

Report to: Pension Committee

Date: 28 September 2021

By: Chief Financial Officer

Title: Investment Report

Purpose: This report provides Pension Committee with an update on the investment activities undertaken by the East Sussex Pension Fund.

RECOMMENDATION

The Pension Committee are recommended to:

- 1) note the Investment Workplan (appendix 1);
 - 2) note the Quarterly Investment Report from the Investment Advisor, Isio (appendix 2);
 - 3) note the update on the progress implementing the revised equity structure;
 - 4) note the update on the responsible investment implementation;
 - 5) note the update on the UK stewardship code;
 - 6) note the ACCESS Pool update;
 - 7) Approve the changes to the Investment Strategy Statement (appendix 4);
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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, Isio.

1.2 The ACCESS Joint Committee has been established as a result of the changes implemented in the 2016 LGPS Investment regulations to facilitate the arrangements relating to the collective investment vehicles, to allow the administering authorities to pool their respective investments. The ACCESS Joint Committee meets quarterly.

2. Action Log and Investment Workplan

2.1 Appendix 1 shows a Workplan which will act as a reference point of all actions agreed at Pension Committee meetings. Unless otherwise stated, items in the workplan are to be considered by the Committee or a comment provided explaining why the item is not to be covered at this time.

2.2 The workplan picks up actions agreed at the 12th July 2021 Committee meeting. The Investment Workplan details the areas of work that are anticipated over the next 12 months.

2.3 The main focus over the next 12 months is an undertaking of the climate modelling scenario analysis for the Fund and implementation of the revised investment strategy where investment opportunities are possible, as agreed at the 12 July 2021 Pension Committee meeting.

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 £4.2bn as at 31 March 2020 to £4.5bn as at 30 June 2021 (an increase of £0.3bn). A positive absolute return of 5.5% over the quarter, outperforming its respective benchmark by 1.1%.

3.2 Over the period, the Harbourvest private equity mandate was the standout performer in both absolute and relative terms. Benefitting from a number of initial public offerings and asset sales as well as a general uptick in the valuation of assets as markets continue to open and normalise following various COVID lockdowns.

3.3 Two of the main detractors to relative performance over the period was the Longview and WHEB investments. Longview's underweight position to the Information Technology sector was a significant detractor from relative performance, as valuations of fast growing technology stocks benefitted from the fall in long term yields. which suffered as a result of limited exposure to the stronger performing infrastructure sectors over the quarter. WHEB's underperformance was partly driven by the Fund's lack of exposure to certain sectors which are unrelated to Sustainability, but which performed strongly over Q2. However both investments produce positive absolute performance. Which was achieved by all managers this quarter.

4. Equity Review

4.1 Since the meeting of Committee in June 2021, the Fund has been working to implement the preferred option for strategic equity allocation approach. Which is to replace the passive market capitalisation investment with UBS.

The total planned equity allocation set out below:

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|---|-----|
| • Storebrand Global ESG Plus | 10% |
| • Osmosis Resource Efficiency | 5% |
| • WHEB Sustainability | 5% |
| • Wellington Global Impact | 5% |
| • Longview Global Equity | 10% |
| • Ballie Gifford Global Alpha – Paris Aligned | 5% |

4.2 In August 2021 the Fund made the switch between its UBS passive market capitalisation indexes and the ACCESS Ballie Gifford Global Alpha Fund, which is currently on the ACCESS platform. This sub fund is planned for conversion to the Ballie Gifford Global Alpha – Paris Aligned Fund in the near future. The Fund are reliant on ACCESS obtaining Financial Conduct Authority (FCA) approval to implement this change. The transition into the pool happened without major incident and is a step further towards reducing the unintended fossil fuel holdings in the Fund.

4.3 A separate paper in the exempt Investment report will discuss in detail the progress made with UBS and Osmosis.

4.4 In August the Fund undertook the transition of the Storebrand Global ESG Plus investment from the Storebrand Norwegian Fund into an AMX run Irish Fund. This is still managed by Storebrand however the move was undertaken to access a tax transparent vehicle which did not exist at the time the initial investment was made. It is estimated the savings for the Fund will be around 0.15% (approximately £700k pa) through this structure.

