Report to:	**Pension Committee**
Date:	**21 November 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 Fund's 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 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.

3. Quarterly Performance Report

3.1 An executive summary of the quarterly performance report for Q3 2024 is attached as **Appendix 2**. The full report will be shared with Committee members when available and published as part of the 27 February 2025 meeting pack.

3.2 Since the last reported position, the valuation of the Fund has increased from **£4.893bn** as at 30 June 2024 to **£4.917bn** as at 30 September 2024 (an increase of

£0.024bn). This performance reflects a positive absolute return of 1.0% in the quarter to September. The Fund, however, underperformed the benchmark in the period by -0.1%.

3.3 Most of the public equity managers posted absolute and relative returns with Wellington performing the strongest, whilst WHEB produced negative absolute and relative performance over the quarter, continuing their current underperformance.

3.4 The private equity mandates have continued to struggle relative to their benchmarks over the last 12 months, with Adams Street the standout detractor. The infrastructure mandates have returned relative negative performance over the quarter with UBS's performance the standout detractor.

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, and a variety of the private market mandates seeing mark downs over the 1 and 3 year periods.

3.6 At the September Committee meeting, a question around the performance of the Fund's sustainable equity investments was raised regarding the difference in returns the Fund has generated from the sustainable Funds compared to the traditional investments it was previously invested in. To address this question, the Fund requested investment consultants, Isio, to carry out analysis to explore whether the returns the Fund earnt from December 2020 could have been higher if the equity structure had not changed to its current sustainable investment structure and, if so, to quantify the potential difference. Isio have produced this analysis, which is set out in **Appendix 3.**

3.7 The analysis by Isio demonstrates that the Fund could have generated an additional £170m if it had retained the old equity structure over the current sustainable strategy with the selected mandates. However, it is important to note that the analysis is not specific to returns relating to strategies being 'fossil fuel free' or not; but rather compares the wider sustainable decisions the Fund has made to its past traditional strategy. Some of the return differences will have come from a stronger focus to growth, and where the Fund's impact managers invest in more small and mid-cap companies.

4. ACCESS Update

4.1 As at 30 September 2024, the Fund had a total of £3.0bn (59.6%) in ACCESS governed investments, £2.1bn 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.

4.2 The Fund's Property assets transitioned to the pool's selected investment manager on 1 October 2024 and will eventually be transitioned to direct property holdings in the pool over a number of years.

4.3 The Fund is working with the pool on Private Credit and other asset classes to increase the investments that are pooled across more illiquid asset classes.

5. Stewardship Report

5.1 The Financial Reporting Council (FRC) UK Stewardship code 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.

5.2 The FRC requires the Fund to both describe how it implements these principles through activities and also demonstrate the outcomes from these. The Fund has been working to provide its stewardship report for the year to December 2023 which was submitted to the FRC by 31 October 2024 for assessment.

5.3 The FRC will be assessing all the submissions provided by the 31 October 2024 deadline; the FRC will read in full all reports and consider the responses against the reporting expectations proportional to each organisation's size and type. Both successful and unsuccessful applicants will receive feedback where their reporting against the Code could be improved. The Fund anticipates a response from the FRC in February regarding our submission.

6. Carbon footprinting

6.1 The Fund appointed Northern Trust to conduct a carbon footprint measurement on its liquid investments as at 31 March 2024 (**Appendix 4**). This had previously been provided by Minerva in 2023 and by Vigeo Eiris/Moody's in prior years. The results from this fifth year is not directly comparable to the previous four years as there is a different methodology behind the calculations. It is also worth noting that this is an area where additional disclosure improves the data and it is an area where the industry is still developing, so even with the same supplier there will be differences in the data year on year.

6.2 The rationale for this analysis allows the Fund to monitor the progress of its investment decisions in relation to climate change. This also provides the Committee with information to assist them in their duties in ensuring the Fund's managers are representing their beliefs in the investments they make.

