

Report to: Pension Committee

Date: 25 September 2024

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 note the report

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 was established as the result of 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 focus over the next 12 months is:

- Implement the strategic changes in relation to income distribution;
- Implement the strategic changes in relation to private debt;
- Monitoring of index link triggers for investment;
- Work with ACCESS to develop the governance and investment opportunities on the pool platform;
- Engage with investment managers on the engagement priorities defined in the Statement of Responsible Investment Principles;
- Carry out Carbon Foot printing as at 31 March 2024;
- Produce the 2023 Stewardship report

3. Quarterly Performance Report

3.1 The Quarterly Performance Report for Q2 2024 is attached as **Appendix 2**.

3.2 Since the last reported position, the valuation of the Fund has increased from **£4.886bn** as at 31 March 2024 to **£4.893bn** as at 30 June 2024 (an increase of £0.007bn). This performance reflects a positive absolute return of 0.3% in the quarter to June. The Fund however underperformed its benchmark in the period by -1.6%.

3.3 The standout negative performance came from the Fund's Sustainable equity investment with WHEB where a negative absolute performance of -3.5% and negative relative performance of -6.1% came through during the quarter.

3.4 In more general terms, the various credit mandates posted largely positive results in absolute terms apart from Investment grade bonds, which experienced negative performance as rate cuts stalled in the US and UK and nominal and index-linked gilt yields rose over the quarter.

3.5 The long-term returns at Fund level remain robust, and in line with expectations although lagging the benchmark. This underperformance has been driven by weak relative performance from the Fund's impact and growth equity managers and challenging "cash plus" and "inflation plus" benchmarks over a period when both metrics have been high.

3.6 At the July Investment Strategy Day the Committee discussed the underlying makeup of the Fund's equity portfolio and the exposure and contribution to equity returns from income and growth this gave. The Committee considered whether there was merit in investigating this further. This split can vary with market conditions and with significant allocations to actively managed funds (who alter their exposure based on market views) this split can vary over time at a portfolio level.

3.7 Income focused strategies (currently not included in the Fund's portfolio) provide dividends which can sometimes provide a dampening effect on returns against market volatility (more defensive) as well as provide income to help with cashflow needs. The Growth investment style, as the names suggests targets high growth companies and so tends to exhibit certain sector bias's such as technology. There could be a rationale to reduce the bias to growth in the portfolio and rebalance to other areas – such as income to reduce sector (and performance) concentration risk and make the portfolio more robust.

3.8 Ahead of any changes, it is important, however, to understand any portfolio tilts that would be introduced by this action – historically, a tilt to dividend stocks have implied a UK or energy sector bias for example. **Appendix 3** provides an overview of the current equity positioning.

4. ACCESS Update

4.1 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 June 2024 there was £29.0bn invested in the authorised contractual scheme (ACS) managed by the pool operator, with a further £12.3bn invested in the UBS passive ACCESS governance arrangements and £4.7bn invested in other pool aligned assets. Totalling £46.0bn invested through the pool, representing 70% of the ACCESS pension fund's assets (£65.3bn).

4.2 As at 30 June 2024 East Sussex had a total of £2.9bn (59.2%) in ACCESS governed investments, £2.0bn across 7 ACS sub-funds and a further £0.6bn through the UBS passive arrangement along with £0.3bn in a pool aligned infrastructure investment.

4.3 The formal Joint Committee was held on 10 September 2024, the following items are highlighted:

- There was a request to increase to the 24/25 budget by £100k from £1,707k to £1,807k.

5. Conclusion and reasons for recommendation

5.1 The Committee are recommended to note this report. 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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