5. Responsible Investment Principles Implementation

5.1 At the Committee meeting in November 2020 the Fund's first statement on responsible investment principles (SRIP) was agreed. Within this document it set out a set of commitments that the Fund has made around climate monitoring and action.

5.2 The table below sets out commitments made in the SRIP and how the Fund is progressing with these.

Commitment	Progress	Further Action
To continue to measure and report on carbon-equivalent emissions throughout the equity portfolios	The Fund has undertaken an analysis of the Equity and Fixed Income investments with a third party provider Vigeo Eiris for the second year.	Develop understanding of the different metrics. Continue using a third party provider to evaluate carbon emissions of equities and develop other asset classes
To continue our work with IIGCC and Climate Action 100+	The Fund has been an active participant in the IIGCC corporate program.	The Fund is looking for more options within the IIGCC to support further development and implementation of IIGCC research into the Fund's strategy.
To continue to research and support the deployment of new impact capital into projects set to benefit from the transition to a low carbon economy	Invested 10% of the Equity program into impact managers 10% into climate risk passive product.	Looking to work with ACCESS to develop suitable solutions within the Pool
To assess the carbon intensity of all assets (using estimates if necessary) by the end-2022 reporting cycle, supported by external managers and GPs	The Fund has only considered the carbon intensity of the liquid holdings and is working with managers and other advisors in how to calculate this for the alternative space.	The Fund is considering which metrics it wishes to monitor and ensure that this is in line with TCFD reporting requirements. Once established we will be approaching all managers to provide this information.
Using data from the Transition Pathway Initiative (TPI), to engage alongside our collaborative partners to encourage companies to adopt business models and strategies that are in line with the aims of the Paris agreements.	The Fund considered a passive investment that combined the TPI data to provide exclusions however concerns around the completeness of data and being constrained on future developments lead the Fund to invest in other passive options. The Fund actively review the TPI scoring of underlying holdings to understand positions within managers portfolios and use as a base to challenge external managers.	The Fund has been improving its information on its underlying holdings with the aim to get quarterly information to further analyse on different criteria including TPI analysis.

Implement processes that adhere to Taskforce for Climate-related Financial Disclosures (TCFD) recommendations on mandatory reporting and governance requirements related to climate risk as they are expected to apply to the LGPS.	The Fund is using its new resources to get more clarity on its investments at least quarterly, this allows us to better understand the areas that we need to focus our attention to bring us up to the required standard for TCFD reporting.	The Fund is conducting a gap analysis of the current documentation of the Fund to support embedding processes
To report annually in accordance with TCFD recommendations.	The Fund will provide a TCFD section within the 2020/21 Annual Report covering all elements where sufficient data.	We are awaiting the consultation from MHCLG on TCFD reporting to clarify the final requirements and include a fully compliant report within the Annual Report for 2021/22
Signatory to the United Nations Principles for Responsible Investment (PRI)	The Fund has signed up to the PRI as this is the first year of being a signatory it was not requirement to provide information.	During Q4 2021 and Q1 2022 to prepare the necessary information to maintain our signatory status to the PRI
Encourage the Fund's investment managers to provide transparency by reporting relevant and accessible Environmental, Social and Governance (ESG)-related information. This includes their commitments to and alignment with the UK Stewardship Code 2020, the TCFD, the PRI and GRESB, where appropriate.	We have been requesting quarterly information from the managers on engagement and voting and have been monitoring the managers commitments. The Fund ensure all new managers are PRI and IIGCC signatories.	We will be maintaining the engagement and voting information capture to allow greater understanding of how this is working with our mangers and in conversations will be pushing the managers to sign up to relevant commitments with TCFD and UK stewardship code 2020 being priorities.
Working collaboratively to increase the reach, efficiency and effectiveness of Responsible Investment (RI). We work with a host of like-minded partner funds, service providers and related organisations striving to attain best practice in the industry and to improve industry standards.	ACCESS has set up a ESG task and finish group to improve their ESG guidelines. The Fund has been fully involved in this process. We have been working with the National LGPS Framework on the replacement Stewardship framework. We have been engaged with IIGCC and have signed up to some of the initiatives coming from this collaboration.	We shall be looking to continue to explore opportunities with ACCESS to improve the RI opportunities. Increase the involvement in collaborative RI initiatives and look to be signatories to shareholder resolutions.
Report annually in accordance with the UK Stewardship Code	The Fund has been establishing the gaps within the current documentation and the requirements for the	As the first signatories have been released, we are now able to review those reports that have been accepted to