6.3 Carbon footprinting and transition scoring are still a relatively new science; there is limited consistency in the scoring between providers and can be quite subjective. The carbon footprint reports have been produced to help the Fund understand the direction that the Investment Managers are moving and to focus engagement during discussions with the Investments Managers for the coming year.

Carbon Footprinting Analysis Results – Summary

6.4 The high level results of the carbon footprinting exercise are shown below:

	Coverage		Scope	Scope	Scope	Scope	Scope
	Number	% Weight	1	2	3	1 + 2	1 + 2 + 3
Total Carbon Emissions (tCO2e)							
Portfolio	70.6	78	58,906.2	13,465.3	971,795.3	72,371.5	1,044,166.8

Benchmark	99.9	100	156,294.7	28,078.3	1,917,527.5	184,373.1	2,101,900.6
Carbon Footprint (tCO2e) / GBP Invested							
Portfolio	70.6	78	33.5	7.7	552.2	41.1	593.4
Benchmark	99.9	100	88.8	16	1,089.7	104.8	1,194.4
Carbon Intensity (tCO2e) / GBP Revenue							
Portfolio	70.6	78	79.2	18.1	1,306.0	97.3	1,403.3
Benchmark	99.9	100	136.2	24.5	1,670.9	160.7	1,831.5
Weighted Average Carbon Intensity (tCO2e) / GBP Revenue							
Portfolio	92.5	98.5	57	24.5	1,050.0	81.6	1,131.6
Benchmark	99.9	100	91.6	21.4	1,267.8	113.1	1,380.9

Absolute Emissions

6.5 The figures shown in the report reflect the actual disclosures made by the Fund's investee companies that Northern Trust were able to identify and collect. The table reflects the actual Green house Gas (GHG) emissions disclosure position as far as they could determine, and the total amount of GHG emissions is clearly connected to the size of the portfolio, in terms of the number of companies held. This explains why the figures for Osmosis, for example, are larger than the figures for WHEB.

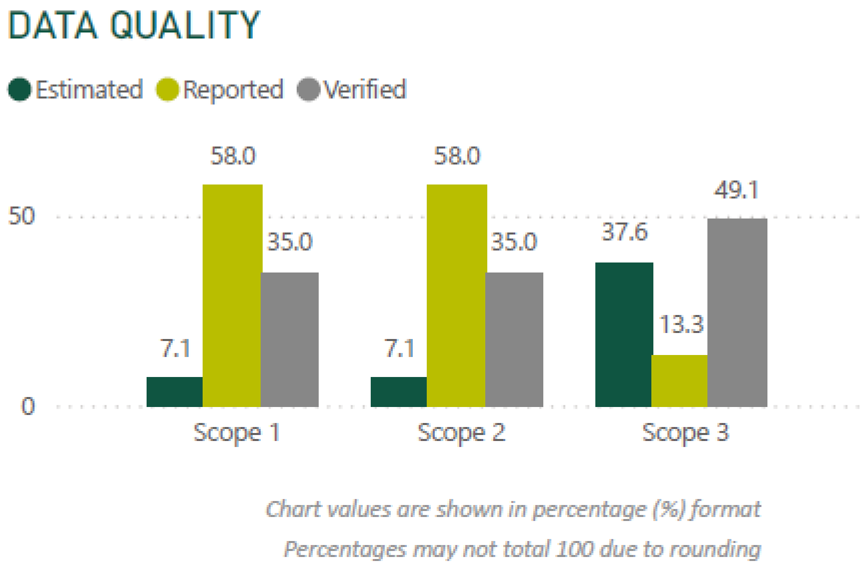
Emissions Intensity

6.6 The Fund's current carbon footprint - i.e. its 'share' of the emissions made by its investee companies - equates to c 97.3 tonnes of CO2e emissions per GBP revenue generated by the companies. Again, the figures shown are clearly connected to the size of the individual portfolio, and also the size of investment held in each investee company.

