

1 Action Log and Investment Workplan

Introduction

This paper is addressed to the Officers and Pensions Committee (“the Committee”) of the East Sussex Pension Fund (“the Fund”). The intention is for this paper to bring together all investment issues relating to the Fund.

This first section will be prepared on a quarterly basis and act as a summary of current investment priorities and proposed work to be carried out. It provides the following:

- A list of actions agreed at Committee meetings; and
- An Investment Workplan detailing areas of work expected over the following 12 months.

It should not be released or otherwise disclosed to any third party except with our prior written consent, in which case it should be released in its entirety. We accept no liability to any other party unless we have accepted such liability in writing.

We look forward to discussing this paper with you at the June Committee meeting.

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For and on behalf of Hymans Robertson LLP

General Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

Action Log

The action log is 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.

For this first iteration, we have included actions agreed at the November 2019 Committee meeting. Going forward, we will add agreed actions and remove actions once the Committee are in agreement that they have been completed.

Action	Owner	Current Position	Comments
Establish a Working Party tasked with discussing strategic aspects of the Fund and identify two dates for the Working Party to meet	Pension Committee		First Working Party call took place in April
Conduct cashflow modelling to understand the Fund's income requirements	Officers		Prepared and discussed with the Working Party
Prepare recommendation for strategic asset allocation, target cash balance and income generation	Hymans Robertson		Included in meeting pack – agenda item X
Prepare recommendation for the structure of the equity allocation, including consideration of active and passive split	Hymans Robertson		Included in meeting pack – agenda item X
Test the current arrangements for implementing agreed strategic changes for the Fund and also test the arrangements with ACCESS when up and running	Officers		Recommendation made in the Governance Review paper prepared by the Independent Adviser
Review the quarterly report provided by Hymans and consider any potential changes	Pension Committee / Officers / Hymans		Recommendation made in the Governance Review paper prepared by the Independent Adviser
Review the manager performance benchmarks and targets paper produced by Hymans in 2018	Pension Committee		Recommendation made in the Governance Review paper prepared by the Independent Adviser
Engage with ACCESS partners to agree measures to mitigate concerns over pool governance	Officers		Recommendation made in the Governance Review paper prepared

			by the Independent Adviser
Develop an investment risk register to link in to the main risk register	Officers		Recommendation made in the Governance Review paper prepared by the Independent Adviser

Investment Workplan

The Investment Workplan details the areas of work that are anticipated over the next 12 months, with corresponding ownership and estimated timescale for completion.

Item	Comment	Action	Responsibility	Timescale
Strategy				
Strategic Asset Allocation	<ul style="list-style-type: none"> The Fund's strategic asset allocation needs to be considered following the 2019 actuarial valuation 	<ul style="list-style-type: none"> Complete asset liability modelling exercise Agree strategic asset allocation Implement agreed changes 	<ul style="list-style-type: none"> Hymans Robertson to provide analysis and recommendation Officers to implement agreed changes 	First half 2020
Private market commitments	<ul style="list-style-type: none"> The Committee has agreed to invest amounts equivalent to £235m into infrastructure and £60m into real estate debt 	<ul style="list-style-type: none"> Recommend funds for future commitments Meet capital call requests as they are made 	<ul style="list-style-type: none"> Hymans Robertson Officers 	Ongoing
Structure				
Rebalancing	<ul style="list-style-type: none"> Protection allocation in breach of upper limit Income allocation in breach of lower limit 	<ul style="list-style-type: none"> No action proposed at this time due to imminent strategy review and liquidity constraints. Drawdowns into infrastructure and real-estate debt will increase 	n/a	n/a

	<ul style="list-style-type: none"> M&G Alpha Opps holding in breach of lower limit 	income allocation		
Equity Structure	<ul style="list-style-type: none"> Consider the Fund's active allocation and possible integration of an ESG-focused manager 	<ul style="list-style-type: none"> Once strategic asset allocation agreed, recommend equity structure and managers 	<ul style="list-style-type: none"> Hymans Robertson to provide recommendation 	Q2 2020
Corporate Bond exposure	<ul style="list-style-type: none"> Uncertain outlook for credit investment in current environment 	<ul style="list-style-type: none"> Review current investments in conjunction with M&G 	<ul style="list-style-type: none"> Hymans Robertson in conjunction with Working Party 	Q3 2020
Private equity programme	<ul style="list-style-type: none"> Periodic review of private equity strategy is recommended 	<ul style="list-style-type: none"> Carry out detailed review of objectives against current programme 	<ul style="list-style-type: none"> Hymans Robertson 	Q3 2020
Managers				
UBS Climate Aware Fund	<ul style="list-style-type: none"> The Committee has previously agreed to commit a further 5% of Fund assets to the UBS Climate Aware Fund 	<ul style="list-style-type: none"> Consider whether to proceed as previously agreed, or drop the intended investment, as part of the equity structure recommendation 	<ul style="list-style-type: none"> Hymans Robertson to provide recommendation 	Q2 2020
ESG				
UK Stewardship Code	<ul style="list-style-type: none"> Consider the Fund becoming a signatory to the revised UK Stewardship Code 	<ul style="list-style-type: none"> Understand the requirements under the UK Stewardship Code with a view to the Fund signing up 	<ul style="list-style-type: none"> Officers to consider requirements 	Q3 2020
UN PRI	<ul style="list-style-type: none"> Consider the Fund becoming a signatory to the UN Principles of Responsible Investment (PRI) 	<ul style="list-style-type: none"> Understand the requirements under the PRI with a view to the Fund signing up 	<ul style="list-style-type: none"> Officers to arrange PRI representative to Committee 	Q4 2020
Transition Pathway Analysis	<ul style="list-style-type: none"> Understand the Fund's equity resilience to a transition to a low 	<ul style="list-style-type: none"> Conduct the transition pathway analysis on the Fund's active 	<ul style="list-style-type: none"> Hymans Robertson / Officers to consider once new 	Second half 2020