requirements, and we are committed to adhering with the requirements of the new UK Stewardship Code 2020.	UK Stewardship code 2020 requirements to enable a complete report.	help to assess the Funds responses for submission in April 2022.
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6. UK Stewardship 2020 update

6.1 The Financial Reporting Council (FRC) run the UK Stewardship Code 2020 (the Code) which sets high stewardship standards for asset owners and asset managers, and for the service providers that support them.

6.2 The Code comprises a set of ‘apply and explain’ Principles for asset managers and asset owners, and a separate set of Principles for service providers. The Code does not prescribe a single approach to effective stewardship. Instead, it allows organisations to meet the expectations in a manner that is aligned with their own business model and strategy.

Application

6.3 Organisations have to submit an annual Stewardship Report explaining how they have applied the Code over a 12-month period. The Report must be reviewed and approved by the applicant’s governing body, and signed by the chair, chief executive or chief investment officer.

6.4 First applications for the UK Stewardship Code 2020 closed on 31 March 2021 for asset managers and service providers and 30 April 2021 for asset owners. The next window to be included in the list of signatories will close on 31 October 2021. Successful applicants will be added to the signatory list once updated.

6.5 From 2022 the spring application deadline will be 30 April 2022 for all applicants. Organisations will also have the opportunity to apply by 31 October 2022.

Assessment

6.6 Reports submitted to the FRC are read in full and assessed against the Principles and reporting expectations of the Code in a way that is proportionate to the organisation’s size and type. This assessment is then reviewed and discussed among FRC staff to ensure it is fair and appropriate. A sample of reports reflecting a range of applicants are reviewed by the FRC’s panel of independent advisors to ensure consistency.

6.7 Both successful and unsuccessful applicants are provided a summary of where their reporting met our expectations and where improvement is required when re-applying to the Code. Unsuccessful applicants may address the feedback and re-apply in a future reporting window.

Publication

6.8 Once the applicant has been accepted as a Code signatory and the Report is approved by the FRC, the Report will be a public document. The signatory must also make it available on their website within one month of being notified by the FRC.

6.9 On the 6 September 2021, the FRC released the UK Stewardship Code 2020 signatory list. Later applicants to the Code, if successful, will be added to the list. Signatories to the 2020 Code will have to annually update and submit their report to remain on the list. A list of our managers that have been successful are:

Manager

Ballie Gifford
Longview
M&G
Newton
Ruffer
UBS
Wellington

Current position

6.10 The Fund has gone through the UK Stewardship 12 principles (set out in the table below) and assessed the current position of the Fund against these. We now have a set of asset owners approved responses and will be able to compare this to the Funds response. We will be looking to submit this in April 2022.

PRINCIPLES FOR ASSET OWNERS AND ASSET MANAGERS
Purpose and governance
1. Purpose, strategy and culture
2. Governance, resources and incentives
3. Conflicts of interest
4. Promoting well-functioning markets
5. Review and assurance
Investment approach
6. Client and beneficiary needs
7. Stewardship, investment and ESG integration
8. Monitoring managers and service providers
Engagement
9. Engagement
10. Collaboration
11. Escalation
12. Exercising rights and responsibilities

7. ACCESS update

Illiquid assets

7.1 The Joint Committee agreed the proposed Implementation Advisor for ACCESS at its last meeting on 6 September 2021 and work will be progressing during Q4 2021 to begin the process of implementing these workstreams.

