

# East Sussex Pension Fund

Investment Performance  
Quarter to 30 September 2021

Isio Investment Advisory

**isio.**



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# Highlights

# Executive Summary – 30 September 2021

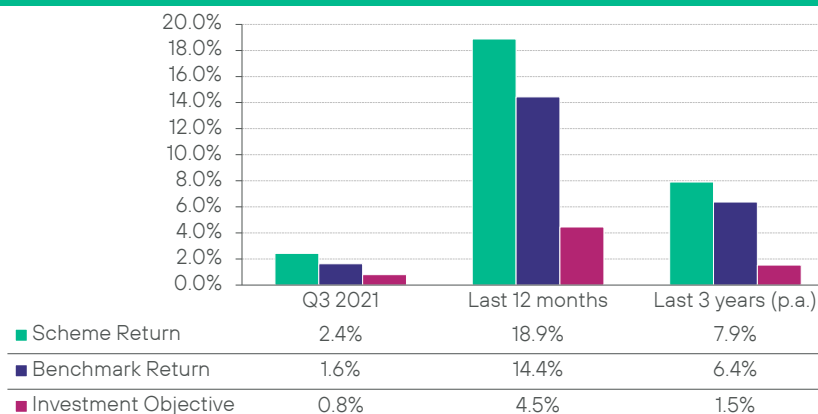
The Fund's assets delivered a positive return of 2.4% over the quarter, outperforming its respective benchmark by 0.8%.

Over the quarter, performance across the Fund's mandates was mixed, with the private equity funds posting the strongest returns, and concerns around inflation and the potential removal of supportive monetary policy dampened credit returns over September.

The Fund incepted the holding in the Baillie Gifford Global Alpha Fund over the quarter, funded from the UBS passive regional equity mandates.

Access Pool	Fund	Q3 2021 Performance			Value at quarter end	
		Fund	Benchmark	Relative	30-June-21	30-Sept-21
Yes	UBS - UK Equity	2.2%	2.2%	0.0%	£70.8m	£36.2m
Yes	UBS - Global Equity	0.6%	0.6%	-0.1%	£386.6m	£194.4m
Yes	Longview - Global Equity	3.6%	2.5%	+1.1%	£485.8m	£503.1m
No	WHEB - Sustainable Equity	4.0%	2.6%	+1.5%	£236.9m	£246.4m
No	Wellington - Sustainable Equity	1.4%	2.5%	-1.0%	£242.7m	£246.2m
No	Storebrand - Sustainable Equity	2.3%	2.6%	-0.2%	£488.5m	£500.1m
Yes	Baillie Gifford - Global Equity	-1.5%	0.0%	-1.5%	-	£225.8m
No	Harbourvest - Private Equity <sup>1,2</sup>	11.0%	1.7%	+9.3%	£151.3m	£163.3m
No	Adams Street - Private Equity <sup>1,2</sup>	15.9%	1.7%	+14.2%	£166.4m	£187.2m
Yes	Newton - Absolute Return	-0.9%	0.6%	-1.5%	£504.5m	£500.1m
Yes	Ruffer - Absolute Return	0.3%	0.6%	-0.3%	£510.7m	£512.4m
No	Schroders - Property	4.7%	4.5%	+0.2%	£358.1m	£371.9m
No	UBS - Infrastructure <sup>2</sup>	-0.4%	1.5%	-1.9%	£28.1m	£35.3m
No	Pantheon - Infrastructure <sup>2</sup>	7.5%	1.5%	+6.0%	£43.9m	£58.1m
No	M&G - Infrastructure <sup>2</sup>	1.6%	1.5%	+0.1%	£35.0m	£38.9m
No	ATLAS - Listed Infrastructure	6.0%	3.2%	+2.8%	£78.8m	£83.6m
No	M&G - Real Estate Debt <sup>2</sup>	1.6%	1.0%	+0.6%	£40.2m	£37.4m
No	M&G - Diversified Credit	0.5%	0.8%	-0.3%	£289.7m	£291.0m
Yes	M&G - Corporate Bonds	-1.5%	-1.6%	0.0%	£162.5m	£160.0m
Yes	UBS - Over 5 Year Index-linked Gilts	2.3%	2.3%	0.0%	£133.7m	£136.8m
<b>Total Assets</b>		<b>2.4%</b>	<b>1.6%</b>	<b>0.8%</b>	<b>£4,466m</b>	<b>£4,575m</b>

## Period returns – to 30 September 2021



## Commentary

- The Fund's assets delivered an absolute return of 2.4% over the quarter, outperforming the benchmark by 0.8%. The majority of mandates returned positive absolute performance; however returns across assets classes were somewhat dampened by growing inflationary concerns in September.
- The Fund's private equity mandates both produced the strongest returns, as lagged portfolio valuations begin continued to catch up with public market counterparts.
- The property and infrastructure mandates generally performed well in the inflationary environment, with many assets having revenue streams linked to inflation.
- Returns across the Fund's credit mandates were relatively mixed, as rising bond yields in September negatively impacted valuations of many fixed income assets.
- Longer term returns at fund level remain strong, with the Fund's significant allocation to equity markets being particularly beneficial for performance.

**Notes:** Totals may not sum precisely due to rounding. All returns are net of fees. Unless stated otherwise, all performance figures and objectives provided by Northern Trust as at 30 September 2021. Fund Total value includes cash held with Northern Trust. <sup>1</sup> Valuation and performance information as at 30 June 2021. <sup>2</sup> Valuations shown are either 3m or 6m lagged and adjusted for distributions / drawdowns and currency movements.

**Source:** Investment Managers, Northern Trust, Isio calculations.

# Manager Performance – 30 September 2021

The Table shows manager performance over the short medium and long-term.

The UBS Infrastructure Fund continues to materially underperform its respective benchmark across all time periods and should continue to be monitored closely.

The Schroders property fund has also underperformed its benchmark since inception but to a lesser degree.

Of the equity mandates, Longview and WHEB have underperformed their objectives since inception.

Fund	Q3 2021 Performance			1 Year Performance			3 Year Performance			Since Inception performance		
	Fund	Objective	Relative	Fund	Objective	Relative	Fund	Objective	Relative	Fund	Objective	Relative
UBS - UK Equity	2.2%	2.2%	0.0%	28.5%	27.9%	+0.6%	3.1%	3.1%	+0.0%	2.7%	2.7%	+0.0%
UBS – Global Equity	0.6%	0.6%	-0.1%	20.5%	21.1%	-0.6%	10.8%	11.1%	-0.3%	11.4%	11.6%	-0.2%
Longview - Global Equity	3.6%	2.5%	+1.1%	28.4%	22.2%	+6.2%	-	-	-	11.0%	15.5%	-4.5%
WHEB - Sustainable Equity	4.0%	2.6%	+1.5%	-	-	-	-	-	-	12.6%	16.0%	-3.4%
Wellington – Sustainable Equity	1.4%	2.5%	-1.0%	-	-	-	-	-	-	14.0%	15.1%	-1.1%
Storebrand – Sustainable Equity	2.3%	2.6%	-0.2%	-	-	-	-	-	-	16.1%	16.7%	-0.6%
Baillie Gifford – Global Equity	-1.5%	0.0%	-1.5%	-	-	-	-	-	-	-1.5%	0.0%	-1.5%
Harbourvest – Private Equity <sup>1</sup>	11.0%	1.7%	+9.3%	60.6%	23.7%	+36.9%	25.2%	12.8%	+12.4%	9.9%	11.4%	-1.6%
Adams Street – Private Equity <sup>1</sup>	15.9%	1.7%	+14.2%	64.5%	23.7%	+40.7%	26.8%	12.8%	+13.9%	12.1%	10.9%	+1.2%
Newton – Absolute Return	-0.9%	0.6%	-1.5%	8.0%	2.6%	+5.5%	-	-	-	4.7%	2.9%	+1.9%
Ruffer - Absolute Return	0.3%	0.6%	-0.3%	16.0%	2.6%	+13.4%	-	-	-	14.5%	2.9%	+11.6%
Schroders – Property	4.7%	4.5%	+0.2%	13.1%	13.2%	-0.1%	3.6%	4.0%	-0.4%	7.1%	8.4%	-1.3%
UBS – Infrastructure	-0.4%	1.5%	-1.9%	-5.4%	5.0%	-10.4%	-4.8%	3.8%	-8.6%	4.2%	1.7%	+2.5%
Pantheon – Infrastructure <sup>1</sup>	7.5%	1.5%	+6.0%	25.7%	5.0%	+20.6%	6.9%	3.8%	+3.1%	7.3%	3.9%	+3.4%
M&G – Infrastructure	1.6%	1.5%	+0.1%	19.4%	5.0%	+14.4%	-	-	-	8.1%	3.8%	+4.2%
ATLAS – Listed Infrastructure	6.0%	3.2%	+2.8%	-	-	-	-	-	-	5.2%	6.0%	-0.8%
M&G – Real Estate Debt	1.6%	1.0%	+0.6%	7.4%	4.1%	+3.3%	-	-	-	2.1%	4.5%	-2.5%
M&G – Diversified Credit	0.5%	0.8%	-0.3%	8.4%	3.1%	+5.3%	5.3%	3.7%	+1.7%	4.1%	1.4%	+2.6%
M&G - Corporate Bonds	-1.5%	-1.6%	0.0%	-1.0%	-1.5%	+0.5%	-	-	-	1.7%	0.3%	+1.4%
UBS - Over 5 Year Index-linked Gilts	2.3%	2.3%	0.0%	-1.7%	0.2%	-2.0%	6.0%	6.6%	-0.6%	5.6%	6.1%	-0.5%
<b>Total Assets</b>	<b>2.4%</b>	<b>1.6%</b>	<b>0.8%</b>	<b>18.9%</b>	<b>14.4%</b>	<b>4.5%</b>	<b>7.9%</b>	<b>6.4%</b>	<b>1.5%</b>			

**Notes:** Totals may not sum precisely due to rounding. All returns are net of fees. Unless stated otherwise, all performance figures and objectives provided by Northern Trust as at 30 September 2021. <sup>1</sup> Valuation and performance information as at 30 June 2021.

**Source:** Investment Managers, Northern Trust, Isio calculations.

# Looking Forward

## Summary

This page sets out the main action / discussion points.

## Status key

- Action
- Decision
- Discussion
- Information only

Key issues		
Item	Action points / Considerations	Status
Overall Investment Strategy	<b>Infrastructure Allocation Implementation</b> <ul style="list-style-type: none"> <li>Isio has prepared a paper detailing the proposed approach for selection of the manager(s) to manage the agreed increased allocation to infrastructure. This paper puts forward the proposed allocation and key considerations, a proposed timeline and method for manager selection and implementation, as well as an evaluation criteria with which to assess the prospective managers. The paper will be presented at the Q4 Committee meeting.</li> </ul>	<span style="color: teal;">●</span>
	<b>Fixed Income Allocation Implementation</b> <ul style="list-style-type: none"> <li>Isio will prepare a paper outlining a proposed approach for the fixed income allocation, provisionally expected to be presented at the March Committee meeting. It is hoped that further information around the rollout of various funds on the Access pool will be available at this point, allowing for agreement of a more definitive selection and implementation timeline.</li> </ul>	<span style="color: teal;">●</span>
	<b>Osmosis Resource Efficiency Allocation</b> <ul style="list-style-type: none"> <li>The implementation of the agreed allocation to the Osmosis Resource Efficiency Fund continues to be progressed with a target timeframe for inception of late Q4 2021 / early Q1 2022.</li> </ul>	<span style="color: teal;">●</span>
	<b>Climate Scenario Modelling</b> <ul style="list-style-type: none"> <li>A key consideration of investment strategy and portfolio composition going forward is the impact of climate change. In order to understand this better the Committee has agreed to further analysis to model various climate scenarios for the Fund's portfolio. This is due to be discussed further at the Q4 Committee meeting ahead of agreeing a preferred route forward.</li> </ul>	<span style="color: teal;">●</span>
Investment Managers	<ul style="list-style-type: none"> <li>We have no immediate concerns regarding the investment managers at this time.</li> <li>We suggest to continue monitoring the Longview Global Equity Fund given recent team changes and propose the Fund conduct a formal review of the position in early 2022.</li> <li>Given weak UBS infrastructure performance since inception, we propose this fund continues to be monitored closely.</li> </ul>	<span style="color: orange;">●</span> <span style="color: orange;">●</span>

# Market Background

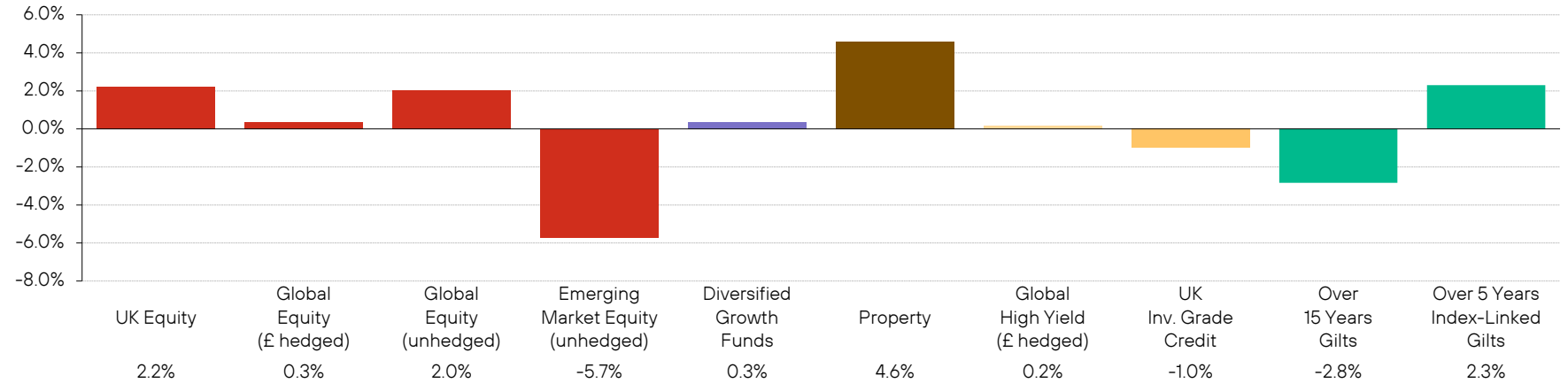
# Market Background – Overview Q3 2021

## Summary

Global equity markets were mixed over Q3 whilst Emerging Market equities sold-off due to China applying tighter regulations to a number of industries.

Nominal Gilt yields increased over the quarter as inflation expectations increased, causing a rotation to floating-rate assets. This led to real gilt yields falling over Q3 with increased expectations that central banks may raise interest rates sooner than expected.

## Returns by Asset Class – Q3 2020



## Key Upcoming Events

- The dates for the Bank of England's Monetary Policy Committee (MPC) announcements in Q4 2021 are 4 November (despite inflation concerns and continued economic recovery from Covid, UK base rate held firm at this stage, and the MPC voted to continue the bond purchasing programme) and 16 December.
- The dates for the US Federal Reserve's Federal Open Market Committee (FOMC) announcements in Q4 2021 are 3 November (US base rate held steady, however announced the decision to begin to taper bond purchases) and 15 December.

## Commentary

- Global equity markets delivered marginal positive returns over Q3. UK equities outperformed global markets, due to energy and financial sectors, both performing well. Emerging Market equities significantly underperformed over Q3 as a result of the sell-off in China, caused by the Chinese government applying tighter restrictions to a number of industries.
- UK IG credit performance was negative over Q3. There were concerns that rising inflation may be more permanent than initial expectations, leading to central banks potentially increasing interest rates earlier than previously expected.
- Nominal Gilts fell in value over Q3 as inflation expectations led to investors rotating away towards floating rate assets. The increase in inflation expectations however led to index-linked gilts performing positively over the quarter.

**Note:** Please see Appendix 2 for details of the returns representing each asset class.

**Source:** Refinitiv, DGF investment managers, Isio calculations.



# Market Background – Yields Q3 2021

## Summary

These charts show yield movements at the 20-year tenor over the past year.

