

Report to: Pension Committee

Date of meeting: 22 June 2020

By: Chief Financial Officer

Title: Investment Report

Purpose This report provides Members with an update on the investment activities undertaken by the East Sussex Pension Fund.

RECOMMENDATION – The Pension Committee are recommended to:

- 1) note the Action Log and Investment Workplan (appendix 1)
 - 2) note the Quarterly Investment Report from the Investment Advisor, Hymans Robertson (Appendix 2);
 - 3) note the carbon footprint report by Vigeo Eiris (appendix 3)
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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 to govern the Funds’ investments and receives a quarterly investment monitoring report, from its investment consultant, Hymans Robertson to monitor its investments.

1.2 The ACCESS Joint Committee has been established to facilitate the arrangements relating to the collective investment vehicles to allow the administering authorities to pool their respective investments and meets quarterly.

2. Action Log and Investment Workplan

2.1 The Fund’s Investment Consultant has been asked to provide an Action Log and Investment Workplan which will act as a reference point of all actions agreed at Pension Committee meetings. Unless otherwise stated, items in the action log are to be considered at the upcoming Committee meeting, or a comment provided explaining why the item is not to be covered at this time. This is included as Appendix 1.

2.2 Hymans Robertson has included actions agreed at the March 2020 Committee meeting. The Investment Workplan details the areas of work that are anticipated over the next 12 months, with corresponding ownership and estimated timescale for completion.

2.3 The below table provides ratings from Hymans Robertson of their prospects for markets over a period of around three years. Hymans Robertson will be providing these views on a quarterly basis, although they are not intended as tactical calls.

Asset Class	Current Quarter View	Previous Quarter View
Equities	Cautious	Neutral to Cautious
Sterling Investment Grade Credit	Cautious	Cautious

Liquid Sub-Investment Grade Credit	Cautious to Negative	Cautious to Negative
Private Lending	N/A*	Neutral to Cautious
UK Property	N/A*	Cautious
Long Lease Property	N/A*	Neutral to Cautious
Gilts	Neutral to Cautious	Cautious to Negative
Index-Linked Gilts	Neutral	Cautious to Negative

* Hymans have suspended their ratings for property and private lending given the lack of transaction activity within these markets and hence lack of pricing information.

3. Quarterly Performance Report

3.1 The Quarterly Performance Report is attached as Appendix 2. Since the last quarter, the valuation of the Fund decreased from £3.909bn to £3.488bn (a decrease of £0.421bn) in the main due to the impact of the Coronavirus pandemic on equities and credit markets. The total return of the Fund was slightly ahead of the benchmark over the quarter to 31 March 2020, noting that the benchmark performance of each mandate reflects the updated benchmarks agreed at by the Pension Committee in September 2018.

3.2 The rapid spread of the coronavirus will inevitably have a material impact on the rate of global economic growth in 2020 and, possibly, beyond. It is important to note that, while growth is expected to take a severe hit in the near term, global growth and corporate profits will eventually enter a recovery. However, the timing and shape of any rebound is uncertain and depends on containment of the virus and the effectiveness of policy responses in preventing temporary disruption to businesses and consumers from causing permanent damage.

3.3 Substantial falls in equity and credit markets over the first quarter mean that valuations have become cheaper. However, given the extent and length of economic downturn are as yet unknown, the associated implications for corporate earnings and defaults remain very uncertain at this stage, and sentiment is likely to remain fragile, at least through the first half of 2020. Hence, we remain cautious.

3.4 While some opportunities have already started to emerge, and others will do so over coming months, the general view is to hold more cash than usual, with a view to reinvesting at more attractive pricing or with greater certainty at some point in future. Just as importantly, in a period when market activity could be depressed for some time, there is a need for caution in meeting liquidity requirements covering expected outgoings.

3.5 In the quarter ending 31 March 2020, (Q1, 2020) the top contributors to relative performance were M&G Corporate Bonds. Conversely, the main detractors to relative performance were Longview and Newton. The remaining UBS investments performed broadly in line with its respective benchmarks. Ruffer underperformed their cash plus benchmark as risk markets struggled over the quarter. However, Ruffer's -0.5% performance was impressive given the economic backdrop.

3.6 In relation to Growth, Income and Protection asset allocations, the Fund allocation to Income is underweight at the end of Q1, 2020. Further drawdowns into infrastructure and real estate debt will address this over time. M&G Alpha Opportunities was also underweight at an

underlying fund level however no action is proposed at the current time. The Fund's Protection allocation is overweight however no action is proposed at the current time.

3.7 Since the end of the last quarter there have been developments around the potential for a Coronavirus (COVID 19) epidemic. The Fund has spoken to its advisors around the implications of this and the current stock market volatility.