Environmental, Social and Governance/Responsible Investment (ESG/RI) guidelines

7.2 Minerva, the appointed third party advisor to assist ACCESS with creating its ESG/RI guidelines, have undertaken a survey of each Authority's current position on ESG/RI matters and their aspirations in this space.

- 7.3 The results from this survey has helped Minerva create a draft set of guidelines covering:
- Governance - ACCESS' approach to the responsible oversight and management of the Partner Funds' investments;
 - Process - ACCESS' approach to identifying RI factors and their potential impact on investments;
 - Implementation - the approach taken to implementing the Pool's RI objectives;
 - Stewardship - ACCESS' approach to voting, engaging with investee companies and assets, securities lending policy and working collaboratively with third parties; and
 - Monitoring & Reporting – the Pool's approach to assessing ongoing effectiveness and communicating findings to Partner Funds and stakeholders.

7.4 Minerva will be conducting a workshop training session with the Joint Committee during Q4 2021 to discuss their thoughts on the proposed document, to ensure these are interpreted correctly. The final ESG/RI Guidelines are set to be presented to the November Joint Committee for approval.

Joint Committee

7.5 The Joint Committee met on 6 September 2021. The agenda has been included in Appendix 3 and public papers can be located on Kent County Council website here [Agenda for ACCESS Joint Committee on Monday, 6th September, 2021, 11.00 am \(kent.gov.uk\)](https://www.kent.gov.uk/agenda-for-access-joint-committee-on-monday-6th-september-2021-11.00-am)

Sub Fund Progress

7.6 As reported previously to the Committee, Link, the ACCESS pool operator, 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	T4b	T5b	T5c	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	2	8
Diversified growth					3						3
Total	1	7	2	1	4	5	2	1	3	4	30

7.7 Tranches 1 – 5a are live ACCESS pooled funds with £21.0bn of assets under management. Tranche 5b has been delayed until October due to a pause on launches which was caused by an insurance arrangement issue.

7.8 Trance 5c has a mix of global equities and fixed income sub funds being launched, included in this is M&G Alpha Opportunities sub fund, which East Sussex have an investment in. The Committee agreed at its November 2018 meeting to invest in this sub fund through the ACCESS platform when it became available. Due to technical issues around the ACS, the launch of this fund was postponed until a solution could be agreed between all parties. Arrangements were finalised earlier this year and the launch of the sub-fund has been reinstated with the current plan for it to go live in Q4 2021.

7.9 Work is also taking place to set up the protocols for the creation of future sub-funds within the ACS. A draft of this was taken to the Section 151 officer group and there have been some

points raised through their review or the proposed structure. These are being incorporated and will be work through by the ASU with the aim of this going to the next joint committee meeting.

8. Investment Strategy Statement

8.1 The Fund is required to produce an Investment Strategy Statement (ISS) under regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

8.2 The Investment Strategy Statement required under Regulation 7, must include:

- a) A requirement to invest money in a wide variety of investments;
- b) The authority's assessment of the suitability of particular investments and types of investments;
- c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
- d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments;
- and f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

8.3 As a result of the decisions made at Pensions Committee in July 2021, to amend the Investment Strategy and asset allocation, officers have updated the ISS to reflect the approved changes. The revised ISS can be seen in **Appendix 4** to this report with areas with changes from the 2020 approved document highlighted.

9. Conclusion and reasons for recommendation

9.1 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.

10.2 The Pension Committee are recommended to:

- 1) note the Investment Workplan (appendix 1);
- 2) note the Quarterly Investment Report from the Investment Advisor, Isio (appendix 2);
- 3) note the update on the progress implementing the revised equity structure;
- 4) note the update on the responsible investment implementation;
- 5) note the update on the UK stewardship code;
- 6) note the ACCESS Pool update;
- 7) approve the changes to the ISS (appendix 4)

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