

Report to: Pension Committee

Date: 16 June 2023

By: Chief Finance Officer

Title of report: Investment Report

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

RECOMMENDATION

The Pension Committee are recommended to note this report.

1. Background

1.1 Under the Local Government Pension Scheme (LGPS) Regulations, the Council is required to maintain a Pension Fund for its employees and other 'scheduled bodies' as defined in the Regulations. The Pension Committee is required to maintain an Investment Strategy Statement (ISS) to govern the Funds' investments and receives a quarterly investment monitoring report, from its investment consultant, Isio.

1.2 The ACCESS Joint Committee has been established as a result of the changes implemented in the 2016 LGPS Investment regulations to facilitate the arrangements relating to the collective investment vehicles, to allow the administering authorities to pool their respective investments. The ACCESS Joint Committee meets quarterly.

2. Investment Workplan

2.1 Appendix 1 shows a workplan which will act as a reference point of all actions agreed at Pension Committee meetings and the forward investment plan.

2.2 The main focus over the next 12 months is:

- review of the strategic asset allocation post the triennial valuation;
- Engagement v Divestment implications report;
- ongoing review into and undertaking of ESG analysis for the Fund including further investigation into climate scenarios;
- implementation of remaining/amended investment strategy changes not yet implemented including private debt and inflation linked property; and
- Creation of climate and stewardship reporting

3. Quarterly Performance Report

3.1 The Quarterly Performance Report for Q1 2023 is attached as Appendix 2. Since the last reported position, the valuation of the Fund has increased from £4.496bn as at 31 December 2022 to £4.564bn as at 31 March 2023 (an increase of £0.068bn). This

performance reflects a positive absolute return of 1.5% in the quarter to March. However the Fund underperformed its benchmark in the period by -1.5%.

3.2 Performance across the Fund's mandates showed significant divergence in returns over the period, with the performance of illiquid assets continuing the see write downs while the public market posted positive returns. With the Fund's fixed income mandates continuing to perform well.

3.3 UBS Osmosis, Storebrand, M&G infrastructure and Atlas provided strong absolute (5.5%, 5.1%, 4.0% and 6.5% respectively) and relative returns (0.7%, 0.3%, 2.2% and 7.8%) returns for the quarter. With Adams Street, Harbourvest and Schrodgers providing both negative absolute (-2.6%, -3.6% and -4.7% respectively) and relative returns (-7.4%, -8.4% and -4.5%).

3.4 Despite negative returns over recent quarters, longer term returns at Fund level remain strong, with equity assets adding significant value over the last decade, and unhedged exposure also having benefited from the depreciation in Sterling.

4. PIRC Local Authority Indicators

4.1 The Fund receives a report from PIRC looking at a universe of local authority pension funds (67 pension funds with assets under management of £120bn) and provide indicators on performance (appendix 3). PIRC advise that the fiscal year results are looking to be in the region of -3.5% for the average LGPS fund. The three year performance is high at almost 9% pa and includes the market rebound from COVID in Q2 2020 but not the market fall of Q1 of that year. PIRC expect average equity returns to remain below the major indices as they did in 2021/22, as active managers continue to struggle to add value.

5. Wellington update

5.1 On 29 March 2023 the Fund was updated by Wellington about a data breach and some upcoming changes to the portfolio management of our investment.

Data Breach

5.2 A data breach was made by an employee of Accenture, who was on engagement in the Wellington Regulatory Technology Team. The Accenture employee attempted to remove copies of technical projects that they had been working on while at Wellington; in order to achieve this they deliberately circumvented the manager's internal controls around file transfer services.

5.3 The consultant has maintained that the attempted file transfer was not successful; however Wellington treated the incident as if the information may have been exposed. The files included some client information, such as transactions and LEI numbers. However, no personally identifiable information or portfolio holdings information appeared in the data. Wellington are currently reviewing the steps needed to decrease the potential for this type of activity in the future.

5.4 Isio View: Overall, we have gained comfort from the swift identification of and response to the issue triggered by Wellington's internal controls. We are also comfortable that no material personal client information was released during the incident. Finally, we are

happy with the way Wellington have communicated, investigated, and dealt with the situation.

Portfolio Management

5.5 Jason Goins will be moved into a co-portfolio manager (PM) role on the Global Impact fund, alongside Tara Stilwell, in April (Tara will remain the lead, with ultimate power over decision making); after 3 months, Tara will remain co-PM, but Jason will move into having ultimate decision-making power. This structure will then run until October 2023, with Jason taking the lead portfolio manager position thereafter. Tara will remain on the team as back-up portfolio manager going forward.

5.6 Currently, Tara has several responsibilities outside of the Global Impact team and it was conveyed that this was a key contributor to her moving to the position of back-up PM (with Wellington specifically noting Tara's reduced time available to spend on the Global Impact fund going forward). The key change in her responsibilities is an upcoming move into a role as Head of the Global Opportunities team.

5.7 From Isio's discussions with Wellington, they understand that Jason has held a senior role within the Global Impact investment team since 2018, running the daily team meetings, and contributing materially in terms of stock level performance. Jason has circa. 19 years' industry experience (circa.16 with Wellington); however, he has never held a portfolio manager position before.