### Gilt Yield Changes:

#### 20-year Real gilt Yield

July	-0.29%
August	0.01%
September	0.21%
<b>Quarter</b>	<b>-0.06%</b>

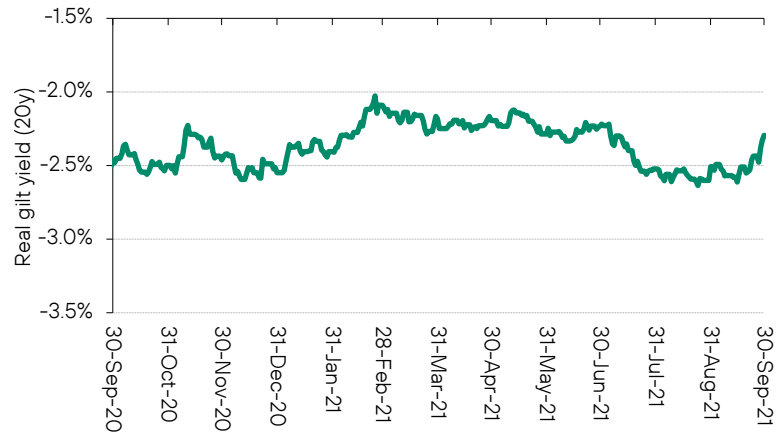
#### 20-year Nominal gilt Yield

July	-0.25%
August	0.08%
September	0.33%
<b>Quarter</b>	<b>0.17%</b>

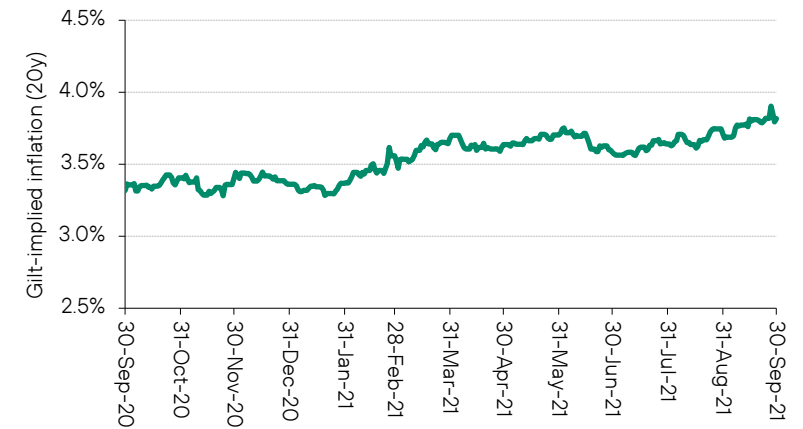
#### 20-year gilt-Implied Inflation

July	0.06%
August	0.07%
September	0.11%
<b>Quarter</b>	<b>0.23%</b>

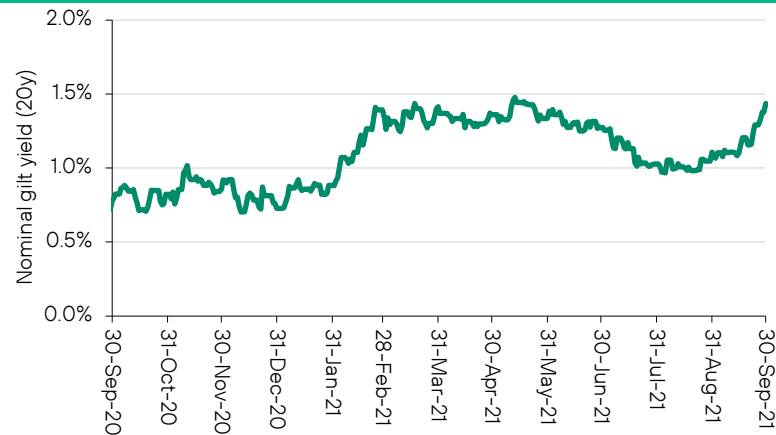
## Real Gilt Yields – Last 12 months



## Gilt-implied RPI Inflation – Last 12 months



## Nominal Gilt Yields – Last 12 months



**Note:** Please see Appendix 2 for details of the example liabilities. Monthly yield changes may not sum to quarterly changes, due to rounding.  
**Source:** Bank of England, Isio calculations.

# Strategy Overview

# Asset Allocation – at 30 September 2021

## Summary

As at September 2021, the Fund's asset allocation was somewhat off benchmark following strategic changes agreed to the Fund's asset allocation at the July Committee meeting.

Allocations will be brought more closely in-line to the revised benchmark as managers for the new mandates are agreed and implemented.

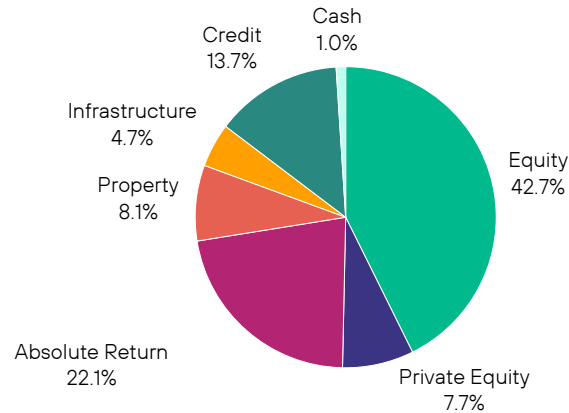
## Total Assets

Start of quarter	£4,466m
End of quarter	£4,575m

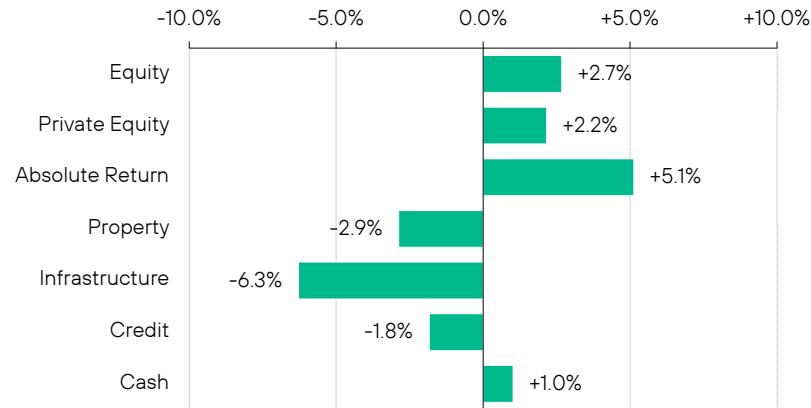
## Agreed Target Allocation

Equity	40.0%
Private Equity	5.5%
Absolute Return	17.0%
Balanced Property	7.0%
Inflation-Linked Property	4.0%
Infrastructure	11.0%
Private Credit	5.0%
Diversified Credit	10.5%

## Asset Allocation – 30 September 2021

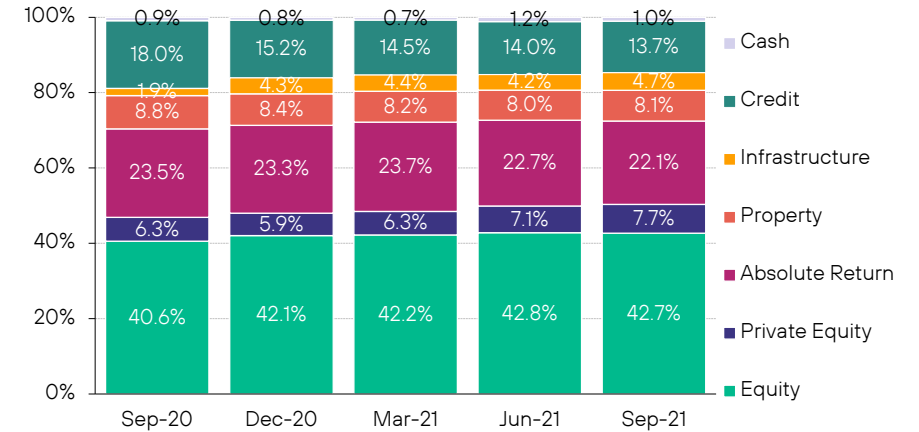


## Assets Relative to Benchmark – 30 September 2021



Note: Totals may not sum due to rounding.  
Source: Investment managers, Isio calculations.

## Asset Allocation Changes Since 30 September 2020



## Commentary

- As at September 2021, the Fund's asset allocation was relatively off-benchmark following the strategic changes agreed at the July Committee meeting. These changes are outlined below:
  - Reduce: absolute return from 20% to 17%; balanced property from 10% to 7%. corporate bonds and index-linked gilts to 0%.
  - Increase: inflation-linked property allocation to 4% (new allocation); infrastructure equity from 8% to 11%; private credit from 3% to 5%; and diversified credit from 7% to 10.5%.
- In light of these changes, the absolute return allocation is now materially overweight, while the property, infrastructure and credit allocations are underweight.
- Equity and private equity are also overweight, following strong performance over the medium term, relative to other risk asset classes.
- The allocations will be brought more closely in line with the strategic benchmark as the new mandates are agreed and implemented over 2022.

# Investment Managers

# Performance Summary – to 30 September 2021

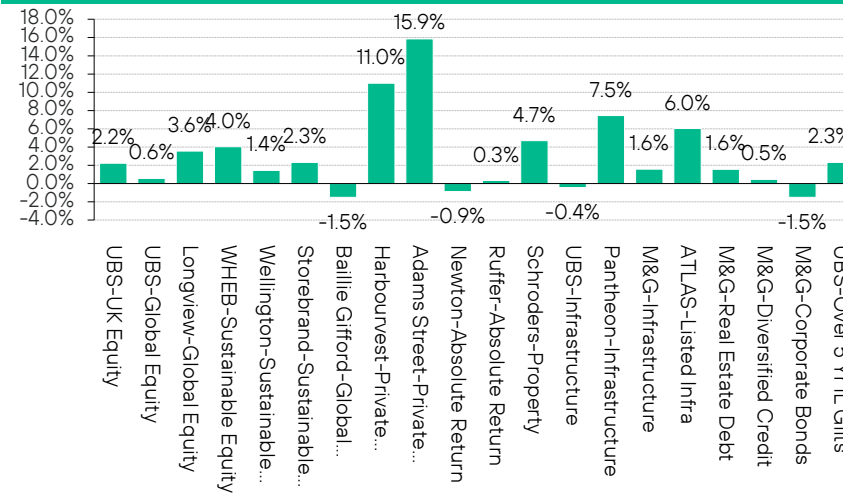
## Summary

The majority of the Fund's assets delivered positive absolute performance over the quarter with the exception of Newton, UBS Infrastructure and M&G Corporate Bonds.

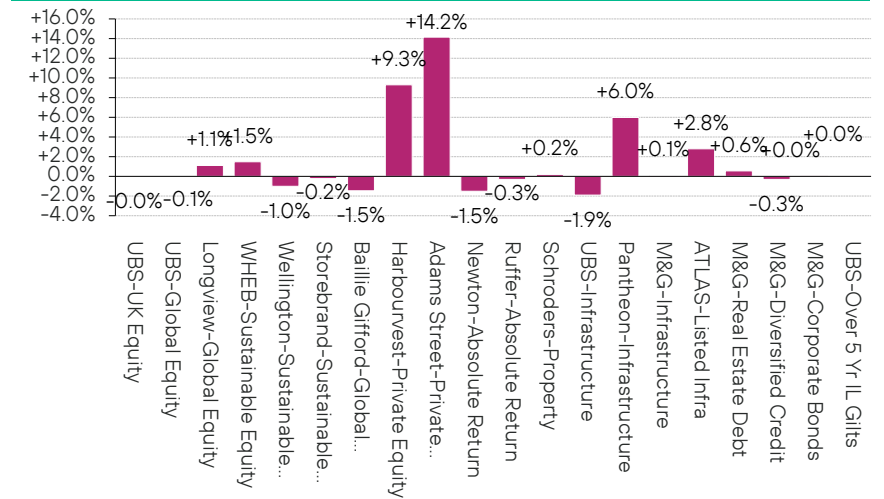
The Fund's private equity mandates posted the strongest absolute returns over the quarter as these mandates continue to perform very strongly.

Relative performance over the quarter was relatively mixed with c. half of the Fund's managers producing marginal underperformance relative to their performance objective. The strongest relative performers were the Private Equity funds and Pantheon Infrastructure whilst the weakest performance was UBS Infrastructure.

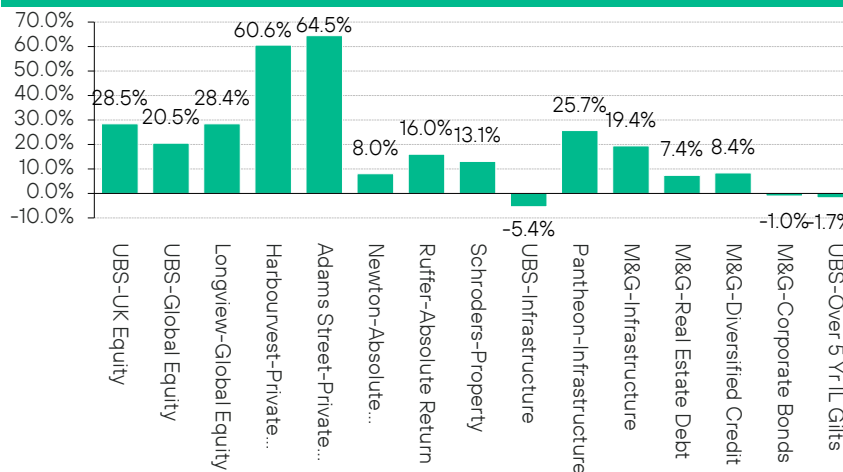
### Absolute Return – Q3 2021



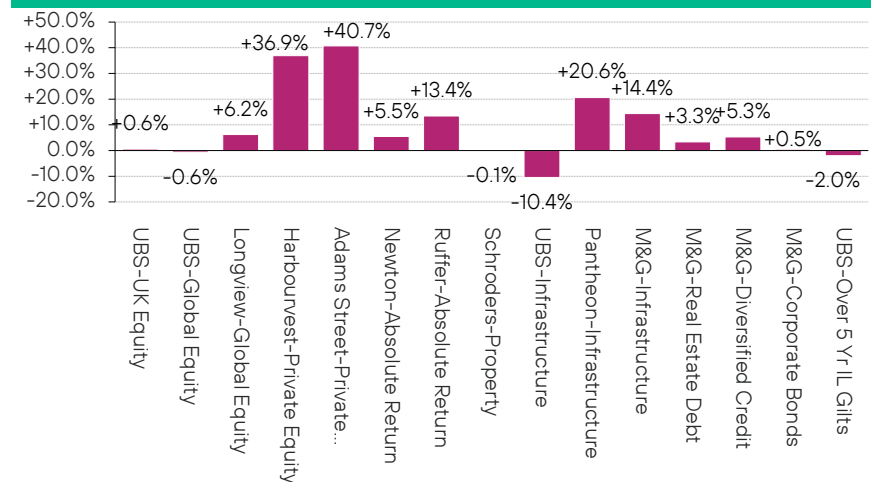
### Relative Return – Q3 2021



### Absolute Return – 12 months



### Relative Return – 12 months



**Note:** Returns net of fees. 12 month relative and absolute returns are not available for the WHEB, Wellington, Storebrand, ATLAS, and Baillie Gifford mandates as they were incepted post 30 September 2020.  
**Source:** Investment Managers, Northern Trust, Isio calculations.

# UBS – Global Equity

**Mandate:** Passive Equities

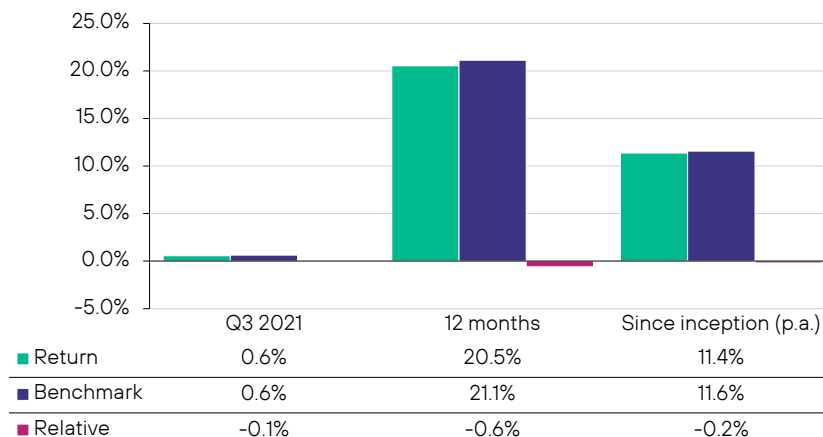
**Current Value:** £230.6m

**Current Weighting:** 5.0%

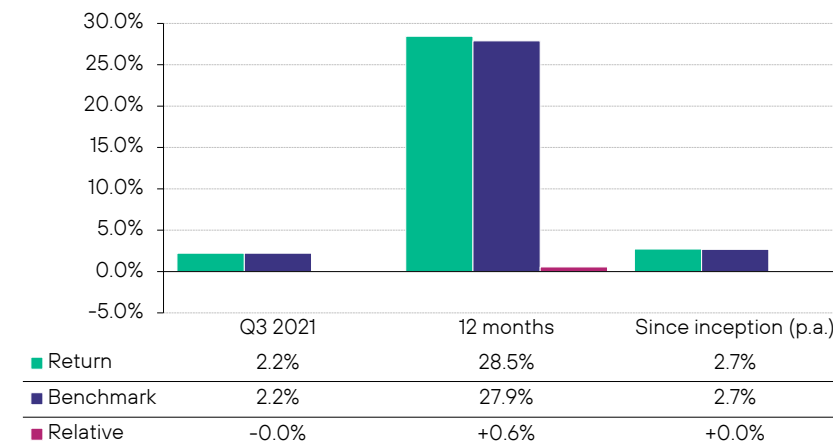
**Inception:** UK Equities – 31 December 2017 & Global Equities 31 January 2018

**Objective:** To track their respective underlying respective regional equity benchmarks

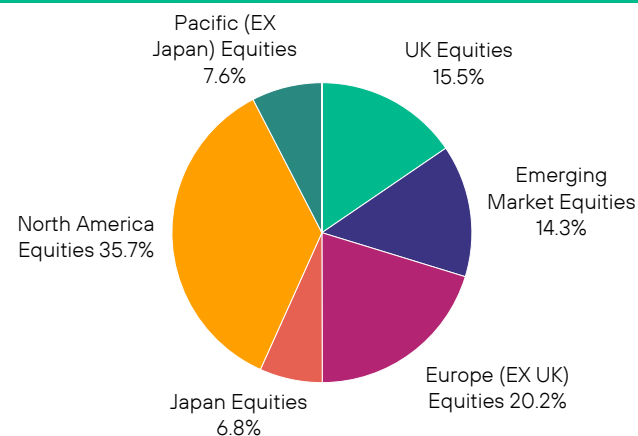
## Global Performance to 30 September 2021



## UK Equities Performance to 30 September 2021



## Geographic Exposure as at 30 September 2021



**Note:** Totals may not sum due to rounding. Performance quoted net of fees.  
**Source:** Investment manager, Northern Trust, Isio calculations.