3.8 Further to this it is important to remember that in contrast to the wider pensions market the LGPS is a very long term holder of assets. Whilst the news surrounding coronavirus can be alarming, the Fund has a diverse investment strategy designed to withstand market volatility over the long term and Hymans Robertson is not proposing any short term strategic changes in response to coronavirus at this stage.

4. Carbon Footprinting

4.1 The Fund appointed Vigeo Erirs to conduct a carbon footprint measurement on its liquid investments. The aim of these reports was to set a benchmark against which the Fund can 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 Funds managers are representing their beliefs in the investments they make.

4.2 The report looks at the Carbon Footprint of the investments (based on scope 1 & 2 emissions), the score for the mandates range from Moderate, Significant, High and Intense based on the ranges in the table below. It also looks at the energy transition of the investments this determines how the companies are positioned to respond to a shift from a carbon based economic model to a green and sustainable one. The ranges are based on the ranges in the table below:

Carbon Footprinting

Scale	Emissions (t CO2 eq)	Categories
A	<100,000	Moderate
B	>=100,000 & <1,000,000	Significant
C	>=1,000,000 & <10,000,000	High
D	>=10,000,000	Intense

Scale	Energy Transition Score	Categories
++	60-100	Advanced
+	50-59	Robust
-	30-49	Limited
--	0-29	Weak

4.3 This gives an overall portfolio score from A++ to D--. For Carbon footprint we have 3 D rated portfolios 2 of which are passive UBS fundamental indexation and UBS UK Equity and 1 Active Manager Ruffer. We have 1 B rated portfolio which is our active Longview mandate the remainder are rated C. On the Energy transition rating we have 2 portfolios graded as + 1 passive UBS Europe Ex UK and 1 Active M&G Corporate Bonds the rest all rated -.

4.4 Table below shows a summary of the headline scores and ratings for each mandate:

Manager	Mandate	Portfolio	Carbon Intensity	Energy Transition	Energy Transition
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		Rating (A to D, “++” to “- -”)	Rating (Mod; Sign; High; Int)	Rating (Weak; Ltd; Robust;Adv)	Score (/100)
UBS	Climate Aware	C -	High	Limited	40
UBS	Fundamental Indexation	D -	Intense	Limited	40
UBS	UK	D -	Intense	Limited	45
UBS	Europe Ex-UK	C +	High	Robust	52
UBS	North America	C -	High	Limited	36
UBS	Rest of World	C -	High	Limited	30
M&G	Absolute Return Bonds	C -	High	Limited	42
M&G	Corporate Bonds	C +	High	Robust	51
Newton	Absolute Return	C -	High	Limited	44
Ruffer	Absolute Return	D -	Intense	Limited	42
Longview	Global Equity	B -	Significant	Limited	33

4.5 The individual reports for each of these managers has been included as appendix 4. To assist with the understanding of these an analysis guide has been included in appendix 3.

5. Investment Working Group, Lothian Pension Fund and the Statement of Responsible Investment

5.1 In furtherance of the Fund’s integration of responsible investment within the investment process, the Investment Working Group have been working closely with ACCESS and the Lothian Pension Fund in collaborating and sharing best practice on approaches to responsible investment. In those discussions, the Fund has gained an understanding of the need to set in place a framework to underpin a systematic and holistic approach to responsible investment codified in a Statement of Responsible Investment Principles, which would complement the Investment Strategy Statement.

5.2 The draft statement of responsible investment aims to provide a more robust framework essentially reworking of the current Statement of Investment Beliefs to assist our stakeholders in understanding the approach to responsible investment and in delivering key messages to the Press which confirm the direction of travel with our service providers, which include Asset Managers. Following the independent review of the Fund’s ESG approach by PIRC, their report is later in this agenda, it is clear that the Fund is failing to effectively engage with its diverse range of stakeholders which includes 77,000 members and 134 employers on how their pension fund is being managed in respect to responsible investment and ESG.

5.3 Addressing concerns on ethical and responsible investment through proactive engagement is necessary to clarify strategies and address misinformation. The Fund is therefore collaborating with the Lothian Pension Fund which has provided both advice and support to the ESPF and shared the Lothian Pension Fund Statement of Responsible Investment Principles for guidance in developing a similar statement which reflects the needs of East Sussex Pension Fund.

6. Conclusion and reasons for recommendation

6.1 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.

6.2 The Committee is recommended to:

- 1) note the Action Log and Investment Workplan (appendix 1)
- 2) note the Quarterly Investment Report from the Investment Advisor, Hymans Robertson (Appendix 2);
- 3) note the carbon footprint report by Vigeo Eiris (appendix 3)

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