East Sussex Pension Fund

Investment Strategy Statement

September 2023

Introduction and background

This is the Investment Strategy Statement (ISS) of the East Sussex Pension Fund (the Fund), which is administered by East Sussex County Council, (the Administering Authority). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Regulations).

The ISS has been prepared by the Pension Committee ("the Pension Committee") having taken advice from the Fund's investment adviser, Isio. The Pension Committee acts on the delegated authority of the Administering Authority. The ISS, which was approved by the Pension Committee on 28 September 2021, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Pension Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

The Pension Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Funding Strategy Statement.

Investment Principles

The Fund has set the following Investment Principles

Long-term investors We are long-term investors with a focus on ensuring we can pay pensions to our beneficiaries now and into the future. We will invest in a wide range of assets to ensure strong diversification and can be defensive to market changes.

Responsible investors We are responsible investors and believe we can reduce risk and generate enhanced returns by investing in companies and assets that are sustainable and well governed. We strive to be active stewards of our investments and hold our investment managers and underlying companies to account.

Evidence based approach We ensure all investment decisions are based on evidence and expert advice to ensure we can protect the interest of the Funds beneficiaries and comply with our fiduciary duties.

Collaborative We are keen collaborators with our peers and industry partners to drive forward best practice and improve efficiencies.

Robust Governance The Fund has a robust governance framework and ensures that all decisions within the Fund are made with appropriate oversight and we are transparent and accountable.

Risk and return The Fund recognises that it needs to balance risk with return and ensures Environment Social and Governance (ESG) factors are taken into account in determining risk.

The suitability of particular investments and types of investments

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Pension Committee aims to manage the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions are agreed by the Fund employers to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases in line with the relevant LGPS scheme rules.

The Pension Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Pension Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities. The Pension Committee discuss the appropriateness of the Fund's strategic asset allocation at least once a year.

The Fund carries out an asset liability modelling exercise in conjunction with each actuarial valuation. A number of different contribution and investment strategies are modelled and the future evolution of the Fund considered under a wide range of different scenarios. The Pension Committee considers the chances of achieving their long term funding target and also considers the level of downside risk in the various strategies by identifying the low funding levels which might emerge in the event of poor outcomes.

This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding basis used).

In addition, the Pension Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns
- Environmental Social and Governance factors

Investment of money in a wide variety of investments

Asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index linked bonds, cash, property, credit and infrastructure, either directly or through the ACCESS LGPS pool. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Pension Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Pension Committee seeks and considers written advice from a suitably qualified person in undertaking such a review, in line with the LGPS

(Management and Investment of Funds) Regulations 2016. If, at any time, investment in a security or product not previously known to the Pension Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification and training is provided, if relevant.

The Fund's target investment strategy is set out below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the 2016 Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of Fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

The maximum invested figures can be seen in the rebalancing ranges agreed by the Pension Committee within its rebalancing policy. Whilst strategy allocation changes are to be implemented or commitments made and yet to be called, some positions may be out of the anticipated ranges.

Table 1: Fund allocation

Asset Type	Asset Class	Active/Passive	Liquid/Illiquid	Previous SAA %	Asset Allocation %	Change %	Role within the strategy
Global Equities	Quality	Active	Liquid	10	10	-	Growth
Global Equities	Growth Paris Aligned	Active	Liquid	5	5	-	Growth
Global Equities	Sustainable Growth	Active	Liquid	10	10	-	Growth
Global Equities	Climate Aware Smart Beta	Passive	Liquid	10	7.5	-2.5	Growth
Global Equities	Resource Efficient	Passive	Liquid	5	7.5	2.5	Growth
Private Equity	Global	Active	Liquid	5.5	5.5	-	Growth
Diversified Growth	Absolute Return	Active	Liquid	10	10	-	Defensive Growth
Diversified Growth	Real Return	Active	Liquid	7	7	-	Defensive Growth
Fixed Income	Diversified Credit	Active	Liquid	10.5	7	-3.5	Defensive Growth
Fixed Income	Corporate Bonds	Active	Liquid	0	3.5	3.5	Defensive Growth
Fixed Income	Index Linked Gilts	Passive	Liquid	0	4	4	Inflation protection
Fixed Income	Private Credit	Active	Illiquid	5	5	-	Defensive Growth
Infrastructure	Global Listed	Active	Liquid	1	1	-	Defensive Growth / Inflation Protection
Infrastructure	Global Private	Active	Illiquid	10	10	-	Defensive Growth / Inflation Protection
Real Estate	Balanced Property	Active	Illiquid	7	7	-	Defensive Growth / Income / Inflation protection
Real Estate	Long Inflation Linked Property	Active	Illiquid	4	-	-4	Income / Inflation protection