## Commentary

- Both UBS equity mandates delivered positive performance, in line with their respective benchmarks, over the period.
- Equity markets experienced some volatility over the quarter, as investor concerns around future inflation increases, and ensuing tightening monetary policy, weighed on sentiment in September, offsetting gains made over the first half of the period.
- The US was the strongest regional contributor, despite a shift in tone from the Federal Reserve, with a relatively strong series of corporate earnings announcements underpinning returns. UK markets also performed well over the three months, with energy and financial firms benefitting from an environment of rising inflation and interest rate expectations.
- Within emerging markets, Chinese equities delivered negative performance following concerns around the wider impact of the Evergrande credit event. Additionally, regulatory developments negatively impacted technology and education firms.
- These holding were significantly reduced over the quarter with assets reallocated to an active equity approach with Baillie Gifford.

# Longview - Global Equity

**Mandate:** Active Global Equities

**Current Value:** £503.1m

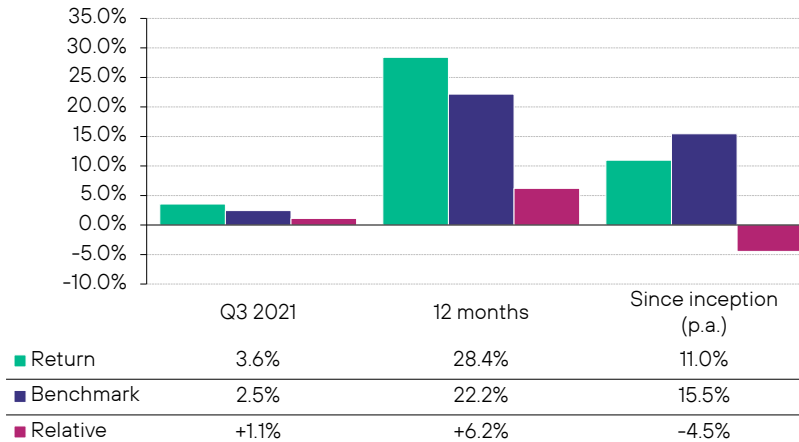
**Current Weighting:** 11.0%

**Inception:** 4 February 2019

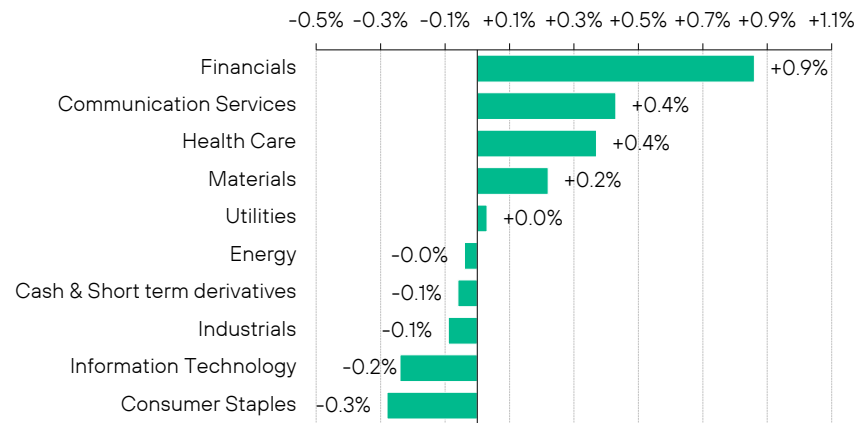
**Objective:** Outperform benchmark by 3% (gross) p.a. over rolling 3 year periods.

**Benchmark:** MSCI ACWI

## Longview Global Equity Performance to 30 September 2021

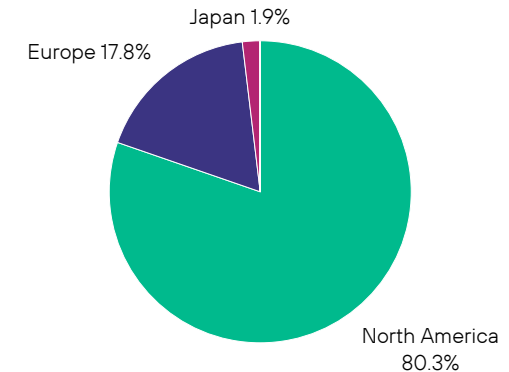


## Performance Attribution as at 30 September 2021



**Note:** Totals may not sum due to rounding. Performance quoted net of fees.  
**Source:** Investment manager, Northern Trust, Isio calculations.

## Geographic Allocation at 30 September 2021



## Commentary

- The fund delivered a positive absolute return over the quarter and outperformed the benchmark by 1.1%; however performance remains behind benchmark since inception.
- Relative performance was aided by both stock selection and sector allocation over Q3 – with the former being the most important indicator of success, given the Fund's 'bottom-up' approach. Most notably, stock selection in financials added significant value, with Aon a standout performer, as the cancellation of the firm's proposed merger with Willis Towers Watson signalled an end to a period of uncertainty.
- As a reminder, Longview continue to emphasise the importance of focussing on companies whose strong market position offers pricing power, to guard against macroeconomic shocks.
- The Fund seeks to generate outperformance through investing in a concentrated portfolio of global companies, focusing on a 'bottom-up' approach. As at 30 September 2021 there were 33 stocks held within the portfolio, with underweight positions in cyclical sectors such as energy and consumer discretionary and a large overweight to North America.

# WHEB – Sustainable Equity

**Mandate:** ESG focused Global Equity

**Current Value:** £246.4m

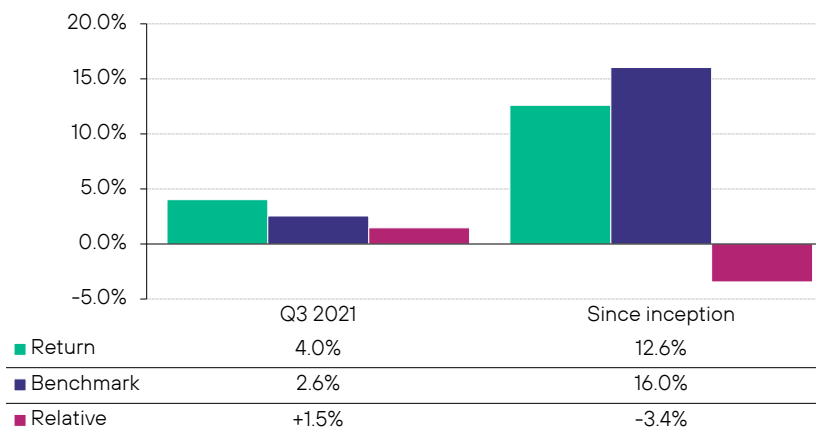
**Current Weighting:** 5.4%

**Inception:** 1 December 2020

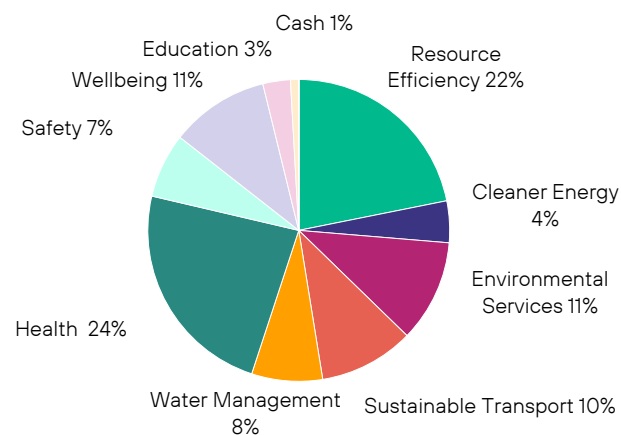
**Benchmark:** MSCI World Total Return Net GBP

**Objective:** To achieve capital growth over the medium to longer term.

## WHEB – Sustainability Fund Performance to 30 September 2021

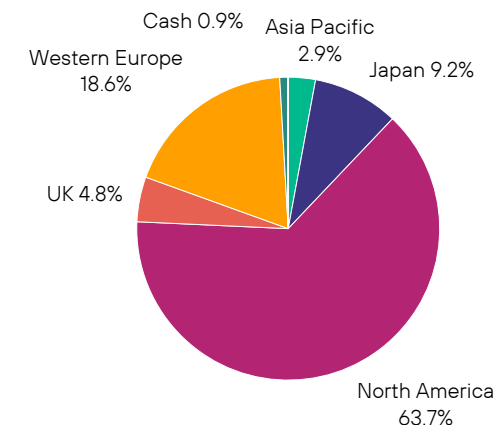


## Impact Positioning at 30 September 2021



**Note:** Totals may not sum due to rounding. Performance quoted net of fees.  
**Source:** Investment manager, Northern Trust, Isio calculations.

## Geographic Allocation at 30 September 2021



## Commentary

- The fund produced positive absolute performance of 4.0% over the quarter, outperforming the benchmark by 1.5%. Material swings in relative performance are to be expected for this fund, given its high active share relative to the benchmark and differentiated approach.
- Outperformance was driven by strong performance across the Health and Environmental Services themes. Within Health, life sciences tools companies such as Thermo Fisher and Agilent added value. The manager notes that the change in market dynamics driven by the pandemic have improved the future growth prospects for these firms. DSM (manufacturer) and Arcadis (consultant) were notable performers within environmental sciences, with both companies benefitting from the continued importance placed on environmental solutions.
- Safety and Clean Energy themes both detracted from performance, as the inflationary backdrop, namely rising energy and raw materials prices, was detrimental to returns.
- WHEB purchased LHC Group, a homecare and hospice operator, with the team noting that the firm's quality and size position it well in a changing regulatory environment.



# Wellington – Sustainable Equity

**Mandate:** Global Impact Equities

**Current Value:** £246.2m

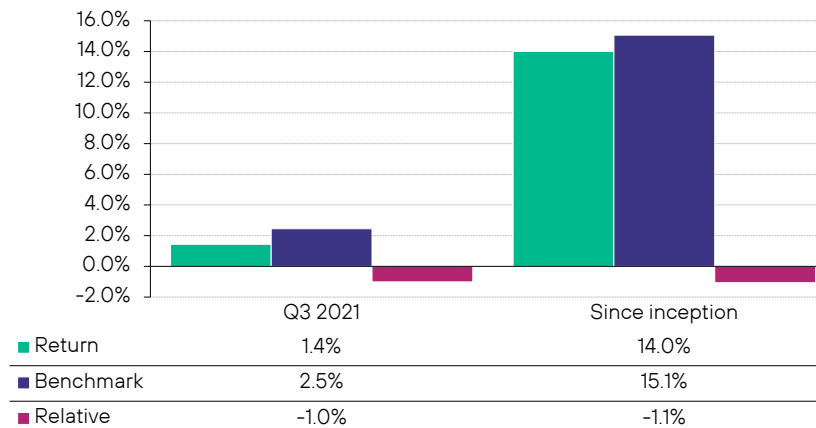
**Current Weighting:** 5.4%

**Inception:** 2 December 2020

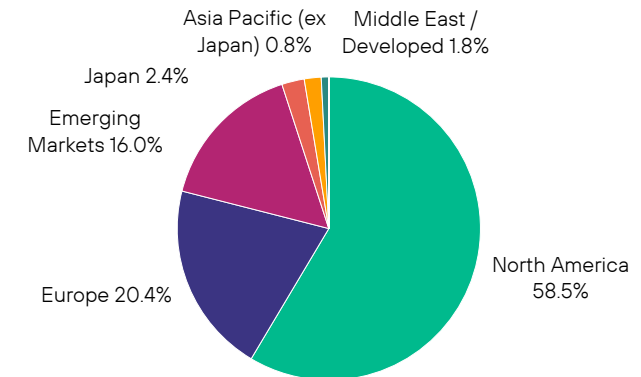
**Benchmark:** MSCI AC World

**Objective:** To outperform the MSCI All Country World Index over the long-term.

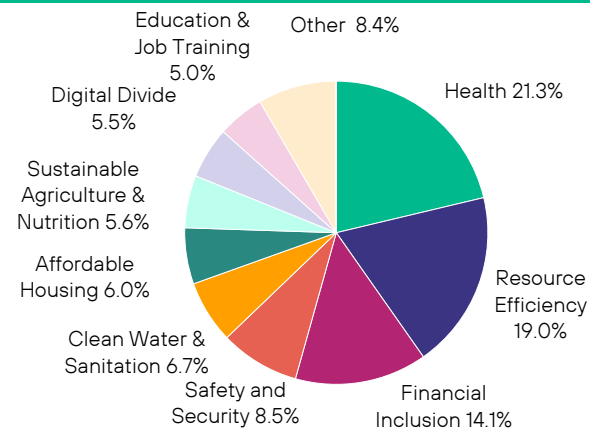
## Performance to 30 September 2021



## Geographic Allocation at 30 September 2021



## ESG Theme Distribution at 30 September 2021



**Note:** Totals may not sum due to rounding. Performance quoted net of fees.  
**Source:** Investment manager, Northern Trust, Isio calculations.

## Commentary

- Stock selection within Materials, Industrials and Real Estate aided performance over Q3; however, firms within Healthcare and IT weighed on relative returns. Being underweight to oil and gas (which is to be expected given the Fund's style) also detracted, as commodity prices rose.
- A notable contributor to relative performance was Mimecast, a company which fits into the Fund's cyber security theme. The firm benefitted from accelerating growth and increasing customer numbers. StoneCo Ltd was the largest detractor, as the transaction volumes for payment processing companies have been impacted by Covid. Additionally, the company has encountered issues in its expansion into lending.
- Pharmaceutical firm Zoetis was sold, in light of the non-impact side of the business (pet care) growing to more than 50% of revenue. As a result, the Fund divested on impact materiality grounds. During Q3, the team added positions in Darling Ingredients (added to the resource efficiency theme) and Duolingo (which was subsequently sold following the strong performance of its shares post-Initial Public Offering).

# Storebrand – Sustainable Equity

**Mandate:** ESG Focused Global Equities

**Current Value:** £500.1m

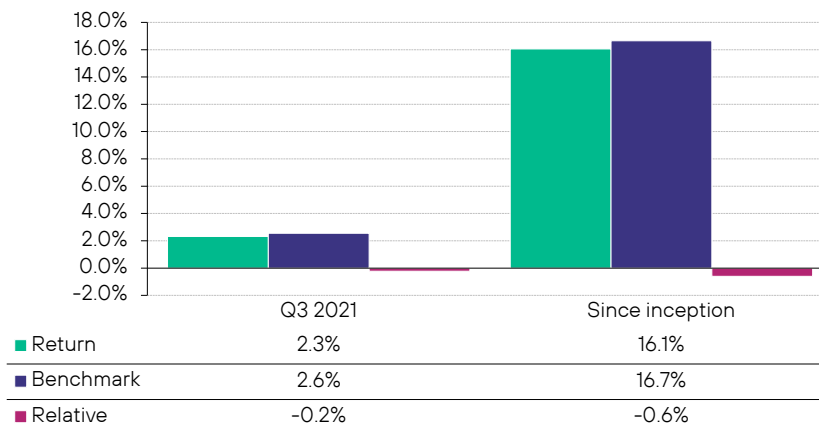
**Current Weighting:** 10.9%

**Inception:** 3 December 2020

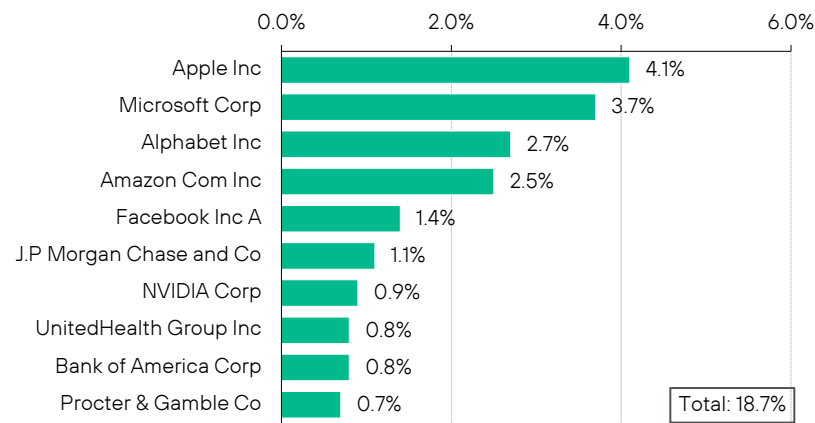
**Benchmark:** MSCI World NR

**Objective:** Reproduce risk-return profile of the MSCI World Index

## Performance to 30 September 2021

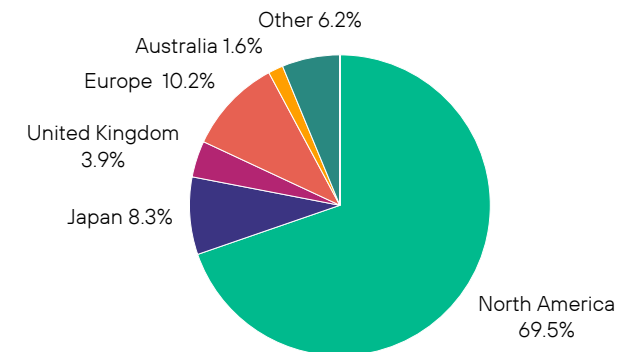


## Top 10 Holdings as at 30 September 2021



**Note:** Totals may not sum due to rounding. Performance quoted net of fees.  
**Source:** Investment manager, Northern Trust, Isio calculations.

## Geographic Allocation at 30 September 2021



## Commentary

- The fund delivered absolute performance of 2.3%, marginally lagging the benchmark. Underperformance over Q3 is unsurprising given rising oil prices, and the subsequent strong performance from the energy sector (to which the fund has no exposure by design). The small magnitude of the underperformance comes as a result of the fund's highly risk-controlled process, with relatively little active risk versus the benchmark.
- In terms of exclusion categories, investment screens (the 'Storebrand Standard' group-wide exclusions list) were the strongest contributor to performance. By contrast, exclusions attributable to ISS/Sustainalytics weighed on relative returns.
- Within the climate solutions segment of performance, renewable energy continued to detract from performance, as clean technologies underperformed the MSCI and Energy sector significantly.
- Storebrand's outlook remains optimistic, with the manager noting the fund's transition-oriented lifecycle approach, as key to achieving the fund's goal, highlighting a c.60% Co2 intensity reduction relative to the benchmark MSCI World index.