	carbon economy	equity holdings with Longview	mandates in place	
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2 Market Outlook

Core Asset Class Views: Summary

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.

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.

While we note some opportunities have already started to emerge, and others will do so over coming months, our 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 outgo.

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

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

Overall ratings: Negative, Cautious, Neutral, Attractive, Positive

The ratings are intended to give a guide to our views on the prospects for markets over a period of around three years; although they are updated quarterly, they are not intended as tactical calls. The ratings reflect our expectations of absolute returns and assume no constraints on investment discretion. In practice, they need to be interpreted in the context of the strategic framework within which individual funds are managed. The property rating ignores purchase transaction costs, i.e. relevant for current holders of property.

The table below provides a high-level overview of our key observations for each asset class.

Asset Class	Comment
Equities	<ul style="list-style-type: none"> Global valuations are in more attractive territory following the dramatic fall in equity markets. However, we would treat the current valuations with caution given the inability to determine whether they are sufficiently low to compensate for the significant fundamental risks that now face equity markets Central bank policy should help to alleviate some of the economic and financial market concerns.
Sterling Investment Grade Credit	<ul style="list-style-type: none"> Global investment grade credit spreads have moved substantially above long-term median levels, although spreads have narrowed to some extent post quarter end. Global credit spreads look more compelling than the UK, largely due US credit market underperformance. The unattractive technical backdrop and high levels of investor uncertainty have been offset to some extent by huge monetary stimulus from central banks.
Liquid Sub-Investment Grade Credit	<ul style="list-style-type: none"> Valuations have moved significantly cheaper following a significant rise in spreads. Spreads now reflect significant default and downgrade risk, but as the fundamental picture evolves, yield spreads could need to move wider. There may be opportunities to gradually add risk in cheapening markets, but we remain cautious.
Private Lending	<ul style="list-style-type: none"> The disruption to business activity poses cashflow and liquidity risk to all businesses, particularly for speculative-grade medium-sized companies with limited alternative sources of finance. We have suspended our rating on private corporate debt given a lack of transaction activity, and hence pricing information, at this time.
UK Property	<ul style="list-style-type: none"> The current economic disruption is not yet reflected in property market data, but many rents are being deferred and, in some cases, waived. It would not be unreasonable to expect rental growth, which had already turned negative prior to the outbreak, to fall further. We have suspended our rating in property markets due to a lack of pricing as funds have gated.
Long Lease Property	<ul style="list-style-type: none"> Similar to core property, we have suspended our long lease property ratings. Given strength of tenants and contracts we would expect the typical sector mix of long lease portfolio to fare better than the core property market, but may still will be pockets of potential stress.
Infrastructure	<ul style="list-style-type: none"> We have seen some significant write-downs of some GDP-sensitive assets, but there is limited strong evidence of how it has affected broad valuations. Dry powder remains at an all time high and indications.
Gilts	<ul style="list-style-type: none"> As major central banks expand QE programs to provide liquidity to the global

	<p>financial system, it is likely yields remain subdued for some time, potentially pushing the normalisation of interest rates beyond the horizon of our medium-term views.</p> <ul style="list-style-type: none">• Forecasts for (lower) UK growth and inflation in 2020 improve the near-term technical support for gilt markets.
Index-Linked Gilts	<ul style="list-style-type: none">• While there are undoubtedly disinflationary pressures in the near-term, longer dated implied inflation has cheapened.• The RPI/CPI consultation is also affecting index-linked gilt pricing as investors recalibrate their measure of RPI towards CPI .
Cash Strategies	<ul style="list-style-type: none">• While interest rates may be as close to zero as they can get, when focused on risk adjusted returns, this feels like a sensible time to hold more cash than usual, and to try and exploit better buying opportunities in the future once we have more clarity on the fundamental picture.