Flexibility and Evolution

To enable to the Fund to implement the investment strategy and move flexibility in response to risk and opportunities, the Fund has a range of acceptable positions in each asset class which is laid out in the rebalancing policy in Appendix 1. By monitoring the actual allocation on a regular basis the Fund can ensure it does not notably deviate from the target allocation. Where appropriate the Fund will set trigger limits in which investment should be made to benefit from market opportunities. The S151 officer has the delegated authority to make investment decisions outside of the approved strategy of up to 5% to respond quickly to market opportunities and risks.

Managers

The Pension Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

Each investment manager has an agreed benchmarks to compare returns against, so that in aggregate, they are consistent with the overall asset allocation for the Fund. As the Fund does not invest in any segregated mandate these benchmarks are considered when assessing the appropriateness of a sub fund within the LGPS pool or on selection of a new pooled fund. The Fund's investment managers will hold a mix of underlying holdings which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles.

When the Pension Committee approves a change to the investment strategy, the Pension Committee instruct officers and the Investment consultants to implement the strategic asset allocation investment decision. This can be by accessing a suitable sub fund from the ACCESS LGPS pool, where manager selection sits at pool level; or where there is no solution to implement the strategy through the LGPS pool, officers will carry out a manager selection process led by the Investment Consultant to short list the options available and assess these against the best strategic fit for the Fund. A recommendation is then laid out to the Pension Committee as to the most suitable implementation solution to meet the approved investment strategy.

The approach to risk, including the ways in which risks are to be measured and managed

The Fund has a detailed Risk Management process in place which is documented in the Fund's Risk Management Policy. A Risk Register is reported to Pension Committee and Pension Board quarterly for review and consideration, identifying the risk and the mitigations in place.

The principal risks affecting the Fund are set out below.

Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics – The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

The Fund measures and manages financial mismatch in two ways. As indicated above, the Pension Committee has set a strategic asset allocation benchmark for the Fund, which is reviewed on at least an annual basis. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk.

The results from the 2023 valuation highlighted that the Fund is fully funded and has a good chance of retaining this fully funded position in future without adopting an over prudent approach towards its investment strategy. The Pension Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns quarterly. The Pension Committee also assesses risk relative to liabilities by monitoring the funding position regularly.

The Pension Committee reviews the demographic assumptions of the Fund every three years as part of its triennial valuation, to mitigate the risk that changes to longevity and other factors would have on the Fund. In addition, Fund officers meet regularly with the Fund Actuary to ensure any major swings in longevity assumptions due to environmental or medical changes can be identified early.

The Pension Committee seeks to mitigate systemic risk through a diversified portfolio; across asset classes, sectors, geographical region, investment manager styles and considers correlation of risk and return across different asset classes in construction of the investment strategy. It is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance ("ESG") – The risk that ESG related factors reduce the Fund's ability to generate the long-term returns. The Fund believes that climate change poses material risks to the Fund but that it also presents positive investment opportunities.
- Climate Risk – The risk to asset values and liabilities in response to climate change from physical or transition risk including regulatory changes.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.
- Pooling risk – The risk that the LGPS investment pool is unable to offer suitable investment opportunities or the risk around the ability to liquidate assets to meet liabilities.

The Fund measures and manages these assets risks through the Fund's investment performance monitoring processes including through the strategic asset allocation benchmark which invests in a diversified range of asset classes. The Pension Committee has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property, the Pension Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Pension Committee also assesses the Fund's currency risk during their risk analysis.

Details of the Fund's approach to managing ESG risks are set out later in this document.