5.8 Wellington have confirmed that there will be no change to the investment philosophy or process of the fund, but also that there are no imminent plans to hire any additional resource into the Impact team.

5.9 Isio are continuing to liaise with the manager around certain aspects of the change, on which they wish to have further detail and will share a formal view on the changes in due course.

6. Funding level update

6.1 Barnett Waddingham have provided a funding update report as at 31 March 2023 Appendix 4. This shows that the expected funding level of the Fund has decreased since 31 March 2022 valuation point (123%) and is now expected to be around 121%.

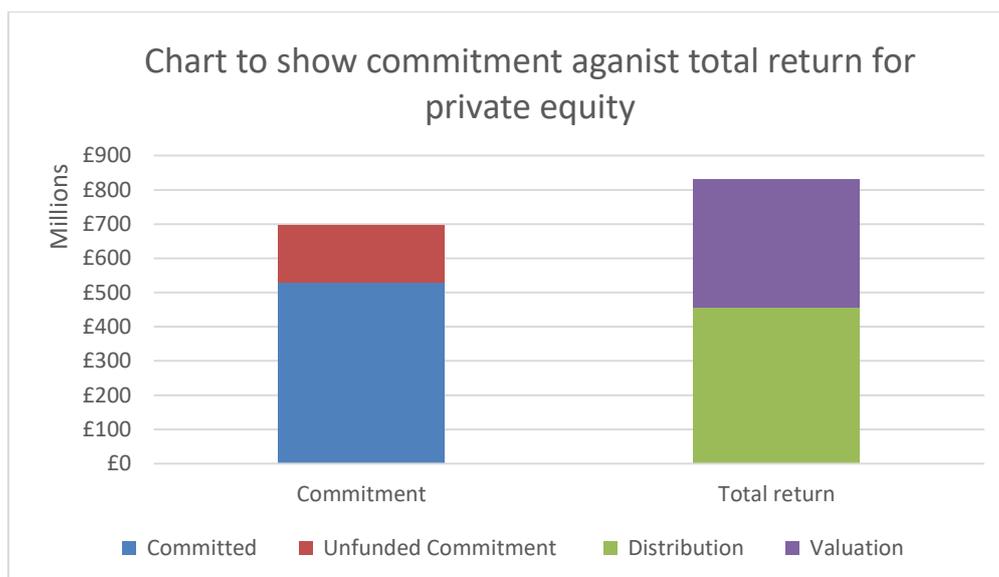
7. Private equity valuations

7.1 Private equity investments made by the Fund have been through fund of fund vehicles. This is where the investment is to an investment manager who in turns invests in a broad range of underlying private equity funds. These underlying managers then invest directly into the underlying companies. This structure has a inherent lag in valuations (around 3 to 6 months) and in turn performance compared to the wider public market. The basis for these valuations are the historic performance of the companies as opposed to discounted future cash flows that a public stock tends to be valued on.

7.2 The Fund invests in close ended fund's (where there is a predetermined life usually 15 years). The Fund commits a monetary value to the investment manager that can be called at any time to invest. These managers tend to have an investment stage (usually 5 years) where they are looking to invest; a growth stage where they look to grow the assets; then a maturity stage when they look to sell assets and return capital. Distributions are returned through the various stages and often begin around 2 years from first investment.

7.3 The Fund has been looking into the valuations of private equity managers compared against the amount committed values to these investments following discussion at Pension Committee in February 2023 where it was noted the actual asset allocation was overweight.

7.4 The chart below shows the total committed to private equity in Sterling (£697m) broken down by that which has been called to invest (£528m) and that which is yet to be called (£169m). Alongside the return that we have received to date in distributions (capital returned to us of £457m) and remaining valuation of the holding (£375m).



7.5 Of the £528m the Fund has invested in private equity, £457m has been received back which equates to 86.6% of cash invested has been returned. The remaining invested capital is looking to return £375m over the next 10 to 15 years.

8. ACCESS Update

8.1 Since December 2016 the East Sussex Pension Fund has been working with 10 other administering authorities through the investment pooling arrangement called ACCESS. On the 31 December 2022 there was £23.1bn invested in the authorised contractual scheme (ACS) managed by the pool operator Link Fund Solutions, with a further £9.4bn invested in the UBS passive ACCESS governance arrangements. East Sussex had a total of £2.3bn in ACCESS governed investments, £1.9bn across six ACS sub-funds and a further £0.3bn through the UBS passive arrangement.

8.2 The formal Joint Committee was held on 5 June 2023 the agenda is provided at appendix 5 and the following items are highlighted:

- An update on the activities that were achieved against the original business plan and outturn spend for the year were provided. The spend came in at £1.175m for 2022/23, £0.191m underbudget. This equates to a cost to the Fund of £0.106m for the year.
- The Joint Committee accepted the recommended 2023/24 budget to support the business plan from Section 151 Officers (totalling £1.559m or £142k per council).

9. Conclusion and reasons for recommendation

9.1 Investments are regularly monitored to ensure that the Fund's strategic asset allocation set out in the Fund's Investment Strategy Statement (ISS) is being complied with and to keep the Committee informed of any significant concerns with the investment managers, retained to implement the Fund's strategic asset allocation.

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