

Report to: **Pension Committee**

Date: **22 February 2023**

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.**

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## **RECOMMENDATION**

**The Pension Committee are recommended to note 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, 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. 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.

2.2 The main focus over the next 12 months is:

- review of the strategic asset allocation once the triennial valuation is complete;
- ongoing review into and undertaking of ESG analysis for the Fund including further investigation into climate scenarios.
- implementation of remaining investment strategy changes not yet implemented including private debt and inflation linked property; and
- Divestment implications report.

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

3.1 The Quarterly Performance Report for Q4 2022 is attached as Appendix 2. Since the last reported position, the valuation of the Fund has decreased from £4.502bn as at 30 September 2022 to £4.496bn as at 31 December 2022 (a decrease of £0.006bn). This performance reflects a negative absolute return of -0.1% in the quarter to December. The Fund marginally underperformed its benchmark in the period by -0.2%.

3.2 Performance across the Funds mandates showed significant divergence in returns over the period, with the performance of illiquid assets beginning to reflect the public market falls of earlier in the year. This was also evident in the Funds fixed income mandates as the interest rate curve steepened, and long-dated inflation expectations fell, with inflation-linked bonds significantly underperforming other fixed income mandates.

3.3 Longview and Atlas provided strong absolute returns (5.3% and 9.3% respectively) and relative (3.5% and 7.7%) returns for the quarter with Schroders performing well relative to the benchmark at 6% but in absolute terms was one of the lower returns for the Fund - 8.1%.

3.4 Despite negative returns over recent quarters, longer term returns at Fund level remain strong, with equity assets adding significant value over the last decade, and unhedged exposure also having benefited from the depreciation in Sterling.

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

4.1 At its meeting in November 2022 Committee were informed that the Fund had submitted its UK Stewardship Code report to the Financial Reporting Council (FRC). The expectation was that we would receive the FRC verdict in February.

4.2 The FRC confirmed in January that they would update the list of signatories on the FRC website at 10am on Wednesday, 15 February. At the time of writing, this deadline has not passed but update will be provided at the meeting.

#### **5. Competition and Markets Authority's (CMA) Investment Consultancy and Fiduciary Management Market Investigation Order 2019**

5.1 With effect from 10 December 2019, the East Sussex Pension Fund is required to comply with the CMA Investment Consultancy and Fiduciary Management Market Investigation Order 2019 and set strategic objectives for its investment consultant. This was brought in by the CMA investigation into the investment consultancy and fiduciary market, with the aim for Committees to better assess and evaluate the quality of their investment consultant. It is Part 7 of the order which requires trustees to set strategic objectives for their investment consultant. Specifically, Part 7 states:

“Pension Scheme Trustees must not enter into a contract with an Investment Consultancy Provider for the provision of Investment Consultancy Services or continue to obtain Investment Consultancy Services from an Investment Consultancy Provider unless the Pension Scheme Trustees have set Strategic Objectives for the Investment Consultancy Provider.”

5.2 The Committee have previously agreed strategic objectives which were updated at the March 21 Committee meeting after the appointment of ISIO (Appendix 3), which were prepared with reference to the Pensions Regulator's guidance, combining a mixture of quantitative and qualitative measures.

5.3 The Fund is required to confirm that they have complied with the requirements over the last 12 months and had objectives in place. This must be re-confirmed on an annual basis. The Fund must submit a 'compliance statement' and 'certificate' stating that they have complied with the CMA requirement by 7 January annually. This was provided to the CMA on 4 January 2023.

5.4 If the Committee are aware of any failure on their own part to comply with any part of the Order, they must report such non-compliance to the CMA within 14 days of becoming aware of the failure to comply and provide a brief description of the steps taken to address the failure.

## **6. IFM infrastructure investment**

6.1 The Fund was made aware on 29 November 2022 that the capital call for the full £230m commitment to IFM would take place on the 3 January 2023 following the implementation of the investment strategy to increase infrastructure investment. Upon this confirmation the Fund discussed with advisors and Investment Managers the best approach to cover the commitment.

6.2 As this capital call was due to take place just after the Christmas period it was agreed that to ensure that Funds were available to cover this call that money was called back from managers prior to the week preceding Christmas due to liquidity issues during this week. Payment to IFM was successfully made by the prescribed deadline bringing the Funds infrastructure allocation up to 11%.

## **7. ACCESS Update**

7.1 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 31 December 2022 there was £23.1bn invested in the authorised contractual scheme (ACS) with a further £9.4bn invested in the UBS passive ACCESS governance arrangements. East Sussex had a total of £2.3bn in ACCESS governed investments, £1.9bn across six ACS sub-funds and a further £0.3bn through the UBS passive arrangement.

7.2 The formal Joint Committee was held on 5 December 2022 the following items are highlighted:

- It was agreed that the proposed 2023/24 Business Plan (Appendix 4) should be recommended to ACCESS Authorities
- The Joint Committee accepted the recommended 2023/24 budget to support the business plan from Section 151 Officers (totalling £1.559m or £142k per council).

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

8.1 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.

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