The Pension Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager for various asset classes. In addition, the Fund has an allocation to passive mandates which have a lower tracking error to the market; the Fund accesses these through products that have an ESG tilt. The Pension Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists or there are other concerns with the investment management or philosophy.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Pension Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.
- Stock Lending- The Fund will participate in any stock-lending arrangements in the future as part of the LGPS ACCESS pool. The Fund will ensure that robust controls are in place to protect the security of assets before entering into any stock lending arrangements. The manager(s) of pooled funds may undertake a certain amount of stock lending on behalf of unit-holders. Where a pooled fund engages in this activity the extent is fully disclosed by the manager (unless the assets are invested in LGPS pooled arrangements in which case this will be delegated to the Pool Operator).

The Fund monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts, or has delegated such monitoring and management of risk to the appointed investment managers or ACCESS LGPS pool as appropriate (e.g. custody risk in relation to pooled funds). The Pension Committee has the power to replace a provider should serious concerns exist.

The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a participating scheme in the ACCESS Pool. The ACCESS pool was set up following the 2015 Investment reform criteria and pooling guidance published in 2015.

Assets to be invested in the Pool

The Fund's intention is to invest its assets through the ACCESS Pool as and when suitable Pool investment solutions become available. The ACCESS Pool has launched numerous sub-funds in which the East Sussex Pension Fund now participates and there are further launches in the pipeline, which the Fund plan to be involved with. As the ACCESS pool is managed through a procured operator service there will be a pause in new asset sub fund launches while the operator re-procurement activities take place.

The Fund holds investments with Longview, Ruffer, Newton, Baillie Gifford and M&G through the ACCESS Authorised Contractual Scheme (ACS). In addition, the Fund has passive exposure to UBS who administer the Osmosis index for the Fund which was procured and is governed through the ACCESS pool.

An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government. They key criteria for assessment of Pool solutions will be as follows:

1. That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund
2. That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

At the time of preparing this statement the Fund has elected not to invest the following assets via the ACCESS Pool for the following reasons:

Table 2 – Assets held outside the Pool

Asset class	Manager	Target % of Fund assets	Benchmark	Reason for not investing via the ACCESS Pool
ESG tilted passive equity	Storebrand	7.50%	MSCI All Countries World	This strategy is not currently available through the ACCESS funds platform. This should be a temporary position outside the pool. The ACCESS Joint Committee agreed in September 2023 that a sub fund meeting these criteria should be added to the ACS. This has now been passed to the pool operator to consider how this will be implemented.
Active Sustainable Equity	WHEB /Wellington	10.00%	MSCI All Countries World	Currently, there are no impact funds available through the ACCESS funds platform that satisfy the Funds Responsible Investment requirements for active sustainable equity. These will be held outside the pool temporarily until the pool is able to launch RI investment options that meets the Fund impact criteria. The pool is continually amending sub funds and providing new opportunities which may provide an option for these to be moved to the pool in the near future The Fund will work with the Pool to try and add products of this nature to the offerings through the Pool
Private Equity	Harbourvest Partners / Adam Street Partners	5.50%	MSCI All Countries World	Existing illiquid asset programmes will run off at normal lifecycle to avoid crystallising exit costs and loss of illiquidity premium earned. The Fund will work with the Pool to offer this asset class for new investments.

Infrastructure	M & G Infracapital / UBS Infrastructure / Pantheon	4.00%	GBP 3 Month LIBOR	Existing illiquid asset programmes will run off at normal lifecycle to avoid crystallising exit costs and loss of illiquidity premium earned. The Fund will work with the Pool to offer this asset class for new investments.
Private Debt	M & G	3.00%	GBP 3 Month LIBOR	Existing illiquid asset programmes will run off at normal lifecycle to avoid crystallising exit costs and loss of illiquidity premium earned. The Fund will work with the Pool to offer this asset class for new investments.
Operational cash	East Sussex County Council	0.00%	N/A	East Sussex Pension Fund needs to manage its cash flow to meet statutory liabilities, including monthly pension payroll payments, therefore, a reasonable level of operational cash will be required to maintain efficient administration of schemes and would be held outside the Pool.

Any assets not currently invested in the Pool will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money. The next such review will take place no later than 2026.

Structure and governance of the ACCESS Pool

East Sussex is a member of the ACCESS pool along with the following 10 other pension funds:
Cambridgeshire
Kent
Essex
Norfolk
Hampshire
West Northamptonshire
Hertfordshire
Suffolk
Isle of Wight
West Sussex

All eleven funds are committed to collaboratively working together to meet the criteria for pooling and have signed an Inter Authority Agreement to underpin their partnership. ACCESS is working to a business plan in order to create the appropriate means to pool investments.