Data Quality

6.7 In undertaking this assessment, Northern Trust used the following criteria:

Categorization	Description
Verified	Reported GHG emissions calculated in line with the GHG Protocol and verified by a third-party
Reported	Reported GHG emissions calculated in line with the GHG Protocol without verification by a third-party
Estimated	Reported GHG emissions where the company has explicitly stated that they are 'estimated'

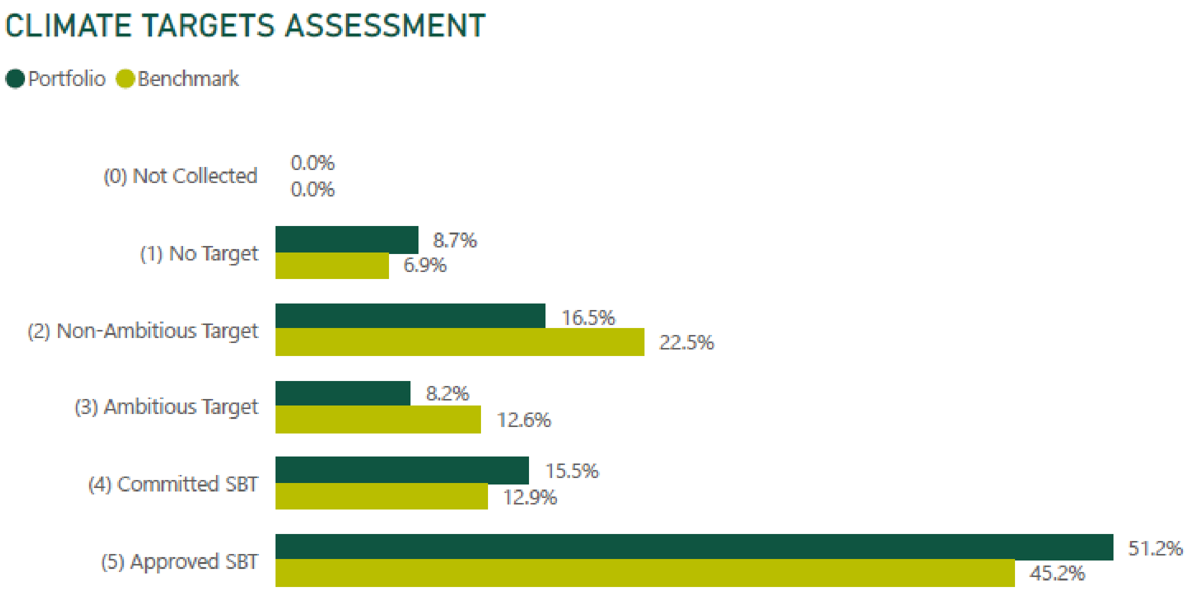


6.8 The results show that around 71% of investee companies are covered by Northern Trust, with 93% of those disclosing GHG emissions doing so on a reported and verified basis in line with the GHG Protocol.

Climate Scenario Alignment

6.9 In undertaking this assessment, Northern Trust have assessed the Portfolio temperature score to be 2.3 degrees. This score is calculated by comparing the portfolio owned projected emissions in 2050 with the available owned carbon budgets for Sustainable Development Scenario (SDS), Stated Policies Scenario (STEPS) and the Announced Pledges Scenario (APS). The score is an interpolation between the two nearest scenario temperature thresholds based on the respective overshoot. The temperature score has a range between 1.5 and 6.

6.10 The climate targets assessment considers an entity's targets based on the existence and quality of greenhouse gas emissions reduction targets. It takes into account both science based targets and other targets set by the company. From this we see that over 51% of the Fund's invested companies have an approved science-backed target.



6.11 The Fund continues to work with Northern Trust to provide individual manager reports and analysis of the Wellington mandate.

7. Conclusion and reasons for recommendation

7.1 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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