# Baillie Gifford – Global Equity

**Mandate:** Global Equities

**Current Value:** £225.8m

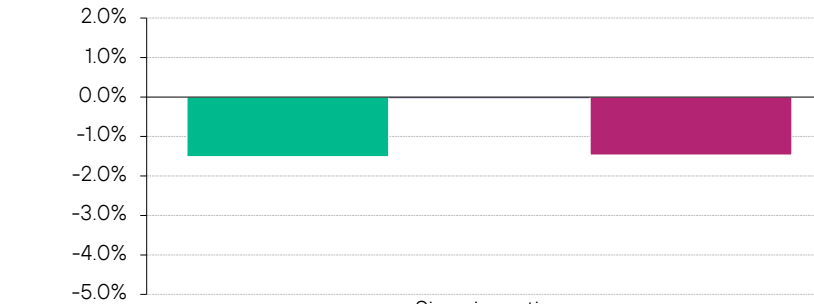
**Current Weighting:** 4.9%

**Inception:** 11 August 2021

**Benchmark:** MSCI AC World Index (GBP)

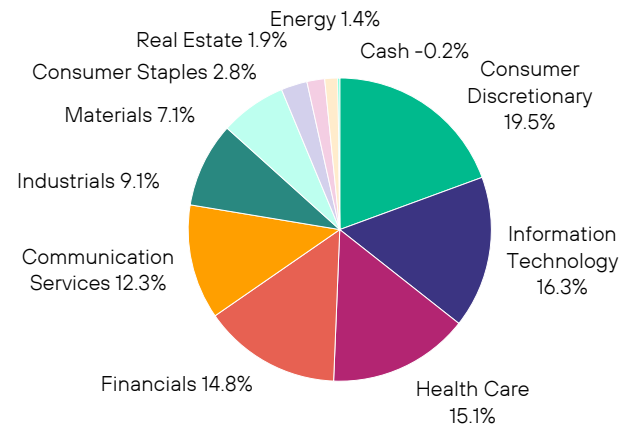
**Objective:** Outperform benchmark by 2.0% p.a. (net of fees) over rolling 5-year periods

## Performance to 30 September 2021



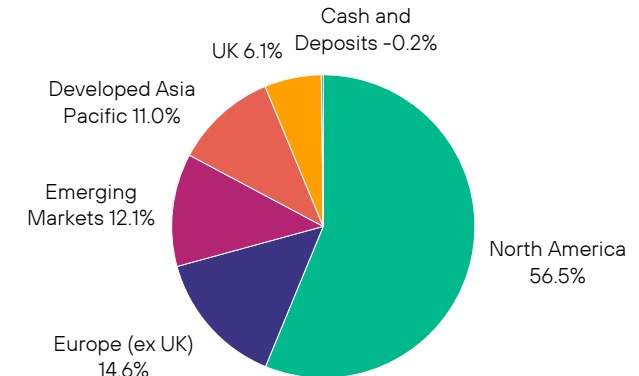
	Since inception
Return	-1.5%
Benchmark	0.0%
Relative	-1.5%

## Sector Allocation as at 30 September 2021



**Note:** Totals may not sum due to rounding. Performance quoted net of fees. Performance shown since inception of the Fund's investment on 11 August 2021.  
**Source:** Investment manager, Northern Trust, Isio calculations.

## Geographic Allocation at 30 September 2021



## Commentary

- Q3 and since inception underperformance can be primarily attributed to the impact of China's recent regulatory crackdown, which negatively affected holdings such as Alibaba and Naspers. The largest detractor from performance was Naspers, which has a large stake in Chinese technology firm, Tencent. Investor sentiment suffered due to the impact of new legislation which seeks to restrict the amount of time that young people can spend on gaming platforms. Despite this, Baillie Gifford remain confident in the stock, noting that this demographic accounts for a small proportion of total gaming revenues, and also that the firm is investing in other high growth areas such as cloud computing.
- During the quarter the team initiated three new positions and exited four. A notable exit was the Fund's position in EOG Resources, which operates in the Oil and Gas sector. This position was primarily sold due to Baillie Gifford's negative view on the long-term future for the fossil fuel industry.
- Baillie Gifford continue to focus on investing in companies with strong fundamentals and believe they are well positioned to deliver outperformance over the long term.

# Harbourvest – Private Equity

**Mandate:** Private Equity

**Current Value:** £163.3m

**Current Weighting:** 3.6%

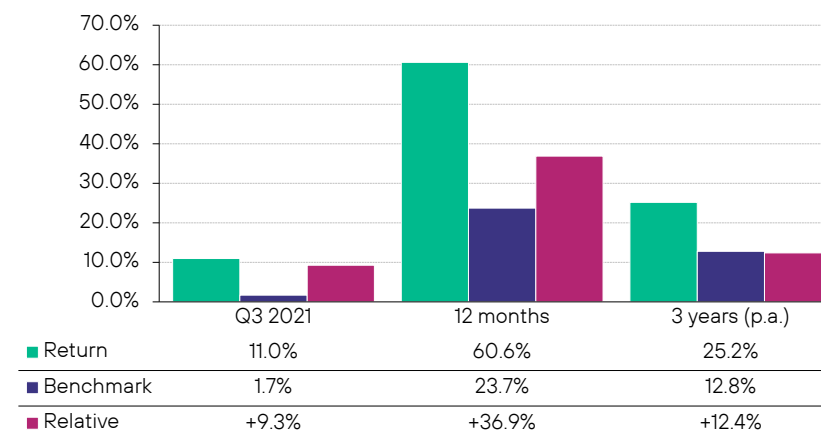
**Inception:** 31 January 2003

**Benchmark:** MSCI World +1.5%

**Objective:** MSCI World +3.0%

Harbourvest	Market Value at start (£m)	Drawdowns over quarter (£m)	Distributions over quarter (£m)	Market Value at end (£m)
HIPEP IV SUPPLEMENTAL EUROPEAN COMPANIONFUND	0.1	-	-	0.1
HARBOURVEST PTRS VIII - CAYMAN VENTURE FUND	1.9	-	0.2	1.9
HARBOURVEST INTL PEP V - CAYMAN PSHP FD	2.2	-	0.7	1.5
HARBOURVEST PTRS VIII - CAYMAN BUYOUT FUND	1.5	-	0.2	1.5
HARBOURVEST PARTNERS IX- CAYMAN BUYOUT FUND	13.4	-	1.1	14.3
HARBOURVEST PARTNERS XI AIF	18.8	1.4	-	20.7
HARBOURVEST INTL PEP VI - CAYMAN PSHP FUND	19.5	-	2.2	18.7
HIPEP VII (AIF) PARTNERSHIP FUND LP	16.5	0.1	1.4	17.3
HIPEP VIII (AIF) PARTNERSHIP FUND LP	16.2	1.7	-	20.5
HARBOURVEST PARTNERS CAYMAN CLEANTECH FUND I	18.1	-	1.8	16.7
HARBOURVEST PARTNERS CAYMAN CLEANTECH FUND II	26.5	0.4	1.3	30.0
DEFAULT ISSUER HARBOURVEST PTNS VII CAYMAN BUYOUT FD LP	0.2	-	0.2	0.0
HARBOURVEST PTRS VIII - CAYMAN MEZZANINEAND DISTRESSED DEBT FD	0.1	-	0.0	0.1
HARBOURVEST PTRS VII - CAYMAN VENTURE FUND	0.6	-	0.3	0.4
HARBOURVEST PARTNERS VII - CAYMAN MEZZANINE FUND	0.0	-	-	0.0
HARBOURVEST PARTNERS IX CAYMAN VENTURE FUND	13.5	-	1.5	14.4
HARBOURVEST PARTNERS IX CAYMAN CREDIT OPPORTUNITIES FUND	1.4	-	-	1.6

## Performance to 30 September 2021



## Commentary – 3 Month Lagged

- The HarbourVest portfolio performed strongly, as private equity valuations continued to trend upwards. Valuations have remained robust, with the combination of a supportive macro-economic environment and a record supply of dry powder available to be deployed maintaining an attractive supply/demand dynamic for sellers.
- Distribution activity remained healthy across the portfolio, with a number of the Fund's holdings in the 'wind down' phase. At a market level, exit activity has been ahead of its long term average over recent quarters, having somewhat paused over Covid-19, with managers seeking to take advantage of attractively priced public markets, as well as an abundance of demand from other private market managers.
- The HarbourVest mandate has added significant value for the Fund, with long term performance ahead of the Isio return assumption for the asset class (Gilts + 6.5% p.a.).
- The suitability of current and future commitments to the mandate was last considered in early 2021.

# Adams Street – Private Equity

**Mandate:** Private Equity

**Current Value:** £187.2m

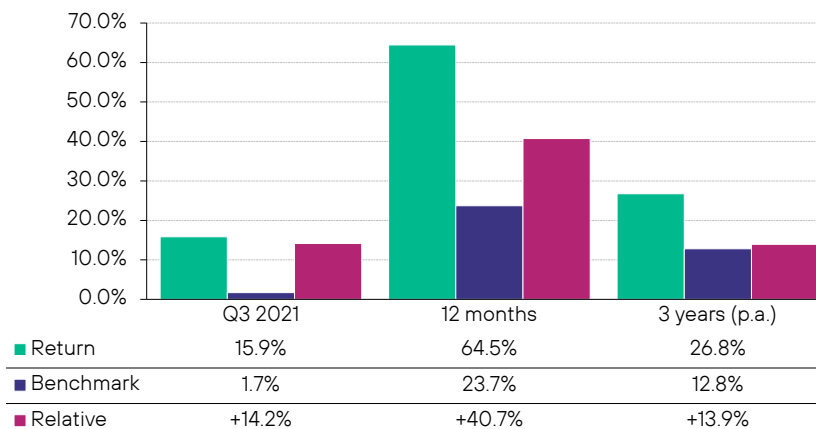
**Current Weighting:** 4.1%

**Inception:** 31 March 2003

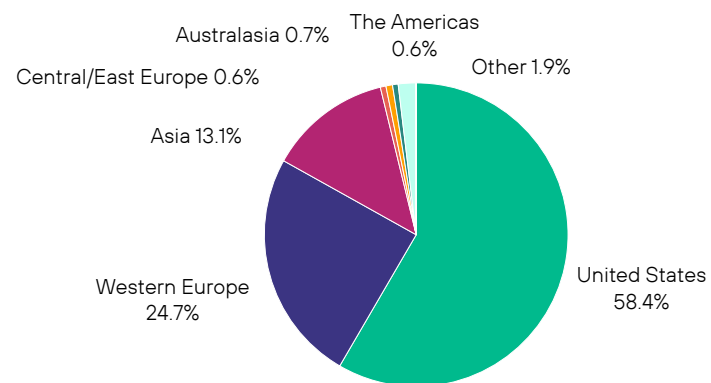
**Benchmark:** MSCI World +1.5%

**Objective:** MSCI World +3.0%

## Performance to 30 September 2021



## Geographical Exposure as at 31 March 2021



**Note:** Totals may not sum due to rounding. Performance quoted net of fees.  
**Source:** Investment manager, Northern Trust, Isio calculations.

Adams Street	Market Value at start (£m)	Drawdowns over quarter (£m)	Distributions over quarter (£m)	Market Value at end (£m)
Adams Street Feeder Funds (Global 2014-2019)	80.6	2.1	2.7	94.5
Adams Street Feeder Funds (Regional 2013)	26.8	0.1	1.8	29.4
Adams Street Offshore Co. Ltd Funds (Co-Investment)	1.8	-	-	1.9
Adams Street Offshore Co. Ltd Funds (Direct 2007-2011)	5.4	-	-	5.6
Adams Street Offshore Co. Ltd Funds (US 2003-2011)	23.9	-	2.9	24.3
Adams Street Offshore Co. Ltd Funds (non-US 2003-2011)	27.9	0.0	1.6	29.9

## Commentary – 3 Month Lagged

- The Adams Street portfolio has added significant value over the short and medium term, which is in line with expectations given the strength of performance from the broad private equity and venture capital markets.
- In line with the portfolio's investment guidelines, there were several new investments made over the quarter, across primary and direct investments, as well as co-investments. The portfolio remains relatively well diversified between buyout and venture capital deals, and also by geography (albeit with material exposure to the US). Given the current elevated pricing environment, we note that selective deal sourcing and in depth due diligence remains vital for private equity managers.
- The Adams Street mandate has added significant value for the Fund, with long term performance ahead of the Isio return assumption for the asset class (Gilts + 6.5% p.a.).
- The suitability of current and future commitments to the mandate was last considered in early 2021.

# Newton – Absolute Return

**Mandate:** Diversified Growth Fund

**Current Value:** £500.1m

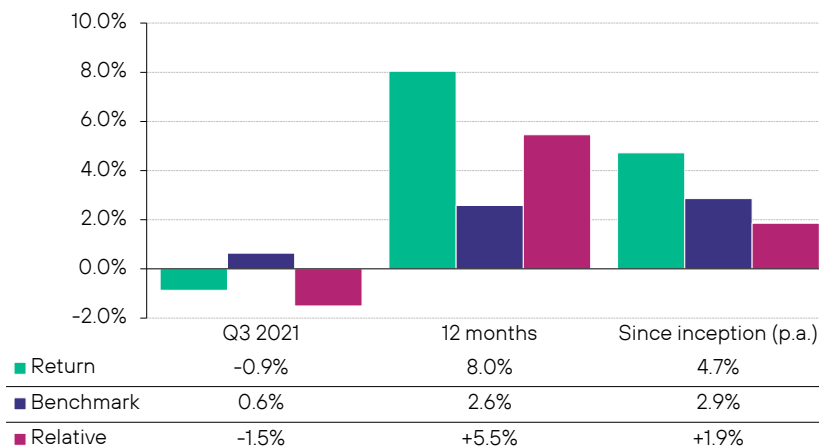
**Current Weighting:** 10.9%

**Inception:** 21 January 2020

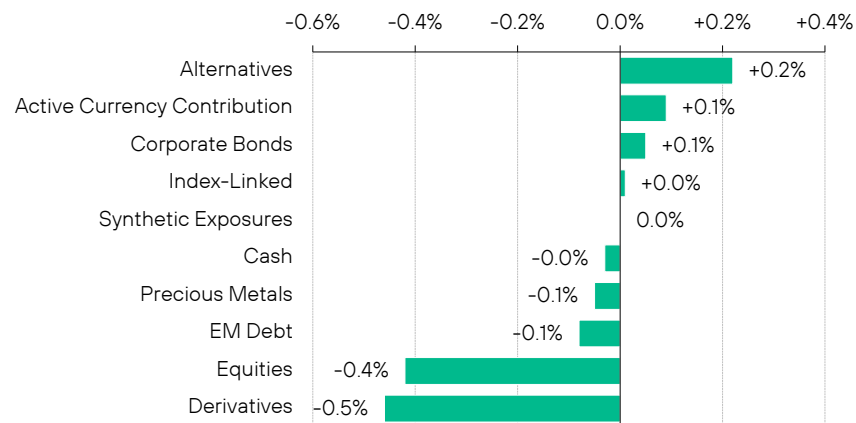
**Benchmark:** 3 Month LIBOR+2.5%

**Objective:** 3-month LIBOR + 4% p.a. (gross) over rolling 5 years

## Performance to 30 September 2021



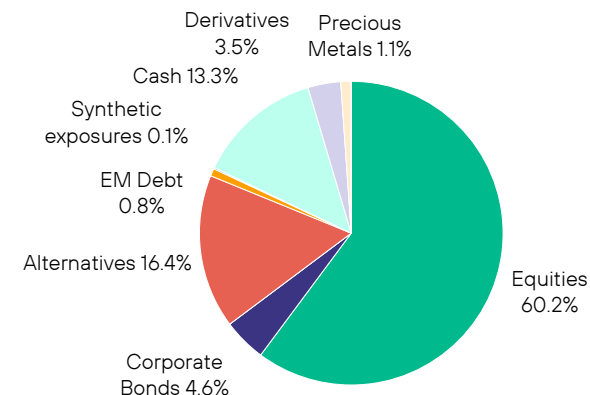
## Contributors to Performance to 30 September 2021



**Note:** Totals may not sum due to rounding. Performance quoted net of fees. Cash contribution includes currency hedging.

**Source:** Investment manager, Northern Trust, Isio calculations.

## Sector Allocation at 30 September 2021



## Commentary

- The fund underperformed over the quarter, as September sell-offs dampened broad market returns. However, over the longer term the Fund continues to outperform its benchmark and perform in line with peers.
- Within the 'return-seeking core', equities detracted from performance with Chinese equities in particular falling in value due to the government's heightened regulatory agenda and the Evergrande credit event. The Fund's 'stabilising layer' was also negative in Q3 as it is structured to protect against more extreme market tail risks than that experienced over September in order to manage costs.
- The Fund increased its equity exposure, particularly in the banking sector (a beneficiary of the rising bond yield environment). Exposure to energy was increased given supply/demand dynamics, while gold exposure was reduced, with Newton noting rising yields and USD strength as limiting the efficacy of gold as a hedge.
- Newton believe there are near-term inflationary challenges from rising energy prices, pent-up consumer demand and inventory restocking. These factors justify a skew towards growth assets at this point in the business cycle.