The ACCESS Funds have set out how they meet the pooling criteria, the pool's structure, governance arrangements and services to be shared in the submission made to the Government in July 2016, which is available on ACCESS's website http://www.accesspool.org/. The pool make further representations to the Government annually to report savings achieved by the LGPS pool.

The "ACCESS Pool" is not a legal entity. However, a Joint Committee (JC), comprising elected Pension Committee representative from each Administering Authority and supported by the Officer Working Group has been established via an Inter Authority Agreement. Papers from previous and future ACCESS JC meetings papers can be found using the following link:
https://democracy.kent.gov.uk/mgOutsideBodyDetails.aspx?ID=898

ACCESS has taken advice on its sub-fund design and development of investment opportunities available. The pool appointed Link Fund Solutions to establish and operate the ACS carrying out all the FCA regulated aspects of the pool on liquid assets. Link are responsible for the overall management of the ACS including the creation of investment sub funds and the appointment of Investment managers on this platform. A thorough due diligence process is undertaken before the Investment Managers are appointed and robust monitoring and governance is applied to the managers on an ongoing basis including an annual assessment of value. The ACS manages a significant portion of participating Authorities' liquid assets.

Passive assets are pool aligned Investments managed under the Pool Governance processes. The value of assets held within the Pool includes passively managed assets which are held in Life Policies. The Life Policies themselves will necessarily remain an agreement between the participating Authority and the appointed external investment manager. This was acknowledged as an acceptable outcome by Government. All passive assets will therefore be held outside the ACS and will not be managed or administered by the Pool Operator.

How social, environmental or corporate governance (ESG) considerations are taken into account in the selection, non-selection, retention and realisation of investments

To clearly define the approach adopted by the Pension Committee to these issues, the Pension Committee approved a Statement of Responsible Investment Principle (SRIP) which is available in Appendix B. Within this statement it is recognised that environmental, social and corporate governance factors can influence long term investment performance and the ability to achieve long term sustainable returns.

The Fund's responsible investment (RI) principles are:

a. We will apply **long-term thinking** to deliver **long-term sustainable returns**.

b. We will seek **sustainable returns** from **well-governed assets**.

c. We will use an **evidence-based** long term investment appraisal to inform **decision-making** in the implementation of RI principles and consider the costs of RI decisions consistent with our fiduciary duties.

d. We will evaluate and manage **carbon exposure in order to mitigate risks to the Fund from climate change**.

e. We will be **active stewards** of our assets to ensure **value to our beneficiaries**

f. We will achieve ESG improvements through **collaborate engagement**

g. We will be **transparent** in our RI reporting

The Committee takes RI matters very seriously with a designated policy which is reviewed annually. In addition the Fund conducts a review its investment managers' approach to RI and discusses a range of ESG issues at each manager review meeting.

ESG policies are reviewed before investments are made with a detailed set of ESG criteria for manager selection, to ensure the longevity of the investment portfolio. Managers are then assessed annually through carbon foot printing and an annual impact assessment where each manager is allocated an ESG score and a climate score with an action plan set out.

The Committee have made a number of sustainable investments as part of the Investment strategy which address environmental and societal challenges while generating competitive financial returns. These investments seek to generate return through climate opportunities. These include for example, energy efficiency companies, renewable energy projects, companies or products that improve access to basic life essentials, companies that reduce inequality and companies or products that mitigate the effects of climate change.

At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments.

The exercise of rights (including voting rights) attaching to investments

Voting rights

The Pension Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard, which is considered as part of the appointment of an investment manager process. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Fund's investment managers are also expected to file or co-file shareholder resolutions on important issues at the investee companies in the interests of agitating for better governance. For investments held through the ACCESS pool in a segregated sub-fund, investment managers are required to vote in line with the ACCESS pool voting guidelines, whereas where investments are in a pooled vehicle the Pension Fund accepts the investment manager will vote in line with its own policy. There is a requirement for the investment manager to explain the rationale for its decisions and ultimately the Pension Committee has the option to disinvest from the investment fund if it is dissatisfied with the manager's decisions and actions.

