was due to launch during November and Tranche 4a in early December, East Sussex do not have any assets within the tranches currently transitioning.

6. Investment Strategy Statement

6.1 As a result of the decisions made at Pensions Committee in June 2020 and September 2020 on the changes to its equity holdings and the approval of the Funds Statement of Responsible Investment Principles, officers were requested to bring a revised Investment Strategy Statement to this Pension Committee reflecting the changes.

6.2 Appendix 4 to this report includes the revised Investment Strategy Statement (ISS) taking into account the requested changes at the 21 September 2020 Pension Committee.

7. Conclusion and reasons for recommendation

7.1 Investments are regularly monitored to ensure that the Fund's strategic asset allocation set out in the Fund's 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.

IAN GUTSELL
Chief Finance Officer

Contact Officer: Sian Kunert, Head of Pensions
Tel. No. 01273 337177
Email: Sian.kunert@eastsussex.gov.uk