# Ruffer – Absolute Return

**Mandate:** Diversified Growth Fund

**Current Value:** £512.4m

**Current Weighting:** 11.2%

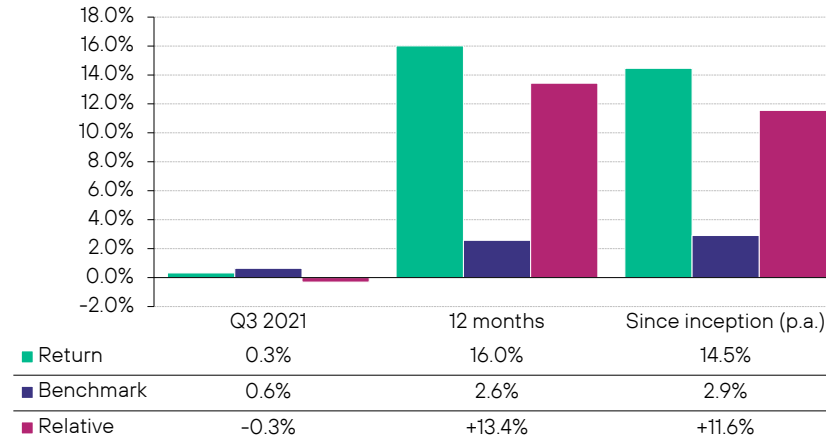
**Inception:** 4 December 2019

**Benchmark:** 3-month LIBOR + 2.5%

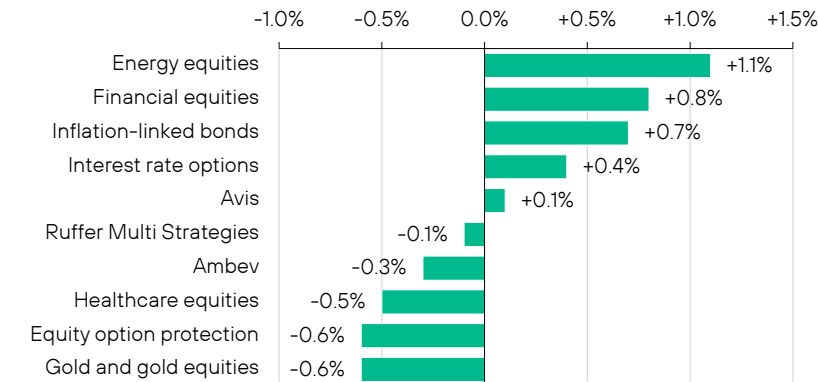
**Objective:** 3-month LIBOR + 4% p.a. (gross) over rolling 5 years

Ruffer has recently announced a number of senior departures at a business level which will not impact the ongoing management of the Fund. These appear to be for unrelated reasons and Ruffer is planning to fill these roles with existing members of the team, therefore we do not have any immediate concerns. We will continue to monitor the situation.

## Performance to 30 September 2021

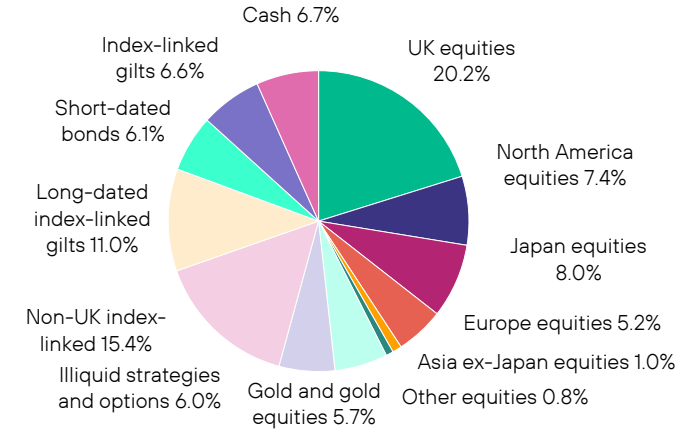


## Contributors to Performance at 30 September 2021<sup>1</sup>



**Note:** Totals may not sum due to rounding. Performance quoted net of fees. <sup>1</sup> Chart shows the top 5 and bottom 5 contributors to performance.  
**Source:** Investment manager, Northern Trust, Isio calculations.

## Asset Allocation at 30 September 2021



## Commentary

- Despite marginally underperforming over Q3, longer term performance remains strong in absolute terms and relative to peers. The largest contribution to positive performance came from equities, most notably energy stocks as September saw rising oil and gas prices which led to higher share prices. The largest detractor was gold, as fears over central bank tightening and a strengthening dollar impacted gold negatively.
- Over Q3 Ruffer further tilted the portfolio's equity exposure towards energy and financials stocks based on their view that these are most likely to benefit from economic recovery. Ruffer continue to invest in strategies which provide protection against falls in the broader equity markets as well as using currency positions to offer protection against an equity fall.
- Ruffer maintain their belief that a combination of lower interest rates and fiscal support from governments will lead to higher inflation, and therefore continue to hold assets which offer inflation protection such as inflation-linked bonds and gold.

# Schroders - Property

**Mandate:** Balanced Property

**Current Value:** £371.9m

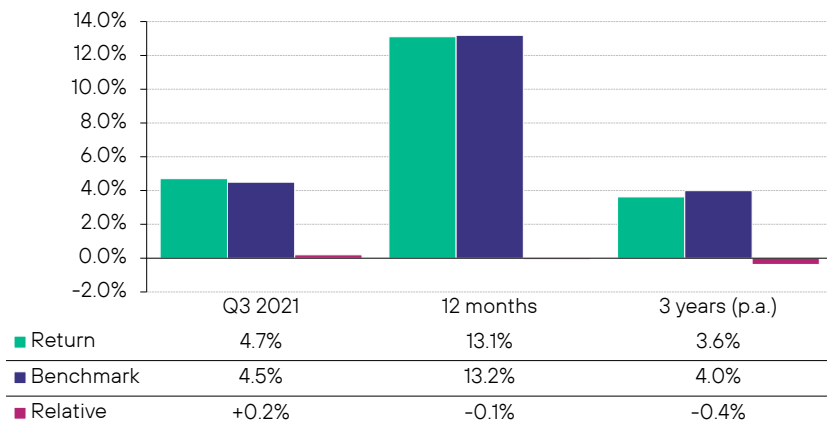
**Current Weighting:** 8.1%

**Inception:** 31 December 2009

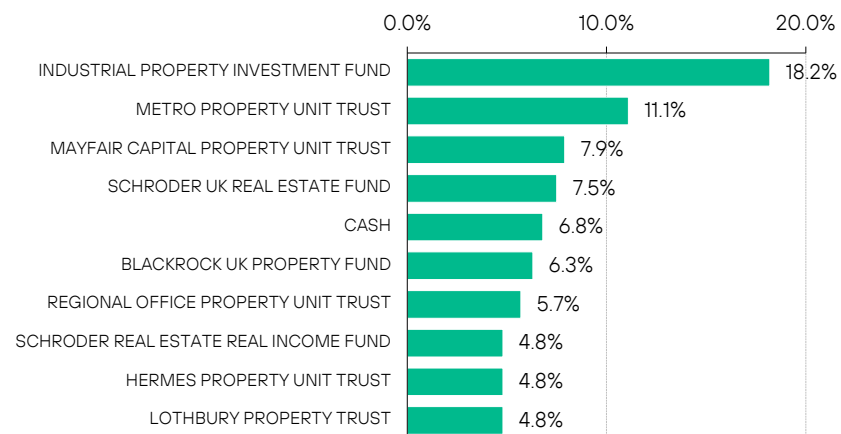
**Benchmark:** IPD All Balanced Fund Index

**Objective:** Outperform benchmark by 0.75% p.a. (net) over rolling 3 years

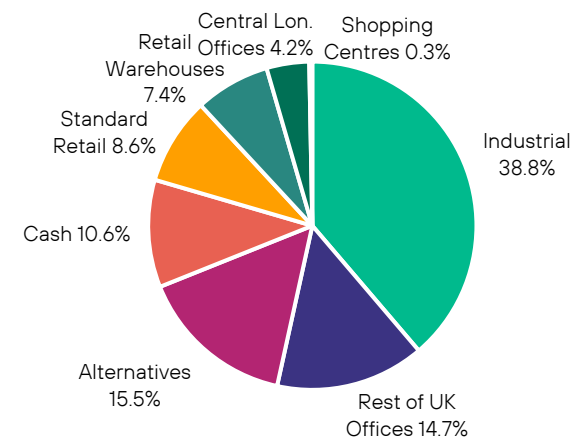
## Performance to 30 September 2021



## Top 10 Holdings as at 30 September 2021



## Sector Allocation at 30 September 2021



## Commentary

- The fund delivered a strong absolute return of 4.7% over the quarter, outperforming its benchmark by 0.2%, reflective of positive sentiments in the broader market.
- The team were active over the quarter making several transactions with c. £19m of acquisitions and £11m of sales. The Fund acquired units in: Local Retail Fund (c. £3m), Multi-Let Industrial Property Unit Trust (c. £4m), Metro Property Unit Trust (c. £2m) and Regional Office Property Unit Trust (c. £2m). There was also a sale of £11 million of units in the Legal and General Managed Property Fund.
- Schroders note that prime industrial yields are now relatively low (at 3.25%-3.75%), having come down over recent periods of strong performance. The team believe that significant positive news is already priced in, and that it is unlikely industrial yields will fall much further. Accordingly, the team believe that, while the industrial sector will continue to be one of the best performing parts of the market, and this remains their largest exposure, the performance margin over offices and retail parks is likely to narrow significantly.

**Note:** Totals may not sum due to rounding. Performance quoted net of fees. Within the portfolio sector allocation, cash also includes cash held within the underlying funds.  
**Source:** Investment manager, Northern Trust, Isio calculations.



# UBS - Infrastructure

**Mandate:** Infrastructure

**Current Value:** £35.3m

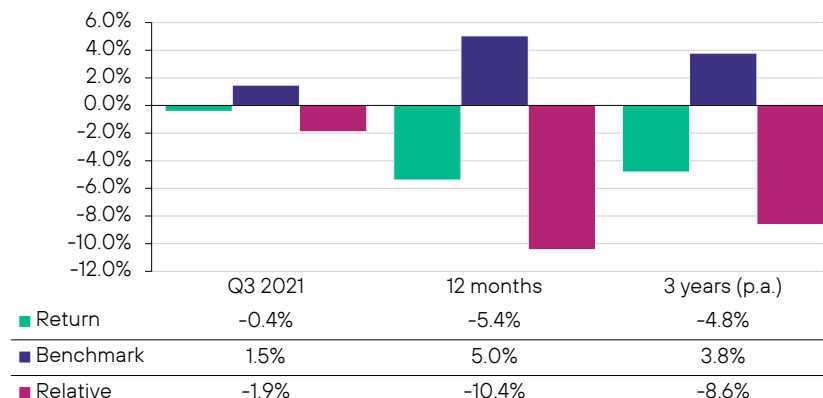
**Current Weighting:** 0.8%

**Inception:** 31 January 2008

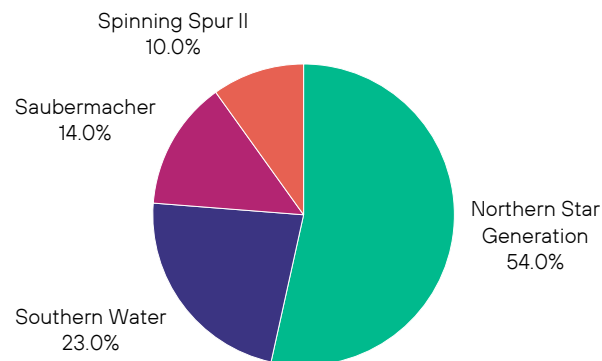
**Benchmark:** CPI + 2.0%

**Objective:** CPI + 3%

## Performance to 30 September 2021



## Underlying Asset Split as at 30 June 2021



## Commitments and Distributions to 30 June 2021<sup>1</sup>

UBS	Fund I	Fund III
Total Commitment (\$m)	35.0	50.0
Commitment Drawn (\$m)	33.3	22.3
Distributions (\$m)	23.9	13.1
Outstanding Commitment (\$m)	1.7	27.7
Estimated Market Value (£m) <sup>2</sup>	10.6	24.7

## Commentary – 3 Month Lagged

- Over the quarter the portfolio returned -0.4%, underperforming the CPI linked benchmark by 1.9%.
- Fund I remains in the value realisation phase and is paying capital back to investors, whilst Fund III is in its investment phase and continues to draw capital for investment.
- Underperformance continues to be driven by Fund I, with the large holding in Southern Water (SW) particularly weighing on returns. The parent company of SW reached an agreement post quarter end with Macquarie, for the manager to inject an additional £1,073m of new capital into the company in order to recapitalise. Following the latest capital raise, and in light of a recent significant fine from the Environmental Agency, the UBS holding in Southern Water was marked down 33%.
- Fund III continues to see strong deal flow, targeting small-to-middle market deals across digital infrastructure, energy transition, utilities and transportation in Europe, whilst focusing on energy storage and telecom opportunities within the Americas. It remains too early in the lifecycle of Fund III to make a proper assessment.

# Pantheon – Infrastructure

**Mandate:** Infrastructure

**Current Value:** £58.1m

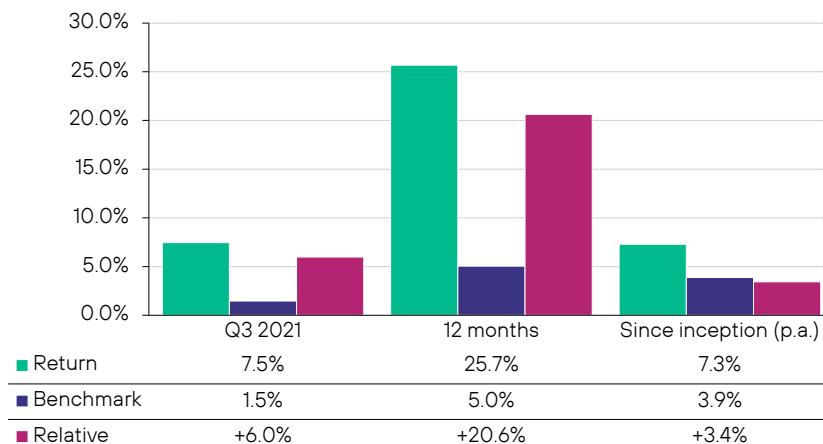
**Current Weighting:** 1.3%

**Inception:** 4 May 2018

**Benchmark:** CPI + 2.5%

**Objective:** CPI + 3%

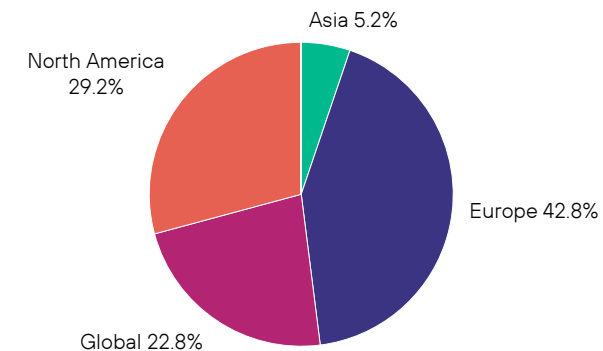
## Performance to 30 September 2021



## Commitments and Distributions to 30 June 2021

Pantheon	
Total Commitment (\$m)	117.0
Commitment Drawn (\$m)	57.9
Distributions (\$m)	5.9
Outstanding Commitment (\$m)	59.1
Market Value (£m)	58.1

## Geographical Allocation at 30 June 2021



## Commentary - 3 Month Lagged

- The fund delivered a positive absolute return of 7.5% over the quarter, outperforming the benchmark by 6.0%.
- Performance was underpinned by strong market demand for assets, driving increased valuations for the majority of the portfolio. As at the end of June, the highest IRR in the portfolio belonged to European firm IFT (42.8%), with the majority of the rest of the fund also performing strongly.
- New investments included a AUD\$59million commitment to Kinetic, an operator of bus fleets and depots in Australia and New Zealand, as well as a €21million commitment to Teemo, Telecom Italia's copper and fibre-to-the-cabinet network in Italy.
- The most material change was in Telxius, a co-investment completed in October 2020 alongside KKR, which increased in value by 135%. The valuation change was driven by the announced sale of assets in the portfolio. Telxius is a leading provider of telecommunication infrastructure services in Europe and the Americas.
- Pantheon continue to see strong deal flow and continue to exceed their performance objective since inception.

