

**Report to:** Pension Committee

**Date:** 25 November 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.

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## **RECOMMENDATION**

**The Pension Committee is recommended to:**

- 1) note the Investment Workplan (appendix 1);**
  - 2) note the Quarterly Investment Report from the Investment Advisor, Isio (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, 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 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 the undertaking of 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 £4.5bn as at 30 June 2021 to £4.6bn as at 30 September 2021 (an increase of £0.1bn). A positive absolute return of 2.4% over the quarter, outperforming its respective benchmark by 0.8%.

3.2 Over the period, the private equity mandates (Harbourvest and Adam Street) were the standout performers in both absolute and relative terms. Benefitting from lagged portfolio valuations continuing to catch up with public market counterparts. Pantheon – Infrastructure was a further high relative performer and was underpinned by strong market demand for assets, driving increased valuations for the majority of the portfolio. As at the end of June 2021 (there is a 3 month lag in reporting), the highest IRR in the portfolio belonged to European firm IFT (42.8%), with the majority of the rest of the fund also performing strongly.

3.3 Two of the main detractors to relative performance over the period was the UBS Infrastructure and Newton – absolute return investments. UBS's underperformance continues to be driven by Fund I, with the large holding in Southern Water (SW) particularly weighing on returns. The parent company of SW reached an agreement post quarter end with Macquarie, for the manager to inject an additional £1,073m of new capital into the company in order to recapitalise. Following the latest capital raise, and in light of a recent significant fine from the Environmental Agency, the UBS holding in Southern Water was marked down 33%.

3.4 Within Newtons 'return-seeking core', the equities detracted from performance with Chinese equities in particular falling in value due to the government's heightened regulatory agenda and the Evergrande credit event. The Fund's 'stabilising layer' was also negative in Q3 as it is structured to protect against more extreme market tail risks than that experienced over September in order to manage costs.

#### **4. Conclusion and reasons for recommendation**

4.1 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.

4.2 The Pension Committee is recommended to note the report.

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