The Fund believes that Collaboration with other asset owners and Investment Managers is an effective way to help improve the effectiveness when exercising their rights and responsibilities on engagement with the invested companies; to this end the Fund are members of the LAPFF, IIGCC and the PRI. The Fund encourages all of its Investment Managers to be signed up to the PRI and IIGCC collaborations and to demonstrate effective stewardship through submissions of the UK Stewardship Code 2020.

As a member of the Local Authority Pension Fund Forum (LAPFF) the Fund send Investment managers voting alerts from LAPFF to take into consideration on their voting for the Fund and to either vote in line with the recommendations or explain why they have voted differently based on their specific research considerations. The Fund recognise that the research teams of the investment managers may have a different insight to the research team at LAPFF and they may not always agree on the best approach, so an explanation is expected in these cases.

The Fund produce and publish a voting and engagement report, quarterly, to demonstrate implementation of the Funds exercise of rights and engagement activities. The ACCESS pool collate and report the voting of all the managers within the pool and advise of any votes against the ACCESS voting guidelines. This information is then discussed as part of the investment performance report at each Joint Committee meeting.

Stewardship

The Fund understands that stewardship aims to promote the long term success of companies in such a way that the ultimate providers of capital also prosper. The Pension Committee has formally agreed to adhere to the Stewardship Code as published by the Financial Reporting Council, and was approved as a signatory under 2020 Stewardship code requirements in February 2023. The Stewardship Code sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. A copy of the Funds Stewardship Report can be found on the Funds website https://www.eastsussexpensionfund.org/forms-and-publications/ The Fund seeks to retain status every year.

In addition to its own commitment to the Stewardship code the Fund expects its investment managers to also be signatories or comply with the Stewardship Code.

In addition to the Fund's views on the Stewardship Code, the Fund believes in collective engagement and is a member of the LAPFF, the UN Principles of Responsible Investment (PRI) and the Institutional Investors Group on Climate Change (IIGCC), to collectively exercise a voice across a number of ESG principles including climate change benefiting from the scale of investment compared to engaging alone. The Fund expects as a minimum, all its liquid investment managers to also be signatories of IIGCC and PRI.

The Fund expect Investment Managers to engage with investee companies on material ESG issues and discusses engagement issues with Investment Managers at each review meeting. Investment Manager engagement is reported in the Funds quarterly report alongside activities that the Fund has achieved through its collaborative groups or own action.

Investment Management Stewardship Code and collaborative engagement membership

Manager	PRI Signatory date	Stewardship Code 2020	IIGCC
Longview Global Equity	08/04/2010	Yes - 2021	Yes
Baillie Gifford - Paris Aligned Fund	26/06/2007	Yes - 2021	Yes
Wellington – Global Impact Fund	26/04/2012	Yes - 2021	Yes
WHEB - Sustainability Fund	31/05/2012	Yes - 2021	Yes
Storebrand – Global ESG Plus Fund	27/04/2006	Yes - 2022	Yes
UBS - Osmosis	22/04/2009	Yes - 2021 (both UBS and Osmosis)	Yes
M&G Absolute Return	11/01/2013	Yes - 2021	Yes
M&G Corporate Bonds	11/01/2013	Yes - 2021	Yes
Newton Absolute Return	13/02/2007	Yes - 2021	Yes
Ruffer Absolute Return	15/01/2016	Yes - 2021	Yes
Pantheon Infrastructure	05/10/2007	No	No
ATLAS Global Infrastructure Equity Fund	18/03/2019	No	Yes
Harbourvest – Private Equity	25/11/2013	No	No
Adams Street – Private Equity	29/10/2010	No	No
Schroders – Property	29/10/2007	Yes - 2021	Yes
M&G Infrastructure	11/01/2013	Yes - 2021	Yes

Appendices

Appendix A – Rebalancing Policy

Appendix B – Statement of Responsible Investment Principle.

Appendix A

East Sussex Pension Fund

Rebalancing Policy

September 2023

Introduction

This is the policy outlining the parameters and process for Rebalancing of the East Sussex Pension Fund (the Fund) investment portfolio in line with the Funds Investment Strategy Statement (ISS).

Regulatory Basis

The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations") and prepared by the Pension Committee ("the Committee") having taken advice from the Fund's investment adviser.