# M&G – Infrastructure

**Mandate:** Infrastructure

**Current Value:** £38.9m

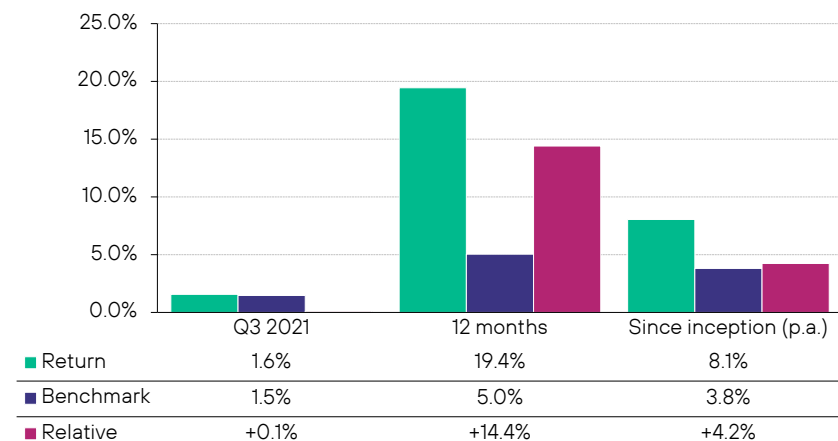
**Current Weighting:** 0.8%

**Inception:** 31 October 2018

**Benchmark:** CPI + 2.5%

**Objective:** CPI + 3%

## Performance to 30 September 2021



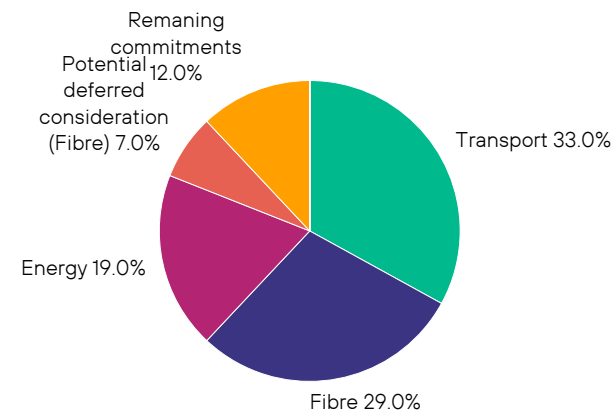
## Commitments and Distributions to 30 September 2021

M&G – Infracapital	Brownfield III	Greenfield II
Total Commitment (£m)	42.0	20.0
Commitment Drawn (£m)	33.9	-
Distributions (£m)	4.4	-
Outstanding Commitment (£m)	8.1	-
Market Value (£m)	38.9	-

**Note:** Totals may not sum due to rounding. Performance quoted net of fees.

**Source:** Investment manager, Northern Trust, Isio calculations.

## Brownfield Sector Exposure to 30 September 2021



## Commentary

- The fund delivered positive performance over Q3, marginally outperforming its benchmark. Performance continues to be solely driven by the Brownfield III Fund as the Greenfield fund remains undrawn. The gross IRR of the Brownfield fund currently stands at a strong 14.4% and continues to draw capital.
- Q3 performance was driven by valuation uplifts across the portfolio. Notable strong performers included the Infracapital Germany holding - with the valuation uplift supported by a strengthening of the team and a company rebrand - and the investment in GB Railfreight, whose operating performance has been above budget.
- The Fund has now successfully acquired BCTN, a leading European inland terminal operator which provides end-to-end logistics solutions. The Fund acquired 100% ownership for c. €90m.
- Greenfield II has a pipeline of potential investments of >90% of its capital commitment target and M&G expect drawdowns to commence in 2022.

# ATLAS – Listed Infrastructure

**Mandate:** Global Infrastructure Equity

**Current Value:** £83.6m

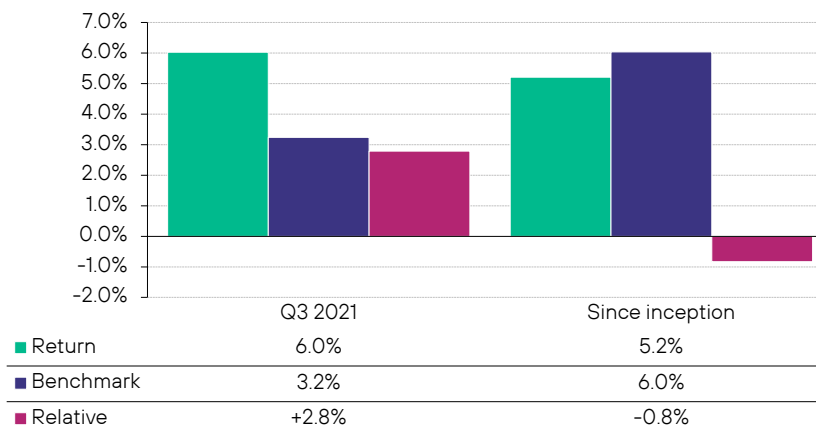
**Current Weighting:** 1.8%

**Inception:** 2 December 2020

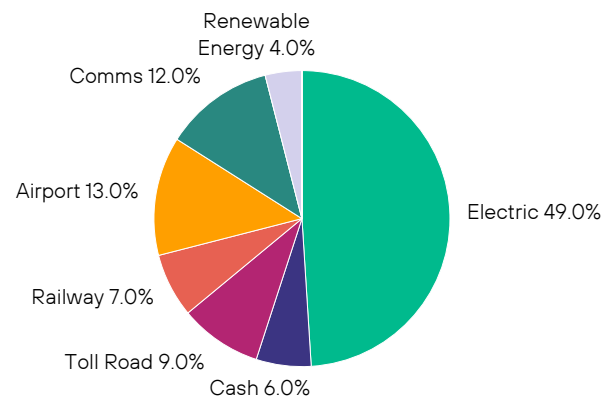
**Benchmark:** FTSE Developed Core 50/50 Infrastructure Index

**Objective:** CPI + 5%

## Performance to 30 September 2021

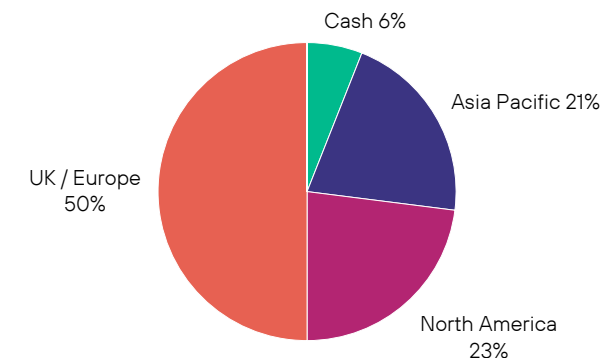


## Sector Allocations at 30 September 2021



**Note:** Totals may not sum due to rounding. Performance quoted net of fees.  
**Source:** Investment manager, Northern Trust, Isio calculations.

## Geographic Allocation at 30 September 2021



## Commentary

- The Fund delivered a return of 6.0% over the quarter, outperforming its benchmark by 2.8%. The benchmark itself outperformed broad equities over the period, as investor sentiment towards listed infrastructure remained positive off the back of rising inflation expectations.
- The Fund's outperformance was underpinned by a number of factors, with absolute returns varying materially by region and sector, and largely driven by stock-specific events. At a stock level, AusNet Services Limited and Spark Infrastructure Group were the top contributors to relative performance. While strong returns from the Asia Pacific region were aided by the impact of takeover bids for Sydney Airport and AusNet on their share prices. American electric companies including ALLETE, Pinnacle West Capita, and Avangrid, were the biggest detractors over the period.
- The team added one new position over Q3: Transurban (Australian Toll roads). This deal was funded the sale of Severn Trent, with the team's sale case based on strong recent share price performance (and lower future expected returns as a result).
- The portfolio retains its strong bias to UK and Europe.

# M&G – Real Estate Debt

**Mandate:** Private Debt

**Current Value:** £37.4m

**Current Weighting:** 0.8%

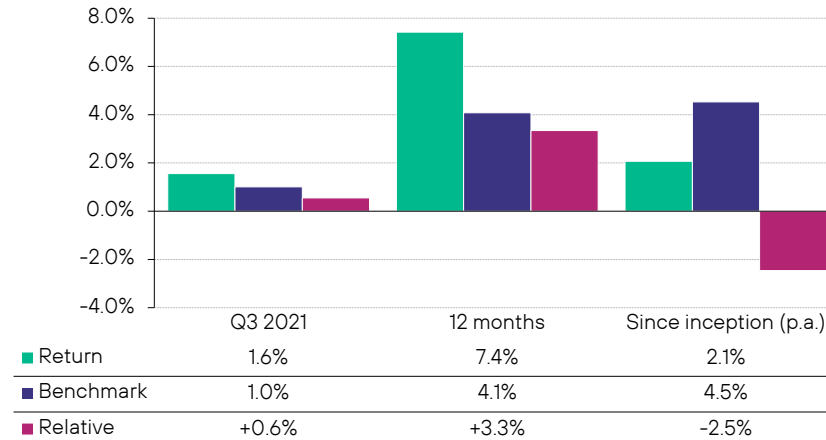
**Inception:** 11 April 2019

**Benchmark:** Benchmark: 3m LIBOR +4%

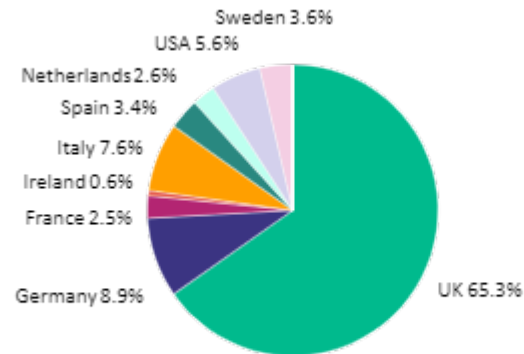
**Objective:** Objective: 3m LIBOR +5%

We downgraded the Funds to 'partially meets criteria' following the resignation of four senior members within M&G's Real Estate Debt business in April. This led to the Funds' investment period being temporarily suspended, however a new Investment Committee was approved over Q2, allowing the reinvestment period to be reinstated and further capital to be recycled.

## Performance to 30 September 2021



## Average Invested Capital by Geography Across the Portfolio



**Note:** Totals may not sum due to rounding. Performance quoted net of fees.  
**Source:** Investment manager, Northern Trust, Isio calculations.

## Commitments and Distributions to 30 September 2021

### M&G – Real Estate Debt Fund

Total Commitment (£m)	60.0
Commitment Drawn (£m)	35.1
Distributions (£m)	-
Outstanding Commitment (£m)	24.9
Market Value (£m)	37.7

## Commentary – 3 month lag

- The portfolios are largely fully invested and are performing in line with expectations. The temporary suspension of the investment period due to the resignation of senior team members largely prohibited investment over Q2, however one new deal in the REDF IV portfolio had been signed off prior to this. This was a senior loan for a portfolio of 16 industrial and logistics assets based in Sweden, which was finalised over Q2.
- Project Genesis remains a watchlist position; while it re-opened to the public over Q2 as lockdown restrictions eased, footfall and rental income remain c.40% lower than pre-COVID levels. M&G are focusing on stabilising the asset through value add opportunities, and have provided c.£5m of funds available for capex initiatives.
- M&G have a strong pipeline of opportunities to recycle capital into, however they have advised that covenants on new deals remain competitive. Positively, M&G aren't willing to compromise on their terms and take on additional risk to deploy more capital.

# M&G – Diversified Credit

**Mandate:** Multi Asset Credit

**Current Value:** £291.0m

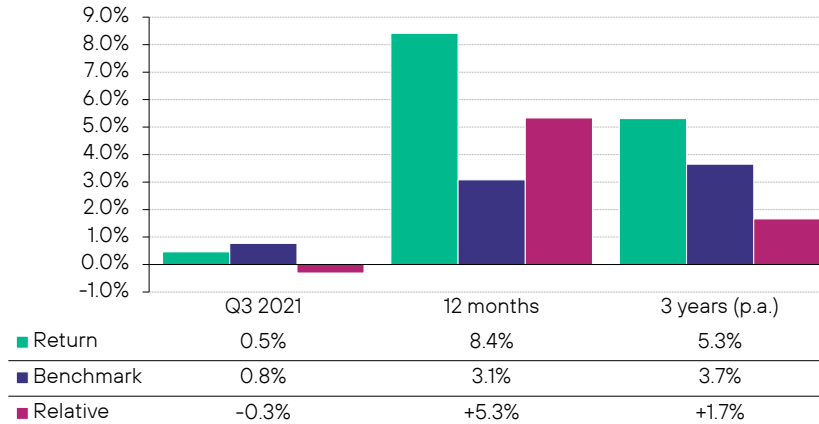
**Current Weighting:** 6.4%

**Inception:** 30 November 2009

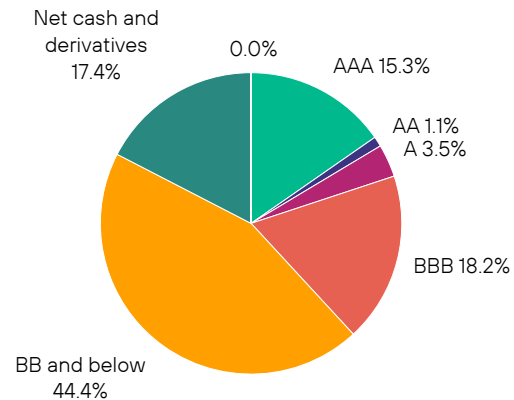
**Benchmark:** 3 Month Libor +3%

**Objective:** 3 Month Libor +5% (gross)

## Performance to 30 September 2021

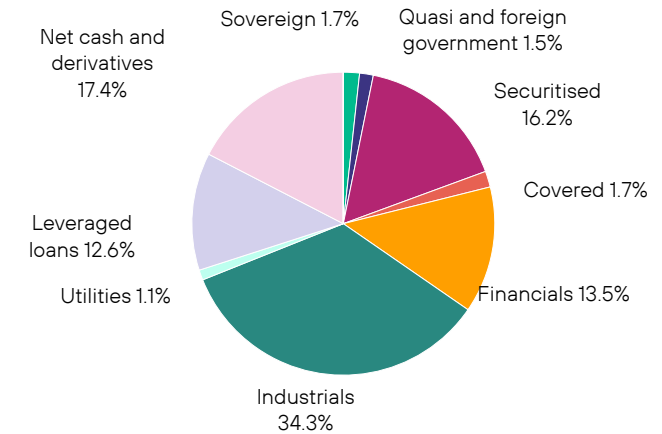


## Credit Ratings as at 30 September 2021



**Note:** Totals may not sum due to rounding. Performance quoted net of fees.  
**Source:** Investment manager, Northern Trust, Isio calculations.

## Sector Allocation as at 30 September 2021



## Commentary

- The Fund marginally underperformed its objective as credit spreads remained largely stable over the quarter. However, the Fund benefitted from its low interest rate exposure relative to peers over Q3 as nominal gilt yields increased.
- Market performance was similar across the areas the Fund invests. As such, relative performance contribution was driven by the allocation to each area. Industrial corporate bonds was the main contributor given the bias towards this area. The other main exposures (financials, loans and structured credit) also contributed positively.
- M&G acknowledge that spreads are currently tighter than January 2020 levels and believe that credit selection will drive returns going forward. They see value in downgraded bonds which have the potential to be upgraded back to investment grade. The Fund has also pivoted towards a 'barbell' strategy by increasing both its defensive assets and short-dated high yield allocation to maintain income generation.

# M&G – Corporate Bonds

**Mandate:** Corporate Bonds

**Current Value:** £160.0m

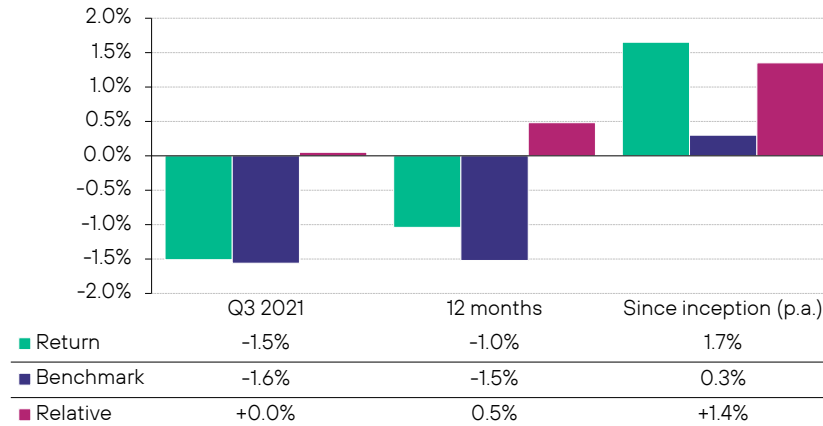
**Current Weighting:** 3.5%

**Inception:** 26 February 2020

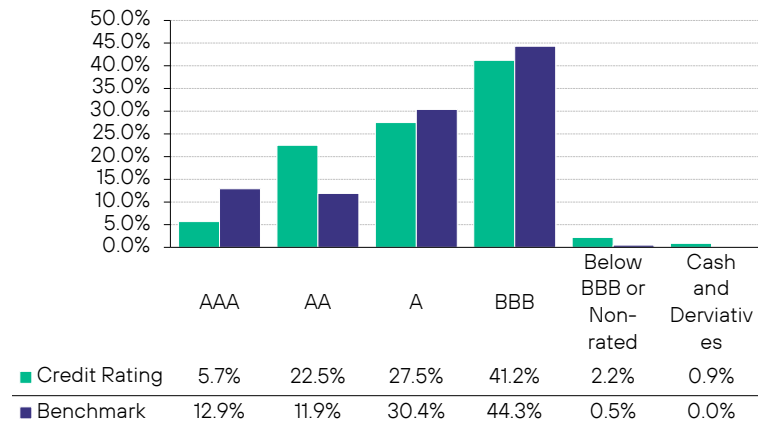
**Benchmark:** Benchmark: - 50%  
iBoxx Non-Gilts Over 15Y - 50%  
iBoxx Non-Gilts

**Objective:** Outperform benchmark  
by 0.8% p.a. (gross)

## Performance to 30 September 2021

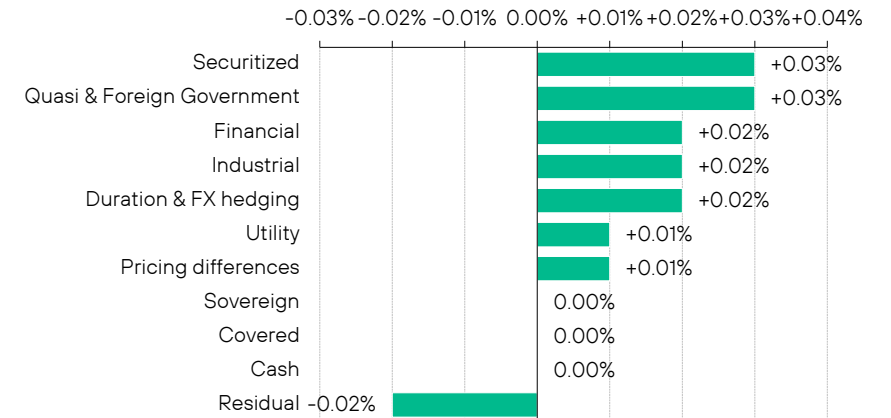


## Fund Credit Ratings to Benchmark at 30 September 2021



**Note:** Totals may not sum due to rounding. Performance quoted net of fees.  
**Source:** Investment manager, Northern Trust, Isio calculations.

