

Report to: **Pension Committee**

Date: **30 November 2022**

By: **Chief Finance 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.**

---

## **RECOMMENDATION**

**The Pension Committee are recommended to:**

- 1) note the Investment report**
  - 2) approve the rebalancing policy;**
- 

### **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 and the forward investment plan. 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 main focus over the next 12 months is ongoing review into and undertaking of ESG analysis for the Fund, implementation of remaining investment strategy changes not yet implemented and a review of the strategic asset allocation once the triennial valuation is complete.

2.3 The Committee are asked to note that the United Nations Principles for Responsible Investment (PRI) is not accepting submissions in 2022, so the Fund's first submission will be deferred until 2023. The timeline being set by PRI is as follows:

- The 2023 Reporting Framework will launch in January. The framework will contain full details of all the reporting criteria for the 2023 season.
- The 2023 reporting cycle itself will open in mid-May and will close in mid-August.

- All 2023 reporting outputs, including both Transparency and Assessment Reports, will be available in November.

### **3. Quarterly Performance Report**

3.1 The Quarterly Performance Report for Q2 2022 and Q3 2022 are attached as Appendix 2 and 3. Since the last reported position, the valuation of the Fund has decreased from £4.7bn as at 31 March 2022 to £4.50bn as at 30 September 2022 (a decrease of £0.2bn). This is a small partial recovery from the unreported 30 June 2022 value of £4.49bn. This performance reflects a negative absolute return of 4.0% in the quarter to June and a positive absolute return of 0.2% in the quarter to September. The Fund marginally outperformed the benchmark in both periods.

3.2 Over the quarter to 30 June, the Fund's assets delivered a negative return of -4.0% over the quarter, marginally outperforming the benchmark by 0.2%. Performance across the Fund's mandates was predominantly negative with public equity and fixed income markets, in particular, falling in value.

3.3 The Fund's private equity mandates delivered strong returns, with any potential write downs in valuations lagging those of public markets. The real asset mandates broadly performed well, given their private market nature and inherent inflation linkage.

3.4 The equity portfolio was the largest detractor from returns. Sustainable funds have continued to be adversely affected by limited exposure to the energy sector and a 'growth' stock bias, with the style lagging as a result of the rising rate environment.

3.5 Over the quarter to 30 September the Fund's assets delivered a positive return of -0.2% over the quarter, marginally outperforming the benchmark by 0.1%. Performance across the Funds mandates was predominantly positive with equity and infrastructure increasing in value. However Fixed Income markets generally performed negatively in a challenging market with volatility in interest rates.

3.6 Despite negative returns over recent quarters, longer term returns at the Fund level remain strong.

### **4. UK Stewardship Code Submission**

4.1 The Financial Reporting Council (FRC) revised its UK Stewardship code in 2020 this version requires the Fund to produce a report which demonstrates how the Fund meets the 12 principles within the code over a 12-month period. The principles are divided into four categories;

- purpose and governance,
- investment approach,
- engagement, and
- exercising rights and responsibilities.

4.2 The FRC requires the Fund to both describe how it implements these principles but also demonstrating the outcomes from these. The Fund has been working to provide its stewardship report for the year to December 2021 which was submitted to the FRC by the 31 October 2022 for assessment. The Fund's submitted report is included as **Appendix 4**.

4.3 The FRC will be assessing all the submissions provided by the 31 October 2022 deadline; the FRC will read in full all reports and consider the responses against the reporting expectations proportional to each organisations size and type. Both successful and unsuccessful applicants will receive feedback where their reporting against the Code could be improved. The Fund anticipate a response from the FRC in February about our submission.

## 5. Market Volatility

5.1 During the period since the last report there was a large amount of volatility most notably during and after the fiscal statement on 23 September 2022, by the then Chancellor, Kwasi Kwarteng. In response to this the investment implementation working group identified a potential to de-risk the Fund by investing in gilts which had moved substantially, however there were some impediments to the Fund being able to execute any trade to benefit from this opportunity. These impediments comprised of:

- These investments were outside the Fund's revised Investment Strategy Statement
- These investments were outside the Fund's implementation plan.
- These investments were outside the Fund's rebalancing policy
- The structure of the Fund's passive arrangement with UBS requires the Fund to get a deed of variation approved from the East Sussex County Council legal department to vary the arrangement to make these investments available.

5.2 To enable the Fund to be able to take advantage of these events if they happen again. The Committee is asked to agree an amended rebalancing policy, included in **Appendix 5**, which explicitly includes the provision for the Chief Finance Officer (CFO) to have the discretion to invest 5% of the Fund outside of the ISS, the implementation plan and approved rebalancing ranges. The policy stipulates this would have to be done in consultation with the Investment Implementation Working Group and any use of this discretion would be reported to the Committee at the next available opportunity and would also require the Fund to review its investment strategy. This amendment is in addition to the CFO's existing power to "*To take action or decide any other Pension Fund related matter on behalf of the Administering Authority in special or emergency situations, in consultation with the Chair of the Pension Committee, including but not limited to where delay in the purchase or sale of investments might be detrimental to the interests of the East Sussex Pension Fund.*"

## 6. ACCESS Update

6.1 Since December 2016 the East Sussex Pension Fund has been working with 10 other administering authorities through the investment pooling arrangement called ACCESS. On the 30 September 2022 there was £21.6bn invested in the authorised contractual scheme (ACS) with a further £9.2bn invested in the UBS passive ACCESS governance arrangements. East Sussex had a total of £2.4bn in ACCESS governed investments, £2.1bn across six ACS sub-funds and a further £0.3bn through the UBS passive arrangement.

6.2 The formal joint committee scheduled for the 12 September was postponed following the death of Her Majesty Queen Elizabeth II and met virtually on the 6 October 2022. No

decisions were made with updates provided on progress on the business plan and developments within ACCESS. The next JC will take place on the 5 December 2022.

## **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 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.

**IAN GUTSELL**  
**Chief Finance Officer**

Contact Officer: Russell Wood, Pensions Manager Investments and Accounting

Email: [Russell.Wood@eastsussex.gov.uk](mailto:Russell.Wood@eastsussex.gov.uk)