The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. This Re-Balancing policy will be used to ensure excess Fund money is invested in line with the ISS and that the investment portfolio continues to follow the Committee's strategic asset allocation.

Rebalancing

The Committee has set a strategic benchmark for the Fund that identifies three main classes of investment strategy, which the Committee considers has the appropriate risk and reward characteristics for the employers in the Fund. These high level strategic benchmarks are Growth, Income and Protection. These are then underpinned by a strategic asset allocation, for the asset classes the Fund invests in to gain diversification and manage the risk appropriately. The asset class targets are subsequently met by the appointments of individual managers who are set a portfolio to provide exposure to the asset classes in the strategic benchmark. The managers are expected to provide the market return (beta) for the asset classes in their mandates plus (for the actively managed mandates) additional returns from their active management (alpha) of the investments.

Over time the differential of relative performance between the asset classes and managers results in actual asset allocations (both at a strategic and portfolio level) which deviates from the agreed targets. Deviations from the targets result in tracking error, and a shift in the risk/return profile of the Fund which can have an impact on the Funding level as calculated by the Fund Actuary. Therefore, rebalancing is required to ensure that the appropriate risk is being taken by the Fund.

Rebalancing of asset weightings, entails portfolio transactions, so the benefit has to be weighed against the costs incurred, both in trading and indirectly in the market. Costs of rebalancing are broadly linear (selling twice as much of an asset will cost roughly twice as much). The net benefit of rebalancing is therefore the impact of tracking error less the costs of rebalancing. The exception to this is certain pooled funds where a dilution levy may be triggered if a seller is liquidating a significant holding in the Fund.

The trigger point for a rebalance should be when the benefits of the switch outweigh the costs involved.

The trigger determines when to rebalance, but not by how much. To rebalance all the way to the target allocation is not considered to be cost effective, as the costs of rebalancing all the way tend to outweigh the benefits. The Fund's policy is therefore to rebalance to midpoint from the target allocation and the trigger point in graduated steps were possible.

In normal market conditions

The key risk being run within a pension fund is the proportion invested between the growth, protection and income generating assets. Then to a lesser extent the mix of asset classes that makes up these strategic positions. The Fund's rebalancing procedures will work on the basis that if a trigger point is passed on the strategic positions, this will result in a rebalancing event to take place, following the rules set out below.

If a trigger point is reached by an asset class this will then trigger a rebalance, which may or may not be within the same strategic level looking to bring the most underweight position back in line. The rebalancing will take into consideration if this needs to be done on multiple asset classes to offer the best cost effective rebalancing is actioned.

This policy does not go into the lower level of detail in terms of which investment manager money will be moved from or provide triggers for these as this may cause too much unwanted movements that are not beneficial to the Fund.

In periods of heightened market volatility

The rebalancing policy will be temporarily suspended or slowed if market conditions enter a period of heightened market volatility or other uncertainty as this could force the Fund to sell positions that it does not want to at a price that is not of benefit to the Funds members. That is to say that the cost benefit calculation that this policy is set on may not be valid in these situations and no rebalancing will take place until more certainty on the cost benefit can be derived.

In the situation where the market moves into an advantageous position which enables the Fund to invest outside the Investment Strategy Statement or this rebalancing policy. This would be where the Fund is able to lower the risk in the portfolio whilst maintaining the appropriate the return profile, the Chief Finance Officer will have the ability to invest 5% of the Fund outside the ISS and rebalancing policy.

Liquidity

Rebalancing decisions will be made with due consideration of the liquidity of the underlying assets. In the case of illiquid assets the total commitment will be considered as part of the rebalancing calculation as these can take several years to manifest into actual investments. The uncalled commitments will often be held in a low volatility liquid asset classes in the interim and these funding arrangements will not be subject to rebalancing. Details of liquidity arrangements of the Funds' investments are held in a separate operational document.

Rebalancing Ranges

The following ranges have been agreed by the Committee to set as points at which rebalancing should take place.