## Performance Attribution as at 30 September 2021



## Commentary

- The Fund returned -1.5% over the quarter, performing in line with its benchmark. Negative absolute returns were driven by the slight rise in nominal gilt yields experienced over the period – as credit spreads remained broadly unchanged.
- UK Corporate bonds fared poorly against US and European equivalents. The latter received a double boost from improving economic fundamentals and lower COVID-19 rates/increasing vaccine numbers (meaning more economies could reopen).
- The manager continued to de-risk the fund and retain an underweight position in credit spread duration and corporate risk relative to the benchmark. The manager also continued to reduce the fund's exposure to strong performing assets and took profits on Industrial names such as Shell, The AA and WPP Finance.
- M&G continue to believe that valuations across much of the credit market look overstretched, and are therefore relatively defensively positioned at present. This view was reflected in market wide performance over the quarter.

# UBS – Over 5 Year Index-linked Gilts

**Mandate:** Index Linked Gilts

**Current Value:** £136.8m

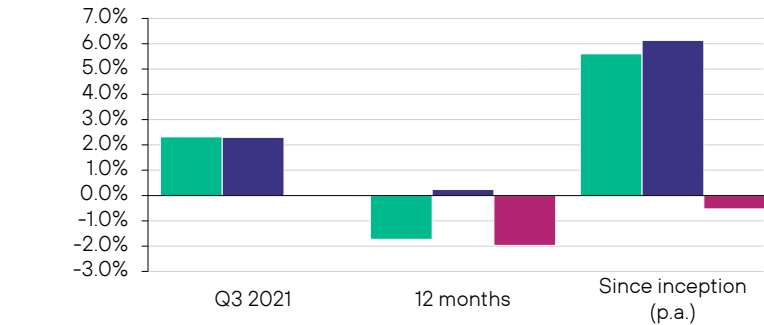
**Current Weighting:** 3.0%

**Inception:** 28 August 2017

**Benchmark:** FTSE Index- Linked Gilts Over 5 Years

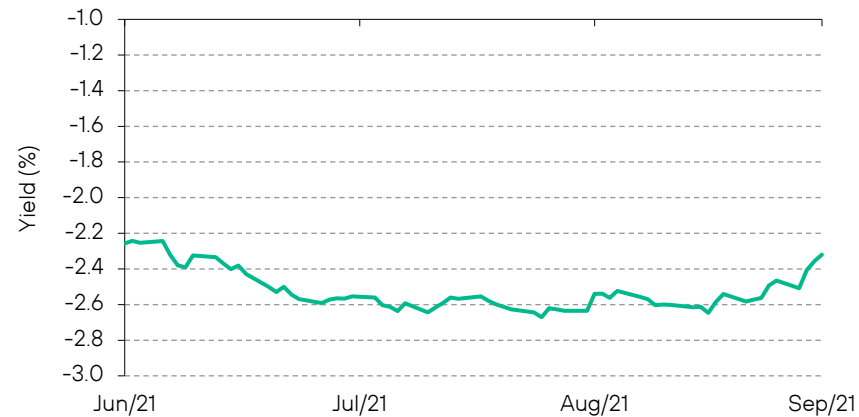
**Objective:** Match benchmark

## Performance to 30 September 2021



	Q3 2021	12 months	Since inception (p.a.)
Return	2.3%	-1.7%	5.6%
Benchmark	2.3%	0.2%	6.1%
Relative	+0.0%	-2.0%	-0.5%

## Real Gilt Yields – Q3 2021



**Note:** Totals may not sum due to rounding. Performance quoted net of fees.  
**Source:** Investment manager, Northern Trust, Isio calculations.

## Commentary

- The Fund returned 2.3% over the quarter, in line with its benchmark, which is expected given the passive approach.
- Real gilt yields fell marginally over the quarter, as long term inflationary expectations increased by a greater extent than the increase in nominal yields.
- This allocation has defensive characteristics, providing the Fund with protection against the impact of both interest rates and inflation expectations on the value placed on the liabilities.
- Although the fund is passively managed, aiming to track its benchmark, there has been a degree of longer term underperformance. We propose this is investigated further with both UBS and Northern Trust.



# Appendices

A1: Market Background: Global Equity, Absolute Return, Real Assets, Credit & Yields

A2: Explanation of Market Background

A3: Disclaimers

# Market Background – Global Equity

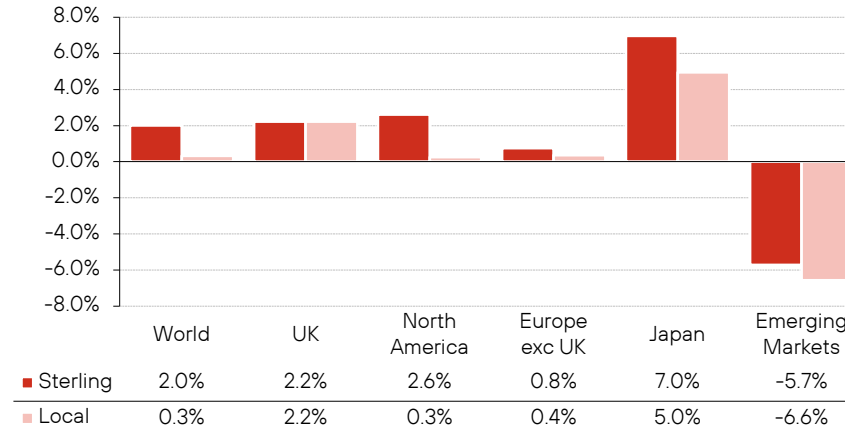
## Summary

Global equities delivered marginal positive performance following the continued economic recovery from the Covid-19 pandemic.

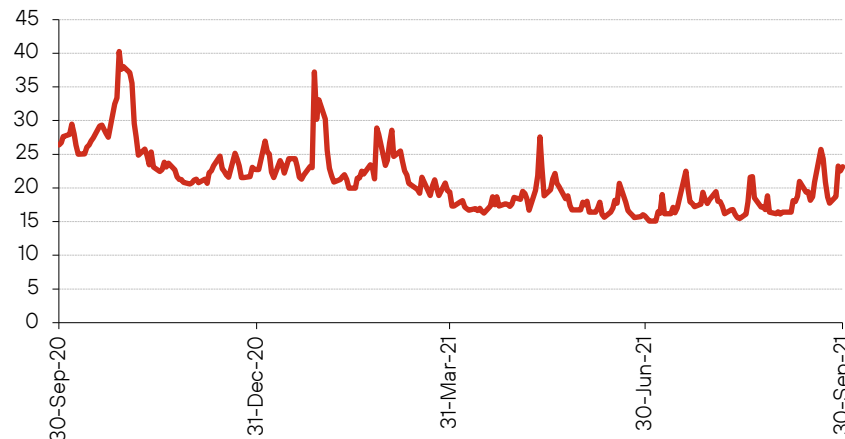
Emerging Markets significantly underperformed primarily due to the regulatory crackdowns in China.

Japanese equities was the strongest performer due to increased market optimism on the prospect of a major stimulus package being announced in the coming weeks.

## Regional Returns – Q3 2021

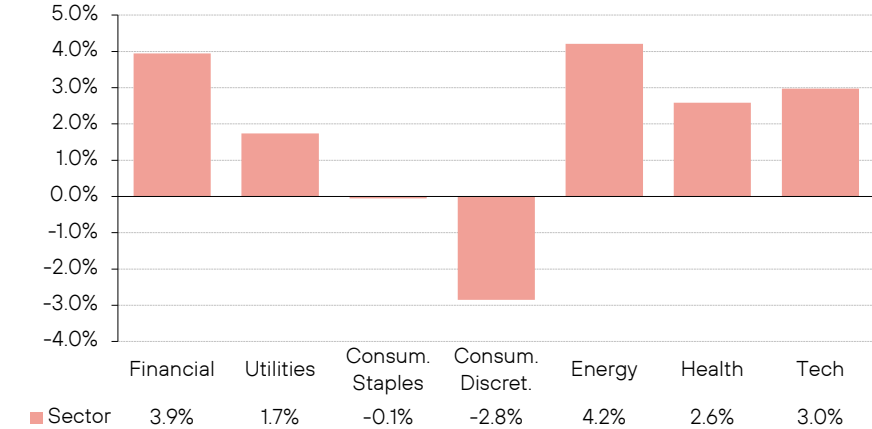


## VIX Volatility Index – Last 12 months



**Note:** Please see Appendix 2 for further information.  
**Source:** Datastream, Isio calculations.

## Sector Returns – Q3 2021



## Commentary

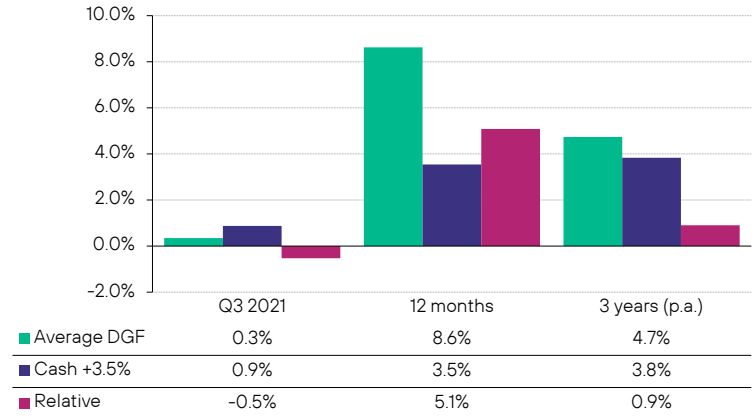
- Global equity markets delivered marginal positive returns over Q3 following the ongoing economic recovery from the pandemic. However, rising inflation concerns increased volatility over Q3.
- US equities provided small positive returns over Q3, despite investor sentiment weakening in September due to the prospect of lower economic growth combined with inflationary pressures. UK equities posted positive performance over the quarter driven by the energy sector following the recovery in crude oil prices.
- Emerging market equities significantly underperformed over the quarter which was primarily due to the market sell off in Chinese stocks. China's announcement of regulatory action in certain sectors drove initial market weakness, which was later compounded by supply chain disruptions and the return of Covid-19 lockdown measures. Further concerns were driven by the impact of the potential collapse of Evergrande (a large Chinese property developer) which contributed to the negative market sentiment.

# Market Background – Absolute Return

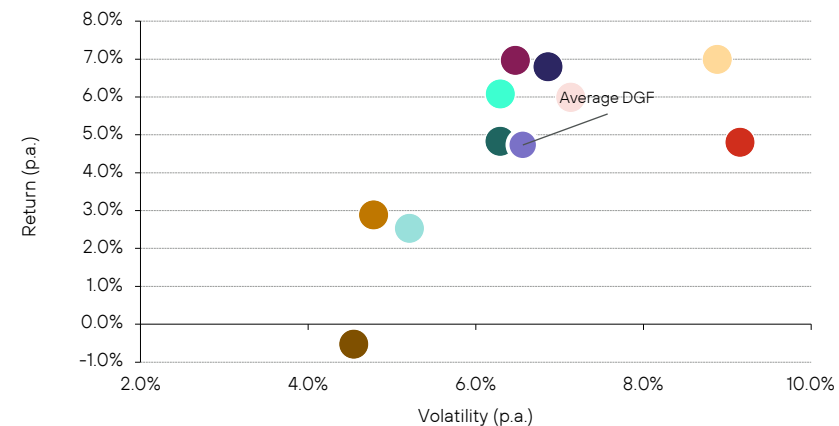
## Summary

Within our sample of managers we have incorporated the performance of ten DGFs with various manager styles, aiming to give a balanced view of the market.

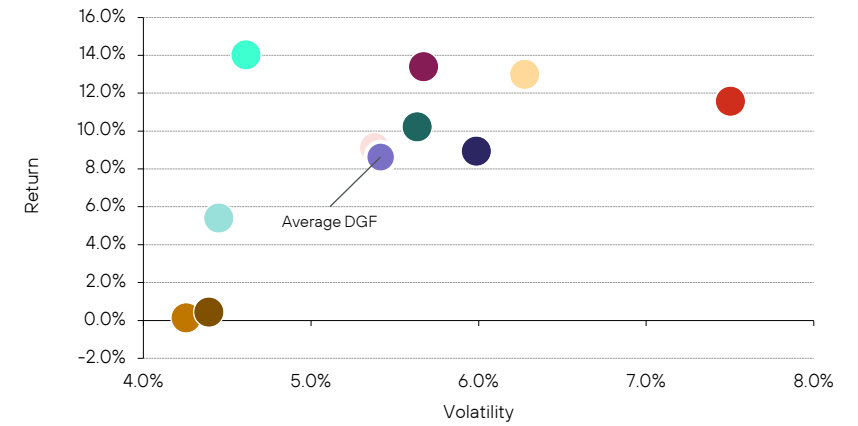
### Sample Manager Average Returns – Q3 2021



### Sample Manager Returns and Volatility – 3 years (p.a.)



### Sample Manager Returns and Volatility – 12 months



### Commentary

- Over Q3 2021 the average DGF delivered marginal positive performance, despite equities seeing a retracement in September which erased a large portion of gains. Performance was however supported by the rise in energy commodities as natural gas prices rose. Returns from other asset classes were also relatively subdued, with a rise in gilt yields in the latter part of September causing a headwind for fixed income allocations.
- Over the 1 and 3 year time periods, equity allocations have been the strongest contributor to returns with the asset class aided by actions from governments and central banks. With managers being rewarded for owning higher risk assets over the longer time period, the strongest performing managers have been those who typically have portfolios with the highest exposure to broad market movements.
- The majority of DGF managers maintain a positive outlook, however they remain aware of the prospect of monetary and fiscal policy tightening, in response to stronger growth and inflation.

**Note:** Please see Appendix 2 for further information. All returns are quoted net of management fee.  
**Source:** Investment Managers, Isio calculations.

# Market Background – Real Assets

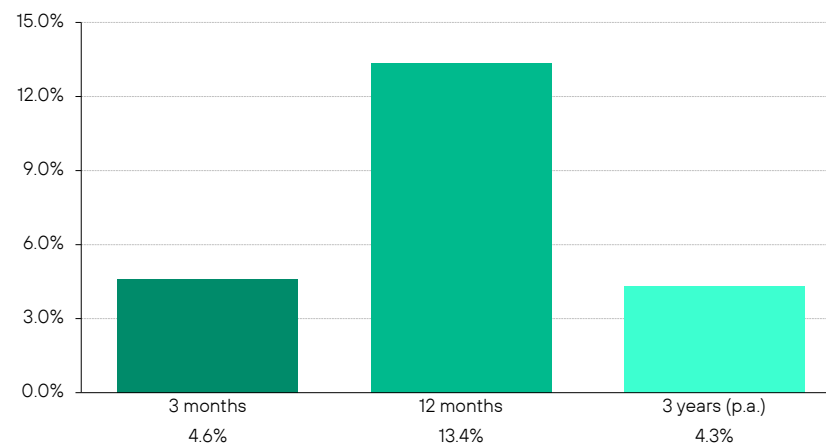
## Summary

Both Core and Long Lease Property returned strong positive performance over the quarter, due to a recovering UK economy driving improved capital values across some sectors.

Industrials continue to be in high demand and have displayed a strong level of rental growth. Retail remains an area for recovery, despite the re-opening of non-essential shops, as many businesses explore opportunities to use e-commerce. Office spaces remain uncertain as companies determine their long-term plans for their workforces along with the ESG regulation on the sector.

With a risk of a resurgence in Covid-19 infections over the winter and a chance that labour, fuel and materials shortages becomes a more permanent feature of the economy, leading to higher inflation levels and thus higher interest rates, could lead to downward pressure on capital values in the future.

## Core UK Property Returns



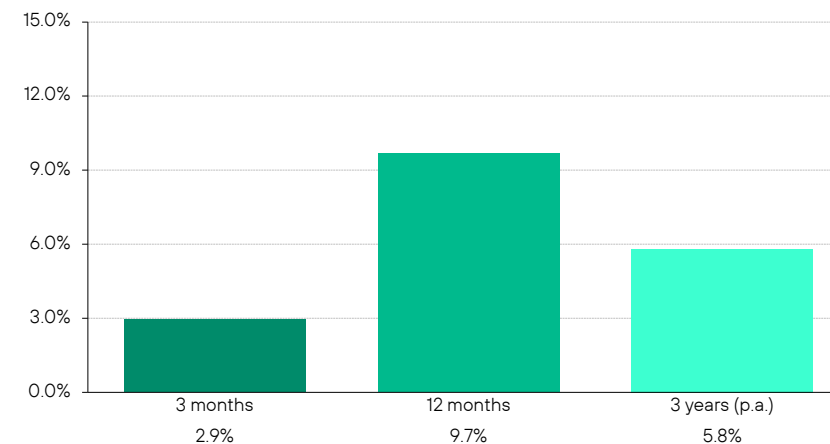
## Commentary – Core UK Property

- Core UK property delivered very strong positive returns over the quarter as consumer spending continued to drive the economic recovery from Covid-19. Moving to winter does highlight the potential for a spike in infections alongside inflationary pressures which could trigger interest rate rises, both of which place downward pressure on property values.
- The industrial sector continues to be the key driver of performance, with rental growth at c.5% p.a., its fastest rate since 2017. Longevity of industrial performance is a consideration given strong rental growth is squeezing tenants' profit margins.
- Retail remains an area for recovery, as the footfall in town centres is still 20-25% below pre-Covid levels, despite the re-opening of non-essential shops. The major factor is the growth in on-line retail sales from 19% of total sales in 2019, to 27% post lockdown.
- By comparison, food stores and "bulky goods" retail parks have been fairly resilient through the pandemic, while office space demand is polarised by office grade. Secondary offices have seen a drop in demand, with general office take-up in the first half of 2021 45% below the average between 2015-2019.

