

Report to: Pension Committee

Date: 19 June 2025

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 is recommended to:

- 1) note the report;**
 - 2) Agree in principle for the Fund to enter into ‘Beneficial Owner’ Power of Attorney arrangements, managed by Broadbridge on behalf of the Fund’s custodian, with sub custodian organisations for proxy voting service purposes; and**
 - 3) Delegate authority to the Chief Finance Officer to authorise entering into such arrangements on behalf of the Fund with individual sub-custodian organisations.**
-

1. Background

1.1 Under the Local Government Pension Scheme Regulations 2013 (the ‘LGPS Regulations’), the Council is required to maintain a Pension Fund for its employees and other ‘scheduled bodies’ as defined in the LGPS 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.

1.2 The ACCESS Joint Committee was established as the result of changes implemented in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 to facilitate arrangements relating to the use of collective investment vehicles to allow 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:

- LGPS Pooling;
- Implement the strategic changes;
- Income considerations report;

- Engage with investment managers on the engagement priorities defined in the Statement of Responsible Investment Principles.

3. Quarterly Performance Report

3.1 The Quarterly Performance Report for Q1 2025 is detailed at Appendix 2. Since the last reported position, the valuation of the Fund has decreased from £5.1bn as at 31 December 2024 to £5.0bn as at 31 March 2025 (a decrease of £0.9bn). This performance reflects a negative return of -2.1% in the quarter to March. The Fund underperformed the benchmark over the period by 0.8%. Performance of Fund assets is similarly behind benchmark over longer time periods. Over the past 12 months and 3-years, to 31 March 2025 the Fund has relative returns of -4.2% and -3.2% p.a. respectively.

3.2 The asset allocation has an overweight position to Growth, Protection and Cash of +2.8%, +3.2% and +1.5% respectively, with Income being underweight by -7.5%. This is mostly driven by the unfulfilled private debt allocation.

3.3 Most notably, global equities significantly detracted from performance over Q1 2025. Ongoing macroeconomic and geopolitical uncertainty caused a reversal in investor risk-appetite, with sentiment impacted by the anticipation and implementation of new tariffs. This volatility has exacerbated post-quarter-end, amidst global tariff negotiations.

3.4 On a relative basis, the stand-out detractors were:

- The Fund's 'growth-orientated' equity mandates, Baillie Gifford Global Alpha and WHEB Active Impact Equity, underperformed their respective benchmarks by 2.7% and 3.5% respectively. This reflects the broader challenges faced by 'growth' stocks over the quarter, which are inherently more susceptible to the volatility seen in the quarter.
- The M&G and Pantheon Infrastructure strategies underperformed their CPI + 2% benchmark by 4.9% and 4.1% respectively over the quarter. Whilst the Pantheon's longer-term absolute and relative performance remains strong, the persistent underperformance of the M&G Infrastructure mandate (lagging the benchmark by 11.1% p.a. over the past three years) remains a cause for concern.

3.5 Over Q1 2025 real yields rose, due to concerns around stagflation and the UK's fiscal position. Consequently, the Fund's Inflation-Linked Gilts mandate posted negative returns. Although this contributed negatively to overall performance, the Fund performed broadly in-line with its index-linked gilt benchmark.

4. Power of Attorney

4.1 The Fund's Custodian, Northern Trust, utilises a separate company, Broadridge, to solicit and manage the Beneficial Owner Power of Attorney (PoA) service for proxy voting purposes. The way in which Northern Trust are operating this service has changed and the Fund is now required to deal directly with Broadridge, whereas Northern Trust did this on the behalf of the Fund previously. There are several markets where a Beneficial Owner PoA is

required in order for voting instructions to be accepted in the local market. Broadridge has requested that the Fund complete PoAs for markets where the Fund may expect to have a position at any point in the near future, not only for markets where the Fund has a current position. This ensures the Fund's PoA documentation is valid and in place for all applicable markets before any voting is submitted.

4.2 This change affects the UBS Osmosis mandate of the Fund. Other mandates are held in a different structure and voting is managed by the manager and custodian of those structures.

4.3 As the Broadridge relationship is with the Fund's custodian, the Fund currently does not have the authority to enter into the PoA arrangements they are managing. To enable the Fund to continue being a strong steward of all its assets it needs to provide PoA to the sub custodian organisations which are arranged by Broadridge.

4.4 The Pension Committee is recommended to agree, in principle, that the Fund enters into 'Beneficial Owner' Power of Attorney arrangements, managed by Broadbridge on behalf of the Fund's custodian, with sub custodian organisations for proxy voting service purposes. In addition, the Pension Committee is recommended to delegate authority to the Chief Finance Officer to authorise entering into such arrangements on behalf of the Fund with individual sub-custodian organisations as and when this is required.

5. Conclusion and reasons for recommendation

5.1 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.

5.2 The Pension Committee is recommended to note this report. In addition, the Pension Committee is recommended to agree in principle for the Fund to enter into 'Beneficial Owner' Power of Attorney arrangements, managed by Broadbridge on behalf of the Fund's custodian, with sub custodian organisations for proxy voting service purposes and delegate authority to the Chief Finance Officer to authorise entering into such arrangements on behalf of the Fund with individual sub-custodian organisations.

IAN GUTSELL
Chief Finance Officer

Contact Officer:
Email:

Russell Wood, Pensions Manager Investments and Accounting
Russell.Wood@eastsussex.gov.uk