

# 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 November 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
Implement the manager changes agreed at the September Committee meeting; investments to be made with WHEB, Wellington, Storebrand and Atlas, funded from equity and index-linked gilt holdings at UBS.	Officers		Due diligence reviews taken place by Eversheds and a transition plan has been agreed for the transition of assets
Review the Fund's private equity allocation	Hymans Robertson / New Investment Advisor		Hymans Robertson provided a summary of the Fund's private equity portfolio for the November Committee meeting. Any future recommendation to be provided by the new investment advisor
Prepare recommendation for a 2% unlisted infrastructure allocation, including a recommendation on whether to fund from Newton or M&G credit	Working Group / New Investment Advisor		To be considered by the new investment advisor
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 / New Investment Advisor		New investment Advisor will provide reporting that can be reviewed
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>New investment advisor</li> <li>Officers</li> </ul>	<p>Q4 20 Committee meeting for private equity summary</p> <p>Ongoing</p>
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 Party and prepare a recommended policy</li> </ul>	<ul style="list-style-type: none"> <li>New investment advisor in conjunction with Working Party</li> </ul>	H1 2021
<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> </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 appointed</li> </ul>	Q4 20

			<ul style="list-style-type: none"> <li>Officers to lead with support from Hymans</li> </ul>	
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>New investment advisor in conjunction with Working Party</li> </ul>	H1 2021
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 / New investment advisor</li> </ul>	<p>Q4 2020 for private equity summary</p> <p>Recommendation to follow by new advisor</p>
<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>	Q1 2021
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>Officers to consider once new mandates in place</li> </ul>	Q1 2021

## 2 Market Outlook

### Core Asset Class Views: Summary

Unprecedented policy support has, for the moment at least, eased the worst fears about the scale and duration of the economic downturn and goes some way to explaining the sustained revival in investor sentiment. However, the surprisingly strong short-term economic bounce has already lost steam and the risks remain high while COVID-19 remains endemic in much of the world. It is increasingly difficult to justify prices if factoring in the uncertainty associated with the full range of scenarios that may play out. With this in mind:

- We retain our cautious view on equities: not only does the outlook for earnings remain highly uncertain, but valuations are once again beginning to look a little stretched.
- A challenging fundamental backdrop and demanding valuations also lead us to hold a cautious view on property.
- With investment-grade spreads moving below long-term median levels, we are now more neutral between investment- and speculative-grade in corporate credit markets and have a modest bias within investment-grade portfolios towards asset-backed securities.
- Given our overall cautious assessment of risk assets, we continue to advocate holding more cash than required by strategic considerations.
- For those reluctant to hold cash within growth portfolios, non-directional assets – such as insurance-linked securities, macro hedge funds and absolute return diversified growth funds – may offer an attractive alternative, though these assets will require conviction in active manager skill.

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

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	Global equity markets continued their momentum from Q2 through Q3, boosted by improving investor sentiment as rapid growth was realised following the easing in lockdowns in major economies. While data has improved and analysts' earnings forecasts have stabilised, much uncertainty remains over the recovery and the longer-term trajectory of corporate earnings, particularly in light of the recent return of restrictions in many countries. Valuations are highly disparate by region and sector, but when viewed in aggregate are considered a little stretched and may not be fully reflective of the current downside risks to the outlook
Sterling Investment Grade Credit	<p>Spreads have moved in-line with long-term median levels amid ongoing support from central banks and a recovery in market sentiment. The less sensitive nature of the investment-grade credit market to the fundamental backdrop is being reflected in spreads. Sterling investment grade spreads have fallen below long-term median levels and the premium relative to equivalent global credit is low relative to history.</p> <p>The structural protection inherent in ABS and high stress resilience does offer some additional protection relative to unsecured corporate markets where spreads have compressed further.</p>
Liquid Sub-Investment Grade Credit	Recent spread tightening means that speculative grade spreads are just above long-term median levels. While expectations for the peak default rate have improved since the end of Q1, reflecting an improvement in financial conditions resulting from significant policy stimulus and a recovery in market sentiment, the outlook for earnings and defaults has still deteriorated significantly since the start of the year.
Private Lending	Though the fundamental backdrop has deteriorated since the beginning of 2020 and remains uncertain, senior secured corporate lending offers the opportunity to originate new debt with better terms and potentially more attractive fundamentals versus outstanding debt in the public markets. The illiquidity premium we would typically expect remains slightly compressed given recent weakness in the public markets. More affected outstanding debt in public and private markets may create opportunities for new stressed/distressed and special situations financing strategies.
UK Property	While there is greater certainty around the accuracy of valuation data and some moderation in the stress facing the UK commercial property market, weak fundamentals demonstrate further downside risk over the coming months.
Long Lease Property	On an absolute basis, valuations appear less attractive than the wider property market, but they are supported by stronger fundamental and technical drivers.
Gilts	Gilt yields remain near record lows amid slumping forecasts for growth and inflation and ultra-accommodative monetary policy. Yields may remain subdued for some time as major central banks maintain QE programs to provide liquidity to the global financial system, potentially pushing the normalisation of interest rates beyond the horizon of our medium-term views.
Index-Linked Gilts	Implied inflation is no longer cheap versus forecast and target inflation. The ongoing consultation in to RPI as an inflation measure remains a lingering upside risk for real

	yields. Forecasts for UK growth and inflation in 2020 provide fundamental support for gilt markets.
Cash Strategies	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.