**Note:** Please see Appendix 2 for further information.

**Source:** AREF / IPD and Investment Managers.

## Long Lease UK Property Returns



## Commentary – Long Lease UK Property

- Long Lease Property delivered strong positive returns over the period, largely driven by strong capital growth, particularly in the supermarket and office sectors.
- Rent collection levels improved over the quarter with most long lease funds at or near 100% rent collection levels, and deferred rents now being repaid. This strong position reflects a bias towards less economically sensitive, high-quality tenants, who have been less impacted by lockdown restrictions in the UK.
- Yield compression is still evident across all sectors, according to the MSCI Monthly Index. However, yields in the office sector were muted as the long-term impact of flexible working on office occupation remains unclear and the additional risks around the impact of sustainability legislation and the path to net zero carbon creates additional uncertainties around the sector.
- Transaction activity in the UK property market, as measured by investment volumes, dipped over the quarter. Nevertheless, the year-to-date figure of c.£34.3bn is an increase on both the corresponding 2019 (£32.5bn) and 2020 (£25.4bn) levels and in line with the five-year average.

# Market Background – Credit

## Summary

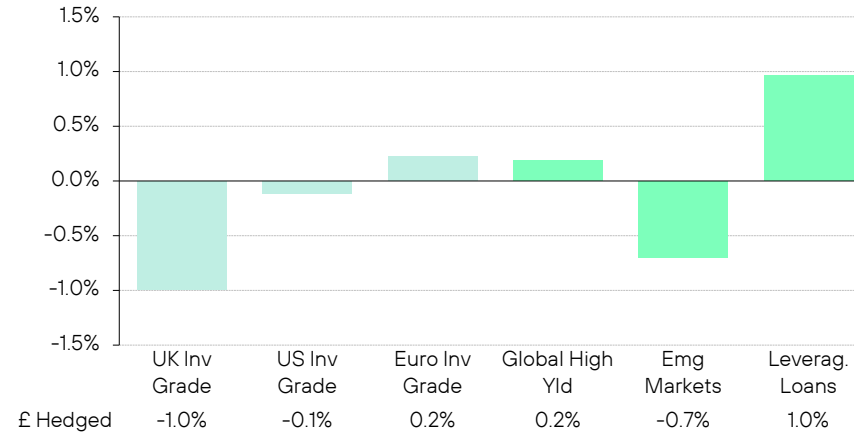
Rising government bond yields provided the backdrop for credit markets over Q3, particularly in the UK, as investors increasingly questioned the extent to which any inflation increases will be transitory.

Central bank messaging shifted during Q3, with both the US Federal Reserve and Bank of England signalling possible future interest rate hikes to combat rising inflation fears.

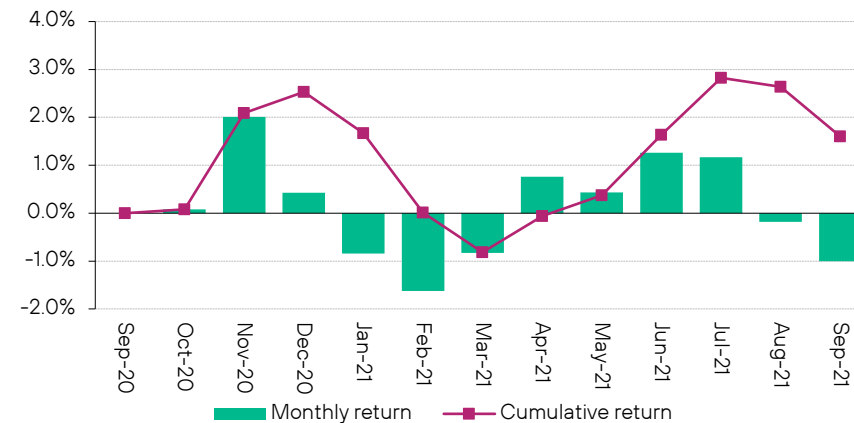
While many HY companies reported better than expected Q2 earnings, news of labour shortages, supply chain bottlenecks and uncertainty surrounding the Chinese property sector, led to a widening of spreads in this area.

Emerging market debt was similarly impacted by Chinese property sector concerns. In addition, EM currencies broadly fell in value against the US Dollar, hindering 'hard currency' USD denominated debt and making it more expensive to repay in local currency terms.

## Credit Market Returns – Q3 2021

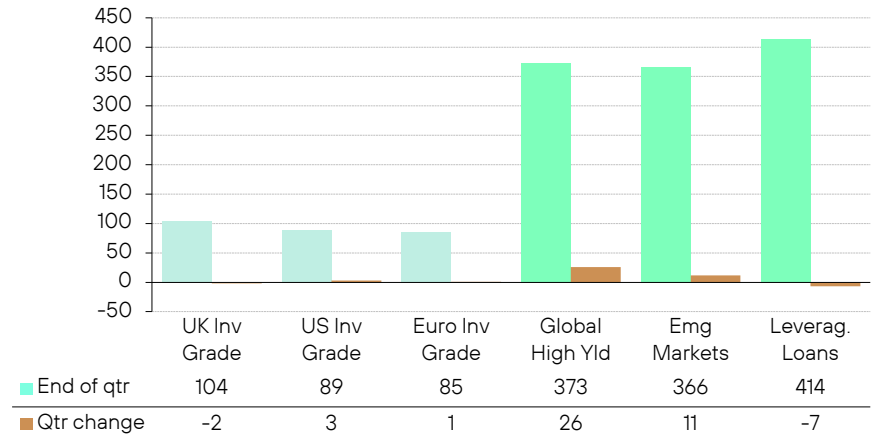


## Global Broad Credit Market Return – Last 12 Months



**Note:** Please see Appendix 2 for further information. Credit spreads are shown in basis points (100 bp = 1%).  
**Source:** Investment Managers, Isio calculations, Eikon

## Credit Spreads – Q3 2021



## Commentary

Global credit market performance was mixed across sub-asset classes over Q3, with fixed rate underperforming floating rate assets, as inflationary pressure and fears of possible monetary policy tightening increased, leading to rising UK government bond yields.

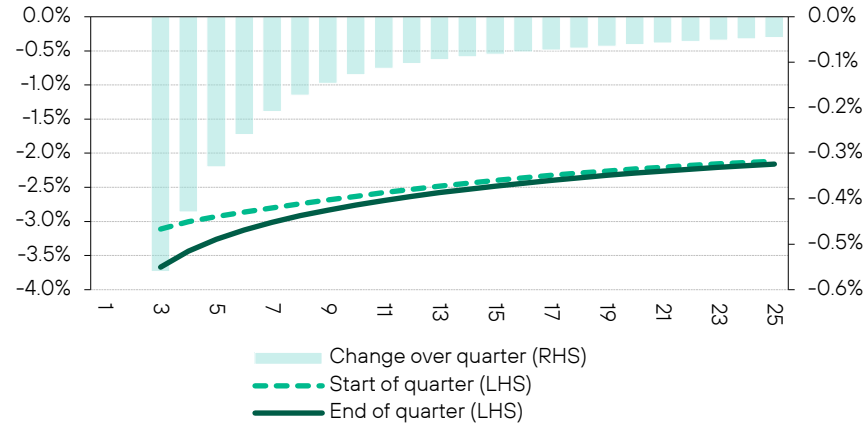
- **Investment grade** ('IG') bond performance was largely flat over Q3; with the exception of UK IG, which delivered negative returns, reflecting greater government bond yield increases in the UK relative to the US and Europe. This was due to fears that rising inflation may be more permanent than previously thought, and suggestions by Bank of England policymakers that interest rates rises may be needed over Q4 2021.
- **High yield** ('HY') bonds delivered marginally positive returns over the quarter as ongoing interest income was enough to offset capital value volatility from widening credit spreads. HY underperformed leveraged loans however, which experienced inflows as investors moved towards floating rate assets.
- **Emerging market** ('EM') debt performed negatively as investor uncertainty increased due to the possible default of China's second largest property developer, Evergrande, and the implications this might have on China and other emerging market economies.

# Market Background – Yields

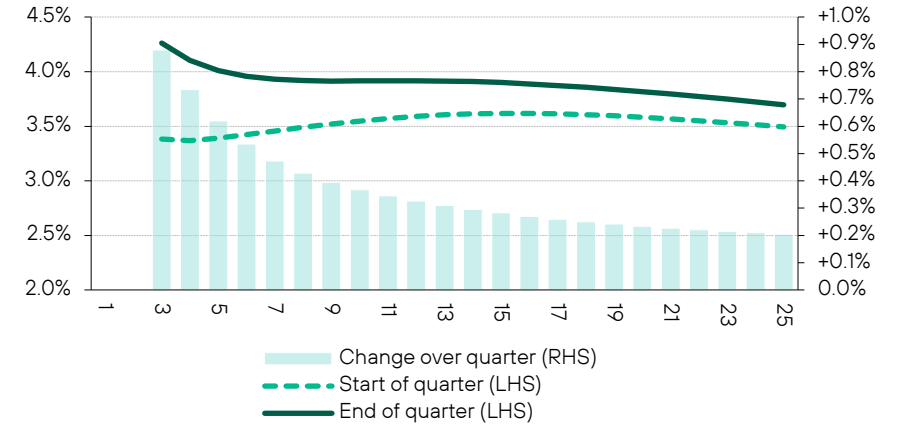
## Summary

These curves show gilt yields and inflation expectations at varying time horizons. The horizontal axis represents the number of years.

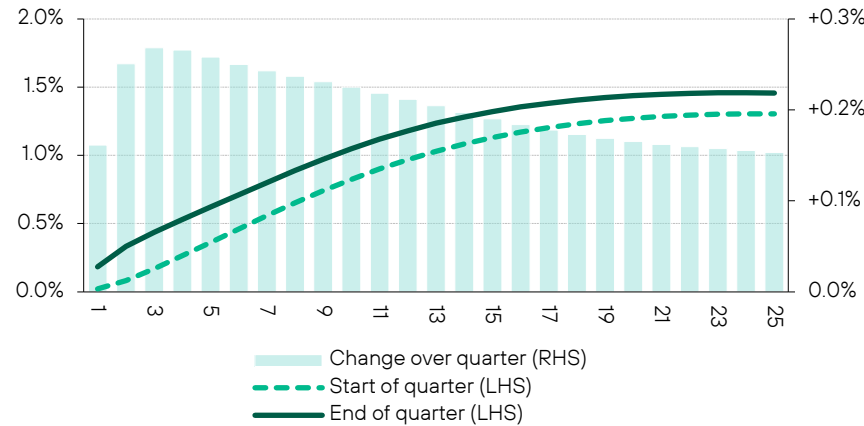
### Real Gilt Yields – Q3 2021



### Gilt-Implied Inflation – Q3 2021



### Nominal Gilt Yields – Q3 2021



### Commentary

- Long-dated (20-year) yields at the quarter-end were:
  - Real gilt yield: -2.3%
  - Nominal gilt yield: 1.4%
  - Gilt-implied inflation expectation: 3.8%

**Note:** Please see Appendix 2 for further information.  
**Source:** Bank of England, Isio Calculations

# Explanation of Market Background

This glossary explains the components of the Market Background charts in Appendix 1.

All returns are in Sterling terms, unhedged, unless otherwise stated. Where “hedged” returns are quoted, these are local currency returns (i.e. any costs and imprecisions in hedging are assumed to be negligible).

## Market Background – Overview

- Returns by Asset Class – The market indices underlying this chart are as follows:
  - UK Equity: FTSE All-Share
  - Global Equity: FTSE World (Unhedged and Hedged)
  - Emerging Market Equity: MSCI Emerging Markets
  - Diversified Growth Funds: mean of a sample of DGF managers
  - Property: IPD Monthly UK
  - Global High Yield: BoAML Global High Yield (GBP Hedged)
  - UK Inv. Grade Credit: BoAML Sterling Non-Gilt
  - Over 15 Years Gilts: FTSE Over 15 Year Gilt
  - Over 5 Years Index-Linked Gilts: FTSE Over 5 Year Index-Linked Gilt
  - Example Liabilities: a simplified calculation illustrating how a typical pension scheme’s past-service liabilities may have moved

## Market Background – Global Equity

- Regional Returns – The market indices underlying this chart are as follows:
  - World: FTSE World
  - UK: FTSE All Share
  - North America: FTSE North America
  - Europe ex UK: FTSE Europe ex UK
  - Japan: FTSE Japan
  - Emg Mkts: MSCI Emerging Markets
- Sector Returns – The market indices underlying this chart are the relevant sectors from the MSCI All-Countries index.
- VIX Volatility Index – This is a forward-looking indicator. It represents the expected range of movement (in percentage terms) in the S&P 500 index (i.e. US equities in dollar terms) over the next year, at a 68% confidence level. It is calculated using options prices over a 30-day horizon.

# Explanation of Market Background (cont.)

This glossary explains the components of the Market Background charts in Appendix 1.

All returns are in Sterling terms, unhedged, unless otherwise stated. Where “hedged” returns are quoted, these are local currency returns (i.e. any costs and imprecisions in hedging are assumed to be negligible).

## Market Background – Absolute Return

- **Diversified Growth Funds (“DGFs”)** – Due to the lack of a market index for DGFs, we illustrate the performance of this by showing the returns of 10 of the largest funds by assets under management. Specifically:
  - Aberdeen Standard Global Absolute Return Strategies
  - Aviva Multi-Strategy Target Return
  - Baillie Gifford Diversified Growth
  - BlackRock Dynamic Diversified Growth
  - Invesco Perpetual Global Targeted Returns
  - L&G Diversified
  - Newton Real Return
  - Nordea Stable Return
  - Ruffer Absolute Return
  - Schroder Diversified Growth
- The ‘Average DGF’ performance is an equally-weighted average of the sample of 10 managers’ performance figures.
- Returns are shown net of each manager’s standard fee. While every effort has been taken to select vehicles with institutional/clean fee structures, the impact may not necessarily reflect any particular client’s fee arrangements.
- Volatility is calculated by annualising the volatility of daily returns.
- As clients have specific selection criteria, the managers listed here may not meet any given client’s criteria.
- DGFs encompass a range of investment approaches, return targets, and risk profiles. Consequently, different managers’ returns are not necessarily a like-for-like comparison.

## Market Background – Real Assets

- Real Assets – The market indices underlying these charts are:
  - Core UK Property: IPD Monthly UK Index
  - Long Lease UK Property: IPD Long Income Property Fund Index



# Explanation of Market Background (cont.)

This glossary explains the components of the Market Background charts in Appendix 1.

All returns are in Sterling terms, unhedged, unless otherwise stated. Where "hedged" returns are quoted, these are local currency returns (i.e. any costs and imprecisions in hedging are assumed to be negligible).

## Market Background – Credit

- Sector Returns and Credit Spreads – The market indices underlying this chart are as follows:
  - UK Inv Grade: BoAML Sterling Non-Gilt
  - US Inv Grade: BoAML US Corporate (GBP Hedged)
  - Euro Inv Grade: BoAML Euro Corporate (GBP Hedged)
  - Global High Yield: BoAML Global High Yield (GBP Hedged)
  - Emerging Markets: JP Morgan EMBI Global (GBP Hedged)
  - Leveraged Loans: S&P/LSTA US Leveraged Loan Equity (GBP Hedged)
- Global broad credit market return – The market index underlying this chart is the BoAML Global Broad Market Corporate Index (GBP Hedged):
  - The Global Broad Market Index tracks the performance of investment grade public debt issued in the major domestic and eurobond markets, including 'global' bonds.
  - Qualifying bonds must have at least one year remaining term to maturity and a fixed coupon schedule. Bonds must be rated investment grade and be domiciled in a country having an investment grade foreign currency long-term debt rating (based on a composite of Moody's and S&P).

## Market Background – Yields

- Yields – Yields shown are annual yields (i.e. they have been converted from the "continuously compounded" basis quoted by the Bank of England).
- Example Liabilities – This illustrates how a typical scheme's past-service liabilities may have moved.
  - It is based on a simplified calculation assuming a scheme with duration 20 years and liabilities split 70% inflation-linked and 30% fixed.
  - Liability movement is calculated using yield changes and unwinding (short-term interest rate with no premium) only, with no accrual, outgo, or inflation experience.
  - A rise in yields equates to a fall in the calculated value of the liabilities (due to the higher discount rate at which the future cashflows are valued); conversely, a fall in yields means a rise in liabilities.

# Disclaimers

This report has been prepared for the sole benefit of East Sussex County Council as Administering Authority of the East Sussex Pension Fund

## Performance, Opinions, and Estimated Liabilities

- This report sets out the past performance of various asset classes and fund managers. It should be noted that past performance is not a guide to the future.
- Our opinions (and comparison vs criteria) of the investment managers stated in this report are based on Isio's research and are not a guarantee of future performance. These are valid at the time of this report but may change over time.
- Our opinions of investment products are based on information provided by the investment management firms and other sources. This report does not imply any guarantee as to the accuracy of that information and Isio cannot be held responsible for any inaccuracies therein. The opinions contained in this report do not constitute any guarantees as to the future stability of investment managers which may have an effect on the performance of funds.
- Funds that make use of derivatives are exposed to additional forms of risk and can result in losses greater than the amount of invested capital.
- The estimated liabilities (where quoted) have been "rolled forward" from the last actuarial valuation and/or funding update, by taking current bond yields and inflation expectations into account. The methodology underlying the actuarial assumptions (e.g. discount-rate premium, mortality, real salary growth etc.) is assumed to remain constant for this estimate. Due to the approximate nature of the calculations, the Fund's actual experience and changes in future valuation assumptions may mean that the liabilities and funding position calculated at the next actuarial valuation (or funding update) could be significantly different from the quoted estimate.

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