Strategic Area	Strategic target (%)	Range (%)
Growth	62.5	51.5 – 73.5
Income	27.0	18.0 – 36.0
Protection	10.5	8.5 – 14.5
Total	**100.0**	

Asset class	Liquid/Illiquid	Strategic target (%)	Range (%)
Listed Equities	Liquid	40.0	35.0 – 45.0
Private Equity	Illiquid	5.5	2.5 – 8.5
Absolute Return	Liquid	17	14.0 – 20.0
Total Growth		**62.5**	**52.5 – 72.5**

Asset class	Liquid/Illiquid	Strategic target (%)	Range (%)
Balanced Property	Illiquid	7.0	5.0 – 9.0
Index Linked Gilts	Liquid	4.0	2.0 – 6.0
Infrastructure	Illiquid	11.0	8.0 – 14.0
Private Credit	Illiquid	5.0	3.0 – 7.0
Total Income		**27.0**	**18.0 – 36.0**

Asset class	Liquid/Illiquid	Strategic target (%)	Range (%)
Diversified Credit	Liquid	10.5	7.0 - 12.0
Cash	Liquid	0.0	0.0 – 2.0
Total Protection		**10.5**	**7.0 – 14.0**

Principles of Rebalancing

The following principles will determine how the rebalancing process for the Fund will operate.

- **Rebalancing would be monitored on a quarterly basis via the investment monitoring report -** Authority to rebalance will be delegated to, and implemented by, Head of Pensions in liaison with the Investment Implementation Working Group. The Officers and advisers will consider transaction costs and current market conditions ahead of implementation.

- **Quarterly rebalancing will apply only to liquid assets -** Due to the transaction costs and illiquidity associated with the other investments such as property, infrastructure, private debt and private equity rebalancing for those asset classes will be considered on an annual/ad hoc basis;

- **Each benchmark allocation would have a weighted tolerance range –** A tolerance range will be defined for growth and matching assets and each underlying mandate; these tolerance ranges will be used in determining when rebalancing will be considered**;**

- **Cash holdings to be used for rebalancing -** Where possible any net investments or disinvestments should be used to manage allocations, for example, by investing any surplus cash into the most underweight asset class.

- **Rebalancing will occur at two levels; at the growth, income and protection level, and at the mandate level –** The rebalancing process will determine if rebalancing is required between growth, income and protection assets, and separately if rebalancing is required between asset classes. However, it is more important to be willing to incur transaction costs if necessary to rebalance between bonds and equities, for example, than switching between managers with similar mandates (e.g. active and passive global equities).

- **Rebalancing transactions will aim to rebalance allocations out with their tolerance ranges to the midpoint (at least) of the tolerance range –** The mid-point of the tolerance range is the mid-point between a benchmark allocation and its upper or lower tolerance limit. Assuming an asset class with a 40% allocation and a 35%-45% tolerance range, the upper mid-point would be the halfway point between 40-45% (i.e. 42.5%). The lower mid-point would be the halfway point between 35% and 40% (i.e. 37.5%). Historical analysis suggests that this is the best way of balancing the impact of transaction costs against returns.

- **Illiquid asset rebalancing -** The allocations to illiquid assets such as private equity and infrastructure will vary with general market movements and are not easily altered, due to the illiquid nature of the asset classes. Therefore, we will also consider commitments made and cashflows to drive any rebalancing being carried out in relation to the Fund's illiquid investments. Due to the nature of illiquid assets with timeliness of access to the market and long commitment call down periods, the illiquid assets will often be adrift of the strategic asset allocation while money is awaiting to be called by the investment managers, so these allocations will often be held in a low volatility liquid asset classes in the interim.

- **The long-term strategic target allocation implementation –** where a long-term strategic target allocation has been agreed but not yet fully implemented we will not look to rebalance any current asset class allocation that is in breach of the defined tolerance ranges if the breach is in the desired direction of travel of the Fund's long-term target allocation. This will avoid unnecessary transaction costs.

- **5% allowance to the Chief Finance Officer –** With advice provided by the Investment Implementation Working Group the Chief Finance Officer has the delegation to invest 5% of the Fund outside of the ISS, implementation plan and rebalancing policy. Any investment made through this delegation will be reported to the Committee at the next available opportunity. This will also trigger a review of the investment strategy of the Fund.

- Beyond this rebalancing policy and in line with the Council Constitution the Chief Finance officer has the delegated authority to take action or decide any other Pension Fund related matter on behalf of the Administering Authority in special or emergency situations, in consultation with the Chair of the Pension Committee, including but not limited to where delay in the purchase or sale of investments might be detrimental to the interests of the East Sussex Pension Fund.